

Financial report

2020

NAVAL
GROUP

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Management report



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Board of Directors meeting of March 2, 2021

All amounts are in millions of euros unless otherwise stated.

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

I.1. PRESENTATION OF NAVAL GROUP

I.1.1. SHAREHOLDERS AND GOVERNANCE

Naval Group (the “company”) is a *société anonyme* (public limited company) under French law. As at December 31, 2020, 62.25% of its capital was held by the French State, 35% by Thales, and 1.82% by current and former members of staff of the company and its subsidiaries through Naval Group employee mutual fund (2008, 2014 and 2019 Sub-funds of the FCPE Actions Naval Group). The remaining 0.93% is treasury shares held by Naval Group.

During 2020, Naval Group Actionnariat (a wholly-owned subsidiary of Naval Group) purchased 34,492 treasury shares in accordance with the share buyback guarantee granted to staff. Of these, 3,225 shares related to the 2008 Sub-funds of FCPE Actions Naval Group (the First Employee Share Offer, ORS 1), 30,306 shares related to the 2014 Sub-fund of FCPE Actions Naval Group (ORS 2), and 961 related to the 2019 Sub-fund of FCPE Actions Naval Group (2019 Collective Shareholding Plan).

Under this collective shareholding plan, 157,867 shares in the company, which had previously been transferred by Naval Group Actionnariat to the company under a dation in payment, were acquired by the beneficiaries of the plan, who immediately contributed them to the 2019 Sub-fund of FCPE Actions Naval Group created for this purpose.

At its meeting of February 20, 2020, the Board of Directors of the company approved the implementation of a new collective shareholding plan up to a maximum of 210,000 Naval Group shares.

In accordance with this Board decision, the sale price of Naval Group shares “will be equal to the price per Naval Group share resulting from the next annual valuation carried out by the panel of experts appointed by Naval Group, which should be available at the beginning of the month of April 2020”. In addition, in accordance with the timetable for this transaction, the completion of this new collective shareholding transaction should in any event take place no later than September 30, 2020.

To date, a new valuation of the Naval Group share is still not available, the panel of experts responsible for the annual valuation of the Naval Group share concluded, according to a report of September 9, 2020, that it was impossible in the context of the current crisis, “to update the value of the Naval Group share [...]”. The collective share ownership plan for 2020 could also not be implemented.

As at December 31, 2020, Naval Group Actionnariat thus held 520,752 treasury shares acquired as part of the three aforementioned share offers (ORS 1, ORS 2 Offer, and the 2019 Collective Shareholding Plan).

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.

The Board of Directors decided to make use of the aforementioned authorisation twice, under two long-term incentive plans (LTIP), *via* the allocation of free shares, subject to presence and performance conditions, to certain company employees whose retention is key for the achievement of its medium-term plan (MTP).

Under these two LTIPs, the Board of Directors allocated a total of 106,351 free shares, divided as follows between the two LTIPs:

- 37,366 free shares to 40 employees under the first LTIP in place since 2018; and
- 68,985 free shares to 80 employees under the second LTIP in place since 2019.

The allocation of free shares to the beneficiaries of these two LTIPs shall not vest until the end of a four-year vesting period, subject to fulfilment of the presence and performance conditions stipulated by the regulations applicable to each of these LTIPs, whose terms were approved by the Board of Directors at its meetings of February 28, 2018 and February 20, 2019.

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 Law") with regard to the election and status of directors representing employees, and by the company's articles of association and the internal rules of the Board itself.

Governance

Corporate governance means the system formed by the totality of rules, behaviours and institutions that determine the manner in which the company is managed, administered and controlled. The governance of Naval Group at December 31, 2020 is organised around an Executive Committee composed of ten 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, Programmes; General Secretary; Executive Vice President, Industry; Executive Vice President, Australian Future Submarine programme (AFS); Executive Vice President, Human Resources; and Executive Vice President, Strategy, Partnerships, and M&A.

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 defines the group's objectives and decides on all matters having a major impact on the group's strategy, operations and commercial activities.

The term of office of Hervé Guillou as Chairman and Chief Executive Officer of the company expired on reaching the age limit pursuant to the articles of association.

After his appointment as a director by the General Meeting of Shareholders on March 24, 2020 and in accordance with article 21 of the Ordinance, Pierre Éric Pommellet was appointed, by decision of the Minister of the Economy and Finance on March 24, 2020, as Interim Chairman and Chief Executive Officer, pending his appointment by decree of the President of the French Republic.

On March 24, 2020, the Board of Directors proposed to appoint Pierre Éric Pommellet as Chairman and Chief Executive Officer by decree of the President of the French Republic.

The decree appointing Pierre Éric Pommellet as Chairman and Chief Executive Officer of the company was signed by the President of the French Republic on March 31, 2020.

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.

It is composed of 18 members.

The provisions of article 4 of the Order require the French State to appoint a representative to the company's Board of Directors.

The terms of office of the French State representative on the Board [article 4 of the Order] and of the directors appointed by the General Meeting expired at the end of the General Meeting called to approve the financial statements for the year ended December 31, 2019 and took place on March 24, 2020.

The General Shareholders' Meeting therefore noted on March 24, 2020 the expiry of the terms of office of the following directors:

- Mr Hervé Guillou;
- Ms Eveline Spina;
- Ms Sophie Mantel;
- Mr Patrice Caine;
- Ms Nathalie Ravilly;
- Mr Pascal Bouchiat;
- Mr Jacques Hardelay;
- Mr Bernard Rézat;
- Ms Sandrine Lagumina;
- Ms Gabrielle Gauthey;
- Mr Luc Rémont.

The General Shareholders' Meeting then decided to both set up a reappointment by rotation of the directors and reappoint or appoint the following eleven directors:

- appointment for a five-year term of Ms Valérie Champagne, Ms Geneviève Mouillerat and Ms Gwenaëlle Penin de la Raudière and Messrs Pierre Éric Pommellet and François Geleznikoff;
- reappointment for a period of two years of Ms Eveline Spina and Nathalie Ravilly and Messrs Bernard Rézat, Jacques Hardelay, Patrice Caine and Pascal Bouchiat.

Mr Vincent Le Biez was reappointed as representative of the French State on the company's Board of Directors on March 24, 2020 by order of the Minister of the Economy and Finance.

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 employees under the terms set out in title II, chapter II of the Democratisation Law.

The directors representing employees elected to the Board of Directors and whose term of office takes effect on December 19, 2019 are as follows:

- Mr Olivier Menard;
- Mr Laurent Chagnas;
- Ms Béatrice Unia;
- Mr Yvon Velly;
- Mr Tony Lecorps;
- Mr Didier Chavier.

Their terms of office took effect on December 19, 2019 for a period of five years in accordance with the provisions of the company's articles of association.

The secretariat of the Board of Directors was held by Corinne Suné until October 16, 2020, when the Board of Directors appointed Ms Fériel Redjouani as the new Secretary of the Board.

I.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 programmes.

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 programmes. It is thus able to make overall commitments regarding the operational availability of a fleet.

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

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

High-tech products

One of 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 3,550 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 offshore patrol vessel (OPV) *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 renewal of its fleet of submarines;
- 2018: Naval Group completes the mid-life refit of the aircraft carrier *Charles de Gaulle*;
- 2019: Naval Group and Fincantieri sign the joint-venture agreement that in January 2020 will result in the creation of Naviris, a joint venture company equally owned by both groups, which will lead bi-national projects and export projects;
- 2020: The French President announces the launch of studies for the future nuclear-powered aircraft carrier. The choice of the President of the Republic is a major support for the French defence industrial and technological base (BITD) and the nuclear industry, and in particular for Naval Group.

Specific products

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

- ballistic nuclear submarines, which have assured a permanent, uninterrupted French presence on the oceans for 50 years;
- Barracuda nuclear attack submarines, designed to provide the French Navy with defence equipment at the apex of technology;
- Scorpène®-class conventional submarines, 14 of which have already been sold around the world (to Chile, Malaysia, India and Brazil);
- naval surface vessel systems such as the aircraft carrier *Charles de Gaulle*, FREMM multi-mission frigates, 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.

I.1.3. ORGANISATION

On October 16, 2020, Naval Group's Board of Directors analysed the company's strategic priorities and its new transformation programme, Naval 2025 [see paragraph I.1.4]. In this context, an Operations and Performance Department has been set up within the Executive Committee. It brings together the Health and Safety and Environment Departments; Quality; Digital and Information Systems; Purchasing and Supplier Relations. This department is responsible for managing the Naval transformation programme for 2025. To affirm the vital importance of technique and technology in our activities, the Technical and Innovation Department also joined the Executive Committee. This adaptation of the organisation of the Executive Committee was presented to the Central Social and Economic Committee (CSEC) on November 18, 2020 as part of the social information/consultation process of this body.

I.1.4. TRANSFORMATION PROGRAMME

In October 2020, Naval Group launched the Naval 2025 transformation programme, which sets the group's five-year ambition to achieve the high level expected by its customers: to be the benchmark for naval and defence systems in all our areas, particularly in terms of health, safety and environment, and quality of execution.

Naval 2025 is based on four pillars: growth, performance, innovation and talent.

I.2. POSITION OF THE GROUP DURING THE 2020 FINANCIAL YEAR

I.2.1. EXAMINATION OF THE FINANCIAL STATEMENTS AND HIGHLIGHTS OF THE PERIOD

These consolidated financial statements of Naval Group for the year ended December 31, 2020 were approved by the Board of Directors on March 2, 2021 and will be submitted for approval to the General Meeting to be held in April 2021.

The financial year 2020 was marked by the health crisis and by the following major events:

- more than 3 million orders taken;
- revenue in the order of €3.3 billion impacted in particular by the health crisis;
- operational successes with the delivery of the nuclear attack submarine (SNA) *Suffren* in Toulon, the launch of the multi-mission frigate (FREMM) *Lorraine* in Lorient, as well as the launch of the *Humaitá* as part of the Brazilian submarine programme Prosub.

The group acquired the minority stakes in Naval Energies on December 3 and holds 100% of the entity.

I.2.2. IMPACT OF THE HEALTH CRISIS ON BUSINESS AND RESULTS FOR THE FINANCIAL YEAR 2020

The environment in 2020 has been profoundly changed: in the face of the current health crisis, a specific work organisation has been set up to ensure strict compliance with the health and safety rules that have been strengthened during this period. Since March, the group has taken actions to limit the unfavourable impacts of the health crisis.

Thus, the overall impact on revenue and the additional costs related to this crisis were partly offset by savings (internal expenses, travel expenses) but negatively impacted profit (loss) from continuing operations for the financial year 2020.

The group carried out an evaluation, for the programmes concerned, of the costs incurred and judged to be inefficient due to lockdown constraints. These costs mainly concerned project management hours for programmes slowed down at the industrial level.

These costs have been identified on the basis of the number of persons concerned and the stoppage periods of their programmes. These costs were also assessed based on the difference between the physical and financial progress of each project.

As these costs do not contribute to the physical progress of the projects, they have been restated from the costs incurred for the programmes, with no impact on the data at completion.

In addition, the group has not identified any major risk of default among its customers and, as such, has not recognised any material additional impairment for expected losses on its receivables. In addition, the health crisis has not led to any substantial changes or renegotiations that could have had a material impact on the consolidated financial statements.

Particular attention was paid to the impairment tests and were performed in the context of the health crisis. No impairment losses were observed as a result in the financial statements. In addition, the group did not use the guaranteed financing mechanisms granted by certain states.

I.2.3. NAVAL GROUP RESULTS AND FINANCIAL POSITION

Revenue

The group's revenue for 2020 was €3.3 billion, a 10.5% decrease in revenue compared with 2019.

International revenue made up 30.2% of the total.

Backlog

Orders with a value of €3.5 billion were received during the year. The book-to-bill ratio was 1.04.

As at December 31, 2020, the group's order book stood at €15.2 billion. Its provisional execution schedule is as follows: 23% in 2021, 20% in 2022, 15% in 2023, 12% in 2024 and 30% thereafter.

Income

Operating profit of €52.7 million (1.6% of revenue) before amortisation of intangible assets acquired in business combinations was recorded for the year, as compared with €268.3 million (7.2% of revenue) in 2019. Operating profit after net income from equity affiliates was €71.0 million, as compared with €274.2 million in 2019.

Net financial income showed a loss of €(1.1) million, compared with a loss of €(3.3) million in 2019.

The consolidated tax charge was €12.4 million.

The current tax is €15.8 million.

The change in deferred taxes (income) of €3.4 million comprises a €(6.1) million expense corresponding to the recognition of decreases in the current tax rate on all of the group's (and in particular capitalised) temporary differences, versus €(2.2) million as at December 31, 2019.

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

The net profit for the period was consequently €57.5 million.

Financial position and changes in net cash

	12/31/2020	12/31/2019
Non-current investment securities	365.0	275.2
Current investment securities	-	235.0
Net cash	1,260.3	1,683.5
TOTAL	1,625.3	2,193.7

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

I.2.4. 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 programmes 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

The year 2020 was marked by the health crisis and its industrial consequences.

The very strict prevention measures applied at all industrial sites have made it possible to limit the number of cases of contamination below the national average. From an operational point of view, during the first lockdown, the Industry Division was able to maintain the essential activities for the French Navy: support for deterrence but also continuation of the Barracuda programme, with the first sea expedition and testing of the nuclear attack submarine (SNA) *Suffren*. The majority of engineering activities continued through remote working, and the main milestones of the programmes under development (defence and intervention frigates [FDI], the third generation ballistic nuclear submarine [SSBN 3G] and Australian Future Submarine [AFS]) could be held.

The gradual and controlled resumption of activity following this lockdown was very rapid and almost normal operation was restored in July. Activity since September has been very strong and has been little affected by the second wave of Covid-19.

Significant milestones were achieved, including the delivery of the first nuclear attack submarine (SNA) of the Barracuda programme (the *Suffren*), but also the first sea expedition of the multi-mission air defence frigate (FREMM DA) *Alsace* and the final launch of the FREMM *Lorraine*.

On the offer front, the year was marked by progress on three major projects that will materialise in the first quarter of 2021: the development contract for the third-generation ballistic nuclear submarine (SSBN 3G) (covering the period from 2021 to 2025), the AFS basic design contract (Core Workslope 2 contract) and pre-project contracts and risk mitigation studies for the next generation nuclear aircraft carrier. Initial budget estimates have also been prepared to address three new submarine export prospects (Indonesia, the Philippines, the Netherlands).

In terms of industrial performance, a large-scale transformation project was launched in the summer at the Cherbourg site to control the schedule of the Barracuda programme SNA series and reduce production costs. This project is based on seven areas: reduction of cycle times in the Laubeuf shipyard, productivity of the shipyard and preparation workshops, and supply chain efficiency, optimisation of the completion and testing phase, improvement of the production support rate, digitisation and control of subcontracting.

The industrial sites are also preparing for the completion of the SSBN 3G contract which, given the size of the submarine, requires a significant upgrade of industrial resources.

Projects to improve the tooled processes are continuing, in particular to prepare for the deployment of the 3DExperience for the SSBN 3G and AFS programmes planned for 2021.

From a human resources point of view, the strengthening of skills to prepare for the ramp-up of submarine programmes continued with an overall growth of 4% in the workforce and a particular focus on critical skills, particularly in the engineering field.

In terms of innovation, the Industry Division launched two projects in mid-2020 that should lead to economic or technical performance gains for certain products: the first relates to additive manufacturing (with the installation of the first two machines), the second to the wider use of composite materials.

Programmes' business

Submarines

Third-generation nuclear submarine launcher programme (3G SSBN)

Detailed design studies for the third-generation ballistic nuclear submarine are ongoing in 2020, under a co-contracting agreement with TechnicAtome. They were completed by the completion of the end-of-phase APD review in the summer of 2020 with the joint project management of the French Directorate General for Armament (DGA) and the French Atomic and Alternative Energy Commission (CEA).

The technology research used to develop the programme's innovations, begun several years ago, is also ongoing. In parallel with these studies, the Programmes Department continued work on the tender for the subsequent phase of the programme. This work led to the preparation of a framework agreement and a subsequent first contract limited to the first study period (2021-2025) leading to the general design review (RCG), to the first procurement and long-term manufacturing deadlines and industrial upgrading work on Naval Group sites.

Barracuda nuclear attack submarine (ANS) programme

For the Barracuda programme, the year was mainly marked by the delivery of the first production unit, the *Suffren* at the Directorate General of Armament (DGA) on November 6, 2020 in Toulon in the presence of the Minister of the Armed Forces. This delivery follows six months of sea trials, which in particular enabled the F21, SM39 and MdCN synthetic missile launches to be carried out, authorising this delivery.

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

- *Duguay-Trouin* (submarine 2): continuation of the transfers of the circuits from the boiler room to TechnicAtome with the completion in 2020 of hydraulic resistance tests (EHR) of the primary circuit. The EHR of the secondary circuit is expected at the beginning of 2021 in line with the objectives. In Cherbourg, the loading of the last modules was completed in 2020, as well as the closing junction of the thick hull being finalised on December 19, 2020. 2021 will mainly be marked by the overall testing of the boiler room and the filling of *Duguay-Trouin*;
- *Tourville* (submarine 3): concerning work on the nuclear heating plant, the grey phase is being finalised ahead of the start of the clean phase expected in the first quarter of 2021. Following the completion of steam tests on the engine unit module at the end of 2020, it should be on Board in mid-2021;
- *De Grasse* (submarine 4): the boiler room module is being assembled at Nantes-Indret. Work on fitting out the hull is underway in Cherbourg in all sectors;
- *Rubis* (submarine 5): the preparation of hull sections and cofferdams is in progress. Construction work on the swimming pool and the main components of the boiler room continues;
- *Casabianca* (submarine 6): the construction of the swimming pool is underway in Cherbourg as well as the start of the manufacture of the first cofferdam. First work in Nantes-Indret on the main components of the boiler room.

The year 2020 was also marked by the reinforcement of the transformation plan of the Cherbourg and Nantes-Indret sites aimed at securing the cost at completion of the programme.

This plan focuses on the security of planning, quality and performance and is managed via the implementation of indicators allowing the maintenance of the assembly flows, the maintenance of the assembly schedules and workload plans.

Lastly, on commercial aspects, the year 2020 was marked by signing amendment 20 which incorporates certain prerequisites for changes in capabilities that are still the subject of discussions with the French National Defence Procurement Agency (DGA) and aimed in particular at defining various standards for the Barracuda submarines.

Submarine programme for the Brazilian Navy (Prosub)

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

- at the Itaguai naval base near Rio de Janeiro, 2020 was marked by the presence of the highest Brazilian authorities at the launching ceremony of the floating of *Humaitá* (second submarine) and the junction of the last two sections of the *Toneleiro* (third submarine);
- despite the significant impacts of the health crisis, the *Riachuelo* (first boat in the series) continued to run its testing programme, including its first dive at P;
- the delivery of the first batch of F21 torpedoes took place at the end of the year.

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

- the execution of the amendment signed last year continued in a nominal manner despite the health crisis-related disruptions. The completion of this amendment, which will end in February 2022, should enable the framework contract for the construction of the SNBR to come into force.

Scorpène® submarine programme for the Indian Navy (P75)

The first two submarines (the *Kalvari* and the *Khanderi*) are operational within the Indian Navy. This programme includes the delivery of six *Scorpène*® submarines built entirely by the Indian shipyard Mazagon Dock Shipyard Limited (MDL) as part of a technology transfer with Naval Group.

Testing the sonar and combat system of the third submarine, the *Karanj* started in the fourth quarter of 2020 for delivery to the Indian Navy in early 2021.

The launch ceremony for the fourth submarine in the series was held on November 12, 2020 in India at the Indian shipyard MDL.

Australian Future Submarine programme (AFS)

2020 was marked by the health crisis that impacted the AFS programme and the entire group. However, despite the various lockdowns, both in France and Australia, the teams mobilised strongly and the main operational and contractual milestones were all met.

Progress on milestones

In early 2020, Naval Group and Naval Group Australia, in collaboration with Lockheed Martin Australia, approved a joint schedule with the Commonwealth of Australia (CoA) in order to reach the next milestone of the Systems Functional Review (SFR). The intermediate stage (non-contractual), Intermediate Design Review (IDR), was held, despite the health situation, as planned the week of April 5, 2020.

The ongoing work with the client also enabled a successful exit from the previous System Requirements Review (SRR) when reservations were lifted in August. All teams are now focused on the major milestone of the SFR in January 2021. In this respect, the risk mitigation studies on the achievement of the submarine's performance were finalised; the internal design review was completed in November and most of the deliverables submitted to the client in December. Despite the uncertainties linked to the second wave of the pandemic, the SFR, a milestone marking the end of the definition studies, is still scheduled for the end of January 2021, in accordance with our contractual commitments and the latest bilateral political declarations.

As part of the Submarine Design Contract currently underway, SFR will close the Core Work Scope 1 [CWS1] and will enable progress in the Core Work Scope 2 [CWS2] which covers the activity of basic design from 2021 to 2023. Naval Group entered the process of preparing for this new contractual phase in September 2020: after weeks of discussions with the customer, a new offer adjusted to meet its budget constraints, as well as an update of the Additional Work Scope [AWS], which covers all supplies, are being prepared and will be delivered in early 2021.

Technology transfer and maximising Australian content

At the same time, the ramp-up of the teams in France and Australia, continues. Naval Group Australia now has more than 260 employees (as a reminder, the company will employ nearly 2,000 people in 2028). In this context, the inauguration of Naval Group Australia's new premises in Port Adelaide took place on October 16, in the presence of several leading Australian ministers and personalities.

In addition, despite the difficulties related to the health crisis, a third wave of 19 engineers from Naval Group Australia was hosted in Cherbourg in September. For two to three years, these employees will first receive theoretical training, thanks to Naval Group University, then operational within the programme teams to constitute, once back in Australia, the future design authority (*i.e.* Design Authority for Sustainment) within Naval Group Australia.

In addition, in line with its technology transfer strategy, Naval Group launched a campaign targeting Australian equipment manufacturers in October (*i.e.* Local Manufacturing Package Expression of Interest) for a total amount of around AUD900 million, to manufacture in Australia critical submarine equipment usually produced by Naval Group.

In line with the objective of maximising local content in the Strategic Partnering Agreement (SPA), Naval Group voluntarily committed before the Australian Senate, in February 2020, that at least 60% of the value of all contracts awarded to Naval Group under the programme including the construction of 12 submarines would be built to benefit the Australian economy. Following this, Naval Group agreed to contractually commit as

part of the SPA and the teams worked with the CoA to reach an agreement reflecting this positive position and reinforcing one of Australia's four strategic objectives for the Australian Future Submarine (AFS) programme.

Naval Group has also worked to offer the best solution regarding the detailed design allowing both a transfer to Australia in advance as requested by the customer and industrial security of the process. The CoA accepted Naval Group's proposal at the end of October, and a parallel 3D design study of the aft compartment of the future submarine, which in particular houses the main electric motor, which will take place in Australia at the end of 2023.

Progress in shipyard construction

In 2020, work to establish the site in Osborne (north of Adelaide) continued, under the supervision of the project manager of the Australian Naval Infrastructures, with the start of construction of the Platform Land-Based Test Facility [PLBTF].

Changes within the programme

At the same time, in accordance with its commitments and ahead of its contractual obligations, Naval Group is making progress to "Australianise" the Board of Directors of Naval Group Australia. Its composition will be renewed in early 2021 during the transition from CWS1 to CWS2, with in particular the appointment of an Australian Chairman. In addition, after more than three years at the helm of the Australian Future Submarine (AFS) programme, Jean-Michel Billig has moved to new responsibilities within the company. Laurent Espinasse, Director of Industry at Naval Group, is acting as interim manager with John Davis, Chief Executive Officer [CEO] of Naval Group Australia, until the appointment of his successor who will be involved in the launch of CWS2.

Outlook

2021 will be a pivotal year with the end of the definition phase (crossing of the SFR) and the start of the basic design work (basic design) as part of CWS2. Naval Group Australia will continue to ramp up its workforce, and the transfer of skills and responsibilities from Naval Group SA to the Australian subsidiary will continue with the aim of achieving a co-contracting scheme from the start of the detailed design in the middle of the year 2023.

Surface vessel business

FREMM OCCAR

The last two multi-mission frigates with enhanced air defence capabilities (FREMM DA), *Alsace* and *Lorraine*, are being produced at the Lorient site. They follow the series of six FREMMs already produced for the French Navy and the two FREMMs sold for export (one in Morocco, one in Egypt). The FREMM DAs have, in addition to enhanced anti-aircraft capabilities that enable a carrier strike group to be protected, anti-submarine warfare capabilities like the other vessels in the series.

Despite a schedule disrupted by the health crisis and lockdown, the programme met its main milestones in 2020. Launched in April 2019, the *Alsace* successfully completed its first sea expedition in early October 2020. The *Lorraine*, the last of its series, was launched in mid-November 2020, and its sea trials are planned for 2022.

The objective to present the contractual operations to verification of the FREMM *Alsace*, set before the pandemic on March 16, 2021, was therefore maintained. This allows the customer to prepare the official acceptance tests for an acceptance decision by the initial deadline of mid-April 2021. Next, an Aster 30 missile with the new version of the Combat Management System [CMS], which is at the heart of the FREMM DA combat system, is planned for the second half of 2021.

At the same time, capacity increments purchased by the customer are gradually installed on other FREMMs in the series by the Services Division as part of the technical outage programme defined by the Fleet Support Service [SSF]. Thus, the installation of SAMAHE®, now completed for the FREMMs established in Brest, will continue in 2021 for the FREMMs established in Toulon.

Defence and Intervention Frigate Program [FDI]

The first tranche of the defence and intervention 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 2020, the programme continued its design and industrialisation studies with the detailed design reviews of the various systems that prepare the general validation of the detailed design of the vessel.

In parallel, the programme began the production phase with the manufacture of the first hull rings on the shipyard in Lorient. At the Angoulême-Ruelle site, the installation of the first elements of the vessel's propulsion is proceeding according to schedule. At the Ollioules and Bagneux sites, the second version of the vessel's combat system was validated and qualified on the date scheduled for October 2020.

Mine hunter programme Belgium and the Netherlands

The programme to build 12 mine warfare vessels equipped with ECA-built drones for the Belgian and Dutch navies continued its engineering activities in 2020, leading in particular to the achievement of the Preliminary Design Review [PDR] milestone at the end of the year following the Systems Functional Review [SFR] milestone achieved in May. The subcontracting contract for the construction of the 12 vessels was signed in February with Kership, a company jointly owned by Naval Group and Piriou. At the same time, the main equipment contracts including a portion of Belgian suppliers were notified by Kership, as part of its subcontracting contract, in order to safeguard the start of machining of the first vessel in the first half of 2021.

Gowind® Egypt

The first sea expedition of the corvette *Port-Said* and the launch of the corvette *Luxor* took place on May 14, 2020. These are the first and third units of a four-unit programme. The Naval Group teams based in the country provided their technical expertise, thus demonstrating our effectiveness in supporting our client.

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

Sea trials of the corvette *Port-Said* took place at the end of 2020 for delivery scheduled for early 2021.

Gowind® Malaysia

While the six vessels of the Gowind® Malaysia programme are built by the Malaysian Boustead Naval Shipyard [BNS] under the design authority of Naval Group, their Combat Management System [CMS] is entirely carried out by the Mission and Combat Systems Division [MCS] teams at the Naval Group sites in Ollioules and Bagneux. Studies of Detailed Design of Naval Group responsibilities were completed in early 2019.

The construction of vessels by Boustead Naval Shipyard continues in the Lumut shipyard in Malaysia. However, construction site activity slowed down in 2020 mainly due to the economic situation of BNS and the health crisis.

Flotlog

This contract signed with the Joint Armament Cooperation organisation [OCCAR] covers the construction of four force supply vessels for the French Navy, in co-contracting with *Chantiers de l'Atlantique*.

Naval Group designs and installs the platform's military systems as well as the combat system. As such, the Preliminary Design Review [CDR] was achieved in mid-2020. Critical Design Reviews are currently taking place in-house for a CDR closure with the customer in May 2021. Delivery of the first boat is planned for April 2023.

OPV Argentina

2020 was marked by the final launch of the ARA *Piedrabuena* [OPV1] in Concarneau on October 1, 2020.

On October 24, 2020, the ARA gun *Bauchard* [formerly *L'Adroit*] was delivered in Argentina, and missions are underway to organise its integration.

Work continued on a nominal basis on the following vessels [ARA *Storni* [OPV2] and ARA CL *Cordero* [OPV3]].

Other patrollers

In the second half of the year, Naval Group was selected by Kership to provide combat system engineering and the supply of the CMS *Polaris* for three OPV 58 units for the Senegalese navy.

French National Defence Procurement Agency (DGA) launched the oceanic patrol vessel programme with the notification on October 23, 2020 of a framework agreement awarded to Naval Group, CMN, PIRIOU and SOCARENAM for ten units.

The first subsequent contract [MS1] for a design and value analysis phase was awarded to Naval Group on October 23, 2020.

Service activity

In 2020, commercial activity was mainly marked by:

- the signature of an amendment to extend the routine maintenance of Ruby-type nuclear attack submarines (ANS) until the end of June 2021;
- notification of conditional phases for periodic unavailability for maintenance and repair of the missile launcher submarine (SSBN) *Le Terrible*;
- notification of conditional tranches relating to aircraft carrier maintenance of the *Charles de Gaulle* for the period 2020-2021.

Operational activity was marked by three major events:

- the health crisis, which slowed down the Services Division's activities in France from mid-March to the end of May (but without impacting the availability of the French Navy fleet - all milestones were achieved in 2020) and very significantly reduced the progress of the renovation of *Sawari 1* frigates in Saudi Arabia, as well as the routine maintenance of the Egyptian navy;
- the fire on the *Pearl*, a *Rubis*-type nuclear attack submarine (ANS) on June 12, 2020, with a repair decision by the Minister of the Armed Forces on October 22. IPER's work, started before the fire, continued in the workshops after the fire. After a period of investigations and post-fire studies, repair work began in early December (in parallel in Toulon and Cherbourg);
- the acceptance firing of the M51 missile by the SSBN *Le Téméraire*, last major step before its return to the operational cycle.

The main other achievements during the period were:

In France:

- start of the work of the IPER of *Le Terrible* in early October 2020, for a period of approximately two years;
- obtaining the authorisation to commission basin 1 and quay 505 of the *infra* Barracuda for *Rubis*-type nuclear attack submarine (ANS) [April 27] allowing the arrival of the Barracuda-type SNA *Suffren* at the Toulon naval base in July;
- start of work on the mid-life refurbishment of the La Fayette-type frigates (FLF) on the *Courbet* (on October 5) - approximately one year of work for each of the three vessels;

- maintaining the posture and very good availability of the French Navy fleet, including during the health crisis;
- continuation of the dismantling project for the first generation SSBNs in Cherbourg.

Internationally:

- delivery of the first F708 frigate and the first L904 tanker in KSA;
- completion of IPER work on the Kota Kinabalu base on the KD submarine *Tun Razak*, second of the two Malaysian *Scorpène*-type submarines delivered in 2010;
- completion of the first maintenance on the Egyptian corvette *Gowind*® in Marseille from July to October;
- in Singapore, operation of the central purchasing unit for the benefit of the group, performance of platform maintenance work for Bravo frigates and ramp-up of the research and development (R&D) centre.

In addition, the Services Division teams are continuing their efforts to digitise all their activities.

Naval Energies business

Naval Group continues to develop the marine renewable energy sector *via* its subsidiary, Naval Energies.

Naval Energies develops systems and subsystems for generating renewable, low-carbon electricity from two different sources - offshore winds and deep ocean sea water.

Naval Energies contributes to the development of alternative, renewable and environmentally-friendly energy from the most powerful source available: the sea.

From site studies to systems construction, from regional deployment to submarine connections bringing power on land, Naval Energies operates throughout the product life cycle and controls the entire value chain: design, manufacturing, installation, maintenance and dismantling.

Naval Energies provides one of the fundamental building blocks of floating wind turbine technology with its semi-submersible platform, for which the design methods have been certified by Bureau Veritas and design review approved by ABS. Naval Energies also obtained dual certification from DNV GL in 2020: for the Design Basis of a floating wind farm and for all of its design methods.

Lastly, the Naval Energies platform received in 2020 the Solar Impulse Efficient Solution label after an assessment by a panel of independent experts of the technological feasibility of the solution, the environmental and socioeconomic benefits it provides and its profitability.

I.2.5. RESEARCH AND DEVELOPMENT (R&D) ACTIVITY

At Naval Group, innovation serves two major challenges: guaranteeing the technological superiority of our naval customers, on all oceans, and guaranteeing our competitiveness in an exponentially growing competitive environment, on all continents.

Our unifying axes, pillar of our R&D strategy

Since 2018, to set its course in response to its customers' capacity targets and its own performance targets, Naval Group has structured its vision and innovation work around six unifying axes: Smart Naval Force, Smart Ship, Blue Ship, Invulnerable Ship, Smart Availability, Smart Industry.

Their purpose is multiple:

- provide a concise and structured 30-year vision of the group's R&D guidance, taking into account the short term, focused on the needs of the product lines and programmes; the medium term (looking to the future, new threats, new uses, etc.); and the long term (guided by the forward-looking plan, science and technology S&T, and long-term development innovation). This vision is firmly focused on the customer. It identifies the capacity upgrades to be offered in different increments to given programming targets;
- gives those responsible for R&D work the vision of the technological building blocks and scientific advances required to provide the new operational capabilities identified.

This vision makes it possible to align the medium-term customer need targets with future naval combat standards in the longer term. Looking ahead to this horizon means imagining the future capital ship now, which would be the result of technological and therefore strategic developments in each of the six areas of the unifying axes.

The following paragraphs describe some outstanding examples of R&D work carried out in 2020 relating to each of the areas.

Smart Availability

With a view to progressing towards future service offers (predictive maintenance and remote maintenance), Naval Group conducted at-sea experiments to optimise preventive maintenance (real-time algorithms on the multi-mission frigate (FREMM) *Auvergne* for diesel generators) and remote assistance (links set up on the FREMM *Languedoc* and on the SNA *Emeraude*).

Smart Industry

Naval Group assessed several digital twin tools of shipyards/sites and vessels under construction and used them to simulate several shipbuilding or shipyard programmes. This will enable progress to be made in the dynamic adjustment between load and industrial capacity, on the one hand, and in the consideration of production and maintenance constraints, on the other.

Invulnerable Ship

In order to always be able to meet the demands of our customers in terms of improving the pyrotechnic impact resistance performance of our vessels and submarines, we have carried out self-financed work to continue to improve our methods and our analysis and calculation tools, through the development of two new modelling software programmes which also enable Naval Group to be fully in control and sovereign over the entire calculation chain, a fundamental criterion for guaranteeing sovereignty of our clients on a highly strategic subject.

Smart Ship

The Service and Data Management System (SDMS) centralises all on-Board data, manages and facilitates its use while providing shared processing services. Experimental work on Board the aircraft carrier *Charles de Gaulle* started in 2019 continued as part of an EOR (on-board experiment) to complete the experiment on the data processing cycle produced by the onboard systems. As a follow-up, we will propose to the customer to industrialise the data recovery part of the SDMS and deploy it on eight FREMM-type frigates.

Blue Ship

In line with the work carried out on fuel cells for submarines, for which Naval Group already has a developed solution integrated into our submarine offers, studies of a new high-power hydrogen fuel cell module for military naval applications have been launched. In addition, to improve the energy efficiency of the platforms, a measurement campaign will be carried out in 2021 on a FREMM-type frigate in operational cycle.

Lastly, we continued our work to evaluate various Li-Ion battery technologies and integrate them into on-Board packs to replace the lead-acid batteries currently fitted to submarines. These changes will significantly improve their operational capacities.

Smart Naval Force

As the deployment of the Naval Cooperative Watch (VCN) is underway through the SETIS 3.0 contract, the next step concerns the Naval Cooperative Engagement (ECN) in anti-aircraft combat. This capability aims to optimise in real time the commitments within an air-sea force according to the threats, the doctrines in force, the units present and their capabilities (position, availability, ammunition stock, etc.) in order to succeed in a true naval force combat system.

Simulations were performed to model different operational configurations taking into account the characteristics of the different systems in play (communications, navigation/sensor bias, temporal synchronisation, carrier battle group configuration, etc.) in order to be able to perform in a first instance the engagements on VCN runways as a first stage of future ECN capacity.

As this capability involves Thales, MBDA and Naval Group, an agreement was signed between these three manufacturers to define and develop a common anti-aircraft response chain for high-intensity threats, with integration into the Thales's functional modules within SETIS 3.0. This solution will optimise the interface with the MBDA missile facility. This agreement will be implemented in the short-term to overhaul the Horizon frigates.

Over the next decade, submarine drones will become a real driver of operational capacity for the navies using them. As Naval Group has mastered the design of a submarine and has increasingly mature technological components in terms of autonomy, the design of large-format submarine drone systems with a high military value is a natural part of the strategy of its product lines. To prepare for this, Naval Group launched the development and design of a submarine technology demonstrator in 2016. This demonstrator was launched in 2020. It must provide an integration platform and a means of sea trials to acquire the technological maturity necessary for the underwater drone capability.

Outlook

This year our outlook focused on four topics with a strong impact on the group. These studies have identified opportunities and threats for Naval Group related to changes in some of its adjacent markets, and to technological and operational transformations in the civil and defence sectors. In-depth work was carried out on the medium- and long-term impacts of the health crisis.

Since May, Naval Group has been able to count on its Scientific Advisory Board to mobilise and shed light on the crises linked to the pandemic and lockdown. A plenary meeting was then held in November 2020, with the participation of our new Chairman and Chief Executive Officer, Pierre Éric Pommellet, who had the chance to take stock of the first four years of this Board's existence, and to reaffirm its mandate. The quantum and the increasing complexity of the digital vessel were highlighted in the discussions.

Open innovation and Naval Innovation Hub

Naval Group aims to make cultural transformation for innovation a priority to allow everyone to express their ideas and be able to implement them as part of the group's strategy by prioritising: an entrepreneurial culture [pragmatism, frugality, speed of action], open innovation (via systematic sourcing whether internally and externally), a customer-centric approach [inclusion of the customer/user as early as possible in the discussions] and a frugal approach.

As such, the second season of the "intrapreneurship" programme set up at group level was launched at the end of 2020. This approach aims to identify new business innovations for Naval Group by supporting internal employees.

An internal community of all internal innovation systems was also created in 2020 to help accelerate innovation and spread a new culture of innovation for the group.

In addition, with the creation of the Naval Innovation Hub (NIH) at the end of 2018, Naval Group took the decisive step of disruptive innovation to adapt to the acceleration of innovation cycles and the need for increased research responsiveness. This has made it possible to develop new growth drivers by exploring new markets and new ways of organising work. Its mission is to help imagine and materialise the future of naval defence by rapidly transforming concepts and technologies with high potential into innovative and concrete solutions with high added-value for customers, but also for the competitiveness of Naval Group. In 2020, the NIH continued its efforts to develop an internal and external ecosystem, to organise workshops by using new methodologies and setting up a sharing network through a platform. The NIH also initiated 11 disruptive projects, accelerated 11 internal projects and conducted as many workshops internal. To provide a fresh perspective on the development of the NIH and its projects, Naval Group's Executive Committee decided that the Naval Innovation Hub Governance Committee would be composed of a majority of members from outside the company and from outside the company, a wide variety of dynamic economic sectors. This committee met four times in 2020. These meetings made it possible to assess the NIH's projects with regard to five criteria: desirability, viability, feasibility, potential for disruption and appropriateness with the strategic framework. This External Governance Committee has been instrumental in proposing new areas of development and topics to be explored to the NIH.

Increasing R&D funding

The share of Naval Group's self-financed R&D expenses for naval defence included in R&D expenses amounted to €79 million in 2020, following the readjustment of priorities caused by the health crisis. As in previous years, additional funding came in 2020 for more than €50 million from orders for upstream study programmes (PEA) funded by the French Defence Department (DGA) or subsidised/collaborative programmes and, for the most part, programme investments. This share of financing is up significantly compared to 2019, which is partly linked to the Franco-Italian R&T project led by Naviris, the joint venture between Fincantieri and Naval Group.

In 2020, and still with the objective of increasing funding for R&D on strategic subjects related to the unifying axes, the Naval Group Technical and Innovation Department (DIT) continued to strengthen its commercial activity and business development both in France (regions, DGA, etc.) and within civilian and European defence, which should be implemented in 2021.

In 2020, this made it possible to sign several contracts or amendments with the DGA, and to win nine European collaborative projects (four in the field of defence and five in the civil sector). In addition, the DIT has commented on its roadmaps in full or in part to its clients, competitive clusters, technological research institutes (IRT), major industrial partners, the French Maritime Cluster and the regional innovation directorates (Nouvelle-Aquitaine and Pays de la Loire) This has made it possible to identify R&D projects likely to be contracted in 2021-2022 in areas such as the fight against asymmetric threats, the signature of vessels, the ecological and energy transition, materials, experiments at sea, the propulsion of the future, etc.

Naval Group and the regions, notably Pays de la Loire in 2020, have signed partnership agreements to optimise economic development between the two parties. These agreements have three components: research and development, training and development of major local projects. Naval Group has the trust of four IRTs: Jules Verne, M2P (materials, metallurgy and processes), SystemX and b<>com. Structural projects are underway in 2020 and will continue in 2021 and beyond.

In terms of subsidised R&D, the activity focused on preparing and submitting several offers in line with the group's strategic technological capture plan and obtaining contracts with direct or indirect benefits for the group's products, in particular towards Europe with both civilian (Horizon 2020 and Horizon Europe) and military (Preparatory Action on Defence Research, European Defence Industrial Development programme, European Defence Agency and preparation of the European Defence Fund).

Finally, control of the research tax credit (CIR) mechanism continued in 2020. The CIR remains at a level close to 2019 at nearly €31 million despite the health crisis.

Naval Group's Technology Research Centre: Naval Research

In 2020, Naval Group structured and implemented its S&T (science and technology) activities around nine scientific fields: people and systems, digital systems, data processing, materials and structures, waves and materials, fluid mechanics, energy, overall digital models and eco-design.

Thanks to these cross-functional areas designed to feed our unifying axes with the right scientific innovations at the right time, we can work to strengthen our long-term links with academic and scientific ecosystems, in France and abroad, which is an essential lever to maintain the technological superiority of our group.

The structuring partnership with the French National Institute for Research in Digital Sciences and Technologies (INRIA) on artificial intelligence, comprising a Research unit and an Expertise-Transfer unit composed mainly of Naval Group employees, was developed with the creation of a first joint laboratory in Bordeaux. Naval Group can continue to rely, among other collaborations, on six joint laboratories and three chairs in the French ecosystem, and is working on the creation of two joint laboratories internationally, in Singapore and Australia.

Finally, Naval Group continues to develop its Naval Research centre of excellence, composed of three centres of expertise in materials, energy and data processing, which pool and share, for the benefit of all Naval entities, the key skills to support its customers and its products.

International development

In 2020 and despite the health crisis, Naval Group continued its efforts to internationalise its R&D.

In particular, it should be noted that:

- the strategic technological plan was rolled out in the two R&D centres of excellence created in Singapore and Adelaide in Australia;
- the Naviris joint venture was created and has a Franco-Italian R&D component of €40 million;
- the European roll-out continued with the submission of 16 offers, 9 of which have been selected to date out of 12 awarded (success rate of 75%), and 4 are pending.

Lastly, support for prospects and programmes was significant, particularly in India, Saudi Arabia, the Netherlands and Belgium with the forthcoming creation of a centre of excellence in mine warfare (MCM LAB).

I.2.6. SUBSIDIARIES AND ALLIANCES

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 buying back Naval Group shares acquired by the beneficiaries of both ORS (employee share offers) in 2008 and 2014, as well as the 2019 collective shareholding plan. These beneficiaries contributed their shares to the FCPE Actions Naval Group.

Naval Group Participations

Naval Group Participations is a holding company. It holds stakes in several Naval Group companies created abroad: Naval Group Technologie Canada Inc. [100%], Naval Group Arabia [90%], Alexandria Naval for Maintenance and Industry [99.99%], DCNS Zamil [55%], Naval Group Nederland BV [100%] and Naval Group Malaysia Sdn Bhd [not significant].

Boustead DCNS Naval Corporation Sdn Bhd (BDNC) [40% shareholding]

BDNC is located in Malaysia. The company's principal purpose is to supply in-service support to the Malaysian Navy for its Scorpène® submarines.

International Naval Construction Department (DCN)

DCN International was created in 1990 to manage export sales contracts for equipment and services provided by DCN (which became a national service 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 programme.

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.

Eurosysnav SAS [50% holding]

Eurosysnav was established to act as general contractor in relation to the combat systems for Horizon anti-aircraft frigates. A decision to dissolve the company was taken at the General Meeting on June 22, 2016. Final liquidation of that company was approved by its General Meeting on December 19, 2019. Eurosysnav was removed from the trade and companies register on February 4, 2020.

Itaguai 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 programme.

MO PA2

MO PA2 was originally created to be a contractor for the French aircraft carrier No. 2 programme. 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

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.

Naval Group Belgium

Naval Group Belgium was registered in Belgium on December 16, 2019 to reflect the group's intention to develop its anti-robotic mine operations internationally from Belgium. This subsidiary will subsequently be the prime contractor on the MCM programme and supervise R&D cooperation in both anti-mine and cybersecurity operations.

Alexandria Naval for Maintenance and Industry

The purpose of Alexandria Naval for Maintenance and Industry, a subsidiary registered in Egypt on June 3, 2018, is to conduct new construction and maintenance operations for the Egyptian client.

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 programme, 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 [held at 59.87% - 100% since December 7, 2020]

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.

Since December 7, 2020, Naval Group has been the sole partner of Naval Energies since the acquisition of all of the shares held by Bpifrance, Technip FMC and BNP Paribas in this subsidiary.

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 [wholly-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.

Naviris [held at 50%]

Naviris is a joint venture with Fincantieri and its purpose is to conduct binational and export projects.

Naval Group Pacific

Naval Group Pacific Ltd is an Australian company whose purpose is commercial development and R&D activities in Australia and New Zealand.

Naval Group Arabia

Naval Group Arabia, a subsidiary registered in Saudi Arabia, aims to implement the Kingdom's vision for naval activities. The objective is to develop the Saudi part of the MCO activities on the Sawari fleets in service, to cooperate with universities on applied research subjects and to develop shipbuilding skills.

DCNS Zamil [55% holding]

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

Principia [33.33% – single share held since July 16, 2020]

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.

On July 16, 2020, Naval Group sold all of the shares, less one, that it held in the share capital of Principia.

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, 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

In order to facilitate the succession of the Chairman and Chief Executive Officer of Principia and to organise his exit from the capital of the company in which he held one-third of the share capital with some of the managers, Naval Group sold its shares (also one-third of the share capital) on July 16 to the Artelia group, except for one share, which allows him to continue to sit on the Board of Directors of Principia. NPCC remains a one-third shareholder of the company alongside the Artelia group. The shareholders' agreement was renewed and grants specific veto rights to Naval Group.

This transaction enables the Artelia group, a French consulting and engineering company active throughout Europe in the fields of construction, infrastructure and industry, to strengthen its skills in the field of offshore, marine infrastructure and floating structures, and to bring new development prospects to Principia. Naval Group remains a privileged strategic partner of Principia in defence.

I.2.7. ETHICS AND COMPLIANCE

I.2.7.1. Ethics

For the fourth consecutive year, an Ethics and Compliance Day was held digitally in early December 2020. On this occasion, the group's employees were able to ask various questions, in particular about the operation of the ethics whistleblowing line and the confidential treatment of reports issued. They were therefore informed of the results of the compliance survey carried out at the beginning of November, which included ethical issues. A poster dedicated to the ethics alert was placed in early December at all sites in France to remind employees of the address of the ethics alert line.

As part of the development of the Ethics and Corporate Social Responsibility (CSR) Committee, a whistleblowing committee must be set up. A practical and legal guide for investigators is being drafted to improve the quality of investigation procedures. Surveyors will be trained in this guide in early 2021.

In 2020, the various correspondents who intervene in situations of harassment, discrimination or situations contrary to the Code of Ethics and/or the code of conduct compliance have been confirmed: the ethical contacts and CSR correspondents, compliance officers, the harassment and sexist correspondents of the CSE, the harassment and sexist correspondents of the employer and the discrimination correspondents. Prevention actions will be launched in 2021.

The harassment and sexist correspondents of the CSE will be trained in January 2021. This training includes the legal framework, the procedure within Naval Group and the role of the correspondent.

Since the Naval Group joined the Business Ethics Circle in September 2018, group representatives have been able to attend numerous conferences and events organised by the association. Naval Group, represented by its DECG Director, was elected to the Board of Directors in June 2020 as a director.

In addition, following discussions between Naval Group and the Board of Directors of the *Entreprises pour les Droits de l'Homme* (EdH) association, Naval Group joined EdH in January 2020. This association promotes the understanding and integration of human rights within companies through the deployment of vigilance procedures, a voluntary and multi-sectoral initiative. This association is a place for discussion, sharing of good practices and group reflection.

I.2.7.2. Prevention of corruption and influence peddling [compliance]

The group's Ethics, Compliance and Governance Department, whose head is the point of contact to prevent 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 part of a continuous improvement approach, this system made further progress in 2020, both in terms of content and implementation, with the following actions being carried out:

- the update of the group's anti-corruption policy, decided by the Chairman and Chief Executive Officer;
- the update of the group's corruption risk mapping, in accordance with the recommendations of the French Anti-Corruption Agency;
- the implementation of 30 new management and performance indicators based on the guidelines issued by the Global reporting Initiative in order to measure the effectiveness of the compliance throughout the group, monitor the level of deployment of the anti-corruption system in the entities, verify the implementation of awareness-raising and training sessions as well as the evaluation of third parties;
- updating the standard compliance and, in particular, instructions relating to conflicts of interest, to draft agreements or contracts between Naval Group and third parties, to the procedures for setting up a compliance monitoring system in companies controlled or not controlled by Naval Group, the selection and management of commercial advisors, the classification of measures to prevent and detect risks of corruption according to the nature of the contractual relationship;

- the drafting of the anti-corruption manual according to the ISO 37001 standard, in line with the group's certification process;
- continuation of the training plan, with:
 - updating the lists of employees most exposed to the risk of corruption and influence peddling, creating specific training modules, and carrying out planned training with an adaptation of training so that they can be delivered remotely, while maintaining a link with the trained staff during telephone meetings, allowing them to discuss with the trainers and ask any operational or technical questions and thus resolve any questions they may have,
 - continuing to raise employee awareness by targeting new hires and managers,
 - continued awareness-raising through e-learning since the platform is available to all Naval Group employees;
- continuing to conduct third-party assessments (due diligence) according to the new standard;
- increased consideration of conflicts of interest in the employee recruitment process, following discussions on the subject with the AFA;
- implementation of the annual communication plan, including an international day dedicated to ethics and compliance;
- conducting internal controls on the progress of the deployment and the application of the compliance system at sites and subsidiaries;
- the presentation of milestones for the deployment of the compliance system within the group (by sites and by controlled companies) to the group's executive bodies: the Executive Committee and the Audit, Accounts and Risks Committee of the Board of Directors);
- preparation for ISO 37001 certification.

It should be noted that the entire compliance system is reviewed each year by the Statutory Auditor.

I.2.7.3. Declaration of interest under the Sapin 2 law

In accordance with Title 2 – articles 25 *et seq.* of French Law no. 2016-1691 of December 9, 2016 on transparency, the fight against corruption and the modernisation of economic life (referred to as the Sapin 2 Law), the company annually declares its equity interests in other companies on the website of the High Authority for Transparency in Political Life.

I.2.8. RISK MANAGEMENT

I.2.8.1. Risk monitoring system

The group faces a number of risks and uncertainties that may impact its financial performance. For this reason it has set up a risk management and internal control system, overseen by the Audit, Accounts and Risk Committee of the Board of Directors,

covering strategic, operational, financial and legal, as well as CSR, risks. This system is led by the Audit and Risk Management Department and a network of risk and opportunity managers under the guidance of the Audit and Internal Risks Committee, co-chaired by the Deputy Chief Executive Officer, Finance, Legal, Purchasing and Real Estate and the General Secretary.

Naval Group has adopted as a reference standard the Committee of Sponsoring organisations (COSO) version 2013 for the design, implementation and evaluation of the group's risk management and internal control system and was organised according to the three lines of control model. A risk mapping at group level is prepared annually to take into account changes in the environment and the group, as well as their possible impact on the achievement of the group's strategic and operational objectives.

Risk management is the responsibility of each department, which ensure that risks are taken into account and that the means implemented to reduce and control them are effective. The risks inherent in particular issues are supervised by specific organisations (compliance nuclear and pyrotechnics inspection, CSR, etc.), which make up the second line of control and provide methodological support. A single standard of requirements (RUN) – representing the main requirements of the company (internal control, quality, programme management) is used by the first lines for self-assessments and by the second lines which carry out checks with the objective of coverage of the entire system over four years.

The Audit and Risk Management Department, certified since 2012 by the French Institute for Audit and Internal Control (IFACI), carries out independent internal audits according to an annual plan based on the main risks approved by the Executive Committee and reviewed by the Audit, Financial Statements and Risk Committee. It issues an annual independent opinion on the level of risk management and internal control. In 2020, an audit was carried out on the implementation of the anti-corruption rules governing relations with third parties and an audit on the implementation of the onboard fire recommendations issued.

The Naval Group entities reporting to the Chairman and Chief Executive Officer and the controlled subsidiaries prepare an annual letter of representation, committing to risk management and internal control, and compliance with ethics and compliance rules.

These systems contribute to the achievement of the group's objectives, but do not constitute an absolute guarantee due to the limits inherent in any system. The group's business, operating profit/loss or financial position could be materially affected by the risks described below or by other risks and uncertainties of which the group is currently unaware or which it regards, as at the date of this document, as immaterial.

I.2.8.2. Financial risks

Liquidity risk: the risk is currently covered by surplus cash; however, the group does not refrain from using credit facilities if necessary.

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

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

I.2.8.3. 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 system in place since 2015, the group resolved to strengthen the existing compliance system with regard to both the prevention and handling of risks so that it satisfies the highest requirements in this area (see section I.2.6, above).

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

The risk of corruption is detailed in the chapter "Statement of Non-Financial Performance".

Naval Group has set up a whistleblowing hotline to report any behaviour or situations that are contrary to Naval Group's ethics and CSR guidelines. It allows any stakeholder of Naval Group, in particular its employees and companies with which the group has a business relationship, including suppliers and subcontractors, to express a concern or report inappropriate behaviour.

Naval Group has a division of investigators trained to carry out the necessary investigations, in particular those relating to ethical alerts and compliance.

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) and takes action to mitigate these risks with the state authorities and the group's internal players.

The Export Control Department (ECD) 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, programmes, procurement and the supply chain) through updated frameworks, training and familiarisation measures, advice and audits. During 2020, in particular due to the health crisis, the Export Control Department limited its internal control to the implementation of the internal control plan *via* assessments and self-assessments in coordination with other group departments. In addition, obtaining French authorisations was not affected.

Concerning customs matters, the ECD is continuing the actions undertaken to promote its importance in terms of competitiveness and international performance, which is increasingly linked to trade and offers to study the most financially effective customs solutions in our customers' countries.

As mentioned in the last report, the Naval Group account was transferred to the Toulouse-Blagnac customs centre in December 2018.

Throughout the year 2019, Toulouse customs analysed our import-export flows. It was able to note that Naval Group's export activities are particularly complex and sensitive, and it has placed Naval Group's flows under increased surveillance. This increased surveillance has led to the involvement of all group entities in the issuance of these alerts, including manual inventories of all equipment subject to customs and/or export control regulations.

Despite the efforts of Naval Group staff and those of our customs service provider, irregularities were noted by the customs authorities.

The deployment of an IT solution for the management of regulatory reports (customs and export control) was delayed due in particular to the health crisis and should be implemented in 2021.

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.

Naval Group regularly welcomes work-study students and interns. Each year, more than a hundred work-study and internship reports are produced. The group is thus exposed to the risk of publication and dissemination of sensitive information, and more broadly of its intellectual assets. This is why in 2020 it strengthened its system for controlling access to information and monitoring work-study and internship reports. This system involves Naval Group operational staff and managers as well as human resources staff. Local intellectual property correspondents and security officers at each site form the second line of risk management.

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 closing 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 programmes.

I.2.8.4. Business risks

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

Competitive environment

The growth of the defence market around the world, predictable until the onset of the health crisis, the consequences of which are still difficult to estimate, does not guarantee growth for the military naval industry, which will face head-on competition in terms of budget for the aerospace industry.

Competition is intensifying against Naval Group. In addition to long-standing European players (Fincantieri, TKMS, Navantia, Damen, etc.), there are new entrants (Sweden, United Kingdom) and new entrants (Korea, China, Turkey).

At the same time, competition from the United States is increasing considerably and very quickly:

- indirectly by diverting significant portions of defence budgets to other areas (missiles, aircraft) than the naval field, as shown in the Polish and Romanian cases;

- directly through the emergence of new or second-hand units, or through alliance with European partners (Fincantieri, Navantia) able to ship combat systems and weapons from the United States. The evolution of the situation in Greece is a perfect illustration of this.

In the short term, there will be competitors from Singapore, India, Indonesia and Japan. This increased competitive pressure could therefore negatively affect Naval Group's commercial position and profitability, as well as that of the entire French defence industrial and technological base (DITB) on which Naval Group relies.

To be able to successfully combat this competition, Naval Group must improve the competitiveness of its products and offers. To this end, Naval Group is strengthening its research and technology effort, expanding its portfolio of offers, and consolidating and extending its international presence, notably through sustainable locations, by anticipating the most credible needs. The creation of Naviris, a joint venture with Fincantieri in surface vessels, is part of this strategy to increase competitiveness.

Dependence on the public spending

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 spending, in other words, on political decisions that fluctuate depending on the country's economic and geopolitical situation and industrial policy.

After a shrinking of defence budgets in France and Europe since the end of the Cold War, the 2019-2025 military planning law provides for an increase in the budget for Defence missions, including equipment credits. The vote on the 2020 defence budget and the 2021 French Budget Bill seem to confirm this increase, marking the French State's willingness to invest in renewing its naval capabilities, including for the oceanic deterrence component. 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 programmes.

To reduce its dependence on public procurement in France alone, Naval Group invests in the international development of its defence activity: winning international contracts is essential to maintaining the cost of French programmes at contractual level and to maintain and develop the skills of Naval Group and the French DITB, as well as to strengthen the group's ability to invest in the technological and industrial innovations necessary to maintain its distinctiveness and develop attractive new products.

Successful management of bids and programmes

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 the sale of these products and services (general contractor agreements for major programmes, technology transfers, local parts made by partner shipbuilders, etc.) 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 performance of programmes may also be impacted by a major accident, a natural disaster on a site, or the failure of a major industrial tool or information system (IS). Continuity plans are developed to reduce the severity impact of these risks. In 2020, the Covid-19 pandemic generated a significant lockdown period and slowed down activities. The occurrence of such events may have an impact on Naval Group's financial position and results.

With regard to bids, a risk assessment and control system is in place and has been tightened with the implementation of the Financial Control and Evaluation Department (DCEF) to improve control of the offers. With regard to the programmes, monthly progress reviews are organised to check the progress on the technical, calendar and financial plan to identify and prevent operational drifts. The risk management approach has also been strengthened with support for programmes and entities in the implementation of a unified process and the deployment of an Active Risk Management (ARM) centralising tool. This increased visibility makes it possible to improve the consistency of the portfolios, to identify major risks and to ensure the progress of control actions.

In addition, since 2016, the Contract management is organised to enable its members to ensure more efficient management of the contract during its creation and execution, and to maximise financial and operational performance while minimising risks and exploring all opportunities.

This particular effort resulted in the provision in 2017 of a comprehensive business reference system comprising more than 50 documents and tools (templates, instructions, registers, checklists, etc.) to which all of the group's contract managers were trained. A dedicated Intranet for the function was also set up and in 2018, the group defined and approved the 12 golden

rules to be applied in this area. On this basis, the year 2019 was an opportunity to launch awareness – raising and training modules (including an e-learning) for all company stakeholders and for the year 2020 to set up the Purchasing Contract Management Experts (MCA) to act as coordinators, within the Purchasing Departments of each site, and between programmes and purchasing, handling contractual issues affecting our subcontractors and suppliers. Discussions are also under way with a view to defining, in 2021, the precise definition of Contract management to be carried out during the offer phase in order to secure the negotiation and launch of our contracts.

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, networks of international experts and the relevant head office departments.

This internationalisation is also reflected in a desire to build a sustainable local industrial footprint, in particular to improve its responsiveness to customers, to control programme execution risks and to capture part of the added value. However, this strategy changes the nature of the risks: now considered as a local player, fully integrated into the industrial ecosystem of the chosen country via its subsidiaries or joint ventures (JV) and its supply chain servicing the local programme, the group is increasingly exposed to the risks of the economic climate, like any other indigenous industrial player (see political risks below).

Political hazards

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

- stricter foreign exchange controls which may limit or ban the export of currency from a client country and impede its ability to honour its financial commitments to Naval Group;

- impairments to the value of assets due to the devaluation of local currencies or other measures taken by the public authorities that significantly affect the value of business;
- the expropriation (by confiscation, nationalisation, requisition, etc.) or forced sale of Naval Group's holding in a local company or, more generally, discriminatory measures taken against Naval Group that may jeopardise its business in a particular country;
- a security situation that gives rise to the risk of attacks on the physical safety of Naval Group staff and/or facilities or severely restricts or prevents Naval Group from fulfilling its contractual performance obligations or reduces or prohibits the use of its local industrial assets (see section I.2.8.7 "Human resources risk");
- a viral media event impacting the image and reputation of Naval Group;
- 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 takes appropriate measures to hedge against the financial impact of such risks with private or public insurers. The group has also implemented a global safety, protection and monitoring system for its staff in order to ensure they enjoy an appropriate level of safety in the countries in which they perform their duties.

I.2.8.5. Supplier risk management

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:

- CSR risks (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.

In 2020, the health crisis generated a significant lockdown period. During this unprecedented period, Naval Group's Purchasing Department strengthened ties with its suppliers. Every week during the three months of lockdown, the buyers phoned the suppliers in the panel who were most affected by the health crisis. This initiative made it possible to listen to the difficulties encountered by the supply chain of each supplier, and think about the most appropriate solutions.

Managing economic and technological dependency risks

The economic dependency of small- and medium-sized enterprises (SMEs) on Naval Group is considered a major risk. This risk is due to Naval Group's historic labour footprint on the local economies in which it operates.

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

The second aspect of dependency to be monitored is Naval Group's dependency on the technology or skills of certain suppliers. A sudden rupture in supply (for one of the aforementioned reasons) could jeopardise execution of Naval Group's programmes.

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.

CSR risk management

Corporate Social Responsibility risks are taken into account in the Naval Group ethical charter and in the Supplier code of conduct.

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, Security and Environment, Eco-Design, Human Resources, Personal Data Protection, Compliance, the Nuclear and Pyrotechnics Inspectorate, the Diving Safety Inspectorate, Cybersecurity and the Audit and Risk Department.

The CSR risk analysis refers to the key issues identified by Naval Group in its overall CSR strategy. Issues of ethics, compliance, and health and safety at work 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 anti-corruption and influence peddling information and daily court register alerts.

In addition the compliance of suppliers is subject to continuous monitoring using a monitoring tool (ADIT) managed by the Ethics and Compliance Department of the group, and for each new supplier, a compliance control and an analysis of the results are carried out before notification of the first order.

I.2.8.6. 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 that end, Naval Group has put in place various procedures to constantly oversee and improve control of 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 these guidelines are maintained in order to incorporate the lessons learned. He ensures that product offerings and programmes respect this framework and determines whether key milestones in terms of design, production, trials 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 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.

Quality

Organisation

The group's Quality function, headed by the Naval Group Technical and Quality Director, reports directly to General Management via the direct functional link between the group Technical and Quality Director and the Chairman and Chief Executive Officer. The Technical and Quality Director is a member of the expanded Executive Committee.

This function has approximately 700 people (almost all of whom report directly to the operating divisions) to carry out control, quality and performance management tasks in the various Naval Group entities. The breakdown of missions is as follows: 40% industrial controls, 40% quality assurance, 10% performance, 10% other.

Quality constitutes a second line of control for operational processes and as such structures control activities and supports operational teams in the effective application of rules. This principle applies to Naval Group SA and the controlled subsidiaries.

Policy and related documentation

The Quality, Safety and Environment policy is signed by the Chairman and Chief Executive Officer and updated annually. Each year, it sets out the major areas of commitment. In 2020, in line with 2019, for quality: customer satisfaction, involvement and leadership of management, reinforcement of the quality of our products, construction of compliance in real time, deployment of the Business Management System (BMS) internationally, effectiveness of alert systems.

The Business Management System operationally integrates these commitments into the group's processes and procedures. More specifically, it defines the areas of application of the procedures, the operating rules for the entire product life cycle and the certifications that cover the sites and subsidiaries.

Management and performance

Process application control is organised around quality and inspection networks (diving, pyrotechnics and nuclear safety), which verify the correct application of group standards for all products (new construction of surface vessels and submarines, operational maintenance services, implementation of upgrades, etc.).

The results are scrutinised at group level through:

- process performance reviews;
- the BMS overall performance review;
- the specific Quality, Safety and Environment performance review.

Different control principles are applied in Naval Group's operations:

- self-auditing;
- industrial controls, workstation audits, inspections of suppliers by the Quality function;
- inspections by nuclear, pyrotechnic and diving safety inspectors;
- process breakpoints.

External controls are also carried out by supervisory bodies authorised by Naval Group's customers (e.g. DGA/SQ, OCCAR).

The group has put in place various methodological tools to improve performance:

- 8D and QRQC problem-solving tools;
- process and technical feedback.

A roadmap comprising five pillars has been defined:

- global governance and quality strategy;
- customer and stakeholder satisfaction;
- quality of products and supplies, right the first time and when needed;
- teams committed to quality, appealing quality occupations;
- continuous improvement (in line with the improvement plan defined in the group progress plan for 2015-2019).

Indicators

Indicators are monitored internally and are reported to the Executive Committee on a weekly basis (for quality alerts), and on a monthly basis in the group quality dashboard published to all top management, and analyses are produced and commented every two months as a specific point of the Executive Committee. The indicators chosen are linked to the Quality, Safety and Environment policy and objectives: for example, the number of non-conformities detected by customers, the number of internal alerts, the Supply Quality frequency rate, the time to process non-conformities. Objectives are set annually by the Executive Committee.

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 highest requirements in their category across a variety of areas: procurement, controls, testing, traceability, etc. The Diving Safety Inspector is responsible for sponsoring the development of the diving safety culture, overseeing the maintenance of the technical framework and verifying its application, and managing key positions in the area. It also conducts routine and reactive technical inspections, where appropriate.

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 has been set up within the group General Inspection (IGG). Its action involves the analysis of technical facts, the technical standards, training, maintenance of skills 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 capitalise 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, implementation or dismantling 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 implementation or 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 group's 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.

I.2.8.7. Human resources risks

Core skills

Given the technical complexity of Naval Group's products and the multitude of skills needed to build them, as well as the acquisition, retention, redeployment and renewal of its skills are 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 "Statement of Non-Financial 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 "Statement of Non-Financial Performance".

Social relations and policies

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.

The period of the health crisis demonstrated the high quality of the company's social dialogue by making it possible to build, through negotiation, the conditions to organise work during the lockdown and the nominal resumption of the group's activities at the end of this period.

This risk is detailed in the chapter "Statement of Non-Financial Performance".

Occupational Health and Safety and the Environment (OH&S)

Any industrial business involves risks that may affect the occupational health and safety (OH&S) of employees. The improvement of OH&S 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 OH&S 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 OH&S 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 2021. This certification, which adopts the same structure as ISO 9001:2015 and ISO 14001:2015, will simplify the integration of the OH&S management system into the overall management system.

This risk is detailed in the chapter "Statement of Non-Financial 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 group Security Department [International Security Department].

It is constantly updated, and it exists to:

- monitor security in the areas where Naval Group operates (subsidiaries, representative offices, missionary deployment areas) as well as the countries of transit of these personnel;
- analyse the risk and, in coordination with the operational departments concerned, put in place the organisations adapted to the 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. Its actions are led and supported by the network of security managers for subsidiaries that have them.

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.

Risk of interference

The highly technical nature of Naval Group's products, its international success, its presence in a highly competitive environment and the regular increase in the mobility of its employees expose the group to the threat of espionage (from both states and competitors). Faced with this possible interference, both human and technical, a state of awareness and vigilance is maintained within the Naval Group by the Security Department through information campaigns for employees, who also have access to e-learning information and support for their international travels.

Health risk

Whether local (an affected area) or general (a pandemic), health risk is considered and treated by the DSG as a threat both to the physical health of expatriates (including their families) and secondees (including subcontractors), and to the industrial business of the foreign sites. In coordination with the other Naval Group bodies (Human Resources (HR), OH&S, Medicine, Business Line Divisions, etc.) and in close collaboration with the subsidiaries and representative offices, the DSG plans and conducts, with the help of dedicated service providers, the procedures for carrying out individual and mass repatriation.

I.2.8.8. 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 2017 and successfully extended in June 2019.

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 "Statement of Non-Financial Performance".

Nuclear inspection and pyrotechnic inspection

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. Their independence is guaranteed by their inclusion in the general inspectorate. The group Inspector General reports directly to the Chairman and Chief Executive Officer, to whom he 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 rigour; 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 OS&H Departments, investigations undertaken to analyse the year's most significant events and define the necessary corrective or preventive action.

The nuclear inspectorate manages 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 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”.

I.2.8.9. Information security and cybersecurity

For a high-tech business such as Naval Group that operates internationally in the defence sector, the protection of confidential and sensitive information and the security of information systems in the general sense, including business information, classified information and industrial information systems as well as subsidiaries’ information systems to guarantee their availability, integrity and protection of confidentiality is a key issue. Indeed, maintaining the highest level of cybersecurity of the various Naval Group information systems is a strategic priority for the group in view of the continuous increase in the number and sophistication of IT attacks. This translates into:

- significant multi-year investments in IT modernisation and security;
- the update and regular monitoring of the cybermanaged plan by the Cybersecurity Department, which reports directly to the Chairman and Chief Executive Officer and is in charge of defining the group’s cyber strategy and coordinating, consolidating and monitoring the deployment of all security systems, both internally and in the products and services provided by Naval Group;
- a regular and independent measurement of the level of cybersecurity of our infrastructures (IS) and our products through reviews, audits and pen tests carried out by experts from the Cybersecurity Department or authorised specialist companies appointed by the Cybersecurity Department;
- cyber requirements are now taken into consideration internally and for our products right from the design phase and throughout the life cycle of the products, backed up by the Cybersecurity Framework and skills development within the IT, engineering and production teams;
- coordinated systems within the General Secretary’s office to control data exchanges with third parties and within the group, whatever the level of sensitivity of such data against a backdrop of accelerated internationalisation:
 - the Chief Data Officer, who is responsible for defining a vision for the organisation, management and consultation of group data, whether strategic, industrial and/or operational in nature, in compliance with the internal and external operational and regulatory requirements and roll out of the related governance. In 2020, a new policy for marking and protecting sensitive data was defined and rolled out to take into account changes in the group’s uses and context, and a roadmap on data segregation in major applications,

- Data Protection Officer: responsible for ensuring the confidentiality of personal data as described in the general data protection regulation (GDPR). This risk is detailed in the chapter “Statement of Non-Financial Performance”.

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:

- from the design phase, through a rigorous selection of suppliers (publishers, hosts and service providers) audited regularly, an analysis of security risks, definition of security requirements and verification of their implementation and effectiveness (reviews, audits, pen-tests);
- during the maintenance phase, whether preventive (application of security patches, monitoring of vulnerabilities), corrective or evolutionary (maintenance in operational safety condition);
- in production, by monitoring threats and vulnerabilities in conjunction with state authorities and the community of experts, audits, identity and access governance, network monitoring (incoming and outgoing flows) and defensive IT control, by SOC (Security Operations Centre) reporting to the group Security Department in close collaboration with the Computer Emergency Response Team (CERT) of the Cybersecurity Department.

This protection system is the focus of sustained, constant effort from a technological/technical perspective and in terms of human resources (maintaining and developing 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.

In 2020, the health crisis resulted in a massive shift towards remote working and the opening of remote access to certain applications (more than 8,000 remote workers at the height of the crisis), which led to an increase in our exposure to a cyberattack in a context of increasing pressure from cyber attackers of all stripes. In order to manage these risks, under the aegis of the General Secretariat, and with the involvement of the Cybersecurity Department, the group Security Department, and the Digital and Information Systems Department (DDSI), a systematic assessment of the data risks was carried out and a specific action plan was drawn up and rolled out from the start of the lockdown period in order to reduce technical and human vulnerabilities linked to the increase in remote working and lockdown. This plan aimed to reduce human vulnerabilities related to remote working and monitor it. Among other things, it has resulted in the acceleration of cybersecurity awareness-raising for all Naval Group personnel and the broadening of potential attack detection activities through 24/7 internal capacity building through an external SOC MSSP (Managed Security Service Provider).

To complete this system and adapt to the evolution of the threat, an anti-data breach plan was launched in 2020 to strengthen our measures in this area. These measures cover awareness, governance and tools for certain controls.

I.2.8.10. 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 a mapping of accidental risks and a policy of prevention/protection of property assets (infrastructures, industrial tools and construction) and liabilities (liability debts).

Coverage of the various risks identified is assessed annually, in particular with regard to their size and the terms and conditions of their transfer, in whole or in part, to the insurance markets.

Naval Group's industrial sites and tools are insured at replacement value after appraisal, the latest of which was conducted in 2018.

The risks associated with the new construction and maintenance of submarines and surface vessels are covered by dedicated insurance policies which, in addition to simply covering the material damage suffered by the insured object, also cover certain financial consequences (non-material damage) resulting from the occurrence of an insured event.

Liabilities arising from the execution of all of our construction, engineering, study and consultancy activities have special coverage for the financial consequences that Naval Group and its subsidiaries, Naval Group in its capacity as a corporate entity and/or its corporate officers and/or its senior executives would have to face in the event of a claim by a customer, its employees, its shareholders or any other administrative or judicial authorities, both in France and abroad.

At the end of 2019, Naval Group launched a study on a new understanding of its risk management policy and the transfer of such risks to the insurance markets. It mainly revolves around the objectives of (i) contributing to the recovery policy by optimising the friction costs inherent in any insurance programme and by equipping itself with a new agility combined with a strengthening of the confidentiality of our actions and commercial projects, (ii) the internationalisation of Naval Group by rolling out international insurance programmes taken out from France on the principle of think globally, act locally so that each subsidiary and entity abroad can benefit from the most comprehensive insurance coverage locally and from the global leverage effects of Naval Group; (iii) protecting ourselves against market volatility, which exposes us to cyclical premium increases

unrelated to our own claims experience, the reduction in capacity and the willingness of insurers to take out guarantees that are essential to protect the interests of Naval Group; (iv) capitalising on the maturity of internal risk management to transfer to insurers only the intensity risk which, by definition, has no frequency and is not controllable while the risks of low intensity are retained. Since their cause is mainly human, corrective and preventive actions will reduce the frequency and impact on the results of a programme and *in fine* that of Naval Group.

The general tightening of the insurance markets observed in 2019 was confirmed and reinforced when policies were renewed in 2020 for all insured risks, even those that have not suffered a loss. This state of affairs, which is independent of Naval Group, confirms our strategy of seeking an alternative risk transfer solution initiated this year, to preserve a high level of protection for Naval Group's industrial interests at controlled and sustainable premium levels of premiums in the group over time, in order to protect against the pendulum effects of insurance markets.

I.3. NAVAL GROUP SA'S POSITION DURING THE 2020 FINANCIAL YEAR

I.3.1. REVENUE AND RESULTS OF NAVAL GROUP SA

Order intake

Naval Group SA's order intake for 2020 was €3,440 million, as compared with €5,345 million in 2019.

As at December 31, 2020, Naval Group SA's order book stood at €15,153 million.

Revenue

Naval Group SA revenue amounted to €3,291 million for the 2020 financial year, compared with €3,640 million in 2019.

Income

Operating income stood at €3.3 million, not comparable to the €261.6 million achieved in 2019 due to the consequences of the Covid-19 pandemic.

A net financial expense of €(86.0) million was recorded, compared with net financial income of €(12.4) million in 2019.

There was an extraordinary loss of €(2.9) million, compared with a loss of €(9.7) million in 2019.

The company's net income amounted to €(56.3) million.

I.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 *(in euros)*:

Financial year ended	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016
Length of accounting period <i>(months)</i>	12	12	12	12	12
Capital at reporting date					
Share capital	563,000,000	563,000,000	563,000,000	563,000,000	563,000,000
Number of ordinary shares	56,299,700	56,299,700	56,299,700	56,299,700	56,299,700
Number of A preference shares	300	300	300	300	300
Number of B preference shares	-	-	-	-	-
Operations and results					
Revenue excluding taxes	3,291,152,047	3,640,222,336	2,852,264,434	3,564,858,418	3,133,025,184
Net profit (loss) before tax, profit-sharing, depreciation, amortisation and provisions	42,157,590	448,058,757	494,531,839	374,653,811	330,272,618
Income tax charge (income)	(30,063,872)	66,420,666	26,880,434	99,242,850	33,161,644
Employee profit-sharing	737,294	27,798,326	9,827,394	25,647,042	10,121,819
Charges to depreciation, amortisation and provisions	127,745,124	208,595,147	321,601,011	164,318,217	60,242,574
Net profit (loss) after tax, profit-sharing, depreciation, amortisation and provisions	(56,260,957)	145,244,618	136,223,000	85,445,702	226,746,581
Dividends paid	94,584,000	87,828,000	57,426,000	0	0
Earnings per share					
Net profit (loss) after tax and profit-sharing but before depreciation, amortisation and provisions	1.27	6.28	8.13	4.44	5.10
Net profit (loss) after tax, profit-sharing, depreciation, amortisation and provisions	(1.00)	2.58	2.42	1.52	4.03
Dividend allotted to each ordinary share	0.84	0.78	0.51	-	-
Dividend allotted to each A preference share	157,640	146,380	95,710	-	-
Dividend allotted to each B preference share	-	-	-	-	-
Staff					
Average number of staff	12,661	11,653	10,617	9,656	9,173
Payroll expenses	719,117,504	704,151,812	647,111,991	566,370,319	533,246,605
Payroll-related costs (Social Security, staff benefits, etc.)	326,116,140	308,658,768	281,506,422	248,572,255	246,021,617

No interim dividend was paid in 2016.

No interim dividend was paid in 2017.

No interim dividend was paid in 2018.

No interim dividend was paid in 2019.

No interim dividend was paid in 2020.

I.3.3. SCHEDULES OF NAVAL GROUP SA TRADE RECEIVABLES AND TRADE PAYABLES

In accordance with articles L. 441-6-1 and D. 441-4 of the French Commercial Code and article 24-II of the French Law on the Modernisation of the Economy (LME), the schedule of the company's trade receivables is as follows:

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

Closing date		Total	Invoices not overdue for payment	Payment overdue by 1 to 30 days	Payment overdue by 31 to 60 days	Payment overdue by 61 to 90 days	Payment overdue by more than 90 days	Total 1 day or more
Length of time overdue								
12/31/2020	Number of invoices concerned	1,902	726	244	90	35	807	1,176
	Total value of invoices concerned excluding tax	434.6	141.0	120.1	77.1	7.1	89.2	293.5
	Share of pre-tax revenue for the financial year		4.29%	3.65%	2.35%	0.22%	2.71%	8.93%
12/31/2019	Number of invoices concerned	1,874	659	289	109	67	750	1,215
	Total value of invoices concerned excluding tax	397.2	133.9	45.7	48.2	44.6	124.8	263.3
	Share of pre-tax revenue for the financial year		3.68%	1.26%	1.32%	1.23%	3.43%	7.24%

Invoices issued that were overdue for payment in the financial year

Closing date		Total	Invoices not overdue for payment	Payment overdue by 1 to 30 days	Payment overdue by 31 to 60 days	Payment overdue by 61 to 90 days	Payment overdue by more than 90 days	Total 1 day or more
Length of time overdue								
12/31/2020	Cumulative number of invoices concerned	9,714	5,332	3,001	603	232	546	4,382
	Total cumulative value of invoices concerned excluding tax	2,866.0	1,419.8	1,158.3	145.1	66.6	76.4	1,446.3
	Share of total value of invoices issued in year, excluding tax		48.90%	39.89%	5.00%	2.29%	2.63%	49.81%
12/31/2019	Cumulative number of invoices concerned	10,609	6,612	3,277	544	96	80	3,997
	Total cumulative value of invoices concerned excluding tax	3,434.2	1,377.8	1,598.7	267.9	92.6	97.2	2,056.4
	Share of total value of invoices issued in year, excluding tax		39.21%	45.50%	7.63%	2.64%	2.77%	58.53%

In accordance with articles L. 441-6-1 and D. 441-4 of the French Commercial Code; and article 24-II of the French Law on the Modernisation of the Economy (LME), the company's trade payables schedule is as follows:

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

Closing date		Total	Invoices not overdue for payment	Payment overdue by 1 to 30 days	Payment overdue by 31 to 60 days	Payment overdue by 61 to 90 days	Payment overdue by more than 90 days	Total 1 day or more
Length of time overdue								
12/31/2020	Number of invoices concerned	23,286	21,041	609	221	314	1,101	2,245
	Total value excluding tax of invoices concerned	339.1	288.4	23.6	8.0	3.3	15.9	50.8
	Share of invoices received excluding tax for the financial year		13.28%	1.09%	0.37%	0.15%	0.73%	2.34%
12/31/2019	Number of invoices concerned	30,437	22,552	4,063	643	259	2,920	7,885
	Total value excluding tax of invoices concerned	341.8	228.1	76.9	15.5	4.7	16.6	113.7
	Share of invoices received excluding tax for the financial year		11.71%	3.95%	0.79%	0.24%	0.85%	5.84%

Invoices received that were overdue for payment in the financial year

Closing date		Total	Invoices not overdue for payment	Payment overdue by 1 to 30 days	Payment overdue by 31 to 60 days	Payment overdue by 61 to 90 days	Payment overdue by more than 90 days	Total 1 day or more
Length of time overdue								
12/31/2020	Cumulative number of invoices concerned	244,165	186,409	36,732	8,968	3,236	8,820	57,756
	Total cumulative value of invoices concerned excluding tax	2,569.4	1,710.5	539.1	146.0	80.1	93.8	858.9
	Share of total value of invoices, excluding tax, paid in year		57.03%	17.97%	4.87%	2.67%	3.13%	28.64%
12/31/2019	Cumulative number of invoices concerned	289,442	204,765	59,266	15,486	5,391	4,534	84,677
	Total cumulative value of invoices concerned excluding tax	2,515.2	1,762.9	474.0	147.5	52.2	78.6	752.3
	Share of total value of invoices, excluding tax, paid in year		54.58%	14.67%	4.57%	1.62%	2.43%	23.29%

I.3.4. TOTAL AMOUNT OF CERTAIN NON-DEDUCTIBLE EXPENSES OF NAVAL GROUP SA

In its tax filings, Naval Group SA will add back the sum of €352,867 in relation to excess depreciation on private cars.

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

Attendance fees of €110,400 were paid in 2020 in respect of 2019; they remain deductible under the tax regulations.

I.3.5. REMINDER OF DIVIDENDS PAID FOR THE LAST THREE FINANCIAL YEARS OF NAVAL GROUP SA

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

- in respect of the financial year ended December 31, 2017: €57,426,000;
- in respect of the financial year ended December 31, 2018: €87,828,000;
- in respect of the financial year ended December 31, 2019: €94,584,000.

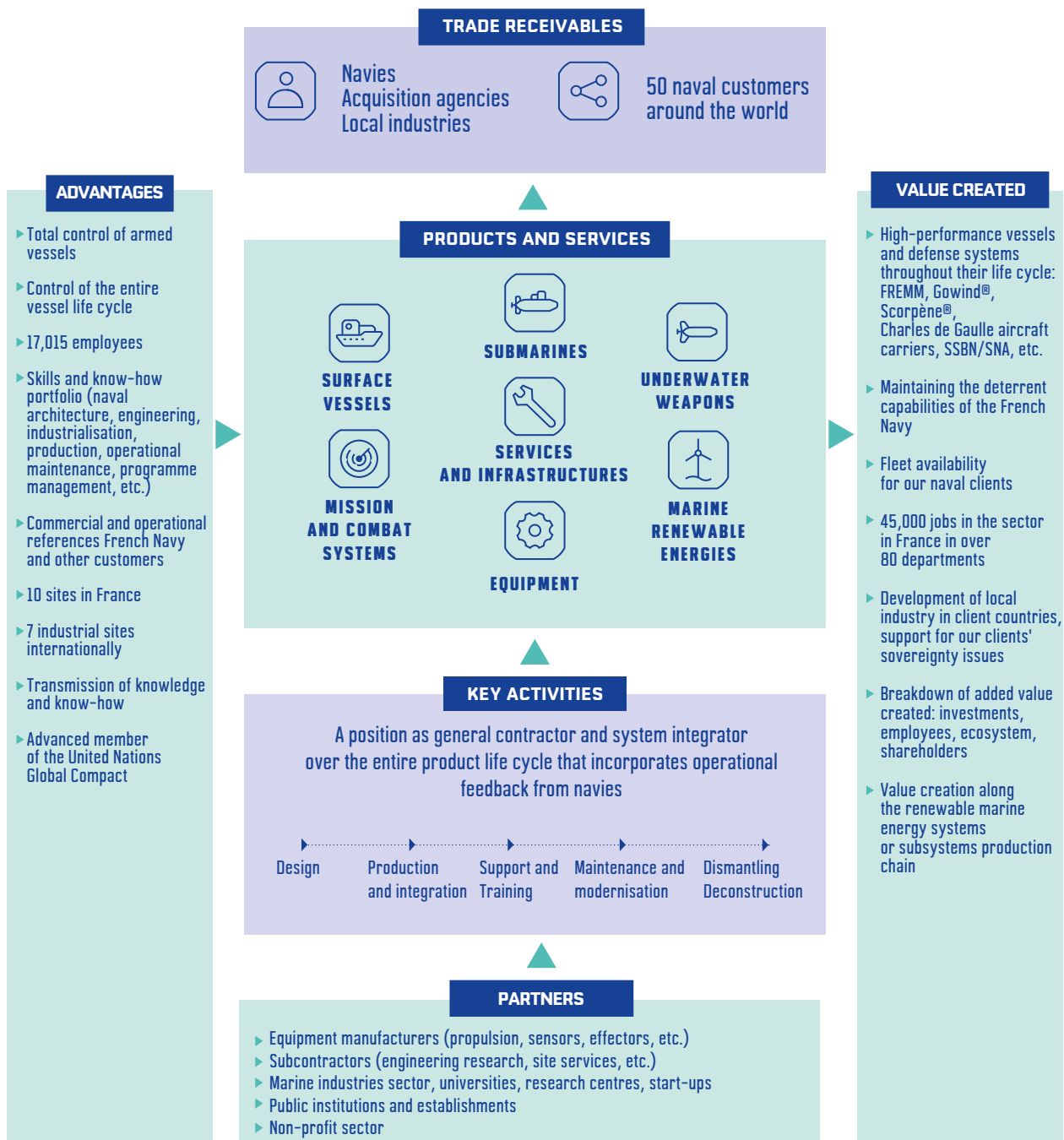
II. Events after the reporting period

On February 4, 2021, the Board of Directors of Naval Group, sole partner of Naval Energies, after study and analysis, decided to launch a process intended to cease the activities of Naval Energies, including the search for a buyer for all or part of the activities.

III. Statement of Non-Financial Performance (DPEF)

III.1. INTRODUCTION

III.1.1. BUSINESS MODEL



III.1.2. STRATEGY

Naval Group has been part of a continuous improvement programme in the non-financial domain. This approach is based on recognised international texts such as the “ten principles” of the United Nations Global Compact, the fundamental conventions of the International Labour Organization and the guiding principles of the Organisation for Economic Cooperation and Development (OECD), the Global reporting Initiative (GRI), the ISO 26000 standard, the transposition of the European directive on the statement of non-financial performance, the law on the duty of care and the law on transparency, the fight against corruption and the modernisation of economic life, known as the Sapin 2 law.

Naval Group has been a member of the United Nations Global Compact since 2014 and participated in the peer review in June 2020, which concluded with the confirmation of “Advanced” level for the sixth consecutive year for the group. Only 129 companies in France have achieved this level of recognition.

III.1.3. CSR GOVERNANCE

Naval Group has strengthened its ambitions in terms of corporate social responsibility (CSR), which is a major challenge for the group and its shareholders.

The Naval Group Board of Directors examines CSR topics within the Compensation, Appointments, Ethics and CSR Committee.

In October 2020, CSR was integrated into the Strategic Plan.

Ethics and CSR are governed internally by the Ethics and CSR Committee (CERSE) which:

- proposes the group’s ethics and CSR strategy and has it approved by the Executive Committee;
- ensures the implementation of the strategy for each CSR theme, with the objective of coordination, complementarity and overall consistency of the actions carried out within the group;
- presents the main ethics and CSR guidelines to the Compensation, Appointments, Ethics and CSR Committee;
- supervises a Whistleblowing Monitoring Committee, which is in charge of examining the reports received on the ethics hotline and managing the related actions; this Whistleblowing Monitoring Committee reports twice a year to CERSE on the actions undertaken.

CERSE is co-chaired by the Director of Strategy, Partnerships and Institutional Affairs and the General Secretary. It meets at least four times a year.

The members are the sponsors of the CSR themes and the Director of the Transformation Programme.

Other entities may be invited as needed, including the secretary of the CSE-C. The Secretariat of CERSE is provided by the CSR Director, appointed in 2020.

The committee relies on a network of “Ethics and CSR Officers” at every site in France and abroad. They are invited to attend conference calls every two months to share news, best practices, goals and the progress of current actions. They also participate in special events such as organising and leading CSR sessions at their site or subsidiary, the Ethics and Compliance Day held in December each year and the annual seminar for CSR leaders (Compliance Officers, Ethics and CSR Officers, CERSE members), suspended in 2020 due to the health crisis.

CERSE supervises a Whistleblowing Monitoring Committee, which is in charge of examining reports received on the Ethics line and managing the related actions. It:

- responds to any contact made *via* the hotline, whether a simple query or a whistleblowing report;
- investigates, if needed to follow up on reports made through the hotline, in strict compliance with the rules of confidentiality;
- recommends, where applicable, actions and/or sanctions when discrepancies are noted with the ethics framework.

In addition, the EHS Department is now part of the new Operations and Performance Department, in order to improve its efficiency and visibility.

III.1.4. MAIN CSR RISKS

Since 2018, Naval Group has been developing a non-financial risk map. Non-financial risks follow the group’s methodology for their identification, assessment and treatment. In 2018, the risks were assessed according to their gross criticality and have since been assessed annually according to their current criticality (which takes into account the control actions already in place) and their level of control (four levels according to the group risk methodology). They are covered in the entities’ risk maps. They are validated once a year by the Audit and Internal Risks Committee.

Given 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 major CSR risks and do not justify development in this Statement of Non-Financial 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.

III.2. NON-FINANCIAL RISKS AND OPPORTUNITIES IDENTIFIED BY NAVAL GROUP

III.2.1. THE GROUP'S ENVIRONMENTAL COMMITMENT

The sea is at the heart of the group's activities and its 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 a quality, safety and environmental policy (QSE) deployed throughout all the group's sites. It will also soon be rolled out in its subsidiaries, as the health crisis has delayed its implementation. Environmental issues are now regularly presented to the Executive Committee, which is part of the CSR strategy currently being implemented by the group.

Beyond the requirement to comply with the regulations in force, this policy is broken down into three areas which may need to evolve:

- 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/opportunities regarding 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.

III.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 their occurrence and, where necessary, limit their impact on the environment. High-risk situations are identified and are subject to special monitoring. Likewise, remedial solutions are defined to enable them to be implemented quickly.

In addition, Naval Group strives to reduce the impact of its activities on the environment, in particular by reducing energy consumption, reducing greenhouse gas emissions and improving waste treatment.

Tough environmental performance targets are set for reducing the number of accidents having a temporary impact on the environment.

Detailed description

Industrial accidents represent a significant risk for Naval Group due to the heavy industrial activities carried out on its sites. These accidents could be a fire, an explosion, a leak or a large spill of toxic products, for example. 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;
- have serious social, financial and criminal consequences;
- adversely affect the Naval Group image.

Policy and organisation

To control its risks, Naval Group has created a continuous environmental improvement programme, 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, June 2018, and successfully extended in June 2019. Naval Group is subject to a renewal audit for the period of December 2020 and January 2021.

The group also relies on a comprehensive quality, safety and environment policy developed across all of its entities in France and abroad. The 2021 policy will also have an international scope, and the recruitment of a Health, Safety at Work and Environment Manager for this scope is planned with a new post as of February 1, 2021.

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, etc.) and emissions (greenhouse gases and waste).

The identification of environmental contributors continued with activities in the "design" phase (detailed in section III.2.3).

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:

- zero serious environmental industrial accidents (major events);
- events with a temporary impact on the environment (significant event): four in 2018, four in 2019 and three in 2020.

Naval Group is in the process of rolling out a transformation plan for 2020-2025 with strong environmental ambitions. The objectives are currently being defined, but the role of the group Health, Safety and Environment (OH&S) Department and local OH&S Departments has already been strengthened and will be even more so with the roll-out of this transformation plan.

News

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

At French sites, 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 and waste for the environmental section). The national communication campaigns are then rolled out and supplemented locally on each of the sites.

To emphasise 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 (significant event) have been in decline for several years and are carefully analysed (8D problem-solving methodology) to prevent any recurrence.

In terms of performance, the group had no serious industrial environmental accidents in 2020 and has five significant environmental events to date with a ceiling of three (see graph below).

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

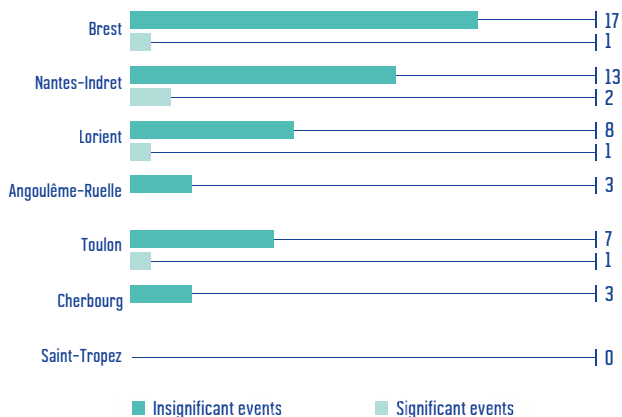


Figure 1: List of 2020 environmental events.

Environmental incidents are categorised and tracked/tallied:

- report of an at-risk [CSR] situation: the event could have occurred;
- non-significant event: incident without impact on either employees or the environment, with low potential risk;
- significant event: incident having a temporary impact on the environment and/or its employees;
- major event: incidents with uncontrolled pollution and/or involving a response external to Naval Group.

By type of environmental impact:

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

In 2020, there were 51 non-significant events were reported on Naval Group sites in France. Corrective and preventive actions were taken for all of them.

Five significant events occurred. These events were analysed in depth, using the “8D” methodology.

III.2.3. CARBON FOOTPRINT OF PRODUCTS IN SERVICE

Detailed description

The inclusion of environmental considerations in all products [surface vessels/submarines] and gradually its service offers, within Naval Group, which began in 2007, continues its gradual roll-out on both programmes 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 is based on three themes:

- air pollution;
- energy efficiency;
- greenhouse gas emissions.

These themes are taken into account in the design of Naval Group products, to the extent of their technical feasibility and applicability. As part of the last theme, the Energy Efficiency Design Index [EEDI], which is the nominal design index of energy efficiency, has required new vessels to measure their performance in reducing CO₂ emissions since January 2013. This index mainly applies to passenger ships, container ships, ro-ro ships, etc. Although it does not apply to military vessels, Naval Group has decided to comply by measuring the carbon footprint and energy efficiency of its flagship products. Also, the carbon footprint of the multi-mission frigate [FREMM] was carried out in 2017, that of the Gowind®-type corvette in 2018, that of the submarine Scorpène® in 2019. The carbon footprint of Barracuda was launched this year. Its results are expected in June 2021.

- The results of the multi-mission frigate [FREMM] and Gowind® carbon footprints are not comparable, as the vessels have completely different usage profiles, weights, speeds and lifetimes. However, it is interesting to note that the share attributable to the operating phase of these vessels represents respectively 80% and 90% of the overall carbon footprint.
- The Scorpene® ratio is less pronounced. Indeed, 35% of greenhouse gases are generated during the manufacturing phase, compared with only 55% during the operating phase.
- The results in tonnes CO₂ equivalent give a quantitative value which is representative of the scope of the environmental studies chosen. For each of the three financial years, the results obtained confirm those of the life cycle analyses [LCAs] previously carried out. This proactive approach demonstrates Naval Group’s commitment to environmental protection. It is fully in line with the goals that the group has set itself with its unifying R&D axes, particularly “Blue Ship”, which focuses on eco-design and energy optimisation.

Policy and organisation

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 the SA 19 “Environment and Eco-design” business line, which coordinates the approach and draws on a network of around 50 specialists who work on projects according to their area of expertise, whether technical or organisational. This network is present in both programmes and R&D.

This essentially ship-based network is gradually being extended to include infrastructure and service offerings to unify the group’s objectives. It is composed of:

- Environmental Design Managers (REC), housed within the Industry Department, Naval Performance Engineering Department (DIN/IPN), a cross-functional entity, who set out the environmental requirements for vessel projects and programmes, support the architects and the system manufacturers in their choice of design, play an active role in R&D and the definition of occupational rules, according to their needs and the feedback from the programmes;
- officers present in each entity who report on the group’s objectives, disseminate and adapt existing methods as required, draw up the necessary documents, and, lastly, educate the teams.

The “Environment and eco-design” business unit guarantees the methods used, consistency between programmes and work to standardise occupational rules.

The procedure governing the deployment of eco-design was updated this year to take into account the inclusion of infrastructures in the approach. Various business line guides were also drafted this year and are being rolled out. They concern energy efficiency or the implementation of guidelines for onshore infrastructure based on applicable regulations.

The “Environment and eco-design” business unit is also responsible for monitoring international environmental regulations. It participates in the IMO’s Marine Environmental Protection Committees (MEPC) to stay informed of continuous updates to the rules to be applied and also to be prepared for such changes within the various product lines in the design phase.

More broadly, Naval Group, again through the “Environment and eco-design” business unit, participates in the naval sector’s discussions on taking the environment into account:

- supporting the initiatives of the *Pôle Mer Bretagne et Atlantique* and its “Greenship” project. The review covers energy, energy conservation and eco-design;
- participating in “Surfrider”’s accreditation work, modelled on the Canadian “Green Marine” certification and due to be transposed into a European label with the support of the European Commission;

- partnering with the French Maritime Cluster, through Blue Ship, to join the maritime energy transition project (T2EM);
- giving courses at the *École nationale supérieure maritime* on taking the environment into account in design for the “ship eco-management” training programme, as well as at the various Universities of Brittany (UBS & UBO).

News

With regard to programmes, projects whose activities were initiated in previous years have been extended and strengthened since 2019. New programmes have also been classified as environmentally “proactive”, meeting the group’s target set at the beginning of the year for 50% of projects to contribute to environmental protection.

- The Australian Future Submarine (AFS) programme is a project that incorporates methods for measuring a vessel’s environmental impact from the outset. To achieve this, requirements have been assigned to the various systems and suppliers are brought in at the very start of the project.
- Third-generation ballistic nuclear submarines include an environmental audit focusing on energy and life on Board. An environmental management plan is also being drawn up to define the measures put in place to meet requirements, particularly during the operational phase.
- Defence and intervention frigates (FDI) and Black Sword Barracuda® submarines follow the Business Management System’s development process, applying the environmental requirements stipulated for those vessels and thereby encouraging suppliers to demonstrate their commitment and response capability and help achieve the environmental targets set.
- Mine hunters want to highlight “energy efficiency”, which requires a very specific definition of the environmental requirements that are allocated to the systems, as well as an energy management plan (SEEMP).

With regard to R&D, the target of 20% of R&D sheets integrating the environment was just achieved for the second consecutive year. The two main unifying axes that support the environment are Blue Ship and Smart Industry. They must contribute to ensuring that this objective is systematically achieved by strengthening the consideration of the environment in R&D projects. In effect, the aim of Blue Ship is to ensure that the armed vessel, by pooling energy and identifying hybrid sources, has the requisite energy self-sufficiency for all of its current and future missions with the smallest possible environmental footprint. Smart Industry is its equivalent for the factory of the future, whose objective is to offer a competitive, collaborative, agile, flexible, economical industrial tool with a low environmental impact.

These two unifying axes must engage Naval Group in the challenge of the ecological and energy transition.

The “green technologies” block covers work on the technological monitoring of cleantechs, which contribute to environmental protection. These technologies are classified according to the various technical fields: energy, propulsion, electricity, life on Board, etc. For each of these fields, the technologies are reviewed and studied according to the priorities of the programmes in which they can be used, regulatory developments and customer requirements.

Cleantechs are evaluated according to an Environmental Performance Index (EPI) and are added to the catalogue of Écoveille technological solutions. Based on the EPI, they can be characterised according to their environmental footprint throughout their life cycle [from resources to waste], as well as their transport on Board, cost and return on investment.

The group wishes to continue by allying itself with partners having the same needs and has submitted a proposal to this effect to the French Maritime Research and Innovation Council (CORIMER). The project is to establish a common method, shared and certified with the naval sector on the measurement of the carbon footprint of vessels throughout their life cycle, making it possible to obtain decisive results and thus reduce the carbon impact from the design phase, by injecting this measurement into the design and modelling tools.

Performance indicators

Building on the progress made on vessels, the eco-design approach is gradually being rolled out to the infrastructures and services offered by Naval Group. This resulted in the hiring of an environmental design manager in the Services Department. The group’s targets, presented in paragraph 3.2.1 “The group’s 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 75 was another highlight of this financial year.

Performance indicators were set and tracked during the year:

- 50% of vessel projects were classified as “proactive”, *i.e.* proactive in view of the requirements regarding environmental protection;
- 20% of R&D data sheets contribute to environmental protection by the progress they bring about;
- the fourth study of the carbon footprint of our products was launched, with the Barracuda submarine in 2020.

Other disclosures

The Naval Group carbon footprint site for the year 2020 will be calculated in the first quarter of 2021. The sites’ greenhouse gas emissions, associated with stationary combustion sources and electricity consumption, represented 22,290 tonnes of CO₂ in 2019.

III.2.4. OCCUPATIONAL HEALTH, SAFETY AND ENVIRONMENT (OH&S)

The Occupational Health, Safety and Environment (OH&S) policy is an integral part of the group’s strategy and its transformation plan. It is part of 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. A new audit is currently underway.

Organisation

The occupational health and safety and environment policy is now the responsibility of the Operations and Performance Director, and is deployed locally by the 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 businesses. Ergonomics, hazardous chemical agents and asbestos are all areas in which these experts provide guidance.

The healthcare policy is a component of Naval Group’s strategy and a sign of its operational excellence. Its implementation and monitoring involve shared governance that is integrated into process and performance reviews. It is carried out by the Occupational Health steering committee, which meets once a quarter.

It is structured around four main areas:

- preventing occupational accidents and diseases;
- protecting employee health;
- preserving the employability of employees;
- preventing health-related discrimination.

In support of these objectives, the occupational health policy provides for the deployment of annual or multi-year action plans based on the priorities defined for each major objective. Its action plans are rolled out by Naval Group's coordinating physician, who is supported by occupational physicians who are experts in the fields of travel health, toxicology, addictions, radiation protection, ergonomics and epidemiology.

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 his/her 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.

Each manager taking up his/her duties at a Naval Group site will be issued with a managerial health, safety at work and environment (HMS) passport to ensure that he or she is aware of the HMS responsibilities incumbent upon him. Through this training, they will become aware of risk assessment, accident management and management of their employees' safety.

A totally separate panel of more specialised 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.

Occupational health, safety and environment performance (OH&S)

Naval Group's OH&S performance is monitored using several indicators. The number of accidents with lost time (LTAs), supplemented by the frequency rate 1 (FR1) (frequency rate of accidents with lost time per million hours worked) and severity rate (SR) (number of days compensated x 1,000/number of hours worked).

Naval Group results at December 31, 2020:

- LTAs: 118, for a target of 115 (135 LTAs in 2019);
- FR1: 5.2, for a target of 4.8 (FR1 of 5.9 in 2019);
- SR: 0.14 (SR of 0.13 in 2019).

These results show a decrease in the number of AAA and FR1 (accidents with lost time) which were on the increase in 2019, and a stabilisation of the severity rate. The average number of days lost in 2020 per work accident is 25 days, compared with 22 days in 2019.

The accident report of external companies on site is monitored internally. Its indicators and targets will be published next year.

Managing the health crisis

The health crisis and the lockdowns it caused had a strong impact on the activities of Naval Group. In order to resume operations in a gradual and controlled manner, a health framework for the group has been introduced.

These guidelines were developed in conjunction with occupational medicine in accordance with government guidelines and the best practices observed within the group and externally. It was continuously updated throughout the year to take into account changes in government directives and the findings from implementation in the entities.

The actions resulting from this standard have been successfully applied at all sites and internationally, thanks to translations of this document in English and Portuguese.

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 2020 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 and without lost time, make up around a third of the total number of accidents in 2020. Their severity level is high.

Major risks, such as the handling and lifting of parts or electrical risks, generated very few accidents but remain the source of a significant number of significant incidents.

Control of the primary risks

Preventive actions for the primary risks, which were launched several years ago, continued in 2020. Inter-site groups specialised 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.

The main risks are also subject to precise statistical monitoring of their evolution; accidents or incidents that occur are also subject to in-depth analyses that are regularly presented to the local and national social and economic committees in order 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 primary 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 2020:

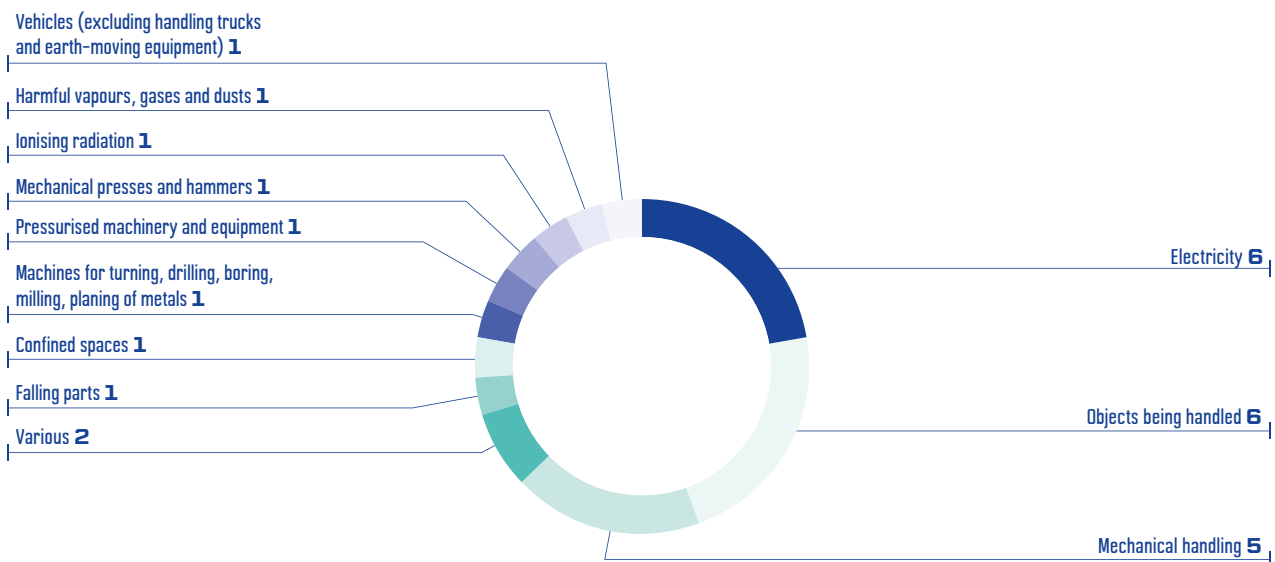
- steering *via* dashboards and the cascade of OH&S actions by managers with operational staff;
- manager involvement in the process of analysing accidents and incidents, talking to staff on the ground;
- incentives for employees to commit to risk prevention by completing risk situation reports; and

- management safety and environment inspections.

Feedback on our major events

Major events are accidents or incidents that have had or could have had very serious human consequences. In 2020, major initiatives were continued in order to improve our risk management. The common method of analysis of accidents and serious incidents [8D] was used to analyse the causes of major events. Prevention managers continued to implement this method at their sites and trained their teams on its use.

The chart below shows the causes of incidents that resulted in 8D analysis in 2020:



Causes of major events in 2020.

The “10 golden safety rules” that Naval Group created in 2018 have been rolled out to all Naval Group sites and international subsidiaries. Their purpose is to clarify the basic rules of group safety. 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, etc.

Occupational Health, Safety and Environment (OH&S)

Awareness-raising campaigns remain an essential vehicle for sharing results, actions and programmes 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 2019, an OH&S communications plan was rolled out on a monthly basis. These campaigns, in the form of videos, posters, intranet articles and “safety talks”, were used to present and describe each golden rule in detail.

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 this end, in 2020, the international occupational health and safety network (launched in 2018) worked on managing risks and improving OH&S performance. This network brings together the safety managers of the seven Naval Group subsidiaries with the largest workforce, located in Australia, Malaysia, Saudi Arabia, India, Egypt, Brazil and Singapore. The purpose of this network is to define occupational health and safety requirements and expectations and to discuss them regularly and share best practices. The duties of the coordinating doctor, a position created in 2020, cover the entire scope of the group. For international travel, the group relies on a medical expert for travel medicine.

In addition, in order to guarantee an optimal level of safety for expatriate employees or on assignment, actions launched in previous years were continued:

- the identification of the information of each external site located in France or outside;
- 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.

III.2.5. DISCRIMINATION AND HARASSMENT

Issue

Naval Group is committed to its stakeholders, clients, suppliers, employees and national and local communities and must ensure respect for all French and European 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, particularly the Global Compact.

The company is therefore organised to prevent and penalise behaviour that does not comply with these rules and the legislation in force, particularly with regard to discrimination and various forms of harassment. This discriminatory behaviour or harassment can harm employees and the group, and its various external stakeholders.

Detailed description

The risks in this area are as follows:

- non-compliance more generally with the provisions of the French Labour Code and the French Penal Code as well as with local legislation and, specifically, the provisions relating to moral harassment, sexual harassment and sexist behaviour and discrimination;
- non-compliance with the rules relating to company agreements: agreement on diversity or quality of life at work [QVT].

Impact

The occurrence of these risks (harassment or discrimination) within the company could generate financial and operational impacts through additional costs in the context of litigation proceedings but also social impacts that would damage the image and reputation of Naval Group, or even damage the company's reputation, even reduce its appeal.

Policy and structure in place

The risk is covered by the Human Resources Department, the Ethics Department, Compliance and Governance being associated with management.

Naval Group has implemented several systems to manage this risk:

- organisation, structuring and coordination of the various contacts on these topics: discrimination and sexual harassment and sexist acts on each site, appointment of a CSR sexual harassment and sexist correspondent on the sites. These various contacts have been trained. With regard to the harassment and sexist acts of the CSE, they will receive additional training in January 2021, which will cover legal definitions, sanctions, the Naval Group procedure and their missions. This implementation in 2020 and the training of the CSE's network of sexual harassment and sexist correspondents will give Naval Group a new channel to prevent these risks;
- restructuring of a single investigation process for Ethics investigators and creation of a Whistleblowing Monitoring Committee. The drafting of a practical and legal investigation guide for investigators involved in these situations is underway and will be distributed in 2021 during an investigation training session. This guide helps interviewers become more professional in their work;
- organisation of training on the prevention of discrimination for recruiters (put on hold in 2020 due to the health crisis) and managers and training in e-learning on discrimination is available to all Naval Group employees;
- distribution of advice to managers on these topics through employment law lawyers; the proper application of these rules and systems also involves communication and management;
- the creation of a community of international Human Resources Departments makes it possible to involve local HR in managing these risks, by redefining their scope to include all employees, and not only employees under local contracts;
- organisation and implementation of a diversity and inclusion network.

News

Actions to raise awareness and prevent the risks of harassment (sexual and moral) and discrimination will be organised in 2021 for all group employees. These actions will be coordinated jointly by a lawyer from the Human Resources Department and the Ethics Director.

The practical and legal investigation guide for investigators will be available in early 2021. It will be distributed to the HR and Ethics investigators and to the various players in the context of the handling of harassment and discrimination situations. On this basis, training in conducting surveys will be provided to all investigators.

In addition, actions to professionalise and enhance the investigator role will be organised.

At the international level, comparative analyses may be conducted between the group's standards and the local law in force in each country on harassment/discrimination issues. The applicable guidelines may be adapted accordingly.

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. Another indicator is the monitoring of correspondent appointments. These indicators are tracked internally.

III.2.6. HUMAN RIGHTS

Issue

As a signatory to the United Nations Global Compact, Naval Group has demonstrated its commitment by effectively promoting human rights and labour law standards. Naval Group is committed to promoting freedom of association and the effective recognition of the right to collective bargaining; to eliminate all forms of forced or compulsory labour, to abolish child labour, and to eliminate all forms of discrimination in respect of employment and occupation (ILO Declaration on Fundamental Principles and Rights at Work and its follow-up, 1998).

The risks that may arise from the aforementioned human rights are also included in the Human Rights Charter and the Code of Ethics, so that they are understood and assimilated by employees and stakeholders.

Detailed description

The risks of infringing human rights concern:

- inappropriate conduct includes: non-compliance with the rules of company agreements, such as working hours, leave, overtime, compensatory time and recovery days;
- non-compliance, more generally, with the provisions of international and/or national law;
- failure to apply the Human Rights Charter.

When these situations occur, it is possible to question the quality and quantity of internal controls.

Impact

The company implements actions that control the risks of these negative human rights violations and thus avoid the financial and operational impacts through additional costs and penalties, as well as social and environmental impacts and any which would damage Naval Group's image.

Policy and structure in place

Each department concerned (Purchasing, HR and Legal) ensures strict compliance with human rights by relying on its control activities.

In addition, the establishment of the international HR community makes it possible to involve local HR in managing this risk, by redefining their scope to include all employees, and not only employees under local contracts.

Naval Group has established systems at several levels to manage this risk:

- implementation of guidelines adapted to the entire group and its subsidiaries, as well as to its own suppliers (Code of Ethics, Human Rights Charter) and by integrating the vigilance plan in the internal control matrix. In addition, Naval Group ensures that it complies with the various laws in force and ensures that its activities do not infringe the principles established by these texts (UN Global Compact, United Nations Guidelines, ILO Declaration of 1998). This compliance with international expectations has earned it the Advanced level awarded by the Global Compact;
- elimination of forced/compulsory labour and child labour. Particularly sensitive to labour law standards, Naval Group effectively contributes to the elimination of forced and/or compulsory labour as well as the elimination of child labour by taking concrete measures within the group and its subsidiaries. For example, the Brazilian subsidiary of Naval Group participates in apprenticeship programmes for people aged between 14 and 24 to help them train and then find a job;
- non-discrimination in terms of employment and occupation. Because solidarity, respect for people and the rights of employees are principles to which Naval Group is committed, the agreement promoting diversity and relating to professional gender equality in the employment of disabled people was developed in 2018. The gender equality index, which stands at 88/100 (2019), shows the group's commitment to these issues. Discrimination correspondents have been appointed in France as provided for in the agreement.

Naval Group therefore ensures that all parties involved in its activities comply with international regulations, which makes it possible to identify and prevent human rights-related risks.

Finally, one of the pillars of the identification of human rights-related risks is based on self-assessment in international subsidiaries, which is based on the international standards of the ILO and the general principles of human rights set out in Global Compact. To this end, a self-diagnosis tool has been developed at headquarters. This self-diagnosis makes it easier to identify elements that do not comply with the applicable regulations. The risk of discrimination is detailed in the paragraph on discrimination and harassment.

News

Managers also take part in communications campaigns, led jointly by a lawyer from the Human Resources Department and the Ethics and CSR Director. Impacted by the health situation in 2020, this initiative will be led again in 2021. This awareness-raising campaign will focus on preventing situations of discrimination, moral harassment, sexual harassment and sexist behaviour.

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. Another indicator is the monitoring of correspondent appointments. These indicators are tracked internally.

III.2.7. SOCIAL RELATIONS AND POLICIES

Issue

The quality and dynamism of social dialogue are key drivers of Naval Group's performance and the success of its transformation. They help to build a contract-based social foundation, which is crucial to employee confidence in the company's management and representatives.

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.

To date, this policy has only been implemented in France. However, the challenge is to develop an international approach to the core components of the group's social foundation. This approach has already been initiated within the subsidiary located in Australia.

Detailed description

The negative impact of a deterioration in dialogue with trade unions and/or employee representative bodies could present an obstacle to the plans for transforming the organisation or modernisation of processes, and erode the confidence of external supervisory bodies, the main industrial shareholders, and clients, going as far as to suspend operations due to collective strike action.

This could also have a human impact in terms of health (stress) and occupational health and safety in general.

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 harmful social dialogue also affect the company's image, especially its employer brand, which again would be detrimental to the company's ability to attract prospects and applicants.

Policy and structure in place

The structure of Naval Group, specifically its Social Policy Department within the Human Resources Department, is focused on permanently maintaining direct and constructive industrial dialogue with employee representatives and trade unions. It has a corporate team and industrial relations officers for each of the company's nine sites. 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 Social Policy Director is surrounded by a person in charge of social relations, a four-person legal team and a two-person division for health and personnel with public-sector status.

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.

Thus, the agreement stipulates that for any structural project, a concerted and participatory approach must be taken with the teams concerned in the very early stages of the project. Partners are also involved in this process.

Naval Group's approach to social dialogue leads us to go far beyond our legal obligations in terms of transparency, the involvement of social partners in the company's organisational development projects, contractual policy where the emphasis is on consultation and negotiation rather than unilateral measures. The number and length of meetings with employee representatives and the agreements reached are proof of this.

News

The contractual dynamic continued in 2020 with the signing of various agreements – three-year wage agreement, strategic jobs and skills management agreement, forward-looking management of jobs and skills (which was unanimously signed by representative trade unions), and the group savings plan (PEG), group health crisis adaptation agreement and agreements for the resumption of activities on the sites, health costs and pension agreement.

During the first half of 2020, the Central Economic and Social Committee (CSEC), the CSEs of each site and their committees were able to find, with a few adjustments, a way of working that satisfies all social dialogue stakeholders.

In any case, 2020 will remain strongly marked by the unprecedented scale of the health crisis which has upset our social calendar. Thus, the company's social dialogue during this period focused on the problems of adapting how work was organised due to lockdown and then the conditions for resuming work.

The negotiations on the conditions for adapting the group's activities in the face of the health crisis were conducted in a very degraded mode (only by telephone conference) and could not have been successful without solid foundations in terms of the quality of social dialogue.

The negotiations on the conditions for resuming activities at the end of the lockdown, conducted at each site, were also a demonstration of the high quality of social dialogue. Without exception, all the trade unions representing each site have signed an agreement with the local management on the conditions for resuming activities. This remarkable result has enabled Naval Group to return to its nominal level of operation within a very short period of time.

In addition, this crisis demonstrated all the virtues of the remote working agreement concluded in July 2019, which enabled nearly 4,000 employees to continue their professional activity during periods of lockdown.

Performance indicators

To gauge the quality of social dialogue, the company looks at the contractual dynamics (four agreements signed with employee representative bodies) and internal indicators, in addition to the number of difficulties raised by the main trade union delegates and the handling of these. The conflict rate and short-term absenteeism rate are also measured.

In addition, a social climate observatory was developed in the last quarter and will be operational in early 2021.

III.2.8. CORE SKILLS

Issues

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, 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 programmes.

These difficulties could arise from:

- the inability to recruit and retain talent;
- a failure to identify the key skills required to implement the company's strategy;
- a lack of career paths;
- 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 customers 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, whose objective is creating "navalising" training programmes and making the industry more appealing.

In order to support these actions, Naval Group has put in place a roadmap to increase its appeal to its target audiences, strengthening its network of partnerships and its employee advocacy strategy.

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 appeal.

Every year, a network of group speciality managers maps out the trends in all jobs in terms of the medium-term plan. Locally, this approach takes the form of a forward-looking management plan for jobs and skills (GPEC), incorporating action plans relating to recruitment and the knowledge transmission. In addition, an analysis of all medium and long-term business developments is carried out jointly with the Innovation Department. Coordination of the network of 1,220 specialists – experts and senior experts – makes it possible to steer the control of technical skills within the group (Appointment Committees, specific career management, actions to recognise the sector).

In addition to the GPEC systems in place for all its activities, Naval Group specifically tracks the occupations critical to national sovereignty: five 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 department responsible for the forward-looking strategic jobs and skills management and training, which oversees the entire GPEC system, career management with HRBP and coordinates the network of the group's specialist correspondents. It also ensures the consistency of the group's training policy with regard to strategic issues (strategic plan) and sets out the group's guidelines, which are then rolled out and enhanced by department. Naval Group University is working on optimising and enriching the offer according to the needs of this policy;
- a team of Appeal Managers across our major labour pools (Normandy, Brittany, Pays de la Loire, Nouvelle Aquitaine and South);
- four Key Account Managers (KAM) for “development and skills” to which one or more departments are assigned (HR intermediaries with business lines): they guarantee the deployment of the development and skills policy, training and recruitment; a KAM dedicated to sovereign families was set up to support dedicated heads of families in 2020.

The international HR organisation has undergone a change in 2020, with the implementation of HR Country Managers, reporting hierarchically to the Chief Executive Officer (CEO) of the subsidiary and managed functionally by the group HR Department. This organisation makes it possible to strengthen the support of employees in their careers with a single point of contact per country to steer the HR policy and processes (e.g. a career review by country involving all employees, local, local plus and expatriates).

News

A GPEC agreement signed by all representative organisations was signed in 2020, reinforcing the actions launched to secure the control of skills. This unanimous agreement reflects the group's commitment through quantitative targets, which are reviewed annually. It is organised around the following areas:

1. continuously develop employee skills:
 - 15% of the training budget dedicated to on-the-job training,
 - strengthening occupational integration, with standard training courses for jobs with a high recruitment volume,
 - incentive to receive regular training through the personal training account (CPF), with the company's co-investment in training that contributes to the group's challenges;
2. develop knowledge transmission from experienced employees to young people:
 - by promoting and recognising the involvement of work-study tutors and encouraging knowledge transmission through end-of-career planning measures,
 - by welcoming more work-study students and by strengthening employment prospects, mainly in production occupations;
3. successful programmes thanks to a GPEC close to the field:
 - by organising two GPEC meetings per year involving the Management Committees, managers, and local and group speciality managers to share their analyses and recommendations,
 - by managing the threshold of critical skills in order to maintain a sufficient level.

In the context of the health crisis, Naval Group confirmed its commitments and created opportunities:

- maintenance of Naval Group’s commitment to young people, with almost 400 new work-study students, 350 new interns for more than two months and 150 interns for less than two months; 711 work-study students also worked in the teams at the end of November;
- securing the recruitment path to renew skills and adjust programmes to the required level of capacity. In 2020, 1,268 new employees were recruited on open-ended contracts, *i.e.* more than 95% of the initial staffing plan;
- plan for securing key skills as part of business continuity plans;
- acceleration of the digital roadmap: development of the distance learning offer *via* the Learning Management System platform, deployment of distance learning *via* experimenting with virtual classrooms, for example, digitising the recruitment and appeal process (We Link co-opting application, participating in 90 virtual forums, digitising recruitment interviews, etc.).

Actions and results for 2020

In 2020, the main key skills management activities were as follows:

- deployment of strategic management of resources to strengthen the quantitative and qualitative match between workload and internal resources, in line with the operational GPEC approach. This is reflected in the implementation of the submarines’ ramp-up to ensure consistency between the various resources mobilised by the programmes and the ramp-up of new generation aircraft carriers. In 2020, a system for detecting and managing skills based on the SAME [awareness, application, control, expertise] principle was put in place. The objective is to accelerate transition times by level thanks to adapted systems for knowledge transmission and improved initial training;
- in-depth support for critical skills, with strengthened management of the five sovereign families: Avia, diving safety, submarine architecture, nuclear propulsion, invulnerability. For each of them, key skills, associated pools and human resources actions are identified. Each incumbent of a key position in one of the five sovereign families has an individual development plan accompanied by a plan for knowledge transmission as needed;
- consolidation of learning at work, *via* strengthening of the offer of school projects (14 projects operational in 2020); 6,000 hours of seamanship under the training plan; continuation of Fridays at school, etc.;
- strengthening of the strategy for relations with schools and medium- and long-term partnerships and internationally, with the consolidation of Naval Group’s positioning with priority schools and outreach to young people and families. Naval Group has also consolidated its presence and visibility with schools by developing partnerships and expanding the School Partners programme, enabling employees to be leaders and share their passion. In 2020, Naval Group was one of the top

five most attractive employers in the aeronautics and defence sector [engineering students] awarded by the Universum label, which also awarded it the most attractive employer label for Bac +2 and +3 students in the “challenging work” sector;

- the international anchoring of relations with schools has also intensified, with the consolidation of academic partnerships between France and Australia;
- the three-year commitment approach, Forward, helps to consolidate managerial skills that are conducive to team engagement. To support managers in this process, a network of around 200 internal ambassadors has been set up, overseen by the Human Resources Department. In addition, a training course for managers called positive Forward management was deployed over three years to the group’s 1,800 managers. Since the start of the programme, 1,050 managers have already been trained.

2020 targets

These are the objectives pursued in 2020:

- fill the positions of sovereign families: monitoring the key positions of sovereign families;

Sovereign family	Global family at December 31, 2020	of which key positions	Overall family target for 2021
Avia	30	21	42
Diving safety	444	67	482
Submarine architecture	45	28	56
Nuclear propulsion	1,044	130	1,038
Invulnerability	172	63	174

- create pools of jobs in shortage areas: monitoring of recruitment for high-demand occupations.

94% of the current 2020 job plan has been filled externally to date in the shortage areas.

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:

- at the end of December, the group recruited 1,933 people, including 1,268 on permanent contracts;
- 1,302 people left the group as of December 7, 2020.

III.2.9. PROTECTION OF PERSONAL DATA – PRIVACY

Issue, detailed description and impact

People are becoming increasingly aware of the challenges of protecting their personal data (privacy) particularly in view of the scale of cyberattacks suffered worldwide.

Companies are also aware of the security and data protection issues of their employees and customers.

In this context, more and more countries are adopting data protection legislation, which they often model on the fundamental principles of the General Data Protection regulation, the GDPR.

Policy and organisation

Naval Group focused on leading and coordinating the privacy networking 2020 based on group procedures, methodologies and best practices.

To anchor privacy in the culture of the group's employees, Naval Group has set up a privacy e-learning module available in French and English.

Naval Group has perpetuated and strengthened its ties with the various stakeholders in the privacy ecosystem (human resources, information systems, security, cybersecurity, data office, etc.) in particular by integrating privacy in certain major group processes.

News

2021 will be devoted to the application of a tool to manage the group's compliance in this area.

Performance indicator

Measures to assess the effectiveness of the privacy approach have been defined.

III.2.10. RISK OF CORRUPTION AND INFLUENCE PEDDLING

Issue

Against a background of international development and a strong regulatory environment, Naval Group's stakeholders expect mutual 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 in the group's risk mapping for activities carried out in France and internationally, particularly in the subsidiaries. Its analysis and assessment are based on a more detailed mapping of risks that enables appropriate actions to be taken. The risks are identified by process and correspond to scenarios of events that may occur if appropriate control actions are not implemented. The processes concerned are in particular those of purchasing, commercial activities and cooperation/merger-acquisition projects. It also takes into account the concealment of acts of corruption or influence peddling by an accounting transaction and what concerns individual behaviour including conflict of interest.

Impact

The risk of corruption and influence peddling is taken into account for ethical and legal reasons and because of its potential negative impact on the group's business, finances and image, on jobs and on the company's viability.

Policy and structure in place

Each year, Naval Group's Chairman and Chief Executive Officer signs the policy on the anti-corruption and influence peddling system, reaffirming the group's commitments, the necessary involvement of management and areas of improvement for the year.

The policy is implemented on the basis of a system complying with French Law No. 2016-1691 of December 9, 2016 on "transparency, the fight against corruption and the modernisation of economic life" (referred to as the Sapin II Law), as well as the applicable legislation in all countries where Naval Group operates.

This system, which applies to the entire group, is based on the identification and assessment of compliance risks. The aim is to improve risk management or mitigate risks, notably by taking preventive action.

It includes a documentary framework, comprising a Code of compliance conduct and a practical guide to ethical behaviour illustrating the Code in a number of scenarios, solutions to be followed or actions to be prohibited. The Code is accompanied by several operational instructions that cover all of the company's processes and, in particular, the assessment of risks related to entering into relations with third parties (due diligence on third parties, purchases, sales, etc. offset, gifts and hospitality, etc.), as well as the system linked to the whistleblowing hotline and the organisation in place to process the reports received. An awareness-raising and training programme, a communication plan and a control plan are also in place.

To implement and coordinate this system, Naval Group has set up an Ethics, Compliance and Governance Department. This acts as the second line of defence for compliance risks and is supported by a network of Compliance Officers who report to the directors of each entity (departments, sites and subsidiaries). 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.

The controls carried out by the first two lines are based on ten requirements, whose compliance is assessed according to precise and shared criteria. These control points mainly concern risk identification, management involvement, training, communication, knowledge and compliance with the resources in the document library. Based on these controls, it is possible to gauge to what extent the compliance system has been implemented within each entity.

News

In 2020, many improvement actions were carried out as part of a process of continuous improvement of the system [see paragraph I.2.7.2. of the financial report].

Performance indicators

Performance indicators for compliance have been defined but they are not disclosed at this stage, pending their reliability and confirmation of their appropriateness to the risks of corruption, whose mapping was completely revised in 2020.

III.2.11. PRODUCT SAFETY – QUALITY

This risk is detailed in paragraph I.2.8.6 Product safety.

III.2.12. PRODUCT SAFETY – DIVING SAFETY

This risk is detailed in section I.2.8.6. Product safety

III.2.13. PRODUCT SAFETY – NUCLEAR SAFETY

This risk is detailed in section I.2.8.6. Product safety

III.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 with the French activities and are not subject to reporting.

OH&S scope

Occupational health and safety indicators cover all Naval Group sites in France and all staff: employees, temporary workers, subcontractors.

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 group made up of the UES and the French and foreign companies in which Naval Group has a majority stake.

III.4. FRENCH LAW ON THE DUTY OF CARE OF PARENT AND SUBCONTRACTING COMPANIES

Duty of vigilance plan and implementation report

Law No. 2017-399 of March 27, 2017 on the duty of care of parent companies and subcontracting companies reinforced the group's existing approach of considering the environmental and social impacts of supplier operations, while offering a more detailed framework.

In 2018, Naval Group launched a plan comprising reasonable vigilance measures to identify risks and prevent serious violations of human rights and fundamental freedoms, threats to health and safety and environmental damage.

The plan takes into account the group's activities, as well as the activities of its subcontractors and first-tier suppliers with whom an established business relationship exists, provided the activities pertain to this relationship.

This plan includes the following five measures:

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

Context of 2020

2020 was marked by the health crisis, and Naval Group was vigilant, in particular with regard to the Health and Safety of its employees and the protection of the suppliers most affected.

The health crisis and the lockdowns it caused had a strong impact on the activities of Naval Group. In order to resume operations in a gradual and controlled manner, a group health framework has been put in place. These guidelines were developed in conjunction with occupational medicine in accordance with government guidelines and the best practices observed within the group and externally. It was continuously updated throughout the year to take into account changes in government directives and the findings from implementation in the entities. The actions resulting from these guidelines have been successfully applied at all sites and internationally.

Naval Group has also introduced remote working wherever possible. Naval Group did not encounter difficulties related to labour relations for the implementation of generalised remote working, an agreement having been signed beforehand (in July 2019). The social partners were also involved in crisis management *via* daily calls in particular. Negotiations by telephone were possible thanks to the corporate culture.

The management of the health crisis in the spring of 2020 led Naval Group to ensure that local employees were taken into account, most often under local contracts. Unlike secondees and expatriates, it was not a question of organising repatriation to their country of departure but of ensuring that close ties were maintained, through managerial support adapted to each country of operation.

Maintaining a two-way communication channel: from Naval Group to employees, through information on the group's position regarding the crisis, and from employees to their manager for regular reporting. This reporting, which is carried out daily in times of crisis, was also intended to ensure their safety and to organise discussions with local authorities in the event of a failure to respond.

In this area, the health crisis of 2020 showed that the management of each Naval Group site had structured actions in this regard. Insofar as initial feedback has shown the diversity of solutions [both in terms of organisation and in terms of the tools available], Naval Group SA will launch a study in 2021 to harmonise the group's policy by taking into account local employees in times of crisis, based on a benchmark conducted internally and with certain partners.

During this unprecedented period, Naval Group's Purchasing Department strengthened ties with its suppliers. Every week during the three months of lockdown, the buyers phoned the suppliers in the panel who were most affected by the health crisis. This initiative made it possible to listen to the difficulties encountered by the supply chain of each supplier, and think about the most appropriate solutions.

In addition, given the scale of the health challenge and the need to enable companies in the naval sector to resume their activities, Naval Group, as a leader in the naval sector, has carried out actions to supply several million masks (3 million surgical masks, 1 million FFP2-type masks) and provided these protective masks to all the companies in the naval sector that requested them. The costs of logistics between China and France were fully borne by Naval Group.

With regard to the five measures required by the law on the duty of care, the main actions are described below:

1. Development of the duty of care risk mapping

Naval Group extra-financial risk mapping

Since 2018, Naval Group has been developing a non-financial risk map. Non-financial risks follow the group's methodology for their identification, assessment and treatment. These risks are assessed according to their current criticality (which takes into account the control actions already in place) and their level of control (four levels according to the group risk methodology). They are covered in the entities' risk maps. They are validated once a year by the Audit, Accounts and Risk Committee.

Three risks detailed in the DPEF concern the content of the duty of care:

- occupational health, safety and environment (OH&S);
- the environment;
- human rights and fundamental freedoms.

Since 2020, these three risks have been included in the group's risk mapping; this means that they are covered by the entities in charge of managing them (the Human Resources Department, the Health, Safety at Work and Environment Department and the Purchasing Department), and that actions to control these risks are regularly reviewed by the Audit and Internal Risk Committee.

Risk summary table

Pillar	Risk category	Mitigation procedures	Assessment procedures	Governance	Key performance indicators
Environment	Carbon footprint of products in service Serious environmental industrial accident	Group: <ul style="list-style-type: none"> Review of the mandatory framework of Naval Group's internal requirements in 2020 Manager training and support ISO 14001 certification 	<ul style="list-style-type: none"> Self-assessments by sites and the main subsidiaries using a tool developed in-house, with specific action plans to be put in place in 2020 in compliance with local regulations. Operational visits and internal audits to ensure the proper implementation of defined practices, coordinated by the Quality Department and the group Audit and Risk Department. 	<ul style="list-style-type: none"> Each instance of non-compliance is monitored by the department concerned. 	<ul style="list-style-type: none"> 50% of vessel projects were classified as "proactive" 20% of R&D sheets including the environment Launch of the 4th study of the carbon footprint of our products, with the launch of the Barracuda submarine in 2020 Number of level 1, 2 and 3 pollution events
Health and safety	Occupational health and safety	<ul style="list-style-type: none"> Manager training and support OHSAS 18001 certification and transition to ISO 45001 for certification in October 2021 	<ul style="list-style-type: none"> Operational visits and internal audits to ensure the proper implementation of defined practices, coordinated by the Quality Department and the group Audit and Risk Department. 		<ul style="list-style-type: none"> Number of accidents with lost time Frequency rate 1
Human rights	Discrimination and harassment Human rights	Globally: <ul style="list-style-type: none"> charter of Human Rights and Code of Ethics Whistleblowing system with a network of correspondents to handle discrimination or harassment complaints Organisation, structuring and coordination of the various contacts on these topics: discrimination and sexual harassment and sexist acts on each site, appointment of a CSR sexual harassment and sexist correspondent on the sites. Training and advice to managers thanks to labour lawyers organisation and implementation of a Diversity and Inclusion network. Establishment of the international HR community 	<ul style="list-style-type: none"> Assessments by internal control and the single standard of requirements [RUN] Control of the Purchasing Department in the subsidiaries Supplier assessment by Ecovadis 		<ul style="list-style-type: none"> Measuring the number of internal sanctions Measures of disputes involving the company Monitoring of appointments of correspondents in France

Country risk mapping

Naval Group prepares the risk mapping of the countries in which it operates.

Country risk is assessed on the basis of the following internal data: country, activity of the subsidiary, number of employees, percentage owned by Naval Group, and external information published by the NGOs, Transparency International and Freedom House.

Mapping of non-financial risks related to Naval Group's supply chain

In 2017, Naval Group prepared a CSR risk map related to purchasing. This mapping, validated by Naval Group's Purchasing

Management Committee, is used to assess the environmental, social and ethical risks of each of the group's purchasing categories by factoring in purchasing data such as the volume of business and geographical location of the suppliers. All the information is evaluated by an external service provider. Naval Group then assigns a risk-weighting depending on how critical each purchasing category is.

The CSR risk map thus highlights the high-risk purchasing categories from a CSR perspective, enabling the prioritisation of actions to be taken with Naval Group suppliers. This mapping will be updated in 2021.

Regarding Naval Group's supply chain

Purchasing category	Risk category	Mitigation procedures	Assessment procedures	Governance	Key performance indicators
Energy storage systems (excluding standard accumulators)	Energy consumption, end of product life	<ul style="list-style-type: none"> Supplier code of conduct recalling the obligation to comply with the Code of Ethics and the Code of Compliance Conduct of Naval Group (see III.2.5.) Start of the international roll-out of the mandatory internal requirements framework, taking into account relations with local subcontractors. On-site orientation training for subcontractors within the group via an e-learning module available in seven languages and rolled out to all group entities. 	<ul style="list-style-type: none"> Assessments by an external firm independent of suppliers of the categories of purchases identified as the most at risk. An assessment is considered inadequate when the score obtained by the supplier is below the average for its peer group (based on type of business, size, location, etc.). 	<ul style="list-style-type: none"> The assessment results are monitored by the Supplier Risk Committee, which is chaired by the purchasing manager. The results are then incorporated into the supplier action and risk mitigation plan. In the event of an inadequate CSR assessment, an action plan is put in place by the steering committee, which meets individually with all suppliers each year. The satisfactory implementation of the action plan is regularly monitored. 	<ul style="list-style-type: none"> Naval Group's average score: 53.2/100 Number of companies with an inadequate assessment result in 2020: 0 Number of action plans put in place in 2020: 0
Pyrotechnic materials (powder, explosives, etc.)	Employee health and safety, supplier environmental practice, waste management				
Marine paint	Waste management, raw materials, supplier environmental practice				

2. **Procedures to regularly assess the situation concerning subsidiaries, suppliers or subcontractors with regard to this risk mapping**

Assessments within Naval Group

• Via internal control and the single standard of requirements (RUN):

The requirements relating to the duty of care have been integrated into the group's internal control tool. Self-assessments are conducted every year and controls by the second lines of defence are carried out according to a defined schedule. The results of Internal Control are presented to the Audit and Risk Committee.

• Via control of the Purchasing Department in the subsidiaries:

An instruction on purchasing practices, applicable to all Naval Group subsidiaries, has been in place since 2012 in both French and English versions. This instruction includes several chapters, including the organisation of purchases, the delegation of powers and separation of duties within the subsidiaries, the execution of purchasing acts and the application of purchasing strategies and the operation of the panel by the subsidiaries.

In 2020, the application of this instruction was verified in all controlled subsidiaries.

Supplier assessments

Naval Group has been supported since 2012 by its service provider ECOVADIS. The platform of the same name is a self-assessment tool according to the ISO 26000 standard for suppliers' CSR engagement. Four main themes are addressed: the environment, responsible purchasing, compliance and social.

Naval Group also accepts CSR assessments carried out by its suppliers with other independent bodies.

Naval Group's objective is to assess all suppliers in the panel, *i.e.* 1,200 companies. To achieve this objective, Naval Group teams work in stages, focusing on suppliers with a high CSR risk.

A CSR risk mapping of suppliers was carried out in 2017. This led to the identification of 20 types of purchases, at 300 suppliers, which present a risk for the environment, health and safety, human rights and ethics. Priority was therefore focused on the CSR assessment of these 300 suppliers.

As every year since 2012, a CSR assessment campaign was carried out over the period from November 2019 to March 2020.

In 2020, more than a third of suppliers were assessed, including a majority of the types of purchases identified as carrying risk.

The inclusion of suppliers in the process of assessing their CSR performance is hampered by the fact that CSR issues are not yet sufficiently understood by many companies, particularly in the case of SMEs. This lack of understanding of the issues leads the companies concerned not wanting to invest resources in the subject.

The coverage rate for 2020 is up by 8 points compared to that of 2018, and the results are up by 3 points from 49.7 out of 100 in 2018 to 52.7 out of 100 in 2020.

In 2021, the objective is to increase the number of Naval Group suppliers to commit to this approach.

Special training is provided to buyers to give them the tools to encourage suppliers' support for the Naval Group approach.

ECOVADIS webinars will again be made available to suppliers so that they can take ownership of the tools.

Lastly, the CSR assessment is included in an annual supplier assessment sheet which also addresses the standard SQCD [safety, quality, cost and deadline] criteria.

In the event of an insufficient CSR assessment, for example when the score obtained by the supplier is lower than the average of the companies considered to be similar (activity, size, location), an action plan is put in place during the steering committee meetings held individually with all suppliers each year. The smooth running of the action plan is monitored on a regular basis and is part of the supplier risk mitigation and action plan. It may also be reviewed during a local or national Supplier Risk Committee.

The purpose of the Local Supplier Risk Committee is to analyse and mitigate the risks of single-site suppliers, and more particularly of local suppliers.

This body, led by the Site Purchasing Department, brings together production, industry, site management, supply chain, quality, etc., every two months. This makes it possible to reduce supplier risks through joint and coordinated actions with them.

A national body has existed since 2012. The aim is to manage and anticipate strategic or multi-site risks with global challenges.

External audits and certifications

Responsible Supplier Relations Label

Naval Group was awarded the Responsible Supplier Relations label on December 21, 2014. Naval Group was then the first private company to obtain the Supplier Relations and Responsible Purchasing label on December 21, 2017. This label is currently being renewed.

CSR maturity matrix

Naval Group's Purchasing Department self-assessed CSR maturity. A CSR maturity matrix, developed by Ecovadis and the consulting firm Bain, was used as a basis for this exercise. This matrix covers five main chapters: vision, objectives and challenges, procedures and process, continuous improvement and reporting. The results of this self-assessment contribute to the definition of the priority areas of work in terms of responsible purchasing and the conditions for adoption both internally [buyers] and externally [suppliers].

ISO 14001 certification

Naval Group's environmental approach is reflected in the company's design and construction/production processes and has been continually ISO 14001 certified since 2008. The 2015 version of the standard was implemented at the beginning of the year, and is being renewed during January 2021.

OHSAS 18001 certification and transition to ISO 45001 for certification in October 2021

Naval Group relies on an OH&S 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 OH&S 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 2021. This certification, which adopts the same structure as ISO 9001:2015 and ISO 14001:2015, will simplify the integration of the OH&S management system into the overall management system.

Self-assessment of international subsidiaries

One of the pillars of the identification of human rights risks is based on self-assessment in international subsidiaries based on the international standards of the ILO and the general human rights principles set out in Global Compact. To this end, a self-diagnosis tool has been developed at headquarters. This self-diagnosis makes it easier to identify elements that do not comply with the applicable regulations.

3. Mitigation and prevention actions

Group policies and guidelines

Charter of Human Rights

By formalising the Human Rights Charter, Naval Group completes and clarifies its commitment to the Global Compact, in particular to support its international development in this area. This charter complies with the principles and rules laid down by major international texts, the Global Compact, the John Ruggie report of 2011, the OECD Guidelines for Multinational Enterprises (2011), the ILO Declaration on Principles and Fundamental rights at work (1998), the tripartite declaration of principles on multinational companies and social policy (ILO 2006), the Grenelle 2 law (article 225) and its decree of 2012. It also meets the criteria of ISO 26000.

It explains and specifies commitments in the areas of human rights and international labour standards; it specifies their application for each of the stakeholders.

This charter thus contributes to raising the group's corporate and social responsibility ambitions to its highest level. It is available on the Naval Group website and intranet.

Company support for human rights (EDH)

Naval Group joined the association "Entreprises pour les Droits de l'Homme" (EdH) in January 2020. This association promotes the understanding and integration of human rights within companies through the deployment of vigilance procedures, a voluntary and multi-sectoral initiative. This association is a place for discussion, sharing of good practices and group reflection.

Supplier code of conduct

The Supplier code of conduct defines the minimum standards that Naval Group requires its suppliers to adopt and ensure in their commercial activities. The full participation of suppliers in this plan must enable Naval Group and its customers to be guaranteed the delivery of products and/or services that comply with contractual commitments and these standards, particularly in terms of CSR.

The Supplier code of conduct is available on the website in English, French, Portuguese and Arabic versions. It can be adapted for use by the group's subsidiaries while retaining its principles and taking into account the legislation of the country where the subsidiary is located. It may be adapted according to the same principles to take into account the country of origin of a foreign supplier.

Code of Ethics

The first Code of Ethics was published in 2008. Since then, the Ethics and CSR Committee has updated the ethics framework with the Code of Ethics and the practical guide to ethical behaviour based on French law, translated into English, Portuguese, Spanish and Arabic. The Code of Ethics is a reference text expressing the general rules applicable throughout the group, according to which the group intends to develop its activities.

The new employee integration day on the sites includes the presentation of the ethics framework and a reminder of the company's commitments in this area.

In 2020, the various correspondents who intervene in situations of harassment, discrimination or situations contrary to the Code of Ethics and/or the code of conduct compliance have been confirmed: the ethical contacts and CSR correspondents, compliance officers the harassment and sexist correspondents of the CSE, the harassment and sexist correspondents of the employer and the discrimination correspondents. A training course for the harassment and sexist correspondents of the CSE is planned for early 2021.

OH&S Guidelines

The mandatory framework of Naval Group's internal requirements for occupational safety and the environment, which includes the golden safety rules, has been improved to take on Board feedback, particularly in technical fields. In 2019, the international roll-out of this framework began, taking into account relations with our local subcontractors. Multi-site working groups jointly develop these new requirements in line with the best available technologies. This framework was used in the same way in 2020 in the context of the health crisis and supplemented by the internal health framework allowing the group to implement the group's rules for the prevention of the risk related to Covid-19.

Training

Purchases

For Naval Group, employee training is important, which is why modules dedicated to anti-corruption and the duty of care were provided in e-learning and face-to-face modules to buyers in 2019 and 2020.

These training modules enable employees to identify the obligations and issues relating to the duty of care and to appropriate the tools available to them, in particular the PROVIGIS platform for collecting legal documents, or the ECOVADIS platform for CSR assessments of suppliers.

OH&S

On-site orientation training for subcontractors within the group via an e-learning module available in seven languages and rolled out to all group entities.

Human rights

Discrimination and sexual harassment and sexist behaviour correspondents were appointed at each site after receiving training. The harassment and sexist correspondents of the CSE will receive additional training at the beginning of 2021. This training will target their missions, legal definitions, sanctions and the Naval Group procedure. The appointment of these correspondents, supplemented by training, will give our group a new channel to prevent the risks of harassment or discrimination.

Also, the single investigation process for ethics and the creation of investigators was restructured and accompanied by the creation of a Whistleblowing Monitoring Committee. The drafting of the practical and legal investigation guide for investigators involved in these situations is underway. It will be broadcast in 2021 during a training session planned for this purpose. This guide aims to professionalise investigators as part of their assignment.

Communication

Ethics

On the occasion of the United Nations Global Days in favour of human rights and the fight against corruption, Naval Group organises an ethics and compliance day at all its sites and subsidiaries every year. For the fourth consecutive year, an Ethics and Compliance Day was held digitally in early December 2020. On this occasion, the group's employees were able to ask various questions, in particular about the operation of the ethics whistleblowing line and the confidential treatment of reports issued. They were therefore informed of the results of the compliance survey carried out at the beginning of November, which included ethical issues. A poster dedicated to the ethics alert was placed in early November at all sites in France to remind employees of the address of the whistleblowing hotline.

OH&S

Awareness-raising campaigns remain an essential vehicle for sharing results, actions and programmes 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.

Since 2019, an OH&S communication plan has been implemented with awareness-raising campaigns on shared vigilance and the golden rules. On November 6, 2020, all teams took a 30-minute break to analyse their difficulties, risks or EMS accidents. The discussions made it possible to find solutions to the risks encountered in order to manage them and work more calmly and efficiently. This plan is also rolled out to our suppliers and subcontractors, whom we involve in this process.

Purchases

A newsletter is used to communicate, on a monthly basis, to the entire purchasing population, including subsidiaries, on various topical issues. In 2019-2020, two special issues focused on the assessment of supplier risks, the challenges of due diligence and the implementation of a new service provider for the collection of legal documents.

4. Whistleblowing system

For many years, Naval Group has had a secure hotline and a system for collecting and handling whistleblowing reports. In 2017, the hotline was renamed ethics@naval-group.com, to make it more globally accessible. This also coincided with the entry into force of the Sapin II Law and the duty of care law.

The hotline is configured to receive all internal or external whistleblowing reports within the scope of these laws. More generally, it can be used when an individual witnesses or learns of a situation in which behaviours are contrary to Ethics and CSR standards.

The hotline is open to all regular and occasional employees, regardless of status, entities controlled by the group in France and internationally, as well as all of the group's external stakeholders (customers, suppliers, subcontractors, partners, etc.). The use of the secure hotline shows that employees of the group's foreign subsidiaries are aware that this tool exists.

The email address appears on the company's website and intranet, as well as in the ethics and compliance guidelines (Code of Ethics, Compliance code of conduct and Supplier code of conduct).

In 2019, the group clarified the rules for compiling and handling whistleblowing reports in a notice available in French and English and available to all employees *via* the group's Business Management System (BMS).

The Ethics and Social Responsibility Committee (CERSE) supervises a Whistleblowing Monitoring Committee, which is in charge of examining reports received on the Ethics line and managing the related actions:

- responds to any contact made *via* the hotline, whether a simple query or a whistleblowing report;
- carries out investigations, if they are decided upon to follow up on reports made through the hotline, in strict compliance with the rules of confidentiality;
- recommends, where applicable, the actions and/or sanctions when deviations are observed with the ethics framework (as described above).

A practical and legal guide for investigators is being drafted to improve the quality of investigation procedures. Investigators will be trained in this guide in early 2021.

A summary of the reports was presented to the Central Social and Economic Committee on November 18, 2020. This review includes the breakdown of reports by entity, the reports according to the typology which is based on the categories according to the 23 ethical cases described in the practical guide of ethical behaviour of December 2018, widely distributed

in particular on the occasion of the annual day. "Ethics and anti-corruption" at the beginning of December of each year, as well as the follow-up of reports and the processing time of an investigation.

5. System for monitoring and assessing the effectiveness of the measures implemented

Governance of the duty of care plan

In 2020, the group's CSR strategy was incorporated into the Strategic Plan and was presented to the Board of Directors.

The role of the Ethics and CSR Committee (CERSE), the internal governance body for ethics and CSR, has been strengthened. CERSE proposes the group's ethics and CSR strategy and has it approved by the Executive Committee. It ensures the implementation of the strategy for each CSR theme, with the objective of coordination, complementarity and overall consistency of the actions carried out within the group.

The Ethics and CSR Committee is co-chaired by the General Secretary and the Director of Strategy, Partnerships and Institutional Affairs. The members are the sponsors of the CSR themes and the Director of the Transformation Programme. The Secretariat of CERSE is the CSR Director.

In 2020, the Ethics and CSR Committee (CERSE) approved the governance of the implementation of the CSR strategy, in particular the functioning of CERSE, the appointment of sponsors for each of the seven CSR themes and the appointment of related project managers.

One of the CSR projects relates to the duty of care. The project manager is the CSR Director. The progress of the project and the related dashboard – must be presented regularly to CERSE.

Key performance indicators relating to the vigilance plan

Environment – 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 problem-solving methodology) to prevent any recurrence.

In performance terms, the group did not suffer any serious environmental industrial accidents in 2020 and, as of this date, counts three environmental events having a temporary impact on the environment (Level 2), with a target of 3 [see graph page 38].

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

Environmental incidents are categorised and tracked/tallied:

- report of an at-risk (CSR) situation: the event could have occurred;
- non-significant event: incident without impact on either employees or the environment, with low potential risk;
- significant event: incident having a temporary impact on the environment and/or its employees;
- major event: incidents with uncontrolled pollution and/or involving a response external to Naval Group.

In kind of impact on the environment: soil, water, air, waste, energy.

In 2020, there were 51 non-significant events were reported on Naval Group sites in France. Corrective and preventive actions were taken for all of them.

Five significant events with a temporary impact on the environment occurred. These events were the subject of an in-depth 8D analysis.

OH&S performance

Naval Group's OH&S performance is monitored using several indicators. The number of accidents with lost time (LTAs), supplemented by the frequency rate 1 (FR1) (frequency rate of accidents with lost time per million hours worked) and severity rate (SR) (number of days compensated x 1,000/number of hours worked).

Naval Group results at December 31, 2020:

- LTAs: 118, for a target of 115 (135 LTAs in 2019);
- FR1: 5.2, for a target of 5.5 (FR1 of 5.9 in 2019);
- SR: 0.14 (SR of 0.13 in 2019).

These results show a decrease in the number of AAA and FR1 (accidents with lost time) which were on the increase in 2019, and a stabilisation of the severity rate. The average number of days lost in 2020 per work accident is 24 days, compared with 22 days in 2019.

Human rights 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. Another indicator is the monitoring of correspondent appointments. These indicators are tracked internally.

IV. Corporate governance report

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

IV.1. LIST OF OFFICES AND POSITIONS HELD BY EACH CORPORATE OFFICER DURING THE FINANCIAL YEAR ENDED DECEMBER 31, 2020

	Company	Function or office
Pierre Éric Pommellet	Naval Group	Chairman and Chief Executive Officer since March 24, 2020
	Naviris SPA	Director
	Le Télégramme Média group	Director
	Association des Anciens de Polytechnique (AX) [association]	Board member
	Chantiers de l'Atlantique	Director
Vincent le Biez	Ministry of the Economy and Finance	Head of Industry Shareholdings
	Naval Group	Representative of the State on the Board of Directors
	Chantiers de l'Atlantique	Representative of the State on the Board of Directors
Pascal Bouchiat	Thales	General Director, Finance and IT Systems
	Naval Group	Director
	Thales Alenia Space	Director
	GEMALTO	Director
	Thales Corporate Venture SAS	Director
Nathalie Ravilly	Thales	Vice-President, Defence and Development Strategy
	Naval Group	Director
	Telespazio S.p.A	Chair of the Board of Directors
	Thales Alenia Space	Director
	Elettronica SpA	Director
	Thales Germany	Director
	Onera	Director
Bernard Rézat	Naval Group	Director
Jacques Hardelay	Chantier naval de Marseille SAS (CNM)	Chairman
	Naval Group	Director
	GICAN	Director
	UIMM 13	Director
	Club de la Croisière	Director
	Grand Port Maritime de Marseille (GPMM)	Director

	Company	Function or office
Patrice Caine	Thales	Chairman and Chief Executive Officer
	Naval Group	Director
	L'Oréal	Director
	National Research and Technology Association [ANRT] (association)	Chairman
	France Industrie (association)	Vice-Chairman
Éveline Spina	French National Defence Procurement Agency	Head of Plans, Programmes and Budget
	Naval Group	Director
	Défense Conseil International SA	Director
Laurent Chagnas	Naval Group	Technical and Administrative Secretary
	Naval Group	Director
Olivier Ménard	Naval Group	HR Attaché
	Naval Group	Director
	Metallurgy Federation CFE CGC	National Employment Training Representative
Béatrice Unia	Naval Group	Business Developer
	Naval Group	Director
Tony Lecorps	Naval Group	Relocation Technical Advisor
	Naval Group	Director
Yvon Velly	Naval Group	HR Attaché
	Naval Group	Director
Didier Chavrier	Naval Group	Functional Integration Manager
	Naval Group	Director
	SCI Casacha	Manager
François Geleznikoff	Naval Group	Director [since March 24, 2020]
Geneviève Mouillerat	Consultation for technological innovation in the field of energy [CITEPH]	Chairperson
	Principia Scientific Advisory Board	Chairperson
	Naval Group	Director [since March 24, 2020]
	EVOLEN	Director [since December 8, 2020]
Gwenaëlle de La Raudière	AIRBUS	Group Management Control Director
	Naval Group	Director [since March 24, 2020]

	Company	Function or office
Valerie Champagne	RTE	Member of the Management Board of RTE – DGA Finance and Purchasing until August 31, 2020
	Naval Group	Director of Subsidiaries and Investments, since September 1, 2020
	UGAP [Union of public purchasing groups]	Director [since March 24, 2020]
	FDPITMA – Fund for the development of an intermodal transport policy in the Alps	Director and member of the Risk Committee
	SFTRF – Fréjus road tunnel company	Director
	Cirteus	Director and Chair of the Audit Committee
	RTE-Immo	Chairperson [wholly-owned by RTE]
	IFA2 [joint venture held 50/50 by RTE and National Grid]	Chairperson [wholly-owned by RTE]
		Director

DIRECTOR WHOSE TERM OF OFFICE AT NAVAL GROUP ENDED DURING THE FINANCIAL YEAR ENDED DECEMBER 31, 2020

	Company	Function or office
Hervé Guillou	Naval Group	Chairman and Chief Executive Officer (until March 23, 2020)
	BE MAURIC	Member of the Supervisory Board
	SNEF	Director
	Compagnie Maritime d'Expertises – Comex	Director
	Les Chantiers de l'Atlantique	Director
	GICAN	Chairman
	3 CAP ADVISOR	Chairman [since April 1, 2020]
	ORTEC	Director [since April 1, 2020]
Gabrielle Gauthey	TOTAL	Head of Carbon Neutrality Businesses
	Naval Group	Director (until March 24, 2020)
	GECINA	Director – Chair of the Audit Committee
	RADIALL	Member of the Supervisory Board
	GFI Informatique	Member of the Board of Directors
	Greenflex [company wholly-owned by Total]	Chairperson
Sophie Mantel	DDFIP of Hauts-de-Seine	Head of Public Management
	Naval Group	Director (until March 24, 2020)
Luc Rémont	Schneider Electric Industries SAS	Executive Vice-President International Operations
	Naval Group	Director (until March 24, 2020)
	Worldline [formerly Atos Worldline]	Director
Sandra Lagumina	Meridiam	COO Asset Management
	Naval Group	Director (until March 24, 2020)
	FNAC Darty	Director
	FNSP	Director
	FMSH	Director
	CNMMDP	Chairperson
	SpaceAble	Director
	AFM	Chairperson
	Supervisory Board of Investments for the Future	Member
	French Competition Authority	Member

IV.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.

IV.3. LIST OF DELEGATIONS OF POWERS OBTAINED FROM THE SHAREHOLDERS' MEETING UNDER ARTICLES L. 225-129-1 AND L. 225-129-2

None.

IV.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.

Appendix 1

PROPOSAL TO ALLOCATE THE EARNINGS OF NAVAL GROUP SA FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2020

The General Meeting, acting under the conditions of quorum and majority for Ordinary General Meetings, on the proposal of the Board of Directors, resolves to allocate the loss for the financial year ended on December 31, 2020 amounting to €[56,260,957.21] in full under "Retained earnings", which would thus be increased from €235,011,705.71 to €178,750,748.50.

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 March 2, 2021.

AGREEMENTS SIGNED IN PREVIOUS YEARS AND STILL IN EFFECT DURING THE 2020 FINANCIAL YEAR

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

Parties to the contract	Subject matter of the contract	Date signed
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 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 August 1, 2018]

RELATED-PARTY AGREEMENTS SIGNED IN 2016 AND 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 AND APPROVED BY THE BOARD OF DIRECTORS

Parties to the contract	Subject matter of the contract	Date signed
DCN, Thales and Armaris	Letter concerning the transfer by Armaris to Thales of the benefit of its rights under the 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 and 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 2004 AND APPROVED BY THE BOARD OF DIRECTORS

Parties to the contract	Subject matter of the contract	Date signed
DCNS and Thales	Agreement governing the relations between DCNS and Thales (and Armaris until its absorption by DCNS on September 30, 2009) assuming the solidarity commitment by Thales vis-à-vis Finmeccanica as part of the Eurosysnav SAS shareholder agreement would be implemented by the latter.	May 24, 2004

RELATED-PARTY AGREEMENTS SIGNED IN 2003 AND APPROVED BY THE BOARD OF DIRECTORS

Parties to the contract	Subject matter of the contract	Date signed
French State and 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 and 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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Financial year ended December 31, 2020

All amounts are in millions of euros unless otherwise stated.

I. STATEMENT OF COMPREHENSIVE INCOME

Consolidated income statement

	Notes	2020	2019
Revenue	2.1	3,323.0	3,712.1
Cost of sales	2.2	(2,975.4)	(3,073.7)
Research and development costs	2.2.2	(65.5)	(89.5)
Marketing and selling expenses		(103.4)	(121.6)
General and administration expenses		(126.0)	(159.0)
Operating profit/loss from ordinary activities before amortisation of intangible assets acquired in business combinations	2.2	52.7	268.3
Amortisation of intangible assets acquired in business combinations		(0.7)	(0.7)
Operating profit/loss from ordinary activities		52.0	267.6
Other operating income	2.2.4	5.4	6.4
Other operating expenses	2.2.5	(2.8)	(11.4)
Operating profit/loss before net income from equity affiliates		54.6	262.6
Net income from equity affiliates	3.3	16.4	11.6
Operating profit/loss after net income from equity affiliates		71.0	274.2
Interest expense on IFRS 16 contract	2.3	(1.2)	(1.2)
Income from financial investments	2.3	6.3	7.8
Other financial income	2.3.1	26.0	12.1
Other financial expenses	2.3.2	(32.2)	(22.0)
Net financial expense	2.3	(1.1)	(3.3)
Income tax	2.4	(12.4)	(88.1)
Net profit/loss for the period		57.5	182.8
attributable to owners of the parent		62.3	188.2
attributable to non-controlling interests		(4.8)	(5.4)
Basic and diluted earnings per ordinary share (in €)	2.5	0.56	1.69

Consolidated statement of comprehensive income

	2020	2019
Net income (loss)	57.5	182.8
<i>Items to be subsequently reclassified to the income statement</i>	1.1	[1.8]
Changes in fair value of the cash flow hedges	1.1	[1.8]
<i>Items that cannot be reclassified to the income statement</i>	[0.4]	[18.5]
Translation differences on the conversion of foreign businesses	[1.9]	[0.4]
Actuarial gains and losses	1.5	[18.1]
Income and expenses recognised in equity, before tax	0.7	[20.3]
Tax recognised directly in equity	[0.4]	9.9
Income and expenses recognised in equity	0.3	[10.4]
CONSOLIDATED COMPREHENSIVE NET INCOME	57.8	172.4
attributable to owners of the parent	62.6	177.8
attributable to non-controlling interests	[4.8]	[5.4]

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.

	2020	2019
Operating profit/loss from ordinary activities before amortisation of intangible assets acquired in business combinations	52.7	268.3
Share of operating profit/loss of SMEs	20.5	18.6
Other operating income	5.4	6.4
Other operating expenses	[2.8]	[11.4]
EBITA	75.8	282.0

II. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

	Notes	12/31/2020	12/31/2019
Goodwill	3.2	382.8	382.8
Intangible assets	3.1	72.6	80.6
Rights of use	3.1	119.6	84.6
Property, plant and equipment	3.1	602.4	560.0
Share in net assets of equity affiliates	3.3	100.2	90.3
Non-current financial assets	4.1	427.9	343.1
Other non-current assets		0.3	1.1
Deferred tax assets	2.4	243.1	241.3
Non-current assets		1,948.9	1,783.8
Inventories and work in progress	3.4	423.7	415.1
Contract assets	3.9	549.2	364.4
Trade receivables	3.5	524.5	519.1
Advances and part payments paid		1,140.6	1,039.1
Current financial assets	4.1	1.1	235.3
Current tax receivable		73.7	1.1
Other receivables	3.5	433.0	294.0
Cash and cash equivalents	4.2	1,260.3	1,683.5
Current assets		4,406.1	4,551.6
TOTAL ASSETS		6,355.0	6,335.4

Equity and liabilities

	Notes	12/31/2020	12/31/2019
Share capital		563.0	563.0
Premiums		18.4	18.4
Treasury shares		(81.4)	(81.9)
Remeasurement of financial instruments		(0.2)	2.7
Translation differences		(9.2)	(7.0)
Actuarial gains and losses		(23.6)	(23.3)
Other reserves attributable to owners of the parent		572.1	514.3
Consolidated income attributable to owners of the parent		62.3	188.2
Equity attributable to owners of the group		1,101.4	1,174.5
Non-controlling interests		0.5	16.6
Total equity	3.6	1,101.9	1,191.1
Non-current provisions	3.7	208.7	208.3
Non-current financial liabilities	4.1	48.8	52.9
Non-current IFRS 16 lease liabilities	4.1	98.2	65.7
Other liabilities		2.7	1.0
Deferred tax liabilities	2.4	3.5	4.3
Non-current liabilities		361.9	332.1
Current provisions	3.7	575.1	667.5
Current financial liabilities	4.1	383.8	27.8
Current IFRS 16 lease liabilities	4.1	22.6	19.4
Contract liabilities	3.9	1,898.9	2,193.7
Suppliers	3.8	1,275.6	1,187.1
Current tax payables		19.5	48.7
Other payables	3.8	715.7	667.7
Current liabilities		4,891.2	4,811.9
TOTAL EQUITY AND LIABILITIES		6,355.0	6,335.3

III. CONSOLIDATED EQUITY

	Number of shares	Share capital	Premiums	Other reserves ⁽¹⁾	Treasury shares	Remeasurement of financial assets and liabilities	Cash Flow hedge	Translation differences ⁽²⁾	Actuarial gains and losses	Equity attributable to owners of the group	Non-controlling interests	Total equity
January 1, 2019	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
Consolidated comprehensive net income			-	188.2	-	-	(1.8)	(0.4)	(8.2)	177.8	(5.4)	172.4
Dividend payments			-	(87.4)	-	-	-	-	-	(87.4)	-	(87.4)
Treasury shares ⁽³⁾	84,925			3.8	(3.8)					-		-
Other		-	-	9.7	1.1	-	(0.2)	(3.7)	(0.1)	6.8	0.1	6.9
December 31, 2019	55,813,740	563.0	18.4	702.6	(81.9)	3.9	(1.2)	(7.0)	(23.3)	1,174.5	16.6	1,191.1
Consolidated comprehensive net income			-	62.3	-	-	1.2	(1.9)	1.0	62.6	(4.8)	57.8
Dividend payments			-	(94.2) ⁽⁴⁾	-	-	-	-	-	(94.2)	-	(94.2)
Treasury shares ⁽³⁾	(34,492)			1.3	(1.8)					(0.5)		(0.5)
Other		-	-	(3.0)	2.3	(4.1)	-	-	(1.5)	(6.3)	(0.1)	(6.4)
Transactions with non-controlling interests ⁽⁵⁾	-	-	-	(34.6)	-	-	-	(0.3)	0.2	(34.7)	(11.2)	(45.9)
December 31, 2020	55,779,248	563.0	18.4	634.4	(81.4)	(0.2)	-	(9.2)	(23.6)	1,101.4	0.5	1,101.9

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

(2) For the list of currencies used [see note 3.6.5].

(3) 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.

(4) The dividend payment of €[94.2] million was allocated as follows:

- the French State: €[76.7] million;
- Thales: €[16.5] million.

(5) The group acquired the minority stakes in Naval Energies on December 3 and holds 100% of the entity.

IV. CONSOLIDATED STATEMENT OF CASH FLOWS

	2020	2019
Net income (loss)	57.5	182.8
Deduct (add):		
Net depreciation/(reversal)	120.1	103.1
Net provision expense/(reversal)	(58.8)	67.3
Net asset impairment loss/(reversal)	(23.2)	5.4
Changes in fair value of financial instruments	(5.7)	(7.5)
Proceeds from disposals	8.6	20.6
Change in employee share offer liability	-	3.8
Tax expense/(income)	12.4	88.1
Share in income/(loss) of equity affiliates	(16.4)	(11.6)
Dividends received from equity affiliates	7.4	13.0
Other dividends received (reclassified as net financial investments)	(0.7)	(1.1)
Cost of financial debt	1.8	1.7
Cash flow from operations	102.9	465.6
Change in working capital requirement	(606.5)	(420.4)
Tax refunded/(paid)	(119.7)	26.1
Net cash inflow/(outflow) from operating activities	(623.3)	71.3
Changes in scope of consolidation	(46.0)	-
Purchases of property, plant and equipment and intangible assets	(131.8)	(139.8)
Disposals of property, plant and equipment and intangible assets	1.2	0.6
Acquisitions of holdings, net of cash acquired/brought into scope of consolidation	(2.2)	(6.2)
Change in loans and advance payments	16.3	(6.4)
Net operating investments	(162.5)	(151.8)
Decrease/(increase) in investment securities ⁽¹⁾	152.4	(108.9)
Decrease/(increase) in financial assets	(0.1)	1.1
Net financial investments	152.3	(107.8)
Net cash inflow/(outflow) from investing activities	(10.2)	(259.6)
Increase in capital - non-controlling interests	(2.5)	0.2
Dividends paid to owners of the parent	(94.2)	(87.4)
Sale/(purchase) of treasury shares	0.1	(3.9)
Cash payments to or from shareholders	(96.6)	(91.1)
Increase in financial liabilities	262.4	13.3
Decrease in financial liabilities	69.5	(6.5)
Repayment of IFRS 16 lease liabilities	(22.7)	(20.6)
Net change in financial liabilities	309.2	(13.8)
Net cash inflow/(outflow) from financing activities	212.6	(104.9)
Net change in cash	(420.9)	(293.2)
Net cash at beginning of period	1,683.5	1,976.4
Change in cash	(420.9)	(293.2)
Effects of changes in exchange rates/fair value	(2.2)	0.2
Net cash at end of period	1,260.3	1,683.5

⁽¹⁾ In accordance with note 1.4.16, the change in investment securities mainly comprises changes in certificates of deposit, term accounts and medium-term negotiable notes with an original maturity of more than three months.

Net cash plus investment securities classified under other financial assets as per note 1.4.16 amounted to €1,625.3 million at December 31, 2020 (compared to €2,193.7 million at December 31, 2019) and is made up as follows:

	12/31/2020	12/31/2019
Non-current investment securities	365.0	275.2
Current investment securities	-	235.0
Net cash	1,260.3	1,683.5
TOTAL	1,625.3	2,193.7

V. Notes to the financial statements



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NOTE 1. RULES, METHODS AND 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, 2020 were approved by the Board of Directors on March 2, 2021 and will be submitted for approval to the General Meeting to be held in April 2021.

The financial year 2020 was mainly marked by the health crisis and by the following major events:

- more than 3 million orders taken;
- revenue in the order of €3.3 billion impacted in particular by the health crisis;
- operational successes with the delivery of the *Suffren* in Toulon, the launch of the *FREMM Lorraine* in Lorient, as well as the launch of the *Humaitá* as part of the Brazilian Prosub programme.

The group acquired the minority stakes in Naval Energies on December 3 and holds 100% of the entity.

1.2. IMPACT OF THE HEALTH CRISIS ON BUSINESS AND RESULTS FOR THE FINANCIAL YEAR 2020

The environment in 2020 has been profoundly changed by the Covid-19 pandemic. In the face of the current health crisis, a specific work organisation has been set up to ensure strict compliance with the health and safety rules that have been strengthened during this period. Since March, the group has taken actions to limit the unfavourable impacts of the health crisis.

Thus, the overall impact on revenue and the additional costs related to this crisis were partly offset by savings (internal expenses, travel expenses) but negatively impacted profit (loss) from continuing operations for the financial year 2020.

The group carried out an evaluation, for the programmes concerned, of the costs incurred and judged to be inefficient due to lockdown constraints. These costs mainly concerned project management hours for programmes slowed down at the industrial level.

These costs have been identified on the basis of the number of persons concerned and the stoppage periods of their programmes. These costs were also assessed based on the difference between the physical and financial progress of each project.

As these costs do not contribute to the physical progress of the projects, they have been restated from the costs incurred for the programmes, with no impact on the data at completion.

In addition, the group has not identified any major risk of default among its customers and, as such, has not recognised any material additional impairment for expected losses on its receivables. In addition, the health crisis has not led to any substantial changes or renegotiations that could have had a material impact on the consolidated financial statements.

Particular attention was paid to the impairment tests and were performed in the context of the health crisis. No impairment losses were observed as a result in the financial statements. In addition, the group did not use the guaranteed financing mechanisms granted by certain states.

1.3. 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 marine 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.

1.4. ACCOUNTING RULES AND POLICIES

1.4.1. 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, 2020.

The accounting rules and policies are identical to those applied in the consolidated financial statements for the year ended December 31, 2019.

1.4.2. 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 financial assets.

1.4.3. 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 programme reviews on the basis of the information at its disposal. Whenever there are unexpected changes in events and circumstances, actual results may be different from these estimates. The main accounting policies that require estimates to be used are the following:

Recognition of revenue and profit on 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 programme 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 programme. The financial statements are thus prepared on the basis of the contractual assumptions as they exist at the balance sheet date, with no anticipated changes taken into account.

These assumptions are based in particular on the latest known 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 programmes. 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 programme 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 3.7.1)

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 statement of financial position.

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 3.5)

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

1.4.4. 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.

1.4.5. Translation of financial statements

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

- items on the statement of financial position 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>.

1.4.6. 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.

1.4.7. Structure of the statement of financial position

Because of the nature of the group's activities, its operating cycles are very long. Therefore, all assets and liabilities relating to programmes – inventories, trade receivables and payables, provisions, etc. – are reported under current assets and liabilities whatever their maturity date, even if they are expected to be realised more than 12 months hence. Other assets and liabilities (in particular provisions that do not relate to programmes and financial assets and liabilities) are recognised as current assets and liabilities if their maturity date is in 12 months or less, and as non-current assets and liabilities if their maturity date is after 12 months.

In accordance with note 3.9, contract assets and liabilities are presented in the consolidated statement of financial position under current assets and liabilities, without distinction between the portion due in less than one year and the portion due in more than one year.

1.4.8. Intangible assets

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

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

Separately acquired intangible assets are initially recognised at the cost of acquisition and include, in particular, patents and 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 1.4.13. 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 1.4.12. 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.

1.4.9. 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.

1.4.10. 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 statement of financial position.

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 1.4.8, 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.

1.4.11. 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 as fixed assets on the balance sheet, and the corresponding debt is recorded as financial debt on the balance sheet. The duration corresponds to the commitment of the contract.

The rental capitalisation period corresponds to the non-cancellable period of the contract. In the event of a renewal option, the group has determined that it is reasonably certain that the option will be exercised, based in particular on the ease of replacement and the critical importance of the leased property.

The group's leases mainly relate to real estate.

The group uses the following exemptions permitted by the standard:

- exclusion of short-term leases (less than 12 months);
- excluding contracts where the underlying asset is of low value (new unit value less than US\$ 5,000).

The group used discount rates corresponding to the marginal financing rate of each lessee for a maturity corresponding to the duration of the commitment. The weighted average discount rate used to value the lease liability at December 31, 2020 is 1.11%.

1.4.12. Impairment of non-current assets

In accordance with IAS 36 – Impairment of assets, the recoverability of intangible assets and property, plant and equipment is tested as soon as there is an indication of impairment, and at least once a year for assets with an indefinite useful life, which are mainly goodwill.

Goodwill is broken down by cash-generating units (CGUs), which correspond to homogeneous groups generating identifiable cash flows.

The test consists of comparing the net carrying amount of an asset or group of assets with its recoverable amount, which is defined as the higher of fair value and value in use. The value in use is determined by discounting the future cash flows expected from the use of the asset.

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.

The CGUs monitored by the group are as follows:

- new buildings (CN);
- services (SER);
- underwater weapons (ASM);
- Australia (AFS).

1.4.13. Inventories

Inventories not allocated to programmes

Inventories not allocated to programmes 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 without 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 programmes

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

1.4.14. Revenues

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;
- 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 services is also recognised on a percentage of completion basis through costs based on the stage of completion of the services, 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 programmes.

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 margin

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, 2020, the group's order book stood at €15.2 billion. Its provisional execution schedule is as follows: 23% in 2021, 20% in 2022, 15% in 2023, 12% in 2024 and 30% thereafter.

Treatment on losses at completion (LOC)

Losses on completion are not considered in performance obligations (PO), a concept specific 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 performance obligations 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 (LOC) must be made immediately to safeguard performance in future financial years from the negative outcome of this business.

1.4.15. 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.

1.4.16. 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. For this purpose, the group mainly chooses undertakings for collective investment in transferable securities (UCITS), certificates of deposit, term accounts with an exit option and interest rate products with an initial maturity of less than three months.

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.

1.4.17. 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 revised, 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 balance sheet date;
- 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.

1.4.18. Employee share offer (ORS) and Collective Shareholding Plan

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.

As part of the implementation of a collective shareholding plan in 2019, Naval Group SA shares were acquired by the beneficiaries of the plan, who immediately added them to the 2019 Compartment of FCPE Actions Naval Group created for that purpose.

These offers have been regarded as a share-based payment that will be cash-settled. The group itself ensures the liquidity of the transaction by providing a mechanism to buy back its own shares from employees who request it, see note 3.6.6. for more details.

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.

1.4.19. 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 32.02% to 25.83% (scheduled between 2021 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.

1.4.20. 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.

1.5. CHANGE IN SCOPE

As at December 31, 2020, the consolidation scope, consisting of fully consolidated subsidiaries and equity affiliates, was as follows:

[in percentages]	Country	Control at 12/31/2020	Interests at 12/31/2020	Control at 12/31/2019	Interests at 12/31/2019
Parent					
Naval Group SA	France				
Exclusive control					
Alexandria Naval for Maintenance & Industry	Egypt	100	100	100	100
Armaris Quater SAS	France	100	100	100	100
Armaris Sixt SAS	France	100	100	100	100
DCN International SA	France	100	100	100	100
Naval Group Actionnariat SAS	France	100	100	100	100
Naval Group Coopération SA	Belgium	100	100	100	100
Naval Energies SAS ^[1]	France	100	100	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
Naval Group BR Sistemas de Defesa	Brazil	100	100	100	100
Prosin	Brazil	100	100	100	100
DCNS Energia Marina Spa	Chile	75	75	75	44
Naval Group Australia Pty Ltd	Australia	100	100	100	100
DCNS Zamil	Saudi Arabia	55	55	55	55
Naval Group Arabia ^[2]	Saudi Arabia	100	100	-	-
Naval Group Pacific Pty Ltd ^[2]	Australia	100	100	-	-
Naval Group Belgium	Belgium	100	100	100	100
Significant influence					
Boustead DCNS Naval Corporation SDN BHD	Malaysia	40	40	40	40
Défense Environnement Services SAS	France	49	49	49	49
Naviris parent company ^[3]	Italy	50	50	-	-
Itaguaí Construções Navais SA	Brazil	41	41	41	41
Kership SAS	France	45	45	45	45
Principia SAS ^[4]	France	-	-	33	33
TechnicAtome	France	20	20	20	20

[1] Acquisition of minority interests in Naval Energies in December 2020.

[2] Fully-consolidated company since 2020.

[3] Company created in January 2020.

[4] Company sold in July 2020.

NOTE 2. INCOME STATEMENT

2.1. REVENUE

Group revenue for the financial year ended December 31, 2020 was €3,323.0 million (*versus* €3,712.1 million for the financial year ended December 31, 2019).

Of this, €2,320.7 million was generated in France (*versus* €2,627.5 million for the financial year ended December 31, 2019).

	2020	2019
Construction and maintenance contracts	3,205.3	3,540.9
Other sales of goods and services	117.7	171.2
REVENUE	3,323.0	3,712.1

2.2. OPERATING PROFIT

The cost of sales for an amount of €2,975.4 million at December 31, 2020, consists of purchasing costs and personnel expenses [see note 2.2.1]

2.2.1. Employee headcount and costs of own and seconded employees

	2020	2019
Wages and salaries (including social security charges) of own employees	(1,089.6)	(1,081.6)
Retirement and other long-term employee benefit expenses	(9.4)	(2.6)
Employees seconded by the French State	(150.3)	(171.4)
Other	(31.0)	(16.5)
TOTAL	(1,280.3)	(1,272.1)

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 expense;
- 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:

	2020	2019
Managers	7,214	6,699
Supervisors and technicians	4,677	4,387
Blue and white-collar employees	3,072	3,028
Total fully consolidated French companies	14,964	14,188
Other consolidated companies of the group	500	373
TOTAL WORKFORCE	15,464	14,561
Including seconded employees	2,022	2,272

2.2.2. Research and development costs

Research and development expenses, net of the research tax credit, amounted to €31.5 million for the financial year ended December 31, 2020 (€89.5 million for the financial year ended December 31, 2019).

These research and development expenses correspond to the net research and development expenses incurred by the group [see note 1.4.9].

2.2.3. Statutory Auditors' fees

For the financial year ended December 31, 2020, fees payable to the Statutory Auditors for their statutory audit services amounted to €1.5 million for the entire group.

2.2.4. Other operating income

	2020	2019
Competitiveness/restructuring plan	2.8	4.3
Others ^[1]	2.6	2.1
OTHER OPERATING INCOME	5.4	6.4

[1] At December 31, 2020, €1.4 million of the amount corresponds to the deconsolidation premium of Principia.

At December 31, 2019, €1.5 million of the amount corresponds to a reversal of provisions concerning a guarantee for a building located in Cherbourg.

2.2.5. Other operating expenses

	2020	2019
Competitiveness/restructuring plan	(2.8)	(2.7)
Others ^[1]	(0.0)	(8.6)
OTHER OPERATING EXPENSES	(2.8)	(11.4)

[1] At December 31, 2019, the amount mainly corresponds to the cost of free shares granted under the 2019 Collective Shareholding Plan.

2.3. NET FINANCIAL INCOME/EXPENSE

Income from financial investments represents interest earned by the group on its cash investments in the amount of €6.3 million for the financial year ended December 31, 2020 (versus €7.8 million for the financial year ended December 31, 2019).

Interest expenses related to IFRS 16 contracts were €(1.2) million for the financial year ended December 31, 2020 (versus €(1.2) million for the financial year ended December 31, 2019).

2.3.1. Other financial income

	2020	2019
Change in fair value of financial instruments (foreign exchange and forward options)	0.9	0.0
Changes in fair value of financial investments	0.0	0.8
Dividends received	0.7	1.1
Interest on overdue trade receivables	1.5	1.3
Foreign exchange gains	10.7	7.1
Reversal of impairments on financial assets	5.3	1.0
Income on cash equivalents	0.3	0.7
Other income	6.6	0.1
OTHER FINANCIAL INCOME	26.0	12.1

2.3.2. Other financial expenses

	2020	2019
Change in employee share offer liability	[0.3]	[3.7]
Interest on overdue trade payables	[0.2]	[0.8]
Foreign exchange losses	[12.6]	[10.1]
Impairment losses on provisions of long-term benefits	[2.8]	[6.3]
Impairment losses on financial assets/provisions	[12.0]	[0.1]
Interest on loans	[0.5]	[0.5]
Net expenses on sale of marketable securities	0.0	[0.3]
Other expenses	[3.8]	[0.2]
OTHER FINANCIAL EXPENSES	[32.2]	[22.0]

2.4. INCOME TAX

2.4.1. Analysis of income tax expense

	2020	2019
Current tax	[15.8]	[102.9]
Deferred tax	3.4	14.8
INCOME TAX	[12.4]	[88.1]

The change in deferred taxes comprises a [€6.1] million expense corresponding to the recognition of the future decrease of the current tax rate on all of the group's [positive and capitalised] temporary differences [versus €2.2 million as at December 31, 2019].

2.4.2. Reconciliation of actual and theoretical income tax expense

	2020	2019
Net profit for the year	57.5	182.8
Income tax	[12.4]	[88.1]
Operating profit/loss after net income from equity affiliates	16.4	11.6
Net profit before tax	53.5	259.3
Group theoretical tax rate	32.02%	34.43%
Theoretical tax expense	[17.1]	[89.3]
Offset of research tax credit in EBITA ⁽¹⁾	10.1	11.1
Reduction in corporation tax rate ⁽²⁾	[6.1]	[2.2]
Deferred tax not recognised ⁽³⁾	[3.0]	[6.4]
Difference in corporation tax rate on foreign income/[loss] ⁽⁴⁾	0.5	[1.4]
Other permanent differences	3.2	0.1
ACTUAL TAX EXPENSE	[12.4]	[88.1]
Effective tax rate ⁽⁵⁾	17.66%	31.51%

⁽¹⁾ The recognition of research tax credit set against operating expenses generates a theoretical income tax expense of €[10.1] million, which must be offset.

⁽²⁾ The change in corporate tax rate has an impact of €[6.1] million on the future valuation of deferred tax inventory.

⁽³⁾ No deferred tax has been capitalised on the losses as it is unlikely that they can be offset.

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

⁽⁵⁾ Excluding losses not recognised.

2.4.3. Deferred taxes on the statement of financial position

	12/31/2020	12/31/2019
Deferred tax assets	243.1	241.3
Deferred tax liabilities	3.5	4.3
DEFERRED TAX BALANCE	239.6	237.1

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 1.5].

As of December 31, 2020, the tax loss carryforwards of certain companies have not been capitalised.

No dilutive instruments were issued during the financial years ended December 31, 2020 and December 31, 2019. 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.* 55,779,248 shares and 55,813,440 shares for the years ended December 31, 2020 and December 31, 2019 respectively [see note 3.6 on equity].

2.5. EARNINGS PER SHARE

The group issued no new ordinary shares during the financial years ended December 31, 2019 and December 31, 2020. The calculation of earnings per share is therefore based on the average number of ordinary shares outstanding after buybacks of treasury shares, which was 55,728,815 shares and 55,813,440 shares for the financial years ended December 31, 2020 and December 31, 2019 respectively.

	2020	2019
Net profit attributable to owners of the parent <i>(in € millions)</i>	62.3	188.2
Portion attributable to holders of ordinary shares <i>(in € millions)</i>	31.2	94.1
Number of ordinary shares outstanding <i>(in millions of shares)</i>	55.8	55.8
BASIC AND DILUTED EARNINGS PER SHARE <i>(IN €)</i>	0.56	1.69

NOTE 3. OPERATING ASSETS AND LIABILITIES

3.1. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

3.1.1. Intangible assets

	Patents & similar	Fair value differences	Other intangible assets	Total intangible assets
Gross amounts				
Opening	233.9	167.8	9.7	411.4
Acquisitions	15.6	-	-	15.6
Disposals	(0.1)	-	-	(0.1)
Other changes	(8.3)	-	8.5	0.2
Closing	241.1	167.8	18.2	427.1
Depreciation, amortisation and impairment losses				
Opening	(164.5)	(166.2)	(0.1)	(330.8)
Net depreciation for the financial year	(23.0)	(0.7)	(0.1)	(23.8)
Disposals	0.1	-	-	0.1
Closing	(187.4)	(166.9)	(0.2)	(354.5)
Net amounts 12/31/2019	69.4	1.6	9.6	80.6
NET AMOUNTS 12/31/2020	53.7	0.9	18.0	72.6

3.1.2. Property, plant and equipment

	Land	Buildings	Plant and machinery	Other property, plant and equipment	Total property, plant and equipment
Gross amounts					
Opening	25.3	313.9	354.7	659.4	1,353.3
Acquisitions	-	2.6	29.5	87.6	119.7
Disposals	(0.2)	(1.3)	(4.4)	(7.2)	(13.1)
IFRS 16 - entry	-	57.5	0.7	-	58.2
IFRS 16 - exit	-	(3.3)	(0.0)	-	(3.3)
Other changes	-	0.6	0.1	(0.5)	0.2
Closing	25.1	370.0	380.6	739.3	1,515.0
Depreciation, amortisation and impairment losses					
Opening	-	(105.5)	(251.3)	(351.9)	(708.7)
Net depreciation for the financial year	-	(8.0)	(21.8)	(45.1)	(74.9)
Reversals	-	-	0.4	0.1	0.5
Disposals	-	0.5	4.2	5.7	10.4
Net provisions for IFRS 16 rights of use	-	(20.2)	(1.7)	-	(21.9)
Reversals of IFRS 16 rights of use	-	1.4	-	-	1.4
Other changes	-	(0.0)	-	0.2	0.2
Closing	-	(131.8)	(270.2)	(391.0)	(793.0)
Net amounts 12/31/2019	25.3	208.4	103.4	307.6	644.6
NET AMOUNTS 12/31/2020	25.1	238.2	110.4	348.3	722.0
<i>Of which property, plant and equipment at 12/31/2020</i>	<i>25.1</i>	<i>120.3</i>	<i>108.7</i>	<i>348.3</i>	<i>602.4</i>
<i>Of which rights of use at 12/31/2020</i>	<i>-</i>	<i>117.9</i>	<i>1.7</i>	<i>-</i>	<i>119.6</i>

3.2. GOODWILL

3.2.1. Change in goodwill

	12/31/2019	Acquisitions	Disposals	Impairment losses	12/31/2020
Services	86.9	-	-	-	86.9
New buildings	295.9	-	-	-	295.9
GOODWILL	382.8	-	-	-	382.8

	12/31/2018	Acquisitions	Disposals	Impairment losses	12/31/2019
Services	86.9	-	-	-	86.9
New buildings	295.9	-	-	-	295.9
GOODWILL	382.8	-	-	-	382.8

3.2.2. Assumptions used

At December 31, 2020, for all CGUs, the discount rate (WACC) of future cash flows is 7.29%.

Impairment tests use the four-year business plan adopted by General Management and presented to the Board of Directors. These assumptions take into account current market conditions, their foreseeable changes, as well as the group's assumptions about changes in the context. It should be noted that the business plan does not include impacts related to the health crisis, as they are not considered significant for the group's business.

Beyond the horizon of the four-year plan, the perpetual growth rate used to calculate the value of the terminal cash flow is 1.5%.

3.2.3. Sensitivity of values in use to key assumptions

Given the high positive difference between the value in use (determined via the DCF) and the value of the assets to be tested, no potential impairment loss appears for all the CGUs.

The same applies to the assumption of an increase in the WACC of 0.5 points and a decrease in the perpetual growth rate of 0.5 points.

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	
	12/31/2020	12/31/2019	2020	2019
Principia ^[1]	-	2.2	0.2	0.3
Boustead DCNS Naval Corporation SDN BHD (Malaysia) ^[2]	(22.3)	(29.9)	5.7	(5.6)
Itaguaí Construções Navais SA (Brazil) ^[2]	2.3	4.7	(0.3)	5.1
Défense Environnement Services SAS (France) ^[2]	1.0	2.2	0.7	1.9
Kership SAS (France) ^[2]	2.2	1.2	1.0	0.6
TechnicAtome SA (France)	116.8	110.0	11.4	9.3
Naviris parent company (Italy)	0.2	-	(2.3)	-
TOTAL	100.2	90.4	16.4	11.6

[1] Company sold in July 2020.

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

3.3.2. Changes in “Net assets of equity affiliates”

	12/31/2020	12/31/2019
Share in net assets of equity affiliates as at January 1	90.3	82.3
Share in income/[loss] of equity affiliates	16.4	11.6
Dividends paid	(7.4)	(13.0)
Translation differences	0.9	(0.7)
Consolidation scope changes	(2.3)	(1.6)
Other (includes OCI restatements)	2.3	11.8
SHARE IN NET ASSETS OF EQUITY AFFILIATES	100.2	90.3

3.3.3. Summary financial information relating to TechnicAtome

Naval Group holds 20.32% 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%)	12/31/2020	12/31/2019
Total assets	965.8	866.4
Equity restated, entity’s share before net income	142.7	118.8
Actuarial gains (losses) on pensions, net of deferred taxes	51.5	(2.5)
Actuarial gains (losses) on pensions, net of deferred taxes from previous financial years	-	55.0
Entity’s net income	56.1	45.2
Equity restated, entity’s share	250.3	216.5
Other liabilities	715.5	649.9
Total equity and liabilities	965.8	866.4
Cash and cash equivalents	678.4	562.5

Consolidation in Naval Group	12/31/2020	12/31/2019
Equity restated, entity’s share before net income	142.7	118.8
Actuarial gains (losses) on pensions, net of deferred taxes	51.5	(2.5)
Actuarial gains (losses) on pensions, net of deferred taxes from previous financial years	-	55.0
Entity’s net income	56.1	45.2
Equity restated, entity’s share	250.3	216.5
Naval Group % shareholding	20.32%	20.32%
Naval Group share	50.9	44.0
Goodwill	65.9	65.9
Share in the joint venture	116.8	109.9

Income statement (100%)	12/31/2020	12/31/2019
Revenue	400.9	419.5
Operating profit	75.5	72.5
Net financial expense	1.7	1.4
Tax	(21.1)	(28.7)
Net income restated	56.1	45.2
Naval Group % shareholding	20.32%	20.32%
Share of net income of joint venture	11.4	9.3

3.4. INVENTORIES AND WORK IN PROGRESS

	12/31/2020	12/31/2019
Raw materials and goods for resale	417.9	417.5
Work in progress	47.7	42.6
Finished and semi-finished products	0.0	0.1
Gross amounts	465.6	460.2
Impairment allowances	(41.9)	(45.1)
Inventories and work in progress	423.7	415.1

3.5. TRADE AND OTHER RECEIVABLES

	12/31/2020	12/31/2019
Trade receivables, gross	550.7	543.1
Trade receivables, impairment allowance	(26.2)	(24.0)
Trade receivables	524.5	519.1
Tax receivables (excluding current tax)	283.6	202.6
Employment and social benefit receivables	20.2	8.9
Tax, employment and social benefit receivables	303.8	211.5
Deferred expenses	46.6	41.0
Other receivables, gross	82.6	41.5
Other receivables, net	129.2	82.5
Trade and other receivables	957.5	813.1

3.6. TOTAL EQUITY

3.6.1. Share capital

As at December 31, 2020, 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, 2020, 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	1,026,377	-	1,026,377	1.82%
Naval Group Actionnariat (treasury shares)	520,752	-	520,752	0.93%
TOTAL	56,299,700	300	56,300,000	100.00%

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

3.6.2. Dividend payments

On March 24, 2020, the Ordinary General Meeting resolved, in respect of the financial year ended December 31, 2019, to allocate profits as follows:

- €94,584,000 as a shareholder dividend;
- €235,011,705.71 to retained earnings.

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

During the financial year ended December 31, 2020, the group recorded a change in the fair value of financial assets and liabilities for an amount of €3.9 million (no change at December 31, 2019).

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

During the period from January 1, to December 31, 2020, the group recorded a fall of €1.2 million in its cash flow hedge reserves (decrease of €2 million in 2019).

As at December 31, 2020, the group no longer had any hedging instruments.

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), Itaguai 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), DCNS Energia Marina Spa (Chilean pesos – CLP) and Alexandria Naval for Maintenance & Industry (Egyptian pound – EGP).

During the financial year ended December 31, 2020, the group recorded a decrease of €2.2 million in its reserves for translation differences (versus a decrease of €4.1 million in 2019).

3.6.6. Treasury shares

Naval Group Actionnariat (wholly-owned by the group) acquired 72,942 and 34,492 treasury shares during the financial years ended December 31, 2019 and December 31, 2020, respectively, under the share buyback guarantee granted to employees under the two employee share offers (2008 and 2014) and the Collective Shareholding Plan (2019). As stated in note 1.4.18, Naval Group shares that are held by Naval Group Actionnariat or for which shareholders have an option to sell to Naval Group Actionnariat are recognised as a deduction from equity. The impact on equity was €81.4 million as at December 31, 2020 (€81.9 million as at December 31, 2019).

Following the health crisis, the panel of experts in charge of the annual evaluation of the Naval Group action concluded, according to a report of September 9, 2020 that it was impossible “update the value of the Naval Group share to determine the net asset value of the FCPE Actions Naval Group to be established within a sufficiently narrow confidence interval to protect the interests of unitholders in the coming months”.

At December 31, 2020, Naval Group Actionnariat held 520,752 Naval Group shares, and FCPE Actions Naval Group, whose shares are therefore held by beneficiaries of the transactions referred to above, held 1,026,377 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 (2008 Employee Share Offer).

All the conditions restricting the resale of the shares held by employees as a result of the second employee share offer were all lifted from December 2019 (2014 Employee Share Offer).

Shares acquired under the 2019 Collective Shareholding Plan are subject to a five-year lock-up period ending in July 2024. As with all assets held under the employee savings plan, early release is possible in accordance with the applicable regulations in force.

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

	12/31/2019	Expenses	Utilisation	Reversals	Other	12/31/2020
Provisions for retirement benefits ⁽¹⁾	119.1	13.4	(5.3)	-	(1.3)	125.8
Other non-current provisions ⁽²⁾	89.1	3.5	(8.7)	-	(1.2)	82.9
Non-current provisions	208.3	16.9	(14.0)	-	(2.4)	208.7
Provisions for retirement benefits ⁽¹⁾	3.8	-	-	-	(0.2)	3.6
Provisions for the competitiveness plan	6.1	-	(2.8)	-	-	3.4
Provisions under warranties	69.7	11.3	(4.8)	(2.9)	-	73.3
Provisions on contracts	483.9	24.8	(1.2)	(152.4)	0.1	355.0
Provisions for losses on completion ⁽³⁾	64.4	45.9	(13.9)	(3.4)	-	92.9
Other current provisions ⁽⁴⁾	39.8	20.5	(6.4)	(7.9)	1.1	47.0
Current provisions	667.5	102.4	(29.1)	(166.6)	1.0	575.1
PROVISIONS	875.8	119.3	(43.1)	(166.6)	(1.5)	783.9

⁽¹⁾ The item in the "Other" column in respect of "Provisions for retirement benefits", corresponds to the reclassification of €0.1 million between current and non-current provisions, corresponds to the actuarial loss of €(1.4) million.

⁽²⁾ As at December 31, 2020, other non-current provisions include provisions for other long-term benefits (long-service bonuses, pensions and the senior time bank scheme [see note I.4.17.]) for €38.4 million, provisions for litigation and provision for liabilities relating to convertible bonds (OCABSA) for €42 million.

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

⁽⁴⁾ Other current provisions mainly include provisions relating to tax, labour, environmental and supplier disputes.

	12/31/2018	Expenses	Utilisation	Reversals	Other	12/31/2019
Provisions for retirement benefits ⁽¹⁾	86.4	10.6	(8.0)	-	30.1	119.1
Other non-current provisions ⁽²⁾	82.3	11.3	(4.0)	-	(0.5)	89.1
Non-current provisions	168.6	21.9	(12.1)	0.0	29.9	208.3
Provisions for retirement benefits ⁽¹⁾	5.2	-	-	-	(1.4)	3.8
Provisions for the competitiveness plan	10.4	-	(4.3)	-	-	6.1
Provisions under warranties	71.7	9.0	(10.2)	(0.8)	-	69.7
Provisions on contracts	407.4	110.4	(17.0)	(14.7)	(2.2)	483.9
Provisions for losses on completion ⁽³⁾	80.5	4.9	(18.9)	(2.2)	0.1	64.4
Other current provisions ⁽⁴⁾	35.8	9.1	(5.6)	(0.6)	1.1	39.8
Current provisions	611.0	133.4	(56.1)	(18.2)	(2.6)	667.5
PROVISIONS	779.6	155.3	(68.2)	(18.2)	27.3	875.8

⁽¹⁾ The item in the "Other" column in respect of "Provisions for retirement benefits", corresponds to the reclassification of €1.4 million between current and non-current provisions, corresponds to the actuarial gain of €28.7 million.

⁽²⁾ As at December 31, 2019, other non-current provisions include provisions for other long-term benefits (long-service bonuses, pensions and the senior time bank scheme [see note I.4.17.]) for €35.4 million, provisions for litigation and provision for liabilities relating to convertible bonds (OCABSA) for €42 million.

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

⁽⁴⁾ Other current provisions mainly include provisions relating to tax, labour, environmental and supplier disputes. At December 31, 2019, a provision for the removal of asbestos from the Cherbourg site was recorded under "Other current provisions" for €3.6 million.

3.7.1. Provisions for retirement benefits

As at December 31, 2020, provisions for retirement benefits for the group as a whole amounted to €129.8 million, compared to €123.1 million as at December 31, 2019, mainly related to Naval Group.

The assumptions used were as follows:

- discount rate: 0.50% (unchanged from the rate used as at December 31, 2019);
- inflation rate: 1.75% (unchanged from the rate used as at December 31, 2019);

- salary increase rate: 2.5% (unchanged from the rate used as at December 31, 2019).

As at December 31, 2020, 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 €186.1 million;
- increasing the discount rate by 0.5% would lead to a provision for lump-sum retirement benefits of €157.3 million.

Changes in the retirement obligation were as follows:

	2020	2019
Opening obligation	164.1	132.0
Current service cost	12.9	9.4
Accretion expense	[0.6]	1.9
Benefits paid	[5.3]	[7.9]
Actuarial gains and losses ⁽¹⁾	[1.5]	28.7
OBLIGATION AT END OF PERIOD	169.6	164.1

⁽¹⁾ The change in actuarial gains and losses in 2020 is related to the differences on the assumptions made on the discount rate for €(3.5) million, the revaluation of assets for €1.2 million and on the experience for €0.6 million.

In 2019, the change in actuarial gains and losses is related to differences in the assumptions used to update the discount rate (€24.1 million) and experience gains and losses (€4.4 million).

Changes in pension plan assets were as follows:

	2020	2019
Assets at start of period	41.0	40.4
Return on assets	[1.2]	0.6
ASSETS AT END OF PERIOD	39.8	41.0

As at December 31, 2020, the assets were invested as follows: 59.39% in equities, 18% in bonds and 22.61% in money-market instruments.

The net charge recognised breaks down as follows:

	2020	2019
Current service cost	[12.9]	[9.4]
Accretion expense	[0.6]	[1.3]
Benefits paid	5.3	7.9
Expected return on assets	[1.2]	0.6
NET CHARGE	[9.4]	[2.2]

The reconciliation of the actuarial obligation and the provision recognised in the statement of financial position is as follows:

	12/31/2020	12/31/2019
Actuarial commitment	169.6	164.1
Fair value of assets	[39.8]	[41.0]
PROVISION AT END OF PERIOD	129.8	123.1

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

	12/31/2020
Forecast benefits 2021	4.5
Forecast benefits 2022	3.3
Forecast benefits 2023	3.8
Forecast benefits 2024	6.9
SERVICES EXPECTED OVER THE NEXT FOUR YEARS	18.5

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.

They are defined in note 1.4.18.

Changes in obligations to pay other long-term benefits as at December 31, 2020 were as follows:

	2020	2019
Opening obligation	37.2	31.0
Current service cost	2.8	2.3
Accretion expense	0.2	0.5
Benefits paid	(1.0)	(1.1)
Actuarial gains and losses	2.0	4.6
OBLIGATION AT YEAR-END TO PAY OTHER LONG-TERM BENEFITS	41.2	37.2

3.8. TRADE AND OTHER PAYABLES

	12/31/2020	12/31/2019
Suppliers	1,275.6	1,187.1
Tax payables (excluding current tax)	357.0	264.0
Social benefit liabilities	189.6	228.8
Other payables	169.1	174.9
TRADE AND OTHER PAYABLES	1,991.3	1,854.8

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.

This amount increases in line with the stage of completion of the contract and decreases as services are invoiced to the customer or as part payments are received. Contract assets and liabilities are as follows:

	12/31/2020	12/31/2019
Unbilled receivables, gross	4,647.5	2,143.6
Advances and part payments received from customers	(4,098.5)	(1,775.3)
Deferred income	0.2	(3.8)
CONTRACT ASSETS	549.2	364.4
Advances and part payments received from customers	8,185.7	10,180.6
Unbilled receivables	(6,645.2)	(8,360.3)
Deferred income	358.4	373.4
CONTRACT LIABILITIES	1,898.9	2,193.7

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 profit and loss account) 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 (ORS) (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	12/31/2020	Impact of the change in fair value on equity	Impact of the change in fair value on profit and loss
Investments	63.1	-	-	63.1	(3.9)	-
Loans, non-current portion	0.0	-	-	0.0	-	-
Hedging instruments, non-current portion	-	(0.2)	-	(0.2)	(0.2)	-
Investment securities	-	365.0	-	365.0	-	(0.1)
Other non-current financial assets	0.1	-	-	0.1	-	-
Non-current financial assets	63.2	364.8	-	427.9	(4.1)	(0.1)
Trade receivables	524.5	-	-	524.5	-	-
Hedging instruments, current portion	-	(0.2)	-	(0.2)	(0.2)	-
Other current financial assets	1.3	-	-	1.3	-	-
Cash and cash equivalents	-	1,260.3	-	1,260.3	-	7.2
Current financial assets and trade receivables	525.8	1260.1	-	1785.9	(0.2)	7.2

	Loans and receivables at amortised cost	Fair value through profit and loss	Fair value through equity	12/31/2019	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	0.0	-	-	0.0	-	-
Hedging instruments, non-current portion	-	0.0	-	0.0	0.2	(0.2)
Investment securities	-	275.2	-	275.2	-	(0.7)
Other non-current financial assets	0.1	-	-	0.1	-	-
Non-current financial assets	67.8	275.3	-	343.1	0.2	(0.9)
Trade receivables	519.1	-	-	519.1	-	-
Loans, current portion	-	-	-	-	-	-
Hedging instruments, current portion	-	0.0	-	0.0	0.1	(0.2)
Investment securities	-	235.0	-	235.0	-	0.9
Other current financial assets	0.3	-	-	0.3	-	-
Cash and cash equivalents	-	1,683.5	-	1,683.5	-	5.0
Current financial assets and trade receivables	519.4	1,918.5	-	2,437.9	0.1	5.7

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	12/31/2020	Impact of the change in fair value on equity	Impact of the change in fair value on profit and loss
Loans, non-current portion	-	-	-	-	-	-
IFRS 16 lease liability, non-current portion	98.2	-	-	98.2	-	-
Hedging instruments, non-current portion	-	(0.9)	-	(0.9)	-	(0.9)
ORS 2 & PAC 2019 liability	49.7	-	-	49.7	(2.1)	-
Non-current financial liabilities	-	-	-	-	-	-
Non-current financial liabilities	147.9	-	-	147.0	(2.1)	(0.9)
Suppliers	1,275.6	-	-	1,275.6	-	-
Loans, current portion	250.0	-	-	250.0	-	-
IFRS 16 lease liability, current portion	22.6	-	-	22.6	-	-
Hedging instruments, current portion	-	(0.6)	-	(0.6)	-	(0.6)
ORS 1 liability	17.1	-	-	17.1	(0.2)	-
Current financial liabilities	-	117.3	-	117.3	-	-
Current financial liabilities and trade payables	1,565.3	116.7	-	1,682.0	(0.2)	(0.6)

	Loans and trade payables at amortised cost	Fair value through profit and loss	Fair value through equity	12/31/2019	Impact of the change in fair value on equity	Impact of the change in fair value on profit and loss
Loans, non-current portion	-	-	-	-	-	-
IFRS 16 lease liability, non-current portion	65.7	-	-	65.7	-	-
Hedging instruments, non-current portion	-	-	-	-	0.9	(0.9)
ORS 2 & PAC 2019 liability	52.9	-	-	52.9	-	(1.2)
Other non-current financial liabilities	-	-	-	(0.0)	-	-
Non-current financial liabilities	118.6	-	-	118.6	0.9	(2.1)
Suppliers	1,187.1	-	-	1,187.1	-	-
Loans, current portion	-	-	-	-	-	-
IFRS 16 lease liability, current portion	19.5	-	-	19.5	-	-
Hedging instruments, current portion	-	-	-	(0.0)	0.7	(0.8)
ORS 1 liability	17.3	-	-	17.3	-	0.1
Other current financial liabilities	-	10.4	-	10.4	-	-
Current financial liabilities and trade payables	1,223.9	10.4	-	1,234.4	0.7	(0.7)

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

4.1.3. Fair value of investments

Investments, which are qualified as financial assets, are broken down as follows (in brackets, the group's percentage interests in these companies at December 31, 2020 and their country of registration for foreign companies):

	12/31/2020	12/31/2019
Sofema SA [10%]	5.7	6.6
Chantiers de l'Atlantique [12%]	13.9	13.9
Odas SA [9%]	1.6	2.7
FCPR Sécurité [13%]	1.6	0.9
FCPR Financière de Brienne 1 [6%]	0.3	0.1
FCPR Financière de Brienne 2 [0%]	0.0	1.1
FCPR Financière de Brienne 3 [6%]	5.0	0.0
Atalaya [32%]	0.7	3.4
Naval Group Canada [100%] ^[1]	1.3	1.3
PSL Innovation Fund [7%]	5.0	0.0
Other ^[2]	28.0	37.7
INVESTMENTS	63.1	67.7

[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 OpenHydro.

4.1.4. Financial debt

	12/31/2019	Increase	Decrease	Changes in fair value of debt	Changes in fair value of derivative instruments	Translation differences	Other	12/31/2020
Loans ^[1]	-	250.0	-	-	-	-	-	250.0
ORS 1 liabilities	70.2	-	(1.1)	(2.3)	-	-	-	66.8
Financial liabilities	10.5	115.8	(31.8)	-	(1.5)	(0.1)	22.9	115.8
Lease liabilities	85.2	59.4	(22.7)	-	-	(0.3)	(0.8)	120.8
FINANCIAL DEBT	165.9	425.2	(55.6)	(2.3)	(1.5)	(0.4)	22.1	553.4

[1] Borrowings are recognised at their redemption value. In 2020, Naval Group took out a loan of €250 million.

	12/31/2018	Impact 1er application of IFRS 16	Increase	Decrease	Changes in fair value of debt	Changes in fair value of derivative instruments	Translation differences	Other	12/31/2019
Loans	-	-	-	-	-	-	-	-	-
ORS liabilities	61.7	-	14.4	(4.9)	-	(1.0)	-	-	70.2
Financial liabilities	11.7	-	-	(0.3)	1.7	(1.8)	-	(0.8)	10.5
Lease liabilities	-	93.2	12.4	(20.6)	-	-	-	0.2	85.2
FINANCIAL DEBT	73.4	93.2	26.8	(25.8)	1.7	(2.8)	-	(0.6)	165.9

4.2. CASH AND CASH EQUIVALENTS

	12/31/2020	12/31/2019
Cash equivalents	1,034.1	1,241.8
Cash	226.3	441.7
Cash and cash equivalents	1,260.3	1,683.5
Bank overdrafts	-	-
NET CASH	1,260.3	1,683.5

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. RISK MANAGEMENT

4.3.1. 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.

	12/31/2018	Expenses	Reversals	Other	12/31/2019	Expenses	Reversals	Other	12/31/2020
Impairment allowances against trade receivables	(25.1)	(1.0)	2.1	(0.0)	(24.0)	(2.3)	0.0	0.1	(26.2)

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

4.3.2. Liquidity risk

The liquidity risk is currently hedged by excess cash, however, in order to preserve some of its financial investments whose yield is higher than the borrowing cost, the group uses short-term credit lines. As of December 31, 2020, the group had borrowed €250 million. The group also owes a debt to its employees through the ORS operation.

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

4.3.3. Raw materials risk

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.

4.3.4. 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 on to which the group was exposed during the period are the US dollar (USD), the Saudi riyal (SAR), the pound sterling (GBP), the Brazilian real (BRL) and the 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.

	12/31/2020	12/31/2019
Forward purchase contracts		
US dollar [USD]	22.2	2.4
Pound sterling [GBP]		0.6
Brazilian real [BRL]		
New Zealand dollar [NZD]		
Malaysian ringgit [MYR]		
Forward sale contracts		
US dollar [USD]		
Pound sterling [GBP]		
Call options		
Pound sterling [GBP]	4.0	3.9
Tunnel options		
Brazilian real [BRL]		

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 USD corresponds to the needs of projects in Saudi Arabia.

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

4.3.5. Interest rate risk

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

NOTE 5. OTHER DISCLOSURES

5.1. NOTES TO THE CASH FLOW STATEMENT

5.1.1. Change in working capital (requirement)

	2020	2019
Net decrease (increase) in inventories	[12.5]	37.2
Net decrease (increase) in advances and part payments paid	[100.9]	[158.4]
Net decrease (increase) in trade receivables	[6.1]	[61.9]
Net increase (decrease) in other receivables	[138.8]	[37.0]
Net increase (decrease) in trade payables	85.0	73.6
Net increase (decrease) in other payables	45.2	[18.1]
Net increase (decrease) in contract assets and liabilities	[478.4]	[255.9]
Change in working capital requirement	[606.5]	[420.5]

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

	2020	2019
Purchases of intangible assets	[15.6]	[28.8]
Purchases of property, plant and equipment	[119.7]	[115.9]
Purchases during the period	[135.3]	[144.7]
Deferred disbursement	3.5	4.9
PURCHASES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	[131.8]	[139.8]

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

	2020	2019
Disposals of intangible assets	-	-
Disposals of property, plant and equipment	1.2	0.6
Disposals during the period	1.2	0.6
DISPOSALS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	1.2	0.6

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 by revised IAS 24 (Related Party

Disclosures). In accordance with 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, 2020, the group generated 69.8% of its revenue with the French State and government-related entities (versus 70.7% of its revenue for the financial year ended December 31, 2019).

In June 2020, a shareholder current account advance agreement was signed with the French State for an amount of €76.7 million, and granted for a period of 12 months. This advance carries an annual rate of 0.75%.

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

	2020	2019
Sales		
Non-controlled portion in equity affiliates	20.5	46.1
Shareholders and companies controlled by them (excluding the French State and government-related entities)	-	-
Other (Eurotorp)	14.2	19.6

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

	12/31/2020	12/31/2019
Operating receivables⁽¹⁾		
Equity affiliates	270.0	206.5
Shareholders and companies controlled by them (excluding the French State and government-related entities)	-	-
Other (Eurotorp)	-	-
Operating payables⁽²⁾		
Equity affiliates	212.5	115.6
Shareholders and companies controlled by them (excluding the French State and government-related entities)	-	-
Other (Eurotorp)	-	-
Financial liabilities⁽³⁾		
Equity affiliates	-	-
Shareholders and companies controlled by them (excluding the French State and government-related entities)	67.3	70.2
Current account ⁽⁴⁾	16.6	-

⁽¹⁾ Other operating receivables consist mainly of receivables from the following companies: Eurotorp, Horizon, Eurosysnav, Boustead DCNS Naval Corporation SDN BHD, Défense Environnement Services, Winacelles and Kership.

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

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

⁽⁴⁾ In June 2020, a shareholder current account advance agreement was signed with the French State for an amount of €16.6 million, and granted for a period of 12 months. This advance carries an annual rate of 0.75%.

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 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.
- 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;

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 remuneration

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 financial years ended December 31, 2020 and December 31, 2019:

	2020	2019
Fixed remuneration	2.6	2.4
Variable remuneration	1.2	1.2
Benefits in kind and miscellaneous	0.1	0.1
Employer's social benefit contributions	1.6	1.5
TOTAL	5.5	5.1
Number of persons concerned	10	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 market guarantees.

	12/31/2020	12/31/2019
Performance guarantees ^{(1) (2) (3) (4) (5) (6) (7) (8)}	359.5	362.5
Guarantees in lieu of retentions ⁽⁹⁾	7.5	11.5
Other guarantees made ^{(10) (11)}	93.7	73.7
COMMITMENTS MADE	460.7	447.7

⁽¹⁾ Under a sale contract in the United Arab Emirates, the group's banks have issued bank guarantees of €109.9 million in favour of its customer 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 €16.5 million in favour of its customer to guarantee performance.

⁽³⁾ Under a series of sale contracts entered into by the group in Brazil, bank guarantees for a total amount of €119.0 million were issued to guarantee performance.

⁽⁴⁾ Under a series of sale contracts entered into by Itaguai Construções Navais SA (hereinafter "ICN"), the group, in its capacity as a shareholder of ICN, will have its banks issue to ICN's customer bank performance guarantees requested by that customer for 41% of the commitments entered into by ICN under the terms of the aforementioned contracts. The amount of bank guarantees issued as at December 31, 2020 was €11.8 million.

⁽⁵⁾ The group has provided guarantees of €2.6 million to Sofrartem 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 Sofrartem on the main Pakistan contract.

⁽⁶⁾ Under a sale contract in Egypt, the group's banks have issued bank guarantees of €48.5 million in favour of its customer to guarantee performance.

⁽⁷⁾ Under sale contracts in Egypt, the group's banks have issued bank guarantees of €15.6 million in favour of its customer to guarantee performance.

⁽⁸⁾ Under a sale contract in Belgium, the group's banks have issued bank guarantees of €7.5 million in favour of its customer to guarantee performance.

⁽⁹⁾ To release the funds frozen to retain the guarantee on certain contracts with the French Navy, guarantees of exemption from the retention of guarantee in the amount of €74 million were issued.

⁽¹⁰⁾ In the context of the employee share offer, the group instructed its banks to issue a €28 million financial guarantee to the management company in charge of managing the fund.

⁽¹¹⁾ Under the subcontracting law of 1975, Naval Group issued payment guarantees to its subcontractors in the amount of €51.6 million.

The maturity schedule as at December 31, 2020 was as follows:

	Due in less than one year	Due in one to five years	Due in more than five years
Performance bonds	123.2	180.2	56.2
Guarantees in lieu of retentions	7.5	-	-
Other guarantees made	10.8	80.3	2.6
COMMITMENTS MADE	141.5	260.5	58.7

	12/31/2020	12/31/2019
Performance bonds	77.8	78.0
Guarantees in lieu of retentions	2.6	1.8
Other guarantees received	32.3	41.3
COMMITMENTS RECEIVED	112.8	121.1

The maturity schedule as at December 31, 2020 was as follows:

	Due in less than one year	Due in one to five years	Due in more than five years
Performance bonds	17.1	59.8	0.9
Guarantees in lieu of retentions	2.6	0.0	-
Other guarantees received	10.1	22.2	-
COMMITMENTS RECEIVED	29.8	82.1	0.9

5.3.2. Other commitments

Commitments made

As at December 31, 2020, firm investment commitments totalled €79.5 million (*versus* €162.6 million as at December 31, 2019).

Naval Group has undertaken in favour of Naval Energies to substitute, on a subsidiary basis, the bank financing *via* current account advances if the said financing has not 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.

Under the partnership with the Commonwealth of Australia (CoA) for the Australian Future Submarine programme, Naval Group may be required to guarantee the obligations of its subsidiary if the latter were to enter into the contract alone and directly with the CoA for part of the program.

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

On February 4, 2021, the Board of Directors of Naval Group, the sole partner of Naval Energies, decided to launch a process aimed at the cessation of Naval Energies activities, including the search for a buyer for all or part of the activities.

VI. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Financial year ended 31 December 2020

To the Shareholders of Naval Group,

2

OPINION

Pursuant to the assignment entrusted to us by your General Meetings, we conducted our audit of the consolidated financial statements of Naval Group for the financial year ended 31 December 2020, as presented in the attachment to this report.

We certify that the consolidated financial statements for the financial year were prepared in accordance with IFRS, as adopted by the European Union and that they are lawful and genuine and give a true and fair view of income from operations 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 consolidation.

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 carried out our audit in pursuant to the rules of independence set out in the French Commercial Code and the Code of Ethics for Statutory Auditors, over the period from 1 January 2020 to the issue date of our report.

JUSTIFICATION OF OUR ASSESSMENTS

The global crisis related to the Covid-19 pandemic creates special conditions for the preparation and audit of the financial statements for this financial year. Indeed, this crisis and the exceptional measures taken as part of the state of health emergency have multiple consequences for companies, particularly on their businesses and their financing, as well as increased uncertainties about their future prospects. Some of these measures, such as travel restrictions and working remotely, have also had an impact on the internal organisation of companies and the way in which audits are carried out.

It is in this complex and changing context that, pursuant to Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we hereby inform you that, in our opinion, the most significant assessments that we have made relate to the appropriateness of the accounting principles used, the reasonableness of the significant estimates made and the overall presentation of the financial statements.

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

- Note 1.4.3. "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. This involves the use by Management of estimates, in particular to determine the profit on completion of each contract, made on the basis of the most up-to-date information available with regard to its progress. These estimates affect net income as well as the assets and liabilities recorded in the balance sheet. Our work consisted of understanding the processes in place by the group in this area and assessing the underlying data and assumptions on which these estimates are based. We also assessed the reasonableness of these estimates, on the basis of the information available at the time the financial statements were prepared.

- Note 1.4.3. "Accounting rules and policies – Use of estimates – Valuation of assets" states that your group conducted an annual impairment test of goodwill by using assumptions of future cash flows, discount rates and perpetual growth rates, which required the use 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.

SPECIFIC VERIFICATIONS

We also carried out specific verifications, in accordance with professional standards applicable in France and 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 corporate social responsibility performance provided for in Article L. 225-102-1 of the French Commercial Code is included in the Group's management report, it being specified that, pursuant to the provisions of Article L. 823-10 of this Code, the information contained in this statement has not been verified by us as to its fair presentation or consistency with the consolidated financial statements and is subject to a report by an independent verifier.

RESPONSIBILITIES OF THE MANAGEMENT AND PERSONS COMPRISING THE CORPORATE GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS benchmark, as adopted by the European Union and for such internal control as Management determines is necessary to prepare 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, 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, define and perform audit procedures that address these risks and obtain the evidence deemed sufficient and appropriate to form an 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 define audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- assess the appropriateness of accounting methods used and the reasonableness of accounting estimates and related disclosures made by Management, in the consolidated financial statements;

- assess the appropriateness of Management's use of the going concern accounting convention 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;
- assess the overall presentation of the consolidated financial statements and whether the consolidated financial statements fairly reflect the underlying transactions and events;
- 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 the 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, 2 March 2021

The Statutory Auditors

MAZARS



Michel Barbet Massin

ERNST & YOUNG Audit

**Nour-
Eddine.Zanouda**
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Nour-Eddine Zanouda

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

Financial year ended December 31, 2020

To the General Meeting,

As an independent verifier accredited by COFRAC under number 3-1681 [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 financial year ended December 31, 2020 [hereinafter the “Statement”], included in the management report pursuant to the 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”].

However, it is not our responsibility to express an opinion on the entity’s compliance with other applicable legal and regulatory provisions, in particular regarding the vigilance plan and the fight against corruption and tax evasion, or on the compliance of products and services with applicable regulations.

NATURE AND SCOPE OF THE WORK

Our work described below was carried out in accordance with the provisions of articles A. 225 1 *et seq.* of the French Commercial Code, the professional doctrine of the *Compagnie Nationale des Commissaires aux Comptes* relating to this intervention and the international standard ISAE 3000^[1]:

- we acknowledged the business activities of all the entities included in the consolidation scope and the description of the main risks;
- 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 verified that the Statement covers each category of social and environmental information provided for in III of article L. 225-102-1 of the French Commercial Code;
- we verified that the Statement presents the information provided for in II of article R. 225-105 of the French Commercial Code when relevant with regard to the main risks and includes, where applicable, an explanation of the reasons justifying the absence of the information required by the second subparagraph of III of article L. 225-102-1 of the French Commercial Code;
- we verified 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 consulted the documentary sources and carried out interviews to:
 - assess the process for selecting and validating the main risks as well as the consistency of the results, including the key performance indicators selected, with respect to the main risks and policies presented, and
 - corroborate the qualitative information [actions and outcomes] that we considered material, as presented in Appendix 1. For certain risks [human rights, carbon footprint of products in service and opportunities related to cleantechs], our work was carried out at the level of the consolidating entity, for the other risks, work was carried out at the level of the consolidating entity and in a selection of entities listed below: the sites of Brest, Saint-Tropez, Naval Group Australia and Naval Group Far East [Singapore];
- we verified that the Statement covers the entire consolidation scope, *i.e.* all entities included in the consolidation scope in accordance with article L. 233-16 of the French Commercial Code, subject to the limits specified in the Statement;
- we acknowledged the internal control procedures and the risk management implemented by the entity and evaluated the compilation process put in place by the entity to ensure that the Disclosures are comprehensive and fair;
- for the key performance indicators and the other quantitative results that we considered material, as presented in Appendix 1, we carried out:
 - 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 listed hereafter and covered between 21% and 22% of the consolidated data selected for these tests [22% of the workforce, 21% of the hours worked];
- we assessed the overall consistency of the Statement with our knowledge of the entity and all entities 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.

[1] ISAE 3000 - Assurance engagements other than audits or reviews of historical financial information.

MEANS AND RESOURCES

Our work was conducted by a team of six people over a period of approximately eight weeks between September 2020 and February 2021. We conducted about ten interviews with the persons responsible for preparing the Statement, representing in particular the group Ethics, Compliance and Governance, Quality, Health, Safety and the Environment and Human Resources 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, March 2, 2021

The Independent Third-Party Organisation
EY & Associés



Eric Duvaud
Associé développement durable



Jean-François Bélorgey
Associé

APPENDIX 1 – INFORMATION CONSIDERED TO BE THE MOST IMPORTANT

Social information	
<i>Quantitative information (including key performance indicators)</i>	<i>Qualitative information (actions or outcomes)</i>
<ul style="list-style-type: none"> Total registered workforce; Hires by contract; Departures and turnover; Incidence of workplace accidents with lost time; Workplace accident severity rate; Number of collective agreements signed; Percentage of staffing plan completed in occupations with shortages. 	<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); Measures implemented to mitigate the risks of discrimination and harassment.
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 put in place to control the risk of serious industrial accidents; The group's organisation 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"> Organisation and measures put in place to mitigate the risk of human rights violations; Mechanisms in place to prevent corruption and influence peddling; Organisation and measures implemented to ensure product safety in the areas of diving safety and nuclear safety.

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