DCNS. A WORLD LEADER IN NAVAL DEFENCE. AN INNOVATIVE PLAYER IN ENERGY.

FINANCIAL REPORT 2015

sea the future®

Ladies and Gentlemen,

We have called this Annual General Meeting of Shareholders in accordance with the provisions of the law and our company's articles of association to report on business in the course of the financial year ended December 31, 2015 and to submit for approval the company's annual and consolidated financial statements.

At the meeting, the report of the Chairman of the Board of Directors, the general report of the company's Statutory Auditors for the financial year ended December 31, 2015 and the Statutory Auditors' report on the consolidated financial statements will be presented to you.

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

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

Hervé Guillou
Chairman & Chief Executive Officer

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

Meeting of the Board of Directors of February 19, 2016.
All figures are expressed in millions of euros, unless stated otherwise.

I. PRESENTATION OF THE GROUP AND DCNS' POSITION DURING THE YEAR[1]

I.1. PRESENTATION OF THE DCNS GROUP

I.1.a. Ownership and governance

DCNS SA is a *société anonyme* (public limited company) under French law. As at December 31, 2015, 62.49% of its capital was held by the French State, 35% by Thales, and 1.69% by current and former members of staff through the Actions DCNS employee mutual fund, the remaining 0.82% being made up of treasury shares held by DCNS Actionnariat.

During 2015, DCNS Actionnariat (a 100% subsidiary of the Group) purchased 77,350 shares in DCNS SA in accordance with the share buyback guarantee granted to employees in connection with the initial employee share offer.

As at December 31, 2015, the Group thus held 461,768 treasury shares in relation to that initial offer.

In accordance with article L. 225-129-6 paragraph 2 of the French Commercial Code *(Code de commerce)*, a planned increased in capital under the conditions prescribed by book 3, title III, chapter II, section IV of part three of the French Labour Code *(Code du travail)* – (employee share issue) will be submitted to the General Meeting called to rule on the financial statements for the year ended December 31, 2015.

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

Governance

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

The Board of Directors decided by resolution of October 22, 2015 to adopt the AFEP MEDEF code as the benchmark of its corporate governance.

General Management

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

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

Composition and operation of the Board of Directors

The Board of Directors deliberates on all major issues concerning the strategic, economic, financial and technical orientation of the company's business.

It upholds the interests of its principal stakeholders, that is, its shareholders, employees and customers.

Its eighteen members were reappointed on December 19, 2014.

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

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

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

The French State is represented as a director by:

- Ms Astrid Milsan, who was appointed as the State's representative on the Board of Directors of the company with

(1) OECD.

effect from December 19, 2014 by an order of December 17, 2014 of the Ministry of Finance and Public Accounts and the Ministry of the Economy, Industry and Digital Affairs.

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

- Mr Hervé Guillou;
- Ms Sophie Mantel, proposed by the French State;
- Ms Sandra Lagumina, proposed by the French State;
- Mr Jacques Hardelay, proposed by the French State;
- Mr Bertrand Le Meur, proposed by the French State;
- Mr Bernard Rétat, proposed by the French State;
- Mr Patrice Caine, proposed by Thales;

Mr Patrice Caine was co-opted by the Board of Directors at its meeting on January 22, 2015 to replace Mr Philippe Logak, who had resigned;

- Ms Nathalie Ravilly, proposed by Thales;
- Mr Pascal Bouchiat, proposed by Thales;
- Ms Gabrielle Gauthey;
- Mr Luc Rémont.

The six directors elected as representatives of the staff are:

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

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

I.1.b. Activities

The DCNS group is a global leader in naval shipbuilding and an innovator in the energy industry.

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

The Group's activities

DCNS is one of only a few industrial companies in the world to design, build and maintain submarines and surface vessels as well as the associated systems and infrastructure. It also provides services to its customers' naval bases and shipyards. DCNS develops high-technology solutions to preserve the long-term safety of the oceans against threats of all kinds.

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

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

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

The Group's know-how

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

- its ability to fulfil highly complex large-scale programmes;
- the development and integration of the naval anti-aircraft combat systems for both surface vessels and submarines that 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.

High-tech products

One of DCNS's major strengths is its ability to bring some of the world's most complex innovative products to market, such as the *Le Terrible* class of ballistic nuclear submarines. Studies carried out on this topic all show that an industrial product of this kind is one of the most complex in the world, there being no other product that requires both the mastery of so many technological fields and the management of some 6,000 partners and subcontractors.

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

- 1624: creation of the *Flotte du Levant* and the *Flotte du Ponant* – the Mediterranean and Atlantic fleets of the French Navy;
- 1858: launch of *La Gloire,* the world's first ironclad steam frigate;
- 1899: launch of the *Narval,* the ancestor of the modern submarine;
- 1967: launch of the *Redoutable,* the first ballistic nuclear submarine;
- 1980: design of the stealth frigate *La Fayette,* whose innovative design went on to influence navies worldwide;
- 2000: entry into service of the aircraft carrier *Charles de Gaulle;*
- 2006: delivery of the first Mistral class Projection and Command Vessel, a new warship design capable of performing a wide range of civil, military and humanitarian missions;
- 2007: cutting of the steel for the frigate *Aquitaine;*
- 2011: the ocean patrol vessel *L'Adroit,* designed for maritime protection missions, is supplied to the French Navy;
- 2012: delivery of the Projection and Command Vessel *Dixmude* to the French Navy;
- 2013: the FREMM multimission 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.

Specific products

The Group thus offers the following, 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 almost forty years;
- Barracuda nuclear attack submarines, designed to provide the French Navy with defence equipment at the apex of technology;
- Scorpène® class conventional submarines, fourteen of which have already been sold around the world (to Chile, Malaysia, India and Brazil);
- naval surface vessel systems such as the aircraft carrier *Charles de Gaulle,* FREMM multimission frigates, helicopter-carrying Projection and Command Vessels in the Mistral class and the GOWIND® range, not to mention future mine warfare systems and drones;
- services including the construction of shipbuilding and maintenance infrastructure, maintenance with guaranteed availability and warship upgrading and support;
- submarine armaments such as MU90 light torpedoes, F21 heavy torpedoes and Contralto® anti-torpedo protection systems;
- crew training simulators.

I.1.c. Organisational changes

New organisational structure

The Group has set course for a return to profitability.

A number of measures have been put in place by the Group to achieve this:

- in January 2015, a new organisational structure was put in place to make the Group more adaptable, competitive and responsive;
- at the end of 2014, a competitiveness plan was put in place enabling cost savings of around €100 million to be achieved in 2015;
- implementation of a Progress Plan for 2015-2018 which is integrated with the roadmap for each of the Group's sites.

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

- successfully complete the Group's international expansion and expand the Group's order book outside France;
- make a culture of economics and finance central to the Group's operations;
- ensure that design offices, production teams and the supply chain work cohesively and effectively;
- ensure that schedules, budgets and technical requirements are met and fulfil commitments with respect to surface vessel and submarine construction;
- develop the maintenance in operational condition business for French Navy warships and strengthen our partnerships with over fifty naval customers around the globe;
- maintain and focus on the development of marine energy sources and infrastructures;
- actively lead improvements in performance and efficiency;
- lay the ground for the Group's future by actively focusing strategy and pursuing partnerships and innovation.

I.2. POSITION OF THE GROUP DURING 2015

I.2.a. Highlights

The year 2015 was marked chiefly by the following major events:

- DCNS ultimately failed to obtain a licence to export Projection and Command Vessels to Russia. An accord was signed with the customer annulling the contract. The Group has included the indemnity currently receivable from Coface in its accounts; the final amount of the indemnity is not definitively known.
- DCNS is encountering difficulty in the performance of a contract for the design and production of parts of a civil nuclear reactor. A "cancellation accord" has been signed with the customer which, unless the parties agree otherwise, provides for a complete exit by DCNS by June 30, 2016 at the latest, thus limiting DCNS's operational and financial risks in relation to the contract.
- The Group has signed a global performance agreement with its social partners which is made up of two sections:

– the first section concerns the employment adaptation plan, which aims to cover all work-related social assistance measures, in particular schemes aimed at encouraging job mobility *via* training;

– the second section relates to supporting performance and competitiveness, with the aim of dealing more effectively with cyclical variations in workload at particular sites.

The costs associated with this agreement have been provided for in the accounts.

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

Revenue

The Group's revenue for 2015 was €3.039 billion, which was 0.9% lower than the revenue for the previous year.

International revenue made up 50% of the total.

Backlog

Orders with a value of €3.5 billion were received during the course of the year.

As at December 31, 2015, the Group's order book stood at €12.3 billion. This amount has been reduced by the value of three FREMM OCCAR vessels, *i.e.* €972 million, following the introduction of amendment 14.

Results

An operating profit of €58.2 million (1.9% of revenue) before amortisation of intangible assets acquired in business combinations was recorded for the year, as compared with a loss of €516.7 million (–16.8% of revenue) in 2014. The operating profit after net income from equity affiliates was €53.6 million; this compares with a loss of €526.8 million in 2014.

Net financial income was €26.1 million, as compared with €41.6 million in 2014.

The consolidated tax charge, excluding the effects of intangible assets acquired in business combinations, was €21.3 million, including a deferred tax charge of €5.2 million. The research tax credit, which amounted to €7.6 million in 2015, has been recognised and accounted for as a reduction to the consolidated tax expense.

The amortisation charge on intangible assets acquired in business combinations was €6.4 million net of tax.

The net profit for the period was consequently €58.4 million.

Financial position and changes in net cash

	31/12/2015	31/12/2014
Non-current marketable securities	374.3	353.9
Current marketable securities	50.0	212.2
Net cash	2,296.2	1,428.6
LIQUIDITY	**2,720.5**	**1,994.7**

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.c. DCNS group activities

DCNS is a global leader in naval defence and a major force in marine renewable energy. The Group designs, builds and maintains submarines and surface vessels. It also provides services to naval bases and shipyards. DCNS also offers a wide range of solutions in civil nuclear energy and marine renewable energy.

Industrial and commercial activity

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

Industrial business

The year 2015 saw the two-stage implementation of the newly created Industry division.

The purpose of the division is to take overall responsibility for the various production units within DCNS, reorganising them into a new structure in order to enhance their performance and competitiveness.

Stage one involved the establishment of the Submarines, Surface Vessels and Mission and Combat Systems units. A coordination section, known as SPE (Propulsion Systems and Equipment), was set up to coordinate the production units at the Nantes-Indret and Angoulême-Ruelle sites while all business and programme operations not related to DCNS's core activities of New Vessels, Services and Marine Energy and Infrastructure were grouped together under the name BPE (Products and Equipment Business). In stage two, the new units adapted their organisational structures in line with their redefined areas of competence and their new missions.

The results of the first year under the new structure are extremely positive: the requisite routines and reporting schedules have been fully implemented at all levels, numerous improvement measures have been initiated with respect to manufacturing methods and processes and are beginning to bear fruit. Significant work has been done in particular in conjunction with the Programmes division to bolster the management of programme sections assigned to the Industry division, starting with the Barracuda programme but with a roll-out to all programmes expected in 2016; the units' production plans have been structured around validated and binding production milestones whose rate of achievement is being monitored, with visible effects in the equipment business at Cherbourg and masts at Angoulême-Ruelle. A workshop has also been initiated on improving the reliability of industrial quotations.

We will be able to fully devote 2016 to accelerating the improvement process.

Programmes business

Submarines

Notable sales highlights were:

• receipt of the order for amendment 13 to the Barracuda nuclear attack submarine contract (additional spares, tooling, MMA, various studies);

• receipt of an order from the Indian Defence Research and Development Organisation (DRDO) for the Air Independent Propulsion (AIP) system under contract P75 and the AOT order extending the provision of consultancy, supervision and technical assistance services up to the launch dates of submarines 1 and 2;

• the continuation of amendments and conditional tranches for upstream studies on third-generation ballistic nuclear submarines;

• the Competitive Evaluation Process (CEP) for the Australian SEA1000 project, regarding a tender for six submarines.

DCNS's submarine construction business was extremely stretched in 2015.

Barracuda

• Drivetrain trials for the MAM (motor apparatus module) of submarine number 1, the *Suffren,* concluded with its installation aboard ship; the diesel engines have been installed while functional trials are continuing at system level on the Combat System integration platform; the weapons interfaces are now under way. The safety report is pending. The detailed definition and manufacturing scope conform to the expectations laid down in mid-2014 on publication of the accommodation specifications.

• The timetable for delivery of the *Suffren,* which is scheduled for 2017, remains very tight and has resulted in acceptance by the customer of a postponement of the delivery date. Action plans have been launched aimed at ensuring the timetable is met.

• For submarine number 2, the *Duguay-Trouin,* priority has been given to work on the power train; the construction phase for the hull sections has been completed, as has clean-stage assembly of the steam supply module at Indret.

Prosub submarines for the Brazilian Navy

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

• An agreement was signed with the Brazilian Navy on July 31, 2015 on delaying the schedule for the submarines (three years for the first vessel, two years in total).

• The midships suspended cradle was sent to Brazil in December.

• The launch review of the phase D combat system was passed in November.

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

• An agreement was signed with the Brazilian Navy in October 2015 to extend the provision of technical assistance in 2016, with acceptance of the transfer of preliminary design technology before January 2016. The Brazilian Navy is announcing delays in the programme beyond 2025.

Scorpène® P75 submarines for the Indian Navy

• Submarine number 1, the *Kalvari,* was transferred to the Naval Dockyard on October 27 and launched the following day.

• Submarine number 2 has entered Mogul Drydock for the finalisation of work. MDL is arranging for the large-scale subcontracting of the pipe assembly work.

• The materiel packages for submarines numbers 1 and 2 have been delivered to MDL; the schedule remains tight for the other submarines, especially with regard to the equipment (masts, steering gear).

FMOD (Future Oceanic Deterrent) design study programme for the French Navy

Early-stage studies for the third-generation ballistic nuclear submarine have continued, with the major issues being the objective costs of the future platform and the maintenance of skills.

Surface vessel business

Sales highlights were:

• the order of a FREMM frigate for Egypt (the frigate *Normandie,* which is being removed from the French FREMM series), delivered in June 2015;

• amendment 14 to the French FREMM programme, notifying the cancellation of the *Normandie* in favour of Egypt, the cancellation of the "production" lots for the last two frigates and the acceleration of the timetable with a view to delivering six anti-submarine frigates by the end of 2019;

• an order for a risk reduction study for future mid-sized frigates and the receipt of contract 1 for the specification and feasibility study;

• an order from Egypt for the supply of the two BPC projection and command vessels originally intended for Russia.

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

FREMM OCCAR

Progress on five frigates being built for the French Navy is in line with the production schedule: the *Provence* was delivered in June 2015, sea trials of the *Languedoc* began in September, the *Auvergne* was launched in October and construction work on the *Bretagne* is proceeding in accordance with the timetable.

FREMM Egypt

The frigate *Tahya Misr* was delivered to Egypt in June and was present at the opening of the new Suez Canal in August.

Projection and Command Vessels – Russia

Delivery of the BPC Projection and Command Vessels was adjourned at the request of the French authorities. Coface is reviewing the case and has partially indemnified DCNS as a result.

Gowind® Malaysia

• The basic design of the corvettes was sent to Boustead Naval Shipyard in July.

• The Combat Management System was delivered to CED; the delivery marks the start of the operation of the Cyberjaya integration platform.

Gowind® Egypt

Production of all structural assemblies has begun, the keel was laid in September, the joining of the hull and the assembly phase have begun.

Services business

The year 2015 saw renewed and newly signed maintenance contracts with the French Navy and navies abroad, confirming the growth of the business.

DCNS has renewed its maintenance contracts with the French Navy for ballistic nuclear submarines, BPC Projection and Command Vessels and heavily armed frigates, as well as maintenance contracts for ballistic missiles (jointly with Airbus) and SIMDAV simulators.

DCNS has signed multiyear maintenance in operational condition contracts with Egypt for the FREMM frigate *Tahya Misr* and the two Projection and Command Vessels; this contract had not yet started in 2015.

In Malaysia, the joint venture BDNC signed an extension to the current maintenance contract as well as agreeing two IPER refits for the two Scorpène® 2000 submarines.

From an operational perspective, the Services businesses have been restructured in order to boost manufacturing efficiency and customer satisfaction. Tenders and programmes have been grouped together into two parallel units, while the new structure also features France and International forward bases (dedicated ship construction sites and local workshops) and cross-functional industrial operations (sharing joint operations and know-how maintenance).

Work in relation to France is continuing in the same vein as in 2014, with preparatory work for the major technical overhaul of the aircraft carrier *Charles de Gaulle,* continuation of the IPER refit of the *Triomphant* to adapt it to carry M51 missiles (IA M51) and the performance of around fifty technical overhauls of various types.

Internationally, work continued in particular in Saudi Arabia in relation to the performance of the LEX (Life Extension for Sawari I class frigates) and E-RAV (refits of Sawari II class frigates) contracts as well as with the preparatory work in Malaysia for the IPER refits for the two Scorpène® 2000 submarines. The maintenance contract in Morocco was carried out and work on the FREMM frigate began in Egypt.

Marine Energy and Infrastructure business

Marine renewable energy (MER)

The Group aims to earn 15 to 20% of its revenue from marine renewable energy (MER) by 2024. To achieve this goal, it has chosen to focus its investments on solutions in which it has a competitive advantage and which will generate electricity at competitive prices in the target markets.

DCNS is thus currently pursuing developments in three MER technologies: tidal energy, floating wind turbines and ocean thermal energy conversion (OTEC). These technologies are at differing levels of maturity, but all of them will eventually contribute to the energy mix in the countries targeted.

Tidal energy is the most mature of these technologies, and DCNS and its subsidiary OpenHydro are leading the field in this promising market. Tidal energy is now entering the industrial phase, with two experimental tidal energy farms having started up in 2015 in France and Canada respectively. These will be submerged and connected to the electricity grid in 2016, marking a world first. DCNS and OpenHydro are meanwhile continuing their pilot and commercial tidal energy farm projects in France, Canada, Ireland, Scotland and England. The Group is currently in pole position in this highly competitive market, in which securing first-mover status is essential.

DCNS is also involved in the floating wind turbine market, in which it is continuing its joint activities with Alstom (whose energy division now forms part of General Electric) aimed at developing a 6 MW integrated floating wind power system by 2019. This segment of the industry is receiving support from the French Government, which announced a call for tenders in respect of floating wind power generation in 2015.

The development of OTEC is continuing with Project NEMO, the aim of which is to build an offshore OTEC plant off Martinique. Led by Akuo Energy and DCNS, Project NEMO was a winner of the European NER300 call for projects in July 2014.

Marine infrastructure

DCNS's marine infrastructure expertise brings together the Group's skills in the engineering, construction and maintenance of complex infrastructures, forming a veritable link between the ocean and onshore environments.

Owing to the expected arrival of Barracuda nuclear attack submarines, the naval bases at Brest and Toulon require adaptations to be made to their infrastructure in order to be able to maintain the vessels in operational condition and ensure compliance with additional nuclear security requirements. DCNS staff at Brest and Toulon are therefore leading civil engineering work at both bases in order to adapt all infrastructures so as to host the submarines.

Work is also under way at Île Longue, where DCNS staff are both carrying out new work and performing operational and maintenance in operational condition services, thereby contributing to France's projection and deterrence capabilities.

DCNS is also continuing the construction of infrastructures for the Brazilian Navy. As part of the submarine construction contract, DCNS is providing expertise to assist with the design and construction of a naval complex for the building and maintenance of submarines.

Civil nuclear energy

DCNS designs high-technology solutions for the civil nuclear field. The Group works in particular with major customers in the French nuclear industry – Areva, the CEA and EDF – to whom it provides manufacturing, assembly, engineering and general contracting capabilities. DCNS offers skills in relation to the construction of safety-critical equipment, the maintenance of nuclear facilities and assistance with dismantling operations.

EDF's receipt in autumn 2015 of an unconditional order for the interior of the reactor vessels for the Flamanville EPR™ nuclear plant was a clear sign of the ability of DCNS staff to meet the stringent technical and documentary requirements of the civil nuclear sector. DCNS's involvement at the Flamanville site is continuing with the manufacturing and assembly of the airlocks and the piping for the machine hall. The year 2015 also witnessed the delivery of the first batch of eight exchangers for the Taishan EPR™ plant, with the second batch being scheduled for 2016.

On December 23, 2015, DCNS and the CEA (the French atomic energy commission) signed an accord on the terms of a settlement agreement for the RJH programme (referred to in the following as the "Accord").

The Accord sets out the conditions and procedures for the amicable termination of contractual relations with respect to the RJH programme, whilst guaranteeing its operational continuity. It grants the CEA security with respect to the timetable and costs of the programme while enabling DCNS to refocus on its core naval activities. The work that DCNS is contracted to perform will thus continue in line with the termination procedures and in accordance with the schedule drawn up by the two parties.

Under the Accord, DCNS undertakes to:

• make a fixed and final break payment to the CEA;

• assist the CEA until June 30, 2016 with its reassumption of the contracts (design studies, supplies, etc.) currently assigned to DCNS;

• make a compensation payment to the CEA for the transfer of obligations relating to the reassumption of these contracts;

• provide any supplementary services requested by the CEA.

DCNS recorded an additional charge during 2015 to cover the effects of the Accord. The financial terms provided for as above enable DCNS to cover the risk up front of having to record new cost overruns.

I.2.d. Research and development activity

In 2015, R&D activity focused on regaining competitive advantage in areas where it is under threat and on the development of the Marine Renewable Energy business.

Self-funded R&D expenditure was €88 million, the main focus areas being as follows:

• medium and long-term competitiveness of our core products (submarines and surface vessels) and associated technologies;

• risk reduction studies in relation to tidal power and ocean thermal energy conversion;

• development of R&T (research & technology) activities with DCNS Research.

DCNS spends close to 3% of its revenue on self-funded R&D, which is more than other European shipbuilders. This ratio rises to 10% when R&D performed under contract, funded by Government grants or forming part of larger programmes is taken into account.

DCNS R&D funded by the DGA (France's defence procurement agency) now exceeds 9% of the budget for early-stage design projects.

Owing to the end of development activities in relation to the FREMM and Barracuda programmes, which are now virtually ineligible as the final development stages no longer present a major technological risk, the research tax credit (CIR) remains low at around €7.6 million in 2015.

R&D planning at the medium-term and strategic levels has been the object of an unprecedented rethinking, knowledge-sharing and assessment process culminating in the definition of thirty major innovation areas which will receive over 80% of future effort. These areas cover a very wide range of fields from products and components (equipment and systems) to modelling work and innovative manufacturing procedures.

R&T work is being sustained and indeed enhanced where merited.

The identification of breakthrough areas of innovation has been reinforced with the creation of the DCNS Innovation Booster. This involves an ideas booster featuring the introduction of awards, suggestion boxes and brainstorming sessions as well as a project booster which will start with additive manufacturing. Further reinforcement will come in early 2016 with the establishment of the DCNS Scientific Council.

Overall R&D management has shifted to a project-based mode in order to escape the year-end cutbacks associated with an annual budgeting procedure and move towards a multiyear cost-to-completion basis, this being the only way to cope effectively with slippage, work on a time-to-market basis and monitor returns on investment.

The requirement to reach a mature R&D level before offering a product to the market has increased both in terms of the technology readiness level and in terms of moving to early-stage industrial production.

Management report 2015

R&D work performed by DCNS on surface vessels in 2015 principally comprised the following:

• laying down the reference specifications for a Gowind® 2500 vessel, building on the current Egyptian programme, in order to further increase the competitiveness and attractiveness of the reference product and place it at the centre of the market;

• preliminary studies for the FTI mid-sized frigate: although the first ships will be produced for the French Navy, the vessel was originally designed to capture first place in the export market in the 4,000 tonne displacement class. Featuring the latest onboard digital technology, it is predesigned to carry drones and has a concentrated mast system with inbuilt sensors and communications systems capable of evolving towards an integrated topside and modular propulsion design;

• continued development of the bridge of the future, providing officers with 360° vision and augmented reality support;

• success of the joint Samcom (composite antenna system) project and preparation of follow-up work;

• continued development work on the SETIS-C® combat system for Gowind® vessels;

• production of a prototype anti-asymmetric threat system using augmented reality;

• the operations centre of the future: tactical displays and the exploration of next-generation human-machine interfaces including virtual assistants, voice recognition, and gesture recognition;

• work on the defence of automatic systems against hacking threats and software protection;

• exploratory study on the use of LIDAR (Light Detection and Ranging) for maritime security and the detection of nearby objects and threats;

• investigation into the shipboard deployment of a data centre.

R&D work performed by DCNS on submarines in 2015 principally comprised the following:

• continuation of preliminary projects for the third generation of ballistic nuclear submarines;

• acceleration of work in relation to the Australian SEA1000 programme and submission to the customer of a detailed tender for selection as a preferred supplier;

• definition of the reference specifications for the Scorpène® 2000, taking the best of the four previous Scorpène® programmes and incorporating the additions most strongly anticipated by the market;

• completion of marketing work in relation to expanding in the classic ocean-going submarine segment (Scorpène® Évolution);

• endurance tests on the world's first anaerobic diesel reformation module to feed into a second-generation hydrogen battery and investigation into the further short-term performance enhancements required;

• first steps in the development of a lithium-ion main battery system, with assistance from the CEA and an ensuing start-up company, and resumption of discussions with the French leader in the field with a view towards assuring later-stage development phases;

• reduction of energy losses in submarines (also applicable in part to surface vessels).

With respect to cross-functional technologies, the following activities performed in 2015 deserve to be highlighted:

• development of solutions improving productivity and health and safety on production sites, such as refinements to the use of adhesives, the introduction of engine beds made according to a new method which halves the cost, the use of augmented reality, the use of infusion processes for composites and the production of the first items to be made using additive manufacturing.

R&D work performed by DCNS in relation to energy in 2015 principally comprised the following:

• in marine renewable energy:

– tidal turbines: risk reduction and trials of second-generation tidal turbines with improved rotor and blades with OpenHydro, in preparation for installation at the pilot tidal power farms in the Bay of Fundy (Canada) and the Alderney Race (France), and general investigations into improving the submarine electricity grids for tidal power farms;

– ocean thermal energy conversion: risk reduction studies and preparations for trials expected in 2016 on the pumping of sea water and the heat exchangers;

– floating wind turbines: continuation of research into floating platforms adapted to carry a 6-MW Haliade turbine as part of the joint DCNS-Alstom Sea Reed project.

DCNS Research

Now enjoying increased visibility at its new location on the Technocampus Ocean shared innovation platform, DCNS Research is dedicating itself fully to its assigned mission, namely preparing for the future of DCNS by opening it up to the outside world.

The relocation of the Nantes staff to a single site since November 2015 will ultimately enable DCNS Research to boost the three-sided culture of research, expertise and business (with Sirehna) that makes up its DNA.

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

• the creation of a first complex, high-density prototype component using additive manufacturing;

• the use of metamaterials and nanoengineered materials to improve the stealth of our ships;

• electrical sensors to improve the ability of vessels to avoid underwater hazards;

• new multisensor fusion algorithms;

• new multilevel multiphysical simulation methods.

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

DCNS Research's expertise made it a major contributor to all DCNS programmes in 2015, both in production and in service maintenance.

DCNS Research's solutions are derived from research into:

• R&D/R&T (70%):

– techno-operational studies;

– multilevel multiphysical modelling;

– prototypes, trials and experiments (free models, etc.);

– mechanical, chemical, corrosive and other properties of materials and assemblies;

– complex systems engineering;

• Services (20%):

– nuclear (in-service inspection, full initial inspection, secondary barrier, etc.);

– measurements, controls, instrumentation, non-destructive testing;

– analysis, expertise and consultancy (materials, algorithms, etc.);

– structures, hydrodynamics, acoustics, electromagnetism, etc.;

• Products (10%) in the following areas:

– real time onboard systems, such as stability systems and automatic motion stabilisation and steering systems for aircraft carriers;

– onboard detection systems;

– robot/drone materiel, *e.g.* autonomous small watercraft, 2D/3D dynamic positioning systems.

Having a technological research centre with such complementarity between its research, expertise and product-related activities is an original and valuable asset for an industrial business such as DCNS.

Towards collaborative innovation

In 2015, DCNS Research moved the majority of its staff to a single site on the Technocampus Ocean shared innovation platform on the outskirts of Nantes. The Group's technological research centre is now located alongside key contributors to innovation such as CEA Tech, Dassault Systèmes and Alstom. The new location underscores DCNS's aim to make innovation the driving force of its development in France and internationally. Innovation is a permanent revolution; Technocampus Ocean will accelerate the emergence of the breakthrough technologies that are vital to DCNS. Investments in R&D cannot be limited to our own resources – in the future, they will depend on our ability to develop collaborative relationships with industry and higher education.

Over twenty collaborative projects are currently under way, notably with the IRT Jules Verne (Jules Verne Technological Research Institute) of which DCNS is a founder member and additionally with two further newly established IRTs. During 2015, DCNS Research began two projects on surface treatments with the IRT M2P (Materials, Metals and Processes) in Metz and another with the IRT SystemX (digital engineering of future systems). DCNS has contributed along with Dassault Aviation, Thales, the *École polytechnique,* ENSTA ParisTech and others to the extension for a further five years of the Chair of Complex Systems Engineering. This extension aims to develop new lines of research, strengthen the teaching offered under the chair and establish international partnerships.

DCNS Research/Sirehna, in partnership with the *École centrale de Nantes* among others, has been selected by the French National Research Agency and the DGA to conduct a study on predicting the movements of ships on the ocean swell. Christened PREDEMONAV, this 36-month programme under the ASTRID scheme will commence during the first half of 2016.

DCNS Research/Sirehna has also signed an agreement under the privately-funded CITEPH research and development scheme in relation to surface drones equipped for maritime security purposes. The project involves several partners (SOFRESUD, Ineo E&S and Sillinger) and sponsors (Total, Engie and Ineo Support Global).

A joint initiative

DCNS and ENSTA Bretagne have established the joint Gustave Zédé research and innovation laboratory. This joint facility combines resources from the LBMS laboratory, which has 120 staff from ENSTA Bretagne, ENIB and UBO as well as advanced experimental resources, and from DCNS Research, which brings together expertise and technical research resources in materials, structures and associated processes and has 80 staff split between the DCNS sites at Nantes (Bougenais) and Cherbourg. The joint Gustave Zédé laboratory forms a part of the DCNS group's shift into innovation and collaborative research and will promote the transfer of knowledge and know-how between higher education and industry.

International growth

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

In November 2015, DCNS Research hosted a one-month visit by the Polish corrosion specialist Halina Krawiec, a teacher and researcher at Krakow University of Science and Technology. Her visit strengthens relations between DCNS and Poland and provides a basis for structuring and nurturing collaborative R&D work in a fundamental area of marine expertise.

I.2.e. Subsidiaries and joint ventures

Activities and results of subsidiaries and associates

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

Armaris Quater

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

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

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

DCN International

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

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

DCNS Far East

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

DCNS India

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

Défense Environnement Services (DES) (49% stake)

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

Eurosysnav (50% stake)

Eurosysnav was established to act as general contractor in relation to the combat systems for Horizon anti-aircraft frigates.

Horizon (50% stake)

Horizon was established to act as overall general contractor for the Horizon anti-aircraft frigates.

Itaguaí Construções Navais (ICN) (41% stake)

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

MO PA2

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

Sirehna

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

DCNS Coopération

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

DCNS Support

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

Winacelles (34.1% stake)

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

Kership (45% stake)

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

DCNS Malaysia

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

DCNS Énergies

DCNS Énergies was set up in order to acquire shares in companies in the energy industry. In particular, it holds shares in OpenHydro and Energia Marina.

OpenHydro Group Limited (62.4% stake, split between DCNS and DCNS Énergies)

The OpenHydro group develops, manufactures and sells tidal turbines.

DCNS do Brasil

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

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

Projetos E Sitemas Navais SA (Prosin) aims to develop engineering systems business in Brazil.

Energia Marina SpA (75% owned by DCNS Énergies)

Energia Marina conducts R&D work in relation to all types of marine or oceanic energy in Chile and South America.

DCNS Technologies Canada Inc. (100% owned by Armaris Bis)

DCNS Technologies Canada Inc. provides support with the development of the Group's activities in Canada.

DCNS Australia Pty Ltd

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

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

DCNS also has various permanent establishments or representative offices abroad whose activity is directly included in the company's results. The company has permanent establishments in Finland and India, representative offices in Greece, Malaysia (closed in 2014), Canada (in course of closure), Chile, Norway, Pakistan, Indonesia and Poland and branch offices in the United Arab Emirates and Australia, the two latter offices being registered as branches in accordance with local laws.

I.2.f. Ethics and Compliance

The year 2015 saw the continued development of the Group's Integrity Programme, in particular the Compliance manual. Existing policies and procedures regarding patronage, sponsorship and charitable contributions have been updated and improved. In addition, new policies and procedures have been developed and incorporated into the Integrity Programme in order to address a broader range of additional questions.

The operation of the whistleblower system has been successfully tested by staff representative bodies and DCNS has obtained permission to implement its whistleblower system from the CNIL (French data protection authority). The system aims to provide DCNS staff with an additional channel of communication that enables them to raise the alarm while maintaining data confidentiality.

The Compliance Department is continuing the training of Compliance Officers. Locally situated within the Group's sites, departments and foreign subsidiaries, Compliance Officers have the role of contributing to, promoting and rolling out the Integrity Programme in their respective businesses.

The Group aims to contribute in France and internationally to the development and promotion of good compliance practice, especially with regard to the defence industry. On behalf of the Group, the Compliance Department is therefore active in various dedicated forums and initiatives on the promotion of business ethics operated by industry groups and associations.

All of the above information is available on the Group's website under the heading "Compliance".

I.2.g. Risk management

I.2.g.1. Risk management plan

The Group faces a range of risks and uncertainties that may impact its financial performance. For this reason, it has put in place a risk management system, as described in section II.1.5 "Integrated risk management system." Nevertheless, the Group's business, operating results or financial position could be materially affected by the risks described below or by other risks and uncertainties of which the Group is currently unaware or which it regards, as at the date of this document, as immaterial.

I.2.g.2. Financial risks

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

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

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

I.2.g.3. Legal risks

The Group has identified three major legal risks:

Export controls and other laws and regulations(1)

Export markets are of particular importance to the Group. Furthermore, a considerable number of products for military use that are offered by the Group, including services and technology transfer, are deemed to be of strategic national interest.

(1) Cf. Guidelines: Global Compact/OECD/ISO 26000.

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

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

Reduced access to military export markets and/or tighter restrictions risk having a negative impact on the activity, financial position and operating results of the Group. DCNS must also comply with a very wide range of other laws and regulations, in particular those concerning commercial relations, the use of its products and anti-corruption rules.

To manage these risks, the Export Control department is enhancing the assistance it provides to staff (especially those in sales, programmes and purchasing) by providing a practical export control guide, familiarisation measures and an updated intranet site. The first audit checks have already been conducted to ensure that the rates are being followed.

Intellectual property

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

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

Moreover, given differences in the laws in force in certain countries, the protection granted to the holder of intellectual property rights for an object may vary from country to country, which could have a negative impact on the holder's competitive position. To reduce this risk, an Innovation Committee has been established in connection with IP policy, which examines what protection should be sought outside France in respect of every patent, trademark or design application. This examination is performed in cooperation with the operating divisions.

During 2015, DCNS began a value enhancement exercise for its intellectual property. This process is expected to be completed during the first half of 2016.

Legal disputes

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

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

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

All disputes and guarantee claims are handled by or in collaboration with the Group's Legal Department. Furthermore, all disputes with a potential material negative impact on the Group's activities or financial position are examined at regular intervals by the Audit, Accounts and Risk Committee of the Board of Directors.

I.2.g.4. Operational risks

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

Competitive environment

The markets in which DCNS operates are subject to fierce competition with established players including TKMS, BAE, Fincantieri, Navantia, Damen and others, which is further intensifying due to the advent of new entrants from Korea, China and Japan.

Such pressure of competition could have an adverse effect on DCNS's market position, its revenue and its profitability.

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

Dependence on the public sector

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

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

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

DCNS is investing in international growth in order to reduce its dependence on French public spending.

Successful management of projects and programmes

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

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

A risk evaluation and control system is in place with respect to tenders. With regard to programmes, periodic reviews are arranged in order to monitor progress in technical, scheduling and financial terms and to keep risks related to execution under control.

Country risk

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

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

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

Political hazards

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

- stricter foreign exchange controls which limit or ban the export of currency from a client country and impede its ability to honour its financial commitments vis-à-vis DCNS;
- impairments to the value of assets due to the devaluation of local currencies or other measures taken by the public authorities that significantly affect the value of business;
- the expropriation (by confiscation, nationalisation, requisition, etc.) or forced sale of DCNS's holding in a local company or, more generally, discriminatory measures taken against DCNS that may jeopardise its business in a particular country;
- a security situation that gives rise to the risk of attacks on the physical safety of DCNS staff and/or facilities and severely restricts or prevents DCNS from fulfilling its contractual performance obligations or reduces or prohibits the use of its local industrial assets (cf. section I.2.g.7. for the safety of personnel in sensitive countries);
- an unforeseen breach of a contract or undertaking;
- an abusive call on a deposit or guarantee;
- the non-certification of documents due for payment or the failure to make scheduled payments laid down in a contract which prevents the said contract from progressing as expected.

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

I.2.g.5. Managing supplier risks[1]

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

Supplier risks fall into four main types:

- CSR risks (social responsibility, the environment, public image, etc.);

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

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

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

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

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

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

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

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

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

Managing supplier default risks

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

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

Managing economic and technological dependency risks

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

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

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

I.2.g.6. Product safety

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

To this end, DCNS has put various procedures in place which were described in the 2014 report. In 2015, DCNS took numerous steps to act on or enhance these procedures, a few of which are as follows:

• The products we design offer a very high level of safety from the outset, thanks to technical standards in which safety performance is fundamental. All projects are nevertheless subject to specific reviews involving our safety experts. In 2015, we conducted tests on the design of the future oceanic deterrent (FMOD), which will be the long-term replacement for the current generation of ballistic nuclear submarines. These reviews enabled certain technical choices to be made and allowed solutions to be proposed in order to enhance safety levels.

• We are 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. We pay great attention to this point in the preparation of tenders. Our safety experts are closely involved in tender preparation and in the associated technical reviews. In 2015, all of our submarine tenders followed this process.

• We draw wide-ranging inspiration from nuclear safety, a field in which we possess significant expertise and in which the utmost level of safety is required. During 2015, we began an exercise to identify the most safety-critical equipment in submarines. The equipment thus identified will be subjected to the strictest safety requirements in the relevant category.

• We remain at the service of our customers until the end of service of our products. During 2015, we thus drew up safety assessments for submarines delivered numerous years ago and assisted our naval client in researching further advances.

• We are extremely vigilant with respect to the safety culture of our staff and believe that training is an essential component of constructing safety. We have already put in place a monthly meeting for the benefit of our design staff which traces the course of a submarine accident and presents what DCNS will do in order to prevent such accidents from occurring. We are also planning a special training course for all staff involved with safety-critical equipment.

I.2.g.7. Human resources risk

Skills

The Group employs a wide range of specialisms and fields of expertise in the performance of its activities, making use of the varied skills of every member of its workforce.

One major risk is therefore that the Group might experience difficulties with regard to making the requisite skills available in the right place at the right time in order to execute its strategy and successfully complete its programmes.

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

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

The attractiveness of the Group is also boosted by the opportunities for geographical and career mobility, the implementation of talent-spotting systems, and the training, staff monitoring career development, and international development it provides.

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

Staff safety in sensitive countries

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

During 2015, efforts focused in particular on Saudi Arabia, where the number of expatriates and long-term secondees has risen in connection with the LEX programme, on Morocco, where a technical support system was put in place for the maintenance in operational condition of the FREMM frigate *Mohammed-VI,* and on Egypt, where technical support teams were put in place in Cairo and Alexandria for the Gowind® programme and the FREMM *Tahya Misr.*

I.2.g.8. Environmental risks

Asbestos removal

Asbestos removal work totalling €24.1 million was performed over the period 2003-2014. In 2015, DCNS claimed €16.1 million (the amount by which the costs exceeded the initial provision) under the guarantee granted by the French Government. Additional work of €0.4 million was carried out during 2015.

Environmental protection

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

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

DCNS is also keen to continuously reduce the environmental impacts of its activities, especially as regards cutting energy consumption, reducing greenhouse gas emissions and improving the treatment of waste. Tough objectives in relation to energy performance, staff travel, waste sorting and reuse/recycling have been set in this regard.

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

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

Nuclear and pyrotechnics inspections

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

In 2015, the Nuclear and Pyrotechnics Inspection team, whose staff numbers have been reduced, carried out twelve audits aimed at verifying the compliance of the Group's practices with regulatory requirements and internal rules, as well as monitoring the execution of several dozen progress measures enacted as a result of those audits.

The team also took part, together with the Quality and Health & Safety Departments, in around fifteen inquiries that were launched to examine the year's most significant events. It subsequently defined and monitored the implementation of the necessary corrective action.

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

In 2015, the highest annual dose received by a DCNS employee was 8 mSv[1] as compared to the legal maximum of 20 mSv. No other DCNS employee recorded a dose above 4 mSv, whereas four had done so in 2014.

I.2.g.9. Data security

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

In 2015, DCNS started a plan to enhance information systems security in order to implement the recommendations made following an audit carried out in 2014 by the ANSSI (National Agency for Information Systems Security). The plan will be implemented over a three-year period.

In response to the continued increase in the number and sophistication of cyberattacks against DCNS's systems, a cyberdefence improvement plan has been drawn up, with particular efforts to be made over the course of 2016 and 2017. This work is in part a reflection of and response to the internationalisation of the Group.

I.2.g.10. Insurance

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

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

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

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

Any changes to a site and the construction of any new sites are incorporated in the prevention/protection policy from the inception of the project.

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

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

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

(1) The figures cited in this report are taken from the operational dosimetry and are stated in millisieverts (mSv).

I.3. POSITION OF DCNS SA DURING 2015

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

Order intake

DCNS SA's order intake for 2015 was €3,486.4 million, as compared with €3,574.0 million in 2014.

As at December 31, 2015, DCNS SA's order book stood at €11,814 million.

Revenue

DCNS SA achieved revenue of €3,007.6 million in 2015, as compared with €3,047.4 million in 2014 (a fall of 1.3%).

Income

Operating income was €50.2 million (1.6% of revenue), as compared with an operating loss of €458.4 million in 2014.

Net financial income was €43.4 million, as compared to a net financial expense of €58.3 million in 2014.

Exceptional income was €6.7 million, as compared with €22.1 million in 2014.

The company's net income was €71.1 million (2.4% of revenue), as compared with a net loss of €487.3 million in 2014.

I.3.b. Five-year financial summary for DCNS SA

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

Financial year ended	31/12/2015	31/12/2014	31/12/2014	31/12/2012	31/12/2011
Length of accounting period (months)	12	12	12	12	12
Capital at reporting date	–	–	–	–	–
Share capital	563,000,000	563,000,000	563,000,000	563,000,000	563,000,000
Number of ordinary shares	56,299,700	56,299,700	56,299,700	56,299,700	56,299,700
Number of A preference shares	300	300	300	300	300
Number of B preference shares	–	–	–	–	–
Operations and results					
Revenue excluding taxes	3,007,623,309	3,047,402,857	3,318,538,295	2,885,504,228	2,542,461,239
Net profit before tax, profit-sharing, depreciation, amortisation and provisions	149,119,288	54,767,340	348,114,740	319,323,956	360,058,908
Income tax charge (income)	24,765,683	(7,784,399)	75,556,617	69,923,948	68,947,048
Employee profit-sharing	4,432,587	536,069	21,652,078	20,574,006	18,516,342
Charges to depreciation, amortisation and provisions	48,787,298	549,302,150	160,218,951	88,394,779	75,630,975
Net profit (loss) after tax, profit-sharing, depreciation, amortisation and provisions	71,133,721	(487,286,480)	90,687,094	140,431,222	196,964,543
Dividends paid	–	–	60,804,000(1)	97,962,000(2)	97,962,000(3)
Earnings per share					
Net profit after tax and profit-sharing but before depreciation, amortisation and provisions	2.13	1.10	4.46	4.06	4.84
Net profit (loss) after tax, profit-sharing, depreciation, amortisation and provisions	1.26	(8.66)	1.61	2.49	3.50
Dividend allotted to each ordinary share	–	–	0.54	0.87	0.87
Dividend allotted to each A preference share	–	–	101,340	163,270	163,270
Dividend allotted to each B preference share	–	–	–	–	–
Employees					
Average number of employees	9,169	9,086	8,783	7,967	7,368
Payroll expense	522,208,640	504,297,047	475,322,430	443,593,166	391,691,129
Payroll-related costs (social security, staff benefits, etc.)	233,328,122	244,477,429	231,435,932	216,692,679	193,866,248

(1) Interim dividend paid in October 2013 (€37,158,000) in respect of the A preference shares and the ordinary shares.
(2) Interim dividend paid in October 2012 (€43,914,000) in respect of the A preference shares and the ordinary shares.
(3) Interim dividend paid in October 2011 (€43,914,000) in respect of the A preference shares and the ordinary shares.
No interim dividend was paid in October 2014.
No interim dividend was paid in October 2015.

I.3.c. DCNS SA trade payables

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

In thousands of euros	Total	Not yet due	Due in under 15 days	Due in 15 to 30 days	Due in 30 to 45 days	Due in 45 to 60 days	Due in over 60 days	If and when
31/12/2015	255,464	54,879	50,334	50,942	64,469	22,142	11,684	1,015
31/12/2014	170,540	46,776	24,943	29,505	19,629	13,165	86	36,436

The invoices due in over 60 days concern purchase contracts entered into before January 1, 2011 and retention money.

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

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

In its tax filings, DCNS SA added back the sum of €255,642 in relation to excess depreciation on private cars.

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

No attendance fees were paid in 2015.

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

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

- in respect of the year ended December 31, 2012: €97,962,000;
- in respect of the year ended December 31, 2013: €60,804,000;
- in respect of the year ended December 31, 2014: None.

II. POST BALANCE SHEET EVENTS

None.

Year ended December 31, 2015

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

I. COMPREHENSIVE INCOME

Consolidated income statement

	Notes	2015	2014 restated
Revenue	5	3,038.8	3,065.9
Cost of sales	–	(2,657.0)	(3,155.7)
Research and development expenses	–	(87.7)	(94.3)
Marketing and selling expenses	–	(104.5)	(107.8)
General and administrative expenses	–	(140.4)	(138.0)
Operating profit/loss from ordinary activities before amortisation of intangible assets acquired in business combinations	–	**49.2**	**(429.9)**
Amortisation of intangible assets acquired in business combinations	–	(6.4)	(11.7)
Operating profit/loss from ordinary activities	–	**42.8**	**(441.6)**
Other operating income	6	81.9	47.7
Other operating expenses	6	(74.6)	(134.1)
Operating profit/loss before net income from equity affiliates	–	**50.1**	**(528.0)**
Net income from equity affiliates		3.5	1.2
Operating profit/loss after net income from equity affiliates	–	**53.6**	**(526.8)**
Income from financial investments	–	23.8	19.6
Other financial income	–	31.8	37.2
Other financial expenses	–	(29.5)	(15.2)
Net financial income/expense	7	**26.1**	**41.6**
Income tax	8	(21.3)	137.6
NET PROFIT/LOSS FOR THE PERIOD	–	**58.4**	**(347.5)**
attributable to owners of the parent	–	68.4	(336.3)
attributable to non-controlling interests	–	(10.0)	(11.2)
Basic and diluted earnings per ordinary share (in euros)	*9*	*0.61*	*(3.0)*

Consolidated statement of comprehensive income

	2015	2014 restated
Net income (loss)	**58.4**	**(347.5)**
Items to be subsquently reclassified to the income statement		
Financial assets avalaible-for-sale	–	1.0
Cash flow hedge	19.6	–
Items that cannot be reclassified to the income statement		
Translation differences on the conversion of foreign businesses	0.1	2.1
Actuarial gains and losses	4.4	(7.3)
Income and expenses recognised in equity, before tax	**24.1**	**(4.2)**
Tax recognised directly in equity	(8.2)	2.5
Income and expenses recognised in equity	**15.9**	**(1.7)**
CONSOLIDATED COMPREHENSIVE INCOME FOR THE YEAR	**74.3**	**(349.2)**
attributable to owners of the parent	84.3	(338.0)
attributable to non-controlling interests	(10.0)	(11.2)

CONSOLIDATED FINANCIAL STATEMENTS

II. CONSOLIDATED BALANCE SHEET

Assets

	Notes	31/12/2015	31/12/2014 restated
Intangible assets	10	140.8	143.6
Goodwill	11	382.8	382.8
Property, plant and equipment	10	601.4	573.5
Share in net assets of equity affiliates	12	21.2	25.4
Non-current financial assets	19	420.4	394.0
Other non-current assets		1.8	1.5
Deferred tax assets	8	183.3	202.9
Non-current assets		**1,751.7**	**1,723.7**
Inventories and work-in-progress	13	503.4	503.3
Construction contracts: assets	14	1,240.4	501.6
Trade receivables	15	1,682.9	1,354.7
Advances and part payments paid		1,399.7	1,940.0
Current financial assets	19	61.9	218.3
Current tax receivable		36.6	100.1
Other receivables	15	306.3	263.1
Cash and cash equivalents	20	2,296.2	1,428.6
Current assets		**7,527.4**	**6,309.7**
TOTAL ASSETS		**9,279.1**	**8,033.4**

Equity and liabilities

	Notes	31/12/2015	31/12/2014 restated
Share capital		563.0	563.0
Premiums		18.4	18.4
Treasury shares		(67.0)	(71.3)
Remeasurement of financial instruments		16.7	3.9
Translation differences		(0.2)	(0.3)
Actuarial gains and losses		(5.7)	(8.6)
Other reserves attributable to owners of the parent		218.2	559.1
Consolidated income attributable to owners of the parent		68.4	(336.3)
Equity attributable to owners of the parent	**16**	**811.8**	**727.9**
Non-controlling interests		22.4	32.0
Equity	**16**	**834.2**	**759.9**
Non-current provisions	17	95.2	94.2
Non-current financial liabilities	19	54.3	44.1
Other liabilities	21	11.8	8.9
Deferred tax liabilities	8	1.1	7.0
Non-current liabilities		**162.4**	**154.2**
Current provisions	17	239.2	396.2
Construction contracts: liabilities	14	471.7	379.5
Trade payables	18	1,856.1	2,219.8
Advances and part payments received		4,272.1	3,741.5
Current financial liabilities	19	24.7	32.9
Current tax payables		2.2	2.1
Other payables	18	1,416.5	347.3
Current liabilities		**8,282.5**	**7,119.3**
TOTAL EQUITY AND LIABILITIES		**9,279.1**	**8,033.4**

III. CONSOLIDATED EQUITY

	Number of shares	Share capital	Premiums	Other reserves	Treasury shares	Re-measurement of financial instruments	Cash flow hedge	Translation differences	Actuarial gains and losses	Equity attributable to owners of the Group	Non-controlling interests	Total equity
01/01/2014 restated	56,074,395	563.0	18.4	572.8	(42.0)	2.9	–	(2.4)	(3.8)	1,108.9	41.6	1,150.5
Consolidated comprehensive income		–	–	(336.3)	–	1.0	–	2.1	(4.8)	(338.1)	(11.2)	(349.3)
Dividends paid		–	–	(16.8)	–	–	–	–	–	(16.8)	–	(16.8)
Treasury shares	(158,813)	–	–	2.6	(29.3)	–	–	–	–	(26.7)	–	(26.7)
Other		–	–	0.5	–	–	–	–	–	0.6	1.6	2.2
31/12/2014 restated	55,915,582	563.0	18.4	222.8	(71.3)	3.9	–	(0.3)	(8.6)	727.9	32.0	759.9
Consolidated comprehensive income		–	–	68.4	–	–	12.9(3)	0.1(2)	2.9(1)	84.3	(10.0)	74.3
Dividends paid		–	–	–	–	–	–	–	–	–	–	–
Treasury shares	(77,350)	–	–	(4.3)	4.3	–	–	–	–	–	–	–
Other		–	–	(0.4)	–	–	–	–	–	(0.4)	0.4	–
31/12/2015	55,838,232	563.0	18.4	286.5	(67.0)	3.9	12.9	(0.2)	(5.7)	811.8	22.4	834.2

(1) The net actuarial gain of €2.9 million in 2015 comprised:
– amount before tax: €4.4 million;
– deferred tax recognised: (€1.5 million).
See note 17.
(2) See note 18.
(3) The impact of the remeasurement in 2015 of financial instruments, which totalled €12.9 million, comprised:
– amount before tax: €19.6 million;
– deferred tax recognised: (€6.7 million).

The "Treasury shares" item includes shares in the company owned by the Group and those for which holders have a put option.
The "Other reserves" item includes the legal reserve, retained earnings and consolidated profit or loss for the period.

IV. CONSOLIDATED CASH FLOW STATEMENT

	2015	2014 restated
Net income (loss)	**58.4**	**(347.5)**
Add (deduct):		
Net depreciation and amortisation expense/(reversal)	97.5	100.6
Net provision expense/(reversal)	(139.1)	231.4
Net asset impairment loss/(reversal)	22.8	93.3
Net loss/(gain) on disposal of assets	–	–
Changes in fair value of financial instruments	3.1	(23.1)
Net gain on disposals	(0.1)	(10.1)
Change in employee share offer liabilities	(4.3)	2.7
Tax expense/(income)	21.3	(137.7)
Net income/(loss) from equity affiliates	3.5	(1.2)
Net dividends received from equity affiliates	0.5	9.1
Other unrealised income and expenses	1.1	0.1
Cash flow from operations	**64.7**	**(82.4)**
Change in working capital	740.9	608.5
Tax refunded/(paid)	47.5	(74.3)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	**853.1**	**451.8**
Change in scope of consolidation	2.1	–
Purchases of property, plant and equipment and intangible assets	(139.0)	(138.5)
Proceeds from disposals of property, plant and equipment and intangible assets	0.4	18.9
Acquisitions of holdings, net of cash acquired/brought into scope of consolidation	1.5	(2.7)
Change in loans and advance payments	(2.7)	(0.4)
Net operating investments	**(137.7)**	**(122.7)**
Decrease/(increase) in investment securities(1)	144.6	110.5
Decrease/(increase) in financial assets	–	–
Net financial investments	**144.6**	**110.5**
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	**6.9**	**(12.2)**
Increase in capital – non-controlling interests	1.1	2.6
Dividends paid to owners of the parent	–	(16.9)
Dividends paid to non-controlling interests	–	–
Sale/(purchase) of treasury shares	(4.0)	(35.2)
Cash payments to or from shareholders	**(2.9)**	**(49.5)**
Increase in financial liabilities	9.4	41.4
Decrease in financial liabilities	1.3	–
Net change in financial liabilities	**10.7**	**41.4**
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	**7.8**	**(8.1)**
NET CHANGE IN CASH	**867.8**	**431.5**
Net cash at beginning of period	1,428.7	997.1
Change in cash	867.8	431.5
Effects of changes in exchange rates/fair value	(0.3)	–
Net cash at end of period	**2,296.2**	**1,428.6**
including cash assets at end of period	2,296.2	1,428.6
including cash liabilities at end of period	–	–

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

Net cash plus investment securities classified under other financial assets as per note 3-r amounted to €2,720.5 million at December 31, 2015 (€1,994.7 million at December 31, 2014) and is made up as follows:

	31/12/2015	31/12/2014 restated
Non-current investment securities	374.3	353.9
Current investment securities	50.0	212.2
Net cash	2,296.2	1,428.6
TOTAL	**2,720.5**	**1,994.7**

V. NOTES

I. RULES, POLICIES AND CONSOLIDATION SCOPE

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

These consolidated financial statements of the DCNS group for the year ended December 31, 2015 were approved by the Board of Directors on February 19, 2016 and will be submitted for approval by the Annual General Meeting of Shareholders to be held in March 2016.

The year 2015 was chiefly marked by the following major events:

• DCNS ultimately failed to obtain an export licence for the Projection and Command Vessels for Russia. A protocol of agreement was signed with the client confirming the cancellation of the contract. The Group recognised in its financial statements the compensation received by Coface since the final compensation amount was not known at the year end.

• DCNS is encountering difficulties in the performance of a contract for the design and production of parts of a civil nuclear reactor. A "cancellation agreement" was signed with the client enabling DCNS to withdraw completely from the contract by June 30, 2016 at the latest, unless otherwise agreed by the parties, thereby limiting DCNS's operational and financial risks in respect of this contract.

• The Group signed a global performance agreement with its social partners. This agreement consists of two sections:

– the first relating to the employment adaptation plan whose aim is to address all employment support measures and, in particular, the initiatives to encourage career mobility through training;

– the second relating to support for performance and competitiveness whose aim is to enable changes in certain sites' cyclical expenses to be managed effectively.

A provision has been recognised in the financial statements for the costs relating to this agreement.

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

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

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

I.3. Accounting rules and policies

a. Statement of compliance

In application of the option available under Regulation 1606/2002 adopted on July 19, 2002 by the European Parliament and the European Council, the Group has elected to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union at December 31, 2015.

The accounting rules and policies are identical to those applied in the consolidated financial statements for the year ended December 31, 2014, except for IFRIC Interpretation 21 "Levies" and the 2011-2013 annual improvements, whose application became compulsory as of January 1, 2015.

The Group has not applied the following standards and interpretations in advance of their mandatory introduction:

• amendment to IAS 19 entitled "Defined Benefit Plans: Employee Contributions", clarifying the accounting treatment of employee contributions set out in the terms of a defined benefit plan;

• amendments to IAS 19 "Employee Benefits";

• 2010-2012 annual improvements.

IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers", which have been published by the IASB, are not currently applicable.

b. First-time application of IFRIC 21 "Levies"

The consolidated financial statements of the Group are drawn up in accordance with IFRS as adopted by the European Union and in accordance with IFRS as published by the International Accounting Standards Board (IASB).

IFRIC Interpretation 21 was published by the IASB on May 20, 2013 and adopted by the European Union in June 2014. Its application is mandatory in Europe as of January 1, 2015. This new interpretation requires levies to be recognised as from the date of the event that triggers their payment. The corresponding liability can be recognised progressively only if the event that triggers it occurs over a period of time. These provisions will result, in particular, in certain taxes being recognised in full in the half-year financial statements.

The application of IFRIC 21 as from the period beginning on January 1, 2015 requires the 2014 comparative information to be restated in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors."

The effects of the change of accounting policy relating to the application of IFRIC interpretation 21 are summarised below:

31/12/2014 (restated for application of IFRIC 21)

Summary of full balance sheet

	2014 as published by DCNS	IFRIC 21 restatement: Adjustment of opening position at 01/01/2014	IFRIC 21 restatement: Adjustment to profit and loss	2014 as published by DCNS (restated)
Non-current assets	1,723.7	–	–	1,723.7
Current assets	6,309.7	–	–	6,309.7
Total assets	**8,033.4**	**0.0**	**0.0**	**8,033.4**
Equity attributable to owners of the parent	724.7	3.4	(0.2)	727.9
Non-controlling interests	32.0	–	–	32.0
Non-current liabilities	152.4	1.8	(0.1)	154.4
Current liabilities	7,124.3	(5.2)	0.3	7,119.3
Total equity and liabilities	**8,033.4**	**0.0**	**0.0**	**8,033.4**

Summary of full income statement

	2014 as published by DCNS	IFRIC 21 restatement: Adjustment of opening position at 01/01/2014	IFRIC 21 restatement: Adjustment to profit and loss	2014 as published by DCNS (restated)
Revenue	3,065.9	–	–	3,065.9
Operating profit after net income from equity affiliates and research tax credit	(526.5)	–	(0.3)	(526.8)
Net financial income	41.6	–	–	41.6
Tax	137.6	–	0.1	137.7
Net loss	**(347.3)**	**–**	**(0.2)**	**(347.5)**
attributable to owners of the parent	*(336.1)*	–	*(0.2)*	*(336.3)*
attributable to non-controlling interests	*(11.2)*	–	–	*(11.2)*

31/12/2013 (restated for application of IFRIC 21)

Summary of full balance sheet

	2013 as published by DCNS	IFRIC 21 restatement: Adjustment of opening position at 01/01/2013	IFRIC 21 restatement: Adjustment to profit and loss	2013 as published by DCNS (restated)
Non-current assets	1,590.4	–	–	1,590.4
Current assets	6,001.9	–	–	6,001.9
Total assets	**7,592.3**	**0.0**	**0.0**	**7,592.3**
Equity attributable to owners of the parent	1,105.5	–	3.4	1,108.9
Non-controlling interests	41.6	–	–	41.6
Non-current liabilities	87.3	–	1.8	89.1
Current liabilities	6,357.9	–	(5.2)	6,352.7
Total equity and liabilities	**7,592.3**	**0.0**	**0.0**	**7,592.3**

c. Consolidation policies

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

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

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

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

d. Use of estimates

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

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

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

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

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

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

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

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

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

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

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

Measurement of assets (notes 10 and 11)

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

Measurement of non-current financial assets (note 19)

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

Measurement of trade receivables (note 15)

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

Risks and disputes

The Group regularly identifies and reviews ongoing disputes and, where necessary, recognises accounting provisions that it considers to be reasonable (see note 17). Any uncertainties concerning ongoing disputes are described in note 25-b.

e. Functional and reporting currency

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

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

f. Translation of financial statements

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

• balance sheet items are translated at the closing rate;

• income statement and cash flow statement items are translated at the average rate for the period;

• translation differences are taken directly to equity under "Translation differences".

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

g. Implementation of hedge accounting

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

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

• the change in the fair value of the hedging instrument is recognised directly in equity in the case of the effective portion of the hedge, until the hedged flows affect profit or loss. The ineffective portion is recognised in profit or loss;

• the amount of the foreign currency transaction is translated at the rate ruling on the date of the hedging transaction;

• changes in the fair value of the discount or premium relating to the forward exchange contracts are recognised in "Other financial income/expense" since they are excluded from the hedging relationship.

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

h. Structure of the balance sheet

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

i. Intangible assets

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

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

• the fair value of brands.

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

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

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

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

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

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

j. Research and development expenditure

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

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

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

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

Research and development expenditure capitalised in 2015 relates to tidal energy.

k. Business combinations

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

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

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

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

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

l. Property, plant and equipment

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

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

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

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

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

m. Impairment of non-current assets

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

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

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

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

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

n. Inventories

Inventories not allocated to programmes

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

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

Inventories allocated to programmes

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

o. Revenue

Construction contracts (IAS 11)

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

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

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

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

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

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

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

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

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

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

Sale of goods and services (IAS 18)

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

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

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

p. Operating profit from ordinary activities

Operating profit from ordinary activities is profit from operations before:

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

q. Transactions in foreign currencies

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

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

r. Cash and cash equivalents

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

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

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

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

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

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

s. Employee benefits

Provisions for post-employment benefits

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

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

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

The obligations are calculated as follows:

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

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

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

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

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

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

Other long-term benefits

Provisions for long-service awards

Long-service awards, which constitute long-term benefits, are granted in some Group companies subject to a minimum length of service for each category within the company. Employees of DCNS must have at least ten years' service with the company to be eligible, in accordance with the works agreement dated May 11, 2004 plus addenda relating to the employees of companies absorbed at September 30, 2009.

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

Specific pensions

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

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

Provisions for the CET Senior (senior time bank) scheme

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

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

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

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

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

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

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

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

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

t. Employee share offer

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

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

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

u. Income tax

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

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

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

In accordance with the communiqué published by the *Conseil national de la comptabilité* on January 14, 2010, the Group has chosen to treat the *cotisation sur la valeur ajoutée des entreprises* (contribution based on a company's added value), which is part of the *contribution économique territoriale* and was introduced as from January 1, 2010 by the 2010 Finance Act to partially replace the French local business tax known as *taxe professionnelle,* as an operating expense outside the application scope of IAS 12.

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

The rate of the exceptional corporation tax contribution was 10.7% in 2015.

v. Earnings per ordinary share

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

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

CONSOLIDATED FINANCIAL STATEMENTS

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

The scope of consolidation retained for the years ended December 31, 2014 and December 31, 2015 was as follows:

Percentages	Control at 31/12/2015	Control at 31/12/2014	Interests at 31/12/2015	Interests at 31/12/2014
Parent				
DCNS SA (France)				
Exclusive control				
Armaris Quater SAS (France)	100	100	100	100
DCN International SA (France)	100	100	100	100
DCNS Actionnariat SAS (France)	100	100	100	100
DCNS Coopération SA (Belgium)	100	100	100	100
DCNS Énergies SAS (France)	100	100	100	100
DCNS Far East PLC (Singapore)	100	100	100	100
DCNS India LLC (India)	100	100	100	100
DCNS Malaysia (Malaysia)	100	100	100	100
DCNS Support SAS (France)	100	100	100	100
MO PA2 SAS (France)	100	100	100	100
Sirehna SA (France)	100	100	100	100
OpenHydro Ltd (Ireland)	62	62	62	62
DCNS do Brasil (Brazil)(2)	100	–	100	–
Prosin (Brazil)(2)	100	–	100	–
DCNS Australia Pty Ltd(3)	100	–	100	–
Significant influence				
Boustead DCNS Naval Corporation SDN BHD (Malaysia)(1)	40	40	40	40
Défense Environnement Services SAS (France)(1)	49	49	49	49
Eurosysnav SAS (France)(1)	50	50	50	50
Horizon SAS (France)(1)	50	50	50	50
Itaguaí Construções Navais SA (Brazil)(1)	41	41	41	41
Kership SAS (France)(1)	45	45	45	45
Winacelles SAS (France)(1)	34	34	34	34
Principia SAS (France)	33	33	33	33

(1) Company consolidated in accordance with the equity method since January 1, 2014.
(2) Company fully consolidated since January 1, 2015.
(3) Company fully consolidated since November 1, 2015.

II. INCOME STATEMENT

II.5. Revenue

Group revenue for the year ended December 31, 2015 was €3,038.8 million (€3,065.9 million for the year ended December 31, 2014). Of this, €1,555.3 million was generated in France (€2,062.8 million for the year ended December 31, 2014).

	2015	2014 restated
Construction contracts	2,863.8	2,109.1
Sales of goods and services	175.0	956.8
REVENUE	**3,038.8**	**3,065.9**

II.6. Operating profit

a. Employee headcount and costs of own and seconded employees

	2015	2014 restated
Wages and salaries (including social benefit charges) of own employees	(783.7)	(753.0)
Retirement and other long-term employee benefit expenses	(4.4)	(7.5)
Employees seconded by the French State	(222.5)	(237.8)
Other	(11.0)	(17.1)
TOTAL	**(1,021.6)**	**(1,015.4)**

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

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

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

	2015	2014 restated
Managers	5,464	5,474
Supervisors and technicians	3,772	3,955
Blue and white-collar employees	3,453	3,444
TOTAL FOR FULLY CONSOLIDATED FRENCH COMPANIES	**12,689**	**12,873**
Other consolidated companies	264	224
TOTAL WORKFORCE	**12,953**	**13,097**
Including seconded employees	3,407	3,719

b. Research and development expenditure

Internally funded research and development expenses amounted to €94 million in the year ended December 31, 2015 (€104.8 million in the year ended December 31, 2014).

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

	2015	2014 restated
Gross research and development expenditure	(94.0)	(104.8)
Amount capitalised	6.3	10.5
Amortisation of capitalised research and development expenditure	–	–
RESEARCH AND DEVELOPMENT EXPENDITURE	**(87.7)**	**(94.3)**

c. Statutory Auditors' fees

For the year ended December 31, 2015, fees payable to the Statutory Auditors for their statutory audit services amounted to €1.1 million.

d. Other operating income

	2015	2014 restated
Competitiveness plan	1.7	29.2
Goodwill on consolidation(1)	0.2	–
Russia Projection and Command Vessel programme(2)	80.0	–
Other unusual items(3)	–	18.5
OTHER OPERATING INCOME	**81.9**	**47.7**

(1) In the year to December 31, 2015, goodwill on consolidation was recognised in respect of two companies joining the Group: DCNS do Brasil €0.5 million and Prosin (€0.3) million.

(2) In the year to December 31, 2015, the recognition of the compensation acquired to date by Coface in respect of the Russia Projection and Command Vessel programme generated income of €80 million.

(3) In the year to December 31, 2014, income of €18.5 million was recognised in relation to sales of houses at Saint-Tropez (€17.4 million) and buildings at Ruelle (€1.1 million), as was a reversal of provisions of €29.2 million following the re-estimation of the provision relating to the competitiveness plan.

e. Other operating expenses

	2015	2014 restated
Competitiveness plan	(1.7)	(1.5)
Past service cost in relation to other long-term benefits(1)	–	(9.6)
Cost relating to the employee share offer 2(2)	–	(21.9)
Impairment of OpenHydro goodwill(3)	–	(93.3)
Impairment loss on non-current assets(4)	(23.3)	(7.8)
Employment adaptation plan(5)	(49.6)	–
OTHER OPERATING EXPENSES	**(74.6)**	**(134.1)**

(1) In 2014, an expense of €9.6 million was recognised in relation to past service costs in relation to the GPEC scheme.

(2) In 2014, an expense of €21.9 million was recognised in relation to the second employee share offer.

(3) In 2014, DCNS reviewed the assumptions underlying the business plan which served as the basis for the acquisition of control over OpenHydro in March 2013 and goodwill impairment totalling €93.3 million was recognised.

(4) At December 31, 2015, non-recurring impairment provisions were recognised in respect of *L'Adroit* (€18.6 million) and the property at two of the Group's sites: Le Mourillon (€4.1 million) and Brest (€0.6 million).
In the year to December 31, 2014, an expense of €7.8 million was recognised following the sale of the houses in Saint-Tropez (€6.9 million) and the buildings at Ruelle (€0.9 million), corresponding to their net book value.

(5) At December 31, 2015, a provision totalling €49.6 million was recognised in connection with the employment adaptation plan.

CONSOLIDATED FINANCIAL STATEMENTS

II.7. Net financial income/expense

Income from financial investments represents interest received by the Group on its investments of cash (€23.8 million for the year ended December 31, 2015 and €19.6 million for the year ended December 31, 2014).

a. Other financial income

	2015	2014 restated
Changes in fair value of financial investments	–	1.3
Changes in fair value of financial instruments (forwards and options)	–	20.7
Change in employee share offer liability	4.3	–
Dividends received	3.3	1.5
Interest on overdue trade receivables	1.0	0.7
Foreign exchange gains	18.3	7.5
Reversal of impairments on provisions/long-term benefits	–	2.4
Reversal of impairments on financial assets	0.6	0.2
Income on cash equivalents	–	1.9
Other income	4.3	1.0
OTHER FINANCIAL INCOME	**31.8**	**37.2**

b. Other financial expenses

	2015	2014 restated
Changes in fair value of financial investments	(2.4)	–
Changes in fair value of financial instruments (forwards and options)	(4.6)	(0.6)
Change in employee share offer liability	–	(2.6)
Interest on overdue trade payables	(0.5)	–
Foreign exchange losses	(18.3)	(7.0)
Impairment losses on provisions/long-term benefits	–	(4.2)
Impairment losses on financial assets/allowances	(2.5)	(0.2)
Interest on loans	(0.3)	(0.3)
Other expenses	(0.9)	(0.3)
OTHER FINANCIAL EXPENSES	**(29.5)**	**(15.2)**

II.8. Income tax

a. Analysis of tax expense

	2015	2014 restated
Current tax	(16.1)	7.1
Defered tax	(5.2)	131
Other	–	(0.5)
INCOME TAX EXPENSE	**(21.3)**	**137.7**

A supplementary contribution on dividend payments has been in force since August 2012. No amount was levied in 2015 (no dividend was paid).

b. Reconciliation of actual and theoretical tax charge

	2015	2014 restated
Net profit for the year	58.4	(347.5)
Income tax	(21.3)	137.7
Share in net income/(loss) of equity affiliates	3.5	1.2
Net profit before tax	**76.2**	**(486.4)**
Theoretical tax charge at 34.43%	**(26.2)**	**167.5**
Research tax credit	7.6	7.1
Exceptional contribution(1)	(3.0)	–
Contribution on dividends(2)	–	(0.5)
Other permanent differences(3)	0.3	(36.4)
ACTUAL TAX EXPENSE	**(21.3)**	**137.7**
Effective tax rate	*27.9%*	*28.3%*

(1) The exceptional contribution rate as at December 31, 2015 was 10.7% (2014: same).
(2) The dividend contribution is levied at 3% of dividends paid. No amount was levied in 2015.
(3) Other permanent differences mainly comprise permanent differences taxed at 34.43% and taxation at reduced rates.

c. Deferred tax in the balance sheet

	31/12/2015	31/12/2014 restated
Deferred tax assets	183.3	202.9
Deferred tax liabilities	(1.1)	(5.2)
NET DEFERRED TAX	**182.2**	**197.7**

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

At December 31, 2015, a deferred tax asset of €87.2 million was recognised on DCNS SA's balance sheet in respect of its tax losses carried forward. No deferred tax assets were recognised in respect of the tax losses carried forward by OpenHydro or the permanent establishment in Finland.

Deferred tax liabilities recognised at December 31, 2015 relate to foreign subsidiaries that fall outside the scope of the DCNS tax consolidation group.

II.9. Earnings per share

The Group issued no new ordinary shares during the years ended December 31, 2014 and December 31, 2015. The calculation of earnings per share is therefore based on the average number of ordinary shares outstanding after buybacks of treasury shares, which was 55,915,582 shares and 55,838,232 shares for the years ended December 31, 2014 and December 31, 2015 respectively.

No dilutive instruments were issued during the years ended December 31, 2014 and December 31, 2015. 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.* 55,915,582 shares and 55,838,232 shares for the years ended December 31, 2014 and December 31, 2015 respectively (see note 17 on equity).

	2015	2014 restated
Net profit attributable to owners of the parent (in millions of euros)	68.5	(336.3)
Portion attributable to holders of ordinary shares (in millions of euros)	34.3	(168.1)
Number of ordinary shares outstanding (in millions of shares)	55.8	55.9
BASIC AND DILUTED EARNINGS PER SHARE (IN EUROS)	**0.61**	**(3.0)**

III. OPERATING ASSETS AND LIABILITIES

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

a. Gross amounts

	31/12/2014 restated	Acquisitions	Disposals	Other	31/12/2015
Concessions, patents and similar rights	137.2	13.3	(0.1)	–	150.4
Fair value differences(1)	261.7	–	–	(35.0)	226.7
Research and development costs(2)	15.0	6.3	–	–	21.3
Other intangible assets	5.3	3.7	–	–	9.0
Intangible assets	**419.2**	**23.3**	**(0.1)**	**(35.0)**	**407.4**
Land	31.8	–	–	–	31.8
Buildings	148.2	17.8	–	(6.2)	159.8
Plant and machinery	336.7	23.0	(3.1)	(0.2)	356.4
Other property, plant and equipment(3)	557.7	81.6	(1.7)	6.9	644.5
Property, plant and equipment	**1,074.4**	**122.4**	**(4.8)**	**0.5**	**1,192.5**
GROSS	**1,493.6**	**145.7**	**(4.9)**	**(35.5)**	**1,599.9**

	31/12/2013 restated	Acquisitions	Disposals	Other	31/12/2014 restated
Concessions, patents and similar rights	110.2	20.6	–	6.4	137.2
Fair value differences	261.7	–	–	–	261.7
Research and development costs	4.5	10.5	–	–	15.0
Other intangible assets	11.6	0.6	–	(6.9)	5.3
Intangible assets	**388.0**	**31.7**	**–**	**(0.5)**	**419.2**
Land	37.8	–	(6.0)	–	31.8
Buildings	146.1	4.9	(1.8)	(1.0)	148.2
Plant and machinery	318.7	25.4	(0.9)	(6.5)	336.7
Other property, plant and equipment	500.5	68.1	(0.1)	(10.8)	557.7
Property, plant and equipment	**1,003.1**	**98.4**	**(8.8)**	**(18.3)**	**1,074.4**
GROSS	**1,391.1**	**130.1**	**(8.8)**	**(18.8)**	**1,493.6**

(1) The "Fair value differences" as at December 31, 2014 represent intangible assets recognised on acquisition of the shareholding in TNF (€202.8 million) and on acquisition of the shareholding in OpenHydro Ltd (€58.9 million).
As at December 31, 2015 the TNF technology scrapped (fully amortised) is shown under "Other" movements for €35 million (gross and amortised).
(2) The capitalised research and development costs represent costs incurred by the OpenHydro group since the assumption of control by DCNS and they meet the criteria set out in note 3-j "Research and development costs" for €6.3 million as at December 31, 2015.
(3) The €81.6 million increase breaks down into:
– €46 million of assets under construction, mainly in respect of OpenHydro (€24 million in turbine assets and €14 million for a lighter under construction);
– €27 million of other property, plant and equipment, mainly in respect of DCNS SA (General Services and IT);
– €9 million of fittings and installations.

In the case of OpenHydro, the delays and extra costs witnessed in 2015 do not call into question the assumptions underlying the business plan reviewed at the end of 2014 but they need to set up supplementary financing over 2016. No impairment of assets has been accounted for.

In conformity with IAS 36, no impairment tests have been carried out during the year ended December 31, 2015 on the other property, plant and equipment and intangible assets based on the Group's CGUs as there were no indications of loss of long-term value.

b. Depreciation, amortisation and impairment losses

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

	31/12/2013 restated	Expenses	Reversals	Other	31/12/2014 restated
Concessions, patents and similar rights	(68.3)	(18.1)	–	0.5	(85.9)
Fair value differences	(178.0)	(11.7)	–	–	(189.7)
Research and development costs	–	–	–	–	–
Other intangible assets	–	–	–	–	–
Intangible assets	**(246.3)**	**(29.8)**	**–**	**0.5**	**(275.6)**
Buildings	(50.1)	(6.5)	–	1.0	(55.6)
Plant and machinery	(181.7)	(28.3)	0.7	6.5	(202.8)
Other property, plant and equipment	(216.6)	(36.7)	–	10.8	(242.5)
Property, plant and equipment	**(448.4)**	**(71.5)**	**0.7**	**18.3**	**(500.9)**
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES	**(694.7)**	**(101.3)**	**0.7**	**18.8**	**(776.5)**

In 2013, depreciation on plant and machinery of €14.2 million was absorbed into the scope of consolidation under “Other movements” following the acquisition of shares in OpenHydro Ltd.

c. Net amounts

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

	31/12/2013 restated	Acquisitions	Disposals	Depreciation and amortisation	Impairment losses	Other	31/12/2014 restated
Concessions, patents and similar rights	41.9	20.6	–	(18.1)	–	6.9	51.3
Fair value differences	83.7	–	–	(11.7)	–	–	72.0
Research and development costs	4.5	10.5	–	–	–	–	15.0
Other intangible assets	11.6	0.6	–	–	–	(6.9)	5.3
Intangible assets	**141.7**	**31.7**	**–**	**(29.8)**	**–**	**–**	**143.6**
Land	37.8	–	(6.0)	–	–	–	31.8
Buildings	96.0	4.9	(1.8)	(6.5)	–	–	92.6
Plant and machinery	137.0	25.4	(0.9)	(27.6)	–	–	133.9
Other property, plant and equipment	283.9	68.1	(0.1)	(36.7)	–	–	315.2
Property, plant and equipment	**554.7**	**98.4**	**(8.8)**	**(70.8)**	**–**	**–**	**573.5**
NET	**696.4**	**130.1**	**(8.8)**	**(100.6)**	**–**	**–**	**717.1**

In conformity with IAS 36, no impairment tests have been carried out during the year ended December 31, 2015 on the property, plant and equipment and amortisable intangible assets based on the Group’s CGUs as there were no indications of loss of value.

III.11. Goodwill

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

	31/12/2013 restated	Acquisitions	Disposals	Impairment losses	31/12/2014 restated
DCNS (from DCN Log, June 2003)	11.4	–	–	–	11.4
DCNS (from Armaris, March 2007)	207.5	–	–	–	207.5
DCNS (from TNF, March 2007)	163.9	–	–	–	163.9
OpenHydro (March 2013)	93.3	–	–	(93.3)	–
GOODWILL	**476.1**	**–**	**–**	**(93.3)**	**382.8**

On March 14, 2013, the Group took control of the OpenHydro group. Goodwill arising on this acquisition was accounted for using the "partial goodwill" method.

In 2014, notwithstanding the sales successes recorded during the year and the lack of any fundamental reason to question the viability of the tidal power market, DCNS recorded an impairment charge against the goodwill recognised on the acquisition of OpenHydro in March 2013.

III.12. Investments in associates

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

	Net assets at year end		Net income	
	31/12/2015	31/12/2014 restated	2015	2014 restated
Principia	1.1	0.9	0.4	0.1
Alderney Renewable Energy (1)	9.2	9.9	(0.7)	(0.5)
Horizon (2)	1.0	1.0	–	0.3
Eurosysnav (2)	2.1	2.0	0.1	–
Boustead DCNS Naval Corporation SDN BHD (Malaysia) (2)	2.9	3.4	(0.1)	(2.0)
Itaguaí Construções Navais SA (Brazil) (2)	1.1	2.8	3.7	2.8
Défense Environnement Services SAS (France) (2)	1.0	1.3	0.5	0.9
Winacelles SAS (France) (2)	(0.8)	(0.8)	–	–
Kership SAS (France) (2)	1.2	0.5	(0.4)	(0.4)
TOTAL	**18.8**	**21.0**	**3.5**	**1.2**

(1) The holding in Alderney Renewable Energy (ARE) is accounted for under the equity method by OpenHydro, which owns a 38% shareholding in it.
(2) Companies accounted for under the equity method since January 1, 2014 (IFRS 10 and 11).

b. Changes in "Net assets of equity affiliates"

	2015	31/12/2014 restated
Net assets of equity affiliates as at January 1	25.4	31.9
Net income/(loss) of equity affiliates	3.5	1.2
Dividend paid	(8.2)	(9.1)
Translation differences	0.4	0.9
Other	0.1	0.5
SHARE IN NET ASSETS OF EQUITY AFFILIATES	**21.2**	**25.4**

III.13. Inventories and work-in-progress

	2015	31/12/2014 restated
Raw materials and goods for resale	480.9	461.4
Work-in-progress (excluding construction contracts)	78.2	110.6
Finished and semi-finished products	–	0.5
Gross amounts	**559.1**	**572.5**
Impairment allowances	(55.7)	(69.2)
INVENTORIES AND WORK-IN-PROGRESS	**503.4**	**503.3**

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

III.14. Construction contracts

	2015	31/12/2014 restated
Construction contracts: assets	1 240.4	501.6
Construction contracts: liabilities	(471.7)	(379.5)
NET CONSTRUCTION CONTRACTS	**768.7**	**122.1**

	31/12/2015	31/12/2014 restated
Costs incurred and recognised gains (or losses), to date	22,353.4	16,327.8
Progress billings	(21,504.7)	(16,205.7)
NET CONSTRUCTION CONTRACTS	**768.7**	**122.1**

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

	31/12/2015	31/12/2014 restated
Work-in-progress on construction contracts	345.4	399.8
Unbilled receivables on construction contracts	7,693.3	7,884.1
Deferred expenses	–	–
Provisions for losses on completion	(7.0)	(8.3)
Other reserves on construction contracts	(36.8)	(37.4)
Advances received from customers on construction contracts	(6,536.7)	(7,307.5)
Trade payables on construction contracts (work-in-progress creditors) (1)	(498.9)	(449.7)
Deferred income	(190.6)	(358.9)
NET CONSTRUCTION CONTRACTS	**768.7**	**122.1**

(1) In 2014, DCNS decided to modify its cost calculation assumptions in order to incorporate additional areas of prudence. The Group has therefore decided to review the way in which profit is recognised over the course of its six new-build programmes. This has had a negative impact of (€21) million on 2015.

In the end, DCNS did not obtain the export licence for Projection and Command Vessels for Russia. A memorandum of agreement has been signed with the client ratifying the cancellation of the contract. The Group has incorporated into its accounts the compensation received from Coface, which has had a positive impact of €80 million on 2015 compared to the position as at December 31, 2014. The final compensation amount is not known to date.

A contract agreement has been made between the French and Egyptian Governments and DCNS for the FREMM *Normandie* (OCCAR programme), which was initially intended for the French Navy.

This agreement has led to the delivery of this FREMM to the Egyptian Navy. The financial impact of this contractual change is entered in the accounts at the end of 2015.

III.15. Trade and other receivables

	31/12/2015	31/12/2014 restated
Trade receivables, gross	1,694.5	1,367.0
Trade receivables, impairment allowance	(11.6)	(12.3)
Trade receivables	**1,682.9**	**1,354.7**
Tax receivables (excluding current tax)	49.0	65.6
Employment and social benefit receivables	36.1	30.5
Tax, employment and social benefit receivables	**85.1**	**96.1**
Deferred expenses	33.0	28.7
Other receivables, gross	188.3	138.3
Other receivables, impairment allowance	(0.2)	–
Other receivables, net	**221.1**	**167.0**
TRADE AND OTHER RECEIVABLES	**1,989.1**	**1,617.8**

Trade receivables include a receivable from Sofrantem. At the time of the contribution agreement, a receivable was recognised for a value corresponding to the financial income earned from Sofrantem. Financial interest accrued since the contribution agreement is recognised under financial income only when paid.

III.16. Equity

a. Share capital

As at December 31, 2015, 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, 2015 shares were held as follows:

	Ordinary shares	Preference shares	Total	%
The French State	35,179,741	300	35,180,041	62.49%
Thales	19,705,000	–	19,705,000	35.00%
FCPE Actions DCNS	953,191	–	953,191	1.69%
Treasury shares	461,768	–	461,768	0.82%

b. Dividend payments

On May 6, 2015, the Shareholders' Ordinary General Meeting resolved not to pay a dividend in respect of the year ended December 31, 2014.

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

During the year ended December 31, 2015, the Group did not record any change in its financial instrument re-measurement reserves other than those linked to cash flow hedging.

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

During the period from January 1 to December 31, 2015, the Group recorded an increase of €12.9 million in its cash flow hedging reserves.

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

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

e. Translation differences (foreign subsidiaries)

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

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

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

f. Treasury shares

DCNS Actionnariat (100% owned by the Group) acquired 158,813 shares and 77,350 shares in DCNS SA during the years ended December 31, 2014 and December 31, 2015 respectively under the share buyback guarantee granted to employees under the terms of the employee share offer.

As stated in note 3-t, DCNS shares that are held by DCNS Actionnariat or for which shareholders have an option to sell to DCNS Actionnariat are recognised as a reduction of equity. The impact on equity was €67 million as at December 31, 2015 (as opposed to a cumulative impact of €71.3 million as at December 31, 2014).

The treasury share reserve has been revalued in accordance with the new valuation of Group shares published in April 2015, resulting in an upward revaluation of the treasury share reserve by €4.3 million against the other reserves.

As at December 31, 2015, the Group held 461,768 treasury shares and employee shareholders held put options for 953,191 shares.

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

g. Capital management

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

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

III.17. Provisions

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

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

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

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

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

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

	31/12/2013 restated	Expenses	Utilisation	Reversals	Other	31/12/2014 restated
Provisions for lump-sums payable on retirement(1)	46.8	7.3	(1.7)	–	6.2	58.6
Other non-current provisions	25.0	16.9	(4.0)	–	(2.3)	35.6
Non-current provisions	**71.8**	**24.2**	**(5.7)**	**–**	**3.9**	**94.2**
Provisions for lump-sums payable on retirement	1.6	–	–	–	1.1	2.7
Provisions for economic liabilities	0.5	–	(0.5)	–	–	–
Provisions for the competitiveness plan(2)	33.9	–	–	(29.2)	–	4.7
Provisions under warranties	11.9	2.3	(3.4)	–	0.2	11.0
Provisions on contracts(3)	46.8	170.7	(4.3)	–	1.3	214.5
Provisions for losses on completion(4)	49.0	97.7	(13.3)	–	0.1	133.5
Other current provisions	36.1	9.6	(16.7)	–	0.8	29.8
Current provisions	**179.8**	**280.3**	**(38.2)**	**(29.2)**	**3.5**	**396.2**
PROVISIONS	**251.6**	**304.5**	**(43.9)**	**(29.2)**	**7.4**	**490.4**

(1) The "Other" item in relation to "Provisions for lump-sums payable on retirement" chiefly comprises an actuarial gain of €7.3 million.

(2) A net reversal of €29.2 million was recognised following the reassessment of the competitiveness plan as at December 31, 2014.

(3) The expense in relation to "Provisions on contracts" principally relates to the Russia Projection and Command Vessel programme.

(4) The expense in relation to "Provisions for losses on completion" principally relates to the RJH programme.

a. Provisions for lump-sums payable on retirement

As at December 31, 2015 provisions for lump-sums payable on retirement for the Group as a whole amounted to €60.5 million, compared to €61.3 million as at December 31, 2014, mainly related to DCNS.

The assumptions used were as follows:

- discount rate: 2% (unchanged since 2014);
- expected return on assets: 2% (in line with IAS 19R, the discount rate to be used is the same as that used for employee benefits) (unchanged since 2014);
- inflation rate: 1.75% (compared to 2% as at December 31, 2014);
- salary increase rate: 2.5% (unchanged since 2014).

As at December 31, 2015 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 €106.3 million;
- increasing the discount rate by 0.5% would lead to a provision for lump-sum retirement benefits of €91.3 million.

Movements in the retirement obligation were as follows:

	2015	2014 restated
Obligation at start of period	94.4	78.8
Past service cost	(2.9)	–
Current service cost	7.0	5.9
Interest cost	1.9	2.3
Benefits paid	(2.2)	(1.7)
Actuarial gains and losses(1)	(2.7)	9.1
OBLIGATION AT END OF PERIOD	**95.5**	**94.4**

(1) Actuarial gains and losses are wholly linked to experiential differences.

Changes in pension plan assets were as follows:

	2015	2014 restated
Assets at start of period	33.1	30.2
Return on assets	0.6	0.9
Actuarial gains and losses	1.7	2.0
ASSETS AT END OF PERIOD	**35.5**	**33.1**

As at December 31, 2015, the assets were invested as follows: 58% in equities, 39% in bonds, 2% in property and 1% in money-market instruments.

The net expense recognised breaks down as follows:

	2015	2014 restated
Current service cost	(7.0)	(5.9)
Interest cost	(1.9)	(2.3)
Past service cost	2.9	–
Benefits paid	2.2	1.7
Expected return on assets	0.6	0.9
NET EXPENSE	**(3.2)**	**(5.6)**

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

	31/12/2015	31/12/2014 restated
Actuarial obligation	95.5	94.4
Assets fair value	(35.5)	(33.1)
NET PROVISION AT END OF PERIOD	**60.0**	**61.3**

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

	31/12/2015
Forecast benefits 2016	2.9
Forecast benefits 2017	1.7
Forecast benefits 2018	1.5
Forecast benefits 2019	2.2
Forecast benefits 2020	3.2
FORECAST BENEFITS FOR THE NEXT FIVE YEARS	11.5

b. Provisions for other long-term benefits

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

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

These schemes are described in note 3-s.

Changes in obligations to pay other long-term benefits as at December 31, 2015 were as follows:

	2015
Obligation at start of period	35.1
Past service cost	–
Current service cost	2.7
Actuarial gains and losses	(1.7)
Benefits paid	(0.7)
OBLIGATION AT END OF PERIOD	**35.4**

c. Provisions for economic liabilities

On December 31, 2015, DCNS furnished financial guarantees in accordance with the orders of May 31, 2012 for an amount of €373,000, *i.e.* 40% of the sums intended to cover the possible making good of the sites in the event of the operator DCNS going bankrupt.

Only two sites are affected by these provisions: Indret and Ruelle.

Furthermore, a provision of €3.4 million for asbestos risks was entered in the accounts as at December 31, 2015 related to asbestos removal from buildings containing asbestos at the Cherbourg site.

III.18. Trade and other payables

	31/12/2015	31/12/2014 restated
Trade payables[(1)]	1,856.1	2,219.8
Tax payables (excluding current tax)	100.3	60.1
Social benefit liabilities	190.7	174.0
Deferred income	39.9	13.3
Other liabilities[(2)]	1,085.6	99.9
TRADE AND OTHER PAYABLES	**3,272.6**	**2,567.1**

(1) The "Trade payables" include compensation to CEA linked to RJH (€190 million).
(2) The "Other liabilities" mainly comprise the repayment of part payments received, offset by Coface compensation on BPC (€1,015 million).

IV. FINANCIAL ASSETS AND LIABILITIES

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

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

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

a. Fair value and classification of financial assets

	Fair value through profit and loss account	Loans and receivables	Fair value through equity ("available for sale")	Fair value through equity ("hedging reserve")	31/12/2015	Impact on the change in fair value on equity	Impact on the change in fair value on profit and loss
Investments	–	–	23.1	–	23.1	–	–
Loans, non-current portion	–	6.7	–	–	6.7	–	–
Currency instruments, non-current portion	0.2	–	–	16.0	16.2	14.1	0.1
Investment securities	374.3	–	–	–	374.3	–	2.2
Other non-current financial assets	–	–	–	–	–	–	–
Non-current financial assets	**374.5**	**6.7**	**23.1**	**16.0**	**420.3**	**14.1**	**2.3**
Trade receivables	–	1,682.9	–	–	1,682.9	–	–
Loans, current portion	–	–	–	–	–	–	–
Currency instruments, current portion	0.1	–	–	10.2	10.3	5.5	0.8
Investment securities	50.0	–	–	–	50.0	–	(1.3)
Other current financial assets	–	1.6	–	–	1.6	–	–
Cash and cash equivalents	2,296.2	–	–	–	2,296.2	–	–
Current financial assets and trade receivables	**2,346.3**	**1,684.5**	**–**	**10.2**	**4,040.9**	**5.5**	**(0.5)**

	Fair value through profit and loss account	Loans and receivables	Fair value through equity ("available for sale")	Fair value through equity ("hedging reserve")	31/12/2014 restated	Impact on the change in fair value on equity	Impact on the change in fair value on profit and loss
Investments	–	–	23.6	–	23.6	1.0	–
Loans, non-current portion	–	3.4	–	–	3.4	–	–
Currency instruments, non-current portion	13.0	–	–	–	13.0	–	12.7
Investment securities	353.9	–	–	–	353.9	–	2.2
Other non-current financial assets	–	0.1	–	–	0.1	–	–
Non-current financial assets	**366.9**	**3.5**	**23.6**	**–**	**394.0**	**1.0**	**14.9**
Trade receivables	–	1,354.7	–	–	1,354.7	–	–
Loans, current portion	–	–	–	–	–	–	–
Currency instruments, current portion	4.1	–	–	–	4.1	–	4.1
Investment securities	212.1	–	–	–	212.1	–	0.8
Other current financial assets	–	2.1	–	–	2.1	–	–
Cash and cash equivalents	1,428.6	–	–	–	1,428.6	–	(1.7)
Current financial assets and trade receivables	**1,644.8**	**1,356.8**	**–**	**–**	**3,001.6**	**–**	**3.2**

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

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

b. Fair value and classification of financial liabilities

	Fair value through profit and loss account	Other liabilities	Fair value through equity ("hedging reserve")	31/12/2015	Impact on the change in fair value on equity	Impact on the change in fair value on profit and loss
Loans, non-current portion	–	–	–	–	–	–
Currency instruments, non-current portion	0.9	–	–	0.9	–	0.4
Other non-current financial liabilities	25.5	27.9	–	53.4	–	(2.8)
Non-current financial liabilities	**26.4**	**27.9**	**–**	**54.3**	**–**	**(2.4)**
Trade payables	–	1,856.1	–	1,856.1	–	–
Loans, current portion	–	–	–	–	–	–
Currency instruments, current portion	1.0	–	–	1.0	–	0.8
Other current financial liabilities	17.2	6.5	–	23.7	–	(5.5)
Current financial liabilities and trade payables	**18.2**	**1,862.6**	**–**	**1,880.8**	**–**	**(4.3)**

	Fair value through profit and loss account	Other liabilities	Fair value through equity ("hedging reserve")	31/12/2014 restated	Impact on the change in fair value on equity	Impact on the change in fair value on profit and loss
Loans, non-current portion	–	–	–	–	–	–
Currency instruments, non-current portion	0.9	–	–	0.9	–	4.2
Other non-current financial liabilities	43.2	–	–	43.2	–	(1.6)
Non-current financial liabilities	**44.1**	**–**	**–**	**44.1**	**–**	**2.6**
Trade payables	–	2,219.8	–	2,219.8	–	–
Currency instruments, current portion	0.8	–	–	0.8	–	(0.8)
Other current financial liabilities	32.1	32.1	–	32.1	–	(1.0)
Current financial liabilities and trade payables	**32.9**	**2,251.9**	**–**	**2,252.7**	**–**	**(1.8)**

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

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

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

c. Fair value of investments

Investments that are classified as “available for sale” financial assets are valued at fair value through equity. This breaks down as follows (the Group’s percentage shareholding in these companies at December 31, 2015 and in the case of foreign countries their country of registration, is shown in brackets):

	31/12/2015	31/12/2014 restated
Sofema SA (10%)	10.8	10.7
Odas SA (9%)	2.7	3.0
Sofresa SA (7%)	0.5	0.5
Cedec SAS (10%)	–	–
FCPR Sécurité (13%)	1.0	1.3
FCPR Financière de Brienne (17%)	2.1	1.6
FCPR Atalaya (38%)	3.5	2.6
DCNS do Brasil (100%)	–	2.4
Armaris Bis (100%)	1.4	1.4
DCNS Energia Marina (100%)	1.0	–
Other investments	0.1	0.1
INVESTMENTS	**23.1**	**23.6**

The holding in Cedec has a fair value of zero, due to the lack of visibility as to the future prospects for this company.

IV.20. Cash and cash equivalents

	31/12/2015	31/12/2014 restated
Cash equivalents	2,008.8	1,029.4
Cash	287.4	399.2
Cash and cash equivalents	**2,296.2**	**1,428.6**
Bank overdrafts	–	–
NET CASH	**2,296.2**	**1,428.6**

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

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

The total of net cash plus investment securities reported under other financial assets, as set out in note 3-r, was €2,720.5 million as at December 31, 2015 (€1,994.7 million as at December 31, 2014). This total breaks down as follows:

	31/12/2015	31/12/2014 restated
Non-current investment securities	374.3	353.9
Current investment securities	50.0	212.2
Net cash	2,296.2	1,428.6
TOTAL	**2,720.5**	**1,994.7**

IV.21. Other liabilities

The “Other liabilities” item principally comprises subsidies of €11.8 million.

IV.22. Risk management

a. Credit risk

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

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

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

	31/12/2013	Expenses	Reversals	Other	31/12/2014	Expenses	Reversals	Other	31/12/2015
Impairment allowances against trade receivables	11.6	1.9	(0.5)	(0.7)	12.3	2.4	(0.8)	(2.3)	11.6

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

b. Liquidity risk

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

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

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

c. Foreign currency exchange risk

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

As part of its normal activities, the Group may be faced with foreign currency exchange rate issues on tenders submitted in foreign currency, contracts awarded and all future disbursements denominated in foreign currency. The main currencies to which the Group was exposed during the period were the US dollar (USD), 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.

	31/12/2015	31/12/2014 restated
Forward purchase contracts		
US dollar (USD)	107.1	148.8
Pound sterling (GBP)	0.7	1.0
Brazilian real (BRL)	4.8	9.0
New Zealand dollar (NZD)	–	–
Malaysian ringgit (MYR)	3.4	18.5
Forward sale contracts		
US dollar (USD)	1.8	1.5
Pound sterling (GBP)	–	0.2
Call options		
Pound sterling (GBP)	1.9	3.8
Put options		
Brazilian real (BRL)	–	–
Tunnel options		
Brazilian real (BRL)	2.1	3.1

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

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

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

d. Interest rate risk

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

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

V. OTHER INFORMATIONS

V.23. Notes to the cash flow statement

a. Changes in working capital

	2015	2014 restated
Net decrease (increase) in inventories	(2.6)	33.1
Net decrease (increase) in trade receivables	(325.7)	179.5
Net decrease (increase) in advances and part payments paid	537.9	(87.1)
Net increase (decrease) in other receivables	(43.0)	(21.6)
Net decrease (increase) in construction contracts	(658.8)	7.9
Net increase (decrease) in trade payables	(478.8)	125.8
Net increase (decrease) in advances and part payments received	535.4	298.0
Net increase (decrease) in other payables	1,176.5	67.7
Change in working capital	**740.9**	**608.5**

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

	2015	2014 restated
Purchases of intangible assets	(22.0)	(31.7)
Purchases of property, plant and equipment	(108.3)	(98.4)
Purchases during the period	**(130.3)**	**(130.1)**
Change in related payables	(8.7)	(8.4)
Purchases of property, plant and equipment and intangible assets	**(139.0)**	**(138.5)**

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

	2015	2014 restated
Disposals of intangible assets	–	–
Disposals of property, plant and equipment	0.4	18.9
Disposals during the period	**0.4**	**18.9**
Disposals of property, plant and equipment and intangible assets	**0.4**	**18.9**

V.24. Related parties

The Group considers the following to be related parties:

• the French State and companies over which it has exclusive control, joint control or significant influence (including in particular all companies in the Thales group);

• the "Actions DCNS" employee mutual fund *(fonds commun de placement d'entreprise)*;

• non-consolidated entities;

• entities over which the Group exercises joint control or significant influence;

• the Group's executives.

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

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

During the year ended December 31, 2015, the Group generated 51.2% of its revenue with the French State and Government-related entities (67.3% of its revenue for the year ended December 31, 2014).

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

	2015	2014 restated
Sales		
Non-controlled portion in jointly controlled companies	6.4	14.6
Shareholders and companies controlled by them (excluding French State and Government-related entities)	–	–
Other (Eurotorp and Euroslat)	20.7	26.9

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

	31/12/2015	31/12/2014 restated
Operating receivables(1)		
Jointly controlled companies	4.9	4.7
Shareholders and companies controlled by them (excluding French State and Government-related entities)	–	–
Other (Eurotorp and Euroslat)	23.0	29.5
Operating payables(2)		
Jointly controlled companies	1.0	4.3
Shareholders and companies controlled by them (excluding French State and Government-related entities)	–	–
Other (Eurotorp)	21.7	27.5
Financial liabilities(3)		
Jointly controlled companies	–	–
Shareholders and companies controlled by them (excluding French State and Government-related entities)	60.0	64.0
Other	–	–

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

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

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

d. Agreements with Thales

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

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

• the non-resumption by Thales (whether directly or indirectly) of any of the activities carried out by TNF (merged with DCNS on January 1, 2013), Armaris and MO PA2 after completion of the transaction;

• the free exercise by the French or foreign subsidiaries of Thales of activities not covered by the non-resumption undertaking;

• technical and industrial cooperation based on the specialisation of each company's activities in order to optimise each company's investments and to allow each party to the contract to benefit from the other's technological resources;

• the Group's commercial freedom;

• cooperation in the areas of procurement and human resources.

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

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

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

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

e. Executive compensation

The gross remuneration and benefits in kind paid to members of the Executive Committee and employer's social benefit contributions were as follows during the years ended December 31, 2014 and December 31, 2015:

	2015	2014
Fixed remuneration	2.7	2.9
Variable remuneration	0.7	0.9
Benefits in kind and miscellaneous	–	0.1
Employer's social benefit contributions	1.4	1.6
TOTAL	**4.8**	**5.5**
Number of persons concerned	11	13

V.25. Off-balance sheet commitments

a. Off-balance sheet commitments arising from commercial contracts

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

These are mainly:

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

	31/12/2015	31/12/2014 restated
Advance payment guarantees(1) (2) (3) (4) (5) (6) (7) (8)	462.6	746.9
Performance bonds(1) (2) (3) (4) (5) (6) (7) (8)	360.8	455.6
Guarantees in lieu of retentions	19.7	47.5
Other guarantees	10.8	13.0
COMMITMENTS MADE	**853.9**	**1,263.0**

(1) Under a sale contract in India, the Group's banks have issued bank guarantees of €87.9 million in favour of its customer for the return of advance payments and to guarantee performance.

(2) Under contracts for the supply of equipment to the Indian Navy, the Group's banks have issued bank guarantees of €160.4 million in favour of its customer for the return of advance payments and to guarantee performance.

(3) Under a series of sale contracts entered into by the Group in Brazil, the Group is required to have its banks issue bank guarantees in favour of its customer for the return of advance payments and to guarantee performance, up to a total of €651.0 million as approved by the Board of Directors on October 15, 2009, to which will be added the amount of price revisions paid by the customer to the Group under those contracts. The amount of bank guarantees issued as at December 31, 2015 was €141.2 million.

(4) In connection with a series of sale contracts made by Itaguaí Construções Navais SA (hereinafter referred to as "ICN"), the Group as shareholder in ICN must have its banks issue bank guarantees in favour of ICN's client, at ICN's request, for the return of advance payments and to guarantee performance up to a value of 41% of the commitments made by ICN under the terms of the aforementioned contracts, *i.e.* a maximum of €17.2 million, as approved by the Board of Directors on October 15, 2009, plus 41% of the price revisions paid to ICN by the client in respect of the same contracts. The amount of bank guarantees issued as at December 31, 2015 was €17.3 million.

(5) Under a sale contract with the Russian Government, the Group's banks have issued bank guarantees of €22.8 million in favour of its customer for the return of advance payments and to guarantee performance.

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

(7) Under a sale contract with the Egyptian Government, the Group's banks have issued bank guarantees of €145.5 million in favour of its customer for the return of advance payments and to guarantee performance.

(8) Under sales contracts with the Kingdom of Saudi Arabia, the Group's banks have issued bank guarantees of €24.9 million in favour of its customer for the return of advance payments and to guarantee performance.

The maturity schedule as at December 31, 2015 was as follows:

	Within one year	Between one and five years	After five years
Advance payment guarantees	176.6	285.9	0.1
Performance bonds	146.8	166.2	47.7
Guarantees in lieu of retentions	19.7	–	–
Other guarantees made	2.6	4.2	3.7
COMMITMENTS MADE	**345.7**	**456.3**	**51.5**

	31/12/2015	31/12/2014 restated
Advance payment guarantees	122.6	148.6
Performance bonds	115.4	116.1
Guarantees in lieu of retentions	0.5	0.3
Other guarantees received	27.9	2.9
COMMITMENTS RECEIVED	**266.4**	**267.9**

The maturity schedule as at December 31, 2015 was as follows:

	Within one year	Between one and five years	After five years
Advance payment guarantees	18	28.3	76.4
Performance bonds	22.5	43.9	48.8
Guarantees in lieu of retentions	–	0.5	–
Other guarantees received	0.8	11.8	15.2
COMMITMENTS RECEIVED	**41.2**	**84.5**	**140.4**

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

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

The maturity schedule as at December 31, 2015 was as follows:

	Total	Within one year	Between one and five years	After five years
Lease charges	29.1	6.3	16.0	6.8
Leases of immovable property	123.6	15.1	58.9	49.5
Leases of movable property	9.8	5.4	3.7	0.7

b. Other commitments

Commitments made

As at December 31, 2015, firm investment commitments totalled €51.9 million (€76.5 million as at December 31, 2014).

An equity mutual fund (FCPE Actions DCNS) was formed in connection with the DCNS employee share offer. In accordance with the rules of the French Monetary and Financial Code *(Code monétaire et financier)*, the Group has signed a renewable credit agreement with a financial institution and has pledged term deposits totaling €20 million in order to ensure the liquidity of the fund. As stated in note 3-r, these term deposits have been classified as non-current financial assets.

Commitment received

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

V.26. Post-balance sheet event

None.

VI. REPORT OF THE AUDITORS ON THE ANNUAL FINANCIAL STATEMENTS

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

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

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meetings, we hereby report to you, for the year ended December 31, 2015 on:

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

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

I. OPINION ON THE ANNUAL FINANCIAL STATEMENTS

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

We certify that with regard to French accounting rules and principles, the annual financial statements for the financial year are lawful and genuine and give a true and fair view of the assets and liabilities for the financial year then ended and of the financial position and assets of the Group as at December 31, 2015.

Without qualifying the opinion expressed above, we draw your attention to the following notes of the appendix to the annual financial statements:

- Notes 1 “Highlights of the period” and 6 “Provisions” which show the impacts made by the cancellation of a design-and-build contract for parts of a civil nuclear reactor, which have resulted in an additional loss;
- Notes 1 “Highlights of the period” and 6 “Provisions” which, over the period, show the impact made by failure to obtain the export licence necessary for performing the BPC Russia contract and the impact made by recording the compensation received from Coface.

II. JUSTIFICATION OF OUR ASSESSMENTS

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

- Note 2-f “Accounting principles, rules and methods – Treatment of long-term operations” in the appendix states that DCNS SA recognises revenue and profit on certain projects using the percentage-of-completion method. This method involves the use by management of estimates, notably to determine the profit on completion of each contract, made on the basis of the most up-to-date information available with regard to its progress. These estimates affect net income as well as the assets and liabilities recorded in the balance sheet. Our work consisted in gaining an understanding of the processes followed by DCNS SA in this area and assessing the underlying data and assumptions on which these estimates are based. We also assessed the reasonableness of these estimates, on the basis of the information available at the time the financial statements were prepared.

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

III. SPECIFIC VERIFICATION

As required by law, we have also carried out specific verifications, in accordance with professional standards applicable in France.

We have no matters to report as to the fair presentation and consistency with the annual financial statements of the information presented in the Board of Director's Management Report, in the documents sent to Shareholders regarding the financial position and in the annual financial statements.

Done at Paris-la Défense on March 4, 2016

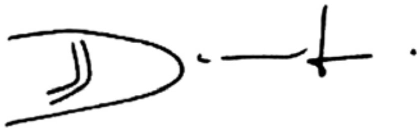
The Statutory Auditors

ERNST & YOUNG AUDIT

Gilles Rabier

MAZARS

Juliette Decoux



Board of Directors of February 19, 2016

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

I. GLOBAL REPORTING INITIATIVE (GRI) TABLE

	In relation to GRI V3 indicators	2013 DCNS	2014 DCNS	2015 DCNS	GRI V4* reference	OECD guidelines concerning multi-national enterprises	Tripartite declaration of principles concerning multinational enterprises and social policy (ITO) 2006	ISO 26000	SNTEDD** Focal areas and priorities
	Economic data								
	Consolidated revenue (€M)	3,358.4	3,065.9	3,038.8	EC 1				
	Consolidated Group net income	109.1	(336.1)	58.4	EC 1				
	Environmental data*******	Excl. Sirehna	UES DCNS	UES DCNS		P6		6.5.3	
	Energy consumption								
☑	Electricity consumption (MWh)	122,428	122,411	119,639(8)(9)	EN 3			6.5.4	A2, P2
☑	Fossil energy consumption (natural gas, heating oil) (MWh)	116,777	103,341	122,157(8)	EN 3			6.5.4	A2, P2
	Water consumption								
☑	Water consumption (industrial, drinking, etc.) (m^3)	981,952	12,225,438	10,079,282(8)(10)	EN 8			6.5.4	
	Waste								
☑	Production of NHW*** (t)	4,353	3,785	3,472(8)(10)	EN 22			6.5.3	
☑	Production of HW**** (t)	2,629	2,305	1,984(8)(10)	EN 22			6.5.3	
	Ferrous metals			3,030					
	Atmospheric emissions								
☑	Direct CO_2 emissions (t)	24,462	20,260	25,753(8)	EN 16			6.5.3	A2, P2
	Training								
	Number of days of environmental awareness training	227	313	402					
	Social data	UES DCNS	UES DCNS	DCNS group		P5	15.18		
☑	Total number of staff	14,109	14,024	13,878	LA 1				A1, P2
	By socio-professional category								
	OE (blue and white collar)	3,903	3,774	3,664	LA 1				
	TAM (technicians and supervisors)	4,546	4,491	4,476	LA 1				
	IC (engineers and managers)	5,660	5,759	5,738	LA 1				
	By age bracket								
	Under 25	746	656	680	LA 1				
	25-29 years	1,190	1,178	1,123	LA 1				
	30-34 years	1,687	1,585	1,580	LA 1				

	35-39 years	1,907	1,993	2,099	LA 1				
	40-44 years	2,065	2,003	1,977	LA 1				
	45-49 years	2,552	2,517	2,498	LA 1				
	50-54 years	2,249	2,277	2,195	LA 1				
	55-59 years	1,308	1,388	1,365	LA 1				
	60 years and over	405	427	361	LA 1				
☑	Female staff as % of total	19.50	19.78	19.77	LA 1				
	Expatriates	145	183	217	LA 1				
	Staff of non-French nationality	15	15	242	LA 1				
☑	% of female senior executives	9.70	10.20	11.26	LA 1				
	Average age	42.30	42.59	42.82	LA 1				
		UES DCNS	UES DCNS	UES DCNS					
☑	Number of staff with disabilities (TH)	622	652	661	LA 1				
	Employment rate (%)	5.50	5.60	5.5(4)	LA 1				
	Staff with disabilities on permanent contracts	26	9	4	LA 1				
☑	Absenteeism (%)	4.61 DCNS SA 0.02 Sirehna	4.84 DCNS SA 0.93 Sirehna	4.82 DCNS SA 1.7 Sirehna	LA 6				
☑	Number of training hours	493,949	413,511	302,048	LA 9				
	Average number of training hours per person	34.86	29.49	22.2	LA 9				
☑	Continued professional development (as a % of payroll)	4.80	4.04	3.2					
	Average monthly remuneration (€)	4,085	4,141	4,201(6)					
	Recruitment, full year	**UES DCNS**	**UES DCNS**	**DCNS group**					
☑	Total	1,260	930	662	LA 1				
	Recruits hired on permanent contracts	693	503	283	LA 1				
	Number of recruits on limited-term contracts given a permanent contract	59	24	10	LA 1				
	Recruits hired on limited-term contracts	101	77	69	LA 1				
	Recruits hired on limited-term contracts, number of which are trainees on combined study-and-work apprenticeships + CIFRE	407	350	310	LA 1				
	Recruits hired on limited-term contracts (including trainees on combined study-and-work apprenticeships + CIFRE*****)	508	427	379	LA 1				
	% of which are on limited-term contracts (including trainees on combined study-and-work apprenticeships)	40.32	45.91	57.3	LA 1				

	% of which are on limited-term contracts (excluding trainees on combined study-and-work apprenticeships)	8.02	8.28	10.4	LA 1				
	% of whom are female	19.50	20.60	22.4	LA 1				
	% of whom have disabilities (permanent and limited-term contracts)	4.00	2.08	1.4	LA 1				
	% of whom are older staff	5.70	3.79	5.7	LA 1				
	% of whom are under 25 (including trainees on combined study-and-work apprenticeships)	37.60	36.02	55.7	LA 1				
	% of whom are under 25 (excluding trainees on combined study-and-work apprenticeships)	11.40	11.72	28.4	LA 1				
	Trainees on combined study-and-work apprenticeships at the end of the year	617	569	536	LA 1				
	Departures								
☑	Total number of departures	1,151	994	1,028	LA 1				
	Including redundancies******	28	21	24	LA 1				
	Turnover	8.2%	7.1%	7.4%	LA 1				
	Health, safety and working conditions	**UES DCNS**	**UES DCNS**	**UES DCNS**					
☑	Incidence of workplace accidents (lost-time injuries x 1,000,000/hours worked	6.3(3)	6.14	6.6(7)	LA 6			6.4.6	
☑	Average severity of workplace accidents (days lost due to accidents x 1,000/hours worked)	0.16	0.17	0.169(7)	LA 6			6.4.6	
	Number of cases of work-related illnesses	88	59	30(5)	LA 6			6.4.6	
	Number of hours of OHS training	101,466	78,239	47,786(4)				6.4.6	

Staff data for the Group is shown for 2015.

UES DCNS = DCNS SA + Sirehna.

* GRI V4: Global Reporting Initiative Version 4.

** SNTEDD: *Stratégie nationale de transition écologique vers un développement durable* (National Strategy for an Ecological Transition towards Sustainable Development) 2015-2020.

*** NHW: Non-Hazardous Waste.

**** HW: Hazardous Waste.

***** CIFRE: *Convention industrielle de formation par la recherche* (Industrial Agreement on Training through Research).

****** Redundancies: interruption of the trial period for physical incapacity or for personal reasons.

******** Excluding Sirehna.

☑ Indicator audited.

(1) Consolidated data from nine sites.

(2) OHS indicators as at February 6, 2013 subject to three current reservations (UES DCNS scope) – consolidated in March 2013, incidence = 8.6.

(3) OHS indicators as at January 28, 2014 subject to seven current reservations (UES DCNS scope, excluding Sirehna, excluding temps), rule applied irrespective of nationality.

(4) Estimate as at January 30, 2016.

(5) Declared work-related illnesses.

(6) Estimated wage bill excluding apprentices/average FTE (Full-Time Equivalent).

(7) OHS indicators as at January 8, 2016 subject to eleven current reservations.

(8) Indicator calculated over a twelve month rolling calendar, from October 1, 2014 to September 30, 2015.

(9) Details of consumption in Issy-les-Moulineaux and in Marseilles are not given.

(10) Details of consumption in Marseilles are not given.

II. GENERAL INFORMATION

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

Strategy and analysis

Vision up until 2025 and beyond

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

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

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

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

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

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

The primary aim of this action plan, together with a three-year Progress Plan, is to stop programmes from going adrift, to improve DCNS's industrial performance and to make its product and service offerings at international level more competitive. It is based on the management and company members as a whole focusing on operational excellence, investing in industrial plant and IT tools, simplifying processes and reducing purchase costs and internal costs. The Progress Plan is conducted like a programme, with front-line management responsible for governance and all line management involved. The results of this Progress Plan will always be accurately measured and shared using internal communication systems.

The Progress Plan goes hand in hand with specific social provisions including a comprehensive draft agreement on performance in collaboration with the Central Works Council and all trade unions and employers' organisations. Discussions have been ongoing since July 2015 and involve regular talks aimed at reaching final agreements.

The Progress Plan is an indispensable and essential condition for freeing up resources and investing in the DCNS group's growth.

During the first half of 2015, the Group deployed collective efforts to implement the Progress Plan through actions at operational level and through social dialogue. The raising of collective awareness and the mobilisation of all staff has started to bear fruit. A gradual recovery was seen in the Group's position at the end of 2015. The main aim of again controlling economic performance is already on track since a return to equilibrium of the accounts in 2015 has been forecast (cf. management report/consolidated financial statements).

However, this progress must be continued in 2016 to allow DCNS to regain industrial performance, growth as well as client confidence in its ability to fulfil all its commitments (quality, costs, delivery dates).

The six themes in DCNS's Progress Plan are:

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

Profile of the organisation

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

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

Relevant aspects and areas identified

This point is dealt with in paragraph I.1. entitled "Presentation of the DCNS group" on page 5 up to page 7 of the management report.

Involvement of stakeholders[(1)]

Dialogue, consultation, participation

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

In 2015, a "Guide to Relations with Stakeholders" was written, which will be published in 2016 after initial applications on the ground. It takes into account the principles used by Committee 21, which is a French body serving the UN and is the leading network of players involved in implementing sustainable business development in France in organisations and territories.

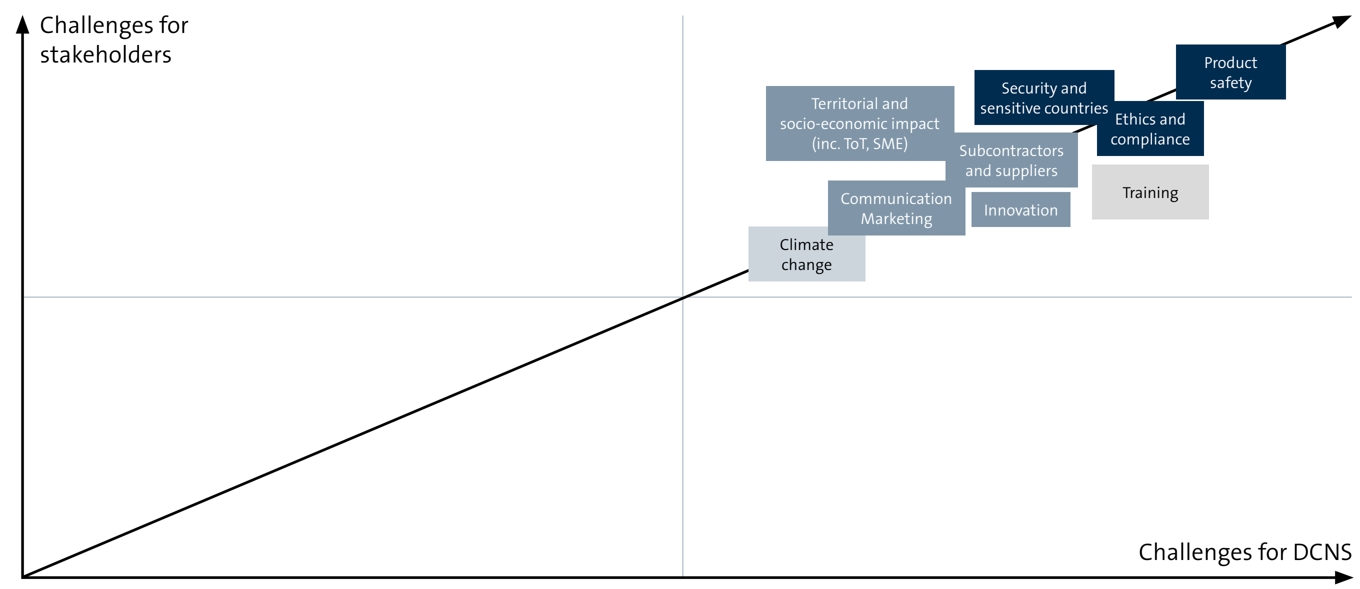
These initiatives are aimed at mobilising the broader enterprise, made up of DCNS and its ecosystem, around Group values and customer service.

The values of DCNS inform the day-to-day actions of everyone: a winning spirit, expectation, confidence and respect.

During the fourth quarter of 2015, the General Secretary, supporting the commitment made by the Chairman and Chief Executive Officer since his arrival in 2014, started to reflect on changes in the DCNS group's values. This work should result in a new set of Group values at the beginning of 2016 with regard to stakeholders.

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

Materiality matrix in 2014 and 2015



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

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

– Use of natural resources (including water and energy resources, eco-design);
– Biodiversity (including protection of ocean space);
– Transparency (Vigeo Audits and others, transparency international);
– Energy (including marine renewable energies, energy supply and environmental impact studies);
– Equal treatment opportunities (disability, diversity, gender equality).

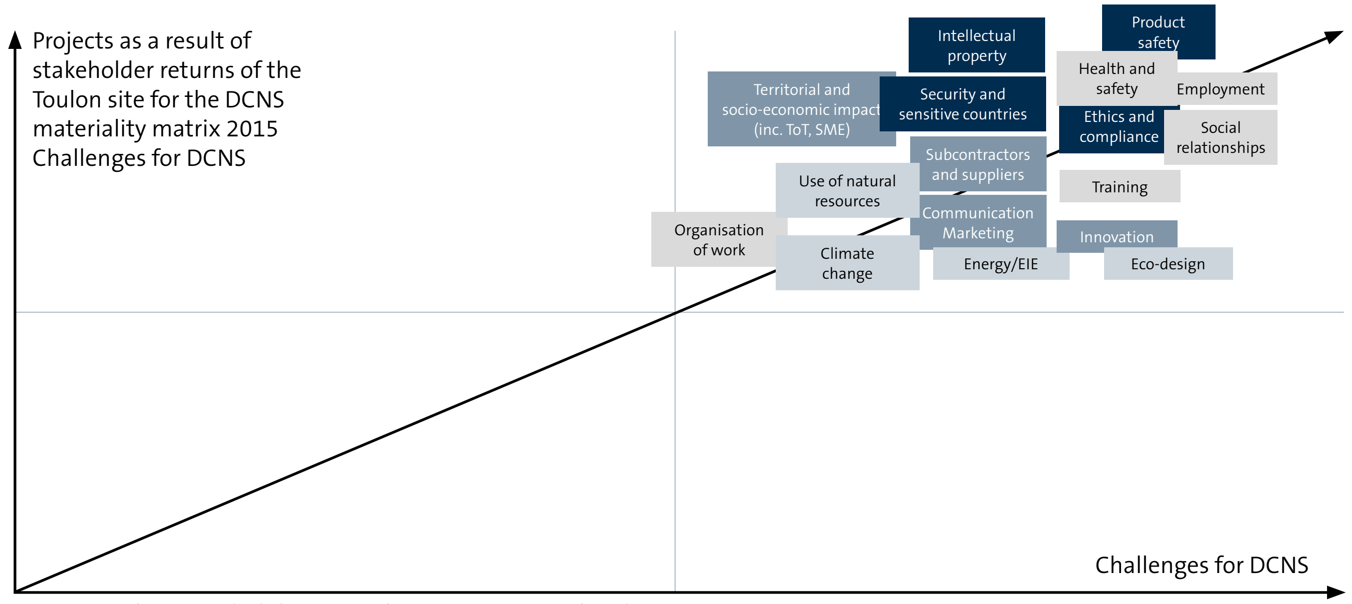
CORPORATE SOCIAL RESPONSIBILITY REPORT 2015

In December 2015, the DCNS materiality matrix was subject to a presentation and consultation process with seven stakeholders in the Provence-Alpes-Côte d'Azur region (Naval base, Mediterranean Sea cluster, SeaTech, CCIV, RSE PACA, SME supplier, Réseau Entreprendre Var).

These seven external stakeholders were invited to enter into a straightforward and honest dialogue concerning the Group's matrix, aimed at obtaining their opinions on the changes to be noted in 2015.

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

Materiality matrix 2015 arising from the working group (seven stakeholders) of the Provence-Alpes-Côte d'Azur region



– Use of natural resources (including water and energy resources, eco-design);
– Biodiversity (including protection of ocean space);
– Transparency (Vigeo Audits and others, transparency international);
– Energy (including marine renewable energies, energy supply and environmental impact studies);
– Equal treatment opportunities (disability, diversity, gender equality).

Several examples of consultation

At the Cherbourg site

DCNS has a very significant territorial and socio-economic impact on the Cherbourg urban district for employment and this justifies very regular talks with local contacts (mayor, members of parliament, labour inspectorate, maritime prefect, prefect, higher education and so on). Many visits are made throughout the year.

For example, each year the Cherbourg site organises a discussion day with its main partners (sub-contractors and suppliers) tackling the following themes: safety, environment, quality, activity and partnerships. This year the discussion day was held in September 2015.

At the Brest site

In an increasingly competitive environment fraught with constraints, DCNS needs to involve its suppliers and sub-contractors in carrying out its programmes. This is why DCNS wants to engage with its suppliers and sub-contractors on a long-term basis by giving them some idea about current and future programmes through establishing a long-term relationship. Seeking this type of long-term relationship is particularly driven by the need to be able to engage with sub-contractors and suppliers regarding contracts covering the full duration of the programmes.

At the Brest site, DCNS is currently negotiating the renewal, with its client, of the maintenance contract for ballistic nuclear submarines (SSBNs) at Île Longue. The contract will be for seven years as from 2016. DCNS wishes to take advantage of this visibility to negotiate contracts with suppliers and sub-contractors that cover the seven years of the programme. This approach demonstrates collective performance regarding a good number of aspects: cost reduction, of course, but also maintaining and enhancing skills at DCNS as well as with its partners and optimising the industrial resources associated with this programme.

For the third-generation SSBN *Le Téméraire* adaptation for the M51 missiles as from summer 2016, a major project lasting twenty-seven months, DCNS wants to collaborate with industrial partners who helped to carry out the first two modernisations on *Le Vigilant* and *Le Triomphant*. By continuing to work with these industrial partners it will thus be possible to capitalise on the feedback from the first two projects by optimising completion times and costs.

CORPORATE SOCIAL RESPONSIBILITY REPORT 2015

Lastly, as a major player in the shipbuilding industry and with a view to attracting the best talent, DCNS is on the Board of Directors of most of the main schools in the town (ENSTA, ENIB, UBO, ISEN and so on). An influential member of most of the institutional structures (*Brest Métropole* [Urban Community of Brest], Chambers of Commerce and Industry (CCI), maritime cluster, technology park and so on), DCNS is involved in major decisions for developing the territory, preparing its future and helping to structure and ensure the continued existence of the local economic area, particularly the ocean. The two tidal turbines installed for EDF at the Brest site demonstrate the progress made by DCNS on its territory: their connection to the electricity distribution network at the beginning of 2016 at the Paimpol-Bréhat site is a world first.

At the Ruelle site

The work carried out in 2014 on the "combat bridge of the future" saw the company rewarded with Janus status for foresight, awarded by Matthias Fekl, the Secretary of State for Foreign Trade, on June 30, 2015. This bridge project was developed by a multidisciplinary team involving DCNS and seven innovative SMEs and partners of the Charente employment base, working in sound and image technologies within an *ad hoc* consortium.

Following this work, DCNS is extending its sphere of action to other SMEs but also to large groups in the public and private domain. On September 30, 2015, around thirty heads of these innovative enterprises gathered at Ruelle in order to:

• develop synergies arising from work on two lighthouse products, namely the bridge of the future and combat simulators;

• speed up the innovation cycle and cultivate future collaboration at local level or further afield;

• open up more to external stakeholders and enhance our know-how.

These exchanges will again take place once or twice a year according to the product development schedule.

Marine renewable energies (MRE)

Exchanges with stakeholders are central to the development of the MRE projects in which DCNS is involved at various levels. Obtaining approval to build a farm and ensuring the project's security are linked to the consultation process put in place. Besides informing stakeholders, the purpose of the consultation must be to let them take part, on their own level, in the design of the project. Consultation becomes a full component of the MRE projects.

All the MRE projects are involved in the implementation of the consultation process. The extent to which these stakeholders become involved is proportionate to the challenges set by the project and the themes dealt with. Thus, the positioning of underwater sensors to carry out measurements will particularly concern users of the area: professional fishermen and amateur sailors. In this case, consultation is driven by the engineering involved.

Managing the effects of a floating wind turbine project on the environment, exchanges concerning measures to prevent, reduce or offset these effects is a much bigger subject involving numerous people taking part in the dialogue and includes sections of civil society. This phase relies on the results of specific environmental studies: a bird study, a biological resources study and a study on area uses and so on. The purpose of these exchanges is to create links with stakeholders. These links are maintained on a daily basis and enable the project to be enriched as well as making it easier to accept.

In parallel with consultation at operational level on a daily basis, a guide has been written defining the methodology for exchanges with stakeholders. This guide is based on the "Guidelines for a Constructive Dialogue with Stakeholders" published by Committee 21, a network of players involved in implementing sustainable business development in France in organisations and territories.

MERIC in Chile

On October 9, 2015, the Chilean Government gave its final agreement to financial support for the MERIC R&D centre. This centre, which was founded by DCNS and Enel Green Power, will promote the development of marine renewable energies in Chile and the rest of Latin America. Apart from the initial partnerships already sealed with the Catholic University of Santiago, the Austral University of Valdivia, *Fundación Chile* (Chilean Foundation), *Fundación INRIA Chile* (INRIA Foundation Chile), EGP Chile and Endesa, MERIC's management has opened talks for new partnerships with research centres and Chilean, European, North American and Brazilian universities.

In order to speed up and facilitate investment in MRE in Chile, the results of studies, works, and test instrumentations, carried out by MERIC, will be made available to any industrialists and investors who wish to develop projects and adapt MRE technologies to environmental conditions in Chile. MERIC made an initial assessment of the supply chain in Chile, which would make it possible to address the needs of future MRE projects as well as an inventory of studies already carried out for the MRE sites in Chile.

The *Océanides* Association

The *Océanides* Association, founded in March 2012 at the initiative of DCNS, today brings together almost 270 researchers throughout the world.

Its aim is to show that since prehistoric times and across all the continents, the sea has been a decisive factor for any region or any country bordering it. Any growth, power or influence would undoubtedly be linked to the existence of the sea.

With more than forty nationalities represented, coming from every continent and from the most prestigious universities, *Océanides* is a project which is unique in the world and is comparable, in the humanities, to the great Encyclopaedia of Diderot and d'Alembert. The association can now be found on the Internet particularly *via* its website http://oceanides-association.org/ and the main social networks.

The results of the scientific research will be published at the end of 2016 by the British publisher Boydell & Brewer. The findings themselves will be circulated to political and economic decision-makers in February 2017 in order to provide proof of the need to become aware of the importance of the sea in our societies.

A book communication for the general public is also planned for the end of 2017 to reach as many of our citizens as possible. At the same time, specialists will incorporate it into the school curriculum.

A partnership has been set up with DCNS Universeaty, among others, in order to give certain visibility to the project. It enables conferences and naval history days to be organised for the general public in partnership with the French Naval Academy. In autumn 2015, a large international symposium on modern and contemporary periods was jointly organised.

***France Énergies Marines* Institute**

DCNS's action in 2015 for the *Institut pour la transition énergétique* (ITE) *France Énergies Marines* (French Institute for Energy Transition French Marine Energies) was decisive for setting up this pooled research and development body in the field of marine renewable energies (MRE). DCNS's role is built around three complementary approaches:

• ensure the long-term success of ITE by assuming the presidency;

• ensure the operational readiness of ITE by making an experienced engineer available to manage the R&D programme;

• consolidate this R&D programme by positioning itself in eight research projects as part of the call for ITE/FEM projects by the National Research Agency.

These multiannual projects to be launched in 2016 will make it possible to have companies in the MRE sector (large groups and SMEs), public research laboratories and regional and local authorities (six regions involved) work together in order to lift technological and environmental obstacles and speed up the development of this emerging sector.

Besides technology projects, *France Énergies Marines* dedicates a research programme to the environmental and socio-economic impact of MRE. DCNS is involved in several projects which are helping to improve knowledge about the potential impact of these new marine activities on biodiversity, landscapes and pre-existing human activities.

II.1. GOVERNANCE(1)

II.1.1. Administration and control

DCNS (hereinafter referred to as the "Company") is a public limited company under French law, the ownership of which, as at December 31, 2015 was as follows: 62.49% owned by the State, 35% by Thales, 1.69% by the Actions DCNS employee mutual fund and 0.82% by DCNS Actionnariat.

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

On December 19, 2014, the Company's General Meeting decided to bring the articles of association of the Company into line with the provisions of title II of the order no. 2014-948 of August 20, 2014 relating to governance and to transactions in share capital of state-owned undertakings (hereinafter referred to as "the Order").

Since that date, the composition, powers and rules of operation of the Company's Board of Directors have been governed by the following texts:

• the Order;

• the provisions of the French Commercial Code applicable to limited liability companies;

• the provisions of law no. 83-675 of July 26, 1983 concerning the democratisation of the public sector (hereinafter referred to as the "Democratisation Act") as regards the election of and bylaws governing the directors representing the staff;

• the articles of association of the Company and the bylaws of the Board of Directors.

II.1.2. Composition and operation of the Board of Directors

Composition and operation of the Board of Directors

The provisions of the Order, the Commercial Code and the Company's articles of association require the Company's Board of Directors to be made up of between three and eighteen members.

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

The provisions of article 7 of the Order state that employee representatives must make up one third of the Board of Directors. Under the provisions of article 8 of the Order, they shall be elected by staff under the terms laid down in title II, chapter II of the Democratisation Act.

The General Meeting of Shareholders which met on December 19, 2014 in order to bring the articles of association of the Company into line with the provisions of title II of the Order and to appoint new directors, appointed eleven new directors, of whom three were proposed by the shareholder Thales and five by the French State. As a result, the Board of Directors is now permanently composed of eighteen directors.

The State has been represented in its capacity as a director by:

• Ms Astrid Milsan, who was appointed the State's representative on the Company's Board of Directors as from December 19, 2014 by decree of the Minister of Finance and Public Accounts and the Minister of the Economy, Industry and the Digital Sector dated December 17, 2014.

The six directors elected as representatives of the staff are:

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

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

- Mr Hervé Guillou;
- Ms Sophie Mantel, appointed on the recommendation of the State;
- Ms Sandra Lagumina, appointed on the recommendation of the State;
- Mr Jacques Hardelay, appointed on the recommendation of the State;
- Mr Bertrand Le Meur, appointed on the recommendation of the State;
- Mr Bernard Rétat, appointed on the recommendation of the State;
- Mr Patrice Caine, appointed on the recommendation of Thales;
- Ms Nathalie Ravilly, appointed on the recommendation of Thales;
- Mr Pascal Bouchiat, appointed on the recommendation of Thales;
- Ms Gabrielle Gauthey;
- Mr Luc Rémont.

Pursuant to paragraph one of article L. 225-18-1 of the French Commercial Code, the proportion of directors of each gender may not be less than 40% following the close of the next General Meeting called to approve the appointments in those companies that, as from January 1, 2017 and for the third consecutive financial year, employ an average of at least 500 permanent staff and report net revenue or total assets of at least €50 million, it being specified that the representative of the State appointed pursuant to article 4 of the Order is taken into account in the application of this rule, in accordance with the provisions of the fourth paragraph of article 5 of the Order.

As from December 19, 2014, the Company's Board of Directors has comprised five women out of a total of twelve directors appointed by the General Meeting of Shareholders or by the State pursuant to article 4 of the Order. Consequently, the current composition of the Board of Directors complies with the proportion rule laid down in the first paragraph of article L. 225-18-1 of the French Commercial Code, even though the Company is not as yet required to comply with said rule.

Pursuant to article 6 of law no. 2011-103 of January 27, 2011 on balanced representation of men and women on the boards of directors and supervisory boards and on professional equality, the lists of candidates put to the vote of the staff must comprise a candidate of each gender one after the other, with the difference between the number of candidates of each gender on each of the lists not to exceed one, counting from the second renewal of the Board of Directors following publication of the law, that is to say, in 2020 for the Company.

Since December 19, 2014, one woman has been sitting on the Company's Board of Directors, in the subset of directors elected as representatives of the staff.

Furthermore, by virtue of the legal and regulatory provisions applying to the Company, Mr Jacques Paultre de la Motte, General Controller for Economy and Finance, head of the Space and Arms Industries Mission of the State Economic and Financial Verification Mission, Mr Olivier Schmit, General Controller for Arms and Government Commissioner at the Company and Mr Stefan Le Ruyet, Secretary of the Central Works Council, attend meetings of the Board of Directors but may not vote.

The General Meeting of Shareholders held on December 19, 2014 also introduced into the Company's articles of association a provision allowing the Board of Directors to appoint a non-voting director *(censeur)*. Under the terms of article 14 of the Company's articles of association, said non-voting director has a general and ongoing advisory and supervisory role but may never become involved in the management of the Company or take the place of the Company's statutory bodies. The non-voting director is invited to attend all meetings of the Board of Directors and takes part in discussions in an advisory capacity. The non-voting director is appointed for a period of five years and may be re-appointed or removed by the Board of Directors. As an exception to this rule, the Company's articles of association stipulate that the term of office of any non-voting director appointed during 2014 would expire at the close of the Ordinary General Meeting called to approve the financial statements for the year ending December 31, 2019.

At its meeting on December 19, 2014, the Board of Directors laid down the duties of the non-voting director, stipulating that the role would be an advisory one in the areas of finance, country risks and the insurance of export contracts and it appointed Ms Sandrine Gaudin as non-voting director for a period of five years, it being specified that her term of office will expire at the close of the Ordinary General Meeting called to approve the financial statements for the year ending December 31, 2019.

The list of offices held and functions performed by each corporate officer is shown in annex II.

Term of office of directors

All directors sitting on the Board of Directors of the Company have a term of office of five years, in accordance with article 9 of the Company's articles of association, it being specified that the terms of office of the directors appointed by the General Meeting of Shareholders of December 19, 2014 will expire, as an exception to this rule, at the close of the Ordinary General Meeting called to approve the financial statements for the year ending December 31, 2019. The same applies to the directors elected as representatives of the staff when the terms of office of all members of the Board of Directors were renewed at the end of 2014.

Upon taking office, each director is provided firstly with a copy of the articles of association of the Company and the up-to-date bylaws of the Board of Directors and secondly with the information and documents necessary for exercising his or her office.

Obligations and duties of the directors

The work of the Board of Directors is governed by a Board of Directors charter which forms an integral part of the bylaws of the Board of Directors and which defines the rights and duties of the members of the Board of Directors, particularly in relation to situations of conflict of interests with which they may be faced; independence of analysis, judgement, decision-making and action, of which they are required to provide evidence; the time which they must devote to their office and the obligations of confidentiality incumbent upon them in respect of information communicated to them in writing or orally for the purposes of performing their duties and as a result of their involvement in the work of the Board of Directors and the committees of the Board of Directors.

In particular, the bylaws place each director under an obligation to inform the Board of Directors fully and in advance of any actual or potential situation of a conflict of interests either directly between the Company and himself or herself, or indirectly through a company in which he or she has an interest and make him or her aware that he or she will not be provided with any information on the matters in question and will have to refrain from taking part in the discussions of and votes on the corresponding resolutions of the committees and of the Board of Directors. Since July 16, 2003, no situation of a conflict of interests has been brought to the attention of the Board of Directors.

In accordance with the provisions of article 21 of the Democratisation Act, the directors elected to represent the staff have the same rights and obligations as the other directors. They are subject to all the provisions applying to the other directors, subject to the specific provisions of the above-mentioned law. On the other hand, by virtue of article 22 paragraph 2(c) of the Democratisation Act, they are subject to a lower level of liability than that provided for by general law. In fact, when their liability as a director is invoked, it is assessed taking into account that their office is unpaid and in no event may they be held jointly and severally liable with the directors appointed by the General Meeting of Shareholders.

Remuneration paid to directors appointed by the General Meeting of Shareholders

In accordance with the provisions of the Order and the Democratisation Act, only the directors appointed by the General Meeting of Shareholders and the person appointed by the State pursuant to article 4 of the Order to represent it as a director may receive attendance fees as remuneration for their office insofar as the office of the directors elected to represent the staff is unpaid, without prejudice to the reimbursement by the Company of the expenses incurred by these directors in performing their duties.

The Order specifies that any remuneration received by the representative of the State by reason of the performance of his or her duties is transferred to the State budget pursuant to the provisions of the third paragraph of article 5 of the Order.

Article 6-V of the Order provides that any remuneration received by directors, who are civil servants, appointed by the General Meeting on the recommendation of the State, is transferred to the State budget.

Article 1 of the order of December 18, 2014, adopted pursuant to article 6 of the Order, provides that the amount of the attendance fees received by directors, who are not civil servants, appointed by the General Meeting on the recommendation of the State, will be shared as follows:

- 30% of this amount is paid to the director;
- 70% of this amount is paid to the State budget.

Directors who are eligible for payment of said remuneration receive attendance fees for regularly attending meetings of the Board of Directors and additional attendance fees where they are involved, either as chairperson, or as a member, in the work of the special committees of the Board of Directors. These fees are also allocated according to regular attendance at meetings of the special committees of the Board of Directors, it being stated that the amount of the attendance fees received by the chairpersons of these committees is higher than the amount of attendance fees received by the committee members in order to take account of the time spent on the chairperson's duties and the responsibilities associated with exercising these functions.

The General Meeting of Shareholders held on April 30, 2014 set the total maximum amount of attendance fees to be shared between the directors appointed by the General Meeting at €80,000 *per annum*.

In accordance with the Board of Directors' decision of July 23, 2013, these attendance fees are shared between the directors concerned in accordance with the following rules: €1,200 per meeting and per director and €600 per meeting and per director for those directors who are members of one or more special committees of the Board of Directors.

The aforementioned resolutions of the General Meeting of April 30, 2014 and of the Board of Directors of July 23, 2013 expressly refer to the attendance fees to be shared between directors appointed by the General Meeting. These resolutions do not take into account attendance fees that could now be transferred to the State in respect of the duties performed by the representative appointed by decree to represent it as a body corporate director.

It has therefore proved necessary to extend the payment of attendance fees to all the members of the Board of Directors who are eligible for this type of remuneration, namely the State's representative appointed pursuant to article 4 of the Order as well as all the directors appointed by the General Meeting.

On account of the changes made by the Order, the number of directors of the Company who will be paid attendance fees rises from five to eleven (the Chairman and Chief Executive Officer having waived this remuneration).

The Remuneration and Appointments Committee has therefore proposed increasing the total amount of attendance fees to be shared between the directors of the Company from €80,000 to €175,000 excluding social security charges.

At its meeting of July 22, 2015, the Board of Directors decided to retain the same criteria for sharing out this new total amount as those decided on at its meeting of July 23, 2013.

On August 27, 2015, the Commissioner of State Holdings, appointed by the Minister of the Economy, approved this new total amount as well as the way in which it was to be shared.

The General Meeting held on November 26, 2015 set the total maximum amount of attendance fees to be shared between the State's representative appointed on the Board pursuant to article 4 of the Order and the directors appointed by the General Meeting of Shareholders, with the exception of the Chairman and Chief Executive Officer of the Company who has waived these fees, at the sum of €175,000 *per annum* as from December 19, 2014 and for future financial years, until the Meeting decides otherwise.

Powers and duties of the Board of Directors

The powers devolved to the Board of Directors of the Company are first of all those provided for by the French Commercial Code applicable to limited liability companies and the articles of association of the Company.

The bylaws of the Board of Directors also specify that the Company's Board of Directors must ensure, in particular, that the risks created by the Company's business, the contracts by which it is bound or the investment and disinvestment operations it performs, are identified and controlled, thus highlighting the increased responsibility now incumbent upon Boards of Directors in the areas of internal control and management of risks.

Operation of the Board of Directors during the 2015 financial year

The Board of Directors met seven times during the year ended December 31, 2015. The average attendance rate at meetings of the Board of Directors was 82% in 2015. The Board of Directors was brought up to date at each meeting on the developments of a commercial, financial and operational nature through detailed progress reports presented by the Chairman and Chief Executive Officer and the General Secretary.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussions during the 2015 financial year included:

- co-opting Mr Patrice Caine as a new director to replace the resigning Mr Philippe Logak;
- approval of the budget for 2015;
- determining the amount of the variable remuneration to be awarded to the Chairman and Chief Executive Officer for the period between July 23, 2014 and December 31, 2014;
- determining the quantitative and qualitative criteria for the purposes of setting the amount of the variable remuneration to be awarded to the Chairman and Chief Executive Officer in respect of 2015;
- presentation of the Progress Plan;
- presentation of the comprehensive agreement on performance;
- authorising subscription to bonds convertible into ordinary shares to be issued by the company under Irish law, OpenHydro Group Ltd, for an amount of €40 million;
- approval of the Group's 2015-2019 medium-term plan;
- approval of the recommendation made by the Remuneration and Appointments Committee to change the attendance fees, which would increase from €80,000 *per annum* to €175,000 *per annum* to take account of the larger number of directors eligible for this remuneration because of the provisions of the Order;
- setting up an *ad hoc* committee for improving the performance of the Board tasked with drafting the Board's road map in order to meet the requirement of "Simplifying the governance of DCNS";
- agreement in principle to implement the recommendations of the *ad hoc* committee for improving the performance of the Board, for immediate application;
- presentation of the SEA 1000 Australia project;
- authorisation to take any action with the "Foreign Investment Promotion Board of India" in connection with the proposed formation of a subsidiary in India for the purpose of carrying out studies, research and development services, production and maintenance of anaerobic propulsion modules for submarines.

Bylaws of the Board of Directors

In order to increase its effectiveness and allow it to discharge its responsibilities to the best of its ability, on July 16, 2003, the Board of Directors of the Company was provided with bylaws for the first time.

The bylaws of the Board of Directors were amended for the first time on March 29, 2007, after Thales took a stake in the Company, for the second time on February 17, 2010, specifically to take account of the new recommendations made by the *Institut français des administrateurs* (French Institute of Directors (IFA)) concerning internal control and management of risks, then for the third time on December 19, 2014, to increase from four to five the number of members of the Remuneration and Appointments Committee and thereby to enable a director elected to represent the staff to sit on this committee.

The bylaws specify the role and the main responsibilities of the Board of Directors. They also provide for the setting up of four special committees, setting the memberships, missions and rules of operation for these.

The above-mentioned committees are tasked with looking into matters which the Board of Directors or its Chairman refer to it for advice. Generally speaking, the role of these committees is to gather and provide the Board of Directors with appropriate additional information thereby facilitating decision-making by formulating opinions, proposals and recommendations.

As a consequence, the Board of Directors alone is competent to decide on matters within its scope which have been referred for preliminary consideration to the special committees which serve merely to investigate and make recommendations in these areas.

The four special committees set up by the Board of Directors are as follows.

- The Audit, Accounts and Risks Committee, which is tasked with ensuring monitoring of:

– the process generating economic and financial reporting;

– the effectiveness of the internal control and risk management systems;

– legal control, exercised by the Statutory Auditors, of the annual accounts and as necessary the consolidated accounts of the Company;

– the independence of the Statutory Auditors.

With regard to risks, each year it examines the mapping of all kinds of risks to which the Group is exposed as a result of its operations and the processes and action plans put in place to identify and manage these risks.

The members of the Audit, Accounts and Risks Committee are Ms Astrid Milsan, Ms Isabelle Roué, Mr Luc Rémont and Mr Pascal Bouchiat. The committee is chaired by Mr Luc Rémont.

The Audit, Accounts and Risks Committee meets at least three times per year or more frequently where necessary. It met five times during 2015, with an average attendance rate of 94%.

- The Tenders Committee, which is tasked with examining any planned tender involving a significant commitment for the Company in terms of value, duration, innovativeness of the areas of operation or specific contractual or technical risks.

The members of the Tenders Committee are Ms Astrid Milsan, Mr Bernard Rétat, Mr Pascal Bouchiat, Mr Bertrand Le Meur and Mr Jacques Hardeley. The committee is chaired by Mr Bernard Rétat.

The Tenders Committee meets as required. In 2015, it met nine times with an average attendance rate of 78%.

- The Remuneration and Appointments Committee, the main tasks of which are:

– proposing remuneration levels, retirement and benefits plans and benefits in kind of the executive officers;

– examining the key directions of the Company in terms of remuneration policy;

– giving its opinion on the principles of remuneration of the members of the Executive Board of the Company and the leadership teams of the Group subsidiaries;

– giving its opinion on the principles adopted by the Company on staff incentives, profit-sharing and share ownership plans.

The members of the Remuneration and Appointments Committee are Ms Astrid Milsan, Ms Gabrielle Gauthey, Mr Patrice Caine, Mr Bertrand Le Meur and Mr Jacques André. The committee is chaired by Mr Parice Caine.

The Remuneration and Appointments Committee meets every six months or more frequently where necessary. In 2015, it met twice with an attendance rate of 90%.

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

The members of the Strategic Committee are Ms Astrid Milsan, Ms Nathalie Ravilly, Ms Sandra Lagumina, Mr Hervé Guillou, Mr Bertrand Le Meur and Mr Patrice Caine. The committee is chaired by Mr Hervé Guillou.

The Strategic Committee meets three times per year or more frequently where necessary. It met four times in 2015, with an average attendance rate of 83%.

Evaluation of the performance of the Board of Directors

The bylaws of the Board of Directors provide that it arranges, at regular intervals and at least annually, an evaluation of its own performance, to be carried out by an independent director.

The Board of Directors carried out an evaluation of its own performance for the first time during the 2008 financial year. This task was entrusted by the Board of Directors to a director elected to represent the staff and a director appointed by decree to represent the State.

Overall, the directors found, on completion of this initial task, that on the whole significant progress had been made in the performance of the Board of Directors since it was first set up and that this performance, bearing in mind the youth of the Company and the particular status of its Board of Directors, could be considered satisfactory in terms of the rules of good governance and in relation to the findings made and known in connection with the performance of other boards of directors.

The main findings and conclusions to come out of this task were set out in a written document submitted and presented to all members of the Board of Directors.

At the meeting of July 23, 2013, the Board of Directors decided to arrange a new evaluation of its own performance and appoint a representative from each of the two majority shareholders to perform this task. At the beginning of 2014, these two representatives established the terms of this self-evaluation and then drew up and sent to each member of the Board of Directors a questionnaire to assess the performance of the Board of Directors, its work and the work of its special committees. The Board of Directors was not able to acquaint itself with the findings of this assessment, on the one hand due to the changes that occurred in the Company's governance and the management bodies at the end of July 2014 and on the other, due to the decision taken, at the instigation of the shareholders, to work on improving the performance of the Board. To this end, at the meeting held on July 22, 2015, an *ad hoc* committee for improving the performance of the Board was set up by the Board, made up of its own members, for continuing the task of drafting the Board's road map in order to meet the requirement of "Simplifying the governance of DCNS". This committee first gave an account of its work at the meeting held on October 22, 2015. It is anticipated that the committee will come back to the Board with the completion of its task at the February 2016 meeting.

General management of the Company

Pursuant to the decision taken by the Board of Directors of the Company on June 2, 2003, the Chairman of the Board of Directors is responsible for the general management of the Company and thus holds the title of Chairman and Chief Executive Officer.

Mr Hervé Guillou's position as Chairman and Chief Executive Officer was renewed by decree of the President of the Republic on February 13, 2015, it being specified that between December 19, 2014 and the date the aforementioned decree was published in the *Official Journal of the French Republic,* Mr Guillou was acting Chairman and Chief Executive Officer of the Company, in accordance with the decision of the Minister of Finance and Public Accounts and the Minister of the Economy, Industry and the Digital Sector dated December 17, 2014, taken pursuant to the provisions of article 21 of the Order.

As Chairman of the Board of Directors, he organises and directs the work of the Board of Directors and reports on this to the General Meeting of Shareholders. He ensures that the bodies of the Company function properly and makes sure specifically that the directors are able to fulfil their duties.

II.1.3. Governance of subsidiaries and jointly controlled companies

Subsidiaries

The Company has subsidiaries both in France (DCN International, Sirehna, DCNS Support and DCNS Énergies) and abroad (DCNS India, DCNS FE, DCNS do Brasil, DCNS Coopération, OpenHydro Group Limited, DCNS Arabia, DCNS Malaysia, Prosin and DCNS Technologies Canada Inc. and DCNS Australia).

The executive, management and control bodies of the French and foreign subsidiaries of DCNS are made up exclusively of representatives of the Group operating divisions and functional management. The Canadian subsidiary incorporated in 2014 is an exception to this principle: a Canadian resident not employed by a company within the DCNS group sits on the Board of Directors, thereby enabling DCNS Technologies Canada Inc. to comply with the Canadian requirements concerning the composition of Boards of Directors (at least 25% of whose members must be Canadian residents).

The representatives of the operating divisions are selected as a function of the activity of the subsidiary concerned. A representative of the financial function almost always has a seat on these bodies. Each subsidiary is operationally attached, according to the nature of its business, either to an operating division or to the International Trade branch. Monitoring of the activities and operations of each subsidiary is thus provided by the operating division to which it is attached or the International Trade branch.

DCN International

The Board of Directors of the public limited company DCN International is made up of four directors. It met four times during 2015. The average attendance rate at meetings of the Board of Directors of this company was of the order of 69% in 2015.

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

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- closing of the accounts for the year ended December 31, 2014;
- presentation of the results as at June 30, 2015 and updating of these at the end of December 2015;
- renewal of the offices of the Statutory Auditor and Deputy Statutory Auditor;
- appointment of a new Chairman and Chief Executive Officer to replace the Chairman and Chief Executive Officer whose term of office has ended;
- approval of the proposed dissolution-liquidation of a company in which DCN International has an interest.

Sirehna

The Board of Directors of the public limited company Sirehna is made up of four directors. It met on three occasions during 2015. The average attendance rate at meetings of the Board of Directors of this company was of the order of 92% in 2015.

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

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- approval of the 2015 budget;
- closing of the accounts for the year ended December 31, 2014;
- presentation of the results as at June 30, 2015 and updating of these at the end of December 2015;
- transfer of the registered office to Technocampus Ocean.

DCNS Support

The Supervisory Committee of the simplified joint-stock company DCNS Support had four members up to June 26, 2015 and since then it has had three members. It met three times during 2015. The attendance rate at the meeting of the Supervisory Committee of this company was 100%.

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

Major operations that were subject to the prior authorisation of the Supervisory Committee or in-depth discussion during 2015 included:

- appointment of a new manager of the Company's branch registered in Saudi Arabia;
- approval of the 2015 budget;
- closing of the accounts for the year ended December 31, 2014.

DCNS India

The Board of Directors of DCNS India (a company under Indian law) is made up of four members. It met on five occasions in 2015. The average attendance rate at meetings of the Board of Directors of this company was 95% in 2015.

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

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- renewal of the office of Managing Director of the company;
- appointment of a Compliance Officer of the company;
- closing of the accounts for the year ended March 31, 2015;
- renewal of the office of the Statutory Auditor for the 2015-2016 financial year.

DCNS FE

The Board of Directors of DCNS FE (a company under Singaporean law) is made up of five members. It met twice during 2015. The attendance rate at meetings of the Board of Directors of this company was 90% in 2015. Furthermore, a certain number of decisions relating to the management of this company and falling within the remit of the Board of Directors were taken, with the written resolutions they were being asked to adopt being circulated to the members in accordance with the applicable Singaporean laws.

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

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- closing of the accounts for the year ended December 31, 2014;
- the distribution of an interim dividend for the year ending December 31, 2015;
- approval of the budget for 2016.

DCNS do Brasil Serviços Navais Ltda

The Board of Directors of DCNS do Brasil Serviços Navais Ltda (a company under Brazilian law) is made up of three members. It met twice in 2015. The attendance rate at meetings of the Board of Directors of this company was 100% in 2015.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- examination and adoption of the accounts for the year ended December 31, 2014 for their approval by the General Meeting;
- approval of the 2015 budget;
- authorisation to recruit a Financial Controller.

DCNS Énergies

The Supervisory Committee of the simplified joint-stock company DCNS Énergies had four members then three. It met once in 2015. The attendance rate at the meeting of the Supervisory Committee of this company was 100%.

Major operations that were subject to the prior authorisation of the Supervisory Committee or in-depth discussion during 2015 included:

- appointment of new members of the Supervisory Committee;
- a capital increase in cash;
- closing of the accounts for the year ended December 31, 2014;
- authorisation to pay up some of the registered capital of the Chilean subsidiary Energia Marina.

DCNS Arabia

DCNS Arabia (a company under Saudi law) does not have a collegiate management and/or control body. The General Meeting is competent to take all decisions falling outside the remit of this company's manager.

DCNS Malaysia

The Board of Directors of DCNS Malaysia (a company under Malaysian law) had six members up to March 19, 2015 and since then it has had seven members. It met once during 2015. The attendance rate at meetings of the Board of Directors of this company was 71%. Furthermore, a certain number of decisions relating to the management of this company and falling within the remit of the Board of Directors were taken, with the written resolutions they were being asked to adopt being circulated to the members in accordance with the applicable Malaysian laws.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- appointment of a new Director;
- closing of the accounts for the year ended December 31, 2014;
- approval of the 2015 budget;
- approval of the key assumptions made in the MTP.

Prosin – Projetos E Sistemas Navais SA

The Board of Directors of Prosin – Projetos E Sistemas Navais SA (a company under Brazilian law) has three members. It met once during 2015. The attendance rate at the meetings of the Board of Directors of this company was 100%.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- closing of the accounts for the year ended December 31, 2014;
- the proposed replacement of a Director.

DCNS Coopération

The Board of Directors of DCNS Coopération (a company under Belgian law) is made up of three members. It met twice during 2015. The attendance rate at the meetings of the Board of Directors of this company was 100%.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- closing of the accounts for the year ended December 31, 2014;
- approval of the 2015 budget;
- replacement of directors.

DCNS Technologies Canada Inc.

The Board of Directors of DCNS Technologies Canada Inc. (a company under Canadian law) is made up of three members. A certain number of decisions relating to the management of this company and falling within the remit of the Board of Directors were taken with the written resolutions they were being asked to adopt being circulated to the members in accordance with the applicable Canadian laws.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- authorisation to recruit staff.

DCNS Australia

DCNS Australia (a company under Australian law) was registered on April 24, 2015. The Board of Directors of DCNS Australia is made up of three members. A certain number of decisions relating to the management of this company and falling within the remit of the Board of Directors were taken with the written resolutions they were being asked to adopt being circulated to the members in accordance with the applicable Australian laws.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- appointment of members of the Board;
- replacement of the Company Secretary.

Jointly controlled companies

Eurosysnav SAS

The Board of Directors of the simplified joint-stock company Eurosysnav SAS is made up of eight members. It met twice during 2015. The average attendance rate at the meetings of the Board of Directors of this company was of the order of 94%.

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

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- closing of the accounts for the year ended December 31, 2014;
- renewal of the office of two directors;
- renewal of the office of the Deputy CEO;
- presentation of the 2015 business plan.

Horizon SAS

The Board of Directors of the simplified joint-stock company Horizon SAS is made up of eight members. It met three times during 2015. The average attendance rate at the meetings of the Board of Directors of this company was of the order of 75%.

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

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- closing of the accounts for the year ended December 31, 2014;
- renewal of the office of four directors;
- renewal of the office of two non-voting directors *(censeurs);*
- presentation of the business plan.

OpenHydro Group Limited

The Board of Directors of OpenHydro Group Ltd (a company under Irish law) is made up of nine members. It met on eight occasions during 2015. The average attendance rate at the meetings of the Board of Directors of this company was of the order of 90%.

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

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- closing of the accounts for the year ended December 31, 2015;
- replacement of two members of the Board;
- approval of the 2015 budget;
- authorisation to set up a subsidiary in Canada and one in France.

Itaguaí Construções Navais SA

The Board of Directors of Itaguaí Construções Navais SA (a company under Brazilian law) is made up of five members. It met on five occasions in 2015. The attendance rate at the meetings of the Board of Directors of this company was 100% in 2015.

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

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- renewal of the members of the Board of Officers;
- closing of the accounts for the year ended December 31, 2014;
- approval of the 2015 budget.

Boustead DCNS Naval Corporation (BDNC)

The Board of Directors of Boustead DCNS Naval Corporation SDN BHD (a company under Malaysian law) is made up of five members. It met on three occasions during 2015. The attendance rate at these meetings of the Board of Directors was 100%. Furthermore, a certain number of decisions relating to the management of this company and falling within the remit of the Board of Directors were taken, with the written resolutions they were being asked to adopt being circulated to the members in accordance with the applicable Malaysian laws.

An activity monitoring report was given at each meeting of the Board of Directors in 2015.

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

- replacement of the Chief Executive Officer;
- replacement of a director;
- closing of the accounts for the year ended December 31, 2014;
- approval of the 2015 budget;
- appointment of Statutory Auditors.

Défense Environnement Services

The Board of Management of the simplified joint-stock company Défense Environnement Services is made up of eight members. It met once during 2015. An activity monitoring report of this company was given at these meetings of the Board of Management.

Major operations that were subject to the prior authorisation of the Board of Management or in-depth discussion during 2015 included:

- approval of the 2015 budget.

Winacelles

The Board of Management of the simplified joint-stock company Winacelles is made up of four permanent members. It met once during 2015. The attendance rate of the permanent members at the meetings of the Board of Management of this company was 100% in 2015.

An activity monitoring report was given at these meetings of the Board of Management.

Major operations that were subject to the prior authorisation of the Board of Management or in-depth discussion during 2015 included:

- closing of the accounts for the year ended December 31, 2014;
- approval of the 2015 budget.

Kership

The Board of Management of the simplified joint-stock company Kership is made up of four permanent members and one invited member. It met three times during 2015. The attendance rate of the permanent members at the meetings of the Board of Management of this company was 78% in 2015. Furthermore, a certain number of decisions relating to the management of this company and falling within the remit of the Board of Management were taken, with the written resolutions they were being asked to adopt being circulated to the members in accordance with the provisions of the bylaws of the Board of Management.

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

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Major operations that were subject to the prior authorisation of the Board of Management or in-depth discussion during 2015 included:

• closing of the accounts for the year ended December 31, 2014;

• implementation of the AIC, development of Kership.

Energia Marina SpA

The Board of Directors of Energia Marina SpA (a company under Chilean law) is made up of five members. It met on five occasions during 2015. The attendance rate at the meetings of the Board of Directors of this company was 100% in 2015.

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

Major operations that were subject to the prior authorisation of the Board of Directors or in-depth discussion during 2015 included:

• approval of the 2015 budget;

• transfer of the registered office;

• approval to sign the grant agreement with the Chilean Minister for Energy/CORFO;

• setting up the Technical Committee and appointing its members.

II.1.4. Bodies set up by the General Management

The Chairman and Chief Executive Officer wished to be supported by a number of committees in exercising his control of the Company, namely:

• the Executive Committee (COMEX), which is tasked with examining issues that have a major impact on the Group's strategy, the way it functions and its commercial and operating activities. It is chaired by the Chairman and Chief Executive Officer and is made up of the following members: the Financial and Legal Vice President, the Development Vice President, the General Secretary, the International Trade Director, the Strategy, Partnerships and Innovation Director, the Programme Director, the Manufacturing Director, the Human Resources and Operations Director, the Services Director and the Marine Energy and Infrastructure Director. The Committee meets weekly. Each quarter, a meeting is held of the Executive Committee, expanded to incorporate the managers of the main operating divisions;

• the Tenders Committee;

• the Finance Committee;

• the Product Policy Committee;

• the Countries Committee;

• the Risks Committee;

• the Ethics and CSR Committee.

II.1.5. Integrated risk management system

The various risk factors are dealt with in paragraph I.2.g. entitled "Risk Management" on page 15 and up to paragraph I.2.g.10. on page 20 of the management report.

II.1.5.a. Risk control process

DCNS has set up an integrated risk management system consisting of:

• identifying risks which may affect the ability of the Group's various entities to achieve their objectives and making sure that these risks are managed;

• defining and setting up control activities commensurate with the challenges in order to control the risks identified;

• assessing the effectiveness of the controls set up;

• auditing the integrated system;

• continuously improving the system in place through feedback and supervisory bodies.

The system, as described below, applies to all DCNS entities and controlled subsidiaries. DCNS has used the 2013 COSO version (Committee of Sponsoring Organization of the Treadway Commission) as well as the *Institut français de l'audit et du contrôle internes* (French Audit and Internal Control Institute (IFACI)) professional standard for its design, implementation and assessment.

Risk management

Risk management is the responsibility of each management and is an integral part of the business process. Its first objective is to identify, analyse and pre-empt the Group's main risks and to manage them, then to ensure that these risks are taken into account and that the resources implemented to reduce and manage them are effective.

In addition, the risk management system is supervised by the Audit and Risks Management. To do this, it relies on a network of internal control officers within these entities.

Risk mapping has been set up by DCNS and is updated annually to take account of changes in the environment and the Group as well as how these changes may affect the ability of the Group to achieve its strategic and operational objectives. Annual updating of risk mapping is done by the Group's entities. In 2014, the risk criticality scale between risk mapping and audit findings was harmonised. Since 2015, the work has been done using three approaches: "bottom-up" (feedback of risks by the entities), "transverse" (risk analysis and challenge by business experts) and "top-down" (exchanges and review by General Management).

The risk mapping of the Group and associated action plans are reviewed and approved by an internal Risks Committee which is chaired by the Chairman and Chief Executive Officer.

Since 2013, the main risks and associated action plans presented by operations managers have been examined by this committee at each meeting.

Since 2015, the Group's risk mapping has been updated every quarter and reviewed by the Risks Committee.

Lastly, entities of DCNS and controlled subsidiaries draw up a (management) representation letter annually, which is signed by their manager or corporate officer. It is a personal undertaking by the manager of the entity to control its operations and its risks and covers all the entity's activities.

Since 2014, this letter has also covered Ethical Reporting and Compliance by managers.

Internal control

Internal control helps to manage operations in terms of effectiveness and efficiency of the Company's internal processes, protect assets, comply with laws and regulations, ensure the quality and reliability of any information produced and communicated as well as apply any instructions and guidelines fixed by the Group.

Internal control helps to achieve the Group's objectives yet is not an absolute guarantee, however, because of the limitations inherent in any system.

Internal control is part and parcel of the Company's management and is the responsibility of the operational staff. The Audit and Risks Management supervises it, ensures its relevance and effectiveness and relies on a network of internal control officers.

Since 2014, an annual plan to strengthen internal control has been drawn up to deal with any priorities agreed with the Audit, Accounts and Risks Committee.

Assessment of the effectiveness of internal control

The operational and functional managers are responsible for carrying out controls but also self-assessment of the effectiveness of internal control in their area of responsibility. Self-assessment, carried out every year using a questionnaire common to the Group (internal control questionnaire – ICQ), allows entities to identify areas for improvement (strengthening of controls or procedures).

The Audit and Risks Management tests the quality of the replies to the ICQ through spot assessments (cf. § Integrated system audit).

In 2015, the ICQ was thoroughly reworked: devised in close collaboration with the Group's operational managers and reviewed by the Statutory Auditors. It is now more compact and has refocused on the most significant operational activities and audit points.

Integrated system audit

The objective is to obtain a relevant assessment of the effectiveness of internal control and risk management. Audits are carried out on a regular basis by the Audit and Risks Management to reassure the General Management and the Audit, Accounts and Risks Committee that the internal control system is reliable and relevant and that the Company is managing its risks.

In 2015, an audit of the integrated risk management system was conducted in order to check that the various aspects described above are effectively implemented and are reliable.

Improvement loops of the system

The Audit and Risks Management controls the continuous improvement loop of the Group's risk management and internal control system.

The following subjects are reviewed regularly within the Group's entities and by its governance bodies:

• monitoring of actions to manage large risks;

• monitoring of action plans arising from audit recommendations;

• progress as regards the implementation of control plans.

II.1.5.b. Governance of the system

The bodies described below control the integrated risk management system.

The Executive Committee

It directs and endorses the annual internal audit plan and it periodically monitors (at least twice a year) that recommendations are being properly implemented. It directs and endorses the plan to strengthen internal control and risk management, in accordance with the Group's priorities.

The Risks Committee

Chaired by the Chairman and Chief Executive Officer, it meets every six months or more frequently where necessary. It is tasked with:

• determining the Group's risk management policy;

• periodically reviewing and endorsing the mapping of the largest risks: assessment of criticality, identification of new risks;

• revising, challenging action plans associated with the largest risks (term and controller defined) and supervising their proper implementation.

The Audit and Risks Management

Its involvement spans the Group as a whole in any area relating to internal control. It carries out its activities independently, in accordance with an audit charter and observing international professional standards. Since 2012, it has been certified by the *Institut français de l'audit et du contrôle internes* (French Audit and Internal Control Institute (IFACI)) for IIA (Institute of Internal Auditors) international standards.

It reports to the General Secretary and gives an account of its activities to the Chairman and Chief Executive Officer and the Audit, Accounts and Risks Committee.

Its audit activities are conducted in accordance with the annual audit plan examined by the Audit, Accounts and Risks Committee. It makes sure that the internal control systems rolled out within the Group are observed and that they are effective and it particularly takes into account the risk mapping and risk profiles of entities when preparing its audit programmes.

After each audit, a report is circulated with recommendations that lead to improvement actions monitored in consultation with the managers concerned.

The Board of Directors

The Board of Directors gives its backing to the key focal areas of the internal control and risk management system after hearing the opinions and recommendations of the Audit, Accounts and Risks Committee(1).

The Audit, Accounts and Risks Committee of the Board of Directors

This committee examines:

- the accounts and accounting procedures presented by the Finance Department;
- the results of the audits and work relating to internal control presented by the Audit and Risks Management;
- the work relating to the Group's main risks presented by the Audit and Risks Management;
- the contents of the forward programme of internal audit activities and corresponding allocation of resources presented by the Audit and Risks Management;
- the findings of the work carried out by the Statutory Auditors, ensuring moreover, that they are independent;
- the points regarding the main legal disputes presented by the Legal Department;
- the Group's internal audit charter which is endorsed by the Chairman of the Audit, Accounts and Risks Committee.

The Statutory Auditors

As part of their work auditing and certifying the Group's annual and consolidated financial statements, the Statutory Auditors examine the procedures of a certain number of processes of the Company involved in generating accounting and financial information. They report their findings to the Audit, Accounts and Risks Committee and to the Board of Directors.

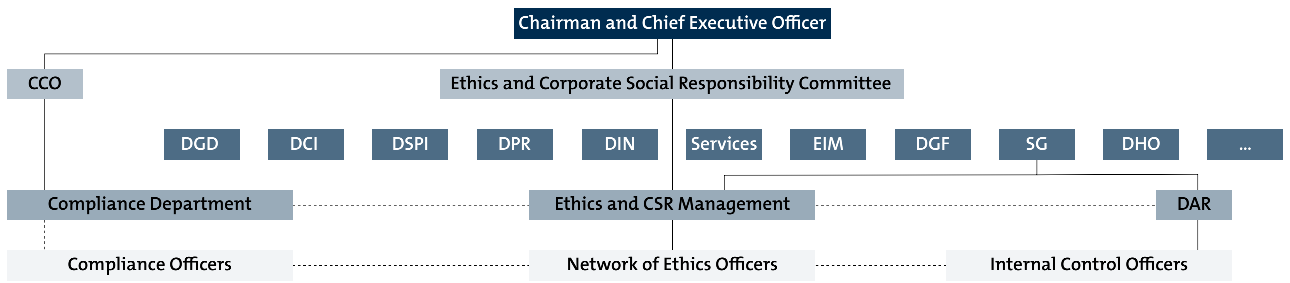
Since 2014, the Audit and Risks Management has established a relationship with the Statutory Auditors so as to act more effectively and comprehensively regarding the assessment and risk management of the organisation based on two key areas:

- effectiveness: wider and more optimised coverage of critical risks;
- productivity: synergy of the resources of DCNS and of the Statutory Auditors, limitation of cases of redundancy.

II.1.6. Ethics and integrity

Corporate and social responsibility (CSR) within DCNS is organised as shown in the following diagram. This structure was revised in 2015.

Horizontal structuring of CSR at DCNS



The Ethics and Corporate Social Responsibility Committee

In March 2015, following the appointment of Mr Hervé Guillou, the new structure of the Group established one and the same Ethics and Corporate Social Responsibility Committee. Its role is to set the general guidelines on ethics and corporate social responsibility and to make sure that good practice is implemented within the Group.

The Ethics and Corporate Social Responsibility Committee includes:

- the members appointed *intuitu personæ* by the Chairman and Chief Executive Officer;
- the Secretary of the Central Works Council;
- the Chief Compliance Officer;
- the Ethics and Corporate Social Responsibility Director.

(1) Cf. Bylaws of the Board of Directors (version February 17, 2010).

The Ethics and Corporate Social Responsibility Committee gives an account of its action to the Chairman and Chief Executive Officer. It is made up of:

Mr Franck Lacroix, Ms Brigitte Laik, Ms Caroline Le Bayon, Ms Sandrine Le Lidec, Mr Stévan Le Ruyet, Ms Laure-Agnès Lernout, Mr Éric Papin, Mr Jérôme Richard, Mr Gwénaël Ropars, Ms Pascale Roussel, Mr Philippe Toth, Mr Marc Vicaire, Mr Michel Vodé (Chairman).

The ethics and CSR policy approved by the Chairman and Chief Executive Officer reflects the undertaking made by DCNS in matters concerning ethics, corporate social responsibility and compliance. The rolling out of this measure, adopted by the whole Group, relies on:

- a Chief Compliance Officer and a Compliance Department responsible for ensuring that the Group's activities comply with the principles of business ethics and particularly to guarantee that the activities of DCNS comply with the laws and regulations in our relationships with our partners and that competition law and data protection rules are respected;
- the Ethics and Corporate Social Responsibility Management responsible for steering DCNS's strategy towards compliance of the Group's activities with the standards and objectives of corporate social responsibility beyond the strict scope of Compliance (societal and environmental commitments towards stakeholders of the Group and so on).

A new version of the bylaws of the Ethics and Corporate Social Responsibility Committee was drafted in 2015. Apart from any risk of conflict of interests and breach of confidentiality, this new version includes a description of the duties of the Ethics Officers: these representatives of the Ethics and Corporate Social Responsibility Committee at DCNS's various sites act as advisers to the management at each site, are one of the prime points of contact for staff seeking advice on ethical matters and organise or participate in training and awareness programmes designed for the site's management or for all staff.

Ethics Officers will be appointed in 2016 at all the sites, in each subsidiary and in companies controlled by DCNS.

The Ethics and Corporate Social Responsibility Committee meets every two months. At these meetings the areas on which it has been instructed to focus, such as awareness training in ethical matters for new staff, the extension of the ethics strategy to the Group's subsidiaries and initiatives to combat harassment, are examined and monitored.

The Ethics and Corporate Social Responsibility Committee monitors the initiatives of the Compliance Department to ensure their effective implementation. Its role includes advising on the drawing up of the various sections of the Compliance Department's "Policies and Procedures" and ensuring that such policies and procedures can be easily implemented by all Group staff in their day-to-day activities.

In 2015, the Group's integrity programme continued to be developed, particularly compliance standards. The policies and procedures already in place to cover patronage, sponsoring and charitable contributions were updated and improved. Furthermore, new policies and procedures were developed and incorporated into the integrity programme to provide a wider forum for other issues.

The whistle-blower system's operation was endorsed by the staff representative bodies and DCNS obtained authorisation from the French data protection authority (*Commission nationale de l'informatique et des libertés* (CNIL)) to implement its whistle-blower system. This system aims to provide DCNS staff with a new, additional channel of communication that enables them to raise the alarm while ensuring that their identity remains confidential.

The Compliance Department continues to train its network of Compliance Officers. Established locally at each site, division and foreign subsidiary, their role is to initially make a contribution to drawing up then promoting and implementing the integrity programme within their entities.

The Group, which aims to contribute to the development and promotion of good practice in France and internationally in relation to Compliance in the defence sector in particular, is involved, through its Compliance Department, in a number of dedicated initiatives run by circles and associations that aim to promote business ethics.

All of the above information is available on the Group's website under the heading "Compliance".

Awareness training and information

In September 2015 DCNS launched an e-learning platform dedicated to awareness training in ethics and anti-corruption principles for managers and staff. By the end of March 2016 around 6,500 of the Group's managers and staff will have received training in three areas: ethics (for example: prevention of harassment), compliance (for example: fraud prevention and prevention of corruption) and human rights (for example: respect for diversity). Everyone can test their knowledge through situational scenarios and can access the Group's internal documents for reference. By the end of 2015, in excess of 2,000 staff had used this website.

This e-learning platform is a further stage in the programmes launched by DCNS since it responds to the challenges posed by the United Nations Global Compact which it signed up to in the middle of 2014. It also responds to the OECD guidelines to which DCNS has committed itself publicly in its Code of Ethics since 2008 and in its "Practical Guide to Ethical Behaviour" since 2011.

Global Compact

DCNS took part in the Peer Review organised by the French Global Compact network in May 2015. The actions taken by the Group meant that it has been recognised as achieving the "Global Compact Advanced Level". Only around fifty companies in France have attained this level of recognition.

Network France

The UN Global Compact's ten principles[(1)]

Human rights

Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2 make sure that they are not complicit in human rights abuses.

Labour standards

Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4 the elimination of all forms of forced and compulsory labour;

Principle 5 the effective abolition of child labour; and

Principle 6 the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7 Businesses should support a precautionary approach to environmental challenges;

Principle 8 undertake initiatives to promote greater environmental responsibility; and

Principle 9 encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

Launched in 2000 by the United Nations, the Global Compact constitutes both a political platform and a practical framework for organisations committed to sustainable development. The aim of this initiative is to ensure that businesses integrate into their strategies and activities ten universally-accepted principles. The Global Compact then assesses businesses' policies by means of twenty-one criteria relating, in particular, to the application of its ten principles, the contribution to the other United Nations objectives and also to the dialogue instigated with all stakeholders. Around 12,000 organisations worldwide, including 8,000 businesses, are members of the Global Compact. By becoming a member, DCNS has affirmed that it belongs to this global community of businesses committed to respect for human rights, labour standards and environmental protection, as well as the promotion of common anti-corruption principles.

Additional information is provided in paragraph I.2.f. entitled "Ethics and Compliance" on page 15 of the management report.

COP21

The DCNS group was present during the COP21 Conference held in December 2015 in Le Bourget.

(1) OECD, ITO, ISO 26000.

II.2. ECONOMY[(1)]

II.2.1. Economic performance

DCNS is a major player in the naval sector in France. As a result of the activity at its sites and established partnerships with SMEs, higher education establishments and universities, the Group is a genuine driver of French industry in terms of jobs and research and development. In making products that are some of the most complex in the world, DCNS benefits from the highly-developed skills of its teams. The Group has 13,878 staff, 13,607 of whom are in France, where it also creates tens of thousands of indirect jobs. These highly-qualified jobs contribute to the country's industrial excellence.

Socio-economic impact

DCNS' socio-economic impact may be measured by various yardsticks, such as the added value, jobs, innovation and exports generated by the Group. Most of the added value that the Group creates is in France, where it has almost all of its sites and workforce and a large share of its suppliers and subcontractors. Around 85% of purchases are ordered from French entities, and nearly two thirds from small to medium sized enterprises (SMEs) and mid-cap companies. DCNS generates significant economic activity above all in Brittany, Normandy and Provence-Alpes-Côte d'Azur, where the Group is a leading employer. The breakdown of purchases shows that all of mainland France's regions and more than 80 *départements* benefit from the Group's activity, however.

In terms of jobs, the Group's impact is not limited to the 13,607 members of staff directly employed by DCNS in France. It also consists of the indirect jobs created through its suppliers and subcontractors, representing around 16,000 jobs. This brings the total direct and indirect jobs generated by the Group in France each year to 30,000. A substantial number of jobs are also created through the consumption resulting from direct and indirect employment. If these jobs are included, the jobs generated in France by the DCNS group's activity may be estimated at nearly 40,000.

Another contributor to DCNS' economic impact is its innovation programme, which helps to boost the local economy's competitiveness. The Group dedicates nearly 3% of its revenue to self-funded R&D, which is more than European shipyards. This ratio rises to 10% when R&D carried out under contract, funded by Government grants or forming part of larger programmes is taken into account. DCNS is also developing collaborative innovation through the 21 PhD students working for the Group under *Conventions industrielles de formation par la recherche* (CIFRE) (industrial agreements on training through research) and its participation in several competitiveness clusters (the *Pôle Mer Bretagne Atlantique* (Brittany Atlantic Sea Cluster) and the *Pôle Mer Méditerranée* (Mediterranean Sea Cluster)) and the Jules Verne *institut de recherche technologique* (IRT) (technological research institute) at the Technocampus Ocean (see below).

This socio-economic impact is not just quantitative. The Group stands out for offering higher skilled jobs and more stable contracts, meaning fewer temporary contracts, than in the rest of the active population. DCNS also ensures the long-term development of core jobs and activities. One of the major strategic focuses of the strategic roadmap defined in 2015 is making sure that the skills necessary for market leadership are maintained. In practice, this has led to the creation of a detailed repository of key activities, which will be updated each year to guarantee that skills are maintained and renewed. This repository lists both engineering and production activities, covering new construction programmes and services such as maintenance and modernisation. More than a hundred activities in total are specifically monitored.

A quality management system

Today, DCNS' economic performance is therefore not only based on the correct blend of resources and industrial means for its activities in order to fully meet customer expectations, but also on the application of dedicated internal control processes in France and internationally, and on innovation, allowing it to stay one step ahead and meet the needs of tomorrow's markets.

AFNOR has awarded combined quality, safety and environment (QSE) certification to DCNS for the ISO 9001, 14001 and OHSAS 18001 standards, and special certification for AQAP 2110. The granting of this combined certification allows the Group to achieve consistency in its QSE policy. It increases the effectiveness of our current processes and will allow us over time to improve and reinforce our industrial performance in respect of all our stakeholders. This certification is subject to monitoring audits for a period of three years.

Certification allows companies to gauge their performance and to demonstrate the quality of their organisation, their products, their services, and the skills of their teams against an international standard. This standard is based on levers common to all three of its strands, and in particular the commitment of each and every person, a culture of identifying and controlling risks, the demanding of high standards and honouring of commitments, and a culture of measuring and guiding improvements by dealing with any failings discovered.

DCNS' certification according to AQAP (2110, 2112) standards, which are the reference standards used by NATO, will allow the Group to reinforce the quality requirements made under the ISO standards in some particularly important areas, to aim for the level of requirements demanded by military export contracts and to develop other marine energy type activities.

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

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Strict adherence to global legislation on export controls

DCNS' defence activities are governed by French and foreign export control regulations. Failure to comply with these could have serious consequences in terms of delivery delays, financial penalties, fines, or even, in the most serious cases, prison sentences, or the temporary or permanent revocation of authorisations to manufacture and trade in the defence sector.

DCNS' international activities, which are key to its growth strategy, have increased, resulting in the stepping up of international operations, including exports, transfers, transfers of technology, procurement and imports.

In the area of export control, the Export Control Department is responsible for defining policy on the Group's behalf, ensuring its application, supporting operational staff and contributing to the implementation of and adherence to the Group's ethical rules.

In 2014, the French regulatory system was reformed, which particularly included the replacement of prior approvals and export authorisations for armaments with a single authorisation known as a licence. To gain a better understanding of this major change and its application, in 2014 DCNS produced a practical export control guide to give staff a more thorough understanding of the regulatory environment.

In the interests of continuous improvement, the Export Control Department is expanding its support for operational staff, especially with regard to trade, programmes and procurement, through awareness-raising measures and by updating the dedicated section of the DCNS group's intranet. The first ex-post checks of the effective application of and compliance with the regulations were conducted in 2015.

Customs affairs

DCNS was certified as an accredited economic operator (AEO) by the Customs Administration in 2014. This certification, which gives certified companies the benefit of simplified and advantageous procedures, making them more competitive, strengthened the partnership established with the Customs Administration. DCNS has confirmed its wish to develop its work in partnership with the Customs Administration in its international development actions and its measures to improve the reliability of its administrative import-export procedures. Accordingly, DCNS will be added to the portfolio of the *Service grands comptes* (SGC) (Key Accounts Department) of the *Direction générale des douanes et des droits indirects* (DGDDI) (Directorate General of Customs and Excise).

Arms Trade Treaty

The Arms Trade Treaty (ATT) is a historic initiative that marks the end of a lengthy process aimed at effectively regulating the international trade in conventional weapons. The ATT was adopted by the United Nations on April 2, 2013 and came into force on December 24, 2014. Its objectives are two-fold, namely improving traditional weapons export control systems and combating the illegal trafficking of weapons.

The ATT now has 78 stakeholder States and 54 signatories. The treaty quickly gained support from the first months after its adoption. Efforts towards universal adoption should now be continued, to establish the ATT as the reference international standard and harmonise arms trade controls. The first conference of ATT stakeholders was held in Cancun in August 2015. Signatory and non-signatory States, and representatives of civil society (*e.g.* NGOs and spokespeople for industry), participated in this meeting as observers, alongside stakeholders. The Cancun Conference adopted provisions for the ATT that were in keeping with the practices in force under the main security treaties and designated Geneva as the location for the ATT's Secretariat. France played an active role in the negotiating of the treaty, and subsequently in its application, and is still heavily involved in its implementation and in achieving its universal adoption.

Offsets

Offsets refer to specific contractual obligations in connection with major international public procurement contracts. These obligations may apply to defence contracts, but also to energy, transport, telecommunications and other infrastructure projects.

Generally speaking, offsets require the vendor to create added value in the country of the purchaser. They involve measures aimed at encouraging local development and balancing the balance of payments through involvement in local industry (local content), the acquisition of technology through transfers from the vendor, investments, counter-purchases, or other similar operations. Offsets are linked to a sales contract. They are defined by rules and/or laws specific to each country with a policy in this area. Note that many countries may have similar requirements, but they may not have been formally defined by offset regulations.

These rules define the eligibility criteria for offset activities, such as the industrial sector, the nature of the offset and the valuation, and the conditions for implementing them, which will be included in a specific agreement, or offset contract, setting out points such as the value of the commitment (or the calculation base, which is quite often equal to 100% of the contract's value), the methods for the valuation of the offsetting projects, the timeframes for their completion and the penalties for non-completion.

There are two main categories of offsets:

- direct offsets relate to equipment, technology or activities directly linked to the product purchased. In this case, the purchasing Government may require the supplier to transfer the technology associated with the product, subcontract a minimum proportion of the contract to local firms, train the end user in the use and maintenance of the product purchased, and so on;
- indirect offsets are unrelated to the product purchased and may be carried out in another industrial sector or high-tech area. Indirect offset projects may take the form of investments, transfers of technology, licences or export subsidies.

Depending on the client, the request may be directed more at one of these categories than the other according to the local strategies and the country's level of development.

A multiplier coefficient will sometimes be applied to the actual value of the offset transaction in order to steer the vendor towards priority projects according to the purchaser's own agenda; this means that in some countries a purchase in a high-tech area may generate several times the actual value of the purchase or service in question. This multiplier coefficient may also differ according to the transaction: a transfer of technology will often benefit from a bigger multiplier than a purchase of a more standard product.

Offsets are an integral part of DCNS' offering and the offset offered is taken into account in the evaluation of the overall proposal by the client. In some cases it may be a prerequisite, and the offset contract may have to be negotiated and signed in certain instances prior to the main sales contract for our products.

Two significant events were worthy of note in 2015

In Canada, DCNS responded to the ongoing call for tenders for the Canadian Surface Combatant (CSC) programme. This would involve providing the Canadian Navy with a FREMM frigate suited to Canadian needs.

As part of the Canadian offset policy, Industrial and Technological Benefits (ITB), foreign companies that are awarded defence procurement contracts worth more than CAD100 million must fully offset the main contract's value. Manufacturers are invited to submit offset proposals through an investment plan covering one or more Key Industrial Capacities. The purpose of this plan is to make Canadian industry more competitive and generate long-term exports or import substitutions in the country's provinces.

To achieve this and meet Canadian requirements, DCNS is working closely with all of the regional agencies for economic development in Canada. The main agencies are organised by geographic region: the Atlantic Canada Opportunities Agency (ACOA), Canada Economic Development for Quebec Regions (CED), the Canadian Northern Economic Development Agency (CanNor), the Federal Economic Development Agency for Southern Ontario (FedDev Ontario), the Federal Economic Development Initiative for Northern Ontario (FedNor) and Western Economic Diversification Canada (WD).

Several industrial forums were therefore organised (around a hundred) to cover the main provinces and give DCNS the broadest possible view of local industry and the companies able to meet offset (ITB) obligations. This included Quebec (CED) and the East (ACOA) in November 2013, the West (WD) in 2014, and Ontario (FedNor/FedDev) in spring 2015.

In Saudi Arabia, on October 13, 2015, Hervé Guillou signed a cooperation agreement with the President of the King Abdulaziz City for Science and Technology (KACST), His Excellency Prince Turki bin Saud bin Mohamed Al Saud, in the presence of the Prime Minister of the French Republic, Manuel Valls, and His Highness Prince Muhammad bin Salman. The aim of this agreement is to facilitate the development of a research and development centre for the naval and maritime sector.

KACST is an independent scientific organisation overseen by the Saudi Arabian Prime Minister. It has 2,500 engineers and technicians within its scientific agency and its research and development laboratories.

The mission of the naval and maritime collaborative research centre is to develop three projects: smart undersea systems, the corrosion of materials and cathodic protection and, finally, simulation and modeling. These projects will produce innovative technological solutions in the area of naval and maritime research, which will develop local industrial capacities to meet national needs and enhance the potential of the country's human and economic resources.

For DCNS, this collaboration is in line with its strategy of building close, lasting relationships with its clients and developing a common technological vision of the future in the naval and maritime field.

Innovation – embedded in DCNS' DNA

This point is addressed in the management report on page 11, paragraph I.2.d. "Research and development (R&D) activity" is presented up to page 14.

Example – the Subsea Watcher project

The Offshore Technology Incubator continued its work in 2015. Its goals are to identify, design and bring to maturity dual, innovative applications derived from the know-how and technologies developed for the core business, and to make maximum use of this expertise by targeting complementary markets, such as deep-sea energy and area monitoring in civil sectors with high growth potential, like oil and gas and deep-sea mining.

The Subsea Watcher project is a very good example of this. This project aims to develop a complete solution for monitoring offshore industrial plants, and particularly for long-term continuous monitoring of the correct operation of plants and their impact on the environment, in terms of every kind of pollution, including chemical, noise and suspended particles.

Subsea Watcher therefore falls within the "economy and environment" areas of the challenges identified by the Grenelle 2 environmental law, with its emphasis on controlling pollution and waste from offshore industrial operations and identifying the impact on local biodiversity, by developing a fully integrated, innovative solution that should also reduce the cost of on-site maintenance.

Over the past year work was continued on the Subsea Watcher project, which was an award winner in the start-up phase of the *Concours mondial de l'innovation* (CMI) (worldwide innovation challenge). A first major milestone was reached in 2015 with the delivery of the preliminary system design report, a deliverable provided to BPI France for this first phase of the CMI. At the same time, in January 2015, the Incubator set its sights on the second phase of the CMI, aiming to mitigate the risks relating to certain critical sub-assemblies of the Subsea Watcher.

DCNS received further awards for its participation in two projects led by two different consortia: one led by Technip with the FONASURF project and the other by Créocéan with the MELODI project. The respective aims of these projects are to develop an acoustic confinement solution, and to study a drone swarm concept using a docking platform towed by ship. Most of the work will be completed in 2016.

The work carried out on Subsea Watcher in 2015 made clear that the technological building block consisting of allowing a drone to be placed underwater and stay there for long periods, without human intervention, was a major hurdle. It represents a real breakthrough with regard to existing solutions, as it offers the prospect of reducing costs by limiting operations requiring ships, which are sometimes hazardous and always very costly. The internal R&D work has therefore been directed as a priority towards maturing the technology that is vital to give such a solution credibility, *i.e.* wireless communication and energy transmission underwater and protecting drones against damage from the marine environment.

For 2014-2015, DCNS therefore set aside a budget of €469,000 for the Subsea Watcher project. The next step in the development process will involve the conducting of offshore tests in 2016, in partnership with a French drone manufacturer, and the expanding of the offering through cooperation with other, French or European drone makers.

II.2.2. Market presence

DCNS has expanded its market outside France and is enjoying some major successes elsewhere in the world. The Group is currently involved in industrial programmes for clients based on four continents – notably in Brazil, India, Malaysia, Egypt, Canada and Australia.

In 2015 DCNS set up two new international subsidiaries:

- DCNS Canada Technologies Inc. provides commercial representation in that country;
- DCNS Australia is an independent subsidiary whose aim is to become the Australian strategic partner of the Australian Navy.

The Group wishes to be in a position to support these countries as they modernise or overhaul their fleets by developing industrial partnerships with local players.

When carrying out surface ship, submarine and service programmes for international clients, a considerable "transfer of technology" component now has to be taken into account. Countries are becoming ever more demanding in their technical and industrial ambitions for their national industrial bases, to ensure increasing control of their strategic independence.

The ability to manage Transfers of Technology (ToT) therefore continues to provide strong leverage for the Group's international presence and the competitiveness of its product and service offerings; it is also a tool that allows our industrial processes to be turned to account for all our stakeholders and ultimately the client that is France.

In its design and engineering, production and know-how aspects, ToT provides added value and a competitive differentiator that is vital for winning international contracts.

There are four strategic issues at play in this added value:

- contributing to the broadening of the portfolio of activities by setting a target of earnings of approximately €2 billion *per annum* by 2020 for international naval defence (ToT and work done in its own right taken together);
- increasing profitability and synergies from gains in productivity (costs) when carrying out ToT programmes;
- strengthening key resources by guaranteeing a durable basis for industrial activities and supporting our skills;
- preventing the risk of the emergence of new competitors by continuing to make financial and human investments in R&D/R&T and fully controlling DCNS' intellectual property.

The ToT process that has been set up, and is in force today, covers the entire draft proposal/offer/execution process. The extensive nature of these measures is very useful, especially during the proposal preparation phase; the benchmarking carried out has provided particularly valuable information. Our core activities, at the heart of our know-how, have now been fully identified. The process is in place and now it must be implemented on a systematic basis. The equipment and systems, our industrial targets, have been identified. Proposal checklists have been produced based on feedback.

The recommendations regarding industrial architecture and organisation have been taken into account, including insourcing in the Gowind® Malaysia corvette programme, the manufacture of the first production vessel in the Gowind® Egypt corvette programme at the Lorient site, and work on the medium-sized frigate programme (FTI) and Scorpène® Évolution, with the export aspect taken more into account. These measures drastically reduce industrial risks and allow us to retain certain key know-how.

The work on how to make the best use of our know-how should be completed at the start of 2016 (valuation of our intangible assets in commercial operations and the creation of partnerships or acquisitions). This will facilitate the preparation of our sales proposals that have a ToT aspect and will help to control the related industrial and financial risks.

II.2.3. Procurement practices(1)

In keeping with the commitments made in previous years, such as DCNS' SME plan, the innovative SME charter, the SME Defence pact, and the Oceans 21 project, headed by the *Groupement des industries de construction et activités navales* (GICAN) (naval activities and construction industries group), the DCNS group is continuing its strong involvement in initiatives to strengthen the naval sector and the structuring of new technological sectors.

For instance, DCNS was involved in the Oceans 21 technology days covering the technological development of the composites used in the naval sector, the massive roll-out of virtual reality and augmented reality technologies, and the structuring of the hydrodynamic study offering, in terms of the technological stumbling blocks and tomorrow's tools.

As in the aeronautical sector, the DCNS group has contributed to the structuring of the naval sector through digital solutions and robotics, to increase its competitiveness, again as part of Oceans 21.

Lastly, the DCNS group has held sessions to raise the awareness of some of its subcontractors and suppliers of the challenges and benefits of eco-design, and led think tanks on this theme.

Consideration of environmental aspects in the procurement process

To carry out its activities effectively, the Group relies on a panel of suppliers that it encourages to make progress in the environmental field, in this way extending the implementation of its environmental policy.

Suppliers' commitment is measured particularly during the qualification and assessment stages.

There are two stages in the qualification process: the completion of a questionnaire that invites suppliers to review their environmental approach, then audits that DCNS uses to check the ability of companies to meet the selection criteria.

Once selected, suppliers make a contractual commitment to adhere to the "DCNS supplier code of conduct", which sets out the Group's expectations, especially with regard to the environment. In this way, service providers undertake to assess, prevent, limit and mitigate the environmental risks and impact of their activities.

Suppliers undergo an assessment process to check that they are in fact meeting their commitments.

Assessment of the Corporate Social Responsibility (CSR) of suppliers

The DCNS group rolled out its supplier code of conduct to all of the suppliers in its panel as of 2012 to get its supply chain involved in promoting the Group's CSR values.

This roll-out was stepped up as from 2014 with the introduction of a process to systematically assess the CSR performance of the panel; 2015 saw the ramping up of this assessment, in order to cover the whole of the panel within three years. Through this assessment process, which is carried out with the help of a recognised player in this field, the suppliers in the panel are able to be compared against their peers in the same sector for their CSR performance. Action plans may be set up to remedy any shortcomings.

Responsible Supplier Relations label

DCNS was awarded the Responsible Supplier Relations label on December 16, 2014. This label recognises the Group's responsible relationship with its suppliers.

Obtaining the label is not an end in itself. On the contrary, it is an effective way to support the continuous improvement measures taken by the Group to strengthen and increase the professionalism of its relationship with its industrial network. The action plan presented by DCNS to the Mediation Service, when its label application documentation was submitted, was developed over 2015. It contributed considerably to improving the Group's relationship with the SMEs and mid-caps that make up a large share of its supplier base.

The label was also a means used by DCNS to give suppliers a stake in increasing the Group's competitiveness, a process begun in 2015.

The annual control audit bolstered DCNS' quest for continuous improvement and allowed the Mediation Service to confirm the label for 2016.

Highlights in the development of international procurement in 2015

Part of the Group's strategy is to "change its attitude so that it no longer behaves like a company that exports, but like an international company." The highlights in 2015 with regard to the development of international procurement were mainly in support of this strategy.

(1) ILO, SNTEDD (A5P4, A6P3, A8P1).

The current export programmes have enabled the Company to establish procurement offices within DCNS subsidiaries, in India and Malaysia, for example.

These procurement offices are operational for these programmes' local operations, and are now developing their procurement activity to meet all of the Group's needs, mainly targeting export programmes. In 2015, DCNS and its subsidiaries worked with nearly 100 major suppliers, doing business worth a total of several tens of millions of euros. This marks a turning point in the international procurement policy. This amount will grow in the coming years, as the Group's international revenue develops.

For a naval sector leader like DCNS, international expansion also depends on the Group's ability to assist its partner suppliers in their overseas development. Support measures were launched in 2015, with a larger contribution to the Oceans 21 programme, headed by GICAN, whose aim is to develop the French naval sector. The working groups involved are in Brazil, South East Asia and India. Participation in international professional trade fairs was organised, for example, to promote companies within the French naval industry.

Finally, international contracts are increasingly won based on the vendor's ability to source suppliers and services in the client country. Since 2015, DCNS' procurement teams have worked more closely with the Group's prospecting teams to meet local players in the "defence sector's industrial and technological base." The purpose of these meetings is to identify DCNS' future partners in these new markets. Major actions have been carried out this year, in Canada and Australia, for instance.

Results of the second supplier satisfaction survey

DCNS conducted its second supplier survey in May 2015. This survey, based on the SME Pact questionnaire, is designed to find out what the DCNS group's panel is satisfied with, and what it is dissatisfied with, in four main areas:

- contractual relations;
- partner relations;
- innovation;
- areas for improvement.

This second survey was also an opportunity to monitor the changes in the opinions expressed given the corrective actions launched, and to define new priorities for the DCNS group's management of its network of suppliers and subcontractors and its relationship with them.

The most positive lessons learned are in two areas in which the DCNS group has invested heavily.

Firstly, a big improvement was recorded in the timely payment of invoices issued by suppliers, with favourable opinions from 75% of respondents. This improvement demonstrates the DCNS group's commitment to paying its suppliers on time. This commitment must continue as the late payment flow has not yet completely dried up.

The second lesson concerned the quality of relations with suppliers, which remains a very positive aspect, with favourable opinions expressed by 85% of respondents. Good working relationships and positive progress are being established through respect for intellectual property rights, the identifying of key people in relationships and the introduction of regular monitoring meetings.

Some criteria require a greater commitment from the Group, however. Examples include smoother interaction during the call for tender and contract-signing phases, and increased support from DCNS for its suppliers and subcontractors in their development projects. Action has already been taken, such as the simplification of the contract reference framework and the introduction of new general procurement terms and conditions.

Mediation

DCNS has had an internal mediator since 2011, to facilitate the amicable resolution of disputes and law suits that may arise between DCNS and its suppliers during the lifetime of contracts. The internal mediator's services have been called upon 17 times since the start of 2011, including 5 times in 2015. Most of these cases involved relations between DCNS and SMEs or mid-caps. Most of them were settled out of court.

II.3. ENVIRONMENT(1)

The sea is where the Group operates and strives to meet its ambitions in the naval defence and renewable marine energy sector. This special and delicate environment requires rigorous environmental controls on the part of the Group.

The protection of the environment is one of DCNS' ethical commitments and is covered in an environmental policy rolled-out to all of the Group's sites, allowing the mobilisation of all parties concerned. The policy has five focal areas, as well as demanding compliance with the regulations in force:

- preventing people and the environment from being affected by the Group's activities by ensuring industrial safety;
- limiting the environmental footprint of products throughout their lifecycle by taking a proactive approach as from the design phase and to procurement;
- reducing the impact of the Group's activities on the air, sea and land;
- controlling the consumption of natural resources, and particularly energy;
- participating in the combating of global warming by reducing greenhouse gas emissions.

In practical terms, the Group has set five targets for the years 2015 to 2017:

Industrial safety	Performance in 2015/2014	Target for 2017/2014
No accidents with a significant impact on the environment	0	0
Eco-design	–	–
Proactive programmes	50%	50%
R&D projects contributing to environmental improvements	28%	20%

Natural resources	Performance in 2015/2014	Target for 2017/2014
Energy consumption(d) (e)	–2,3%	–10%
Greenhouse gases(a)	–	–
Emissions	–8,5%	–10%
Waste	–	–
Recycling of NHW(b) (e)	74%	70%
Production of HW(c) (e)	–14%	–10%

(a) Assessment of the figures for 2014 in 2015; the performance represents the change in relation to the previous assessment, in 2014, of the figures for 2013.
(b) Non-hazardous waste.
(c) Hazardous waste.
(d) Electricity and natural gas.
(e) These indicators are based on twelve rolling months (from October 1, 2014 to September 30, 2015), unlike the indicators for previous years, which were produced on a calendar year basis.

The strategy is determined centrally, then incorporated within the environmental policy, and finally translated into targets. These are set over several years as, in this area, improvements are made over the long term. The process is led and managed by the environmental performance manager, who reports to the Human Resources and Operations Department (Quality and Performance Sub-Department). To implement the policy and take the measures necessary to reach the targets, the Group relies on all of the process managers and a network of around fifteen environment managers split between the sites and each of the operational entities in France. On the ground, prevention officers deal with both occupational health and safety (OH&S) and environmental matters and therefore also relay Group policy.

To take environmental concerns into account at product level, the Group has appointed a team dedicated to eco-design that defines the methods and leads the programme, working with all of DCNS' engineers. For renewable marine energy, a team of eight staff has been created to specifically handle environmental issues (such as site studies, impact studies and social acceptability).

II.3.1. Training and information

The Group's staff

Although behaviour is constantly improving, as the environment has become a social issue, the Group is continuing to develop staff's environmental knowledge in two ways: through training and communication.

Each new employee is made aware of environmental issues during their induction day, then during the integration process, in terms of both the local provisions (good practices) and more generally (the Group's risk control, ambitions and targets).

DCNS Universeaty also offers staff additional training according to their area of work and their position. This training is dedicated to the environment if an employee needs to be made aware of eco-design, or more generally shared with OH&S if training in risk prevention is required. Lastly, a specific module has been developed to be included in other training courses, for senior managers, for example.

402 days of environmental training were consequently given in 2015.

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

In addition to training programmes, targeted communication campaigns are carried out Group-wide, in accordance with an annual communication plan, which takes national or international celebrations into account as much as possible and covers issues such as sustainable development, energy, mobility and waste. The national communication campaigns are then adapted and added to locally on each of the sites.

In 2015, the Group also continued to circulate its environmental "fundamentals" to all of its staff. Each fundamental, which takes the form of a pocket-sized leaflet, deals with a specific theme, providing information contributing to understanding, and above all presenting good practices. After "Hazardous Chemical Agents (HCA)" and "Waste", published in 2014, "Combating pollution" followed by "Information and communication technologies (Green IT)" were covered in 2015. These fundamentals, which have now been computerised, are available online on the Group's intranet.

Suppliers

To carry out its activities effectively, the Group relies on a panel of suppliers that it encourages to make progress in the environmental field, in this way extending the implementation of its environmental policy.

Suppliers' commitment is measured particularly during the qualification and assessment stages. There are two stages in the qualification process: the completion of a questionnaire that invites suppliers to review their environmental approach, then audits that DCNS uses to check the ability of companies to meet the selection criteria.

Once selected, suppliers make a contractual commitment to adhere to the "DCNS supplier code of conduct", which sets out the Group's expectations, especially with regard to the environment. In this way, service providers undertake to assess, prevent, limit and mitigate the environmental risks and impact of their activities. Finally, suppliers undergo an assessment process to check that they are in fact meeting their commitments.

Stakeholders

DCNS' sites, except for those in the Paris region, are on the sea coast or close to rivers, which are common property and shared with other parties for industrial, commercial and leisure activities. DCNS therefore communicates regularly, and completely transparently, about its activities and projects, and maintains ongoing relationships with local residents, associations and authorities.

If authorised thresholds are occasionally exceeded, or nuisances are reported, DCNS informs local residents whenever necessary. In 2015, complaints were made to the Nantes-Indret site, where airborne cenospheres were noted during the operation of the test boiler room; these mainly visual nuisances proved not to be harmful to human health. In Lorient, noise pollution from the shipbuilding hangar's naves was reported by local residents; this prompted DCNS to step up its monitoring of the premises' containment.

Since 2007, the French Navy and DCNS have been bound by an environmental charter, which facilitates exchanges of good practices and the conducting of joint initiatives. Every year, "clean harbour" cleaning operations are carried out in the ports of Brest and Toulon in line with this charter.

In the case of renewable marine energy, discussions with stakeholders are vital for acquiring authorisation to set up plants and securing the future of projects. Stakeholders play a real part in project design through the information and consultation process. For example, offshore measurements, using underwater sensors, cannot be considered without the consent of users of the area in question, such as professional fishermen and pleasure boaters.

II.3.2. Prevention of environmental risks and pollution

The Group has identified environmental risks as a type of risk likely to affect its performance. These risks are therefore listed and controlled, in order to make them less severe and less likely to occur. To control its risks, DCNS has created a continuous environmental improvement programme, through the introduction of a management system.

As a result, DCNS has continuously held ISO 14001 certification, for all its sites and activities, since 2008. In connection with this certification, each site performs an environmental analysis and updates it as its activities, control methods and the regulations change. DCNS devotes considerable resources to the controlling and mitigation of significant environmental aspects (SEA) on the basis of this identification work.

As well as the preventive measures taken to control risks, the Group prepares for the possibility of accidents, in close collaboration with local players. An organisational structure and material resources are in place on each site and are tested several times a year through drills. In Brest, Toulon and Cherbourg, the close proximity to the French Navy ensures access, by agreement, to substantial pollution response capabilities. In Lorient, the harbour's main economic players have been bound by a charter that pools their response capabilities since 2014.

Soil pollution

Each site has had a pollution map since the change in status in 2003. The pollution is mainly due to former industrial activities. Soil depollution is undertaken case by case according to need, *e.g.* in the event of the changing or discontinuing of an activity. In such cases, the soil is treated on-site as far as possible, to limit the impact on the environment.

An example is the soil depollution at the La Londe-les-Maures site, where DCNS no longer operates any activities. The operation was completed in 2015 and combined on-site bioremediation (light hydrocarbons, representing 80% of the pollution) with excavation for external treatment (other hydrocarbons, representing 20% of the pollution) and backfilling with earth from another part of the site. Another example in Lorient is the on-site depollution of a zone begun using sparging and venting techniques, consisting of injecting air into the ground to vaporise the pollutant substances.

Finally, new building is only considered after a systematic soil pollution analysis.

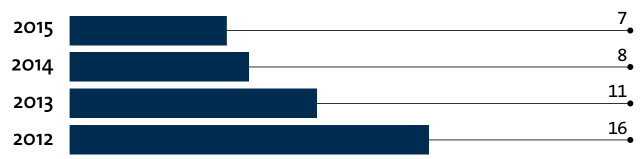
Provisions and guarantees for environmental risks

On December 31, 2015, DCNS provided financial guarantees in accordance with the orders of May 31, 2012, amounting to €271,000, in other words 40% of the sums intended to cover the possible making good of the sites if the Group were to go bankrupt. Only two sites are affected by these provisions: Nantes-Indret and Angoulême-Ruelle. DCNS was not involved in any environmental disputes in 2015.

II.3.3. Pollution and waste management

The number of incidents has steadily fallen as a result of environmental risk prevention measures and operators' vigilance. Since 2013, the Group has not experienced any uncontrolled pollution or pollution requiring an external response. For their part, incidents responsible for a temporary impact (occasional exceeding of thresholds or localised pollution) have constantly declined over the last four years. These results reflect the very effective control on the ground.

Change in the number of events that had a temporary impact on the environment



Atmospheric emissions

DCNS uses solvents that lead to the emission of volatile organic compounds (VOCs) in its industrial activities. The paint activity accounts for 88% of emissions, while the remainder are divided between the degreasing and composite activities. A Group-wide map of VOC emissions and the methods used to control them was produced in 2015. There is still room for improvement in light of the best techniques available.

The quantity of paint consumed within the Group greatly depends on the construction and maintenance activities. A major refit of an aircraft carrier, for example, doubles the volumes usually used in the course of a year. VOC emissions per tonne of paint used are decreasing each year, however, above all because of the product-related measures taken by manufacturers and the positive change in spraying processes. DCNS also regularly participates in working groups led by NATO and the *Association pour la certification et la qualification en peinture anticorrosion* (ACQPA) (association for anti-corrosion paint certification and qualification), being aware of the importance of tightening up standards to reduce emissions.

As for the degreasing activity, its VOC emissions have been limited since the transition to degreasing using detergents and the use of machines allowing acetone regeneration. For the composite activity, the implementation method is the determining factor. DCNS favours the vacuum infusion method, which keeps VOC emissions to a minimum and therefore also the risks for staff and the environment.

Besides VOCs, the Group's activities emit sulphur dioxide (SO_2) and nitrogen oxide (NOx), produced by burning fossil fuels. These emissions are steadily falling, in direct relation to the energy savings made on DCNS' sites. The assessment of the figures for 2012-2014 conducted in 2015 shows a 25% decrease in SO_2 emissions and a 22% decrease in NOx emissions in the space of three years.

Emissions to water

As the industrial sites are all on the sea coast or close to rivers, particular attention is paid to liquid effluents. These are usually a by-product of industrial processes and are only released into the natural environment after on-site treatment. If this is not possible, the effluents are considered to be hazardous waste and are dealt with through the appropriate channels. For example, during hull cleaning operations, the paint effluents, consisting of anti-fouling paint mixed with water, are systematically collected at the bottom of a reservoir and then treated through filtering, decantation and purification. They are then discharged into the sea, once the analyses performed show that the copper and zinc content in particular are not above acceptable levels. This applies especially to the Brest and Toulon sites.

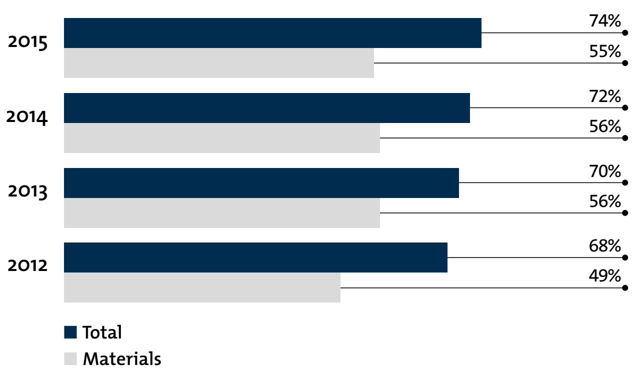
Waste

Non-hazardous waste (excluding metals) accounts for two thirds of the waste produced by DCNS by tonnage. Its recycling depends upstream on the standard of the sorting carried out on the sites, and downstream on closeness to treatment units. This last, geographic criterion causes significant disparities between the sites.

DCNS is striving to reduce and more effectively recycle its waste, in accordance with the principles of the circular economy, by setting targets.

A target of ≥ 90% sorting compliance has therefore been set for each of the sites, while a global material recycling and energy recovery target of ≥ 70% has been set for the Group as a whole, with a minimum per site of 50%.

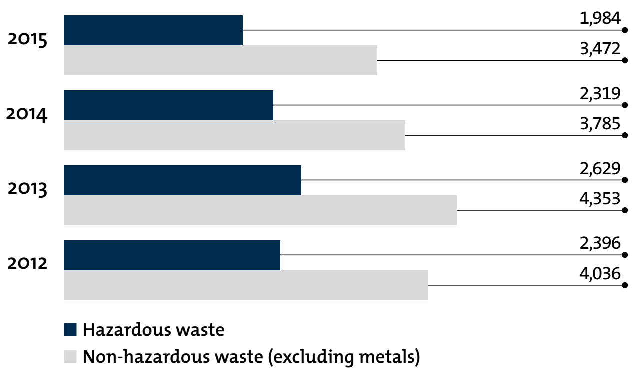
Non-hazardous waste (excluding metals) recycling rate



Hazardous waste is particularly difficult to recycle, as the processes are often complex and costly. DCNS is therefore trying to reduce this waste at source, with a target of a 10% reduction between 2015 and 2017, in line with the steps already taken in recent years.

In 2015, DCNS mapped the hazardous liquid waste produced, in order to categorise it by type of activity and identify good practices and the best techniques available. Although a lot of them are already being implemented on the sites, new avenues for improvement have been found.

Change in waste production (tonnes)



The Group's canteens are continuing to improve their recycling of biowaste. In 2015, the Brest site set up a treatment plant, while the Nantes-Indret site installed a composter and redistributes the compost produced to staff.

Lastly, DCNS disposes of its computer hardware through a company in the adapted sector. Nearly 1,500 devices, such as screens, CPUs and laptops, were disposed of in this way in 2015; 60% were reused and 40% were recycled.

Noise

Some activities create noise inside sites, and sometimes outside them, and DCNS' installations are usually close to housing. This issue is managed as a specific environmental risk: noise levels are periodically measured to check the compliance of installations with operating permits, and action is taken as a result. In addition to compliance with the regulations, noise-reduction covers are installed wherever possible, as part of a continuous improvement programme, as was the case at Angoulême-Ruelle this year on the surface treatment spray tower, where a 10 dB gain was measured.

Odours

DCNS' activities do not produce any particular odours.

II.3.4. Sustainable use of resources

Water consumption

The quantities of water used to cool installations are decreasing each year, as most of the installations have transitioned to closed cycles. The increase in drinking water use recorded in 2015 was due to leaks detected and plugged later than they should have been. The amount of water pumped from rivers has been considerably reduced, especially at Ruelle, where major work has been carried out on the machining equipment. Only the Indret site is continuing to pump significant volumes from the Loire during heat engine tests; these tests only last a few weeks, however, and several years may elapse between two tests. In 2014 and 2015, when the brand new Barracuda submarine engines were qualified, consumption was uniquely high. To reduce these occasional peaks in consumption, the site plans to carry out work in the coming years to adapt the pumping installations to its exact needs.

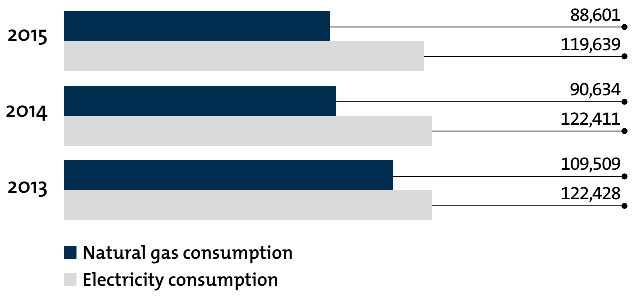
Change in drinking water consumption in m³

CORPORATE SOCIAL RESPONSIBILITY REPORT 2015

Energy consumption

Given its awareness of energy issues and their impact on the climate, DCNS has set an ambitious target of reducing consumption by 10% for 2015-2017.

Change in energy consumption in MWh



To improve its energy efficiency, the Group applies the principles of standard ISO 50001, without seeking to obtain certification, but using the Quality, Safety and Environment (QSE) management system already in place. A person has therefore been designated to lead the programme and coordinate improvement actions at each site.

In 2015, an energy audit was begun on each Group site. These audits will provide an up-to-date outside opinion of every activity's energy efficiency and identify new areas for improvement. They offer a real opportunity to boost efficiency measures throughout the Group, although most of the sites did not wait until this regulatory obligation was introduced to roll out a consumption reduction programme. Most of the industrial sites have in fact integrated this programme within their practices for many years, in areas like lighting, heating and industrial activities.

Property operations

At the end of 2015, DCNS took delivery of the new premises for its on-board combat system activities. The buildings in Ollioules have been awarded *NF HQE Bâtiments Tertiaires* (French high environmental quality tertiary building standard) and BREEAM International Commercial Buildings 2013 certification. They have a truly bioclimatic design, reducing consumption by 10% compared with a building conforming to French regulation RT 2012: the glazed surfaces have been optimised according to the direction that they face, solar protection systems have been installed, vegetation has been planted on the roofs and solar heating panels have been installed (covering 50% of the locker rooms' hot water needs). The office lighting is controlled according to brightness and the effective presence of staff. Energy efficiency is further ensured by a centralised management system that controls the heating and air-conditioning units.

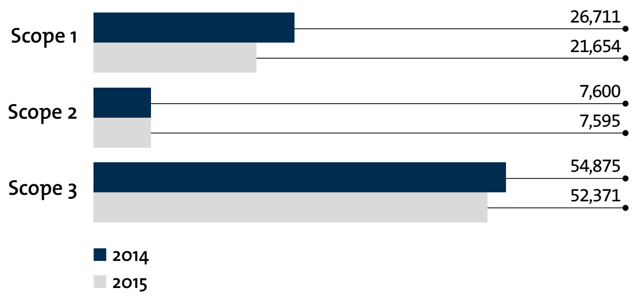
II.3.5. Climate change

DCNS actively contributes to the reduction of greenhouse gas emissions, as shown by the most recent assessment, as part of a continuous improvement programme. The following emissions are monitored:

- scope 1: direct emissions from the consumption of fossil fuels and cooling fluid leaks;
- scope 2: indirect emissions from electricity consumption;
- scope 3: emissions from business travel within France and abroad (rental cars, trains and aeroplanes), home-work travel and freight (inside and outside France).

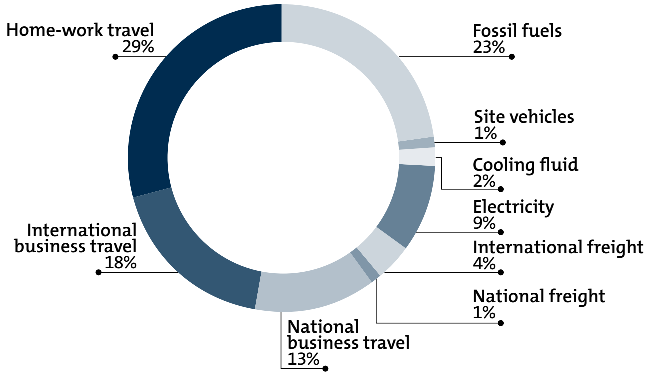
In 2010, DCNS significantly reduced its emissions, by 54%, mainly by switching to an electricity supplier whose energy mix was much better. Cutting emissions now demands that proactive initiatives are taken on the ground. The most recent assessment, performed in 2015 and covering the figures for 2014, shows an 8.5% reduction compared with the previous year, principally due to decreased consumption of fossil fuels and more limited business travel, by air and rail.

Change in greenhouse gas emissions for each scope in tonnes of CO_2 (annual assessment of the figures for the previous year)



When the most recent assessment is analysed it shows a fairly even balance between energy use (32%), business travel (31%) and home-work travel (29%).

Breakdown of greenhouse gas assessment (assessment in 2015 of the figures for 2014)



CORPORATE SOCIAL RESPONSIBILITY REPORT 2015

To achieve the target of a 10% reduction over three years that DCNS has set itself, a targeted action plan has been introduced focused on the three biggest sources of emissions.

On top of the actions to reduce energy consumption (see § 3.2.), DCNS is resolutely encouraging the reduction of business travel and the use of electronic solutions, such as online conferencing with split screens, videoconferencing, telepresence and e-learning. These actions are in keeping with a broader Green IT policy that encompasses information and communication technology (ICT) equipment.

With regard to home-work travel, DCNS has included the drafting of a company travel plan for each site in its 2015-2017 environmental roadmap, without waiting for the introduction of the regulatory obligation under the law on the energy transition and green growth. This measure, which closely involves staff, allows an in-depth examination of the methods of transport used, an assessment of the existing transport options, and the suggesting of improvements, in collaboration with the local authorities and the network of local companies. It is also aimed at reducing the number of accidents occurring during travel and their severity.

Alongside such measures, the sites are gradually acquiring electric vehicles and the Group is prioritising hybrid-drive vehicles when choosing new company cars. At the Lorient site, electric bicycles have been provided to 40 staff, who have committed to no longer using their cars to travel to work.

The progress will be monitored each year as, setting regulatory requirements aside, DCNS has decided to make its greenhouse gas assessment an annual event.

II.3.6. Protection of biodiversity

Sites

Naturally, the DCNS group has always paid attention to biodiversity issues because of the location of its sites and the nature of its activities. Each industrial site is close to an onshore or offshore natural site that has been singled out for the scarcity or fragility of its wild, animal or plant, species and their habitats. For instance, two DCNS sites include zones within a Natura 2000 site:

- Ruelle: the route of the Touvre river, which crosses the site, is part of the “Charente Valley between Angoulême and Cognac and its main tributaries” site;
- Indret: a 40 hectares zone, where no industrial activity takes place, is part of the “Loire Estuary” site.

The five other sites (Cherbourg, Brest, Lorient, Toulon and Saint-Tropez) are in the immediate vicinity of a Natura 2000 site or a protected natural site (*zone naturelle d’intérêt écologique, faunistique et floristique* (ZNIEFF) (natural zone of ecological, faunal and floral interest)).

In each of these cases industrial and economic decisions are not made to the detriment of the preservation of nature; the two dimensions are considered and neither is compromised.

In Lorient, the regular dredging of the harbour and the returning of sediments to their natural environment are necessary so that activities in the area can be continued, but they are not without an environmental impact. This is why DCNS is participating in the modeling of hydrosedimentary flows to determine the preferred areas for deposits and the tidal coefficients, to allow the possibility of sediment resuspension in addition to the traditional immersion process. DCNS is also involved in monitoring the sediment immersion site close to the island of Groix, incorporating biological, physical and chemical monitoring. Finally, DCNS participates, under mandate from Brittany’s Regional Council, in meetings of the *Groupe d’études et d’observation sur les dragages et l’environnement* (GEODE) (dredging and the environment research and observation group), which is a contributor to dredging regulations and techniques.

Renewable marine energies

Renewable marine energies are developing activities. The environmental impacts are not well known. Depending on the project, the environmental consequences may alter the ocean floor (anchors), the water column, the surface of the sea or air currents (offshore wind farms).

As part of its projects, DCNS therefore explores the natural environment and its uses to produce impact studies. Projects may be adapted following these studies for better social acceptability. In 2011-2012, DCNS conducted preliminary studies in Martinique on the ocean thermal energy project. Detailed studies have been in progress since 2014 on the floating wind farm project at Groix, and since 2015 on the Wattmotor wave energy project in Audierne. For both of these last two projects, a complete environmental study programme is being completed, including expert assessments of the project’s impact on marine mammals, fish, birds, benthos (species that live on the sea floor), fishing activity, bats, and so on.

DCNS is also a partner in several projects aimed at improving knowledge of the natural environment, particularly with the *Institut France Énergies Marines* (French Marine Energy Institute). The IMPALA project’s goal is to study the impact of the rising of deep water to the sub-surface from an ocean thermal energy plant. The GHYDRO project consists of producing a methodological guide on the studying of the environmental impacts of offshore tidal energy technologies, so as to facilitate the integration of these technologies within the environment.

In this field, DCNS shares its expertise internationally, as demonstrated by the recent creation in Chile of a renewable marine energy research and innovation centre, whose objectives include studying tools for testing renewable marine energy technologies and adapting them to the country’s specific natural conditions, which include seismic activity, a rugged coastline, and a considerable wealth and variety of marine flora and fauna.

II.3.7. Products and environment

DCNS’s products are primarily focused on marine activities, such as naval construction and marine renewable energies (MRE).

Some of these products designed by the Group are directly intended for Government action at sea, which among other assignments includes inspecting illegal discharges and the fight against pollution. DCNS’s role is of course to construct specific vessels and also to design information systems, such as that currently installed at the regional operational centres for monitoring and rescue (CROSS). To accompany these systems, a specific pollution management module called SURPOL was developed in 2015 and will be deployed in the CROSS from 2016.

Since 2007, DCNS has been putting in place an eco-design unit that oversees this effort within the Group. In liaison with engineering, this unit draws on a network of around fifty specialists who work on projects according to their skill area, whether technical or organisational. Eco-design applies to the entire lifecycle of products, from design to end of life *via* manufacture and utilisation. The process aims to consider environmental issues that are beyond the strict application of regulations. Today, one R&D project in four and one vessel programme in two is directly concerned.

More broadly, DCNS is involved in the naval sector’s reflections concerning the circular economy, which are currently headed by the GICAN, at the initiative of the French national council for industry. In this framework, DCNS provides training on incorporating the environment into design.

Building on this experience, the Group expanded its activities internationally in 2015. At the invitation of the French Department of Maritime Affairs, DCNS took part in the most recent scientific interest event held by the International Maritime Organisation (IMO), the two main subjects of which were ballast water and navigation in polar waters. This collaboration enables DCNS to obtain insight from companies in the naval sector and to plan ahead for regulatory developments with the aim of incorporating them into its product offerings as soon as possible.

In the lifecycle of vessels, the end-of-life process is now stringently controlled by the European regulation of November 20, 2013 on ship recycling and the Nairobi Convention on the removal of wrecks located beyond the territorial sea. To help marine clients meet these obligations, DCNS has for many years been compiling, for each vessel constructed, an inventory of hazardous substances. This is used to trace the type and geographical location of hazardous substances within the meaning of the REACH and RoHS regulations. This document is then kept up to date throughout the vessel’s life, notably during periods of maintenance in operational condition. At the end of its life, this inventory can help to facilitate the directing of waste to suitable channels during the breaking-up phase.

II.3.8. Shipyards abroad

In Malaysia, DCNS and Boustead Heavy Industries Corporation BHD (BHIC) have a joint subsidiary called BDNC (Boustead DCNS Naval Corporation), which maintains the Malaysian Navy’s submarines. The shipyards are situated on the island of Borneo, in Sabah province.

In environmental matters, and in addition to Malaysian law governing this company, BDNC established at the beginning of 2015 a health, safety and environment (HSE) policy stating the responsibilities of both management and staff.

In each subcontracting contract, BDNC informs each service provider of its environmental duties and a penalty system is applied to deviations observed in the application of the rules onsite.

Environmental issues are addressed during the training of new recruits, notably the rules to follow in shipyards. This training is intended for both subcontractors and BDNC staff, regardless of their nationality or position in the chain of command.

Looking beyond the sometimes very vague local regulations, and insofar as possible, BDNC takes inspiration from the French regulations, when they are stricter and more relevant, to raise the standards required by the company. Examples include the containment of a diesel storage tank, the temporary storage of hazardous waste in a specific shipyard and the provision of anti-pollution kits at all shipyards.

Lastly, staff are made aware of the need to escalate observations of hazardous situations so that they can be rapidly corrected and incidents can be prevented from occurring.

II.4. SOCIAL[1]

DCNS’s human resources (HR) policy and social policy are defined to support the Group’s strategic directions. As such, in 2015 the HR policy contributed to the savings plan through the wage policy and the management of staffing changes. It also contributed to the deployment of the Progress Plan, notably point 3 “Strengthen the role of local managers” and point 6 “Listen and place staff at the forefront”. It assists the Group in its international development through the introduction of adapted employment contract formats. In the negotiation of a global performance agreement, two agreements were reached to assist staff adaptation and support the Company’s performance.

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

Corporate social responsibility report 2015

II.4.1. Employment

Changes in the workforce

The DCNS group's workforce totals 13,878, with 13,607 in France and 271 in foreign subsidiaries.

DCNS UES's workforce as at December 31, 2015 was 13,607, comprising 2,669 women and 10,938 men, down by a total of 417.

The percentage of female employees was 19.6%, above the target set under the professional gender equality agreement.

2015 saw the introduction of the savings plan, the Progress Plan and the negotiation of a global performance agreement. All of these components aim to restore DCNS's earnings and competitiveness following the reporting of losses in 2014 and the identification of the economic and structural causes behind these poor results.

The staff control measures led the Company, starting in 2015, to reduce its recruitment level, resulting in a decline in staff at the end of 2015. The global performance agreement, signed at the end of 2015, will result in a staff reduction in 2016 and 2017 through voluntary redundancy and measures to support the staff concerned with internal and external mobility and their career plans.

The commitments made both in the generation contract and during the mandatory annual negotiation on recruitments of young people and seniors and replacing production staff in 15 specialities were met.

Territorial impact

DCNS is a major player in all of the territories in which it has a presence. It is the main private local employer and a leading commercial customer.

Each site's management is in contact with all of the authorities and stakeholders in the territory.

The site's managers are involved in the region's economic and social bodies (competitiveness clusters, Chambers of Commerce and Industry (CCI), professional associations defending economic and social interests).

They also work closely with the local education authorities (university institutes of technology (IUT), engineering schools) and attend organised events in the field of employment or the territory's economy (employment forums, job forums, etc.).

A number of managers and engineers assist with higher education courses in law, finance and engineering.

DCNS set up the French Naval Campus and made a significant contribution to the creation of the professional naval construction licence together with the French national education system and other industry partners.

Recruitment and mobility

A mobility charter, signed by the Chairman and Chief Executive Officer, describes the principles and rules that staff, managers and human resources actors must follow.

This foundation defines the reciprocal commitments that guarantee transparency and fairness for everyone, regardless of their profession, age or career path. As such, nearly 80% of positions were filled through internal mobility in 2015, with the number of external recruitments down significantly to 250.

The dual training policy remains very dynamic, with nearly 310 newcomers on this type of contract in 2015, 90% of which were in production specialities and roles in development in other specialities.

In total, DCNS filled 1,122 positions – of which 872 under mobility and 250 in recruitments – and welcomed 310 new dual training staff.

International development

DCNS is continuing and accelerating its international development in line with its strategic priorities. A subsidiary has been formed in Australia and in Malaysia in anticipation of long-term operations in these countries. In Egypt, DCNS is present through three contracts, one to construct a Gowind® corvette, another to maintain the multimission frigate acquired by Egypt in 2015 and a third to supply and prepare the maintenance of two Projection and Command Vessels.

Staff working internationally totalled 488, of which there were 271 locals and 217 expatriates.

The human resources policy is adapting to these priorities by creating the "local plus contract." Alongside the traditional assignments involving staff on secondment for three, four or five weeks with rotations or expatriates on assignment for three to five years, a new option has been provided for longer-term settlement in a country, *i.e.* more than five years, in the form of a package called "local plus contract", which guarantees welfare benefits but adapts pay and the responsibility of various costs in accordance with the requirements and situation of the country.

The Company's social responsibility has been strengthened as a result and requires a change to the international human resources policy, including, in 2016, the definition of a common foundation for all DCNS entities on HR and CSR matters, and offshoots proposed locally in accordance with possibilities and requirements. Changes will be made to HR governance, including a stronger HR presence in the subsidiaries in the form of staff on local plus contracts and, eventually, locally recruited staff.

Strategic jobs and skill management (GPEC)

Addendum no. 2 to the GPEC agreement strengthened the jobs and skills policy.

In 2015, an update and additions to the professional development gateways were made by the HR team in charge of the GPEC.

The work carried out was presented to the joint job observatory. This serves as a guide for staff interested in professional mobility. It is also a tool for the human resources managers and, in the future, for the mobility advisers as part of the introduction of the global performance agreement.

Around five hundred gateways have been identified, along with, for each one, the prerequisites identified, the adaptation training and the mentoring time required.

In addition, the skills dictionary was created based on the existing standards. It lists all of the skills and distinguishes between critical skills, key skills and cross-functional skills. The definition of critical skills is available.

All of these skills-related elements are available *via* the SeaRH portal, notably with a view to preparing for individual appraisals.

Anticipating and supporting skills development and changing jobs

DCNS has a policy to identify skills that enable it to meet needs in terms of sovereignty. A per-job analysis was conducted of 60 key activities pertaining to sovereignty. Maintaining these skills was chosen as a major strategic focus by General Management and is monitored as part of DCNS's strategic plan.

Organisation of work

Organisation of working time is governed by the Company agreement negotiated in 2004. This agreement was subsequently backed up by local agreements on working time at each Group site, depending on certain local specificities.

Non-managers have flexible hours allowing them to start and finish work within specified time ranges. The majority of managers work on the basis of a fixed number of working days per year (210 days excluding the solidarity day).

Negotiations for an agreement on the organisation of working time are scheduled to begin at the beginning of 2016.

Remuneration and employee benefits

DCNS's compensation and benefits policy aims to:

- encourage and acknowledge individual and collective performance;
- ensure fair pay for everyone;
- guarantee competitive salaries compared with the market.

Staff remuneration under the State labour laws is defined and modified in accordance with its own regulatory framework.

Salary changes are determined during the mandatory annual negotiations. In 2015, given the Company's financial results, increases were limited to professional increases under collective agreements and obligations linked to DCNS's Company agreement (minimums and automatic increases), which represented 0.7% of the wage bill.

This has been supplemented since 2006 by the voluntary and statutory profit-sharing agreements. In 2015, a new voluntary profit-sharing agreement for the 2015 to 2017 financial years was concluded. This agreement governs the majority of the budget for voluntary profit-sharing connected in association with the objective of restoring DCNS's profitability, as measured by the ROC/sales ratio.

In addition, all staff are covered by a collective retirement savings plans (PERCO).

An additional retirement plan (article 83 of the General Tax Code) is also available to engineers and managers.

Remuneration policy incorporates welfare protection with a mutual benefit organisation, which supplements social security contributions relating to the reimbursement of health-related costs and a welfare contract providing insurance against life risks: incapacity, disability, death.

Lastly, managers have a fixed salary and a variable portion, 60% of which is based on the achievement of collective targets and 40% on the achievement of individual targets.

Remuneration of directors

This point relates to the salaries of the Chairman and Chief Executive Officer and the Executive Committee. The Chairman and Chief Executive Officer is DCNS's sole corporate officer; the other members of the Executive Committee are employees.

The corporate officer's salary is fixed by the State (Finance Ministry) on the basis of a recommendation made by the Board of Directors' Appointment and Remuneration Committee pursuant to Order no. 2014-948 of August 20, 2014 on governance and transactions involving the capital of partially State-owned companies.

Members of the Executive Committee are remunerated through a fixed salary and a variable portion determined as a percentage of the fixed salary.

As for all managers, 60% of the variable portion is based on the achievement of collective targets and 40% on the achievement of individual targets.

The welfare benefits available to the members of the Executive Committee are identical to those provided for under the remuneration and welfare benefits policy of the other members of the Group. They are also offered a company car.

In accordance with legal and regulatory requirements, the ten highest earners' salaries are listed in the management report, the social audit and the Auditors' statement and are used to make a tax declaration in accordance with form 2027 on remuneration and expenses allocated to the best-paid people in the Company.

New tools available to DCNS employees

"SeaRH" is the new human resources management global information system (SIRH). More comprehensive, more effective and better suited to the changes to the DCNS group's human resources function, this tool was gradually rolled out in 2014 with a view to being fully operational in 2015. It eliminates the risks associated with the old SIRH becoming obsolete. It provides teams with more effective, less expensive standard applications.

This tool was implemented through a project organisation entitled SeaRH. This step relies on users' expertise.

From the tool selection phase, the measure was led by all of the parties concerned (IT, Human Resources, managers at all sites). All HR procedures were reviewed during workshops attended by all of the parties. These sessions served as an opportunity to develop more pragmatic, simpler HR procedures. The aim is to create an SIRH that both managers and employees are able to use.

In that regard, as of January 2015, the SIRH provides managers with a simplified way of managing their teams *via* a single access portal. It allows them to monitor time management, their team's upcoming or completed training courses, and recruitment management. Employees also have direct access to their HR files through the same single access portal.

As of 2014 the annual assessment interviews (EAA), personal development interviews (EDP), internal and external job offers and preparation of the 2015 training plan have been rolled out.

National Shared Services Centre (CSPN)

The Group's Human Resources Division's setup is being transformed through service agreements and new services on offer to staff.

The Shared Services Centre has been nationalised (and is now a CSPN). Based in Toulon, it brings together the staff and tools responsible for the administrative management of DCNS's staff. The CSPN is responsible for the administrative management of DCNS staff's salaries and time (through the creation and updating of staff files, processing events relating to their development, responding to their requests for assistance and information, etc.), management of public careers (management of "asbestos" departures, pensions, preparation of progress and reform committees for State representatives from the Ministry of Defence), management of logistical matters relating to expatriation (moving house, immigration, housing, etc.), management of information systems (SIRH) and reporting for human resources.

The combination of the Staff Administrative Management activities provides staff with a single system that manages every aspect of their files (administrative management, pay, time, etc.) and understands their particular requirements. What is more, this unification improves service continuity, for example during the summer months or unexpected absences.

Furthermore, the HR service space, which can be accessed through the SeaRH portal, is a tool that enables staff to submit requests online directly to the CSPN and track their responses more effectively.

Lastly, the Human Resources Division has introduced a new service under the Group's corporate social responsibility policy: an electronic safe for a paperless payslip. DCNS is now offering private sector staff the opportunity to receive their electronic payslips in a personalised electronic safe, which is also available to all seconded staff. This service is provided by an external supplier.

II.4.2. Employer/employee relations

Employer/employee relations are governed by the 2004 Company agreement structured around six themes, four of which were revised by an addendum:

- staff representative bodies (title 1) and trade union rights (title 2) in April 2015;
- rules on business travel and mobility (title 6) in February 2014;
- the supplementary staff welfare plan (title 4) in October 2011.

In 2016, planned negotiations on the organisation of working time (title 5) and professional development (title 3) are set to revise the initial agreement of 2004.

The Company also reached an agreement on strategic jobs and skill management, professional gender equality, the employment of people with disabilities and the generation contract.

In terms of health, safety and working conditions, the Company draws on a national Health, Safety and Working Conditions Committee (CHSCT) created by the 2004 agreement, which also enables dialogue on common and cross-functional subjects within the Company. The 2015 addendum expanded its role by introducing rules creating the CHSCT coordination body.

As far as remunerations are concerned, negotiations are undertaken every year. The voluntary profit-sharing agreement, the statutory profit-sharing agreement, the Company savings plan agreement and the agreement on the collective retirement savings plan support the remuneration arrangement.

In 2015, elections were held in May, for the first time *via* electronic voting alongside paper voting. The electronic voting was a success and reduced the cost of this electoral operation.

The result of the elections led to a stabilisation of the trade union organisations' positioning. The CFDT received 33.98% of votes, the CGT 25.26%, the UNSA 21.21% and the CFE-CGC 14.55% and are therefore representative. The other organisations did not achieve the 10% required to be representative.

The agreement on trade union rights and the staff representative bodies signed in April 2015 updated the operating rules and the resources provided to trade union elected representatives and stewards, and in particular to reduce the number of members of the Central Works Council (CCE) and the national CHSCT, while also including the new rights planned under the CHSCT coordination body.

Discussions on a global performance agreement began in July with a method agreement and three separate agreements on workforce adjustment, competitiveness, the organisation of working time and quality of life at work. The workforce adjustment agreement, which includes a voluntary redundancy plan, must be approved by the regional departments of business, competition, consumption, work and employment (DIRECCTE) following the consultations with the bodies scheduled for February 2016.

Solidarity leave

DCNS and the Central Works Council (CCE) renewed the "solidarity leave" offer in 2015. The idea is to offer staff the opportunity to dedicate some of their leave to missions concerning:

- improving adults' skills;
- providing socio-educational support and assistance for children and teenagers;
- protecting and improving the environment.

These missions are managed by the *Planète Urgence* association and take place in Africa, Asia and South America. *Planète Urgence* is an association that specialises in these types of initiatives. It manages more than 350 projects and has already sent more than 6,500 Company staff on missions.

Ten missions were on offer in 2015. The Social Committee of the Central Works Council and the Company's Management selected the ten candidates from 31 applications submitted by DCNS staff.

An appraisal was made of the missions carried out in 2014 and each staff member's testimonials, providing an enthusiastic account of their experience, were circulated. These testimonials played a large part in prompting the Central Works Council and the Management to renew the agreement with *Planète Urgence* for ten new missions in 2015.

II.4.3. Occupational health and safety

An integrated policy

The occupational health and safety (OH&S) policy has now been incorporated into a global quality, safety and environment (QSE) policy signed by Mr Hervé Guillou on November 24, 2014. This policy puts into perspective and is consistent with the ambitions and requirements of the Group in terms of meeting its clients' needs and expectations, developing the culture of identification and control of risks, and ensuring regulatory compliance.

The AFNOR follow-up audit conducted at the beginning of 2015 confirmed the certification of DCNS's global management system in the three standards following the successfully passed certification renewal audit in 2014.

A few decent results, but not enough

The significant reduction in lost-time accidents at work recorded in recent years has prompted DCNS to review these 2015 OH&S objectives so as to integrate accidents without lost time through the inclusion of the frequency rate (FR) 2. The FR2 (accidents with and without lost time per million hours worked) is now the level 1 indicator tracked by the General Management of DCNS.

The prevention programmes, such as the management safety and environment inspections, based on the management's OH&S involvement, incident declarations and reports of hazardous situations identified and escalated by staff during the conduct of their work, are essential programmes for developing the safety culture of all Company staff.

However, the 2015 results indicate a plateau in the continued improvement of the sites' OH&S performance, despite the prevention programmes, and indicate a decline in performance measured by the frequency rate and severity indicators.

The total FR1 at the end of December was 6.7, *versus* a target of 4.9, while the severity rate was 0.2 compared with a target of 0.125.

The FR2 of 11.9 is below the target of 13.3.

The material cause of accidents primarily involves manual operations and travel. Illnesses are down significantly compared with 2014.

Commuting accidents with and without lost time now account for a significant proportion of accidents and days of absence. In addition, fundamental actions were undertaken through safety campaigns, as well as in connection with the conduct of the Company travel plan at each of its sites, including a common OH&S and environment approach.

A collaborative approach to improvement

DCNS has an ongoing commitment to improve OH&S at its suppliers and subcontractors, meaning that there is no two-speed OH&S. Contractual requirements on accident reporting, the ways in which data gathered are used and an introduction of OH&S performance improvement action plans are used to assess suppliers present at Group sites and in training to encourage greater consideration of risks.

Control of the main risks

Actions to prevent the main risks were expanded and enhanced in 2015 by the introduction of specialised intersite working groups (handling risks, risks linked to welding fumes, electrical risks and work in confined spaces) with the aim of establishing or strengthening our OH&S standards, as well as facilitating intersite staff mobility and guaranteeing their protection through the standardisation of individual and group protection resources, tools and operating rules and procedures.

Strong management involvement and a change in behaviours

The involvement of line management and developments in the behaviours of all staff, DCNS or otherwise, present on our sites are central to the OH&S effort.

The main levers put in place are:

• the management and cascading of OH&S actions *via* dashboards;

• control loops;

• involvement in the process of analysis of accidents and incidents by talking to staff on the ground;

• encouraging staff to commit to risk prevention (reports of hazardous situations) and involvement in managerial safety and environment inspections.

Cascade control loops are held monthly, notably at the level of the site director together with the Group OH&S department. These measure the performance of the site/departments on the main themes (accident rate, reports of hazardous situations/incidents, OH&S involvement, managerial safety and environment inspections, compliance, assessment of occupational risks, advancement of OH&S (PASS) and environment (PAE) action plans, and are used to report to General Management.

In place since 2013, they are used to ensure that each entity (division/department) within each site identifies and controls the activities in its sector. The 2015 control loop model was established by the site directors, thereby demonstrating their OH&S involvement.

Between January and November 2015, 4,411 managerial safety and environment inspections were conducted, or just over 368 per month in 2015. They help to showcase, through managerial involvement, the OH&S effort in the field by developing an awareness of risk and the adoption of safe behaviours.

The participation of all staff is a key programme whose importance was reinforced in 2015 to ensure that everyone, during their day-to-day work, can take a proactive approach to their own and others' safety and participate in the improvement of working conditions and risk reduction.

Occupational health and safety (OH&S) communication

Communication actions remain a key tool for sharing the results, actions and programmes with all staff and ensuring their uptake; these are conducted *via* the intranet (Group section and local pages), the local OH&S newsletters in particular and in connection with events such as the SSTE week during the European environment week (communication on commuting accidents and Company travel plans).

Synchronised global site communication operations (OH&S campaign) are also periodically conducted on the sites' key themes.

Training

The main actions put in place in 2015 involve:

• the deployment of the new training programme linked to handling activities, updated in 2014;

• work on harmonising qualification training for the accreditation of staff between the sites;

• guidance towards e-learning training solutions for OH&S awareness actions;

• reflection on the split between external and internal training, with identification of DCNS internal trainers;

• identification of the necessary training for staff leaving on international assignment.

International support

Given that international development is a key factor for DCNS, a special emphasis is placed on the safety of expatriate staff or staff on assignment at sites in France or outside France. An initial appraisal of the instruction concerning exterior shipyards was conducted at a Group level after a year of application and in liaison with the members of the national CHSCT. The actions conducted concern:

• identifying the information of each exterior shipyard located in France or abroad;

• the introduction of prevention plans by DCNS and the client's activities to prevent risks and ensure good coordination between the various parties;

• the organisation and follow-up of the staff conducted by the Occupational Physician;

• the introduction of a working group to liaise with staff to pool actions and strengthen the sharing of knowledge/skills and best practices;

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

Work in liaison with the staff representatives (national CHSCT)

The involvement of and provision of information to the elected representatives, both locally and nationally, on the various themes concerning the areas of the CHSCT was the subject of significant actions through the CHSCT working groups and DCNS Management, thereby improving the quality of the work carried out during the CHSCT meetings.

Quality of life and hardship at work

An action plan on enhancing the quality of working life and the prevention of psychosocial risks at the DCNS group was launched in 2014.

This plan includes six main focuses:

• an organisation dedicated to quality of life at work;

• a procedure for assessing psychosocial risks;

• change support and the inclusion of psychosocial risks in transformation projects;

• the role and responsibilities of local managers;

• the management of complex organisations and the prevention of isolation situations;

• vigilance regarding professional exhaustion situations.

The organisation dedicated to preventing psychosocial risks and promoting quality of life at work was put in place in 2014. A national monitoring unit assembled on a joint basis is tasked with submitting proposals for implementing the directions of the action plan. At each site, a local monitoring unit plays an identical role and relays the national proposals. Tertiary prevention units are in place at all sites and each site has a Quality of Life at Work representative.

The national monitoring unit met six times in 2014 and five times in 2015. One of its key achievements was the methodology for assessing psychosocial risks chosen by the Company. This methodology has been successfully trialled at two sites and will be deployed at all other sites in 2016.

The central question of the role of local managers was taken into account in the Company's 2015-2018 Progress Plan and constitutes one of its core points (point 3). The local monitoring units also undertook reflections on local issues and these reflections resulted in the implementation of various initiatives (analysis of the work-life balance, specific monitoring of the entities affected by change projects, etc.).

The Company also met all of its hardship at work obligations for the 2012 to 2014 period. After determining the hardship thresholds specific to each risk factor in question, the hardship at work assessment was conducted at the sites for each work situation in the work units to establish the exposure prevention sheets provided for by regulation. These sheets were created and circulated to the 4,000 staff at DCNS exposed to hardship factors. The HR and HSE teams are preparing the implementation of new hardship regulation for 2015 and the following years. Negotiations on a quality of life at work agreement will begin at the start of 2016.

II.4.4. Training and education[(1)]

Given the savings plan to be carried out in 2015, the teams from HR training and DCNS Universeaty focused their efforts on optimising the effectiveness of the training provided while at the same time reducing the cost.

This dual objective was achieved by developing e-learning, targeting actions at the Company's core business and re-internalising training specific to our business lines.

The introduction of the SeaRH training module made the training catalogue available to all staff and also enabled them to choose the date and session for which they wanted to register.

(1) SNTE: p. 21, 27.

Training also has a bearing on internal promotion paths. They are arranged so as to provide staff with three possibilities: a qualifying path, a certification path and an experience recognition path.

74 people were promoted through one of these paths in 2015.

Combined study-and-work apprenticeships are a way of maintaining the Company's key skills by training up young people who will then join the Company on a permanent contract. It is also an act of social responsibility that the Company has laid down in several collective agreements. The Company's needs are defined on an annual basis. In 2015, combined study-and-work apprenticeship staff accounted for nearly 4% of the total workforce.

School links

2015 saw a wealth of school initiatives. To support our requirements in terms of recruitment, combined study-and-work apprenticeship staff and trainees in particular, DCNS increased its visibility in the target schools. This led to a significant rise in all kinds of school initiatives: forums, jobdating, involvement in lessons, participation in round table discussions, inviting students to visit our sites, etc. Nearly 70 actions were undertaken, involving both staff and managers, as well as DCNS HR parties.

New partnerships were set up or are in the process of being deployed. These involve schools that provide training in professions where DCNS needs to become more visible, particularly in the field of software development and embedded computing: these fields, which are key areas for DCNS, constitute an important part of the value chain in naval defence. Lastly, new partnerships were set up in response to the emergence of new professions. This is the case with the field of naval cybersecurity in particular.

Skills Workshop and French Naval Campus

These two bodies, developed at the initiative of the DCNS group and led by the GICAN, have merged, and DCNS hosted the French Naval Campus in Lorient on October 30 for its annual study day.

The skills theme is now headed by the French Naval Campus on behalf of companies in the sector and public or private initial and continuous training bodies involved in putting together a cohesive offering of training in naval professions.

The French Naval Campus participates in the work of:

• the eponymous working group of the National Council for Industry, under the aegis of the Ministry for Industry;

• the Industry Strategic Committee of the GICAN;

• the industry committees of the UIMM and the French national education system.

The collaborative work on the various issues resulted in the obtainment at the end of September, during a metallurgy

CORPORATE SOCIAL RESPONSIBILITY REPORT 2015

industry joint committee meeting, of the go-ahead for the opening of an additional naval mechatronics statement (target: autumn 2016) and the start of work on the certificate of qualification in industrial boilermaking design and production, with a welding option, enabling two-year level 5 training and professional qualification in welding to be offered.

Showcasing the benefits of naval professions to young people and influencers, educators and parents remains a key issue for the profession.

To this end, the French Naval Campus supported the creation of the *Campus des métiers et des qualifications industries de la mer* (Campus of Naval Industry Professions and Qualifications), which was unveiled on April 30, 2015 in Brest by the French President and the Ministers for National Education and Defence. The Campus of Naval Industry Professions and Qualifications and the French Naval Campus handle the promotion and deployment in the Brittany region of training that meets the requirements expressed by companies in the sector.

As part of its promotion of professions, DCNS finances the *"Je filme le métier qui me plaît"* ("Film your favourite job") initiative aimed at schools. This year's awards were handed out during a ceremony at the Grand Rex cinema in Paris and were attended by the director Serge Moati.

The Oceans 21 programme

In the field of employment and training, the programme's financial support enabled the *Pro & Mer* show to secure its future. It was held for the third consecutive year in Brest on November 24, 2015. It gave a whole range of attendees the opportunity to learn about over 1,300 job vacancies in the naval sector, the maritime sector and oil and gas, learn about training courses and receive support in formalising career plans or a CV.

In the Provence-Alpes-Côte d'Azur region, the programme also helped to create the first maritime employment show, which took place on October 15, 2015 in Toulon.

Several specific naval training courses were also provided to small businesses in the sector in this region thanks to the Oceans 21 programme.

In terms of HR prospecting, the programme financed the conduct of GPEC diagnoses in small businesses by its regional partners, the aim being to train the director or one of its members of staff on keeping an up-to-date summary table of business skills and training to be scheduled in order to maintain them and pass them on.

II.4.5. Diversity and equal opportunities

The generation contract

The targets on recruitment and job stability under the generation contract agreement were met in 2015, although there was a decline in the number of recruitments. The rate of recruitment of individuals under the age of 30 was 48% and 31% for those under the age of 26. For the over-50s, the rate of recruitment was 5.5% and the job stability rate was 28.6%. These figures include 56 young people recruited on a permanent contract at the end of their combined work-and-study apprenticeship contract. Actions in support of young people experiencing hardships were also undertaken, and around 50 have benefited from this policy. DCNS's promotional campaign at schools and universities has resulted in more than 100 events being held. Concerted efforts to welcome and integrate newly hired staff and to foster intergenerational cooperation have been supplemented by the registration of voluntary liaisons, a document defining their role, the accreditation of 103 senior tutors and the setting up of pairing schemes for jobs which require a long apprenticeship in a work environment.

Lastly, the Group's full and reviewed procedure for welcoming and integrating newly hired staff has been put in place.

Commitments to young people

- The commitment to admit an annual percentage of young people onto combined study-and-work apprenticeships of 5% was nearly met, with almost 4% achieved.
- The commitment to recruit outgoing or former combined study-and-work apprentices onto permanent contracts was confirmed and met in 2015 (56 recruitments of outgoing or former combined study-and-work apprentices out of the 250 recruitments during the year).

Commitments to older people

- Make the most of older employees' experience by asking them to conduct more tutorials, internal training and advisory tasks.
- Arrange a pre-retirement interview at least one year prior to employees' planned retirement date in order to review their professional situation.
- Allow employees to amend their working hours at the end of their career and choose when they work in order to reduce their working time to 80% or 50% in the final months leading up to retirement. This option is now available to staff who are already working part time.

Commitments to everyone

- A professional guidance appraisal (DOP) is available to all employees who wish to discuss their career trajectories and put together a plan. This appraisal is held with an internal advisor.
- Support is provided in the form of training for all employees who are changing jobs.
- Access to professional asset validation (VAP) is made possible under the same conditions as experience asset validation (VAE).

Local GPEC conferences organised each year define the foreseeable developments in job trends. These changes form the basis of the construction of the mapping.

The Group and local skill orientation plans (POC) present the qualitative and collective skills adaptation actions (training, knowledge transfer, school links, combined study-and-work apprenticeships, etc.).

In 2014, the DCNS skills standards relating to the Group's 236 jobs were thoroughly updated: 247 general skills, including 86 critical parent skills, were reviewed out of a total of 410 parent and child skills, including 199 critical skills.

Talent management

This programme, developed since 2012, aims to meet the Company's need to identify high-potential individuals and set them on ambitious career paths commensurate with their aspirations.

These steps of preparing for the future involve around 60 members of staff, who take part in scenario simulations and receive individual support and mentoring with a view to them ultimately taking on new responsibilities in the Company.

In 2015, talent management also applied to experienced staff with recognised potential. These staff receive specific training support.

Professional gender equality

The results of the three-year agreement signed in 2012 are positive and the targets it contained have been met: the percentage of women in the Company rose to 19.6% in 2015. There has also been an increase in the percentage of female managers at position III of the collective metallurgy agreement (14.8% on December 31, 2015). Specific measures have also been taken to improve gender pay equality by level.

In addition to these quantitative results, a series of steps have been carried out since 2012 on the involvement of Group Management, awareness-raising for managers and HR, the appointment of women to positions of responsibility, the consideration of at least one female candidate for positions to fill, encouraging women to go into production jobs in France or internationally, work in schools to present jobs and DCNS's membership of the *Elles bougent* association in 2014 (DCNS currently has 60 female sponsors working with the education system to promote technical professions; 2015 notably saw DCNS involved in the creation of an *Elles bougent* regional delegation in Pays de la Loire).

The new agreement (2015-2018) envisages a continuation of the efforts to employ more women in the Company as a whole and in positions of responsibility (posts at position III of the collective metallurgy agreement), while maintaining a proportion of 25% combined study-and-work apprenticeships. The agreement envisages further action in the field of training, equal pay and professional development, with improved financial assistance for childcare (Cheques for Universal Employment Services (CESU) for childcare and during training), and supervision and help in preparing to return from maternity leave. Lastly, it envisages DCNS taking part in local activities with a view to encouraging people to change careers and start industrial jobs.

Disabilities

Given the more restrictive employment management context and the decline in recruitments compared with previous years, the disabilities department's efforts were focused on recruiting young disabled people on combined study-and-work apprenticeships and people aged over 30 on professional retraining schemes. Eighteen new people were admitted in 2015 to the Group's various sites on combined study-and-work or professionalisation contracts.

Particular attention was paid to admitting trainees recognised as disabled, resulting in the admittance of eight young people on end-of-course internships to obtain an Advanced Technician's Certificate (BEP), Technology University Degree (DUT) or a bachelor's degree.

The recruitment teams at Headquarters and at the sites work in close collaboration with the disabilities department officers to routinely select workers recognised as disabled for vacancies to fill. The application form on the website was adapted to enable applicants who wish to do so to declare their disabled worker status.

As stated in the agreement, job stability is a key component of the disability policy. This work takes place in close collaboration with the occupational physicians and the managers, who are increasingly and effectively involved in this area. These job stability actions make improvements to workstations that also benefit the entire team (*e.g.* the ergonomic analysis of a milling machine workstation resulted in several adjustments to improve the handling equipment for a person recognised as disabled, then these adjustments were made for the entire team).

The midway appraisal of the 2014-2017 agreement is 12 recruitments on permanent contracts and eight on temporary contracts, 34 combined work-and-study apprentices, 29 trainees and 132 new length-of-service awards for current staff. There were also 83 departures due to retirement or contract expiries for individuals recognised as disabled. The overall situation is therefore largely positive.

The Purchasing Department also appointed a representative to grow purchases from the protected worker sector. An agreement with the grouping of protected worker sector establishments (GESAT) was signed on October 22, 2015, providing access to all of the financial and industrial parties in the protected worker sector. Revenue reached €1.8 million by September 30, 2015.

In total, the employment rate was 5.5% of the benchmark workforce.

II.4.6. Human rights[(1)]

The human rights charter is one of the elements of e-learning training on ethics and CSR given to 6,500 members of staff from September. This e-learning package enables staff to learn at their own pace and to view and review the information and tests provided.

The human rights charter supplements and clarifies the Group's commitment to the Global Compact, notably with the aim of supporting its international development. It complies with the principles and rules laid out by major international texts: the Global Compact, the John Ruggie report of 2011, the OECD Guidelines for Multinational Companies (2011), the ILO Declaration on Fundamental Principles and Rights at Work (1998), the Tripartite Declaration of Principles concerning Multinational Companies and Social Policy (ILO 2006), the Grenelle 2 Act (article 225) and its 2012 decree. It also meets the criteria of ISO 26000 and the Vigeo standards on corporate social responsibility.

It states and clarifies commitments in the areas of human rights and international labour standards, clarifying their application for each of the stakeholders.

As such, this charter helps to support the Group's ambitions in social and societal responsibility at the very highest level.

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

Summary – Corporate social responsibility report 2015

DCNS, a member of the **United Nations Global Compact** since 2014, participated in the Peer Review in May 2015. The actions carried out by the Group gave it "Global Compact Advanced" recognition. Only 50 or so companies in France have achieved this level of recognition.

At the Paris **Climate Conference** in December 2015, DCNS reported on its progress in supporting the environment, including: investing in marine renewable energies (notably the creation of four 16-metre tidal turbines in 2015 and the preparation for 2016 of the world's first base of tidal turbines connected to the power grid), naval eco-design (one R&D project in four and one vessel programme in two directly concerned), innovation to create systems that enable marine clients to conduct monitoring of illegal polluting and fishing, and lastly managing the environmental impact of its industrial and tertiary activities.

1. ETHICS AND COMPLIANCE: DCNS AMONG THE WORLD'S BEST PRACTITIONERS

• Validation of the ethics alert system.

• Introduction of the **Ethics and Corporate Social Responsibility (CSR) Committee.**

– Creation in March 2015 of a single Ethics and CSR Committee tasked with establishing the general guidelines in terms of ethics and corporate social responsibility and ensuring the implementation of best practices within the Group.

– Launch in September 2015 of an e-learning platform for educating 6,500 managers and staff in ethics and anti-corruption.

• **Compliance** integrity programme.

– Compliance standards: improvement of existing policies and procedures on patronage, sponsorship and charitable contributions; development of new policies and procedures integrated into the integrity programme.

– Continued formation of the Compliance Officers network.

• **Trade, customs control and export policy.**

– DCNS took industry leadership of negotiations and voting on the Arms Trade Treaty at the end of 2014, which now has 78 State parties and 54 signatories. The first conference of the State parties to the Treaty took place in Cancun in August 2015.

– DCNS was awarded "Full" accredited economic operator (OEA) certification in 2014 by the Customs authorities, in recognition of its development in the security of both import and export trade.

– The Export Control Department stepped up its support for staff through education and information measures and conducted its first *a posteriori* checks in 2015.

2. SUPPLIERS: SEEKING SHARED COMPETITIVENESS

• DCNS, a **major industrial player** in employment catchment areas and guarantor of the control and protection of its purchases.

• Continuation in 2015 of the commitments made by the DCNS group to consolidate and develop its sectors and industrial ecosystems, particularly the major SMEs and middle-market companies on its panel.

• DCNS recognised for its **sustainable and balanced relationships with its suppliers.**

– Was awarded "Responsible supplier relations" status by the Intercompany Mediation panel in December 2014, confirmed in December 2015 by a monitoring audit, bolstering DCNS in its ongoing pursuit of progress.

– Is continuing to roll out its **supplier code of conduct** with the suppliers' panel, in accordance with the requirements and recommendations laid down in the Global Compact and standard ISO 26000. Escalation in 2015 of the assessment of the CSR performance of the suppliers of the panel and introduction of action plans to address any shortcomings.

– Continuation in 2015 of the commitments made by the DCNS group to consolidate and develop its sectors and industrial ecosystems, particularly the major SMEs and middle-market companies on its panel.

3. ENVIRONMENT: A CONTINUAL IMPROVEMENT APPROACH

• Rolling out a **coherent QSE policy** to improve industrial performance.

– Following the certification renewal audit successfully passed in 2014, the AFNOR monitoring audit at the beginning of 2015 confirmed DCNS's global management system's quality, safety and environment (QSE) certificate for standards ISO 9001, 14001 and OHSAS 18001.

– No environmental incidents occurred during the Group's industrial activities in 2015.

• Reducing the environmental impact of DCNS's activities.

– An energy management system was rolled out in accordance with standard ISO 50001 to improve energy efficiency and reduce greenhouse gases.

– Optimal waste processing results were achieved in sorting (> 90%) and recycling (>70%).

• Launch of the **"circular economy"** in the naval industry.

– Eco-design was implemented, involving R&D investment in three key areas: improving energy efficiency, processing emissions and waste, and innovative and eco-friendly technologies.

– A systematic environmental analysis was carried out on the entire lifecycle of the new programmes.

4. SOCIAL: DCNS, A COMMITTED SOCIAL PLAYER

• **Occupational health and safety:** DCNS maintained its commitment to developing a culture for identifying and controlling risks; integration of accidents without lost time into the 2015 OH&S targets through the inclusion of the frequency rate 2 (accidents with and without lost time per million hours worked), now the level one indicator tracked by General Management. Measures were developed to take greater consideration of OH&S risks for expatriate staff or staff on assignment in France and internationally, suppliers and subcontractors.

• **Diversity:** DCNS met its commitments under the generation contract. The rate of recruitment of individuals under the age of 30 was 48% and 31% for those under the age of 26. For the over-50s, the rate of recruitment was 5.5% and the job stability rate was 28.6%. Targets were met in the appraisal of the 2012-2015 professional gender equality agreement: the percentage of women in the Company rose (19.6% in 2015), as did the percentage of female managers at position III (14.8%); a new agreement was signed establishing the targets for the 2015-2018 period.

• **Disabilities:** there was a continuation of the proactive measures instilled by the 2014-2017 agreement to promote the employment of people with disabilities. The employment rate was 5.5% in 2015. An agreement with the grouping of protected worker sector establishments (GESAT) was signed in 2015, providing access to all of the financial and industrial parties in the protected worker sector. Revenue reached €1.8 million by September 30, 2015.

• **Training:**

– The Skills Workshop and the French Naval Campus, bodies developed at the initiative of the DCNS group and led by the GICAN, have merged, and DCNS hosted the French Naval Campus in Lorient on October 30 for its annual study day. The go-ahead was given for the opening of an additional naval mechatronics statement, with a welding option. Support was provided for the creation of the Campus of Naval Industry Professions and Qualifications, unveiled in Brest on April 30, 2015.

– The HR training and DCNS Universeaty teams optimised the effectiveness of the training provided (development of e-learning, targeting actions at the Company's core business, re-internalising training specific to our business lines). The introduction of the SeaRH training module made the training catalogue available to all staff.

• **Human rights:** education is provided in the human rights charter of DCNS, which is one of the elements of the e-learning training provided in 2015 to 6,500 managers and staff.

CORPORATE SOCIAL RESPONSIBILITY REPORT 2015

III. INDEPENDENT VERIFIER'S REPORT ON THE CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION PRESENTED IN THE FINANCIAL REPORT

Year ended December 31, 2015

To the Shareholders,

In our capacity as an independent verifier accredited by the COFRAC(1), under the number 3-1050, and as a member of the network of one of the Statutory Auditors of the company DCNS, we present our report on the consolidated social, environmental and societal information established for the year ended December 31, 2015, presented in the "Corporate social responsibility report" annexed to the management report, hereafter referred to as the "CSR Information", pursuant to the provisions of article L. 225-102-1 of the French Commercial Code *(Code de commerce)*.

Responsibility of the Company

It is the responsibility of the Board of Directors to establish a management report including the CSR information referred to in article R. 225-105-1 of the French Commercial Code, in accordance with the criteria used by the Company, comprising instructions and HR and environmental reporting procedures in their 2015 versions (hereafter referred to as the "Criteria"), available on request at the Company's Headquarters.

It is the responsibility of the Group's Operational Excellence Department and Human Resources Department to compile the data according to the Criteria, to update these Criteria and to ensure they are made available for consultation at the Company's Headquarters.

Independence and quality control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession and the provisions in article L. 822-11 of the French Commercial Code. In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

Responsibility of the independent verifier

It is our role, based on our work:

• to attest whether the required CSR Information is present in the management report or, in the case of its omission, that an appropriate explanation has been provided, in accordance with the third paragraph of article R. 225-105 of the French Commercial Code (attestation of presence of CSR Information);

• to express, at the request of the Company, a limited assurance conclusion, that the information selected by the Company and identified by a "√" mark in the "Other information" section of chapter "III. Corporate societal responsibility" of the management report is fairly presented, in all material aspects, in accordance with the Criteria.

Our work was conducted by a team of four persons over a period of approximately five weeks between October 2015 and February 2016.

We conducted the work described below in accordance with the professional standards applicable in France and the order of May 13, 2013 determining the conditions under which an independent verifier conducts its mission, and in relation to the limited assurance report, in accordance with the international standard ISAE 3000(2).

(1) Scope of accreditation available on www.cofrac.fr.

(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical information.

1. ATTESTATION OF PRESENCE OF CSR INFORMATION

Nature and scope of the work

We obtained, based on interviews with the management of relevant departments, a presentation of the Company's strategy on sustainable development based on the social and environmental consequences linked to the activities of the Company and its societal commitments, as well as, where appropriate, resulting actions or programmes.

We have compared the CSR Information presented in the management report with the list as provided for in article R. 225-105-1 of the French Commercial Code.

In the absence of certain consolidated information, we have verified that the explanations were provided in accordance with the provisions of article R. 225-105, paragraph 3, of the French Commercial Code.

We verified that the CSR Information covered the consolidated scope of business, name of the Company and its subsidiaries under article L. 233-1 of the French Commercial Code and the companies it controls under article L. 233-3 of the same Code.

Conclusion

Based on this work, we confirm the presence in the management report of the required CSR information.

2. REASONED OPINION ON THE ACCURACY OF THE CSR INFORMATION

Nature and scope of the work

At the Company's request and with regard to the information selected by the Company and identified by a "√" mark in the "Corporate social responsibility report 2015" annexed to the management report, we conducted three interviews with the persons responsible for preparing CSR Information at the Environment, Human Resources and Occupational Health & Safety Departments in charge of collecting the information and, where applicable, the people responsible for internal control and risk management procedures, in order to:

• assess the suitability of the Criteria in relation to their relevance, completeness, reliability, neutrality and understandability, taking into consideration, if relevant, industry standards;

• verify the implementation of a process for the collection, compilation, processing and control for completeness and consistency of the CSR Information and identify the procedures for internal control and risk management related to the preparation of the CSR Information.

We determined the nature and scope of our tests and checks based on the nature and importance of the CSR Information with regard to the Company's characteristics, the social and environmental issues surrounding its activities and its directions in terms of sustainable development and sector best practices.

As regards the CSR information that we considered to be the most important[(3)]:

• at the level of the entity, we consulted the document sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions, etc.), we utilised analytical procedures on the quantitative information and verified, based on surveys, the calculations and consolidation of data and we verified its coherence and concordance with the other information appearing in the management report;

(3) **Environmental and societal information:**

Indicators (quantitative information): energy and water consumption, GHG emissions (scopes 1 and 2), the proportion of hazardous and non-hazardous waste.

Qualitative information: the general policy on the environment, pollution and waste management (waste prevention, recycling and elimination measures), the sustainable use of resources and climate change (energy consumption, measures taken to improve energy efficiency, water consumption); territorial, economic and social impact (employment, regional development, impact on neighbouring and local populations), relations with stakeholders (dialogue conditions), the importance of subcontracting.

Social information:

Indicators (quantitative information): total registered workforce, rates of absenteeism, proportion of female managers, frequency rate and severity of occupational accidents.

Qualitative information: employment (total workforce and breakdowns, recruitments and redundancies), the organisation of working time, social relations (organisation of social dialogue), the disability policy, training, conditions governing occupational health and safety.

• based on a representative sample of sites that we selected[(4)] as a function of their operations, their contribution to the indicators, their location and a risk analysis, we conducted interviews to verify correct application of the procedures and performed detailed sample-based tests that involved checking the calculations performed and reconciliation of data with the supporting documents. The sample selected in this way represents between 8% (production of non-hazardous waste) and 27% (production of non-hazardous waste) of the data for the environmental indicators and 30% of the data for the social indicators.

In the case of the other consolidated CSR information, we assessed its coherence relative to our knowledge of the Company.

Lastly, we assessed the relevance of the explanations concerning, if applicable, the total or partial absence of certain information.

We consider that the sampling methods and sizes of the samples that we considered by exercising our professional judgement allow us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work. Due to the necessary use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a significant anomaly in the CSR Information cannot be entirely eliminated.

Conclusion

Based on our work, we have not identified any significant misstatement that causes us to believe that the information selected by the Company and identified by a "√" mark in the "Corporate social responsibility report 2015" annexed to the management report has not been fairly presented, in all material aspects, in compliance with the Criteria.

Observations

Without qualifying our conclusion above, we draw your attention to the following points:

• information concerning the environment and occupational health and safety is published relative to France and does not cover the international scope.

Paris-la Défense, March 4, 2016

Independent Verifier

Ernst & Young et Associés

Éric Duvaud
Partner, Sustainable Development

Bruno Perrin
Partner

(4) Toulon, Le Mourillon and the Paris Establishments.

ANNEX 1

LIST OF REGULATED AGREEMENTS

The order no. 2014-863 of July 31, 2014 introduced a new article 225-40-1 relating to annual review by the Board of Directors of the regulated agreements authorised previously, the execution of which continued during the last financial year. The Company's Board of Directors will carry out this review at its meeting on February 19, 2016.

Regulated agreements signed in 2015 approved by the Board of Directors

None.

Agreements signed in previous years, the execution of which continued during the 2015 financial year

Regulated agreements signed in 2007 approved by the Board of Directors

Parties to the contract	Subject matter of the contract	Date signed
DCN/Thales	Addendum no. 1 to the agreement to transfer TNF shares and the TNF guarantee agreement *Considered by the meeting of the Board of Directors of March 22, 2007*	March 29, 2007
DCN/Thales	Letters of counter-guarantees issued in favour of Thales in connection with the acquisition of TNF *Considered by the meeting of the Board of Directors of March 22, 2007*	March 29, 2007
DCN/Thales/Armaris	Letter concerning the transfer by Armaris to Thales of the benefit of its rights under DCN letter of October 5, 2005 no. 05000162 OL/NP *Considered by the meeting of the Board of Directors of March 22, 2007*	March 29, 2007
DCNS/Thales	TNF guarantee agreement – General and specific guarantees given by Thales to DCNS in connection with the acquisition of 100% of the capital of Thales Naval SA	January 30, 2007
DCNS/Thales/Thales Naval France	Irrevocable undertaking, without compensation, for Thales to indemnify TNF or DCNS for the damaging consequences resulting from any arbitration or legal proceedings, in progress, or brought against TNF as a result of the conditions for concluding or performing the Bravo contract	January 30, 2007

Regulated agreements signed in 2006 approved by the Board of Directors

Parties to the contract	Subject matter of the contract	Date signed
DCNS/DGA/CEA	Offer for the development, construction and maintaining in the initial operational state of six Barracuda nuclear-powered attack submarines	December 21, 2006
DCNS/SPN	Offer for long lead-time procurement to be fulfilled in advance to allow the operations for SNLE-NG adaptation for M51 missiles	December 21, 2006
DCNS/SSF	Offer for the IPER and MCO Global for the *Charles de Gaulle* aircraft carrier	December 19, 2006

Regulated agreements signed in 2004 approved by the Board of Directors

Parties to the contract	Subject matter of the contract	Date signed
DCNS/Thales	Agreement governing relations between DCNS and Thales (and Armaris until it was merged with DCNS on September 30, 2009) on the assumption that the solidarity undertaken from Thales to Finmeccanica in the context of the shareholders agreement of Eurosysnav SAS would be implemented by the latter	May 24, 2004

Regulated agreements signed in 2003 approved by the Board of Directors

Parties to the contract	Subject matter of the contract	Date signed
State/DCN Développement	Contribution agreement describing the rights, property and obligations of the DCN service with national authority (SCN) of the Ministry of Defence contributed by the State to DCN Développement, the value placed on these and the terms and conditions of the contribution	May 26, 2003
State/DCN Développement	Framework agreement specifying the agreement additional to the contribution agreement to be entered into by the State and DCNS Développement in connection with performing the contribution operation	May 26, 2003
DCNS/DCN International	Mandate on management of DCN International cash flow by DCNS	December 18, 2003

ANNEX 2

List of delegations of power obtained from the General Meeting of Shareholders

None.

ANNEX 3

List of offices held and functions performed by each corporate social officer during the year ended December 31, 2015

	Company	Function or office
Hervé Guillou	DCNS	Chairman and Chief Executive Officer
	BE MAURIC	Vice Chairman of the Supervisory Board
	SNEF	Director
	Compagnie Maritime d'Expertises – COMEX	Director
	3 CAP Advisor	Chairman

	Company	Function or office
Astrid Milsan	Ministry of the Economy, Finance and Industry	Secretary General at the General Directorate of the Treasury
	Ministry of the Economy, Finance and Industry	Director of Shareholdings at the State Shareholdings Agency
	DCNS	Director
	Safran	Director
	GDF Suez	Director

	Company	Function or office
Sophie Mantel	Ministry of Finance and Public Accounts	Head of department, deputy Director of Budget Management
	DCNS	Director
	Française des Jeux	Director
	PMU	Director
	Institut Pasteur	Director, Board Member, Treasurer
	La Poste	Director
	SNCF Mobilités	Director (*from July 13, 2015*)

	Company	Function or office
Pascal Bouchiat	Thales	General Director, Finance and IT Systems
	DCNS	Director
	Thales Alenia Space	Director

	Company	Function or office
Nathalie Ravilly	Thales	Director of Mergers and Acquisitions at the Strategic Department
	Thales	VP Strategy
	DCNS	Director
	TCV	Chairwoman and Director

	Company	Function or office
Gabrielle Gauthey	Caisse des Dépôts – Investments Department	Director of Investments and Local Development
	Alcatel-Lucent	Vice President head of Government segment
	DCNS	Director
	EXTERIMMO	Chairwoman
	CDC Infrastructure	Chairwoman of the Board of Directors
	CDC Climat	Chairwoman of the Board of Directors
	CDC Numérique	Chairwoman of the Supervisory Board

	Company	Function or office
Bernard Rétat	DCNS	Director

	Company	Function or office
Bertrand Le Meur	Ministry of Defence	Head of the Department of Industrial Affairs and Economic Intelligence
	GIAT	Director
	DCNS	Director
	Thales(1)	Member of the Board of Directors for specific action
	AIRBUS SAFRAN Launchers	Director

(1) Bertrand Le Meur was appointed member of the Board of Directors of Thales as State representative, for specific action (decree of July 3, 2014).

	Company	Function or office
Jacques Hardelay	Alstom Renewable Power System	Senior Vice President Alstom Hydro
	Chantier Naval de Marseille SAS (CNM)	Chairman
	DCNS	Director

	Company	Function or office
Luc Rémont	Schneider Electric France	Chairman and Chief Executive Officer
	DCNS	Director
	Atos Worldline	Director, Chairman of the Appointments and Remuneration Committee

	Company	Function or office
Patrice Caine	Thales	Chairman and Chief Executive Officer
	DCNS	Director (*from January 22, 2015*)

	Company	Function or office
Sandra Lagumina	Engie	Executive Vice President in charge of Infrastructures, GTT and China (*from January 1, 2016*)
	GrDF	Chief Executive Officer
	DCNS	Director
	Storengy	Director
	GDF Suez Information et Technologies	Director
	Gaztransport et Technigaz (GTT)	Director (*from July 21, 2015*)
	Fondation d'entreprise Engie	Director (*from July 21, 2015*)

	Company	Function or office
Gilles Rapale	DCNS	Manager – PACDG offer
	DCNS	Director

	Company	Function or office
Isabelle Roué	DCNS	Prevention/Environment Officer
	DCNS	Director

	Company	Function or office
Laurent Chagnas	DCNS	Technical and Administrative Secretary
	DCNS	Director

	Company	Function or office
Jacques André	DCNS	Electronics engineer, submarine detection
	DCNS	Director

	Company	Function or office
Joël Ricaud	DCNS	Applications Group Manager
	DCNS	Director

	Company	Function or office
Thierry Barbarin	DCNS	Safety Officer
	DCNS	Director

Director whose term of office at DCNS terminated during the year ended December 31, 2015

	Company	Function or office
Philippe Logak	DCNS	Director (*until January 7, 2015*)
	Thales	Chairman and Chief Executive Officer (*until December 23, 2014*)
	Thales Alenia Space SAS	Member of the collegial body called “Supervisory Board” (*until June 19, 2015*)

Other informations

ANNEX 4

Proposal to allocate the earnings of DCNS SA for the year ended December 31, 2015

Recognising the conditions of quorum and majority required for ordinary shareholder meetings, the shareholders, at the proposal of the Board of Directors has decided to allocate the earnings for the financial year ended December 31, 2015, totalling €71,133,719.86, as follows:

- €71,133,719.86 to retained earnings, which have thereby risen from a deficit of €189,943,915.91 to a deficit of €118,810,196.05.

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DCNS – French *société anonyme* capitalised at €563,000,000
Paris Trade and Enterprise Register B 441 133 808
SIRET 441 133 808 00135 – APE 3011 Z

DCNS Communication Department – May 2016 – Design and production: HAVAS WORLDWIDE **PARIS** – Printed on 100% recycled paper.