

FINANCIAL REPORT 2018



2018 management report

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2018 MANAGEMENT REPORT

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Board of Directors of February 20, 2019

All amounts are in millions of euros unless otherwise stated.

I. Presentation of Naval Group and its position during the financial year

1.1. PRESENTATION OF NAVAL GROUP

1.1.1. OWNERSHIP AND GOVERNANCE

Naval Group [the “company”] is a *société anonyme* [public limited company] under French law. As at December 31, 2018, 62.25% of its capital was held by the French State, 35% by Thales, and 1.73% by current and former members of staff of the company and its subsidiaries through the Actions Naval Group employee mutual fund [2008 and 2014 Compartments of FCPE Actions Naval Group], the remaining 1.02% being made up of treasury shares held by Naval Group Actionnariat.

During 2018, Naval Group Actionnariat [a 100% subsidiary of the group] purchased 38,938 treasury shares in accordance with the share buyback guarantee granted to staff. Of these, 15,256 shares related to the 2008 Compartment of FCPE Actions Naval Group [the First Reserved Share Offer] and 23,682 to the 2014 Compartment of FCPE Actions Naval Group [the Second Reserved Share Offer].

As at December 31, 2018, the group thus held 571,185 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 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.

The General Meeting of March 15, 2018 authorised the Board of Directors to grant a maximum of 112,098 existing shares of the company free of charge on one or more occasions to employees of the company and companies related to it under the conditions set forth in Article L. 225-197-2 of the French Commercial Code. On February 28, 2018, the Board of Directors decided to allocate a maximum of 37,366 free shares subject to the condition precedent granted to it since then by the General Meeting of March 15, 2018.

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 at December 31, 2018 is organised around an Executive Committee composed of eight members, including the Chairman and Chief Executive Officer. The other members are as follows: Senior Executive Vice President, Finance, Legal, Procurement and Real Estate; Senior Executive Vice President, Development; Executive Vice President, Services; Executive Vice President, Programs; General Secretary; Executive Vice President, Industry and Executive Vice President, Australian Future Submarine program [AFS].

The Executive Vice President, Human Resources, was appointed to be a member of the company’s Executive Committee effective January 1, 2019.

General Management

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.

The Chairman and Chief Executive Officer chair 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.

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. 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.

The French State was represented as a director until October 29, 2018 by:

- Mr Jack Azoulay, who was appointed the State's representative on the company's Board of Directors on September 16, 2016 by decree of the Minister for the Economy and Finance. He resigned from that office on October 29, 2018. The appointment of a new representative by the French State is expected.

The 11 directors appointed by the General Meeting of Shareholders are:

- Mr Hervé Guillou;
- Ms Sophie Mantel, appointed on the recommendation of the French State;
- Ms Sandra Lagumina, appointed on the recommendation of the French State;
- Mr Jacques Hardelay, appointed on the recommendation of the French State;
- Ms Caroline Laurent, co-opted by the Board on May 25, 2018 on the recommendation of the French State to replace Mr Bertrand Le Meur. In accordance with Article L. 225-24 of the French Commercial Code, the ratification of this co-optation will be submitted for the approval of the General Meeting called to approve the financial statements for the year ended December 31, 2018;
- Mr Bernard Rétat, appointed on the recommendation of the French State;
- Mr Patrice Caine, appointed on the recommendation of Thales;
- Ms Nathalie Ravilly, appointed on the recommendation of Thales;
- Mr Pascal Bouchiat, appointed on the recommendation of 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.

Mrs Corinne Suné is the secretary of the Board of Directors. She was appointed in this capacity by a decision of the Board on July 21, 2017.

1.1.2. ACTIVITIES

Naval Group is the European leader in naval defence.

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 offers a broad range of renewable marine energy solutions through its subsidiary Naval Energies.

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: Naval Group is selected by the Australian government for the replacement of its submarine fleet;
- 2018: Naval Group completes the mid-life refit of the aircraft carrier *Charles de Gaulle*.

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;
- Scorpene®-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, amphibious helicopter-carrying vessels in the Mistral class, the Gowind® range, 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.

1.1.3. 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;
- actively lead improvements in performance and efficiency;
- lay the ground for the group's future by actively focusing strategy and pursuing partnerships and innovation.

1.2. POSITION OF THE GROUP DURING 2018

1.2.1. EXAMINATION OF THE FINANCIAL STATEMENTS AND HIGHLIGHTS OF THE PERIOD

The consolidated financial statements for Naval Group presented here for the year ended December 31, 2018 were adopted by the Board of Directors on February 20, 2019 and will be submitted for approval to the General Meeting of Shareholders to be held in March 2019.

The financial year 2018 was chiefly marked by the following major events:

- the French Ministry of Defence awarded Naval Group the order for the *Rubis*, the fifth Barracuda-class submarine, the order for the periodic maintenance and repair of the *Le Terrible* ballistic nuclear submarine, and the order for in-service support of multi-mission frigates during the period 2019-2022;

- on 18 December, Naval Group finalised the sale of the Gassin site, leading to the recognition of a capital gain for the 2018 financial year;
- margins to completion of naval defence programs have remained steady or have improved by comparison with the previous year.

Naval Energies, in which Naval Group has a majority stake, decided to cease investing in tidal turbines, which led to OpenHydro and some of its subsidiaries being placed in liquidation. The financial impact of this loss of control was recognised for the 2018 financial year.

1.2.2. NAVAL GROUP RESULTS AND FINANCIAL POSITION

Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

Revenue

The group's revenue for 2018 was €3.6 billion, a rise of 13.0% compared with 2017.

International revenue made up 30.5% of the total.

Backlog

Orders with a value of €3.7 billion were received during the course of the year. The book-to-bill ratio was 1.02.

As at December 31, 2018, the group's order book stood at €13.8 billion. Its provisional execution schedule is as follows: 23% in 2019, 20% in 2020, 16% in 2021, 17% in 2022 and 24% thereafter.

Income

An operating profit of €291.0 million (8.1% of revenue) before amortisation of intangible assets acquired in business combinations was recorded for the year, as compared with €168.4 million (5.3% of revenue) in 2017. Operating profit after net income from equity affiliates was €254.0 million, as compared with €91.2 million in 2017.

Net financial income was €0.4 million, as compared with €8.9 million in 2017.

The consolidated tax charge was €90.8 million.

The current tax is €65.4 million.

The variation in the deferred tax charge of (€25.4) million includes a €16.2 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 €7.6 million, corresponding to anticipation of the lowering of the current tax rate on the entire amount of the group's deferred tax inventory).

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

The net profit for the period was consequently €163.6 million.

Financial position and changes in net cash

	12/31/2018	12/31/2017
Non-current investment securities	251.9	92.0
Current investment securities	144.2	231.0
Net cash	1,976.4	2,475.2
TOTAL	2,372.5	2,798.2

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.

1.2.3. NAVAL GROUP ACTIVITIES

Industrial and commercial activity

Naval Group is the European leader in naval defence. With its expert workforce and exceptional industrial resources, Naval Group designs, builds and provides maintenance for naval defence systems. To meet the needs of its international clients, Naval Group establishes strategic partnerships. Accordingly, the group creates long-term local industrial partnerships for all of its programs and assists its clients with their technological development. Naval Group effects transfers of technology for latest-generation products and its staff work on next-generation products for the future.

Industrial business

2018 was the third year of operation of the new Industry Division. At the end of 2017, 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 were announced and implemented in the first half of 2018.

During the year, the Industry Division has striven to continue the progress begun in previous years in every key area:

- 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, and in 2018, program packages were also strengthened. The implementation of the production master plan (PDP) is now a reality at all sites. The roll-out of computer-assisted production management at all sites will enhance the quality of execution of the plan;

- 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); the Lorient site is the first Naval Group site to benefit from the new computer-assisted production management, and the intermediate-sized frigate [FTI] program is the first program developed on the new life cycle tool;
- 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 is ongoing, with construction in progress on the Innovation and Development Centre, the finalising of plans and the launch of work for the first dedicated workshops and purchase of the first pieces of machinery. The plan to transform the Hull Structure workshop in Cherbourg ("Legris") is in progress. A lean 6 sigma action was deployed at the Flat Panels shed in Lorient. An initial 3D production workshop will be commissioned in 2019 and produce a first propeller with the wire deposition process.

The Capability Maturity Model Integration [CMMI] project has enabled Naval Group to continue and sustain the momentum of transformation in program management practices. 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], which is already CMMI Level 2 certified, continued to prepare for its Level 3 certification in 2018.

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, proceeded in a satisfactory manner. Improvements in the quality of financial forecasts will continue in 2019, thanks in particular to supply chain control actions.

The encouraging signs observed in 2017 have been confirmed: the monitoring and forecasting of capacity use have been improved, the necessary recruitments are being made (in Cherbourg and for systems activity in particular), manufacturing budgets are under greater control and costs and targets on the main programs have generally been met or improved upon. Security actions for the Barracuda program continued in 2018 with the creation in Cherbourg of an integrated Naval Group/TechnicAtome industrial platform.

Programs business

Submarines

Commercial activity was marked by the entry into force of significant amendments to the Barracuda program, namely:

- the treatment of obsolescence for Submarines 4 to 6, an additional logistical component and the order of the fifth

submarine [Addendum 17, notified May 31, 2018]. In line with the 2019-2025 planning bill, the French National Defence Procurement Agency [DGA] maintained the format of nuclear attack submarines at six vessels, and the ordering of Submarine 6 is still scheduled for mid-2019;

- the completion of modifications to the combat system, additional safety studies and services, Submarine 3 engine system tests and the treatment of technical developments [Addendum 18, notified December 14, 2018].

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

Barracuda submarines

In Cherbourg, four submarines [*Suffren*, *Duguay-Trouin*, *Tourville* and *De Grasse*] are in different stages of production:

- 2018 marked the creation of the integrated TechnicAtome/Naval Group team for the completion of the *Suffren* (Submarine 1). The commissioning and testing of *Suffren* installations occupied the teams for a good part of the year and will end in early 2019;
- at the same time, for the *Duguay-Trouin* (Submarine 2), several large modules were shipped and integration will continue in 2019;
- as for the *Tourville* (Submarine 3), hull work continues and the year was marked by increased hull equipment activity over all sectors.

In Nantes-Indret, which is in charge of making the steam supply modules and propulsion equipment that will equip the submarines, 2018 was marked by continued onsite manufacturing, at various stages, of numbers 3, 4, 5 and 6 in the series, as well as the completion of 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:

- 2018 was marked by the December 14, 2018 launch of the *Riachuelo*, the first of a series of four *Scorpène*® submarines made in Brazil. The ceremony took place at the Itaguaí naval base near Rio de Janeiro in the presence of the President of the Federative Republic of Brazil and the new President-elect;
- the assembly and integration of the other three SBR submarines continued throughout the year at ICN, a joint venture in charge of submarine construction in Brazil;
- at the end of a year of relentless mobilisation, the acceptance on the integration platform of version 3.1 of the combat system was announced on November 28, 2018 by the Brazilian Navy.

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

- following the completion of the design phase in early 2017, Naval Group continued its technical assistance to the Brazilian Navy. In addition to this assistance, discussions were held with the client for a gradual launch of the next phases.

Scorpène® P75 submarines for the Indian Navy

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

The second submarine, the *Khanderi*, completed over 80% of the in-dock and sea trials in 2018 and is expected to be delivered to the Indian Navy in the first quarter of 2019.

The launch ceremony for the third submarine of the series was held on January 31, 2018 in India at the Indian shipyard MDL.

3G Ballistic Nuclear Submarine Program

Detailed design studies for the third-generation ballistic nuclear submarine are in progress, under a co-contracting agreement with TechnicAtome. 2018 was marked by the completion of interim review no. 1 with the client in April and preparation for interim review no. 2 during the last quarter of 2018.

Technological research to reinforce the program's innovations that began several years ago also continues and has been supplemented by a new contract for the development of a turbo generator demonstration prototype.

Simultaneously with this research, Program Management is compiling a technical and commercial proposal for the development and implementation phase, with the objective of submitting an initial tender to the French National Defence Procurement Agency (DGA) in the first half of 2019.

Australian Future Submarine (AFS)

2018 was marked by major advances for this large-scale program, which include the satisfactory completion of submarine feasibility studies. This phase will be followed in early 2019 by another finalisation of the sizing of the vessel to establish the stabilised reference for the definition studies.

In the spring, Naval Group hosted the first seven Australian engineers from Naval Group Australia at the Cherbourg site for several months of additional training in submarine design. They then joined the program teams, where they will hold a position for several years before returning to Australia. Naval Group Australia continued to grow, reaching a workforce of 100 employees at the end of 2018.

As regards the Submarine Design Contract, a new version of the tender was launched in the fourth quarter of 2018 that took into account the client's comments and the extension of the initial contract's framework (Design and Mobilisation Contract - DMC). Accordingly, the Submarine Design Contract will cover

the aforementioned definition studies and the Basic Design until 2023.

An active search for Australian industrial companies capable of providing equipment and materials to build high-performance ocean-going submarines continued in 2018 with the launch of pre-qualification phases for a number of Australian suppliers. At the same time, negotiations with the top five largest on-board equipment suppliers to finalise the terms of the respective contracts and launch preliminary studies made significant advances, which may result in signatures in early 2019.

The studies of the shipyard where the industrialisation, supply chain and construction of the 12 submarines in Australia will take place reached the 30% maturity threshold and were delivered to the client in late July 2018. At the same time, a cost reduction campaign was launched whose main drivers are the optimisation of surfaces (production and support function) and the automation of industrial production tools.

In 2018, Naval Group and the Commonwealth of Australia (CoA) also came to an agreement on all of the open points regarding the Strategic Partnership Agreement (SPA), the framework agreement for the program, which was signed in early February 2019.

Finally, by a decision of the Commonwealth of Australia, the future Australian submarine is now called the "Attack Class Submarine", the definitive name for this series of new regionally superior submarines.

Surface vessel business

Sales highlights were:

- the notification of Addenda 18 and 19 to the FREMM France program, which provide for significant changes to the combat and communication systems and stronger naval cooperative monitoring capabilities;
- the signature in June 2018 of a contract with the Argentine Republic for the delivery of four OPV range patrol vessels. These vessels will be built in Lorient and at nearby sites by the manufacturers Naval Group and Kership, a company jointly owned by Naval Group and Piriou. The loan agreement was signed on November 29, 2018.

Operational activity has been maintained and is marked in particular by the following:

FREMM OCCAR

The progress of the program is in line with the schedule for completion. The FREMM *Bretagne* was delivered in July 2018 to the French Navy (the FREMM *Bretagne* is the fifth multi-mission frigate delivered to the French Navy and the seventh unit built by Naval Group). The FREMM *Normandie* was launched in February 2018, and delivery is scheduled for July 2019. In addition, in 2018, work continued on the FREMM *Alsace* and the first sheet metal was cut for the FREMM *Lorraine* in May. These two frigates, which are the last in the series, are equipped with reinforced anti-aircraft capabilities, and delivery is planned for 2021 and 2022 respectively.

Intermediate-sized frigate (FTI) program

The first tranche of the intermediate-sized frigate framework agreement entered into force on April 20, 2017; it provides for the development, production and delivery to the French Navy in 2023 of the first of these five top-tier digital frigates in the 4,000-tonne class.

In 2018, the program continued the general design studies and entered into most of the major supply agreements for the platform and combat system, as planned, with the actual start of hull and shipyard work scheduled for late 2019.

Work started on the preparation of the Saint-Mandrier combat system test platform so that, starting in 2019, the necessary elements of the new Sea Fire fixed-panel radar developed by Thales during the FTI program can be incorporated. This platform will also incorporate the Combat Management System, the first version of which is currently in production and will be tested by Naval Group teams starting in 2019.

Gowind® Egypt

The launch of the *Port-Said* ENS corvette took place on September 6, 2018. This is the second unit of the program and the first Gowind® built in Egypt for the Egyptian Navy. The Naval Group teams present in the country were able to provide their technical expertise, thus demonstrating our effectiveness in supporting our client.

Work continued on the other two corvettes under construction in Alexandria.

Gowind® Malaysia

Even though all six Gowind® Malaysia vessels are built by the Boustead Naval Shipyard (BNS) in Malaysia under the design authority of Naval Group, their Combat Management System (CMS) is entirely built by the teams in the Mission and Combat Systems Division (MCS) at the Ollioules and Bagneux Naval Group sites. The factory acceptance process for the CMS, a key stage in its development, took place in Ollioules over a three-week period and ended with its unconditional acceptance by the client in July 2018.

The detailed relocation studies under Naval Group's responsibility were completed at the end of October.

Shipbuilding by Boustead Naval Shipyard continues at the Lumut shipyard in Malaysia, with technical assistance from Naval Group.

Services business

In 2018, commercial activity was marked by:

- in France, the signing of the supply contract for parts and equipment with occasional long periodic maintenance and repair periods (IPER) for *Le Terrible* and *Le Triomphant* ballistic nuclear submarines and for the completion of the IPER for *Le Terrible* through the renewal of the in-service support contract (ISS) for the FREMM frigates for the next five years, the ISS and the

modernisation contract for mine hunters and the notification of SNA amendments that incorporate the extension of the life of the Rubis-type nuclear attack submarines;

- internationally, the ordering of the Indian Scorpène® platform system spare parts and the signing of an agreement with the Egyptian Navy that will result in 2019 in a five-year ISS for ships supplied to Egypt by Naval Group.

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

In France, this included:

- the aircraft carrier *Charles de Gaulle* leaving dock, marking the end of the refit and in-service support phase in connection with the vessel's mid-life redesign;
- continued adaptation of the infrastructure to accommodate Barracuda-type nuclear attack submarines in Toulon (Missiessy area), as well as related training and skills upgrades;
- continuation of the IPER refit contract for ballistic nuclear submarines with *Le Téméraire* to adapt the vessel to carry M51 missiles and transfer to Île Longue;
- end of the technical overhaul of the nuclear attack submarine *Rubis*, the first of the series of the same name. This year, the *Rubis* celebrated its 35th anniversary of admission to active service. This major technical overhaul allows it to remain operational;
- launch with *Le Tonnant* in Cherbourg of the decommissioning of the hulls of five first-generation ballistic nuclear submarines;
- continuity of FREMM maintenance activities, with the completion in 2018 of the first digital technical overhaul on the *Aquitaine*;
- performance of various overhauls as part of in-service support contracts.

Internationally, this included:

- in Malaysia, IPER release of the submarine *KD Tunku Abdul Rahman*, the first of two Scorpène® submarines delivered in 2009, and start of IPER for the submarine *KD Tun Razak* at the Kota Kinabalu base;
- in Saudi Arabia, the year was marked by high levels of maintenance and renovation in the context of the execution of the LEX (Life Extension of the Sawari 1 frigates) and E-RAV (renovation of the Sawari 2 frigates) contracts, with the latter ending in 2018;
- in Morocco, the technical overhaul of the Moroccan FREMM *Mohammed VI* ended with 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*;
- finally in Singapore, the ramp up of central purchasing activity for the group.

In addition, the Services Division teams are continuing the effort to digitise all of their activities, with the launch of Digital Integrated Support Operational Centres in the forward bases (currently in Toulon, Brest and Alexandria, Egypt) the development of digital industrial files that can be consulted and filled out during construction using tablets, the development of digital models for the Barracuda and FREMM "Ship Inside" training, the development of predictive maintenance algorithms, the modernisation of production workshops with the introduction of additive manufacturing processes, and finally the development of training simulators for crews and maintenance teams.

Naval Energies business

With its three partners, Bpifrance, TechnipFMC and BNP Paribas Développement, Naval Group is pursuing growth in the marine renewable energy sector through its subsidiary, Naval Energies. This subsidiary benefits from the historical know-how of its partners, especially as regards knowledge of particularly demanding marine environments.

Ongoing R&D efforts, the presence of the group alongside the energy company Enel in the Chilean research centre Energia Marina, and the benefit of considerable feedback from the various projects have helped us to verify core technologies and choose between the various technologies selected. To date, despite significant advances and technological breakthroughs in hydrokinetic power, it has not been able to demonstrate the existence of a commercial market, without massive and long-term support from French and foreign public authorities. This governmental commitment has not been obtained. In this context, the termination of all investment in this product line was decided during 2018, resulting in the liquidation of the OpenHydro group. Furthermore, Naval Energies' development is now based on two marine renewable energy technologies:

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

In the floating wind sector, the group is continuing the Groix Belle-Île demonstration farm project for Eolfi and signed an interim services agreement in 2018. Discussions have been held about potential projects outside Metropolitan France.

Regarding the ocean thermal energy sector, Naval Energies is concentrating its efforts on finalising the design of the heat exchangers (central electricity generation system) through its onshore prototype on Reunion Island while continuing its commercial actions with developers for large-scale projects to develop deep-sea water that combine the production of electrical energy and of co-products such as air conditioning, drinking water or aquaculture.

In addition, Naval Energies and Naval Group contributed to the development and deployment of a submerged data centre for Microsoft.

In the 2018 financial year, the group continued to improve its management, organization, internal control and governance processes. In particular, the group reorganised itself according to selected activities. From an industrial standpoint, Naval Energies Group is developing partnerships with the main players in these markets.

In the context of the recent multiannual energy program, the French public authorities have reiterated their determination to promote renewable energies, without losing sight of the relevance of the economic equation of each sector. The objective is to double their share and reach 40% in 2030. Offshore wind energy is an integral part of the system. In the current proposal, the first commercial farm tender for floating wind turbines would be launched in 2021 in Brittany. A second would follow in 2022 in the Mediterranean. The multiannual energy program then provides for larger-scale tenders of 500 MW in the following years.

1.2.4. RESEARCH AND DEVELOPMENT ACTIVITY (R&D)

In 2018, research and development (R&D) activity was structured and conducted to address the following challenges:

- accelerating the arrival of product innovations;
- better preparing for the future;
- increasing R&D funding.

Accelerating the arrival of product innovations

Even though work on the R&D roadmaps for the 2019 strategic plan (see "Strategic plan" in Section 1.2.4.) has given further depth to this approach, 2018 R&D work was conducted to propose innovations that are applicable:

- to future ships and ships in service (incremental innovations);
- in the short, medium or longer term consistent with the needs of product lines and programs.

Naval Group's 2018 R&D work in surface vessels focused on:

- proposing capacity increments for ships in service;
- responding to the needs of:
 - the mid-size frigate range (FTI/Belharra®), a vessel designed to meet the needs of the French Navy and capture the best position on the export market in its displacement range (4,000 tonnes),

- the Gowind® range, in particular the Gowind® 2500 reference vessel, which capitalises on the experience of the Egypt program in progress to further improve the competitiveness and attractiveness of the reference product and place it at the centre of the market;
- conducting the “Gowind® by 2023” integrated project, which structures the reflection process for the innovations that aim to significantly reduce the design and completion costs and turnaround times for surface ships;
- imagining the future of surface vessels, as demonstrated by the presentation to Euronaval of a “configurator” that makes it possible to directly propose to customers the concept ship best adapted to their needs.

R&D on surface vessels involved the following major topics:

- the Gowind® Setis-C® combat system;
- the bridge of the future, which incorporates 360° vision and augmented reality;
- the Operations Centre of the future, more specifically the exploration of next-generation human-machine interfaces and algorithms, including tactical tables, virtual assistants, voice and gesture recognition, 3D and so on;
- the combat management system: multi-platform situational awareness and tactical situation intelligence and image-based detection/classification;
- shipboard hyperconnectivity (4G LTE communications) and comprehensive data management within an air-sea force;
- the data centre and the naval data lake (Service and Data Management System/onboard IT infrastructure);
- spatial and temporal management of the electromagnetic spectrum;
- resources to fight against asymmetric threats;
- the Cold Launcher missile vertical launch module that may round out the Sylver® launchers range;
- the gearbox range derived from the gearbox on intermediate-sized frigates.

In submarines, Naval Group’s 2018 R&D focused on:

- proposing capacity increments for ships in service and the Barracuda series;
- responding to the needs of third-generation ballistic nuclear submarines and future Australian submarines;
- conducting preliminary work on the Black Sword Barracuda® product line, which features the best of the Scorpène® programs and incorporates the technological increments most highly anticipated by the market for the conventional ocean-going submarine segment;

- imagining the future of submarines, as demonstrated by the presentation to Euronaval of the SMX® 31 concept ship.

Developments involved the following core technologies:

- Air Independent Propulsion: continuation of tests on an anaerobic module that combines diesel reformation and second-generation hydrogen fuel cells (first “patrol” of the stack carried out on the bench in September) and development of the first increments to further enhance performance;
- lithium-ion batteries: further development of a main lithium-ion battery system to secure subsequent phases of industrialisation;
- combat system:
 - continuation of the Subtics® combat system integrated project, incremental submarine combat system demonstration prototype enriched with cross-functionalities (cyber, submarine facilities operation, X-shaped helm steering, operation with reduced crew, onboard IT infrastructure, etc.);
 - integration of the Smart Tactic Table with the SSBN 2G training platform;
- steering gear: electronic safety system for the X-shaped steering gear, electric actuators, submarine navigation and steering system suitable for confined water operations (Shallow Water Navigation System for Submarines project);
- use of weapons: modular weapon handling, X pulse launch system;
- standardised masts and high-flow fresh air tube.

Finally, with respect to cross-functional technologies, the following activities in 2018 deserve to be highlighted:

- work on cybersecurity in several projects (Cybersecurity Framework and cyberdefence of technical information): completion of a data insertion point prototype, completion of a rack security unit demonstration prototype, demonstration of cyberdefence of information during Naval Innovation Days;
- work on onboard IT infrastructure and design studies for its shipboard integration;
- i-maintenance work, including the creation of proofs of concept and demonstration prototypes;
- development of an artificial intelligence roadmap, which was presented to the DGA, and initiation of contact with potential partners (National Office for Aerospace Studies and Research (ONERA), National Institute for Computer Science and Automation Research (INRIA), National School of Advanced Engineering (ENSTA), Paris Tech, etc.);
- continued development of additive manufacturing tools and processes for the production of innovative thrusters (hollow blades, optimised profiles, etc.) as part of the European RAMSSES project and the FRAPAN upstream research program (R&D sold);

- completion and sea trial of a composite thruster on a surface vessel (RAPID Fabheli project);
- development of core technologies for drones (navigation and decision-making autonomy, docking and handling systems, mission system, etc.), risk reduction for a tactical Unmanned Aerial Vehicle (UAV) system on board a combat ship (aeronautical drone system risk reduction study for the French Navy, SDAMT – R&D sold), launch of an Unmanned Underwater Vehicle (UUV) integrated project;
- development of the 3D Ship Inside training simulator, which implements the best state-of-the-art virtual reality technologies, and simulator demonstration at Naval Innovation Days and Euronaval 2018;
- technological developments [qualification of 1,000 V devices, development of pre-dimensioning tools for continuous tables, development of new 3-level converters] designed to reduce energy losses on submarines and surface vessels;
- development of solutions to improve productivity and occupational health and safety (OH&S) 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 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);
- in energy, 2018 saw the continuation of the pre-studies for the Small and Modular Reactor (terrestrial version), which began in 2017 in partnership with EDF (lead institution), TechnicAtome and the French Atomic Energy Commission as part of a project funded by the French National Research Agency (ANR).

Preparing for the future right

Strategic plan

From a strategic standpoint, R&D programming over the medium term has been the subject of intense reflection, discussion, prioritisation and arbitration.

In the 2018 version of the strategic plan, six guiding principles were introduced: Smart Ship, Smart Naval Force, Smart Energy, Smart Availability, Invulnerable Ship and Smart Industry.

These principles are intended to give coherence to the group's R&D and enable easier communication of our priority themes and the reasons for them.

Their interest is twofold:

- give a 30-year vision of the guiding principles, taking into account the short term through product lines and programs, the medium term [preparation for the future, new threats, new

uses, etc.] and the long term [forward-looking plan, science and technology S&T, long-term development innovation]. This vision is resolutely client-oriented and identifies the capacity needs to be offered in different increments to given programmatic targets. For France in particular, these guiding principles satisfy the Navy's three priority missions;

- express to the people responsible for technological guidelines the core technologies needed to be able to provide the new capacities identified in the roadmap for the guiding principle. These core technologies are expressed by a scope and ramping-up dates for the technology readiness level (TRL).

Consistency between product line and program needs and the maturing of technologies through R&D is ensured through different steering bodies to maintain synchronisation between research and needs, in terms of both scheduling and technical scope [functionality and performance].

Outlook

Outlook activity was created and developed in 2017, then integrated with monitoring and technology analysis activity in 2018.

This outlook effort led to the publication of the first Naval Group outlook plan, which was released in November 2018. Its implementation mobilised many of the group's employees and enjoyed the strong support of the Naval Group Scientific Advisory Board. This plan establishes a vision of the world by 2050 based on an analysis of key macro-trends in environment, demography, economics, governance, society, and S&T. On this basis, a vision of the future of defence [naval defence in particular] is offered. This plan is one of the elements that makes it possible to structure and prioritise S&T work and the group's R&D strategy.

The Naval Group Scientific Advisory Board held two plenary sessions, the first in June in Ollioules and the second in November at Naval Group headquarters. These meetings provided status updates on the five working groups led by Board members and set priorities for 2019.

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

During 2018, the Technological Innovation and Expertise Department initiated the development of a digital tool for coordinating R&D and foresight studies [the Connect'us tool] that will make it possible to:

- jointly build and share the R&D plan with stakeholders (Technical Development Director, Business Sector Manager, R&D project manager, R&D coordinators, product line marketing, Purchasing Director and architects);
- ensure consistency with program and product line needs;
- steer its execution;
- ensure continuity and consistency between the prospective reflections, S&T work and R&D work included in the plan.

The digital transformation introduced by this new tool aims to decompartmentalise and share information with stakeholders and ultimately free up time for openness and reflection over the long term.

The commissioning of the first functionalities of this new tool will take place in February 2019 within the R&D teams.

Open innovation and Naval Innovation Hub

In less than 10 years, the group's environment has changed radically, at an accelerated pace, driven in particular by multiple developments in innovation.

The group's innovation strategy has two major objectives: accelerating innovation and provoking disruption.

Achievement of both of these objectives depends on four guiding principles: culture and skills, user centricity, outlook and open innovation. The execution of this strategy will be carried out in accordance with three principles: experimentation, simplicity and speed.

Accelerating innovation is a crucial challenge for meeting the operational needs of our navy clients, staying ahead of the competition and dealing with threats.

The success of this strategy is based on the development of a number of new resources and tools that are needed to achieve the objectives set.

Regarding open innovation, many B2B events were organised in 2018 by the group (Naval Innovation Partners, Start We Up) with regional incubators, startups and clusters, our in-house suppliers and by external organisations such as DGA and Village By CA. These events put group experts in contact with all of the creative actors in the value chain of the products and services developed by Naval Group. In addition, conceptualising activities are being strengthened within the group (incubation, wiki ideas, ideas contests, etc.)

Naval Group launched the Naval Innovation Hub on October 1, 2018.

Its mission is to initiate and support the group's disruptive innovation projects.

Its ambition is to create the future of naval defence by linking creative potential with the ability to concretely deliver innovative solutions, products and services.

The Naval Innovation Hub consists of a dedicated multidisciplinary core team immersed in a highly entrepreneurial environment

external to Naval Group (currently headquartered at Paris's Village by CA). In close interaction with the innovation ecosystem and with full autonomy from the topics it handles, it aims to initiate, support and accelerate disruptive innovation projects by maximising their value for the group's internal or external clients.

It strives to strengthen interactions between all stakeholders in innovation, mobilising not only "professionals" (R&D researchers and collaborators, partners) but also everyone within Naval Group who can contribute ideas and wants to get involved in the development of new products, services or processes. For this reason, the Naval Innovation Hub is a creator of bridges. It is both a researcher, to facilitate the identification of innovative approaches, and a point of entry for support and expertise to assist teams in their innovation developments with the support of the actors in the group's innovation ecosystem. It is also a network of sharing between all the of group's employees that puts tools, methods and coaching at their disposal.

This will make it a vector for spreading the group's cultural transformation in the field of innovation by developing curiosity and the right to make mistakes while maintaining client desirability and openness to the external ecosystem. It will also be a factor in the development of intrapreneurialism within the group.

Increasing R&D funding

The percentage of R&D expenditures self-financed by Naval Group for naval defence included in R&D expenses amounted to €82.5 million in 2018, less than 2.5% of total revenue.

Although it has been steadily increasing since 2015 (budget of €73 million in 2017), this self-financed R&D budget remains insufficient to meet all of the group's ambitions for innovation. This is why the search for additional external R&D funding (contracts or subsidies) is a priority for Naval Group.

As in previous years, in 2018, a small portion of this additional funding came from early-stage study plans funded by the French National Defence Procurement Agency (DGA) (about €1.6 million) or subsidised/collaborative programs (around €6 million) and most of it from investments in programs.

In 2018, Naval Group obtained less than 2.5% of upstream studies overseen by the DGA. However, many topics become extremely cross-functional in all areas, such as cybersecurity, communications and, more generally, all developments caused by the digitisation of defence systems. A larger amount should therefore be available in the coming years and Naval Group is organising to capture it.

In 2018, to increase R&D funding, the DIT has already strengthened its commercial and business development activities in France (regions, DGA, etc.) and in European civilian and military. With the DGA, DIT teams have prepared and negotiated several early-stage study plans (PEAs):

- PEA Americo, signed in December 2018: updates to submarine hull design models, integration of feedback, consideration of new design configurations;
- PEA STARCT, signed in December 2018: development of functional materials;
- PEA Incola, 2019 order intakes: updates to submarine line design models, integration of feedback, consideration of new design configurations.

For subsidised R&D, activity was also significantly strengthened by the preparation of several tenders in line with the group's strategic capture plan and the obtaining of contracts with direct or indirect benefits for the group's products, in particular the AGESCIC, ICARE (RAPID), SRA and STARCOM projects. Activity has expanded towards Europe in particular, in the context of both civilian (H2020) and military programs (in preparation for the preparatory defence programs for the European Defence Fund).

Lastly, oversight of the research tax credit (CIR) was strengthened in 2018. The CIR is therefore significantly higher than in 2017 and exceeds €20 million.

Naval Group's Technology Research Centre: Research

In the Innovation and Technical Expertise Division (DIT), Research is tasked with the group's science and technology (S&T) activities. In January 2018, the governance of the Research and Sirehna entities was separated, and each one now has its own governance. In addition, Research made adjustments to its structure to improve the management of its activities. In 2018, Research continued to increase its expertise in the field of energy (especially lithium-ion batteries). Initial results are already visible and efforts continue. Thus, the amounts of sold or subsidised S&T contracts are increasing.

Research is also examining new business models to better leverage its two-part S&T activity in the value chain in the future. More specifically, it is necessary to enhance the capacity increments made in the naval field in short-cycle technologies (algorithms, for example) given the long cycles of ship development. Better working with subsidiaries in this area is a necessity.

One of the highlights of the group's S&T development mission was the organising of last October's Science and Technology Day, which brought together the group's scientific communities to strengthen the cross-functional nature of internal work and discuss breakthrough innovations in all nine of the group's S&T themes (global digital models, humans and systems, digital

systems, data processing, energy, ecodesign and environmental protection, materials and structures, wave-matter interaction, fluid mechanics).

This initiative was supplemented by an external Innovation Partners Day, whose purpose was to communicate our S&T roadmaps and state-of-the-art research work for naval defence. Finally, the consultation group on naval materials also consulted with the DGA to continue discussions on the materials and structures roadmaps. This meeting with the DGA turned out to be invaluable, and Research intends to gradually extend it to all research themes. As a showcase for the group's S&T, Research has contributed to numerous scientific and technical communication actions (visits to its laboratories, conferences, publications, in France and internationally).

Research is the preferred structure for strengthening S&T ties, both in France and abroad, through partnerships, joint laboratories, joint R&D, etc. The international perspective is discussed in a paragraph below. In France, in 2018, two new joint laboratories were created: LC2IA/ENSTA Paris Tech and LTISM/University of Toulon; Two chairs were renewed: ISC Chair, RESOH Chair; 20 dissertations are in progress.

International development

In 2018, Naval Group confirmed its three R&D internationalisation objectives: work with the best (open innovation), develop its subsidiaries by recovering R&D funding, and create links with the countries of future Naval Group prospective clients. A 2018 strategic plan is also dedicated to the internationalisation of R&D and will lead to an increased number of internationalisation actions already undertaken starting in 2019.

Naval Group has been very active this year in the Netherlands and Belgium to support scientific responses to submarine tenders and mine warfare.

In 2018, the agreements established with several Australian universities were confirmed and reinforced through existing links with our French academic partners. In addition, Naval Group supported the establishment of a joint ENSTA Bretagne-University of Adelaide masters in military naval architecture, which started in September in Brest. For 2019, the creation of a technocampus in Australia, in which Naval Group will participate by establishing a research office, is being proposed.

Special efforts were made for Singapore in 2018 and will be continued.

Naval Group also continued its preparatory work under the cooperation agreement signed in 2015 in Saudi Arabia with King Abdulaziz City for Science and Technology (KACST) for the creation of a collaborative centre for naval and maritime research. Naval Group's support will focus primarily on the topic of "corrosion", and the topic of "underwater robotics" will also be supported.

In addition, Naval Group has signed a letter of intent for collaboration with the Indian Institute of Technology in Goa (IIT Goa). The priority topic is non-destructive testing.

Finally, a reflective process was launched at the end of 2018 on the future of the Marine Energy Research and Innovation Centre (MERIC) and a possible agreement with SISDEF to develop naval R&D in Chile.

1.2.5. SUBSIDIARIES AND JOINT VENTURES

Subsidiaries

Activities and results of subsidiaries and associates

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.

Armaris Sixt

Armaris Sixt holds an interest in the Egyptian subsidiary Alexandria Naval for Maintenance and Industry [1 share].

Naval Group Actionnariat

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

Naval Group Participations (formerly DCNS Participations)

Naval Group Participations is a holding company. It holds interests in several Naval Group companies created abroad: Naval Group Technology Canada Inc. [100%], DCNS Arabia [90%], Alexandria Naval for Maintenance and Industry [99.99%], DCNS Zamil [55%] and Naval Group Malaysia Sdn Bhd [insignificant].

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

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

Naval Group India Pte Ltd (formerly DCNS India Pte Ltd)

Naval Group 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 venture 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 2018.

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 originally created to be a contractor for the French aircraft carrier No. 2 program. The company has no business activity.

Sirehna

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

Naval Group Coopération

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

Naval Group Support (formerly 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 was the design, development and readying for series production of offshore wind turbines. The company's name was deleted from the register of the Lorient Commercial Court on April 4, 2018.

Kership (45% holding)

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

Naval Group 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 [59.87% holding]

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 two MRE technological fields: floating wind turbines and ocean thermal energy conversion.

Naval Group BR Sistemas de Defesa 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. Its operations have been suspended.

Naval Group 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]

DCNS Zamil is a joint venture created in December 2017 with Zamil Offshore Services company and its primary purpose is to perform maintenance on the military vessels of the Saudi Navy's fleet.

Principia [33.33%]

The purpose of Principia is to perform works, conduct research, give scientific and technical advice and generally perform all engineering activities required to support project owners, contractors and operators on high-tech industrial facilities through to its expertise in the mechanical and thermal fields.

TechnicAtome [20.32%]

TechnicAtome specialises in design, construction, commissioning and in-service support for compact nuclear reactors.

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, 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.

Alliances

STX France – Chantiers de l'Atlantique ["CdA"]

The shares of STX France shares (now known as Chantiers de l'Atlantique) held by the French State vested on July 11, 2018. The French State immediately sold 1.6% of the share capital to COFIPME, a group of companies in the Saint-Nazaire region, and 2.4% of the share capital to CdA so that the company could sell them to FCPE Atlantique Actionnariat (employee share ownership plan).

On August 1, 2018, Naval Group acquired 11.7% of CdA's share capital from the French State.

The shares to be sold [50% of share capital] or lent [1% of share capital] by the French State to Fincantieri will be transferred as soon as the authorisations required from the European competition authorities have been obtained. This will trigger the restructuring of share capital described in the tripartite agreements [French State, Fincantieri, Naval Group] signed in February 2018.

Franco-Italian cooperation (Poséidon project)

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. 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.

Following a Naval Group/Fincantieri joint work phase, the two groups submitted their proposals to the competent ministers in July 2018.

With the support of both governments, which was expressed at the Euronaval trade show, and subject to the agreement of their respective Boards of Directors, Naval Group and Fincantieri are now ready to launch the concrete implementation of their alliance project by establishing a joint venture (JV) with equal ownership.

Starting in 2019, this JV will be able to:

- prepare tenders for bi-national and export contracts;
- implement a more effective purchasing policy;
- conduct R&T activities to provide their clients with an operational advantage;
- encourage cross-fertilisation between both groups with the sharing of resources, tools and expertise.

Elaia Partners

The research university Paris Sciences et Lettres (PSL), which was created by a group of research and higher education institutions of the highest level of academic excellence in the heart of Paris, is a university oriented towards interdisciplinarity, innovation and an international outlook. The dynamics of the PSL ecosystem, the rise of start-ups in research-related deeptech, as well as support structures, incubators and fab-labs, are fostering a favourable

momentum for technology transfer. Supporting this dynamic is why the €75 million PSL Innovation Fund was created, aided by the know-how of the management company for Elaia Partners. Naval Group invested €5 million in the PSL Innovation Fund on June 28, 2018 in order to:

- detect and anticipate technological and scientific trends as early as possible, including breakthroughs, to prepare for them as far in advance as possible;
- give Naval Group privileged access to the best technological start-up companies, the potential bases for future competitive advantages;
- guide the development of the solutions proposed by the technological start-ups as soon as possible to meet Naval Group's future needs;
- add to Naval Group's suite of tools for protecting strategic technology start-ups with regard to sovereignty.

1.2.6. ETHICS AND COMPLIANCE

1.2.6.1. Ethics

In July 2018, in accordance with the internal rules of the Ethics and Corporate Social Responsibility Committee (CERSE), which set the term of office of the members of that committee at three years, some of those terms were renewed, and for those that were not, new members have been appointed by the Chairman and Chief Executive Officer.

The CERSE has updated the ethical framework with the Code of Ethics and the practical guide to ethical behaviour based on French law, which were distributed in December during Ethics and Compliance Day.

As part of the fight against harassment, "investigator" training for "reporting harassment" was offered to CERSE members and France's ethics officers. This training helped participants to learn more about the legal framework, understand the challenges for the company of preventing harassment and adopt the right methodology to identify and detect inappropriate situations and behaviours in the company. A training session called "Handling discrimination" was also set up for ethics and discrimination officers. In addition, throughout 2018, the "Sexual harassment and ethics whistleblowing" awareness training was deployed at sites in France.

In September 2018, Naval Group joined the Business Ethics Circle.

To prevent ethical risks, the CERSE will organise an ethical crisis management exercise in 2019 with the support of external and independent consultants to better integrate ethics into our culture, in France and internationally.

1.2.6.2. Compliance

The group's Ethics, Compliance and Governance Department, whose head is the point of contact in the fight against corruption

and influence peddling as defined in French Law no. 2016-1691 of December 9, 2016 respecting transparency, the fight against corruption and the modernisation of economic life (known as the *Sapin 2* Law), is in charge of defining and deploying the compliance mechanism within the group.

As such, in 2018, the actions carried out consisted of:

- updating of the group's risk mapping;
- the updating of the compliance standards and, in particular, the supplier code of conduct, the charters for our relationships with our suppliers and subcontractors, the client relations charter and the practical guide to ethical behaviour. This guide deals with scenarios with which the group's employees might be confronted and provides keys to understanding and courses of action;
- continued deployment of the compliance mechanism in the subsidiaries, by providing support to entity managers in the adaptation of group instructions to local contexts;
- collaboration with the Purchasing and Supplier Relations Department to redesign the "Manage evaluate classify and develop suppliers" instruction, reinforcing systematic controls prior to contracting with a qualified supplier;
- updating of the instruction for commercial consultants and industrial partners;
- the strengthening of exchanges and cooperation within the Compliance Officers network through the organisation of training days as well as a seminar for the entire group's ethics and compliance community;
- increased verification of the correct application of the compliance system in the context of internal controls performed as a second line of control;
- the structuring of communication actions for the group's employees and stakeholders in an annual plan to measure the impact of the messages disseminated. This plan includes the organisation of an International Ethics and Compliance Day in all of the group's entities to meet employees and distribute the ethics and compliance standard;
- engagement with external professional associations to make their action part of a continuous improvement process and promote the best ethics and compliance practices outside the company.

1.2.7. RISK MANAGEMENT

1.2.7.1. 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 that covers strategic, operational, financial, legal and corporate social responsibility risks. It is under the guidance of the Internal Audit and Risk Committee and

co-chaired by the Senior Executive Vice-President for Finance, Legal, Purchasing and Real Estate and the General Secretary. 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.

All CSR risks have followed the same group methodology with regard to their identification and assessment, except for the fact that the risks in the CSR mapping are assessed as underlying, not net, risks. The entities who collaborated in its creation are: Occupational Health and Safety, Eco-Design, Human Resources, Personal Data Protection, Compliance, the Nuclear and Pyrotechnics Inspectorate, the Diving Safety Inspectorate, and the Audit and Risk Department.

1.2.7.2. 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.

1.2.7.3. 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 express their desire to know about the organisation and the rules in place in the fight against corruption and influence peddling ("compliance") in order to be certain that they correspond to their 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 1.2.6, 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 risk of corruption is detailed in the chapter on the declaration of corporate social responsibility performance.

Export controls and customs matters

Export markets are of great importance to the group. Naval Group is an exporter of war and/or related materials and dual-use goods. In this context, 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 prevent it from obtaining 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).

The Export Control Department fully exercises its responsibilities as the group's second line of risk management. 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. The Export Control Department's annual audit plan is coordinated with all of the group's internal audits.

Regarding customs matters, many actions have been undertaken to promote its importance in terms of competitiveness and international performance. These actions enabled the French Customs Administration to renew Naval Group SA's Certified Economic Operator [OEA] certification in August 2018 [it was initially obtained in 2014] following a full external audit. Employee

training in this aspect has ensured reliable use of these regimes. With OEA certification, Naval Group is subject to fewer controls and receives priority clearance processing. Timeframes for operations are thus reduced, and our clients benefit.

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.

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 the risk of infringement, Naval Group performs intellectual property monitoring and analysis as part of its own patent examination procedures and in the technical and development phases for its products.

In 2018 Naval Group continued its anti-infringement program in the supply chain. To control and reduce this risk, the Intellectual Property Department continues to strengthen its support for its employees [purchasing and supply chain in particular] and its tier 1 suppliers through awareness-raising measures and dedicated training, and the implementation of intellectual property auditing for suppliers.

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.

1.2.7.4. Operational risks

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

Competitive environment

Growth in the global defence market does not guarantee growth for 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 and Turkey. At the same time, US competition in the naval sector is considerably and rapidly increasing, indirectly through the diversion of large parts of the defence budgets to other areas [missiles, aircraft], and directly through alliances with European "platform" partners such as Navantia and Fincantieri. 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.

To be able to successfully compete against its current or future competitors, Naval Group must improve its competitiveness. To do this, Naval Group is strengthening its research and technology efforts, broadening its range of products and consolidating and expanding its international presence, in particular through sustainable industrial sites internationally. Naval Group also seeks alliances with credible partners such as Fincantieri, with whom a joint venture is being created.

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.

After a shrinking of defence budgets in France and Europe since the end of the Cold War, the 2019-2025 military planning law and the vote on the 2019 defence budget seem to indicate a gradual increase in public defence orders. This increase will, however, have to be confirmed during annual budgetary exercises.

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 in the international growth of its defence business.

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, technology transfers, 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, this special effort resulted in the introduction of a complete business reference standard consisting of 50 documents and tools (templates, instructions, registers, checklists, etc.), which was then used to train most of the group's 87 contract managers. The year 2018 was an opportunity to define common "golden rules" and operating principles and to establish how these best practices can be implemented in a concrete way and extended to all other actors in the program and procurement teams (in 2019 and 2020).

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 1.2.7.7, "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.

1.2.7.5. Management of supplier risk

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 events that may occur to its suppliers. A mistake by any one of them could affect the performance of Naval Group and, consequently, its profitability.

There are many types of supplier risks:

- risks related to corporate social responsibility (environment, etc.);
- operational risks (technical failings, financial default, disruption to supplies, delayed deliveries, cyberattacks, etc.);
- compliance risks (legal risks, fraud, non-compliance with regulations, etc.) and export bans;
- overall risks (geopolitical risks, natural disasters, exchange rates);
- risks of compromising protected information.

All these risks are monitored monthly by the Supplier Risk Committee. This committee brings together operational, functional and cross-functional departments at group level to review identified supplier risks and decide on corresponding mitigation plans.

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. To do this, Naval Group conducts financial scorings of its strategic and major suppliers annually, and as often as necessary for other suppliers.

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 afore-mentioned reasons) could jeopardise execution of Naval Group's programs.

Moreover, the supplier list approved 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 for the overall number of suppliers.

Supplier CSR risk management

Corporate Social Responsibility (CSR) risks are taken into account in the Naval Group Code of Ethics and supplier code of conduct.

The CSR risk analysis refers to the key issues identified by Naval Group in its overall CSR strategy. Issues of ethics, compliance, health, safety at work and the environment are systematically reviewed in the analysis of supplier risks and constitute, in and of themselves, areas of impact analysis for the company. Naval Group uses pooled and specialised platforms to conduct CSR assessments of candidates for the panel of suppliers as well as a dedicated platform for collecting compliance information and daily court register alerts.

1.2.7.6. 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.

- 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.
- 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.

Diving safety

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.

Diving safety makes it possible to maintain control of immersion and guarantee the return to the surface of submarines. The field covers the control of watertightness, weight, effectiveness of the steering gear and the mechanisms in place in the event of damage

The corresponding technical scope is identical for the lifespan of the vessels, from design to maintenance. Naval Group is especially vigilant about aspects of this area for which loss of control can potentially mean the loss of a submarine and its crew.

Policies and structures in place:

- a Diving Safety Inspectorate was created in October 2014 on the model of the Nuclear Inspectorate. It is under the authority of the Chairman and Chief Executive Officer, and it is tasked with analysing technical facts, the technical normative standard, training, skills maintenance and participation in technical safety milestones;
- for each type of submarine, a survey of important equipment for diving safety is conducted. All corresponding anomalies are recorded in the anomaly processing information system. They are all subject to the approval of local experts. The most

significant ones are the analyses in full by the Diving Safety Inspector;

- due to the extremely specific nature of this field, Naval Group has established its own technical standard based on several decades of experience. This standard includes regulations known to our customers, as well as directories that capitalize on our know-how. For some delicate operations, Naval Group has a mandatory personnel qualification process in place. Application of the standard is regularly monitored by all the Naval Group's control stakeholders, including the Diving Security Inspectorate;
- diving safety is part of the technical expertise that covers all of the technical risks produced. Quantified assessment of it is covered by assessment of the technical control process.

Nuclear safety

For its nuclear design, production, maintenance or implementation activities, Naval Group strives for excellence in nuclear safety for the sake of its customers and as an employer, especially with regard to radiation protection.

Naval Group is not a nuclear operator. Nevertheless, it may generate deferred risks during the design or construction of products or direct risks during maintenance operations. Controlling them is based on first-level controls by nuclear prevention engineers attached to production entities and second-level controls by nuclear safety engineers who report directly to the Nuclear and Pyrotechnics Inspector.

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 the analysis of facts of a technical or organisational and human nature noted during the work of the group or brought to our attention by the client for the operating phases. Any event, even if inconsequential, but which may be a weak signal for nuclear safety, is tracked and analysed so that any useful and relevant lessons can be drawn from it. These steps are carried out either jointly with the operator or internally, and they make it possible to identify areas for improvement and decide on priority actions to be implemented on an *ad hoc* basis or as part of formalised multi-annual nuclear safety action plans that involve the whole group.

1.2.7.7. Human resources risk

Inadequacy of key skills

Given the technical complexity of Naval Group's products and the multitude of skills needed to build them, acquiring, retaining, redeploying and renewing its skills is a major challenge for the group. To limit this risk, the group is developing a set of actions [school partnerships, training policy, knowledge transfer, etc.] so that it can have skills available at the right place at the right time and anticipate its future needs.

This risk is detailed in the chapter on the declaration of corporate social responsibility performance.

Abuse and fraud (human rights, harassment, temporary staff, discrimination, regulation including restraints)

To prevent the occurrence of behaviours that would constitute abuse or fraud and would not comply with current legislation and commitments made by the company, Naval Group trains employees in the rules and corresponding charters and has set up mechanisms to prevent, alert and penalise if necessary the acts of abuse and fraud discovered. Naval Group has adapted its control structures accordingly.

This risk is detailed in the chapter on the declaration of corporate social responsibility performance.

Risks related to industrial relations

Conscious of the risks that the company may incur through the deterioration of dialogue and working conditions, particularly in terms of performance but also the health of its employees, Naval Group strives to develop quality social dialogue where negotiation has a central place. It makes quality of life at work an advantage for its development.

This risk is detailed in the chapter on the declaration of corporate social responsibility performance.

Health and safety at work

Any industrial activity involves risks that may affect the occupational health and safety (OHS) of employees. The improvement of OHS is at the forefront of Naval Group's corporate social responsibility (CSR) commitments. It constitutes a fundamental responsibility for the company as an employer and a lever for improving the group's performance in all operational areas.

To control these risks, Naval Group has an OHS policy and safety standards common to the entire group. These define the rules to be implemented and the good behaviours expected of everyone so that everyone is a driving force in the prevention and reduction of risks to themselves and the people working in their environment. The daily presence of risk prevention agents in the field also ensures a high and consistent level of control.

OHSAS 18001 certification demonstrates the performance of the OHS management system and makes it part of an active policy of continuous improvement. Naval Group is also preparing the transition to ISO 45001:2018 certification and hopes to be certified in 2020. This certification, which adopts the same structure as ISO 9001:2015 and ISO 14001:2015, will simplify the integration of the OHS management system into the overall management system.

This risk is detailed in the chapter on the declaration of corporate social responsibility performance.

Employee security 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.

An employee protection system is managed by the International Security Department. It is constantly updated, and it exists to:

- ensure security in regions and countries of operation and/or transit and in the offices of Naval Group, its subsidiaries and the accommodation of personnel abroad;
- analyse risk and implement structures adapted to country risk;
- define and disseminate rules of behaviour and specific instructions for each sensitive country;
- carry out awareness-raising, information and training activities for both expatriate and staff on assignment and disseminate alerts.

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.

1.2.7.8. Environmental risks

Environmental protection

Naval Group's environmental approach encompasses all of its activities, products, services and infrastructure. This approach is developed in the company's design and performance/production processes and has been ISO 14001-certified continually since 2008. The 2015 version of the standard was applied from the start of 2016, renewed in the first half of 2017 and successfully extended in June 2018.

Naval Group's activities present two main environmental risks, from the carbon footprint of products in service and the risk of a serious environmental industrial accident, which are detailed in the chapter on the declaration of corporate social responsibility performance.

Nuclear and Pyrotechnics Inspectorate

The Nuclear and Pyrotechnics Inspectorate is charged with proposing internal nuclear and pyrotechnic safety policies and regulations to Naval Group's General Management for all of its activities and monitoring and verifying the safety measures taken in the context of those policies in line with regulatory changes, for which it ensures compliance. Its independence is guaranteed by being directly under the Chairman and Chief Executive Officer, to whom it submits an annual report.

To satisfy the policies proposed, it develops and follows a multi-year plan that defines long-term areas for progress. The multi-year plan for 2019-21 focuses on improving operational rigor; training and the definition of qualifying career paths, which involves mobility between design, construction or in-service support; the development of tools for monitoring and tracing interventions according to redefined and digitised processes; and finally organisational structure with, in particular, the establishment of entities dedicated to controls.

The Nuclear and Pyrotechnic Inspectorate conducts inspections to verify the compliance of the group's practices with regulations and internal instructions and is regularly informed of the implementation of the resulting action plans.

It performs or takes part in, together with the Quality and Health and Safety Departments, investigations undertaken to analyse the year's most significant events and define the necessary corrective or preventive action.

The Nuclear and Pyrotechnic Inspectorate leads Naval Group's radiation protection network. It therefore monitors the radiation doses received by Naval Group staff and within its establishments by its subcontractors and ensures an optimised distribution of doses. It ensures such doses remain well below both the legal limits and the Naval Group internal limit, which is half the legal maximum, and ensures the absence of contamination.

The Nuclear and Pyrotechnic inspector also manages the "nuclear family". To that end, it proposes or approves the recruitment, training, career paths and professional development of employees specialising in the field to guarantee the development and maintenance of the key skills for this "sovereign family".

1.2.7.9. 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 rigorous 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 (in-service security support);
- 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, increasing the security of the various Naval Group IT systems has become a priority for the group. Significant multi-year investments to modernise and secure the IT system make it possible, among other things, to implement recommendations of the French National Agency for Information Systems Security (ANSSI). The effectiveness of the security actions implemented is verified through independent audits.

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;
- Data Protection Officer: responsible for ensuring the confidentiality of personal data as described in the general data protection regulation. This risk is detailed in the chapter on the declaration of corporate social responsibility performance.

Lastly, in response to the continued increase in the number and sophistication of cyberattacks, in early 2016, the group established a Cybersecurity Division that reports directly to the Chairman and Chief Executive Officer and is in charge of defining the group's cyber strategy and coordinating, uniting and deploying all cyber control systems, internally and in Naval Group products and services. Consequently, cyber requirements are now taken into consideration internally and on our products right from the design phase for such products and services, backed up by the Cybersecurity Framework and skills development within the IT, engineering and production teams.

1.2.7.10. 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 was held with insurers in 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 PROSUB (Brazil), P75 (India), LEX (Saudi Arabia) and Scorpène® (Malaysia) 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.

1.3. NAVAL GROUP'S POSITION DURING THE 2018 FINANCIAL YEAR

1.3.1. REVENUE AND RESULTS OF NAVAL GROUP SA

Order intake

Naval Group SA's order intake for 2018 was €3,655 million, as compared with €3,950 million in 2017.

As at December 31, 2018, Naval Group SA's order book stood at €13,598 million.

Revenue

Naval Group SA achieved revenue of €2,852.3 million in 2018; it cannot be compared with the €3,564.8 million recorded in 2017 because of the recognition of revenue in 2018 as per IFRS 15.

Income

Operating profit was €139.6 million (4.90% of revenue), as compared with €257.5 million in 2017.

Net financial income of €3.8 million was recorded, compared with a net financial expense of (€89.0) million in 2017.

Extraordinary income was €29.6 million, as compared with income of €41.8 million in 2017.

The company's net income was €136.2 million (4.8% of revenue), as compared with €85.4 million in 2017.

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	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
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	2,852,264,434	3,564,858,418	3,133,025,184	3,007,623,309	3,047,402,857
Net profit (loss) before tax, profit-sharing, depreciation, amortisation and provisions	494,531,839	374,653,811	330,272,618	149,119,288	54,767,340
Income tax charge (income)	26,880,434	99,242,850	33,161,644	24,765,683	(7,784,399)
Employee profit-sharing	9,827,394	25,647,042	10,121,819	4,432,587	536,069
Charges to depreciation, amortisation and provisions	321,601,011	164,318,217	60,242,574	48,787,298	549,302,150
Net profit (loss) after tax, profit-sharing, depreciation, amortisation and provisions	136,223,000	85,445,702	226,746,581	71,133,721	(487,286,480)
Dividends paid	57,426,000	0	0	0	0
Earnings per share					
Net profit (loss) after tax and profit-sharing but before depreciation, amortisation and provisions	8.13	4.44	5.10	2.13	1.10
Net profit (loss) after tax, profit-sharing, depreciation, amortisation and provisions	2.42	1.52	4.03	1.26	(8.66)
Dividend allotted to each ordinary share	-	-	-	-	-
Dividend allotted to each A preference share	-	-	-	-	-
Dividend allotted to each B preference share	-	-	-	-	-
Staff					
Average number of staff	10,617	9,656	9,173	9,169	9,086
Payroll expenses	647,111,991	566,370,319	533,246,605	522,208,640	504,297,047
Payroll-related costs [Social Security, staff benefits, etc.]	281,506,422	248,572,255	246,021,617	233,328,122	244,477,429

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.

No interim dividend was paid in 2018.

1.3.3. NAVAL GROUP SA TRADE RECEIVABLES AND TRADE PAYABLES

In accordance with article L. 441-6-1 and D. 441-4; 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 39 days	Payment overdue by more than 90 days	Total 1 day or more
Length of time overdue								
12/31/2018	Number of invoices concerned	1,812	711	257	103	73	668	1,101
	Total value of invoices concerned excluding tax	318,632,800.21	110,944,548.44	59,033,491.99	91,538,332.70	13,873,587.98	43,242,839.10	207,688,251.77
	Share of pre-tax revenue for the financial year		3.16%	1.68%	2.61%	0.40%	1.23%	5.92%
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
	Share of pre-tax revenue for the financial 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 39 days	Payment overdue by more than 90 days	Total 1 day or more
Length of time overdue								
12/31/2018	Cumulative number of invoices concerned	10,377	6,405	3,117	797	25	33	3,972
	Total cumulative value of invoices concerned excluding tax	2,892,358,347.80	2,531,526,178.31	268,544,606.01	58,527,952.59	1,982,296.55	31,777,314.36	360,832,169.50
	Share of total value of invoices issued in year, excluding tax		95.33%	10.11%	2.20%	0.07%	1.20%	13.59%
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
	Share 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 article L. 441-6-1 and D. 441-4; Art. 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	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 day or more
Length of time overdue								
12/31/2018	Number of invoices concerned	12,084	9,860	922	371	145	786	2,224
	Total value of invoices concerned excluding tax	208,211,952.18	156,397,159.52	18,970,848.80	9,178,313.67	3,248,935.93	20,416,694.26	51,814,792.66
	Share of invoices received in the financial year, excluding tax		75.11%	9.11%	4.41%	1.56%	9.81%	24.89%
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
	Share of invoices received in the financial year, excluding tax		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	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 day or more
Length of time overdue								
12/31/2018	Cumulative number of invoices concerned	219,459	151,163	44,036	7,473	12,058	4,729	68,296
	Total cumulative value of invoices concerned excluding tax	2,264,970,274.30	1,456,814,573.96	543,227,482.97	142,255,935.13	51,910,701.13	70,761,581.11	808,155,700.34
	Share of total value of invoices paid in year, excluding tax		64.32%	23.98%	6.28%	2.29%	3.12%	35.68%
12/31/2017	Cumulative number of invoices concerned	257,655	146,895	74,142	21,474	9,069	6,075	110,760
	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
	Share of total value of invoices paid in year, excluding tax		53.98%	34.12%	7.10%	1.81%	2.98%	46.02%

1.3.4. NAVAL GROUP SA – TOTAL AMOUNT OF CERTAIN DISALLOWED CHARGES

In its tax filings, Naval Group SA will add back the sum of €265,674 in relation to excess depreciation on private cars.

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

Attendance fees of €121,200 were paid in 2018 in respect of 2017; they remain deductible under the tax regulations.

1.3.5. 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 financial year ended December 31, 2015: none;
- in respect of the financial year ended December 31, 2016: none;
- in respect of the financial year ended December 31, 2017: €57,426,000.

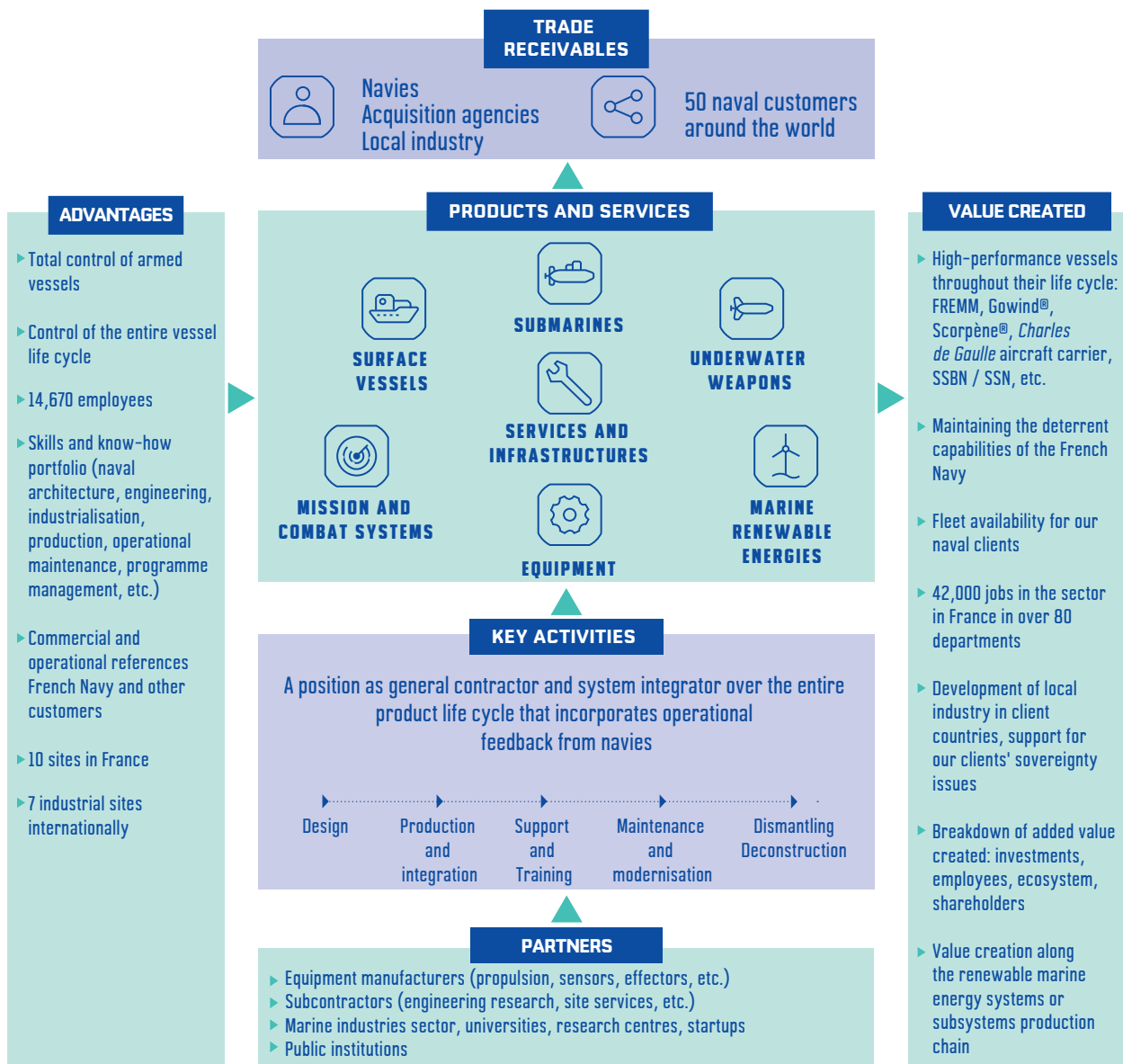
II. POST-BALANCE SHEET EVENTS

None.

III. DECLARATION OF CORPORATE SOCIAL RESPONSIBILITY PERFORMANCE

3.1. INTRODUCTION

3.1.1. BUSINESS MODEL



3.1.2. STRATEGY

Naval Group has been part of a continuous improvement program in corporate social responsibility for the last 11 years. This program is built with the support of internationally-recognized edicts such as the ten principles of the United Nations Global Compact, the core conventions of the International Labour Organisation, the guiding principles of the Organization for Economic Cooperation and Development (OECD), the Global Reporting Initiative (GRI), ISO 26000, the transposition of the European Non-Financial Reporting Directive, the French duty of vigilance law, and the *Sapin 2* Law.

Global Compact: Naval Group has been a member of the United Nations Global Compact since 2014 and participated in the peer review in May 2018. The actions carried out by the group gave it "Global Compact Advanced" recognition for the fourth consecutive year. Only one hundred or so companies in France have achieved this level of recognition.

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 non-financial rating achieved at the beginning of 2018, verified by the rating agency, in six areas (governance, market conduct, environment, human rights, human resources, and community involvement) showed a recognized positive trend in comparison with the rating in September 2016.

3.1.3. SCOPE

Governance scope

The scope of reporting on the governance of subsidiaries and joint ventures is the subject of point V.I.4 in the consolidated financial statements.

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.

Naval Group's foreign consolidated companies make up less than 5% of the group's total number of staff. Some of these companies deploy in-service support, but most carry out design, study, technical assistance and project management, purchasing and sales, and administrative support activities. Consequently, they have a reduced environmental impact compared to the French activities.

Social scope

The social reporting scope highlights the Naval Group UES (economic and social unit), 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.

3.1.4. CSR GOVERNANCE

The company's corporate social responsibility (CSR) is a primary consideration for the group and its shareholders. Thus, in 2018 the Naval Group Board of Directors decided that the Board of Directors' Remuneration and Appointments Committee would be redubbed the Remuneration, Appointments, Ethics and Corporate Social Responsibility Committee, in charge of issues relating to that area.

Internally, the company's Ethics and Corporate Social Responsibility Committee (CERSE) is tasked with setting the general guidelines on ethics and corporate social responsibility as it applies to all of the group's companies. The CERSE has the freedom to carry out any work it deems useful in the context of its duties and role. In addition, its Chairman implements the process of reporting on any conduct that is contrary to ethics and CSR standards when any matter is reported through the ethics hotline. The CERSE is composed of eleven individuals appointed by the Chairman and Chief Executive Officer. Its organisation is specified by its Board of Directors' internal rules published on the company's Business Management System (BMS). It relies on a network of Ethics and CSR Officers in every site in France and abroad. Ethics and CSR Officers are invited to teleconferences every two months and participate in special actions such as organising and leading CSR sessions at the site or subsidiary, participating in Ethics and Compliance Day in December of each year, participating in the annual seminar for CSR leaders (Compliance Officers, Ethics and CSR Officers, CERSE members).

Roll-out of the process is taken on by the group Ethics, Compliance and Governance Department and by the entire group, all hosted by the General Secretary, reporting directly to the Chairman and Chief Executive Officer.

3.1.5. PRIMARY CSR RISKS

All CSR risks have followed the same group methodology with regard to their identification and assessment, except for the fact that the risks in the CSR mapping are assessed as underlying, not net, risks. The entities who collaborated in its creation are: Occupational Health Safety and Environment, Eco-Design, Human Resources, Personal Data Protection, Compliance, the Nuclear and Pyrotechnics Inspectorate, the Diving Safety Inspectorate, and the Audit and Risk Department.

In light of the nature of our naval defence and marine energies, we consider that combating food waste and food insecurity and respecting animal welfare and responsible, equitable, and sustainable food are not primary CSR risks and do not justify development in this Declaration of Corporate Social Responsibility Performance. However, topics involving the environmental, social, and societal consequences, particularly the actions combating discrimination and promoting diversity, and the measures taken in favour of persons with disabilities, will be addressed in a follow-up publication.

3.2. CSR RISKS AND OPPORTUNITIES IDENTIFIED BY NAVAL GROUP

3.2.1. THE GROUP'S ENVIRONMENTAL COMMITMENT

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 sector.

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 its activities: products, services, and infrastructure.

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 all the group's sites and soon to be deployed in its subsidiaries as well.

The policy has three 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 to reduce the impact of its activities on the air, water, and soil;
- limiting the environmental footprint of products, services, and infrastructure throughout their life cycle by taking a proactive approach from the design phase through to procurement, to limit the consumption of natural resources, particularly energy;
- participating in the combating of climate change by reducing greenhouse gas emissions.

Two main risks to the environment have been identified: the carbon footprint of products in service, and the risk of a severe industrial accident. These two risks are detailed below.

3.2.2. SERIOUS ENVIRONMENTAL INDUSTRIAL ACCIDENT

In the process of the performance/production of Naval Group's activities, the measures taken are designed to manage the industrial risks, prevent the occurrence of environmental industrial incidents and, where necessary, limit their impact on the environment. Risk situations 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 environmental performance targets are set for reducing the number of accidents having a temporary impact on the environment.

Detailed description

Industrial accidents are a considerable risk for Naval Group's activities because of its heavy industrial business, in which sites could be subject to fire, explosion, leakage, or a substantial spill of toxic products. Their possible causes are as follows:

- failure to identify and manage risks inherent in Naval Group's industrial environments;
- inadequate controls on Naval Group sites, equipment, and processes;
- design error in site equipment/production process used;
- failure to follow procedures and regulations on site;
- insufficient training of individuals working on site;
- human error on the part of individuals working on site;
- failure of maintenance/qualification of industrial facilities.

Impact

A serious environmental industrial accident could:

- seriously pollute the environment;
- suspend or even stop Naval Group activities;
- generate financial and criminal risks;
- adversely affect the Naval Group image.

Policy and organization

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, renewed in the first half of 2017 and successfully extended in June 2018.

The group also relies on a comprehensive quality, safety, and environment policy renewed in 2018 and developed across all of its entities.

To challenge the teams on environmental issues, the group has identified the key players and contributors to the environment in its main activities: products, infrastructure, and services.

In line with this environmental challenge, the group has set ambitious three-year targets (2018-2020), divided among these different departments, in terms of the number of incidents involving industrial environmental performance:

- 0 serious environmental industrial accidents (Level 3);
- events having a temporary impact on the environment (Level 2): 4 in 2018, 4 in 2019, and 3 in 2020.

Naval Group's environmental approach encompasses all of its activities, products, services, and infrastructure.

This approach is developed in the company’s design and performance/production processes.

A network of contributors to the environment has been created to clarify the roles and responsibilities of the group’s entities.

The creation of this network began with the identification of contributors in the activities. In the «performance/production» phase, we have:

- the industrial environment, composed of environment managers: spread across Naval Group’s sites, they handle regulatory compliance, deploying and implementing methods for preventing and combating pollution on their sites;
- the Procurement Department: factors the environment into its purchases of materials and services;
- the Site Management Department, composed of a network of local managers: tasked with managing the use of resources like energy (water, electricity, gas) and emissions (greenhouse gases, waste).

Identification of these contributors to the environment has continued with activities in the “design” phase (detailed in paragraph 3.2.3 Carbon footprint of products in service).

News

Since the environment has become a societal issue, the group continues to advance its employees’ environmental culture via two means: training and communication.

All new employees are educated on environmental issues as a part of their onboarding. This process includes three training phases:

- orientation;
- on-the-job training;
- training in the working environment.

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 these training actions, targeted communications are issued group-wide in accordance with an annual security and environmental communications plan. As much as possible, it includes national and international events (sustainable development, energy, mobility, waste for the environmental section). The national communication campaigns are then rolled out and supplemented locally on each of the sites.

To emphasize environmental rules, the group updated its set of “environmental standards” in 2018. These are now available in the group’s Business Management System (BMS). Each of the standards addresses a particular topic, improving understanding and reminding everyone of best practices, such as “hazardous chemical agents”, “waste”, “fighting pollution”, “information and communications technology (Green IT)”, and “energy management”.

Performance indicators

Naval Group sites demonstrate well-managed environmental performance supported by the environmental expert network. Incidents are reported and analysed, and corrective and preventive actions are taken.

Environmental incidents having a temporary impact on the environment (Level 2) have been in decline for several years and are carefully analysed (8D) to prevent any recurrence.

In performance terms, the group did not suffer any serious environmental industrial accidents in 2018 and, as of this date, counts 1 environmental event having a temporary impact on the environment (Level 2), with a target of 4 (see graph below).

Environmental events are tracked and tallied, by site and field impacted. These are our key performance indicators.

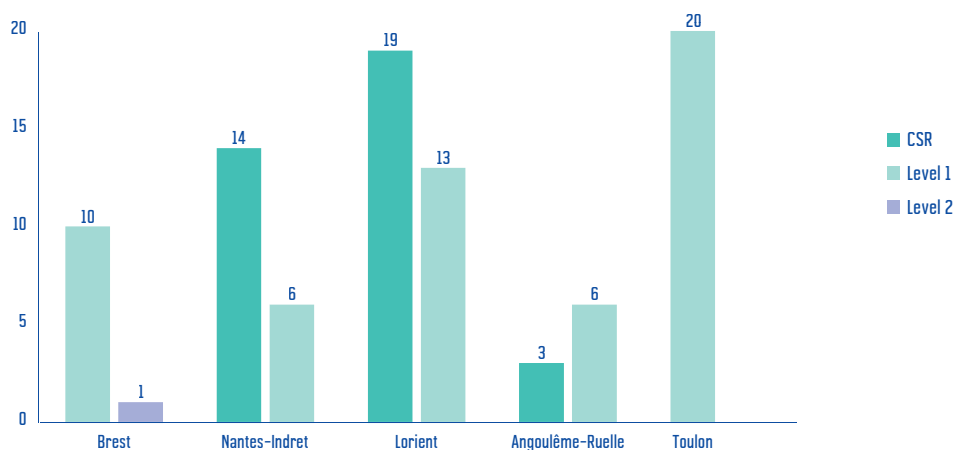


Figure 1: List of 2018 environmental events

Environmental incidents are categorized and tracked/tallied:

- at-risk situation report: the event could have occurred;
- Level 1: incident without impact on either employees or the environment, with low potential risk;
- Level 2: incident having a temporary impact on the environment and/or employees;
- Level 3: incidents with uncontrolled pollution and/or involving a response external to Naval Group.

By type of environmental impact:

- water;
- air;
- soil;
- energy;
- waste.

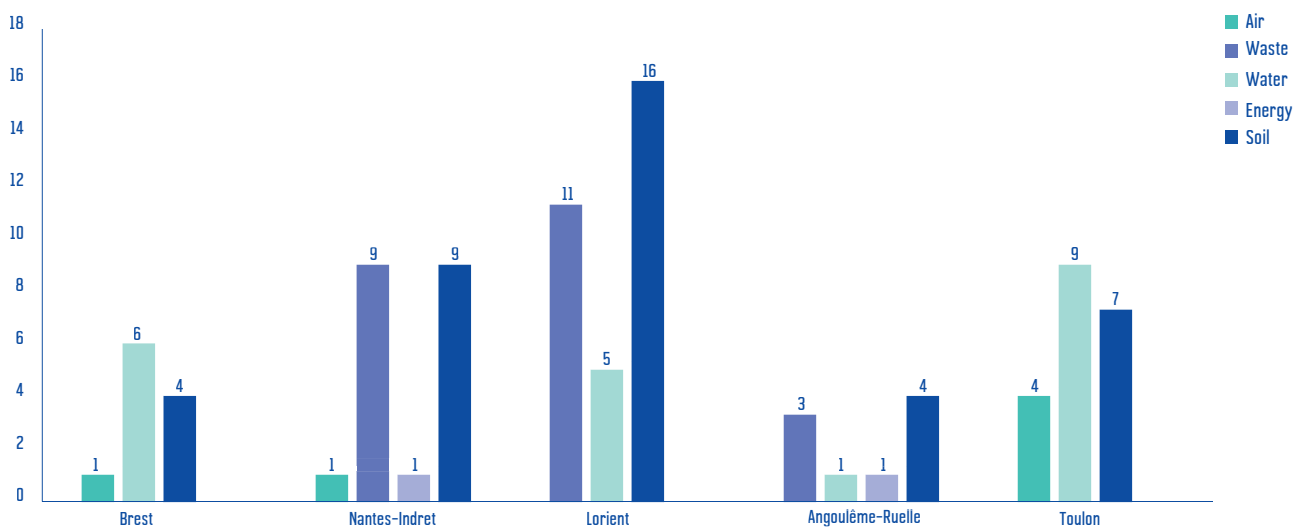


Figure 2: List of environmental events by site and by field impacted

In 2018, there were 55 events without impact on Naval Group sites in France. Corrective and preventive actions were taken for all of them.

That same year, 36 at-risk situations were reported, demonstrating the sites' vigilance in preventing environmental risks.

3.2.3. CARBON FOOTPRINT OF PRODUCTS IN SERVICE

Detailed description

The inclusion of environmental considerations in all products [surface vessels/submarines] within Naval Group, which began in 2007, continues its gradual roll-out on both programs and R&D projects, keeping the group compliant with the new version of ISO 14001:2015, and most importantly, enables it to comply, whenever realistic, with the civil regulations of the International Maritime Organisation [IMO], particularly the International Convention for the Prevention of Pollution from Ships [MARPOL].

Annex VI of MARPOL covers the rules to be followed on gas emissions, particularly the prevention of air pollution. It consists of the following seven items:

- substances that deplete the ozone layer;

- nitrogen oxides;
- sulphur oxides;
- volatile organic compounds;
- shipboard incineration methods;
- fuel quality; and
- measures for reducing CO₂ emissions.

All of these points are taken into consideration when designing Naval Group products, whether for ships or systems, equipment, or technology. The requirements in this annex, as far as their application is technically feasible, are included in the design requirements.

Naval Group, intent on being a pioneer in the field, has decided to meet them as well, by measuring the carbon footprint of its flagship products.

In 2017, the carbon footprint of the multi-mission frigate [FREMM] was measured, and this year, in 2018, the exercise was carried out on the Gowind® corvette.

Impact

Due to their nature and size, Naval Group products have a considerable carbon footprint during use. The potential causes are as follows:

- product non-compliance with airborne emissions laws (as seen previously);
- misuse of Naval Group products by the customer;
- sub-optimal product design in terms of carbon footprint;
- lack of maintenance/control.

The undesirable risks are greenhouse gas emissions and therefore depletion of the ozone layer as well as toxic emissions of nitrogen oxides, sulphur (to a lesser extent, since warships do not use heavy fuel), and fine particulate matter. The extreme risk is irreversible atmospheric pollution.

Today, atmospheric pollution is a planetary issue that is measured, analysed, and reported by a good many industries, so that the public has full visibility on the possible impacts on health and the environment. The resulting changes in behaviours and practices naturally affect the industries themselves, which are endlessly working to improve the footprint of the products they offer. Naval Group is a part of this virtuous circle, and, by measuring the carbon footprint of its flagship products, aims to promote environmental protection and be a pioneer in the naval and defence industries in this regard.

Policy and organization

For the past decade, Naval Group has emphasised eco-design and ISO 14001 certification for all its activities, including design.

Eco-design is driven by a three-person unit that draws on a network of around 50 specialists who work on projects according to their skill area, whether technical or organisational. It is active in both programs and R&D.

This essentially ship-based network is gradually being extended to infrastructure and services to unify the group's objectives. The role of the officers to be appointed will be to report on the group's objectives, to disseminate and adapt existing methods as required, to draw up the necessary documents, and, lastly, to educate the teams.

News

In terms of programs, the projects whose activities started in 2017 were extended and enhanced in 2018. Through new programs, methods in development for several years were also rolled out, and environment-specific deliverables supplied.

- Starting in the initial design phase, the Australian Future Submarine (AFSP) program includes environmental requirements, which are tracked with the tools used by systems engineering. An environmental management plan was drawn up to define the strategy and resources implemented to take environmental protection into consideration throughout the vessel's life cycle.

- Third-generation ballistic nuclear submarines, mid-sized frigates, and Black Sword Barracuda® 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 and ability to respond and to help achieve the environmental targets set.
- Mine hunters and next-generation aircraft carriers also offer environmental improvements.
- Construction of the Australia submarine yard includes the proposed environmental improvements related to building and civil engineering.

Additionally, in the interest of consistency in the methods used in the programs, the business rules are currently being harmonized. Various business line guides have been drawn up, and this work will continue in 2019.

In terms of R&D, the target of environmental sensitivity in 20% of R&D materials has not been met. Nevertheless, the two key focal areas contributing to environmental protection, "Environment and Eco-Design" and "Energy Optimization", have had budget increases, and the work has been successful. For example, three flagship projects:

- the ATHENA project (hydrothermal equipment for treatment of naval waste), subsidized by the French National Defence Procurement Agency (DGA) since 2016, is continuing. This year, the partners launched the creation of the demonstrator, and studies for its integration on FREMM were begun by Naval Group. 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;
- the AGESCIC (Achieve Good Environmental Status for Coastal Infrastructure Construction) project, subsidized by Europe via the LIFE project, has been signed. This is a three-year project that consists of developing and testing a containment membrane to reduce the impact in the marine environment during underwater construction;
- the "IMO TIER III and consideration of ECA zones" project (Annex VI of MARPOL) carried out opportunity studies on the implementation of civil technology by military vessels, as regards Nox and Sox emissions. They are continuing through analyses of the real emissions of a FREMM type frigate. The results obtained will be used to decide on the measures to be taken to unify these regulations.

The results of the carbon footprint of the Gowind® corvette are not yet available as of this date.

Moreover, for the past few years, Naval Group has participated in the IMO's Marine Environmental Protection Committees (MEPC) to stay informed of the constant updates to the rules to be applied, and also to be prepared for such changes on the various product lines in the design phase. This year, the key issue that could have repercussions for Naval Group and its vessels involves a proposal

from France to eventually make the Mediterranean into an ECA or Emission Control Area. If this proposal is followed through, it will have a significant impact on propulsion or facilities for post-treatment of the vessels' exhaust gases. Having anticipated this possibility, the previously-cited R&D sheet entitled "IMO TIER III" addresses this subject.

More broadly, Naval Group is involved in the naval sector's review of environmental considerations in the shipbuilding industry:

- first, for projects involving the circular economy, which are now run by the French Marine Industry Group [GICAN]. As such, Naval Group has been invited to the symposium entitled "The circular economy, businesses in the loop" organized by six business associations supported by the French Ministry for the Ecological and Inclusive Transition and the Ministry of Economy and Finance, to represent the naval sector;
- second, Naval Group teaches classes on environmental design considerations in the "Vessel eco-management" engineering program at the French Maritime Academy, and took part in the development of the specialised master's program "Life Cycle Assessment of Ships" [LICAS], which is scheduled to start in September 2019.

In R&D, eco-design brings out the technology of the future, known as "cleantech", contributing to environmental conservation. Cleantech has three umbrella fields:

- energy efficiency management:
 - optimising consumption: smart grid, reversible HVAC, power plants, new materials, and more,
 - developing new energy sources: hybrid architecture, renewable energy, etc.,
 - optimising vessel handling: hydrodynamics, paint, etc.;
- emissions and waste treatment:
 - reducing particulate emissions in the context of special zones: harbour, shoreline, ECA zones,
 - minimising waste by improving storage: compacting and health security,
 - defining waste recovery and recycling channels,
 - reusing everything that can be reused on board: water, electricity, energy, and heat;
- innovative and eco-friendly technologies:
 - research into new technologies: biofuels, biomimetic materials, heat recovery, water treatment, etc.,
 - analysing their environmental performance [EPI].

Each year, for each of its fields, the technologies are reviewed and studied according to the priorities of the programs on which they can be used, regulatory developments, and customer requirements.

Performance indicators

With the progress achieved on vessels, the eco-design process will be systematized on the infrastructures and services proposed by Naval Group. The group's targets, presented in § 3.2.1 "Group environmental commitment" and set for the 2018-2020 period, support this gradual development across the other "products" in the Naval Group portfolio. Participation in the IMO's MEPC 73 was another highlight of this financial year.

Performance indicators were set and tracked during the year:

- 50% of vessel projects were "proactive", in other words, proactive with regard to environmental protection requirements;
- 16% of R&D data sheets contribute to environmental protection by the progress they bring about;
- the Gowind® carbon footprint is under way, following the carbon footprint analysed for the FREMM the previous year. The FREMM's carbon footprint had estimated the share of greenhouse gas emissions that can be attributed to the frigate's use throughout its life cycle at over 95%. For now, these results cannot be extrapolated to the group's annual emissions.

3.2.4. 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 the Chairman and Chief Executive Officer. 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.

Organisation

The occupational health and safety [OH&S] plan is driven by the corporate Health, Safety and Environment [HSE] Department and rolled out locally by prevention teams. They ensure that all employees are involved in the process of inspiring individual and collective vigilance so that everyone is aware of the role and responsibility incumbent on them.

These teams, present on every site, are composed of prevention facilitators and advisors, guided by prevention managers. These managers act as advisors to the site directors. Together, they enforce risk prevention, provide advice and expertise to operators and management, and manage the coordination of activities from the OH&S angle.

This OH&S network also relies on experts to manage all risks generated by industrial activities. Ergonomics, hazardous chemical agents, and asbestos are all areas in which these experts provide guidance.

Training

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. Training is one of the main levers used by Naval Group to accomplish this aim.

- Every new hire undergoes training upon arrival to ensure that every person entering a Naval Group site is versed in OH&S requirements. This orientation training is a sine qua non for obtaining an access badge.
- To ensure that every person who joins the company is knowledgeable about the OH&S risks of their position, and the procedures to be followed in the event of an accident or incident, workstation training is administered by their manager. This training is supplemented by training in the working environment.
- Every manager who comes to work on a Naval Group site will be given an OH&S managerial passport to ensure they are aware of the OH&S responsibilities incumbent on them. Through this training, they will become aware of risk assessment, accident management, and management of their employees' safety.
- A totally separate panel of more specialized training is given at Naval Group to ensure that everyone has enough information to manage the risks related to the industrial activities in which they are involved. There are more than 85 OH&S training courses available.

OH&S performance

Naval Group's OH&S performance is tracked via several indicators: the number of accidents with lost time (AAA), plus the frequency 1 (TF1) [frequency of accidents with lost time / millions of hours worked].

Naval Group results at December 31, 2018:

- AAA: 117, for a target of 120 (130 AAA in 2017);
- TF1: 5.4, for a target of 6 (TF1 of 6.4 in 2017).

These results show a decrease in the number of AAA and TF1 [accidents with lost time] which were up significantly in 2016. The average number of days lost in 2018 per work accident is 30.9 days, compared with 23 days in 2017; the severity rate is 0.168.

Primary risks

The primary risks identified at Naval Group correspond, on the one hand, to the most frequent causes of accidents and, on the other, to the risks defined as major, whose consequences are so serious as to be potentially fatal.

The main causes of these accidents in 2018 were falls at ground level or from a height following movements in workshops and vessels, and manual load handling and transportation. By themselves, these causes make up more than half of accidents with lost time.

Accidents occurring during travel, with or without lost time, make up 30% of the total number of accidents in 2018 and their severity level is high.

The major risks, such as working in confined spaces and at heights, handling and lifting parts, and fire hazard caused very few accidents but are responsible for a considerable number of significant incidents.

Control of the main risks

Preventive actions for the main risks, which were launched several years ago, continued in 2018. Inter-site groups specialized in the major risks are in regular contact to share their best practices and the problems they encounter. These groups of experts work together to ensure optimal management of the risks that employees are exposed to.

In addition, the risk trend is traced using precise statistical tracking; accidents or incidents that do occur are also subjected to in-depth analyses, which are regularly presented to the local and national CHSCT [Health, Safety and Working Conditions Committee, replaced at the end of 2018 by the Social and Economic Committees] to present results and observations. These analyses and the ensuing preventive actions are shared throughout the prevention network so that the feedback benefits the entire group.

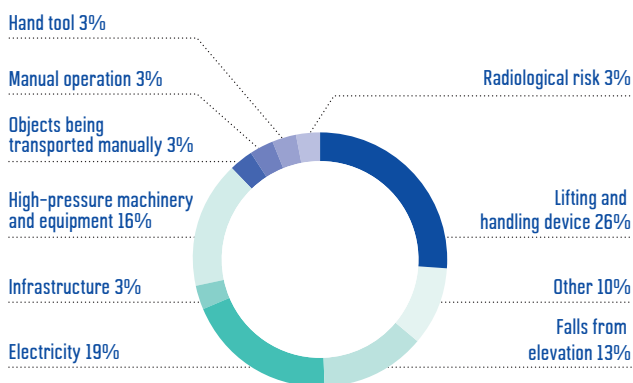
These main risks are also controlled through strong management involvement and changes in behaviour. To this end, the main levers put in place in recent years were continued in 2018:

- the management and cascading of OH&S actions by managers via dashboards for operational staff;
- the use of control loops containing OH&S indicators [departmental tools to assess their entities' performance relative to determined KPIs];
- manager involvement in the process of analysing accidents and incidents, talking to staff on the ground;
- incentives for employees to commit to risk prevention by completing risk situation reports; and
- management safety and environment inspections.

Key actions of 2018

In 2018, important initiatives were launched to improve our risk management. A common method for analysing serious accidents and incidents was defined (8D method). All prevention managers introduced this method on their sites and trained their teams in its use.

The chart below shows the causes of incidents that resulted in 8D analysis in 2018:



The “10 golden rules of safety” at Naval Group were created and deployed in 2018 on all Naval Group sites and some of its subsidiaries (Australia, Malaysia, Saudi Arabia, India, and Egypt). Their objective is to clarify the basic safety rules at Naval Group. They are non-negotiable and applicable to everyone present on the company’s sites. For these rules to become company standards, they are and will be integrated into OH&S analyses, communications campaigns, and more.

Occupational health and safety (OH&S) communication

Communications campaigns remain a key vector for sharing the results, actions and programs with all employees and getting everyone on board. They are conducted on line, in the Naval Group internal magazine and local OH&S journals, and in connection with events such as Occupational Health & Safety Week and World Environment Day.

Local and national communications operations are also periodically conducted on the sites’ key themes; interviews with the main company risk prevention participants are conducted to inform and educate staff about the prevention measures developed.

In 2018, an OH&S communications plan was rolled out on a monthly basis. These campaigns, deployed in the form of posters, intranet articles, and vehicles for “safety chats”, are used to target current topics common to all the sites, such as ergonomics, traffic, and shared vigilance.

International support

International development is a key factor for Naval Group. The company’s growth depends on our ability to meet our clients’ needs in France and internationally and guarantee our employees’ safety. To accomplish this, an international occupational health and safety network was launched in 2018. It includes the prevention officers of the five Naval Group subsidiaries with the largest workforce: Australia, Malaysia, Saudi Arabia, India, and Egypt. The purpose of this network is to define occupational health and safety requirements and expectations and to discuss them regularly and share best practices.

In addition, to guarantee optimal control of the safety of expatriate employees and employees on assignment, the actions launched in previous years were continued:

- 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 definition of essential training prior to departure on an expatriation assignment.

3.2.5. ABUSE AND FRAUD (HUMAN RIGHTS, HARASSMENT, TEMPORARY STAFF, DISCRIMINATION, REGULATION INCLUDING RESTRAINTS)

Issue

Naval Group is committed to its stakeholders, clients, suppliers, employees, and national and local communities, and must ensure respect for all rules and laws applicable to the company, to its employees as well as its executives, and to the commitments it has made which go beyond mere legislation (Global Compact, Sustainable Development Goals).

The company is organised so as to prevent and sanction conduct not compliant with the rules or laws, and which may harm employees, the group and its various external stakeholders.

Detailed description

Inappropriate conduct includes:

- non-compliance with the rules of company agreements, such as working hours, leave, overtime, compensatory time, and recovery days;
- more generally, non-compliance with the Labour Code;
- failure to apply the Human Rights Charter: discrimination in all its forms, harassment;

- disciplinary misconduct: data falsification, unfounded payment claims, deviant conduct at any level whatsoever.

These situations may result from the inadequacy of internal controls.

Impact

The company implements actions to manage the risks of such inappropriate conduct arising and thereby avoid the financial and operational impacts of fines and sanctions as well as the social and environmental impacts and anything that could undermines the Naval Group image.

Policy and structure in place

Naval Group has created several systems for managing this risk of abuse and fraud, by:

- setting up rules suited to the entire group and its subsidiaries, and to its own suppliers (Code of Ethics, Human Rights Charter);
- signing agreements with trade unions (2017 company agreement, agreement on quality of life at work);
- setting up a whistleblowing system with a network of contacts for handling complaints of discrimination or harassment;
- training and advising managers via labour law practitioners;
- identifying second-line risk management entities in charge of monitoring and controlling the application of the systems in place to mitigate these risks, each in their scope, such as the Financial, Procurement, Human Resources, Export Control, Group Safety, and Group Ethics, Compliance and Governance Departments;
- the proper application of these rules and systems also requires communication, management, and training.

News

In 2018, human resources managers and members of the Ethics and CSR Committee were trained in recognising discrimination (interview/assessment rules and policies).

Managers also take part in communications campaigns, led jointly by a lawyer from the Human Resources Department and the Ethics and CSR Director.

Performance indicators

Measurement of these systems' effectiveness is through the number of proceedings for sanctions brought internally as well as the legal disputes the company has to address. These indicators are tracked internally.

3.2.6. RISKS RELATED TO INDUSTRIAL RELATIONS

Issue

Good social dialogue within the company is a factor in its performance. This strengthens employees' trust in the group and legitimizes the role of employee representation and the agreements signed.

For this reason, Naval Group pays very close attention to the quality of social dialogue to conduct the company's transformation projects, implement new organisations, or change operating methods and for anything that can impact jobs and the workforce or undermine the social climate.

Detailed description

The negative impact of deterioration in the dialogue with trade unions can bottleneck the plans for transforming the organisation or modernising processes, and erode the confidence of external bodies (labour inspectorate), authorities, the main industrial shareholders, and clients, going as far as to suspend operations due to collective strike action.

This can also have personal consequences on health (psycho-social risks) and, generally speaking, security.

Impact

These situations can result in unforeseen financial costs due to the delay in meeting milestones and, eventually, missing the contractual delivery date. A poor social climate and social dialogue also have an impact on the company's image, specifically its employer image which, again, is detrimental.

Policy and structure in place

The structure of Naval Group, specifically its Industrial Relations Department within the Human Resources Department, is focused on permanently maintaining constructive industrial dialogue with employee representatives and trade unions. It is structured with a corporate team and industrial relations officers for each of the company's nine establishments. The site's industrial relations officer reports to the establishment's Human Resources Director. He or she uses the services of a labour lawyer. At the corporate level, the Human Resources Director is surrounded by a two-person industrial relations team, a four-person legal team, and a two-person publicly-run Health and Employee Division.

Relations with the trade unions and employee representatives are structured according to the company agreement revised in 2017. This agreement dedicates two chapters to industrial dialogue, one for rules and methods of employee representation (Social

and Economic Committees, CSE] and one for the trade unions. The resources allocated go well beyond the strictly legal, and the structure for informing and consulting with the entities is based on a desire for great transparency, involving players well upstream of decisions having an impact on organisations and people.

News

2018 was the year for negotiating the new employee representation structure resulting from the “Macron decrees” of September 2017. Naval Group and its trade unions reached a majority agreement signed in July 2018. The agreement defined the new representation rules with a Central Social and Economic Committee [CSEC] and Social and Economic Committees for each establishment. New employee representatives were elected in October, and these new employee representative institutions are in place.

A seminar between the General Management and the Central Social and Economic Committee is scheduled for late January. More regularly, the members of General Management attend CSEC meetings on issues of general company policy.

Performance indicators

To measure the quality of social dialogue, the company takes into account the number of agreements signed, the volume of non-technical lost time, and short-term absenteeism. In 2018, ten agreements were signed.

3.2.7. INADEQUACY OF KEY SKILLS

Issue

Naval 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. Naval Group’s products include leading-edge technology systems and require very specific skills and know-how.

Any losses in this area can be especially damaging for the group in a context of rapidly changing regulations, standards, and industrial practices, and technology.

Detailed description

The 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.

These difficulties could arise from:

- the inability to recruit and retain talent;
- a failure in the identification of key skills required for the implementation of the company’s strategy;
- a lack of career pathways;
- a failure in knowledge transmission when managing successions.

Impact

The consequences can be very damaging for the group: a risk of not maintaining the group’s high technology standard and, eventually, a risk of losing clients and markets.

Policies and structure in place

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 Human Resources Department [HRD] and the Communications Department have stepped up their employer brand action plan with the objectives of creating talent pools in critical areas and occupations where there is a shortage of talent. The HRD runs a partnership policy with schools and training institutions to promote recruitment in the key areas of its activity.

In addition, Naval Group supports and contributes to the development of the Naval Industries Campus, which is aimed at creating “navalising” training programs and making the industry more attractive.

To support these actions, in 2018, the group enhanced its information system to stay ahead of its resource and skills requirements in the medium and long term. This makeover has continued into 2019 with the extension of the information system to the areas of attractiveness, co-opting, and employee advocacy.

Moreover, the many career and geographic mobility options including international transfers, the set-up of systems for detecting high potential, investment in training and knowledge transmission, enhance the group’s attractiveness.

Every year, a network of group speciality managers [covering the group’s eight specialities] maps out the trends in all jobs in terms of the medium-term plan. Locally, each site creates a local strategic jobs and skills management plan [GPEC], which is also discussed with the local employee representative bodies. This analysis generates action plans on hiring, training, and establishing knowledge-transmission actions.

In addition to the GPEC systems in place for all its activities, Naval Group specifically tracks the occupations critical to national sovereignty: four so-called “sovereign” families are managed by family heads who make sure the group has up-to-date mapping of the existing skills and of typical career pathways, and organise cross-departmental career reviews.

In addition, the group has established an attractive remuneration policy and implements employee profit-sharing under both the statutory and voluntary schemes, as well as employee share ownership and savings schemes which enable employees to own a stake in Naval Group, thus encouraging identification with and loyalty to the group.

Organisation

The team's structure for managing skills issues is as follows:

- a Recruitment and Mobility unit [head office and sites], serving Human Resources Business Partners [HRBP] who communicate their resource needs;
- a Training Manager who defines the group's training policy with regard to strategic issues [strategic plan] and provides a framework for the group's strategy, which is then deployed and expanded by department. Naval Group University works to optimize and expand the offer with regard to this policy;
- a team of mobility and attractiveness managers across our major labour pools [Normandy, Brittany, Pays de la Loire, Nouvelle Aquitaine, and South];
- 3 Key Account Managers for "development and skills," who are assigned to one or more departments [HR relay to business lines]: they ensure the rollout of the development and skills policy, GPEC, training, and recruitment;
- a corporate GPEC and career development team, which plots out GPEC timetables and career management with HR BP, and manages the network of group speciality contacts.

News

In 2018, the main key skills management activities were as follows:

- preparation of the submarine ramp-up: criticality report, skills diagnostics within the group, action plans [*e.g.* creation of a school for integrators-planners on the Cherbourg site to anticipate submarine research requirements];
- integration of a standard "shipyard training" program for transmission of technical knowledge via on-the-job training;
- launch of a targeted external communications plan in keeping with our audience, based on ongoing reputation diagnostics;
- support for the development of the Naval Industries Campus: participation in industry promotional campaigns to schools and training institutions, contribution to the identification of industrial workers' training needs;
- work on employability and coaching of employees in their professional careers, GPEC, and the reform of professional training.

Objectives

These are the objectives pursued in 2018:

- carry out HR restructuring while meeting 100% of jobs and skills requirements. The completion of 100% of our staffing plan testifies to the achievement of these objectives;
- develop a "field" technical training solution: set-up of tutorials on the Learning Management System [LMS] teaching how to perform technical procedures, deployment of "shipyard training", financing and formalisation of seamanship actions. These actions are now integrated in the training offer, and will be developed in 2019.

In 2019, the objectives are to:

- staff critical positions and sovereign families: followed up by the creation of positions to be filled in these families;
- create talent pools in occupations where there is a shortage of talent: followed up by recruitment to occupations where there is a shortage of talent;
- structure career pathways for high potentials and integrate high-potential workers, technicians, and supervisors into these pathways.

Performance indicators

To measure the quality of key skills management, the rate of progress in the staffing plan for occupations where there is a shortage of talent and critical skills is monitored.

In addition to the monitored objectives mentioned above, Naval Group tracks and publishes several performance indicators related to the policies implemented to reduce the risk of lack of key skills:

- 2,066 people were hired by the group in 2018, of which 1,544 on permanent contracts, compared to 1,817 in 2017, an increase of 13.7%, responding to the need to fill a significant number of positions;
- 1,417 people left the group in 2018, including 48 redundancies, compared to 1,172 in 2017, for a turnover of 9.3%, up 1.2 point over 2017 [8.1%].

3.2.8. PERSONAL DATA PROTECTION – PRIVACY

Issue and detailed description

Naval Group is keenly attuned to personal data protection. Compliance with personal data protection rules is a major focus of controlled IT development and new technologies at Naval Group. As such, and in light of the cross-departmental nature of the issue, it should be a factor in the group's processes.

Impact

The entry into force of the General Data Protection Regulation [GDPR] has highlighted the importance of protecting personal data and its operational, legal, financial, ethical, and reputational impacts.

Policy and organization

Naval Group enhanced its personal data protection system in November 2017 by appointing a Data Protection Officer [DPO] at group level who also handles relations with the personal data protection authorities. The DPO reports to the group's General Secretary.

For the performance of his or her duties, the DPO is supported by a deputy and a network that is structured around the DPO's officers in the group's various departments as well as dedicated contacts on every site.

Their duties are to assist, advise, inform, and respond to the requests of all of the group's entities about personal data protection.

The DPO and the deputy analyse and verify the compliance of processing activities and perform audits to ensure compliance. They are also consulted when any new personal data processing is introduced and hold the data processing register on behalf of Naval Group.

A section in the group intranet is dedicated to personal data protection. It summarizes individual rights and provides a methodology for the network and all employees to ensure personal data security and protection. This information is also posted at our sites to clarify, especially for employees, the procedure to be followed for exercising the rights they hold under the personal data protection regulation.

News

The system described above was set up in 2018. 2019 will be dedicated to strengthening the established governance and embedding personal data protection into the group's DNA.

Performance indicator

Metrics for assessing the effectiveness of the privacy policy will also be defined in 2019.

3.2.9. RISK OF CORRUPTION AND INFLUENCE PEDDLING

Issue

Against a background of international development and an evolving regulatory environment, Naval Group's clients expect mutual commercial relations to be exemplary in terms of demonstrating compliance with the applicable national and international standards and laws, in particular with regard to combating corruption and influence peddling (compliance)

Detailed description

The risk of corruption and influence peddling is identified as one of the group's risks for activities in France and internationally, specifically in the subsidiaries. It is handled in the context of a group compliance system that covers both sponsoring and charity activities as well as participation in politics and the community, gifts or hospitality given or received, business relationships with third parties, and recognition of transactions in accounting entries.

Impact

The risk of corruption and influence peddling is recognised first for reasons of ethics and law, and for its potential negative impact on economic activity, the group's image and, by extension, that of its employees, and ultimately on the company's viability.

Policy and structure in place

In addition to the whistleblowing system in place and the existence of an Ethics and Corporate Social Responsibility Committee since 2009, the group resolved in 2017 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, particularly French Law no. 2016-1691 of December 9, 2016 on transparency, the fight against corruption and the modernization of the economy ["Sapin 2"].

Naval Group has an Ethics, Compliance and Governance Department that is the second line of control for the risk of corruption (establishment of standards, implementation of the compliance system in the group and subsidiaries, supervision, internal control) and relies on a network of Compliance Officers placed with entity directors. As a reminder, the first line of control is composed of the operational entities which act in compliance with the group's processes and the third line of control is based on the internal audit activity which assesses all of the group's systems and activities.

News

In 2018, the standards were thoroughly updated with the creation or update of a set of documents on anti-corruption and influence peddling: Code of Ethics, Code of Compliance conduct, code of conduct for suppliers, handbook of ethical conduct, policy on application of ethical standards in the group's subsidiaries, associates, and holdings, instruction in participating in community and political life, in lobbying activities and benevolent activities, philanthropy, charity and sponsoring, and instruction on gifts, meals and other types of hospitality, which is based on the reporting of tokens of hospitality in a dedicated application in view of their prior approval. In addition, the number of due diligence checks performed before entering into doing business with third parties has risen sharply, in connection with the instruction on entering into business relationships with designated third parties.

Implementation of this compliance system continued in the subsidiaries.

These instructions are disseminated by publication in the internal information system of the group's companies as well as training provided to the most exposed individuals; meanwhile, all new hires have received such training.

An International Ethics and Compliance Day is held every year so that the key messages are passed to all of the group's employees.

Performance indicators

Performance indicators on compliance will be set in 2019.

3.2.10. PRODUCT SAFETY - NUCLEAR SAFETY

This risk is detailed in paragraph 1.2.7.6. Product safety

3.2.11. PRODUCT SAFETY - DIVING SAFETY

This risk is detailed in paragraph 1.2.7.8. Nuclear and Pyrotechnics Inspectorate.

3.3 THE FRENCH DUTY OF VIGILANCE LAW APPLICABLE TO PARENT AND SUBCONTRACTING COMPANIES

3.3.1. MEASURES IN PLACE

Since 2012, Naval Group has assessed the environmental, social and ethical risks carried by its tier 1 suppliers through document audits and, if necessary, field audits.

As a result of the entry into force of Law no. 2017-399 of March 27, 2017 on the Duty of Vigilance applicable to parent and subcontracting companies, Naval Group has rolled out a plan including reasonable vigilance measures for identifying risks and preventing serious violations of human rights and fundamental freedoms, personal and environmental health and safety, resulting from the activities of the group itself, as well as the activities of its tier 1 subcontractors or suppliers with whom it is in an established business relationship, when those activities are connected with that relationship.

This plan includes the following five measures:

- mapping of risks (identification, analysis and ranking of the relevant risks);
- procedures to regularly assess the situation concerning subsidiaries, suppliers or subcontractors with regard to this 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.

In 2018, Naval Group prepared a single risk map for corporate social responsibility (CSR) including, in addition to the topics within the scope of the law on the duty of vigilance, the fight against corruption and influence peddling. This mapping is used to assess the group's risks. These risks, which are described in point 3.2. above, are monitored by each of the entities in charge, specifically: the central Occupational Health, Safety and

Environment Department [see 3.2.4 above], the Eco-Design Unit [see 3.2.3], the Human Resources Department [see 3.2.5], the Data Protection Officer [see 3.2.8], and the group Ethics, Compliance, and Governance Department [see 3.2.9].

With regard more particularly to human rights, Naval Group has enacted a Human Rights Charter that defines the company's commitments. This charter lists the "Ten Principles" of the Global Compact regarding human rights and international labour standards, which Naval Group has adopted.

To enforce these principles, the vigilance plan is built on the following actions:

- the implementation of actions as set out in the "diversity" agreement of January 25, 2018 on training for human resources managers and department heads. The "diversity" agreement also provided for the establishment of discrimination standards to which everyone can refer, as they do with the ethics whistleblowing system;
- the group has also provided subsidiaries with an auto-diagnostic tool allowing them to analyse their situation with regard to Naval Group's commitments and establish an action plan.

These actions will be assessed during the audit of Naval Group's CSR policy.

The mapping is also used to assess the risks for each type of purchase involving CSR risks related to tier 1 suppliers and subcontractors, and integrates issues specific to procurement: business volume, criticality of the type of purchase, and the suppliers' geographic location, which also highlights the nature of the most critical purchases and helps to prioritize the actions to be taken with Naval Group's suppliers.

The results of the assessments lead to action plans integrated with the plan to mitigate supplier risks and, as appropriate, are monitored by the Supplier Risk Committee, whose objective is to ensure control of supplier risks. It is made up of the relevant departments and chaired by the Chief Procurement Officer. In addition, a Supplier code of conduct is referenced in the general purchasing conditions. This code of conduct reminds suppliers of their obligation to comply with Naval Group's Code of Ethics and compliance code of conduct.

A CSR self-assessment by each supplier in Naval Group's panel is conducted by a specialized independent body, and special attention is paid to suppliers active in the types of purchasing identified as being at greatest risk in the risk mapping. For suppliers whose CSR assessment falls short, action plans are gradually put in place at annual steering committee meetings held individually with each supplier, and their progress is regularly monitored.

3.3.2. WHISTLEBLOWING SYSTEM

For many years, Naval Group has had a hotline and a system for collecting and handling whistleblowing reports. When French Law no. 2016-1691 of December 9, 2016 on transparency, the fight against corruption and the modernization of the economy, known as "Sapin 2" (article 8 § III on whistleblowers and article 17 § II-2) and Law no. 2017-399 of March 27, 2017 on the duty of vigilance came into force, and in order to make this hotline more accessible internationally, it was redubbed ethics@naval-group.com.

This hotline is open to all regular and occasional employees, regardless of status, entities controlled by the group, as well as all of the group's stakeholders (clients, suppliers, subcontractors, partners, etc.).

It appears on the company's website as well as in the ethics and compliance standards: Code of Ethics, compliance code of conduct, and supplier code of conduct.

The Ethics and CSR Committee, which is chaired by the group's Chief Ethics, Compliance and Governance Officer and whose members are appointed by the Chairman and Chief Executive Officer, is tasked with:

- responding to any contact made through the secured hotline, whether for a simple question or a whistleblowing report;

- carrying out investigations to follow up on reports made through the hotline, in strict compliance with the rules of confidentiality; and
- as applicable, it recommends the appropriate actions and/or sanctions, if there is any demonstrated deviation from ethical standards [as described in paragraph 1.2.6.1. above].

3.3.3. MONITORING SYSTEM

A "vigilance plan" working group, steered by the group Ethics, Compliance and Governance Department has been in place since mid-2017 with the relevant departments and an internal stakeholder. This working group met twice in 2018. The system defined for following up on actions within the company and its controlled subsidiaries stipulates that the Ethics and CSR Committee ["CERSE"] is responsible for setting up suitable actions to mitigate risks or prevent serious breaches. A dedicated commission of the CERSE was created for this purpose and two inaugural meetings are already scheduled for early 2019.

IV. CORPORATE GOVERNANCE REPORT

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

4.1. LIST OF OFFICES AND POSITIONS HELD BY EACH CORPORATE OFFICER DURING THE FINANCIAL YEAR ENDED DECEMBER 31, 2018

	Company	Function or office
Hervé Guillou	Naval Group	Chairman and Chief Executive Officer
	BE MAURIC	Member of the Supervisory Board
	SNEF	Administrator
	Compagnie Maritime d'Expertises – Comex	Administrator
	Les Chantiers de l'Atlantique	Administrator
	CICS	Officer, Treasurer
	GICAN	Chairman
	3 CAP ADVISOR SCI LE CLOS DE LA BOURRASQUE	Chairman Manager
Sophie Mantel	Ministry of Finance and Public Accounts	First Grade Business and Finance Controller, Head of department, Deputy Director of Budget Management
	Naval Group	Administrator
	Française des Jeux	Government Commissioner on the Board of Directors
	PMU	Administrator
	La Poste	Administrator
	SNCF Mobilités	Administrator
Pascal Bouchiat	Thales	General Director, Finance and IT Systems
	Naval Group	Administrator
	Thales Alenia Space	Administrator
Nathalie Ravilly	Thales	Vice-President, Defense Strategy and Corporate Development
	Naval Group	Administrator
	Telespazio S.p.A	Chair of the Board of Directors
	Thales Alenia Space	Administrator
	Elettronica	Administrator
	Thales Germany	Administrator

	Company	Function or office
Gabrielle Gauthey	Naval Group	Administrator
	GECINA	Administrator – Chair of the Audit Committee
	RADIALL	Member of the Supervisory Board
	Company	Function or office
Bernard Rétat	Naval Group	Administrator
	Company	Function or office
Jacques Hardelay	Chantier naval de Marseille SAS [CNM]	Chairman
	Naval Group	Administrator
	GICAN	Administrator
	UIMM 13	Administrator
	Club de la Croisière	Administrator
	Company	Function or office
Luc Rémont	Schneider Electric Industries SAS	Executive Vice-President International Operations
	Naval Group	Administrator
	Atos Worldline	Administrator
	Company	Function or office
Patrice Caine	Thales	Chairman and Chief Executive Officer
	Naval Group	Administrator
	L'Oréal	Administrator
	Company	Function or office
Sandra Lagumina	Meridiam	COO Asset Management
	Naval Group	Administrator
	FNAC Darty	Administrator [from 05/25/2018]
	Company	Function or office
Caroline Laurent	French National Defence Procurement Agency	Director of Strategy
	Naval Group	Administrator
	Company	Function or office
Gilles Rapale	Naval Group	Director of Program modifications PA CDG
	Naval Group	Administrator
	Company	Function or office
Isabelle Roué	Naval Group	Prevention/Environment Officer
	Naval Group	Administrator

	Company	Function or office
Laurent Chagnas	Naval Group	Technical and Administrative Secretary
	Naval Group	Administrator
Jacques André	Naval Group	Combat System Integrator-Maintenance Engineer
	Naval Group	Administrator
Joël Ricaud	Naval Group	Internal and External Relations Officer Greater Nantes
	Naval Group	Administrator
Thierry Barbarin	Naval Group	Safety Officer
	Naval Group	Administrator

DIRECTOR WHOSE TERM OF OFFICE IN NAVAL GROUP ENDED DURING THE FINANCIAL YEAR ENDED DECEMBER 31, 2018

	Company	Function or office
Bertrand Le Meur	Ministry of Defence	Head of the Department of Industrial Affairs and Economic Intelligence
	Naval Group	Administrator
	Thales*	Member of the Board of Directors of Thales for specific action
	Ariane Group	Administrator
	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].

4.2. LIST OF AGREEMENTS BETWEEN AN EXECUTIVE OR MAJOR SHAREHOLDER OF NAVAL GROUP, ON THE ONE HAND, AND A SUBSIDIARY OF NAVAL GROUP ON THE OTHER (EXCLUDING CURRENT AGREEMENTS ENTERED INTO UNDER NORMAL CONDITIONS)

None.

4.3. LIST OF DELEGATIONS OF AUTHORITY OBTAINED FROM THE GENERAL MEETING UNDER ARTICLES L. 225-129-1 AND L. 225-129-2

None.

4.4. CHOICE OF MODE OF GENERAL MANAGEMENT

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.

V. APPENDIX 1

PROPOSAL TO ALLOCATE THE EARNINGS OF NAVAL GROUP SA FOR THE YEAR ENDED DECEMBER 31, 2018

Ruling under 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, 2018 totalling €136,222,999.84 as follows:

- earnings for the year: €136,222,999.84;
- to which is added retained earnings: €135,956,087.63.

Resulting in distributable earnings of €272,179,087.47:

- amount to be distributed to shareholders in dividends: €87,828,000; and
- the balance of retained earnings to carry forward: €184,351,087.47.

Retained earnings have thereby risen from €135,956,087.63 to €184,351,087.47.

VI. APPENDIX 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 20, 2019.

RELATED-PARTY AGREEMENTS SIGNED IN 2018 APPROVED BY THE BOARD OF DIRECTORS

Parties to the contract	Subject matter of the contract	Date signed
Naval Group and the French State	Share purchase agreement with the company Les Chantiers de l'Atlantique [formerly STX France] <i>Approved by the Board of Directors on July 17, 2018</i>	07/18/2018 [effective date August 1, 2018]
Naval Group and the French State	Shareholder agreement with the company Les Chantiers de l'Atlantique [formerly STX France] <i>Approved by the Board of Directors on July 17, 2018</i>	07/18/2018 [effective date August 1, 2018]
Naval Group, the State, and COFIPME, in the presence of the company Les Chantiers de l'Atlantique	Shareholder agreement with the company Les Chantiers de l'Atlantique [formerly STX France] <i>Approved by the Board of Directors on July 17, 2018</i>	07/18/2018 [effective date August 1, 2018]

AGREEMENTS SIGNED IN PREVIOUS YEARS AND STILL IN EFFECT DURING THE 2018 FINANCIAL YEAR

RELATED-PARTY AGREEMENTS SIGNED IN 2017 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/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/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 2014 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 Eurosystnav SAS would be implemented by the latter	May 24, 2004

RELATED-PARTY AGREEMENTS SIGNED IN 2013 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

CONSOLIDATED FINANCIAL STATEMENTS

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 - II. Consolidated statement of financial position – *P. 52*
 - III. Consolidated equity – *P. 54*
 - IV. Consolidated statement of cash flows – *P. 55*
 - V. Notes – *P. 57*
 - VI. Statutory Auditors' report on the consolidated financial statements – *P. 93*
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Year ended December 31, 2018

All amounts are in millions of euros unless otherwise stated.

I. STATEMENT OF COMPREHENSIVE INCOME

Consolidated income statement

	Notes	2018	2017*
Revenue	2.1.	3,608.3	3,194.1
Cost of sales		(2,969.2)	(2,655.5)
Research and development costs	2.2.2.	(82.5)	(88.0)
Marketing and selling expenses		(119.9)	(116.2)
General and administration expenses		(145.7)	(166.0)
Operating profit/loss from ordinary activities before amortisation of intangible assets acquired in business combinations	2.2.	291.0	168.4
Amortisation of intangible assets acquired in business combinations	2.2.	(0.7)	(0.7)
Operating profit/loss from ordinary activities		290.3	167.7
Other operating income	2.2.4.	130.4	47.6
Other operating expenses	2.2.5.	(174.3)	(123.9)
Operating profit/loss before net income from equity affiliates		246.4	91.4
Net income from equity affiliates	3.3.	7.6	(0.2)
Operating profit/loss after net income from equity affiliates		254.0	91.2
Income from financial investments	2.3.	7.8	25.6
Other financial income	2.3.1.	20.3	23.9
Other financial expenses	2.3.2.	(27.7)	(40.6)
Net financial income/expense	2.3.	0.4	8.9
Income tax	2.4.	(90.8)	(117.1)
NET PROFIT/LOSS FOR THE PERIOD		163.6	(17.0)
attributable to owners of the parent		178.2	93.2
attributable to non-controlling interests		(14.6)	(110.2)
Basic and diluted earnings per ordinary share (in €)	2.5.	1.60	0.84

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

Consolidated statement of comprehensive income

	2018	2017*
Net income [loss]	163.6	(17.0)
<i>Items to be subsequently reclassified to the income statement</i>	<i>0.2</i>	<i>(46.1)</i>
Financial assets available-for-sale	0.0	(29.0)
Cash flow hedge	0.2	(17.1)
<i>Items that cannot be reclassified to the income statement</i>	<i>0.1</i>	<i>(0.9)</i>
Translation differences on the conversion of foreign businesses	(1.6)	(1.5)
Actuarial gains and losses	1.7	0.6
Income and expenses recognised in equity, before tax	0.3	(47.0)
Tax recognised directly in equity	(0.5)	16.2
Income and expenses recognised in equity	(0.2)	(30.8)
TOTAL INCOME AND EXPENSES FOR THE PERIOD	163.4	(47.8)
attributable to owners of the parent	178.1	62.4
attributable to non-controlling interests	(14.6)	(110.2)

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

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.

	2018	2017*
Operating profit/loss from ordinary activities before amortisation of intangible assets acquired in business combinations	291.0	168.4
Share of operating income of equity affiliates	18.7	5.9
Other operating income	130.4	47.6
Other operating expenses	(174.3)	(123.9)
EBITA	265.8	98.0

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

II. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

	Notes	12/31/2018	12/31/2017*
Intangible assets	3.1.	72.8	89.8
Goodwill	3.2.	382.8	382.8
Property, plant and equipment	3.1.	513.5	545.8
Share in net assets of equity affiliates	3.3.	82.3	91.2
Non-current financial assets	4.1.	319.7	120.0
Other non-current assets		1.0	0.7
Deferred tax assets	2.4.	220.8	246.4
Non-current assets		1,592.9	1,476.7
Inventories and work in progress	3.4.	452.3	454.1
Trade receivables	3.5.	10,304.8	8,948.2
Advances and part payments paid		880.5	1,084.1
Current financial assets	4.1.	144.7	238.8
Current tax receivable		81.8	1.9
Other receivables	3.5.	259.6	201.8
Cash and cash equivalents	4.2.	1,976.4	2,475.2
Current assets		14,100.1	13,404.1
TOTAL ASSETS		15,693.0	14,880.8

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

Equity and liabilities

	Notes	12/31/2018	12/31/2017*
Share capital		563.0	563.0
Premiums		18.4	18.4
Treasury shares		[79.2]	[71.9]
Remeasurement of financial instruments		4.7	4.5
Translation differences		[3.0]	[0.7]
Actuarial gains and losses		[15.0]	[16.1]
Other reserves attributable to owners of the parent		410.2	367.3
Consolidated income attributable to owners of the parent		178.2	93.2
Equity attributable to owners of the group	3.	1,077.3	957.7
Non-controlling interests		21.9	[13.0]
Total equity	3.	1,099.2	944.7
Non-current provisions	3.7.	168.6	112.7
Non-current financial liabilities	4.1.	47.6	52.3
Other liabilities	4.3.	0.7	21.9
Deferred tax liabilities	2.4.	7.6	7.0
Non-current liabilities		224.5	193.9
Current provisions	3.7.	611.0	626.8
Trade payables	3.8.	1,114.5	1,122.7
Advances and part payments received		11,638.4	11,244.2
Current financial liabilities	4.1.	25.8	25.5
Current tax payables		2.1	29.4
Other payables	3.8.	977.5	693.6
Current liabilities		14,369.3	13,742.2
TOTAL EQUITY AND LIABILITIES		15,693.0	14,880.8

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

III. CONSOLIDATED EQUITY

	Number of shares	Share capital	Pre-miums	Other reserves	Treasury shares	Remeasur-ment of financial instruments	Cash Flow hedge	Translation differences	Actuarial gains and losses	Equity attrib-utable to owners of the group	Non-control-ling interests	Total equity
January 1, 2017 IFRS 15	55,808,902	563.0	18.4	366.7	(68.4)	22.9	11.9	1.0	(16.5)	899.0	86.2	985.2
Consolidated comprehensive income		-	-	93.2	-	(19.0)	(11.2)	(1.5)	0.4	61.9	(110.2)	(48.3)
Dividend payments		-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(41,149)	-	-	3.8	(3.8)	-	-	-	-	-	-	-
Other		-	-	(3.4)	0.3	-	(0.1)	-	-	(3.2)	11.0	7.8
December 31, 2017 IFRS 15	55,767,753	563.0	18.4	460.3	(71.9)	3.9	0.6	(0.5)	(16.1)	957.7⁽¹⁾	(13.0)	944.7
Consolidated comprehensive income		-	-	178.2	-	-	0.2 ⁽²⁾	(1.6) ⁽⁵⁾	1.1	177.9	(14.6)	163.3
Dividend payments		-	-	(57.2) ⁽³⁾	-	-	-	-	-	(57.2)	-	(57.2)
Treasury shares	(38,938)	-	-	7.7	(7.7)	-	-	-	-	0.0	-	0.0
Other ⁽⁴⁾		-	-	(0.7)	0.4	-	-	(0.8) ⁽⁵⁾	-	(1.1)	49.5	48.4
DECEMBER 31, 2018	55,728,815	563.0	18.4	588.3	(79.2)	3.9	0.8	(2.9)	(15.0)	1,077.3	21.9	1,099.2

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

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

[1] The impact of the transition from IAS 11 and IAS 18 to IFRS 15 is reflected in equity at December 31, 2017 with a net impact of (€82.5) million.

[2] The impact of the cash flow hedge of €0.2 million was made up of the following:

- amount before tax: (€0.228) million;
- deferred tax recognised: (€0.08) million.

[3] The dividend payment of (€57.2) million was allocated as follows:

- the French State: (€47.2) million;
- Thales: (€10) million.

[4] The item in the "Other" line mainly reflects the deconsolidation of the OpenHydro group.

[5] See note 3.6.5.

IV. CONSOLIDATED STATEMENT OF CASH FLOWS

	2018	2017*
Net income [loss]	163.6	(17.0)
Add [deduct]:	-	-
Net depreciation and amortisation expense/[reversal]	91.9	106.8
Net provision expense/[reversal]	57.6	121.0
Net asset impairment loss/[reversal]	88.8	100.2
Changes in fair value of financial instruments	6.7	[0.9]
Net gain on disposals	[90.6]	7.0
Change in employee share offer liability	7.7	3.8
Tax expense/[income]	90.8	117.0
Share in income/[loss] of equity affiliates	[7.6]	0.2
Dividends received from equity affiliates	17.9	6.0
Other dividends received [reclassified to net financial investments]	[0.9]	[2.1]
Cost of financial debt	0.5	0.3
Cash flow from operations	426.4	442.3
Change in working capital [requirement]	[542.7]	[121.7]
Tax refunded/[paid]	[172.7]	[89.0]
Net cash inflow/[outflow] from operating activities	[289.0]	231.6
Changes in scope of consolidation	[9.1]	[80.8]
Purchases of property, plant and equipment and intangible assets	[91.1]	[100.7]
Disposals of property, plant and equipment and intangible assets	46.5	1.0
Acquisitions of holdings, net of cash acquired/brought into scope of consolidation	[18.9]	[0.2]
Change in loans and advance payments	[3.9]	[6.5]
Net operating investments	[76.5]	[187.2]
Decrease/[increase] in investment securities ⁽¹⁾	[73.6]	98.4
Decrease/[increase] in financial assets	0.9	2.1
Net financial investments	[72.7]	100.5
Net cash inflow/[outflow] from investing activities	[149.2]	[86.7]
Increase in capital - non-controlling interests	0.1	33.7
Dividends paid to owners of the parent	[57.2]	0.0
Dividends paid to non-controlling interests	0.0	0.0
Sale/[purchase] of treasury shares	[2.0]	[1.9]
Cash payments to or from shareholders	[59.1]	31.8
Increase in financial liabilities	2.0	5.8
Decrease in financial liabilities	[1.4]	[8.6]
Net change in financial liabilities	0.6	[2.8]
Net cash inflow/[outflow] from financing activities	[58.5]	29.0
Net change in cash	[496.6]	173.9
Net cash at beginning of period	2,475.2	2,301.9
Change in cash	[496.6]	173.9
Effects of changes in exchange rates/fair value	[2.2]	[0.6]
Net cash at end of period	1,976.4	2,475.2
Including cash assets at end of period	1,976.4	2,475.2
Including cash liabilities at end of period	-	-

⁽¹⁾ As stated in note 1.3.17, 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.

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

Net cash plus investment securities classified under other financial assets as per note 1.3.17 amounted to €2,372.5 million at December 31, 2018 (€2,798.2 million at December 31, 2017) and is made up as follows:

	12/31/2018	12/31/2017*
Non-current investment securities	251.9	92
Current investment securities	144.2	231
Net cash	1,976.4	2,475.2
TOTAL	2,372.5	2,798.2

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

V. NOTES

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1. RULES, POLICIES AND CONSOLIDATION SCOPE

1.1. EXAMINATION OF THE FINANCIAL STATEMENTS AND HIGHLIGHTS OF THE PERIOD

These consolidated financial statements of Naval Group for the year ended December 31, 2018 were approved by the Board of Directors on February 20, 2019 and will be submitted for approval by the Shareholders' Combined General Meeting to be held in March 2019.

The financial year 2018 was chiefly marked by the following major events:

- the French Ministry of Defence awarded Naval Group the order for the *Rubis*, the fifth Barracuda-class submarine, the order for the periodic maintenance and repair of the *Le Terrible* ballistic nuclear submarine, and the order for in-service support of multi-mission frigates during the period 2019-2022;
- on 18 December, Naval Group finalised the sale of the Saint-Tropez (Gassin) site, leading to the recognition of a capital gain for the 2018 financial year;
- margins to completion of naval defence programs have remained steady or have improved by comparison with the previous year;
- Naval Energies, in which Naval Group has a majority stake, decided to cease investing in tidal turbines, which led to OpenHydro and some of its subsidiaries being placed in liquidation. The financial impact of this loss of control was recognised for the 2018 financial year.

1.2. GENERAL PRESENTATION OF THE GROUP'S ACTIVITIES

Naval Group is a world leader in naval defence. 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. It also provides services to naval bases and shipyards. Lastly, the group offers a broad range of renewable energy solutions through its subsidiary Naval Energies.

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.

1.3. ACCOUNTING RULES AND POLICIES

1.3.1. 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, 2018.

The accounting rules and policies are identical to those applied in the consolidated financial statements for the year ended December 31, 2017, except for the initial application of IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments".

1.3.2. New standards and interpretations and their mandatory application

1.3.2.1. Initial application of IFRS 15

The main changes resulting from IFRS 15 "Revenue from Contracts with Customers" are described in note 1.3.2.1 to the 2017 consolidated financial statements.

As Naval Group opted for the full retrospective method, the financial statements presented for comparative financial years were restated with the impacts shown below. IFRS 15 has no impact on the cash flows presented in the statement of cash flows.

Consolidated statement of financial position at January 1, 2017	01/01/2017 published	Impact of IFRS 15	01/01/2017 restated
Share in net assets of equity affiliates	19.7	2.1	21.8
Deferred tax assets	198.5	18.9	217.4
Other non-current assets	1,404.7		1,404.7
Inventories and work in progress	505.3	[34.5]	470.8
Construction contracts: assets	455.1	[455.1]	0.0
Trade receivables	1,094.7	6,947.8	8,042.5
Other current assets	4,023.8	173.2	4,197.0
TOTAL ASSETS	7,701.8	6,652.4	14,354.2
Total equity	1,018.6	[33.4]	985.2
Non-current liabilities	184.9	1.5	186.4
Current provisions	246.8	249.6	496.4
Construction contracts: liabilities	550.6	[550.6]	0.0
Trade payables	1,674.9	[252.0]	1,422.9
Advances and part payments received	3,497.5	7,135.9	10,633.4
Other current liabilities	528.5	101.4	629.9
TOTAL LIABILITIES	7,701.8	6,652.4	14,354.2

Consolidated statement of financial position at December 31, 2017	12/31/2017 published	Impact of IFRS 15	12/31/2017 restated
Share in net assets of equity affiliates	88.8	2.4	91.2
Deferred tax assets	201.8	44.6	246.4
Other non-current assets	1,139.0		1,139.0
Inventories and work in progress	462.9	[8.8]	454.1
Construction contracts: assets	198.8	[198.8]	0.0
Trade receivables	1,283.4	7,664.8	8,948.2
Other current assets	4,002.0	[0.1]	4,001.9
TOTAL ASSETS	7,376.7	7,504.1	14,880.8
Total equity	1,027.1	[82.5]	944.6
Non-current liabilities	192.5	1.4	193.9
Current provisions	273.6	353.2	626.8
Construction contracts: liabilities	783.1	[783.1]	0.0
Trade payables	1,378.7	[256.0]	1,122.7
Advances and part payments received	3,239.9	8,004.3	11,244.2
Other current liabilities	481.8	266.8	748.6
TOTAL LIABILITIES	7,376.7	7,504.1	14,880.8

Consolidated income statement for 2017	2017 published	Impact of IFRS 15	2017 restated
Revenue	3,698.2	[504.2]	3,194.0
Cost of sales	[3,084.6]	429.1	[2,655.5]
Operating profit/loss from ordinary activities	242.8	[75.1]	167.7
Net income from equity affiliates	[0.5]	0.3	[0.2]
Income tax	[142.8]	25.7	[117.1]
NET INCOME (LOSS)	32.0	[49.0]	[17.0]
of which shareholders of the parent company	142.2	[49.0]	93.2
of which non-controlling interests	[110.2]		[110.2]
Net income [loss]	32.0	[49.0]	[17.0]
Other items of comprehensive income	[30.8]		[30.8]
COMPREHENSIVE INCOME	1.2	[49.0]	[47.8]

1.3.2.2. IFRS 16

Naval Group will apply IFRS 16 “Leases” with effect from January 1, 2019. The assets covered by IFRS 16 will be recorded in the statement of financial position under assets and the financial commitment will be recorded as a liability. As at December 31, 2018, the amount of off-balance sheet commitments given in respect of operating leases was as follows:

Naval Group SA: €110 million;

Subsidiaries: €6.1 million.

1.3.3. Consolidation policies

Companies over which Naval Group 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 since January 1, 2014.

Companies over which the group 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.

1.3.4. 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 contracts accounted for under the percentage of completion method and related provisions (notes 2.1, 3.5 and 3.8).

The recognition of revenue and gross profit on contracts accounted for under the percentage of completion method requires the income to be recognised in line with the performance of the contract, measured on the basis of the costs incurred to date. Whenever a program review reveals a negative gross profit, the loss relating to work not yet carried out is recognised immediately as a provision for the entire contract concerned.

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 or reasonably estimated indicators (contracted hourly rates and price review indices) for determining revenue and costs to completion. Therefore, the group uses statistical methods to determine the probable impact of future changes in such indicators on the gross profit to completion of its programs. Movements in such indicators are only taken into account if their probable impact on gross profit to 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.

Measurement of assets and liabilities under retirement benefit and similar obligations (note 3.8.1)

The group's measurement of assets and liabilities under defined benefit plans (retirement benefits, long-service bonuses, senior time bank scheme, strategic jobs and skills management and 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 3.1 and 3.2)

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 4.1)

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 3.6)

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

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 3.8). Any uncertainties concerning litigation in progress are described in note 5.3.2.

1.3.5. 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.

1.3.6. 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) and the Egyptian pound (EGP), which were 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 1.3.13. 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 1.3.13. 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. They 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 costs

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.

1.3.11. 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 1.3.9, its recoverable amount 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.

1.3.12. 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.

1.3.13. 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.

1.3.14. Inventories

Inventories not allocated to programs

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

Inventory impairment allowances 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.

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.

1.3.15. Revenue

As of 2018, the group's revenue recognition principles are as follows:

Segmentation of contracts into performance obligations

A contract may include several promises to transfer goods and services to a customer. Although Naval Group has traditionally treated a series of goods and services promised under a contract as a single accounting item, a contract may be divided into several performance obligations.

When these goods and services are considered separate within the same contract, they are treated as different performance obligations to be accounted for separately:

- each performance obligation has its own share of revenue, costs and profit, and
- the revenue recognition method [and recognition of the corresponding costs] is determined and recorded separately for each performance obligation.

Allocation of the transaction price to contract performance obligations

The purpose of this allocation is to calculate the amount of Naval Group's consideration in exchange for the transfer of the goods or services promised for each performance obligation. Therefore, this step is only applicable and/or relevant when a contract includes several performance obligations.

In most cases, when the selling price is disaggregated into several lots in the contract which correspond to or might relate to performance obligations, Naval Group expects the project teams to allocate the contract transaction price to each performance obligation.

Where it is not possible to disaggregate the price, or where there is objective evidence that the disaggregation does not accurately reflect the allocation of the selling price to the contract's performance obligations, the transaction price is disaggregated on the basis of individual selling prices.

The variable elements included in the contract selling price are only taken into account if it is highly probable that the subsequent removal of the uncertainties surrounding the variable element will not lead to a significant reduction in the revenue already recognised or forecast.

Penalties for delay or for the improper performance of a service obligation are taken into account in the analysis upon completion of each performance obligation and are deducted from income.

Contractual amendments negotiated with customers are included in the selling price only when they become legally enforceable.

Revenue recognition

Revenue is recognised as each associated performance obligation is satisfied, *i.e.* when the customer acquires control of the promised good or service. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.

Control of the goods is transferred progressively to the customer, with the corresponding revenue recognised under the percentage of completion method, provided it can be demonstrated that:

- the asset sold does not have an alternative use; and
- the group has an enforceable right to payment for performance completed to date (corresponding to costs incurred to date, plus a reasonable profit margin), in case of termination for reasons other than Naval Group's failure to perform.

The customer remains the owner of the asset on which Naval Group carries out maintenance, generally in the case of in-service support contracts.

The customer remains the owner of any asset undergoing a refit by Naval Group, particularly for contracts held by the Naval Group Services Division.

Revenue from service contracts is generally recognised on a percentage of completion basis, with the customer benefiting from the services as Naval Group performs them.

For some non-material contracts that are not accounted for under the percentage of completion method, the completed contract method is applied. The completed contract method consists of recognising the revenue and profit from the contract only on completion of the contracted work.

For reporting purposes, completion is defined as the technical completion of the programs.

Method for measuring progress

The group generally uses the percentage of completion method to measure progress: revenue is recognised on the basis of

costs incurred to date, as a percentage of all expected costs to completion.

Recognition of profit

Tender costs are expensed under "marketing and selling expenses" when they are incurred. They are therefore excluded from the contract margin.

All probable losses on contracts are provided for in full as soon as they become known.

Backlog

Only firm contracts awarded by the client and in effect are entered in Naval Group's order book. Conditional tranches, options and highly probable amendments are not entered in the order book until they are awarded.

As at December 31, 2018, the group's order book stood at €13.8 billion. Its provisional execution schedule is as follows: 23% in 2019, 20% in 2020, 16% in 2021, 17% in 2022 and 24% thereafter.

Treatment on losses at completion (LOC)

Losses on 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 on 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 on completion (LAC) must be made immediately to safeguard performance in future financial years from the negative outcome of this business.

1.3.16. 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.

1.3.17. 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.

1.3.18. 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);
- actuarial gains and losses are disclosed under “Other comprehensive income” as items that cannot be reclassified to the income statement;

- 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 ten years' service with the company to be eligible, in accordance with the company agreement dated April 11, 2017, together with its addenda.

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 in the senior time bank scheme, subject to a maximum of 130 days.

1.3.19. 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.

1.3.20. 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 impact of this decrease is recognised in profit or loss on the basis of the timetable for the reversal of temporary differences.

1.3.21. 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.

1.4. CHANGE IN SCOPE

As at December 31, 2018, the consolidation scope, consisting of fully consolidated subsidiaries and equity affiliates, was as follows:

<i>[in percentages]</i>	Country	Control at 12/31/2018	Interests at 12/31/2018	Control at 12/31/2017	Interests at 12/31/2017
Parent					
Naval Group	France				
Exclusive control					
Alexandria Naval for Maintenance & Industry ⁽¹⁾	Egypt	100	100	-	-
Armaris Quater SAS	France	100	100	100	100
Armaris Sixt SAS ⁽¹⁾	France	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	60	60	60	60
Naval Group Far East PTE Ltd	Singapore	100	100	100	100
Naval Group India PTE Ltd	India	100	100	100	100
Naval Group Malaysia	Malaysia	100	100	100	100
Naval Group Participations	France	100	100	100	100
Naval Group Support SAS	France	100	100	100	100
MO PA2 SAS	France	100	100	100	100
Sirehna SA	France	100	100	100	100
OpenHydro ⁽²⁾	Ireland	0	0	72	43
Naval Group BR Sistemas de Defesa	Brazil	100	100	100	100
Prosin	Brazil	100	100	100	100
DCNS Energia Marina Spa	Chile	75	44	75	44
Naval Group Australia Pty Ltd	Australia	100	100	100	100
DCNS Zamil	Saudi Arabia	55	55	55	55
Significant influence					
Boustead DCNS Naval Corporation SDN BHD	Malaysia	40	40	40	40
Défense Environnement Services SAS	France	49	49	49	49
Eurosysnav SAS	France	50	50	50	50
Itaguaí Construções Navais SA	Brazil	41	41	41	41
Kership SAS	France	45	45	45	45
Winacelles SAS ⁽³⁾	France	0	0	41	41
Principia SAS	France	33	33	33	33
TechnicAtome	France	20	20	20	20

⁽¹⁾ Fully consolidated since January 1, 2018.

⁽²⁾ Deconsolidated in 2018.

⁽³⁾ Placed in liquidation in February 2018.

NOTE 2. INCOME STATEMENT

2.1. REVENUE

Group revenue for the year ended December 31, 2018 was €3,608.3 million (€3,194.1 million for the year ended December 31, 2017).

Of this, €2,506.6 million was generated in France (€2,011.4 million for the year ended December 31, 2017).

	2018	2017*
Construction contracts	3,489.3	3,019.4
Sales of goods and services	119.0	174.7
REVENUE	3,608.3	3,194.1

* Data published for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

2.2. OPERATING PROFIT

2.2.1. Employee headcount and costs of own and seconded employees

	2018	2017*
Wages and salaries (including social benefit charges) of own employees	[967.6]	[875.0]
Retirement and other long-term employee benefit expenses	[10.6]	9.5
Employees seconded by the French State	[186.7]	[193.7]
Other	[20.8]	[16.2]
TOTAL	[1,185.7]	[1,075.4]

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

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

- cost of sales;
- research and development costs;
- 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:

	2018	2017
Managers	6,180	5,506
Supervisors and technicians	4,053	3,789
Blue and white-collar employees	3,073	3,091
Total for fully consolidated French companies	13,306	12,386
Other consolidated companies	306	402
TOTAL WORKFORCE	13,612	12,788
Including seconded employees	2,496	2,743

2.2.2. Research and development costs

Internally funded research and development expenses amounted to €82,5 million in the year ended December 31, 2018 [€90,7 million in the year ended December 31, 2017].

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 1.3.10].

	2018	2017*
Gross research and development expenditure	(82.5)	(90.7)
Amount capitalised	-	2.6
Translation differences	-	0.1
Amortisation of capitalised research and development expenditure	-	-
RESEARCH AND DEVELOPMENT COSTS	(82.5)	(88.0)

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

2.2.3. Statutory Auditors' fees

For the year ended December 31, 2018, fees payable to the Statutory Auditors for their statutory audit services amounted to €1,0 million.

2.2.4. Other operating income

	2018	2017*
Competitiveness plan/restructuring ^[1]	8.9	15.8
Russia projection and command vessel program ^[2]	-	25.0
OpenHydro gain on deconsolidation ^[3]	68.7	-
Disposal of property, plant and equipment	46.0	-
Other unusual items ^[4]	6.8	6.8
OTHER OPERATING INCOME	130.4	47.6

[1] In the year to December 31, 2018, the provision for restructuring/competitiveness plan was reversed in the amount of €8,9 million (at December 31, 2017, it was reversed in the amount of €15,8 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] As at December 31, 2018, the deconsolidation of OpenHydro generated a gain on deconsolidation of €68.7 million.

[4] As at December 31, 2018, Other unusual items of €6.8 million essentially corresponded to reversals of provisions for losses on receivables.

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

2.2.5. Other operating expenses

	2018	2017*
Competitiveness plan/restructuring ⁽¹⁾	[6.8]	[8.0]
Impairment loss on non-current assets ⁽²⁾	[34.2]	[109.2]
Net value of property, plant and equipment sold	[14.8]	-
Provisions for impairment of financial assets ⁽³⁾	[95.0]	-
Other ⁽⁴⁾	[23.5]	[6.7]
OTHER OPERATING EXPENSES	[174.3]	[123.9]

[1] At December 31, 2018, the cost of the competitiveness plan/restructuring incurred by Naval Group totalled [€6,8] million.

At December 31, 2017, the cost of the competitiveness plan/restructuring incurred by Naval Group totalled [€8,0] million.

[2] As at December 31, 2018, the amount of [€34.2] million corresponded to the impairment loss on R&D assets of the sub-group Naval Energies.

[3] As at December 31, 2018, an impairment loss of [€95] million was recognised on financial assets in connection with the compulsory administration of the subsidiary OpenHydro: bonds convertible into shares with warrants attached (OCABSA) for [€46.4] million and loans for [€48.6] million.

[4] Other operating expenses mainly correspond to provisions for liabilities related to OpenHydro for [€10.4] million.

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

2.3. NET FINANCIAL EXPENSE

Income from financial investments represents interest earned by the group on its cash investments in the amount of €7.8 million for the year ended December 31, 2018 [€25.6 million for the year ended December 31, 2017, including income from Sofrartem totalling €18.3 million].

2.3.1. Other financial income

	2018	2017*
Changes in fair value of financial investments	0	0.0
Changes in fair value of financial instruments (forwards and options)	0	2.1
Dividends received	0.9	2.1
Interest on overdue trade receivables	1.6	3.1
Foreign exchange gains	11.4	11.8
Reversal of impairments on provisions of long-term benefits	0.5	0.3
Reversal of impairments on financial assets	0.4	0.3
Income on cash equivalents	0.3	0.2
Other income	5.2	4.0
OTHER FINANCIAL INCOME	20.3	23.9

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

2.3.2. Other financial expenses

	2018	2017*
Changes in fair value of financial investments	(2.7)	(0.9)
Changes in fair value of financial instruments (forwards and options)	-	-
Change in employee share offer liability	(8.0)	(3.8)
Interest on overdue trade payables	(0.2)	0.0
Foreign exchange losses	(10.9)	(15.5)
Impairment losses on provisions of long-term benefits	-	-
Impairment losses on financial assets/allowances ⁽¹⁾	(3.4)	(14.2)
Interest on loans	(0.5)	(0.3)
Net expenses on sale of marketable securities	(1.6)	(0.8)
Other expenses ⁽²⁾	(0.4)	(5.1)
OTHER FINANCIAL EXPENSES	(27.7)	(40.6)

⁽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.

⁽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.

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

2.4. INCOME TAX

2.4.1. Analysis of tax expense

	2018	2017*
Current tax	(65.4)	(130.1)
Deferred tax	(25.4)	13.0
INCOME TAX	(90.8)	(117.1)

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

As at December 31, 2017, current tax included an exceptional contribution (surcharge) of (€28) million.

The change in deferred taxes comprises a (€16.2) million expense corresponding to the recognition of the future decrease of the current tax rate on all of the group's (positive) temporary differences (versus (€7.6) million as at December 31, 2017).

2.4.2. Reconciliation of actual and theoretical tax charge

	2018	2017*
Net profit for the year	163.6	(17.0)
Income tax	(90.8)	(117.1)
Share in net operating profit of equity affiliates	7.6	(0.2)
Net profit before tax	246.8	100.3
Theoretical tax charge at 34.43%	(85.0)	(34.5)
Offset of research tax credit in EBITA ^[1]	10.0	8.4
Exceptional contribution (surcharge)	0.0	(28.0)
Decrease in corporation tax rate on temporary differences ^[2]	(16.2)	(7.6)
Deferred tax not recognised at Naval Energies ^[3]	(3.6)	(69.6)
Difference in corporation tax rate on foreign income/[(loss)] ^[4]	0.9	7.5
Other permanent differences ^[5]	3.1	6.7
ACTUAL TAX EXPENSE	(90.8)	(117.1)
Effective tax rate ^[6]	35.32%	47.4%

[1] The recognition of research tax credit set against operating expenses generates a theoretical income tax expense of (€10) million, which must be offset.

[2] The change in the corporation tax rate had an impact of (€16.2) million on the valuation of the deferred tax inventory.

[3] In view of the likelihood of Naval Energies becoming profitable in the future, no deferred tax was recognised on 2018 losses.

[4] The rate difference between the theoretical corporation tax rate and the current rate applied in the overseas subsidiaries and permanent establishments.

[5] Including other tax credits and tax consolidation income for €1 million and competitiveness and employment tax credit for €3.6 million.

[6] Excluding Naval Energies loss.

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

2.4.3. Deferred tax in the balance sheet

	12/31/2018	12/31/2017*
Deferred tax assets	220.8	246.4
Deferred tax liabilities	7.6	7
NET DEFERRED TAX	213.2	239.4

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

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 1.4].

At December 31, 2018, the tax loss carryforward of Naval Energies was not capitalised.

2.5. EARNINGS PER SHARE

The group issued no new ordinary shares during the years ended December 31, 2017 and December 31, 2018. The calculation of earnings per share is therefore based on the average number of ordinary shares outstanding after buybacks of treasury shares, which was 55,767,753 shares and 55,728,815 shares for the years ended December 31, 2017 and December 31, 2018 respectively.

No dilutive instruments were issued during the years ended December 31, 2017 and December 31, 2018. 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. 55,767,753 shares and 55,728,815 shares for the years ended December 31, 2017 and December 31, 2018 respectively [see note 3.7 on equity].

	2018	2017*
Net profit attributable to owners of the parent (in € millions)	178.2	93.2
Portion attributable to holders of ordinary shares (in € millions)	89.1	46.6
Number of ordinary shares outstanding (in millions of shares)	55.7	55.8
BASIC AND DILUTED EARNINGS PER SHARE (IN €)	1.60	0.84

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

NOTE 3. OPERATING ASSETS AND LIABILITIES

3.1. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

3.1.1. Gross amounts

	12/31/2017*	Acquisitions	Disposals	Other ⁽¹⁾	12/31/2018
Concessions, patents and similar rights	177.5	28.1	0.0	[0.6]	205.0
Fair value differences	181.2	0.0	0.0	[13.4]	167.8
Research and development costs	78.7	0.0	0.0	[78.7]	0.0
Other intangible assets	23.2	0.0	0.0	[3.1]	20.1
Intangible assets	460.7	28.1	0.0	[95.8]	392.8
Land	31.4	0.0	[6.2]	0.0	25.2
Buildings	201.3	7.7	[7.7]	[0.2]	201.1
Plant and machinery	360.3	20.3	[14.9]	[3.5]	362.2
Other property, plant and equipment	689.2	48.8	[58.2]	[76.4]	603.4
Property, plant and equipment	1,282.3	76.8	[87.0]	[80.1]	1,191.9
GROSS AMOUNTS	1,743.0	104.9	[87.0]	[175.9]	1,584.7

[1] The item in the "Other" column corresponds to the deconsolidation of the OpenHydro group's assets.

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

	12/31/2016	Acquisitions	Disposals	Other	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	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 AMOUNTS	1,682.5	97.1	[27.5]	[9.1]	1,743.0

3.1.2. Depreciation, amortisation and impairment losses

	12/31/2017*	Expenses	Reversals	Other	12/31/2018
Concessions, patents and similar rights	(139.6)	(18.6)	0.0	3.7	(154.5)
Fair value differences	(178.2)	(0.7)	0.0	13.4	(165.5)
Research and development costs	(53.1)	(25.7)	0.0	78.8	0.0
Other intangible assets	0.0	0.0	0.0	0.0	0.0
Intangible assets	(370.9)	(45.0)	0.0	95.9	(320.0)
Buildings	(76.6)	(7.9)	4.6	0.1	(79.8)
Plant and machinery	(261.5)	(27.6)	17.5	2.6	(269.0)
Other property, plant and equipment	(398.3)	(50.1)	52.7	66.1	(329.6)
Property, plant and equipment	(736.5)	(85.6)	74.8	68.8	(678.4)
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES	(1,107.4)	(130.6)	74.8	164.7	(998.4)

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

	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)

3.1.3. Net amounts

	12/31/2017*	Acquisitions	Disposals	Depreciation and amortisation	Impairment allowances	Other	12/31/2018
Concessions, patents and similar rights	37.9	28.1	0.0	(16.9)	(1.7)	3.1	50.5
Fair value differences	3.0	0.0	0.0	(0.7)	0.0	0.0	2.3
Research and development costs	25.7	0.0	0.0	0.0	(25.7)	0.0	0.0
Other intangible assets	23.2	0.0	0.0	0.0	0.0	(3.2)	20.0
Intangible assets	89.8	28.1	0.0	(17.6)	(27.4)	(0.1)	72.8
Land	31.4	0.0	(6.2)	0.0	0.0	0.0	25.2
Buildings	124.7	7.7	(3.1)	(7.9)	0.0	(0.1)	121.3
Plant and machinery	98.8	20.3	(1.5)	(24.5)	0.9	(0.8)	93.2
Other property, plant and equipment	290.9	48.8	(5.3)	(41.9)	(8.2)	(10.5)	273.8
Property, plant and equipment	545.8	76.8	(16.1)	(74.3)	(7.3)	(11.4)	513.5
NET AMOUNTS	635.7	104.9	(16.1)	(91.9)	(34.7)	(11.5)	586.3

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

	12/31/2016	Acqui- sitions	Disposals	Deprecia- tion and amortisa- tion	Impair- ment allo- wances	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 AMOUNTS	748.2	97.1	[5.6]	[106.8]	[88.7]	[8.6]	635.7

3.2. GOODWILL

	12/31/2017	Acquisitions	Disposals	Impairment losses	12/31/2018
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
GOODWILL	382.8	-	-	-	382.8

	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
GOODWILL	382.8	-	-	-	382.8

In accordance with IAS 36, an impairment test was carried out on unamortised intangible assets and goodwill with no indication of impairment.

3.3. INVESTMENTS IN ASSOCIATES

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

	Group share in net assets at year end (under equity method)		Net income	
	12/31/2018	12/31/2017*	2018	2017*
Principia	1.9	1.6	0.2	[0.4]
Alderney Renewable Energy	0.0	0.0	[0.2]	[1.3]
Eurosystnav ⁽¹⁾	1.6	1.6	0.0	0.0
Boustead DCNS Naval Corporation SDN BHD [Malaysia] ⁽¹⁾	[23.6]	[15.3]	[7.9]	[15.9]
Itaguaí Construções Navais SA [Brazil] ⁽¹⁾	5.6	10.7	5.6	11.6
Défense Environnement Services SAS [France] ⁽¹⁾	2.2	1.4	1.8	1.0
Winacelles SAS [France] ⁽²⁾	0.0	[0.7]	0.0	0.4
Kership SAS [France] ⁽¹⁾	[0.5]	[1.2]	0.7	[1.1]
TechnicAtome SA [France] ⁽³⁾	95.1	93.1	7.4	5.5
TOTAL	82.3	91.2	7.6	[0.2]

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

[2] Placed in liquidation in February 2018.

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

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

3.3.2. Changes in "Net assets of equity affiliates"

	12/31/2018	12/31/2017*
Share in net assets of equity affiliates as at January 1	91.2	19.7
Share in income/[loss] of equity affiliates	7.6	[0.2]
Dividends paid	[17.9]	[6]
Translation differences	0.4	[1.6]
Consolidation scope changes ⁽¹⁾	1.0	87.7
Other	0	[8.4]
SHARE IN NET ASSETS OF EQUITY AFFILIATES	82.3	91.2

[1] In 2017, 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.

3.3.3. 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%]	12/31/2018	12/31/2017
Total assets	788.4	798.6
Equity restated, entity's share before net income	107.5	99.1
Entity's net income	36.7	35.0
Equity restated, entity's share	144.2	134.1
Non-controlling interests		
Other liabilities	644.2	664.5
Total equity and liabilities	788.4	798.6
Cash and cash equivalents	603.5	567.6

Consolidation in Naval Group	12/31/2018	12/31/2017
Equity restated, entity's share before net income	107.5	99.1
Entity's net income	36.7	35.0
Equity restated, entity's share	144.2	134.1
Naval Group % shareholding	20.26%	20.26%
Naval Group share	29.2	27.2⁽¹⁾
Goodwill	65.9	65.9
Share in the joint venture	95.1	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%)	12/31/2018	12/31/2017
Revenue	411.5	371.6
Operating profit	74.6	50.6
Net financial expense	[17.2]	[1.1]
Tax	[20.7]	[14.5]
Net income restated	36.7	35.0
Consolidation in Naval Group		
Net income restated, entity's share	36.7	35.0
Net income before Naval Group stake	-	8.1
Net income after Naval Group stake	36.7	26.9
Naval Group % shareholding	20.26%	20.26%
Share of net income of joint venture	7.4	5.4

3.4. INVENTORIES AND WORK IN PROGRESS

	12/31/2018	12/31/2017*
Raw materials and goods for resale	446.0	452.3
Work in progress	37.9	25.4
Finished and semi-finished products	0.2	5
Gross amounts	484.1	482.7
Impairment allowances	[31.8]	[28.6]
Inventories and work in progress	452.3	454.1

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

3.5. TRADE AND OTHER RECEIVABLES

	12/31/2018	12/31/2017*
Trade receivables, gross	10,329.9	8,961.7
Trade receivables, impairment allowance	(25.1)	(13.5)
Trade receivables	10,304.8	8,948.2
Tax receivables [excluding current tax]	151.3	44.8
Employment and social benefit receivables	5.0	52.9
Tax, employment and social benefit receivables	156.3	97.7
Deferred expenses	34.0	32.6
Other receivables, gross	69.5	71.6
Other receivables, impairment allowance	(0.2)	-
Other receivables, net	103.3	104.2
Trade and other receivables	10,564.4	9,150.1

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

3.6. TOTAL EQUITY

3.6.1. Share capital

As at December 31, 2018, 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, 2018, 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 Naval Group	975,944	-	975,944	1.73%
Naval Group Actionnariat (treasury shares)	571,185	-	571,185	1.02%
TOTAL	56,299,700	300	56,300,000	100%

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

3.6.2. Dividend payments

On March 15, 2018, the Ordinary General Meeting resolved, in respect of the year ended December 31, 2017, to allocate profits as follows:

- €57.4 million as a shareholder dividend;
- €136.0 million to retained earnings.

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

During the year ended December 31, 2018, the group recorded no change in the fair value of financial assets and liabilities

[compared with a decrease of €29 million in 2017, linked to the cancellation of the revaluation of TechnicAtome shares, previously measured as available-for-sale assets and consolidated using the equity method since the investment in March 2017].

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

During the period from January 1 to December 31, 2018, the group recorded a fall of €0.2 million in its cash flow hedging reserves [fall of €17.1 million in 2017].

The effectiveness of the hedging instruments introduced on the Saudi Arabia programs has been documented. Accordingly, the changes in fair value arising from spot price changes between January 1 and December 31, 2018 are accounted for under the cash flow hedging reserve. As at December 31, 2018, the group no longer had any hedging instruments.

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 = 1.2141 US dollars for the Saudi Arabia contracts).

3.6.5. 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), Naval Group India (Indian rupee – INR), Naval Group Malaysia (Malaysian ringgit – MYR), Naval Group Australia Pty Ltd (Australian dollar – AUD), DCNS Zamil (Saudi riyal – SAR) and Alexandria Naval for Maintenance & Industry (Egyptian pound – EGP).

During the year ended December 31, 2018, the group recorded a decrease of €2.4 million in its reserves for translation differences (decrease of €1.5 million in 2017).

3.6.6. Treasury shares

Naval Group Actionnariat (100% owned by the group) acquired 41,149 and 38,938 treasury shares during the years ended December 31, 2017 and December 31, 2018, respectively, under the share buyback guarantee granted to staff under the terms of the employee share offer.

As stated in note I.3.19, 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 €79,2 million as at December 31, 2018 (as opposed to €71,9 million as at December 31, 2017).

The treasury share reserve has been revalued in accordance with the new valuation of group shares published in April 2018, resulting in an upward revaluation of the treasury share reserve (only for shares corresponding to the buyback commitment issued by Naval Group and not yet repurchased) with a corresponding decrease in other reserves of (€7.7) million.

As at December 31, 2018, the group held 571,185 treasury shares and employee shareholders held put options for 975,944 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.

3.6.7. 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.

3.7. PROVISIONS

	12/31/2017*	Expenses	Utilisation	Reversals	Other	12/31/2018
Provisions for retirement benefits ⁽¹⁾	82.6	13.9	(3.3)	0.0	(6.8)	86.4
Other non-current provisions ⁽²⁾	30.1	57.5	(1.5)	0.0	(3.8)	82.3
Non-current provisions	112.7	71.4	(4.8)	0.0	(10.7)	168.6
Provisions for retirement benefits ⁽¹⁾	0.1	0.0	0.0	0.0	5.1	5.2
Provisions for the competitiveness plan	19.3	0.0	(8.9)	0.0	0.0	10.4
Provisions under warranties	59.6	22.4	(10.3)	0.0	0.0	71.7
Provisions on contracts ⁽³⁾	340.4	63.4	(56.8)	0.0	60.4	407.4
Provisions for losses on completion ⁽⁴⁾	115.7	8.9	(28.2)	0.0	(15.9)	80.5
Other current provisions ⁽³⁾⁽⁵⁾	91.7	11.2	(10.8)	0.0	(56.3)	35.8
Current provisions	626.8	105.9	(115.0)	0.0	(6.7)	611.0
PROVISIONS	739.5	177.3	(119.8)	0.0	(17.4)	779.6

[1] The item in the "Other" column in respect of "Provisions for retirement benefits", apart from the reclassification of €5.1 million between current and non-current provisions, corresponds to the actuarial gain of €1.7 million.

[2] Other non-current provisions include provisions for other long-term benefits (long-service bonuses, pensions and the senior time bank scheme [see note 1.3.18.]), provisions for litigation and provision for liabilities relating to convertible bonds (OCABSA) for €42 million.

[3] The item in the "Other" column in respect of "Provisions on contracts" mainly corresponds to reclassifications from Other current provisions, chiefly in relation to the PROSUB program (€51 million).

[4] For each contract, the change in the provision for losses on completion is recognised at its net amount. Other items correspond to the impact of the deconsolidation of the OpenHydro group for (€15.9) million.

[5] Other current provisions mainly include provisions relating to tax, labour and supplier disputes.

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

In 2018, the shareholders of Naval Energies brought a legal action against the company through the Commercial Court in Paris. Naval Group believes it has a strong case. Therefore, since the

contingent liability represented by this action is not quantifiable at present, it has not set aside any provision in its accounts.

	12/31/2016	Expenses	Utilisation	Reversals	Other	12/31/2017*
Provisions for retirement benefits ⁽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 retirement benefits ⁽¹⁾	1.9	-			(1.8)	0.1
Provisions for the competitiveness plan	2.4	-			(1.0)	1.4
Provisions under warranties	10.8	20.8	(10.6)		38.6	59.6
Provisions on contracts ⁽³⁾	163.3	122.3	(84.5)		139.3	340.4
Provisions for losses on completion ⁽⁴⁾	2.8	107.6	(10.4)		15.7	115.7
Other current provisions ⁽²⁾⁽⁵⁾	66.1	11.1	(12.2)		44.6	109.6
Current provisions	246.8	261.9	(117.7)		235.8	626.8
PROVISIONS	365.2	274.2	(137.2)		237.3	739.5

[1] The item in the "Other" column in respect of "Provisions for retirement benefits" 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 bonuses, pensions, senior time bank scheme and strategic jobs and skills management) [see note 1.3.18].

[3] The reversals of surplus provisions in respect of "Provisions on contracts" correspond mainly to the Russia projection and command vessel 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 recognised at 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 €10 million) 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 primarily relate to disputes concerning tax, Social Security and trade payables.

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

3.7.1. Provisions for lump-sum payments payable on retirement

As at December 31, 2018, provisions for lump-sums payable on retirement for the group as a whole amounted to €91.6 million, compared to €82.7 million as at December 31, 2017, mainly related to Naval Group.

The assumptions used were as follows:

- discount rate: 1.50%, compared with 1.25% as at December 31, 2017;
- expected return on assets: 4.50%, compared with 1.25% as at December 31, 2017 (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, 2017);
- salary increase rate: 2.5% (unchanged from the rate used as at December 31, 2017).

As at December 31, 2018, 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 €139,8 million;
- increasing the discount rate by 0.5% would lead to a provision for lump-sum retirement benefits of €119,6 million.

Movements in the retirement obligation were as follows:

	2018	2017
Opening obligation	121.4	114.5
Current service cost	12.8	8.1
Accretion expense	1.4	1.0
Benefits paid	(3.2)	(1.5)
Actuarial gains and losses	(0.4)	(0.7)
OBLIGATION AT END OF PERIOD	132.0	121.4

Changes in pension plan assets were as follows:

	2018	2017
Assets at start of period	38.7	35.8
Return on assets	0.4	0.4
Actuarial gains and losses	1.3	2.5
ASSETS AT END OF PERIOD	40.4	38.7

As at December 31, 2018, the assets were invested as follows: 59.93% in equities, 21.07% in bonds and 25% in money-market instruments.

The net charge recognised breaks down as follows:

	2018	2017
Current service cost	(12.8)	(8.1)
Accretion expense	(1.0)	(1.0)
Benefits paid	3.2	1.5
Expected return on assets	1.7	0.5
NET CHARGE	(8.9)	(7.1)

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

	12/31/2018	12/31/2017
Actuarial obligation	132.0	121.4
Fair value of assets	(40.4)	(38.7)
PROVISION AT END OF PERIOD	91.6	82.7

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

	12/31/2018
Forecast benefits 2019	3.0
Forecast benefits 2020	2.4
Forecast benefits 2021	3.0
Forecast benefits 2022	4.3
Forecast benefits 2023	4.1
FORECAST BENEFITS FOR THE NEXT FIVE YEARS	16.8

3.7.2. Provisions for other long-term benefits

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

- pensions;
- long-service bonuses;
- CET Senior.

These schemes are described in note I.3.18.

Changes in obligations to pay other long-term benefits as at December 31, 2018 were as follows:

	2018
Opening obligation	29.5
Past service cost	0
Current service cost	2.1
Financial charge	0.5
Actuarial gains and losses	-
Benefits paid	[1.1]
OBLIGATION AT YEAR-END TO PAY OTHER LONG-TERM BENEFITS	31.0

3.7.3. Provisions for economic liabilities

As regards the removal of asbestos from buildings at the Cherbourg site, a provision reversal totalling €0.1 million was recognised, following which the balance of the provision as at December 31, 2018 was €2.1 million.

No changes were made during 2018 to the provision of €0.7 million for sediment remediation of the River Scorff recognised in the financial statements for the year ended December 31, 2016.

The provision for economic liabilities totalled €2.8 million as at December 31, 2018, compared with €2.9 million as at December 31, 2017.

3.8. TRADE AND OTHER PAYABLES

	12/31/2018	12/31/2017*
Trade payables	1,114.5	1,122.7
Tax payables (excluding current tax)	311.6	73.2
Social benefit liabilities	215.1	247.1
Deferred income	294.5	291.4
Other liabilities	156.4	81.9
TRADE AND OTHER PAYABLES	2,092.1	1,816.3

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

3.9. CONTRACT ASSETS AND LIABILITIES

Contract assets, corresponding to the net debit position of unbilled receivables from which the corresponding advances received from customers have been deducted, and contract liabilities, corresponding to the net credit position of advances received from customers from which the corresponding unbilled receivables have been deducted, as well as deferred income, are as follows:

[in € billions]	12/31/2018
Unbilled receivables, gross	1.8
Unbilled receivables, impaired	0.0
Advances and part payments received from customers	[1.7]
CONTRACT ASSETS	0.1
Advances and part payments received from customers	[9.7]
Unbilled receivables	7.7
Deferred income	[0.3]
CONTRACT LIABILITIES	[2.2]

This presentation of offset contract assets and liabilities reduces the balance sheet total by around €9.4 billion.

NOTE 4. FINANCIAL ASSETS AND LIABILITIES

4.1. 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): 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): valued at their latest known net asset value (level 1);
- negotiable medium-term notes (fair value through profit and loss): 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).

4.1.1. Fair value and classification of financial assets

	Loans and receivables at amortised cost	Fair value through profit and loss	Fair value through equity	12/31/2018	Impact of the change in fair value on equity	Impact of the change in fair value on profit and loss
Investments	-	-	67.7	67.7	-	-
Loans, non-current portion	-	-	-	-	-	-
Hedging instruments, non-current portion	-	-	-	-	-	(0.2)
Investment securities	-	251.9	-	251.9	-	-
Other non-current financial assets	0.1	-	-	0.1	-	-
Non-current financial assets	0.1	251.9	67.7	319.7	-	(0.2)
Trade receivables	10,304.8	-	-	10,304.8	-	-
Loans, current portion	-	-	-	-	-	-
Hedging instruments, current portion	-	0.1	-	0.1	(4.4)	(1.7)
Investment securities	-	144.2	-	144.2	-	(1.7)
Other current financial assets	0.4	-	-	0.4	-	-
Cash and cash equivalents	-	1,976.4	-	1,976.4	-	(1.0)
Current financial assets and trade receivables	10,305.2	2,120.7	-	12,425.9	(4.4)	(4.4)

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

4.1.2. Fair value and classification of financial liabilities

	Loans and trade payables at amortised cost	Fair value through profit and loss	Fair value through equity	12/31/2018	Impact of the change in fair value on equity	Impact of the change in fair value on profit and loss
Loans, non-current portion	3.1	-	-	3.1	-	-
Hedging instruments, non-current portion	-	-	-	-	0.9	(0.9)
Investment securities	-	-	-	-	-	-
Other non-current financial liabilities	-	44.5	-	44.5	(0.3)	4.1
Non-current financial liabilities	3.1	44.5	-	47.6	0.6	3.2
Suppliers	1,114.5	-	-	1,114.5	-	-
Loans, current portion	-	-	-	-	-	-
Hedging instruments, current portion	-	-	-	-	0.6	(0.7)
Other current financial liabilities	2.2	23.6	-	25.8	-	1.2
Current financial liabilities and trade payables	1,116.7	23.6	-	1,140.3	0.6	0.5

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

“Other non-current financial liabilities” include the group’s liability to its staff in connection with the second employee share offer.

“Other current financial liabilities” include the group’s liability to its staff in connection with the 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.

4.1.3. 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, 2018 and, in the case of foreign countries, their country of registration, is shown in brackets]:

	12/31/2018	12/31/2017
Sofema SA [10%]	6.6	6.6
Odas SA [9%]	2.7	2.7
Chantiers de l’atlantique [12%]	13.9	-
FCPR Sécurité [13%]	0.9	0.8
FCPR Financière de Brienne 1 [6%]	0.1	0.5
FCPR Financière de Brienne 2 [10%]	1.1	1.6
Atalaya [39%]	3.4	3.1
Naval Group Canada [100%] ⁽¹⁾	1.3	1.3
Other ⁽²⁾	37.7	11.1
INVESTMENTS	67.7	27.7

⁽¹⁾ The Naval Group Canada shares are unconsolidated shares held via Naval Group Participations. The Naval Group Canada subsidiary is not material.

⁽²⁾ This amount essentially consists of loans between Naval Energies and OpenHydra.

4.2. CASH AND CASH EQUIVALENTS

	12/31/2018	12/31/2017*
Cash equivalents	1,471.9	2,180.6
Cash	504.5	294.6
Cash and cash equivalents	1,976.4	2,475.2
Bank overdrafts	0.0	-
NET CASH	1,976.4	2,475.2

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

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 profit or loss.

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

4.3. OTHER LIABILITIES

In 2017, the main component of “Other liabilities” was non-current deferred income totalling €22.0 million.

4.4. RISK MANAGEMENT

4.4.1. 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.

	12/31/2016	Expenses	Reversals	Other	12/31/2017	Expenses	Reversals	Other	12/31/2018
Impairment allowances against trade receivables	10.2	4.1	[0.7]	0.0	13.5	2.7	[1.0]	9.9	25.1

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.

4.4.2. 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.

4.4.3. 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.

	12/31/2018	12/31/2017
Forward purchase contracts		
US dollar [USD]		37.3
Pound sterling [GBP]	1.4	3.5
Brazilian real [BRL]		0
New Zealand dollar [NZD]		
Malaysian ringgit [MYR]	0.9	4.0
Forward sale contracts		
US dollar [USD]	2.4	7.0
Pound sterling [GBP]		0
Call options		
Pound sterling [GBP]		0
Tunnel options		
Brazilian real [BRL]		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 forward purchase contract in MYR partly reflects the Malaysian contract.

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

4.4.4. Interest rate risk

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

NOTE 5. OTHER INFORMATION

5.1. NOTES TO THE CASH FLOW STATEMENT

5.1.1. Change in working capital (requirement)

	2018	2017*
Net decrease (increase) in inventories	(1.2)	11.2
Net decrease (increase) in advances and part payments paid	202.3	79.2
Net decrease (increase) in trade receivables	(1354.2)	(905.8)
Net increase (decrease) in other receivables	(67.7)	97.5
Net increase (decrease) in trade payables	(14.5)	727.7
Net increase (decrease) in advances and part payments received	394.6	(268.8)
Net increase (decrease) in other payables	298.0	137.3
CHANGE IN WORKING CAPITAL (REQUIREMENT)	(542.7)	(121.7)

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

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

	2018	2017
Purchases of intangible assets	(28.1)	(28.4)
Purchases of property, plant and equipment	(76.8)	(68.7)
Purchases during the period	(104.9)	(97.1)
Deferred disbursement	13.8	(3.6)
PURCHASES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	(91.1)	(100.7)

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

	2018	2017
Disposals of intangible assets	0.0	-
Disposals of property, plant and equipment	46.5	1.0
Disposals during the period	46.5	1.0
DISPOSALS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	46.5	1.0

5.2. 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 Naval Group” 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.

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

During the year ended December 31, 2018, the group generated 69.5% of its revenue with the French State and government-related entities (63.0% of its revenue for the year ended December 31, 2017, restated under IFRS 15).

5.2.2. Transactionst with related parties (excluding the French State and government-related entities)

	2018	2017
Sales		
Non-controlled portion in equity affiliates	35.4	43.3
Shareholders and companies controlled by them (excluding French State and government-related entities)	-	-
Other (Eurotorp)	26.3	12.3

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

	12/31/2018	12/31/2017
Operating receivables⁽¹⁾		
Equity affiliates	57.4	54.6
Shareholders and companies controlled by them (excluding the French State and government-related entities)	-	-
Other (Eurotorp)	0.3	1.2
Operating payables⁽²⁾		
Equity affiliates	35.8	41.8
Shareholders and companies controlled by them (excluding the French State and government-related entities)	-	-
Other (Eurotorp)	-	7.9
Financial liabilities⁽³⁾		
Equity affiliates	-	-
Shareholders and companies controlled by them (excluding the French State and government-related entities)	63.9	56.8
Other	-	-

⁽¹⁾ The other operating receivables principally comprise amounts receivable from the following companies: Eurotorp, Défense Environnement Services, Principia and Société Technique pour l’Énergie Atomique.

⁽²⁾ The other operating payables principally comprise amounts payable to the following companies: Eurotorp and Défense Environnement Services, Principia and Société Technique pour l’Énergie Atomique.

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

* Figures reported for the 2017 financial year have been restated for the impact of the retrospective application of IFRS 15.

5.2.4. 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 Naval Group 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.

5.2.5. 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, 2017 and December 31, 2018:

	2018	2017
Fixed remuneration	2.2	2.3
Variable remuneration	1.3	1.1
Benefits in kind and miscellaneous	0.1	0.1
Employer's social benefit contributions	1.5	1.4
TOTAL	5.1	4.9
Number of persons concerned	8	9

5.3. OFF-BALANCE SHEET COMMITMENTS

5.3.1. 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.

	12/31/2018	12/31/2017
Advance payment guarantees ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾	215.4	341.3
Performance bonds ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾	238.2	244.9
Guarantees in lieu of retentions	18.3	24.6
Other guarantees made ⁽⁹⁾	60.5	41.8
COMMITMENTS MADE	532.4	652.6

⁽¹⁾ Under a sale contract in India, the group's banks have issued bank guarantees of €10,1 million in favour of its customer for the return of advance payments and to guarantee performance.

⁽²⁾ Under contracts for logistics and the supply of equipment to the Indian Navy, the group's banks have issued bank guarantees of €154.6 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, 2018 was €138,8 million.

⁽⁴⁾ In connection with a series of sale contracts made by Itaguaí 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, 2018 was €19.2 million.

⁽⁵⁾ The group has provided guarantees of €3,9 million to Sofrantom 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 Sofrantom on the main Pakistan contract.

⁽⁶⁾ Under a sale contract with the Egyptian government, the group's banks have issued bank guarantees of €67,9 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 €5,0 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 4,6 million in favour of its customer for the return of advance payments.

⁽⁹⁾ In the context of the employee share offer, the group instructed its banks to issue a €29 million financial guarantee to the management company in charge of managing the fund.

The maturity schedule as at December 31, 2018 was as follows:

	Due in less than one year	Due in one to five years	Due in more than five years
Advance payment guarantees	192.0	23.5	0.0
Performance bonds	42.4	159.8	35.9
Guarantees in lieu of retentions	18.3	0	0
Other guarantees made	2.1	55.8	2.6
COMMITMENTS MADE	254.8	239.1	38.5

	12/31/2018	12/31/2017
Advance payment guarantees	34.9	94.5
Performance bonds	72.4	98.3
Guarantees in lieu of retentions	1.4	1.8
Other guarantees received	34.2	27.2
COMMITMENTS RECEIVED	142.7	221.8

The maturity schedule as at December 31, 2018 was as follows:

	Due in less than one year	Due in one to five years	Due in more than five years
Advance payment guarantees	15.5	19.2	0.2
Performance bonds	26.6	19.9	25.8
Guarantees in lieu of retentions	1.2	0.1	0
Other guarantees received	0.7	33.4	0
COMMITMENTS RECEIVED	44.1	72.6	26.0

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, 2018 was as follows:

	Total	Due in less than one year	Due in one to five years	Due in more than five years
Lease charges	12.7	2.8	9.3	0.6
Leases of immovable property	96.8	17.8	54.8	24.2
Leases of movable property	13.8	8.8	5.0	0.0
TOTAL	123.3	29.5	69.0	24.8

5.3.2. Other commitments

Commitments made

As at December 31, 2018, firm investment commitments totalled €104.3 million (€82.6 million as at December 31, 2017).

Naval Group 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. 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.

5.4. EVENTS AFTER THE REPORTING PERIOD

None.

VI. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2018

To the Shareholders of Naval Group,

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, 2018, 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.

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 Statutory 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, 2018 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.

OBSERVATION

Without qualifying our opinion, we draw your attention to the matter set out in note 1.3.2.1. to the consolidated financial statements, which presents the effects of the initial application of IFRS 15 and IFRS 9 on the consolidated financial statements to December 31, 2018.

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 1.3. "Accounting rules and policies – Use of estimates – Recognition of revenue and profit on construction contracts and long-term service agreements and related provisions" in the notes to the consolidated financial statements states that your group recognises revenue and profit on certain projects using the percentage of completion method. In particular, this note explains the impact of the initial application of IFRS 15. The percentage of completion method involves the use by Management of estimates, notably to determine the profit to 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 how they were affected by the initial application of IFRS 15, 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 1.3.4. "Accounting rules and policies – Use of estimates – Measurement of assets", 1.3.9 "Accounting rules and policies – Intangible assets", 1.3.13 "Accounting rules and policies – Impairment of non-current assets", and 3.2 "Goodwill" in the notes to the consolidated financial statements state that Naval Group carries out an annual impairment test on goodwill using estimates of future cash flows, discount rates and a growth rate to infinity, which require the exercise of judgement. 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 1.3.20 "Accounting rules and policies – Income tax" and 2.4.3 "Deferred tax" in the notes to the consolidated financial statements present the assumptions used to assess the recoverability of deferred tax assets, the reported net amount of which 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. We assessed the reasonableness of these estimates on the basis of the information available at the time the financial statements were prepared.

SPECIAL AUDIT

We also carried out specific verifications, in accordance with professional standards applicable in France and specific verifications provided for by law and regulations, of the information relating to the group, given in the Board of Directors' management report.

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

We certify that the consolidated statement of non-financial performance provided for in Article L. 225-102-1 of the French Commercial Code is included in the management report. However, in accordance with the provisions of Article L. 823-10 of that code, we have not verified the fairness of the disclosures made in that statement, nor their consistency with the consolidated financial statements. This should be the subject of a report by an independent verifier.

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.

STATUTORY AUDITORS' 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 judgement 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.

Paris-la Défense, February 26, 2019

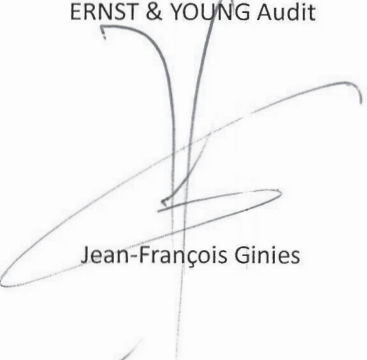
The Statutory Auditors

MAZARS



Michel Barbet Massin

ERNST & YOUNG Audit



Jean-François Ginies

VII. REPORT OF THE INDEPENDENT VERIFIER ON THE STATEMENT OF CONSOLIDATED NON-FINANCIAL PERFORMANCE INCLUDED IN THE MANAGEMENT REPORT

Year ended December 31, 2018

To the General Meeting,

As an independent verifier accredited by COFRAC under number 3-1050 (for the scope of accreditation, see the website www.cofrac.fr) and member of the network of one of the Statutory Auditors of your company (the “entity”), we hereby present to you our report on the consolidated statement of non-financial performance for the year ended December 31, 2018 [hereinafter the “Statement”], included in the management report pursuant to the legal and regulatory provisions of Articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code.

ENTITY’S RESPONSIBILITY

The Board of Directors is responsible for preparing a Statement in accordance with the legal and regulatory provisions. This includes a presentation of the business model, a description of the main non-financial risks, a presentation of the policies applied in relation to those risks and the policy outcomes, including the key performance indicators.

The Statement was prepared using the entity’s procedures [hereinafter the “Criteria”], the material elements of which are presented in the Statements and available upon request from the entity’s head office.

INDEPENDENCE AND QUALITY CONTROL

Our independence is defined by the provisions of Article L. 822-11-3 of the French Commercial Code and the Code of Professional Conduct. In addition, we have implemented a quality control system, including documented policies and procedures, to ensure compliance with ethical standards, professional guidelines and applicable laws and regulations.

RESPONSIBILITY OF THE INDEPENDENT VERIFIER

It is our role, based on our work, to formulate a reasoned opinion expressing a limited assurance conclusion on:

- the compliance of the Statement with the provisions of Article R. 225-105 of the French Commercial Code;
- the fairness of the disclosures made pursuant to (3) of Article R. 225-105 (I) and (II) of the French Commercial Code, namely the policy outcomes, including the key performance indicators, and actions in relation to the main risks [hereinafter the “Disclosures”].

Conversely, it is not our role to give an opinion on:

- the entity’s compliance with other applicable legal and regulatory provisions, particularly regarding the vigilance plan and the prevention of corruption and tax evasion;
- the compliance of the products and services with applicable regulations.

▼
NATURE AND SCOPE OF THE WORK

Our work, as described below, was carried out in accordance with Articles A. 2251 *et seq.* of the French Commercial Code, which defines how the independent verifier conducts its audit according to professional standards and the international standard ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

Our work enabled us to assess the compliance of the Statement with the regulations and the fairness of the Disclosures:

- we learned about the business of each company included within the consolidation scope, the major social and environmental risks affecting each of those businesses and, where appropriate, the impact on respect for human rights and the prevention of corruption and tax evasion, as well as the resulting policies and their outcomes;
- we assessed the suitability of the Criteria in view of their relevance, completeness, reliability, neutrality and clarity, taking into account industry best practice, where appropriate;
- we made sure that the Statement covers each category of social and environmental information provided for in (III) of Article L. 225-102-1;
- we verified that the Statement includes an explanation of the reasons for the absence of the information required by the second paragraph of (III) of Article L. 225-102-1;
- we confirmed that the Statement discloses the business model and the main business risks affecting all entities included in the consolidation scope, including, where relevant and proportionate, the risks arising from their business relationships, products and services, as well as policies, actions and outcomes, including the key performance indicators;
- we checked that the Statement contains the information required under (II) of Article R. 225-105, where relevant in view of the main risks or policies presented;
- we assessed the selection and validation process for the principal risks;
- we made enquiries as to the existence of internal control and risk management procedures put in place by the entity;
- we examined the coherence of the key performance indicators and outcomes in view of the main risks and policies presented;
- we ascertained whether the Statement covers the entire consolidation scope, *i.e.* all companies included in the consolidation scope in accordance with Article L. 233-16, subject to the limits specified in the Statement;
- we evaluated the compilation process put in place by the entity to ensure that the Disclosures are exhaustive and fair.
- we conducted the following for the key performance indicators and other quantitative results we considered material, as presented in Appendix 1:
 - analytical procedures to check that the data compiled had been consolidated correctly and that trends in the data were consistent,
 - a thorough examination on the basis of sampling, consisting of verifying the proper application of the definitions and procedures and reconciling the data with the supporting documents. This work was carried out with a selection of contributing entities (the Ruelle and Toulon sites, which represent 21% of the entity's workforce);
- we consulted documentary sources and conducted interviews to corroborate qualitative information (actions and outcomes) that we considered material [see Appendix 1];
- we assessed the overall consistency of the Statement with our knowledge of all companies included in the consolidation scope.

We consider that the work carried out by exercising our professional judgement allows us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work.

MEANS AND RESOURCES

Our work was conducted by a team of five people over a period of approximately eight weeks between September 2018 and February 2019. We conducted a dozen interviews with the individuals responsible for preparing the Statement, mainly from the Compliance, Human Resources, Health, Safety and Environment and Technical Departments.

CONCLUSION

Based on our work, we have not identified any material misstatement that causes us to believe that the statement of non-financial performance is not consistent with applicable regulations and that the Disclosures, considered as a whole, are not fairly presented in compliance with the Criteria.

Paris-la Défense, February 20, 2018

Independent Verifier
ERNST & YOUNG et Associés



Eric Duvaud
Associé développement durable



Jean-François Bélorgey
Associé

APPENDIX 1 – MATERIAL INFORMATION

Social information:	
<i>Quantitative information (including key performance indicators)</i>	<i>Qualitative information (actions or outcomes)</i>
<ul style="list-style-type: none"> Total number of staff Hiring by contract Departures and turnover Incidence of workplace accidents with lost time Severity rate of workplace accidents Number of collective agreements signed Percentage of staffing plan completed 	<ul style="list-style-type: none"> Recruitment, identification and retention of core skills Occupational health and safety (identification of the main health and safety risks, training, prevention and performance actions) Employee relations (organisation in place, relations with staff representation bodies and review of collective agreements) The measures implemented to minimise the risks of abuse and fraud under the applicable legislation and the group's commitments as an employer
Environmental information	
<i>Quantitative information (including key performance indicators)</i>	<i>Qualitative information (actions or outcomes)</i>
<ul style="list-style-type: none"> Environmental events by site and by impacted area Proportion of proactive vessel projects in view of environmental protection requirements Proportion of R&D data sheets contributing to environmental protection Proportion of a vessel's carbon footprint over its entire life cycle attributable to the vessel's use 	<ul style="list-style-type: none"> The group's environmental commitments Organisation and results of the policies in place to mitigate the risk of a serious industrial environmental accident The group's efforts to promote eco-design and measure the carbon footprint of products in service
Societal information	
<i>Quantitative information (including key performance indicators)</i>	<i>Qualitative information (actions or outcomes)</i>
	<ul style="list-style-type: none"> The organisation and measures implemented to ensure product safety in the areas of diving safety and nuclear safety The mechanisms in place to prevent corruption and influence peddling



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Communications Department
February 2019.
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Find out more at

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