



**FINANCIAL
+ REPORT
2017**

NAVAL
GROUP

POWER AT SEA

Ladies and Gentlemen,

We have called this Ordinary and Extraordinary General Meeting of Shareholders 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, 2017 and to submit for your approval the company's annual and consolidated financial statements for the said period.

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, 2017, the report of the Statutory Auditors on the consolidated financial statements for the financial year ended December 31, 2017 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 other 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 time frames 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 and Chief Executive Officer

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

Meeting of the Board of Directors of February 28, 2018

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

I. PRESENTATION OF NAVAL GROUP AND ITS POSITION DURING THE YEAR⁽¹⁾

I.1. PRESENTATION OF NAVAL GROUP

I.1.1. Ownership and governance

Naval Group (the “company”) is a *société anonyme* (public limited company) under French law. As at December 31, 2017, 62.25% of its capital was held by the French State, 35% by Thales, and 1.80% by current and former members of staff of the company and its subsidiaries through the Actions DCNS employee mutual fund (2008 and 2014 Compartments of FCPE Actions DCNS), the remaining 0.95% being made up of treasury shares held by Naval Group Actionnariat.

Under the Second Reserved Share Offer, on December 2, 2017, the State allocated 132,170 free shares in Naval Group to staff and former staff of the company and its subsidiaries who were eligible for such an allocation in accordance with article 5 of the order dated February 10, 2014. These beneficiaries contributed the said shares to the 2014 Compartment of FCPE Actions DCNS on December 2, 2017.

During 2017, Naval Group Actionnariat (a 100% subsidiary of the group) purchased 41,149 shares in Naval Group in accordance with the share buyback guarantee granted to staff. Of these, 24,100 related to the 2008 Compartment of FCPE Actions DCNS (the First Reserved Share Offer) and 17,049 to the 2014 Compartment of FCPE Actions DCNS (the Second Reserved Share Offer).

As at December 31, 2017, the group thus held 532,247 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 French 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 Naval Group is structured around an Executive Committee made up of nine members including the Chairman and CEO. The other members are as follows: Deputy Chief Executive for Finance, Legal and Procurement, Deputy Chief Executive for Development, Services Director, Programs Director, General Secretary, Director for Industry, International Sales Director and the Director for the Australian Future Submarine program (AFS).

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 “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 18 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.

The General Meeting of Shareholders which met on December 19, 2014 appointed 11 new directors, of whom five were proposed by the French State and three by Thales.

(1) OECD.

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.

The 11 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 Rézat, 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.

Up until July 21, 2017, the secretary of the Board of Directors was Mr Jean-Yves Battesti, the General Secretary of Naval Group. Ms Corinne Suné was appointed as Mr Jean-Yves Battesti's replacement as the new secretary of the Board of Directors in accordance with the resolution passed by the Board on July 21, 2017.

I.1.2. Activities

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

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

The group's activities

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

Naval Group covers the entire spectrum of naval armament, ranging from ocean patrol vessels to conventional submarines, 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 programs. 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.

Lastly, the group's new subsidiary Naval Energies offers a wide range of marine renewable energy solutions. 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 programs;
- 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 Naval Group's major strengths is its ability to bring to market some of the world's most complex innovative products, 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 French Navy's Mediterranean and Atlantic fleets;
- 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 *Le 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 Naval Energies, supplies its first kilowatts to the Canadian electricity grid.
- 2016: Naval Group 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 50 years;
- Barracuda nuclear attack submarines, designed to provide the French Navy with defence equipment at the apex of technology;
- Scorpène®-class conventional submarines, 14 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.1.3. Organisation

Naval Group implemented its new organisational structure in January 2015 in order to address its strategic priorities, the guiding 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 in-service support business for French Navy vessels and strengthen our partnerships with over 50 navies 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 2017

I.2.1. Scrutiny of the annual financial statements and key events

The consolidated financial statements for Naval Group presented here for the year ended December 31, 2017 were adopted by the Board of Directors on February 28, 2018 and will be submitted for approval to the Ordinary and Extraordinary General Meeting of Shareholders to be held in March 2018.

The year 2017 was marked chiefly by the following major events:

- France's Ministry of Defence notified Naval Group of the contract to develop and produce an intermediate-sized frigate (FTI);
- Naval Group is experiencing delays in program execution in relation to the port infrastructure to accommodate the future Barracuda nuclear attack submarine. These operational difficulties have had an adverse impact on the 2017 financial statements;
- Margins to completion for naval defence programs have generally remained steady or improved relative to the previous year;

• In the face of operational difficulties encountered in the second half of 2017 and a global market whose short-term growth is less than anticipated, Naval Energies, the majority-owned subsidiary of Naval Group, had to devise a new strategy, the consequence of which is a downward revision in the asset value of Naval Energies in the Naval Group accounts. The corresponding depreciation cost was (€109.2) million as at December 31, 2017.

I.2.2. Naval Group results and financial position

Revenue

The group's revenue for 2017 was €3.7 billion, a rise of 15.9% compared with 2016.

International revenue made up 35.5% of the total.

Backlog

Orders with a value of €4 billion were received during the course of the year. The book-to-bill ratio was 1.1.

As at December 31, 2017, the group's order book stood at €11.9 billion.

Results

An operating profit of €243.4 million (6.6% of revenue) before amortisation of intangible assets acquired in business combinations was recorded for the year, as compared with €80.1 million (2.5% of revenue) in 2016. Operating profit after net income from equity affiliates was €165.9 million, as compared with €87.2 million in 2016.

Net financial income was €8.9 million, as compared with €29.4 million in 2016.

The consolidated tax charge was €142.8 million.

The current tax figure of €130.1 million includes an extraordinary contribution (surtax) amounting to €28.0 million.

The variation in the deferred tax charge of €12.7 million includes a €7.6 million charge corresponding to anticipation of the lowering of the current tax rate on the group's entire deferred tax inventory (as at December 31, 2016, the variation in deferred tax included a charge of €5.9 million, corresponding to anticipation of the lowering of the current tax rate on actuarial liabilities).

The amortisation charge on intangible assets acquired in business combinations was €0.7 million.

The net profit for the period was consequently €32.0 million.

Financial position and changes in net cash

	12/31/2017	12/31/2016
Non-current marketable securities	92.0	203.8
Current marketable securities	231.0	220.6
Net cash	2,475.2	2,301.9
LIQUIDITY	2,798.2	2,726.3

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.2.3. Naval Group activities

Industrial and commercial activity

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

Industrial business

The year 2017 was the second year of operation of the new Industry Division. The scope and organisational structure of the Cross-Functional Engineering Division, set up in 2016, was finalised in 2017. At the end of the year, the Operational Excellence Division, which resulted from the reorganisation of the Human Resources and Operations Division, joined the Industry Division. The final organisational structure and distribution of its activities will be announced in the first half of 2018.

During the year, the Industry Division has striven to continue the progress begun the previous year in every key area in as pro-active a manner as possible:

- various internal projects continued to be carried out with respect to skills, methods and tools. Management continued to be strengthened and methodological changes 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;

- at group level, the Industry Division led the contribution of skill-sets for the redesign of the group's IT tools for product design and manufacturing (product life cycle, computer-assisted production management, and supply chain);

- work also continued on the transformation and upgrading of the company's manufacturing facilities. A machinery plan is currently being implemented at the equipment-manufacturing sites. Site-level production master plans have been drawn up on all sites. Implementation of the reorganisation plan for the Angoulême-Ruelle site has begun with the obtaining of the necessary permits to build the Innovation & Development Centre and the finalising of plans for the first dedicated workshops and purchase of the first pieces of machinery. A plan to transform the Hull Structure workshop in Cherbourg ("Legris") has been launched. The downsizing in support and maintenance staff has been carried out in accordance with the agreements made at group level.

Project CMMI, which was launched at the end of 2016, has enabled Naval Group to continue and sustain the momentum of transformation in program management practices during 2017 and in years to come. Increased maturity and an improvement in project management practices can already be seen in certain areas. Progress with this work will ultimately allow us to obtain recognition from a certifying body. The Mission and Combat Systems Division (MCS), the forerunner in this respect, obtained its Level 2 CMMI certification at the end of the year.

The rate of progress on this project also allows us to view with confidence the entry into force of the new financial reporting standard IFRS 15, which closely links the quality of the business's financial control with the quality of the control of its programs.

The encouraging signs observed in 2016 have been confirmed: the monitoring and forecasting of capacity use have been improved, manufacturing budgets are under greater control and costs and targets on the main programs have generally been met. Strengthened, integrated control structures have been put in place with the main partners concerned to ensure compliance with our program schedules. These control structures have, in particular, allowed the delivery of the first Gowind® just 37 months after receiving notification of the contract but have not been sufficiently effective to provide definitive security regarding the delivery schedule for the Barracuda submarines. Efforts will be maintained and increased in 2018, notably with the setting up of an integrated industrial hub in Cherbourg between the Naval Group teams and TechnicAtome teams.

Nevertheless, the effort required over the coming years to ensure these new program management practices mature and become firmly anchored throughout the group on a permanent basis should not be underestimated.

Programs business

Submarines

Sales highlights were:

- the order in June 2017 of critical components for submarines 5 and 6 in the Barracuda program (amendment 16), also stipulating the postponement of the order for submarine 5 to mid-2018 at the latest, while the order for submarine 6 is still planned for mid-2019;
- the entry into force of significant amendments to the Brazilian PROSUB program, making provision in particular for:
 - the establishment on a contractual basis of the new schedule dated July 31, 2015,
 - the simplification of certain contractual mechanisms,
 - notification of an additional technical assistance component to the SNBR (Brazilian nuclear submarine) and Shipyard wings of the program, and
 - financing for the additional costs arising as a result of the overall delay to the program.

In addition to these new orders, sales activity in 2017 was marked by negotiations with the French National Defence Procurement Agency (DGA) regarding amendment 17 of the Barracuda program (dealing with obsolescence of submarines 4 to 6 and additional logistics) which is expected to be issued in 2018.

It should also be noted that, at the start of 2017, Norway decided to halt the ongoing call-for-tender process for the replacement of their submarine fleet, as the Norwegians had decided to negotiate a private, government-to-government contract covering the simultaneous acquisition by the German and Norwegian governments of identical submarines and cruise missiles.

Highlights of Naval Group's submarine construction business in regard to current contracts were as follows:

Barracuda submarines

Four submarines (*Suffren*, *Duguay-Trouin*, *Tourville* and *De Grasse*) are in different stages of production at Cherbourg:

- summer 2017 marked the end of integration of all equipment on *Suffren* (SM1). The start of commissioning and trials of *Suffren* installations will go on until the end of 2018;
- at the same time, the first sections of the *Duguay-Trouin* (SM2) have been assembled and installation work on the submarine has begun in the same hall as the *Suffren*;

At Nantes-Indret, work is in progress on four steam supply modules and propulsion equipment. In 2018, tasks involving different stages of production will be carried out on numbers 3, 4, 5 and 6 in the series while work is being completed on the steam supply systems and propulsion equipment for submarines 1 and 2 in Cherbourg.

PROSUB submarines for the Brazilian Navy

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

- 2017 was marked by Naval Group SA's delivery of specifications for start-up and trials to its subsidiary ICN, which is in charge of building the submarines in Brazil, as well as by strong acceleration in delivery of material packages;
- assembly and installation work on the SBR submarines continued at ICN throughout the year. The first Brazilian Scorpène® (*Riachuelo*) is at the outfitting stage (armament). The various sections of hull will be fully welded in the first half of 2018, with installation of the batteries planned for the end of the year.

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

- the design phase came to an end in January 2017. Discussions with the Brazilian Navy are in progress to investigate a gradual launch of the next phases.

Scorpène® P75 submarines for the Indian Navy

The submarine *Kalvari* entered active service with the Indian Navy on December 14, 2017. It is the first of six Scorpène® submarines built entirely by the Indian shipyard, Mazagon Dock Shipbuilders Limited (MDL) as part of a transfer of technology with Naval Group that has been going on for several years.

The second submarine, *Khanderi*, was launched on January 13, 2017 and is currently undergoing trials in dock and at sea.

3G Ballistic Nuclear Submarine Program

Detailed design studies for the third-generation ballistic nuclear submarine began in early 2017, under a co-contracting agreement with TechnicAtome. Technological research that begun several years ago also continues, aimed at reinforcing the program's innovations. This work involves all Naval Group's French sites as well as numerous industrial partners and is contributing to the gradual ramp-up in the teams who will be responsible for the development and production of future ballistic nuclear submarines.

Australian Future Submarine (AFS)

The year 2017 was marked by completion of studies with regard to the functional analysis of the submarine, in France and Australia, in a collaboration between Naval Group, Lockheed Martin Australia, the installer of the combat system, and the Commonwealth of Australia, and by the launch of feasibility studies.

The search for Australian companies capable of supplying equipment and materials to build the submarines continued in 2017, with the start of the qualifying stages for Australian suppliers.

The preliminary design and functional specification for the Australian site where 12 submarines to be built were delivered at the end of 2017, coordinated by Naval Group with the collaboration of its Australian subsidiary.

In parallel with the start of the design studies for the submarine, a building to accommodate a delegation from the Commonwealth program team, part of the Naval Group program team and representatives from Lockheed Martin Australia was built at Naval Group's Cherbourg site. It was officially opened on July 9, 2017 by the Australian Prime Minister Malcolm Turnbull in the presence of the French Minister for the Armed Forces, Florence Parly. About 25 Australian families have moved to Cherbourg since September 2017.

Naval Group in Australia has seen a five-fold increase in staff in 2017, with many engineers and technicians being recruited, particularly in procurement, to increase the proportion of equipment manufactured in Australia and in the fields of naval architecture and submarine technology in order to create the maintenance engineering core for the future submarines.

These services were performed as part of the Design and Mobilisation Contract, signed in 2016. This contract was subject to two amendments in 2017, one to formalise the functional analysis phase on a contractual basis and the other to launch the feasibility studies.

At the end of 2017, Naval Group in Australia signed its first contract with the Commonwealth, concerning the completion of the detailed design for the infrastructure for building the submarines.

Surface vessel business

Sales highlights were:

- the notification in April 2017 of the contract to develop and build an intermediate-sized frigate (FTI) for the French Navy. Naval Group is proposing a French version of its new Belharra® frigate which revitalises the segment for heavily armed 4,000 tonne frigates. As part of this contract, in 2017 the French National Defence Procurement Agency (DGA) firmed up the first phase of the contract, corresponding to the development of the intermediate-sized frigate (FTI) and the building of the first of five frigates which is due to be delivered in 2023 for entry into active service in 2025;
- amendment 17 to the FREMM France program, specifying changes in capacity for frigates in this class.

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 FREMM *Languedoc* entered active service in July 2017, the FREMM *Auvergne* was delivered in April 2017, the FREMM *Bretagne* underwent sea trials during the final quarter of 2017 after first getting underway in October 2017 and the FREMM *Normandie* has been assembled at the Lorient site, with a final launch target of February 2018. Work also continued on the FREMM *Alsace* which will be one of two FREMM, along with the FREMM *Lorraine*, to have enhanced anti-aircraft capabilities, with delivery of these frigates scheduled to take place by 2022.

Gowind® Egypt

On September 22, 2017, Naval Group delivered its first Gowind® 2500 corvette to the Egyptian Navy. The construction in Egypt continued at the Alexandria Shipyard which is in charge of construction of the other three corvettes.

This vessel, for which ten orders have been received to date, complements the group's extensive range of ships and submarines.

Gowind® Malaysia

On August 24, 2017, the naming ceremony and launch of the first Gowind® Malaysia corvette took place in Lumut at our partner's site, Boustead Naval Shipyard.

Services business

In France, 2017 saw the signing of a contract for the refit of La Fayette-type frigates and the contracting of integrated logistical support for the intermediate-sized frigate (FTI) together with the building contract. Outside France, 2017 was marked by orders for combat system spare parts for the Indian Scorpène® submarines.

From an operational perspective, business was particularly intense, both in France and abroad.

In France, this included:

- the aircraft carrier, *Charles de Gaulle*, coming into dock, marking the start of the refit and in-service support phase in connection with the vessel's second major technical overhaul;
- the end of the IPER (periodic maintenance and repair) refit for the nuclear attack submarine *Améthyste*;
- examination of the case for extending the life of the nuclear attack submarine *Rubis*;
- continued adaptation of the Toulon Missiessy infrastructure to accommodate Barracuda-type nuclear attack submarines;
- continuation of the IPER refit contract with the *Téméraire*, aimed at adapting this vessel to carry M51 missiles;
- a ramp-up in FREMM maintenance activities with, in 2017, four ships in service in Brest and Toulon;
- performance of various overhauls as part of in-service support contracts;
- rollout of security maintenance services to various types of vessel.

Internationally, the Services Division continued to grow:

- in Malaysia, within the BDNC joint venture, 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, continued in 2017 at the Kota Kinabalu base, with the vessel being launched at the end of 2017 and its handover to the Royal Malaysian Navy scheduled for early 2018;

- in Saudi Arabia, the year was marked by considerable activity in connection with a steady number of technical overhauls as part of the performance of LEX contracts (Life Extension for Sawari 1-class frigates) and E-RAV contracts (refits of Sawari 2-class frigates);

- in Morocco, the technical overhaul of the Moroccan FREMM *Mohammed VI* was successfully carried out, aimed at a handover in February 2018;

- in Egypt, the group provides in-service support services both for the FREMM *Tahya Misr* and for the two projection and command vessels *Gamal Abdel Nasser* and *Anwar El Sadat*;

- lastly, in Singapore the year was marked by the building of the extension to the port security barrier at Changi naval base, a significant increase in technical work on French Navy vessels on a stopover in the region and the start of centralised procurement operations for the group.

Naval Energies business

In order to expand its business in the marine renewable energy sector, at the end of 2016 Naval Group established a dedicated subsidiary, Naval Energies, with three partners: Bpifrance, TechnipFMC and BNP Paribas Développement. This company's vision is to be recognised as the world leader in its sector through its mastery of the key elements of the value chain: design, manufacturing, deployment and maintenance of systems or subsystems, with respect for the environment, both at sea and in coastal areas. Its expertise is founded in particular on the established areas of know-how of Naval Group, a specialist in producing complex systems designed for the marine environment.

Naval Energies' development is now based on three marine renewable energy technologies:

- tidal turbines;
- floating wind turbines;
- ocean thermal energy conversion (OTEC).

In 2017, the group structured its coordination and organisational processes and internal governance control and strengthened its ties with its Irish subsidiary OpenHydro and Chilean subsidiary Energia Marina (MERIC project) in the aim of generating synergies as part of a more integrated organisation. With the arrival of a new management team, the group also began a strategic review of its business, based on lessons learned from various pre-commercial programs and ongoing commercial activities. This review resulted in resources being adapted to suit market needs and the level of maturity of technology in the different product lines. The main events are detailed below, grouped by technology.

Tidal turbines

Paimpol-Bréhat and Normandie Hydro

EDF and Naval Energies have drawn lessons from their experience in building, installing and conducting trials of OpenHydro tidal turbines at the Paimpol-Bréhat experimental site. This instructive review of lessons learned brings this important development phase to a close. In parallel with this, the EDF group and Naval Energies are continuing with the Normandie Hydro pilot tidal energy farm which involves the installation of seven tidal turbines in the Race of Alderney, one of the world's most promising sites, offering the most substantial resources.

Cape Sharp Tidal

Feedback on lessons learned from Paimpol-Bréhat will be of particular benefit to the experimental array in the Bay of Fundy (Canada), known as the Cape Sharp project, led by Naval Energies in cooperation with Emera. These two technology demonstration projects, conducted on sites with very different but complementary environmental conditions allow important data to be gathered and used to optimise the design, reliability and performance of OpenHydro tidal turbines. One turbine will be installed offshore in Canada next summer.

Cherbourg site

In July, Naval Energies and OpenHydro laid the first stone for the tidal turbine assembly plant in Cherbourg which is scheduled to enter service in the first half of 2018. The maximum production capacity for this 5,500 m² plant in its nominal configuration will be 25 turbines a year.

Floating wind turbines

In March 2017, the Regional Council of Brittany announced it was strengthening its partnership with the group to identify potential Atlantic sites for large capacity wind farms. In June 2017, Naval Energies also gained Bureau Veritas certification for its design for a semi-submersible platform. The group is also continuing with the Groix Belle-Île pilot wind farm project for Eolfi.

Ocean thermal energy conversion (OTEC)

As a systems and sub-systems manufacturer, Naval Energies is concentrating its efforts on finalising the design of the heat exchangers (central electricity generation system). In parallel with this, Naval Energies offers complete land-based OTEC systems in partnership with companies that could incorporate co-products such as seawater air conditioning systems, for instance. Naval Energies still has OTEC in its sights, however this remains dependent firstly on significant public support and secondly on technological developments for piping seawater from a great depth.

I.2.4. Research and development activity (R&D)

In 2017, R&D activity focused on driving forward our R&D projects, especially the most ambitious ones, and on overall R&D management as well as providing a clear structure for foresight studies. Marine Renewable Energy activities (MRE) have been transferred to Naval Energies and are not mentioned in this business report.

Self-funded R&D expenditure was €90.7 million, with the main areas of focus being as follows:

- increasing the maturity of required technologies for programs and product lines (especially the intermediate-sized frigate (FTI), Scorpène® Evolution and AFS);
- medium- and long-term competitiveness of our core products (submarines and surface vessels) and associated technologies (including site processes and calculation codes);
- development of R&T (research & technology) activities through Naval Group Research.

Naval Group spends around 2.4% of its revenue on self-funded R&D, which is less than other European shipbuilders. This ratio equates to 9% if you include R&D contracts, subsidized R&D and R&D included in the programs.

R&D at Naval Group financed by the French National Defence Procurement Agency (DGA) amounted to over 2.7% of the early-stage studies budget.

The end of developments in the FREMM and Barracuda programs and the transfer of MRE activities to a dedicated subsidiary, meaning the *de facto* withdrawal of these activities from the historical scope of Naval Group's research tax credit (CIR) are compensated for by the ramp-up in the 3G ballistic nuclear submarine, intermediate-sized frigate (FTI) and Australian programs. The scope of activities eligible for Naval Group research tax credit was defined in the second half of 2017 just for naval defence activities, resulting in an improved valuation for 2017 compared with 2016. A more complete analysis in regard to 2017 also highlighted a significant rise in research tax credit that should have been claimed in regard to 2014, 2015 and 2016 and which has therefore formed the subject of an amended return in respect of 2017. Some 60% of the 2017 naval defence research tax credit comes from self-funded R&D and early-stage study plans.

As in 2015 and 2016, R&D planning at the medium-term and strategic levels has been the subject of an unprecedented assessment process involving much thought, debate, knowledge-sharing and trade-offs, culminating in the definition of 28 major innovation areas which will receive around 70% of future effort. These areas cover a very wide range of fields from products and components (equipment and systems) to modelling and innovative manufacturing procedures. To complement this, 19 additional innovation areas have been

defined to cover R&D work on product/process technologies that are significant to Naval Group's core business.

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

Foresight studies, including the identification of future-oriented areas for investigation was reinforced and structured in 2017 with initial work on the process of putting together a long-term vision for R&D, the start of work on drawing up a foresight plan and continued studies in connection with the Innovation Booster. This involves an ideas booster featuring the introduction of awards, suggestion boxes and brainstorming sessions as well as a project booster, starting with additive manufacturing.

The Naval Group Scientific Advisory Board met twice, firstly at Ollioules in June and then in November at Technocampus Ocean in Nantes. The four working groups that were set up in 2016, involving Advisory Board members and Naval Group staff, presented their results to the Advisory Board in June and then their recommendations to the Executive Committee (Comex) in November.

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. Specific emphasis has been placed on meeting timing, quality and cost commitments with regard to R&D projects, on structuring the collaborative R&D process (notably through the introduction of "gates") and on process control indicators.

The requirement to reach a more 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. To this end, innovation reviews are held with the programs to ensure that the innovations required by the programs and preliminary projects are much in evidence, with the necessary level of maturity. These reviews also provide the opportunity to promote further new innovations of benefit to these vessels, developed as part of R&D activities and liable to improve the competitiveness of these vessels.

R&D work carried out by Naval Group in 2017 with regard to surface vessels principally comprised the following:

- laying down the reference specifications for a Gowind® 2500 vessel, building on the current Egyptian program, in order to further increase the competitiveness and attractiveness of the reference product and place it at the centre of the market;
- continuation of studies for systems that will first be deployed on the Belharra® intermediate-sized frigate; although the first ships will be produced for the French Navy, the vessel has been designed right from the start to be in the best position in the export market in the 4000-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 work on the combat management system, in particular multi-platform situational awareness and tactical situation intelligence and image-based detection/classification;
- start of studies into technological barriers with a view to preparing for the capture of an early-stage study plan for the Sylver® Mk 2;
- research into a gearbox range for initial application on intermediate-sized frigates (FTI);
- 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 and algorithms, including virtual assistants, voice and gesture recognition, 3D and so on;
- continued work on shipboard hyperconnectivity (4G LTE communications) and comprehensive data management within an air-sea force;
- continued work on spectrum management;
- reverse engineering research on a corvette and a concept ship study.

R&D work carried out by Naval Group in 2017 with regard to submarines principally comprised the following:

- continuation of preliminary projects for the third generation of ballistic nuclear submarines (R&D sold);
- acceleration of work on the Australian Future Submarine program following Naval Group's retention by the client in April 2017 (R&D sold); in addition, work was done to retain our intellectual property in certain subjects;
- continuation of preliminary work (DP0/DP1) on the Scorpène® Evolution product line, taking the best from the four previous Scorpène® programs and incorporating the technological increments most strongly anticipated by the market in the classic 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;
- continued 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 (French Atomic Energy and Alternative Energy Commission) with a view to securing the later-stage phases of its industrial development;
- launch of a unifying Subtics® project with a view to producing an incremental prototype for a submarine combat management system, enhanced with multi-function capabilities (including cyber, control of submarine facilities, X-rudder steering console, operating with reduced strength, onboard IT infrastructure and so on);

- work on the use of weapons and sensors: modular handling, universal modular mast and project Alpha;
- developing algorithms for submarine navigation in constricted or shallow waters.

With respect to cross-functional technologies, the following activities in 2017 deserve to be highlighted:

- acceleration of work on digital vessels:
 - intensification of cybersecurity work, with extra resources for several projects (Cybersecurity Framework and cyber-defence of 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 proofs of concept and demonstration prototypes,
 - the drawing up of an artificial intelligence roadmap, presented to the French National Defence Procurement Agency (DGA) and contact made with potential partners (ONERA and INRIA);
- introduction of UxV technological roadmaps, with the start of studies into autonomous navigation and decision-making; in particular, a demonstration of multi-environment drones at Naval Innovation Days proved very impressive;
- 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;
- initial studies as part of the Factory Lab partnership, aimed at accelerating the development of future manufacturing technologies, in conjunction with other major industrial companies and CEA Tech (the technological research division of the French Atomic Energy and Alternative Energy Commission).

R&D work carried out by Naval Group in 2017 in relation to marine renewable energy principally comprised the following:

- tidal turbines: offshore installation and the first trials of second-generation tidal turbines with OpenHydro, with a view to installation at the pilot tidal power farms in the Bay of Fundy (Canada) and the Race of Alderney (France). General investigations into optimising 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.

Naval Group's Technology Research Centre: Research

Thanks to its move to the Technocampus Ocean collaborative innovation hub, Research has enhanced its reputation and is dedicating itself fully to its assigned mission, namely preparing for the future of Naval Group through its ability to open up to the outside world. Its premises were the venue for a number of visits as well as for major events such as the Naval Innovation Days, held in June 2017, which were an opportunity for the group to present its work on innovation.

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

The staff at 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 small and medium enterprises (SMEs) 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 our ships' stealth capabilities;
- 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 multi-sensor fusion algorithms;
- develop new multi-level multi-physical 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 Naval Group products.

Naval Group Research's expertise made it a major contributor to all Naval Group programs in 2017, in regard to both production and maintenance-in-service.

Through its Sirehna subsidiary, Naval Group 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 lending its expertise in motion control to groupama Team France to support it in its bid for the America's Cup.

Lastly, free-running model testing enabled manoeuvrability tests to be performed on submarines and numerous helicopter water landing services to be provided for major aviation businesses such as Airbus, Augusta Westland, Zodiac and so on.

Sirehna has also produced 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 partnership with innovative SMEs.

Moving towards collaborative innovation

In 2017, Naval Group's Innovation and Technical Expertise Division brought the majority of its staff to its Research site at the Technocampus Ocean shared innovation hub, located on the outskirts of Nantes, alongside key contributors to innovation such as CEA Tech, Dassault Systèmes and Alstom.

This new location underscores Naval Group's aim to make innovation the driving force of its development in France and internationally. Innovation is a source of constant revolution; Technocampus Ocean will accelerate the emergence and evaluation of the breakthrough technologies that are vital to Naval Group. Investments in R&D now depend 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 Naval Group is a founder member and also with IRT M2P (Materials, Metallurgy and Processes) in Metz and IRT SystemX (digital engineering for systems of the future) in Paris. Naval Group 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 Gustave Zédé joint research and innovation laboratory, established in 2015 by Naval Group through its Research Centre and ENSTA Bretagne, has carried out its first work in the field of materials, structures and associated processes.

In 2016, Naval Group, 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

Naval Group has continued its 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, Naval Group prepared the ground for several naval R&D cooperation agreements with universities in Australia. The institutions concerned include the University of New South Wales (UNSW, Sydney) (acoustics, mathematics and statistics, and electrical components), the University of Technology Sydney (UTS, Sydney) (information processing and robotics), the Australian Maritime College (AMC-UTAS, Tasmania) (hydrodynamics and fluid-structure interaction) and the Defence Materials Technology Centre (DMTC) (materials, naval structures, corrosion and biofouling).

Naval Group has signed a collaboration agreement with the CRTI (Industrial Technological Research Centre in Algiers with a view to collaborating on work in relation to materials, welding, corrosion and non-destructive testing).

Digital transformation of the Innovation and Technical Expertise Division (DIT)

The Innovation and Technical Expertise Division (DIT) has deployed the DIT digital multi-field dynamic dashboard to conduct innovation and technical expertise performance reviews in particular (covering R&D work especially, as well as intellectual property, the technical standards framework, feedback on lessons learned and technical reviews). In 2017, specifications were also produced for an additional tool for coordinating R&D and foresight studies to provide a view of the consistency between the R&D plan and the needs of programs and product lines. The purpose of this transformation is to decompartmentalize, share information with stakeholders (Technical Development Director, Business Sector Manager, R&D project manager, R&D coordinators, product line marketing, Purchasing Director and architects) and ultimately free up time for an outward-looking approach and long-term thinking.

I.2.5. Subsidiaries and joint ventures

Subsidiaries

Activities and results of subsidiaries and associates

NB: The change of brand and group name in 2017 led to the registration of new names for its subsidiaries, the administrative proceedings for which are at varying stages of progress.

Naval Group holds direct or indirect shareholdings in the following consolidated group companies (all holdings are 100% unless stated otherwise):

Armaris Quater

Armaris Quater owns Naval Group Actionnariat.

Naval Group Actionnariat

This company is responsible for conducting buybacks of staff shares, allocated under the 2008 and 2014 staff share offers.

DCNS Participations

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

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

BDNC is located in Malaysia. The company's principal object is to supply in-service support 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 Naval Group for 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.

Naval Group Far East Pte Ltd (formerly DCNS Far East Pte Ltd)

Naval Group Far East Pte Ltd operates in Singapore, performing logistics and systems maintenance work in relation to naval and naval aviation activities.

DCNS India Pte Ltd

DCNS India provides local support for the performance of the Indian submarine-building program.

Défense Environnement Services (DES) (49% holding)

DES was founded by Naval Group 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.

Eurosynnav SAS (50% holding)

Eurosynnav 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 the process of liquidation as of the end of December 2017.

Horizon SAS (50% holding)

Horizon was established to act as overall general contractor for the Horizon anti-aircraft frigates. The closing of liquidation of this company was approved by the General Meeting of its shareholders on December 18, 2017. The company's name was deleted from the register with the clerk's office for the Paris Commercial Court on December 26, 2017.

Itaguaí Construções Navais SA (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 program.

MO PA2

MO PA2 was established to act as general contractor for the French no. 2 aircraft carrier program. 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.

Naval Group Coopération (formerly DCNS Coopération)

The purpose of Naval Group Coopération is to provide external support to the group's sales staff in export markets.

DCNS Support

The purpose of the company 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 (40.60% holding)

Winacelles is a company whose purpose is the design, development and readying for series production of offshore wind turbines. A decision to dissolve the company was taken at the General Meeting of its shareholders on June 21, 2017. It was in the process of liquidation as at the end of December 2017.

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.

Naval Group Malaysia SDN BHD (formerly DCNS Malaysia SDN BHD)

Naval Group Malaysia provides local support for the execution of the Gowind® Malaysia program, participates in the development of the group's business in Malaysia and provides logistical and administrative support to Naval Group expatriates and secondees in Malaysia.

Naval Energies (formerly DCNS Énergies) (57.55% holding from December 16, 2016 to June 30, 2017; 59.87% holding from June 30, 2017)

Naval Energies is dedicated to marine renewable energy activities. It is present throughout the product life cycle and has a mastery of the entire value chain: design, manufacturing, installation, connection and maintenance in three MRE technological fields: tidal turbines, floating wind turbines and ocean thermal energy conversion.

Naval Group BR Sistemas de Defesa LTDA (formerly DCNS do Brasil Serviços Navais LTDA)

Naval Group BR Sistemas de Defesa LTDA is a Brazilian company which participates in the development of the group's business in Brazil and provides logistical and administrative support to Naval Group expatriates and secondees in Brazil.

Projetos e Sistemas Navais SA (100% owned by Naval group BR Sistemas de Defesa LTDA)

Projetos e Sistemas Navais SA (PROSIN) aims to develop the engineering systems business in Brazil.

Naval Group Australia Pty Ltd (formerly DCNS Australia Pty Ltd)

Naval Group Australia Pty Ltd is an Australian company that provides support for the development of Naval Group's business in Australia.

DCNS Zamil (55% holding)

Naval Group and Zamil Offshore Services company were founded in December 2017 as a jointly owned company dedicated to the in-service support business. This joint venture, in which Naval Group owns a 55% stake and ZOSCO a 45% stake, will mainly carry out maintenance work on military vessels in the Saudi Navy.

This project constitutes an important stage in cooperation between the two companies and, more broadly, between France and Saudi Arabia. It is part of the Saudi Vision 2030 plan aimed at the development and diversification of the Saudi economy. Naval Group is thus strengthening its long-term presence in the country.

Revenue and net income figures for the subsidiaries are shown in note 2 to the annual financial statements of Naval Group SA.

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

The representative office in Pakistan closed down on October 12, 2017, at the decision of the Chairman and Chief Executive Officer.

Alliances

TechnicAtome

The restructuring of the capital of Areva TA, now TechnicAtome, 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 Naval Group. The Areva TA share transfer agreement was finalised on March 29, 2017 (closing).

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 Naval Group, the key issue was therefore to ensure TechnicAtome maintained the skills and efficiency for the construction of nuclear-powered vessels for the French Navy.

Shares in TechnicAtome are now owned by the French State (50.32%), Naval Group (20.32%), CEA (20.32%) and EDF (9.04%).

Franco-Italian cooperation

Following the summit held on September 27, 2017, the French and Italian governments announced the launch of a joint process, opening the way to the gradual creation of a naval defence alliance between the two countries.

A steering committee, of which Naval Group and Fincantieri are members, was set up to define a roadmap by June 2018, detailing the principles to be adopted in this future alliance.

This project is supposed to help support the international growth of Naval Group and Fincantieri against a background of increased competition in the military naval industry, while allowing both groups to continue with their respective missions in the service of the French and Italian navies.

STX France

The decision by STX Europe to dispose of its stake in STX France through a competitive bidding process resulted in Fincantieri being selected as the preferred buyer in April 2017. The French State then chose to exercise its right of pre-emption and began negotiations with Fincantieri and Naval Group with a view to reaching an agreement on the reconstruction of STX France capital by the following means:

- acquisition by Fincantieri of 50% of the shares and a loan by the French State of 1% of the shares to Fincantieri, enabling Fincantieri to hold 51% of the voting rights and a simple majority;
- acquisition by Naval Group of a stake in STX France equating to 10% to 15.66%, depending on the proportion of shares ultimately assigned to staff (up to 2.4% of capital) and a group of regional companies (up to 3.26% of capital).

The contract for the sale of STX France shares by the French State to Naval Group and Fincantieri was signed on February 2, 2018 (signing). The State's final acquisition of shares and their resale to the new future shareholders (closing) remain subject to approval by the relevant authorities.

I.2.6. Ethics and compliance

Ethics

In mid-2017, Naval Group carried out the third phase in its ethics and corporate social responsibility e-learning program. Since 2015, around 3,000 managers and staff have followed this program on a voluntary basis to heighten their awareness of these issues. The subjects broached include: ethical behaviour, corruption prevention and human rights. The ethical framework is being updated and work will continue on this in 2018.

The Ethics and Corporate Social Responsibility Committee (CERSE) carried out an ethical crisis management exercise in connection with risk prevention, with the support of independent, external consultants. This type of exercise will be repeated in order to make ethics a more integral part of our culture, both in France and internationally.

Compliance

In 2017, Naval Group continued and intensified its efforts to strengthen its compliance system in order to conform to the best national and international standards, in particular the law on Transparency, Combating Corruption and the Modernisation of Economic Life (known as the "Sapin II" Act), which was enacted on December 9, 2016.

Naval Group therefore consolidated its compliance system and its ethical and CSR policy in 2017, creating a division called the Ethics, Compliance and Governance group (DECG), structured around an Ethics, Compliance and Governance group Director who was appointed at the start of April 2017.

In order to make compliance a central element of the group's business, the Ethics, Compliance and Governance group has set up and leads a network of Compliance Officers, distributed across the different sites, in the group's business lines and subsidiaries in France and abroad (23 Compliance Officers in France and seven Compliance Officers outside France).

The Ethics, Compliance and Governance group has developed a compliance system structured around the Naval Group Compliance code of conduct, a document appended to the internal rules of procedure and made available to all group staff on the group's intranet. It is also available in several languages on the Naval Group website.

This system makes provision, in particular, for:

- regularly updated mapping of corruption risks;
- procedures providing a framework for staff's activities;
- the development of compliance software made available to staff in France to facilitate the correct application of procedures affecting their ordinary activities;
- a compliance risk analysis to establish the identified level of compliance risk and, if applicable, identify warnings;
- training and activities to raise awareness in France and abroad (especially in Singapore, Malaysia, Brazil and Chile) with themed sessions on compliance, resulting in over a thousand people receiving training in 2017.

Communications activities, notably internal and throughout the group, in particular through an Ethics and Compliance Day held on December 8, 2017, to mark the United Nations' International Anti-Corruption Day on December 9, 2017 and Human Rights Day on December 10, 2017.

I.2.7. Risk management

I.2.7.1. Risk management plan

The group faces a number 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 II.2.5 of the CSR report. It is an integrated risk management system, 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.2.7.2. Financial risks

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

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

Off-balance sheet risk: the guarantees given by Naval Group SA have principally been granted on its own account or on behalf of its subsidiaries in connection with commercial contracts. Guarantees and pledges given by the group are managed centrally, 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.2.7.3. Legal risks

The group has identified four major legal risks:

Ethics and compliance

Against a background of international development and an evolving regulatory environment, Naval Group's customers expect mutual commercial relations to be exemplary in terms of demonstrating compliance with the strictest national and international standards and legislation. For the same reasons, its industrial partners indicate 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 2017, therefore, in addition to the whistleblowing scheme in place since 2015, the group resolved to strengthen the existing compliance system with regard to both the prevention and handling of risks so that it satisfies the highest requirements in this area (see section I.2.6, above).

Naval Group does not have any aggressive tax planning scheme in place and does not have any relations with uncooperative states or territories aimed at gaining a tax advantage.

The French Duty of Vigilance Law applicable to parent and subcontracting companies

Following the adoption of the French law on the duty of care of parent and subcontracting companies, known as the Duty of Vigilance law that came into force on March 29, 2017, Naval Group must have a vigilance plan in place, based on five key components:

- mapping of risks (identification, analysis and grading);
- procedures to regularly assess the situation concerning subsidiaries, suppliers or subcontractors with regard to the risk mapping;
- appropriate actions to mitigate risks or prevent serious breaches;
- a whistleblowing system defined in collaboration with staff representative organisations to alert the company to risks and collect reported details;
- a system for monitoring and assessing the effectiveness of the measures implemented.

A working group met for the first time in July 2017 with representatives from the Ethics, Compliance and Governance Division, including CSR, and from the Human Resources, Environment, Health and Safety, Procurement, Legal, Finance and Administration, and Audit and Risk departments to draw up this vigilance plan.

Naval Group has taken the following steps:

- systems and procedures for checking and inspecting suppliers on the existing approved list have been strengthened by the Procurement Department as part of the audit conducted by our partner, EcoVadis;
- start of work on the mapping of supplier risks, led by the Ethics, Compliance and Governance Division.

The Human Rights Charter supplements and specifies the group's commitment to the Global Compact, notably to support its international development in this respect.

The scope of the whistleblowing system for receiving and handling warnings with regard to corruption, harassment and discrimination covers all situations pertaining to CSR, forced labour, health and safety at work and environmental breaches.

There is a plan to appoint a key contact in the subsidiaries in 2018 for all health, safety and environment issues in order to speed up the rollout and adaptation of the supplier code of conduct in our subsidiaries outside France. The Ethics and Compliance team has been set a target of mid-2018 to have the most comprehensive of systems in place.

Export controls and customs matters⁽²⁾

Export markets are of great importance to the group. As an exporter of combat and/or similar equipment and of goods with both civilian and military uses, Naval Group is subject to French and foreign export control regulations.

Transfers within the European Union and exports of such products outside the markets in which they are produced may therefore be subject to restrictions, controls or requirements to obtain export or transfer licences.

At present, there is no guarantee 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 also be subject to stricter controls and obligations. Similarly, there is no guarantee that geopolitical factors or changes on the international scene will not render it impossible to obtain export licences for certain customers or will not reduce the group's ability to fulfil contracts that have already been signed.

Reduced access to military export markets and/or tighter restrictions risk having a negative impact on the group's activity, financial position and operating results. It follows that Naval Group 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. Naval Group is therefore attentive to any changes or developments in this area, whether short term (embargos) or long term (international conventions).

To manage and reduce these risks, the Export Control Department provides continual assistance to operational staff (especially those involved in sales, programs, procurement and the supply chain) through updated frameworks, training and familiarisation measures, advice and audits.

With regard to audits, the Export Control Department is now an integral part of the internal control system set up by Naval Group in 2017 as its second line of defence in risk management and control.

With regard to customs matters, numerous actions have been taken to develop this function and emphasize its importance in terms of international competitiveness and performance. A training plan has been implemented to raise staff awareness of the importance of compliance with customs regulations and of the advantages to be gained from an effective customs operation, in particular by using customs regimes enabling us to avoid payment of customs duties or VAT on imports.

Staff training in this aspect has ensured reliable use of these regimes.

Intellectual property

The intellectual property policy in place since 2006 aims to protect Naval Group'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 through innovations made internally or from outside. Naval Group safeguards the results of its innovation by all possible means, including the imposition of secrecy, protecting them through registered rights (patents, trademarks, designs and copyrights), search engine optimisation, seizure, confidentiality and publication.

(2) Global Compact/OECD/ISO 26000.

Notwithstanding the protection sought and obtained, Naval Group may find itself in a situation where its intellectual property rights are subject to challenge, infringement, invalidation proceedings or circumvention. To reduce this risk, Naval Group monitors developments in intellectual property and conducts a significant staff training plan regarding best practices in the protection of intellectual assets. We monitor our competitors in order to detect potential infringements and to be aware of the progress of their work.

In 2017, Naval Group began to refocus its portfolio of registered rights on its products and its internationalisation.

Action to introduce an internal certified timestamping system has begun.

Lastly, in 2017 Naval Group continued its defensive and offensive actions regarding patents against third party competitors.

Legal disputes

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

All known disputes involving Naval Group SA 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 Naval Group SA 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 it made with Naval Group in the course of the government's contribution in kind on June 1, 2003 and its sale to Naval Group of a 100% shareholding in DCN International, or by Thales under the terms of agreements made with Naval Group in connection with the latter's acquisition of a 100% shareholding in TNF.

All disputes and guarantee claims are handled by or in coordination 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 had a group Contract Management Division in place since late 2015 that is able to detect risks at a much earlier stage and identify opportunities for Naval Group. This organisation is set up at the inception of programs.

I.2.7.4. Operational risks

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

Competitive environment

Growth in the global defence market is not benefitting military naval manufacturers such as Naval Group because, at the same time, competition is intensifying considerably. In addition to the long-established European players that still have a strong presence, such as TKMS, Fincantieri, Navantia, Damen and so on, there are others re-joining the market, from Russia, Sweden and the United Kingdom, as well as new

entrants from Korea, China, Turkey and Japan. These will very shortly be joined by players from Singapore, Indonesia and India. This pressure of competition could therefore have an adverse effect on Naval Group's market position, revenue and profitability.

In order to be able to compete successfully against its current or future competitors and therefore improve its competitiveness, Naval Group is enhancing its competitive advantages through research and technology, its product range and its development, and is consolidating and extending its international presence, notably through a sustainable international manufacturing infrastructure. Naval Group also seeks alliances with credible partners such as Fincantieri.

Dependence on the public sector

The majority of Naval Group's business is carried out on behalf of the French State in relation to defence assets. By its nature, the defence sector is dependent on orders from the public sector, in other words, on political decisions that fluctuate depending on the country's economic and geopolitical situation.

The shrinking of defence budgets in France and Europe since the end of the Cold War has been and is, *de facto*, of such a nature as to affect the group's business and profitability.

In fact, a reduction in the defence budget can 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 programs.

To reduce its dependence on French public spending and, in particular, to guarantee that its human skills and industrial skills are maintained in between carrying out two domestic programs, Naval Group is investing both in the international growth of its defence business and in marine renewable energy.

Successful management of bids and programs

A significant proportion of the products and services provided by Naval Group involve a high degree of complexity, owing to their high-tech nature, operational constraints that demand ultra-high levels of reliability in particularly harsh environments, contractual arrangements associated with their sale, which may comprise general contractor agreements for major programs, 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. Certain contracts may also include provisions concerning the performance level and/or delivery schedule for the products and services sold. Such provisions may prove to be demanding, particularly 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 Naval Group's financial position and results.

A risk evaluation and control system is in place with respect to tender bids, which has been reinforced by bringing the Bid Control and Financial Evaluation Department into action.

With regard to programs, periodic reviews are held to monitor progress in technical, scheduling and financial terms and to keep execution-related risks under control. In addition, since 2016 a Contract Management system has been established in order to ensure more effective management of contracts at both the drafting and performance stage. This enables the group to optimise its financial and operational performance while minimising risk and exploring all opportunities.

In 2017, effort in this particular regard included: training for 76 Contract Managers in various aspects, the provision of a comprehensive business area framework made up of 50 documents and resources (templates, instructions, registers, check-lists etc.), numerous web conferences and information sessions, implementation of a dedicated intranet, as well as crucial support and work on a case in which hundreds of millions of euros were at stake for the group.

Country risk

Growth in the group's international business, which is one of the key areas of focus in its long-term strategy, exposes Naval Group increasingly to various forms of country risk: sovereign risk, changes in the economic situation and business climate, and political or even geopolitical risks concerning the effects of regional tensions in the client country.

Since contracts are increasingly tied to intergovernmental accords, Naval Group may be confronted by the risk that strategic partnerships in which it is involved are reassessed. The group 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 contracts.

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

This development of international business is also manifested in the desire to build a sustainable local industrial infrastructure, notably to protect the group from the aforementioned risks of economic volatility. However, this strategy changes the nature of the risks: as the group is now regarded as a local player, fully integrated into the industrial ecosystem of the chosen country through its supply chain servicing the local program, it is increasingly exposed to risks related to the country's economic circumstances and depreciation in the currency, like any other domestic player in the industry (see Political hazards, below).

Political hazards

A change of government, a crucial political event, armed conflict, popular uprising 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 may limit or ban the export of currency from a client country and impede its ability to honour its financial commitments to Naval Group;
- 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 Naval Group's holding in a local company or, more generally, discriminatory measures taken against Naval Group 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 Naval Group staff and/or facilities or severely restricts or prevents Naval Group from fulfilling its contractual performance obligations or reduces or prohibits the use of its local industrial assets (see section I.2.7.7, "Human resources risk");
- 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 as stipulated in a contract which prevents the said contract from progressing as expected.

Naval Group 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 system for its staff in order to ensure they enjoy an appropriate level of safety in the countries in which they perform their duties.

I.2.7.5. Managing supplier risks⁽³⁾

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

Supplier risks fall into four main types:

- CSR risks (social responsibility, the environment, public image, etc.);
- operational risks (technical failings, financial default, economic dependency, disruption to supplies, etc.);
- compliance risks (legal risks, fraud, non-compliance with regulations, etc.) and export bans;
- overall risks (geopolitical risks, natural disasters, exchange rates, etc.);

(3) See: Guiding principles: GRI-V4/Global Compact/OECD/ISO 26000.

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 shareholders.

Naval 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, as 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.

CSR risks are also covered by the Naval Group ethical charter and the supplier code of conduct.

Progress on action plans and the Naval Group's level of exposure to such supplier risks are presented every six months at the Risk Committee meeting held 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 or owing to an aspect of its external environment, such as a shortage of critical raw materials or components, serious political instability, natural disaster, etc., or as a result of management failings.

Suppliers' management performance is monitored both from an operational point of view, such as failure to anticipate orders, loss of control of industrial processes, obsolescence of facilities, poor skills management, loss of know-how, etc., and in terms of their overall management and financial management, such as a buyout or change of strategy, loss of revenue, poor management of working capital requirement, 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 Naval Group is considered a major risk. This risk is due to Naval Group's historic labour footprint on the local economies in which it operates.

The procurement strategy, the processes for selecting and monitoring the performance of suppliers, and the actions 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 Naval Group's dependency on the technology or skills of certain suppliers. A sudden rupture in supply (for one of the aforementioned reasons) could jeopardise execution of Naval Group's programs.

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

and attended by members of the operating divisions and the Strategy and Finance departments), is allowing a better appreciation of risks across the various purchase categories through the approved group strategy of restricting the overall number of suppliers.

I.2.7.6. Product safety

Like the civil aviation or nuclear industries, Naval Group builds products for which the potential gravity of any 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, ensuring the safety of its products is a paramount concern for Naval Group.

To this end, Naval Group has put in place various procedures aimed at controlling this risk, 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 programs 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;
- Naval Group 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. Its 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 subject 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 technical framework is maintained and checking its application, and managing key positions in the area;
- Naval Group remains at our customers' service until our products reach the end of service. 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 staff safety culture and the handing on of knowledge, with training being an essential building component when it comes to safety. A monthly conference has therefore been introduced on dive safety for the teams concerned (about 60 managers and their teams,

grouped into 13 video-conferencing rooms). These conferences are on subjects as diverse as operating and conducting trials of submarines, major world events in the last 50 years and the applicable regulations.

The level of safety we require can only be met by seeking a continual improvement in our safety framework and practices. Naval Group ensures that its experts are involved in analysing technical facts, observed during work done by the group or brought to our knowledge by the customer for operating phases, in order to analyse what might pose a risk to safety and learn all possible lessons from this. In the same spirit, analysis of feedback on lessons learned from experience is conducted on a regular basis. These approaches help to identify points for improvement to then decide on priority actions and implement the corresponding actions.

I.2.7.7. 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 in having the requisite skills available in the right place at the right time in order to execute its strategy and successfully complete its programs.

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 leading higher education institutions to facilitate recruitment in key areas of its business and has developed a communication strategy for its employer brand.

The group's attractiveness is also boosted by the opportunities it offers for geographical and career mobility, the implementation of talent-spotting systems and the staff training and support, such as career development and international development it provides. Naval Group 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 people 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 own a stake in Naval Group, thus encouraging 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 Naval Group's primary CSR commitments. It is both a fundamental responsibility for Naval Group as an employer and an opportunity to improve the group's operational performance, across the board.

To overcome these risks, Naval Group follows a health, safety and environment policy as well as group-wide safety standards that specify the priority actions, rules to be followed and correct behaviour required from 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 II.5.3, "Health and safety at work", in the CSR report).

In order to prevent and manage psychosocial risks, a management system is in place to ensure these risks are properly assessed at each site, via a local Quality of Life at Work (QLW) monitoring unit and an assessment of work done by the Tertiary Prevention unit handling individual situations (see section II.5.3, "Health and safety at work", in the CSR report). Overall control at national level is exercised by the nationwide QLW monitoring unit.

Staff safety in sensitive countries

Another key consideration for Naval Group in terms of health and safety at work is the physical security of staff (people on secondment and expatriates or recruited in foreign countries) and their families during foreign assignments.

Permanent measures are in place within the International Safety Department to monitor the security situation on an ongoing basis regarding areas where people are based and/or in transit as well as for Naval Group's facilities, its subsidiaries' facilities and staff accommodation abroad and also to analyse risks, lay down rules of conduct and specific instructions for each sensitive country, put structures in place that are adapted to the specific risks of each country, ensure the circulation of warnings and carry out familiarisation, information and training activities for expatriate and seconded staff.

In addition to these preventive actions, the Safety Department monitors and controls protective security measures taken in liaison with French and local security services, conducts organisational and technical safety audits, site inspections and visits to suppliers and contractors in order to maintain a satisfactory level of security.

Against the backdrop of increased terrorism threats, the physical security of the group's sites and staff has been enhanced both in France and abroad through increased audits, the strengthening of the structure to deal with international safety arrangements, use of the services of companies specialising in managing the risks associated with international mobility, close collaboration with state departments in France and abroad and providing staff and their family members with a geolocation device to facilitate the arrival of the emergency services.

I.2.7.8. Environmental risks

Environmental protection

Respect for the environment is central to Naval Group'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.

Naval Group is also keen to continuously reduce the environmental impact of its activities, especially regarding 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 targets are set in this regard for energy performance, staff travel, waste sorting and reuse/recycling.

Since 2007, the group has worked proactively to incorporate the environment into the vessel design process, taking into account the entire product life cycle. This approach 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 when a vessel is eventually dismantled. These practices are now being deployed in every design unit.

With the development of the marine energy business, studies are carried out in order to limit the environmental impact of new products developed by Naval Group.

Financial risks linked 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, Naval Group has not identified any impacts that global warming may have on its activities, given that its production is mainly carried out in temperate regions.

However, bearing in mind the link between global warming and the risk of tsunamis, steps have been taken at both civilian and military installations since Fukushima. Naval Group, 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.

Nuclear and Pyrotechnics Inspectorate

The Nuclear and Pyrotechnics Inspectorate is charged with proposing nuclear and pyrotechnic safety policies for all Naval Group activities to the group's General Management and with auditing and verifying the safety measures taken in accordance therewith.

The Nuclear and Pyrotechnics Inspectorate 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 inspectorate also takes part, together with the Quality and Health and Safety departments, in investigations undertaken to analyse the year's most significant events and define the necessary corrective or preventive action.

The Nuclear Inspectorate leads Naval Group's radiation protection network. It thus monitors the radiation doses received by Naval Group staff and on-site subcontractors. It ensures such doses remain well below both the legal limits and the Naval Group internal limit, which is half the legal maximum.

The Nuclear Inspector also manages the "nuclear family" and, to this end, makes proposals regarding recruitment, training, career paths and professional development of staff specialising in this field.

I.2.7.9. Data security

The protection of confidential and sensitive information and of information systems in the general sense, including business information, classified information and industrial information systems as well as subsidiaries' information systems is a key issue for a high-tech business, such as Naval Group, operating internationally in the defence sector.

Naval Group's protective measures cover the entire life cycle of the information systems designed to support the group's operations and its production of products and services for customers:

- starting with the design phase, through the highly selective process used to choose suppliers (publishers, hosts and service providers) who are audited regularly, with a security risk analysis and deployment of security countermeasures;
- during the maintenance phase, whether preventive (threat intelligence and application of security patches) or evolutionary (security maintenance services);
- in production, through threat and vulnerability intelligence in conjunction with the state authorities and community of experts, network surveillance (inward and outward flow) and cyberdefence by the Safety Operations Department which is part of the group Safety Department.

This protection system is the focus of sustained, constant effort from a technological/technical perspective and in terms of human resources (maintaining expertise). It is based on a security framework, including policies, procedures and instructions, that is kept up to date, with training and familiarisation sessions being held regularly for users and administrators.

Since 2015, the group Safety Department has been leading a three-year security improvement plan for Naval Group's various information systems. This will facilitate *inter alia* the implementation of recommendations made by the ANSSI (National Agency for Information Systems Security). The effectiveness of these security activities is checked through audits led by the group Safety Department.

In order to control data exchange with third parties and within the group, whatever the level of sensitivity of such data, and taking account of the increasing internationalisation of the business, Naval Group has strengthened its organisation within the General Secretariat:

- Chief Data Officer: responsible for defining a vision for the organisation, management and consultation of group data, whether strategic, industrial and/or operational in nature, in compliance with the internal and external operational and regulatory requirements and, in particular, for ensuring that an environment is established in which people of non-French nationality can work effectively within the group;
- Data Protection Officer: responsible for ensuring the confidentiality of personal data as described in the general rules on data protection.

Lastly, in response to the continued increase in the number and sophistication of cyberattacks that could have an impact on the onboard systems of vessels under construction or in operation, in early 2016 the group established a Cyber Department responsible for working in collaboration with the DGA (the French National Defence Procurement Agency) and the French Navy to coordinate, link together and deploy all control and response measures and to offer related new products and services. Consequently, cyber requirements are now taken into consideration right from the design phase for such products and services, backed up by the development of the Cybersecurity Framework and skills development within the program teams.

I.2.7.10. Insurance

Naval Group 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 Naval Group 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.

As from January 1, 2018, the limit has been raised to €20 million, i.e. an extra €10 million in addition to the €10 million cover taken out in 2017.

A technical meeting with the insurers is scheduled for February 2018.

Risks in relation to ship construction, submarines and surface vessels are covered by a builder's risk policy for new hulls and an in-service support policy for vessels undergoing 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 in-service support 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-site 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, Naval Group has unified its cover against both civil and military nuclear risks, including those for nuclear-powered vessels, in one policy.

Nuclear risk cover was put out to tender in 2017 to take out a more economical policy with extended coverage.

With respect to international risks, risk management policies have been put in place for risks associated with manufacturing and building vessels for the Brazilian PROSUB and Indian P75 programs as well as the Saudi Arabian LEX and Malaysian Scorpène® in-service support programs. Cover has been taken out for the Egyptian and Malaysian Gowind® programs, which can be extended to all ships of this type.

An examination from a legal and technical perspective of the entire Australian Future Submarine program 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. At present, Naval Group is considering handling its own risks in France with its traditional insurers as the Australians are planning blanket coverage for all parties, including subcontractors, whereas Naval Group ought not to depend on cover taken out by a client. This matter is currently under investigation.

I.3. NAVAL GROUP'S POSITION DURING 2017

I.3.1. Revenue and results of Naval Group SA

Order intake

Naval Group SA's order intake for 2017 was €3,950 million, as compared with €2,584 million in 2016.

As at December 31, 2017, Naval Group SA's order book stood at €11,633 million.

Revenue

Naval Group SA achieved revenue of €3,564.8 million in 2017, as compared with €3,133.0 million in 2016 (a rise of 13.8%).

Income

Operating income was €257.5 million (7.22% of revenue), as compared with €95.8 million in 2016.

A net financial loss of €89.0 million was recorded, compared with net financial income of €98.2 million in 2016.

Extraordinary income was €41.8 million, as compared with income of €76.0 million in 2016.

The company's net income was €85.4 million (2.4% of revenue), as compared with €226.7 million in 2016.

1.3.2. Five-year financial summary for Naval Group 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 Naval Group SA's results for the last five financial years. Amounts are stated in euros:

Financial year ended	12/31/2017	12/31/2016	12/31/2015	12/31/2014	12/31/2013
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	3,564,858,418	3,133,025,184	3,007,623,309	3,047,402,857	3,318,538,295
Net profit (loss) before tax, profit-sharing, depreciation, amortisation and provisions	374,653,811	330,272,618	149,119,288	54,767,340	348,114,740
Income tax charge (income)	99,242,850	33,161,644	24,765,683	–7,784,399	75,556,617
Employee profit-sharing	25,647,042	10,121,819	4,432,587	536,069	21,652,078
Charges to depreciation, amortisation and provisions	164,318,217	60,242,574	48,787,298	549,302,150	160,218,951
Net profit (loss) after tax, profit-sharing, depreciation, amortisation and provisions	85,445,702	226,746,581	71,133,721	–487,286,480	90,687,094
Dividends paid	0	0	0	0	60 804 000 ⁽¹⁾
Earnings per share					
Net profit (loss) after tax and profit-sharing but before depreciation, amortisation and provisions	4.44	5.10	2.13	1.10	4.46
Net profit (loss) after tax, profit-sharing, depreciation, amortisation and provisions	1.52	4.03	1.26	–8.66	1.61
Dividend allotted to each ordinary share	–	–	–	–	0.54
Dividend allotted to each A preference share	–	–	–	–	101,340
Dividend allotted to each B preference share	–	–	–	–	–
Staff					
Average number of staff	9,656	9,173	9,169	9,086	8,783
Payroll expenses	566,370,319	533,246,605	522,208,640	504,297,047	475,322,430
Payroll-related costs (Social Security, staff benefits, etc.)	248,572,255	246,021,617	233,328,122	244,477,429	231,435,932

(1) 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 2014.

No interim dividend was paid in 2015.

No interim dividend was paid in 2016.

No interim dividend was paid in 2017.

I.3.3. Naval Group 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:

Invoices issued and outstanding as at the closing date for the financial year

Closing date		TOTAL	Invoices not overdue for payment	Payment overdue by 1 to 30 days	Payment overdue by 31 to 60 days	Payment overdue by 61 to 90 days	Payment overdue by more than 90 days	Total 1 or more days
Length of time overdue								
12/31/2017	Number of invoices concerned	1,853	715	343	113	80	602	1,138
	Total value of invoices concerned excluding tax	556,446,600.75	251,875,260.39	145,308,308.09	96,152,480.02	11,780,477.53	51,330,074.72	304,571,340.36
	% of pre-tax revenue for the year		7.07%	4.08%	2.70%	0.33%	1.44%	8.55%

Invoices issued that were overdue for payment in the financial year

Closing date		TOTAL	Invoices not overdue for payment	Payment overdue by 1 to 30 days	Payment overdue by 31 to 60 days	Payment overdue by 61 to 90 days	Payment overdue by more than 90 days	Total 1 or more days
Length of time overdue								
12/31/2017	Cumulative number of invoices concerned	8,076	3,121	3,167	675	257	856	4,955
	Total cumulative value of invoices concerned excluding tax	3,197,084,317.03	653,686,055.87	2,144,591,410.37	242,718,615.00	48,386,549.85	107,701,685.93	2,543,398,261.16
	% of total value of invoices issued in year, excluding tax		19.51%	64.01%	7.24%	1.44%	3.21%	75.91%

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:

Invoices received and outstanding as at the closing date for the financial year

Closing date		TOTAL	Invoices not overdue for payment	Payment overdue by 1 to 30 days	Payment overdue by 31 to 60 days	Payment overdue by 61 to 90 days	Payment overdue by more than 90 days	Total 1 or more days
Length of time overdue								
12/31/2017	Number of invoices concerned	16,615	14,621	791	316	129	758	1,994
	Total value of invoices concerned excluding tax	173,848,103.52	145,014,256.60	16,612,820.11	5,245,035.60	684,454.03	6,291,537.18	28,833,846.92
	% of pre-tax revenue for the year		83.41%	9.56%	3.02%	0.39%	3.62%	16.59%

Invoices received that were overdue for payment in the financial year

Closing date	TOTAL	Invoices not overdue for payment	Payment overdue by 1 to 30 days	Payment overdue by 31 to 60 days	Payment overdue by 61 to 90 days	Payment overdue by more than 90 days	Total 1 or more days	
Length of time overdue								
	Cumulative number of invoices concerned	25,7655	146,895	74,142	21,474	9,069	6,075	110,760
12/31/2017	Total cumulative value of invoices concerned excluding tax	2,212,449,507.41	1,194,369,247.92	754,874,324.25	157,190,226.51	39,985,304.81	66,030,403.93	1,018,080,259.49
	% of total value of invoices issued in year excluding tax		53.98%	34.12%	7.10%	1.81%	2.98%	46.02%

I.3.4. Naval Group SA – Total amount of certain disallowed charges

In its tax filings, Naval Group SA will add back the sum of €221,436 in relation to excess depreciation on private cars.

No expense forming part of overheads was disallowed for tax purposes.

Attendance fees of €87,876 were paid in 2017 in respect of 2016; they remain deductible under the tax regulations.

I.3.5. Naval Group 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, 2014: none.
- in respect of the year ended December 31, 2015: none.
- in respect of the year ended December 31, 2016: none.

II. POST-BALANCE SHEET EVENTS

None.

III. CORPORATE GOVERNANCE REPORT

Drawn up in accordance with the provisions of article L. 225-37-4 of the French Commercial Code.

III.1. LIST OF OFFICES HELD AND FUNCTIONS PERFORMED BY EACH CORPORATE OFFICER DURING THE YEAR ENDED DECEMBER 31, 2017

	Company	Function or office
Hervé Guillou	Naval Group (formerly DCNS)	Chairman and Chief Executive Officer
	BE MAURIC	Member of the Supervisory Board
	SNEF	Director
	Compagnie Maritime d'Expertises – Comex	Director
	CICS	Officer, Treasurer
	GICAN	Vice-President

	Company	Function or office
Jack Azoulay	Ministry of the Economy, Finance and Industry	Director of Shareholdings at the State Shareholdings Agency
	Naval Group (formerly DCNS)	Director
	KNDS	Director
	STX France	Director

	Company	Function or office
Sophie Mantel	Ministry of Finance and Public Accounts	First Grade Business and Finance Controller, Head of department, Deputy Director of Budget Management
	Naval Group (formerly DCNS)	Director
	Française des Jeux	Government Commissioner on the Board of Directors
	PMU	Director
	La Poste	Director
	SNCF Mobilités	Director

	Company	Function or office
Pascal Bouchiat	Thales	General Director, Finance and IT Systems
	Naval Group (formerly DCNS)	Director
	Thales Alenia Space	Director

	Company	Function or office
Nathalie Ravilly	Thales	Director of Mergers and Acquisitions in the Strategy Department
	Naval Group (formerly DCNS)	Director
	TCV	Chair and Director (until 04/30/2017)
	ANR – French National Research Agency	Director (from 03/30/2017)

	Company	Function or office
Gabrielle Gauthey	Caisse des dépôts et consignations	Member of EP and group Executive Committee
	Société nationale immobilière	Member of the Supervisory Board
	Naval Group (formerly DCNS)	Director
	EXTERIMMO	Chair
	RADIALL	Member of the Supervisory Board

	Company	Function or office
Bernard Réat	Naval Group (formerly DCNS)	Director

	Company	Function or office
Bertrand Le Meur	Ministry of Defence	Head of the Department of Industrial Affairs and Economic Intelligence
	Naval Group (formerly DCNS)	Director
	Thales*	Member of the Board of Directors of Thales for specific action
	Ariane group	Director
	KNDS	Member of the Supervisory Board

* 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	Chantier naval de Marseille SAS (CNM)	Chairman
	Naval Group (formerly DCNS)	Director
	GICAN	Director
	UIMM 13	Director
	Club de la Croisière	Director

	Company	Function or office
Luc Rémont	Schneider Electric France	President <i>(until 03/10/2017)</i>
	Schneider Electric Industries SAS	Executive Vice-President International Operations <i>(from 03/10/2017)</i>
	Naval Group (formerly DCNS)	Director
	Atos Worldline	Director

	Company	Function or office
Patrice Caine	Thales	Chairman and Chief Executive Officer
	Naval Group (formerly DCNS)	Director

	Company	Function or office
Sandra Lagumina	Engie	Executive Vice-President in charge of infrastructures, GTT and China <i>(until January 31, 2017)</i>
	Meridiam	COO Asset Management
	Engie IT SA	Director
	Naval Group (formerly DCNS)	Director
	Gaztransport and Technigaz (GTT)	Director
	GrDF	Director, permanent representative of Engie
	Storengy	Director <i>(until 12/31/2017)</i>
	Elengy	Director, permanent representative of Engie
	GDF Suez China Investment company	President
	Abertis	Director

	Company	Function or office
Gilles Rapale	Naval Group (formerly DCNS)	Manager of CDG aircraft carrier tender
	Naval Group (formerly DCNS)	Director

	Company	Function or office
Isabelle Roué	Naval Group (formerly DCNS)	Prevention/Environment Officer
	Naval Group (formerly DCNS)	Director

	Company	Function or office
Laurent Chagnas	Naval Group (formerly DCNS)	Technical and Administrative Secretary
	Naval Group (formerly DCNS)	Director

	Company	Function or office
Jacques André	Naval Group (formerly DCNS)	Electronics engineer, submarine detection
	Naval Group (formerly DCNS)	Director

	Company	Function or office
Joël Ricaud	Naval Group (formerly DCNS)	Applications group Manager
	Naval Group (formerly DCNS)	Director

	Company	Function or office
Thierry Barbarin	Naval Group (formerly DCNS)	Safety Officer
	Naval Group (formerly DCNS)	Director

III.2. LIST OF RELATED-PARTY AGREEMENTS

Order no. 2014-863 of July 31, 2014 introduced a new article 225-40-1 pertaining to the annual review by the Board of Directors of related-party agreements authorised previously and that remained in effect during the last financial year. The company's Board of Directors will carry out this review at its meeting on February 28, 2018.

Related-party agreements signed in 2017 approved by the Board of Directors

None.

Agreements signed in previous years and still in effect during the 2017 financial year

Related-party 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 French State and the CEA – French Atomic Energy and Alternative Energy Commission	Contract on the sale and acquisition of shares relating to Société technique pour l'énergie atomique <i>Approved by the Board of Directors on October 28, 2016</i>	December 15, 2016

Related-party 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 Thales Naval France (TNF) shares and the TNF guarantee agreement <i>Considered by the meeting of the Board of Directors of March 22, 2007 The Thales Naval SA guarantee agreement was in force until March 31, 2017, the expiry date for the last guarantee given by Thales</i>	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 <i>Considered by the meeting of the Board of Directors of March 22, 2007</i>	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 <i>The Thales Naval SA guarantee agreement was in force until March 31, 2017, the expiry date for the last guarantee given by Thales</i>	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 that might be brought against TNF as a result of the conditions for concluding or performing the Bravo contract	January 30, 2007

Related-party agreements signed in 2006 approved by the Board of Directors

None.

Related-party 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 commitment made by Thales with regard to Finmeccanica in the context of the shareholders agreement of Eurosynnav SAS would be implemented by the latter	May 24, 2004

Related-party agreements signed in 2003 approved by the Board of Directors

Parties to the contract	Subject matter of the contract	Date signed
French State/DCN Développement	Contribution agreement describing the rights, property and obligations of the DCN government agency with national authority (SCN) in the French Ministry of Defence that were contributed by the State to DCN Développement, the value placed on these and the terms and conditions of the contribution	May 26, 2003
French State/DCN Développement	Framework agreement specifying the agreements in addition to the contribution agreement to be entered into by the State and DCN Développement in connection with performing the contribution operation	May 26, 2003

III.3. LIST OF DELEGATIONS OF POWER OBTAINED FROM THE GENERAL MEETING OF SHAREHOLDERS

None.

III.4. CHOICE OF MODE OF 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 "Chairman and Chief Executive Officer".

APPENDIX

Proposal to allocate the earnings of Naval Group SA for the year ended December 31, 2017

Recognising the conditions of quorum and majority required for ordinary general meetings, at the proposal of the Board of Directors, the General Meeting has decided to allocate the earnings for the financial year ended December 31, 2017 totalling €85,445,702.25 as follows:

- Earnings for the year: €85,445,702.25
- To which is added retained earnings: €107,936,385.38
Resulting in distributable earnings of €193,382,087.63
- Amount to be distributed to shareholders in dividends: €57,426,000
- And the balance of retained earnings to carry forward: €135,956,087.63

Retained earnings have thereby risen from €107,936,385.38 to €135,956,087.63

CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2017

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

I. COMPREHENSIVE INCOME

Consolidated income statement

	Notes	2017	2016
Revenue	II.1	3,698.2	3,191.2
Cost of sales		(3,084.6)	(2,738.1)
Research and development expenses	II.2.2	(88.0)	(104.3)
Marketing and selling expenses		(116.2)	(124.0)
General and administration expenses		(166.0)	(144.7)
Operating profit/loss from ordinary activities before amortisation of intangible assets acquired in business combinations	II.2	243.4	80.1
Amortisation of intangible assets acquired in business combinations	II.2	(0.7)	(3.1)
Operating profit/loss from ordinary activities		242.7	77.0
Other operating income	II.2.4	47.6	17.6
Other operating expenses	II.2.5	(123.9)	(10.0)
Operating profit/loss before net income from equity affiliates		166.4	84.6
Net income from equity affiliates		(0.5)	2.6
Operating profit/loss after net income from equity affiliates		165.9	87.2
Income from financial investments	II.3	25.6	32.1
Other financial income	II.3.1	23.9	34.2
Other financial expenses	II.3.2	(40.6)	(36.9)
Net financial income/expense	II.3	8.9	29.4
Income tax	II.4	(142.8)	(29.2)
NET PROFIT/LOSS FOR THE PERIOD		32.0	87.5
attributable to owners of the parent		142.2	94.3
attributable to non-controlling interests		(110.2)	(6.8)
<i>Basic and diluted earnings per ordinary share (in euros)</i>	<i>II.5</i>	<i>1.28</i>	<i>0.84</i>

Consolidated statement of comprehensive income

	2017	2016
Net income (loss)	32.0	87.5
<i>Items to be subsequently reclassified to the income statement</i>	–	–
Financial assets available-for-sale	(29.0)	29.0
Cash flow hedge	(17.1)	(1.3)
<i>Items that cannot be reclassified to the income statement</i>	–	–
Translation differences on the conversion of foreign businesses	(1.5)	1.6
Actuarial gains and losses	0.6	(16.5)
Income and expenses recognised in equity, before tax	(47.0)	12.8
Tax recognised directly in equity	16.2	(4.4)
Income and expenses recognised in equity	(30.8)	8.4
CONSOLIDATED COMPREHENSIVE INCOME FOR THE YEAR	1.2	95.9
attributable to owners of the parent	111.4	102.7
attributable to non-controlling interests	(110.2)	(6.8)

Reconciliation: 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 considered 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.

	12/2017	12/2016
Operating profit/loss from ordinary activities before amortisation of intangible assets acquired in business combinations	243.4	80.1
Share of operating income of equity affiliates	5.6	1.8
Other operating income	47.6	17.6
Other operating expenses	(123.9)	(10.0)
EBITA	172.7	89.5

II. CONSOLIDATED BALANCE SHEET

Assets

	Notes	12/31/2017	12/31/2016
Intangible assets	III.1	89.9	147.4
Goodwill	III.2	382.8	382.8
Property, plant and equipment	III.1	545.8	600.8
Share in net assets of equity affiliates	III.3	88.8	19.7
Non-current financial assets	IV.1	120.0	272.8
Other non-current assets		0.6	0.8
Deferred tax assets	II.4	201.8	198.5
Non-current assets		1,429.7	1,622.9
Inventories and work in progress	III.4	462.9	505.2
Construction contracts: assets	III.5	198.8	455.1
Trade receivables	III.6	1,283.4	1,094.7
Advances and part payments paid		1,084.1	1,163.6
Current financial assets	IV.1	238.8	260.9
Current tax receivable		1.9	20.8
Other receivables	III.6	201.9	276.8
Cash and cash equivalents	IV.2	2,475.2	2,301.9
Current assets		5,947.0	6,078.9
TOTAL ASSETS		7,376.7	7,701.8

Equity and liabilities

	Notes	12/31/2017	12/31/2016
Share capital		563.0	563.0
Premiums		18.4	18.4
Treasury shares		(71.9)	(68.5)
Remeasurement of financial instruments		4.5	34.7
Translation differences		(0.5)	1.0
Actuarial gains and losses		(16.1)	(16.5)
Other reserves attributable to owners of the parent		400.5	306
Consolidated income attributable to owners of the parent		142.2	94.3
Equity attributable to owners of the parent	III.1	1,040.1	932.4
Non-controlling interests		(13.0)	86.2
Equity	III.1	1,027.1	1,018.6
Non-current provisions	III.8	112.7	118.4
Non-current financial liabilities	IV.1	52.3	47.4
Other liabilities		22.0	13.8
Deferred tax liabilities	II.4	5.6	5.2
Non-current liabilities		192.6	184.9
Current provisions	III.8	273.6	246.8
Construction contracts: liabilities	III.5	783.1	550.6
Trade payables	III.9	1,378.7	1,674.9
Advances and part payments received		3,239.9	3,497.5
Current financial liabilities	IV.1	25.5	32.9
Current tax payables		29.4	4.3
Other payables	III.9	426.8	491.4
Current liabilities		6,157.0	6,498.3
TOTAL EQUITY AND LIABILITIES		7,376.7	7,701.8

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, 2016	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	(1.0)	1.2	(10.8)	102.7	(6.8)	95.9
Dividends paid		–	–	–	–	–	–	–	–	–	–	–
Treasury shares	(29,330)	–	–	1.4	(1.4)	–	–	–	–	–	–	–
Other		–	–	17.9	–	–	–	–	–	17.9	70.6	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
Consolidated comprehensive income		–	–	142.2	–	(19.0)⁽³⁾	(11.2)⁽²⁾	(1.5)⁽⁵⁾	0.4⁽¹⁾	110.9	(110.2)	0.7
Dividends paid		–	–	–	–	–	–	–	–	–	–	–
Treasury shares	(41,149)	–	–	3.8	(3.8)	–	–	–	–	–	–	–
Other		–	–	(3.4) ⁽⁴⁾	0.3	–	(0.1)	–	–	(3.2)	11.0 ⁽⁴⁾	7.8
DECEMBER 31, 2017	55,767,753	563.0	18.4	542.7	(71.9)	3.9	0.6	(0.5)	(16.1)	1,040.1	(13.0)	1,027.1

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 €0.4 million in 2017 comprised:

- amount before tax: €0.7 million;
- deferred tax recognised: (€0.3) million.

See note III.7.

(2) The cash flow hedge impact in 2017 of (€11.2) million consisted of the following two amounts:

- amount before tax: (€17.1) million;
- deferred tax recognised: €5.9 million.

(3) The impact of the remeasurement of financial instruments corresponded to the revaluation of the TechnicAtome shares at December 31, 2017.

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 (€3.4) million impact on other reserves in 2017 was due to:

- reclassification of (€7.1) million attributable to owners of the parent to minority interest;
- first-time consolidation of OpenHydro for €3.3 million.

The residual impact on minority reserves mainly corresponds to:

- capital increase of (€2.8) million in OpenHydro.

(5) See note III.7.

IV. CONSOLIDATED CASH FLOW STATEMENT

	2017	2016
Net income (loss)	32.0	87.5
Add (deduct):	–	–
Net depreciation and amortisation expense/(reversal)	106.8	96.9
Net provision expense/(reversal)	17.3	28.0
Net asset impairment loss/(reversal)	100.2	(1.9)
Net loss/(gain) on disposal of assets	–	–
Changes in fair value of financial instruments	(0.9)	2.9
Net gain on disposals	7.0	8.7
Change in employee share offer liabilities	3.8	1.4
Tax expense/(income)	142.8	29.2
Net income/(loss) from equity affiliates	4.2	(4.3)
Net dividends received from equity affiliates	6.0	4.6
Other unrealised income and expenses	(2.1)	(1.4)
Cost of financial debt	0.3	–
Cash flow from operations	417.4	251.6
Change in working capital	(96.7)	(175.4)
Tax refunded/(paid)	(89.0)	(26.5)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	231.7	49.7
Changes in scope of consolidation	(80.8)	1.4
Purchases of property, plant and equipment and intangible assets	(100.7)	(109.5)
Proceeds from disposals of property, plant and equipment and intangible assets	1.0	1.7
Acquisitions of holdings, net of cash acquired/brought into scope of consolidation	(0.2)	1.4
Change in loans and advance payments	(6.5)	(2.5)
Net operating investments	(187.2)	(107.3)
Decrease/(increase) in investment securities ⁽¹⁾	98.4	1.0
Decrease/(increase) in financial assets	2.1	–
Net financial investments	100.5	1.0
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(86.7)	(106.3)
Increase in capital – non-controlling interests	33.7	58.7
Dividends paid to owners of the parent	–	–
Dividends paid to non-controlling interests	–	–
Sale/(purchase) of treasury shares	(1.9)	(1.5)
Cash payments to or from shareholders	31.8	57.1
Increase in financial liabilities	5.8	6.1
Decrease in financial liabilities	(8.6)	(0.0)
Net change in financial liabilities	(2.8)	5.8
Net cash inflow/(outflow from financing activities)	29.0	63.0
NET CHANGE IN CASH	174.0	5.7
Net cash at beginning of period	2,301.9	2,296.2
Change in cash	174.0	5.6
Effects of changes in exchange rates/fair value	(0.6)	0.2
Net cash at end of period	2,475.2	2,301.9
Including cash assets at end of period	2,475.2	2,301.9
Including cash liabilities at end of period	–	–

(1) As stated in note I.3.17, 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 I.3.17 amounted to €2,798.2 million at December 31, 2017 (€2,726.3 million at December 31, 2016) and is made up as follows:

	12/31/2017	12/31/2016
Non-current investment securities	92.0	203.8
Current investment securities	231.0	220.6
Net cash	2,475.2	2,301.9
TOTAL	2,798.2	2,726.3

V. NOTES

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I. RULES, POLICIES AND CONSOLIDATION SCOPE

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

These consolidated financial statements of Naval Group for the year ended December 31, 2017 were approved by the Board of Directors on February 28, 2018 and will be submitted for approval by the Shareholders' Combined General Meeting to be held in March 2018.

The financial year 2017 was chiefly marked by the following major events:

- the Ministry of Defence awarded Naval Group the contract to develop and build an intermediate-sized frigate (FTI);
- Naval Group is experiencing delays in the execution of the port infrastructure program to accommodate future Barracuda nuclear attack submarines. These operational difficulties have had a negative impact on the 2017 income statement;
- also, margins to completion of naval defence programs have generally remained steady or have improved by comparison with the previous year;
- faced with operational difficulties during the second half of 2017 and a global market showing lower than expected short-term growth, Naval Energies, which is majority-owned by Naval Group, has had to develop a new strategy, resulting in the asset value of Naval Energies being revised down in Naval Group's financial statements. At December 31, 2017, the impairment loss stood at (€109.2) million (see note II.2.5).

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

Naval Group is a world leader in naval defence and an innovator in the energy sector. As a high-tech company on an international scale, Naval Group meets its clients' needs through its exceptional know-how and unique industrial resources. Naval Group 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.

Naval Group 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

I.3.1. Statement of compliance

Pursuant to 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, 2017.

The accounting rules and policies are identical to those applied in the consolidated financial statements for the year ended December 31, 2016.

I.3.2. New standards and interpretations and their mandatory application

I.3.2.1. IFRS 15 standards

Application of IFRS 15 "Revenue from Contracts with Customers" will be mandatory for accounting periods beginning on or after January 1, 2018.

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.

Summary of the impact of IFRS 15 on the 2017 financial statements:

	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, 2016	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	(1.0)	1.2	(10.8)	102.7	(6.8)	95.9
Dividends paid		–	–	–	–	–	–	–	–	–	–	–
Treasury shares	(29,330)	–	–	1.4	(1.4)	–	–	–	–	–	–	–
Other		–	–	17.9	–	–	–	–	–	17.9	70.6	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
Consolidated comprehensive income		–	–	142.2	–	(19.0)	(11.2)	(1.5)	0.4	110.9	(110.2)	0.7
Dividends paid		–	–	–	–	–	–	–	–	–	–	–
Treasury shares	(41,149)	–	–	3.8	(3.8)	–	–	–	–	–	–	–
Other		–	–	(3.4)	0.3	–	(0.1)	–	–	(3.2)	11.0	7.8
Impact of IFRS 15		–	–	(73.8) ⁽¹⁾	–	–	–	–	–	(73.8)	–	(73.8)
DECEMBER 31, 2017	55,767,753	563.0	18.4	468.9	(71.9)	3.9	0.6	(0.5)	(16.1)	966.3	(13.0)	953.3

(1) The year-to-date impact of IFRS 15 is estimated at (€73.8) million.

This is primarily due to changing the method for recognising revenue to the percentage of completion by the incurred costs method instead of the percentage of completion method with reference to technical milestones.

It consists of the following two amounts:

- amount before tax: (€112.5) million;
- deferred tax recognised: €38.7 million.

The impact on income for 2017 is estimated at (€42.9) million and consists of the following two amounts:

- amount before tax: (€65.4) million;
- deferred tax recognised: €22.5 million.

The group's main programs have been analysed using the five-step method set out in IFRS 15.

- Step 1: Identify the contracts with clients.
- Step 2: Identify the performance obligations (PO) within the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations.
- Step 5: Recognise revenue for each PO.

Each program has its own analysis file.

Performance obligations at Naval Group

Three business models have been identified within the cash-generating unit:

- construction activities: very long-term contracts (20 years), worth more than €1 billion, specific asset, small series (less than 10), continuous transfer of control;
- service activities: long-term contracts (12-60 months), worth €1 million to €500 million, time-restricted technical overhauls, continuous transfer of control;
- equipment activities: short-term contracts, non-specific asset (torpedoes, miscellaneous stand-alone equipment), idea of very long production runs, transfer of control at a specified time.

The “standard” commitments of Naval Group's main contracts are:

- construction activities: development + a range of goods; spares for munitions; non-core: transfer of technology, infrastructure;
- service activities: overhaul, one-off maintenance – IPER (periodic maintenance and repair) major overhaul, regular maintenance;
- equipment activities: torpedoes, other equipment.

Revision of estimate to the extent of percentage of completion (for contracts recognised as such)

Starting from January 1, 2018:

- Naval Group will measure the percentage of completion of its contracts still pending at the balance sheet date by means of incurred costs. In practice, revenue from these contracts will, therefore, be determined according to the rate of percentage of completion calculated at the balance sheet date, in accordance with this new measurement of percentage of completion;
- the difference between cumulative revenue calculated on a contract (percentage of completion by the incurred costs method) and recognised revenue as regards previous financial years on the same contract (percentage of completion method with reference to technical milestones) will correspond to revenue to be regularised starting from 2018. Depending on the contracts involved, the new measurement of percentage of completion will lead to higher or lower recognised revenue as a result of using the percentage of completion method with reference to technical milestones;

- costs recognised under expenses will be limited to costs actually incurred at the balance sheet date. Therefore, no longer will either inventories relating to contracts or accrued liabilities (work-in-progress creditors) appear on the balance sheet;
- however, the provisions necessary to cover risks or expenses inherent in the execution of contracts will still be shown on the balance sheet.

Special cases of optional tranches for very complex and very specific ranges of goods

The group handles optional tranches of ranges of goods for new-builds pursuant to example 10b of the standard. This means that as long as the following points have been demonstrated:

- the entity sets up a dedicated manufacturing process for the client, used solely for this contract;
- the product's design, supplied by the client, is specific;
- under the contract, the entity is responsible for managing procurement, identifying and managing subcontractors and also for production, assembly and tests,

then each boat awarded under the contract is incorporated into the performance obligations in relation to the new-build, with a catch-up effect as regards margin, whenever the option is confirmed.

New orders

The group only includes existing contracts awarded by the client:

- conditional tranches, options and highly probable amendments are not included in the order book;
- the vision to completion of the programs is consequently brought into alignment.

From the outset at January 1, 2018, client price reviews based on date-based indices are now shown in the order book: price review to completion revenue – already recognised price review revenue.

Significant financing component

The significant financing component, namely the benefit obtained by the group from its client in financing the contract, has been calculated based on the group's major programs: where identified, this significant financing component changes the data on completion of the programs through financial expenses offset.

Treatment of losses at completion (LAC)

Losses at completion are not considered in performance obligations (PO), this being a concept peculiar to IFRS 15. See IAS 37 "Provisions" in order to assess these situations.

IAS 37 requires a provision to be recorded where a contract becomes "costly"/loss-making. Any loss at completion must be assessed at contract level (and not PO level) regardless

of which method is used to recognise revenue (percentage of completion by incurred costs or completion). Financial data in contracts with several PO should, therefore, continue to be consolidated.

Where the cost to completion estimate shows an overall loss on the contract (cost to completion exceeds revenue to completion), a provision for loss at completion (LAC) must be made immediately to safeguard performance in future financial years from the negative outcome of this business.

I.3.2.2. IFRS 16

IFRS 16 "Leases" applies as from January 1, 2019. An inventory of operational leases is underway.

I.3.3. 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 IAS/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.

I.3.4. Use of estimates

In preparing consolidated financial statements under IAS/IFRS, Management makes estimates and assumptions that it considers realistic and reasonable. Management regularly revises its estimates at program 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 II.1, III.5, III.8)

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 program 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 costs 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 program. 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 costs 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 programs. 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 from the moment they are likely. 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 program 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 programs. The associated effects are presented in note III.5.

Measurement of assets and liabilities under retirement benefit and similar obligations (note III.8.1)

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 III.1 and III.2)

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 IV.1)

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 III.6)

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 III.8). Any uncertainties concerning ongoing disputes are described in note V.3.2.

I.3.5. 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.

I.3.6. 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>.

1.3.7. 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.

1.3.8. 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 programs – 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 12 months hence. Other assets and liabilities (in particular provisions that do not relate to programs and financial assets and liabilities) are recognised as current assets and liabilities if their maturity date is in 12 months or less and as non-current assets and liabilities if their maturity date is after 12 months.

1.3.9. 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 programs (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 I.3.13. 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 I.3.13. 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 or 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.

1.3.10. 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.

I.3.11. 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 I.3.9, 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.

I.3.12. 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.

I.3.13. 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 value of an asset or of a CGU is the highest value between its fair value, minus 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.

I.3.14. Inventories

Inventories not allocated to programs

Inventories not allocated to programs are measured in aggregate using the weighted average unit purchase cost method. In 2017, a change in estimate led to changes in how inventory impairment allowances were calculated. Inventory impairment allowances now consist of:

- an impairment allowance for obsolescence where consumption has been non-existent for at least two years; a graduated rate of impairment is applied based on the length of time that there has been no consumption;
- an impairment allowance for slow moving inventory whenever the quantity of inventory is higher than the quantity consumed over the last 24 months.

The impact made by this change in estimate resulted in a reversal of provision totalling €5.5 million.

Inventories allocated to programs

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

I.3.15. 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.

I.3.16. 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.

I.3.17. 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.

I.3.18. 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's financial assets intended to cover these obligations. 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 amended 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 Naval Group must have at least 10 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	100%	91%	80%	72%
GPEC	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.

The measures provided for in the GPEC agreement cease to apply at January 1, 2018, as mentioned in addendum no. 1 to the UES Naval Group agreement signed on November 15, 2017.

I.3.19. Employee share offer

In connection with the acquisition by Thales of a 25% shareholding in Naval Group 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 Naval Group.

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.

I.3.20. 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, 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 previous 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 future decrease in the current tax rate from 34.43% to 25.82% (scheduled between 2019 and 2022) involves a remeasurement of the deferred tax inventory. The timetable for the reversal of these temporary differences shows a downward revision of this inventory of €7.6 million. As a result

of the tax law (which was passed in December 2016) bringing in a future decrease in the current tax rate (from 34.43% to 28.92%), a downward revision of €5.9 million for actuarial provisions had been recorded in the 2016 accounts.

An exceptional contribution (the so-called surcharge) was introduced under the amended tax law for 2017, amounting to 30% of the corporation tax amount, i.e. €28 million (the tax rate in force for companies with turnovers greater than €3 billion).

I.3.21. 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 Naval Group exercises exclusive control, joint control or significant influence

The scope of consolidation retained for the years ended December 31, 2016 and December 31, 2017 was as follows:

(percentages)	Control at 12/31/2017	Control at 12/31/2016	Interests at 12/31/2017	Interests at 12/31/2016
Parent				
Naval Group (France)				
Exclusive control				
Armaris Quater SAS (France)	100	100	100	100
DCN International SA (France)	100	100	100	100
Naval Group Actionnariat SAS (France)	100	100	100	100
Naval Group Coopération SA (Belgium)	100	100	100	100
Naval Energies SAS (France) ⁽¹⁾	60	58	60	58
Naval Group Far East PTE Ltd (Singapore)	100	100	100	100
DCNS India PTE Ltd (India)	100	100	100	100
Naval Group Malaysia (Malaysia)	100	100	100	100
DCNS Participations (France)	100	100	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) ⁽²⁾	72	62	43	36
Naval Group BR Sistemas de Defesa (Brazil)	100	100	100	100
Prosin (Brazil)	100	100	100	100
DCNS Energia Marina Spa (Chile)	75	75	44	44
Naval Group Australia Pty Ltd (Australia)	100	100	100	100
DCNS Zamil ⁽⁴⁾	55	–	55	–
Significant influence				
Boustead DCNS Naval Corporation SDN BHD (Malaysia)	40	40	40	40
Défense Environnement Services SAS (France)	49	49	49	49
Eurosnav SAS (France)	50	50	50	50
Horizon SAS (France) ⁽³⁾	0	50	0	50
Itaguaí Construções Navais SA (Brazil)	41	41	41	41
Kership SAS (France)	45	45	45	45
Winacelles SAS (France)	41	34	41	34
Principia SAS (France)	33	33	33	33
TechnicAtome (France) ⁽⁵⁾	20	–	20	–

(1) Change in control and interest percentages as a result of the capital increase of €12 million in 2017.

(2) Change in control and interest percentages as a result of the capital increase at Naval Energies in 2017.

(3) Company liquidated on December 18, 2017.

(4) Company fully consolidated since December 27, 2017.

(5) Company accounted for under the equity method since March 29, 2017.

II. INCOME STATEMENT

II.1. Revenue

Group revenue for the year ended December 31, 2017 was €3,698.2 million (€3,191.2 million for the year ended December 31, 2016). Of this, €2,386.3 million was generated in France (€1,986.1 million for the year ended December 31, 2016).

	2017	2016
Construction contracts	3,523.5	3,023.9
Sales of goods and services	174.7	167.3
REVENUE	3,698.2	3,191.2

II.2. Operating profit

II.2.1. Employee headcount and costs of own and seconded employees

	2017	2016
Wages and salaries (including social benefit charges) of own employees	(875.0)	(820.2)
Retirement and other long-term employee benefit expenses	9.5 ⁽¹⁾	(3.8)
Employees seconded by the French State	(193.7)	(208.4)
Other	(16.2)	(15.4)
TOTAL	(1,075.4)	(1,047.8)

(1) See note I.3.18.

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 consolidated group companies was as follows, on a full-time equivalent basis:

	2017	2016
Managers	5,506	5,424
Supervisors and technicians	3,789	3,839
Blue and white-collar employees	3,091	3,154
TOTAL FOR FULLY CONSOLIDATED FRENCH COMPANIES	12,386	12,417
Other consolidated companies	402	277
TOTAL WORKFORCE	12,788	12,694
Including seconded employees	2,743	3,100

II.2.2. Research and development expenditure

Internally funded research and development expenses amounted to €90.7 million in the year ended December 31, 2017 (€113.8 million in the year ended December 31, 2016).

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 I.3.10).

	2017	2016
Gross research and development expenditure	(90.7)	(113.8)
Amount capitalised	2.6	10.2
Translation differences	0.1	(0.7)
Amortisation of capitalised research and development expenditure	–	–
RESEARCH AND DEVELOPMENT EXPENDITURE	(88.0)	(104.3)

II.2.3. Statutory Auditors' fees

For the year ended December 31, 2017, fees payable to the Statutory Auditors for their statutory audit services amounted to €1.1 million.

II.2.4. Other operating income

	2017	2016
Competitiveness plan/restructuring ⁽¹⁾	15.8	17.5
Russia projection and command vessel program ⁽²⁾	25.0	–
Other unusual items ⁽³⁾	6.8	0.1
OTHER OPERATING INCOME	47.6	17.6

(1) In the year to December 31, 2017, the provision for restructuring/competitiveness plan was reversed in the amount of €15.8 million (at December 31, 2016, it was reversed in the amount of €17.5 million).

(2) In the year to December 31, 2017, the recognition of the compensation acquired to date by Coface in respect of the Russia projection and command vessel program generated income of €25 million.

(3) In the year to December 31, 2017, the impairment test on Naval Energies generated non-operating profit of €3 million (reversal of the fair value adjustment provision on Paimpol-Bréhart) and exceptional income of €3.8 million on other payables was generated at Naval Group SA.

II.2.5. Other operating expenses

	2017	2016
Competitiveness plan/restructuring ⁽¹⁾	(8.0)	(4.4)
Impairment loss on non-current assets ⁽²⁾	(109.2)	–
Provisions for liabilities ⁽³⁾	–	(2.9)
Pakistan receivable ⁽⁴⁾	–	(2.3)
Other ⁽⁵⁾	(6.7)	(0.4)
OTHER OPERATING EXPENSES	(123.9)	(10.0)

(1) At December 31, 2017, the cost of the competitiveness plan/restructuring incurred by Naval Group totalled (€8.0) million.

At December 31, 2016, the cost of the competitiveness plan/restructuring incurred by Naval Group totalled (€4.4) million.

(2) At December 31, 2017, the amount corresponds to the impairment loss in respect of assets of the sub-group, Naval Energies:

- the Paimpol-Bréhat turbines (€9.7 million);
- the Cape Sharp turbines (€15.8 million);
- the fair value adjustment on the R&D turbines (€13.4 million);
- R&D and barges (€70.3 million).

(3) At December 31, 2016, Naval Group set up a provision for current asset risks totalling (€2.9) million.

(4) At December 31, 2016, an expense of (€2.3) million was recognised in respect of the receivables due from Pakistan.

(5) The other operating expenses amount corresponds to restructuring costs for (€6.7) million at Naval Group SA.

II.3. Net financial income/expense

Income from financial investments represents interest received by the group on its investments of cash in the amount of €25.6 million for the year ended December 31, 2017 (€32.1 million for the year ended December 31, 2016). It included income from Soframtem totalling €18.3 million.

II.3.1. Other financial income

	2017	2016
Changes in fair value of financial investments	–	0.9
Changes in fair value of financial instruments (forwards and options)	2.1	2.1
Dividends received	2.1	1.4
Interest on overdue trade receivables	3.1	0.9
Foreign exchange gains	11.8	22.2
Reversal of impairments on provisions of long-term benefits	0.3	–
Reversal of impairments on financial assets	0.3	3.8
Income on cash equivalents	0.2	–
Other income	4.0	2.9
OTHER FINANCIAL INCOME	23.9	34.2

II.3.2. Other financial expenses

	2017	2016
Changes in fair value of financial investments	(0.9)	–
Changes in fair value of financial instruments (forwards and options)	–	–
Change in employee share offer liability	(3.8)	(1.4)
Interest on overdue trade payables	–	(0.5)
Foreign exchange losses	(15.5)	(22.2)
Impairment losses on provisions of long-term benefits	–	–
Impairment losses on financial assets/allowances ⁽¹⁾	(14.2)	(10.0)
Interest on loans	(0.3)	(2.5)
Net expenses on sale of marketable securities	(0.8)	–
Other expenses ⁽²⁾	(5.1)	(0.3)
OTHER FINANCIAL EXPENSES	(40.6)	(36.9)

(1) During the 2017 financial year, impairment provisions totalling (€4.7) million were recognised at Naval Group SA in respect of stock purchase warrants and an impairment loss amounting to (€6.6) million was recognised at Naval Energies in respect of ARE securities accounted for under the equity method.

During the 2016 financial year, impairment provisions totalling (€4.8) million were recognised in respect of the Sofema and Sofresa unconsolidated securities; the impact of the change in the discount rate on the retirement benefit obligations was (€3.0) million.

(2) At December 31, 2017, other financial expenses totalling (€3.7) million were recognised at Naval Energies for the impairment loss for fair value adjustment in respect of ARE.

II.4. Income tax

II.4.1. Analysis of tax expense

	2017	2016
Current tax	(130.1)	(31.4)
Deferred tax	(12.7)	2.2
INCOME TAX EXPENSE	(142.8)	(29.2)

Current tax includes an exceptional contribution (surcharge) of (€28) million.

The change in deferred tax comprises a (€7.6) million expense corresponding to the recognition of the future decrease of the current tax rate on all of the group's deferred tax inventory (at December 31, 2016, the change in deferred tax included an expense of €5.9 million in anticipation of the future decrease in the current tax rate on the actuarial provisions).

II.4.2. Reconciliation of actual and theoretical tax charge

	2017	2016
Net profit for the year	32.0	87.5
Income tax	(142.8)	(29.2)
Share in net operating profit of equity affiliates	(0.5)	2.6
Net profit before tax	175.3	114.0
Theoretical tax charge at 34.43%	(61.5)	(39.3)
Research tax credit ⁽¹⁾	–	20.2
Offset of research tax credit in EBITA ⁽²⁾	8.4	–
Exceptional contribution (surcharge)	(28.0)	–
Decrease in corporation tax rate ⁽³⁾	(7.6)	(5.9)
Deferred tax not recognised at Naval Energies ⁽⁴⁾	(69.6)	–
Difference in corporation tax rate on foreign income/(loss) ⁽⁵⁾	7.5	–
Other permanent differences ⁽⁶⁾	6.7	(4.2)
ACTUAL TAX EXPENSE	(142.8)	(29.2)
<i>Effective tax rate⁽⁷⁾</i>	<i>41.8%</i>	<i>25.6%</i>

(1) Since January 1, 2017, research tax credit has been set against operating expenses.

(2) The recognition of research tax credit set against operating expenses generates a theoretical tax charge of (€8.4) million, which must be offset.

(3) The change in the corporation tax rate had an impact of (€7.6) million on the valuation of the deferred tax inventory.

(4) In view of the likelihood of Naval Energies becoming profitable in the future, no deferred tax was recognised on 2017 losses.

(5) The rate difference between the theoretical corporation tax rate and the current rate applied in the overseas subsidiaries and permanent establishments.

(6) Including other tax credits and tax consolidation income (€3 million in 2017).

(7) Excluding Naval Energies loss.

II.4.3. Deferred tax in the balance sheet

	12/31/2017	12/31/2016
Deferred tax assets	201.8	198.5
Deferred tax liabilities	5.6	5.2
NET DEFERRED TAX	196.2	193.3

Deferred tax assets mainly involve the differences between the book basis and the tax basis of provisions on contracts and provisions for lump-sum payments payable on retirement.

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

At December 31, 2017, the brought forward losses of OpenHydro and of Naval Energies were not recognised.

II.5. Earnings per share

The group issued no new ordinary shares during the years ended December 31, 2016 and December 31, 2017. The calculation of earnings per share is therefore based on the average number of ordinary shares outstanding after buybacks of treasury shares, which was 55,808,902 shares and 55,767,753 shares for the years ended December 31, 2016 and December 31, 2017 respectively.

No dilutive instruments were issued during the years ended December 31, 2016 and December 31, 2017. 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. 55,808,902 shares and 55,767,753 shares for the years ended December 31, 2016 and December 31, 2017 respectively (see note III.7 on equity).

	2017	2016
Net profit attributable to owners of the parent (in millions of euros)	142.2	94.3
Portion attributable to holders of ordinary shares (in millions of euros)	71.1	47.1
Number of ordinary shares outstanding (in millions of shares)	55.8	55.8
BASIC AND DILUTED EARNINGS PER SHARE (IN EUROS)	1.28	0.84

III. OPERATING ASSETS AND LIABILITIES

III.1. Property, plant and equipment and intangible assets

III.1.1. Gross amounts

	12/31/2016	Acquisitions	Disposals	Other ⁽¹⁾	12/31/2017
Concessions, patents and similar rights	151.1	22.9	(0.1)	3.6	177.5
Fair value differences	226.7	–	–	(45.5)	181.2
Research and development costs ⁽²⁾	30.8	2.6	–	45.3	78.7
Other intangible assets	24.0	2.9	–	(3.6)	23.2
Intangible assets	432.6	28.4	(0.1)	(0.2)	460.7
Land	31.6	–	(0.2)	–	31.4
Buildings	198.0	7.5	(1.1)	(3.2)	201.3
Plant and machinery	374.6	17.8	(10.5)	(21.5)	360.3
Other property, plant and equipment	645.6	43.4	(15.6)	15.9	689.2
Property, plant and equipment	1,249.9	68.7	(27.4)	(8.8)	1,282.3
GROSS	1,682.5	97.1	(27.5)	(9.1)	1,743.0

(1) The "Other" column as at December 31, 2017 corresponds mainly to the reclassification of the fair value difference in respect of Naval Energies' research and development costs. "Fair value differences" as at December 31, 2016 represent the 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), reduced by the TNF technology scrapped (fully amortised) (€35 million).

(2) The research and development costs totalling €2.6 million capitalised in the year ended December 31, 2017 represent costs incurred by the OpenHydro group since the assumption of control by Naval Group. These costs meet the criteria set out in note I.3.9 "Research and development costs".

	12/31/2015	Acquisitions	Disposals	Other	12/31/2016
Concessions, patents and similar rights	150.4	8.8	(8.0)	–	151.1
Fair value differences	226.7	–	–	–	226.7
Research and development costs	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

III.1.2. Depreciation, amortisation and impairment losses

	12/31/2016	Expenses	Reversals	Other	12/31/2017
Concessions, patents and similar rights	(121.1)	(18.6)	–	0.0	(139.6)
Fair value differences	(164.1)	(14.1)	–	–	(178.2)
Research and development costs	–	(53.1)	–	0.0	(53.1)
Other intangible assets	–	–	3.0	(3.0)	(0.0)
Intangible assets	(285.2)	(85.8)	3.0	(3.0)	(370.9)
Buildings	(69.5)	(8.0)	0.2	0.6	(76.6)
Plant and machinery	(265.4)	(25.5)	3.3	26.1	(261.5)
Other property, plant and equipment	(314.1)	(83.5)	0.8	(1.5)	(398.3)
Property, plant and equipment	(649.1)	(117.0)	4.4	25.3	(736.5)
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES	(934.3)	(202.9)	7.4	22.4	(1,107.4)

	12/31/2015	Expenses	Reversals	Other	12/31/2016
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)

III.1.3 Net amounts

	12/31/2016	Acquisitions	Disposals	Depreciation and amortisation	Impairment losses	Other	12/31/2017
Concessions, patents and similar rights	30.0	22.8	(0.0)	(16.6)	(2.0)	3.7	37.9
Fair value differences	62.6			(14.1)		(45.5)	3.0
Research and development costs	30.8	2.6			(53.1)	45.3	25.7
Other intangible assets	24.0	2.9			3.0	(6.6)	23.2
Intangible assets	147.4	28.4	(0.0)	(30.7)	(52.0)	(3.1)	89.8
Land	31.6		(0.2)			0.0	31.4
Buildings	128.6	7.5	(0.5)	(7.8)	0.0	(3.1)	124.7
Plant and machinery	109.3	17.8	(0.7)	(25.5)	3.3	(5.4)	98.8
Other property, plant and equipment	331.3	43.4	(4.1)	(42.7)	(40.0)	3.1	290.9
Property, plant and equipment	600.8	68.7	(5.6)	(76.1)	(36.6)	(5.4)	545.8
NET	748.2	97.1	(5.6)	(106.8)	(88.7)	(8.6)	635.7

	12/31/2015	Acquisitions	Disposals	Depreciation and amortisation	Impairment losses	Other	12/31/2016
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

III.2. Goodwill

	12/31/2016	Acquisitions	Disposals	Impairment losses	12/31/2017
Naval Group (from DCN Log, June 2003)	11.4	–	–	–	11.4
Naval Group (from Armaris, March 2007)	207.5	–	–	–	207.5
Naval Group (from TNF, March 2007)	163.9	–	–	–	163.9
OpenHydro (March 2013)	–	–	–	–	–
GOODWILL	382.8	–	–	–	382.8

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

In accordance with IAS 36, an impairment test has been carried out on the unamortised intangible assets not showing any indications of impairment.

III.3. Investments in associates

III.3.1. Group share in the net assets and net income of associates

	Group share in net assets at year end (under equity method)		Net income	
	12/31/2017	12/31/2016	2017	2016
Principia	0.8	1.3	(0.4)	0.2
Alderney Renewable Energy ⁽¹⁾	–	7.9	(1.3)	(1.4)
Horizon ⁽²⁾⁽³⁾	–	–	0.0	–
Eurosystnav ⁽²⁾	1.6	1.5	0.0	–
Boustead DCNS Naval Corporation SDN BHD (Malaysia) ⁽²⁾	(15.3)	3.5	(16.2)	0.6
Itaguaí Construções Navais SA (Brazil) ⁽²⁾	8.2	3.8	11.6	5.8
Défense Environnement Services SAS (France) ⁽²⁾	1.4	0.6	1.0	0.3
Winacelles SAS (France) ⁽²⁾	(0.7)	(0.9)	0.4	(0.1)
Kership SAS (France) ⁽²⁾	(1.2)	1.0	(1.1)	(0.2)
TechnicAtome SA (France) ⁽⁴⁾	134.1	–	27.0	–
TOTAL	128.9	18.7	21.0	5.2

(1) The holding in Alderney Renewable Energy (“ARE”) is accounted for under the equity method by OpenHydro, which owns a 38% shareholding in it. The group share in ARE’s net assets had no value as at December 31, 2017: during the 2017 financial year, the group’s share of its net income was a loss of €1,262.8 thousand. An impairment loss of €6,606.2 thousand was recognised and offset against the value of the shareholding accounted for under the equity method.

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

(3) Company liquidated on December 18, 2017.

(4) TechnicAtome (formerly Areva TA) has been consolidated under the equity method since March 29, 2017.

III.3.2. Changes in “Net assets of equity affiliates”

	12/31/2017	12/31/2016
Share in net assets of equity affiliates as at January 1	19.7	21.2
Share in income/(loss) of equity affiliates	(4.2)	4.3
Dividends paid	(6.0)	(4.6)
Translation differences	(1.3)	(1.1)
Consolidation scope changes ⁽¹⁾	87.7	(0.1)
Other ⁽²⁾	(7.1)	–
SHARE IN NET ASSETS OF EQUITY AFFILIATES	88.8	19.7

(1) TechnicAtome (formerly Areva TA) was accounted for under the equity method for the first time and this generated a movement under this heading totalling €87.7 million.

(2) Of the amount under the “Other” heading, (€6.7) million corresponds to the impairment loss, recognised in Naval Energies’ books, against the value of the ARE shareholding accounted for under the equity method.

Summary financial information on TechnicAtome

Naval Group holds 20.26% of the share capital of TechnicAtome, which specialises in nuclear power.

TechnicAtome’s summary financial statements (prepared in accordance with IFRS) are as follows:

Summarised balance sheet (100%)	12/31/2017
TOTAL ASSETS	796.6
Equity restated, entity’s share before net income	152
Entity’s net income	35
Equity restated, entity’s share	187
Non-controlling interests	
Other liabilities	609.6
TOTAL EQUITY AND LIABILITIES	796.6
Cash and cash equivalents	567.6

Consolidation in Naval Group	
Equity restated, entity’s share before net income	152
Entity’s net income	35
Equity restated, entity’s share	187
Naval Group % shareholding	20.26%
NAVAL GROUP SHARE	36.3⁽¹⁾
Goodwill	56.8
SHARE IN THE JOINT VENTURE	93.1

(1) The share of the consolidated net income corresponds to the last three quarters of the year since TechnicAtome has been consolidated using the equity method since March 29, 2017.

Income statement (100%)	12/31/2017
Revenue	372.2
Operating profit	50.1
Net financial expense	(0.4)
Tax	(14.5)
Net income restated	35.2
Consolidation in Naval Group	
Net income restated, entity’s share	35.2
Net income before Naval Group stake	8.2
NET INCOME AFTER NAVAL GROUP STAKE	27
Naval Group % shareholding	20.26%
SHARE OF NET INCOME OF JOINT VENTURE	5.5

III.4. Inventories and work in progress

	12/31/2017	12/31/2016
Raw materials and goods for resale	452.3	482.9
Work in progress (excluding construction contracts)	40.2	57.0
Finished and semi-finished products	0.0	–
Gross amounts	492.5	539.9
Impairment allowances	(29.6)	(34.7)
INVENTORIES AND WORK IN PROGRESS	462.9	505.3

The change in the method of estimating the inventory impairment allowances resulted in a €5.5 million provision reversal. Work in progress relates only to contracts for the sale of goods and services (recognised under IAS 18).

III.5. Construction contracts

	12/31/2017	12/31/2016
Construction contracts: assets	198.8	455.1
Construction contracts: liabilities	(783.1)	(550.6)
NET CONSTRUCTION CONTRACTS	(584.3)	(95.5)

	12/31/2017	12/31/2016
Costs incurred and recognised gains (or losses), to date	23,557.3	22,661.1
Progress billings	(24,141.6)	(22,756.6)
NET CONSTRUCTION CONTRACTS	(584.3)	(95.5)

Construction contracts are accounted for using the percentage-of-completion method as described in note I.3.15, based on the most likely estimate of overall profit or loss on completion of each contract.

	12/31/2017	12/31/2016
Work in progress on construction contracts	183.8	417.0
Unbilled receivables on construction contracts	8,240.5	7,245.7
Deferred expenses	0.0	(0.1)
Provisions for losses on completion	(27.3)	(4.2)
Other reserves on construction contracts	(51.9)	(41.2)
Advances received from customers on construction contracts	(8,004.3)	(7,019.6)
Trade payables on construction contracts (work-in-progress creditors)	(800.2)	(574.0)
Deferred income	(125.0)	(118.9)
NET CONSTRUCTION CONTRACTS	(584.3)	(95.5)

III.6. Trade and other receivables

	12/31/2017	12/31/2016
Trade receivables, gross	1,296.9	1,104.9
Trade receivables, impairment allowance	(13.5)	(10.2)
Trade receivables	1,283.4	1,094.7
Tax receivables (excluding current tax)	44.8	67.0
Employment and social benefit receivables	52.9	85.0
Tax, employment and social benefit receivables	97.7	152.0
Deferred expenses	32.6	37.5
Other receivables, gross	71.6	87.3
Other receivables, impairment allowance	–	–
Other receivables, net	104.2	124.7
TRADE AND OTHER RECEIVABLES	1,485.3	1,371.5

III.7. Equity

III.7.1. Share capital

As at December 31, 2017, 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, 2017, shares were held as follows:

	Ordinary shares	Preference shares	Total	%
The French State	35,047,571	300	35,047,871	62.25%
Thales	19,705,000	–	19,705,000	35.00%
FCPE Actions DCNS	1,014,882	–	1,014,882	1.80%
Treasury shares	532,247	–	532,247	0.95%
TOTAL	56,299,700	300	56,300,000	100%

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

III.7.2. Dividend payments

On March 17, 2017, the Shareholders' Ordinary General Meeting resolved, in respect of the year ended December 31, 2016, to again carry forward profits.

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

III.7.3. Changes in fair value of financial assets and liabilities recognised directly in equity

During the year ended December 31, 2017, the group recorded a decrease of €29 million linked to the cancellation of the revaluation of TechnicAtome shares, previously measured as available-for-sale securities and now consolidated using the equity method since the investment in March 2017.

III.7.4. Changes in fair value of the cash flow hedging reserve

During the period from January 1 to December 31, 2017, the group recorded a fall of €17.1 million in its cash flow hedging reserves (fall of €1 million in 2016).

The effectiveness of the hedging instruments introduced on the Saudi Arabia programs has been documented. So, the changes in fair value arising from spot price changes between January 1 and December 31, 2017 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 hedged 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).

III.7.5. Translation differences (foreign subsidiaries)

As stated in note I.3.5, 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: Naval Group Far East (Singapore dollar – SGD), Itaguaí Construções Navais, Prosin and Naval Group BR (Brazilian real – BRL), Boustead DCNS Naval Corporation (Malaysian ringgit – MYR), DCNS India (Indian rupee – INR), Naval Group Malaysia (Malaysian ringgit – MYR) and Naval Group Australia Pty Ltd (Australian dollar – AUD).

During the year ended December 31, 2017, the group recorded a decrease of €1.5 million in its reserves for translation differences (increase of €1.2 million in 2016).

III.7.6. Treasury shares

Naval Group Actionnariat (100% owned by the group) acquired 29,330 and 41,149 treasury shares during the years ended December 31, 2016 and December 31, 2017 respectively under the share buyback guarantee granted to staff under the terms of the employee share offer.

As stated in note I.3.18, Naval Group shares that are held by Naval Group Actionnariat or for which shareholders have an option to sell to Naval Group Actionnariat are recognised as a deduction from equity. The impact on equity was €71.9 million as at December 31, 2017 (as opposed to €68.5 million as at December 31, 2016).

The treasury share reserve has been revalued in accordance with the new valuation of group shares published in April 2017, resulting in an upward revaluation of the treasury share reserve with a corresponding decrease in other reserves of (€3.8) million.

As at December 31, 2017, the group held 532,247 treasury shares and employee shareholders held put options for 1,014,882 shares.

All the conditions restricting the resale of shares held by staff as a result of the first employee share offer were all 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 will be lifted in December 2019.

III.7.7. 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.8. Provisions

	12/31/2016	Expenses	Utilisation	Reversals	Other	12/31/2017
Provisions for lump-sums payable on retirement ⁽¹⁾	76.2	9.0	(3.9)		1.2	82.6
Other non-current provisions ⁽²⁾	42.2	3.3	(15.6)		0.2	30.1
Non-current provisions	118.4	12.3	(19.5)		1.4	112.7
Provisions for lump-sums payable on retirement ⁽¹⁾	1.9	–			(1.8)	0.1
Provisions for the competitiveness plan	2.4	–			(1.0)	1.4
Provisions under warranties	10.8	3.2	(3.2)		(0.3)	10.5
Provisions on contracts ⁽³⁾	163.3	57.6	(84.5)		(0.1)	136.3
Provisions for losses on completion ⁽⁴⁾	2.8	76.8	(8.4)		7.7	78.9
Other current provisions ⁽²⁾⁽⁵⁾	65.6	11.1	(4.5)	(7.7)	(18.2)	46.4
Current provisions	246.8	148.8	(100.6)	(7.7)	(13.7)	273.6
PROVISIONS	365.2	161.1	(120.1)	(7.7)	(12.2)	386.3

- (1) The item in the “Other” column in respect of “Provisions for lump-sums payable on retirement” chiefly comprises an actuarial loss of €0.6 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 I.3.17).
- (3) The reversals of surplus provisions in respect of “Provisions on contracts” correspond mainly to the Projection and Command Vessels for Russia program (€73.7 million). The expenses for “Provisions on contracts” correspond mainly to the Gowind® Egypt program (expense of €35.1 million).
- (4) For each contract, the change in the provision for losses on completion is recorded for its net amount. The expenses for “Provisions for losses on completion” correspond mainly to the Artemis and Infra SA programs (expenses of €25.4 million and €28 million respectively) and to the Cape Sharp turbines (expense of €10million) and the costs of Paimpol-Bréhat (expense of €5.6 million: Naval Energies).
- (5) The other current provisions mainly include a reversal of €15.7 million agreed on as part of the employment adjustment plan (comprehensive performance agreement) (€7.7 million reversal of provision not used and €8 million provision utilised). Other provisions relate to disputes concerning tax, Social Security and trade payables.

	12/31/2015	Expenses	Utilisation	Reversals	Other	12/31/2016
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 item in the “Other” column in respect of “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 I.3.17).
- (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 of provision not used and €3.8 million provision utilised). Other provisions primarily relate to disputes concerning tax, Social Security and trade payables.

III.8.1. Provisions for lump-sum payments payable on retirement

As at December 31, 2017, provisions for lump-sums payable on retirement for the group as a whole amounted to €82.7 million, compared to €78.1 million as at December 31, 2016, mainly related to Naval Group.

The assumptions used were as follows:

- discount rate: 1.25% (unchanged from the rate used as at December 31, 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 from the rate used as at December 31, 2016);

- salary increase rate: 2.5% (unchanged since 2016).

As at December 31, 2017, 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 €131.9 million;
- increasing the discount rate by 0.5% would lead to a provision for lump-sum retirement benefits of €114.56 million.

Movements in the retirement obligation were as follows:

	2017	2016
Obligation at start of period	113.0	95.5
Past service cost ⁽¹⁾	–	(3.6)
Current service cost	8.1	6.9
Accretion expense	1.0	1.9
Benefits paid	(1.5)	(4.2)
Actuarial gains and losses ⁽²⁾	(0.7)	16.5
OBLIGATION AT END OF PERIOD	119.9	113.0

(1) As at December 31, 2016, past service cost included (€0.7) million corresponding to the year's impact and a (€2.9) million adjustment to the opening balance.

(2) Changes in actuarial gains and losses are linked to differences in the assumptions connected with updating the discount rate for (€0.7) million.

Changes in pension plan assets were as follows:

	2017	2016
Assets at start of period	35.8	35.5
Return on assets	0.4	0.7
Actuarial gains and losses	2.5	(0.4)
ASSETS AT END OF PERIOD	38.7	35.8

As at December 31, 2017, the assets were invested as follows: 59.0% in equities, 38.7% in bonds, 1.4% in property, and 0.9% in money-market instruments.

The net charge recognised breaks down as follows:

	2017	2016
Current service cost	(8.1)	(6.9)
Accretion expense	(1.0)	(1.9)
Past service cost	–	0.7
Benefits paid	1.5	6.7
Expected return on assets	0.5	0.7
NET CHARGE	(7.1)	(0.7)

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

	12/31/2017	12/31/2016
Actuarial obligation	119.9	113.0
Fair value of assets	(38.7)	(35.8)
(NET) PROVISION AT END OF PERIOD	81.2	77.2

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

	12/31/2017
Forecast benefits 2018	2.5
Forecast benefits 2019	1.7
Forecast benefits 2020	2.1
Forecast benefits 2021	3.8
Forecast benefits 2022	5.0
FORECAST BENEFITS FOR THE NEXT FIVE YEARS	

III.8.2. 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 I.3.18. The measures specified in the GPEC agreement ceased to apply as at January 1, 2018, as referred to in addendum no. 1 to the Naval Group UES agreement signed on November 15, 2017.

Changes in obligations to pay other long-term benefits as at December 31, 2017 were as follows:

	2017
Opening obligation	42.2
Past service cost ⁽¹⁾	(15.8)
Current service cost	3.0
Financial charge	1.2
Actuarial gains and losses	–
Benefits paid	(1.1)
OBLIGATION AT YEAR END TO PAY OTHER LONG-TERM BENEFITS	29.5

(1) Past service cost includes the reversal of the GPEC provision in the amount of (€14.7) million.

III.8.3. Provisions for economic liabilities

The balance of the provision for asbestos removal at the Lorient site was reversed in full as at December 31, 2017 (€16 thousand). As regards the removal of asbestos from buildings containing asbestos at the Cherbourg site, a provision reversal totalling €540 thousand was recognised, following which the balance of the provision as at December 31, 2017 was €2,190 thousand.

No changes were made during 2017 to the provision of €650 thousand for sediment remediation of the River Scorff recognised in the financial statements for the year ended December 31, 2016. Lastly, a €55 thousand provision reversal was recognised in respect of the road works for transferring blocks from Kership to Naval Group, which reduced the provision to €23 thousand as at December 31, 2017. The provision for economic liabilities therefore totalled €2,863 thousand as at December 31, 2017, compared with €3,474 thousand as at December 31, 2016.

III.9. Trade and other payables

	12/31/2017	12/31/2016
Trade payables ⁽¹⁾	1,378.7	1,674.9
Tax payables (excluding current tax)	73.2	73.1
Social benefit liabilities	247.1	243.6
Deferred income	21.9	13.8
Other liabilities	84.6	160.9
TRADE AND OTHER PAYABLES	1,805.5	2,166.3

(1) The decrease in "Trade payables" was due to the impact of the restatement of the construction contracts in Naval Group SA's books.

IV. FINANCIAL ASSETS AND LIABILITIES

IV.1. 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 based on the accrued interest at the reporting date (level 2);
- monetary and non-monetary UCITS (fair value through profit and loss account): valued at their latest known net asset value (level 1);
- negotiable medium-term notes (fair value through profit and loss account): valued at their latest known net asset value (level 1);
- 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);

- 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 Naval Group shares by a group of independent experts (level 2).

IV.1.1. Fair value and classification of financial assets

	Loans and receivables at amortised cost	Fair value through profit and loss	Fair value through equity	12/31/2017	Impact of the change in fair value on equity	Impact of the change in fair value on profit and loss
Investments	–	–	27.7	27.7	(29.0)	
Loans, non-current portion	0.1	–	–	0.1	–	
Hedging instruments, non-current portion	–	0.0	0.2	0.2	10.6	
Investment securities	–	92.0	–	92.0	–	(1.7)
Other non-current financial assets	–	–	–	–	–	
Non-current financial assets	0.1	92.0	27.9	120.0	(18.4)	(1.7)
Trade receivables	1,283.4	–	–	1,283.4	–	
Loans, current portion	–	–	–	–	–	
Hedging instruments, current portion	–	1.8	4.4	6.2	4.8	(1.8)
Investment securities	–	231.0	–	231.0	–	1.4
Other current financial assets	1.6	–	–	1.6	–	
Cash and cash equivalents	–	2,475.2	–	2,475.2	–	(0.6)
Current financial assets and trade receivables	1,285.0	2,708.0	4.4	3,997.4	4.8	(1.0)

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

“Investments” include the cancellation of the revaluation of the TechnicAtome shares at the year-end of (€29) million.

“Other non-current financial assets” principally comprise fixed-yield instruments with a maturity date of more than 12 months into the future, as well as amounts pledged under the employee share offer (see note V.3.2).

IV.1.2. Fair value and classification of financial liabilities

	Loans and trade payables at amortised cost	Fair value through profit and loss	Fair value through equity	12/31/2017	Impact of the change in fair value on equity	Impact of the change in fair value on profit and loss
Loans, non-current portion	0.7	–	–	0.7	–	–
Hedging instruments, non-current portion	–	0.1	–	0.1	–	0.3
Investment securities	–	–	–	–	–	–
Other non-current financial liabilities	–	51.5	–	51.5	–	–
Non-current financial liabilities	0.7	51.6	–	52.3	–	0.3
Trade payables	1,378.7	–	–	1,378.7	–	–
Loans, current portion	–	–	–	–	–	–
Hedging instruments, current portion	–	0.2	–	0.2	–	0.3
Other current financial liabilities	5.4	19.9	–	25.3	–	–
Current financial liabilities and trade payables	1,384.1	20.1	–	1,404.2	–	0.3

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 first employee share offer.

All the conditions restricting the resale of Naval Group shares held by staff under the first employee share offer were lifted with effect from August 2013, and the conditions restricting the resale of Naval Group shares held by staff under the second employee share offer were lifted with effect from November 2016.

I.V.1.3. 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, 2017 and, in the case of foreign countries, their country of registration, is shown in brackets):

	12/31/2017	12/31/2016
Sofema SA (10%)	6.6	6.3
Odas SA (9%)	2.7	2.7
Sofresa SA (7%)	–	–
TechnicAtome (formerly Aveva TA) (20.26%)(¹)	–	32.6
FCPR Sécurité (13%)	0.8	0.9
FCPR Financière de Brienne 1 (6%)	0.5	0.5
FCPR Financière de Brienne 2 (10%)	1.6	1.6
Atalaya (31.7%)	3.1	2.8
Naval Group Canada (100%)(²)	1.3	1.3
Other investments(³)	11.1	0.6
INVESTMENTS	27.7	49.2

(1) Naval Group’s shareholding in TechnicAtome is accounted for under the equity method. The TechnicAtome shares are therefore no longer classified as investments but as “Share of net assets of equity affiliates”.

(2) The Naval Group Canada shares are unconsolidated shares held via Naval Group Participations. The Naval Group Canada subsidiary is not material.

(3) This item comprises an amount of €15.5 million in the books of Naval Energies (loans between OpenHydro and ARE) and an impairment loss of (€4.7) million in respect of the share warrants in Naval Group SA’s books.

IV.2. Cash and cash equivalents

	12/31/2017	12/31/2016
Cash equivalents	2,180.6	2,054.6
Cash	294.6	247.3
Cash and cash equivalents	2,475.2	2,301.9
Bank overdrafts	–	–
NET CASH	2,475.2	2,301.9

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.3. Other liabilities

The main component of “Other liabilities” is non-current deferred income totalling €22.0 million.

IV.4. Risk management

IV.4.1. Credit risk

Credit risk is the risk of financial loss as a consequence of a 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.

	12/31/2015	Expenses	Reversals	Other	12/31/2016	Expenses	Reversals	Other	12/31/2017
Impairment allowances against trade receivables	11.6	0.9	(2.6)	0.2	10.2	4.1	(0.7)	0.0	13.5

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.

IV.4.2. 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.

IV.4.3. 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) 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.

	12/31/2017	12/31/2016
Forward purchase contracts		
US dollar (USD)	37.3	66.8
Pound sterling (GBP)	3.5	3.0
Brazilian real (BRL)	0	1.9
New Zealand dollar (NZD)		–
Malaysian ringgit (MYR)	4.0	7.5
Forward sale contracts		
US dollar (USD)	7.0	11.7
Pound sterling (GBP)	0	0.2
Call options		
Pound sterling (GBP)	0	1.9
Tunnel options		
Brazilian real (BRL)	0	1.0

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 long leg.

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.

IV.4.4. Interest rate risk

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

V. OTHER INFORMATION

V.1. Notes to the cash flow statement

V.1.1. Changes in working capital (requirement)

	2017	2016
Net decrease (increase) in inventories	36.9	(18.5)
Net decrease (increase) in trade receivables	(188.9)	588.0
Net decrease (increase) in advances and part payments paid	79.2	235.9
Net increase (decrease) in other receivables	97.8	34.9
Net decrease (increase) in construction contracts	364.0	825.0
Net increase (decrease) in trade payables	(268.8)	(190.8)
Net increase (decrease) in advances and part payments received	(140.7)	(735.1)
Net increase (decrease) in other payables	(76.2)	(914.6)
Change in working capital (requirement)	(96.7)	(175.4)

V.1.2. Purchases of property, plant and equipment and intangible assets

	2017	2016
Purchases of intangible assets	(28.4)	(34.1)
Purchases of property, plant and equipment	(68.7)	(72.3)
Purchases during the period	(97.1)	(106.4)
Deferred disbursement	(3.6)	(3.1)
Purchases of property, plant and equipment and intangible assets	(100.7)	(109.5)

V.1.3. Disposals of property, plant and equipment and intangible assets

	2017	2016
Disposals of intangible assets	–	–
Disposals of property, plant and equipment	1.0	1.7
Disposals during the period	1.0	1.7
Disposals of property, plant and equipment and intangible assets	1.0	1.7

V.2. 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.

V.2.1. Transactions with the French State and government-related entities

During the year ended December 31, 2017, the group generated 64.5% of its revenue with the French State and government-related entities (61.7% of its revenue for the year ended December 31, 2016).

V.2.2. Transactions with related parties (excluding the French State and government-related entities)

	2017	2016
Sales		
Non-controlled portion in equity affiliates	43.3	44.8
Shareholders and companies controlled by them (excluding French State and government-related entities)	–	–
Other (Eurotorp and Euroslat)	12.3	16.2

V.2.3. Related-party receivables and payables (excluding the French State and government-related entities)

	12/31/2017	12/31/2016
Operating receivables⁽¹⁾		
Equity affiliates	26.2	7.9
Shareholders and companies controlled by them (excluding French State and government-related entities)	–	–
Other (Eurotorp and Euroslat)	8.8	14.4
Operating payables⁽²⁾		
Equity affiliates	6.1	2.8
Shareholders and companies controlled by them (excluding French State and government-related entities)	–	–
Other (Eurotorp)	7.9	13.7
Financial liabilities⁽³⁾		
Equity affiliates	–	–
Shareholders and companies controlled by them (excluding French State and government-related entities)	56.8	55.6
Other	–	–

(1) The other operating receivables mainly comprise amounts receivable from the following companies: Eurotorp, Horizon, Eurosnav, 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.

V.2.4. 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 the group. 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.

V.2.5. 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, 2016 and December 31, 2017:

	2017	2016
Fixed remuneration	2.3	2.9
Variable remuneration	1.1	1.3
Benefits in kind and miscellaneous	0.1	0.6
Employer's social benefit contributions	1.4	1.8
TOTAL	4.9	6.6
Number of persons concerned	9	11

V.3. Off-balance sheet commitments

V.3.1. 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.

	12/31/2017	12/31/2016
Advance payment guarantees ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾	341.3	332.8
Performance bonds ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾	244.9	329.4
Guarantees in lieu of retentions	24.6	18.9
Other guarantees made ⁽⁹⁾	41.8	12.9
COMMITMENTS MADE	652.6	694.0

- (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 €167 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, 2017 was €126.8 million.
- (4) In connection with a series of sale contracts made by Itaguai Construções Navais SA (hereinafter referred to as "ICN"), the group as a shareholder in ICN must have its banks issue bank guarantees in favour of ICN's customer, 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 customer in respect of the same contracts. The amount of bank guarantees issued as at December 31, 2017 was €17.3 million.
- (5) The group has provided guarantees of €9.8 million to Sofrafrim 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 State to Sofrafrim 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 €11.6 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.
- (9) In connection with the Naval Group employee share offer, an equity mutual fund (FCPE Actions DCNS) was formed. 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 €29 million in order to ensure the liquidity of the fund. As stated in note 1.3.19, these term deposits have been classified as non-current financial assets.

The maturity schedule as at December 31, 2017 was as follows:

	Within one year	Between one and five years	After five years
Advance payment guarantees	201.2	140.1	–
Performance bonds	101.5	119.0	24.4
Guarantees in lieu of retentions	24.6	–	–
Other guarantees made	1.5	37.7	2.6
COMMITMENTS MADE	328.8	296.8	27.0

	12/31/2017	12/31/2016
Advance payment guarantees	94.5	115.1
Performance bonds	98.3	109.7
Guarantees in lieu of retentions	1.8	1.4
Other guarantees received	27.2	26.7
COMMITMENTS RECEIVED	221.8	252.9

The maturity schedule as at December 31, 2017 was as follows:

	Within one year	Between one and five years	After five years
Advance payment guarantees	22.4	14.5	57.6
Performance bonds	31.8	32.0	34.5
Guarantees in lieu of retentions	1.7	0.1	–
Other guarantees received	2.3	24.9	–
COMMITMENTS RECEIVED	58.2	71.5	92.1

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, 2017 was as follows:

	Total	Within one year	Between one and five years	After five years
Lease charges	15.1	3.9	10.6	0.6
Leases of immovable property	87.1	15.4	52.0	19.7
Leases of movable property	15.1	8.3	6.6	0.2
TOTAL	117.3	27.6	69.2	20.5

V.3.2. Other commitments

Commitments made

As at December 31, 2017, firm investment commitments totalled €82.6 million (€48.4 million as at December 31, 2016).

Naval Group (formerly DCNS) undertook, primarily in favour of the other shareholders of Naval Energies and, on an ancillary basis, in favour of said company, to provide the finance currently provided by banks by means of current account advances since said finance would not have been obtained, in whole or in part, by Naval Energies (formerly DCNS Energies). The commitment entered into by Naval Group could not exceed the amount of the bank finance, set at the amount of €40 million.

Commitments received

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

V.4. Post-balance sheet events

None.

VI. REPORT OF THE AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2017

MAZARS
Tours Exaltis
61, rue Henri Regnault
92075 Paris-La Défense Cedex
Société Anonyme (public limited company under French law)
with share capital of €6,320,000
Register of companies: Nanterre 784 824 153
Statutory Auditor
Member of the Versailles Regional Body

ERNST & YOUNG Audit
Member of Ernst & Young Global Limited
Tour First
TSA 14444
92037 Paris-La Défense Cedex
Société par actions simplifiée (simplified joint stock company)
with variable capital
Register of companies: Nanterre 344 366 315
Statutory Auditor
Member of the Versailles Regional Body

To the Shareholders of Naval Group,

I. OPINION

Pursuant to the assignment entrusted to us by your Shareholders' General Meetings, we conducted our audit of the consolidated financial statements of Naval Group for the year ended December 31, 2017, as presented in the attachment to this report.

We certify that the consolidated financial statements for the year were prepared in accordance with IFRS Standards, as adopted by the European Union and that they are lawful and genuine and give a true and fair view of income for the year just ended and the financial position and assets, at the end of the year, of the group made up of the persons and entities included in the consolidated financial statements.

II. BASIS OF OUR OPINION

Auditing standards

We conducted our audit in accordance with French generally accepted auditing standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the auditors in the audit of the consolidated financial statements" section of this report.

Independence

We conducted our audit in accordance with the rules of independence relevant to our audit, over the period January 1, 2017 to the date of issue of our report and notably we did not provide any services prohibited by the Code of Ethics for professional auditors.

III. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following assessments which, according to our professional opinion, were the most important in our audit of the consolidated financial statements for the year ended December 31, 2017.

These assessments are made in the context of the audit of the consolidated financial statements taken as a whole and the forming of our above opinion. We offer no opinion on individual items in these consolidated financial statements.

Note I.3 “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 your group 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 of gaining an understanding of the processes followed by the group 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 I.3 “Accounting rules and methods – Use of estimates – Measurement of assets”, I.3.9 “Accounting rules and methods – Intangible assets”, I.3.13 “Accounting rules and methods – Impairment of non-current assets”, and III.2 “Goodwill” in the annex to the consolidated financial statements state that Naval Group carried out an annual impairment test on the non-current assets, 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.

Notes I.3.21 “Accounting rules and methods – Income tax” and II.4.3 “Deferred tax in the balance sheet”, the recoverability of deferred tax assets was assessed on the basis of forecast data contained in the strategic plans of each of the tax groups in question, under the guidance of the group’s Management.

IV. VERIFICATION OF THE INFORMATION RELATING TO NAVAL GROUP GIVEN IN THE MANAGEMENT REPORT

As required by law, we also carried out specific verifications, in accordance with professional standards applicable in France, of the information relating to Naval Group, given in the management report.

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

V. RESPONSIBILITIES OF THE MANAGEMENT AND PERSONS CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Standards, as adopted by the European Union and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the company’s ability to continue as a going concern, disclosing, as applicable, matters related to said going concern and using the going concern basis of accounting, unless Management either intends to wind up the company or cease operations.

The consolidated financial statements are prepared by the Board of Directors.

VI. AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

It is our responsibility to report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements, taken as a whole, are free from any material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified by article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our task of certifying the financial statements does not extend to vouching for the viability or quality of Naval Group’s management.

As part of an audit in accordance with professional standards applicable in France, we exercise professional judgment throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the overriding of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting methods used and the reasonableness of accounting estimates and related disclosures made by Management, in the consolidated financial statements;
- conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Naval Group's ability to continue as a going concern. This assessment is based on the audit evidence obtained at the date of our report. However, it should be pointed out that future events or conditions may cause Naval Group to cease to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's report to the related disclosures in the consolidated financial statements as regards said uncertainty or, if such disclosures are not provided or are not relevant, to certify with reservations or refuse to certify;
- evaluate the overall presentation of the consolidated financial statements and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain audit evidence that is sufficient and appropriate, regarding persons or entities included in the consolidated financial statements, to provide a basis for our opinion on said consolidated financial statements. We are responsible for managing, supervising and conducting the audit of the consolidated financial statements and for expressing our opinion.

Done at Paris-la Défense on February 28, 2018

The Statutory Auditors

MAZARS

Michel Barbet Massin



ERNST & YOUNG Audit

Jean-François Ginies



Board of Directors of February 28, 2018

All amounts are in millions of euros unless otherwise stated.

I. DECLARATION OF CORPORATE SOCIAL RESPONSIBILITY PERFORMANCE

Naval Group has been part of a continuous improvement program in corporate social responsibility for the last 10 years. This program is underpinned by internationally recognised texts such as the United Nations Compact, the fundamental international conventions of the International Labour Organisation, OECD Guidelines, the Global Reporting Initiative (GRI) and the ISO 26000 social responsibility standard, among others.

The results obtained in 2017 are testament to the group's commitment.

Global Compact: Naval Group has been a member of the United Nations Global Compact since 2014 and participated in the peer review in April 2017. The actions carried out by the group gave it "Global Compact Advanced" recognition for the third consecutive year. Only sixty or so companies in France have achieved this level of recognition. **This target will be pursued over the next three years, i.e. 2018-2020.**

A reference tool testifies to the progress made.

Requested corporate social responsibility rating: the "requested rating" is a target set by the group since 2012 because it represents a benchmark with regard to other companies in our key area of activity. It is one of the information items provided during due diligence.

The performance self-assessment carried out at the start of 2017 in six areas (governance, behaviours on the markets, environment, human rights, human resources and community commitment), which was verified by the rating agency, acknowledged the positive progress made. At the end of 2017, a fresh corporate social responsibility rating request was launched, the result of which will be made known in the first quarter of 2018. **This target will be pursued over the next three years, i.e. 2018-2020.**

The results obtained in several areas:

1. ethics, compliance and governance;
2. supplier relations;
3. environment;
4. social.

I.1. ETHICS, COMPLIANCE AND GOVERNANCE

Naval Group's commitment in terms of ethics, corporate social responsibility, compliance and governance is stated in the "Blue Book", which acts as a group standard.

Ethical standards: the mapping of thirty or so risks is included in this standard (integrating recent legislative texts on "the transparency of economic activity" and "the duty of care"), thus covering any breaches:

- of respect of human dignity;
- of respect for company property, whether tangible or intangible property;
- of respect for international trade rules.

These ethical standards are externally audited on a regular basis by an independent audit firm. The fourth ethics audit will be conducted at the end of 2018.

In 2017, Naval Group chose to:

- undertake to respect the guideline standards ISO 19600 and ISO 20400 to support the development of its activities abroad;
- consolidate its supply chain surveillance program (e.g. suppliers, subcontractors among others).

Compliance integrity program: in 2017, Naval Group continued and intensified its effort to strengthen its compliance system, updating it with the best national and international standards, and in particular the Sapin II Act, enacted on December 9, 2016, pertaining to transparency, the fight against corruption and the modernisation of the economy.

Trade, customs control and export policy

Malaysia: Naval Group supports a collaboration 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 Maritime Technology in Kuala Lumpur. A memorandum of understanding between UPNM, ECN and Naval Group was signed in March 2017 at the LIMA 2017 trade fair in Langkawi (Malaysia).

Brazil: Naval Group supported a project to modernise facilities at the Brazilian Navy Arsenal (AMRJ – Arsenal da Marinha do Rio de Janeiro). Starting in 2014, Naval Group provided the Brazilian Navy with its expertise, by proposing designs and giving its advice and support in relation to the modernisation of the launch system in the main dock of the Navy's arsenal in Rio.

The Export Control Department continued to provide assistance to operational staff (programs, sales and purchasing) and staff training. In particular, it used resources to conduct audits and to improve the quality of documents and reports sent to the French government, in accordance with the export control regulations governing military equipment. It also developed internal communication tools for its export control activities.

The strengthened relationship between Naval Group and the Direction générale des douanes et des droits indirects (DGDDI) (Directorate General of Customs and Excise) manifested through Naval Group's addition to the Service grands comptes (Key Accounts Department) of the Direction générale des douanes et des droits indirects (DGDDI) (Directorate General of Customs and Excise). As a result of this positioning, the exchange of information and the treatment of specific files associated with the group's activities operates more smoothly. The internal audits conducted in 2017 (set to continue in 2018) enabled the launch of action plans to make methodical preparations for the renewal of AEO (authorised economic operator) status, which the group was awarded in 2014.

Board of Directors: Naval Group applies article L. 225-18-1, paragraph 1 of the French Commercial Code (*Code de commerce*), which requires that 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.

I.2. SUPPLIERS: SEEKING SHARED COMPETITIVENESS

Business ethics survey: in 2016, Naval Group 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 Naval Group and its suppliers, and to measure the progress in this uptake. Nearly 600 DCNS (Naval Group) 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 2017, Naval Group continued to conduct assessments of the CSR performances of suppliers on its target panel, which lists over 1,200 suppliers. The objective is to have this assessment available for all of its approved suppliers at the end of 2017. To conduct this initiative, Naval Group has enlisted two firms that specialise in the field. From 2018, the result of these CSR assessments will be incorporated into overall supplier's performance.

Responsible Supplier and Purchasing Relations label; continuation of its strategy in 2017: Naval Group was awarded the Responsible Supplier Relations label in December 2014. This label, awarded by the Mediation Service for a 3-year period, recognises organisations that have implemented responsible purchasing practices, thereby making a significant contribution to strengthening the industrial sectors. In 2017, the requirements of the label and the recommendations of "Responsible Purchasing" standard ISO 20400 were seen to converge. Also in 2017, Naval Group showed its willingness to help implement ISO 20400. Therefore, the group again applied to renew this label, now called the "Responsible Supplier and Purchasing Relations" label. In December 2017, Naval Group was awarded this label by the Awards Committee, led by the Mediation Service. This distinction rewards Naval Group for the action it has taken over many years to establish responsible relations with its suppliers.

I.3. ENVIRONMENT: A CONTINUOUS IMPROVEMENT APPROACH

Rolling out a coherent quality, safety and environment (QSE) policy to improve industrial performance:

- following the certification renewal audit successfully passed in 2014, in 2015, 2016 and 2017, AFNOR confirmed Naval Group's quality, safety and environment (QSE) certificate for standards ISO 9001, 14001, OHSAS 18001.

Reducing the environmental impact of Naval Group'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 Naval Group 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;
- carry out a systematic environmental analysis on the entire life cycle of the new programs.

I.4. SOCIAL: NAVAL GROUP, A COMMITTED SOCIAL PLAYER

There was extensive employment activity in 2017 with a significant increase in recruitment and mobility in operational activities. There was also considerable social activity as agreements on the organisation of working time, professional development and strategic jobs and skills management were signed and implemented.

Employment: Naval Group filled 2,279 positions – 715 of which via mobility measures and 1,564 via recruitment. The number of recruitments via permanent contract more than doubled in 2017 (1,117 compared with 524 in 2016). Staff working internationally totalled 525, of which there were 344 locals and 181 expatriates. The employment adjustment plan resulted in the loss of 487 jobs, 109 of which were under voluntary redundancy measures included in the agreement.

Skills: the professional development policy continued with the establishment of key positions and job reclassification under the professional development agreement. The new strategic job and skills management agreement, which was signed on April 11, 2017, in particular establishes a joint group job monitoring unit.

Employer/employee relations: the company agreement signed on April 11, 2017 reviewed the rules governing organisation of working time (title 4) and professional development (title 3). The rules governing retirement and benefits are embodied in a group agreement signed on June 1, 2017. Naval Group offered the trade unions a social and industrial pact in which the company is to focus on seven areas between now and 2020.

During the last quarter, discussions were opened on a new agreement concerning gender equality in the workplace, and an agreement covering people with a disability.

Occupational health and safety: the 2017 results indicate a slight improvement in the FRI (accidents with lost time), which was up significantly in 2016, accompanied by a reduction in the number of days lost. The main causes of these accidents are falls at ground level, from a height following movements in workshops and vessels, and also manual operations. In 2017, these causes accounted for almost 70% of the accidents with lost time.

Training and education: the HR training and Naval Group University teams are continuing to focus their efforts on optimising the effectiveness of the training provided, while at the same time reducing the cost. The training guidelines are defined for a period of 3 years based on the group's strategic direction, anticipated changes in professional skills and company policies. The annual training plan's target is 50% for core business training and 10% for staff accreditation training. Naval Group increased its visibility in schools and over 110 actions were put in place in 2017. The aim of the "Naval Campus" project of which Naval Group forms part is to link together companies (Naval Group, STX, Piriou and CMN), persons involved in the training process and also the regions (Normandy, Nouvelle-Aquitaine, Pays de la Loire) in order to better meet the skill requirements of the marine sector.

Diversity and equal opportunities: the commitment towards young people resulted in 120 of them being recruited at the end of their study-and-work contract. The generation contract was signed in 2017, continuing the proactive policy of recruiting the under-30s and keeping those aged 50 and over in employment. Discussions were underway at the end of 2017 on an agreement promoting diversity, equal opportunities and the employment of people with a disability. The agreement is expected to be signed in February 2018.

2017 Balance sheet		Improvement actions and relations with internal and external stakeholders in 2018-2020	
Governance and financial responsibility			
Formation of the Executive Committees from the company's main management teams, particularly the International Trade management team		Circulation of the new updated Guide to Ethical Behaviour to all sales and marketing staff when published	
First ethical crisis management exercise conducted in November 2017		Ethical crisis exercise conducted abroad	
Naval Group completed the third stage of its e-learning program on ethics and corporate social responsibility (ECSR) in mid-2017		Awareness-raising initiatives/ ECSR training in France and abroad	Development of the "duty of care plan"
		For the fourth year running, Naval Group aims to achieve "Advanced" status for its Communication on Progress (COP) required by the UN Global Compact. "Advanced" is the highest status awarded for the Global Compact's COP	
Updating of ethical standards		On-going updating of ethical standards	
Pursuant to the Sapin II Act: consolidation of the group compliance system based on standards, which were circulated to all staff. These standards are defined by a compliance code of conduct, translated into four languages and prefaced by the Chairman and Chief Executive Officer, and also a supplier code of conduct	System explained and compliance code of conduct available via the group's website and on the intranet The internal regulations of each site provide a reference to the code of conduct + circulation to all newly appointed staff	Monitoring of the recommendations made by the French Anti-Corruption Agency (Agence française anti-corruption) Translation of the standards into all the languages of the countries where Naval Group does business Production of an Ethics and Compliance Best Practice Guide for all group staff	Membership of and participation in the Business Ethics Circle Regular participation in working groups with trade associations in order to make Naval Group a leading player in CSR and compliance in France and abroad (MEDEF (the French Business Federation), IFBEC (International Forum of Business Ethical Conduct), CEA (the French Alternative Energies and Atomic Energy Commission), and so on

2017 Balance sheet

Improvement actions and relations with internal and external stakeholders in 2018-2020

Governance and financial responsibility

<p>Emphasis placed on the prevention of corruption in all its forms within the group, action framed by a number of procedures:</p> <ul style="list-style-type: none"> • procedure for entering into a business relationship with designated third parties; • procedure in relation to gifts, meals, invitations and other types of hospitality; • procedure in respect of patronage and sponsoring 	<p>All staff can access these procedures via the BMS (Business Management System) portal and on the intranet, and they must consult them when involved in dealings with third parties</p> <p>Objectives:</p> <ul style="list-style-type: none"> • improve preliminary checks associated with entering into a business relationship with third parties; • establish traceability and greater transparency in relation to staff business practices 	<p>For each foreign subsidiary or joint venture: the introduction of a compliance system and a procedure system adapted to:</p> <ul style="list-style-type: none"> • the specific context of each entity; • the changes in legal obligations related to local legislation; • mapping of the risks identified 	<p>Obtain AFAQ (the French Association for Quality Improvement and Management) ISO 37001 certification</p>
<p>On the decision of the Chairman and Chief Executive Officer, establishment of a group Ethics, Compliance and Governance Management (ECGM), responsible for developing and ensuring implementation of Naval Group's compliance policy and best practice in business ethics matters across the whole group</p> <p>Appointment in March 2017 of a network of compliance officers and ethics officers spread across all sites, subsidiaries and divisions of the group (around 40 people)</p>	<p>Appointment, in March 2017, of a VP-group Chief Ethics, Compliance & Governance Officer who has authority to act on behalf of the Chairman and Chief Executive Officer</p> <p>One team of eight full-time (FTE) equivalent staff</p>	<p>Creation of a key job dedicated to ethics and compliance in order to increase the status of compliance jobs</p> <p>Appointment of an Assistant group International Compliance Officer</p> <p>Professionalise Compliance Officers by continuing training sessions and organising monthly meetings</p> <p>Ensure the continued existence of trainees and combined study-and-work apprenticeship staff</p>	<p>Gradually allow Compliance Officers more autonomy at sites once their expertise is established</p>
<p>Compliance risks mapped in order to:</p> <ul style="list-style-type: none"> • grade activities, processes and third parties (customers, suppliers, partners, agents) according to the level of risk to which they are exposed; • put in place the actions required to limit the group's exposure to these risks 	<p>In 2017, 85 interviews were conducted</p> <p>Definition of priority action areas</p> <p>Closer cooperation with the Procurement management team in order to categorise high-risk suppliers and to incorporate compliance criteria into prequalification questionnaires</p>	<p>Annual updating of risk mapping</p> <p>Continue with interviews and define priority targets</p> <p>Implementation of a dedicated IT solution with an external supplier enabling real-time checks to be made with suppliers and partners</p> <p>Creation of a "country profile" base that summarises the legal obligations associated with each country, made available to Compliance Officers</p>	

2017 Balance sheet		Improvement actions and relations with internal and external stakeholders in 2018-2020	
Governance and financial responsibility			
Tone from the top: training and mobilisation of the members of the group's Executive Committee (Comex) on ethics and compliance subjects	<p>Training carried out with Comex members</p> <p>Interviews of the Chairman and Chief Executive Officer and Comex members circulated on the intranet and the group's website</p> <p>Involvement of Comex members in the Ethics and Compliance Day organised on December 8, 2017</p>	<p>Continue to raise the awareness of Comex members on ethics and compliance subjects</p> <p>Plan other interviews involving the Chairman and Chief Executive Officer, notably for presenting the results obtained</p>	Active participation by members of the group's Management in circulating messages intended for all staff
<p>Since June 2017, the systematic conducting of risk analysis and, where necessary, due diligence for partnership and mergers and acquisitions projects carried out by the group in France and abroad</p> <p>Strengthening of the ethics and compliance clauses in all contracts binding Naval Group to third parties</p>	<p>Compliance Risk Assessments carried out by the ECGM based on internal and external investigations prior to signing contracts: more than 15 projects assessed in 2017</p> <p>Introduction of a due diligence questionnaire to be sent to high-risk third parties</p> <p>Participation of the ECGM on the Partnerships Committee and the Strategic Planning Committee</p>	<p>Drawing up of a new procedure for partnership and mergers and acquisitions projects which defines the role of the ECGM during the project validation stages</p> <p>Updating of the supplier code of conduct</p>	<p>Protect the group and its stakeholders from any potential legal and reputation related risks associated with partnerships and mergers & acquisitions</p> <p>Systematically organise closer relations, where possible, with the future partner's compliance teams so as to facilitate the exchange of information</p>
Establishment of traceability in respect of gifts, invitations and types of hospitality given or received and in respect of links with trade associations due to the development of compliance software	<p>The compliance software can be accessed by all staff via the IT applications portal and the link to this is on the homepage of the intranet</p> <p>A total of 81 declarations were made since this application was first made available</p>	<p>Become better acquainted with the software</p> <p>Updating of the compliance software aimed at improving its functionality based on user feedback: simplification of certain steps and information requested</p> <p>Increase the number of declarations made by staff each year</p>	<p>Carry out checks and audits on a regular basis to ensure that staff comply with procedures</p> <p>Extend the software to patronage and sponsorship initiatives</p> <p>Improve software visibility for all staff to become better acquainted with it</p>
Establishment of a confidential and secure whistleblowing line: ethics@naval-group.com, circulated and made available to all staff so that any inappropriate behaviour can be passed on to the ECGM	<p>Extensive communications program put in place to promote this system within the group and outside (on December 8, Flash Info, Whistleblowing calling card, intranet)</p> <p>Drawing up of a specific procedure aimed at strengthening confidentiality when dealing with whistleblowing cases and increasing players' independence and the resources available to them</p>	<p>Redefine the role of the Ethics Committee (ECSRC) and renewal of its members' mandates</p> <p>Professionalisation of the investigating committees in order to guarantee their independence</p> <p>Standardisation of existing procedures with the Human Resources Management</p> <p>Publication of a handbook on using the group's whistleblowing system</p>	<p>Carry out activities on a regular basis to make it easier for staff to voice their opinion and to engender trust</p> <p>Acquaint all staff with the whistleblowing system and talk about this subject on a regular basis</p>

2017 Balance sheet

Improvement actions and relations with internal and external stakeholders in 2018-2020

Governance and financial responsibility

<p>Organisation of specific training for the Compliance Officers in France and in foreign subsidiaries</p> <p>Trips by the ECGM to the group's main subsidiaries: Singapore, Malaysia, Brazil, Chile in November 2017</p> <p>Training and presentation of the ECGM's activities to the most exposed management teams: Human Resources (HRO) (Human Resources and Operations), International Trade (ITM), Audit and Risks (ARM)</p>	<p>More extensive training aimed at the most exposed staff: 863 members of staff had their awareness raised or were trained in 2017</p> <p>An ethics and compliance glossary made available on the group intranet and also in hard copy</p>	<p>Renewal of the e-learning program available online (2018)</p> <p>Face-to-face job training sessions planned in 2018</p>	<p>Continuing education of members of the ECGM: participation in symposia and university diplomas + training courses provided by an external firm: EY</p> <p>Organisation of an ECGM seminar + members of the Compliance Officers network + Ethics Officers in order to reinforce the idea of an "ethics and compliance community"</p>
<p>Organisation of information events and raising the awareness of staff</p>	<p>Organisation of an Ethics and Compliance Day across the whole group to coincide with the International Anti-Corruption Day (2017) and Human Rights Day</p> <p>Updating of the content of the intranet and group website</p> <p>Organisation of an information session at the head office on harassment in the workplace, in conjunction with HRO, on November 22, 2017</p>	<p>Keep information media up to date</p> <p>Develop information and awareness raising sessions at all of the group's sites and vary the subjects</p>	<p>Lead question and answer sessions</p> <p>Organise informal breakfast meetings with compliance staff or ad hoc meetings</p>
<p>Introduction by the ECGM of an audit and self-assessment procedure in respect of the compliance system at group level</p>	<p>Drawing up of an audit plan for the group's sites and subsidiaries, based on an in-house self-assessment questionnaire sent on a regular basis to Compliance Officers to check that the policies developed by the ECGM are properly implemented</p> <p>Joint audits with the ARM carried out on management teams and in a group subsidiary</p>	<p>Introduction of more large-scale internal audits assessing the application and understanding of the compliance system by staff in the management teams, subsidiaries and at sites considered priority sites: definition of objectives to be achieved by the next audit</p> <p>Application of disciplinary measures where an offence is acknowledged</p>	<p>Continue and strengthen cooperation with the ARM in connection with audits in order to define the number of specific improvement targets</p>
<p>Continuation of systematic CSR performance assessments of Naval Group's panel of suppliers, using the services of players outside the group</p>	<p>A total of 900 suppliers were involved in the assessment process</p>	<p>Continuation of the CSR performance assessments of suppliers on the group's panel so as to achieve the best possible coverage rate</p> <p>Take account of the results of these assessments in the overall annual assessment of major, strategic suppliers</p> <p>Systematically introduce improvement plans where a CSR rating is inadequate</p>	

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Improvement actions and relations with internal and external stakeholders in 2018-2020

Governance and financial responsibility

		Gradual broadening of the CSR performance assessment system to suppliers of subsidiaries managed by Naval Group
Continued roll-out of Naval Group's SMEs plan		Strengthening of expansion initiatives, increase in the number of plans set up
Group's decision to comply with the recommendations of ISO 20400 pertaining to sustainable procurement	Obtaining of the "Responsible Supplier Relations and Sustainable Procurement" label (convergence of the Responsible Supplier Relations label and ISO 20400 in 2017)	Introduction of the action plan defined by Naval Group, aimed at strengthening its involvement in the development of sustainable procurement
Identification of further actions to be put in place in order to comply with the law on the duty of care and the Sapin II Act		Definition of the corresponding action plan and its implementation
Creation of the subsidiary Naval Energies with the arrival of new shareholders in 2017		
Setting up of governance bodies: Boards of Directors, Committees (Tender, Audit and Risks), Comex		
Establishment of a "DUP" (single employee representative body)		
Following the audit conducted at Naval Energies' sites in Paris, Brest and Nantes-Indret, the French National Organisation for Standardisation (AFNOR) declared that the management system complied with the following standards: <ul style="list-style-type: none"> • quality: ISO 9001, 2015 version • safety: OHSAS 18001, 2007 version; • environment: ISO 14001, 2015 version 		
Naval Energies obtains Bureau Veritas certification for its design of a floating wind-turbine platform		
Official start of the construction of the marine-turbine factory of Naval Energies/OpenHydro in Cherbourg		Continuation of industrial expansion and spin-offs at local level

2017 Balance sheet

Improvement actions and relations with internal and external stakeholders in 2018-2020

Governance and financial responsibility

Change of governance: Laurent Schneider-Maunoury succeeds Thierry Kalanquin as Chairman of Naval Energies

Design to cost implemented on the NEMO project so as to develop a technology supplying a renewable energy and at a cost that meets stakeholders' expectations

Implementation of design to cost in all projects

Conducting of a life-cycle analysis (LCA) on the Groix and Belle-Île floating wind-turbine project

Environmental responsibility

Taking account of the environmental factor in supplier CSR performance assessments

Analysis of failure modes, their impact and their criticality (AMDEC) on the DRYM and floating wind-turbine projects

Continued roll-out of analysis of failure modes, their impact and their criticality (AMDEC) in order to enhance the reliability of our products

Greater consideration of dismantling processes at the design stage

Identification of significant environmental aspects and impacts (SEAI) throughout the life cycle of our products

Submission of the impact study file by the customer for the Groix Belle-Île floating wind farm as a continuation of the actions carried out by Naval Energies since 2014

Renewal of AFNOR certification

Roll-out the 8D approach for major accidents and incidents (follow-on 2017)

Reduction of greenhouse gas emissions

Include the environment in new product, R&D, service and infrastructure projects

Over 3 years:

- 50% of new product projects;
- 20% of R&D;
- 15% of new services;
- 5% of new infrastructure

Reduction of electricity consumption

Reduce our energy consumption

–10% on energy bill in 3 years

Fewer events with a temporary impact on the environment

Generate less dangerous waste

Target for the end of 2018 to be defined

Buy more eco-designed products

30% of procurements in line with procurement environment mapping

2017 Balance sheet	Improvement actions and relations with internal and external stakeholders in 2018-2020
Social and community responsibility	
Drafting of a guide with Utopies on relationships with stakeholders	Classification of the sites on good terms with stakeholders
Strengthening of the partnership with Brittany in the development of marine renewable energies	
Customer support in the consultation for floating wind turbines in Maine (province of France) and in Brittany	
Ethics and compliance training	OH&S training for all staff

II. 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 corporate social responsibility report are consistent with the GRI-4 International Standards recognised by the UN.

II.1. INTRODUCTION

II.1.1. Profile of the organisation

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

As a high-tech company on an international scale, Naval Group 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, Naval Group is able to offer a broad range of solutions in the civil nuclear energy and marine renewable energies sectors.

New-build vessels account for over half of Naval Group's revenue, and the service activities contribute around one third.

II.1.2. Strategy and analysis

Vision up until 2025 and beyond

With more than 400 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, Naval Group 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.

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

"Our ambition is for Naval Group, firmly rooted in France, to simply and gradually become the consolidator of European naval systems within 10 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 programs from going adrift, to improve Naval Group'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 program, 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 2016-2017.

II.1.3. Relevant aspects and areas identified

This point is dealt with in paragraph I.1. entitled "Presentation of Naval Group" of the Management report.

II.1.4. Involvement of stakeholders⁽¹⁾

Naval Group 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.

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

II.1.5. Progress Plan

Launched in 2015 to meet the expectations of Naval Group management and staff, faced with operational and financial problems in 2013-2014, the Progress Plan is now delivering results for the first time since 2016, following 2 years of collective and individual commitment and is in its third wave of initiatives, aimed at improving the group's competitiveness.

The seven themes in Naval Group's Progress Plan are:

- to thoroughly improve the execution of its programs;
- 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

Formed in summer 2016, the **Bureau Métiers Programmes** (Professional Programs Office) carries out the level 2 Capability Maturity Model Integration (CMMI) certification work of the program's activities, integrates the management program fundamentals, configuration management and the management of risks and opportunities for each of the enterprise's programs, 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). For the second consecutive year, the regular practice of self-assessment, then assessment, followed by targets entered in an annual action plan shows a significant improvement in each of the above-mentioned subjects.

As the third strong component of the plan of action to boost the industrial performance of our programs, our **industrial and commercial plan** is reflected in all our activities through:

- **production master plan**, enabling the evaluation and monitoring, on a monthly basis, of adherence to commitments made in respect of workload, manpower, machinery and equipment management;
- the **design office and visual organisation of activities master plan**, enabling the evaluation and monitoring of adherence to commitments made by design offices and filtering down, at a highly operational level, to organisation and prioritisation of activities.

The plan to strengthen **systems engineering** (SE) very broadly centres around system engineering methods and 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, intermediate-sized frigates (FTI) or third-generation SSBN), strengthening of training in the systems engineering professions and in the internal network of advisers.

At the centre of the activities to improve program performance and the benchmark for products that are fit for large-scale production and are profitable, the control of the product base vindicates the creation of a catalogue of so-called "compulsory" products for new-build and maintenance in operational condition (MOC) business. As key and essential products of a product line, it is one of the essential tools of the group's product standards.

Indicative of the innovative approach taken by multi-disciplinary teams (Innovation and technical expertise Division, Industry Division, Services Division, Marketing Division), Naval Group 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. Two examples illustrate this approach: the Scorpène® Evolution and Belharra® intermediate-sized frigates (FTI).

Driven by and for **men and women**, the transformation is based on four strategies: the inclusion of local communication and the integration of trials in the way teams function, greater team commitment and cooperation (from the manager down), development of the management community by building on specific provisions as regards on-the-ground coaching, ad hoc training courses and the identification of effective time.

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 Naval Group with full knowledge of the facts.

Another focal point is the digital revolution, where Naval Group has started its own digital revolution with several key projects:

- its process reference system (**Business Management System**), incorporating international rules and standards, 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 product system of reference**, which is intended to improve industrial performance and program management, based on new processes, the introduction of integrated 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 product base are being rolled out across the new-build and maintenance in operational construction sites;

- **quality records** in real time (digitally) are now a reality and are being rolled out for the first time at the Lorient site;
- the modernisation of the **computer and application stock** (networks, equipment, upgrading of application versions, etc.) 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 programs and all entities, is used at all sites;
- lastly, Naval Group is involved in a project to secure 360° 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.

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.

A virtuous circle of continuous improvement is underway; new initiatives were launched in 2017 in inventories allocated to programs and projects on the one hand and cases of "misspecifications" on the other.

- The aim of the "**allocated inventories**" approach is to establish an inventory policy for optimising performance in respect of managing inventories allocated to a shared program or project.
- Lastly, the "**misspecifications**" approach is intended to respond to problems in reducing the number of "misspecification" cases by improving the treatment of products throughout their life cycle, by cutting the costs incurred (inventories, purchases, non-quality costs, anomalies, among others) and by improving internal and external customer satisfaction levels through "production according to the customer's specification".

II.1.6. Requested corporate social responsibility rating

The requested rating, which was given at the end of February 2016 by Vigeo, the independent corporate social responsibility 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: 13 criteria should visibly develop by then to secure best practice as seen in our main business sector.

The "requested rating" started at the end of December 2017 and will operate until mid-March 2018, which will make it possible to measure the progress made.

II.1.7. Dialogue, consultation, participation

In France and internationally, through its naval defence and energy activities, Naval Group 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).

These initiatives are aimed at mobilising the broader enterprise, made up of Naval Group and its ecosystem, around group values and customer service. The five values of Naval Group 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 and Governance Department.

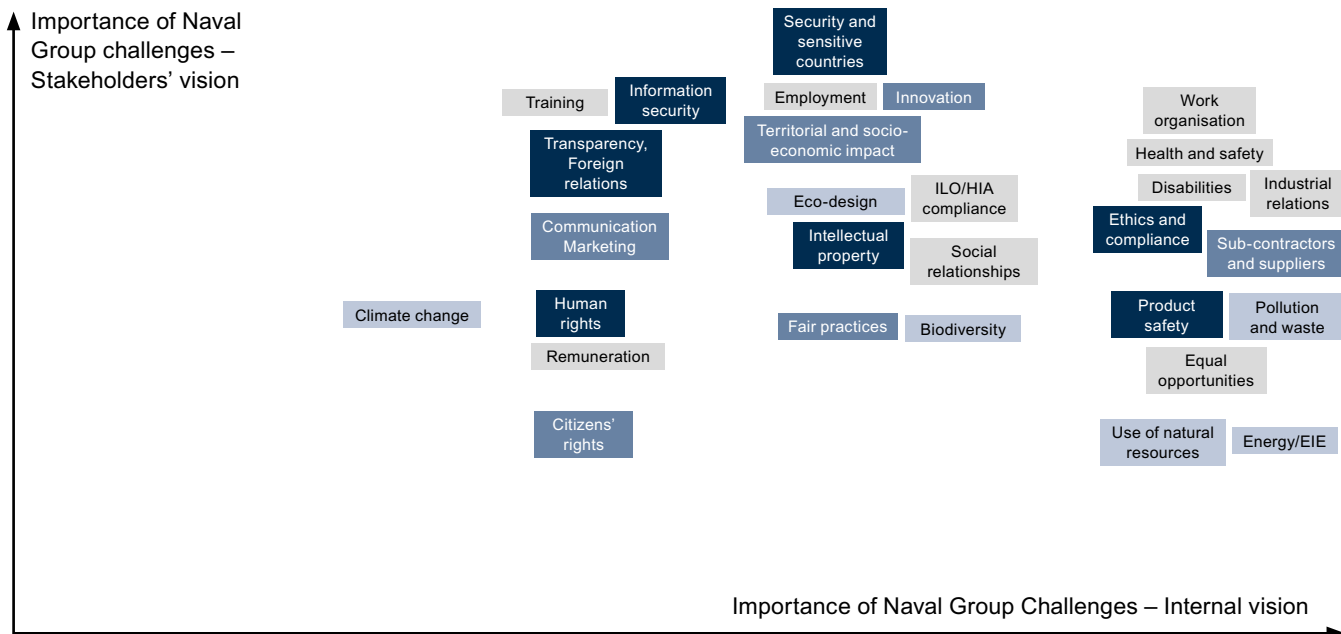
In the context of projects to set up marine-energy plants and farms, for a number of years now various environmental consultations and appraisals have taken place in association with our customers and partners.

In 2016-2017, an in-house methodological guide on the consultation process was drafted so as to establish a systematic approach in operations: meeting with the stakeholders, consultation objectives, best practice, and so on.

In connection with future French invitations to tender for floating wind farms, in 2017 meetings for exchanging views took place with stakeholders, primarily the Region and the Regional Fisheries Committee, to pinpoint areas where a commercial farm could be established. An internal roadmap was drawn up, this being the standard process for subsequent repeated discussions between the technical teams and stakeholders in order to put the agreed "best areas" to the test, i.e. that are acceptable from both a technical and social point of view.

It is also worth noting that in 2017 our customer, Eolfi, held public meetings in connection with the Groix Belle-Île project (pilot floating wind farm in Brittany) and at the end of November 2017 it finally filed a dossier to apply for authorisation (including an environmental impact study). This represents a natural progression from what Naval Energies had done since 2014, because we had started to manage environmental appraisals associated with a very active consultation process which, at the time, coincided with the recruitment of a consultation manager.

Materiality matrix in 2017



STAKEHOLDERS	GOVERNANCE	ECONOMY	ENVIRONMENT
The newspaper <i>Le Télégramme</i>	Transparency Foreign relations	Territorial and socio-economic impact (including ToT, SME)	Eco-design
Lorient and Pontivy IUT	Intellectual property	Innovation	Waste
Défense Environnement Services (DES)	Product safety	Citizens' rights	Pollution and waste
ISS Logistique	Human rights	Sub-contractors and suppliers	Use of natural resources
Morbihan's Chamber of Commerce and Industry (ICC)	Ethics and compliance	Fair practices	Energy/EIE
	Security and sensitive countries	Communication Marketing	Climate change
			Biodiversity

- 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 Naval Group France sites

A quarterly “Naval Group 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).

At the Lorient site

As a player in the frigate and corvette building market, the Lorient site has suffered very fierce international competition, in particular from Asia, and so needs to surround itself with competitive, long-term partners. It is able to conclude long-term agreements with supplier partners through the European multi-mission frigate (FREMM) and intermediate-sized frigate (FTI) programs. As part of the FREMM program, in 2007 it signed 15-year contracts for 10 frigates.

Occasional contracts for corvettes enrich the workload management schedule and make long-lasting partnerships possible.

Equipment suppliers are relatively large in number and in a healthy position.

However, the site is faced with the perennial problem of finding it difficult to attract subcontractors to provide on-site services (painters, electricians, hull workers, boilermakers, and so on). There is a shortage of labour in France for these occupations, and they do not attract young people. This severely affects production at the site.

The Lorient site has, therefore, implemented actions in two key areas:

- training: the aim is to attract young people and train them in these unpopular occupations. The Lorient site was not only a major partner involved in the establishment of the Naval Campus School in 2007 but also in training institutions in Lorient. Hull-related jobs are particularly in demand. Young people with qualifications can turn to manufacturers or subcontractors for employment;
- attracting subcontractors by giving them some idea about current and future programs through establishing a long-term relationship. Naval Group is also financially involved to ensure that local skills are kept. In 2015, Naval Group invested in the takeover of Kership, a company providing services associated with hulls (a 49% stake), located 2 km from the Lorient site. It builds full hull sections, resulting in increased production capacity at Naval Group's Lorient site.

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 Naval Group and its partners, and also optimising the industrial resources associated with this program.

Socio-economic impact study

Following the study conducted in Cherbourg in 2016, Naval Group's socio-economic impact for all sites in France was analysed in 2017, with particular reference to recognised studies conducted by the National Institute for Statistics and Economic Studies (INSEE). Naval Group assigned this task to the specialist, widely recognised independent consultancy firm, Utopies (designer of the Local Footprint® tool). The study was based on internal data, French macro-economic indicators 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 site or its suppliers.

Highlights of this study, using the Lorient site as an example, are:

• Employment:

- the Lorient site accounted for 9,107 jobs in France (1,876 direct employment, 2,962 indirect employment on the back of the French supply train, 4,269 led by household consumption and public expenditure);
- the Lorient site accounts for 16% of Naval Group's total payroll in France;
- for every one job at the Lorient site, an additional 4.9 jobs are supported in France, of which 37% are in Brittany.

• Wealth creation:

- the Lorient site was responsible for creating €663 million of wealth in France;
- Brittany's share of wealth through the site in France was 41%, and Morbihan accounted for 87% of wealth in Brittany;
- for every €1 of wealth created by the Lorient site, an additional amount of €3.3 is generated in the French economy.

Naval Group's environmental footprint

In 2017, for the first time, Naval Group assessed the environmental footprint produced by all purchases at its sites in France. This study, which was conducted by the consultancy firm, Utopies (designer of the Local Footprint® tool used to assess socio-economic and environmental impact), managed to assess 96% of Naval Group's purchases in France and abroad.

Local Footprint® is an impact assessment model based on monetary equivalence providing an insight into the performance of the entire supply chain (from level 1 to level N) by sector and by country.

The analysis focussed on greenhouse gas emissions, consumption of resources, water consumption and land use.

In 2016, Naval Group's supply chain was responsible for emitting 723,148 tonnes of CO₂ equivalent worldwide. At the same time, almost 14.2 million cubic metres of water and 1.5 million tonnes of fossil fuels, animal, vegetable and mineral resources were consumed, and 1,000 hectares of land used.

Apart from this assessment, a greater understanding of the magnitude of the environmental impact of certain supplier sectors was gained as a result of this study. For example, the energy-industry sector is responsible for 71% of greenhouse gas emissions, while it accounts for 48% of purchases made by Naval Group.

At the Nantes-Indret site

Faced with challenges as regards co-development and given the technical complexity of the programs handled by the Nantes-Indret site, the decision was taken to thoroughly acquaint our strategic suppliers with these issues. As such, in an unprecedented move by the group, 57 representatives from among our strategic suppliers attended a suppliers' forum on November 28, 2017, at which we were able to share our major challenges with them and also learn what our mutual expectations were, in a process aimed at sustainable industrial development.

As the two sites in Nantes (Indret and Ocean Technocampus) are key players in our labour pool, in December 2017 we organised a jobdating session. It attracted more than 1,000 people with their CVs and afforded us the opportunity to familiarise them with our jobs and recruitment policies by conducting 110 interviews for important positions at the very core of the development challenges we face.

On the subject of diversity, in November 2017 the French business federation (MEDEF) in Loire-Atlantique awarded a prize to the Nantes-Indret site for its commitment to employing people with a disability. At the award-giving ceremony, the Nantes-Indret site won first prize in the category of "recruitment of people with a disability who are employed on permanent contracts".

At the Saint-Tropez site

The relationship with the commune of Gassin, where Naval Group's site is located, and the Gulf of Saint-Tropez community of communes was marked by the proposed sale or letting of the site. As Naval Group's representative, the community of communes has had a period of exclusivity since summer 2016, which has been extended several times. Despite being provided with privileged information and studies conducted in accordance with their specific requirements, the community of communes did not offer to purchase the site outright so it has now been offered for sale to private investors. Some elected representatives, including the mayor of Gassin, voiced their opposition to this move.

By deliberation of the town council of Saint-Tropez, the mayor was authorised to put up for sale the houses that Naval Group had previously sold to the commune at a very low price for use as social housing. Naval Group challenged this decision in a court of law.

As the Saint-Tropez site suffers from an image problem associated with traffic problems there, a company travel plan was revived in 2017. An experiment was set up with volunteers aimed at replacing dedicated bus lines with electric vehicles used on a car-sharing basis. This initiative, which has a positive impact on the carbon footprint and provides flexibility for uses, has been well received and could be extended.

The development of site access was the subject of consultation, organised with the support of the Chamber of Commerce, involving businesses and neighbouring small firms so as to present a business case to the department's Directorate of Roads. This initiative to prevent accidents in the vicinity of the site received the support of the sub-prefect of Draguignan.

Naval Energies

Through Naval Energies, Naval Group capitalises on its previous know-how in the marine environment and its ambition is to be a world leader in marine renewable energies (MRE). Naval Energies is structured around three areas of expertise: tidal turbines, floating wind turbines and ocean thermal energy conversion, all coming together to achieve its overall mission: design and supply energy generation systems and subsystems. As it is involved over all stages of its products' life cycle, Naval Energies controls the entire value chain with respect for the offshore environment as well as coastal areas.

In 2016, OpenHydro, the subsidiary of Naval Energies, laid a tidal turbine under water in the Bay of Fundy in Canada and connected it to the electricity grid. In 2018, OpenHydro is going to open the first tidal-turbine factory in the world, in Cherbourg (France), for the purpose of assembling the seven turbines to be used in the Normandie Hydro project.

As early as 2016, the French Environment and Energy Management Agency selected Naval Energies, together with its partners, to build a pilot floating wind farm at Groix. In 2017, Naval Energies was awarded Bureau Veritas certification for its design of a floating wind turbine platform.

With regard to ocean thermal energy conversion (OTEC), which uses the temperature difference between warm surface waters and deep cold ocean waters, good progress has been made in mastering the technology of heat exchangers due to the onshore prototype set up in La Réunion. In 2017, Naval Energies continued its efforts in R&D and the production and sale of OTEC technology.

In 2017, Naval Energies took part in the international corporate debate on marine renewable energies at a conference hosted by the UN, at the "Our Ocean" conference in Malta, at the "Clean Energy for EU Islands" forum in Crete and at the "Renewable Energy Finance Conference" held at the European Parliament in Brussels.

Relations with the MERIC research centre in Chile continued, notably with the arrival in Brest of Chilean researchers who attended a training and technology exchange session as part of site studies.

Naval Energies' OHSAS performance was very good in 2017 with no staff at Naval Energies involved in accidents with lost time during the year (a single accident without time lost occurred). Following an audit, AFNOR confirmed Naval Energies' compliance with standards ISO 9001 2015 version, OHSAS 18001 2007 version and ISO 14001 2015 version.

OpenHydro

In Ireland, OpenHydro, the subsidiary of Naval Energies, is in pole position in the tidal-energy market. The company has developed a rapid method of building reliable turbines at a competitive price, these being some of the prerequisites guaranteeing the success of this innovative technology.

OpenHydro aims to roll out commercial tidal-energy farms beneath the surface of the oceans. There is considerable potential for developing tidal energy worldwide, making it one of the mainstays of transition and the energy mix.

The global tidal energy market is estimated at €200 billion, and today OpenHydro's portfolio includes almost 1 gigawatt in terms of current projects.

DCNS do Brasil

The year 2017 mainly saw DCNS do Brasil become more involved in the activities of PROSUB, which resulted in large-scale recruitment of staff.

Over the last 2 years, staff numbers have practically doubled, mainly in technical areas providing technical assistance to the program.

As a result, HR and CSR issues have become increasingly important and are consistently dealt with by the relevant managers at the head office in France, including the group HR. As part of the work on mobility with international HR, DCNS do Brasil seconded a Brazilian Contract Manager to the Cherbourg site, where he now holds a position in France.

Following the appointment of a Compliance Officer in May, new compliance procedures were put in place in November 2017.

A new Board was appointed this year, made up of members of the various management bodies involved in the group's international expansion in Brazil, to address local industrial development issues.

Following the group's rebranding and name change, a new name was registered for the subsidiary Naval Group BR. The Brazilian administrative procedure at the commercial court of Rio will be completed at the beginning of 2018.

MERIC in Chile

At the end of its first 2 years of development, MERIC, the leading international marine renewable energies R&D centre in Chile, obtained its first scientific and legal research:

- comparative biofouling and corrosion results on samples of materials as a result of developing innovative measurement tools rolled out in the marine environment and comparing the results of laboratory experiments;
- results showing the views of regional communities regarding marine energy projects: qualitative measurement of supposed impact; comparison with other sources of energy; scale of the challenges for the parties concerned; identification of the information sources consulted by communities together with the level of confidence in said information;
- initial definitions of assessment resources and measurement of lifestyles of marine mammals;
- comparative analysis of Chilean and French law applied to the marine energy projects.

In 2017, teams at the centre assessed the synergies that it will bring to existing international test sites and presented representatives of the Chilean government with the first possible stages of marine-energy development in Chile, which would see an initial experimental wave energy system set up off the coast of Chile in 2019; in 2020 also, the proposed launch of an initial MRE pilot project in southern Chile as well as the first demonstration models by 2023.

At the present time, the centre is continuing to work with universities and manufacturers and identifies the conditions for being able to equip the first sites in Chile with MRE technologies.

The Océanides association

The aim of the Océanides association, founded in March 2012 at the initiative of Naval Group, was to show that, since prehistoric times and across all the continents, the sea has been a decisive factor for the growth, influence and power of States.

It is an ambitious project which is unique in the world. Océanides brings together almost 260 researchers, with almost 40 different nationalities represented, coming from every continent and from the most prestigious universities. The honorary committee includes renowned French and foreign personalities. 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 were published in four volumes in February 2017 by the British publisher Boydell & Brewer. The findings themselves were circulated to political and economic decision-makers in March 2017, via a partnership with the Centre for Strategic Studies of the French Navy, in order to provide proof of the need to become aware of the importance of the sea in our societies. A bilingual special edition of the *Marine Studies* was published on that occasion.

A book for the general public was published in French and in English by Éditions du Cherche Midi in October 2017 to reach as many of our citizens as possible. Specialists in the Department of Education should incorporate it into the school curriculum in the years to come.

A large number of partnerships have been set up with Naval Group University, among others, in order to give certain visibility to the project, making it possible for conferences and naval history days to be organised for the general public in partnership with the [French] Naval Academy.

Nuclear energy

Since 2012, Naval Group 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 Yves Armand, appointed by Naval Group, has chaired the working group tasked with drawing up a user guide for newcomer countries with the purpose of giving the legal, regulatory and technical outlines that permit transportable Small Modular Reactors (SMRs), of which the submerged SMRs form part, to be established. Apart from France, various countries and bodies are actively involved, including China, Russia or even the United States through its State Department. This work is expected to end at the end of 2019.

II.2. GOVERNANCE⁽²⁾

II.2.1. Administration and control

Naval Group (hereinafter referred to as the “company”) is a public limited company under French law, the ownership of which, as at December 31, 2017, was as follows: 62.25% owned by the State, 35% by Thales, 1.804% by the Actions DCNS employee mutual fund (Actions DCNS employee mutual fund Compartments 2008 and 2014) and 0.95% by Naval Group Actionnariat (treasury shares).

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 public limited companies (*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.

II.2.2. 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 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 Rézat, appointed on the recommendation of the State;

(2) UN (SDG)/Global Compact/GRI 4/OECD/ISO 26000/OECD.

- 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 one 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 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 Lamotte, 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 Stevan 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.

Mrs Sandrine Gaudin was replaced by Mr Gabriel Cumenge as non-voting director by decision of the Board of Directors on December 15, 2017. Mr Gabriel Cumenge was appointed for a period of five years, it being specified that his term of office will expire at the end of the Ordinary General Meeting called to approve the financial statements for the year ended December 31, 2021.

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 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) 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 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 2017 financial year

The Board of Directors met six times during the year ended December 31, 2017. The average attendance rate at meetings of the Board of Directors was 89% in 2017. 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 2017 financial year included:

- presentation of the strategic action plan update;
- approval of a sales proposal;
- information about the group's new brand name;
- proposal to the Shareholders' General Meeting to change the company name from "Société de DCNS" to "Naval Group";
- increase in the number of members on the Strategic Planning Committee (from 6 to 7) and the Tenders Committee (from 5 to 6);
- determining the amount of the variable remuneration to be awarded to the Chairman and Chief Executive Officer for 2016 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 2017;
- approval of the equity investment in STX France, pursuant to article L. 225-38 of the Commercial Code;
- approval of the establishment of a joint venture in India;
- information about several merger and acquisitions projects;
- information about the establishment of a subsidiary in Egypt;
- launch of the self-assessment project related to the operation of the Board of Directors;
- information point on diving safety and nuclear security;
- appointment of a non-voting director;
- approval of the 2018-2021 medium-term plan (MTP) and of the budget for 2018.

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, and finally for the fourth time on July 21, 2017 to increase from five to six the number of members of the Tenders Committee, and from six to seven the number of members of the Strategic Planning Committee, so allowing one director elected as an employee representative to sit on each of these two committees.

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 Mrs Isabelle Roué, Mr Luc Rémond, Mr Jack Azoulay and Mr Pascal Bouchiat. The committee is chaired by Mr Luc Rémond.

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 Réat, Mr Jack Azoulay, Mr Pascal Bouchiat, Mr Bertrand Le Meur, Mr Jacques Hardeley and Mr Thierry Barbarin. The committee is chaired by Mr Bernard Réat.

The Tenders Committee meets as required. In 2017, it met four times with an average attendance rate of 73%;

- 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 Mrs Gabrielle Gauthey, Mr Patrice Caine, Mr Jack Azoulay, Mr Bertrand Le Meur and Mr Jacques André. The committee is chaired by Mr Patrice Caine.

The Remuneration and Appointments Committee meets every six months or more frequently where necessary. In 2017, it met twice with an attendance rate of 80%;

- the Strategic Planning Committee, the main task of which is to assess group strategy in its main sectors of activity.

The members of the Strategic Planning Committee are Mrs Nathalie Ravilly, Mrs Sandra Lagumina, Mr Hervé Guillou, Mr Jack Azoulay, Mr Bertrand Le Meur, Mr Patrice Caine and Mr Laurent Chagnas. The committee is chaired by Mr Hervé Guillou.

The Strategic Planning Committee meets three times per year or more frequently where necessary. It met five times in 2017, with an average attendance rate of 94%.

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 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 Naval Group". 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.

At its meeting on December 15, 2017, the Board of Directors resolved to assess its own performance again and appointed Mrs Gabrielle Gauthey to present the report on the results of this new exercise.

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.

II.2.3. Governance of subsidiaries and jointly controlled companies

Subsidiaries

The company has subsidiaries both in France (DCN International, Sirehna, DCNS Support and Naval Energies) and abroad (DCNS India, Naval Group Far East, Naval Group BR Sistemas de Defesa LTDA, Naval Group Cooperation, DCNS Arabia, Naval Group Malaysia, PROSIN, Naval Group Technologies Canada Inc. and Naval Group Australia).

The executive, management and control bodies of the French and foreign subsidiaries of Naval Group are made up exclusively of representatives of the group operating divisions and functional management. The following two subsidiaries are exceptions to this principle:

- Naval Group Technologies Canada Inc.: a Canadian subsidiary incorporated in 2014 and in which a Canadian resident not employed by a company within Naval Group sits on the Board of Directors, thereby enabling Naval Group 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);

- Naval Group Australia: an Australian subsidiary incorporated in 2015 and in which two Australian residents not employed by companies within Naval Group sit on the Board of Directors alongside four French and Australian staff of Naval Group or of Naval Group Australia. These independent directors were appointed pursuant to the agreements entered into between Naval Group 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 twice during 2017. The average attendance rate at meetings of the Board of Directors of this company was of the order of 63% in 2017.

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 2017 included:

- approval of the budget for 2017;
- closing of the accounts for the year ended December 31, 2016;
- presentation of the results as at June 30, 2017 and updating of these at the end of December 2017;
- approval of the budget for 2018.

Sirehna

The Board of Directors of the public limited company Sirehna is made up of four directors. It met on seven occasions during 2017. The average attendance rate at meetings of the Board of Directors of this company was of the order of 96% in 2017.

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 2017 included:

- co-opting a director to replace a resigning director;
- creation of a new company location;
- approval of the 2017 budget;
- closing of the accounts for the year ended December 31, 2016;
- co-opting two new directors to replace resigning directors;
- appointment of a new Chairman and Chief Executive Officer to replace the resigning Chairman and Chief Executive Officer;
- presentation of the results as at September 30, 2017 and updating of these at the end of December 2017;
- presentation of the draft budget for 2018;
- approval to deliver several sales proposals.

DCNS Support

The Supervisory Committee of the simplified joint-stock company DCNS Support has four members. It met three times during 2017. 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 2017;
- closing of the accounts for the year ended December 31, 2016;
- approval of the 2017-2021 medium-term plan (MTP) and the budget for 2018;
- approval of orders;
- examination of group validation rules and updating of the list of operations that must first be authorised by the Committee.

DCNS India

The Board of Directors of DCNS India (a company under Indian law) was made up of three members until November 17, 2017 on which date three new members were appointed. The Board thus had six members at December 31, 2017. It met on nine occasions in 2017. The average attendance rate at meetings of the Board of Directors of this company was 100% in 2017.

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 2017 included:

- confirmation of the resignation of a director with effect from December 31, 2016;
- authorisation to take action with the Foreign Investment Promotion Board of India (FIPB) in connection with the formation of a new subsidiary in India;
- renewal of the lease on the company's premises;
- introduction of procedures to combat sexual harassment of women in the workplace, in accordance with local regulations;
- renewal of the office of the Managing Director of the company;
- approval of the appointment of a Chief Operating Officer;
- appointment of a new Statutory Auditor to replace the resigning Statutory Auditor;
- closing of the accounts for the year ended March 31, 2017;
- renewal of the office of the Statutory Auditors for the 2016-2017 financial year;
- approval of the contribution in respect of CRS Activities for the 2017-2018 financial year;
- examination of group validation rules and updating of the list of operations that must first be approved by the Board.

Naval Group Far East

The Board of Directors of Naval Group Far East (a company under Singaporean law) is made up of five members. It met twice during 2017. The attendance rate at meetings of the Board of Directors of this company was 100% in 2017. 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 2017 included:

- closing of the accounts for the year ended December 31, 2016;
- distribution of interim dividends for the year ending December 31, 2017;
- approval of the principle of the company's relocation to other premises in Singapore;
- update at the end of December 2017;
- approval of the budget for 2018;
- examination of group validation rules and updating of the list of operations that must first be approved by the Board.

Naval Group BR Sistemas de Defesa LTDA

The Board of Directors of Naval Group BR Sistemas de Defesa LTDA (a company under Brazilian law) was made up of three members until April 27, 2017, when it was reorganised. There have, therefore, been five Board members since that date. It met once in 2017. The attendance rate at 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 2017 included:

- examination and adoption of the accounts for the year ended December 31, 2016 for their approval by the General Meeting;
- proposal to change the composition of the Board.

Naval Energies

The Board of Directors of Naval Energies is made up of seven members. It met 18 times during 2017 with an attendance rate of 96%. 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 Board members in accordance with statutory provisions.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2017 included:

- authorisation to grant credit lines to a subsidiary;
- authorisation to enter into a current account agreement with Naval Group;
- authorisation to recruit staff;
- appointment of members of the Tenders Committee;
- establishment of an Appointments and Remuneration Committee, drawing up of its operational rules and appointment of its members;
- authorisation to enter into a lease;
- approval of the budget for 2017;
- closing of the accounts for the year ended December 31, 2016;
- approval of the rules for calculating variable remuneration payable to the Chairman in respect of the year 2016;
- proposal to increase the company's share capital;
- approval of the company's audit charter;
- proposal to change the company's name;
- authorisation to enter into intra-group agreements;
- approval to enter into a Naval Group subcontracting sales agreement;
- approval to deliver sales proposals;
- appointment of a new company Chairman, member and Chairman of the Board of Directors to replace the resigning Chairman, member and Chairman of the Board of Directors;
- approval of the eligibility requirements for variable remuneration payable to the Chairman in respect of the year 2017.

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.

Naval Group Malaysia

The Board of Directors of Naval Group Malaysia (a company under Malaysian law) had five members up to March 22, 2017, on which date two members resigned. A new member was appointed on June 23, 2017. There have, therefore, been four members since that date. It met four times during 2017. 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 2017 included:

- appointment of a new director;
- renewal of the office of Chairman of the Board;
- closing of the accounts for the year ended December 31, 2016;
- approval of the 2017 budget;
- approval to deliver two sales proposals;
- change of name of the subsidiary from "DCNS Malaysia Sdn. Bhd" to "Naval Group Malaysia Sdn. Bhd";
- examination of group validation rules and updating of the list of operations that must first be authorised by the Board;
- presentation of the draft budget for 2018.

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. This subsidiary has been made dormant and its Board did not, therefore, meet during 2017.

Naval Group Cooperation

The Board of Directors of Naval Group Cooperation (a company under Belgian law) was made up of three members up to December 8, 2017, on which date a new member was appointed. There have, therefore, been four members on the Board of Directors since that date. It met three times during 2017. 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, 2016;
- appointment of a new Chairman and Vice-Chairman of the Board;
- renewal of the office of members of the Executive Committee.

Naval Group Technologies Canada Inc.

The Board of Directors of Naval Group Technologies Canada Inc. (a company under Canadian law) is made up of three members.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2017 included:

- authorisation to recruit staff.

Naval Group Australia

The Board of Directors of Naval Group Australia (a company under Australian law) has six members. It met on four occasions during 2017. 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 2017 included:

- appointment of a new director;
- appointment of a new Chief Executive Officer;
- appointment of a new Chairman of the Board;
- closing of the accounts for the year ended December 31, 2016;
- approval of the budget for 2017;
- establishment of an Audit Committee, adoption of its internal rules and regulations and appointment of its members;
- transfer of the company's head office;
- authorisation to recruit staff;
- approval of the budget for 2018.

Jointly controlled companies**Eurosystnav SAS**

Eurosystnav SAS was dissolved by decision of its General Meeting on June 22, 2016 for reasons associated with carrying out its corporate purpose. The term of office of its Board of Directors came to an end on that date. This company is in the process of being liquidated.

Horizon SAS

Horizon SAS was dissolved by decision of its General Meeting on June 22, 2016 for reasons associated with carrying out its corporate purpose. The term of office of its Board of Directors came to an end on that date.

Conclusion of this company's liquidation was approved by its General Meeting on December 18, 2017. It was struck off the register of companies on December 26, 2017.

Itaguaí Construções 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 seven occasions in 2017. The attendance rate at the meetings of the Board of Directors of this company was 94% in 2017.

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 2017 included:

- appointment of an Officer to replace a resigning Officer;
- closing of the accounts for the year ended December 31, 2016;
- introduction of Board reserved matters;
- approval of the compliance policy;
- approval of the 2018 budget.

Boustead Naval Group Naval Corporation (BDNC)

The Board of Directors of Boustead Naval Group Naval Corporation (BDNC) SDN BHD (a company under Malaysian law) is made up of five members. It met on three occasions during 2017. 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 2017.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2017 included:

- authorisation to enter into a lease;
- closing of the accounts for the year ended December 31, 2016.

Défense Environnement Services

The Board of Management of the simplified joint-stock company Défense Environnement Services is made up of four members. It met three times during 2017. The average attendance rate at these meetings of the Board of Directors was 75%. 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 2017 included:

- presentation of the financial statements for the year ended December 31, 2016;
- approval of the 2017 budget;
- creation of a company branch in Saudi Arabia and appointment of its legal representative;
- approval to enter into a sales agreement.

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 2017.

Kership

The Board of Management of the simplified joint-stock company Kership is made up of six permanent members and one invited member. It met four times during 2017. The attendance rate of the permanent members at the meetings of the Board of Management of this company was around 90% in 2017.

An activity monitoring report was given at each meeting of the Supervisory Board.

Major operations that were subject to the prior authorisation of the Supervisory Board or in-depth discussion during 2017 included:

- approval for the Chairman to close the accounts for the year ended December 31, 2016;
- approval of sales proposals;
- approval to create two ad hoc committees (Finance Committee and Tenders Committee);
- appointment of trusted third parties (PWC and Mazars) for compliance program audits;
- approval to replace the Sales Director.

II.2.4. 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 Program Director, the Manufacturing Director, the Director of the Australian Future Submarine program and the Service Director. The Committee meets weekly. Each quarter, a meeting of the Executive Committee is held, 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 Corporate Responsibility Committee;
- the Compliance Committee.

II.2.5. Integrated risk management system

The various risk factors are dealt with in paragraph I.2.7. entitled "Risk Management".

II.2.5.a. Risk control process

Naval Group 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 Naval Group entities and controlled subsidiaries. Naval Group has used the 2013 COSO version (Committee of Sponsoring Organisation 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. The COSO 2 standard will be implemented in 2018.

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 Naval Group and controlled subsidiaries draw up a letter of representation 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 the group's internal control matrix (ICM) allows entities to assess their maturity and identify areas for improvement. An adapted internal control matrix for controlled subsidiaries was rolled out in 2017.

The Audit and Risks Management tests the quality of the replies to the ICM through audits.

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.

Improvement loop 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.

II.2.5.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 programs.

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 programs); the contents of the forward program 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.

See Management report, paragraph 1.2.6. "Ethics and compliance".

II.2.6. Ethics and integrity**The Ethics and Corporate Social Responsibility Committee**

This committee sets the general guidelines on ethics and corporate social responsibility and makes sure that best 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;

(3) Cf. bylaws of the Board of Directors (February 17, 2010 version).

- the Secretary of the Central Works Council;
- the Ethics, Compliance and Governance Director, who chairs the committee.

The Ethics and Corporate Social Responsibility Committee is made up of: Mrs Brigitte Laik, Mrs Caroline Le Bayon, Mr Éric Papin, Mr Franck Lacroix, Mr Jérôme Richard, Mrs Laure-Agnès Lernout, Mr Michel Perchoc, Mr Philippe Toth, Mrs Sandrine Le Lidec and Mr Stévan Le Ruyet.

In 2017, the Ethics and Corporate Social Responsibility Committee met four times. At these meetings, the areas on which it has been instructed to focus, as set in the 2017 roadmap, are examined and monitored, such as taking account of the following standards, for example: ISO 19600 compliance and ISO 20400 sustainable procurement practices, offsets, eco-design and human rights.

The committee recommends that the Secretariat/Corporate Social Responsibility budget can take into account the updating and translation into English of Naval Group's ethics standard. The committee would like regular articles on ethics and compliance to be available online in 2018 via Naval Group's intranet and website.

As part of the series of CSR university conferences organised by the Court of Cassation (Dauphine, Paris-VIII, Sorbonne, and so on), on March 30, 2017 a presentation was given on Naval Group's CSR and ethics instruments (charters, codes and technical standards).

Ethics Officers are appointed at all the sites in France and have gradually been deployed to the subsidiaries since 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 programs designed for the site's management and/or for all staff.

The undertaking made by Naval Group in matters concerning ethics, 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 Naval Group in matters concerning ethics, corporate social responsibility and compliance. The rolling out of this measure, adopted by the whole group, relies on the Ethics, Compliance and Governance Management responsible for steering Naval Group's strategy towards compliance of the group's activities with the standards and objectives of corporate social responsibility beyond the strict scope of compliance (governance undertakings, community and environmental commitments towards stakeholders of the group, and so on).

Compliance

In 2017, Naval Group decided to strengthen its commitment through the introduction of an ambitious compliance policy in order to bring its procedures up to date concerning new requirements, notably of French and international compliance

legislation. On the Chairman and Chief Executive Officer's decision, the group's organisation of ethics and compliance was reshaped into a group Ethics, Compliance and Governance Management (ECGM), structured around a female group Ethics, Compliance and Governance Director, who was appointed at the beginning of April 2017.

The Ethics, Compliance and Governance Management has set up and leads a network of Compliance Officers operating at the group's sites, in the core activities and subsidiaries in France and abroad (23 Compliance Officers in France, 7 international Officers).

Naval Group has developed a compliance system based on mapping its risks that emphasises the prevention of corruption in all its forms and focusses on four main areas:

- definition and distribution of reference texts setting out the general guidelines adopted and commitments taken by the group, and also the behaviour expected of its staff. In particular, Naval Group has devised a compliance code of conduct, available to everybody, which defines the group's principles and policy on the subject of Business Ethics;
- introduction of procedures defining the applicable rules on a day-to-day basis and concrete measures regulating the group's and employees' activities;
- development of tools: notably electronic resources made available to employees to assist them in their work;
- establishment of a whistleblowing system accessed via the group's following email address: ethics@naval-group.com.

In 2017, the ECGM continued with its training program and awareness training in France and abroad through a series of targeted subject sessions, which meant that over 900 members of staff received training.

Also in 2017, the ECGM focussed on rolling out this in-house system through promotional campaigns carried out on the ground. In particular, a group Ethics and Compliance Day was organised (December 8, 2017) to coincide with the International Anti-Corruption Day and Human Rights Day.

Following the recommendations made by the Ethics and Corporate Responsibility Committee and the Legal Department, a Data Processing and Individual Liberties (data protection) Manager was appointed at the end of 2017.

Whistleblowing system

As provided for by the Sapin II Act, Naval Group must allow any paid employee, service provider or supplier who witnesses a crime, offence or serious and obvious breach of the company's values (compliance code of conduct/ethics charter) and of the law, committed by a colleague, representative or partner of Naval Group, to be able to report it.

Naval Group's whistleblowing system is a new tool for protecting staff and the group alike, based on a transparent and rigorous procedure that is in the process of being finalised and will be published as soon as it has been approved.

The establishment of an effective whistleblowing system, accessed via ethics@naval-group.com, means that we are all able to change inappropriate behaviour, regardless of position in the hierarchy or any obstacles placed by Management. Naval Group's whistleblowing system must, therefore, represent a tool of competitiveness enabling us to meet the highest possible international ethics standards and to live up to our present and future customers' expectations in this area.

Supplier Code of Conduct Committee

Since 2013, this multi-directional Committee has been 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 supplement the steps already taken by Naval Group since 2014 in particular as part of the "Responsible Supplier Relations" label of the Intercompany Mediation panel and the international SME development plan.

See Management report, paragraph 1.2.7.3. "Law on the duty of care of parent companies and contracting companies".

It is the responsibility of this committee to ensure that the group embraces the supplier mediation process and follows the guidelines of ISO 20400, the sustainable procurement international standard.

This committee meets periodically and includes the new supplier mediator appointed in 2017. It has met 35 times since 2013.

Awareness training and information for group staff

In June 2017, Naval Group launched the third phase of its e-learning platform dedicated to awareness training in ethics and anti-corruption principles for managers and staff.

Some 13,000 of the group's managers and staff had the chance to receive awareness training, if they so wished, 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, and so on).

Everyone could test their knowledge through situational scenarios and access the group's internal documents for reference.

By the end of 2016, an excess of 2,000 staff had used this website. In 2017, around 3,000 staff had taken part in this awareness training program.

The Compliance Management spearheaded a number of training initiatives in France and abroad aimed at a target audience, in order to respond to specific compliance issues.

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 2017, Naval Group chose to follow the guidelines of ISO 20400. The audit conducted by an external, independent audit firm during the last quarter was designed to satisfy, ahead of schedule, the overall requirements of the "Responsible Supplier Relations" label and ISO 20400.

See 11.3. "Economy".

Corporate social responsibility data verification audit

From November 2017 onwards, the audit firm Ernst & Young visited sites, conducting audits at the Lorient, Nantes-Indret and Saint-Tropez sites, and also at two remote subsidiaries: Naval Group BR and Naval Group Far East.

Protocols for the consolidation of data (global protocol, governance, environment and social data) were updated and are available to auditors in the French or English version. The entire protocol is available on request.

Global Compact

Naval Group took part in the peer review organised by the French Global Compact network in April 2017. The actions taken by the group meant that, for the third 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 2016, together with this assessment, was sent to the New York office within the deadline (May 30, 2017).

Through its activities and actions, Naval Group makes an overall contribution to five of the 17 sustainable development goals proposed by the UN since 2015:

- Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all;
- Goal 9: Innovation and quality infrastructure: build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation;
- Goal 13: Take urgent action to combat climate change and its impacts;
- Goal 14: Sustainable oceans: conserve and sustainably use the oceans, seas and marine resources for sustainable development;
- Goal 16: Peace and justice: promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.



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 the workplace.

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 10 universally recognised principles. The Global Compact then assesses businesses' policies annually by means of 21 criteria relating, in particular, to the application of its 10 principles and the contribution to the other United Nations objectives (such as the 17 sustainable development objectives).

Around 12,000 organisations worldwide, including 8,000 businesses, are members of the Global Compact. By becoming a member, Naval Group 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 1.2.6. entitled "Ethics and compliance" in the Management report.

II.3. ECONOMY⁽⁵⁾

II.3.1. Economic performance

Naval Group 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, Naval Group benefits from the highly-developed skills of its teams. The group has 14,515 staff, 13,875 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.

Contribution made to socio-economic impact by Naval Group's purchases

Naval Group's 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). Naval Group generates significant economic activity above all in Île-de-France, 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 staff directly employed by Naval Group. A study conducted in 2017 by the consultancy firm, Utopies, estimated that the total number of jobs supported by Naval Group, whether direct jobs within the group, jobs created through its suppliers and subcontractors or jobs created as a knock-on effect on the back of household consumption and public expenditure, was 56,495. This same study valued the total wealth generated by Naval Group at €4.2 billion in France when recognising the wealth generated directly by the group, its suppliers and subcontractors and the knock-on effect of household consumption.

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. Naval Group also ensures the long-term development of core jobs and activities. One of the major strategic focuses of the strategic roadmap defined in 2015 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.

(4) OECD, ILO, ISO 26000.

(5) UN (SDG)/Global Compact/GRI 4/OECD/ISO 26000.

Furthermore, Naval Group's innovation program 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.

Naval Group is an important local economic player in each of its employment areas because of its sites and the type of services procured. The services carried out at Naval Group's sites are mainly procured from local SMEs (small- and medium-sized enterprises) or locally established companies of national groups. Naval Group has set up an "SMEs plan" with the objective of strengthening and developing the main SMEs on its list of suppliers. Naval Group signed the Pacte PME (SMEs pact) in 2004 and is involved in working groups aimed at strengthening the SMEs, as part of its international expansion.

Internally, the procurement function has been decentralised to ensure the proximity of suppliers and local SMEs, in particular around production sites. Regular meetings are organised between local manufacturers involved in the shipbuilding industry.

Naval Group participates extensively in developing the area's economic activity by leading all the industry's players at local level. The company organises meetings between SMEs, manufacturers and local research centres in order to facilitate initial contacts, competition and innovation. Naval Group also takes part in activities organised by Chambers of Commerce and Industry and in "calls for skills" organised by the association Pacte PME. "Supplier local conventions", at which awards ceremonies are organised, also help to motivate companies in the industry to expand and to innovate. Theme days are also held on a regular basis (such as the Naval Innovation Days).

A quality management system

AFNOR has awarded combined quality, safety and environment (QSE) certification to Naval Group for the ISO 9001, 14001 and OHSAS 18001 standards as well as special certification for AQAP 2110 (NATO standards, which is 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.

Since the end of 2015, Naval Group has been extensively updating its management system, the Business Management System (BMS) resulting in a partial overhaul of its operational processes so as to simplify its standards, optimise its operational performance and take account of its new requirements, for example, international expansion.

Export controls

Naval Group's defence activities are governed by French and foreign export control regulations (military equipment and/or similar products and dual-use goods). 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.

Naval Group's international activities, which are key to its growth strategy, have increased, resulting in the stepping up of international operations (exports, transfers, transfers of technology, procurement and imports, etc.), in military equipment and/or similar products and dual-use goods. The group needs to ensure that its international expansion is backed by its ability to fully manage the challenges of export controls according to country strategies.

In the area of export control, and customs affairs, the Export Control Department is responsible for defining policy on the group's behalf, ensuring its application, supporting operational staff and, obtaining licences and contributing to the implementation of and adherence to the group's ethical rules. It continuously supports the operating divisions (trade, programs, procurement and the supply chain in particular) through updating standards, training, giving advice and carrying out audits, and also plays a part in sharing best practice within forums in relation to these areas.

Customs affairs

Naval Group was certified as an authorised 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. Naval Group 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 2017, management of Naval Group's procedures and files was transferred to 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. Audits regarding the renewal of AEO status will take place in 2018, and all of Naval Group's teams will be mobilised to this end.

Naval Group is also going to join a new customs clearance scheme called “national centralised customs clearance”, enabling all customs clearance operations to be centralised at a single centre of expertise, instead of 24 different customs offices.

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 Naval Group, are exceedingly complex.

Added to this difficulty is the great uncertainty surrounding the development and execution of major programs, 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, being increasingly monitored and controlled.

Against this background, and given the considerable risks involved, it is vital for Naval Group 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 Naval Group 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 during 2016 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, program and procurement teams. It shapes and leads the community of contract managers within organisations. Furthermore, it plays an active part in spreading best practice in contract management and in establishing a better business and contract culture within Naval Group. 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 Naval Group 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 Naval Group.

This became a reality in 2016 and 2017 when 76 contract managers received training on various aspects, comprehensive business standards comprising 50 documents and tools (templates, instructions, registers, checklists, and so on) were provided, numerous Web conferences and information sessions were held, a dedicated intranet was implemented, decisive intervention and support were provided in respect of a file representing several hundred million euros worth of business for the group were implemented.

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 etc., 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

These 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, sub-contract 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

These 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 Naval Group's 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 2017

Malaysia

In connection with carrying out its offsets for the Gowind® Malaysia corvette program, Naval Group signed a Memorandum of Agreement (MoA) in 2016 with the Universiti Teknologi Malaysia, Ocean Thermal Energy Centre (UTM OTEC), which is a centre of excellence for ocean thermal energy in Malaysia.

Under this agreement, a preliminary feasibility study for the installation of an ocean thermal, energy plant on Layang Layang Island, which lies off the coast of Sabah, in West Malaysia, was carried out by Naval Energies. If this project is carried out, it will allow the island to reduce the use of fossil fuels and would also boost its economic development. For Naval Group, 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, Naval Group 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 Maritime Technology in Kuala Lumpur. UPNM, ECN and Naval Group signed a Memorandum of Agreement in March 2017 at the LIMA 2017 Defence Trade Fair in Langkawi.

As part of this agreement, the three partners are pooling their skills in order to develop top-class training which will help to build a high level of expertise in the maritime field in Malaysia. The first Malaysian students arrived in France in September 2017 and joined a Masters course and are doing a PhD at the École centrale. These same students, future graduates, will then teach at the UPNM on their return to Malaysia, receiving educational support from the École centrale. 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 Masters 2 course. Naval Group will also bring its expertise in naval engineering for designing and developing course content. The specialised Masters 2 degree will include courses, supported by the group's experts, which are devoted to the incorporation of combat systems.

Brazil

In 2017, Naval Group successfully continued to fulfil its offset obligations in the PROSUB contract for supplying submarines to Brazil. In particular, Naval Group supported a project to modernise facilities at the Brazilian Navy Arsenal (AMRJ – Arsenal da Marinha do Rio de Janeiro). Starting in 2014, Naval Group provided the Brazilian Navy with its expertise by proposing designs and giving its advice and support in relation to the modernisation of the launch system in the main dock of the Navy's arsenal in Rio.

Colombia

It is Colombia's intention to develop and build a new generation of frigates in collaboration with the local shipyard Cotecmar at its Cartagena site as part of the Colombian Navy's fleet renewal program. In partnership with the Colombian National Apprenticeship Service (SENA) and the French Ministry of Education, on September 1, 2017 Naval Group signed a letter of intent aimed at setting up a Franco-Colombian vocational training centre, which will help to strengthen the skills required, particularly when the Colombian frigate program is implemented in the future.

This vocational training cooperation project will create a shipbuilding training centre in Colombia along with its teaching materials, while ensuring the transfer of skills, preparation of skills standards and increased mobility between the two countries. The trades covered range from welding to fabrication, including pipework, electricity and marine engineering.

Romania

On November 15 and 16, 2017 Naval Group organised a shipbuilding industry seminar in Romania, in conjunction with GICAN (naval activities and construction industries group) so that naval defence companies from both countries involved in the Romanian Navy's modernisation program (acquisition of four, 2,500-tonne corvettes and modernisation of two frigates) could meet up. Some 17 French companies and more than 60 Romanian companies attended the B2B days. On November 15, Naval Group and its partner, the Constanta shipyard signed a Memorandum of Agreement. More than 170 interviews took place over this 2-day period, which was attended by High Authorities of the Ministry for Economic Affairs, the Ministry of Defence and the chairmen of the Senate Defence Committee and Chamber of Deputies.

It was through these seminars that a large number of potential cases of cooperation were identified, and these seminars also highlighted Naval Group's strong desire to strengthen its presence in Romania.

Innovation, embedded in Naval Group's DNA

This point is addressed in the Management report, paragraph 1.2.4. "Research and Development Activity (R&D)".

Naval Group's Offshore Technology Incubator continued its work in 2017. 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 actions carried out in 2017 were part of the company's continued focus on the Subsea Watcher project, which 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, suspended particles, and so on.

The actions carried out, therefore, fall within the "economy and environment" areas of the challenges identified by the Grenelle 2 law on National Commitment for the Environment and by the EU Marine Strategy Framework Directive of 2008, with their 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.

After winning the start-up phase of the *Concours mondial de l'innovation* (CMI) (worldwide innovation challenge) in September 2014, then winning the second phase of the Docking project as part of the Mélodi consortium led by Créocéan, Naval Group constructed, tested and improved a docking prototype for an underwater drone between 2015 and 2017. This technological building block, which allows a drone to be placed underwater and stay there for long periods without human intervention, 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. Several technological challenges have been raised as regards achieving this solution, such as wireless communication and energy transmission underwater, and protecting drones against damage from the marine environment. The year 2017 focussed on studying a solution based on a docking platform being towed by ship and another solution where the docking platform is positioned in deep ocean waters. These two solutions significantly widen interest in the docking platform for environmental monitoring use.

Moreover, having received awards in 2015 for its participation in the Fonasurf project led by Technip, Naval Group continued, in 2016 and 2017, to develop an acoustic confinement solution and finally, in summer 2017, it completed a series of tests on a prototype in Norway with the University of Trondheim (NTNU). This membrane, which is called "Subsea Quieter", is a particularly innovative acoustic and turbiditic (suspended solids) confinement and reduction solution for anthropogenic activity at sea. Marine and coastal infrastructure builders and pile installers 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. The results of these initial trials are very promising in terms of the performance of this new technology based on group know-how.

Eco-design

Our policy, here at Naval Group, of taking account of environmental concerns when manufacturing our products continues to be rolled out gradually across our programs and R&D projects. This now means that the group complies with the new version of ISO 14001, the 2015 version. Arising out of the work initially carried out on vessels and marine renewable energies, the group's strategy is to extend this policy to cover services and infrastructure over the course of the next 3 years.

As far as programs are concerned, 2017 was a pivotal year. The first results associated with the group's deployment of methods developed over a number of years were clearly visible and characterised by environment specific deliverables:

- Australian Future Submarine Program (AFSP): from its initial design stage, it includes environmental requirements and a life-cycle analysis which will be added to as the project gradually develops;
- third-generation ballistic nuclear submarines (SSBN), mid-sized frigates and Scorpène® Evolution submarines follow the Business Management System's development process, outlining the environmental requirements stipulated for these vessels and so encouraging suppliers to demonstrate their willingness to respond and to help to achieve the environmental targets set;
- there is a life-cycle analysis for the wind farm at Groix which identifies the various life-cycle components and stages causing the greatest impact and so means that administrative declarations concerning environmental operations can be made.

As regards R&D, the ATHENA project (hydrothermal equipment for treatment of naval waste) for the DGA (the French defence procurement agency) in 2016, concerning the waste management demonstration model using wet oxidation technology, is continuing. The input data has been set and the demonstration model will start to be made at the beginning of 2018. The project will finish in 2020 and at the end of it all there will be an analysis and validation of the wet oxidation technology solution for treatment of ship waste and discharge.

An environmental analysis, which is an internally developed methodology that takes account of the complete life cycle of our products in order to measure the system-by-system impact made by them, was carried out on the Scorpène® submarine. This analysis provides a picture of the most significant environmental impact caused by the vessel, but it also identifies areas where design improvements are required so that future projects, within the same product line, leave a smaller carbon footprint.

The search for new partnerships is still ongoing, whether with universities, schools (École nationale supérieure maritime, the French National Merchant Marine School, ENSM) and French manufacturers (EVEA) or through European invitations to tender (H2020).

Lastly, we have launched a study entitled “Carbon footprint of a FREMM” in order to answer the recurrent question, namely to what extent do Naval Group’s sites contribute to greenhouse gases (GHG)? This study is an assessment based on the single criterion of the product’s life cycle, which includes the following stages: extraction of raw materials, manufacture, transportation, utilisation and end-of-life, thereby making it possible to measure the extent to which the life cycle of a FREMM has an environmental impact on Naval Group’s GHG balance sheet. The results are in the process of being confirmed and supplemented with the complementary findings of the “Footprint” study group. This type of study will be extended and used for other product lines depending on the level of demand from internal or external stakeholders.

Market presence

Naval Group 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 programs 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 programs 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 programs;
- 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 Naval Group’s 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 (identification of our core activities, at the heart of our know-how; proposal and program check-lists, exploitation of know-how; basis of feedback, description of the ToT in the program management process) 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 programs, which will allow us to test, improve and standardise our ToT management processes as well as this tool kit. The Australian submarine program 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.

II.3.2. Procurement practices⁽⁶⁾

Naval Group’s commitment to sustainable procurement

Naval Group’s General Management has committed to a corporate responsibility strategy at the highest level. These clearly defined commitments can be accessed via the group’s website. The group’s support of the UN Global Compact is one of the ways in which it demonstrates its commitment at operational level in this field. A review of the information produced in the Board of Global Compact led to the company being graded as “Advanced”.

These commitments are circulated to all employees via the Blue Book (a document summarising the group’s organisation and challenges faced by it). The commitments to responsible procurement are circulated to all suppliers, who make a formal commitment through the supplier code of conduct.

Naval Group’s commitment to sustainable procurement is based on a continuous improvement approach, which is managed at the highest level.

Naval Group’s commitment is expressed through very tangible actions at operational level and active participation in the industry’s initiatives and bodies: involvement in GICAN (naval activities and construction industries group) and in CEDEF (Convention on the Elimination of All Forms of Discrimination Against Women); involvement in the sector’s Strategic Planning Committee and in the Sea Clusters; membership of Pacte PME and to the charter encouraging innovative SMEs (2012); bipartite agreement of the SMEs defence plan (2013), and so on.

(6) ILO, NSETSD (A5P4, A6P3, A8P1).

Performance assessment of the suppliers on its panel

In 2017, Naval Group continued to assess the CSR performance of suppliers on its panel. The restated objective is to have this performance assessment for all suppliers on its panel. New entrants to the panel will be subject to a CSR performance assessment.

Naval Group uses two firms specialising in performance assessment to carry out this task.

Once all the suppliers on the panel have completed their assessment, the findings of the CSR performance assessments are taken into account in the overall performance assessment of suppliers, which is conducted annually in the case of the panel's main suppliers. 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.

Just as in the previous year, an analysis of the findings of the assessments carried out shows that the CSR level of performance of suppliers on Naval Group's panel is higher than the average performance level of the suppliers assessed by the firms specialising in performance assessments, based on all areas of activity.

Less than 3% of the panel's suppliers assessed in 2017 were identified as potentially posing a risk as regards achieving CSR performance. The suppliers in question are subject to an improvement plan.

CSR performance assessment of suppliers will also be rolled out for suppliers on the panels of group subsidiaries with this expanded assessment starting in 2018.

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. These risks are characterised according to the main supplier risk categories. A CSR risk is one of the four main types of risk associated with supplier risk management.

This risk analysis is carried out on a regular basis and updated as required. Naval Group's entire panel of suppliers is subject to a thorough and rigorous risk analysis from two angles: inability to deliver and impact on company image. This analysis is also considered over the short- and medium-term (program risks) and over the medium- and long-term (sovereignty/market leadership).

The risk analysis conducted for each supplier specifically involves regulatory compliance, OHS, CSR and image as well as the legal aspect and fraud.

The CSR aspect of this supplier risk analysis is going to be strengthened and adjusted in 2018, by more accurately characterising the risks associated with suppliers, i.e. by field of activity, type of supplier and location. This new approach will take account of aspects associated with CSR, from every angle:

- governance: de facto management, transparency, conflict of interest, fraud, corruption, compliance with the rules of competition;
- environment: respect for the environment, use of dangerous substances;
- human rights and rights pertaining to how staff are treated by the company: provisions regulating terms and conditions of employment, discrimination, social legislation;
- occupational health and safety.

Where necessary, the results of this analysis will give rise to specific actions built into the action plan for mitigating supplier risks.

Responsible Supplier Relations label: 2017 new assessment

Naval Group was awarded the Responsible Supplier Relations label in December 2014. In 2017, it was changed and renamed the Sustainable Procurement label, incorporating the recommendations of ISO 20400 "Sustainable Procurement".

The sustainable procurement development policy operated by Naval Group is completely consistent with the requirements of the new standard of the label.

It is, therefore, extremely logical that Naval Group decided to apply to renew this label, which it again obtained in December 2017.

Supplier satisfaction survey

In 2017, Naval Group once again conducted the annual satisfaction survey with a large number of its suppliers. This survey was conducted in consultation with the association Pacte PME. The results of this survey were incorporated and included in the report published by Pacte PME. 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, which uses a process that guarantees confidentiality of the individual responses.

The results of the 2017 survey indicate a marked improvement on the results of the 2016 survey (a 5% increase in the satisfaction index) which had also shown a very significant improvement in relation to the previous surveys. A total of 870 suppliers were contacted and 38% of them responded. This is a very satisfactory response rate for this type of survey. The main areas identified as requiring improvement resulted in action plans being drawn up.

Mediation

Naval Group favours dialogue with its stakeholders in order to resolve disputes. As far as relations with suppliers are concerned, Naval Group has had an internal mediator since 2010. The person responsible for mediation reports direct to the group's General Secretary. Recourse to mediation is specified in the general purchasing conditions and standard contracts for every type of purchase. A broad range of information on the mediator's duties and responsibilities is communicated within the group. Permanent information is available on the group's website where there is a link that any supplier can follow to contact the group's mediator direct.

Environmental factors

In 2016, Naval Group 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.

In addition, environmental criteria have been incorporated into the CSR performance assessments conducted with suppliers on the panel.

II.4. ENVIRONMENT

II.4.1. General environmental policy

Group commitments

The sea is both the traditional environment of Naval Group 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 Naval Group'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 life cycle by taking a proactive approach from the design phase through 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 climate change by reducing greenhouse gas emissions.

In practical terms, the group has set five targets for the years 2015 to 2017:

Industrial safety	2017/2016 performance	2017/2014 target
No accidents with a significant impact on the environment (level 3)	0	0
Eco-design		
Proactive programs ^(a)	50%	50%
R&D projects contributing to environmental improvement ^(b)	28%	20%

(a) Program exceeding applicable requirements and in which at least two systems are the subject of a specific focus, resulting in:

- a specific regulatory study: stricter specific regulation or anticipation of requirements;
- and/or a specific study on new technologies that improve and optimise environmental performance;
- and/or an environmental assessment of the entire life cycle;
- 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	2017/2014 performance	2017/2014 target
Electricity consumption	-5.8%	-10%
Greenhouse gas ^(c)		
Emissions	-1.23%	-10%
Waste		
Recovery of NHW ^{(d)(f)}	70%	70%
Production of HW ^{(e)(f)}	-19.14%	-10%

(c) Assessment of the figures for 2017 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 12 rolling months (from January 1, 2016 to September 30, 2017).

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 Industrial 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 15 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 program, working with all of Naval Group's 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).

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.

Naval Group University 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.

In addition to training programs, targeted communication campaigns are carried out group-wide, in accordance with an annual communication plan concerning the areas of quality, safety and environment that take 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 supplemented locally on each of the sites.

In 2017, 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 Naval Group uses to check the ability of companies to meet the selection criteria.

Once selected, suppliers make a contractual commitment to adhere to the “Naval Group 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 Naval Group’s requirements linked to the environment.

Stakeholders

Naval Group’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.

Naval Group 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, Naval Group makes every effort to reduce this pollution. In 2017, noise pollution reported by residents prompted the Naval Group site in Lorient to step up its monitoring of the closure of hangar doors.

Since 2007, the French Navy and Naval Group 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 Saudi Arabia, the electrical power and fossil fuels consumed by Naval Group 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, Naval Group has created a continuous environmental improvement program, through the introduction of a management system. As a result, Naval Group 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, and the certification was successfully renewed in the first half of 2017.

In connection with this certification, each site performs an environmental analysis and updates it as its activities, control methods and the regulations change. Naval Group 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 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

Naval Group provided financial guarantees in accordance with the orders of May 31, 2012, intended to cover the potential restoration of the sites if the group were to go bankrupt. Three sites are affected by these provisions: Nantes-Indret, Angoulême-Ruelle and Cherbourg.

Naval Group was not involved in any environmental disputes in 2017.

above all because of the product-related measures taken by manufacturers and the positive change in spraying processes.

Naval Group 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 (SO₂) and nitrogen oxide (NOx), produced by burning fossil fuels. These emissions are steadily falling, in direct relation to the energy savings made on Naval Group's sites.

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.

During the second half of 2016, the Health, Safety and Environment (HSE) Department, the Submarine Atmosphere Regeneration-Control laboratory (R-CASM) and the R&D Department of the Brest site led a project aimed at improving the real-time control of effluents resulting from the careening of vessels. This method is now applied to careening operations at the Brest naval base and on the Île Longue site. We now have the in-house capability to detect a deviation or to demonstrate the compliance of analyses in 48 hours, compared with 3 weeks previously. We can now respond very rapidly if results show a failure and correct during the course of an operation.

Waste

Non-hazardous waste accounts for two thirds of the waste produced by Naval Group 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.

Naval Group is striving to reduce and more effectively recycle its waste, in accordance with the principles of the circular economy, by setting targets.

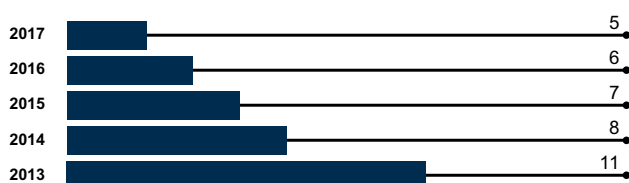
A target of ≥90% sorting compliance has therefore been set for each of the sites, while a global material recycling and energy recovery target of ≥70% has been set for the group as a whole, with a minimum per site of 50%.

II.4.2. 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 4 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. 2017 threshold: 5.

Atmospheric emissions

Naval Group 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.

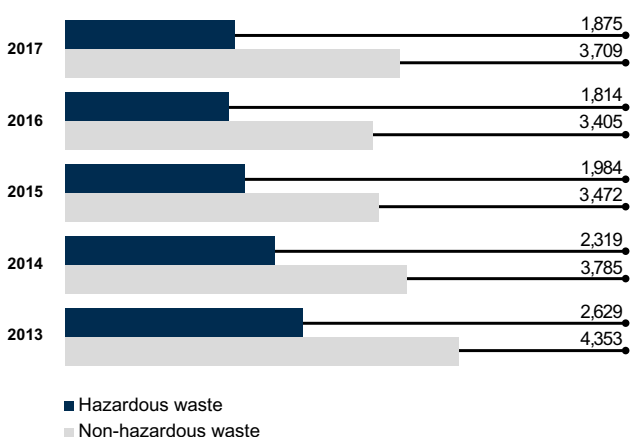
The quantity of paint consumed within the group greatly depends on the construction and maintenance activities. A major refit of an aircraft carrier, for example, doubles the volumes usually used in the course of a year. VOC emissions per tonne of paint used are decreasing each year, however,

2017 data on the 2016 financial year had not been consolidated when this report was written.

Hazardous waste is particularly difficult to recycle, as the processes are often complex and costly. Naval Group 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, Naval Group 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 Nantes-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 Naval Group'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

Naval Group's activities do not produce any particular odours.

II.4.3. Sustainable use of resources

Water consumption

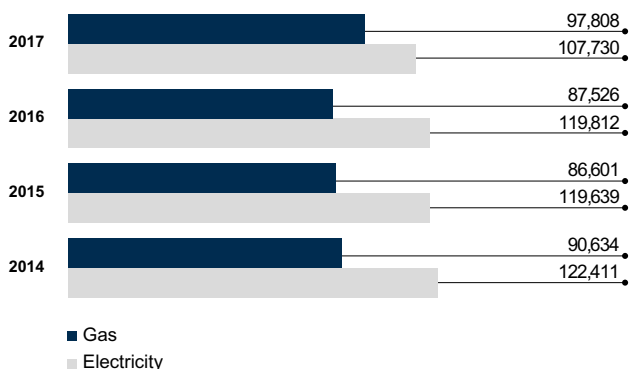
The quantities of water used to cool installations are decreasing each year, as most of the installations have transitioned to closed cycles.

Only the Nantes-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.

Energy consumption

Given its awareness of energy issues and their impact on the climate, Naval Group 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 program and coordinate improvement actions at each site.

In 2015-2016, an energy audit was conducted on each group site. These audits provided 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 program. Most of the industrial sites have in fact integrated this program 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 site 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 and highlighted the areas in which significant gains could be achieved. This exercise will be conducted at all sites in the coming years to take the energy reduction initiative forward.

In 2017, the Toulon site introduced meters that take an accurate reading of electricity consumption. Thanks to these meters, electricity consumption is 60% lower than last year.

Property operations

At the end of 2015, Naval Group 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.

II.4.4. Climate change

As part of a continuous improvement program, Naval Group actively contributes to the reduction of greenhouse gas emissions and for the last 3 years has annually conducted its greenhouse gas emission assessments for the group’s 11 sites; the emission factors are taken from the regulatory *Base Carbone* database.

The following emissions are monitored:

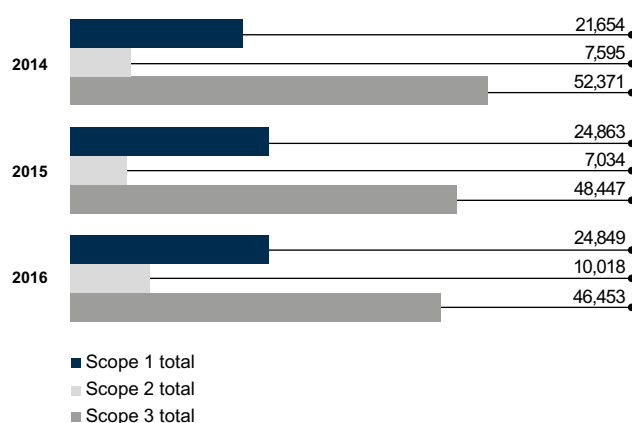
- scope 1: direct emissions from the consumption of fossil fuels and cooling fluid leaks;
- scope 2: indirect emissions associated with energy, such as electricity and the purchase of heat linked to electricity consumption;

- 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 purchased and operated are studied separately (see below) and are not taken into account in scope 3 of Naval Group.

Since the 2015 assessment, upstream emissions linked to energy production in scopes 1 and 2 have been included in scope 3.

The last assessment (provisional on January 25, 2018), which was conducted in 2017 for the 2016 financial year, shows an 8.8% reduction compared with the previous year thanks to the efforts made primarily in scopes 1 and 3.

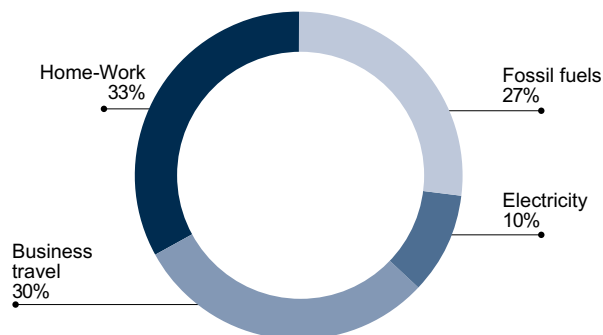
Change in greenhouse gas emissions for each scope in tonnes of CO₂



Home-work travel, fixed sources of combustion and business travel account for the three largest emissions, at respectively 33% of the group’s total emissions in the case of home-work travel, 27% in the case of fixed sources of combustion and 30% in the case of business travel.

To take action in this scope, Naval Group has introduced a per-km allowance for bicycle users to encourage the use of this mode of transport and to have an impact on its emissions. In addition, charging stations for electric cars are being considered at sites in Paris to promote and facilitate the use of this type of vehicle by staff. Furthermore, like Saint-Tropez, the Cherbourg site now has a car-sharing site to allow staff to journey together and reduce their environmental impact. Car-sharing areas have been opened in Lorient.

Breakdown of greenhouse gas assessment by item – 2017



Naval Group has set itself the target of reducing greenhouse gas emissions from these activities by 10% during the 2015-2017 period.

To achieve this target, Naval Group has implemented an action plan targeting the three biggest sources of emissions. On top of the actions to reduce energy consumption (see section I.4.3), Naval Group is resolutely encouraging the reduction of business travel and the use of electronic solutions, such as online conferencing with split screens, videoconferencing, 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 CO₂ 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, Naval Group 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.

Greenhouse gas emissions linked to Naval Group's purchases and the use of products

2017 saw the first Naval Group assessment of the environmental footprint produced by all purchases of Naval Group's French sites (see section II.1.7 "Naval Group's environmental footprint"). The model created uses internal and generic data

to assess the greenhouse gas emissions generated by Naval Group's French and foreign purchases, which are assessed at 723,148 tCO₂e. However, the model's specific methodological details mean that this data cannot be consolidated with the carbon footprint above.

Similarly, to answer the recurring question of the products' contribution to the sites' greenhouse gas footprint and as part of its eco-design approach (see section II.3.1 "Eco-design"), Naval Group has decided to calculate the share of emissions that can be attributed to the use of a FREMM over its entire life cycle. The initial assessments put this share at 95%, although these results cannot currently be extrapolated to the group's annual emissions.

II.4.5. 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 Naval Group sites include zones within a Natura 2000 site:

- Angoulême-Ruelle: the route of the Touvre river, which crosses the Naval Group site, is part of the "Charente Valley between Angoulême and Cognac and its main tributaries" site.
- Nantes-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 none of them is compromised. The Nantes-Indret site conducts eco-pasture 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. In 2017, the site also installed bee hives to promote biodiversity in the region and to protect bees.

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, Naval Group 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, Naval Group 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 program 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.

Naval Group 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 in 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, Naval Group 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.

II.4.6. Products and environment

Naval Group's products are primarily focussed 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. Naval Group'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 CROSS from 2016.

Since 2007, Naval Group 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 50 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 program 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, Naval Group 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 in-service support. 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, Naval Group 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, Naval Group helps the participants to implement a "Clean vessel" roadmap and has proposed three green growth commitments (*engagements à la croissance verte* [ECVs]). 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.

Since 2015, at the invitation of the French Department of Maritime Affairs, Naval Group 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 Naval Group 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.

II.5. SOCIAL⁽⁷⁾

In terms of the human resources policy, 2017 saw significant activity in employment, with a significant increase in recruitment and mobility in operational activities, as well as intense social activity due to the execution of the employment adaptation plan, the signature and implementation of agreements on the organisation of working time, on career development and strategic jobs and skills management, and on quality of life at work. 2017 also saw significant involvement by stakeholders in the expression groups and the trials conducted to improve the company's long-term performance, both in terms of its business and social aspect.

The policy on career development also changed, with the introduction of benchmark positions and the new classification stated in the career-development agreement. This provides consistency in the definition and positioning of roles relative to each other and guarantees consistency in the management of careers.

II.5.1. Employment

Changes in the workforce

Naval Group's workforce totals 14,515, up 4.7% compared with 2016 (13,870 registered), with 13,875 Naval Group registered staff in France, 199 in French subsidiaries and 441 in foreign subsidiaries.

At the UES (economic and social unit, Naval Group in France and Sirehna), the workforce is 13,943 registered staff, with a 19.6% female employment rate versus a 20% target.

All three components of the employment adjustment plan stemming from the global performance plan signed in 2016 were executed. Regarding the first component, the company achieved its plan, with 487 job cuts made. 109 people opted for one of the voluntary redundancy measures stated in the agreement. The other job cuts involved internal reassignments and retirements.

In the other components of the agreement, 65 people agreed to move from Paris to the regional sites, and 10 people accepted the offer to transfer to the company Défense Environnement Services.

Recruitment and mobility

There was extensive recruitment activity in 2017, with 1,564 recruitments at the UES, 1,117 of which on permanent contracts (525 permanent-contract recruitments in 2016). There was also intensive mobility activity, including support for the employment adjustment plan. In total, there were 715 internal mobility transfers in 2017, of which 166 were geographical transfers.

The commitments made regarding an increase in study-and-work interns in production and the permanent-contract recruitment of study-and-work interns who had completed their training were met in 2017, with 120 permanent-contract recruitments of study-and-work interns after their training, compared with 93 in 2016.

As part of the industrial and social pact, Naval Group committed to recruiting more than 2,200 people between 2017 and 2020, with a proactive distribution of engineers and executives/technicians and supervisors/manual and non-manual staff that enables a target of more than 56% manual and non-manual staff/technicians and supervisors to be met over the term of the pact.

Lastly, a mobility charter was circulated to all staff in 2017. This establishes the ambitions and rules that apply to the group.

Territorial impact

Naval Group 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.

Naval Group 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.

(7) UN (SDGs)/Global Compact/GRI 4/OECD/ISO 26000/OECD.

International development

In 2017, international development was bolstered by the creation of the international Human Resources Department, including HR managers assigned a region or country. One of the goals is to develop the hosting of staff from our subsidiaries at Naval Group's French sites. The other goal is to ensure that the HR policies are rolled out in each country with the necessary adaptations, notably the career review, the appraisals, payroll consolidation (Global Payroll) and recruitment (Talent Soft). Staff from the subsidiaries joined the talent development programs.

The subsidiaries' staff internationally totalled 560 registered staff (versus 511 in 2016), of whom 181 were expatriates. Local staff (including on the "local +" contract) grew, with 381 to the end of September, versus 321 at the end of 2016. Expatriate staff numbers fell (179 at the end of September, versus 190 at the end of 2016).

Strategic jobs and skills management (GPEC)

Naval Group is continuing its strategic jobs and skills management policy and in April 2017 signed a new GPEC agreement for a 3-year term. This group-wide agreement includes the creation of a jobs joint monitoring unit at group level. This diagnosis and dialogue body examines major developments at group level and also incorporates a generation and training contract.

Anticipating and supporting skills development and changing jobs

Naval Group 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 Naval Group's strategic plan.

Organisation of work

Title 4 of the company-wide agreement signed on April 11, 2017 gave an in-depth review of the rules on the organisation of working time. This agreement amended the variability of daytime hours and shift-work hours. The purpose of this agreement is to improve operational performance by ensuring a greater common presence during the working day of staff from the same group or the same work area. This resulted in a 15-minute limitation on the variable range when starting a shift and a 1-hour-15-minute limitation on the total variable range for production staff. For shift work, the purpose of the agreement was to define common rules from both an organisational viewpoint (the use of this working structure) and a functional viewpoint (working hours of the position, breaks, etc.). The implementation of these new rules became effective for variable daytime working hours at the beginning of September. Shift and specific working hours will be introduced from January 2018.

Remuneration and employee benefits

Naval Group'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 management, concerning wage measures and the actual duration and organisation of working time for the 2016 financial year and multi-annual measures for 2017 and 2018. These represent a 2.1% budget increase for 2017 and also secure from now, for 2016, 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 2017 with the trade union partners (CFDT, CFE-CGC and UNSA). This 2017 amendment strengthens the objective to restore Naval Group's profitability, assessed via the EBITA/sales ratio and the level of deviation in the programs and a new criterion that takes into account the 2017 level of achievement of orders linked to the Australian contract.

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.

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 Naval Group'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 10 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.

National Shared Services Centre (CSPN)

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 Naval Group's staff. The CSPN is responsible for the administrative management of Naval Group 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.

As such, staff have a single system that manages every aspect of their files (administrative management, pay, time, etc.), understands their particular requirements and provides continuity of service, notably during periods of leave.

The HR service space, which can be accessed through the SeaRH portal, enables staff to submit requests online directly to the CSPN and track their responses more effectively.

Each member of staff is entitled to an electronic safe that is managed by an external service provider and enables private-law staff to receive their wage slip in electronic format. This forms part of Naval Group's corporate social responsibility drive.

II.5.2. Employer/employee relations

The negotiations that began at the end of 2016 after the termination of the company-wide agreement of May 11, 2004 resulted in an agreement being signed on April 11, 2017. This agreement applicable to Naval Group revised in depth the provisions on career development and the organisation of working time.

The provisions concerning retirement and employee benefits were the subject of a group agreement signed on June 1, 2017 in order to align, throughout France, the retirement and employee benefits provisions, thereby facilitating individual staff mobility between group entities.

The provisions on career development now also include new coefficients that integrate with those established by the metallurgy classification to create a stronger dynamic. The agreement also adapted the career development rules based on the qualification required for a position.

At the same time, a benchmark positions structure for each of the company's 27 specialities was devised and introduced during the last quarter of 2017.

Naval Group offered the trade union organisations an industrial and social pact that supplements this new agreement, in which the company commits to seven goals to accomplish by 2020, including the continuation of work organisation trials, the improvement of efficient working hours, the conduct of recruitments and industrial investments, an increase in the rate of career promotion, the continuation of strategic jobs and skills management, and training in naval professions. These commitments are linked to the achievement of the anticipated gains to finance them and to the absence of any major commercial changes.

An agreement on quality of life at work was also signed in 2017 and new telework options were defined in an agreement following a trial period.

Negotiations on a new agreement concerning the employment of persons with a disability and an agreement on gender equality at work began during the last quarter. These new agreements will replace the current agreements on these subjects, which expire at the end of 2017.

Dialogue with trade union organisations resulted in a consensus on the organisation of the terms governing the annual consultations on the strategy, business and financial situation and social policy of Naval Group pursuant to the act of August 17, 2015.

Solidarity leave

Naval Group and the Central Works Council renewed the “solidarity leave” offer in 2017. 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 members of company staff on missions.

Eight missions were on offer in 2017. The social committee of the Central Works Council and the company’s Management selected the eight candidates from 23 applications submitted by Naval Group staff.

This initiative was a success, with everyone involved enthusiastically commenting on how rewarding the experience was.

compared with 26 days in 2016. 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 nearly 70% of the accidents with lost time that occurred in 2017.

The prevention programs, 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.

Accidents occurring during travel with and without lost time have been specifically analysed over the last 4 years, as they account for over a quarter of accidents and display a high severity. 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

Naval Group 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

Actions to prevent the main risks, which have been in place for several years, continued in 2017 (inter-site working group specialising in handling risks, risks linked to welding fumes, electrical risks and work in confined spaces, etc.). 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. Two national campaigns were conducted and rolled out across all sites regarding two of our major risks (handling and electrical lock-outs).

Strong management involvement and a change in behaviours

The involvement of management line and developments in the behaviours of all staff, Naval Group or otherwise, present on our sites are central to the OH&S effort.

The main levers put in place were continued in 2017:

- 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.

II.5.3. 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 revised and signed by Mr Hervé Guillou in January 2018. This policy puts into perspective and ensures consistency between the ambitions and requirements of the group in order to meet the needs and expectations of the group’s clients, develop the culture of identification and control of risks, and ensure regulatory compliance.

The AFNOR follow-up audit conducted during 2017 confirmed the certification of Naval Group’s global QSE management system in the standards ISO 9001, ISO 14001 and OHSAS 18001.

Since 2015, Naval Group 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.

Naval Group results at December 31, 2017:

- FR2: 12.1 versus a target of 11.5 (FR2 of 11.9 in 2016).
- FR1: 6.4 versus a target of 6 (FR1 of 7.1 in 2015).
- SR: 0.149 versus a target of 0.125 (SR of 0.183 in 2015).

These results show a slight decrease in the FR1 (accidents with lost time), which was up significantly in 2016, accompanied by a decrease in the number of days lost. The average number of days lost in 2017 per work accident is 23 days,

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. 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.

This participation by all staff is a key program and is integrated into the improvement plans undertaken by Naval Group, notably via the guidelines of the Naval Group industrial performance system rolled out in 2016. The industrial performance system initiative is integrated into the Naval Group 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. Safety culture analysis actions were launched by site directors to strengthen our efforts in connection with the behavioural approach to work.

Occupational health and safety (OH&S) communication

Communication actions remain a key tool for sharing the results, actions and programs with all staff and ensuring their uptake; these are conducted via the intranet, Naval Group'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.

International support

Given that international development is a key factor for Naval Group, 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 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 Naval Group 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 Naval Group staff.

Quality of life and hardship at work

The methodology used to assess psychosocial risks was rolled out across all sites in 2016 and 2017. More than 120 assessment groups, each comprised of 10 to 12 staff members, met on the various sites to assess their entity's psychosocial risks based on a questionnaire from the INRS (French National Safety and Research Institute for occupational accident and illness prevention). In accordance with the process described in the reference system, the analysis of these assessments led to the development and implementation of prevention action plans included in the single document on the assessment of occupational risks.

This assessment mechanism will be permanently continued from 2018. The major assessment (i.e. using the same format as the 2016-2017 assessment) will take place every 4 years. The next major assessment will therefore take place in 2021. In the meantime, this assessment's results will be updated every year based on the responses provided by all staff to a questionnaire posted on the intranet. In accordance with the process described in the reference system, the analysis of these assessments led to the development and implementation of prevention action plans included in the single document on the assessment of occupational risks.

In April 2017, an agreement on quality of life at work was signed. This 3-year agreement is based on three cornerstones:

- the introduction of expression groups within the entities to improve the collective functioning, industrial performance and well-being of staff;
- the development of the experimental approach;
- the development of participatory management.

A national quality of life at work committee and local committees aim to monitor and participate in the roll-out of the agreement. Training for managers in leading expression groups was put in place, and a charter of managerial behaviours was developed based on the principles stated in the quality of life at work agreement. A "Cultural and managerial transformation" network circulates and promotes the quality of life at work agreement on the various sites.

The quality of life at work agreement includes a section on accessibility to work. This section features provisions that aim to prevent hardship and protect the health and employability of staff who are the most exposed to hardship.

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, Naval Group's sites provide staff with a company restaurant managed by a specialised service provider or by Naval Group 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.

In 2017, the main guidelines were built around four of the group's challenges:

- improve the company's business performance;
- gain proficiency in sovereign skills;
- expand internationally;
- control our diversification.

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 Naval Group University 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 program for managers is also being created and will be based around the seven managerial practices resulting from the managerial charter established in 2017 based on the work of the expression groups. Its goal is to enhance managerial skills and create a sense of community between all Naval Group 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 50 people were promoted through one of these paths in 2017.

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 its strategic jobs and skills management agreement. The company's needs are defined on an annual basis. The study-and-work policy remains very dynamic, with 318 individuals being recruited on new study-and-work contracts, all specialities combined, during 2017.

School links

2017 enabled Naval Group to consolidate its presence and visibility in schools. A total of more than 110 initiatives (up nearly 10%) were held in 2017 (forums, conferences, visits to Naval Group sites, etc.), a significant proportion of which took place in target and partner schools.

As a result, in April 2017, Naval Group finalised the renewal of its partnership with ENSTA Paris. This partnership agreement was supplemented by the September signature of a new agreement with ENSTA, serving as the founding act of a joint research laboratory. The purpose of this laboratory is to conduct research and development work in artificial intelligence applied to the naval defence field, a key subject for the group against a backdrop of increased digitisation in the products and services that Naval Group offers its clients.

II.5.4. Training and education⁽⁸⁾

As part of the strategic jobs and skills management agreement signed in April 2017, Naval Group integrated a training and knowledge transfer component. New training programs, such as seamanship and the induction of new recruits via the "*vis ma vie*" ("live my life") scheme, were put in place. 2017 also saw the introduction of "capsules" designed for filming the technical procedures that will be used for knowledge transfer. This trial is set to be continued in order to create a knowledge library that utilises digital technology.

A co-investment and company contributions structure was also planned for training eligible for the personal training account. This list of training courses is shared annually with the jobs/training commission of the Central Works Council.

Starting from 2017, the training guidelines and the associated core components are defined for a 3-year period; every year, clarifications are made to take into account the company's context. These guidelines are structured around the following points:

- the group's strategy;
- anticipated developments in professional skills and their development, stemming notably from the work of group speciality managers;
- anticipated developments in company policies: introduction of new technologies, tools, digitisation, software, management.

(8) SNTE P21, 27.

In the nuclear sector, in October 2017, Naval Group signed a partnership agreement with the Institut national des sciences et techniques du nucléaire (INSTN – French National Institute of Nuclear Sciences and Techniques). This agreement formalises the already important relations between the two structures and plans to strengthen them, particularly concerning the hosting of trainees from the atomic engineering sector.

Meanwhile, in response to significant recruitment requirements, Naval Group stepped up its presence on forums and held numerous initiatives in the field of cybersecurity.

Lastly, 2017 saw our school relations gain a firmer footing internationally. In January 2017, Naval Group held a ceremony to mark the signature of a memorandum of understanding between four French engineering schools, grouped together as a consortium, and Flinders University in Australia. This memorandum lays the foundation for a variety of Franco-Australian dialogue between academic and university structures, concerning student exchanges and research in particular.

Reflecting the busy commercial context, including the 2016 signature of a contract with Australia, Naval Group's presence in schools translated into significant progress in the employer rankings. In 2017, Naval Group achieved the second-highest progress in the employer classification conducted among engineering schools, putting us in thirty second position.

In the Universum classification of experienced engineers, we also advanced five places to fourteen position.

Finally, in March 2017, Naval Group was named the "favourite company of the French" in the eighth national edition of the Randstad survey, which measures the attractiveness of the 250 largest employers established in France. This award demonstrates growing awareness of the group in the military naval sector and marine energies.

The Naval Campus

In 2017, the Regional Council of Brittany and Naval Group decided to undertake an ambitious initiative aimed at strengthening our training structures, at an inter-regional and, in the future, national scale, bringing together coastal regions and businesses interested in this preservation and in the enhancement of these skills. Called "Naval Campus", the project aims to unite regions, industry participants and training participants to more effectively respond to the needs of the naval sector in the broad sense. The regions of Normandy, Nouvelle-Aquitaine and Pays de la Loire, major industrial groups (STX, Piriou, CMN), the GICAN and regional businesses are being called on to join this initiative. The support of the Union of Metallurgy Industries and Professions (UIMM) and the French Ministries of National Education and Higher Education, Research and Innovation is also requested. The goal is to make the initiative public by the end of the current year.

The initiative's main objectives are as follows:

- strengthen the identity and attractiveness of the naval sector: make the training courses clear in terms of versatility and social promotion;
- unite and govern a training offering suited to the needs of industry participants, the core aim being to adapt to the specific characteristics of the naval sector;
- pool engineering and training courses specific to the industry that can be rolled out in the various employment catchment areas concerned and highlighting the "navalisation" of the traditional industrial training, as part of a training rationale spanning vocational diplomas to engineering qualifications.

The initiatives undertaken through the Skills workshop together with the Ministry for National Education, the GICAN and Naval Group continued, including the naval mechatronics vocational diploma, the navalisation vocational baccalaureate for industrial metal fabrication technicians and the Naval and Maritime Industry Professions (MINM) naval professional licence. These will be integrated into the Naval Campus initiative.

Naval Group's involvement in the company schools network is continuing. The latest meeting was held in Poissy on March 27.

II.5.5. Diversity and equal opportunities

The generation contract

2017 saw the signature of a new generation contract integrated into the strategic jobs and skills management agreement. It incorporates the elements of the previous agreement by adopting a proactive policy regarding the recruitment of young people under the age of 30 and older people over the age of 50, as well as a job-stability component.

The results for the financial year ended on a positive note, with a permanent contract recruitment rate among the under-30s of 40% and 7% among the over-50s.

Meanwhile, the job stability rate stood at 29.4%.

Commitments to young people

Naval Group implemented its policy to foster the employment of youth, with 120 young people recruited on permanent contracts after their study-and-work apprenticeship contract and the provision of support for more than 50 young people experiencing difficulties with occupational integration. Naval Group's promotion policy aimed at schools and universities resulted in over 100 initiatives being conducted. The implementation of initiatives to induct and integrate new recruits and instil intergenerational cooperation was renewed as part of the new strategic jobs and skills management agreement.

Among other factors, this agreement indicated Naval Group's commitment to the integration of young people through the introduction of "vis ma vie" for certain specialities and the implementation of seamanship for professions that involve a long apprenticeship period in a working situation.

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, the new strategic jobs and skills management agreement included a new mechanism to improve retirement gratuities, enabling declarations, forward-planning for retirements and advance management of skills maintenance.

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 1 year before the planned retirement date. A gradual retirement scheme for manual and non-manual staff/technicians and supervisors was also put in place.

Commitments to everyone

Every member of staff is eligible for a career guidance assessment with their manager, providing an opportunity to discuss career development opportunities. Each member of staff can also receive in-house or external advice in order to more effectively identify their professional abilities or skills and to be given help with their career guidance by gaining knowledge of the structures at their disposal in order to achieve their plans.

For staff members who are retraining, support through training can also be provided as required. The local strategic jobs and skills management conferences held each year define the foreseeable developments in job trends. This dialogue provides input for the map construction work.

Talent management

This program, 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, Naval Group 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, Naval Group launched a new leadership development program to prepare its future directors; 40 executives took part in this program in 2017. As an extension of this program, 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 program to gradually enhance managerial skills was launched as part of the Progress Plan. There are several training modules, such as the team manager program and the first managerial responsibility program. Management workshops were held at several entities (2-hour modules based on

the exchange of practices between managers). In 2017, Naval Group set up 360° programs for the executive committees, with anonymous collective feedback designed to provide input for the managerial progress roadmaps on the sites.

Gender equality in the workplace

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 2017, 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 Naval Group taking part in local activities with a view to encouraging people to change careers and start industrial jobs.

Disabilities

In 2016, Naval Group crossed the 6% employment rate barrier, a mandatory threshold for companies. The 2016 rate was 6.27%, with a direct employment rate of 5.44%. The level of recruitments was in line with the 2016 figure, although there was a significant recovery in permanent-contract recruitments following the increase in total recruitment volumes for the company.

Since the beginning of the disability agreement, 56 new permanent-contract and temporary-contract staff have been hosted on Naval Group sites, as well as an equivalent number of individuals on study-and-work apprenticeships. In addition, special attention is paid to internships: 44 trainees took an internship at Naval Group, and some subsequently continued their training on a study-and-work contract.

At Naval Group, there is a particularly strong focus on keeping people with a disability in employment. For Naval Group, 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, over 300 job stability actions have been undertaken.

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 2016, the amount invoiced in dealings with this sector was nearly €3 million.

Nearly 800 employees receive a disability CESU for themselves or their family.

In 2017, Naval Group took part in the Free Handi'se Trophy, an inter-company team-based competition aimed at groups committed to changing the perception of disability.

Negotiations on the next disability agreement began in October 2017. The targeted changes concern five areas:

- keep the employment rate above 6% (for all sites);
- adapt to changes in our policies (recruitment, purchasing, etc.) by reformulating objectives;
- refocus the role of the Disability Mission in steering (and entrust operational conduct to the business line participants);
- more effectively support managers and provide them with the necessary tools;
- become involved in innovative projects.

II.5.6. Human rights⁽⁹⁾

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 [ILO 2006], and the Grenelle 2 Act (article 225) and its 2012 decree. It also meets the criteria of ISO 26000 and the Vigeo standards on corporate social responsibility.

It states and clarifies commitments in the areas of human rights and international labour standards, clarifying their application for each of the stakeholders.

As such, this charter helps to support the group's ambitions in social and societal responsibility at the very highest level.

(9) UN (SDGs)/Global Compact/GRI 4/OECD/ISO 26000/OECD.

III. GRI (GLOBAL REPORTING INITIATIVE) TABLE

In relation to GRI V3 indicators	Naval group 2014	Naval group 2015	Naval Group UES 2016	Naval Group GROUP 2016	Naval Group UES 2017	Naval Group GROUP 2017	GRI V4 reference*	OECD guidelines concerning multinational enterprises	Tripartite declaration of principles concerning multinational enterprises and social policy (ILO), 2006	ISO 26000	SNTEDD** Focal areas and priorities
Economic data											
Revenue (€M)	3,065.9	3,118.7	3,133		3,565		EC 1				
group net income	-336.1	58.4	226.7		85		EC 1				
Environmental data*****	NAVAL GROUP UES	NAVAL GROUP UES						P 6		6.5.3	
Energy consumption											
☑ Electricity consumption (MWh)	122,411	119,639 ⁽⁵⁾⁽⁶⁾	119,812		107,730		EN 3			6.5.4	A2, P2
☑ Fossil energy consumption (natural gas, heating oil) (MWh)	103,341	122,157 ⁽⁵⁾	92,465		104,075		EN 3			6.5.4	A2, P2
Water consumption											
☑ Water consumption (industrial, drinking, etc.) (m ³)	12,225,438	10,079,282 ⁽⁶⁾⁽⁷⁾	950,058		1,988,694		EN 8			6.5.4	
Waste											
☑ Production of NHW*** (t)	3,785	3,472 ⁽⁵⁾⁽⁷⁾	3,405		3,709		EN 22			6.5.3	
☑ Production of HW**** (t)	2,305	1,984 ⁽⁵⁾⁽⁷⁾	1,814		1,875		EN 22			6.5.3	
Ferrous metals		3,030	3,847		3,299						
Atmospheric emissions											
☑ Direct CO ₂ emissions (t)	20,260	25,753 ⁽⁵⁾	17,574		17,832		EN 16			6.5.3	A2, P2
Training											
Number of days of environmental awareness training	313	402	319		0						
Social data	NAVAL GROUP UES	GROUP	NAVAL GROUP UES	GROUP	NAVAL GROUP UES	GROUP		P 5	15.18		
☑ Total number of staff	14,024	13,878	13,431	13,870	13,943	14,515	LA 1				A1, P2
By socioprofessional category											
OE (blue and white collar)	3,774	3,664	3,454	3,624	3,398	3,615	LA 1				
TAM (technicians and supervisors)	4,491	4,476	4,321	4,396	4,452	4,454	LA 1				
IC (engineers and managers)	5,759	5,738	5,656	5,850	6,093	6,346	LA 1				
By age bracket											
Under 25 years	656	680	718	744	814	839	LA 1				
25-29 years	1,178	1,123	1,003	1,077	1,151	1,239	LA 1				
30-34 years	1,585	1,580	1,417	1,512	1,539	1,683	LA 1				
35-39 years	1,993	2,099	2,048	2,126	2,118	2,207	LA 1				
40-44 years	2,003	1,977	1,895	1,955	1,905	1,990	LA 1				
45-49 years	2,517	2,498	2,349	2,384	2,323	2,364	LA 1				

	50-54 years	2,277	2,195	2,211	2,240	2,292	2,338	LA 1						
	55-59 years	1,388	1,365	1,393	1,416	1,384	1,413	LA 1						
	60 years and over	427	361	397	416	417	442	LA 1						
<input checked="" type="checkbox"/>	Female staff as % of total	19.78	19.77	19.63	19.83	19.62	19.98	LA 1						
	Expatriates	183	217	190	190	181	181	LA 1						
	Staff of non-French nationality	15	242	6	267	20	385	LA 1						
<input checked="" type="checkbox"/>	% of female senior executives	10.20	11.26	10.76	10.55	11.7	12	LA 1						
	Average age	42.59	42.82	43.08	42.94	42.27	42.12	LA 1						
<input checked="" type="checkbox"/>	Number of staff with disabilities (TH)	652	637	679	–	715	–	LA 1						
	Employment rate (%)	5.60	5.95	5.95 ⁽¹⁾	–			LA 1						
	Staff with disabilities on permanent contracts	9	4	10	–	19	–	LA 1						
<input checked="" type="checkbox"/>	Absenteeism (%)	4.84 Naval Group SA 0.93 Sirehna	4.82 Naval group SA 1.7 Sirehna	5 Naval Group SA 1.7 Sirehna	–	4.76 Naval Group, 0.86 Sirehna	–	LA 6						
<input checked="" type="checkbox"/>	Number of training hours	413,511	310,106	301,958 ⁽¹⁾	–	322,984		LA 9						
	Average number of training hours per person	29.49	22.8	22.5 ⁽¹⁾	–	23.16		LA 9						
<input checked="" type="checkbox"/>	Continued professional development (as a % of payroll)	4.04	3.2	3.85 ⁽¹⁾	–	4.03%								
	Average monthly remuneration (€)	4,141	4,201	4,255 ⁽³⁾	–	4,240								
	Recruitment, full year	NAVAL GROUP UES	GROUP	NAVAL GROUP UES	GROUP	NAVAL GROUP UES	GROUP							
<input checked="" type="checkbox"/>	Total	930	662	941	1,166	1,564	1,817 ⁽⁸⁾	LA 1						
	Recruits hired on permanent contracts	503	283	524	706	1,117	1,292	LA 1						
	Number of recruits on limited-term contracts given a permanent contract	24	10	12	12	23	25	LA 1						
	Recruits hired on limited-term contracts	77	69	107	140	127	150	LA 1						
	Recruits hired on limited-term contracts, number of which are trainees on combined study-and-work apprenticeships + CIFRE	350	310	313	323	325	327	LA 1						
	Recruits hired on limited-term contracts (including trainees on combined study-and-work apprenticeships + CIFRE*****)	427	379	420	463	452	477	LA 1						

% of whom are on limited-term contracts (including trainees on combined study-and-work apprenticeships)	45.91	57.3	44.6	39.7	28.9	26.7	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	8.1	8.6	LA 1				
% of whom are female	20.60	22.4	20.4	20.4	20.2	22.1	LA 1				
% of whom have disabilities (permanent and limited-term contracts)	2.08	1.4	0.9	1.1	1.7	1.4	LA 1				
% of whom are older staff	3.79	5.7	5.7	9.1	7.8	9.2	LA 1				
% of whom are under 25 (including trainees on combined study-and-work apprenticeships)	36.02	55.7	46.2	39.0	31.5	28.3	LA 1				
% of whom are under 25 (excluding trainees on combined study-and-work apprenticeships)	11.72	28.4	26.0	20.9	17.6	16	LA 1				
Trainees on combined study-and-work apprenticeships at the end of the year	569	536	520	529	558	562					
<input checked="" type="checkbox"/> Departures							LA 1				
Total number of departures	994	1,028	1,117	1,174	1,052	1,172 ⁽⁸⁾	LA 1				
Including redundancies*****	21	24	28	28	30	33	LA 1				
Turnover	7.1%	7.4%	8.3%	8.5%	7.5%	8.1%					
<input checked="" type="checkbox"/> Health, safety and working conditions	NAVAL GROUP UES	NAVAL GROUP 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⁾		6.4		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		0.149		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 group is shown for 2017. Naval Group UES = Naval Group SA + Sirehna. Group = Naval Group 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 Marseille are not given. (7) Details of consumption in Marseille are not given. (8) 48 recruitments and 172 departures counted by including local staff at international subsidiaries.

IV. METHODOLOGY NOTE ON THE REPORTING OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE INDICATORS AT NAVAL GROUP

In accordance with the Grenelle 2 Act, Naval Group 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, Naval Group 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.

Naval Group'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 Naval Group can be viewed on the Naval Group website and is available on the website of the UN Global Compact.

IV.1. REPORTING PROTOCOL

The 2017 reporting protocol is an internal document.

As such, it serves as a guide for internal reporting and as a standard for the external verification in 2017 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 Naval Group's CSR.

The reporting protocol is updated annually to take into account changes concerning reporting developments and CSR indicators.

IV.2. SCOPE

IV.2.1. 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 Naval Group.

Consolidated companies that are dormant or that only serve to hold shares (Armaris Quater, Naval Group Actionnariat, Naval Group Participations, MOPA 2 and Winacelles⁽¹⁰⁾) are not included in this CSR reporting scope.

The companies Naval Group Arabia and Naval Group Technologies Canada, the financial statements of which are not consolidated at a Naval Group level, are part of the CSR reporting scope defined above.

IV.2.2. 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.

IV.2.3. Social scope

The social reporting scope highlights Naval Group UES, comprised of the French establishments and the French subsidiary Sirehna, and the group, which corresponds to the UES unit + foreign subsidiaries in which Naval Group 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.

(10) The dissolution of the company Winacelles is scheduled to take place during 2017.

IV.3. INDICATORS

IV.3.1. Environmental indicators

The following indicators concern all of the French sites without exception.

Energy	<ul style="list-style-type: none"> Electricity consumption Fossil fuel consumption: gas, heating oil, heavy fuel oil, renewable natural gas
Water	<ul style="list-style-type: none"> Consumption of drinking water and river water
Waste	<ul style="list-style-type: none"> Production of non-hazardous waste (NHW) Production of metal waste (ferrous and non-ferrous metals) Production of hazardous waste (HW) Atmospheric emissions Direct CO₂ emissions linked to fossil fuel consumption
Training	<ul style="list-style-type: none"> Number of days of environmental awareness training

IV.3.2. 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 (%) NAVAL GROUP UES

STAFF WITH DISABILITIES

Number of staff with disabilities (TH) Naval Group UES
Employment rate for staff with disabilities (%) Naval group UES
Recruitment of staff with disabilities on permanent contracts Naval Group UES

TRAINING

Number of training hours Naval Group UES
Average number of training hours per person Naval group UES
Continued professional development (as a % of payroll) Naval Group UES
Average monthly remuneration (in euros) Naval Group 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

IV.3.3. Relevance of indicators

The CSR indicators chosen by Naval Group reflect the actions conducted by Naval Group.

The reality and reliability of the actions implemented by Naval Group are the subject of an accuracy opinion issued by an external and independent audit firm.

V. REPORT BY THE INDEPENDENT VERIFIER ON THE CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION STATED IN THE MANAGEMENT REPORT

Year ended December 31, 2017

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 Naval Group, we present our report on the consolidated social, environmental and societal information established for the year ended December 31, 2017 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. 822-11-3 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).

However, it is not our role to give an opinion on compliance with other applicable legal provisions where relevant, particularly those stated in article L. 225-102-4 of the French Commercial Code (vigilance plan) and by Act no. 2016-1691 of December 9, 2016, known as the “Sapin II” Act (fight against corruption).

Our work was conducted by a team of six persons over a period of approximately 6 weeks between November 2017 and February 2018.

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 programs.

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, namely 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 seven 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⁾ :

- at the level of the consolidating 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;

(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, number of hours of training and number of employees trained;
- *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, 2 and 3), 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.

• based on a representative sample of sites that we selected⁽⁴⁾ 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 33% of the energy consumed, 32% of the tap water consumed and 34% 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.

Observation

Without casting doubt on the conclusion above, we would like to draw your attention to the fact that the non-significant anomalies concerning the environmental information identified during our work were not corrected, thereby limiting the accuracy of the data but not altering the orders of magnitude.

Paris-la Défense, February 26, 2018

Independent Verifier

Ernst & Young et Associés

Éric Duvaud

Sustainable Development Partner



Bruno Perrin

Partner



(4) The Lorient, Saint-Tropez and Indret sites.

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