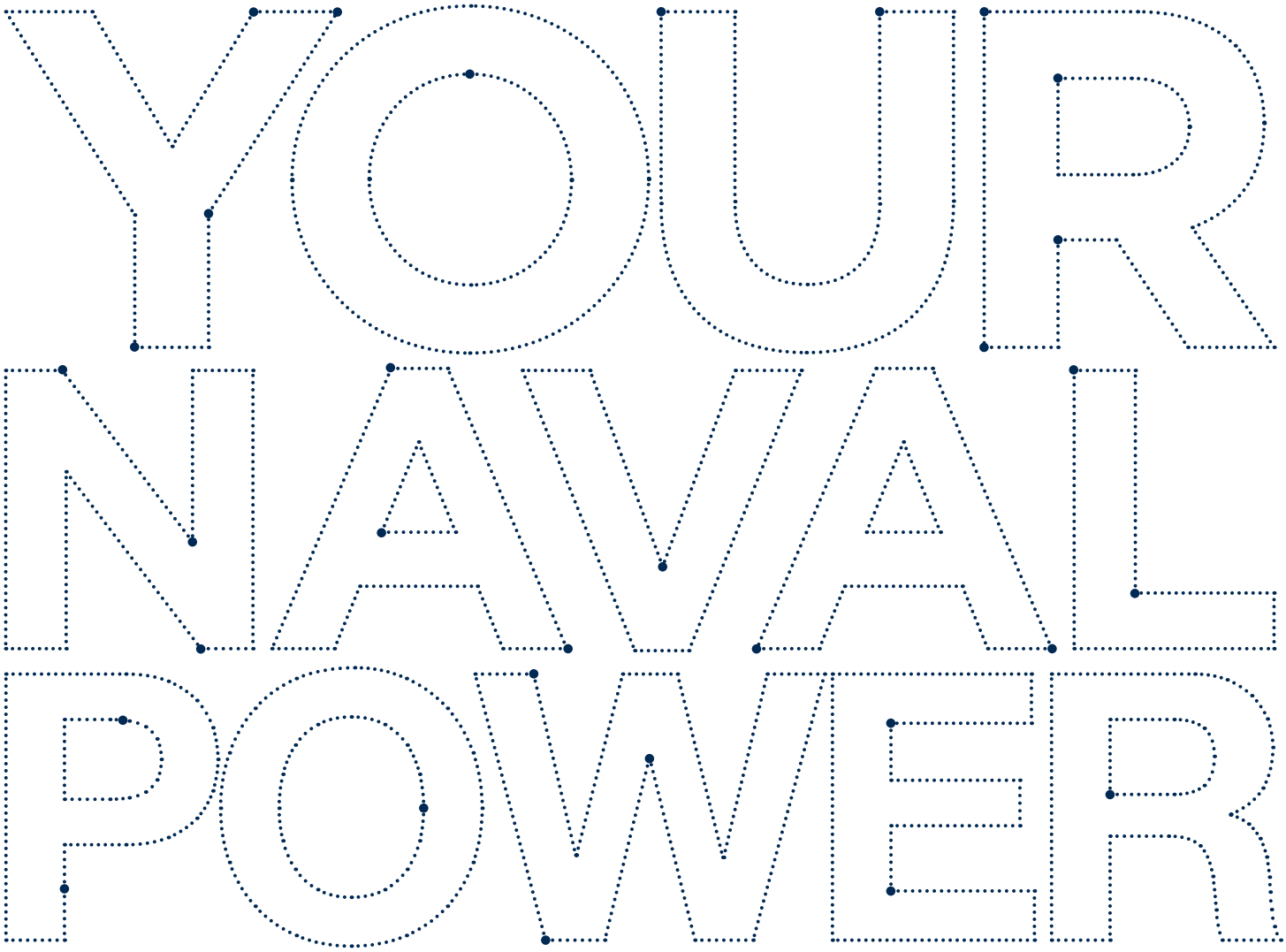


your naval power®

DCNS

Ladies and gentlemen,

We have called this ordinary Annual General Meeting in accordance with the provisions of the law and our company's articles of association to report on business in the course of the financial year ended December 31, 2016 and to submit for approval the company's annual and consolidated financial statements.

At the meeting, the report of the Chairman of the Board of Directors, the general report of the company's Statutory Auditors on the annual financial statements for the financial year ended December 31, 2016, the report of the Statutory Auditors on the consolidated financial statements for the financial year ended December 31, 2016 and the special report of the Statutory Auditors on related-party agreements will be presented to you.

The required notices of the meeting have been duly sent to you. The Statutory Auditors' reports, the management report, the company's annual financial statements, the consolidated financial statements and all related documents required under the applicable laws and regulations have been sent to you or made available to you at the company's registered office in accordance with all legal requirements and within the required timeframes to allow you to familiarise yourselves with their content.

The financial statements presented to you have been drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union, and with the principles of prudence and fairness.

Hervé Guillou
Chairman & Chief Executive Officer

All amounts are in millions of euros, unless stated otherwise.

Meeting of the Board of Directors of February 23 2017

All figures are expressed in millions of euros unless stated otherwise.

I. PRESENTATION OF THE GROUP AND DCNS' POSITION DURING THE YEAR(1)

I.1. PRESENTATION OF THE DCNS GROUP

I.1.a. Ownership and governance

DCNS SA (the "company") is a *société anonyme* (public limited company) under French law. As at December 31, 2016, 62.49% of its capital was held by the French State, 35% by Thales, and 1.64% by current and former members of staff through the Actions DCNS employee mutual fund (FCPE Action DCNS), the remaining 0.87% being made up of treasury shares held by DCNS Actionnariat.

The sale by French State of a 10% equity stake in DCNS to Thales on December 22 2011 qualified as a further sale of a minority interest under title II of law no. 86-912 of August 6, 1986 on privatisation procedures. It was therefore regarded as the trigger event for a new offer of shares to the staff of the DCNS Group (the "Second Reserved Share Offer").

Under the Second Reserved Share Offer, 2,616,839 shares were purchased from the State by staff and former staff of the company and of subsidiaries in which the company directly or indirectly held a majority shareholding on the initial offer date. The purchasers contributed said shares to the 2014 Compartment of FCPE Action DCNS.

During 2016, DCNS Actionnariat (a 100% subsidiary of the Group) purchased 29,330 shares in DCNS SA in accordance with the share buyback guarantee granted to staff under the initial employee share offer. Of these, 27,178 related to the 2008 Compartment of FCPE Action DCNS (the First Reserved Share Offer) and 2,152 to the 2014 Compartment of FCPE Actions DCNS (the Second Reserved Share Offer).

As at December 31, 2016, the Group thus held 491,098 treasury shares in relation to the two share offers.

The composition of, appointment to and rules of procedure of the company's Board of Directors are governed simultaneously by the provisions of the Commercial Code pertaining to *sociétés anonymes*, by the provisions of order no. 2014-948 of August 20, 2014 (the "Order"), by the provisions of law no. 83-675 of July 26, 1983 concerning the democratisation of the public sector (the "Democratisation Act") with regard to the election and status of directors representing the staff, and by the company's articles of association and the bylaws of the Board itself.

Governance

Corporate governance means the system formed by the totality of rules, behaviours and institutions that determine the manner in which the company is managed, administered and controlled. The governance of DCNS is structured around an Executive Committee made up of eleven members including the Chairman and CEO.

General management

In accordance with the resolution passed by the company's Board of Directors on June 2, 2003, general management of the company is assumed by the chairman of the Board of Directors, who consequently bears the title of "Chairman and Chief Executive Officer".

The Chairman and Chief Executive Officer chairs an Executive Committee which meets on a weekly basis. The Executive Committee sets the Group's objectives and rules on all matters that have a major impact on the Group's strategy, its functioning and its commercial and operational activities.

Composition and operation of the Board of Directors

The Board of Directors deliberates on all major issues concerning the strategic, economic, financial and technical orientation of the company's business. It upholds the interests of its principal stakeholders, that is, its shareholders, employees and customers.

Its eighteen members were reappointed on December 19, 2014.

One member of the company's Board of Directors is appointed by the French State in accordance with the provisions of article 4 of the Order.

A third of the Board of Directors is made up of staff representatives, in accordance with article 7 of the Order. There are thus six such directors. In accordance with article 8 of the Order, they are elected by the workforce under the terms laid down in title II, chapter II of the Democratisation Act.

(1) OECD.

The General Meeting of Shareholders which met on December 19, 2014 appointed eleven new directors, of whom five were proposed by the French State and three by Thales.

The French State is represented as a director by:

• Mr Jack Azoulay, who was appointed as the State's representative on the Board of Directors of the company on September 16, 2016 by order of the Ministry of the Economy and Finance. He replaces Ms Astrid Mislan.

The eleven directors appointed by the General Meeting of Shareholders are:

• Mr Hervé Guillou;
• Ms Sophie Mantel, proposed by the French State;
• Ms Sandra Lagumina, proposed by the French State;
• Mr Jacques Hardelay, proposed by the French State;
• Mr Bertrand Le Meur, proposed by the French State;
• Mr Bernard Rétat, proposed by the French State;
• Mr Patrice Caine, proposed by Thales;
• Ms Nathalie Ravilly, proposed by Thales;
• Mr Pascal Bouchiat, proposed by Thales;
• Ms Gabrielle Gauthey;
• Mr Luc Rémont.

The six directors elected as representatives of the staff are:

• Ms Isabelle Roué;
• Mr Jacques André;
• Mr Joël Ricaud;
• Mr Thierry Barbarin;
• Mr Laurent Chagnas;
• Mr Gilles Rapale.

The secretary of the Board of Directors is the General Secretary of DCNS, Mr Jean-Yves Battesti.

I.1.b. Activities

DCNS is the European leader in naval defence and a major developer of marine renewable energy.

The successor of the arsenals of Richelieu and Colbert, the Group is an ultra high-tech business and one of the few global leaders in defence naval systems whose skills cover the whole of the production chain for complex programmes.

The Group's activities

DCNS is a world-leading industrial company whose staff design, build, maintain and upgrade submarines and surface vessels as well as the associated systems and infrastructure. It also uses its extensive skills and know-how to provide services to its customers' naval bases and shipyards.

DCNS thus develops high-technology solutions to preserve the long-term safety of the oceans against threats of all kinds.

The Group covers the entire spectrum of naval armament, ranging from ocean patrol vessels to conventional submarines *via* coastal subs, corvettes, frigates, destroyers and aircraft carriers.

Alongside maintenance and repair services aimed at maintaining ships' performance over time, the Group carries out major upgrade and vessel life extension programmes. It is thus able to make overall commitments regarding the operational availability of a fleet.

The Group offers its products and services worldwide, thanks to its know-how, its unique industrial resources and its ability to form strategic local partnerships.

Last but not least, the Group's new subsidiary DCNS Energies offers a wide range of solutions in marine renewable energy. These include tidal power, harnessing the kinetic energy of the ocean's currents, as well as ocean thermal energy conversion and offshore wind power from semi-submersible platforms.

The Group's know-how

The Group can call on exceptional know-how in five major areas:

• its ability to fulfil highly complex large-scale programmes;
• its technical expertise in naval systems;
• the development and integration of naval anti-aircraft combat systems for both surface vessels and submarines, which represent a key source of added value for modern warships;
• its role in the assembly and maintenance of nuclear vessels, both as regards the installation of weapons and nuclear propulsion equipment and with respect to ongoing servicing, maintenance and infrastructure management;
• its capacity for innovation in the field of marine renewable energy.

High-tech products

One of DCNS's major strengths is its ability to bring some of the world's most complex innovative products to market, such as the Le Terrible class of ballistic nuclear submarines. Studies carried out on this topic all show that an industrial product of this kind is one of the most complex in the world, there being no other product that requires both the mastery of so many technological fields and the management of some 4,000 partners and subcontractors.

Providing high-technology products has been the Group's main objective ever since its foundation:

• 1624: creation of the Flotte du Levant and the Flotte du Ponant – the Mediterranean and Atlantic fleets of the French Navy;
• 1858: launch of *La Gloire*, the world's first ironclad steam frigate;

• 1899: launch of the *Narval*, the ancestor of the modern submarine;

• 1967: launch of the *Redoutable*, the first ballistic nuclear submarine;

• 1980: design of the stealth frigate *La Fayette*, whose innovative design went on to influence navies worldwide;

• 2000: entry into service of the aircraft carrier *Charles de Gaulle*;

• 2006: delivery of the first Mistral class projection and command vessel, a new warship design capable of performing a wide range of civil, military and humanitarian missions;

• 2007: cutting of the steel for the frigate *Aquitaine*;

• 2008: launch of the ballistic nuclear submarine *Le Terrible*, equipped with M51 nuclear missiles.

• 2011: the ocean patrol vessel *L'Adroit*, designed for maritime protection missions, is supplied to the French Navy;

• 2012: delivery of the projection and command vessel *Dixmude* to the French Navy;

• 2013: the FREMM multi-mission frigate *Aquitaine* fires its first Aster missile;

• 2014: delivery of the FREMM *Mohammed VI* to the Royal Moroccan Navy;

• 2015: delivery of the FREMM *Tahya Misr* to the Egyptian Navy; the FREMM *Aquitaine* successfully fires its first naval cruise missile;

• 2016: the tidal power array developed by OpenHydro, a subsidiary of DCNS Energies, supplies its first kilowatts to the Canadian electricity grid;

• 2016: DCNS is selected by the Australian Government for the replacement of its submarine fleet.

Specific products

The Group offers the following products in line with the specific requirements of its existing and prospective customers:

• ballistic nuclear submarines, which have assured a permanent, uninterrupted French presence on the oceans for fifty years;

• Barracuda nuclear attack submarines, designed to provide the French Navy with defence equipment at the apex of technology;

• Scorpène® class conventional submarines, fourteen of which have already been sold around the world (to Chile, Malaysia, India and Brazil);

• naval surface vessel systems such as the aircraft carrier *Charles de Gaulle*, FREMM multi-mission frigates, helicopter-carrying projection and command vessels in the Mistral class and the Gowind® range, not to mention future mine warfare systems and drones;

• services including the construction of shipbuilding and maintenance infrastructure, maintenance with guaranteed availability and warship upgrading and support;

• submarine armaments such as MU90 light torpedoes, F21 heavy torpedoes and Contralto® anti-torpedo protection systems;

• crew training simulators;

• turnkey power stations using marine renewable energy for the French and international markets.

I.1.c. Organisation

DCNS implemented its new organisational structure in January 2015 in order to address its strategic priorities, the guideline principles of which are as follows:

• successfully complete the Group's international expansion and expand the Group's order book outside France;

• make a budgeting and finance culture central to the Group's operations;

• ensure that design offices, production teams and the supply chain work cohesively and effectively;

• ensure that schedules, budgets and technical requirements are met and fulfil commitments with respect to surface vessel and submarine construction;

• develop the maintenance in operational condition business for French Navy warships and strengthen our partnerships with over fifty naval customers around the globe;

• maintain and focus on the development of marine energy sources and infrastructure;

• actively lead improvements in performance and efficiency;

• lay the ground for the Group's future by actively focusing strategy and pursuing partnerships and innovation.

I.2. POSITION OF THE GROUP DURING 2016

I.2.a. Scrutiny of the annual financial statements and key events

The consolidated financial statements presented here for the year ended December 31, 2016 were adopted by the Board of Directors on February 23, 2017 and will be submitted for approval to the Ordinary & Extraordinary General Meeting of Shareholders to be held in March 2017.

The year 2016 was marked chiefly by the following major events:

• DCNS is experiencing delays in programme execution in relation to the Barracuda nuclear attack submarine.

The first submarine, the *Suffren*, is currently twenty-four months behind the milestones scheduled in the contract. The delay will be eliminated as from stage 3. These operational difficulties have had an adverse impact on the 2016 financial statements;

• the Group also had difficulties with the finalisation of the F21 torpedo, necessitating additional testing and leading to a delay in schedules;

• DCNS completed the transfer of its marine renewable energy activities into the new subsidiary DCNS Energies. DCNS Energies is majority-owned by DCNS, with a 36% minority share being held by Bpifrance's SPI (industrial project company) fund. Technip and BNP Paribas Développement also hold equity interests;

• margins to completion have generally remained steady or improved relative to the prior year.

I.2.b. Results of the DCNS group and financial position

Revenue

The Group's revenue for 2016 was €3.2 billion, a rise of 5.0% over the previous year's figure.

International revenue made up 38% of the total.

Backlog

Orders with a value of €2.6 billion were received during the course of the year. The book-to-bill ratio was 0.8.

As at December 31, 2016, the Group's order book stood at €11.6 billion.

Results

An operating profit of €80.1 million (2.5% of revenue) before amortisation of intangible assets acquired in business combinations was recorded for the year, as compared with €49.2 million (1.6% of revenue) in 2015. Operating profit after net income from equity affiliates was €87.2 million, as compared with €53.6 million in 2015.

Net financial income was €29.4 million, as compared with €26.1 million in 2014.

The consolidated tax charge was €29.2 million, this amount being stated net of deferred tax income of €2.2 million. The research tax credit, which amounted to €20.2 million in 2016, has been recognised and accounted for as a reduction to the consolidated tax expense.

The amortisation charge on intangible assets acquired in business combinations was €3.1 million net of tax.

The net profit for the period was consequently €87.5 million.

Financial position and changes in net cash

	31/12/2016	31/12/2015
Non-current marketable securities	203.8	374.3
Current marketable securities	220.6	50.0
Net cash	2,301.9	2,296.2
LIQUIDITY	**2,726.3**	**2,720.5**

Liquidity comprises cash at bank and all other financial assets, whether classed as cash equivalents or as current or non-current financial assets, less overdrafts.

I.2.c. DCNS group activities

Industrial and commercial activity

DCNS is a major European player in naval defence. With its expert workforce and exceptional industrial resources, DCNS designs, builds and provides maintenance for naval defence systems. DCNS forms strategic partnerships in order to meet the needs of its international customers, creating sustainable bonds with local industrial partners in all its programmes and assisting its customers in their technological development. DCNS effects transfers of technology for last-generation products while its staff work on next-generation products for the future.

Industrial business

The year 2016 was the first year of operation of the new Industry division. The final part of the organisation to be put in place, the Cross-Functional Engineering division, was established at the start of the year.

Several key events marked the year. The move of the Mission and Combat Systems (MCS) team to its new building at Ollioules on January 2 took place without impacting operations. DCNS's retention by the Australian Government has enabled work to begin on upgrading the Cherbourg site.

During the year, the Industry division has striven pro-actively to make progress in every key area:

• various internal projects were carried out with respect to skills, methods and tools. Project Belt was launched in order to train staff in efficient project performance. Management has been strengthened and methodological changes have been made in order to improve the coordination of work packages. The creation of regular annual planning rounds for the industrial and commercial plan and the production master plan are enabling the management of capacity and resource planning to be consolidated. The Industry department has

also sought to redefine its tendering process in order to entrench its capacity to commit to ambitious production cost targets;

• at Group level, the Industry division contributed to the redesign of the business management system (BMS) and led the contribution of production-related staff to the redesign of the Group's IT tools for product design and manufacturing (product life cycle, computer-assisted production management, supply chain);

• work also began on the transformation and upgrading of the company's manufacturing facilities. A machinery plan is currently being drawn up at the equipment-manufacturing sites. Site-level production master plans have been drawn up at the majority of sites. A major reorganisation plan has been drawn up for the Ruelle site. Support and maintenance staff are currently being downsized in accordance with the agreements made at Group level.

Project CMMI, which launched at the end of the year, should enable DCNS to continue and sustain the momentum of transformation during 2017 and in years to come, and ultimately to obtain recognition from a certifying body.

There are already some encouraging signs: the monitoring and forecasting of capacity use have been improved, manufacturing budgets are under control and costs and targets on the main programmes have generally been met, with the notable exception of Barracuda. Nevertheless, the effort required over the next few years to mature and consolidate these new programme management practices should not be underestimated.

Programmes business

Submarines

Notable sales highlights in 2016 were:

• notification of various amendments to the Barracuda programme (long-lead procurement, tooling, trials);

• continuation of the amendments and conditional tranches regarding early-stage studies for third-generation ballistic nuclear submarines; in particular, receipt at the end of the year of the order for the detailed preliminary planning phase;

• notification of an additional amendment to the SNBR (Brazilian nuclear submarine) section of the PROSUB contract, which will fund the extension of technical assistance until the end of phase B, which is expected in early 2017.

In addition to these new orders, sales activity in 2016 was marked by the Australian Government's selection of DCNS in April for the supply of twelve submarines.

Highlights of DCNS's submarine construction business were as follows:

Barracuda

• Several production milestones were passed this year in the construction of the *Suffren*. These were the installation of the front and rear batteries, the fitting of the propeller module, final assembly of the hull, trials under fossil-fuel steam, the first start-up of the diesel engine for the emergency generator set and the installation of a dummy missile. Overall completion of assembly has now passed the 80% mark.

• Technical difficulties encountered in 2016 during the assembly of certain critical equipment – a consequence of building a first-in-series vessel – have pushed back the start of sea trials until the end of 2019. Action plans have been put in place with the aim of ensuring compliance with this new schedule.

PROSUB submarines for the Brazilian Navy

SBR (design and construction of four Scorpène® vessels *via* transfer of technology):

• in August 2016, DCNS delivered full construction specifications to its subsidiary ICN, which is in charge of building the submarines in Brazil;

• work on the construction and installation of the submarines' combat system is at an advanced stage. A combat systems integration platform has been set up in France to continue testing and provide training to Brazilian sailors;

• assembly and installation work on the SBR submarines continued at ICN throughout the year.

SNBR (design assistance for the non-nuclear part of Brazil's first nuclear-powered submarine):

• finalisation of the design of phase B is scheduled for January 2017. The Brazilian Navy has also announced the prolongation of the programme beyond 2025.

In addition to ongoing industrial activity on the PROSUB project, 2016 was marked by in-depth talks with the Brazilian Navy. As a result of these negotiations, several payments due from the client were released at the end of the year and an agreement was signed setting the terms of an overall amendment which would bring the payment milestones into line with the revised schedule dated July 31, 2015, simplify certain contractual mechanisms and introduce an additional technical assistance component to the SNBR and Shipyard wings of the programme. This amendment is expected to be issued in early 2017; it should also enable further discussions to be held with the Brazilian Navy on compensation for the additional costs arising as a result of the overall delay to the programme.

Scorpène® P75 submarines for the Indian Navy

• The submarine *Kalvari*, the first in the Scorpene® series to be built by Mazagon Dock Ltd (MDL) with support from DCNS, performed its first dive on May 13. On November 24, the *Kalvari* made its first dive to maximum operating depth.

• Work on submarine no. 2 continued throughout the year. Launch is anticipated on January 12, 2017.

FMOD (future oceanic deterrent) design study programme for the French Navy

Early-stage studies for the third-generation ballistic nuclear submarine continued in 2016.

Surface vessel business

Sales highlights were:

• the purchase contract whereby the Arab Republic of Egypt will acquire two projection and command vessels originally intended for Russia, which came into effect in early 2016;

• the signing of several amendments with Boustead Naval Shipyard concerning preliminary and detailed designs for the Gowind® corvette and an expansion of the range of services assigned to DCNS, which include activities relating to the PSIM (panoramic sensors and intelligence modules) and the provision of additional assistance with the work of the Malaysian general contractor;

• amendment 16 to the FREMM France programme, specifying the configuration for the two FREDA anti-aircraft frigates.

DCNS unveiled BELH@RRA® at the Euronaval trade exhibition at Paris-Le Bourget. Aimed at the French and international markets, this new high-end digital frigate will revitalise the segment for heavily armed 4,000 tonne frigates. Positioning a latest-generation ship in the segment between the 6,000 tonne FREMM multi-mission frigate and the 2,500-3,000 tonne Gowind® corvette enables DCNS to complement its existing product range.

Manufacturing activity has been maintained, being marked in particular by the following:

FREMM OCCAR

Progress on the frigates being built for the French Navy is in line with the production schedule: the *Provence* entered active service in June 2016, the *Languedoc* was delivered in March 2016, the *Auvergne* commenced sea trials during the third quarter of the year, and work on the construction of the *Bretagne*, which was launched in September, is proceeding in accordance with the timetable.

FREMM Egypt

The Egyptian Navy signed the acceptance certificate for the standard 2 work in July 2016.

Projection and command vessels – Egypt

• On June 2, 2016 DCNS delivered the first of the helicopter carriers, the projection and command vessel *Gamal Abdel Nasser*.

• The second projection and command vessel, the *Anwar El Sadat*, was delivered on September 16, 2016.

Gowind® Malaysia

The Malaysian corvette programme passed several important milestones during the second half of 2016. The basic design phase was completed and the detailed design phase began, design reviews of the PSIM module were concluded, the PSIM 1 mast was delivered and version 3.2 of the SETIS® combat management system was shipped to Malaysia.

Gowind® Egypt

• On September 17, 2016, DCNS celebrated the launch of the very first Gowind® 2500 corvette in the presence of senior Egyptian Navy officials. Following on from this, the PSIM was successfully installed in late October. The 76 mm gun was successfully fitted aboard the corvette at the Lorient site on December 8.

• In April, the Alexandria Shipyard cut the steel for the first Gowind® 2500 corvette to be built in Egypt.

Services business

In France, 2016 saw the renewal for a nine-year term of the maintenance in operational condition contract with the French Navy for four second-generation ballistic nuclear submarines, as well as the signing of a contract to dismantle the hulls of five first-generation vessels. Outside France, two IPER (periodic maintenance and repair) contracts were signed for the Malaysian Navy's two Scorpène® submarines, the *Tunku Abdul Rahman* and the *Tun Razak*.

From an operational perspective, the new structure of the Services businesses with France and International forward bases (dedicated ship construction sites and local workshops) and cross-functional industrial operations (sharing joint operations and maintaining know-how) is now operational.

In France, work continued in the same vein as in 2015. This involved:

• passing the contractual milestone for the end of the preparation phase of the refit and maintenance in operational condition programme for the aircraft carrier *Charles de Gaulle*, in connection with the vessel's second major technical overhaul;

• the successful test firing for acceptance purposes of the ballistic nuclear submarine *Le Triomphant*; the IPER refit contract aimed at adapting these vessels to carry M51 missiles is now being continued with the *Téméraire*;

• performance of various overhauls under maintenance in operational condition contracts.

Internationally, the Services division continued to grow:

• in Malaysia, the first IPER (periodic maintenance and repair) refit for the submarine *Tunku Abdul Rahman* (the first of the two Scorpène® 2000 submarines, which was delivered in 2009) began at the Kota Kinabalu base in 2016; completion is expected in 2017;

• in Saudi Arabia, work continued in relation to the performance of the LEX (Life Extension for Sawari 1 class frigates) and E-RAV (refits of Sawari 2 class frigates) contracts;

• in Morocco, the technical overhaul of the Moroccan FREMM multi-mission frigate *Mohammed VI* was successfully carried out at Casablanca in October;

• in Egypt, the Group now has some twenty staff and is developing local partnerships with a view to carrying out the maintenance in operational condition both for the FREMM frigate *Tahya Misr* and for the two projection and command

vessels *Gamal Abdel Nasser* and *Anwar El Sadat* that were delivered in 2016;

• in Singapore, our links with the Singaporean Navy are taking concrete shape in the signing of an order to supply parts for the overhaul of Delta class frigates and delivery thereof over the course of the year, as well as in the form of discussions on the replacement of the frigates' ship management system (SMS).

Marine energy and infrastructure business

Avenues of development

Energy markets are a vital source of growth for DCNS in France and internationally. Since 2007, DCNS has therefore chosen to invest in three main marine renewable energy technologies: floating wind turbines, ocean thermal energy (MRE) conversion (OTEC) and tidal energy, the latter *via* its Irish subsidiary OpenHydro.

This diversification is now well under way, but full mastery of these new areas must be obtained if it is to be a profitable growth area for the DCNS Group. After seven years' experience, the objective now is to speed up commercialisation of the technology and bring to market a distinctive offering that positions the Group as a key player in this highly competitive industry. In order to grow a sustainable and profitable MRE business, the Group partnered with Bpifrance, Technip and BNP Paribas Développment in late 2016 to vest its marine renewable energy activities in a dedicated subsidiary, DCNS Energies.

Tidal energy

Tidal energy involves converting the energy of the ocean currents into electricity. Given the market for such energy, exploitable reserves around the world are at least 115 GW, equivalent to the output of 75 EPRs. In March 2013, DCNS purchased a 61.6% majority shareholding in the Irish start-up OpenHydro, a commercial and technological leader in the market for tidal turbines. In 2014, DCNS and OpenHydro together secured projects for several experimental and pre-commercial tidal energy arrays. Following the final testing of the *L'Arcouest* prototype turbine in France, EDF ordered two new 16-metre turbines from OpenHydro to equip the experimental array at Paimpol-Bréhat in Côtes-d'Armor. The turbines were installed during 2016.

Furthermore, DCNS and EDF Energies were retained by the French environmental and energy agency ADEME following a call for expressions of interest in pilot tidal energy farms. Their *Normandie* Hydro project involves the installation of a pre-commercial array of seven turbines in the Race of Alderney.

Internationally, OpenHydro is supplying turbines to the Canadian energy company Emera under Cape Sharp project. The two turbines, the first of which was installed in November, will equip an experimental 4 MW array in the Bay of Fundy. This is phase one of a four-stage project to install 330 MW of capacity (approximately 165 turbines) in the Bay of Fundy by 2021.

OpenHydro has also been selected by Nippon Steel and Kyuden Mirai to install two turbines at an experimental 2 MW farm in Japan.

In order to be ready for transition from the pre-commercial to the commercial phase, work is ongoing on the specifications for a first turbine assembly plant. The plant will have a capacity of 12-25 turbines per year and is to be located in Cherbourg on land belonging to Ports Normands Associés. Authority to grant a construction permit was signed on May 12, 2016. Delivery of the first turbine is expected in the first quarter of 2018.

For DCNS Energies, these large-scale contracts and projects represent decisive steps towards the creation of a tidal energy industry in France and internationally.

Ocean thermal energy conversion (OTEC)

Ocean thermal energy conversion, or OTEC, exploits temperature differences between surface water and the cooler water found at greater depths. It is the only non-intermittent form of renewable energy where there is no uncertainty as to the availability of the resource.

DCNS's primary proposition is a floating OTEC solution to generate electricity for tropical islands. A land-based solution will also be offered, which will supply electricity and other outputs such as chilled-water air conditioning for small, isolated infrastructure configurations such as hotels or businesses. OTEC is a potential boon in France's overseas *départements*, regions and communities, as well as in the Caribbean, Oceania and Asia.

In 2016, significant progress was made in overcoming the three main technological risks, which are:

• improving performance in relation to the thermodynamic process, which is the subject of trials at the PAT test rig on the island of Réunion;

• surmounting clogging problems in the heat exchangers, for which a dedicated test rig has been set up in Martinique;

• full mechanical testing of the critical sub-assembly for piping sea water.

Floating wind turbines

Floating wind turbines offer an innovative alternative way to harness the energy potential of deepwater locations where turbines cannot be fixed to the seabed. Such offshore locations offer better wind conditions than coastal zones, as well as being greater in area and experiencing less traffic. Floating turbines provide access to a more substantial resource and enable the visual impact on the coastline to be reduced.

In 2014, DCNS and Alstom/GE joined forces to create a cluster of excellence in floating wind energy. The two companies aim to combine their respective skills in naval architecture and turbine manufacturing to develop a powerful competitive solution to meet the needs of this exciting potential market. The goal is to build an initial 6 MW turbine that combines a semi-submersible floating system developed by

DCNS with Alstom/GE's Haliade 150 offshore wind turbine, which is already used in fixed offshore wind farms.

In 2015, Ségolène Royal, the Minister of Energy, and the regional government of Brittany showed their support for plans to conduct environmental impact studies on the pilot floating wind power installation at Groix by announcing a call for expressions of interest. The consortium led by Eolfi Offshore France in association with DCNS and Vinci was officially selected by ADEME in 2016. The object of the joint project is to develop an offshore site near Groix with a view to installing four floating wind turbines in an initial pilot wind farm by 2020. This experimental array will enable the infrastructure and technology to be optimised as well as putting the business model for floating wind farms to the test. The 17 km^2 farm was selected from four potentially suitable French sites following a call for projects announced by ADEME in August 2015. The consortium benefits from being a combination of well-established French industrial partners, all of whom already have operations on the Breton coast. Eolfi Offshore France, which will act as general contractor for the Groix project, is a joint venture between French wind energy specialist Eolfi and CGN Europe Energy, a subsidiary of China's leading power company. For this forward-looking project, the company has assembled a team of major French industrial partners: DCNS will lead the erection of the offshore platform and its connection to the grid, with Vinci acting as manufacturing partner.

The Groix site is unique in France in that the wind conditions available are representative of the potential global market. It is therefore an ideal location in which to prove the effectiveness of floating wind power technology and act as a springboard to allow the manufacturers to gain international exposure. The Groix project will also enable the foundations to be laid in Brittany for a new industry that will be of interest throughout the Atlantic region and at other sites beyond: Japanese and Caribbean customers are already taking an interest in the technology that DCNS Energies is developing.

Internationally, the Maine Aquaventus project, in which DCNS is a partner, has been awarded a $40 million subsidy by the US Department of Energy, which will be paid out over the project's course. Alongside DCNS, the project partners are the energy company Emera, the University of Maine (which owns the design for the floating platform) and the Maine-based construction company Cianbro. The aim of the project is to erect two floating wind turbines by 2018 generating a total of 12 MW off the coast of Monhegan Island.

Civil nuclear energy

DCNS positions itself as a supplier of design studies, equipment and services. Whilst it therefore does not have an SMR (small modular reactor) offering as such, the Group is working on two projects that it expects to support as an investment partner, without expanding beyond its current specialist fields. These two projects are, firstly, the project led by EDF and EDF Energies Nouvelles in relation to a competition organised by the Brittany regional government and, secondly, Seanergie, a project lead by a team of industrial companies including Engie, DCNS and a variety of smaller and mid-sized firms. DCNS is supporting these projects as they exhibit potential for a profitable and durable large-scale business in operational maintenance, refurbishment and the development of supply chain capabilities in relation to shipborne nuclear propulsion.

By virtue of orders obtained from major nuclear customers such as Areva, the CEA, Alstom and EDF, the Civil Nuclear business has enabled us to deepen our understanding of the laws, standards and regulations governing civil nuclear energy and build on the experience gained in our core field of shipborne nuclear propulsion. Examples include the manufacturing of heat exchangers for the Taishan power plant in China, the construction of reactor vessel interiors at Flamanville, mono- and multi-disciplinary design studies for EDF and the construction of six diesel generator buildings for Olkiluoto 3 (OL3).

I.2.d. Research and development activity

In 2016, R&D activity focused on driving forward in-house R&D projects and the development of the Marine Renewable Energy business.

Self-funded R&D expenditure was €113.8 million, the main focus areas being as follows:

- medium- and long-term competitiveness of our core products (submarines and surface vessels) and associated technologies;
- risk reduction studies in relation to marine renewable energy, specifically tidal power and ocean thermal energy conversion;
- development of R&T (research & technology) activities through DCNS Research.

DCNS spends close to 3% of its revenue on self-funded R&D, which is more than other European shipbuilders.

As in 2015, R&D planning at the medium-term and strategic levels has been the object of an unprecedented rethinking, knowledge sharing and assessment process culminating in the definition of thirty major innovation areas which will receive over 80% of future effort. These areas cover a very wide range of fields from products and components (equipment and systems) to modelling work and innovative manufacturing procedures. To complement this, eighteen additional innovation areas have been defined to cover R&D work on product/process technologies that are significant to DCNS's core business.

R&D work is being sustained and indeed enhanced where merited, especially by way of cooperation with outside partners.

The identification of breakthrough areas of innovation was reinforced in 2016 by way of the DCNS Innovation Booster. This involves an ideas booster featuring the introduction of awards, suggestion boxes and brainstorming sessions, as well as a project booster which will start with additive manufacturing.

The new DCNS Scientific Advisory Board met twice, firstly at Paris in March and then in October at Technocampus Ocean in Nantes. Four working groups have been set up involving Advisory Board members and DCNS staff, each of which will tackle a different breakthrough area.

Overall R&D management is conducted on a project-by-project basis in order to escape the year-end cutbacks associated with an annual budgeting procedure and move towards a multi-year cost-to-completion basis, this being the only way to cope effectively with slippage, work on a time-to-market basis and monitor returns on investment. Emphasis has been placed on ensuring that operating units allocate the resources required to ensure that timing, quality and cost commitments for R&D projects are met.

The requirement to reach a mature R&D level before offering a product to the market, both in terms of the technology readiness level and in terms of moving to early-stage industrial production, has been maintained in conjunction with the sales divisions and the architects.

R&D work performed by DCNS on surface vessels in 2016 principally comprised the following:

- laying down the reference specifications for a Gowind® 2500 vessel, building on the current Egyptian programme, in order to further increase the competitiveness and attractiveness of the reference product and place it at the centre of the market;
- preliminary studies for the Belh@rra® mid-sized frigate; although the first ships will be produced for the French Navy, the vessel has been designed to capture first place in the export market in the 4,000 tonne displacement class. Featuring the latest onboard digital technology, it is designed to carry drones and has a concentrated mast system with inbuilt sensors and communications systems capable of evolving towards an integrated topside and modular propulsion design;
- continued development of the bridge of the future, providing officers with 360° vision and augmented reality support;
- continued development work on the SETIS-C® combat system for Gowind® vessels;
- the Operations Centre of the future: tactical displays and the exploration of next-generation human-machine interfaces including virtual assistants, voice and gesture recognition and 3D;
- start of work on shipboard hyperconnectivity and comprehensive data management within a naval and aviation force.

R&D work performed by DCNS on submarines in 2016 principally comprised the following:

- continuation of preliminary projects for the third generation of ballistic nuclear submarines;
- acceleration of work on the Australian submarine programme following the award of the contract to DCNS in April 2016;
- definition of the Scorpène® Evolution product line, taking the best from the four previous Scorpène® programmes and incorporating the technological increments most strongly anticipated by the market in the traditional and large-scale ocean-going submarine segment;
- continuation of endurance tests on the world's first anaerobic diesel reformation module to feed into a second-generation hydrogen battery and the start of investigations into the further short-term performance enhancements required;
- first steps in the development of a lithium-ion main battery system in conjunction with the French leader in the field, building on work carried out with the CEA with a view towards securing the later-stage phases of its industrial development;
- developing algorithms for submarine navigation in constricted or shallow waters.

With respect to cross-functional technologies, the following activities performed in 2016 deserve to be highlighted:

- intensification of cybersecurity work, with extra resources for several projects (Framework Cyber and cyberdefence for technical information);
- intensification of work on onboard IT infrastructure and design studies for its shipboard integration;
- acceleration of i-maintenance work, including the creation of demonstration prototypes;
- acceleration of design studies and trials for the functional integration and physical installation of drones in accordance with the overall UAV, UUV and USV action plan, as part of the intensification of industrial partnership arrangements in this field. In particular, trials have been conducted with respect to the docking of a UUV drone at an underwater station;
- reduction of energy losses in submarines and surface vessels;
- development of solutions improving productivity and health and safety on production sites, such as refinements to the use of adhesives, the introduction of engine beds made according to a new method which halves the cost, the use of augmented reality, the use of infusion processes for composites and the production of the first items to be made using additive manufacturing;
- inception of the Factory Lab partnership, aimed at accelerating the development of future manufacturing technologies, in conjunction with other major industrial companies and the CEA.

R&D work performed by DCNS in relation to marine renewable energy in 2016 principally comprised the following:

- tidal turbines: offshore installation and first trials of second-generation tidal turbines with improved rotor and blades with OpenHydro, in preparation for installation at the pilot tidal power farms in the Bay of Fundy (Canada) and the Race of Alderney (France), and general investigations into improving the submarine electricity grids for tidal power farms;
- ocean thermal energy conversion: power station feasibility studies, risk reduction studies on the pumping of sea water and the heat exchangers, construction of a prototype section of sea water piping and trials of the heat exchangers;
- floating wind turbines: continuation of research into floating platforms to respond to various calls for tender.

DCNS Research

Following its move to the Technocampus Ocean shared innovation platform, DCNS Research has enhanced its reputation and is dedicating itself fully to its assigned mission, namely preparing for the future of DCNS by opening it up to the outside world. Its premises were the venue for a number of visits as well as for major events such as the first Naval Innovation Days, held in June 2016, which were an opportunity for the Group to present its work on innovation.

The relocation of the Nantes staff to a single site as of November 2015 – a complete success from both an operational and a human resources perspective – has been followed by the move to Technocampus Ocean of the Paris-based staff of the Innovation and Technical Expertise division in September 2016.

The staff of DCNS Research strive to improve the attractiveness, effectiveness and competitiveness of the Group's naval, nuclear and marine renewable energy products, reaching out to the outside world in the form of universities and innovative SMEs in order to identify promising technologies that have enabled it to:

- create several prototypes of complex, high-density components using additive manufacturing;
- use metamaterials and nano-engineered materials to improve the stealth of our ships;
- develop AI algorithms which, when coupled with innovative sensors, improve the capacity of submarines to avoid obstacles and enhance their autonomous decision-making;
- develop new multisensor fusion algorithms;
- develop new multilevel multiphysical simulation methods.

A very high level of technical expertise and close links to the civilian and military markets enable promising breakthrough technologies to be carefully selected so as to focus strictly on those that can be rapidly deployed on DCNS products.

DCNS Research's expertise made it a major contributor to all DCNS programmes in 2016, both in production and in maintenance in service.

Through its Sirehna subsidiary, DCNS Research has sold advanced bridge functions, which enable vessels of over 20,000 tonnes to be manoeuvred within an accuracy of a few centimetres, for ships built by Piriou, Kership (B2M), STX (MSC cruise ships), Royal Huisman (luxury yacht) and Vinci (megabarge for the Coastal Highway project).

Sirehna is also contributing its expertise in motion control to Groupama Team France, which will be competing in the 2017 America's Cup.

Free-running model testing enabled manoeuvrability tests to be performed on submarines and on helicopter landings for major aviation businesses such as Airbus, Augusta Westland and Zodiac.

Sirehna has also created a mobile experimentation platform that enables innovative functions to be tested in a real environment. This has enabled advanced maritime surveillance functions based on surface drones to be tested in collaboration with innovative SMEs.

Towards collaborative innovation

In 2016, the Innovation and Technical Expertise division moved the majority of its staff to DCNS Research's site on the Technocampus Ocean shared innovation platform, located on the outskirts of Nantes alongside key contributors to innovation such as CEA Tech, Dassault Systèmes and Alstom.

The new location underscores DCNS's aim to make innovation the driving force of its development in France and internationally. Innovation is a permanent revolution; Technocampus Ocean will accelerate the emergence and evaluation of the breakthrough technologies that are vital to DCNS. Investments in R&D will depend in future on our ability to develop collaborative relationships with industry and higher education.

A large number of collaborative projects are currently under way, notably with IRT Jules Verne (the Jules Verne Technological Research Institute) of which DCNS is a founder member and additionally with IRT M2P (Materials, Metals and Processes) in Metz and IRT SystemX (digital engineering of future systems) in Paris. DCNS is maintaining its involvement, along with Dassault Aviation, Thales, the École polytechnique and ENSTA ParisTech, in the Chair of Complex Systems Engineering., as well as its involvement with the Chair in the Resilience of Human Organisations at the École des mines in Nantes and with the Chair of Naval Systems Cybersecurity, which it supports in conjunction with Thales, Télécom Bretagne and the École navale. The joint Gustave Zédé research and innovation laboratory, established in 2015 by DCNS and ENSTA Bretagne, has carried out its first work in the field of materials, structures and associated processes. In 2016, DCNS, the École centrale de Nantes and the University of Nantes established a Joint Laboratory of Marine Technology, whose remit includes additive manufacturing, naval hydrodynamics and materials modelling/digital simulation. This forms part of the NexT i-site project.

International growth

DCNS has continued preliminary work in connection with the cooperation agreement signed in 2015 with the KACST in Saudi Arabia, which is aimed at creating a collaborative centre for naval and maritime research. The centre will focus initially on three subjects, namely corrosion, hydrodynamics and underwater robotics.

In 2016, DCNS prepared the ground for several naval R&D cooperation agreements with universities in Australia. The institutions concerned include the University of New South Wales (acoustics, mathematics and statistics, electrical components), the University of Technology of Sydney (data

processing, robotics), the Australian Maritime College (hydrodynamics, fluid-structure interaction) and the Defence Materials Technology Centre (materials, ship structures, corrosion and biofouling).

DCNS has signed a collaboration agreement with the Centre de Recherche en Technologies Industrielles in Algiers with a view towards collaborative work in relation to materials, welding, corrosion and non-destructive testing.

I.2.e. Subsidiaries and joint ventures

Subsidiaries

Activities and results of subsidiaries and associates

DCNS holds direct or indirect shareholdings in the following consolidated Group companies (all holdings are 100% unless stated).

Armaris Quater

Armaris Quater holds DCNS Actionnariat, a company established in 2008 to conduct buybacks of employee shareholdings purchased under the employee share offer.

DCNS Participations

DCNS Participations is a holding company for holdings in various non-French companies in the DCNS Group, namely DCNS Canada (100%), DCNS Arabia (90%) and DCNS Malaysia (NS).

Boustead DCNS Naval Corporation (BDNC) (40% holding)

BDNC is located in Malaysia. The company's principal object is to supply maintenance in operational condition services to the Malaysian Navy for its Scorpène® submarines.

DCN International

DCN International was founded in 1990 to manage export contracts for materiel and services for the then Direction des Constructions Navales (DCN, which became a national government agency in 2000).

Following the transfer of government activities to DCN in June 2003, DCN International retains this role with respect to DCNS in respect of all contracts that were already in existence at the time of the change of status, except those transferred to Armaris. The company has undertaken no new business since then.

DCNS Far East

DCNS Far East operates in Singapore, performing logistics and systems maintenance work in relation to naval and naval aviation activities.

DCNS India

DCNS India provides local support with the performance of the Indian submarine-building programme.

Défense Environnement Services (DES) (49% holding)

DES was founded by DCNS and Veolia Environnement Services in order to combine their know-how in a single company. This joint operation is a leading provider of support services to military sites.

Eurosysnav (50% holding)

Eurosysnav was established to act as general contractor in relation to the combat systems for Horizon anti-aircraft frigates. A decision to dissolve the company was taken at the General Meeting of its shareholders on June 22, 2016. It was in liquidation as of the end of December 2016.

Horizon (50% holding)

Horizon was established to act as overall general contractor for the Horizon anti-aircraft frigates. A decision to dissolve the company was taken at the General Meeting of its shareholders on June 22, 2016. It was in liquidation as of the end of December 2016.

Itaguaí Construções Navais (ICN) (41% holding)

ICN is located in Brazil. The principal object of the company is the construction of submarines in Brazil, in particular under the PROSUB programme.

MO PA2

MO PA2 was established to act as general contractor for the French no. 2 aircraft-carrier programme. The company is no longer active.

Sirehna

Sirehna specialises in the development of dynamic stabilisation, positioning and landing systems for land, sea and air vehicles and drones.

DCNS Coopération

The object of DCNS Coopération is to provide external support to the Group's sales staff in export markets.

DCNS Support

The object of DCNS Support is the design, study, improvement, purchase and sale of all technical assistance services of an industrial nature linked to the supply of all systems, software and munitions used in naval and naval aviation activities, particularly in Saudi Arabia.

Winacelles (34.1% holding)

Winacelles is a company whose object is the design, development and readying for series production of offshore wind turbines.

Kership (45% holding)

Kership, held jointly with Piriou, is a joint venture operating in the field of lightly armed vessels between 40 and 95 metres in length, designed primarily to civilian standards and intended for military or civil administrative bodies.

DCNS Malaysia

DCNS Malaysia provides local support with the execution of the Gowind® Malaysia programme, participates in the development of the Group's business in Malaysia and provides logistical and administrative support to DCNS expatriates and secondees in Malaysia.

DCNS Energies (57.55% holding since December 16, 2016)

DCNS Energies was set up in order to acquire shares in companies in the energy industry. In particular, it holds shares in OpenHydro (62.37%) and Energia Marina (75%).

On December 16, 2016, DCNS contributed its marine renewable energy activities (floating wind turbines, ocean thermal energy conversion and balance of plant) to DCNS Energies. Immediately thereafter, three new equity investors acquired interests in the company, namely the SPI (industrial project company) fund of Bpifrance (36.18% holding), Technip (4.82%) and BNP Paribas Développement (1.45%).

DCNS do Brasil

DCNS do Brasil is a Brazilian company which participates in the development of the Group's business in Brazil and provides logistical and administrative support to DCNS expatriates and secondees in Brazil.

Projetos Esistema Navais SA (100% owned by DCNS do Brasil)

Projetos Esistema Navais SA (PROSIN) aims to develop engineering systems business in Brazil.

DCNS Australia Pty Ltd

DCNS Australia Pty Ltd provides support with the development of the Group's business in Australia.

Revenue and net income figures for the subsidiaries are presented in note 2 to the annual financial statements of DCNS SA.

DCNS also has various permanent establishments or representative offices abroad whose activity is directly included in the company's results. The company has permanent establishments in Finland and India, representative offices in Greece, Australia, Indonesia, Norway, Poland, Colombia, Chile, Pakistan and the United Arab Emirates (some of which are registered as branches in accordance with local laws), as well as branch offices in Saudi Arabia and Egypt.

Joint Ventures

Hermione

DCNS established DCNS Energies in late 2016 in order to assure the industrial and commercial development of its marine renewable energy (MRE) activities. DCNS Energies is majority-owned by DCNS; a 36% stake is held by Bpifrance while equity interests are also held by Technip and BNP Paribas Développement.

This new company is positioned as a builder of turnkey MRE power stations and aims to bring to maturity three MRE technologies aimed at French and export markets – tidal energy, floating wind energy and ocean thermal energy conversion – before moving to full-scale industrial production.

In addition to the industrial resources and intellectual property contributed by DCNS, the four shareholders have contributed a total of €100 million in equity to DCNS Energies, which will also take on borrowings.

For DCNS, the establishment of DCNS Energies represents a natural progression from the R&D work that the Group has undertaken in MRE since 2008 and the acquisition of OpenHydro in 2013.

Dolphin

The disposal by Areva of Areva TA as part of the restructuring of the French nuclear industry was confirmed in early 2016. A purchase offer for Areva's entire 83.6% holding in the company was made in August 2016 by a consortium of buyers made up of the French State, the CEA and DCNS. The share transfer agreement was signed in mid-December 2016 with a view to completion of the transaction in early 2017.

Areva TA is the designer of the nuclear reactors fitted in the French Navy's nuclear attack submarines, ballistic nuclear submarines and aircraft carriers. For DCNS, this is therefore a matter of securing access to a key technology for the construction of nuclear-powered naval vessels.

A preliminary step was completed in December 2016 through the merger of Areva TA with the holding company CEDEC (in which DCNI held a 9.86% interest and which in turn held 65.1% of Areva TA). Immediately prior to the merger, DCNI transferred its shares in CEDEC to DCNS. As at December 31, 2016, DCNS consequently held 5.82% of Areva TA.

Once the acquisition described above is finalised, Areva TA will be owned by the French State (50.32%), DCNS (20.32%), the CEA (20.32%) and EDF (9.04%).

Kership

Kership is jointly owned by DCNS (45%) and Piriou (55%). The company, which builds lightly-armed vessels up to 95 metres in length, has strengthened its autonomy by acquiring the workforce and assets of the Le Rohu shipyard formerly held by STX France, a move which provides it with production facilities that will enable its growth to be assured. The transaction contributes to the reinforcement of the shipbuilding industry in southern Brittany. Kership will also offer access to the production capacity at Le Rohu to other shipyards. DCNS makes use of the yard for sections of the FREMM frigates, which are manufactured by Kership.

ONERA

DCNS and ONERA, the French national aerospace research centre, have signed an R&D cooperation agreement in relation to naval matters. Pooling the skills of DCNS and ONERA creates substantial leverage for the development of

distinctive innovative solutions in an increasingly competitive field. Specific cooperation areas include drones, robotics, above-surface detection, materials, aerodynamics, hydrodynamics and prospective studies.

Airbus Helicopters

DCNS and Airbus Helicopters have signed a cooperation agreement to prepare for the forthcoming tactical section of the SDAM (naval aerial drone system) programme that has been launched by the DEA, France's defence procurement agency. The agreement pertains to the shipboard installation of a rotary-wing drone, which will amplify the operational potential of French and foreign navies.

DCNS's contribution to this strategic alliance consists in its understanding of the future technical and operational needs of navies, and its ability to design and build robust system architectures. DCNS will be responsible for the architecture and overall assembly of the warship-borne integrated drone system, while Airbus will supply the platform and robotisation.

I.2.f. Ethics and compliance

Ethics

In 2016, DCNS continued the online training programme for all staff (just under 13,000 people) on ethics and corporate social responsibility.

The Ethics and Corporate Social Responsibility Committee, which is made up of ten members appointed by the Chairman and Chief Executive Officer, met five times (see I.1.6, page 87).

Compliance

DCNS has resolved to strengthen its compliance system in order to conform to international standards and make compliance a central part of discussions and business within the Group. The system is also in line with developments in French legislation, in particular the law on Transparency, Combating Corruption and the Modernisation of Economic Life (known as the "Sapin II" Act), which was passed on November 8, 2016 and enacted on December 9, 2016.

DCNS's enhanced compliance system is based on policies, procedures, tools and a newly established Compliance division, acting under the authority of the Chairman and Chief Executive Officer, and comprising a new network of compliance officers at all of the Group's sites and subsidiaries worldwide.

The policies are available for viewing by all staff on the intranet.

Training in compliance issues and in the compliance officer and most-exposed-person system has begun and will continue in 2017.

I.2.g. Risk management

I.2.g.1. Risk management plan

The Group faces a range of risks and uncertainties that may impact its financial performance. For this reason, it has put in place a risk management system, as described in section I.1.5 "Integrated risk management system", page 84, covering strategic, operational, financial and legal risks, as well as risks associated with corporate social responsibility. The system is overseen by the Risk Management Committee chaired by the Chairman and Chief Executive Officer. The Group's business, operating results or financial position could be materially affected by the risks described below or by other risks and uncertainties of which the Group is currently unaware or which it regards, as at the date of this document, as immaterial.

I.2.g.2. Financial risks

Liquidity risk: the Group's cash position is such that it has no need for borrowing.

Foreign exchange risk: all material foreign currency transactions are covered by exchange rate hedging in line with Group policy.

Off-balance sheet risk: the guarantees given by DCNS have principally been granted on its own account or on behalf of its subsidiaries in connection with commercial contracts. Guarantees and pledges are managed centrally by the Group, which enables risk control to be enhanced by standardising the commitments made and by managing its balances and payment periods on an overall basis.

I.2.g.3. Legal risks

The Group has identified four major legal risks:

Ethics and compliance

Against a background of international development and an evolving regulatory environment, DCNS's customers expect mutual commercial relations to be exemplary in terms of exhibiting compliance with national and international standards and regulations. For the same reasons, its industrial partners indicate that they wish to be familiar with the compliance structure and rules in place in order to be certain that they correspond to their own standards.

In 2016, therefore, in addition to the whistleblowing scheme in place since 2015, the Group resolved to consolidate the existing compliance system with regard to both the prevention and the handling of risks so that it satisfies increased demands in this area (see section I.2.f above and section I.1.6 "Ethics and integrity", page 87).

Export controls and customs matters(2)

Export markets are of particular importance to the Group. As an exporter of combat and/or similar equipment and of

(2) Global Compact/OECD/ISO 26000.

goods with both civilian and military uses, DCNS is subject to French and foreign export control regulations.

Exports of such products outside the markets in which they are produced may therefore be subject to restrictions, controls or requirements to obtain export licences.

At present, it cannot be guaranteed that the export regulations for combat and/or similar equipment to which the Group is subject will not be tightened or that new generations of products developed by the Group will not be subject to stricter controls. It also cannot be guaranteed that geopolitical factors or changes on the international scene will not render it impossible to obtain export licences for certain customers or reduce the ability of the Group to carry out contracts that have already been signed.

Reduced access to military export markets and/or tighter restrictions risk having a negative impact on the activity, financial position and operating results of the Group. It follows that DCNS must be capable of complying with a very wide range of laws and regulations, including customs rules, while also controlling its dependence on foreign suppliers.

To manage and reduce these risks, the Export Control department is continuing to strengthen the assistance it provides to operational staff (especially those involved in sales, programmes, purchasing and the supply chain) by providing a practical export control guide, familiarisation measures and specific training sessions.

Thus for instance, the new European Union Customs Code, which was introduced on May 1, 2016, has prompted DCNS to pay greater attention to customs matters and monitor its compliance with customs obligations regarding both inward and outward flows of goods (*e.g.* ECS, D48, special procedures).

In 2016, key monitoring indicators were put in place along with customs submission and tax risk management procedures. On-the-ground audits gave rise to action plans which are being regularly monitored, regarding *e.g.* the maintenance of AEO (authorised economic operator) status. Ongoing assistance with customs issues in relation to programmes such as the Egyptian Gowind® programme or Cape Sharp in Canada improves customer satisfaction and optimises both transport costs and the speed at which customs declarations are processed. Selecting AEO-certified shippers and customs partners has allowed us to maintain trust with the French customs network and be proactive with relation to physical imports and exports.

Intellectual property

The intellectual property policy in place since 2006 aims to protect DCNS's intellectual assets. It applies to all products and services and their contents, to all knowledge and know-how, irrespective of whether or not it has been formally recorded or whether it is acquired internally or from outside. DCNS safeguards the results of its innovation by all possible means, including placing them under secrecy, protecting them through registered rights (patents, trademarks, designs and copyrights), search engine optimisation, seizure, confidentiality and publication.

Notwithstanding the protection applied for and obtained, DCNS may find itself in a situation where its intellectual property rights are subject to challenge, infringement, invalidation proceedings or circumvention. To reduce this risk, DCNS monitors developments in intellectual property and follows an important staff training plan with regard to best practices in the protection of intellectual assets. We monitor our competitors in order to identify any infringements and to keep aware of the progress of their work.

Protection of the DCNS Group's intellectual property is based on:

- the Innovation and Technical Expertise division, which oversees the Group's intellectual property policy;
- the Intellectual Property and Exploitation Committee, which investigates the protections to be sought for all patent applications, brands, designs and models. This investigation is carried out in conjunction with the operational business units;
- the network of local intellectual property correspondents.

In April 2016, the Institut de la Propriété Industrielle (the French patent office) published a list of the leading filers of patents. DCNS was among the top 30, based on the number of patent applications published in 2015.

Legal disputes

Due to its activities, the Group is exposed to technical and commercial disputes.

All known disputes involving DCNS or other Group companies have been examined as at the balance sheet date and appropriate provisions have been made where necessary to cover the estimated consequences.

Furthermore, some or all of the losses that DCNS or other Group companies could suffer as a result of certain disputes for which no provision has been made are covered either by the French Government under the terms of agreements made with DCNS in the course of the Government's contribution in kind on June 1, 2003 and its sale to DCNS of a 100% shareholding in DCN International, or by Thales under agreements made with DCNS in connection with DCNS's acquisition of a 100% shareholding in TNF.

All disputes and guarantee claims are handled by or in collaboration with the Group's Legal department.

Furthermore, all disputes with a potential material negative impact on the Group's activities or financial position are

examined at regular intervals by the Audit, Accounts and Risk Committee of the Board of Directors.

In order to prevent disputes, the Legal department has established a Group Contract Management division which will be able to detect risks at a much earlier stage and identify opportunities for DCNS. This organisation is put in place at the inception of the programmes.

I.2.g.4. Operational risks

The Group has identified five material risks in connection with its operations:

Competitive environment

The markets in which DCNS operates are subject to fierce competition with established players including TKMS, BAE, Fincantieri, Navantia, Damen and others, which is further intensifying due to the advent of new entrants from Korea, China and Japan. Such pressure of competition could have an adverse effect on DCNS's market position, its revenue and its profitability.

In order to be able to compete successfully with its current or future competitors, DCNS is continuing its efforts under a research and development policy that aims to enable the Group's operating units to stand out and be competitive. The Group also works to renew its product offering so as to satisfy the needs of its customers over the long term, build a sustainable international manufacturing infrastructure and to improve its competitiveness, making use of alliances and partnerships where appropriate.

Dependence on the public sector

The majority of DCNS's business is carried out on behalf of government customers, particularly in relation to defence contracts. Public expenditure on such contracts depends on political and economic factors and is consequently liable to fluctuate from one year to the next.

Cuts in defence budgets, particularly in France where DCNS realises a substantial part of its revenue and added value, are likely to affect the business and profitability of the Group.

Fluctuations in the budgets available to government customers may lead to delays in the receipt of orders, in the timetable for the performance of contracts or in payment, or to a reduction in funding for research and development programmes.

To reduce its dependence on French public spending. DCNS is investing in the international growth of its defence business and in marine renewable energy.

Successful management of projects and programmes

A material proportion of the products and services supplied by DCNS are highly complex, owing to their high-tech nature, as a result of operational constraints that demand ultra-high levels of reliability in particularly harsh environments, by virtue of the contractual arrangements associated with their sale, which may comprise general contractor agreements for major programmes, local parts thereof, naturalisation and so on, and because of execution periods that may be in excess of a decade.

The actual design and production costs of such products and services are therefore liable to exceed initial estimates. Many such contracts also include provisions concerning the performance level and/or delivery schedule for the products and services sold. Such provisions may be demanding, given the increased level of competition, and may also give rise to the payment of contractual penalties. The occurrence of such events may have an impact on DCNS's financial position and results.

A risk evaluation and control system is in place with respect to tender bids, which has been reinforced by the enaction of the Bid Control and Financial Evaluation department. With regard to programmes, periodic reviews are arranged in order to monitor progress in technical, scheduling and financial terms and to keep risks related to execution under control. In addition, since 2016 a contract management system has been established in order to provide more effective management of contracts at both the drafting and the performance stage. This enables the Group to optimise its financial and operational performance while minimising risk and exploring opportunities.

Country risk

The Group's strategy is oriented towards expanding its business internationally. DCNS faces various forms of country risk: sovereign risks, changes in the economic situation and business climate, and political or geopolitical risks concerning the effects of regional tensions on the client country.

Since contracts are increasingly tied to intergovernmental accords, DCNS may be confronted by the risk that strategic partnerships in which it is involved are reassessed. DCNS is thus exposed to the risk of budget cuts by its customers, which may range from the revision of schedules for completion to the complete cancellation of the contracts.

DCNS evaluates this risk at the time the contract is made and monitors changes over its course. DCNS also monitors country developments on an ongoing basis *via* its local subsidiaries and the head office departments concerned.

Political hazards

A change of government, a crucial political event, armed conflict or acts of terrorism, a substantial deterioration in the balance of payments, social upheavals, strikes or riots may give rise to various types of risk, including:

- stricter foreign exchange controls which limit or ban the export of currency from a client country and impede its ability to honour its financial commitments vis-à-vis DCNS;
- impairments to the value of assets due to the devaluation of local currencies or other measures taken by the public authorities that significantly affect the value of business;

• the expropriation (by confiscation, nationalisation, requisition etc.) or forced sale of DCNS's holding in a local company or, more generally, discriminatory measures taken against DCNS that may jeopardise its business in a particular country;

• a security situation that gives rise to the risk of attacks on the physical safety of DCNS staff and/or facilities and severely restricts or prevents DCNS from fulfilling its contractual performance obligations or reduces or prohibits the use of its local industrial assets (see section I.2.g.7, page 22, "Safety of personnel in sensitive countries");

• an unforeseen breach of a contract or undertaking;

• an abusive call on a deposit or guarantee;

• the non-certification of documents due for payment or the failure to make scheduled payments laid down in a contract which prevents the said contract from progressing as expected.

DCNS may take appropriate measures to hedge or insure against the financial impact of such risks. The Group has also implemented a global safety, protection and monitoring programme for its staff in order to ensure that they enjoy an appropriate level of safety in the countries in which they perform their duties.

I.2.g.5. Managing supplier risks(3)

DCNS's business includes a substantial portion of bought-in products and services representing over half its annual revenue. These may relate to design and research, manufacturing and services. DCNS is thus exposed to the risk that its suppliers may default, which could affect its performance and consequently its profitability.

Supplier risks fall into four main types:

• CSER risks (social responsibility, the environment, public image, etc.);

• operational risks (technical failings, financial default, economic dependency, disruption of suppliers, etc.);

• compliance risks (legal risks, fraud, regulatory non-compliance, etc.) and export bans;

• overall risks (geopolitical risks, natural disasters, exchange rates, etc.).

Given the Group's business in the defence sector, a fifth risk exists in relation to changes in the shareholder base and the nationality of the shareholders.

The DCNS Group must be alert to the nationality of and changes to the core shareholder base of suppliers, so as to ensure the confidentiality of any sensitive information that may be passed to them. Certain countries or manufacturers could be regarded as hostile to the Group's interests and businesses.

All of these risks are monitored on a monthly basis by the Supplier Risk Committee, which is coordinated by the Procurement department and involves representatives of the operating divisions as well as the Strategy, Legal, and Finance departments.

CSER risks are also covered by the DCNS ethical charter and the supplier code of conduct.

The progress of action plans and the level of DCNS's exposure to such supplier risks are presented every six months to the Risk Committee meetings organised by the Audit and Risk department.

Managing supplier default risks

A supplier may default as a result of a serious accident at one of its sites, an aspect of its external environment such as a shortage of critical raw materials or components, serious political instability or a natural disaster, or as a result of management failings.

The performance of suppliers' management is monitored both operationally, in terms of failing to anticipate orders, loss of control of industrial processes, obsolescence of facilities, poor skills management, loss of know-how etc., and on an overall and financial basis, in terms of change of control or strategic direction, loss of revenue, poor working capital management, cash-flow problems, entering administration or insolvency, etc.

Managing economic and technological dependency risks

The economic dependency of small- and medium-sized enterprises (SMEs) on DCNS is considered to be a major risk. This risk is due to the historical footprint of DCNS in the local economies in which it operates. It is exacerbated by straitened economic conditions which have unbalanced the sales portfolios of a large number of these SMEs.

The procurement strategy, the selection and performance monitoring processes for suppliers and the activities of the Supplier Risk Committee contribute towards the mitigation of these risks both at the tendering stage and during the project phase.

The second aspect of dependency to be monitored is the dependency of DCNS on the technology or skills of certain suppliers. A sudden rupture in supply (for one of the reasons referred to above) could put the execution of DCNS's programmes at risk.

Particular progress was made in 2016, especially with regard to securing long-term sources for strategic supplies for both France and export markets.

Moreover, rationalisation of the approved supplier list, as agreed upon at meetings of the procurement policy orientation committee (coordinated by the Procurement department

(3) Cf. Guidelines: GRI-V4/Global Compact/OECD/ISO 26000.

and attended by members of the operating divisions and the Strategy and Finance departments), is enabling a better appreciation to be gained of supplier risks regarding the various categories of purchases, in line with the approved Group strategy of restricting the overall number of suppliers.

I.2.g.6. Product safety

Like the civil aviation or nuclear industries, DCNS builds products for which the potential gravity of an accident means that accidents are wholly unacceptable. The loss of a submarine is, at the very least, as serious as the loss of an aircraft. For this reason, DCNS makes ensuring the safety of its products a paramount concern.

To this end, DCNS has put various procedures in place, a few of which are as follows:

• the Group's Chief Technical Officer (CTO), as the senior technical authority, is responsible for the technical framework that ensures safety performance. He ensures that product offerings and programmes respect this framework and determines whether key milestones in terms of design, production and product maintenance have been met, particularly those concerning safety;

• the products that the Group designs offer a very high level of safety from the outset, thanks to a technical framework in which safety performance is fundamental. All projects are nevertheless subject to specific reviews involving our safety experts, which enables technical options to be assessed and safety-improving solutions to be put forward;

• DCNS is convinced that our customers have safety requirements as demanding as our own, and we are certain that this factor can give us an advantage over our competitors. The Group pays great attention to this point in the preparation of tenders. Safety experts are closely involved in tender preparation and in the associated technical reviews;

• applying the same rigour as for nuclear safety, a field in which the utmost level of safety is required, equipment contributing to dive safety is subjected to the strictest requirements in their category across a variety of areas: procurement, controls, testing, traceability, etc. The dive safety inspector is in charge of developing a dive safety culture, ensuring that the safety framework is maintained and checking its application, and managing key positions in the area;

• DCNS remains at the service of its customers until the end of service of our products. In connection with the technical overhauls that we perform, we draw up safety assessments for vessels in service and assist our naval clients in researching further advances;

• special attention is paid to the safety culture of our staff, and training is an essential component of constructing safety. Monthly meetings have already been instituted for the benefit of our design staff which trace the course of a submarine accident and present what DCNS will do to prevent such accidents from occurring. In order to strengthen the retention of critical skills in relation to submarine architecture, dive safety, nuclear and aviation, job-family managers were designated in 2016, key positions have been identified, and career pathways and succession plans have been put in place under the aegis of specialised career committees.

I.2.g.7. Human resources risk

Retention of skills

The Group employs a wide range of specialisms and fields of expertise in the performance of its activities, making use of the varied skills of every member of its workforce. One major risk is therefore that the Group might experience difficulties with regard to making the requisite skills available in the right place at the right time in order to execute its strategy and successfully complete its programmes.

To limit this risk, the Group takes all possible steps to ensure it can hire, retain, redeploy or replace the skills it will need.

The Group has developed partnership policies with higher education institutions to facilitate recruitment in key areas of its business, and has developed a communication strategy for its employer brand.

The attractiveness of the Group is also boosted by the opportunities for geographical and career mobility, the implementation of talent-spotting systems, and the training, staff monitoring, career development and international development it provides. DCNS is consequently paying greater attention to specialisms that are critical to national sovereignty, to the safety of its vessels and to the safety of the personnel who design, build, maintain and use them. This has involved the establishment of:

• job-family mapping;

• standard professional development pathways;

• cross-departmental career reviews, etc.

In addition, the Group has established a remuneration policy and implemented employee profit sharing under both the statutory and voluntary schemes, as well as employee share ownership and savings schemes which enable staff to become shareholders in DCNS and thus encourage identification with and loyalty to the Group.

Health and safety at work

All industrial activities entail risks that may affect the health and safety at work of the Group's staff, suppliers and subcontractors. Health and safety risks may arise, for instance, in relation to the deployment of marine renewable energy installations, due to the performance of offshore work in remote regions under difficult environmental conditions. Improving health and safety at work is one of DCNS's primary CSER commitments. It is both a fundamental responsibility for DCNS as an employer and an opportunity to improve the Group's operational performance.

To overcome these risks, DCNS follows a health, safety and environment policy as well as Group-wide safety standards that specify the priority actions, rules to be followed and

required behaviours for all staff, so that everyone makes a positive contribution to reducing risks both to themselves and to the colleagues, subcontractors and other people working around them. Risk prevention officers on the ground also serve to attain a consistently high level of risk management (see section I.4.3, "Health and safety at work", page 107).

In order to prevent and manage psychosocial risks, a management system is in place to ensure that they are properly assessed at each site, *via* a Quality of Life at Work (QLW) monitoring unit and a work summary for the tertiary prevention cells that handle individual situations (see I.4.3, "Health and safety at work", page 107). Overall control at national level is exercised by the nationwide QLW monitoring unit.

Staff safety in sensitive countries

Another key consideration for DCNS in the realm of health and safety at work is the physical security of staff and their families during assignments abroad. Permanent measures are in place within the Safety department to monitor the security situation on an ongoing basis, analyse risks, lay down rules of conduct and specific instructions for every sensitive country, put structures in place that are adapted to country risks, ensure the circulation of warnings and carry out familiarisation, information and training activities for expatriate and seconded employees.

During 2016, against the backdrop of increased terrorism threats, the physical security of the Group's sites and staff was enhanced both in France and abroad, in particular in Australia where local infrastructure has been erected and secured.

I.2.g.8. Environmental risks

Environmental protection

Respect for the environment is central to DCNS's approach.

The Group has had an environmental management system since 2008 and is certified under ISO 14001. It takes measures to manage the industrial risks in relation to its activities and prevent, or where necessary limit the effects of, environmental events. Risk situations of all kinds are fully monitored, and the resources that could be deployed where necessary to combat them are identified.

DCNS is also keen to continuously reduce the environmental impacts of its activities, especially as regards cutting energy consumption (for instance, by reducing the number of IT datacentres), reducing greenhouse gas emissions (for instance, by expanding the use of video conferencing and establishing new Web conferencing services) and improving the treatment of waste. Tough objectives in relation to energy performance, staff travel, waste sorting and reuse/recycling have been set in this regard.

Since 2007, the Group has worked proactively to incorporate the environment into the process of ship design, taking account of the whole of the product life cycle. This measure enables the Group to anticipate regulatory changes and offer more discreet and self-reliant products that have lower running costs, produce less pollution, and are made of materials that will yield greater value once a vessel is eventually dismantled. These practices are now in the course of deployment in every design unit.

Since the development of the marine energy business, studies have been carried out in order to limit the environmental impact of new products developed by DCNS.

Financial risks relating to climate change

Unlike "natural catastrophes" whose extent and sudden occurrence cannot be predicted, the consequences of climate change are not covered by insurance companies. Thus far, DCNS has not identified any impacts that climate change may have on its activities, given that its production is mainly carried out in temperate regions.

However, bearing in mind the link between climate change and the risk of tsunamis, it should be noted that since Fukushima steps have been taken at both civilian and military installations. DCNS, as an operator of classified nuclear facilities, has taken specific measures in conjunction with their users, namely the French Navy at Brest and Toulon and the DGA at Cherbourg. These measures are designed to respond to scenarios involving high water and/or the flooding of facilities with large volumes of water.

More detailed work on analysing the financial risks linked to climate change will be carried out from a carbon footprint perspective in 2017.

Nuclear and pyrotechnics inspections

The Nuclear and Pyrotechnics Inspection team is charged with proposing nuclear and pyrotechnic safety policies for all DCNS activities to the Group's General Management and to audit and verify the safety measures taken in accordance therewith.

The Nuclear and Pyrotechnics Inspection team conducts audits aimed at verifying the compliance of the Group's practices with regulatory requirements and internal rules, and regularly monitors the execution of progress action plans enacted as a result of such audits or inspections.

The team also takes part, together with the Quality and Health and Safety departments, in inquiries that are launched to examine the year's most significant events and define the necessary corrective or preventive action.

The Nuclear Inspection team leads DCNS's radiation protection network. It thus monitors the radiation doses received by employees of DCNS and on-site subcontractors. It ensures that such doses remain well below both the legal limits and the DCNS internal limit, which is half the legal maximum. It strives to comply with the ALARA (as low as reasonably achievable) principle.

I.2.g.9. Data security

For a high-tech business operating internationally in the defence sector such as DCNS, protecting confidential and sensitive information and information systems is a key issue. Regular efforts are made to further the two aspects of such protection, namely enhancing the equipment and security procedures for information systems on the one hand and monitoring networks and defending against IT attacks on the other, both on the technical front and in terms of training and raising awareness among staff.

Since 2015, the Safety department has been leading a three-year security improvement plan for DCNS's various IT systems. This will facilitate *inter alia* the implementation of recommendations made by the ANSSI (national agency for information systems security) regarding the control of data exchange at all levels within the Group and with third parties, taking account of the increasing internationalisation of the system.

In response to the continued increase in the number and sophistication of cyber-attacks against the onboard systems of vessels under construction or in operation, in early 2016 the Group established a Cyber department charged with coordinating, linking together and deploying all response measures and with offering new products and services in this regard. This work is carried out in collaboration with the DGA (the French national defence procurement agency) and the French Navy.

I.2.g.10. Insurance

DCNS has followed a risk/insurance audit and management policy since 2003.

This policy is reviewed and updated annually. It is based on mapping potential risks and on a prevention/protection policy for assets and liability issues.

Risks are addressed by a full insurance plan. The plan covers all risks, and the Group has demonstrated its ability to withstand losses and protect its assets, equity and profits from the consequences of an exceptional unforeseen event.

Buildings and equipment at DCNS sites are insured at replacement value based on expert assessments. The Lorient and Cherbourg sites have been designated "Highly protected risks" in confirmation of their high levels of risk prevention.

An in-depth investigation into obtaining cover for cyber risks is currently under way.

Risks in relation to ship construction, submarines and surface vessels are covered by a builder's risk policy for new hulls and a maintenance in operational condition policy for vessels under maintenance. Availability guarantees are no longer a priority for the French Navy, and penalties for delays in relation to such guarantees are covered by the policies.

Liability coverage (general civil liability and product liability) has been taken out. The policies are linked to maintenance in operational condition covers to provide full financial coverage. Civil liability cover is also extended to all engineering and advisory activities. This is important in connection with technology transfer (TOT), especially in relation to exports. A regularly updated group of policies exists in relation to miscellaneous risks such as transport, on- and off-site inventories, property/casualty and vehicles. The French Government, as the operator of the nuclear facilities at naval bases, is liable under law for any nuclear losses resulting from a nuclear accident. Since 2009, DCNS has unified its cover against both civil and military nuclear risks, including those for nuclear-powered vessels, in one policy.

With respect to international risks, risk management policies have been put in place for manufacturing and shipbuilding risks for the Prosub Brazil, India P75, LEX Saudi Arabia and Malaysia Scorpène® maintenance in operational condition programmes. Cover has been taken out for the Egyptian and Malaysian Gowind® programmes, which can be extended to all ships of this type.

An examination from a legal and technical perspective of the entire Australian Future Submarine programme is currently being carried out.

The Risk and Insurance department, which is already closely involved in drafting the legal terms of contracts, will work on the industrial aspects of the programme and the associated risks in both Cherbourg and Australia, with a view to arranging an insurance programme jointly with DCNS's Australian partners that will enable optimal cover to be obtained at reasonable cost.

I.3. POSITION OF DCNS SA DURING 2016

I.3.a. Revenue and results of DCNS SA

Order intake

DCNS SA's order intake for 2016 was €2,584 million, as compared with €3,486.4 million in 2015.

As at December 31, 2016, DCNS SA's order book stood at €11,246 million.

Revenue

DCNS SA achieved revenue of €3,133.0 million in 2016, as compared with €3,007.6 million in 2015 (a rise of 4.2%).

Income

Operating income was €95.8 million (3.1% of revenue), as compared with €50.2 million in 2015.

Net financial income was €98.2 million, as compared with €43.4 million in 2015.

Exceptional income was €76.0 million, as compared with income of €6.7 million in 2015.

The company's net income was €226.7 million (7.2% of revenue), as compared with €71.1 million in 2015.

1.3.b. Five-year financial summary for DCNS SA

In accordance with the provisions of articles R. 225-81-3 and R. 225-83-6 of the French Commercial Code, details are provided in the following table of DCNS's results for the last five financial years. Amounts are stated in euros:

Financial year ended	31/12/2016	31/12/2015	31/12/2014	31/12/2013	31/12/2012
Length of accounting period (months)	12	12	12	12	12
Capital at reporting date	–	–	–	–	–
Share capital	563,000,000	563,000,000	563,000,000	563,000,000	563,000,000
Number of ordinary shares	56,299,700	56,299,700	56,299,700	56,299,700	56,299,700
Number of A preference shares	300	300	300	300	300
Number of B preference shares	–	–	–	–	–
Operations and results					
Revenue excluding taxes	3,133,025,184	3,007,623,309	3,047,402,857	3,318,538,295	2,885,504,228
Net profit before tax, profit-sharing, depreciation, amortisation and provisions	330,272,618	149,119,288	54,767,340	348,114,740	319,323,956
Income tax charge (income)	33,161,644	24,765,683	(7,784,399)	75,556,617	69,923,948
Employee profit-sharing	10,121,819	4,432,587	536,069	21,652,078	20,574,006
Charges to depreciation, amortisation and provisions	60,242,574	48,787,298	549,302,150	160,218,951	88,394,779
Net profit (loss) after tax, profit-sharing, depreciation, amortisation and provisions	226,746,581	71,133,721	(487,286,480)	90,687,094	140,431,222
Dividends paid	0	–	0	60,804,000(2)	97,962,000(1)
Earnings per share					
Net profit after tax and profit-sharing but before depreciation, amortisation and provisions	5.10	2.13	1.10	4.46	4.06
Net profit (loss) after tax, profit-sharing, depreciation, amortisation and provisions	4.03	1.26	(8.66)	1.61	2.49
Dividend allotted to each ordinary share	–	–	–	0.54	0.87
Dividend allotted to each A preference share	–	–	–	101,340	163,270
Dividend allotted to each B preference share	–	–	–	–	–
Staff					
Average number of staff	9,173	9,169	9,086	8,783	7,967
Payroll expense	533,246,605	522,208,640	504,297,047	475,322,430	443,593,166
Payroll-related costs (social security, staff benefits, etc.)	246,021,617	233,328,122	244,477,429	231,435,932	216,692,679

(1) Interim dividend paid in October 2012 (€43,914,000) in respect of the A preference shares and the ordinary shares.
(2) Interim dividend paid in October 2013 (€43,914,000) in respect of the A preference shares and the ordinary shares.
No interim dividend was paid in October 2014.
No interim dividend was paid in October 2015.

I.3.c. DCNS SA trade receivables and trade payables

In accordance with articles L. 441-6-1 and D. 441-4 of the French Commercial Code and article 24-II of the French law on the Modernisation of the Economy, the following table provides details of the due dates of the company's trade receivables:

In thousands of euros	Total	Not yet due	< 15 days	> 15 days < 30 days	> 30 days < 45 days	> 45 days < 60 days	> 60 days	
31/12/2016	483,928	190,961	174,853	14,137	40,623	20,309	43,045	
31/12/2015	861,382	217,236	132,081	80,226	369,455	6,437	55,947	

In accordance with articles L. 441-6-1 and D. 441-4 of the French Commercial Code and article 24-II of the French law on the Modernisation of the Economy, the following table provides details of the due dates of the company's trade payables:

In thousands of euros	Total	Due	< 15 days	> 15 days < 30 days	> 30 days < 45 days	> 45 days < 60 days	> 60 days	If and when
31/12/2016	283,933	68,856	43,232	68,395	59,224	39,735	715	3,776
31/12/2015	255,464	54,879	50,334	50,942	64,469	22,142	11,684	1,015

The invoices due in over 60 days include an invoice from the supplier Atlas Elektronik GmbH for €585,000 in relation to a delivery scheduled for June 2017.

The amounts not yet due mainly relate to invoices for goods or services that the company has not yet received or approved for payment.

I.3.d. DCNS SA – Total amount of certain disallowed charges

In its tax filings, DCNS SA will add back the sum of €244,367 in relation to excess depreciation on private cars.

No expense forming part of general expenditure was disallowed for tax purposes.

Attendance fees of €78,295 were paid in 2016 in respect of the years 2014 and 2015.

I.3.e. DCNS SA – Dividends paid in respect of the last three financial years

The following dividends were paid in respect of the last three financial years:

- in respect of the year ended December 31, 2013: €60,804,000;
- in respect of the year ended December 31, 2014: none.
- in respect of the year ended December 31, 2015: none.

II. POST-BALANCE SHEET EVENTS

None.

Year ended December 31, 2016

All amounts are in millions of euros, unless stated otherwise.

I. COMPREHENSIVE INCOME

Consolidated income statement

	Notes	2016	2015
Revenue	5	3,191.2	3,038.8
Cost of sales		(2,738.1)	(2,657.0)
Research and development expenses	6b	(104.3)	(87.7)
Marketing and selling expenses		(124.0)	(104.5)
General and administration expenses		(144.7)	(140.4)
Operating profit/loss from ordinary activities before amortisation of intangible assets acquired in business combinations	**6**	**80.1**	**49.2**
Amortisation of intangible assets acquired in business combinations	6	(3.1)	(6.4)
Operating profit/loss from ordinary activities		**77.0**	**42.8**
Other operating income	6d	17.6	81.9
Other operating expenses	6e	(10.0)	(74.6)
Operating profit/loss before net income from equity affiliates		**84.6**	**50.1**
Net income from equity affiliates		2.6	3.5
Operating profit/loss after net income from equity affiliates		**87.2**	**53.6**
Income from financial investments	7	32.1	23.8
Other financial income	7a	34.2	31.8
Other financial expenses	7b	(36.9)	(29.5)
Net financial income/expense	7	**29.4**	**26.1**
Income tax	8	(29.2)	(21.3)
NET PROFIT/LOSS FOR THE PERIOD		**87.5**	**58.4**
attributable to owners of the parent		94.3	68.4
attributable to non-controlling interests		(6.8)	(10.0)
Basic and diluted earnings per ordinary share (in euros)	*9*	*0.84*	*0.61*

Consolidated statement of comprehensive income

	2016	2015
Net income (loss)	**87.5**	**58.4**
Items to be subsequently reclassified to the income statement		
Financial assets available-for-sale	29.0	–
Cash flow hedge	(1.3)	19.6
Items that cannot be reclassified to the income statement		
Translation differences on the conversion of foreign businesses	1.6	0.1
Actuarial gains and losses	(16.5)	4.4
Income and expenses recognised in equity, before tax	**12.8**	**24.1**
Tax recognised directly in equity	(4.4)	(8.2)
Income and expenses recognised in equity	**8.4**	**15.9**
CONSOLIDATED COMPREHENSIVE INCOME FOR THE YEAR	**95.9**	**74.3**
attributable to owners of the parent	102.7	84.3
attributable to non-controlling interests	(6.8)	(10.0)

II. CONSOLIDATED BALANCE SHEET

Assets

	Notes	31/12/2016	31/12/2015
Intangible assets	10	147.4	140.8
Goodwill	11	382.8	382.8
Property, plant and equipment	10	600.8	601.4
Share in net assets of equity affiliates	12	19.7	21.2
Non-current financial assets	19	272.8	420.4
Other non-current assets		0.8	1.8
Deferred tax assets	8	198.5	183.3
Non-current assets		**1,622.9**	**1,751.7**
Inventories and work in progress	13	505.2	503.4
Construction contracts: assets	14	455.1	1,240.4
Trade receivables	15	1,094.7	1,682.9
Advances and part payments paid		1,163.6	1,399.7
Current financial assets	19	260.9	61.9
Current tax receivable		20.8	36.6
Other receivables	15	276.8	306.3
Cash and cash equivalents	20	2,301.9	2,296.2
Current assets		**6,078.9**	**7,527.4**
TOTAL ASSETS		**7,701.8**	**9,279.1**

Equity and liabilities

	Notes	31/12/2016	31/12/2015
Share capital		563.0	563.0
Premiums		18.4	18.4
Treasury shares		(68.5)	(67.0)
Remeasurement of financial instruments		34.7	16.7
Translation differences		1.0	(0.2)
Actuarial gains and losses		(16.5)	(5.7)
Other reserves attributable to owners of the parent		306	218.2
Consolidated income attributable to owners of the parent		94.3	68.4
Equity attributable to owners of the parent	**16**	**932.4**	**811.8**
Non-controlling interests		86.2	22.4
Equity	**16**	**1,018.6**	**834.2**
Non-current provisions	17	118.4	95.2
Non-current financial liabilities	19	47.4	54.3
Other liabilities	21	13.8	11.8
Deferred tax liabilities	8	5.2	1.1
Non-current liabilities		**184.9**	**162.4**
Current provisions	17	246.8	239.2
Construction contracts: liabilities	14	550.6	471.7
Trade payables	18	1,674.9	1,856.1
Advances and part payments received		3,497.5	4,272.1
Current financial liabilities	19	32.9	24.7
Current tax payables		4.3	2.2
Other payables	18	491.4	1,416.5
Current liabilities		**6,498.3**	**8,282.5**
TOTAL EQUITY AND LIABILITIES		**7,701.8**	**9,279.1**

III. CONSOLIDATED EQUITY

	Number of shares	Share capital	Premiums	Other reserves	Treasury shares	Remeasurement of financial instruments	Cash flow hedge	Translation differences	Actuarial gains and losses	Equity attributable to owners of the Group	Non-controlling interests	Total equity
January 1, 2015 restated	**55,915,582**	**563.0**	**18.4**	**222.8**	**(71.3)**	**3.9**	**–**	**(0.3)**	**(8.6)**	**727.9**	**32.0**	**759.9**
Consolidated comprehensive income		**–**	**–**	**68.4**	**–**	**–**	**12.9(2)**	**0.1(5)**	**2.9(1)**	**84.3**	**(10.0)**	**74.3**
Dividends paid		–	–	–	–	–		–	–		–	
Treasury shares	(77,350)	–	–	(4.3)	4.3	–		–	–	–	–	–
Other		–	–	(0.4)	–	–		–	–	(0.4)	0.4	–
December 31, 2015	**55,838,232**	**563.0**	**18.4**	**286.5**	**(67.0)**	**3.9**	**12.9**	**(0.2)**	**(5.7)**	**811.8**	**22.4**	**834.2**
Consolidated comprehensive income		**–**	**–**	**94.3**	**–**	**19.0(3)**	**(1.0)(2)**	**1.2(5)**	**(10.8)(1)**	**102.7**	**(6.8)**	**95.9**
Dividends paid		–	–	–	–	–		–	–		–	
Treasury shares	(29,330)	–	–	1.4	(1.4)	–		–	–	–	–	–
Other		–	–	17.9(4)	–	–		–	–	17.9	70.6(4)	88.5
DECEMBER 31, 2016	**55,808,902**	**563.0**	**18.4**	**400.1**	**(68.4)**	**22.9**	**11.9**	**1.0**	**(16.5)**	**932.4**	**86.2**	**1,018.6**

The "Treasury shares" item includes shares in the company owned by the Group and those for which holders have a put option.

The "Other reserves" item includes the legal reserve, retained earnings and consolidated profit or loss for the period.

(1) The net actuarial loss of (€10.8 million) in 2016 comprised:
- amount before tax: (€16.5 million);
- deferred tax recognised: €5.7 million.

See note 16.

(2) The cash flow hedge impact in 2016 of (€1.0 million) consisted of the following two amounts:
- amount before tax: (€1.5 million);
- deferred tax recognised: €0.5 million.

(3) The impact of the remeasurement of financial instruments corresponded to the revaluation of the Areva TA shares at December 31, 2016. It totalled €19.0 million and consisted of the following two amounts:
- amount before tax: €29.0 million;
- deferred tax recognised: (€10.0 million).

(4) The €17.9 million impact on other reserves in 2016 was due mainly to the following two transactions in the company's share capital:

DCNS Energies' share offering: the impact breaks down as follows:
- capital increase for investors: €88 million;
- allocation to non-controlling interests of the DCNS Energies sub-group's portion: (€67.5 million).

(5) See note 16.

IV. CONSOLIDATED CASH FLOW STATEMENT

	2016	2015
Net income (loss)	**87.5**	**58.4**
Add (deduct):		
Net depreciation and amortisation expense/(reversal)	96.9	97.5
Net provision expense/(reversal)	28.0	(139.1)
Net asset impairment loss/(reversal)	(1.9)	22.8
Net loss/(gain) on disposal of assets	–	–
Changes in fair value of financial instruments	2.9	3.1
Net gain on disposals	8.7	(0.1)
Change in employee share offer liabilities	1.4	(4.3)
Tax expense/(income)	29.2	21.3
Net income/(loss) from equity affiliates	(4.3)	3.5
Net dividends received from equity affiliates	4.6	0.5
Other unrealised income and expenses	(1.4)	1.1
Cash flow from operations	**251.6**	**64.7**
Change in working capital	(175.4)	740.9
Tax refunded/(paid)	(26.5)	47.5
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	**49.7**	**853.1**
Changes in scope of consolidation	1.4	2.1
Purchases of property, plant and equipment and intangible assets	(109.5)	(139.0)
Proceeds from disposals of property, plant and equipment and intangible assets	1.7	0.4
Acquisitions of holdings, net of cash acquired/brought into scope of consolidation	1.4	1.5
Change in loans and advance payments	(2.5)	(2.7)
Net operating investments	**(107.3)**	**(137.7)**
Decrease/(increase) in investment securities[1]	1.0	144.6
Decrease/(increase) in financial assets	–	–
Net financial investments	**1.0**	**144.6**
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	**(106.3)**	**6.9**
Increase in capital – non-controlling interests	58.7	1.1
Dividends paid to owners of the parent	–	–
Dividends paid to non-controlling interests	–	–
Sale/(purchase) of treasury shares	(1.5)	(4.0)
Cash payments to or from shareholders	**57.1**	**(2.9)**
Increase in financial liabilities	6.1	9.4
Decrease in financial liabilities	(0.0)	1.3
Net change in financial liabilities	**5.8**	**10.7**
Net cash inflow/(outflow from financing activities)	**63.0**	**7.8**
NET CHANGE IN CASH	**5.7**	**867.8**
Net cash at beginning of period	2,296.2	1,428.7
Change in cash	5.6	867.8
Effects of changes in exchange rates/fair value	0.2	(0.3)
Net cash at end of period	**2,301.9**	**2,296.2**
Including cash assets at end of period	2,301.9	2,296.2
Including cash liabilities at end of period	–	–

(1) As stated in note 3-r, the change in investment securities mainly comprises changes in certificates of deposit, term accounts and medium-term negotiable notes with an original maturity of more than three months.

Net cash plus investment securities classified under other financial assets as per note 3-r amounted to €2,726.3 million at December 31, 2016 (€2,720.5 million at December 31, 2015) and is made up as follows:

	31/12/2016	31/12/2015
Non-current investment securities	203.8	374.3
Current investment securities	220.6	50.0
Net cash	2,301.9	2,296.2
TOTAL	**2,726.3**	**2,720.5**

V. NOTES

I. RULES, POLICIES AND CONSOLIDATION SCOPE

I.1. Examination of the financial statements and highlights of the period

These consolidated financial statements of the DCNS group for the year ended December 31, 2016 were approved by the Board of Directors on February 23, 2017 and will be submitted for approval by the Annual General Meeting of Shareholders to be held in March 2017.

The year 2016 was chiefly marked by the following major events:

• DCNS encountered difficulties in the execution of the Barracuda nuclear attack submarine programme. There was a 24-month delay in the scheduling as compared with the contractual milestones due mainly to cycle pollution and technical issues concerning the steam supply. These operational difficulties had a negative impact on the 2016 financial statements;

• the DCNS group also encountered difficulties with the qualification of the F21 torpedo, resulting in the need to carry out further tests which caused a scheduling delay;

• DCNS completed the spin-off of its marine renewable energy business as a separate subsidiary, DCNS Energies. DCNS has a majority shareholding in DCNS Energies. Its other shareholders are Bpifrance's SPI (Société des Projets Industriels) Fund (which has a 36% stake), Technip and BNP Paribas Développement;

• profits on completion have remained stable overall or improved slightly as compared with the previous financial year.

I.2. General presentation of the Group's activities

DCNS is a world leader in naval defence and an innovative player in energy. The Group's success as an advanced technology company with global reach is built on exceptional know-how and unique industrial resources. DCNS designs, builds and supports submarines and surface combatants as well as associated systems and infrastructures. The Group also provides services for naval shipyards and bases, and offers a broad range of solutions in the civil nuclear energy and renewable energies sectors.

DCNS presents the segment information required by IFRS 8 "Operating Segments" on the basis of a single segment since the Group's new structure, designed to support the Group's strategic orientations, does not as yet enable financial information to be presented separately for each operating segment.

I.3. Accounting rules and policies

a. Statement of compliance

In application of the option available under Regulation 1606/2002 adopted on July 19, 2002 by the European Parliament and the European Council, the Group has elected to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union at December 31, 2016.

The accounting rules and policies are identical to those applied in the consolidated financial statements for the year ended December 31, 2015.

b. New standards and interpretations and their mandatory application

Application of IFRS 15 "Revenue from Contracts with Customers" will be mandatory for accounting periods beginning on or after January 1, 2018. The impacts of this standard are currently being analysed.

The main method used within the Group for recognising revenue from long-term contracts is the percentage of completion method. As regards the transition method, the Group is likely to opt for full retrospective application.

IFRS 16 "Leases" is applicable as from January 1, 2019. Its impacts are currently being analysed

c. Consolidation policies

Companies over which DCNS exercises exclusive control, directly or indirectly, are fully consolidated. Jointly-controlled companies are accounted for under the equity method, following the application of IFRS 10, IFRS 11 and IFRS 12 as from January 1, 2014.

Companies over which DCNS exercises significant control, directly or indirectly, are accounted for under the equity method.

The financial statements of consolidated companies prepared under the accounting rules in force in their respective countries are restated to comply with IFRS. Material transactions between consolidated companies and unrealised intra-group profits are eliminated.

Investments in non-consolidated companies are shown under non-current, available-for-sale financial assets.

d. Use of estimates

In preparing consolidated financial statements under IFRS, Management makes estimates and assumptions that it considers realistic and reasonable. Management regularly revises its estimates at programme reviews on the basis of the information at its disposal. Whenever there are unexpected changes in events and circumstances, actual results may be different from these estimates. The main accounting policies that require estimates to be used are the following.

Recognition of revenue and profit on construction contracts and long-term service agreements and related provisions (IAS 11) – (notes 5, 14, 17)

Revenue and gross profit on construction contracts and long-term service agreements are recognised using the percentage of completion method, with reference to technical milestones. Furthermore, whenever a programme review reveals a negative gross margin, the loss relating to work not yet carried out is recognised immediately.

Revenue and profit are thus recognised on the basis of an estimate of revenue and expenses to completion that is revised as work progresses.

The total revenue and expenses expected under a contract reflect Management's best estimate of the future benefits and obligations arising from the contract. The assumptions made in determining the present and future obligations take account of an assessment of the technological, commercial and contractual constraints of each programme. The financial statements are thus prepared on the basis of the contractual assumptions as they exist at the balance sheet date, with no anticipated changes taken into account.

These assumptions are based in particular on the latest known indicators (contracted hourly rates and price review indices) for determining revenue and expenses to completion. The Group also uses statistical methods to determine the impact of future changes in such indicators on the gross profit on completion of its programmes. Movements in such indicators are only taken into account if their impact on gross profit on completion is negative.

The sale of high-technology products exposes the Group to the risk of product defects. The Group therefore recognises provisions to cover these risks. The amount of the provisions is regularly reviewed on the basis of an assessment of the risk factors.

Obligations under construction contracts may give rise to penalties for delays in performance of the contract or to unexpected cost increases due to programme amendments, non-compliance by a supplier or subcontractor with its obligations or delays resulting from unexpected events or situations.

In 2014, the Group decided to review the way in which profit is recognised over the course of its six new-build programmes. The associated effects are presented in note 14.

Measurement of assets and liabilities under retirement benefit and similar obligations (note 17-a)

Assessment by the Group of the assets and liabilities of the defined benefit plans (lump-sums payable on retirement, long-service bonuses, the CET Senior and GPEC schemes and pension annuities) requires the use of statistical data and other variables to forecast future trends. These variables include the discount rate, the expected return on plan assets, the rate of salary increases and the employee turnover and mortality rates. If the actuarial assumptions are materially different from the actual data experienced subsequently, this may result in substantial changes in the expense for retirement and similar benefit obligations recognised through profit or loss and in the related assets and liabilities shown in the balance sheet.

Measurement of assets (notes 10 and 11)

The discounted cash flow model used to determine the value in use of the groups of cash-generating units (CGUs) to which goodwill is allocated requires the use of a number of variables, including estimates of future cash flows, discount rates and other variables. Impairment tests on intangible assets and items of property, plant and equipment are also based on these variables. Any future deterioration in market conditions or weak operational performance could result in recovery of their carrying amount becoming impossible.

Measurement of non-current financial assets (note 19)

Non-current financial assets mainly comprise investments in companies not listed on regulated markets and financial investments. To assess the fair value of these non-current financial assets, the Group uses various measurement models, based in particular on the information at its disposal, on the accounting documents of the companies concerned, on the amortised cost method, or on valuations provided by the banks.

Measurement of trade receivables (note 15)

An estimate of collection risks, based on sales information, has been made in order to determine any impairment for each customer individually.

Risks and disputes

The Group regularly identifies and reviews ongoing disputes and, where necessary, recognises accounting provisions that it considers to be reasonable (see note 17).

Any uncertainties concerning ongoing disputes are described in note 25-b.

e. Functional and reporting currency

The Group's reporting currency is the euro. This is also the parent company's functional currency.

Each Group entity determines its own functional currency and uses it to record its own financial data.

f. Translation of financial statements

The financial statements of companies with a different functional currency from the Group's reporting currency are translated as follows:

- balance sheet items are translated at the closing rate;
- income statement and cash flow statement items are translated at the average rate for the period;
- translation differences are taken directly to equity under "Translation differences".

The rates used are those published by the European Central Bank, except that for the Saudi Riyal (SAR), which was obtained from http://fr.exchange-rates.org.

g. Implementation of hedge accounting

The Group uses foreign exchange derivatives to hedge the foreign exchange risk associated with its business.

When these derivatives are designated as qualifying as cash flow hedges, the following principles are applied:

- the change in the fair value of the hedging instrument is recognised directly in equity in the case of the effective portion of the hedge, until the hedged flows affect profit or loss. The ineffective portion is recognised in profit or loss;
- changes in the fair value of the discount or premium relating to the forward exchange contracts are recognised in "Other financial income/expense" since they are excluded from the hedging relationship.

When these derivatives are not designated as qualifying as hedges, the changes in their fair value are recognised in profit or loss within net financial income/expense.

h. Structure of the balance sheet

Because of the nature of the Group's activities, its operating cycles are very long. Therefore, all assets and liabilities relating to programmes – inventories, trade receivables and payables, provisions, etc. – are reported under current assets and liabilities whatever their maturity date, even if they are expected to be realised more than twelve months hence. Other assets and liabilities (in particular provisions that do not relate to programmes and financial assets and liabilities) are recognised as current assets and liabilities if their maturity date is in twelve months or less and as non-current assets and liabilities if their maturity date is after twelve months.

i. Intangible assets

Intangible assets acquired in business combinations are initially recognised at their fair value at acquisition date and comprise:

- the fair value of naval programmes (including technologies, order book, manufacturing agreements and customer relations);
- the fair value of brands.

Separately acquired intangible assets are initially recognised at the cost of acquisition and include, in particular, patents and computer software. Intangible assets created by the Group itself are recognised at production cost.

They are subsequently measured at cost less cumulative amortisation and impairment losses.

The Group assesses whether an intangible asset's useful life is finite or indefinite.

Assets with a finite useful life are amortised over their economic useful life and are tested for impairment, as stated in note 3-m. The amortisation period and method for intangible assets with a finite useful life are re-examined at least once at each year end. Any change in the expected useful life or the expected pattern of consumption of future economic benefits flowing from the asset leads to a change in the amortisation period or method, depending on the case, such changes being treated as changes in accounting estimates. The amortisation expense on intangible assets with a finite useful life is recognised through profit or loss in the expense category that is appropriate given the asset's function.

Intangible assets with an indefinite useful life (including goodwill) are not amortised but are tested for impairment annually, as stated in note 3-l. Whenever the useful life of an intangible asset is indefinite, it is re-examined annually to ascertain whether this designation is still valid. If it is not, the change of designation from indefinite to finite is recognised prospectively.

Gains and losses resulting from the derecognition of an intangible asset are determined as being the difference between the net income on removal and the asset's carrying amount and are recognised through profit or loss in the category of expenses that is appropriate in view of the asset's function when derecognised.

j. Research and development expenditure

Research expenditure incurred to acquire scientific understanding and knowledge or new techniques is recognised under expenses when incurred.

Internally funded development activities imply the existence of a plan or design for the production of new or substantially improved products or processes.

Development expenditure is recognised as an asset if and only if the costs can be reliably measured and the Group can demonstrate the technical and commercial feasibility of the product or process, the existence of probable future economic benefits and its intention and the availability of adequate resources to complete the development and to use or sell the asset. Such analysis is carried out for each project on an individual basis, depending on the activity developed and the targeted market. Expenses that can be recognised under assets include the cost of materials, direct labour and directly attributable overheads necessary to prepare the asset for its intended use. Other development expenditure is recognised as an expense as it is incurred.

Research and development expenditure is recognised net of any state subsidies received or due. These subsidies are recognised as the associated costs are incurred.

Research and development expenditure capitalised in 2016 relates to tidal energy.

k. Business combinations

Goodwill represents the difference between the fair value of the counterparty transferred and the valuation of the proportionate share of identifiable assets, liabilities and contingent liabilities recognised at fair value in the Group balance sheet.

The fair value of identifiable assets, liabilities and contingent liabilities is determined by independent experts. The valuation of assets and liabilities is primarily based on market values. Where there is no active market, approaches based on the discounting of future expected revenues may be used (DCF methods, super-profits methods or royalty-based methods).

The amount of goodwill only becomes definitive after completion of the assessment process, which must occur within one year from the date of acquisition.

Positive goodwill is recognised under the heading "Intangible assets". As stated in note 3-l, its recoverable value is assessed annually and whenever events or circumstances indicate that it might be impaired. Where appropriate, an impairment loss is charged under "Other operating expenses".

Negative goodwill is recognised under income for the period after an analysis of all of the assets and liabilities acquired.

l. Property, plant and equipment

Items of property, plant and equipment are recognised at acquisition cost, or at production cost where constructed by the Group itself.

The depreciation period is determined on the basis of the useful life of the asset and its components. This period is subject to annual review when drawing up the medium-term plan; impairment is recognised on a case-by-case basis for assets that are to be scrapped.

Depreciation is calculated using the straight-line method over the expected useful life of each component. The useful lives adopted are:

- buildings and fittings 10 to 25 years;
- plant and machinery 5 to 20 years;
- other property, plant and equipment 5 to 10 years.

Finance leases are recorded under non-current assets in the balance sheet with a corresponding financial liability shown under liabilities.

m. Impairment of non-current assets

The Group assesses at each balance sheet date whether there are any indications that an asset is impaired.

In such cases, the Group estimates the recoverable amount of the asset or CGU. An impairment loss recognised in prior periods is reversed only if there has been a change in the assumptions made in determining the asset's recoverable amount. The reversal may not cause the carrying amount of an asset to exceed either its recoverable amount or the carrying amount (net of amortisation or depreciation) that it would have had if no impairment loss had been recognised in prior years.

For intangible assets with an indefinite useful life, or for all assets that are not yet ready to be brought into service, the recoverable amount is systematically estimated each year at a fixed date (by means of an annual impairment test).

The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. It is determined for each asset separately, unless the asset generates cash flows that are largely dependent on those of other assets or groups of assets, as is the case for goodwill, which is tested at the level of each division/business unit.

An impairment loss is recognised if the carrying amount of an asset or its CGU is higher than its recoverable amount. An impairment loss in respect of a CGU or group of CGUs is first allocated as a reduction of the carrying amount of any goodwill allocated to the CGU or group of CGUs, then against the carrying amounts of the other assets of the CGU or group of CGUs, in proportion to the carrying amount of each asset.

n. Inventories

Inventories not allocated to programmes

Inventories not allocated to programmes are measured in aggregate using the weighted average unit purchase cost method.

An impairment allowance is recognised whenever their cost is higher than their realisable value, in particular when inventories have no demonstrable use or are obsolescent.

Inventories allocated to programmes

Inventories allocated to programmes are accounted for at their entry value and are included in the costs to completion of these programmes.

o. Revenue

Construction contracts (IAS 11)

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function, or their ultimate purpose or use.

Depending on its characteristics, a sales contract that has been awarded can either correspond to a single construction contract, be segmented into several construction contracts or be combined with another contract in progress to form the scope of the construction contract for which revenue and expenses are recognised.

Construction contract revenue and expenses so defined are recognised using the percentage of completion method.

Penalties for delays or poor performance are recognised as a reduction of revenue as the relevant construction contracts progress, whenever the Group considers that it is likely that such penalties will be applied by the customer.

All probable losses on contracts in progress or in the order book are provided for in full as soon as they become known.

General marketing, selling, administration and financial costs are recognised directly in expenses as they are incurred.

Estimates of work remaining to be performed only take account of revenue arising from claims presented if it is very likely that they will be accepted by the customer.

Progress payments received on a construction contract are allocated against contract assets. Advances received before the corresponding work has started are shown under "Advances and part payments received" in the balance sheet.

The amount of incurred costs and recognised profits less recognised losses and progress billings to date is determined for each individual construction contract. This amount is recognised in the balance sheet under "Construction contracts: assets" if it is positive, and under "Construction contracts: liabilities" if it is negative.

For contracts where the percentage of completion is 100%, but where the warranty period has not yet expired, provisions for warranties are reclassified under provisions.

Sale of goods and services (IAS 18)

Revenue from the sale of goods and services and income from fees and licences are recognised whenever it is probable that the future economic benefits will flow to the Group and the amount can be measured reliably.

Revenue is recognised at the time when the significant risks and rewards are transferred to the purchaser.

Provisions for losses on completion, warranties and supplier disputes are recognised under provisions by applying the percentage of completion to the amounts to completion of these provisions.

p. Operating profit from ordinary activities/ EBITA

Operating profit from ordinary activities is profit from operations before:

- the effect of restructuring;
- impairment losses on property, plant and equipment and intangible assets (non-operating);
- other operating income and expenses arising from events that are unusual as regards their frequency, nature or amount.

EBITA (Earnings Before Interest, Taxes and Amortisation or adjusted operating profit/loss) corresponds to the operating profit/loss excluding goodwill amortisation.

Reconciliation: Operating profit/loss from ordinary activities/EBITA

	12/2016	12/2015
Operating profit/loss from ordinary activities before amortisation of intangible assets acquired in business combinations	**80.1**	**49.2**
Share of operating income of equity affiliates	1.8	1.7
Other operating income	17.6	81.9
Other operating expenses	(10.0)	(74.6)
EBITA	**89.5**	**58.2**

q. Transactions in foreign currencies

Transactions denominated in currencies other than the functional currency of the entity carrying them out are initially translated and recognised in that functional currency at the rate ruling at the date of the transactions.

Balance sheet items are translated at the closing rate. Income statement and cash flow statement items are translated at the average rate for the period.

r. Cash and cash equivalents

Cash comprises cash at bank and in hand. It is complemented by cash equivalents, which are cash invested in short-term risk-free investments. The Group mainly uses UCITS, certificates of deposit, term deposits with an early exit option and fixed-yield instruments with an initial maturity of less than three months for this purpose.

Investments in UCITS will be designated as cash equivalents if they belong to the Euro money-market category as defined by the French financial markets regulator, the Autorité des marchés financiers.

Investments in certificates of deposit and fixed-yield instruments will be designated as cash equivalents if their original maturity was three months at the most.

Investments that do not meet these criteria for recognition as cash equivalents, and those that are pledged, will be recognised under other financial assets.

"Net cash" in the cash flow statement represents the balance of cash and cash equivalents less bank overdrafts.

Whether or not they are classified as cash equivalents, investments are measured at amortised cost, except for structured medium-term negotiable notes and UCITS, which are valued at the fair value provided by the banks.

s. Employee benefits

Provisions for post-employment benefits

Obligations to employees for lump sums payable on retirement, which constitute post-employment benefits, are provided for in full, net of plan assets. In accordance with IAS 19, the Group's obligations are determined using the actuarial method known as the projected unit credit method, applied to all the private-sector employees (*i.e.* excluding seconded personnel).

This method is based on projection rules relating *inter alia* to:

- final salaries (their valuation incorporates employees' length of service, salary level and career progression);
- retirement ages, determined on the basis of the likely age of commencement of employment for each category of employees, as well as the gradual lengthening of the contribution period under the standard social security scheme;
- the development of the workforce, estimated on the basis of the TGH-TGF mortality tables and on a turnover rate resulting from the statistical observation of employee behaviour.

The obligations are calculated as follows:

- they are calculated pro rata to the length of service at the end of the period;
- they are discounted to present value;
- they are determined in accordance with the most favourable conditions for lump-sum payments provided for under the collective bargaining agreement for the metalworking industry and works agreements for the employees of the UES (Economic and Social Unit).

In accordance with IAS 19, which has been applied with effect from January 1, 2013:

- actuarial gains and losses relating to prior periods are disclosed under "Other comprehensive income" as items that cannot be reclassified to the income statement.

The new standard abolishes the option of accounting for actuarial gains and losses using the corridor method.

- the effects of the changes in the method used have been recognised in full in the income statement for the period in which they occurred;
- the expected return on plan assets held to cover retirement schemes is estimated using the same discounting rate as is used for the liabilities to employees.

The obligation is covered in part by financial assets obtained from an insurance company.

Other long-term benefits

Provisions for long-service awards

Long-service awards, which constitute long-term benefits, are granted in some Group companies subject to a minimum length of service for each category within the company.

Employees of DCNS must have at least ten years' service with the company to be eligible, in accordance with the works agreement dated May 11, 2004 plus addenda relating to the employees of companies absorbed at September 30, 2009.

In accordance with IAS 19, obligations to employees for long-service awards are estimated using the projected unit credit method, and correspond to the likely present value of future payments when the employee has reached various levels of seniority. A pro rata basis is applied to length of service.

Specific pensions

Compensation pensions paid to French Government employees seconded to the State-owned company as a result of work-related injuries or illnesses arising or attributable to services rendered during their period of secondment are paid by the State and reimbursed by the State-owned company until extinguishment of the debt.

Any specific pensions arising from work-related injuries or work-related illness claims equal to or greater than a permanent disability percentage of 10% thus constitute annuity benefits and are provided for as such, in accordance with the Group's obligations. These pensions are calculated in accordance with the rules laid down in the French Social Security Code *(Code de la Sécurité sociale)*.

Provisions for the CET Senior (senior time bank) scheme

This scheme enables any employee aged 50 or above to bank holiday entitlements, which they can then use to bring forward their retirement date.

Each employee can bank up to 10 days' holiday per year under the scheme, up to a maximum of 130 days.

Provisions in relation to the GPEC (strategic workforce planning) agreement

This scheme is open to all employees with at least five years' service in the Group.

The table below sets out the general features of the scheme.

Salary level retained		Effective hours after GPEC			
		80%	70%	60%	50%
Effective hours before GPEC	100%	91%			80%
	90%		80%		72%
	80%			69%	64%

A full-time employee subscribing to the scheme and working 80% effective hours will retain a salary level of 91%.

The company bears the cost of both the employee's and employer's social security contributions in respect of the unpaid portion of the salary.

The above two schemes may not be combined. Employees must choose between the CET Senior scheme and the GPEC agreement.

t. Employee share offer

In connection with the acquisition by Thales of a 25% shareholding in DCNS SA in 2007 and the raising of that shareholding to 35% in 2011, two employee share offers were made for Group employees to acquire shares in DCNS SA.

These offers have been regarded as a share-based payment that will be cash-settled. They effectively constitute an employee benefit, as employees are offered a discount and free shares by the French government and an employer's contribution by the Group. The Group itself ensures the liquidity of the transaction by providing a mechanism to buy back its own shares from employees who request it.

The liability corresponding to the Group's obligation to buy back shares is remeasured annually on the basis of a share valuation performed by a group of independent experts. The change in value of this liability is recognised under financial income and expenses.

u. Income tax

Income tax comprises current and deferred tax. Tax is recognised in profit or loss unless it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the estimated amount of tax due in respect of the taxable profit for the year after deduction of the various tax credits, including in particular the research tax credit. It is calculated using the tax rates enacted or substantively enacted in law at the balance sheet date, plus or minus any adjustment to the amount of current tax due in respect of prior years.

Deferred tax is calculated and recognised using the liability method for all temporary differences between the carrying amount of assets and liabilities and their tax bases. The recoverability of deferred tax assets is assessed on the basis of forecast data contained in the strategic plans of each of the tax groups in question.

The forecast decrease in the current tax in 2020 involves a remeasurement at 28.9% of the temporary differences used after December 31, 2019. For simplification purposes, the temporary differences concerned are the actuarial provisions.

The additional corporation tax contribution in respect of dividend payments introduced under the second amended tax law of August 2012 (the so-called "dividend tax") is treated as an element of the Group tax charge in accordance with IAS 12.

The exceptional contribution has been withdrawn in respect of 2016 (it was 10.7% in 2015).

v. Earnings per ordinary share

Basic earnings per ordinary share is calculated by dividing the net profit attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per ordinary share is calculated by dividing the net profit attributable to ordinary shareholders of the parent corrected for the impact of dilutive instruments by the weighted average number of ordinary shares, corrected for the number of dilutive instruments deemed to have been exercised.

I.4. Companies over which DCNS exercises exclusive control, joint control or significant influence

The scope of consolidation retained for the years ended December 31, 2015 and December 31, 2016 was as follows:

(Percentages)	Control at 31/12/2016	Control at 31/12/2015	Interests at 31/12/2016	Interests at 31/12/2015
Parent				
DCNS SA (France)				
Exclusive control				
Armaris Quater SAS (France)	100	100	100	100
DCN International SA (France)	100	100	100	100
DCNS Actionnariat SAS (France)	100	100	100	100
DCNS Coopération SA (Belgium)	100	100	100	100
DCNS Energies SAS (France) (4)	58	100	58	100
DCNS Far East PLC (Singapore)	100	100	100	100
DCNS India LLC (India)	100	100	100	100
DCNS Malaisie (Malaysia)	100	100	100	100
DCNS Participations (France) (3)	100	–	100	–
DCNS Support SAS (France)	100	100	100	100
MO PA2 SAS (France)	100	100	100	100
Sirehna SA (France)	100	100	100	100
Openhydro (Ireland) (4)	62	62	36	62
DCNS do Brasil (Brazil) (1)	100	100	100	100
Prosin (Brazil) (1)	100	100	100	100
DCNS Energia Marina Spa (Chile) (4)	75	–	44	–
DCNS Australie Pty Ltd (Australia) (2)	100	100	100	100
Significant influence				
Boustead DCNS Naval Corporation SDN BHD (Malaysia)	40	40	40	40
Défense Environnement Services SAS (France)	49	49	49	49
Eurosysnav SAS (France)	50	50	50	50
Horizon SAS (France)	50	50	50	50
Itaguaí Construções Navais SA (Brazil)	41	41	41	41
Kership SAS (France)	45	45	45	45
Winacelles SAS (France)	34	34	34	34
Principia SAS (France)	33	33	33	33

(1) Company fully consolidated since January 1, 2015.
(2) Company fully consolidated since November 1, 2015.
(3) Company fully consolidated since September 1, 2016.
(4) Changes in the control and interest percentages since December 17, 2016.

II. INCOME STATEMENT

II.5. Revenue

Group revenue for the year ended December 31, 2016 was €3,191.2 million (€3,038.8 million for the year ended December 31, 2015). Of this, €1,986.1 million was generated in France (€1,555.3 million for the year ended December 31, 2015).

	2016	2015
Construction contracts	3,023.9	2,863.8
Sales of goods and services	167.3	175.0
REVENUE	**3,191.2**	**3,038.8**

II.6. Operating profit

a. Employee headcount and costs of own and seconded employees

	2016	2015
Wages and salaries (including social benefit charges) of own employees	(820.2)	(783.7)
Retirement and other long-term employee benefit expenses	(3.8)	(4.4)
Employees seconded by the French State	(208.4)	(222.5)
Other	(15.4)	(11.0)
TOTAL	**(1,047.8)**	**(1,021.6)**

The costs of own and seconded employees are recognised in the income statement under the following operating expenses:

- cost of sales;
- research and development expenses;
- marketing and selling expenses;
- general and administration expenses.

The average workforce employed by fully and proportionately consolidated Group companies was as follows, on a full-time equivalent basis:

	2016	2015
Managers	5,424	5,464
Supervisors and technicians	3,839	3,772
Blue and white-collar employees	3,154	3,453
TOTAL FOR FULLY CONSOLIDATED FRENCH COMPANIES	**12,417**	**12,689**
Other consolidated companies	277	264
TOTAL WORKFORCE	**12,694**	**12,953**
Including seconded employees	3,100	3,407

b. Research and development expenditure

Internally funded research and development expenses amounted to €113.8 million in the year ended December 31, 2016 (€94 million in the year ended December 31, 2015).

This expense figure represents the gross research and development expenditure incurred by the Group and the amount fulfilling the criteria for capitalisation as an asset (see note 3-i).

	2016	2015
Gross research and development expenditure	(113.8)	(94.0)
Amount capitalised	10.2	6.3
Translation differences	(0.7)	–
Amortisation of capitalised research and development expenditure	–	–
RESEARCH AND DEVELOPMENT EXPENDITURE	**(104.3)**	**(87.7)**

c. Statutory Auditors' fees

For the year ended December 31, 2016, fees payable to the Statutory Auditors for their statutory audit services amounted to €1.2 million.

d.Other operating income

	2016	2015
Competitiveness plan/restructuring(1)	17.5	1.7
Goodwill on consolidation(2)	–	0.2
Russia projection and command vessel programme(3)	–	80.0
Other unusual items	0.1	–
OTHER OPERATING INCOME	**17.6**	**81.9**

(1) In the year to December 31, 2016, the provision for restructuring/competitiveness plan was reversed in the amount of €17.5 million.
(2) In the year to December 31, 2015, goodwill on consolidation was recognised in respect of two companies joining the Group: DCNS do Brasil for €0.5 million and Prosin for (€0.3 million).
(3) In the year to December 31, 2015, the recognition of the compensation acquired to date by Coface in respect of the Russia projection and command vessel programme generated income of €80 million.

e. Other operating expenses

	2016	2015
Competitiveness plan/restructuring(1)	(4.4)	(1.7)
Impairment loss on non-current assets(2)	–	(23.3)
Employment adaptation plan(3)	–	(49.6)
Provisions for liabilities(4)	(2.9)	–
Pakistan receivable(5)	(2.3)	–
Other	(0.4)	–
OTHER OPERATING EXPENSES	**(10.0)**	**(74.6)**

(1) In 2016, the cost of the competitiveness plan/restructuring incurred by DCNS totalled (€4.4 million).
(2) At December 31, 2015, non-recurring impairment provisions were recognised in respect of *L'Adroit* (€18.6 million) and the property at two of the Group's sites: Le Mourillon (€4.1 million) and Brest (€0.6 million).
(3) At December 31, 2015, a provision totalling €49.6 million was recognised in connection with the employment adaptation plan.
(4) At December 31, 2016, the DCNS group recognised a provision for liabilities totalling (€2.9 million).
(5) At December 31, 2016, an expense of (€2.3 million) was recognised in respect of the receivables due from Pakistan.

II.7. Net financial income/expense

Income from financial investments represents interest received by the Group on its investments of cash (€32.1 million for the year ended December 31, 2016 and €23.8 million for the year ended December 31, 2015). It included income from Sofrantem totalling €18.7 million.

a. Other financial income

	2016	2015
Changes in fair value of financial investments	0.9	–
Changes in fair value of financial instruments (forwards and options)	2.1	–
Change in employee share offer liability	–	4.3
Dividends received	1.4	3.3
Interest on overdue trade receivables	0.9	1.0
Foreign exchange gains	22.2	18.3
Reversal of impairments on provisions of long-term benefits	–	–
Reversal of impairments on financial assets	3.8	0.6
Income on cash equivalents	–	–
Other income	2.9	4.3
OTHER FINANCIAL INCOME	**34.2**	**31.8**

b. Other financial expenses

	2016	2015
Changes in fair value of financial investments	–	(2.4)
Changes in fair value of financial instruments (forwards and options)	–	(4.6)
Change in employee share offer liability	(1.4)	–
Interest on overdue trade payables	(0.5)	(0.5)
Foreign exchange losses	(22.2)	(18.3)
Impairment losses on provisions of long-term benefits	–	–
Impairment losses on financial assets/allowances(1)	(10.0)	(2.5)
Interest on loans	(2.5)	(0.3)
Other expenses	(0.3)	(0.9)
OTHER FINANCIAL EXPENSES	**(36.9)**	**(29.5)**

(1) During the 2016 financial year, impairment provisions totalling (€4.8 million) were recognised in respect of the Sofema and Sofresa securities; the impact of the change in the discount rate on the retirement benefit obligations was (€3 million).

II.8. Income tax

a. Analysis of tax expense

	2016	2015
Current tax	(31.4)	(16.1)
Deferred tax	2.2	(5.2)
Other	–	–
INCOME TAX EXPENSE	**(29.2)**	**(21.3)**

The change in the deferred tax comprises a €5.9 million expense corresponding to the anticipation of the decrease in the current tax rate on the actuarial provisions.

b. Reconciliation of actual and theoretical tax charge

	2016	2015
Net profit for the year	87.5	58.4
Income tax	(29.2)	(21.3)
Share in net income/loss of equity affiliates	2.6	3.5
Net profit before tax	**114.0**	**76.2**
Theoretical tax charge at 34.43%	**(39.3)**	**(26.2)**
Research tax credit	20.2	7.6
Exceptional contribution(1)	–	(3.0)
Contribution on dividends(2)	–	–
Change in the tax rate(3)	(5.9)	–
Other permanent differences(4)	(4.2)	0.3
ACTUAL TAX EXPENSE	**(29.2)**	**(21.3)**
Effective tax rate	*25.6%*	*27.9%*

(1) The exceptional contribution was withdrawn in 2016 (10.7% in 2015).
(2) The dividend contribution is levied at 3% of dividends paid. There was no impact in 2016.
(3) The change in the deferred tax rate had an impact of (€5.9 million).
(4) Other permanent differences mainly comprise permanent differences taxed at 34.43% and taxation at reduced rates.

c. Deferred tax in the balance sheet

	31/12/2016	31/12/2015
Deferred tax assets	198.5	183.3
Deferred tax liabilities	5.2	(1.1)
NET DEFERRED TAX	**193.3**	**182.2**

Taxable units within the Group include in particular the DCNS tax consolidation group, which comprises all fully consolidated French companies in which its interest exceeds 95% (see note 4).

At December 31, 2016, losses brought forward totalling €70.3 million were offset within DCNS SA. No deferred tax assets were recognised in respect of the tax losses carried forward by OH or the permanent establishment in Finland.

II.9. Earnings per share

The Group issued no new ordinary shares during the years ended December 31, 2015 and December 31, 2016. The calculation of earnings per share is therefore based on the average number of ordinary shares outstanding after buybacks of treasury shares, which was 55,838,232 shares and 55,808,902 shares for the years ended December 31, 2015 and December 31, 2016 respectively.

No dilutive instruments were issued during the years ended December 31, 2015 and December 31, 2016. Diluted and basic earnings per share are therefore identical.

The articles of association provide that half of the dividend paid is due to holders of Class A preference shares, up until full payment of an amount of €300 million that bears interest at 4.76%, and that the balance is allocated between all shareholders. The numerator is thus equal to half the net profit and the denominator is the average number of shares outstanding, *i.e.* 55,838,232 shares and 55,808,902 shares for the years ended December 31, 2015 and December 31, 2016 respectively (see note 16 on equity).

	2016	2015
Net profit attributable to owners of the parent (in millions of euros)	94.3	68.4
Portion attributable to holders of ordinary shares (in millions of euros)	47.1	34.2
Number of ordinary shares outstanding (in millions of shares)	55.8	55.8
BASIC AND DILUTED EARNINGS PER SHARE (IN EUROS)	**0.84**	**0.61**

III. OPERATING ASSETS AND LIABILITIES

III.10. Property, plant and equipment and tangible assets

a. Gross amounts

	31/12/2015	Acquisitions	Disposals	Other	31/12/2016
Concessions, patents and similar rights	150.4	8.8	(8.0)	–	151.1
Fair value differences(1)	226.7	–	–	–	226.7
Research and development costs(2)	21.3	10.2	–	(0.7)	30.8
Other intangible assets	9.0	15.0	–	–	24.0
Intangible assets	**407.4**	**34.0**	**(8.0)**	**(0.7)**	**432.6**
Land	31.8	–	(0.2)	–	31.6
Buildings	159.8	39.6	(1.3)	–	198.0
Plant and machinery	356.4	21.7	(3.5)	–	374.6
Other property, plant and equipment	644.5	12.0	(13.8)	3.8	645.6
Property, plant and equipment	**1,192.5**	**73.3**	**(18.8)**	**3.8**	**1,249.9**
GROSS	**1,599.9**	**107.3**	**(26.9)**	**3.1**	**1,682.5**

	31/12/2014 restated	Acquisitions	Disposals	Other	31/12/2015
Concessions, patents and similar rights	137.2	13.3	(0.1)	–	150.4
Fair value differences	261.7	–	–	(35.0)	226.7
Research and development costs	15.0	6.3	–	–	21.3
Other intangible assets	5.3	3.7	–	–	9.0
Intangible assets	**419.2**	**23.3**	**(0.1)**	**(35.0)**	**407.4**
Land	31.8	–	–	–	31.8
Buildings	148.2	17.8	–	(6.2)	159.8
Plant and machinery	336.7	23.0	(3.1)	(0.2)	356.4
Other property, plant and equipment	557.7	81.6	(1.7)	6.9	644.5
Property, plant and equipment	**1,074.4**	**122.4**	**(4.8)**	**0.5**	**1,192.5**
GROSS	**1,493.6**	**145.7**	**(4.9)**	**(35.5)**	**1,599.9**

(1) "Fair value differences" as at December 31, 2014, represent intangible assets recognised on acquisition of the shareholding in TNF (€202.8 million) and on acquisition of the shareholding in OpenHydro Ltd (€58.9 million).
As at December 31, 2015, the TNF technology scrapped (fully amortised) is shown under "Other movements" for €35 million (gross and amortised).

(2) The capitalised research and development costs represent costs incurred by the OpenHydro group since the assumption of control by DCNS and they meet the criteria set out in note 3-i "Research and development costs" for €10.2 million as at December 31, 2016.
In conformity with IAS 36, an impairment test has been carried out on the unamortised intangible assets not showing any impairment loss.

b. Depreciation, amortisation and impairment losses

	31/12/2015	Expenses	Reversals	Other	31/12/2016
Concessions, patents and similar rights	(105.6)	(19.8)	–	4.3	(121.1)
Fair value differences	(161)	(3.1)	–	–	(164.1)
Intangible assets	**(266.6)**	**(22.9)**	**–**	**4.3**	**(285.2)**
Buildings	(62.7)	(7.9)	–	1.1	(69.5)
Plant and machinery	(244.2)	(27.5)	3.5	2.7	(265.4)
Other property, plant and equipment	(284.2)	(43.2)	4.1	9.2	(314.1)
Property, plant and equipment	**(591.1)**	**(78.6)**	**7.6**	**13.0**	**(649.1)**
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES	**(857.7)**	**(101.5)**	**7.6**	**17.3**	**(934.3)**

	31/12/2014 restated	Expenses	Reversals	Other	31/12/2015
Concessions, patents and similar rights	(85.9)	(19.9)	–	0.2	(105.6)
Fair value differences	(189.7)	(6.3)	–	35.0	(161)
Research and development costs	–	–	–	–	–
Other intangible assets	–	–	–	–	–
Intangible assets	**(275.6)**	**(26.2)**	**–**	**35.2**	**(266.6)**
Buildings	(55.6)	(7.3)	–	0.1	(62.7)
Plant and machinery	(202.8)	(45.2)	1.2	2.6	(244.2)
Other property, plant and equipment	(242.5)	(42.9)	–	1.2	(284.2)
Property, plant and equipment	**(500.9)**	**(95.4)**	**1.2**	**4.0**	**(591.1)**
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES	**(776.5)**	**(121.6)**	**1.2**	**39.2**	**(857.7)**

c. Net amounts

	31/12/2015	Acquisitions	Disposals	Depreciation and amortisation	Impairment losses	Other	31/12/2016
Concessions, patents and similar rights	44.8	8.8	(3.8)	(19.8)	–	–	30.0
Fair value differences	65.7	–	–	(3.1)	–	–	62.6
Research and development costs	21.3	10.2	–	–	–	(0.7)	30.8
Other intangible assets	9.0	15.0	–	–	–	–	24.0
Intangible assets	**140.8**	**34.0**	**(3.8)**	**(22.9)**	**–**	**(0.7)**	**147.4**
Land	31.8	–	(0.2)	–	–	–	31.6
Buildings	97.1	39.6	(0.6)	(7.7)	(0.2)	0.4	128.6
Plant and machinery	112.2	21.7	(0.9)	(24.2)	0.3	0.2	109.3
Other property, plant and equipment	360.3	11.0	(4.1)	(42.1)	3.0	3.3	331.3
Property, plant and equipment	**601.4**	**72.3**	**(5.7)**	**(74.1)**	**3.1**	**3.9**	**600.8**
NET	**742.2**	**106.3**	**(9.5)**	**(97.0)**	**3.1**	**3.2**	**748.2**

	31/12/2014 restated	Acquisitions	Disposals	Depreciation and amortisation	Impairment losses	Other	31/12/2015
Concessions, patents and similar rights	51.3	13.4	–	(19.9)	–	–	44.8
Fair value differences	72.0	1.9	–	(6.2)	–	(2.0)	65.7
Research and development costs	15.0	6.3	–	–	–	–	21.3
Other intangible assets	5.3	3.7	–	–	–	–	9.0
Intangible assets	**143.6**	**25.3**	**–**	**(26.1)**	**–**	**(2.0)**	**140.8**
Land	31.8	–	–	–	–	–	31.8
Buildings	92.6	17.8	–	(6.8)	(4.5)	(2.0)	97.1
Plant and machinery	133.9	23.0	(0.6)	(25.7)	(18.1)	(0.3)	112.2
Other property, plant and equipment	315.2	81.6	(0.2)	(38.9)	(0.2)	2.8	360.3
Property, plant and equipment	**573.5**	**122.4**	**(0.8)**	**(71.4)**	**(22.8)**	**0.5**	**601.4**
NET	**717.1**	**147.7**	**(0.8)**	**(97.5)**	**(22.8)**	**(1.5)**	**742.2**

III.11. Goodwill

	31/12/2015	Acquisitions	Disposals	Impairment losses	31/12/2016
DCNS (from DCN Log, June 2003)	11.4	–	–	–	11.4
DCNS (from Armaris, March 2007)	207.5	–	–	–	207.5
DCNS (from TNF, March 2007)	163.9	–	–	–	163.9
OpenHydro (March 2013)	–	–	–	–	–
GOODWILL	**382.8**	**–**	**–**	**–**	**382.8**

	31/12/2014 restated	Acquisitions	Disposals	Impairment losses	31/12/2015
DCNS (from DCN Log, June 2003)	11.4	–	–	–	11.4
DCNS (from Armaris, March 2007)	207.5	–	–	–	207.5
DCNS (from TNF, March 2007)	163.9	–	–	–	163.9
OpenHydro (March 2013)	–	–	–	–	–
GOODWILL	**382.8**	**–**	**–**	**–**	**382.8**

III.12. Investments in associates

a. Group share in the net assets and net income of associates

	Net assets at year end		Net income	
	31/12/2016	31/12/2015	2016	2015
Principia	1.3	1.1	0.2	0.4
Alderney Renewable Energy[1]	7.9	9.2	(1.4)	(0.7)
Horizon[2]	–	1.0	–	–
Eurosysnav[2]	1.5	2.1	–	0.1
Boustead DCNS Naval Corporation SDN BHD (Malaysia)[2]	3.5	2.9	0.6	(0.1)
Itaguaí Construções Navais SA (Brazil)[2]	3.8	1.1	5.8	3.7
Défense Environnement Services SAS (France)[2]	0.6	1.0	0.3	0.5
Winacelles SAS (France)[2]	(0.9)	(0.8)	(0.1)	–
Kership SAS (France)[2]	1.0	1.2	(0.2)	(0.4)
TOTAL	**18.7**	**18.8**	**5.2**	**3.5**

(1) The holding in Alderney Renewable Energy ("ARE") is accounted for under the equity method by OpenHydro, which owns a 38% shareholding in it.

(2) Companies accounted for under the equity method since January 1 2014 (IFRS 10 and 11).

b. Changes in "Net assets of equity affiliates"

	31/12/2016	31/12/2015
Share in net assets of equity affiliates as at January 1	21.2	25.4
Share in income/(loss) of equity affiliates	4.3	3.5
Dividend paid	(4.6)	(8.2)
Translation differences	(1.1)	0.4
Consolidation scope changes	(0.1)	0.1
SHARE IN NET ASSETS OF EQUITY AFFILIATES	**19.7**	**21.2**

III.13. Inventories and work in progress

	31/12/2016	31/12/2015
Raw materials and goods for resale	482.9	480.9
Work in progress (excluding construction contracts)	57.0	78.2
Finished and semi-finished products	–	–
Gross amounts	**539.9**	**559.1**
Impairment allowances	(34.7)	(55.7)
INVENTORIES AND WORK IN PROGRESS	**505.3**	**503.4**

Work in progress relates only to contracts for the sale of goods and services (recognised under IAS 18).

III.14. Construction contracts

	31/12/2016	31/12/2015
Construction contracts: assets	455.1	1 240.4
Construction contracts: liabilities	(550.6)	(471.7)
NET CONSTRUCTION CONTRACTS	**(95.5)**	**768.7**

	31/12/2016	31/12/2015
Costs incurred and recognised gains (or losses), to date	22,661.1	22,353.4
Progress billings	(22,756.6)	(21,504.7)
NET CONSTRUCTION CONTRACTS	**(95.5)**	**768.7**

Construction contracts are accounted for using the technical progress-based accounting method as described in note 3-n, based on the most likely estimate of overall profit or loss on completion of each contract.

	31/12/2016	31/12/2015
Work in progress on construction contracts	417.0	345.4
Unbilled receivables on construction contracts	7,245.7	7,693.3
Deferred expenses	(0.1)	–
Provisions for losses on completion	(4.2)	(7.0)
Other reserves on construction contracts	(41.2)	(36.8)
Advances received from customers on construction contracts	(7,019.6)	(6,536.7)
Trade payables on construction contracts (work-in-progress creditors)	(574.0)	(498.9)
Deferred income	(118.9)	(190.6)
NET CONSTRUCTION CONTRACTS	**(95.5)**	**768.7**

III.15. Trade and other receivables

	31/12/2016	31/12/2015
Trade receivables, gross	1,104.9	1,694.5
Trade receivables, impairment allowance	(10.2)	(11.6)
Trade receivables	**1,094.7**	**1,682.9**
Tax receivables (excluding current tax)	67.0	49.0
Employment and social benefit receivables	85.0	36.1
Tax, employment and social benefit receivables	**152.0**	**85.1**
Deferred expenses	37.5	33.0
Other receivables, gross	87.3	188.3
Other receivables, impairment allowance	–	(0.2)
Other receivables, net	**124.7**	**221.1**
TRADE AND OTHER RECEIVABLES	**1,371.5**	**1,989.1**

III.16. Equity

a. Share capital

As at December 31, 2016, the parent company's share capital comprised 56,299,700 ordinary shares and 300 Class A preference shares. Under the articles of association, each Class A preference share gives its holder a right to receive a priority dividend.

The nominal value of both ordinary and preference shares is €10.

As at December 31, 2016, shares were held as follows:

	Ordinary shares	Preference shares	Total	%
The French State	35,179,741	300	35,180,041	62.49%
Thales	19,705,000	–	19,705,000	35.00%
FCPE Actions DCNS	923,861	–	923,861	1.64%
Treasury shares	491,098	–	491,098	0.87%
TOTAL	**56,299,700**	**300**	**56,300,000**	**100%**

There are no other securities in circulation giving access to the capital of DCNS.

b. Dividend payments

On March 18, 2016, the Shareholders' Ordinary General Meeting resolved, in respect of the year ended December 31, 2015, to again carry forward profits for the purpose of discharging some of the previous losses.

No dividend has been paid in respect of this financial year.

c. Changes in fair value of financial assets and liabilities directly recognised in equity

During the year ended December 31, 2016, the Group recorded an increase of €19 million linked to the revaluation of Areva TA shares in accordance with IAS 28.

d. Changes in fair value of the cash flow hedging reserve

During the period from January 1 to December 31, 2016, the Group recorded a fall of €1 million in its cash flow hedging reserves (increase of €12.9 million in 2015, linked to the implementation of hedge accounting as at January 1, 2015).

The effectiveness of the hedging instruments introduced on the Saudi Arabia programmes has been documented as at January 1 2015. So, the changes in fair value arising from spot price changes between January 1 and December 31, 2016 are accounted for under the cash flow hedging reserve.

Expected profit on completion of the contracts concerned by said hedges is valued, in the case of covered costs in foreign currencies, by using the rate ruling at the date of documentation of the hedging relationship (*i.e.* 1 euro = 1.2141 US dollars for the Saudi Arabia contracts).

e. Translation differences (foreign subsidiaries)

As stated in note 3-e, this item comprises differences arising on the translation of the financial statements of foreign companies on the basis of the closing and average exchange rates.

The following Group companies do not use the euro as their functional currency: DCNS Far East (Singapore dollar – SGD), Itaguaí Construções Navais, Prosin and DCNS do Brasil (Brazilian real – BRL), Boustead DCNS Naval (Malaysian ringgit – MYR), DCNS India (Indian rupee – INR), DCNS Malaysia (Malaysian ringgit – MYR) and DCNS Australia Pty Ltd (Australian dollar – AUD).

During the year ended December 31, 2016, the Group recorded an increase of €1.2 million to its reserves for translation differences (increase of €0.1 million in 2015).

f. Treasury shares

DCNS Actionnariat (100% owned by the Group) acquired 77,350 shares and 29,330 shares in DCNS SA during the years ended December 31, 2015 and December 31, 2016, respectively under the share buyback guarantee granted to staff under the terms of the employee share offer.

As stated in note 3-s, DCNS shares that are held by DCNS Actionnariat or for which shareholders have an option to sell to DCNS Actionnariat are recognised as a reduction of equity. The impact on equity was €68.5 million as at December 31, 2016 (as opposed to €67 million as at December 31, 2015).

The treasury share reserve has been revalued in accordance with the new valuation of Group shares published in April 2016, resulting in an upward revaluation of the treasury share reserve by (€1.4 million) against the other reserves.

As at December 31, 2016, the Group held 491,098 treasury shares, and employee shareholders held put options for 923,861 shares.

All the conditions restricting the resale of shares held by staff as a result of the first employee share offer were lifted with effect from August 2013.

All the conditions restricting the resale of the shares held by employees as a result of the second employee share offer were lifted in November 2016.

g. Capital management

The Group's cash position, net of financial debt, is positive. Under its current strategic plan, the Group therefore does not envisage altering its share capital as its funds are considered to be sufficient.

Nevertheless, subject to legal and contractual provisions, the shareholder structure may alter due to exchanges of shares between shareholders, as they decide.

III.17. Provisions

	31/12/2015	Expenses	Utilisation	Reversals	Other	31/12/2016
Provisions for lump-sums payable on retirement(1)	57.1	8.0	(4.0)	–	15.1	76.2
Other non-current provisions(2)	38.1	6.6	(1.8)	–	(0.6)	42.2
Non-current provisions	**95.2**	**14.6**	**(5.9)**	**–**	**14.5**	**118.4**
Provisions for lump-sums payable on retirement(1)	2.9	–	–	–	(1.0)	1.9
Provisions for the competitiveness plan	3.0	–	(0.6)	–	–	2.4
Provisions under warranties	9.6	3.0	(1.8)	–	–	10.8
Provisions on contracts	126.0	43.4	(6.1)	–	–	163.3
Provisions for losses on completion(3)	5.6	–	(2.9)	–	–	2.8
Other current provisions(2)(4)	92.1	11.4	(10.7)	(13.2)	(14.0)	65.6
Current provisions	**239.2**	**57.8**	**(22.1)**	**(13.2)**	**(15.0)**	**246.8**
PROVISIONS	**334.4**	**72.4**	**(28.0)**	**(13.2)**	**(0.5)**	**365.2**

(1) The "Other" item in relation to "Provisions for lump-sums payable on retirement" chiefly comprises an actuarial gain of €16.5 million (non-current and current).

(2) The other provisions include provisions for other long-term benefits (long-service benefits, pensions, CET Senior and GPEC) (cf. note 3-r).

(3) For each contract, the change in the provision for losses on completion is recorded for its net amount.

(4) The other current provisions mainly include a reversal of €17.0 million agreed on as part of the employment adjustment plan (comprehensive performance agreement) at the 2016 year-end closing date (€13.2 million reversal not used and €3.8 million utilised). Other provisions relate to disputes concerning tax, social security and trade payables.

	31/12/2014 restated	Expenses	Utilisation	Reversals	Other	31/12/2015
Provisions for lump-sums payable on retirement(1)	58.6	8.9	(2.8)	(2.9)	(4.6)	57.1
Other non-current provisions(2)	35.6	3.9	(1.1)	–	(0.3)	38.1
Non-current provisions	**94.2**	**12.8**	**(3.9)**	**(2.9)**	**(5.0)**	**95.2**
Provisions for lump-sums payable on retirement(1)	2.7	–	–	–	0.2	2.9
Provisions for the competitiveness plan	4.7	–	(1.7)	–	–	3.0
Provisions under warranties	11.0	1.8	(2.6)	–	(0.6)	9.6
Provisions on contracts(3)	214.5	13.9	(22.4)	(70.0)	(10.0)	126.0
Provisions for losses on completion(4)	133.5	1.4	(127.3)	–	(2.0)	5.6
Other current provisions(2)(5)	29.8	71.0	(10.1)	2.9	(1.5)	92.1
Current provisions	**396.2**	**88.1**	**(164.1)**	**(67.1)**	**(13.9)**	**239.2**
PROVISIONS	**490.4**	**100.9**	**(168.0)**	**(70.0)**	**(18.9)**	**334.4**

(1) The "Other" item in relation to "Provisions for lump-sums payable on retirement" chiefly comprises an actuarial gain of €4.4 million.

(2) The other provisions include provisions for other long-term benefits (long-service benefits, pensions, CET Senior and GPEC) (cf. note 3-r).

(3) The reversals which are not applicable in relation to "Provisions on contracts" mainly relate to the BPC Russia programme (€70 million).

(4) For each contract, the change in the provision for losses on completion is recorded for its net amount.
The reversals for "Provisions for losses on completion" mainly relate to the RJH programme (€119.3 million) and BPC Russia (€10 million).

(5) The other current provisions mainly include a provision of €49.6 million agreed on as part of the employment adjustment plan (comprehensive performance agreement) at the 2015 year-end closing date. Other provisions primarily relate to disputes concerning tax, social security and trade payables.

a. Provisions for lump-sum payments payable on retirement

As at December 31, 2016, provisions for lump-sums payable on retirement for the Group as a whole amounted to €78.1 million, compared to €60.5 million as at December 31, 2015, mainly related to DCNS.

The assumptions used were as follows:

- discount rate: 1.25% (rate changed in December 2016);
- expected return on assets: 1.25% (in line with IAS 19R, the discount rate to be used is the same as that used for employee benefits);
- inflation rate: 1.75% (unchanged compared to as at December 31, 2015);
- salary increase rate: 2.5% (unchanged since 2014).

As at December 31, 2016, the sensitivity of the net obligation to a change in the discount rate was as follows:

- reducing the discount rate by 0.5% would lead to a provision for lump-sum retirement benefits of €122.8 million;
- increasing the discount rate by 0.5% would lead to a provision for lump-sum retirement benefits of €104.23 million.

Movements in the retirement obligation were as follows:

	2016	2015
Obligation at start of period	95.5	94.4
Past service cost(1)	(3.6)	(2.9)
Current service cost	6.9	7.0
Interest cost	1.9	1.9
Benefits paid	(4.2)	(2.2)
Actuarial gains and losses(2)	16.5	(2.7)
OBLIGATION AT END OF PERIOD	**113.0**	**95.5**

(1) Past service cost includes (€0.7 million) corresponding to the year's impact and (€2.9 million) million adjustment at start of period.

(2) Actuarial gains and losses are linked to assumptions connected with updating the discount rate for €12.6 million and experiential differences for €3.5 million.

Changes in pension plan assets were as follows:

	2016	2015
Assets at start of period	35.5	33.1
Return on assets	0.7	0.6
Actuarial gains and losses	(0.4)	1.7
ASSETS AT END OF PERIOD	**35.8**	**35.5**

As at December 31, 2016, the assets were invested as follows: 56.9% in equities, 40.1% in bonds, 1.8% in property and 1.2% in money-market instruments.

The net charge recognised breaks down as follows:

	2016	2015
Current service cost	(6.9)	(7.0)
Interest cost	(1.9)	(1.9)
Past service cost	0.7	2.9
Benefits paid	6.7	2.2
Expected return on assets	0.7	0.6
NET CHARGE	**(0.7)**	**(3.2)**

The reconciliation of the actuarial obligation and the provision recognised in the balance sheet is as follows:

	31/12/2016	31/12/2015
Actuarial obligation	113.0	95.5
Fair value of assets	(35.8)	(35.5)
(NET) PROVISION AT END OF PERIOD	**77.2**	**60.0**

Forecast payments of lump-sum retirement benefits for the next five years are as follows:

	31/12/2016
Forecast benefits 2017	1.9
Forecast benefits 2018	1.7
Forecast benefits 2019	1.7
Forecast benefits 2020	1.9
Forecast benefits 2021	4.0
FORECAST BENEFITS FOR THE NEXT FIVE YEARS	

b. Provisions for other long-term benefits

The provision for other long-term benefits concerns the following schemes:

- pensions;
- long-service benefits;
- CET Senior;
- GPEC.

These schemes are described in note 3-s.

Changes in obligations to pay other long-term benefits as at December 31, 2016 were as follows:

	2016
Opening obligation	35.4
Past service cost(1)	1.1
Current service cost	2.8
Financial charge	0.7
Actuarial gains and losses(2)	3.1
Benefits paid	(0.9)
OBLIGATION AT YEAR END TO PAY OTHER LONG-TERM BENEFITS	**42.2**

(1) Past service cost includes (€0.7 million) corresponding to the year's impact and a €1.8 million adjustment at start of period.

(2) Actuarial gains and losses are linked to assumptions connected with updating the discount rate for €3.7 million and experiential differences for (€0.6 million).

c. Provisions for economic liabilities

As at December 31, 2016, a reversal of provision of €0.3 million was recognised in respect of asbestos removal at the Lorient site. As regards the provision of €3.4 million for asbestos risks made at the end of 2015 to cover asbestos removal from buildings containing asbestos at the Cherbourg site, a reversal of provision of €1.4 million was made and a further expense of €0.7 million was recognised, making a total provision of €2.7 million as at December 31 2016.

Furthermore, a provision of €0.7 million for sediment remediation of the River Scorff was entered in the accounts as at December 31, 2016, as was a provision of €0.1 million related to road works for transferring blocks from Kership to DCNS.

III.18. Trade and other payables

	31/12/2016	31/12/2015
Trade payables	1,674.9	1,856.1
Tax payables (excluding current tax)	73.1	100.3
Social benefit liabilities	243.6	190.7
Deferred income	13.8	39.9
Other liabilities(1)	160.9	1,085.6
TRADE AND OTHER PAYABLES	**2,166.3**	**3,272.6**

(1) As at December 31, 2015, other liabilities mainly comprise the repayment of part payments received, offset by Coface indemnifying BPC (€1,015 million).

IV. FINANCIAL ASSETS AND LIABILITIES

IV.19. Summary of financial instruments (financial assets and liabilities)

The various financial assets and liabilities shown below are measured as follows (the fair value measurement level under IFRS 7 is shown in brackets):

- fixed-yield instruments and term deposits (fair value through profit and loss account): the fair value of these products is measured using the amortised cost method (level 2);
- monetary and non-monetary UCITS (fair value through profit and loss account): valued at their latest known liquidation value (level 1);
- negotiable medium-term notes (fair value through profit and loss account): valued at their latest known liquidation value (level 1);
- currency hedging instruments (fair value through equity) eligible for hedge accounting: valued based on the model commonly used by market operators to value financial instruments (model incorporating observable market data) (level 2);
- currency hedging instruments (fair value through equity) not eligible for hedge accounting: valued based on the model commonly used by market operators to value financial instruments (model incorporating observable market data) (level 2);
- investments (fair value through equity, designated as "available for sale"): these investments do not relate to companies listed on a regulated market. In consequence, they are valued either on the basis of modelling by independent third parties or by reference to the Group's share of their net assets (level 3);
- trade receivables and payables (loans and receivables): these are contractually subject to price review clauses. The Group therefore considers that they are shown at their fair value;
- liability in respect of employee share offer (fair value through profit and loss account): as stated in the section "Accounting rules and policies", this liability is re-measured annually on the basis of the valuation of DCNS shares by a group of independent experts (level 2).

a. Fair value and classification of financial assets

	Loans and receivables at amortised cost	Fair value through profit and loss	Fair value through equity	31/12/2016	Impact of the change in fair value on equity	Impact of the change in fair value on profit and loss
Investments	–	–	49.2	49.2	29.0	
Loans, non-current portion	3.1	–	–	3.1	–	
Currency hedging instruments, non-current portion	–	0.0	10.9	10.9	(4.1)	0.1
Investment securities	–	203.8	–	203.8	–	0.3
Other non-current financial assets	5.9	–	–	5.9	–	
Non-current financial assets	**9.0**	**203.8**	**60.1**	**272.8**	**24.9**	**0.2**
Trade receivables	1,094.7	–	–	1,094.7	–	
Loans, current portion	–	–	–	–	–	
Currency hedging instruments, current portion	–	0.0	9.2	9.2	1.6	0.9
Investment securities	–	220.6	–	220.6	–	0.3
Other current financial assets	31.0	–	–	31.0	–	
Cash and cash equivalents	–	2,301.9	–	2,301.9	–	0.9
Current financial assets and trade receivables	**1,125.7**	**2,522.5**	**9.2**	**3,657.5**	**1.6**	**2.1**

The impact on equity and profit and loss are shown before tax.

"Investments" include the revaluation of Areva TA shares at year end of €32.6 million.

"Other non-current financial assets" principally comprise fixed-yield instruments with a maturity date of more than twelve months into the future, as well as amounts pledged under the employee share offer (see note 26-b).

b. Fair value and classification of financial liabilities

	Loans and trade payables at amortised cost	Fair value through profit and loss	Fair value through equity	31/12/2016	Impact of the change in fair value on equity	Impact of the change in fair value on profit and loss
Loans, non-current portion	–	–	–	–	–	–
Currency hedging instruments, non-current portion	–	0.3	–	0.3	–	(0.6)
Investment securities	–	–	–	–	–	–
Other non-current financial liabilities	20.7	26.4	–	47.1	–	0.9
Non-current financial liabilities	**20.7**	**26.7**	**–**	**47.4**	**–**	**0.3**
Trade payables	1,674.9	–	–	1,674.9	–	–
Loans, current portion	–	–	–	–	–	–
Currency hedging instruments, current portion	–	0.5	–	0.5	–	(0.5)
Other current financial liabilities	16.2	16.2	–	32.4	–	(1.0)
Current financial liabilities and trade payables	**1,691.1**	**16.7**	**–**	**1,707.8**	**–**	**(1.5)**

The impacts on equity and profit and loss are shown before tax.

"Other non-current financial liabilities" include the Group's liability to its staff in connection with the second employee share offer.

"Other current financial liabilities" include the Group's liability to its staff in connection with the employee share offer. All the conditions restricting the resale of DCNS shares held by staff under the first employee share offer were lifted with effect from August 2013, and the conditions restricting the resale of DCNS shares held by staff under the second employee share offer were lifted with effect from November 2016.

c. Fair value of investments

Investments that are classified as "available-for-sale" financial assets are valued at fair value through equity. This breaks down as follows (the Group's percentage shareholding in these companies at December 31, 2016 and in the case of foreign countries their country of registration, is shown in brackets):

	31/12/2016	31/12/2015
Sofema SA (10%)	6.3	10.8
Odas SA (9%)	2.7	2.7
Sofresa SA (7%)	–	0.5
Aveva TA (5.82%) (1)	32.6	–
FCPR Sécurité (13%)	0.9	1.0
FCPR Financière de Brienne 1 (6%)	0.5	0.5
FCPR Financière de Brienne 2 (10%)	1.6	1.6
DCNS Participations (from Armaris B) (100%) (2)	–	1.4
DCNS Energia Marina (100%) (2)	–	1.0
Atalaya (31.7%)	2.8	–
DCNS Canada (100%) (3)	1.3	–
Other investments	0.6	0.1
INVESTMENTS	**49.2**	**23.1**

(1) DCNS had a 5.82% shareholding in Areva TA (from Cedec) at year end (10% as at December 31 2015). The Cedec shares were fully depreciated at the end of 2015. At the end of 2016, a reversal of the provision of €3.6 million for Cedec shares was recorded then the shares were revalued at €29 million. Following the Areva TA/Cedec merger, the Cedec shares were substituted for Areva TA shares.

(2) DCNS Participations and Energia Marina were consolidated as at December 31 2016 and so are no longer considered to be investments.

(3) DCNS Canada shares are unconsolidated shares held *via* DCNS Participations.

IV.20. Cash and cash equivalents

	31/12/2016	31/12/2015
Cash equivalents	2,054.6	2,008.8
Cash	247.3	287.4
Cash and cash equivalents	**2,301.9**	**2,296.2**
Bank overdrafts	–	–
NET CASH	**2,301.9**	**2,296.2**

Cash equivalents include monetary UCITS. Term deposits and fixed-yield instruments with an original maturity of up to three months or which include an option to exit within three months are measured at fair value through the profit and loss account.

Bank overdrafts are classified as other current financial liabilities and are measured at their amortised cost.

IV.21. Other liabilities

"Other liabilities" principally comprise subsidies of €13.3 million.

IV.22. Risk management

a. Credit risk

Credit risk is the risk of financial loss as a consequence of counterparty's default on its payment obligations. The Group is exposed to credit risk because of its commercial operations (mainly through trade receivables).

The Group considers that the risk of a counterparty default in respect of its trade receivables that could materially affect its financial situation and earnings is limited. In fact, its counterparties are generally sovereign states that have adequate resources to meet their financial obligations. Where this is not the case, the Group covers such credit risk through public (Coface) or private insurers.

All impairment allowances against trade receivables are assessed on a case-by-case basis.

	12/31/2014	Expenses	Reversals	Other	31/12/2015	Expenses	Reversals	Other	31/12/2016
Impairment allowances against trade receivables	12.3	2.4	(0.8)	(2.3)	11.6	0.9	(2.6)	0.2	10.2

Financial market transactions are only entered into with banks or institutions with first-class ratings and within the authorised levels set by General Management for each counterparty.

b. Liquidity risk

The Group has no borrowings or credit facilities from financial institutions. In consequence, the Group is not exposed to a liquidity risk based on purely financial criteria. Its main financial debt is its liability to staff in connection with the employee share offer.

Liquidity risk therefore lies mainly in the financing of the operating working capital requirement, which is largely covered by the payments received from customers.

Raw materials risks are covered by price review clauses in contracts that hedge against price fluctuations. Therefore, the Group does not acquire financial instruments to hedge this type of risk.

c. Foreign currency exchange risk

The Group has no financial debts in currencies other than the euro.

As part of its normal activities, the Group may be faced with foreign currency exchange rate issues on tenders submitted in foreign currency, contracts awarded and all future disbursements denominated in foreign currency. The main currencies to which the Group was exposed during the period were the US dollar (USD), Saudi riyal (SAR), Pound sterling (GBP), Brazilian real (BRL) and Malaysian ringgit (MYR).

Although the Group does not **systematically** maintain specific hedge accounting, all material transactions in foreign currency with a time horizon of less than five years are subject to a currency risk management policy. This involves matching the amount of receipts in currencies to the expected disbursements in those currencies at the time a contract is drafted. In the event of differences in timing, amounts or both, the Group enters into forward foreign exchange contracts or options in the relevant currencies to hedge the residual difference.

	31/12/2016	31/12/2015
Forward purchase contracts		
US dollar (USD)	66.8	107.1
Pound sterling (GBP)	3.0	0.7
Brazilian real (BRL)	1.9	4.8
New Zealand dollar (NZD)	–	–
Malaysian ringgit (MYR)	7.5	3.4
Forward sale contracts		
US dollar (USD)	11.7	1.8
Pound sterling (GBP)	0.2	–
Call options		
Pound sterling (GBP)	1.9	1.9
Put options		
Brazilian real (BRL)	–	–
Tunnel options		
Brazilian real (BRL)	1.0	2.1

The nominal amounts under the forward buy and sell contracts are converted into euros at the exchange rate guaranteed by each contract, as are the call options.

The nominal amounts for tunnel options are converted into euros at the exercise price for the put component.

The forward purchase contracts in USD and MYR reflect the requirements for the Saudi Arabia projects and partly the Malaysian contract respectively.

The sensitivity of pre-tax earnings and the re-classifiable component of Group equity to changes in foreign currency exchange rates is not material.

d. Interest rate risk

The Group's financial statements are not very sensitive to this type of risk.

Following the change in the valuation method used for financial investments, the risk in relation to changes in fair value is not considered to be material.

V. OTHER INFORMATION

V.23. Notes to the cash flow statement

a. Changes in working capital (requirement)

	2016	2015
Net decrease (increase) in inventories	(18.5)	(2.6)
Net decrease (increase) in trade receivables	588.0	(325.7)
Net decrease (increase) in advances and part payments paid	235.9	537.9
Net increase (decrease) in other receivables	34.9	(43.0)
Net decrease (increase) in construction contracts	825.0	(658.8)
Net increase (decrease) in trade payables	(190.8)	(478.8)
Net increase (decrease) in advances and part payments received	(735.1)	535.4
Net increase (decrease) in other payables	(914.6)	1,176.5
Change in working capital (requirement)	**(175.4)**	**740.9**

b. Purchases of property, plant and equipment and intangible assets

	2016	2015
Purchases of intangible assets	(34.1)	(22.0)
Purchases of property, plant and equipment	(72.3)	(108.3)
Purchases during the period	**(106.4)**	**(130.3)**
Change in related payables	(3.1)	(8.7)
Purchases of property, plant and equipment and intangible assets	**(109.5)**	**(139.0)**

c. Disposals of property, plant and equipment and intangible assets

	2016	2015
Disposals of intangible assets	–	–
Disposals of property, plant and equipment	1.7	0.4
Disposals during the period	**1.7**	**0.4**
Disposals of property, plant and equipment and intangible assets	**1.7**	**0.4**

V.24. Related parties

The Group considers the following to be related parties:

- the French State and companies over which it has exclusive control, joint control or significant influence (including in particular all companies in the Thales group);
- the "Actions DCNS" employee mutual fund *(fonds commun de placement d'entreprise)*;
- non-consolidated entities;
- entities over which the Group exercises joint control or significant influence;
- the Group's executives.

The companies over which the French State has exclusive control, joint control or significant influence, including in particular all companies in the Thales group, are government-related entities as defined in paragraph 9 of revised IAS 24. In accordance with paragraph 25 of that standard, the Group, over which the French State has exclusive control, only discloses summary information about the revenues arising from its business with the French State and the government-related entities concerned.

a. Transactions with the French State and government-related entities

During the year ended December 31, 2016, the Group generated 61.7% of its revenue with the French State and government-related entities (51.2% of its revenue for the year ended December 31, 2015).

b. Transactions with related parties (excluding the French State and government-related entities)

	2016	2015
Sales		
Non-controlled portion in jointly controlled companies	44.8	6.4
Shareholders and companies controlled by them (excluding French State and government-related entities)	–	–
Other (Eurotorp and Euroslat)	16.2	20.7

c. Related-party receivables and payables (excluding the French State and government-related entities)

	31/12/2016	31/12/2015
Operating receivables(1)		
Jointly controlled companies	7.9	4.9
Shareholders and companies controlled by them (excluding French State and government-related entities)	–	–
Other (Eurotorp and Euroslat)	14.4	23.0
Operating payables(2)		
Jointly controlled companies	2.8	1.0
Shareholders and companies controlled by them (excluding French State and government-related entities)	–	–
Other (Eurotorp)	13.7	21.7
Financial liabilities(3)		
Jointly controlled companies	–	–
Shareholders and companies controlled by them (excluding French State and government-related entities)	55.6	60.0
Other	–	–

(1) The other operating receivables mainly comprise amounts receivable from the following companies: Eurotorp, Horizon, Eurosysnav, Boustead DCNS Naval Corporation SDN BHD, Défense Environnement Services, Winacelles and Kership.

(2) The other operating payables principally comprise amounts payable to the following companies: Eurotorp and Défense Environnement Services.

(3) The financial liabilities comprise payables in relation to the two employee share offers.

d. Agreements with Thales

At the end of January 2007, in connection with the convergence with the naval activities of Thales, the shareholders' agreement between the French State and Thales made Thales a "partner industrial shareholder" in DCNS. The governance arrangements grant Thales the right to play an active role on the Group's Board of Directors.

The Group has also signed an industrial and commercial cooperation agreement with Thales. This provides for the optimisation of the organisation of the two groups' activities based on:

- the non-resumption by Thales (whether directly or indirectly) of any of the activities carried out by TNF (merged with DCNS on January 1, 2013), Armaris and MO PA2 after completion of the transaction;
- the free exercise by the French or foreign subsidiaries of Thales of activities not covered by the non-resumption undertaking;
- technical and industrial cooperation based on the specialisation of each company's activities in order to optimise each company's investments and to allow each party to the contract to benefit from the other's technological resources;
- the Group's commercial freedom;
- cooperation in the areas of procurement and human resources.

Specific cooperation rules have also been agreed between the two companies in certain specific technical fields. These rules are based on the observation that the Group and Thales have complementary competencies. This is reflected in the specialisation concept, under which one of the two companies carries out design and execution in a given area.

Regarding the part of the agreement relating to marketing and sales, the Group retains an independent commercial policy and free access to international invitations to tender.

In addition to the parts relating to technical and commercial matters, the agreement also provides for cooperation in the area of procurement, instituting a principle of preference on equal terms in competitive tendering for the supply of goods or services between parties to the agreement.

The industrial and commercial cooperation agreement is valid for seven years and is automatically renewable for five years at a time.

e. Executive compensation

The gross remuneration and benefits in kind paid to members of the Executive Committee and employer's social benefit contributions were as follows during the years ended December 31, 2015 and December 31, 2016:

	2016	2015
Fixed remuneration	2.9	2.7
Variable remuneration	1.3	0.5
Benefits in kind and miscellaneous	0.6	0.2
Employer's social benefit contributions	1.8	1.4
TOTAL	**6.6**	**4.8**
Number of persons concerned	11	11

V.25. Off-balance sheet commitments

a. Off-balance sheet commitments arising from commercial contracts

The Group gives or receives guarantees in connection with its commercial contracts, to cover future obligations.

These are mainly:

- advance payment guarantees covering the period between advance payment and delivery;
- performance bonds concerning the successful completion of the contract, valid until expiry of the guarantee period.

	31/12/2016	31/12/2015
Advance payment guarantees(1) (2) (3) (4) (5) (6) (7) (8)	332.8	462.6
Performance bonds(1) (2) (3) (4) (5) (6) (7) (8)	329.4	360.8
Guarantees in lieu of retentions	18.9	19.7
Other guarantees	12.9	10.8
COMMITMENTS MADE	**694.0**	**853.9**

(1) Under a sale contract in India, the Group's banks have issued bank guarantees of €35.0 million in favour of its customer for the return of advance payments and to guarantee performance.

(2) Under contracts for the supply of equipment to the Indian Navy, the Group's banks have issued bank guarantees of €145.8 million in favour of its customer for the return of advance payments and to guarantee performance.

(3) Under a series of sale contracts entered into by the Group in Brazil, the Group is required to have its banks issue bank guarantees in favour of its customer for the return of advance payments and to guarantee performance, up to a total of €651.0 million as approved by the Board of Directors on October 15, 2009, to which will be added the amount of price revisions paid by the customer to the Group under those contracts. The amount of bank guarantees issued as at December 31, 2016 was €141.2 million.

(4) In connection with a series of sale contracts made by Itaguaí Construções Navais SA (hereinafter referred to as "ICN"), the Group as shareholder in ICN must have its banks issue bank guarantees in favour of ICN's client, at ICN's request, for the return of advance payments and to guarantee performance up to a value of 41% of the commitments made by ICN under the terms of the aforementioned contracts, *i.e.* a maximum of €107.2 million, as approved by the Board of Directors on October 15, 2009, plus 41% of the price revisions paid to ICN by the client in respect of the same contracts. The amount of bank guarantees issued as at December 31, 2016 was €17.3 million.

(5) The Group has provided guarantees of €9.8 million to Sofrantem in connection with the signing of Addendum no. 20 relating to the order by the Pakistan Navy for anaerobic modules no. 2 and no. 3, in addition to the guarantee granted by the French Republic to Sofrantem on the main Pakistan contract.

(6) Under a sale contract with the Egyptian Government, the Group's banks have issued bank guarantees of €106.7 million in favour of its customer for the return of advance payments and to guarantee performance.

(7) Under sales contracts with the Kingdom of Saudi Arabia, the Group's banks have issued bank guarantees of €18.3 million in favour of its customer for the return of advance payments and to guarantee performance.

(8) In connection with the major technical overhaul of the aircraft carrier *Charles de Gaulle*, the Group's banks have issued bank guarantees of €40.2 million in favour of its customer for the return of advance payments.

The maturity schedule as at December 31, 2016 was as follows:

	Within one year	Between one and five years	After five years
Advance payment guarantees	147.7	179.1	6.0
Performance bonds	138.0	154.1	37.3
Guarantees in lieu of retentions	18.1	0.8	
Other guarantees made	2.0	6.7	4.2
COMMITMENTS MADE	**305.8**	**340.7**	**47.5**

	31/12/2016	31/12/2015
Advance payment guarantees	115.1	122.6
Performance bonds	109.7	115.4
Guarantees in lieu of retentions	1.4	0.5
Other guarantees received	26.7	27.9
COMMITMENTS RECEIVED	**252.9**	**266.4**

The maturity schedule as at December 31, 2016 was as follows:

	Within one year	Between one and five years	After five years
Advance payment guarantees	34.0	18.5	62.6
Performance bonds	36.5	34.3	38.9
Guarantees in lieu of retentions	0.9	0.5	
Other guarantees received	1.8	10.2	14.7
COMMITMENTS RECEIVED	**73.2**	**63.5**	**116.2**

Commitments in relation to leases on movable/immovable property, TOAs and TOLs

The lease charges under TOAs (temporary occupation agreements) and TOLs (temporary occupation licences) were determined at the time of the contribution agreement.

The maturity schedule as at December 31, 2016 was as follows:

	Total	Within one year	Between one and five years	After five years
Lease charges	22.9	5.1	14.0	3.8
Leases of immovable property	97.6	13.6	53.6	30.4
Leases of movable property	15.4	5.9	9.1	0.4

b. Other commitments

Commitments made

As at December 31, 2016, firm investment commitments totalled €48.4 million (€51.9 million as at December 31, 2015).

An equity mutual fund (FCPE Actions DCNS) was formed in connection with the DCNS employee share offer. In accordance with the rules of the French Monetary and Financial Code, the Group has signed a renewable credit agreement and a liquidity protocol with a financial institution and has pledged term deposits totalling €26 million in order to ensure the liquidity of the fund. As stated in note 3-r, these term deposits have been classified as non-current financial assets.

Commitments received

When making its contributions in kind, the French Government decided, under the power provided for by article 78 of the French Finance (Amendment) Act of December 28, 2001, to retain responsibility for certain obligations relating to the rights and property contributed beyond the provisions established.

V.26. Post balance sheet event

None.

VI. REPORT OF THE AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2016

MAZARS
Tour Exaltis
61, rue Henri Regnault
92075 Paris-la Défense Cedex
Société anonyme (public limited company)
under French law with share capital of €8,320,000
Statutory Auditor
Member of the Versailles Regional Body

ERNST & YOUNG AUDIT
1/2, place des Saisons
92400 Courbevoie
Paris-la Défense 1
Société par actions simplifiée (simplified company by shares)
under French law with variable share capital
Statutory Auditor
Member of the Versailles Regional Body

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meetings, we hereby report to you, for the year ended December 31, 2016 on:

- the audit of the accompanying annual financial statements of DCNS;
- the justification of our assessments;
- the specific verifications required by law.

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

I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We certify that the consolidated financial statements for the financial year with regard to IFRS Standards, as adopted by the European Union, are lawful and genuine and give a true and fair view of the assets and liabilities, financial position and profit/loss of the Group made up of the persons and entities included in the consolidated financial statements.

Without qualifying the opinion expressed above, we draw your attention to note 1 of the annex to the consolidated financial statements, "Examination of the financial statements and highlights of the period", which show the operational difficulties encountered over the 2016 financial year in the Barracuda programme.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L. 823-9 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

- note 3-d "Accounting rules and methods – Use of estimates – Recognition of revenue and profit on construction contracts and long-term service agreements and related provisions" in the annex to the consolidated financial statements states that DCNS SA recognises revenue and profit on certain projects using the percentage-of-completion method. This method involves the use by Management of estimates, notably to determine the profit on completion of each contract, made on the basis of the most up-to-date information available with regard to its progress. These estimates affect net income as well as the assets and liabilities recorded in the balance sheet. Our work consisted in gaining an understanding of the processes followed by DCNS SA in this area and assessing the underlying data and assumptions on which these estimates are based. We also assessed the reasonableness of these estimates, on the basis of the information available at the time the financial statements were prepared;

• notes 3-d “Accounting rules and methods – Use of estimates – Measurement of assets”, 3-I “Accounting rules and methods – Intangible assets”, 3-m – “Accounting rules and methods – Impairment of non-current assets” and 11 “Goodwill” in the annex to the consolidated financial statements state that DCNS SA carried out an annual impairment test on the goodwill, using estimates of future cash flows, discount rates and an infinite growth rate, which require the exercise of judgment. We assessed the conditions under which the annual impairment test was conducted and examined the assumptions used, which are justified by the information available at the balance sheet date.

These assessments were made as part of our audit of the consolidated financial statements as a whole and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. SPECIFIC VERIFICATION

As required by law, we have also carried out specific verifications, in accordance with professional standards applicable in France, of the information relating to DCNS SA, given in the Management report.

We have no matters to report as to the fair presentation and consistency with the consolidated financial statements.

Done at Paris-la Défense on February 24, 2017

The Statutory Auditors

MAZARS

Michel Barbet Massin

ERNST & YOUNG Audit

Jean-François Ginies

Board of Directors of February 23, 2017

All amounts are in millions of euros, unless otherwise stated.

I. GENERAL INFORMATION

Certain information is already addressed in the Management report and will be indicated by a reference to the relevant page and paragraph of that report. Generally speaking, articles shown in this part of the extra-financial report are consistent with the GRI-4 International Standards recognised by the UN.

Strategy and analysis

Vision up until 2025 and beyond

With more than two hundred years of history at the service of a first-class French Navy, enjoying production facilities and skills that only two or three companies in the world can avail themselves of, DCNS is the leading company in Europe for naval defence systems and is founded on a strong national base as well as substantial testimonials in export business.

Thirteen years on from its change of legal status that allowed it to grow and take advantage of the opening up of markets, DCNS is set to boost its industrial performance and step up its change.

According to Hervé Guillou, the Chairman and Chief Executive Officer of the DCNS group, appointed by Presidential Decree of August 4, 2014:

"Our ambition is for DCNS, firmly rooted in France, to simply and gradually become the consolidator of European naval systems within ten years, with an industrial base in several locations in Europe and worldwide. A portfolio of innovative and competitive products and services will drive its profitability and growth, backed by skilled and motivated staff capable of visualising, absorbing and incorporating the technologies of the future and able to maintain the skills necessary for the sovereignty of France. Its revenues will reach approximately €5 billion through growth in international business and in marine energy sources. As the creator of high-tech jobs, it will have an equal presence in France, Europe and third-world countries. Its competitiveness and profitability will be on a par with the best of its contemporaries.

Group strategy, outlined in a strategic action plan announced at the end of June 2015 and approved at the Board of Directors meeting on July 22, 2015 is built around four priority focal areas:

- significant improvement in operational performance;
- our on-going ability to meet France's sovereign needs;
- international growth;
- the ability to diversify our activities in marine renewable energies.

The primary aim of this action plan, together with a three-year Progress Plan, is to stop programmes from going adrift, to improve DCNS's industrial performance and to make its offerings at international level more competitive. It is based on the management and company members as a whole focusing on operational excellence, investing in industrial plant and IT tools, simplifying processes and reducing purchase costs and internal costs. The Progress Plan is conducted like a programme, with front-line management responsible for governance and all line management involved. The efforts deployed first bore fruit from 2015 onwards with a return to equilibrium of the accounts; the gradual recovery seen in the Group's position focussing on the main aim of controlling economic performance continued into 2016 (cf. Management report/Consolidated financial statements). The progress made in 2016 in connection with the Progress Plan is discussed below.

Profile of the organisation

DCNS is a world leader in naval defence and an innovator in the energy sector.

As a high-tech company on an international scale, DCNS is able to meet its clients' needs through its exceptional know-how and unique industrial resources. The Group designs, builds and maintains submarines and surface ships together with their associated systems and infrastructures. It also provides services to naval bases and shipyards. Lastly, DCNS is able to offer a broad range of solutions in the civil nuclear energy and marine renewable energies sectors.

Relevant aspects and areas identified

This point is dealt with in paragraph I.1. entitled "Presentation of the DCNS group" on page 4 up to page 6 of the Management report.

Involvement of stakeholders(1)

DCNS considers that the aim of "responsible development" ranks equally with growth and profitability of its business. This is why the Group aims:

- to be one of the best enterprises in its business sectors in terms of compliance;
- to have shareholders share its values;
- to make its day-to-day commitment to corporate social responsibility more effective and more discernible.

Progress Plan

Launched in 2015 to meet the expectations of DCNS management and staff, faced with operational and financial problems in 2013-2014, the Progress Plan is now delivering results for the first time and is in its second wave of initiatives, aimed at improving the Group's competitiveness.

The seven themes in DCNS's Progress Plan are:

- to thoroughly improve the execution of its programmes;
- to establish a benchmark for products that are fit for large-scale production and are profitable;
- to strengthen the role of team leaders, group leaders and departmental heads;
- to actively lead cost structuring;
- to improve the performance of the processes used;
- to listen to staff and to make them a central part of the action;
- to strengthen the quality of our products to satisfy our clients.

Initial results are significant

DCNS has created a structure dedicated to the fundamentals of the management programme: the ***Bureau Métiers Programmes*** (Professional Programmes Office). Formed in summer 2016, it carries out the level 2 Capability Maturity Model Integration (CMMI) certification work of the programme's activities, integrates the management programme fundamentals for each of the enterprise's programmes and energises the professional sector by equipping it with certifying training plans and updated career development plans backed by a job reference system.

The second convincing result: roll-out of the **industrial maturity assessment standard (SPID),** a source of reflection for continuous improvement both for each site and cross-function, main management, or each function, in six key areas (workshop/production sites, supply chain, industrial production, engineering, quality and management). Currently, each site draws up its own roadmap based on annual assessments, so allowing it to decide its short- and medium-term action.

Indicative of the innovative approach taken by multidisciplinary teams (Innovation and technical expertise division, Industry division, Services division, Marketing division), DCNS is moving away from a customised product base towards products that are both fit for large scale production and profitable, based on three principles: from the outset, the definition of a **product line** based on constants (the "foundation" which can be used again and again for several tenders and contracts), a clear and early ability to make changes, resulting in the flexibility required to satisfy the market and adaptability when faced with specific client requests.

Management establishes its leadership and strengthens cooperation on the ground by building on specific provisions as regards on-the-ground coaching, 360° assessment and ad hoc training courses.

Recourse to subcontracting is monitored through strict rules put in place for verifying and considering the workload management schedule of each site before anyone is hired; the **decision-makers** are trained to use the new contract terms and conditions, then "approved"; subcontractors are hired by DCNS with full knowledge of the facts.

Lastly, DCNS has started its digital revolution with several key projects:

- its process reference system (Business Management System), incorporating international rules and standards, has been reworked and can be easily accessed *via* an ergonomic portal. Hiring sessions at each site, along with the specific documentation required for straightforward use on the ground, assure an integrated process;
- the **Industrial flow and articles system of reference,** which is intended to improve industrial performance and programme management, is in the final stages of its detailed design. It is based on new processes, the introduction of integrated DCNS business planning, the use of Enterprise Resource Planning across the whole supply chain, standardisation of computer-assisted production management solutions (CAPM) between industrial sites and management of the articles base. Trials have started on digital solutions:
- the modernisation of the **computer and application stock** (networks, equipment, upgrading of application versions…) is a priority. They are growing in importance and **cybersecurity** is being tightened;
- **OPTI,** the integrated cost, delivery date and resource management and control tool, the same for all projects and programmes and all entities, is used at all sites;

(1) UN (ODD)/Global Compact/GRI 4/OECD/ISO 26000/OECD.

• lastly, DCNS is involved in a project to secure 360º vision of a product over all stages of its life cycle, across all product lines, aimed at establishing integrated management of data produced throughout a product's life cycle, over the broader enterprise and by relying on a strategic partnership with Dassault Systèmes.

A virtuous circle of continuous improvement is underway; new initiatives were launched in 2016 in systems engineering on the one hand and initiatives to strengthen all **quality** activities on the other.

• The plan to strengthen **systems engineering (SE)** centres around five themes: the widespread use of systems engineering methods, use of these methods in the Group's tools, contribution to the work of the life cycle production site by providing the specifications required, implementation of systems engineering in current projects (for example, mid-sized frigates or third-generation SNLE), strengthening of training in the systems engineering professions and in the internal network of advisers.

• Work in the field of **quality** centres around themes aimed at strengthening the involvement of the whole management chain, skills, quality across the development to final production stage without forgetting supplier quality, and implementing inspection plans and monitoring systems. This transformation is based on training initiatives which will be actively deployed in 2017.

Requested extra-financial rating

The requested rating, which was given at the end of February 2016 by Vigeo, the independent extra-financial rating agency, meant that the significant progress made in the following six areas could be measured: governance, market conduct, environment, human rights, human resources, community involvement.

A new target has been set for the end of 2017: thirteen criteria should visibly develop by then to secure best practice as seen in our main business sector.

Further self-assessment started at the end of the third quarter of 2016, which will make it possible to measure the progress made.

Dialogue, consultation, participation

In France and internationally, through its naval defence and energy activities, DCNS aims to frame its corporate strategy as a collaborative and collective effort with all the stakeholders affected. Whether it is a case of shareholders, suppliers, government institutions, clients/prospects or staff, the Group has put itself in the best position to do this (its Code of Ethics, the Internal Guide to Ethical Behaviour, international intranet portal, Communication on Progress of the UN Global Compact since 2015, e-learning portal in 2015 and 2016, Blue Book in 2016, and so on).

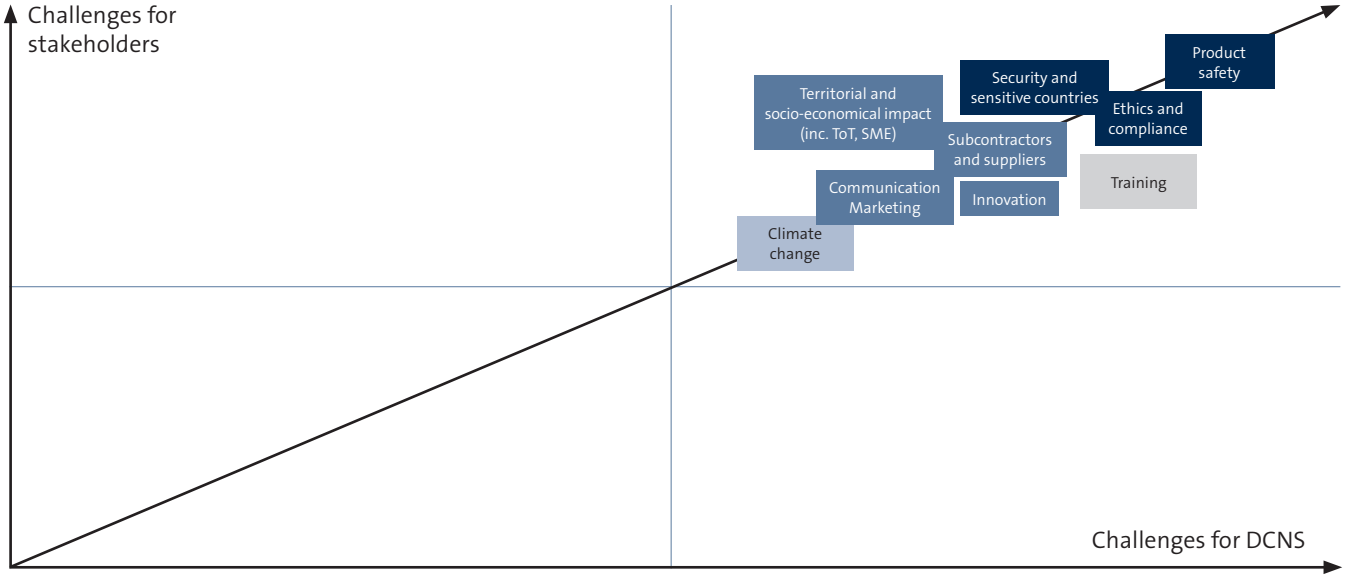
In 2016, the guide to relations with stakeholders was put to the test during the public inquiry and public debate over the proposed tidal power farm in the Alderney Race. It takes into account the principles used by Committee 21, which is a French body serving the UN and is the leading network of players involved in implementing sustainable business development in France in organisations and territories.

These initiatives are aimed at mobilising the broader enterprise, made up of DCNS and its ecosystem, around Group values and customer service.

The five values of DCNS inform the day-to-day conduct and actions of everyone: commitment, respect, a winning spirit, expectation and confidence. They have appeared in our document reference system on the intranet since September 2016.

To that end a dedicated and well-structured organisation has allowed the design, roll-out and control since 2012 of a corporate responsibility policy, revised in March 2015, based around two entities: the Ethics and Corporate Social Responsibility Committee and the Compliance department.

Materiality matrix in 2016



STAKEHOLDERS	GOVERNANCE	ECONOMY	ENVIRONMENT	SOCIAL
Naval base	Transparency foreign relations	Territorial and socio-economic impact (including ToT, SME)	Eco-design	Employment
Mediterranean Sea Cluster	Intellectual property	Innovation	Waste	Remuneration
SeaTech	Product safety	Citizens' rights	Pollution and waste	Organisation of work
CCIV	Human rights	Subcontractors and suppliers	Use of natural resources	Social relationships
RSE PACA	Ethics and compliance	Fair practices	Energy/EIE	Health and safety
SME suppliers	Security and sensitive countries	Communication marketing	Climate change	Training
Réseau Entreprendre VAR			Biodiversity	Equal treatment
				Disabilities
				ITO/EIS
				Societal relations

- Use of natural resources (including water and energy resources, eco-design)
- Biodiversity (including protection of ocean space)
- Transparency (Vigeo Audits and others, Transparency International)
- Energy (including marine renewable energies, energy supply and environmental impact studies).

Several examples of consultation with stakeholders

Between DCNS France sites

A quarterly "DCNS peer review" has taken place since 2015: the inter-site improvement actions mentioned cover all six CSR themes concerned (governance, market conduct, environment, human resources, human rights and community involvement). As from 2017, this review will be extended to the subsidiaries.

At the Cherbourg site

Consultation with four stakeholders

In December, 2016, the DCNS materiality matrix was subject to a presentation and consultation process with stakeholders in the Cherbourg region (Cherbourg-en-Cotentin Town Hall, DES, the Chamber of Commerce and Industry, the Commander of the Maritime District). These external stakeholders were invited to enter into a dialogue about the Group's matrix, aimed at obtaining their opinions on the changes noted in 2016.

Some twenty-nine working themes for consideration were chosen from among those proposed by Grenelle law 2. These stakeholders were allowed to choose a few additional challenges that they wished to tackle.

Socio-economic impact study

For the first time, DCNS wished to conduct in 2016 a Group socio-economic impact study on the Cherbourg urban district, the English Channel and France, and the specialist, widely recognised independent consultancy firm, Utopies (designer of the Local Footprint® tool), the main findings of which are shown below. The study covered purchases from July 2015 to June 2016 and was based on internal data, French macro-economic data and Local Footprint® methodology.

This study is concerned with **three main financial flows** injected into the economy by the Group:

- **expenditure** (mainly purchases) paid to suppliers for each site;
- employee **wages and salaries**;
- local business **taxes.**

Three types of impact are quantified:

- **direct impact** corresponding to the site's added value;
- **indirect impact,** reflecting the economic benefits generated by purchases, expenditure or investment;
- **knock-on impact** of business (household consumption and public expenditure) on the back of wages and salaries and taxes paid by the DCNS Cherbourg site or its suppliers.

Highlights of this study:

- in 2015, the DCNS Cherbourg site in France accounted for 8,005 jobs (including 1917 in Cherbourg-en-Cotentin): direct employment, indirect employment, employment led by public expenditure;
- purchases worth €207 million, local taxes worth €6 million and gross wages and salaries worth €176 million are injected into the French economy;
- in 2015, the GDP generated (direct, indirect and knock-on) by the DCNS Cherbourg site in France was €530 million (including €175 million at Cherbourg-en-Cotentin);
- in short, **1 direct full-time job created at the DCNS Cherbourg site supports 2.6 additional jobs in France, either directly or as a knock-on effect.**

This socio-economic study will be expanded in coming years, as will an environmental impact study at the Group's sites and subsidiaries in France and then at international level.

Normandy Hydro

2016 is a pivotal year for Normandie Hydro, a pilot tidal power project in the Alderney Race, which is led by EDF Énergies Nouvelles: the environmental file put together for the building permit application has been the subject of a public inquiry conducted in the *communes* (municipalities) affected by the project. A public inquiry is when everybody has the opportunity to express their opinion about the project, to air their doubts, opposition or support and to suggest changes. This is, therefore, a very important time for the project leader as it allows him to assess the risk of appeal against the pilot farm.

On this occasion, DCNS assumed its role as EDFEN's stakeholder and as part of the public enquiry it spearheaded several actions made possible as a result of the close cooperation between the DCNS Cherbourg site, OpenHydro and the Marine Energy and Infrastructure Director (MEI):

- the Cherbourg site's strong involvement made it possible for OpenHydro and EDFEN to present the project during information meetings open to the whole workforce;
- a survey of the stakeholders interacting with the Cherbourg site, MEI Director and OpenHydro (Chamber of Commerce, port authorities, and so on) meant EDFEN was able to authorise OpenHydro to ask them to show their support for the project during the public inquiry.

The joint work carried out by different sections within DCNS, including a subsidiary, allowed it to play an effective role as stakeholder with the client.

At the Brest site

In an increasingly competitive environment fraught with constraints, DCNS needs to involve its suppliers and subcontractors in carrying out its programmes. This is why DCNS wants to engage with its suppliers and subcontractors on a long-term basis by giving them some idea about current and future programmes through establishing a long-term relationship. In November 2016, a 103-month maintenance contract for ballistic nuclear submarines (SSBNs) at Île

Longue was announced, making it possible to negotiate with the major equipment manufacturers, who are also contract partners, for the whole duration of the programme.

Seeking this type of long-term relationship is key to collective performance in a number of aspects, cost cutting of course, but also maintaining and strengthening skills both at DCNS and its partners and also optimising the industrial resources associated with this programme.

For the third-generation SSBN *Le Téméraire* adaptation for the M51 missiles as from the second half of 2016, a major project lasting twenty-seven months, DCNS is collaborating with industrial partners who helped to carry out the first two modernisations on *Le Vigilant* and *Le Triomphant*. By continuing to work with these industrial partners, it will thus be possible to capitalise on the feedback from the first two projects by optimising completion times and costs.

In 2017, DCNS is making plans for future downtime for IPER refits of the SSBNs and also long procurement lead times; yet to be devised, this strategy is nevertheless directed at capitalising on its historical industrial network.

Lastly, as a major player in the shipbuilding industry and with a view to attracting the best talent, DCNS is on the Board of Directors of most of the main schools in town (ENSTA, ENIB, UBO, ISEN, and so on). An influential member of most of the institutional structures (Brest Métropole [Urban Community of Brest], Chambers of Commerce and Industry (CCI), maritime cluster, technology park, and so on), DCNS is involved in major decisions for developing the territory, preparing its future and helping to structure and ensure the continued existence of the local economic area, particularly the ocean (Navy, marine security and safety, ports and infrastructures, and so on). The two tidal turbines installed for EDF at the Brest site demonstrate the progress made by DCNS on its territory.

At the Ruelle site

By forging a relationship with external stakeholders of the Charente labour pool, it has been possible to draw up an agreement with a local manufacturer for the loan of staff. Faced with wildly fluctuating workloads, this manufacturer has, therefore, managed to find temporary work in engineering and assembly for ten or so of his staff for approximately one year. Apart from being a corporate strategy, it also involves the exchange of relevant know-how.

At a more local level, the relationship with the *commune* (municipality) of Ruelle has led to the sale of two houses forming part of the real estate property to be used as social housing.

The steps taken jointly to improve quality of life at work have particularly led to the establishment of a company concierge service. This facility has been trialled since the last quarter of 2016 and aims at providing practical services for employees. It mainly relies on local enterprises.

Lastly, to celebrate the link forged in previous years with innovative enterprises forming part of the labour pool, and particularly in image technologies, the long-service medal award ceremony was held at the very heart of the ENJMIN school (digital games and media). The promotion of innovation, notably based on greater use of digital media, lies at the core of the site's development strategy.

Kership

Kership, the joint subsidiary of DCNS and Piriou, presented an innovative concept for a hull at the Euronaval 2016 Exhibition: C-SHARP® (Combined-Speeds Hull with All-Round Performances).

This new hull, developed jointly by Piriou, Kership and the Hydrodynamics, Energy and Atmospheric Environment Research Laboratory (LHEEA) of the *École centrale de Nantes*, makes it possible to optimise the overall hydrodynamic performance of a patrol vessel for a wide range of speeds and operational conditions.

The results, checked by towing tank, made it possible to highlight the following qualities of the C-SHARP® hull:

- energy optimisation: a 10% to 30% reduction in fuel consumption, more particularly at patrol speeds;
- optimisation of comfort aboard: excellent behaviour at sea with a 10% to 20% gain in vertical acceleration, so improving crew comfort;
- security aspects: the introduction of safeguards in the critical phases of on-board equipment use, with around a 20% reduction in wake, turbulence and vertical acceleration on the rear part of the vessel and also relative movement between the patrol vessel and equipment placed in the water.

The C-SHARP® innovative concept for a hull is currently used on the Kership range of vessels and more particularly on coastal patrol vessels under 40 metres in length, and on deep-sea patrol vessels of 40 to 65 metres in length. It is also perfectly suitable for existing vessels requiring modernisation.

MERIC in Chile

MERIC, the leading international marine renewable energies R&D centre in Chile, intends to develop knowledge and innovation in marine energies over the next eight years. The centre is cofinanced by the Chilean Ministry of Energy (up to 65%), DCNS and Enel Green Power.

The centre works closely with Chilean universities and manufacturers and will conduct studies to identify sites in Chile where MRE technologies could initially be installed. In 2016, the first work carried out focussed on biofouling and the environmental impact of marine energies. Studies are being conducted in Las Ruces in the Region of Valparaiso.

With the launch in 2016 of the International Workshop on Wave and Tidal Energy in Valdivia, MERIC had an impact on the international community when it gave 65 Chilean and foreign researchers, teachers, students and engineers the opportunity to share their experiences in research, innovation and the technological development of marine renewable energies. Experts from the following countries attended: France, the United States of America, Germany, Australia, Sweden, England, Scotland, Finland and Chile. It is through this initiative that MERIC is able to make sure that any social and environmental impacts of marine renewable energies are appropriately managed in the interest of the communities affected and it is working on paradigms and protocols to support the decision-making process. Experts from both DCNS and France Énergies Marines (FEM) gave talks at this three-day workshop.

OpenHydro selected in Japan

In July, OpenHydro, the subsidiary of DCNS, was selected along with the Japanese consortium to which it belongs to install a tidal energy system at Naru Strait in Goto City (Nagasaki Region). The following are also consortium members: Kyuden Mirai Energy, Nippon Steel & Sumikin Engineering, and the Nagasaki Marine Industry Cluster Promotion Association.

The Océanides association

The Océanides association, founded in March 2012 at the initiative of DCNS, today brings together almost 270 researchers throughout the world.

Its aim is to show that since prehistoric times and across all the continents, the sea has been a decisive factor for any region or any country bordering it. Any growth, power or influence would undoubtedly be linked to the existence of the sea.

With more than forty nationalities represented, coming from every continent and from the most prestigious universities, Océanides is a project which is unique in the world and is comparable, in the humanities, to the great *Encyclopaedia* of Diderot and d'Alembert. The association can now be found on the Web particularly *via* its website http://oceanides-association.org/ and the main social networks such as Twitter, Facebook and LinkedIn.

The results of the scientific research will be published in 2017 by the British publisher Boydell & Brewer. The findings themselves will be circulated to political and economic decision-makers in February 2017 in order to provide proof of the need to become aware of the importance of the sea in our societies.

A book [work] for the general public is also planned for the end of 2017 to reach as many of our citizens as possible. At the same time, specialists will incorporate it into the school curriculum.

A partnership has been set up with DCNS Universeaty, among others, in order to give certain visibility to the project. It enables conferences and naval history days to be organised for the general public in partnership with the École navale. In autumn 2015, a large international symposium on modern and contemporary periods was jointly organised.

DCNS chairs the (European) Marine Energy Commission of the French renewable energy association

On January 20, Frédéric Le Lidec (the Director of Marine Energies at DCNS) was elected President of the Marine Energy Commision of the French renewable energy association (SER).

Floating wind farm: DCNS is proud to be involved in the floating wind farm off Groix, winner of the call for projects of the French Environment and Energy Management Agency

On July 22, Ségolène Royal, the Minister for the Environment, Energy and the Sea, announced that the project headed by Eolfi Offshore France, in partnership with DCNS, General Electric and Vinci, was the winner of the government's call for projects for pilot floating wind farm. This project, which receives support from the Brittany Region, provides for the installation of a floating wind farm (four wind turbines) off Île de Groix, which will be connected to the electricity grid by 2020.

France Énergies Marines (FEM) Institute

DCNS's action in 2016 for the Institut pour la transition énergétique (ITE) France Énergies Marines (French institute for energy transition French marine energies) allows this pooled research and development body in the field of marine renewable energies (MRE) to ensure the continued existence of its business and to consolidate it. DCNS occupies the presidency of the Institute and one of the main manufacturers involved. DCNS is a partner in five joint projects, winner of the first call for FEM projects and is involved in five new files submitted for the second call in mid-2016. These projects allow SMEs and public research bodies to be involved in matters concerning optimisation of MRE systems and improving knowledge of the marine environment (sea currents, nature of ocean floors and state of the seas).

DCNS instigated a long-term partnership between MERIC and FEM in order to establish international cooperation in R&D for MRE. The subjects chosen mainly study the environmental and socio-economic impact of MRE-related industrial activities on the coast of Chile and the coast of Europe.

Nuclear energy

Since 2012, DCNS has been involved with the International Atomic Energy Agency (IAEA), which is under the aegis of the UN. As requested by the CEA, which represents the Minister for Foreign Affairs with these bodies, since 2015 the civil nuclear energy product line has chaired the working group tasked with drawing up a user guide for newcomer countries for the purpose of giving the legal, regulatory and technical outlines that permit transportable SMRs, of which the submerged SMRs form part, to be established.

I.1. GOVERNANCE(2)

I.1.1. Administration and control

DCNS (hereinafter referred to as the "Company") is a public limited company under French law, the ownership of which, as at December 31 2016 was as follows: 62.49% owned by the State, 35% by Thales, 1.64% by the Actions DCNS employee mutual fund and 0.87% by DCNS Actionnariat.

On December 19, 2014, the Company's General Meeting decided to bring the articles of association of the Company into line with the provisions of title II of the order no. 2014-948 of August 20 2014 relating to governance and to transactions in share capital of state-owned undertakings (hereinafter referred to as the "Order").

The composition of, appointment to and rules of procedure of the Company's Board of Directors are governed simultaneously by the provisions of the Commercial Code pertaining to *sociétés anonymes*, by the provisions of order no. 2014-948 of August 20, 2014 (the "Order"), by the provisions of law no. 83-675 of July 26, 1983 concerning the democratisation of the public sector (the "Democratisation Act") with regard to the election and status of directors representing the staff, and by the Company's articles of association and the bylaws of the Board itself.

I.1.2. Composition and operation of the Board of Directors

Composition and operation of the Board of Directors

The provisions of the Order, the Commercial Code and the Company's articles of association require the Company's Board of Directors to be made up of between three and eighteen members.

The provisions of article 4 of the Order require the French State to appoint a representative to the Company's Board of Directors.

The provisions of article 7 of the Order state that employee representatives must make up one third of the Board of Directors. Under the provisions of article 8 of the Order, they shall be elected by staff under the terms laid down in title II, chapter II of the Democratisation Act.

The General Meeting of Shareholders, which met on December 19, 2014 in order to bring the articles of association of the Company into line with the provisions of title II of the Order and to appoint new directors, appointed eleven new directors, three of whom were proposed by the shareholder Thales and five by the French State. As a result, the Board of Directors is now permanently composed of eighteen directors.

The current composition of the Company's Board of Directors is as follows:

The State is represented in its capacity as a director by:

- Mr Jack Azoulay, who was appointed the State's representative on the Company's Board of Directors on September 16, 2016 by decree of the Minister for the Economy and Finance to replace Mrs Astrid Milsan.

The six directors elected as representatives of the staff are:

- Mrs Isabelle Roué;
- Mr Jacques André;
- Mr Joël Ricaud;
- Mr Thierry Barbarin;
- Mr Laurent Chagnas;
- Mr Gilles Rapale.

The eleven directors appointed by the General Meeting of Shareholders are:

- Mr Hervé Guillou;
- Mrs Sophie Mantel, appointed on the recommendation of the State;
- Mrs Sandra Lagumina, appointed on the recommendation of the State;
- Mr Jacques Hardelay, appointed on the recommendation of the State;
- Mr Bertrand Le Meur, appointed on the recommendation of the State;
- Mr Bernard Rétat, appointed on the recommendation of the State;
- Mr Patrice Caine, appointed on the recommendation of Thales;
- Mrs Nathalie Ravilly, appointed on the recommendation of Thales;
- Mr Pascal Bouchiat, appointed on the recommendation of Thales;
- Mrs Gabrielle Gauthey;
- Mr Luc Rémont.

Pursuant to paragraph 1 of article L. 225-18-1 of the French Commercial Code, the proportion of directors of each gender may not be less than 40% following the close of the next General Meeting called to approve the appointments in those companies that, as from January 1 2017 and for the third consecutive financial year, employ an average of at least 500 permanent staff and report net revenue or total assets of at least €50 million, it being specified that the representative of the State appointed pursuant to article 4 of the Order is taken into account in the application of this rule, in accordance with the provisions of paragraph four of article 5 of the Order.

As from September 16, 2016, the Company's Board of Directors has comprised four women out of a total of twelve directors appointed by the General Meeting of Shareholders or by the State pursuant to article 4 of the Order. Pursuant to

(2) UN (ODD)/Global Compact/GRI 4/OECD/ISO 26000/OECD.

article 6 of law no. 2011-103 of January 27, 2011 on balanced representation of men and women on the Boards of Directors and Supervisory Boards and on professional equality, the lists of candidates put to the vote of the staff must comprise a candidate of each gender one after the other, with the difference between the number of candidates of each gender on each of the lists not to exceed one, counting from the second renewal of the Board of Directors following publication of the law, that is to say, in 2020 for the Company.

Since December 19, 2014, one woman has been sitting on the Company's Board of Directors, in the subset of directors elected as representatives of the staff.

Furthermore, by virtue of the legal and regulatory provisions applying to the Company, Mr Jacques Paultre de la Motte, General Controller for Economy and Finance, head of the Space and Arms Industries Mission of the State Economic and Financial Verification Mission, Mr Olivier Schmit, General Controller for Arms and Government Commissioner at the Company, and Mr Stefan Le Ruyet, Secretary of the Central Works Council, attend meetings of the Board of Directors but may not vote.

The General Meeting of Shareholders held on December 19, 2014 also introduced into the Company's articles of association a provision allowing the Board of Directors to appoint a non-voting director (*censeur*). Under the terms of article 14 of the Company's articles of association, said non-voting director has a general and ongoing advisory and supervisory role but may never become involved in the management of the Company or take the place of the Company's statutory bodies. The non-voting director is invited to attend all meetings of the Board of Directors and takes part in discussions in an advisory capacity. The non-voting director is appointed for a period of five years and may be re-appointed or removed by the Board of Directors. As an exception to this rule, the Company's articles of association stipulate that the term of office of any non-voting director appointed during 2014 would expire at the close of the Ordinary General Meeting called to approve the financial statements for the year ending December 31 2019.

At its meeting on December 19 2014, the Board of Directors laid down the duties of the non-voting director, stipulating that the role would be an advisory one in the areas of finance, country risks and the insurance of export contracts, and it appointed Mrs Sandrine Gaudin as non-voting director for a period of five years, it being specified that her term of office will expire at the close of the Ordinary General Meeting called to approve the financial statements for the year ending December 31 2019.

The list of offices held and functions performed by each corporate officer is shown in annex II.

Term of office of directors

All directors sitting on the Board of Directors of the Company have a term of office of five years, in accordance with article 9 of the Company's articles of association, it being specified that the terms of office of the directors appointed by the General Meeting of Shareholders of December 19, 2014 will expire, as an exception to this rule, at the close of the Ordinary General Meeting called to approve the financial statements for the year ending December 31, 2019. The same applies to the directors elected as representatives of the staff when the terms of office of all members of the Board of Directors were renewed at the end of 2014.

Upon taking office, each director is provided firstly with a copy of the articles of association of the Company and the up-to-date bylaws of the Board of Directors and secondly with the information and documents necessary for exercising his or her office.

Obligations and duties of the directors

The work of the Board of Directors is governed by a Board of Directors charter which forms an integral part of the bylaws of the Board of Directors and which defines the rights and duties of the members of the Board of Directors, particularly in relation to situations of conflict of interests with which they may be faced; independence of analysis, judgement, decision-making and action, of which they are required to provide evidence; the time which they must devote to their office and the obligations of confidentiality incumbent upon them in respect of information communicated to them in writing or orally for the purposes of performing their duties and as a result of their involvement in the work of the Board of Directors and the committees of the Board of Directors.

In particular, the bylaws place each director under an obligation to inform the Board of Directors fully and in advance of any actual or potential situation of a conflict of interests either directly between the Company and himself or herself, or indirectly through a company in which he or she has an interest and make him or her aware that he or she will not be provided with any information on the matters in question and will have to refrain from taking part in the discussions of and votes on the corresponding resolutions of the committees and of the Board of Directors. Since July 16, 2003, no situation of a conflict of interests has been brought to the attention of the Board of Directors.

In accordance with the provisions of article 21 of the Democratisation Act, the directors elected to represent the staff have the same rights and obligations as the other directors. They are subject to all the provisions applying to the other directors, subject to the specific provisions of the above-mentioned law. On the other hand, by virtue of article 22/(2)/(c) of the Democratisation Act, they are subject to a lower level of liability than that provided for by general law. In fact, when their liability as a director is invoked, it is assessed taking into account that their office is unpaid and in no event may they be held jointly and severally liable with the directors appointed by the General Meeting of Shareholders.

Remuneration paid to directors appointed by the General Meeting

In accordance with the provisions of the Order and the Democratisation Act, only the directors appointed by the General Meeting of Shareholders and the person appointed by the State pursuant to article 4 of the Order to represent it as a director may receive attendance fees as remuneration for their office insofar as the office of the directors elected to represent the staff is unpaid, without prejudice to the reimbursement by the Company of the expenses incurred by these directors in performing their duties.

The Order specifies that any remuneration received by the representative of the State by reason of the performance of his or her duties is transferred to the State budget pursuant to the provisions of the paragraph three of article 5 of the Order.

Article 6-V of the Order provides that any remuneration received by directors who are civil servants appointed by the General Meeting on the recommendation of the State, is transferred to the State budget.

Article 1 of the order of December 18, 2014, adopted pursuant to article 6 of the Order, provides that the amount of the attendance fees received by directors who are not civil servants appointed by the General Meeting on the recommendation of the State will be shared as follows:

- 30% of this amount is paid to the director;
- 70% of this amount is paid to the State budget.

Directors who are eligible for payment of said remuneration receive attendance fees for regularly attending meetings of the Board of Directors and additional attendance fees where they are involved, either as chairperson, or as a member, in the work of the special committees of the Board of Directors. These fees are also allocated according to regular attendance at meetings of the special committees of the Board of Directors, it being stated that the amount of the attendance fees received by the chairpersons of these committees is higher than the amount of attendance fees received by the committee members in order to take account of the time spent on the chairperson's duties and the responsibilities associated with exercising these functions.

The General Meeting held on November 26, 2015 set the total maximum amount of attendance fees to be shared between the State's representative appointed on the Board pursuant to article 4 of the Order and the directors appointed by the General Meeting of Shareholders, with the exception of the Chairman and Chief Executive Officer of the Company, who has waived these fees, at the sum of €175,000 per annum as from December 19, 2014 and for future financial years, until the Meeting decides otherwise.

At its meeting of July 22, 2015, the Board of Directors decided to retain the same criteria for sharing out this new total amount as those decided on at its meeting of July 23, 2013, namely €1,200 per meeting and per director, and €600 per meeting and per director for those directors who are members of one or more special committees of the Board of Directors.

On August 27, 2015, the Commissioner of State Holdings, appointed by the Minister of the Economy, approved this new total amount as well as the way in which it was to be shared.

Powers and duties of the Board of Directors

The powers devolved to the Board of Directors of the Company are first of all those provided for by the French Commercial Code applicable to limited liability companies and the articles of association of the Company.

The bylaws of the Board of Directors also specify that the Company's Board of Directors must ensure, in particular, that the risks created by the Company's business, the contracts by which it is bound or the investment and disinvestment operations it performs, are identified and controlled, thus highlighting the increased responsibility now incumbent upon Boards of Directors in the areas of internal control and management of risks.

Operation of the Board of Directors during the 2016 financial year

The Board of Directors met five times during the year ended December 31, 2016. The average attendance rate at meetings of the Board of Directors was 93% in 2016. The Board of Directors was brought up to date at each meeting on the developments of a commercial, financial and operational nature through detailed progress reports presented by the Chairman and Chief Executive Officer and the General Secretary.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussions during the 2016 financial year included:

- approval of the budget for 2016;
- presentation of the Strategic Action Plan;
- approval of two sales proposals;
- giving extra staff incentives for the year ended December 31, 2015;
- information about the Committee's work to improve the operation of the Board of Directors;
- determining the amount of the variable remuneration to be awarded to the Chairman and Chief Executive Officer for 2015 and determining the criteria for the purpose of setting the variable remuneration to be awarded to the Chairman and Chief Executive Officer in respect of 2016;
- deciding to now consider four agreements previously considered as regulated agreements, as standard agreements entered into in normal conditions;
- approval to form a subsidiary within DCNS Energies for the following marine renewable energies: floating wind power generation, ocean thermal energy and BoP (Balance of Plant), followed by the acquisition by investors of a shareholding in DCNS Energies;

• approval of the acquisition of Areva TA shares, pursuant to article L. 225-38 of the French Commercial Code;

• authorising subscription to a capital increase for Armaris B (newly formed DCNS Participations) for a maximum of €800,000;

• authorising the formation by DCNS (or DCNS Participations) of a joint venture in Saudi Arabia;

• approval of the 2017-2020 Medium Term Plan (MTP) and of the budget for 2017.

Bylaws of the Board of Directors

In order to increase its effectiveness and allow it to discharge its responsibilities to the best of its ability, on July 16, 2003 the Board of Directors of the Company was provided with bylaws for the first time.

The bylaws of the Board of Directors were amended for the first time on March 29, 2007, after Thales took a stake in the Company, for the second time on February 17, 2010, specifically to take account of the new recommendations made by the Institut français des administrateurs (French Institute of Directors (IFA)) concerning internal control and management of risks, then for the third time on December 19, 2014 to increase from four to five the number of members of the Remuneration and Appointments Committee and thereby to enable a director elected to represent the staff to sit on this committee.

The bylaws specify the role and the main responsibilities of the Board of Directors. They also provide for the setting up of four special committees, setting the memberships, missions and rules of operation for these.

The above-mentioned committees are tasked with looking into matters which the Board of Directors or its Chairman refer to it for advice. Generally speaking, the role of these committees is to gather and provide the Board of Directors with appropriate additional information thereby facilitating decision-making by formulating opinions, proposals and recommendations.

As a consequence, the Board of Directors alone is competent to decide on matters within its scope which have been referred for preliminary consideration to the special committees which serve merely to investigate and make recommendations in these areas.

The four special committees set up by the Board of Directors are as follows:

• the Audit, Accounts and Risks Committee, which is tasked with ensuring monitoring of:

– the process generating economic and financial reporting,

– the effectiveness of the internal control and risk management systems,

– legal control, exercised by the Statutory Auditors, of the annual accounts and as necessary, the consolidated accounts of the Company,

– the independence of the Statutory Auditors.

With regard to risks, each year it examines the mapping of all kinds of risks to which the Group is exposed as a result of its operations and the processes and action plans put in place to identify and manage these risks.

The members of the Audit, Accounts and Risks Committee are Ms Isabelle Roué, Mr Luc Rémont, Mr Jack Azoulay and and Mr Pascal Bouchiat. The committee is chaired by Mr Luc Rémont. Ms Astrid Milsan has been replaced by Mr Jack Azoulay on this Committee.

The Audit, Accounts and Risks Committee meets at least three times per year or more frequently where necessary. It met seven times during 2016, with an average attendance rate of 94%;

• the Tenders Committee, which is tasked with examining any planned tender involving a significant commitment for the Company in terms of value, duration, innovativeness of the areas of operation or specific contractual or technical risks.

The members of the Tenders Committee are Mr Bernard Rétat, Mr Jack Azoulay, Mr Pascal Bouchiat, Mr Bertrand Le Meur and Mr Jacques Hardeley. The Committee is chaired by Mr Bernard Rétat. Ms Astrid Milsan has been replaced by Mr Jack Azoulay on the Committee.

The Tenders Committee meets as required. In 2016, it met five times with an average attendance rate of 80%;

• the Remuneration and Appointments Committee, the main tasks of which are:

– proposing remuneration levels, retirement and benefits plans and benefits in kind of the executive officers,

– examining the key directions of the Company in terms of remuneration policy,

– giving its opinion on the principles of remuneration of the members of the Executive Board of the Company and the leadership teams of the Group subsidiaries,

– giving its opinion on the principles adopted by the Company on staff incentives, profit-sharing and share ownership plans.

The members of the Remuneration and Appointments Committee are Ms Gabrielle Gauthey, Mr Patrice Caine, Mr Jack Azoulay, Mr Bertrand Le Meur and Mr Jacques André. The Committee is chaired by Mr Patrice Caine. Ms Astrid Milsan has been replaced by Mr Jack Azoulay on this Committee.

The Remuneration and Appointments Committee meets every six months or more frequently where necessary. In 2016, it met twice with an attendance rate of 80%;

• the Strategic Committee, the main task of which is to assess Group strategy in its main sectors of activity.

The members of the Strategic Committee are Ms Nathalie Ravilly, Ms Sandra Lagumina, Mr Hervé Guillou, Mr Jack Azoulay, Mr Bertrand Le Meur and Mr Patrice Caine. The Committee is chaired by Mr Hervé Guillou. Ms Astrid Milsan has been replaced by Mr Jack Azoulay on this Committee.

The Strategic Committee meets three times per year or more frequently where necessary. It met twice in 2016, with an average attendance rate of 75%.

Evaluation of the performance of the Board of Directors

The bylaws of the Board of Directors provide that it arranges, at regular intervals and at least annually, an evaluation of its own performance, to be carried out by an independent director.

The Board of Directors carried out an evaluation of its own performance for the first time during the 2008 financial year. This task was entrusted by the Board of Directors to a director elected to represent the staff and a director appointed by decree to represent the State.

Overall, the directors found, on completion of this initial task, that on the whole significant progress had been made in the performance of the Board of Directors since it was first set up and that this performance, bearing in mind the youth of the company and the particular status of its Board of Directors, could be considered satisfactory in terms of the rules of good governance and in relation to the findings made and known in connection with the performance of other Boards of Directors.

The main findings and conclusions to come out of this task were set out in a written document submitted and presented to all members of the Board of Directors.

At the meeting of July 23, 2013, the Board of Directors decided to arrange a new evaluation of its own performance and appoint a representative from each of the two majority shareholders to perform this task. At the beginning of 2014, these two representatives established the terms of this self-evaluation and then drew up and sent to each member of the Board of Directors a questionnaire to assess the performance of the Board of Directors, its work and the work of its special committees. The Board of Directors was not able to acquaint itself with the findings of this assessment, on the one hand due to the changes that occurred in the company's governance and the management bodies at the end of July 2014 and on the other, due to the decision taken, at the instigation of the shareholders, to work on improving the performance of the Board. To this end, at the meeting held on July 22, 2015 an ad hoc committee for improving the performance of the Board was set up by the Board, made up of its own members, for continuing the task of drafting the Board's road map in order to meet the requirement of "Simplifying the governance of DCNS". This committee first gave an account of its work at the meeting held on October 22, 2015. This committee's recommendations were submitted to the Board at its meeting of February 19, 2016. An additional analysis is underway with the Company's shareholders.

General management of the Company

Pursuant to the decision taken by the Board of Directors of the Company on June 2, 2003, the Chairman of the Board of Directors is responsible for the general management of the Company and thus holds the title of Chairman and Chief Executive Officer.

Mr Hervé Guillou's position as Chairman and Chief Executive Officer was renewed by decree of the President of the Republic on February 13, 2015.

As Chairman of the Board of Directors, he organises and directs the work of the Board of Directors and reports on this to the General Meeting of Shareholders. He ensures that the bodies of the Company function properly and makes sure specifically that the directors are able to fulfil their duties.

I.1.3. Governance of subsidiaries and jointly controlled companies

Subsidiaries

The Company has subsidiaries both in France (DCN International, Sirehna, DCNS Support and DCNS Energies) and abroad (DCNS India, DCNS FE, DCNS do Brasil, DCNS Coopération, OpenHydro Group Limited, DCNS Arabia, DCNS Malaysia, PROSIN and DCNS Technologies Canada Inc. and DCNS Australia).

The executive, management and control bodies of the French and foreign subsidiaries of DCNS are made up exclusively of representatives of the Group operating divisions and functional management. The following two subsidiaries are exceptions to this principle:

- DCNS Technologies Canada Inc.: a Canadian subsidiary incorporated in 2014 and in which a Canadian resident not employed by a company within the DCNS group sits on the Board of Directors, thereby enabling DCNS Technologies Canada Inc. to comply with the Canadian requirements concerning the composition of Boards of Directors (at least 25% of whose members must be Canadian residents);
- DCNS Australia: an Australian subsidiary incorporated in 2015 and in which two Australian residents not employed by companies within the DCNS Group sits on the Board of Directors alongside four French and Australian staff of DCNS or of DCNS Australia. These independent directors were appointed pursuant to the agreements entered into between DCNS and its client, the Commonwealth of Australia.

The representatives of the operating divisions are selected according to the activity of the subsidiary concerned.

A representative of the financial function almost always has a seat on these bodies. Each subsidiary is operationally attached, according to the nature of its business, either to

an operating division or to the International Trade branch. Monitoring of the activities and operations of each subsidiary is thus provided by the operating division to which it is attached or the International Trade branch.

DCN International

The Board of Directors of the public limited company DCN International is made up of four directors. It met three times during 2016. The average attendance rate at meetings of the Board of Directors of this company was of the order of 58% in 2016.

An activity monitoring report was routinely given at each meeting of the Board of Directors.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

- approval of the budget for 2016;
- closing of the accounts for the year ended December 31, 2015;
- presentation of the results as at June 30, 2016 and updating of these at the end of December 2016;
- proposed renewal of the offices of two directors;
- approval of the proposed transfer to DCNS of the interest that DCN International has in Cedec.

Sirehna

The Board of Directors of the public limited company Sirehna is made up of four directors. It met on three occasions during 2016. The average attendance rate at meetings of the Board of Directors of this company was of the order of 83% in 2016.

An activity monitoring report was routinely given at each meeting of the Board of Directors.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

- approval of the 2016 budget;
- closing of the accounts for the year ended December 31, 2015;
- presentation of the results as at June 30, 2016 and updating of these at the end of December 2016;
- approval to deliver two sales proposals.

DCNS Support

The Supervisory Committee of the simplified joint-stock company DCNS Support has four members. It met twice during 2016. The average attendance rate at the meeting of the Supervisory Committee of this company was 88%.

An activity monitoring report was routinely given at each meeting of the Supervisory Committee.

Major operations that were subject to the prior authorisation of the Supervisory Committee or in-depth discussion during 2016 included:

- approval of the budgets for 2016 and 2017;
- closing of the accounts for the year ended December 31, 2015.

DCNS India

The Board of Directors of DCNS India (a company under Indian law) is made up of four members. It met on six occasions in 2016. The average attendance rate at meetings of the Board of Directors of this company was 96% in 2016.

Furthermore, a certain number of decisions relating to the management of this company and falling within the remit of the Board of Directors were taken, with the written resolutions they were being asked to adopt being circulated to the members in accordance with the applicable Indian laws.

An activity monitoring report was routinely given at each meeting of the Board of Directors.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

- authorisation to take action with the FIPB (Foreign Investment Promotion Board of India) in connection with the formation of a new subsidiary in India;
- renewal of the office of Managing Director of the Company;
- closing of the accounts for the year ended March 31, 2016;
- renewal of the office of the Statutory Auditor for the 2016-2017 financial year;
- approval of the contribution in respect of CRS Activities for the 2016-2017 financial year;
- approval of the lease renewal for DCNS India's premises in New Delhi.

DCNS FE

The Board of Directors of DCNS FE (a company under Singaporean law) is made up of five members. It met twice during 2016. The attendance rate at meetings of the Board of Directors of this company was 100% in 2016. Furthermore, a certain number of decisions relating to the management of this company and falling within the remit of the Board of Directors were taken, with the written resolutions they were being asked to adopt being circulated to the members in accordance with the applicable Singaporean laws.

An activity monitoring report was routinely given at each meeting of the Board of Directors.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

• closing of the accounts for the year ended December 31, 2016;

• the distribution of an interim dividend for the year ending December 31, 2016;

• approval of the budget for 2017;

• appointment of a new member of the Board of Directors;

• appointment of a new Managing Director.

DCNS do Brasil Serviços Navais LTDA

The Board of Directors of DCNS do Brasil Serviços Navais LTDA (a company under Brazilian law) is made up of three members. It met twice in 2016. The attendance rate at meetings of the Board of Directors of this company was 100% in 2016.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

• examination and adoption of the accounts for the year ended December 31, 2015 for their approval by the General Meeting;

• approval of the 2016 budget.

DCNS Energies

The Supervisory Committee of DCNS Energies had three members up to December 16, 2016. It met twice during 2016. The attendance rate at the meetings of the Supervisory Committee was 100%.

On December 16, 2016, the Supervisory Committee was replaced by a Board of Directors made up of seven members and it met once during 2016, with a 100% attendance rate.

Major operations that were subject to the prior authorisation of the Supervisory Committee/Board of Directors or in-depth discussion during 2016 included:

• appointment of a new member of the Supervisory Committee;

• scrutiny of the accounts for the year ended December 31, 2015 before they are closed by the Chairman;

• approval of the Hermione project (subsidiarisation, within the Company, of the following marine renewable energies: floating wind power generation, ocean thermal energy and BoP (Balance of Plant) carried out by DCNS Energies, followed by the acquisition by investors of a shareholding in DCNS Energies);

• appointment of the Chairman of the Board of Directors;

• establishment of an Audit Committee.

DCNS Arabia

DCNS Arabia (a company under Saudi law) does not have a collegiate management and/or control body. The General Meeting is competent to take all decisions falling outside the remit of this company's manager.

DCNS Malaysia

The Board of Directors of DCNS Malaysia (a company under Malaysian law) had seven members. It met twice during 2016. The average attendance rate at meetings of the Board of Directors of this company was 93%. Furthermore, a certain number of decisions relating to the management of this company and falling within the remit of the Board of Directors were taken, with the written resolutions they were being asked to adopt being circulated to the members in accordance with the applicable Malaysian laws.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

• appointment of a new director;

• appointment of a new Chairman of the Board;

• authorisations concerning DCNS Malaysia's premises (lease renewal and authorisation to sub-let to another company controlled by DCNS);

• closing of the accounts for the year ended December 31, 2015;

• approval of the 2016 budget.

PROSIN – Projetos e Sistemas Navais SA

The Board of Directors of PROSIN – Projetos e Sistemas Navais SA (a company under Brazilian law) has three members. It met twice during 2016. The attendance rate at the meetings of the Board of Directors of this company was 67%.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

• closing of the accounts for the year ended December 31, 2015;

• the proposed replacement of a director.

DCNS Coopération

The Board of Directors of DCNS Coopération (a company under Belgian law) is made up of three members. It met twice during 2016. The attendance rate at the meetings of the Board of Directors of this company was 100%.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

• closing of the accounts for the year ended December 31, 2015;

• renewal of the office of members of the Executive Committee.

DCNS Technologies Canada Inc.

The Board of Directors of DCNS Technologies Canada Inc. (a company under Canadian law) is made up of three members. A certain number of decisions relating to the management of this company and falling within the remit of the Board of Directors were taken with the written resolutions they were

being asked to adopt being circulated to the members in accordance with the applicable Canadian laws.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

• authorisation to recruit staff.

DCNS Australia

The Board of Directors of DCNS Australia (a company under Australian law) had four members up to December 2016, then six members since that date. The attendance rate at the meetings of the Board of Directors of this company was 100%. A certain number of decisions relating to the management of this company and falling within the remit of the Board of Directors were taken with the written resolutions they were being asked to adopt being circulated to the members in accordance with the applicable Australian laws.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

• appointment of the Chairman of the Board;

• appointment of two independent directors;

• definition of operations subject to prior approval of the Board;

• closing of the accounts for the year ended December 31, 2015;

• authorisation to recruit staff;

• replacement of the company Secretary;

• the amount of the company's capital increase;

• establishment of a Security Committee.

Jointly-controlled companies

Eurosysnav SAS

The Board of Directors of the simplified joint-stock company Eurosysnav SAS is made up of eight members. It met once during 2016. The average attendance rate at the meetings of the Board of Directors of this company was of the order of 88%.

An activity monitoring report was routinely given at each meeting of the Board of Directors.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

• closing of the accounts for the year ended December 31, 2015;

• the proposed transfer of the company's registered office;

• the decision to place the company in voluntary liquidation.

Horizon SAS

The Board of Directors of the simplified joint-stock company Horizon SAS is made up of eight members. It met three times during 2015. The average attendance rate at the meetings of the Board of Directors of this company was of the order of 88%.

An activity monitoring report was routinely given at each meeting of the Board of Directors.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

• closing of the accounts for the year ended December 31, 2015;

• the proposed transfer of the company's registered office;

• the decision to place the company in voluntary liquidation.

OpenHydro Group Limited

The Board of Directors of OpenHydro Group Limited (a company under Irish law) is made up of nine members. It met on ten occasions during 2016. The average attendance rate at the meetings of the Board of Directors of this company was of the order of 85%.

An activity monitoring report was routinely given at each meeting of the Board of Directors.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

• closing of the accounts for the year ended December 31, 2016;

• approval of the 2017 budget;

• authorisation to set up a subsidiary in Japan.

Itaguaí Construçoes Navais SA

The Board of Directors of Itaguaí Construções Navais SA (a company under Brazilian law) is made up of five members. It met on four occasions in 2016. The attendance rate at the meetings of the Board of Directors of this company was 100% in 2015.

An activity monitoring report was routinely given at each meeting of the Board of Directors.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

• closing of the accounts for the year ended December 31, 2015;

• approval of the 2017 budget.

Boustead DCNS Naval Corporation (BDNC)

The Board of Directors of Boustead DCNS Naval Corporation (BDNC) SDN BHD (a company under Malaysian law) is made up of five members. It met on two occasions during 2016. The attendance rate at these meetings of the Board of Directors was 100%. Furthermore, a certain number of decisions relating to the management of this company and falling within the remit of the Board of Directors were taken, with the written resolutions they were being asked to adopt being circulated to the members in accordance with the applicable Malaysian laws.

An activity monitoring report was given at each meeting of the Board of Directors in 2016.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

- appointment of a Deputy Chief Executive Officer;
- closing of the accounts for the year ended December 31, 2015;
- appointment of Statutory Auditors.

Défense Environnnement Services

The Board of Management of the simplified joint-stock company Défense Environnement Services is made up of eight members. It met twice during 2016. The average attendance rate at these meetings of the Board of Directors was 100%. An activity monitoring report of this company was given at these meetings of the Board of Management.

Major operations that were subject to the prior authorisation of the Board of Management or in-depth discussion during 2016 included:

- approval for the Chairman to close the accounts for the year ended December 31, 2015;
- approval of the 2016 budget;
- the proposed transfer of the registered office.

Winacelles

The Board of Management of the simplified joint-stock company Winacelles is made up of four permanent members. As this company is in the process of being wound up, its Board did not meet during 2016.

Kership

The Board of Management of the simplified joint-stock company Kership is made up of four permanent members and one invited member. It met four times during 2016. The attendance rate of the permanent members at the meetings of the Board of Management of this company was 100% in 2015.

An activity monitoring report was given at each meeting of the Board of Management.

Major operations that were subject to the prior authorisation of the Board of Management or in-depth discussion during 2016 included:

- approval for the Chairman to close the accounts for the year ended December 31, 2015;
- authorisation to deliver an offer to take over assets.

Energia Marina SpA

The Board of Directors of Energia Marina SpA (a company under Chilean law) is made up of five members. It met on three occasions during 2016. The attendance rate at the meetings of the Board of Directors of this company was 87% in 2016.

An activity monitoring report was given at each meeting of the Board of Directors.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2016 included:

- appointment of a Board member;
- approval of the 2016 budget.

I.1.4. Bodies set up by the General Management

The Chairman and Chief Executive Officer wished to be supported by a number of committees in exercising his control of the Company, namely:

- the Executive Committee (Comex) is tasked with defining the Group's objectives and it rules on all matters that have a major impact on the Group's strategy, the way it functions and its commercial and operating activities. It is chaired by the Chairman and Chief Executive Officer and is made up of the following members: the Financial and Legal Vice President, the Development Vice President, the General Secretary, the International Trade Director, the Strategy, Partnerships and Innovation Director, the Programme Director, the Manufacturing Director, the Human Resources and Operations Director, the Services Director and the Marine Energy and Infrastructure Director. The Committee meets weekly. Each quarter, a meeting is held of the Executive Committee, expanded to incorporate the managers of the main operating divisions. The Public and European Affairs division acts as the Executive Committee's secretariat;
- the Tenders Committee;
- the Finance Committee;
- the Product Policy Committee;
- the Countries Committee;
- the Risks Committee;
- the Ethics and CSR Committee;
- the Compliance Committee.

I.1.5. Integrated risk management system

The various risk factors are dealt with in paragraph I.2.g. entitled "Risk Management" on pages 17 to 23 of the Management Report.

I.1.5.a. Risk control process

DCNS has set up an integrated risk management system consisting of:

- identifying risks which may affect the ability of the Group's various entities to achieve their objectives and making sure that these risks of a financial, operational, legal, corporate social responsibility (social and environmental, and so on) nature are managed;
- defining and setting up control activities commensurate with the challenges in order to control the risks identified;

- assessing the effectiveness of the controls set up;
- auditing the integrated system;
- continuously improving the system in place through feedback and supervisory bodies.

The system, as described below, applies to all DCNS entities and controlled subsidiaries. DCNS has used the 2013 COSO version (Committee of Sponsoring Organization of the Treadway Commission) as well as the Institut français de l'audit et du contrôle internes (French audit and internal control institute [IFACI]) professional standard for its design, implementation and assessment.

Risk management

Risk management is the responsibility of each management and is an integral part of the business process. Its first objective is to identify, analyse and pre-empt the Group's main risks and to manage them, then to ensure that these risks are taken into account and that the resources implemented to reduce and manage them are effective.

In addition, the risk management system is supervised by the Audit and Risks Management. To do this, it relies on a network of internal control officers within these entities.

Risk mapping is done annually at a Group level to take account of changes in the environment and the Group as well as how these changes may affect the ability of the Group to achieve its strategic and operational objectives. This risk mapping has been done using three approaches: "bottom-up" (feedback of risks by the entities), "transverse" (risk analysis and challenge by business experts) and "top-down" (exchanges and review by General Management), and the associated action plans are reviewed quarterly and approved by an internal Risks Committee which is chaired by the Chairman and Chief Executive Officer.

Furthermore, the risks inherent in particular challenges are supervised by specific organisations (for example: Compliance, the Nuclear and Pyrotechnics Inspection team, Corporate Social Responsibility, and so on), which form the second line of risk management and they provide the methodological support and tool development essential for meeting the business needs of the Group.

Lastly, entities of DCNS and controlled subsidiaries draw up a (management) representation letter annually, which is signed by their manager or corporate officer. It is a personal undertaking by the manager of the entity to control its risks and it covers all the entity's activities. This letter also covers Ethical Reporting and Compliance by managers.

Internal control

Internal control helps to manage operations in terms of effectiveness and efficiency of the company's internal processes, protect assets, comply with laws and regulations, ensure the quality and reliability of any information produced and communicated as well as apply any instructions and guidelines fixed by the Group.

Internal control helps to achieve the Group's objectives yet is not an absolute guarantee, however, because of the limitations inherent in any system.

Internal control is part and parcel of the company's management and is the responsibility of the operational staff. Since 2015, they have had a whistle-blower system at their disposal. This system provides staff with a channel of communication that enables them to raise the alarm (in addition to existing channels, which protect the whistle-blower's identity by ensuring that any information remains confidential) and is intended to detect any breaches of procedure. The whistle-blower system can be used in the event of any breach of accounting procedures.

The Audit and Risks Management supervises it, ensures its relevance and assesses its effectiveness and relies on a network of internal control officers.

Assessment of the effectiveness of internal control

The operational and functional managers are responsible for carrying out controls but also self-assessment of the effectiveness of internal control in their area of responsibility. Self-assessment, carried out every year using a questionnaire common to the Group, the internal control questionnaire (ICQ), based on predefined tests, allows entities to identify areas for improvement (strengthening of controls or procedures).

The Audit and Risks Management tests the quality of the replies to the ICQ through spot assessments (cf. infra).

In 2016, the ICQ was used by the Statutory Auditors to assess controls which have an impact on financial statements.

Integrated System Audit

The objective is to obtain a relevant assessment of the effectiveness of internal control and risk management. Audits are carried out on a regular basis by the Audit and Risks Management to reassure the General Management and the Audit, Accounts and Risks Committee that the internal control system is reliable and relevant and that the company is managing its risks.

At the end of 2016, an audit of the integrated risk management system was conducted in order to check that the various aspects described above are effectively implemented and are reliable. The next audit is scheduled for the end of 2017.

Improvement loops of the system

The Audit and Risks Management controls the continuous improvement loop of the Group's risk management and internal control system.

The following subjects are reviewed regularly within the Group's entities and by its governance bodies:

- monitoring of actions to manage large risks;
- monitoring of action plans arising from audit recommendations;
- progress as regards the implementation of control plans.

I.1.5.b. Governance of the system

The bodies described below control the integrated risk management system.

The Executive Committee

It directs and endorses the annual internal audit plan and it periodically monitors (at least twice a year) that recommendations are being properly implemented. It directs and endorses the plan to strengthen internal control and risk management, in accordance with the Group's priorities.

The Risks Committee

Chaired by the Chairman and Chief Executive Officer, it meets every six months or more frequently where necessary. It is tasked with:

- determining the Group's risk management policy;
- periodically reviewing and endorsing the mapping of the largest risks: assessment of criticality, identification of new risks;
- revising, challenging action plans associated with the largest risks (term and controller defined) and supervising their proper implementation.

The Audit and Risks Management

Its involvement spans the Group as a whole in any area relating to internal control and risk management. It carries out its activities independently, in accordance with an audit, risk management and internal control charter while observing international professional standards. Since 2012, it has been certified by the Institut français de l'audit et du contrôle interne (French Audit and Internal Control Institute [IFACI]) for IIA (Institute of Internal Auditors) international standards.

It is attached to the Group's General Management at operational level and to the Chairman of the Audit, Accounts and Risks Committee at functional level, which affords it the independence needed to do its job.

Its audit activities are conducted in accordance with the annual audit plan examined by the Audit, Accounts and Risks Committee. It makes sure that the internal control systems rolled out within the Group are observed and that they are effective and it particularly takes into account the risk mapping and risk profiles of entities when preparing its audit programmes.

After each audit, a report is circulated with recommendations that lead to improvement actions monitored in consultation with the managers concerned.

The Board of Directors

The Board of Directors gives its backing to the key focal areas of the internal control and risk management system after hearing the opinions and recommendations of the Audit, Accounts and Risks Committee[3].

The Audit, Accounts and Risks Committee of the Board of Directors

This committee examines the accounts and accounting procedures presented by the Finance department; the results of the audits and work relating to internal control presented by the Audit and Risks Management; the work relating to the Group's main risks presented by the Audit and Risks Management (particular attention is paid to risks related to execution of the Group's major programmes); the contents of the forward programme of internal audit activities and corresponding allocation of resources presented by the Audit and Risks Management.

It guarantees the quality of the selection process, approves the choice of Statutory Auditors and also the rotation rules.

It also examines the findings of the work carried out by the Statutory Auditors, ensuring moreover, that they are independent; the points regarding the main legal disputes presented by the Legal department; the Group's internal audit charter which is endorsed by the Chairman of the Audit, Accounts and Risks Committee.

The Statutory Auditors

As part of their work auditing and certifying the Group's annual and consolidated financial statements, the Statutory Auditors examine the procedures of a certain number of processes of the company involved in generating accounting and financial information. They report their findings to the Audit, Accounts and Risks Committee and to the Board of Directors.

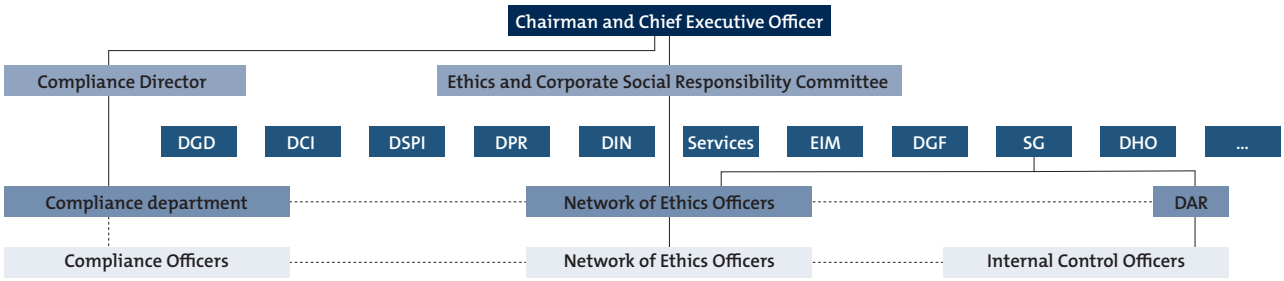
In 2016, the Audit and Risks Management renewed the memorandum of collaboration (in existence since the end of 2014) establishing its relationship with the Statutory Auditors so as to act more effectively and comprehensively regarding the assessment and risk management of the organisation based on two key areas:

- effectiveness: wider and more optimised coverage of critical risks;
- productivity: synergy of the resources of DCNS and of the Statutory Auditors, limitation of cases of redundancy.

(3) Cf. bylaws of the Board of Directors (version February 17, 2010).

I.1.6. Ethics and integrity

Horizontal structuring of CSR at DCNS



The Ethics and Corporate Social Responsibility Committee

This Committee sets the general guidelines on ethics and corporate social responsibility and makes sure that good practice is implemented within the Group. It gives an account of its action to the Chairman and Chief Executive Officer.

The Ethics and Corporate Social Responsibility Committee includes:

- the members appointed intuitu personae by the Chairman and Chief Executive Officer;
- the Secretary of the Central Works Council;
- the Chief Compliance Officer;
- the Ethics and Corporate Social Responsibility Director, who chairs the committee.

The Ethics and Corporate Social Responsibility Committee is made up of: Mrs Brigitte Laik, Ms Caroline Le Bayon, Mr Éric Papin, Mr Franck Lacroix, Mr Jérôme Richard, Ms Laure-Agnès Lernout, Mr Michel Perchoc, Mr Michel Vodé, Ms Pascale Roussel, Mr Philippe Toth, Ms Sandrine Le Lidec, Mr Stévan Le Ruyet.

In 2016, the Ethics and Corporate Social Responsibility Committee met five times. At these meetings the areas on which it has been instructed to focus, as set in the 2016 roadmap, are examined and monitored.

Ethics Officers are appointed at all the sites in France and will be deployed to the subsidiaries over the course of 2017. These Ethics Officers act as advisers to the management at each site, are one of the prime points of contact for staff seeking advice on ethical matters, and organise or participate in training and awareness programmes designed for the site's management and/or for all staff.

The undertaking made by DCNS in matters concerning Corporate Social Responsibility and Compliance is part of the Blue Book, which was published in 2016 and serves as the Group's manual.

The Ethics, CSR and Compliance policy approved by the Chairman and Chief Executive Officer reflects the undertaking made by DCNS in matters concerning ethics, corporate social responsibility and compliance. The rolling out of this measure, adopted by the whole Group, relies on:

- the Ethics and Corporate Social Responsibility management responsible for steering DCNS's strategy towards compliance of the Group's activities with the standards and objectives of corporate social responsibility beyond the strict scope of compliance (societal and environmental commitments towards stakeholders of the Group, and so on);
- the Compliance management, which is primarily tasked with building and rolling out a compliance system, then keeping it up to date, and also with making sure that all staff comply with this system. The Compliance Director is delegated power by the Chairman and Chief Executive Officer (who relies on the General Secretary to outline the sources of finance and resources required), which affords it the independence needed to do its job.

Compliance

In 2016, DCNS decided to strengthen its compliance system so as to accommodate international standards and make compliance the focal point of Group debate and business. This is also in response to legislative changes in France, in particular the Sapin II Act, enacted on December 9, 2016, pertaining to transparency, the fight against corruption and modernisation of the economy.

The more robust compliance system adopted by DCNS is based on:

- policies which are available to all staff *via* the DCNS intranet;
- procedures;
- tools;
- a new organisational structure which includes:

– the Compliance management, which is separate from any other management,

– a new network of Compliance Officers at each site and in each subsidiary in France as well as abroad,

– a Compliance Committee, made up of five members of Comex and the Compliance Director.

Compliance Officers and individuals, who are the most exposed to compliance challenges and the system, are already undergoing training and this training will continue in 2017.

Supplier code of conduct

This multidirectional Committee is tasked with managing the CSR performance of the suppliers and with preventing any associated risks all along the supply chain. The regulatory requirements on economic transparency and duty of care being prepared in 2016 will supplement the steps already taken by DCNS as part of the Responsible Supplier Relations label of the Intercompany Mediation panel and the international SME development plan.

Awareness training and information for Group staff

In June 2016, DCNS launched the second phase of its e-learning platform dedicated to awareness training in ethics and anti-corruption principles for managers and staff.

The third phase of this platform will be available between January and the end of March 2017. Some 13,000 of the Group's managers and staff will have the chance to receive awareness training, if they so wish, in three areas: ethics (for example: prevention of harassment, and so on), compliance (for example: fraud prevention and prevention of corruption, and so on) and human rights (for example: respect for diversity...).

Everyone can test their knowledge through situational scenarios and can access the Group's internal documents for reference.

By the end of 2016, in excess of 2,000 staff had used this website.

Interviews with managers and staff concerning ethics make it possible to elicit and demonstrate the commitment that every Group employee should have.

Ethics and procurement

In 2016, DCNS continued with business ethics self-assessment, first introduced in 2011. The purpose of this second edition of the survey was to check that the ethical rules governing the relationship between DCNS and its suppliers had been properly taken on board by a representative population of staff. Furthermore, areas for improvement were identified and all members of staff involved in procurement were informed about them.

Around 600 DCNS staff members were asked to take part in the survey, 80% of whom work in procurement. The response rate was 43% which confirmed that the survey was representative.

The survey, which consisted of 22 questions related to topics such as the behaviours to be adopted where a situation of conflict of interests or of gift-giving exists, confirmed that the ethical rules to be adopted had been properly taken on board by staff. Furthermore, areas for improvement were identified and all members of staff involved in procurement were informed about them.

Audit of ethical standards

A third audit of ethical standards, conducted by the independent audit firm, Ethic Intelligence, was launched at the end of 2016 and integrated the guidelines provided for by legislation in the process of being adopted in respect of economic transparency and the duty of care.

Three sites (Cherbourg, Indret and Toulon) were audited, as were two subsidiaries (in Brazil and Malaysia).

Extra-financial data verification audit

In October 2016, the audit firm Ernst & Young visited sites. The sites at Brest, Cherbourg and Ruelle were audited, as were two remote subsidiaries: OpenHydro and DCNS Support.

Protocols for the consolidation of data (global protocol, governance, environment and social data) are in the process of being standardised and are available to auditors in the French or English version. A summary of these protocols is intended for external stakeholders and can be accessed *via* the DCNS website.

Global Compact

DCNS took part in the peer review organised by the French Global Compact network in April 2016. The actions taken by the Group meant that for the second year running, it has been recognised as achieving the "Global Compact Advanced Level". Only around sixty companies in France have attained this level of recognition. The Group's Communication on Progress report for 2015, together with this assessment, was sent to the New York office within the deadline (May 30, 2016).

Through its activities and actions, DCNS makes an overall contribution to five of the UN's sustainable development objectives.

The UN Global Compact's 10 principles[4]

Human rights

Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights;

Principle 2 make sure that they are not complicit in human rights abuses.

Labour standards

Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4 the elimination of all forms of forced and compulsory labour;

Principle 5 the effective abolition of child labour; and

Principle 6 the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7 Businesses should support a precautionary approach to environmental challenges;

Principle 8 undertake initiatives to promote greater environmental responsibility; and

Principle 9 encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

Launched in 2000 by the United Nations, the Global Compact constitutes both a political platform and a practical framework for organisations committed to sustainable development. The aim of this initiative is to ensure that businesses integrate into their strategies and activities ten universally recognised principles. The Global Compact then assesses businesses' policies annually by means of twenty-one criteria relating, in particular, to the application of its ten principles and the contribution to the other United Nations objectives (such as the seventeen sustainable development objectives).

Around 12,000 organisations worldwide, including 8,000 businesses, are members of the Global Compact. By becoming a member, DCNS has affirmed that it belongs to this global community of businesses committed to respect for human rights, labour standards and environmental protection, as well as the promotion of common anti-corruption principles.

Additional information is provided in paragraph I.2.f entitled "Ethics and Compliance" on page 17 of the Management report.

(4) OECD, ITO, ISO 26000.
(5) OECD/ISO 26000.

I.2. ECONOMY[5]

I.2.1. Economic performance

DCNS is a major player in the naval sector in France. As a result of the activity at its sites and established partnerships with SMEs, higher education establishments and universities, the Group is a genuine driver of French industry in terms of jobs and research and development. In making products that are some of the most complex in the world, DCNS benefits from the highly-developed skills of its teams. The Group has 13,870 staff, 13,431 of whom are in France, where it also creates tens of thousands of indirect jobs. These highly-qualified jobs contribute to the country's industrial excellence.

Socio-economic impact

Contribution made by DCNS purchases to socio-economic impact

DCNS' socio-economic impact may be measured by various yardsticks, such as the added value, jobs and innovation generated by the Group.

Most of the added value that the Group creates is in France, where it has almost all of its sites and workforce and a large share of its suppliers and subcontractors. Around 85% of purchases are ordered from French entities, and nearly two thirds from small-to medium-sized enterprises (SMEs). DCNS generates significant economic activity above all in Brittany, Normandy and Provence-Alpes-Côte d'Azur, where the Group is one of the leading employers. However, a breakdown of purchases shows that all of mainland France's regions and more than 80 *départements* benefit from the Group's activity.

In terms of jobs, the Group's impact is not limited to the 13,000 members of staff directly employed by DCNS. It also consists of the indirect jobs created in France through its suppliers and subcontractors. According to a study carried out with the Ministry of Defence in 2014 (based on 2011 data), the number of indirect jobs created in France was estimated at more than 15,500. A substantial number of jobs are also created through the consumption resulting from direct and indirect employment, although numbers are more difficult to measure.

This socio-economic impact is not just quantitative. The Group stands out for offering higher skilled jobs and more stable contracts, meaning fewer temporary contracts (*CDD*) than in the rest of the working population. DCNS also ensures the long-term development of core jobs and activities.

One of the major strategic focuses of the strategic roadmap defined in 2015 and implemented in 2016 is making sure that the skills necessary for market leadership are maintained. In practice, this has led to the creation of a detailed repository of key activities, which will be maintained to guarantee that skills are renewed.

Furthermore, DCNS's innovation programme helps to boost the local economy's competitiveness and exists because of the several million euros of Group revenue used for self-funded R&D, PhD students working for the Group under *Conventions industrielles de formation par la recherche* (CIFRE) (industrial agreements on training through research) and also its participation in several competitiveness clusters (the *Pôle Mer Bretagne Atlantique* [Brittany Atlantic Sea Cluster] and the *Pôle Mer Méditerranée* [Mediterranean Sea Cluster]) and the Jules Verne *Institut de Recherche Technologique* (IRT) (Technological Research Institute) at the Ocean Technocampus.

A quality management system

AFNOR has awarded combined quality, safety and environment (QSE) certification to DCNS for the ISO 9001, 14001 and OHSAS 18001 standards, and special certification for AQAP 2110 (NATO standards, which are important for certain military contracts). The granting of this combined certification, which is subject to annual audits, allows the Group to achieve consistency in its QSE policy. It enables us to improve and reinforce our industrial performance in respect of all our stakeholders.

Certification allows companies to gauge their performance and to demonstrate the quality of their organisation, their products, their services and the skills of their teams against an international standard. This standard is based on levers common to all three of its strands, and in particular the commitment of each and every person, a culture of identifying and controlling risks, the demanding of high standards and honouring of commitments, and a culture of measuring and guiding improvements by dealing with any failings discovered.

Through the BMS project (Business Management System), which was completed in 2016, DCNS has embarked on a partial overhaul of its operational processes so as to simplify its standards and thus optimise its operational performance.

Export controls

DCNS's defence activities are governed by French and foreign export control regulations. Failure to comply with these could have serious consequences in terms of delivery delays, financial penalties, fines, or even, in the most serious cases, prison sentences, or the temporary or permanent revocation of authorisations to manufacture and trade in the defence sector.

DCNS's international activities, which are key to its growth strategy, have increased, resulting in the stepping up of international operations, including exports, transfers, transfers of technology, procurement and imports.

In the area of export control, the Export Control department is responsible for defining policy on the Group's behalf, ensuring its application, supporting operational staff and contributing to the implementation of and adherence to the Group's ethical rules.

In 2014, the French regulatory system was reformed, which particularly included the replacement of prior approvals and export authorisations for armaments with a single authorisation known as a licence. To gain a better understanding of this major change and its application, in 2014 DCNS produced a practical export control guide to give staff a more thorough understanding of the regulatory environment.

In the interests of continuous improvement, the Export Control department expanded its support for operational staff, especially with regard to trade, programmes and procurement. The first ex-post checks of the effective application of and compliance with the regulations, conducted by the DGA (France's defence procurement agency) in 2015, continued in 2016. The recommendations made as a result of the checks in 2015 were applied in 2016. In 2016, internal audits were also started in order to verify the effective application of and compliance with the regulations. Lastly, the awareness training aimed at developing an "export control" culture among staff and also their knowledge of the above-mentioned challenges was extended to a wider area in 2016.

Customs affairs

DCNS was certified as an accredited economic operator (AEO) by the Customs Administration in 2014. This certification, which gives certified companies the benefit of simplified and advantageous procedures, making them more competitive, strengthened the partnership established with the Customs Administration. DCNS has confirmed its wish to develop its work in partnership with the Customs Administration in its international development actions and its measures to improve the reliability of its administrative import-export procedures. Accordingly, in 2016, DCNS will be added to the portfolio of the Service grands comptes (SGC) (Key Accounts Department) of the *Direction générale des douanes et des droits indirects* (DGDDI) (Directorate General of Customs and Excise) with whom the Group works closely.

Since May 1st, 2016, DCNS has applied the Union Customs Code.

Internal audits aimed at checking the effective application of and compliance with customs regulations were conducted for the first time in 2016.

Contract management

Given the highly technological nature of the Group's business activities, the numerous legal, regulatory and operational constraints applicable and the strategic interests which are at stake, the documentation, contractual exchanges and structures associated with selling the products and services supplied by DCNS are exceedingly complex.

Added to this difficulty is the great uncertainty surrounding the development and execution of major programmes which often last more than ten years, together with the need to cope with a great many unforeseen circumstances, differences and requests for modifications during this period.

As for the economic environment, it is becoming more and more restrictive due to greater international competition, cuts in military budgets, and finance, whether public or private is increasingly monitored and controlled.

Against this background, and given the considerable risks involved, it is vital for DCNS to make sure that a professional and effective contract management system is set up. This system is simultaneously aimed at securing:

- the negotiation of reasonable terms and conditions;
- compliance with any contractual obligations by both DCNS and all the parties concerned;
- the handling of any event that may lead to deviations in relation to contract provisions, schedules and initial budgets (and compensation for any damage that might be linked to them);
- the settlement, at an early stage and as far as possible, of any claim that may potentially become a legal matter.

A Contract Management department was created at the end of 2015 in order to be able to achieve these objectives. It has to define effective rules of procedure between all contract management staff in the company. It must make various resources (training, aids for raising awareness, methods, tools and expert resources and so on) available to the project, programme and procurement teams. It shapes and leads the community of contract managers within organisations. Furthermore, it plays an active part in spreading good practice in contract management and in establishing a better business and contract culture within DCNS. Lastly, it intercedes at operational level if necessary.

For the purposes of ensuring that any contract-related matter that may be detrimental to the interests of DCNS is not overlooked, all staff members are duty bound to report to the contract management, any contract problems that might be inappropriately handled. The Contract Management department is responsible for making sure that the problem is settled successfully and for taking up the case or alerting the General Management.

First introduced in 2016, this strategy should make it possible to limit the company's risks and losses and also help to turn certain opportunities into a reality. It must play a significant part in achieving better economic performance and better financial results whilst protecting the fundamental interests of DCNS.

Offsets

Offsets refer to specific contractual obligations in connection with major international public procurement contracts. These obligations may apply to defence contracts, but also to energy, transport, telecommunications and other infrastructure projects.

Generally speaking, offsets require the vendor to create added value in the country of the purchaser. They involve measures aimed at encouraging local development and balancing the balance of payments through involvement in local industry (local content), the acquisition of technology through transfers from the vendor, investments, counter-purchases, or other similar operations. Offsets are linked to a sales contract. They are defined by rules and/or laws specific to each country with a policy in this area. Note that many countries may have similar requirements, but they may not have been formally defined by offset regulations.

These rules define the eligibility criteria for offset activities, such as the industrial sector, the nature of the offset and the valuation, and the conditions for implementing them, which will be included in a specific agreement, or offset contract, setting out points such as the value of the commitment (or the calculation base, which is quite often equal to 100% of the contract's value), the methods for the valuation of the offsetting projects, the timeframes for their completion and the penalties for non-completion, to name these topics only.

There are two main categories of offsets, direct offsets and indirect offsets:

- direct offsets relate to equipment, technology or activities directly linked to the product purchased. In this case, the purchasing government may require the supplier to transfer the technology associated with the product, subcontract a minimum proportion of the contract to local firms, train the end user in the use and maintenance of the product purchased, and so on;
- indirect offsets are unrelated to the product purchased and may be carried out in another industrial sector or high-tech area. Indirect offset projects may take the form of investments, transfers of technology, licences or export subsidies.

Depending on the client, the request may be directed more at one of these categories than the other depending on the local strategies and the country's level of development.

A multiplier coefficient will sometimes be applied to the actual value of the offset transaction in order to steer the vendor towards priority projects according to the purchaser's own agenda; this means that in some countries a purchase in a high-tech area may generate several times the actual value of the purchase or service in question. This multiplier coefficient may also differ according to the transaction: a transfer of technology will often benefit from a bigger multiplier than a purchase of a more standard product.

Offsets are an integral part of DCNS' offering and the offset offered is taken into account in the evaluation of the overall proposal by the client. It may be a prerequisite and in certain circumstances the offset contract may have to be negotiated and signed prior to the main sales contract for our products.

Examples in 2016

Norway

For many years now, DCNS has been involved with the Norwegian Royal Navy through contracts for the modernisa-

tion of Hauk class patrol vessels and delivery of Skjold class patrol vessels in partnership with Norwegian industry.

In point of fact, the offset policy in Norway – Industrial Cooperation – requires foreign enterprises which are awarded defence contracts to offset contract amounts in full (100%).

Manufacturers have to submit and develop an industrial cooperation plan in strategic areas.

In 2016, DCNS settled the offset amount owed in respect of the Skjold contract begun in 2003. These offsets were mainly carried out *via* industrial cooperation and DCNS procurements placed with the Norwegian defence industry and allowed us to fit our vessels with various Norwegian items of equipment.

In 2016 also, the Norwegian Ministry of Defence chose DCNS as a potential strategic partner for the future Norwegian submarine programme.

In support of its offer, DCNS signed a Memorandum of Understanding (MoU) with Kongsberg on September 6, 2016 aimed at defining the basis of cooperation between the two companies in combat systems on Scorpène®-class submarines.

Moreover, in September 2016, DCNS took part in an Industry Day in Paris, which was organised by GICAN (naval activities and construction industries group) under the patronage of the French Ministry of Defence, and it organised an Industry Day in Oslo in December 2016 in association with Thales.

It was through these Industry Days that French and Norwegian defence companies were able to meet up. Around one hundred cases of potential cooperation were identified, and these days also highlighted DCNS's strong desire to strengthen its presence in Norway owing to long-term relationships.

Malaysia

In connection with carrying out its offsets for the Gowind® Malaysia corvette programme, at the DSA Trade Fair held in Kuala Lumpur, DCNS signed a Memorandum of Agreement (MoA) on April 20, 2016 with the Universiti Teknologi Malaysia, Ocean Thermal Energy Centre (UTM OTEC), which is a centre of excellence for ocean thermal energy in Malaysia.

The purpose of this agreement is to conduct a preliminary feasibility study with the above partner for the installation of an ocean thermal energy plant on Layang Layang Island, which lies off the coast of Sabah, in West Malaysia. If this project is carried out, it would allow the island to reduce the use of fossil fuels and would also boost its economic development.

Eventually, this cooperation could result in the development of a Research & Development Centre dedicated to naval and maritime sectors. For DCNS, this collaboration is in line with its strategy of building close, lasting relationships with its clients and developing a common technological vision of the future in the naval and maritime field.

Furthermore, also in connection with carrying out its offset contracts, DCNS is supporting a cooperation project between the National Defence University of Malaysia (UPNM) and the *École centrale de Nantes* (ECN), for the development of a course for a Masters in Marine Technology in Kuala Lumpur. Eventually this cooperation will result in the promotion of Malaysian students who have graduated in their country of origin, and the best students among them will go to Nantes to complete their training by following a Master's 2 course and doing a PhD at ECN.

Colombia

2016 also saw DCNS complete its contract offset commitments in Colombia with the modernisation of the Padilla frigates in 2010. In association with Thales, DCNS particularly supported the development of a naval training centre in Colombia.

Innovation, embedded in DCNS's DNA

This point is addressed in the Management report, paragraph I.2.d. Research and Development activity, pages 12-15.

The Offshore Technology Incubator continued its work in 2016. Its goals are to identify, design and bring to maturity dual, innovative applications derived from the know-how and technologies developed for the core business, and to make maximum use of this expertise by targeting complementary markets, such as deep-sea energy and area monitoring in civil sectors with high growth potential, like oil and gas and marine renewable energies.

The Subsea Watcher project is a very good example of this. This project aims to develop a complete solution for monitoring offshore industrial plants, and particularly for long-term continuous monitoring of the correct operation of plants and their impact on the environment, in terms of every kind of pollution, including chemical, noise and suspended particles and so on. Subsea Watcher therefore falls within the "economy and environment" areas of the challenges identified by the Grenelle 2 environmental law, with its emphasis on controlling pollution and waste from offshore industrial operations and identifying the impact on local biodiversity, but also risk prevention in terms of safety and security of staff during maintenance operations at sea, safety of waterways and fishing areas in the operational area, for example, of offshore wind turbines. Since 2014, DCNS has been developing a fully integrated, innovative solution that should also reduce the cost of on-site maintenance through the development of phased technological sub-assemblies and validating each innovation by means of a prototype and sea trials.

After winning the start-up phase of the *Concours mondial de l'innovation* (CMI) (worldwide innovation challenge) in September 2014 with the Subsea Watcher project (design stage), then after developing it using own funds in 2015, the highlight of 2016 was the construction of the docking prototype for a drone that is to be placed underwater and stay there, and also the holding of three successive sea trial campaigns in Lorient and Brest, in partnership with a French drone manufacturer, which were successful.

The Subsea Watcher project made it possible to identify, design and make the technological building block consisting of allowing a drone to be placed underwater and stay there for long periods, without human intervention. It represents a real breakthrough with regard to existing solutions, as it offers the prospect of reducing costs by limiting operations requiring ships, which are sometimes hazardous and always very costly. Some elements are vital for giving such solution credibility: wireless communication and energy transmission underwater and protecting drones against damage from the marine environment. These building blocks, *i.e.* long-, medium- and short-distance communication, [energy] recharging and contactless data transfer, protected positioning of the drone have now been validated and are operational. In 2017, the various building blocks already developed should be able to be added so that, in partnership with Ifremer, the Kalypso concept deep-sea scientific observatory can be built for deep-sea use in the Atlantic Ocean.

The Melodi project, which won the second phase of the *Concours mondial de l'innovation* (CMI) (worldwide innovation challenge) in 2015 as part of a consortium led by Créocéan, made it possible to carry out a study, in 2016, of a drone swarm concept for exploration purposes using a docking platform towed by ship, with our partners, Créocéan, ECA and RTSys. This docking platform is a version using the innovative building blocks patented by DCNS on the docking platform for drones that are to be placed underwater and stay there. The aim is to be able to analyse the nature of sea beds over large areas.

Moreover, having received further awards for its participation in the Fonasurf project led by Technip, DCNS continued, in 2016, to develop an acoustic confinement solution. In 2016 also, DCNS carried out initial prototype trials for the acoustic confinement membrane, which could be further developed with a particle-retaining ability. It is set to be trialled during 2017 in a natural environment in Norway. Marine and coastal infrastructure builders are waiting for innovative solutions of this kind, which are aimed at wildlife preservation and at controlling the dispersion of particles during work at sea.

Eco-design

When manufacturing our products, we, at DCNS take account of environmental concerns at every stage of life of our products and this forms part of our circular economy strategy. It is controlled using an internally-developed methodology known as "environmental analysis". It aims to identify systems, consisting of our vessels or MRE products, that have the greatest environmental impact, and then to finish off the design either by modifying systems and technologies or even modifying the architecture. The product is analysed at every stage of its life: from design to end of life, *via* manufacture, trials, utilisation and maintenance. In 2016, the environmental analysis of FREMM was totally completed. An analysis of the Project NEMO OTEC is in progress, and another two analyses have just been started: one on the Groix floating wind farm and the other on the Scorpène® submarine.

So that taking account of environmental concerns at the project design stage is effective, R&D programmes have also been started. In 2016, a "RAPID" was thus formalised by way of a contract with the DGA (France's defence procurement agency) to develop a waste management prototype using wet air oxidation technology. The aim is to offer an effective waste treatment solution between now and the next four years that can be adapted for the naval sector.

Through its work, the DCNS, Innovertis and M2P2 laboratory consortium is taking a comprehensive approach to waste disposal at both civil and military self-sufficient sites, with the aim of offering a single waste treatment [processing] system for all waste products.

Other work is in progress covering the life cycle of our products and we, at DCNS, are involved in several European projects that are faced with environmental problems.

An advisory study is currently being carried out specifically concerning the end-of-life stage of products. This study centres on three points:

- monitoring the dismantling of warships worldwide as well as European dismantlers who have had to dismantle military vessels;
- strengthening the tools developed by DCNS for calculating an objective waste recovery rate for products that have reached the end of their lives;
- help with writing formalised offers that can be put forward to clients when being accompanied to the dismantling site.

These studies are based on data from the current first-generation SSBN dismantling site in Cherbourg. The findings of these studies will be available during the first quarter of 2017.

Still as part of this circular economy strategy, DCNS has put forward two green growth commitments (GGC) to the Ministry of Finance and the Ministry of the Environment. GGC are "soft law" instruments which allow administrative levers to be lifted on innovations proposed by manufacturers. They are bilateral public/private commitments within a clear, three-year standard contract framework and represent a collective approach to develop confidence among players by supporting organisational or technical innovations. The aim is to promote innovation or pioneers in the field, without favouring any one manufacturer but rather the products in that field. As part of this framework, DCNS has put forward two GGCs: the first one concerns the total cost of ownership and the second one concerns equipment durability. Discussions are currently taking place with the two ministries in question in order to identify the scope of these two GGCs, and more particularly the lead pilot projects.

I.2.2. Market presence

DCNS is continuing to expand its market outside France and is enjoying a major success, having been chosen by Australia to renew its submarine fleet. So, the Group is currently involved in industrial programmes for clients based on five continents – notably in Brazil, India, Malaysia, Saudi Arabia, Egypt and now Australia.

The Group wishes to be in a position to support these countries as they modernise or overhaul their fleets by developing industrial partnerships with local players.

When carrying out surface ship, submarine and service programmes for international clients, a considerable "transfer of technology" component is now taken into account. Countries are becoming ever more demanding in their technical and industrial ambitions for their national industrial bases, to ensure increasing control of their strategic independence.

The ability to manage Transfers of Technology (ToT) therefore continues to provide strong leverage for the Group's international presence and the competitiveness of its product and service offerings; it is also a tool that allows our industrial processes to be turned to account for all our stakeholders and ultimately the client that is France.

In its design and engineering, production and know-how aspects, ToT provides added value and a competitive differentiator that is vital for winning international contracts.

There are four strategic issues at play in this added value:

- contributing to the broadening of the portfolio of activities by setting a target of earnings of approximately €2 billion per annum by 2020 for international naval defence (ToT and work done in its own right taken together);
- increasing profitability and synergies from gains in productivity (costs) when carrying out ToT programmes;
- strengthening key resources by guaranteeing a durable basis for industrial activities and supporting our skills;
- preventing the risk of the emergence of new competitors by continuing to make financial and human investments in R&D/R&T and fully controlling DCNS' intellectual property.

The ToT process that has been set up, and is in force today, covers the entire draft proposal/offer/execution process. The extensive nature of these measures is very useful, especially during the proposal preparation phase; the benchmarking carried out has provided particularly valuable information. The tool kit (our core activities, at the heart of our know-how, have now been fully identified; proposal and programme check-lists, exploitation of know-how; based on feedback) is in place and is described in the Group's Business Management System (BMS). The current phase sees it being systematically rolled out to offers and programmes, which will allow us to test, improve and standardise our ToT management processes as well as this tool kit. The Australian submarine programme is emblematic of this roll-out.

This work also continues through improved upstream integration within product lines, there being constraints as well as opportunities for technology transfer.

All these measures should continue to reduce industrial risks and allow us to retain some key know-how, in addition to facilitating the preparation of our sales proposals that have a ToT aspect and helping to control the related industrial and financial risks.

I.2.3. Procurement practices(6)

Performance assessment of the suppliers on its panel

In 2016, DCNS continued to assess the CSR performance of suppliers on its target panel, consisting of more than 1,200 suppliers. The restated objective is to have this performance assessment for all suppliers on its panel by the end of 2017.

DCNS uses two firms specialising in performance assessment to carry out this task. The findings of the CSR performance assessments are taken into account in the overall performance assessment of suppliers, which is conducted annually. If necessary, in cases where a supplier's performance is inadequate compared to the performance of suppliers of the same type and the same business sector, this would lead to action plans being put in place.

The first wave of assessments conducted in 2015 was supplemented by a second wave in 2016. At the time of writing the report, more than 360 suppliers were involved in the assessment process. An analysis of the findings of the assessments carried out shows that the CSR level of performance of suppliers on the panel is higher than the average performance level of the suppliers assessed, based on all areas of activity.

One of the two firms commissioned by DCNS to carry out this assessment process is more involved in dealing with matters which have been identified as potentially posing a risk as regards achieving CSR performance.

Management of supplier risk

The specific committees dedicated to analysing supplier risks met in 2016. These committees, chaired by the Procurements Director and made up of representatives of the departments concerned, are tasked with defining the action plans required for managing the risks identified by procurement players.

(6) ILO, SNTEDD (A5P4, A6P3, A8P1).

Responsible Supplier Relations label: 2016 new assessment

DCNS was awarded the Responsible Supplier Relations label in December 2014. This label, awarded by the Mediation Service for a three-year period, recognises organisations that have implemented responsible purchasing practices, thereby making a significant contribution to strengthening the industrial sectors.

Two review audits, conducted on anniversary dates, confirm or invalidate the label. The audit conducted in 2015 confirmed the label for the first time. The results of the 2016 confirmation audit were expected as this report was being written. The actions that result in the label being awarded and kept in place are continuous progress actions that significantly contribute to enhancing the professionalisation of purchasing organisations.

For DCNS, the labelled scope comprises of all purchases conducted by DCNS SA.

Business ethics survey

This subject is addressed on page 88, section I.1.6 Ethics and integrity/Ethics and purchasing.

Supplier satisfaction survey

In 2016, DCNS once again conducted the annual satisfaction survey on a large panel of its suppliers.

This survey, conducted in collaboration with the association Pacte PME, indicated an improvement in the satisfaction index for the relationship between DCNS and its suppliers. Over 800 suppliers were contacted during the 2016 survey; 350 responded, a very satisfactory response rate for this type of survey. The survey, which contains around 40 questions covering all areas of the relationship (innovation, contractual relations, partnership relations and progress drivers), is conducted by an independent body using a process that guarantees confidential responses.

The supplier relation satisfaction rate in 2016 was 66%, up significantly compared with the 2015 figure. The areas for improvement resulted in action plans.

Mediation

DCNS has had an internal mediator since 2011 to facilitate the amicable resolution of disputes and lawsuits that may arise between DCNS and its suppliers during the lifetime of contracts. An amicable solution was found in the majority of cases.

Environmental factors

In 2016, DCNS placed greater importance on environmental factors in its supplier qualification process. A chart for assessing these performances was introduced to more accurately characterise risks by type of supplier and type of service ordered.

This tool will be more broadly rolled out in 2017.

In addition, environmental criteria have been integrated into the CSR performance assessments conducted on the supplier panel.

I.3. ENVIRONMENT

I.3.1. General environmental policy

Group commitments

The sea is both the traditional environment of DCNS and an expression of its future. It is at the heart of the Group's activities and its renewed ambitions in the naval and energy sectors.

Although the maritime space is full of business potential, it is still a fragile environment. Conscious of this reality, the Group is committed to tackling environmental issues in both its activities and its products.

To ensure this stance is an integral part of its processes, environmental protection is included in DCNS's ethical commitments and is the subject of an environmental policy deployed throughout the Group's sites (excluding subsidiaries).

The policy has five focal areas, as well as demanding compliance with the regulations in force:

- preventing people and the environment from being affected by the Group's activities by ensuring industrial safety;
- limiting the environmental footprint of products throughout their lifecycle by taking a proactive approach as from the design phase and to procurement;
- reducing the impact of the Group's activities on the air, sea and land;
- controlling the consumption of natural resources, and particularly energy;
- participating in the combating of global warming by reducing greenhouse gas emissions.

In practical terms, the Group has set five targets for the years 2015 to 2017:

Industrial safety	2016/2015 performance	2017/2014 target
No accidents with a significant impact on the environment	0	0
Eco-design		
Proactive programmes[a]	50%	50%
R&D projects contributing to environmental improvement[b]	28%	20%

(a) Programme exceeding applicable requirements and in which at least two systems are the subject of a specific focus, resulting in:
a. a specific regulatory study: stricter specific regulation or anticipation of requirements;
b. and/or a specific study on new technologies that improve and optimise environmental performance;
c. and/or an environmental assessment of the entire life cycle;
d. and/or the selection of several eco-design best practices.
(b) The product's environmental gains (energy efficiency, treatment of emissions and waste, innovative and eco-friendly technologies).

Natural resources	2016/2014 performance	2017/2014 target
Electricity consumption	–2.5%	–10%
Greenhouse gas[c]		
Emissions	–1.60%	–10%
Waste		
Recovery of NHW[d] [f]	75%	70%
Production of HW[e] [f]	–21.70%	–10%

(c) Assessment of the figures for 2015 in 2016; the performance represents the change in relation to the previous assessment, in 2015, of the figures for 2014.
(d) Non-hazardous waste.
(e) Hazardous waste.
(f) These indicators were established over twelve rolling months (from January 1, 2015 to September 30, 2016).

Organisation

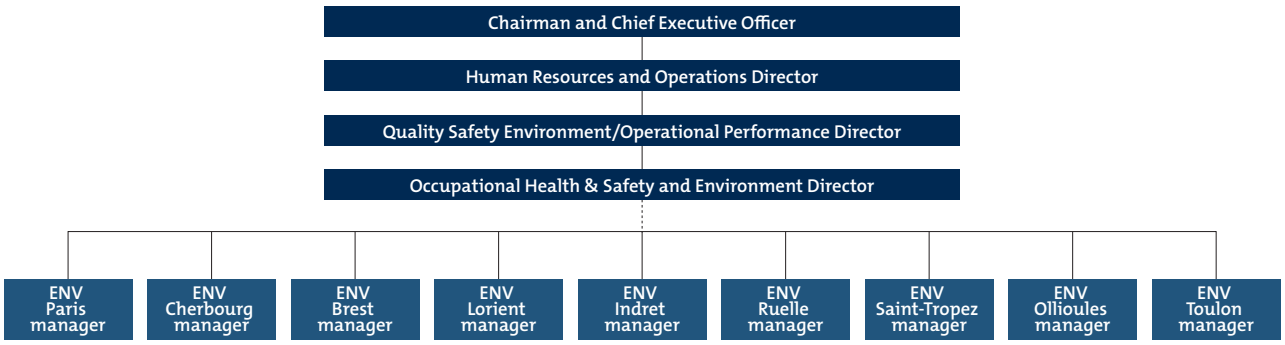
The strategy is determined centrally, then incorporated within the environmental policy, and finally translated into targets. These are set over several years as, in this area, improvements are made over the long term. The process is led and managed by the environmental performance manager, who reports to the Human Resources and Operations Department (Quality and Performance sub-department).

To implement the policy and take the measures necessary to reach the targets, the Group relies on all of the process managers and a network of around fifteen environment managers split between the sites and each of the operational entities in France.

On the ground, prevention officers deal with both occupational health and safety (OH&S) and environmental matters and therefore also relay Group policy.

To take environmental concerns into account at a product level, the Group has appointed a team dedicated to eco-design that defines the methods and leads the programme, working with all of DCNS' engineers. For renewable marine energy, a team of eight staff has been created to specifically handle environmental issues (such as site studies, impact studies and social acceptability).

Environment Organisation Chart



Training and information

The Group's staff

Although behaviour is constantly improving, as the environment has become a social issue, the Group is continuing to develop staff's environmental knowledge in two ways: through training and communication.

Each new employee is made aware of environmental issues during their induction day, then during the integration process, in terms of both the local provisions (practices and usages) and more generally (the Group's risk control, ambitions and targets). The Brest and Toulon sites have also introduced HSE culture awareness modules dedicated to managers. The goal is to provide the essential information to managers and to enable them to integrate the environment into the daily management of their teams.

DCNS Universeaty also offers staff additional training according to their area of work and their position. This training is dedicated to the environment if an employee needs to be made aware of eco-design, or more generally shared with OH&S if training in risk prevention is required.

319 days of environmental training were consequently given in 2016.

In addition to training programmes, targeted communication campaigns are carried out Group-wide, in accordance with an annual communication plan that takes national or international celebrations into account as much as possible and covers issues such as sustainable development, energy, mobility and waste, in terms of the environmental aspect. The national communication campaigns are then rolled out and added to locally on each of the sites.

In 2016, the Group also continued to circulate its environmental "fundamentals". Given to all staff, the fundamentals are now electronic and presented in a digital format, which is available online on the Group's intranet. Each fundamental deals with a specific theme, provides information to aid understanding and reiterates best practices. After "Hazardous Chemical Agents (HCA)" and "Waste", published in 2014, "Combating pollution" and "Information and communication technologies (Green IT)" in 2015, "Controlling energy" was addressed in 2016.

Suppliers

To carry out its activities effectively, the Group relies on a panel of suppliers that it encourages to make progress in the environmental field, in this way extending the implementation of its environmental policy.

Suppliers' commitment is measured particularly during the qualification and assessment stages.

There are two stages in the qualification process: the completion of a questionnaire that invites suppliers to review their environmental approach, then audits that DCNS uses to check the ability of companies to meet the selection criteria.

Once selected, suppliers make a contractual commitment to adhere to the "DCNS supplier code of conduct", which sets out the Group's expectations, especially with regard to the environment. In this way, service providers undertake to assess, prevent, limit and mitigate the environmental risks and impact of their activities.

Finally, suppliers undergo an assessment process to check that they are in fact meeting their commitments.

Since mid-2016, a maturity chart concerning the environment has been tested at a supplier prequalification level. This chart is used to clarify suppliers' positioning relative to DCNS's requirements linked to the environment.

Stakeholders

DCNS's sites, except for those in the Paris region, are on the sea coast or close to rivers, which are common property and shared with other parties for industrial, commercial and leisure activities.

DCNS therefore communicates regularly about its activities and projects, and maintains ongoing relations with local residents, associations and local authorities.

If the concentrations of water or atmospheric discharges or noise levels exceed permitted thresholds, DCNS makes every effort to reduce this pollution. In 2016, noise pollution reported by residents prompted the DCNS site in Lorient to step up its monitoring of the closure of hangar doors.

Since 2007, the French Navy and DCNS have been bound by an environmental charter, which facilitates exchanges of good practices and the conducting of joint initiatives. Shared work site inspections, concerning the careening operations in particular, are conducted in Brest in line with this charter. Meanwhile, the port of Toulon participates in the "clean harbour" operations alongside the national navy. In 2016, more than 9 tonnes of tyres were handled by DCNS. In Saudi Arabia, the electrical power and fossil fuels consumed by DCNS Support, as well as the water, are provided by the Saudi Navy's naval base. Meanwhile, the waste is also collected by the Saudi Navy alongside its own waste.

In the case of renewable marine energy, discussions with stakeholders are vital for acquiring authorisation to set up plants and securing the future of projects. Stakeholders play a real part in project design through the information and consultation process. For example, offshore measurements, using underwater sensors, cannot be considered without the consent of users of the area in question, such as professional fishermen and pleasure boaters.

Prevention of environmental risks and pollution

Implementation

The Group has identified environmental risks as a type of risk likely to affect its performance. These risks are therefore listed and controlled, in order to make them less severe and less likely to occur.

To control its risks, DCNS has created a continuous environmental improvement programme, through the introduction of a management system. As a result, DCNS has continuously held ISO 14001 certification, for all its sites and activities, since 2008. The 2015 version of the standard was applied from the start of 2016.

In connection with this certification, each site performs an environmental analysis and updates it as its activities, control methods and the regulations change. DCNS devotes considerable resources to the controlling and mitigation of significant environmental aspects (SEA) on the basis of this identification work.

As well as the preventive measures taken to control risks, the Group prepares for the possibility of accidents, in close collaboration with local players. An organisational structure and material resources are in place on each site and are tested at least once per year through drills. Establishments also invest in environmental pollution prevention equipment every year. In 2016, this included the acquisition of hydrocarbon separators for rainwater treatment in Toulon, Brest and Lorient, the acquisition of equipment for storing hazardous chemical agents and waste in a secondary containment area in Toulon and Lorient, and the renovation of filters for dust created by plasma cutting in Cherbourg.

In Brest, Toulon and Cherbourg, the close proximity to the French Navy ensures access, by agreement, to substantial pollution response capabilities. In Lorient, the harbour's main economic players have been bound by a charter that pools their response capabilities since 2014.

Soil pollution

Each site has had a pollution map since the change in status in 2003. The pollution is mainly due to former industrial activities.

Soil depollution is undertaken case by case according to needs, *e.g.* in the event of the change or disposal of an activity. In such cases, the soil is treated on-site as far as possible, to limit the impact on the environment. Any new building is only considered after a systematic soil pollution analysis.

Provisions and guarantees for environmental risks

On December 31, 2015, DCNS provided financial guarantees in accordance with the orders of May 31, 2012, amounting to €271,000, in other words 40% of the sums intended to cover the potential restoration of the sites if the Group were to go bankrupt. Only two sites are affected by these provisions: Indret and Ruelle.

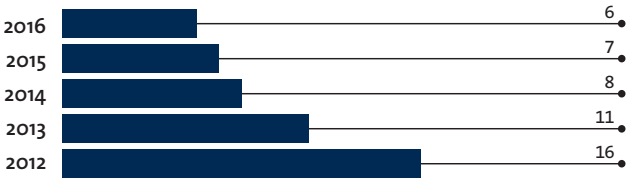
DCNS was not involved in any environmental disputes in 2015.

I.3.2. Pollution and waste management

Pollution management

The number of incidents has steadily fallen as a result of environmental risk prevention measures and operators' vigilance. Since 2013, the Group has not experienced any uncontrolled pollution or pollution requiring an external response. For their part, incidents responsible for a temporary impact (occasional exceeding of thresholds or localised pollution) have constantly declined over the last four years. These results reflect the very effective control on the ground.

Change in the number of events that had a temporary impact on the environment



Change in the number of events that had a temporary impact on the environment. 2016 threshold: 6.

Atmospheric emissions

DCNS uses solvents that lead to the emission of volatile organic compounds (VOCs) in its industrial activities. A Group-wide map of VOC emissions and the methods used to control them was produced in 2016 in order to identify and extend best practices.

The quantity of paint consumed within the Group greatly depends on the construction and maintenance activities. A major refit of an aircraft carrier, for example, doubles the volumes usually used in the course of a year. VOC emissions per tonne of paint used are decreasing each year, however, above all because of the product-related measures taken by manufacturers and the positive change in spraying processes.

DCNS also regularly participates in working groups led by NATO and the *Association pour la certification et la qualification en peinture anticorrosion* (ACQPA) (association for anti-corrosion paint certification and qualification), being aware of the importance of tightening up standards to reduce emissions.

Besides VOCs, the Group's activities emit sulphur dioxide (SO_2) and nitrogen oxide (NOx), produced by burning fossil fuels. These emissions are steadily falling, in direct relation to the energy savings made on DCNS's sites. The assessment

of the figures for 2012-2014 conducted in 2015 shows a 25% decrease in SO_2 emissions and a 22% decrease in NOx emissions in the space of three years.

Emissions to water

As the industrial sites are all on the sea coast or close to rivers, particular attention is paid to liquid effluents. These are usually a by-product of industrial processes and are only released into the natural environment after inspection and on-site treatment if necessary. If this is not possible, the effluents are considered to be hazardous waste and are dealt with through the appropriate channels.

For example, during hull cleaning operations, the paint effluents, consisting of anti-fouling paint mixed with water, are systematically collected at the bottom of a reservoir and then treated through filtering, decantation and purification. They are then discharged into the sea, once the analyses performed show that the copper and zinc content in particular are not above acceptable levels. This applies especially to the Brest, Toulon and Lorient sites.

Waste

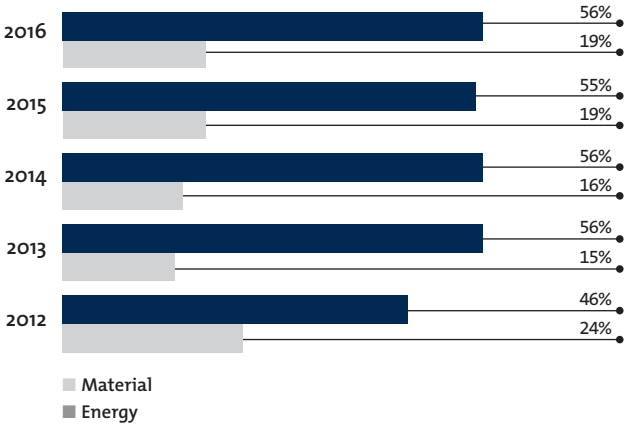
Non-hazardous waste accounts for two thirds of the waste produced by DCNS by tonnage. Its recycling depends upstream on the standard of the sorting carried out on the sites, and downstream on closeness to treatment units. This last, geographic criterion causes significant disparities between the sites.

DCNS is striving to reduce and more effectively recycle its waste, in accordance with the principles of the circular economy, by setting targets.

A target of ≥ 90% sorting compliance has therefore been set for each of the sites, while a global material recycling and energy recovery target of ≥ 70% has been set for the Group as a whole, with a minimum per site of 50%.

Rate of energy and materials recovery from non-hazardous waste

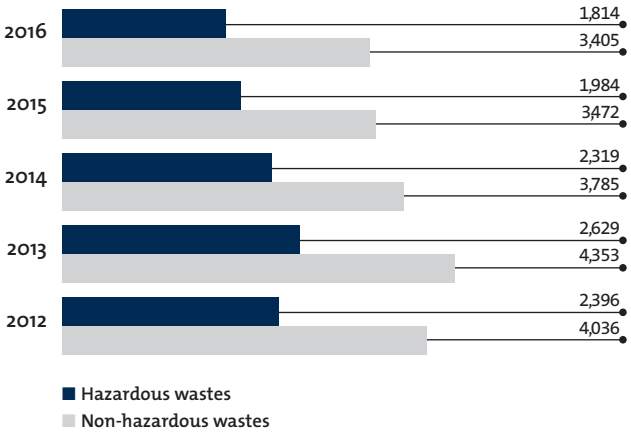
2016 target: below 70%



Hazardous waste is particularly difficult to recycle, as the processes are often complex and costly. DCNS is therefore trying to reduce this waste at source, with a target of a 10% reduction between 2015 and 2017, in line with the steps already taken in recent years.

In 2015, and 2016, DCNS mapped the hazardous liquid waste produced, in order to categorise it by type of activity and identify good practices and the best techniques available. Although many of them are already being implemented on the sites, new avenues for improvement have been found.

Change in waste production (tonnes)



The Group's canteens are continuing to improve their recycling of biowaste. Following the Lorient, Brest and Indret sites, the Toulon, Finlay and Bagneux sites introduced biowaste sorting and recovery, although the regulatory threshold of 10 tonnes of biowaste was not reached at the Finlay and Bagneux sites.

Noise

Some activities create noise inside sites, and sometimes outside them, and DCNS's installations are usually close to housing. This issue is managed as a specific environmental risk: noise levels are periodically measured to check the compliance of installations with operating permits, and action is taken as a result.

Odours

DCNS's activities do not produce any particular odours.

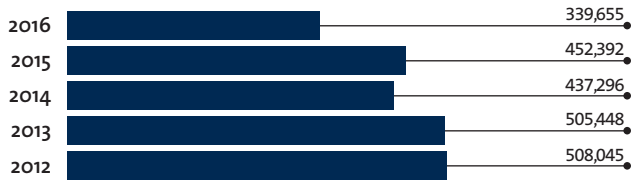
I.3.3. Sustainable use of resources

Water consumption

The quantities of water used to cool installations are decreasing each year, as most of the installations have transitioned to closed cycles.

Only the Indret site is continuing to pump significant volumes from the Loire during heat engine tests; these tests only last a few weeks, however, and several years may elapse between two tests. In 2014 and 2015, when the brand new Barracuda submarine engines were qualified, consumption was uniquely high. To reduce these occasional peaks in consumption, the site plans to carry out work in the coming years to adapt the pumping installations to its exact needs.

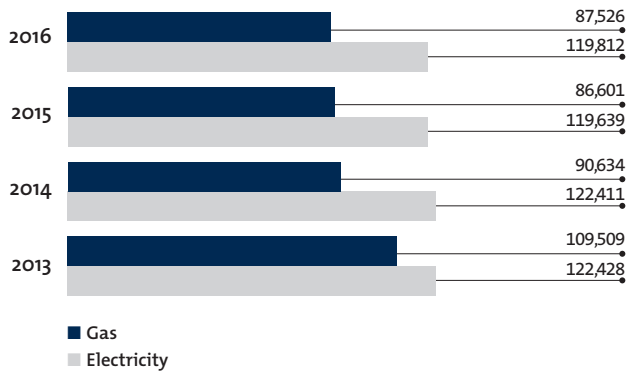
Change in drinking water consumption in m³ (excluding the Indret site, where water consumption can be very high during boiler tests, which offsets the overall efforts made)



Energy consumption

Given its awareness of energy issues and their impact on the climate, DCNS has set an ambitious target of reducing consumption by 10% for 2015-2017.

Change in energy consumption in MWh



To improve its energy efficiency, the Group applies the principles of standard ISO 50001, without seeking to obtain certification, but using the Quality, Safety and Environment (QSE) management system already in place. A person has therefore been designated to lead the programme and coordinate improvement actions at each site.

In 2015-2016, an energy audit was begun on each Group site. These audits will provide an up-to-date outside opinion of every activity's energy efficiency and identify new areas for improvement. They offer a real opportunity to boost efficiency measures throughout the Group, although most of the sites did not wait until this regulatory obligation was introduced to roll out a consumption reduction programme. Most of the industrial sites have in fact integrated this programme within their practices for many years, in areas like lighting, heating and industrial activities.

In 2015 and 2016, the Cherbourg site replaced the opaque roofs on three buildings with translucent glass to allow daylight through, save energy and improve quality of life for staff.

In 2016, the Lorient worked on lowering its "heel" by asking its staff to switch off for a weekend devices that do not need to be continuously operating. The "heel" corresponds to consumption outside production time; it is partially generated by devices that remain switched on unnecessarily. This also halved the site's energy heel. This initiative enabled the Lorient site to highlight sectors in which significant gains could be achieved.

Property operations

At the end of 2015, DCNS took delivery of the new premises for its on-board combat system activities. The buildings in Ollioules, at the *Technopole de la Mer* cluster, have been awarded *NF HQE Bâtiments Tertiaires* (French high environmental quality tertiary building standard) and BREEAM International Commercial Buildings 2013 certification. They have a truly bioclimatic design, reducing consumption by 10% compared with a building conforming to French regulation RT 2012: the glazed surfaces have been optimised according to the direction that they face, solar protection systems have been installed, vegetation has been planted on the roofs and solar heating panels have been installed (covering 50% of the locker rooms' hot water needs). The office lighting is controlled according to brightness and the actual presence of staff. Energy efficiency is further ensured by a centralised management system that controls the heating and air-conditioning units.

I.3.4. Climate change

As part of a continuous improvement programme, DCNS actively contributes to the reduction of greenhouse gas emissions and for the last three years has annually conducted its greenhouse gas emission assessments for the Group's eleven sites; the emission factors are taken from the regulatory *Base Carbone* database.

The following emissions are monitored:

• scope 1: direct emissions from the consumption of fossil fuels and cooling fluid leaks;

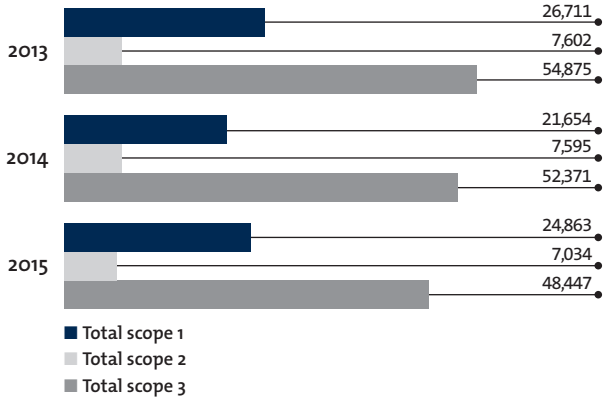
• scope 2: indirect emissions associated with energy, such as electricity and the purchase of heat linked to electricity consumption;

• scope 3: other indirect emissions from business travel within France and abroad (rental cars, trains and aeroplanes), home-work travel and the freight transportation of goods (inside and outside France). Greenhouse gas emissions from vessels operated are not taken into account.

Since the 2015 assessment, upstream emissions linked to energy production in scopes 1 and 2 have been included in scope 3.

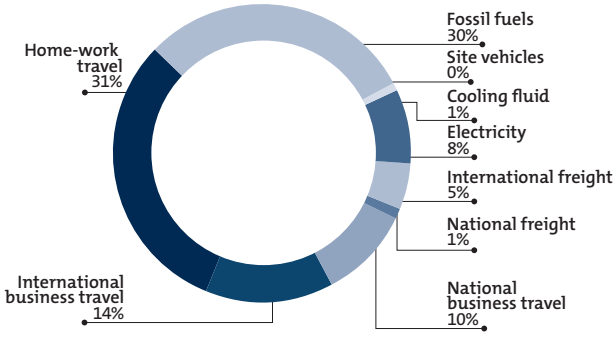
The last assessment, which was conducted in 2016 for the 2015 financial year, shows a 2.8% reduction, compared with the previous year, thanks to the efforts made primarily in scopes 2 and 3.

Change in greenhouse gas emissions for each scope in tonnes of CO_2



Home-work travel, fixed sources of combustion and business travel account for the three largest emissions, at respectively 30% of the Group's total emissions in the case of home-work travel and fixed sources of combustion, and 24% in the case of business travel.

Breakdown of greenhouse gas assessment by item – 2015



DCNS has set itself the target of reducing greenhouse gas emissions from these activities by 10% during the 2015-2017 period.

To achieve this target, DCNS has implemented an action plan targeting the three biggest sources of emissions.

On top of the actions to reduce energy consumption (see section I.3.2 page 98), DCNS is resolutely encouraging the reduction of business travel and the use of electronic solutions, such as online conferencing with split screens, video-conferencing, telepresence and e-learning. These actions are in keeping with a broader Green IT policy that encompasses information and communication technology (ICT) equipment. Since 2016, the new business travel booking interface has displayed the amount of CO_2 emitted for each journey and each mode of transport. This information gives staff a real-life illustration of their impact on climate change. The use of inter-site shuttles is also strongly recommended instead of individual rental cars.

With regard to home-work travel, DCNS has included the drafting of a company travel plan for each site in its 2015-2017 environmental roadmap, without waiting for the introduction of the regulatory obligation under the law on the energy transition and green growth. This measure, which closely involves staff, allows an in-depth examination of the methods of transport used, an assessment of the existing transport options and the suggestion of improvements, in collaboration with the local authorities and the network of local companies. It is also aimed at reducing the number of accidents occurring during travel and their severity.

Alongside such measures, the sites are gradually acquiring electric vehicles and the Group is prioritising hybrid-drive vehicles when choosing new company cars.

I.3.5. Protection of biodiversity

Sites

Naturally, the Group has always paid attention to biodiversity issues because of the location of its sites and the nature of its activities. Each industrial site is close to an onshore or offshore natural site that has been singled out for the scarcity or fragility of its wild species, whether animal or plant, and their habitats.

For instance, two DCNS sites include zones within a Natura 2000 site:

• Ruelle: the route of the Touvre River, which crosses the DCNS site, is part of the "Charente Valley between Angoulême and Cognac and its main tributaries" site;

• Indret: a 40-hectare zone, where no industrial activity takes place, is part of the "Loire Estuary" site.

Five other sites (Cherbourg, Brest, Lorient, Toulon and Saint-Tropez) are in the immediate vicinity of a Natura 2000 site or a protected natural site (*zone naturelle d'intérêt écologique, faunistique et floristique* [ZNIEFF] [natural zone of ecological, faunal and floral interest]).

In each of these cases, industrial and economic decisions are not made to the detriment of the preservation of nature; the two dimensions are considered and neither is compromised. The Indret site conducts eco-pasturage on part of its site as a replacement for plant protection products and has obtained the "bat sanctuary" label for refitting an old building to house bats.

Marine renewable energies (MREs)

MREs are recent developing activities whose impact on the environment is not yet known. Depending on the project, the environmental consequences may alter the ocean floor (anchors), the water column, the surface of the sea or air currents (offshore wind farms).

As part of its projects, DCNS therefore explores the natural environment and its uses to produce impact studies and adapt a project to ensure it protects the environment and is socially acceptable. In 2011-2012, DCNS conducted preliminary studies in Martinique on the ocean thermal energy project. Detailed studies have been in progress since 2014 on the floating wind farm project at Groix, and since 2015 on the Wattmor wave energy project in Audierne. For both of these last two projects, a complete environmental study programme is being completed, including expert assessments of the project's impact on marine mammals, fish, birds, benthos (species that live on the sea floor), fishing activity, bats, and so on.

DCNS is also a partner in several projects aimed at improving knowledge of the natural environment, particularly with the Institut France Énergies Marines (French marine energy institute). The IMPALA project's goal is to study the impact of the rising of deep water to the sub-surface from an ocean thermal energy plant. The GHYDRO project consists of producing a methodological guide on studying the environmental impacts of offshore tidal energy technologies, so as to facilitate the integration of these technologies within the environment.

In this field, DCNS shares its expertise internationally, as demonstrated by the recent creation in Chile of a marine renewable energy research and innovation centre, MERIC, whose objectives include studying tools for testing marine renewable energy technologies and adapting them to the country's specific natural conditions, which include seismic activity, a rugged coastline and a considerable wealth and variety of marine flora and fauna.

I.3.6. Products and environment

DCNS's products are primarily focused on marine activities, such as naval construction and marine renewable energies (MREs).

Some of these products designed by the Group are directly intended for government action at sea, which among other assignments includes inspecting illegal discharges and the fight against pollution. DCNS's role is of course to construct specific vessels, as well as to design information systems, such as that currently installed at the regional operational centres for monitoring and rescue (CROSS). To accompany these systems, a specific pollution management module called SURPOL was developed in 2015 and will be deployed in the CROSS from 2016.

Since 2007, DCNS has been putting in place an eco-design unit that oversees this effort within the Group. In liaison with engineering, this unit draws on a network of around fifty specialists who work on projects according to their skill area, whether technical or organisational. Eco-design applies to the entire life cycle of products, from design to end of life and from manufacture to utilisation. The process aims to consider environmental issues beyond the strict application of regulations. Today, one R&D project in four and one vessel programme in two is directly concerned.

To set an example in the environmental approaches launched in the various product ranges, particularly those concerning renewable energies, in 2016 two environmental analyses were launched on two flagship products in the MRE range: one internal analysis for the marine thermal power plant in Martinique and one external analysis for the wind farm in Groix. These environmental analyses are very comprehensive, including impact studies, risk analyses and lessons learned, and enable all of the impacts generated by the product to be identified.

In the product life cycle, the end-of-life phase is now particularly important. For vessels, it is controlled by the European regulation of November 20, 2013 on ship recycling and the Nairobi Convention on the removal of wrecks located beyond the territorial sea. To help marine clients meet these obligations, DCNS has for many years been compiling, for each vessel constructed, an inventory of hazardous substances. This is used to trace the type and geographical situation of hazardous substances within the meaning of the REACH and RoHS regulations. This document is then kept up to date throughout the vessel's life, notably during periods of maintenance in operational condition. At the end of its life, this inventory can help to facilitate the directing of waste to suitable channels during the breaking-up phase. Furthermore, to strengthen our vision of this final phase in the life of our products, a "Break-up" study was assigned to an eco-design consulting firm. This study will enable us to validate our tools, accurately measure the recycling potential and guide our customers in the process of breaking up both vessels and MREs.

Note that, in July 2016, the Cherbourg site received from local administrations the necessary authorisations to create

a submarine break-up operation. The first vessel will be accepted for break-up during 2018, and all of the effluents and emissions will be managed in line with strict environmental requirements and the prefectorial order obtained.

More broadly, DCNS is involved in the naval sector's reflections concerning the circular economy, which are currently headed by the *Groupement des industries de construction et activités navales* (GICAN) (grouping of naval construction and activities industries), at the initiative of the French national council for industry. In this framework, DCNS helps the participants to implement a "Clean vessel" roadmap and has proposed three green growth commitments (*engagements à la croissance verte* (ECVs)). The ECVs, a French green deal, stem from an approach initiated in the Netherlands several years ago. The main purpose of these "green deals" is to pragmatically respond – by removing the obstacles to their implementation – to the company's objectives from both a business and environmental viewpoint, provided that these are in line with governmental objectives. The State therefore acts as a facilitator by suggesting ideas for improvement, making a contribution to modernising the law if necessary and opening up their networks for project owners. Two meetings were held with the French Economy Ministry: the first in June 2016 to present materials and the second in October to substantiate these materials. See I.2.1 page 89.

Since 2015, at the invitation of the French Department of Maritime Affairs, DCNS has been taking part in the scientific interest events held by the International Maritime Organisation (IMO), the two main subjects of which were ballast water (the Ballast Water Management convention having recently been ratified in July 2016) and navigation in special areas (controlled-emission areas and polar waters). This collaboration enables DCNS to obtain insight from companies in the naval sector and to plan ahead for regulatory developments with the aim of incorporating them into its product offerings as early as possible.

I.4. SOCIAL(1)

DCNS's human resources (HR) policy and social policy support the Group's strategic directions. It contributes to the savings plan through the wage policy and the management of staffing changes.

2016 saw the introduction of the "agreement on the 2016-2017 employment adjustment plan" and the "anticipatory agreement on supporting performance and competitiveness", which were signed with three trade unions at the end of 2015. The agreement on the employment adjustment plan includes measures to support the mobility of staff whose department has been transferred from Paris to the regional sites or to the company Défense Environnement Services (DES), or internal and external redeployment measures for staff who do not wish to take mobility opportunities. The agreement also includes measures to support voluntary redundancy for personal projects or retirement.

The HR policy also supports the Group in its international expansion by putting in place staff at the subsidiaries on local contracts, on secondment or on "local plus" contracts. Concerning the initiation of the Australian Future Submarine contract, the policy also provides support by preparing the induction of Australians in France and selecting staff to travel to Australia.

Talent management was also analysed to make improvements to the training programme. The HR policy also needs to take into account the company's development in terms of digitisation.

Regarding social dialogue, noting that talks on the organisation of working hours had come to a standstill, the management of DCNS decided to unilaterally terminate the company agreement from 2004. It also invited the trade unions to discuss an agreement on how to break the deadlock in the situation. At the same time, negotiations on the GPEC (strategic jobs and skills management) agreement, including the generation contract and professional development (title 3 of the 2004 agreement), which began in September 2016 as stated in the annual negotiation programme, are continuing, reflecting DCNS's dynamic social dialogue.

I.4.1. Employment

Changes in the workforce

The DCNS group's workforce totals 13,870, with 13,431 in France and 439 in foreign subsidiaries.

DCNS UES's workforce is 13,431, comprising 2,636 women and 10,795 men.

The percentage of female employees was 19.6% at DCNS UES, above the target set under the professional equality agreement.

The employment adjustment plan stemming from the global performance plan resulted, in 2016, in the loss of 395 jobs, 98 of which under voluntary redundancy measures included in the agreement. There were also 66 people who agreed to transfer from Paris to the regional sites, taking effect either in September 2016 or September 2017. 10 people accepted the offer to transfer to Défense Environnement Service. As the plan reduced redundancies to 490 positions, 95 redundancies still need to be made by the end of the agreement, scheduled for September 30, 2017.

The agreement on supporting performance and competitiveness is a response to the need to adjust the industrial load between sites and organises the workload transfers or the collective transportation of staff to another DCNS site or outside a DCNS site in response to a major programme.

(1) UN (SDGs)/Global Compact/GRI 4/OECD/ISO 26000/OECD.

This agreement establishes the principle of a multiannual recruitment plan and a multiannual remuneration policy.

These two agreements also reflect DCNS's intention to more closely involve the trade unions in the difficult decisions that the Management needs to make to ensure the company grows.

Recruitment and mobility

There was extensive recruitment activity in 2016, with 631 recruitments at UES, 524 of which on permanent contracts, or double the figure in 2015 (250 recruitments). There was also intensive mobility activity, including support for the employment adjustment plan. Mobility Advice Spaces were set up at all DCNS sites and a virtual space was created on the Navista intranet. The aim of this system is to inform employees about the measures defined in this agreement, give them the necessary clarifications to gain a better understanding of DCNS's professions, provide individual support and personalised solutions as part of their group or individual geographical mobility plans, and lastly to inform staff about all open positions within the Group and job opportunities in the employment catchment area.

Additionally, the agreement on supporting performance and productivity has created a three-year plan (2016-2018) for positions to fill. During the first year, in 2016, DCNS filled 1,329 positions, 698 of which *via* mobility measures and 631 *via* permanent contract (524) and temporary contract (107) recruitments. The commitments made on increasing the intake of study-and-work apprentices in production and on giving permanent contracts to study-and-work apprentices who have completed their training were met in 2016, with 38 permanent contract recruitments of study-and-work apprentices following their training in the production FPCs, versus 15 in 2015.

Territorial impact

DCNS is a major player in all of the territories in which it has a presence. It is one of the main private local employers and a leading commercial customer.

Each site's management is in contact with all of the authorities and stakeholders in the territory.

The site's managers are involved in the region's economic and social bodies (competitiveness clusters, Chambers of Commerce and Industry [CCI], professional associations defending economic and social interests).

They also work closely with the local education authorities (University Institutes of Technology [IUT], engineering schools) and attend organised events in the field of employment or the territory's economy (employment forums, job forums, etc.).

A number of managers and engineers teach higher education courses in law, finance and engineering.

DCNS set up the French Naval Campus and made a significant contribution to the creation of the professional naval construction licence together with the French State Education system and other industry partners.

International development

In 2016, DCNS is continuing and accelerating its international development in line with its strategic directions. Staff working internationally totalled 511, of which there were 321 locals and 190 expatriates.

The introduction of "local plus contracts" for DCNS staff who move to a country for the long term continued, with 16 people signing this contract. The subsidiaries created in 2015 in Canada, Australia and Malaysia are taking shape, including the recruitment of staff locally and the arrival of individuals on expatriate contracts and local plus contracts.

In 2016, a branch was created in Egypt and a representative office in Singapore, with staff recruitments planned in 2017.

In France, DCNS is hosting staff from Malaysian, Egyptian and Indian customers. Furthermore, in the Australian Future Submarine programme, the teams are preparing to host in Cherbourg staff from the Australian customer and the US supplier for the combat system.

Strategic jobs and skills management (GPEC)

DCNS is continuing its strategic jobs and skills management policy, in accordance with addendum no. 2 to the GPEC agreement signed in 2014. In 2016, additions to the professional development gateways were made by the HR team in charge of the GPEC in liaison with the Group speciality agents (*référents spécialité Groupe* [RSG]).

These gateways can be used by individuals interested in professional mobility or who want to improve their employability. It is also a tool for the managers and human resources managers, as well as the mobility advisers as part of the introduction of the global performance agreement.

Around five hundred gateways have been identified, along with, for each one, the prerequisites identified, the adaptation training and the mentoring time required.

In addition, the skills dictionary was created based on the existing standards. It lists all of the skills and distinguishes between critical skills, key skills and cross-functional skills. All of these skills-related elements are available *via* the SeaRH portal, notably with a view to preparing for individual appraisals.

Anticipating and supporting skills development and changing jobs

DCNS has a policy to identify skills that enable it to meet needs in terms of sovereignty. A per-job analysis was conducted of 60 key activities pertaining to sovereignty. Maintaining these skills was chosen as a major strategic focus by General Management and is monitored as part of DCNS's strategic plan.

Discussions began as planned in September 2016 to review the strategic jobs and skills management agreement, addendum no. 2 of which expired in 2016. These discussions also addressed the generation contract.

Organisation of work

Organisation of working time is governed by the company agreement negotiated in 2004. This agreement was subsequently rolled out at each of the Group's sites in France and local agreements on working time were signed in accordance with the specific characteristics of activities and the local organisation. It has since been amended fourteen times to adjust it to developments at the company. Under the current agreement, work is organised based on variable hours enabling manual staff, technicians, supervisors and integrated executives to begin or finish work as they see fit within a specified time window. The majority of managers work on the basis of a fixed number of maximum working hours (1,575/1,725 hours) or days (210 days excluding the solidarity day) per year.

Talks on the organisation of working hours (title V of the 2004 agreement) began at the start of 2016 at the same time as those on quality of life at work, in accordance with the method agreement previously signed. However, three of the four representative trade unions said during a November meeting that they had no mandate, despite having signed the method agreement. The company's Management therefore decided to terminate the agreement and its amendments in November 2016, as well as the establishment agreements concerning working hours. It immediately invited the representative trade unions to renew talks. The terminated agreement remains in effect during the three-month notice period, then during the following twelve months or until the date of application of any agreement that replaces it.

Remuneration and employee benefits

DCNS's compensation and benefits policy aims to:

- encourage and acknowledge individual and collective performance;
- ensure fair pay for everyone;
- guarantee competitive salaries compared with the market.

Staff remuneration under the State labour laws is defined and modified in accordance with its own regulatory framework.

Salary changes are determined during the mandatory annual negotiations. Wage negotiations for 2016 took place against the backdrop of action plans to recover both the financial and operational performance during the years 2016-2018. This stems from the agreement, signed with the unions and mManagement, concerning wage measures and the actual duration and organisation of working time for the 2016 financial year and multiannual measures for 2017 and 2018. These represent a 2% budget increase for 2016 and also secure from now, for 2017 and 2018, a budget increase in accordance with the company's performance level based on changes in the cost of labour and the extent to which key operational milestones are met.

This has been supplemented since 2006 by the voluntary and statutory profit-sharing agreements. An amendment to the voluntary profit-sharing agreement in respect of the 2015 to 2017 financial years was signed for 2016 with the trade union partners (CFDT and CFE-CGC). This 2016 amendment strengthens the objective to restore DCNS's profitability, assessed *via* the EBITA/sales ratio and the level of deviation in the programmes.

In addition, all staff are covered by a collective retirement savings plan (PERCO). An additional retirement plan (article 83 of the General Tax Code) is also available to engineers and managers.

The remuneration policy incorporates welfare protection with a mutual benefit organisation, which supplements social security contributions relating to the reimbursement of health-related costs and a welfare contract providing insurance against life risks: incapacity, disability, death. An initiative aimed at creating greater awareness of the investment vehicles offered under the employee savings scheme was also conducted in 2016.

Lastly, managers have a fixed salary and a variable portion, 60% of which is based on the achievement of collective targets and 40% on the achievement of individual targets.

Remuneration of directors

This point relates to the salaries of the Chairman and Chief Executive Officer and the Board of Directors. The Chairman and Chief Executive Officer is DCNS's sole corporate officer; the other members of the Executive Committee are employees.

The corporate officer's salary is fixed by the State (Finance Ministry) on the basis of a recommendation made by the Board of Directors' Appointment and Remuneration Committee pursuant to order no. 2014-948 of August 20, 2014 on governance and transactions involving the capital of partially State-owned companies.

Members of the Executive Committee are remunerated through a fixed salary and a variable portion determined as a percentage of the fixed salary.

As for all managers, 60% of the variable portion is based on the achievement of collective targets and 40% on the achievement of individual targets.

The welfare benefits available to the members of the Executive Committee are identical to those provided for under the remuneration and welfare benefits policy of the other members of the Group. They are also offered a company car.

In accordance with legal and regulatory requirements, the ten highest earners' salaries are listed in the management report, the social audit and the Auditors' statement and are used to make a tax declaration in accordance with form 2027 on remuneration and expenses allocated to the best-paid people in the company.

New tools available to DCNS employees

SeaRH is the new human resources management global information system (SIRH). Launched in 2015, it is more comprehensive, more modern (multi-company and multi-currency tool), more advanced and better suited to developments in the DCNS group's human resources function. It gives managers a simplified way to manage their teams *via* a single access portal. It allows them to monitor time management, their team's upcoming or completed training courses, and recruitment and mobility management. Employees also have direct access to their HR files through this same single access portal.

The annual assessment interviews (EAA), personal development interviews (EDP), internal and external job offers and preparation of the training plan are now accessible in the tool.

Lastly, future upgrades to this tool will support the Group's international expansion.

National shared services centre (CSPN)

The Group's Human Resources division's setup is being transformed through service agreements and new services on offer to staff.

To this end, the national shared services centre (CSPN) was created in 2015. It has been based in Ollioules since October 2016 and it brings together the staff and tools responsible for the administrative management of DCNS's staff. The CSPN is responsible for the administrative management of DCNS staff's salaries and time (through the creation and updating of staff files, processing events relating to their development, responding to their requests for assistance and information, etc.), management of public careers (management of "asbestos" departures, pensions, preparation of progress and reform committees for State representatives from the Ministry of Defence), management of logistical matters relating to expatriation (moving house, immigration, housing, etc.), management of information systems (SIRH) and reporting for human resources.

The combination of the staff administrative management activities provides staff with a single system that manages every aspect of their files (administrative management, pay, time, etc.) and understands their particular requirements. What is more, this unification improves service continuity, for example during the summer months or unexpected absences.

Furthermore, the HR service space, which can be accessed through the SeaRH portal, is a tool that enables staff to submit requests online directly to the CSPN and track their responses more effectively.

Lastly, the Human Resources division has introduced a new service under the Group's corporate social responsibility policy: an electronic safe for a paperless payslip. DCNS is now offering public sector staff the opportunity to receive their electronic payslips in a personalised electronic safe, which is also available to all seconded staff. This service is provided by an external supplier.

I.4.2. Employer/employee relations

Employer/employee relations are governed by the 2004 company agreement applicable to DCNS UES, comprised of DCNS and its majority-owned subsidiaries in France (Sirehna).

The company agreement is structured around six themes, four of which were revised by an addendum:

- staff representative bodies (title 1) and trade union rights (title 2) in April 2015;
- rules on business travel and mobility (title 6) in February 2014;
- the supplementary staff welfare plan (title 4) in October 2011.

In 2016, negotiations on the organisation of working time (title 5) and quality of life at work began, in accordance with the method agreement signed in 2015, following collective analysis work conducted over several days and bringing together, under the HR department's guidance, the trade unions and participating managers. These talks resulted in the implementation of an additional methodological agreement concerning the negotiation of organisation of working time and quality of life at work. This agreement structured the implementation of expression groups and the organisation of trials stemming from the expression groups' proposals concerning the organisation of work and working time, and quality of life at work. Negotiations on quality of life at work began in May and on the organisation of working time in October.

However, three of the four representative trade unions at the company said at the beginning of November that they had no mandate to negotiate on working time. The DCNS Senior Management therefore decided to terminate the agreement and its addenda, as well as the establishment agreements concerning working time, and immediately invited the representative trade unions (CFDT, CFE-CGC, CGT, UNSA) to a meeting to relaunch negotiations on the organisation of working time.

Meanwhile, negotiations on the revision of the triennial agreement on strategic jobs and skills management (GPEC), including the revision of the triennial agreement on the generation contract and the negotiation on the professional development of title 3 of the initial 2004 agreement, began in September 2016.

An amendment to the 2015-1017 discretionary profit-sharing agreement, as well as the agreement on the Group savings plan, were concluded this year.

The agreements on gender equality in the workplace and the employment of persons with a disability also still apply.

The dynamic of discussions between Management and the staff representative bodies is also reflected in relations within the Central Works Council, which meets at least once per month, and the Establishment Committees, and within the Health, Safety and Working Conditions Central Committee, a body specific to DCNS created by the 2004 company agreement and the establishment Health, Safety and Working Conditions Committees regarding issues concerning health, safety and working conditions.

Solidarity leave

DCNS and the Central Works Council renewed the "solidarity leave" offer in 2016. The idea is to offer staff the opportunity to dedicate some of their leave to missions concerning:

- improving adults' skills;
- providing socio-educational support and assistance for children and teenagers;
- protecting and improving the environment.

These missions are managed by the Planète Urgence association and take place in Africa, Asia and South America. Planète Urgence is an association that specialises in these types of initiatives. It manages more than 350 projects and has already sent more than 6,500 company staff on missions.

Eight missions were on offer in 2016. The social committee of the Central Works Council and the company's Management selected the eight candidates from 23 applications submitted by DCNS staff.

This initiative was a success, with everyone involved enthusiastically commenting on how rewarding the experience was.

I.4.3. Occupational health and safety

An integrated policy

The occupational health and safety (OH&S) policy has now been incorporated into a global quality, safety and environment (QSE) policy signed by Mr Hervé Guillou on December 4, 2015. This policy meets the ambitions and requirements of the Group in terms of developing the culture of identification and control of risks, and ensuring regulatory compliance.

The AFNOR follow-up audit conducted at the beginning of 2016 confirmed the certification of DCNS's global QSE management system in the standards ISO 9001, ISO 14001 and OHSAS 18001.

Since 2015, DCNS has integrated at level 1 the FR2 (frequency rate of accidents with and without lost time per million hours worked). This indicator accompanies the FR1 (frequency rate of accidents with lost time per million hours worked) and the SR (number of days compensated x 1,000 / number of hours worked), which were already monitored.

DCNS results at December 31, 2016:

- FR2: 11.9, versus a target of 11.5 (FR2 of 11.9 in 2015);
- FR1: 7.1, versus a target of 6 (FR1 of 6.7 in 2015);
- SR: 0.183, versus a target of 0.125 (SR of 0.169 in 2015).

These results show a deterioration in the FR1 (accidents with lost time), which was up significantly, accompanied by an increase in the number of days lost. The average number of days lost in 2016 per work accident is 26 days, compared with 23 days in 2015. The main causes of these accidents are falls at ground level, from a height following movements in workshops and vessels, and manual operations. These causes accounted for over half of the accidents that occurred in 2016.

The prevention programmes, such as the management safety and environment inspections, based on the management's OH&S involvement, incident declarations and reports of hazardous situations identified and escalated by staff are essential for developing the safety culture of all company staff. The 2016 results indicate a plateau in the continued improvement of the sites' OH&S performance, despite the prevention programmes.

Accidents occurring during travel with and without lost time have been specifically analysed over the last three years, as they account for over a quarter of accidents and display a high severity (lost days linked to accidents during travel now exceed those linked to accidents at work). All of these actions help to strengthen the approach taken by the company Travel Plans, in which all of the sites are involved together with the local partners.

A collaborative approach to improvement with outsourcing

DCNS conducts a policy to improve the OH&S results of its suppliers and subcontractors: the slogan "no two-speed OH&S" is reiterated every year. Contractual requirements on accident reporting, the ways in which data gathered are used and an introduction of OH&S performance improvement action plans are used to assess suppliers present at Group sites and in training to encourage greater consideration of risks.

Control of the main risks

The provision and management of industrial resources is a fundamental process in product execution. Occupational health and safety aspects are included from the stage of identifying the industrial investment.

The regulatory compliance convergence plan decided on by the Chairman and Chief Executive Officer at the end of 2015 resulted in an action plan that was conducted during 2016.

This plan includes the creation of regulatory compliance committees. These committees, in which the site managers are stakeholders, meet periodically, examine the compliance indicators, monitor the action plans and any difficulties encountered, and make a decision on the stances proposed.

This structure resulted in an improved compliance rate across all DCNS sites from the start of 2016. The results were presented to Senior Management during the November 2016 performance review.

Actions to prevent the main risks, which have been in place for several years, continued in 2016 (inter-site working group specialising in handling risks, risks linked to welding fumes, electrical risks and work in confined spaces). The main risks are accurately statistically monitored to track their development; presentations are regularly given at the local and national CHSCT to present the results and observations. At the same time, an initiative to update the sites' OH&S rules has been launched, notably concerning personal protective equipment and traffic rules, in order to establish or strengthen our OH&S standards and include staff in the definition of rules.

Strong management involvement and a change in behaviours

The involvement of line management and developments in the behaviours of all staff, DCNS or otherwise, present on our sites are central to the OH&S effort.

The main levers put in place were continued in 2016:

• the management and cascading of OH&S actions *via* dashboards;

• control loops (departmental tools to assess their entities' performance relative to determined KPIs);

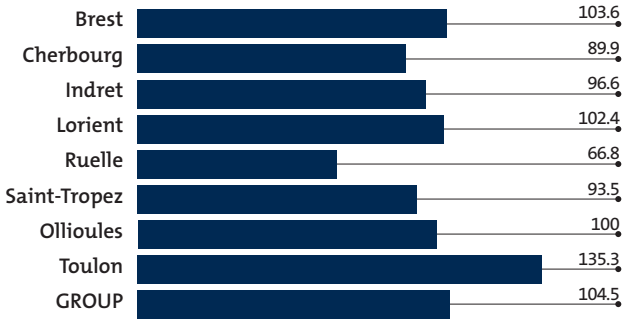
• involvement in the process of analysis of accidents and incidents by talking to staff on the ground;

• encouraging staff to commit to risk prevention by completing hazardous situation reports, management safety and environment inspections and the identification of improvement ideas impacting on working conditions.

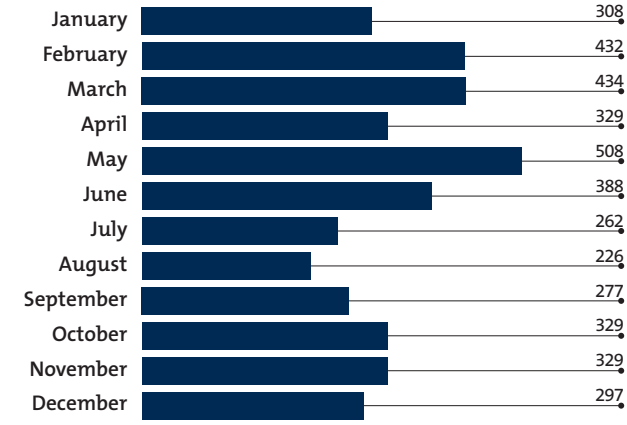
The cascade functioning of control loops is now conducted under the management of the site director. The control loop of the site director, together with the Group OH&S division, is now monitored during inspections by the Group OH&S Director.

There is a special emphasis on involving all staff in the OH&S prevention actions, such as the management safety and environment inspections in the case of management, the incident escalations and the hazardous situation reports by all of the teams, the number of which increased 5% compared with 2015. All of this information, escalated monthly by the sites, is monitored at a Group level. One of the main purposes of this monitoring is to determine whether the number of OH&S prevention actions planned matches the number conducted.

% of management safety and environment inspections conducted in 2016



Hazardous situation reports completed per month (2016)



This participation by all staff is a key programme and is integrated into the improvement plans undertaken by DCNS, notably *via* the guidelines of the DCNS industrial performance system rolled out in 2016.

The industrial performance system initiative is integrated into the DCNS Progress Plan and aims to strengthen the fundamentals of industrial management. Drawing on business line guidelines for each of the six areas – design, industrialisation, supply chain, production, quality and management, regular assessments based on factual criteria are used to measure the teams' level of maturity. As OH&S is a key element of the teams' performance, the safety aspect is included in each of the guidelines. The initial assessments, which were rolled out from April to July at all of our sites, show the need to quickly improve certain fundamentals. For each entity, the next stage now consists of finalising their improvement priorities for 2017, in light of the results and other best practices identified. A new assessment phase is planned for spring 2017 to assess the impact of the work conducted.

Safety culture analysis actions were launched by site directors to strengthen our efforts in connection with the behav-

ioural approach to work. One of the first actions launched on the ground consists of redefining local rules, involving for example the traffic movement areas and PPE, by significantly involving the staff concerned.

Occupational health and safety (OH&S) communication

Communication actions remain a key tool for sharing the results, actions and programmes with all staff and ensuring their uptake; these are conducted *via* the intranet, DCNS's in-house magazine and the local OH&S newsletters, in connection with events such as the SSTE Week and the European Environment Week.

Synchronised global site communication operations (national OH&S campaign) are also periodically conducted on the sites' key themes and interviews with the main company risk prevention participants are conducted to inform and educate staff about the prevention measures developed.

Training

The main actions put in place in 2016 involve:

- the continued deployment of the new training programme linked to handling activities;
- work on harmonising qualification training for the accreditation of staff between the sites;
- guidance towards e-learning training solutions for OH&S awareness actions;
- identification of the necessary training for staff leaving on international assignment.

International support

Given that international development is a key factor for DCNS, a special emphasis is placed on the safety of expatriate staff or staff on assignment at sites in France or outside France. A new appraisal of the instruction concerning exterior shipyards was conducted at a Group level together with the national CHSCT. The actions conducted concern:

- identifying the information of each exterior shipyard located in France or abroad;
- the introduction of prevention plans by DCNS and the client's activities to prevent risks and ensure good coordination between the various parties;
- the organisation and follow-up of staff conducted by the occupational physician and the primary-care doctor's involvement internationally;
- the introduction of a working group to liaise with staff to pool actions and strengthen the sharing of knowledge/skills and best practices;
- the definition of essential training prior to departure on an expatriation assignment.

Work in liaison with the staff representatives (national CHSCT)

The involvement of and provision of information to the elected representatives, both locally and nationally, was the subject of significant actions through the CHSCT working groups, notably on accidents at work and accidents during travel. The specialists and working group representatives present to the staff representatives the results, their analyses and their action plans regarding OH&S themes that impact on DCNS staff.

Quality of life and hardship at work

An action plan on enhancing quality of life at work and preventing psychosocial risks at DCNS Group was launched in 2014.

This plan includes six main focuses:

- an organisation dedicated to quality of life at work;
- a procedure for assessing psychosocial risks;
- change support and the inclusion of psychosocial risks in transformation projects;
- the role and responsibilities of local managers;
- the management of complex organisations and the prevention of isolation situations;
- vigilance regarding professional exhaustion situations.

The organisation dedicated to preventing psychosocial risks and promoting quality of life at work was put in place in 2014. A national monitoring unit assembled on a joint basis is tasked with submitting proposals for implementing the directions of the action plan. At each site, a local monitoring unit plays an identical role and relays the national proposals. Tertiary prevention units are in place at all sites and each site has a Quality of Life at Work representative.

One of the national monitoring unit's key achievements was the methodology for assessing psychosocial risks chosen by the company. This methodology has been successfully trialled at two sites and has been rolled out at all sites since the start of 2016. The results of this assessment will be included, at the start of 2017, in each site's single occupational risk assessment document. The national monitoring unit will produce a summary. These results have already given rise to the implementation of action plans based on proposals made by the local monitoring units, presented at the CHSCT and validated at the management committee meetings.

The central question of the role of local managers was taken into account in the company's 2015-2018 Progress Plan and constitutes one of its core points (point 3).

Since the start of 2016, the company has met all of its hardship at work obligations for the year to enable the opening of personal hardship prevention accounts for the staff concerned.

For all of the risk factors stated by regulations and based on the thresholds defined by the same regulations, in September 2016 the company began compiling a register of employees subject to hardship in 2016 and who are required to be declared at the start of 2017. Questions related to hardship prevention are included in the draft agreement on quality of life at work currently being negotiated.

Company catering and actions to combat food waste (act of February 11, 2016 concerning the fight against food waste)

In liaison with the establishment committees, DCNS's sites provide staff with a company restaurant managed by a specialised service provider or by DCNS staff. Special attention is paid to combating food waste. The Purchasing department establishes contracts with the service providers and includes this obligation in the specifications. Each restaurant puts in place actions to:

- communicate with and educate diners;
- manage stock and adjust the range of dishes and dish weights in accordance with consumer profiles;
- sort waste.

Some restaurants have also formed ties with associations for the collection and donation of unsold products.

I.4.4. Training and education(2)

Starting from 2015, the training guidelines and the associated core components are defined for a three-year period; every year, clarifications are made to take into account the company's context. These guidelines are structured around the following points:

- the company's strategy;
- developments in professions and technologies;
- strategic jobs and skills management;
- traditional markets;
- new development activities;
- developments in our organisations.

The training plan forms part of these guidelines, at over 50% for core business training and around 10% for staff accreditation training.

The HR training and DCNS Universeaty teams are continuing to focus their efforts on optimising the effectiveness of the training provided while at the same time reducing the cost.

This dual objective was achieved by developing e-learning, targeting actions at the company's core business and re-internalising training specific to our business lines.

A training programme for managers is also being created and will be based around the ten managerial practices. Its goal is to enhance managerial skills and create a sense of community between all DCNS managers.

This passport will utilise various training systems: in-person, e-learning, co-development and meetings.

Training also has a bearing on internal promotion paths. They are arranged so as to provide staff with three possibilities: a qualifying path, a certification path and an experience recognition path. More than 60 people were promoted through one of these paths in 2016.

Combined study-and-work apprenticeships are a way of maintaining the company's key skills by training up young people who will then join the company on a permanent contract. It is also an act of social responsibility that the company has laid down in several collective agreements. The company's needs are defined on an annual basis. The study-and-work policy remains very dynamic: the target of maintaining the average number of study-and-work apprentices at 536* in 2016, *i.e.* creating 303 new study-and-work contracts all specialities combined (workforce present at December 31, 2016), was met, with over 100 carried out in the industrial production specialities.

School links

2016 saw a wealth of school initiatives. To support our requirements in terms of recruitments, combined study-and-work apprenticeship staff and trainees, DCNS increased its visibility in the target schools. This led to a significant rise in all kinds of school initiatives: forums, job-dating, involvement in lessons, participation in round-table discussions, inviting students to visit our sites, etc. Over 100 actions were undertaken, involving both staff and managers, as well as DCNS HR parties, compared with 70 actions in 2015.

Partnerships with the target schools and DCNS core business partnerships were strengthened. Efforts to develop our employer brand bore fruit once again in 2016. Universum's national classification of students' favourite employers in France ranks DCNS among the 50 most attractive employers. Meanwhile, the league table by Trendence, which every year conducts a survey of students' expectations and preferences regarding their first job after graduating, puts DCNS in 35th place among engineering students' favourite companies in 2016.

(2) SNTE P21, 27.

Skills Workshop and French Naval Campus

In 2016, these two bodies, developed at the initiative of the DCNS group and led by the GICAN, held, with the assistance of the national inspector for State Education Jean-Pierre Collignon, in charge of the Centre for Studies and Research on Partnerships with Businesses and the Professions, the first Naval Day at the Technocampus Ocean. The goal was to discuss business challenges and initial training in the sector with inspectors and teachers from technical secondary schools.

The first classes offering the naval mechatronics additional grade were attended by young students with a technical vocational baccalaureate in Toulon and Brest. Students who have taken this training will subsequently be inducted into the French Navy, a very active partner in this initiative, and DCNS on apprenticeships. Work on the occupational skills certificate industrial employment in metalwork and welding (RCIS) resulted in the creation of guidelines due for approval at the professional committee meeting in December 2016.

At the initiative of the Lycée Airbus, DCNS joined the *Écoles d'entreprise* network and hosted the third meeting at the Technocampus Ocean on October 3, 2016. In addition to aeronautics, which was also represented by Stelia, the companies in attendance included Michelin, PSA and Schneider, as well as the *École de l'air*. This forum is a valuable arena for discussion of the various courses that are now essential for supplementing the technical background of young graduates, regardless of their level or the system in which they were educated.

I.4.5. Diversity and equal opportunities

The generation contract

The first agreement on the generation contract ended in 2016 on a very positive note, with a permanent-contract recruitment rate for the under-26s of 29.6% and for the under-30s of 50%, exceeding the target of 22% and 40% respectively. In addition, the rate for keeping those aged 50 and over in employment was 29.8%, in line with the target.

The agreement on the generation contract is renewed for a three-year period (2017-2019) and is integrated into the agreement on strategic jobs and skills management.

Commitments to young people

The generation contract made several commitments to young people, including 38 young people recruited on permanent contracts following their study-and-work contract and the provision of support for over 50 young people experiencing difficulty entering the workplace. DCNS's promotional campaign at schools and universities has resulted in more than 100 events being held. Concerted efforts to welcome and integrate newly hired staff and to foster intergenerational cooperation have been supplemented by the registration of voluntary liaisons, a document defining their role, the accreditation of 103 senior tutors and the setting up of pairing schemes for jobs which require a long apprenticeship in a work environment.

Lastly, the Group's fully reviewed procedure for welcoming and integrating newly hired staff is in place and applied at each site.

Commitments to older people

Older employees are in high demand to pass on knowledge as tutors and internal trainers or *via* advisory tasks. In addition, preparations for retirement include the ability to reduce working time to 80% or 50% in the final months leading up to retirement and an interview conducted at least one year before the planned retirement date.

Commitments to everyone

Every member of staff is eligible for a career guidance assessment with an internal advisor. This enables them to consider their career path and develop plans. For staff who are retraining, assistance through training can be provided as required. Local GPEC conferences organised each year define the foreseeable developments in job trends. These changes form the basis of the construction of the mapping.

The Group and local skill orientation plans (POC) present the qualitative and collective skills adaptation actions (training, knowledge transfer, school links, combined study-and-work apprenticeships, etc.) and enable the skills standards to be updated.

Talent management

This programme, developed since 2012, aims to meet the company's need to identify high-potential individuals and set them on ambitious career paths commensurate with their aspirations.

These steps of preparing for the future involve nearly 80 members of staff, who take part in scenario simulations and receive individual support and mentoring with a view to them ultimately taking on new responsibilities in the company.

Talent management also applies to experienced staff with recognised potential. These staff receive specific training support.

In 2016, DCNS began analysing its talent identification and management policy. In addition to continuing with assessment and support (such as mentoring) to facilitate the development of a rapid path to positions of responsibility, DCNS launched a new leadership development programme to prepare its future directors; 24 executives took part in this programme in 2016. As an extension of this programme, they were involved in two training engineering projects aimed at supplementing the managerial offering.

This was significantly improved and a process of reflection on a programme to gradually enhance managerial skills was launched as part of the Progress Plan. In 2016, this work resulted in the revision of several training modules, such as the team manager programme and the first managerial responsibility programme. Management workshops were held at several entities (two-hour modules based on the exchange of practices between managers) and a pilot module on awareness of stereotypes was held at the Ollioules site. In 2017, DCNS will continue the work undertaken on the managerial offering, notably to support the most experienced managers, and will support and monitor the development plans for its managers and talents (follow-up to the 360° and talent programmes for example).

Professional gender equality

The 2015-2018 agreement envisages a continuation of the efforts to employ more women in the company as a whole and in positions of responsibility (posts at position III of the collective metallurgy agreement), while maintaining the proportion of 25% on combined study-and-work apprenticeships. At the end of 2016, the employment rate for women was 19.6%, versus a target of 20%.

The agreement includes continued actions on equal pay, career development and guaranteeing equal access to training. To this end, the agreement includes in particular the improvement of financial support for childcare (cheques for universal employment services *[CESU]* for childcare and during training), and supervision and help in preparing to return from maternity leave. Lastly, it envisages DCNS taking part in local activities with a view to encouraging people to change careers and start industrial jobs.

Disabilities

Given the more restrictive employment management context, the policy on employing people with a disability remains ambitious. A priority has been placed on study-and-work apprenticeships, which enables young people with a disability to acquire essential work experience for the next stage of their career. Since the beginning of the disability agreement, 46 study-and-work apprenticeship staff have been hosted on DCNS sites. In addition, special attention is paid to internships: 37 trainees took an internship at DCNS and some subsequently continued their training on a study-and-work contract. At DCNS there is a particularly strong focus on keeping people with a disability in employment. For DCNS, disability compensation is an important issue in light of the agreement. To this end, the Group provides aid and funding for keeping people in employment on the occupational physician's recommendation.

Since the beginning of the agreement, 200 workstations have been adjusted. Lastly, special attention is paid to purchases from the sheltered employment sector. The agreement signed with the grouping of sheltered employment sector establishments (GESAT) at the end of 2015 resulted in an action plan that is monitored on a month-by-month basis. At the end of September 2016, the amount invoiced in dealings with this sector was €2 million.

These various actions increase the rate of employment of people with a disability, which in 2016 was 5.95%, close to the 6% aimed for by law.

I.4.6. Human rights(3)

The human rights charter is one of the elements of e-learning training on ethics and CSR given to all staff from September 2015. This e-learning package enables staff to learn at their own pace and to view and review the information and tests provided.

The human rights charter supplements and clarifies the Group's commitment to the Global Compact, notably with the aim of supporting its international development. It complies with the principles and rules laid out by major international texts: the Global Compact, the John Ruggie report of 2011, the OECD Guidelines for Multinational Companies (2011), the ILO Declaration on Fundamental Principles and Rights at Work (1998), the Tripartite Declaration of Principles concerning Multinational Companies and Social Policy (IL

☑	Female staff as % of total	19.78	19.77	19.63	19.83	LA 1				
	Expatriates	183	217	190	190	LA 1				
	Staff of non-French nationality	15	242	6	267	LA 1				
☑	% of female senior executives	10.20	11.26	10.76	10.55	LA 1				
	Average age	42.59	42.82	43.08	42.94	LA 1				
☑	Number of staff with disabilities (TH)	652	637	679	–	LA 1				
	Employment rate (%)	5.60	5.95	5.95(1)	–	LA 1				
	Staff with disabilities on permanent contracts	9	4	10	–	LA 1				
☑	Absenteeism (%)	4.84 DCNS SA 0.93 Sirehna	4.82 DCNS SA 1.7 Sirehna	5 DCNS SA 1.7 Sirehna	–	LA 6				
☑	Number of training hours	413,511	310,106	301,958(1)	–	LA 9				
	Average number of training hours per person	29.49	22.8	22.5(1)	–	LA 9				
☑	Continued professional development (as a % of payroll)	4.04	3.2	3.85(1)	–					
	Average monthly remuneration (€)	4,141	4,201	4,255(3)	–					
	Recruitment, full year	**DCNS UES**	**DCNS GROUP**	**DCNS UES**	**DCNS GROUP**					
☑	Total	930	**662**	**941**	**1,166**	LA 1				
	Recruits hired on permanent contracts	503	283	524	706	LA 1				
	Number of recruits on limited-term contracts given a permanent contract	24	10	12	12	LA 1				
	Recruits hired on limited-term contracts	77	69	107	140	LA 1				
	Recruits hired on limited-term contracts, number of which are trainees on combined study-and-work apprentice-ships + CIFRE	350	310	313	323	LA 1				
	Recruits hired on limited-term contracts (including trainees on combined study-and-work apprenticeships + CIFRE*****)	427	379	**420**	**463**	LA 1				
	% of whom are on limited-term ontracts (including trainees on combined study-and-work apprenticeships)	45.91	57.3	44.6	39.7	LA 1				
	% of whom are on limited-term contracts (excluding trainees on combined study-and-work apprenticeships)	8.28	10.4	11.4	12.0	LA 1				
	% of whom are female	20.60	22.4	20.4	20.4	LA 1				
	% of whom have disabilities (permanent and limited-term contracts)	2.08	1.4	0.9	1.1	LA 1				
	% of whom are older staff	3.79	5.7	5.7	9.1	LA 1				
	% of whom are under 25 (including trainees on combined study-and-work apprenticeships)	36.02	55.7	46.2	39.0	LA 1				
	% of whom are under 25 (excluding trainees on combined study-and-work apprenticeships)	11.72	28.4	26.0	20.9	LA 1				
	Trainees on combined study-and-work apprenticeships at the end of the year	569	536	520	529					
☑	**Departures**					**LA 1**				
	Total number of departures	994	**1,028**	**1,117**	**1,174**	LA 1				
	Including redundancies******	21	24	28	28	LA 1				
	Turnover	7.1%	7.4%	8.3%	8.5%					

☑	Health, safety and working conditions	DCNS UES	DCNS UES			LA 6			6.4.6	
☑	Incidence of workplace accidents FR = lost-time injuries x 1,000,000/hours worked	6.14	6.23	7.1(4)		LA 6			6.4.6	
	Average severity of workplace accidents SR = days lost due to accidents x 1,000/hours worked	0.17	0.169(4)	0.183		LA 6			6.4.6	
	Number of cases of work-related illnesses	59	46	45					6.4.6	
	Number of hours of OH&S training	78,239	47,786	51,571(2)						

Staff data for the DCNS group is shown for 2016.

DCNS UES = DCNS SA + Sirehna.

DCNS group = DCNS UES + Subsidiaries ≥ 50%.

* GRI V4: Global Reporting Initiative Version 4.

** SNTEDD: *Stratégie nationale de transition écologique vers un développement durable* (national strategy for an ecological transition towards sustainable development) 2015-2020.

*** NHW: non-hazardous waste.

**** HW: hazardous waste.

***** CIFRE: *Convention industrielle de formation par la recherche* (industrial agreement on training through research).

****** Redundancies: interruption of the trial period for physical incapacity or for personal reasons.

******* Excluding Sirehna.

☑ Indicator audited.

(1) Estimate as at January 31, 2017.

(2) Number of hours estimated as at February 6, 2017.

(3) Estimated wage bill excluding apprentices/average FTE (full-time equivalent).

(4) OH&S indicators as at January 8, 2016 subject to eleven current reservations.

(5) Indicator calculated over a twelve-month rolling calendar, from October 1, 2014 to September 30, 2015.

(6) Details of consumption in Issy-les-Moulineaux and in Marseilles are not given.

(7) Details of consumption in Marseilles are not given.

III. METHODOLOGY NOTE ON THE REPORTING OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE INDICATORS AT DCNS

In accordance with the Grenelle 2 law, DCNS communicates information on how the company takes into account the environmental, social and governance consequences of its activities, as well as its societal commitments.

Following its application in 2014, DCNS was recognised as a member of the UN Global Compact and ensures that it draws on the best practices generally accepted in its sectors of activity.

The notion of corporate social responsibility (CSR) is circulated within the company, as well as upstream and downstream of its scope, towards its clients, suppliers and direct stakeholders.

DCNS's CSR draws on six of the main areas of standard ISO 26000, recognised by the non-financial rating agency Vigeo.

Actions conducted under the CSR policy are regularly presented to various independent external auditors and in the annual reports, which present CSR indicators in connection with the international indicators of the GRI (Global Reporting Initiative).

The financial (and non-financial) report of the DCNS group can be viewed on the DCNS website and is available on the website of the UN Global Compact.

1. REPORTING PROTOCOL

The 2016 reporting protocol is an internal document, part of which can be accessed on the Group's website.

As such, it serves as a guide for internal reporting and as a standard for the external verification in 2016 of the various CSR indicators stemming from article 225 of the Grenelle Environment Forum.

The reporting protocol is established by the various Legal, HR and Environment OH&S divisions and is consolidated with DCNS's CSR.

The reporting protocol is updated annually to take into account changes concerning reporting developments and CSR indicators.

2. SCOPE

Governance scope

The reporting scope concerning the governance of subsidiaries and joint ventures, addressed in point II.1.3 of the CSR report, is in large part comprised of companies consolidated by DCNS.

Consolidated companies that are dormant or that only serve to hold shares (Armaris Quater, DCNS Actionnariat, DCNS Participations, MOPA 2 and Winacelles[1]) are not included in this CSR reporting scope.

The companies DCNS Arabia and DCNS Technologies Canada, the financial statements of which are not consolidated at a DCNS level, are part of the CSR reporting scope defined above.

Environmental scope

The environmental information covers all of the French sites, namely Cherbourg, Brest, Lorient, Nantes-Indret, Angoulême-Ruelle, Saint-Tropez, Toulon, Ollioules, Paris and Bagneux.

Social scope

The social reporting scope highlights DCNS UES, comprised of the French establishments and the French subsidiary Sirehna, and the DCNS group, which corresponds to the UES unit + foreign subsidiaries in which DCNS has a majority stake.

The social indicators are defined in the operating document "Social indicators for CSR" of the Business Management System.

The staff headcounts are presented for the UES and the Group based on registered staff headcounts.

Recruitments and departures are presented for the UES and the Group.

The training, disability, remuneration, absenteeism, hygiene, safety and working conditions data are presented at a UES level.

(1) The dissolution of the company Winacelles is scheduled to take place during 2017.

3. INDICATORS

Environmental indicators

The following indicators concern all of the French sites without exception.

Energy	• Electricity consumption • Fossil fuel consumption: gas, heating oil, heavy fuel oil, renewable natural gas
Water	• Consumption of drinking water and river water
Waste	• Production of non-hazardous waste (NHW) • Production of metal waste • Production of hazardous waste (HW) • Atmospheric emissions • Direct CO_2 emissions linked to fossil fuel consumption
Training	• Number of days of environmental awareness training

Social indicators

Staff
Total number of staff
Total number of staff per socioprofessional category
Total number of staff by age bracket
Female staff as % of total
Expatriates
Staff of non-French nationality
% of female senior executives
Average age
Recruitments on permanent and limited-term contracts, study-and-work apprenticeships
Departures
Absenteeism (%) DCNS UES
Staff with disabilities
Number of staff with disabilities (TH) DCNS UES
Employment rate for staff with disabilities (%) DCNS UES
Recruitment of staff with disabilities on permanent contracts DCNS UES
Training
Number of training hours DCNS UES
Average number of training hours per person DCNS UES
Continued professional development (as a % of payroll) DCNS UES
Average monthly remuneration (€) DCNS UES
HEALTH, SAFETY AND WORKING CONDITIONS
Incidence of workplace accidents
FR = lost-time injuries x 1,000,000/hours worked
Average severity of workplace accidents
SR = days lost due to accidents x 1,000/hours worked
Number of cases of work related illnesses reported
Number of hours of OH&S training

Relevance of indicators

The CSR indicators chosen by DCNS reflect the actions conducted by DCNS.

The reality and reliability of the actions implemented by DCNS are the subject of an accuracy opinion issued by an external and independent audit firm.

IV. SUMMARY – CORPORATE SOCIAL RESPONSIBILITY REPORT 2016

Global Compact: DCNS, a member of the United Nations Global Compact since 2014, participated in the peer review in April 2016. The actions carried out by the Group gave it "Global Compact Advanced" recognition for the second consecutive year. Only sixty or so companies in France have achieved this level of recognition.

Requested non-financial rating: the "requested rating" awarded by the independent non-financial rating agency Vigeo, at the end of February 2016, was used to measure the significant progress achieved in the following six areas: governance, behaviours on the markets, environment, human rights, human resources and societal commitment. A new target was set for the end of 2017.

Progress Plan: launched in 2015 to meet the expectations of DCNS management and staff facing operational and financial problems in 2013-2014, the Progress Plan is now delivering its first results and undertaking its second wave of initiatives aimed at improving the Group's competitiveness.

Impact study: for the first time, DCNS aimed to conduct in 2016 a study of DCNS's socioeconomic impact on the Cherbourg metropolitan area in Manche, France, and entrusted this process to an independent, specialised and renowned firm. This type of study will be repeated for all of the Group's structures in France and internationally.

1. ETHICS AND COMPLIANCE

DCNS's commitment in terms of ethics, corporate social responsibility and compliance is stated in the "Blue Book", which acts as a Group standard supplementing the Code of Ethics.

Audit of the ethics standard: the third ethics audit, conducted by the independent audit firm Ethic Intelligence, was launched at the end of 2016 and integrated the guidelines stated by legislative texts currently being adopted on "the transparency of economic activity" and "the duty of care". Three sites (Cherbourg, Indret and Toulon) were included in this audit, as well as two subsidiaries (in Brazil and Malaysia).

E-learning: in 2016, DCNS continued its online training programme (e-learning) for all of its staff, giving 13,000 people the opportunity to explore the themes of ethics and corporate social responsibility.

Compliance integrity programme: in 2016, to adapt to international standards and make compliance a core component of the Group's debates and activity, DCNS decided to strengthen its compliance mechanism. This approach also forms part of French legislative developments, particularly the act on transparency, the fight against corruption and the modernisation of economic activity, known as the Sapin II law, enacted on December 9, 2016.

Trade, customs control and export policy:

- **Norway:** in 2016, DCNS settled its offset obligation due under the Skjold contract initiated in 2003. These offsets were primarily achieved through industrial collaborations and DCNS purchases from the Norwegian defence industry, and enabled our vessels to be equipped with various Norwegian equipment;
- **Malaysia:** DCNS supports a collaboration project between the National Defence University of Malaysia (UPNM) and the *École centrale de Nantes* (ECN) to develop a Maritime Technology Master's in Kuala Lumpur;
- the **Export Control** division enhanced its support for line personnel (trade, programmes, purchases in particular). A posteriori checks by the French defence procurement agency to ensure correct application and compliance with regulations, which began in 2015, continued in 2016. The recommendations resulting from the 2015 checks were applied in 2016. Internal audits also verifying correct application and compliance with regulations were launched in 2016. Lastly, awareness training aimed at developing the "export control" culture among staff and their knowledge of the issues raised was provided within a broader scope in 2016;
- **customs affairs:** in 2016, DCNS integrated the *Service grands comptes* (SGC) (Key Accounts Department) of the *Direction générale des douanes et des droits indirects* (DGDDI) (Directorate General of Customs and Excise), with which the Group works in close collaboration. DCNS has applied the European Union Customs Code since May 1, 2016. Internal audits verifying correct application and compliance with regulations were conducted for the first time in 2016.

2. SUPPLIERS: SEEKING SHARED COMPETITIVENESS

Business ethics survey: in 2016, DCNS repeated the business ethics self-assessment, which was introduced for the first time in 2011. The goal of this second edition of the survey was to verify the successful uptake, by a representative population, of the ethics rules in the relationship between DCNS and its suppliers, and to measure the progress in this

uptake. Nearly 600 DCNS staff members were asked to take part in the survey. Points for improvement were also identified and were circulated to the entire purchasing population.

Assessment of approved suppliers' performance: in 2016, DCNS continued to conduct assessments of the CSR performances of suppliers on its target panel, which lists over 1,200 suppliers. The reasserted objective is to have this assessment available for all of its approved suppliers at the end of 2017. To conduct this initiative, DCNS has enlisted two firms that specialise in the field.

Responsible Supplier Relations label, 2016 new assessment: DCNS was awarded the Responsible Supplier Relations label in December 2014. This label, awarded by the Mediation Service for a three-year period, recognises organisations that have implemented responsible purchasing practices, thereby making a significant contribution to strengthening the industrial sectors. The results of the 2016 confirmation audit were positive.

In 2016, DCNS placed greater importance on environmental factors in its supplier qualification process. A chart for assessing these performances was introduced to more accurately characterise risks by type of supplier and type of service ordered. This tool will be more broadly rolled out in 2017. In addition, environmental criteria have been integrated into the CSR performance assessments conducted on the supplier panel.

3. ENVIRONMENT: A CONTINUOUS IMPROVEMENT APPROACH

Rolling out a **coherent QSE policy** to improve industrial performance:

• following the certification renewal audit successfully passed in 2014, in 2015 and 2016 AFNOR confirmed DCNS's quality, safety and environment (QSE) certificate for standards ISO 9001, 14001, OHSAS 18001;

• no environmental incidents occurred during the Group's industrial activities in 2016.

Reducing the environmental impact of DCNS's activities:

• an energy management system was rolled out in accordance with standard ISO 50001 to improve energy efficiency and reduce greenhouse gases:

– energy audit of all DCNS sites, plus roll-out after action plans,

– inclusion of greenhouse gases;

• monitoring of the quality of the sorting (> 90%) and the recycling (> 70%) of non-hazardous waste;

• implementation of working groups to:

– reduce the quantities of hazardous waste produced,

– reduce the quantities of greenhouse gases emitted into the atmosphere,

– control industrial risks linked to careening;

• a systematic environmental analysis was carried out on the entire life cycle of the new programmes.

4. SOCIAL: DCNS, A COMMITTED SOCIAL PLAYER

2016 saw the introduction of the "agreement on the 2016-2017 employment adjustment plan" and the "anticipatory agreement on supporting performance and competitiveness", which were signed at the end of 2015. Regarding social dialogue, noting that talks on the organisation of working time had come to a standstill, the management of DCNS decided to unilaterally terminate the company agreement from 2004 and proposed the immediate start of talks on title V, organisation of working time.

Employment: DCNS filled 1,329 positions – 698 of which *via* mobility measures and 631 *via* permanent contract (524) and temporary contract (107) recruitments double the number of recruitments compared with 2015. Staff working internationally totalled 511, of which there were 321 locals and 190 expatriates. The employment adjustment plan resulted in the loss of 395 jobs, 98 of which under voluntary redundancy measures included in the agreement.

Skills: in 2016, the 500 professional development gateways were completed, thereby contributing to professional mobility and the improvement of employability. An analysis to identify skills per job was conducted on 60 key activities pertaining to sovereignty and is monitored as part of DCNS's strategic plan.

Employer/employee relations: in 2016, negotiations on the organisation of working time and on quality of life at work involved the creation of expression groups and the organisation of trials resulting from these expression groups' proposals on these two themes, concerning the organisation of work and working time, and on quality of life at work. Negotiations on the revision of the triennial agreement on strategic jobs and skills management (GPEC) began in September 2016. An amendment to the 2015-2017 discretionary profit-sharing agreement, as well as the agreement on the Group savings plan, were concluded this year. The agreements on gender equality in the workplace and the employment of persons with a disability still apply.

Occupational health and safety: the AFNOR follow-up audit conducted at the beginning of 2016 confirmed the certification of DCNS's QSE global management system in the standards ISO 9001, ISO 14001 and OHSAS 18001.

The 2016 results indicate a plateau in the continued improvement of the sites' OH&S performance, despite the prevention programmes conducted on each site, internationally and with our subcontractors: there was a deterioration in the FR1 (accidents with lost time), which was up significantly, accompanied by an increase in the number of days lost. The implementation of regulatory compliance committees led to an improvement in the compliance rate across all DCNS sites from the beginning of 2016. The DCNS industrial performance system was rolled out in 2016. The industrial performance system initiative is integrated into the DCNS Progress Plan and aims to strengthen the fundamentals of industrial management. The Purchasing department establishes service provider contracts that include in the specifications the obligation to combat food waste, in accordance with the act of February 11, 2016.

Training and education: the HR training and DCNS Universeaty teams are continuing to focus their efforts on optimising the effectiveness of the training provided while at the same time reducing the cost. A training programme for managers is also being created and will be based around the ten managerial practices. Its goal is to enhance managerial skills and create a sense of community between all DCNS managers. To support our requirements in terms of recruitments, DCNS increased its visibility in the target schools: over 100 actions were put in place. In 2016, the Skills Workshop and the French Naval Campus (developed at the initiative of the DCNS group and led by the GICAN) held the first Naval Day at the Technocampus Ocean.

Diversity and equal opportunities: the first agreement on the generation contract ended in 2016 on a very positive note, with a permanent-contract recruitment rate for the under-26s of 29.6% and for the under-30s of 50%, exceeding the targets. In 2016, DCNS began analysing its talent identification and management policy. At the end of 2016, the employment rate for women was 19.6%. The rate of employment of people with a disability was 5.95% in 2016. The human rights charter is one of the elements of e-learning training on ethics and CSR in 2015-2016 given to all staff.

V. REPORT BY THE INDEPENDENT VERIFIER ON THE CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION STATED IN THE MANAGEMENT REPORT

Year ended December 31, 2016

To the Shareholders,

In our capacity as an independent verifier accredited by the COFRAC(1), under the number 3-1050, and as a member of the network of one of the Statutory Auditors of the company DCNS, we present our report on the consolidated social, environmental and societal information established for the year ended December 31, 2016 presented in the management report, hereafter referred to as the "CSR Information", pursuant to the provisions of article L. 225-102-1 of the French Commercial Code.

Responsibility of the company

It is the responsibility of the Board of Directors to establish a management report including CSR Information referred to in article R. 225-105-1 of the French Commercial Code, prepared in accordance with the HR and Environment instructions and procedures used by the company (hereafter referred to as the "Criteria"), available on request at the company's headquarters.

Independence and quality control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession and the provisions in article L. 822-11 of the French Commercial Code. In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

Responsibility of the independent verifier

It is our role, based on our work:

- to attest whether the required CSR Information is present in the management report or, in the case of its omission, that an appropriate explanation has been provided, in accordance with the third paragraph of article R. 225-105 of the French Commercial Code (attestation of presence of CSR Information);
- to express a limited assurance conclusion that the CSR Information, considered as a whole, is fairly presented, in all significant aspects, in accordance with the Criteria (reasoned opinion on the accuracy of the CSR Information).

Our work was conducted by a team of four persons over a period of approximately six weeks between November 2016 and February 2017.

We conducted the work described below in accordance with the professional standards applicable in France and the order of May 13, 2013 determining the conditions under which an independent verifier conducts its mission, and in relation to the reasoned opinion on accuracy, in accordance with the international standard ISAE 3000(2).

(1) Scope of accreditation available at www.cofrac.fr.
(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical information.

1. ATTESTATION OF PRESENCE OF CSR INFORMATION

Nature and scope of the work

We obtained, based on interviews with the management of relevant departments, a presentation of the company's strategy on sustainable development based on the social and environmental consequences linked to the activities of the company and its societal commitments, as well as, where appropriate, resulting actions or programmes.

We have compared the CSR Information presented in the management report with the list as provided for in article R. 225-105-1 of the French Commercial Code.

In the absence of certain information, we have verified that the explanations were provided in accordance with the provisions of article R. 225-105, paragraph 3, of the French Commercial Code.

We verified that the CSR Information covered the consolidated scope of business, name of the company and its subsidiaries under article L. 233-1 of the French Commercial Code and the companies it controls under article L. 233-3 of the same Code, with the limitations stated in the methodology note presented in the corporate social responsibility report.

Conclusion

Based on this work and given the limitations stated above, we confirm the presence in the management report of the required CSR information.

2. REASONED OPINION ON THE ACCURACY OF THE CSR INFORMATION

Nature and scope of the work

We conducted five interviews with the persons responsible for preparing CSR Information at the departments in charge of collecting the information and, where applicable, the people responsible for internal control and risk management procedures, in order to:

• assess the suitability of the Criteria for reporting, in relation to their relevance, completeness, reliability, neutrality and understandability, taking into consideration, if relevant, industry standards;

• verify the implementation of a process for the collection, compilation, processing and control for completeness and consistency of the CSR Information and identify the procedures for internal control and risk management related to the preparation of the CSR Information.

We determined the nature and scope of our tests and checks based on the nature and importance of the CSR Information with regard to the company's characteristics, the social and environmental issues surrounding its activities and its directions in terms of sustainable development and sector best practices.

As regards the CSR information that we considered to be the most important(3):

(3) **Social information:**

Indicators (quantitative information): total registered workforce, total number of recruitments during the year, departures, number of staff with a disability, rates of absenteeism, frequency rate and severity of occupational accidents.

Qualitative information: employment, the organisation of working time, absenteeism, social relations (organisation of social dialogue, appraisal of collective agreements), conditions governing occupational health and safety, accidents at work, notably their frequency and severity, as well as work-related illnesses, the policies implemented on training, diversity and equal opportunities and treatment (measures taken on gender equality, employment and the integration of persons with a disability, the fight against discrimination).

Environmental and societal information:

Indicators (quantitative information): energy consumption, tap and river water consumption, GHG emissions (scopes 1 and 2), the proportion of hazardous and non-hazardous waste.

Qualitative information: the general policy on the environment, the circular economy (water consumption and water supplies in accordance with local constraints, energy consumption); territorial, economic and social impact (employment, regional development, impact on neighbouring and local populations), relations with stakeholders (dialogue conditions, partnership and patronage actions), the importance of subcontracting and the consideration of social and environmental issues in the purchasing policy and in relations with suppliers and subcontractors.

• at the level of the entity, we consulted the document sources and conducted interviews to corroborate the quantitative information (organisation, policies, actions, etc.), we utilised analytical procedures on the quantitative information and verified, based on surveys, the calculations and consolidation of data and we verified its coherence and concordance with the other information appearing in the management report;

• based on a representative sample of sites that we selected as a function of their operations, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify correct application of the procedures and performed detailed sample-based tests that involved checking the calculations performed and reconciliation of data with the supporting documents. The sample selected in this way represents on average 51% of the energy consumed, 47% of the tap water consumed and 43% of the waste produced (in the France scope), which are considered to be key characteristics of the environmental aspects.

In the case of the other consolidated CSR information, we assessed its coherence relative to our knowledge of the company.

Lastly, we assessed the relevance of the explanations concerning, if applicable, the total or partial absence of certain information.

We consider that the sampling methods and sizes of the samples that we considered by exercising our professional judgement allow us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work. Due to the necessary use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a significant anomaly in the CSR Information cannot be entirely eliminated.

Conclusion

Based on our work, we have not identified any significant misstatement that causes us to believe that the CSR Information, considered as a whole, has not been fairly presented in compliance with the Criteria.

Paris-la Défense, February 24, 2017

Independent Verifier

Ernst & Young et Associés

Bruno Perrin
Partner

Éric Duvaud
Sustainable Development Partner

APPENDIX 1

LIST OF REGULATED AGREEMENTS

The order no. 2014-863 of July 31, 2014 introduced a new article 225-40-1 relating to annual review by the Board of Directors of the regulated agreements authorised previously, the execution of which continued during the last financial year. The company's Board of Directors will carry out the review at its meeting on February 23, 2017.

Regulated agreements signed in 2016 approved by the Board of Directors

Parties to the contract	Subject matter of the contract	Date signed
DCNS, Areva SA, the State and the French Atomic Energy and Alternative Energy Commission	Contract on the sale and acquisition of shares concerning Société technique pour l'énergie atomique *Approved by the Board of Directors on October 28, 2016*	December 15, 2016

Agreements signed in previous years, the execution of which continued during the 2016 financial year

Regulated agreements signed in 2007 approved by the Board of Directors

Parties to the contract	Subject matter of the contract	Date signed
DCN/Thales	Addendum no. 1 to the agreement to transfer TNF shares and the TNF guarantee agreement *Considered by the meeting of the Board of Directors of March 22, 2007*	March 29, 2007
DCN/Thales	Letters of counter-guarantees issued in favour of Thales in connection with the acquisition of TNF *Considered by the meeting of the Board of Directors of March 22, 2007*	March 29, 2007
DCN/Thales/Armaris	Letter concerning the transfer by Armaris to Thales of the benefit of its rights under DCN letter of October 5, 2005 no. 05000162 OL/NP *Considered by the meeting of the Board of Directors of March 22, 2007*	March 29, 2007
DCNS/Thales	TNF guarantee agreement – General and specific guarantees given by Thales to DCNS in connection with the acquisition of 100% of the capital of Thales Naval SA	January 30, 2007
DCNS/Thales/Thales Naval France	Irrevocable undertaking, without compensation, for Thales to indemnify TNF or DCNS for the damaging consequences resulting from any arbitration or legal proceedings, in progress, or brought against TNF as a result of the conditions for concluding or performing the Bravo contract	January 30, 2007

Regulated agreements signed in 2006 approved by the Board of Directors

Parties to the contract	Subject matter of the contract	Date signed
DCNS/DGA/CEA	Offer for the development, construction and maintaining in the initial operational state of six Barracuda nuclear-powered attack submarines	December 21, 2006
DCNS/SPN	Offer for long lead-time procurement to be fulfilled in advance to allow the operations for SNLE-NG adaptation for M51 missiles	December 21, 2006
DCNS/SSF	Offer for the IPER and MCO Global for the *Charles de Gaulle* aircraft carrier	December 19, 2006

Regulated agreements signed in 2004 approved by the Board of Directors

Parties to the contract	Subject matter of the contract	Date signed
DCNS/Thales	Agreement governing relations between DCNS and Thales (and Armaris until it was merged with DCNS on September 30, 2009) on the assumption that the solidarity undertaken from Thales to Finmeccanica in the context of the shareholders agreement of Eurosysnav SAS would be implemented by the latter	May 24, 2004

Regulated agreements signed in 2003 approved by the Board of Directors

Parties to the contract	Subject matter of the contract	Date signed
State/DCN Développement	Contribution agreement describing the rights, property and obligations of the DCN service with national authority (SCN) of the Ministry of Defence contributed by the State to DCN Développement, the value placed on these and the terms and conditions of the contribution	May 26, 2003
State/DCN Développement	Framework agreement specifying the agreement additional to the contribution agreement to be entered into by the State and DCN Développement in connection with performing the contribution operation	May 26, 2003
DCNS/DCN International	Mandate on management of DCN International cash flow by DCNS	December 18, 2003

APPENDIX 2

List of delegations of power obtained from the General Meeting of Shareholders

None.

APPENDIX 3

List of offices held and functions performed by each corporate officer during the year ended December 31, 2016

	Company	Function or office
Hervé Guillou	DCNS	Chairman and Chief Executive Officer
	BE MAURIC	Vice Chairman of the Supervisory Board
	SNEF	Director
	Compagnie Maritime d'Expertises – COMEX	Director
	3 CAP Advisor	Chairman

	Company	Function or office
Jack Azoulay	Ministry of the Economy, Finance and Industry	Director of Shareholdings at the State Shareholdings Agency *(from September 19, 2016)*
	DCNS	Director *(from September 16, 2016)*
	PSA	Vice Chairman of the Supervisory Board *(from September 22, 2016)*
	KNDS	Director *(from October 26, 2016)*
	STX France	Director *(from October 4, 2016)*

	Company	Function or office
Sophie Mantel	Ministry of Finance and Public Accounts	Head of department, deputy Director of Budget Management
	DCNS	Director
	Française des Jeux	Director
	PMU	Director
	Institut Pasteur	Director, Board member, treasurer
	La Poste	Director
	SNCF Mobilités	Director

	Company	Function or office
Pascal Bouchiat	Thales	General Director, Finance and IT Systems
	DCNS	Director
	Thales Alenia Space	Director

	Company	Function or office
Nathalie Ravilly	Thales	Director of mergers and acquisitions at the Strategic department
	Thales	VP Strategy
	DCNS	Director
	TCV	Chair and director

	Company	Function or office
Gabrielle Gauthey	Caisse des Dépôts – Investments department	Director of investments and local development
	DCNS	Director
	EXTERIMMO	Chair
	CDC Infrastructure	Chairwoman of the Board of Directors
	CDC Climat	Chairwoman of the Board of Directors
	CDC Numérique	Chairwoman of the Supervisory Board

	Company	Function or office
Bernard Rétat	DCNS	Director

	Company	Function or office
Bertrand Le Meur	Ministry of Defence	Head of the Department of Industrial Affairs and Economic Intelligence
	DCNS	Director
	Thales(1)	Member of the Board of Directors of Thales for specific action
	AIRBUS SAFRAN Launchers	Director

(1) Bertrand Le Meur was appointed member of the Board of Directors of Thales as State representative, for specific action (decree of July 3, 2014).

	Company	Function or office
Jacques Hardelay	Alstom Renewable Power System	Senior Vice President Alstom Hydro
	Chantier Naval de Marseille SAS (CNM)	Chairman
	DCNS	Director

	Company	Function or office
Luc Rémont	Schneider Electric France	Chairman and Chief Executive Officer
	DCNS	Director
	Atos Worldline	Director, Chairman of the Appointments and Remuneration Committee

	Company	Function or office
Patrice Caine	Thales	Chairman and Chief Executive Officer
	DCNS	Director

	Company	Function or office
Sandra Lagumina	Engie	Executive Vice President in charge of infrastructures, GTT and China *(from January 1, 2016)*
	GrDF	Director, permanent representative of Engie
	DCNS	Director
	Gaztransport et Technigaz (GTT)	Director *(until December 31, 2016)*
	Engie IT SA	Director
	GRT gaz	Director, permanent representative of Engie *(from February 2, 2016)*
	Elengy	Director, permanent representative of Engie *(from February 23, 2016)*
	GDF Suez China Investment Company	President *(from March 7, 2016)*
	Public establishment of the military and aeronautics provident fund	Director
	Fondation nationale des sciences politiques	Director (Corporate Social Responsibility Committee) *(from April 1, 2016)*
	Abertis	Director *(from June 28, 2016)*

	Company	Function or office
Gilles Rapale	DCNS	Manager – PA CDG offer
	DCNS	Director

	Company	Function or office
Isabelle Roué	DCNS	Prevention/Environment Officer
	DCNS	Director

	Company	Function or office
Laurent Chagnas	DCNS	Technical and Administrative Secretary
	DCNS	Director

	Company	Function or office
Jacques André	DCNS	Electronics engineer, submarine detection
	DCNS	Director

	Company	Function or office
Joël Ricaud	DCNS	Applications Group Manager
	DCNS	Director

	Company	Function or office
Thierry Barbarin	DCNS	Safety Officer
	DCNS	Director

Director whose term of office at DCNS terminated during the year ended December 31, 2016

	Company	Function or office
Astrid Milsan	Ministry of the Economy, Finance and Industry	Secretary General at the General Directorate of the Treasury
	Ministry of the Economy, Finance and Industry	Director of Shareholdings at the State Shareholdings Agency
	DCNS	Director
	Safran	Director
	GDF SUEZ	Director

APPENDIX 4

Proposal to allocate the earnings of DCNS SA for the year ended December 31, 2016

Recognising the conditions of quorum and majority required for ordinary shareholder meetings, the shareholders, at the proposal of the Board of Directors, have decided to allocate the earnings for the financial year ended December 31, 2016, totalling €226,746,581.43, as follows:

- €226,746,581.43 to retained earnings, which have thereby risen from a deficit of €118,810,196.05 to a surplus of €107,936,385.38.

OTHER INFORMATION 124

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