

NON SENSITIVE

CORPORATE SOCIAL RESPONSIBILITY (CSR) REPORT 2018

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I. Additional information to the non-financial performance statement (DPEF) published in the 2018 financial report

Naval Group has been committed to a continuous progress approach in the non-financial field for eleven years. This approach is based on recognised international texts such as the "ten principles" of the United Nations Global Compact, the fundamental conventions of the International Labour Organisation, the guiding principles of the Organisation for Economic Co-operation and Development (OECD), Global Reporting Initiative (GRI), the ISO 26000 standard, the transposition of the European directive on reporting of non-financial performance, the law on the duty of vigilance of parent and ordering companies and the law on transparency, the fight against corruption and the modernisation of economic life.

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

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

The corporate social responsibility rating obtained at the beginning of 2018 in six areas (governance, behaviours on the markets, environment, human rights, human resources and community commitment), which was verified by the rating agency, acknowledged the positive progress made relative to the rating obtained in September 2016.

1. Ethics, compliance and governance

Corporate social responsibility (CSR) is a major issue for the group and its shareholders. In 2018, Naval Group's Board of Directors also decided that the Board of Directors' Compensation and Appointments Committee would now be called the Compensation, Appointments, Ethics and CSR Committee, and would be responsible for making its recommendations to the Board for matters relating to this field.

Internally, the role of the Corporate Ethics and Social Responsibility committee (CERSE) is to set general guidelines regarding ethics and corporate social responsibility, as applicable to all group companies. CERSE is free to carry out any work it deems useful, within the framework of its missions and role. In addition, it implements the reporting process for behaviour contrary to the ethics and CSR repository when the ethics alert line (ethics@naval-group.com) is alerted. CERSE is composed of eleven persons appointed by the Chief Executive Officer. Its organisation is specified in its internal rules published on the business management system (BMS) on the company's Intranet site. It

relies on a network of ethics and CSR relays on each site and subsidiary in France and abroad. The ethics and CSR relays are invited to teleconferences every two months and participate in specific actions such as coordinating and running sessions dedicated to CSR for the site or the subsidiary, participation in the Ethics and Compliance International Day of Naval Group in December of each year, participation in the annual seminar bringing together CSR coordinators (Compliance Officers, ethics and CSR relays, members of CERSE).

The deployment of the approach is supported by the whole group and by the corporate Ethics, Compliance and Governance department, which is hosted by the General Secretary, in direct connection with the Chief Executive Officer.

Compliance integrity program (fight against corruption and influence peddling (« Compliance »): in 2018, Naval Group continued and intensified its effort to strengthen its compliance system, updating it to comply with the best national and international standards, and in particular the Sapin II Act No. 2016-1691, enacted on December 9, 2016, pertaining to transparency, the fight against corruption and the modernisation of the economy, and recommendations of the French Anticorruption Agency.

2. Sustainable Development Goals

Naval Group has chosen to work more specifically on the following five sustainable development objectives out of the 17 proposed by the Global Compact:

- Sustainable Development Goal #7: ensure access to affordable, reliable, sustainable and modern energy services for all;
- Sustainable Development Goal #9: build a resilient infrastructure, promote sustainable industrialisation that benefits everyone and encourage innovation;
- Sustainable Development Goal #13: take urgent action to combat climate change and its impacts;
- Sustainable Development Objective #14: conserve and sustainably exploit the oceans, seas and marine resources for sustainable development;
- Sustainable Development Objective #16: promote peaceful societies open to everyone for sustainable development purposes, provide access to justice for all and build effective, accountable and institutions open to everyone, at all levels.

This approach has been included in Naval Group's non-financial report since 2016.

Here are a few examples of the responses given by Naval Group to each of the five sustainable development objectives selected.

SDG No.7



Naval Energies is participating in the "Clean Energy for EU Islands" initiative for acceleration of the energy transition in more than 2,700 European islands. In effect, Naval Energies is developing two technologies to respond to needs:

- **wind energy at sea:** Naval Energies specialises in the supply of subassemblies for floating wind-turbine farm projects, semi-submersible floaters (steel, concrete or hybrid) and their anchoring system based on a design mutually optimised with project operators in this field and respecting the coastal environment. In the world, the energy potential offered by the floating wind turbine market is 3 times higher than that of fixed offshore wind turbines;
- **ocean thermal energy conversion :** Naval Energies develops energy production systems and subsystems based on ocean thermal energy, exploiting temperature gradients between the surface and depths of tropical seas.

In Angoulême-Ruelle, a massive investment campaign was conducted in the field of energy renovation thanks to a transformation plan for the site. 40% of the annual "basic" investment budget was invested in several measures with a return on investment of around 4 to 5 years. The most emblematic are:

- replacing the vast majority of workshop lighting systems with variable-lighting LED bulbs. This allows a 55% reduction in electricity consumption for lighting;
- the installation of a system for destratification of hot air: this system consists of circulating hot air which accumulates under the roof in large (high) production workshops during heating periods, in the direction of the ground without reducing the comfort of employees. This allows a reduction of the order of 15% in gas consumption used for heating of targeted workshops;
- the installation of a system for slaving consumption of compressed air in paint booths: this system makes it possible to modulate the consumption of compressed air when it did not already exist, to adapt it to the actual needs of users, thus avoiding the inefficient production of air for the rest of the time.

Overall, Naval Group aims to reduce energy consumption by at least 12% through these measures.

SDG #9



Naval Energies is working with several regions to help them build the infrastructures that they need. Thus, in Brest, work is being carried out on polders for the installation of assembly infrastructures for floating wind turbines.

In Toulon, as part of the industry's contribution to employment, Naval Group supports two local associations that contribute to the creation of a company:

- Réseau Entreprendre Var: member of the Board of Directors, participation in validation meetings for start-up projects and commitment committees to decide whether or not to approve support for selected projects;
- Entrepreneurials: sponsor of a team of higher education students as part of the definition of the business plan a project to create a business;
- Team Henri Fabre Association: members, with participation in the Scientific Board and working groups as part of R&D approaches.

In Cherbourg, Naval Group has enlisted two deconstruction specialists for the deconstruction of 5 former Le Redoutable-class Subsurface Ballistic Nuclear submarines (SSBNs): Veolia for the deconstruction, waste management and recovery part, and Néom for the asbestos removal part.

A partnership was signed with Microsoft for the design, manufacture of the structure and its equipment, integration of IT equipment, testing and marine operations of a full-size prototype underwater datacentre launched off the Orcades archipelago in the UK. This is the Natick 2 project.

Naval Group's activity is based on scientific and technical research. This is mainly carried out in partnership with research institutes:

- Technocampus Ocean in Nantes;
- A research institute in Chile on environmental issues;
- technological building blocks: the land-based OTEC prototype, based on the island of Réunion, is used to validate the performance of the energy system and qualify critical equipment;
- The test bench, located in Martinique, allows the performance of biofouling studies.
- Naval Group, in partnership with the SME Inovertis and the M2P2 laboratory in Aix-Marseille, are conducting the Athena project – hydrothermal ship effluent treatment equipment.

SDG # 13



Naval Group is developing new technologies that facilitate the States national planning of its fight against climate change.

Energy optimisation work is in progress.

Product life cycle analyses contribute to savings.

Furthermore, for each installation of new infrastructures, in-depth studies are carried out to verify that they withstand extreme climatic conditions, just like machines: resilience of electrical systems or infrastructures. For example, the research institute based in Chile is studying the impact of seismic accidents on Naval Energies machines. Large-scale projects developed by Naval Energies require very detailed studies, including the impact of extreme climate events on the coast.

In the context of the fight against greenhouse gases, the Toulon site has, for example, replaced degreasing fountains using organic solvents with washing fountains and deployed a company transport plan aimed at promoting methods of transport alternative to motorised individual transport modes (application of a local requirement of the Var air protection plan).

SDG # 14



Marine sludge is regularly dredged in Lorient.

In Angoulême-Ruelle, measures are being taken to ensure that the Touvre River is not polluted.

In Toulon, the impact of aqueous discharges is reduced by filtration of stripping effluents in the fairing basin (application of the Naval Staff Basin Directive), the quality of industrial discharges from workshops and groundwater (piezometers) is monitored and the site participates in the annual "clean harbour" operation conducted by the Maritime Prefecture.

Naval Group is also involved in naval eco-design, which minimises the impact of products on the environment right from their design phase throughout their life cycle.

SDG # 16



Because the sea is a dangerous environment, Naval Group has developed a drastic safety and security policy intended to ensure the protection of men on ships and of the ships themselves.

The ships built by Naval Group take part in State action at sea and make it possible to combat organised crime, drug trafficking and clandestine migration. They also ensure security in international waters and protect vessels including World Food Programme ships. Within the framework of the European Union, NATO or other international institutions, they participate in the fight against terrorism and piracy (Atalante operation off Somalia, Straits of Malacca, etc.).

Indeed, vessels were designed to be able to enforce international maritime law provided for in the United Nations Convention and to ensure national protection of the exclusive economic zone, canals and straits to ensure the free movement of goods. In the Mediterranean, they take part in rescue operations performed by the various European navies applying the Hamburg Convention on rescue of the shipwrecked. In the Pacific, the French Navy, which is the only navy to own ocean-going warships built by Naval Group, contributes to the fight against drug trafficking.

Governance and financial responsibility

2018 Balance sheet

Improvement actions and relations with internal and external stakeholders in 2019/2021

CSR

Development of the "vigilance plan"	Progress in terms of vigilance.
Deployment of the "Sexual Harassment and ethics Hotline" awareness-raising campaign on sites in France.	
Membership of and participation in the Business Ethics Circle	
Qualification for the fourth year at <i>advanced</i> level of its communication on progress (COP) required by the United Nations Global Compact. <i>Advanced</i> level is the highest status awarded for the Global Compact's COP	For the fifth year running, Naval Group aims to achieve "Advanced" status for its Communication on Progress (COP) required by the UN Global Compact.
Global CSR presentation made available to members of the CSR network in France.	Translation made available to international subsidiaries.
Meeting with Naval Group India, update on actions implemented in the subsidiary	Continuation of international meetings
Establishment of "discrimination" training for discrimination reference persons and ethics relays	Update of the ethics repository guide for subsidiaries
Publication of a double page in the issue of the international internal magazine What's up? with the General Delegate of the France Global Compact	
Continued appointments of ethics and CSR relays in internationally controlled subsidiaries.	Deployment of the ethics repository in international subsidiaries
Renewal of the Supplier Relations and Responsible Purchasing label for a period of three years, awarded by the Inter-Company Mediation Committee in December 2017, based on the new label repository after convergence with the recommendations of the ISO 20 400 "Responsible Purchasing" standard.	Implementation of the progress action plan identified during the audit that led to renewal of the label (main themes of this action plan: continued professionalisation of purchasing actors, continuation of actions contributing to the establishment of balanced and lasting relationships with suppliers, integration of CSR requirements into the purchasing process).
Annual survey of over 800 suppliers aimed at identifying the level of satisfaction of the relationship between these suppliers and Naval Group	Presentation of the results of the survey at the 2018 supplier convention, to which all the group's strategic and major suppliers were invited
The 2017 survey showed a strong increase in satisfaction across all the themes of the relationship (+5% positive responses)	Renewal of the supplier survey, next edition planned in the first quarter of 2019
Continuation of the evaluation of CSR performances of the panel's suppliers.	Compilation of CSR risk mapping by type of purchase (mapping made in the second half

	Continuation of CSR performance assessments of panel suppliers, adjusted to take account of completed risk mapping work.
	Strengthening of internal control actions of the purchasing process, in particular on subjects that may have an impact on the compliance of purchasing actions
	Gradual taking purchasing entities of subsidiaries into account in the approach
	Professionalisation of purchasing: definition and implementation of a CSR training module in the training catalogue of the purchasing population
Regular awareness-raising of the purchasing population about CSR issues (ethics, compliance, fair relations, etc.) during the monthly general information sessions.	Continuation of information actions
	Evolution of the purchasing organisation, in particular with the establishment of a large number of Lead Buyers, with the objective of strengthening the group's capacity to manage relations with its major suppliers
	Internal survey conducted with the entire population of the Purchasing Department to obtain feedback from this population on implementation of the new purchasing organisation. The major results are a good understanding of the organisation, the roles and a convergence between the new organisation and recommendations made by buyers in 2017.
	Extension to subsidiaries of CSR actions set up by the Purchasing Department within the scope of Naval Group SA (evaluation of supplier CSR performance, alignment of supplier qualification processes, internal control systems, professionalisation of buyers).
Continuation of communication actions on the existence of the ethics alert line and on the company's commitments regarding processing confidentiality and the absence of retaliation.	Continuation of communication actions, particularly in the group's non-French subsidiaries
The number of ethics alerts (psychological or sexual harassment, discrimination) fluctuates depending on information campaigns carried out. Employees on sites in France and abroad also use the ethics line.	

Compliance

1. Organisation

The Remuneration and Appointments Committee of the Board of Directors has become the Remuneration, Appointments, Ethics and CSR Committee to introduce ethics and CSR issues into this specialised committee of the Board of Directors.

Renewal of terms of office and appointment of members of the Ethics and CSR Committee.

Strengthening of the Compliance team, with the appointment of new employees and new Compliance Officers at the Corporate level and at the level of the subsidiaries.

Continued strengthening of the Compliance team worldwide.

2. Repository

Update of the Naval Group ethics and compliance repository (code of ethics, supplier code of conduct, customer relations charter, supplier relations charter) taking into account changes in French legislation and in particular legislation that concerns the duty of companies to remain vigilant towards their subsidiaries and their suppliers and subcontractors.

Translation and further dissemination of updates to the repository in the group's non-French subsidiaries.

Continued deployment and monitoring of the compliance system in Naval Group subsidiaries worldwide in accordance with local legislation

Monitoring of the system in the group's non-French subsidiaries.

Participation in updating of the group's "Managing, evaluating, qualifying and developing suppliers" instruction in order to integrate compliance checks into a specific Purchasing procedure prior to qualifying potential suppliers in the group panel provided for in the Compliance Instructions

Roll-out of the instruction in the group's controlled subsidiaries

Deployment of the instruction on sponsoring, patronage and charitable actions

Updating and distribution of Naval Group's **practical guide to ethical behaviour**, a summary document in French and English, to raise awareness of all employees about ethics issues in the company through specific situations and recommendations on conduct and reflecting the instructions of the group.

Implementation of a new e-learning module to measure the appropriation of the group ethics and compliance repository by employees in France.

3. Training

Coordination and ongoing training of the Compliance Officers network by organising group and individual training days

Search for partnerships with recognised schools or organisations offering training in the field of Compliance.

Continued training for employees most

Implementation of e-learning and modules

exposed to the compliance risk Over one thousand people trained in 2018

dedicated to certain aspects of the Scheme for the most exposed employees (ongoing training) and continuation of training, particularly for new arrivals

Continuing awareness-raising with "New Hires"

4. Communication

Organisation of an international DECG seminar on June 11 and 12, 2018 with the participation of members of the DECG, the group's General Secretary, the Ethics and CSR Committee, ethics and CSR relays and Compliance Officers.

Second international DECG seminar in summer 2019.

A presentation on actions of the Global Compact was made by two members of the Global Compact France.

Organisation of the second Ethics and Compliance Day on December 7, 2018 with dissemination of the ethics and compliance repository to all employees.

Organisation of an ethics and *compliance* day in December 2019.

Implementation of half-yearly CSR Days with the participation of personalities working on CSR issues.

5. Control

Strengthening of verifications relating to the proper application of the compliance system in the context of internal controls carried out through the second line of control carried out by the Ethics, Compliance and Governance department (DECG) as well as by audits of the Audit and Risks department (3rd line of control)

Deployment of the internal control plan by defining an action plan for each system.

6. Hotline

Continuation of communication actions on the existence and conditions for processing (confidentiality, absence of reprisals) alerts regarding corruption and influence peddling.

Continuation of communication actions, particularly in the group's non-French subsidiaries

Environment

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

100% of major events analysed via 8D and efficiency verified

Generate less hazardous waste - target to be defined.

Generate less hazardous waste - target to be defined (follow up 2018).

Reduce our energy consumption: measure our energy consumption in non-production times (follow up 2017).

Measure energy consumption in non-production times and reduce it by 10% by the end of 2020 (follow up 2018).

Buy more eco-designed products: 30% of procurements in line with procurement environment mapping

50% of procurements in line with procurement environment mapping

Fewer events with a temporary impact on the environment (result: 1 versus target of 4).

Fewer events with a temporary impact on the environment (2019 goal) 4/ 2020 goal: 3).

Include the environment in the design of our products, services and infrastructures.

At the end of 2020

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

Empower stakeholder processes in the consideration of the environment.

Monitoring of skills of environment teams (follow up 2017).

Integrate the traceability of health and safety at work (H&SW) and environment training in SeaRH; ensure their continuity, including managerial passports.

Ensure the long-term integration of H&SW.

Generate less hazardous waste - set a target.

Deployment of the 8D approach to major events.

100% of major events analysed via 8D and verified efficiency.

Definition of the 10 golden rules of safety.

Anchor the 10 golden safety rules at Naval Group.
In 2019, 1 rule reviewed per month.

Roles & Responsibilities of managers: booklet of 5 key practices (follow up 2017).

Ensuring the long-term management passport.

Strengthen prevention plans.

Deploy electrical handling and lockout roadmaps.

Deployment of electric lock-out/tag-out roadmaps and entry into confined space.

Structure an international H&SW and environment network.

Bring to life the *HSE international network*.

Define group H&SW requirements internationally.

Define other group H&SW requirements internationally.

Prepare for ISO 45001 certification in 2020.

Joint deployment of the ergonomics network.

Definition and implementation of necessary interactions with subcontractors on site.

Naval Energies Company

AFNOR declared the Naval Energies management system compliant with the following standards:

- Capacity: ISO 9001, 2015 version
- Security: DHSAS 18001, 2007 version;
- Environment: ISO 14001, 2015 version

Naval Energies has carried out a failure modes, effects and criticality analysis (FMECA) for the Natick 2 project.

AFNOR annual audit on the three standards.

Naval Energies has planned to continue the deployment of FMECAs to ensure the reliability of our products.

This year, Naval Energies continued discussions with the Brittany region on floating wind turbines and with all stakeholders on multiannual energy planning (MEP).

In 2018, Naval Energies integrated environmental considerations into the CSR assessment of our suppliers.

Naval Energies is pursuing a waste reduction policy with the distribution of a mug and a reusable bottle to all employees.

Social dialogue in 2018 was marked by regular holding of single staff delegations (DUP) and by the signing of a company agreement and an agreement on quality of life at work (QVT) including the implementation of teleworking and the right to disconnect.

A questionnaire was sent to all employees and was followed up by a seminar in order to take into account the feedback from employees on the operation and strategy of the company.

Naval Energies wishes to include disability in the 2019 employment policy. To do this, Naval Energies wishes to implement a structured disability approach adapted to the company.

II. General information

In general, the articles presented here are consistent with the GRI G4 international guidelines recognised by the United Nations.

1. Introduction

a. Profile of the organisation

Naval Group. A world leader in naval defence. An innovator in energy.

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

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

b. Strategy and analysis

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

According to Hervé Guillou, CEO of Naval Group:

"Our ambition is for Naval Group, 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 technologies of the future and able to maintain the skills necessary for the sovereignty of France. Its sales will reach approximately 5 billion Euros 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 peers. "

The group's strategy, outlined in a strategic action plan announced at the end of June 2018 and approved at the Board of Directors meeting on July 17, 2018, is built around five priority focal areas:

- guarantee the superiority of the French Navy;
- develop our turnover internationally;

- meeting program deadlines;
- maintain a technical and industrial lead;
- draw on new growth drivers.

In addition to the Progress Plan initiated in 2015 and which has shown good results over the period 2015-2018, this strategic action plan is accompanied by a conquest plan intended to strengthen the effectiveness of our commercial and product development approach, to ensure sustainable development of our international sites, to accelerate our differentiation through innovation, to improve the competitiveness of Naval Group's overall offering, to control our key competencies.

c. Relevant aspects and areas identified

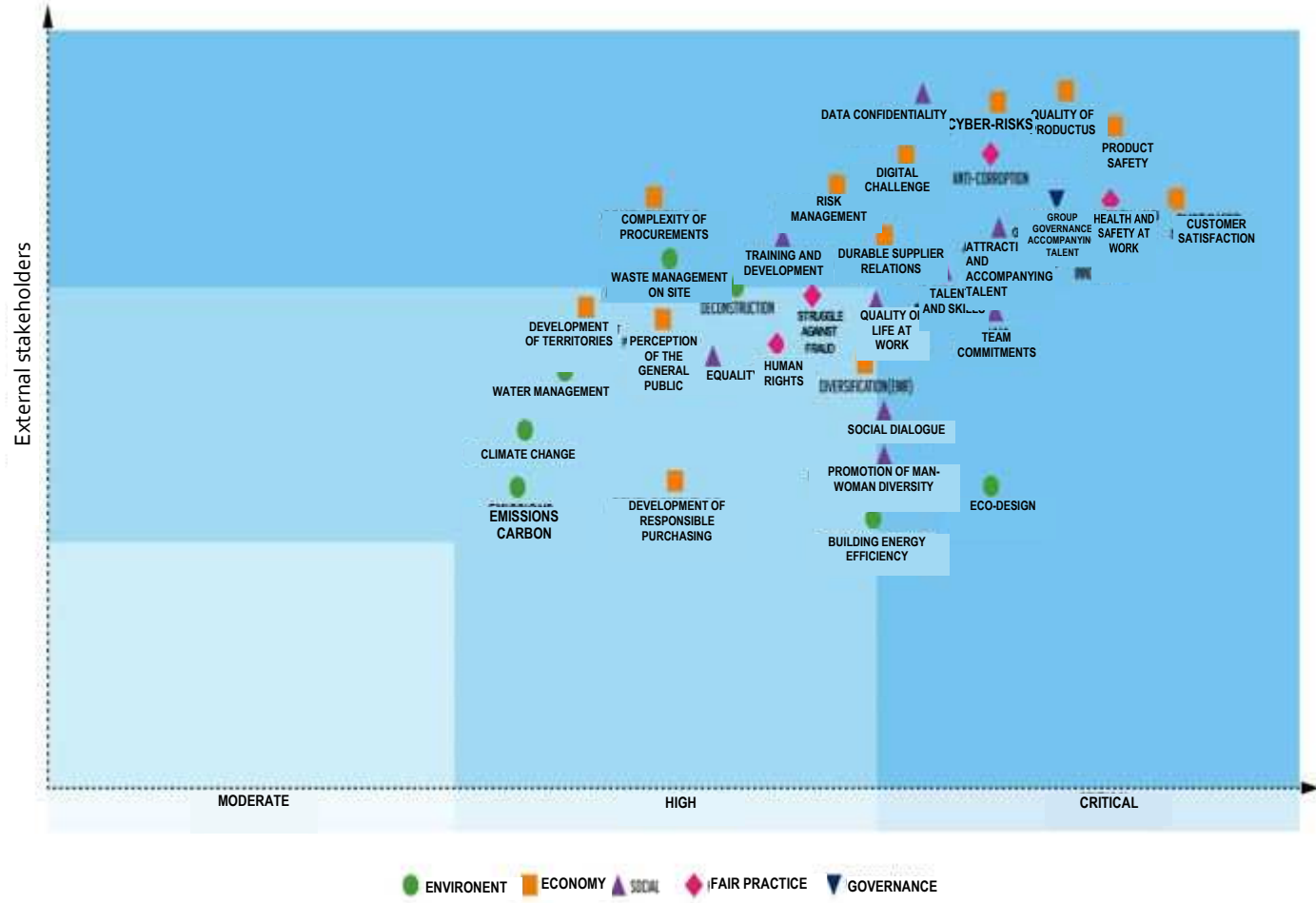
This point is dealt with in the 2018 financial report, published on the Internet, in paragraph I.1. Presentation of Naval Group

d. Involvement of stakeholders

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

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

Materiality matrix in 2018



In 2018, Naval Group decided to work on a materiality matrix for all its sites in France and no longer per site. Its internal and external stakeholders were interviewed in the autumn, the latter covering banking, media, customers and various partners.

Two questions were selected for this exercise, which covered five of the seven CSR themes, consistent with the ISO 26000 standard: the environment, social, the economy, fair practices and governance. Therefore stakeholders had to give their opinion on their vision of the impact on the company's reputation and performances regarding points raised by evaluating it according to three types: moderate, important or critical.

Analysis of the responses reveals the following elements:

- no themes are recognised as having a moderate impact;
- there is consensus on the importance of customers and suppliers, but also on the critical nature of the safety of products and production, cybersecurity and digital security;
- issues of fair practice, which are now taken into account by all managers as a result of training courses provided for their benefit, are considered in the same way for internal and external stakeholders;
- there is a greater disparity in evaluation of economic actions: supplies are a subject with the greatest impact depending on the external stakeholders, while internal stakeholders know the subject better controlled due to the resolutions taken in recent years by the Purchasing department;
- as regards innovation, the steps taken to integrate the latest technological building blocks into ships built to maintain the group's technological advance over the ever-increasing number of competitors, make it a critical subject for internal stakeholders;
- finally, the commitment of teams and the ability of Naval Group to attract and retain talent is a major concern for internal stakeholders who sometimes experience the difficulty of recruiting and training new experts on a daily basis.

Within the European and International Public Affairs Department (DAP)

In 2018, the DAP met on several occasions with French public authorities (administration, ministerial cabinets, military authorities, parliament, local elected officials, etc.) in order to contribute to the discussion on the 2019-2025 military programming act (LPM) and to promote the interests of Naval Group in arbitrations that had to be made.

It also prepared around ten parliamentary hearings at the National Assembly and Senate, during which Naval Group, through its Chairman and Chief Executive Officer or by other employees, presented its challenges for the following parliamentary work:

- Military Planning Act 2019-2025;
- civil nuclear power;
- 2019 draft Finance Bill (Marine Credits and Force Equipment);
- cyberdefence;

- industrial policy;
- future anti-ship missile;
- industrial cooperation;
- challenges for the European defence industry;
- international development of the group.

The DAP also contributed to the organisation of several parliamentary export support missions, for which Members of Parliament on the move received information about the challenges of Naval Group, for example:

- in Malaysia and Singapore as part of the DSA trade-fair (April 2018);
- in Egypt, as part of the EDEX trade show (December 2018).

The DAP was associated with development of the 16th edition of the Summer Defence University, organised by CEIS in September 2018. With the contribution of the Ministry of the Armed Forces, the National Assembly Commission on National Defence and the Armed Forces and the Senate Commission on Foreign Affairs, Defence and Armed Forces, this event brought together most of the French and European defence authorities and in particular the Minister of the Armed Forces and the Parliamentary Committees.

Lastly, the DAP organised around fifteen visits to the Cherbourg, Lorient and Toulon-Ollioules production sites for Parliamentarians, cabinet ministers and senior administrations in France. These visits are an opportunity to present the activities, know-how and skills as well as the challenges of our group.

In 2018, more than fifty French institutions and senior foreign authorities (government members) visited our sites.

Patronage

The Naval Group's patronage approach is an integral part of its communication strategy, and has three objectives:

- assert the group's interest in its cultural, historical and societal environment;
- nurture its identity as a socially responsible company through exchanges with its partners;
- unite employees around motivating actions, consistent with the group's values: commitment, respect, winning mindset, rigour, trust.

This approach is based on two areas: the armed-nation link and respect and promotion of the maritime heritage.

The Armed Forces-Nation bond

Naval Group is a member of the Armed Forces Youth Commission, an organisation for reflection and action working with the Minister of the Armed Forces.

It organises a competition that rewards the military training courses that have carried out a remarkable action contributing to developing and perpetuating links between the armed forces and youth. These actions may be carried out in partnership with other administrations, local authorities, associations or schools or universities.

Naval Group supports the football match organised every year between the Variétés Club team and the French armies' team, the benefits of which support war wounded and their families.

Naval Group supports the Navy Association for the Development of Social Works (ADDSM) which assists the families of civil and military personnel who serve in the Navy when they experience serious difficulties.

As part of the commemorations of the centenaries of the First World War, Naval Group accompanied the Federation of Marine Associations and Naval War Veterans (FAMMAC) to pay tribute to the seamen who died in the Moulin de Laffaux fighting in 1918.

Respecting and enhancing maritime heritage

Naval Group is a partner of the Naval Museum and all its national sites to support them in scientific and cultural programmes such as the enrichment and restoration of collections, the creation of temporary exhibitions, publications of exhibition catalogues and reference works, action in favour of accessibility and museum and architectural renovation.

Naval Group is also a major partner of the public establishment of the Palais de la découverte and the Cité des sciences et de l'industrie whose mission is to disseminate scientific and technical culture in all fields to the public. Naval Group supported this initiative by participating in the renewal of the exhibition called "Sous-l'océan" (Under the Ocean).

The Océanides association

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

It is an ambitious project which is unique in the world. Océanides brings together 260 researchers, with almost 40 different nationalities represented, coming from every continent and from the most prestigious universities. The honorary committee includes renowned French and foreign personalities, to maintain its influence.

The results of the scientific research were published in four volumes in February 2017 by the British publisher Boydell & Brewer. The conclusions themselves were presented to the Senate and to the decision-makers of the political and economic worlds in March 2017, via a partnership with the French Navy's strategic studies centre. The aim was to alert them to the need to raise awareness about the importance of maritime action in our companies. A bilingual special edition of the *Marine Studies* was published on that occasion and distributed.

Finally, *World History - the view from the Sea*, an illustrated book for the general public was published in French and English in October 2017, in order to reach as many of our fellow citizens as possible.

Many partnerships had been set up in order to give a certain visibility to the project, among others with Naval Group University. They enabled the organisation of general public conferences and Naval History Days, in partnership with the École Navale.

The Océanides association was dissolved on September 11, 2018. Its heritage assets were handed over to the Foundation of the Sea, with the task of continuing the initiated dissemination work. Its scientific results should be implemented in the years to come, thanks to its partnership with the National Education Department.

Nuclear energy

Since 2012, Naval Group has been involved with the International Atomic Energy Agency (IAEA), which is under the aegis of the UN. As requested by the CEA, which represents the Ministry for Foreign and European Affairs with these bodies, since 2015 a member of Naval Group appointed by Naval Group has chaired the working group tasked with drawing up a user guide for newcomer countries with the purpose of giving the legal, regulatory and technical outlines that permit transportable Small Modular Reactors (SMRs) to be established. Apart from France, various countries and bodies are actively involved, including China, Russia or even the United States through its State Department. This work is expected to end at the end of 2019.

In 2018, Naval Group renewed its commitment to the RESOH (Research in Safety, Organisation, Men) chair at the Mines Telecom Institute in Nantes. This chair was created in March 2012 following the joint decision of the École des Mines de Nantes and three industrial partners (Areva, DCNS and IRSN) to build a place for scientific exchange and production in the field of human and organisational safety factors. It is a research and teaching chair. The overall issue concerns the collective construction of a "safe industrial performance". The innovative nature of the research question comes from the emphasis placed on interorganisational relations and on the desire not to isolate industrial performance from safety. One of the Chair's original aims is to bring together nuclear operators and the Safety Authority's technical support. This year, this chair welcomed a new partner, the ANDRA (national agency for the management of radioactive waste produced in France).

e. Progress Plan

Launched in 2015 to meet the expectations of Naval Group management and staff, faced with operational and financial problems in 2013-2014, the Progress Plan has been

delivering results since 2016, following several years of collective and individual commitments, aimed at improving the group's competitiveness.

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

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

Initial results; strong commitments

Formed in summer 2016, the **Bureau Métiers Programmes (Professional Programs Office)** carries out the level 2 *Capability Maturity Model Integration* (CMMI) certification work of level 2 of the program's activities, integrates program management fundamentals, configuration management and management of risks and opportunities for each of the enterprise's programs, and energises the professional sector by equipping it with certifying training plans and updated career development plans backed by a job repository.

The second convincing result: roll-out of the **industrial maturity assessment baseline** (SPID), a source of reflection for continuous improvement both by site and cross-function, by main management or even by function, in six key areas (workshop/production, supply chain, industrialisation, engineering, quality and management). For the third consecutive year, the regular practice of self-assessment, then assessment, followed by targets entered in an annual action plan shows a significant improvement in each of the above-mentioned subjects.

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

- the **production master plan**, enabling monthly monitoring of adherence to commitments made regarding workload, manpower, machinery and equipment;
- the **design and visual organisation of activities master plan**, enabling evaluation and monitoring of adherence to commitments made by design offices, and the highly operational breakdown into organisation and prioritisation of activities.
- the **industrialisation master plan**, used to plan production of all industrialisation data, according to a flow principle driven by production needs.

In addition, the plan to strengthen **System engineering** (IS) is committed around the themes of system engineering methods, their implementation in group tools, contribution to the work of the lifecycle project by providing the required specification elements, implementation of the IS in ongoing projects (for example the defence and intervention frigate FDI or the 3rd generation SSBN), strengthening of training in system engineering trades and the internal network of referents.

At the centre of activities to improve program performance and the repository of profitable products fit for large-scale production, control of the articles base is vindicated by the creation of a so-called "compulsory" articles catalogue (CADO), for both new-build and through-life support (TLS) activities. Comprising basic and essential items of a product line, it is understood to be an essential tool in the group's product repository and is now governed by a group-wide system, from new construction to through-life support.

Indicative of the innovative approach taken by multi-disciplinary teams (Innovation and Technological Expertise Division, Industry Division, Services Division, Marketing Division), Naval Group is moving away from a customised product logic towards a logic of products that are profitable and fit for large scale production, based on three principles: from the outset, the definition of a **product line** based on constants (the "foundation" which can be used again and again for several tenders and contracts), a clear and early ability to make changes, resulting in the flexibility required to satisfy the market and adaptability when faced with specific client requests. Two examples illustrate this approach: the Scorpène® Evolution and Belharra® product lines.

Scope also by and for **men and women**, the transformation is reflected in four orientations:

- consideration of field ideas and anchoring of experiments in operating modes of teams;
- strengthening the level of commitment and cooperation within teams (from the manager to the partner) through a commitment approach involving all the group's employees;
- development of the managerial community through a "positive management" approach, relying on specific provisions in the subject of field coaching
- an *ad hoc* training pathway targeting "positive management", and identifying efficient time.

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

Cost reductions on **purchases** that have been the subject of a multi-year plan are reflected in the bids.

Another focal point is the digital revolution, for which several key projects have been started:

- the process repository (**business management system**), integrating international norms and standards, is accessible via an ergonomic portal, at all levels of the company and in our subsidiaries. Commitment sessions per site, with the specific documentary attachment required for simple application by the field, as well as by programs ensure anchoring of processes;
- the **Industrial flow and item repository** (FIRA) - designed to improve industrial performance and program control, based on new processes, setting up integrated activity planning, implementation of an extended ERP covering the entire supply chain, homogenisation of computer aided production management (CAPM) and computer aided maintenance management (CAMM) solutions between industrial sites and control over the articles base - is implemented on new construction and TLS sites;
- **quality records** (ERQ) in real time (digital solution) are now a reality and are being rolled out successively on new construction and TLS sites;
- modernisation of the **computer and application stock** (networks, equipment, upgrading of application versions, etc.) is a priority. It is growing in importance, and cybersecurity is being tightened;
- **OPTI**, the integrated cost, delivery date and resource management and control tool, the same for all projects and programs and all entities, is used on all sites;
- lastly, Naval Group is involved in a project to secure 360° vision of a product over all stages of its **life cycle**, across all product lines, aimed at establishing integrated management of data produced throughout a product's life cycle, over the broader enterprise and by relying on a strategic partnership with Dassault Systèmes.

Work in the field of **quality** centres around themes aimed at strengthening involvement of the entire management chain, skills, quality from the development stage to final production, without forgetting supplier quality, and implementing inspection plans and monitoring systems, in order to prevent quality accidents and to assure that all actions are compatible with a preventive approach.

A virtuous circle of continuous improvement is under way; new initiatives were launched in 2017, firstly in inventories allocated to programs and projects, and secondly cases of "mis-specifications".

- the "**allocated inventories**" approach involves setting up an inventory policy for optimising performance in management of inventories allocated to a shared program or project.
- the "**mis-specifications**" approach is intended to respond to problems in reducing the number of "mis-specification" cases by improving the treatment of products throughout their life cycle, by cutting costs incurred (inventories,

purchases, non-quality costs, anomalies, recurrent writing, statement of work, etc.) and by improving internal and external customer satisfaction levels through “conforming products”.

f. Socio-economic impact study

Following the study conducted in Cherbourg in 2016, Naval Group’s socio-economic impact for all sites in France was analysed in 2017, with particular reference to recognised studies conducted by the National Institute for Statistics and Economic Studies (INSEE). Naval Group has entrusted this approach to an independent, specialised and recognised firm. This study was based on internal data, and French macro-economic indicators.

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

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

Three types of impact are quantified:

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

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

Jobs:

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

Creation of wealth

- The Lorient site was responsible for creating 663 million Euros of wealth in France;

- Brittany's share of the wealth dependent on the site in France was 41%, and Morbihan enjoyed an 87% share of the wealth supported in Brittany;
- For every €1 of wealth created by the Lorient site, an additional amount of €3.3 is generated in the French economy.

g. Naval Group's environmental footprint

In 2017, for the first time, Naval Group assessed the environmental footprint produced by all purchases of its sites in France. This study, entrusted to the same firm as previously, was able to evaluate 96% of Naval Group's French and foreign purchases.

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

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

In 2016, Naval Group's supply chain was responsible for emitting 723,148 tonnes of CO2 equivalent worldwide. At the same time, almost 14.2 million m³ of water and 1.5 million tonnes of resources (fossil, inorganic, animal and plant) were consumed, and 1,000 hectares of land were occupied.

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

h. A few examples of CSR actions on Naval Group SA sites

In Angoulême-Ruelle

In 2018, the Angoulême-Ruelle site strengthened its close relations with the Nouvelle Aquitaine Regional Council in many technical or organisational areas.

The aim of this relationship is to create synergies with the regional ecosystem, so as to build close and winning relationships with SMEs in the region in fields of excellence. Indeed, the region has a strong aeronautical influence combined with technological breakthroughs that we have not yet fully exploited, as well as a strong potential that revolves around the factory of the future and digital.

Following actions undertaken with the region on training, digital technology and manufacture of new structural composite systems, it was decided during the visit of the President of the Regional Council to the Angoulême-Ruelle site on August 31 to set up a partnership agreement with the group in order to facilitate setting up of structuring dossiers. This partnership should be completed in early 2019 and will concern the factory of the future, training and recruitment, technological breakthroughs (composite and additive manufacturing), and simulators for the benefit of sailors. Furthermore, the site made significant investments in 2018 in order to significantly reduce energy

consumption; the overall savings are around 35% for gas and electricity, while maintaining the same functionalities. Here too, the region has helped the site put together a European Regional Development Fund (ERDF) dossier on energy savings. This has resulted in concrete European aid.

The total amount of financial aid granted for the Angoulême Ruelle site exceeds €2 million, i.e. more than half of the annual R&D budget.

In Toulon

Naval Group is the leading industrial employer in the Var and is one of the main economic players in the Provence-Alpes-Côte d'Azur region. Its entities present in Ollioules, Toulon and Saint-Tropez employ more than 3,300 employees. The Toulon site is located in the largest naval base in Europe and is part of the group's Services division, the mission of which is to support navies throughout the lifecycle of ships. This team represents more than one-third of the group's revenue and covers integrated logistics support, through-life support (TLS) and ship upgrading, training, simulators and marine infrastructures. Today, Naval Group is at the helm of approximately 20 major TLS programmes with the goal of modernising fleets, optimising their availability and ensuring their sustainability. Each year, 45 surface ships and submarines are kept in service, including the *Charles de Gaulle* aircraft carrier which underwent its mid-life overhaul in 2017-2018.

Some examples of local actions in its role as a good corporate citizen are given below.

- Involvement through the Mediterranean Sea competitiveness cluster that it has initiated with regional industrial, institutional and scientific partners. The cluster now has over 400 members and performs 40% of French maritime research, and is chaired by the Toulon director. He is also President of SeaTech, a science and technology engineering school dedicated to the maritime sector.
- The Toulon site has been working with Réseau Entreprendre Var since 2008. This support is part of an approach to the development of the local economic fabric. Present on the Board of Directors, Naval Group is also a partner of Entrep', which allows us to identify and support students who will be the entrepreneurs of the Var of tomorrow.
- Innovation is fundamental for Naval Group. It is at the heart of its DNA and Toulon is naturally a member of the scientific council of "Team Henri Fabre", a project aimed at building the industry of the future and developing an industrial sector of excellence in mechanical engineering, materials, processes of the future, digital engineering for the sustainable competitiveness of companies and the region of South Provence Alpes Côte d'Azur.
- Since 2014, Naval Group in Toulon has signed the "Companies and districts" charter with the Var Prefecture each year to contribute to education and school guidance, employment, integration and training.
- The "Un fauteuil à la mer" (A chair at sea) association aims to work on behalf of people with disabilities. One of the major objectives of this association, supported by Naval Group in Toulon since 2013, is the resocialisation and acceptance of

disability. Financial support contributes to the acquisition and deployment of the necessary equipment adaptations in terms of access for people with disabilities to the sea.

- In 10 years, there have been more than 1,000 recruitments on the site, in particular work/study trainees who have been trained in our activities. An in-house welding school, which also benefits our subcontracting companies, has been developing during the past several years.

Naval Energies

Naval Energies develops systems and subsystems for the production of renewable and decarbonised electricity from two different sources of marine energy: offshore wind and the thermal potential of tropical seas. Throughout the world, Naval Energies contributes to developing an alternative, renewable and environmentally-friendly energy, derived from the most powerful source: the sea.

From site studies to the construction of systems, from deployment in a zone with underwater connections bringing energy back to land, Naval Energies is positioned over the entire product life cycle: design, manufacture, installation and maintenance, both at sea and in coastal areas.

The floating wind turbine exploits the energy deposit of strong and regular offshore winds, and deep sea areas further away from the coast. Unlike the “fixed” wind turbine, which is directly attached to the sea by a gravity foundation, this solution is based on a floating structure - made of concrete, steel or steel/concrete hybrid - connected to the ocean floor by an anchor system that controls movement. Unlike fixed wind turbines, this innovative technology overcomes depth constraints of the installation so that renewable energy can be produced further from the coast and with a low visual impact.

Naval Energies, subsystem engineering leader and first-rank partner of project operators, provides a mature response of a semi-submersible floater, the prototype of which has been tested in a test basin and certified by ABS and Bureau Veritas. A fundamental building block for the development of floating wind turbine technology in France, our floater is designed to be competitive, produced in series and easily operable. It adapts to the specific features of operating sites and local industrial ecosystems.

Naval Energies does the design and construction of the floaters for the 4 wind turbines of the “Groix and Belle-Île floating wind turbines” project, as well as installation of the 4 wind turbines at sea. Operated by Eolfi, this pilot farm project includes the installation of 4 wind turbines of 6 MW each, capable of producing sufficient electricity for 20,000 homes on the Atlantic coast. Following submission of the authorisation application file in November 2017 by the teams of the project company and RTE, the public inquiry took place from August 17 to September 28, 2018. During this period, everyone was able to become familiar with the files and record their observations, proposals and counter-proposals. On December 6, the inquiry commission issued a favourable opinion.

Oceanothermia (or ocean thermal energy, OTEC) exploits the difference in water temperature on the surface (about 25°C) and marine depths (about 5°C at less than 1000 m) based on the principle of heat exchange. Energy produced in this way is predictable and continuously available, and particularly environmentally friendly and decarbonised.

Naturally present in intertropical areas, this inexhaustible source of energy is an effective response to environmental challenges and to energy problems of isolated regions on the planet.

Naval Energies acts as a system and sub-system engineering leader at several levels in the OTEC field. Naval Energies designs and manufactures the heat exchangers (condensers and evaporators). The company also designs complete onshore OTEC systems, with the possibility of combining co-products such as desalination, ORC (*Organic Rankine Cycle*) aquaculture or SWAC (*sea water air conditioning*), in relation with other industrial partners.

Our experts are also developing innovative technological building blocks, such as combating biofouling and optimizing energy system performance, and are working to remove technological barriers with a view to deploying OTEC power plants at sea in the longer term.

Technical developments for OTEC heat exchangers have been the subject of an unprecedented test campaign on the land-based prototype on Reunion Island, which was followed by the qualification of the two technologies (flooded and sprayed evaporator) and allowed Naval Energies to make a commitment to the performance of an OTEC plant with low and known uncertainty.

In 2018, Naval Energies and Microsoft and Naval Group participated in the Natick project for submerged datacentre. The metacentre was successfully deployed at the beginning of June 2018 off the coast of the Orcades archipelago (United Kingdom). The metacentre is installed in an immersed cylinder inspired by the underwater constructions of Naval Group. A triangular base (also called submarine mooring structure) positions the metacentre at the bottom of the ocean. An air-water exchange system takes advantage of the temperature of the underwater environment to cool the metacentre. The submarine installation reduces cooling-related energy needs by almost 95%.

Naval Energies is involved in several bodies and discussion groups at the European level. Naval Energies thus participated in the Clean Energy Industrial Forum meeting in January, led by the Directorate General for Energy of the European Commission.

In France, Naval Energies contributed to the debate on multiannual energy planning (MEP) by participating in several round tables and conferences, such as for example the conference on the place of marine energies in the MEP organised by Brittany deputies in October at the National Assembly, or at the regional and local level: in Cherbourg in June during a round table organised by the Sonia Krimi MP, in Narbonne during the Floating Wind Turbines in Occitania Assembly, organised by the region in November.

Naval Energies has also signed the Call for Cherbourg to support the development of marine renewable energies in France and the Narbonne Pact to support the ambitions of the Occitania region on floating offshore wind turbines.

Naval Energies also responded to the online consultation organised by the National Conference of Public Debate (CNDP) on the MEP.

MERIC in Chile

On October 31, 2018 in Santiago, MERIC celebrated three years of scientific research on the development of marine renewable energy (MRE), with the Minister of Energy of Chile. Then at the end of November 2018, MERIC, with its two partner universities, the Pontificia Universidad Católica of Chile and the Universidad Austral of Chile, brought together Chilean, French, British, German, Brazilian, Korean and Spanish researchers at the third MRE international scientific meetings (Wave & Tidal Energy Workshop) in Valdivia.

MERIC is positioned in Chile and South America as a key player in interdisciplinary scientific research applied to MRE and provides visibility on Chile to the rest of the world.

The results obtained are innovative in both "hard" and "soft" sciences, and cover large fields such as:

- bio-fouling and corrosion, which provide results of sea tests on various material samples, compare them with experimental laboratory results and pave the way for future characterisation processes;
- study of offshore resources that evaluates and develops new digital energy measurement models including the interaction of MRE devices, through collaboration with industry;
- the interactive map of Chile which provides all data that each player needs to assess the relevance of public or private MRE projects.
- the process of evaluation of local communities' perception of projects, which qualitatively measures the perception of supposed impacts, compares them with other energy sources, and establishes a scale of issues for stakeholders by identifying the trust placed in the various information provided according to their sources;
- the worldwide contribution to monitoring of living habits of large marine mammals, which makes it possible to know and limit the impacts of future projects;
- the comparative analysis of French and Chilean rights applied to MRE projects as the first step for MERIC to present to the Chilean government recommendations for good project development in Chile;
- the comparative economic study of MRE technologies when a project development is carried out in Chile, identifying potential sources of competitiveness of the Chilean logistics chain.

In 2019-2020, MERIC will make it possible for other international sea trial sites to adapt the devices to extreme sea conditions (earthquakes and tsunamis) and to Chile. This will make use of the Open Sea Lab, a test and measurement tool installed off the Chilean coast, composed of an experimental wave-power system and its instrumentation. This will be a first in South America. The Open Sea Lab will constitute an essential step in the possible development of marine energies in Chile and Latin America and will prepare the

launch of the first pilot projects or demonstrators in Chile, by 2023. This work is continuing in collaboration between universities and Chilean and international industrial companies.

Naval Group, Malaysia:

Naval Group Malaysia is a member of Naval Group's international CSR network and attends monthly meetings via videoconference to exchange and implement best practices throughout the group.

Various CSR roles exist within the subsidiary: a *Compliance Officer*, an *Ethics & CSR Officer*, a *HSE Officer* and a *HSE Assistant* whose missions are to ensure proper communication and application of the group's rules.

Monthly meetings are also organised with HSE representatives of international subsidiaries in order to deploy the group's HSE policy while taking into account the specificities of each country and the international dimension.

Overall, the subsidiary attaches great importance to performance and working conditions by:

- ensuring equal treatment for men and women;
- regularly communicating about working conditions;
- emphasising the multicultural aspect of the teams;
- emphasising health and safety at work for employees at all levels.

In addition, the subsidiary operates at different levels of CSR in its activities:

- **environment:** the headquarters of the subsidiary are located in a building classified as being "green", company cars are hybrid vehicles, a car sharing system and a shuttle service are organised at the Lumut site;
- **social:** the subsidiary sponsors charity activities such as the "Christmas market";
- **cultural:** the subsidiary sponsors l'Alliance française (French language teaching organisation) in Kuala Lumpur, giving access to the French library and the possibility of registering for activities on offer (language lessons, festival, etc.), to all the subsidiary's employees. It also promotes the organisation of cultural activities within teams such as the Christmas party, the families party, Hari Raya etc.

Naval Group Malaysia recently launched a project to implement a medical assessment that will be offered to all employees of the subsidiary and that will be rolled out in early 2019. This initiative is based on what is being done in France - a requirement of French legislation - for Naval Group employees.

This medical assessment, which is fairly complete, is not mandatory. It is offered by the subsidiary to employees who so wish and will be followed by checkups every 2 years.

The different stages of the project are:

1. definition of the medical assessment;
2. selection of medical structures in Malaysia (focus on Kuala Lumpur);
3. validation of the content of the assessment and of the medical structure in collaboration with the occupational physician of Naval Group (Thierry David, Naval Group reference doctor for the international market);
4. implementation of the project with the chosen medical structure;
5. communication to all employees – early 2019;
6. launch of the first medical tests - early 2019.

In addition, during 2018, Naval Group supported the improvement to the Malaysian Royal Navy e-learning system to train its naval forces. As part of a three-year programme, a hardware and software system will be developed within the Naval School training centre and will provide specialist courses and content. Thanks to this on-line e-learning system, the Royal Malaysian Navy will be able to train its trainees using recent technologies. Naval Group has been present in Malaysia for many years, and has contributed to meeting the needs of the Royal Malaysian Navy by providing very high level training contents.

Naval Group finally signed a cooperation agreement with Pertahanan Nasional Malaysia University (UPNM) and EURECOM in April 2018 to set up a master's degree in cybersecurity in Malaysia. As part of this agreement, the three partners have joined forces to design a high-level cybersecurity-oriented programme to be proposed by the university starting in 2019. It will concern levels of proficiency, doctoral and postdoctoral studies and will offer courses to active academics. This project will enable UPNM students to participate in Master's courses taught at the French EURECOM Institute in Sophia Antipolis, France, and to train Malaysian professors. This cooperation agreement will enable Malaysia to master these technologies and contribute to its economic development by stimulating its R&D efforts.

Naval Group India

Naval Group India's objective is to seek new opportunities to increase the share of Indian suppliers in the different projects and programmes. With this in mind, the subsidiary participates in various events including "Hello India" in March 2018, which celebrates the cultural, technological and innovative partnership between France and India.

The subsidiary has a policy to combat sexual harassment and to service the group's ethics hotline. It works closely with the corporate Ethics, Compliance and Governance department in integrating the various group policies into its local repository.

In addition, all employees could participate in the Prevention of Sexual Harassment against women at the workplace (POSH) Awareness Seminar in March 2018, designed to understand the laws and their mechanisms.

As part of the safety and security policy, there is an awareness-raising programme that is not only theoretical but also covers practical aspects in order to increase employees' knowledge about scenarios regarding these subjects.

Naval Group India also participated in the Women's Day and the March 2018 Holi Festival celebrations.

2. GOVERNANCE

a. Administration and control

Naval Group (hereinafter referred to as the "Company") is a public limited company under French law, the capital of which, as of December 31, 2017, was 62.25% owned by the State, 35% by Thales, 1.73% by the Naval Group Actions employee mutual fund (Naval Group Compartments Actions employee mutual fund 2008 and 2014) and 1.01% by Naval Group Actionnariat (treasury shares).

The composition of, appointments to and rules of procedure for the Company's Board of Directors are governed simultaneously by the provisions of the Commercial Code pertaining to public limited companies (*sociétés anonymes*), by the provisions of Order no. 2014-948 of August 20, 2014 (the "Order"), by the provisions of law no. 83-675 of July 26, 1983 concerning 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.

b. 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 Shareholders General Assembly, 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, decided to appoint eleven new directors, three of whom were proposed by the shareholder Thales and five by the French State. As a result, the Board of Directors is now permanently composed of eighteen directors.

The current composition of the Company's Board of Directors is as follows:

- the French State, for which the representative on the Board is expected to be announced following the resignation of Mr. Jack Azoulay on October 29, 2018;

- 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 Shareholders General Assembly 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;
 - Ms. Caroline Laurent, co-opted by the Board on May 25, 2018 at the proposal of the State; to replace Mr. Bertrand Le Meur;
 - Mr. Bernard Rézat, 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 Assembly called to approve the appointments in those companies that, as from January 1st, 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 application of this rule, in accordance with the provisions of the 4th paragraph of article 5 of the Order.

Since May 25, 2018, the Board of Directors of the Company comprises five women out of a total of twelve directors appointed by the Shareholders' General Assembly or appointed by the State based on Article 4 of the Order. In application of Clause 6 of Act No. 2011-103, January 27, 2011 dealing with the balanced presence of women and men

on the Board of Directors and the Steering Committee and with professional equality, lists of candidates presented to employees for voting shall be composed alternatively of one candidate of each gender and the difference between the number of candidates of each gender on each list shall not exceed one, starting from the second renewal of the Board of Directors in accordance with publication of the law.

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 applicable to the company, Mr. Jacques Paultre de Lamotte, General Economic and Financial Controller, head of the Space and Arms Industries Mission of the State General Economic and Financial Verification Mission, Ms. Anne-Chantal Le Noan, General Controller for Arms and Government Commissioner at the Company, and Mr. Stevan Le Ruyet, Secretary of the Central economic and central Social Council, attend meetings of the Board of Directors but may not vote.

Ms. Anne-Chantal Le Noan was appointed by decree of the Minister of the Armed Forces dated August 13, 2018 as government auditor to the Company, replacing Mr. Olivier Schmit as of September 1, 2018.

The Shareholders General Assembly held on December 19, 2014 also introduced a provision allowing the Board of Directors to appoint a non-voting director ("*censeur*") into the Company's Articles of Association. 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 Assembly called to approve the financial statements for the year ending December 31, 2019.

At its meeting held on December 19, 2014, the Company's Board of Directors defined 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 Assembly convened to approve the financial statements for the year ending December 31, 2019.

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

Term of office of directors

All directors sitting on the Board of Directors of the company have a term of office of five years, in accordance with article 9 of the Company's Articles of Association, it being specified that the terms of office of the directors appointed by the Shareholders General Assembly of December 19, 2014 will expire, as an exception to this rule, at the close of the Ordinary General Assembly called to approve the financial statements for the year ending December 31, 2019. Upon taking office, each director receives firstly a copy of the Articles of Association of the Company and the internal regulation of the Board of Directors, and secondly 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 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 confidentiality obligations 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 have to refrain from taking part in the discussions about and votes on the corresponding resolutions of the committees and 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 the 2nd paragraph of Article 22 of the Democratisation Act, they are subject to a lower level of liability than that provided for by common 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 be held jointly and severally liable with the directors appointed by the Shareholders General Assembly.

Remuneration paid to directors appointed by the Shareholders General Assembly

In accordance with the provisions of the Order and the Democratisation Act, only the directors appointed by the Shareholders General Assembly and the person appointed by the State pursuant to Article 4 of the Order to represent it as a director may receive attendance fees in remuneration for their office insofar as the office of the directors elected to represent the staff is unpaid, without prejudice to reimbursement by the Company of 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 3rd 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 Assembly on the recommendation of the State is transferred to the State budget.

Article 1 of the December 18, 2014 order adopted pursuant to article 6 of the Order as modified by the order of January 5, 2018, provides that the amount of the attendance fees received by directors who are not civil servants appointed by the General Assembly on the recommendation of the State will be shared as follows:

- 85% of this amount is paid to the director;
- 15% 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 special committees of the Board of Directors. These fees are also allocated depending on 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 said committees is higher than the amount of attendance fees received by 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 Assembly 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 directors appointed by the Shareholders General Assembly, with the exception of the Chairman and Chief Executive Officer of the company who has waived these fees, equal to the sum of €175,000 per annum as from December 19, 2014 and for future financial years, until the Assembly decides otherwise.

In its July 22, 2015 meeting, the Board of Directors decided to retain the same criteria for sharing out this new total amount as those decided on in its July 23, 2013 meeting, namely €1,200 per meeting and per director and €600 per meeting and per director for those directors who are members of one or more special committees of the Board of Directors.

On August 27, 2015 the Commissioner of State Holdings, appointed by the Minister of the Economy, approved this new total amount, as well as the way in which it was to be shared.

Powers and duties of the Board of Directors

Powers devolved to the Board of Directors of the Company are firstly 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 activities, the contracts by which it is bound or by the investment and disinvestment operations that it performs, are identified and controlled, thus highlighting the increased responsibility now incumbent upon Boards of Directors in the areas of internal control and risk management.

Operation of the Board of Directors during the 2018 financial year

The Board of Directors met seven times during the 2018 year. The average attendance rate at meetings of the Board of Directors was 77% in 2018. The Board of Directors was brought up to date at each ordinary meeting about developments with 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 prior authorisation of the Board of Directors or in-depth discussions during the 2018 financial year include:

- approval of company and consolidated financial statements for the financial year ended December 31, 2017 and consolidated financial statements at June 30, 2018;
- approval of the 2019-2022 medium-term plan (MTP) and of the budget for 2019;
- presentation of the update to the strategic action plan;
- approval of the conclusion of the *Strategic Partnering Agreement* of the AFS program;
- approval of several commercial offers; modification of the Board's Internal Regulations;
- determining the amount of the variable remuneration to be awarded to the Chairman and Chief Executive Officer for 2017 and determining the criteria for the purpose of setting the variable remuneration to be awarded to the Chairman and Chief Executive Officer in respect of 2018;
- co-opting a new director to replace a resigning director;
- the appointment of a new member of the Bids Committee, a new member of the Strategy Committee and a new member of the Compensation, Appointments and Ethics Committee;
- approval of the equity investment in STX France, pursuant to article L. 225-38 of the Commercial Code;
- approval of actions resulting from the self-assessment of the work of the Board of Directors;
- information about several merger and acquisition projects;

- information about the establishment of a subsidiary in the Netherlands;
- information about progress of *Australian Future Submarines* program;
- information update on diving safety and nuclear safety;
- presentation of the Naval Group administrator's guide.

Board of Directors Bylaws

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 adopted bylaws for the first time.

The Board of Directors bylaws were amended:

- on March 29, 2007, following the acquisition of Thales' stake in the Company's share capital;
- on February 17, 2010, in particular to take into account new recommendations made by the French Institute of Administrators (IFA) regarding internal control and risk management,
- on December 19, 2014, to increase the number of members of the Compensation and Appointments Committee from four to five, thus allowing a director elected as employee representative to sit on this Committee,
- on July 21, 2017, in order to increase the number of members of the Bids Committee from five to six and of the Strategy Committee from six to seven, and thus to allow a director elected as employee representative to sit on each of these two committees,
- on April 4, 2018; in order to take account of the recommendations resulting from the self-assessment of operation of the Board,
- on October 18, 2018, in order to change the name and adapt the tasks of the Remuneration, Appointments and Ethics Committee, which will become the Remuneration, Appointments, Ethics and Corporate Social Responsibility 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 monitoring:
 - the economic and financial reporting process,
 - the effectiveness of the internal control and risk management systems,
 - the legal control, exercised by the Statutory Auditors, of the annual accounts and, if necessary, of the consolidated accounts of the company,
 - independence of the Statutory Auditors.
 - identification and monitoring of the Regulated Agreements and Agreements between Bound Parties referred to in Articles L 225-38 et subsequent articles in the French Commercial Code.

With regard to risks, each year it examines the map of all the 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, in particular taking account of feedback from past programs.

The members of the Audit, Accounts and Risks Committee are Ms. Isabelle Roué, Mr. Luc Rémont and Mr. Pascal Bouchiat. The committee is chaired by Mr. Luc Rémont. Mr. Jack Azoulay was a member of this Committee until October 29, 2018, date on which he resigned his office as State representative on the Board.

The Audit, Accounts and Risks Committee meets at least three times per year or more frequently when necessary. It met five times in 2018, with an average attendance rate of 89%.

- the **Tenders Committee**, which is tasked with examining any planned tender involving a significant commitment for the Company or one of the group's subsidiaries in terms of value, duration, innovativeness of the areas of operation or specific contractual or technical risks (particularly considering new contracts, technology transfers, etc.).

The Bids Committee is composed of Ms. Caroline Laurent (appointed member of this Committee by the Board on July 17, 2018), Messrs Bernard Réat, Pascal Bouchiat, Jacques Hardelay and Thierry Barbarin. The committee is chaired by Mr. Bernard Réat.

Mr. Bertrand Le Meur and Mr. Jack Azoulay were members of this Committee until their resignations from their mandates as director and representative of the State on the Board of Directors on April 9, 2018 and October 29, 2018 respectively.

The Tenders Committee meets every six months or more frequently when necessary. It met 7 times in 2018, with an average attendance rate of 65%.

- the **Remuneration, Appointments, Ethics and Corporate Social Responsibility Committee**, that has the following main tasks:

a- With regard to compensation:

- propose the amount of remuneration, pension and provident schemes, fringe benefits of corporate officers on the basis of comparative market data and the assessment of individual performances,
- propose the policy for the allocation of directors' fees and the annual amount of fees to be submitted to the shareholders' meeting as well as their breakdown between members of the Board of Directors,
- examine key directions of the Company in terms of remuneration policy,
- give its opinion on principles of remuneration of members of the Executive Board of the Company and leadership teams of the group's subsidiaries,
- give its opinion on the principles adopted by the Company on staff incentives, profit-sharing and employee share ownership plans,

b - Concerning appointments:

- examine appointment proposals made by the Chief Executive Officer of the Company,
- make proposals at the request of the Board of Directors on the choice of members of the Board of Directors other than those representing the State or those appointed by the General Assembly on a proposal from the State or the Industrial Partner, and examine the files of the persons being considered,
- examine proposals made by the Chief Executive Officer on the composition, appointments, or dismissal of members of the Executive Committee and succession plans that concern them

c – With regard to Ethics and Corporate Social Responsibility:

- review and monitor measures adopted within the group regarding ethics, compliance, the management of conflicts of interest and, more generally, Corporate Social Responsibility.

d- With regard to Governance:

- review and monitor the main governance orientations adopted by the group,
- propose the method for assessing operation of the Board, to the Board.

The Remuneration, Appointments, Ethics and Corporate Social Responsibility Committee is composed of Mme. Gabrielle Gauthey and Mme. Sandra Lagumina (who was appointed a member of this Committee by the Board on July 17, 2018), Mr. Patrice Caine and Mr. Jacques André. The committee is chaired by Mr. Patrice Caine. Mr. Bertrand Le Meur and Mr. Jack Azoulay were members of this Committee until their resignations from their mandates as director and representative of the State on the Board of Directors on April 9, 2018 and October 29, 2018 respectively.

The Remuneration, Appointments and Ethics Committee meets every six months or more frequently when necessary. In 2018, it met four times with an average attendance rate of 60%;

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

The Strategic Planning Committee is composed of Ms. Nathalie Ravilly, Ms. Sandra Lagumina and Ms. Caroline Laurent (who was appointed a member of this Committee by the Board on May 25, 2018), and Mr. Hervé Guillou, Mr. Patrice Caine and Mr. Laurent Chagnas. The committee is chaired by Mr. Hervé Guillou. Mr. Bertrand Le Meur and Mr. Jack Azoulay were members of this Committee until their resignations from their mandates as director and representative of the State on the Board of Directors on April 9, 2018 and October 29, 2018 respectively.

The Strategic Planning Committee meets three times per year or more frequently when necessary. It met five times in 2018, with an average attendance rate of 91%.

Evaluation of the functioning 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 functioning. The Chairman of the Remuneration, Appointments, Ethics and Corporate Social Responsibility Committee, in collaboration with one of the independent directors, proposes procedures for the assessment carried out by this independent director.

In addition, at least once every three years, a more in-depth self-assessment is carried out with the assistance of an external consultant if necessary.

At its meeting on December 18, 2017, the Board of Directors resolved to assess its own functioning again and appointed Ms. Gabrielle Gauthey to present the report on the results of this new exercise.

At the February 28, 2018 Board meeting, Ms. Gabrielle Gauthey presented the conclusions of this assessment work and the resulting recommendations. The action plan and its implementation timetable following these conclusions were approved by the Board at its April 4, 2018 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 Chief Executive Officer.

Mr. Hervé Guillou's position as Chief Executive Officer was renewed by decree of the President of the Republic on February 13, 2015.

As Chairman of the Board of Directors, he organises and directs the work of the Board of Directors and reports on this to the Shareholders General Assembly. He ensures that the bodies of the Company function correctly and makes sure specifically that the directors are able to fulfil their duties.

2.3. Governance of subsidiaries and jointly controlled companies

Subsidiaries

The company has subsidiaries both in France (DCN International, Sirehna, Naval Group

Support and Naval Energies) and abroad (Naval Group India, Naval Group Far East, Naval Group BR Sistemas de Defesa LTDA, Naval Group Cooperation, DCNS Arabia, Naval Group Malaysia Sdn. Bhd, PROSIN, Naval Group Technologies Canada Inc., Naval Group Australia Pty Ltd, Alexandria Naval for Maintenance and Industry and Naval Group B.V.).

There is deliberately no mention of French subsidiaries that do not carry out any activity or engage in an activity involving the holding of securities.

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

- Naval Group Technologies Canada Inc.: Canadian subsidiary established in 2014 and within which a non-salaried Canadian resident of one of the entities of Naval Group sits on the Board of Directors. This enables Naval Group Technologies Canada Inc. to meet Canadian requirements in terms of the composition of the Boards of Directors (at least 25% Canadian residents);
- Naval Group Australia: an Australian subsidiary incorporated in 2015 and in which two Australian residents not employed by companies within Naval Group sit on the Board of Directors alongside four French and Australian members employed by Naval Group or Naval Group Australia. These independent directors were appointed pursuant to the agreements entered into between Naval Group and its client, the Commonwealth of Australia.

The representatives of operating divisions are selected depending on the activity of the subsidiary concerned. A representative of the head office financial function almost always has a seat on these bodies. Each subsidiary is operationally attached, depending on the nature of its business, either to an operating division or to General Management. The activities and operations of each subsidiary are thus monitored by the operating division to which it is attached or the member of the General Management concerned

DCN International

The Board of Directors of the DCN International limited liability company has been composed of three directors since March 21, 2018 (it was composed of four directors before this date). It met twice during 2018. The average attendance rate at meetings of the Board of Directors of this company was 75 % in 2018.

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

Major operations that were subject to prior authorisation of the Board of Directors or in-depth discussions during the 2018 financial year include:

- closing of the accounts for the year ended December 31, 2017;
- presentation of the results as of June 30, 2018.

Sirehna

The Board of Directors of the public limited company Sirehna is made up of four directors. It met on six occasions during 2018. The average attendance rate at meetings of the Board of Directors of this company was 88% in 2018.

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

Major operations that were subject to prior authorisation of the Board of Directors or in-depth discussions during the 2018 financial year include:

- co-opting a director to replace a resigning director;
- approval of the 2018 budget,
- closing of the accounts for the year ended December 31, 2017.
- presentation of the results as of June 30, 2018 and updating of these at the end of December 2018;
- approval to deliver several sales proposals.
- approval of the 2019-2022 medium-term plan (MTP) and the budget for 2019;

Naval Group Support (*called DCNS Support until October 3, 2018*)

The Supervisory Committee of the simplified joint-stock company Naval Group Support has four members. It met on three occasions during 2018. The average attendance rate at meetings of the Supervisory Committee of this company in 2018 was 75%.

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

Major operations that were subject to prior authorisation of the Supervisory Committee or in-depth discussion during 2018 included:

- examination of the accounts for the year ended December 31, 2017.
- approval of the 2019-2022 medium-term plan (MTP) and the budget for 2019;
- approval of orders;
- the approval of housing rentals for employees.

Naval Group India (*called DCNS India until November 3, 2018*)

The Board of Directors of Naval Group India (a company incorporated under Indian law)

has six members. It met on eight occasions during 2018. The attendance rate at meetings of the Board of Directors of this company in 2018 was 85 %.

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 members in accordance with the applicable Indian law.

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

Major operations that were subject to prior authorisation of the Board of Directors or in-depth discussions during 2018 included:

- the appointment of a new Chairman and Managing Director,
- definition of the "scope of work" of the Chairman and Managing Director and the Chief Operating Officer,
- examination of the list of operations that must be submitted to the Board for prior approval,
- changes to the composition of the Board of Directors,
- changes to the list of authorised banking signatories,
- reconstitution of the Corporate Social Responsibility Committee,
- approval of new hires,
- closing of the accounts for the year ended March 31, 2018.

Naval Group Far East

The Board of Directors of Naval Group Far East (a company incorporated under Singaporean law) is made up of five members. It met twice during 2018. The attendance rate at meetings of the Board of Directors of this company in 2018 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 Singaporean laws.

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

Major operations that were subject to prior authorisation of the Board of Directors or in-depth discussions during 2018 included:

- closing of the accounts for the year ended December 31, 2017.
- distribution of interim dividends for the year ending December 31, 2018;
- the change of Company Secretary and the corresponding change at the head office,

- approval to deliver a sales proposal,
- approval of the budget for 2019.

Naval Group BR Sistemas de Defesa LTDA

The Board of Directors of Naval Group BR Sistemas de Defesa LTDA (a company incorporated under Brazilian law) has 5 members. It met on four occasions during 2018. The attendance rate at meetings of the Board of Directors of this company in 2018 was 67 %.

Major operations that were subject to prior authorisation of the Board of Directors or in-depth discussions during 2018 included:

- approval of the 2018 budget,
- examination and adoption of accounts closed on December 31, 2017 for their approval by the General Assembly,
- examination of the list of operations that must be submitted to the Board for prior approval,
- renewal of the head office lease.

Naval Energies

The Board of Directors of Naval Energies is made up of seven members. It met 11 times during 2018. The average attendance rate at meetings of the Board of Directors of this company was 97 % in 2018. Furthermore, a certain number of decisions relating to the management of this company and falling within the remit of the Board of Directors were taken, with the written resolutions they were being asked to adopt being circulated to the Board members in accordance with statutory provisions.

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

Major operations that were subject to prior authorisation of the Board of Directors or in-depth discussions during the 2018 financial year include:

- approval of the 2018 budget,
- closing of company and consolidated accounts for the year ended December 31, 2017.
- approval of appointments to the Management Committee,

- approval of appointments within the management and/or control bodies of Naval Energies subsidiaries,
- various decisions relating to the OpenHydro Group Limited subsidiary,
- approval of the renewal of conventions and agreements with the Naval Group majority shareholder,
- approval to deliver a sales proposal.

DCNS Arabia

DCNS Arabia (a company incorporated under Saudi law) does not have a collegiate management and/or control body. The General Assembly is competent to take all decisions falling outside the remit of this company's manager.

Naval Group Malaysia

The Board of Directors of Naval Group Malaysia (a company incorporated under Malaysian law) has four members. It met on five occasions during 2018. The attendance rate at the meetings of the Board of Directors of this company 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 law.

Major operations that were subject to prior authorisation of the Board of Directors or in-depth discussions during 2018 included:

- approval of the 2018 Budget and the 2018-2021 MTP,
- approval to deliver sales proposals;
- closing of the accounts for the year ended December 31, 2017.

PROSIN – Projetos e Sistemas Navais SA

The Board of Directors of PROSIN – Projetos e Sistemas Navais SA (a company incorporated under Brazilian law) has three members. This subsidiary has been made dormant and therefore its Board did not meet during 2018.

Naval Group Cooperation

The Board of Directors of Naval Group Cooperation (a company incorporated under Belgian law) is composed of four members. It met four times in 2018. The attendance rate at meetings of this company's Board of Directors was 100%.

Major operations that were subject to prior authorisation of the Board of Directors or in-depth discussions during the 2018 financial year include:

- closing of the accounts for the year ended December 31, 2017.
- the appointment of a new member of the Management Board to replace a resigning member,
- renewal of the mandate of a member of the Executive Committee.
- review of the work of the working group set up with a view to reviewing the governance of this company,
- modifying the delegation of powers granted to the Management Board,
- the appointment of a new secretary to the Board,
- the decision to implement a certain number of group instructions within this company.

Naval Group Technologies Canada Inc.

The Board of Directors of Naval Group Technologies Canada Inc. (a company incorporated under Canadian law) is made up of three members. Major operations that were subject to prior authorisation of the Board of Directors or in-depth discussions during 2018 included:

- the appointment of two Directors to replace Directors who have resigned,
- closing of the accounts for the year ended December 31, 2017.
 - appointment of a new Chief Executive Officer to replace the resigning Chief Executive Officer;
 - examination of the list of operations that must be submitted to the Board for prior approval.

Naval Group Australia

The Board of Directors of Naval Group Australia (a company incorporated under Australian law) has six members. It met on four occasions during 2018. The average attendance rate at meetings of the Board of Directors of this company was 100%. Major operations that were subject to prior authorisation of the Board of Directors or in-depth discussions during 2018 included:

- approval of a certain number of operations (in particular submission of bids) to be performed as part of the Australian Future Submarine programme,

- closing of the accounts for the year ended December 31, 2017.

Alexandria Naval for Maintenance and Industry

This Company was registered in Egypt on June 3, 2018. Its Board of Directors, composed of 4 members, did not meet in 2018.

Jointly controlled companies

DCNS ZAMIL Arabia

DCNS ZAMIL was incorporated in Saudi Arabia on December 24, 2017 between Naval Group Participations and Zamil Offshore Services Company. Installed in Jeddah, DCNS Zamil is in charge particularly of the maintenance of Saudi ships.

The Board of Directors of DCNS ZAMIL is composed of five members. It met on three occasions during 2018. 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 Saudi laws.

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

Major operations that were subject to prior authorisation of the Board of Directors or in-depth discussions during 2018 included:

- approval of banking delegations,
- approval to deliver a sales proposal,
- authorisation of the conclusion of contracts with parent companies.

Eurosynnav SAS

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

Itaguaí Construções Navais SA

The Board of Directors of Itaguaí Construções Navais SA (a company incorporated under Brazilian law) is made up of five members. It met on six occasions during 2018. The

average attendance rate at meetings of the Board of Directors of this company in 2017 was 97%.

- An activity monitoring report is 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 2018 included:
- appointment of a new Chief Executive Officer;
- renewal of the mandates of two Officers,
- approval of the remuneration of Officers for 2018,
- approval of financial statements for the year ending December 31, 2017 and the proposed appropriation of profit,
- approval of a purchasing contract to be concluded with Naval Group.

Boustead Naval Group Naval Corporation (BDNC)

The Board of Directors of Boustead Naval Group Naval Corporation (BDNC) SDN BHD (a company incorporated under Malaysian law) is made up of five members. It met twice during 2018. 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 law.

An activity monitoring report was given at each meeting of the Board of Directors in 2018.

Major operations that were subject to prior authorisation of the Board of Directors or in-depth discussions during 2018 included:

- authorisation to conclude several contracts and amendments,
- closing of the accounts for the year ended December 31, 2017.
- The appointment of Directors,
- The appointment of a Deputy Chief Operating Officer.

Défense Environnement Services

The Management Board of the simplified joint-stock company Défense Environnement Services is made up of four members. It met twice during 2018. The average attendance rate at these meetings of the Management Board in 2018 was 100%.

Major operations that were subject to prior authorisation of the Management Board or

in-depth discussions during 2018 included:

- presentation of financial statements for the year ended December 31, 2017.

Kership

The Supervisory Board of the simplified joint-stock company Kership is made up of six permanent members. It met on five occasions during 2018. The average attendance rate of members at meetings of the Supervisory Board of this company was around 93% in 2018.

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

Major operations that were subject to prior authorisation of the Supervisory Board or in-depth discussions during 2018 included:

- approval for the Chairman to close the accounts for the year ended December 31, 2017,
- approval to deliver a sales proposal,
- approval of the 2019 budget.

c. Integrated risk management system

The various risk factors are dealt with in paragraph I.2.7. of the 2018 Financial Report published on internet. Risk management

Risk control process

Naval Group has set up an integrated risk management system with the aim of achieving its objectives, consisting of:

- Anticipate risks, which can negatively impact the result
- Implement opportunities, which can favourably contribute to the results

Risks and opportunities are managed through the implementation of structured approaches that make it possible to:

- identify and characterise risks and opportunities in the short and medium term (current year + 3 years)
- estimate and evaluate the criticality of risks and the attractiveness of opportunities in order to prioritise them

- define, decide and implement actions to control risks and realise opportunities, adjusted to the challenges.
- assess the effectiveness of checks put in place and control actions
- continuously improve the system in place through a feedback loop.
- auditing the integrated system.

By its very nature, management of risks and opportunities is a cross-functional process directly or indirectly involving all contributors to projects, programs and entities that contribute to it and implementation of which may be critical for meeting the company's objectives. This is one of the entries in the Medium-Term Plan (MTP).

Reference framework

With the ambition of matching best practices of the largest international companies, Naval Group, a private company whose reference industrial shareholder is a listed group, has chosen the COSO as the reference standard¹ (2013 version) for the design, implementation and evaluation of the group's risk management and internal control system.

Risk management

Risk management is the responsibility of each division and is an integral part of operations processes. Its aim is firstly to identify, analyse and anticipate the group's main risks and to control their development. The next step is to ensure that these risks are taken into account and that means implemented to reduce and control 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 Risk and Opportunity Leaders within these entities.

Risk mapping is done annually at a group level to take account of changes in the environment and the group as well as how these changes may affect the ability of the group to achieve its strategic and operational objectives. In addition, risks inherent to particular issues are supervised by specific organisations (for example: Compliance, nuclear and pyrotechnics inspection, CSR, etc.), which make up the second control line and provide methodological support and tool upgrades, essential to meet the needs of the group's activity.

Assessment of the effectiveness of internal check

The internal check helps to manage operations in terms of effectiveness and efficiency of the company's internal processes, protect assets, comply with laws and regulations,

¹ COSO: Committee of Sponsoring Organizations of the Treadway Commission is a think tank established in the United States in 1985, which developed a methodological repository for the analysis of internal control.

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 it is not an absolute guarantee because of limitations inherent to any system.

Internal control is part and parcel of the company's management and is the responsibility of operational staff. Since 2015, they have had a whistle-blower system at their disposal. This system provides a channel of communication that enables them to raise the alarm (in addition to existing channels, which protect the whistle-blower's identity by ensuring that information remains confidential) and is intended to detect any breaches of procedure. The whistle-blower system can be used in the event of any breach of accounting procedures.

Operational and functional managers are responsible for carrying out checks, but also for self-assessment of the effectiveness of internal check within their area of responsibility. This self-assessment, carried out every year using the group's internal control matrix (ICM) allows entities to assess their maturity and identify areas for improvement. An adapted internal control matrix for controlled subsidiaries was used in 2017 and 2018. The Audit and Risks Department oversees Internal Control, ensures its relevance and assesses its effectiveness. It is supported by a network of Risk and Opportunity Managers

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

Annual Letters of Affirmation

Lastly, entities of Naval Group and controlled subsidiaries draw up a letter of representation annually, which is signed by their manager or corporate officer. It is a personal undertaking by the manager of the entity to control its risks and its internal check, and that covers all the entity's activities. This letter also covers ethics reporting and compliance by managers.

Internal audit of the integrated system

The objective is to obtain a relevant and independent assessment of the effectiveness of internal check and risk management. Internal audits are carried out on a regular basis by the Audit and Risks Division to reassure General Management and the Audit, Accounts and Risks Committee that the risk control system and the internal check system are used and are reliable and relevant. On the basis of these internal audits, the Audit and Risks Department issues an annual independent opinion on the group's level of control over risks and internal checking.

Improvement loop of the 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

The Internal Checks and Risks Division controls the continuous improvement loop of the entities risk control and internal checking system and their suitability for changes to the group.

Governance of the system

The bodies described below control the integrated risk management system.

The Executive Committee

It directs and validates the annual internal audit plan. It periodically monitors that recommendations are being properly implemented (at least twice a year). It directs and endorses the plan to strengthen internal checking and risk control, in accordance with the group's priorities.

The Audit and Internal Risks Committee

Co-chaired by the SVP for Finance, Legal, Procurement and Real Estate and the General Secretary, it meets every six months or more frequently, as required. It is tasked with:

- helping Executive Committee members to identify, assess and manage the group's main risks;
- monitoring internal control efficiency systems;
- providing visibility on subjects with high stakes for the group identified in the audits.
- It decides on mapping of strategic, operational and financial risks, their criticality and reduction objectives to be achieved; it verifies the implementation, management and completion of the actions to control them.

The Audit and Risks Management

The Audit and Risks Management directs activities and supervises internal audit, internal control and risk and opportunity management resources. It carries out its activities independently for the entire group, in accordance with the audit, risk control and internal checking charter, while observing international professional standards. Since 2012, it has been certified by the Institut français de l'audit et du contrôle interne, (French Audit

and Internal Control Institute, IFACI) for IIA (Institute of Internal Auditors) international standards.

It provides the group with an assessment of the level of control of its operations and contributes to introducing risk management within each entity through a network of Risk and Opportunity Managers.

The Audit and Risks department reports to the Chief Executive Officer and to the Audit, Accounts and Risks Committee on its work, and thereby has the independence necessary for its action. It submits its recommendations and proposals for work plans to them.

The Board of Directors

The Board of Directors gives its backing to the key focal areas of the internal checking and risk management system after hearing the opinions and recommendations of the Audit, Accounts and Risks Committee².

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 internal audits and work relating to internal checking presented by the Audit and Risks Management; work relating to the group's main risks presented by the Audit and Risks Management (particular attention is paid to risks related to execution of the group's major programs); the content of the forecast program of internal audit activities by the Audit and Risks Management.

It guarantees quality of the selection process, approval of the choice of Statutory Auditors and also rotation rules.

It also examines the findings of the work done by the Statutory Auditors, ensuring moreover, that they are independent; 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 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.

² See internal rules of the Board of Directors (February 17, 2010 version)

3. Economy

a. Economic performance

Naval Group is a major player in the naval sector in France. As a result of the activity at its sites and established partnerships with SMEs, higher education establishments and universities, the group is a genuine driver of French industry in terms of jobs and research and development. In making products that are some of the most complex in the world, Naval Group benefits from the highly-developed skills of its teams. The group has 14,515 staff, 13,875 of whom are in France, where it also creates tens of thousands of indirect jobs. These highly-qualified jobs contribute to the country's industrial excellence.

Contribution made to socio-economic impact by Naval Group's purchases

Naval Group's socio-economic impact may be measured by various yardsticks, such as added value, jobs and innovation generated by the group.

Most of the added value that the group creates is in France, where it has almost all of its sites and workforce, and a large proportion of its suppliers and subcontractors. Around 85% of purchases are ordered from entities located in France, and nearly two thirds from small- to medium-sized enterprises (SMEs). Naval Group generates significant economic activity above all in Île-de-France, Brittany, Normandy and Provence-Alpes-Côte d'Azur, where the group is one of the leading employers. However, a breakdown of purchases shows that all of mainland France's regions and more than 80 Departments benefit from the group's activity.

In terms of jobs, the group's impact is not limited to staff directly employed by Naval Group. A study conducted in 2017 by the consultancy firm Utopies, estimated that the total number of jobs supported by Naval Group, including direct jobs within the group, jobs created through its suppliers and subcontractors and jobs created as a knock-on effect on the back of household consumption and public expenditure, was 56,495. This same study valued the total wealth generated by Naval Group at €4.2 billion in France, allowing for the wealth generated directly by the group, its suppliers and subcontractors and the knock-on effect of household consumption.

This socio-economic impact is not just quantitative. The group stands out for offering more higher-skilled jobs and more stable contracts, meaning fewer temporary contracts (CDD) than in the rest of the working population. Naval Group also ensures the long-term development of core jobs and activities. One of the major strategic focuses of the strategic roadmap defined in 2015 is making sure that the skills necessary for market leadership are maintained. In practice, this has led to the creation of a detailed repository of key activities, which will be maintained to guarantee that skills are renewed.

Furthermore, the innovation effort carried out by Naval Group contributes to the competitiveness of the economic fabric. This effort is materialised through several million Euros of self-funded R&D, PhD students working for the group under Conventions industrielles de formation par la recherche (CIFRE - industrial agreements on training through research), and its participation in several competitiveness clusters (the Pôle Mer Bretagne Atlantique (Brittany Atlantic Sea Cluster), the Pôle Mer Méditerranée,

Mediterranean Sea Cluster), and the Jules Verne Institut de Recherche Technologique (IRT -Technological Research Institute) at the Ocean Technocampus.

Naval Group is an important local economic player in each of its employment areas because of its sites and the type of services procured. Services procured on Naval Group's sites are mainly from local SMEs (small- and medium-sized enterprises) or locally established branches of national groups. Naval Group has set up an "SMEs plan" with the objective of strengthening and developing the main SMEs on its list of suppliers. Naval Group signed the Pacte PME (SMEs pact) in 2004 and is involved in working groups aimed at strengthening SMEs, particularly as part of its international expansion.

Internally, the procurement function has been decentralised to ensure the proximity of suppliers and local SMEs, in particular around production sites. Regular meetings are organised between local manufacturers involved in the shipbuilding industry. To strengthen this proximity to suppliers, the purchasing organisation was modified in 2018, in particular with the implementation of a large number of Lead Buyers whose objective is to strengthen the group's capacity to manage relations with its major suppliers. An internal survey was conducted with the entire population of the purchasing department at the end of 2018 to obtain feedback from this population about implementation of the new purchasing organisation. The major results are a good understanding of the organisation, the roles and a convergence between the new organisation and recommendations made by buyers in 2017.

Naval Group participates extensively in developing the area's economic activity by leading all the industry's players at local level. The company organises meetings between SMEs, manufacturers and local research centres in order to facilitate initial contacts, competition and innovation. Naval Group also takes part in activities organised by Chambers of Commerce and Industry and in "calls for skills" organised by the Pacte PME association. "Supplier local conventions", at which awards ceremonies are organised, also help to motivate companies in the industry to expand and to innovate. Theme days are also held on a regular basis (such as the Naval Innovation Days).

Quality management system

AFNOR has awarded combined quality, safety and environment (QSE) certification to Naval Group for the ISO 9001, 14001 and OHSAS 18001 standards as well as special certification for the AQAP 2110 (NATO standard that is important for certain military contracts). The granting of this combined certification which is subject to annual audits, allows the group to achieve consistency in its QSE policy. It enables us to improve and reinforce our industrial performance in respect of all our stakeholders.

Certification allows companies to gauge their performance and to demonstrate the quality of their organisation, their products, their services and the skills of their teams against an international standard. This standard is based on levers common to all three of its strands, and in particular the commitment of each and every person, a culture of identifying and controlling risks, the demanding of high standards, honouring of commitments, and a culture of measuring and guiding improvements by dealing with any failings discovered.

In addition, Naval Group has committed itself since the end of 2015 to a major update to its management system, the Business Management System (BMS). This is reflected in a partial overhaul of its operational processes in order to simplify its repositories, to optimise its operational performances and take account of its new needs such as

internationalisation.

The BMS is now in a nominal definition status and is entering a continuous improvement loop.

At the end of 2018, Naval Group also initiated deployment of this BMS in its subsidiaries as part of its internationalisation strategy.

Export controls

Naval Group's defence activities are governed by French and foreign export control regulations (military equipment and/or similar products and dual-use goods). Non-compliance with these regulations can have significant impacts: delivery delays, financial impacts, administrative fines, temporary or permanent withdrawal of the authorisation to manufacture and trade in the field of defence activities, or even, in the most serious cases, criminal penalties,

Naval Group's international activities, which are key to its growth strategy, have increased, resulting in the stepping up of international operations (exports, transfers, transfers of technology, procurement and imports, etc.), in military equipment and/or similar products and dual-use goods. The group needs to ensure that its international expansion is backed by its ability to fully manage the challenges of export controls as a function of country strategies.

In the area of export control, and customs affairs, the Export Control Department is responsible for defining policy on the group's behalf, ensuring its application, supporting operational staff and, obtaining licences and contributing to the implementation of and adherence to the group's ethics rules. It continuously supports operating divisions (trade, programs, procurement and the supply chain in particular) through updating repositories, training, giving advice and carrying out audits, and also plays a part in sharing best practice within specialised forums or forums focussing on the defence industry.

Customs affairs

Naval Group SA's Authorised Economic Operator (AEO) certification, initially obtained in 2014, was the subject of a review audit by the French customs authorities in August 2018. This comprehensive audit, including a "customs simplification" component and a "safety and security" component, positively concluded that the accreditation was maintained.

The AEO certification gives certified companies simplified and advantageous procedures for developing their competitiveness. For Naval Group SA, this certification is part of a global partnership with the customs administration.

This global partnership, based on Naval Group's positioning in a strategic industrial activity, comprises:

- the attachment in 2017 of Naval Group SA to the Key Accounts Department;
- the changeover of Naval Group SA in 2018 to national centralised customs clearance (Toulouse expertise office of the customs administration);

- AEO certification.

Naval Group SA teams are mobilised to maintain the highest level of quality in customs activities.

Contract management

Given the highly technological nature of the group's business activities, numerous legal, regulatory and operational constraints applicable and the strategic interests which are at stake, the documentation, contractual exchanges and structures associated with selling the products and services supplied by Naval Group, are exceedingly complex.

Added to this difficulty is the great uncertainty surrounding the development and execution of major programs, which often last more than ten years, together with the need to cope with a great many unforeseen circumstances, deviations and requests for modifications during this period.

As for the economic environment, it is becoming more and more restrictive due to greater international competition, cuts in military budgets, and financing, whether public or private, being increasingly monitored and controlled.

Against this background, and given the considerable risks involved, it is vital for Naval Group to make sure that a professional and effective Contract Management system is set up. This system is simultaneously aimed at securing:

- the negotiation of reasonable contract terms and conditions;
- compliance with contractual obligations by both Naval Group and all the parties concerned;
- the handling of any event that may lead to deviations in relation to contract provisions, schedules and initial budgets (and compensation for any damage that might be linked to them);
- the settlement, at an early stage and as far as possible, of any claim that may potentially become a legal matter.

A Contract Management Department was created during 2016 in order to be able to achieve these objectives. It has to define effective rules of procedure between all Contract Management staff in the company. It must make various resources (training, aids for raising awareness, methods, tools and expert resources and so on) available to the Project, Program and Procurement teams. It shapes and leads the community of Contract Managers within organisations. Furthermore, it plays an active part in spreading best practice in Contract Management and in establishing a better business and contract culture within Naval Group. Lastly, it intercedes at operational level if necessary.

For the purposes of ensuring that any contract-related matter that may be detrimental to the interests of Naval Group is not overlooked, all staff members are duty bound to report to the Contract Management Department any contract problems that are inappropriately handled. The Contract Management Department is responsible for making sure that the problem is settled successfully and for taking up the case or alerting General Management.

First introduced in 2016, this strategy should make it possible to limit the company's

risks and losses, and also help to turn certain opportunities into a reality. It must play a significant part in achieving better economic performance and better financial results whilst protecting the fundamental interests of Naval Group.

This became a reality in 2016 and 2017 when 76 Contract Managers received training in various aspects, a comprehensive business repository comprising 50 documents and tools (templates, instructions, registers, checklists, and so on) was made available, numerous Web conferences and information sessions were held, a dedicated intranet was implemented, decisive intervention and support were provided for a file representing several hundred million Euros worth of business for the group.

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 of 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 subject. Note that many countries may have similar requirements, but they may not have been formally defined by offset regulations.

These rules define eligibility criteria for offset activities – industrial sector, the nature of the offset and the valuation etc., – and the conditions for implementing them, which will be included in a specific agreement – or offset contract – setting out points such as the value of the commitment (or the calculation base, which is quite often equal to 100 % of the contract's value), the methods for the valuation of offsetting projects, the timeframes for their completion and the penalties for non-completion, to name these topics only.

There are two main categories of offsets: direct offsets and indirect offsets:

- direct offsets

These relate to equipment, technology or activities directly linked to the product purchased. In this case, the purchasing government may require the supplier to transfer the technology associated with the product, 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

These are unrelated to the product purchased and may be carried out in another industrial sector or high-tech area. Indirect offset projects may take the form of investments, transfers of technology, licences or export subsidies.

Depending on the client, the request may be directed more at one of these categories than the other depending on the local strategies and the country's level of development.

A multiplier coefficient will sometimes be applied to the actual value of the offset transaction in order to steer the vendor towards priority projects according to the

purchaser's own agenda; this means that in some countries a purchase in a high-tech field may generate several times the actual value of the purchase or service in question. This multiplier coefficient may also differ depending on the nature of the transaction: a transfer of technology will often benefit from a bigger multiplier than a purchase of a more standard product.

Offsets are an integral part of Naval Group's offering, and the offset offered is taken into account in the client's evaluation of the overall proposal. It may be a prerequisite, and in certain circumstances the offset contract may have to be negotiated and signed prior to the main sales contract for our products.

Examples in 2018

Malaysia

In connection with carrying out its offsets for the Malaysia Gowind® corvette program, Naval Group signed a Memorandum of Agreement (MoA) in 2016 with the Universiti Teknologi Malaysia, Ocean Thermal Energy Centre (UTM OTEC), which is the centre of excellence for ocean thermal energy in Malaysia.

In 2018, Naval Group continued actions initiated in 2017 for a collaboration project between the National Defence University of Malaysia (UPNM) and the École centrale de Nantes (ECN), for the development of a course for a Masters in Maritime Technology in Kuala Lumpur.

As part of this agreement, the three partners are pooling their skills in order to develop top-class training that will help to build a high level of expertise in the maritime field in Malaysia. The first Malaysian students arrived in France in September 2017 and joined Masters and PhD courses at the École centrale. These same students, future graduates, will then teach at the UPNM on their return to Malaysia, receiving educational support from the École centrale. This cooperation will result in the promotion of Malaysian students who have graduated in their country of origin, and the best students among them will go to Nantes to complete their training by following Masters 2 courses. Naval Group will also bring its expertise in naval engineering for designing and developing course content. The specialised Masters 2 degree will include courses, supported by the group's experts, which are devoted to the incorporation of combat systems.

Naval Group negotiated an offset production contract in the framework of the Scorpene submarine maintenance programme (ISS), in 2018. This contract will be signed in 2019. A first operation was anticipated. The National Defence University of Malaysia (UPNM) and the EURECOM School in Sophia-Antipolis have started a cooperation by which the school will host the first students in the Cybersecurity Master in September 2018.

Brazil

In 2017, Naval Group successfully continued to fulfil its offset obligations for the PROSUB contract for supplying submarines to Brazil. In particular, Naval Group supported a project to modernise facilities at the Brazilian Navy Arsenal (AMRJ – Arsenal da Marinha do Rio de Janeiro). Starting in 2014, Naval Group provided the Brazilian Navy with its expertise by proposing designs and giving its advice and support in relation to modernisation of the launch system in the main dock of the Navy's arsenal in Rio.

Colombia

It is Colombia's intention to develop and build a new generation of frigates in collaboration with the local shipyard Cotecmar at its Cartagena site as part of the Colombian Navy's fleet renewal program. In partnership with the Colombian National Apprenticeship Service (SENA) and the French Ministry of Education, on September 1, 2017 Naval Group signed a letter of intent aimed at setting up a Franco-Colombian vocational training centre. The latter will contribute to strengthening necessary skills, in particular for implementation of the future Colombian frigates programme.

This vocational training cooperation project will create the shipbuilding training centre in Colombia along with its teaching materials, while ensuring the transfer of skills, preparation of skills standards and increased mobility between the two countries. The trades covered range from welding to fabrication, including pipework, electricity and marine engineering.

Romania

On November 15 and 16, 2017 Naval Group organised an industrial seminar in Romania, in conjunction with GICAN (naval activities and construction industries group) so that naval defence companies from both countries involved in the Romanian Navy's modernisation program (acquisition of four, 2,500-tonne corvettes and modernisation of two frigates) could meet up. Some 17 French companies and more than 60 Romanian companies attended the B2B days. On November 15, Naval Group and its partner, the Constanta shipyard signed a Memorandum of Agreement. More than 170 interviews took place over these two days, which were attended by High Authorities of the Ministry for Economic Affairs, the Ministry of Defence and the chairmen of the Senate Defence Committee and Chamber of Deputies.

It was through these seminars that a large number of potential cases of cooperation were identified, and these seminars also highlighted Naval Group's strong desire to strengthen its presence in Romania.

Innovation, embedded in Naval Group's DNA

This point is dealt with in the 2018 financial report, published on the Internet, in paragraph I.2.4. (Research and Development Activity (R&D)).

Naval Group's Innovation and Technological Expertise Department contributes to the group's sustainable development objectives through several themes. In particular, in 2018 it continued its development missions. 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 cybersecurity, CleanTechs, monitoring of oceans, in civil sectors with high growth potential. As an example of this innovation strategy conducted in 2018, Naval Group has developed, designed, manufactured and tested an immersed metacentre designed to consume only half of the energy consumed by its shore counterparts under real conditions in 2018, as part of Microsoft's Natick II project.

The actions also fall within the scope of the maritime environmental themes developed by COP21 and the European 2008 MSFD directive and as such concern maritime "CleanTechs". In particular, Naval Group takes account of criteria for reducing environmental impacts as early as possible in the design of its systems. And since 2016, about 20% of the number of self-financed R&D studies have contributed to protecting the environment. R&D is particularly involved via the unifying Smart Energy, Invulnerable Ship and Smart Industry themes. Thus, with the aim of participating in environmental protection and combating climate change, R&D is studying the consideration of civil and maritime standards in the environment and in particular MARPOL, more specifically via studies on the management of waste, whether gaseous (linked to ship propulsion), solid or liquid, or studies on the reduction of fuel oil consumption on board ships (which concern hydrodynamics, electricity and also fluid management).

In 2018, Naval Group also continued the development of a solution for the containment and reduction of acoustic and turbidity impacts (suspended materials) of anthropogenic activities at sea named "Subsea Quieter". The solution also forms the basis of the AGESCIC project, a European Union LIFE funding winner in 2018 and which aims to provide an innovative solution designed to protect wildlife for coastal maritime infrastructure builders and offshore foundation installers during their work, by 2020. The results of these initial trials carried out since 2017 are very promising in terms of the performance of this new technology based on group know-how.

Finally, in order to promote sustainable industrialisation that benefits everyone, Naval Group is working on the technologies of the future project, to improve the competitiveness of the group and improve safety of personnel on shipyards.

Market presence

Naval Group is continuing to expand its market outside France and has enjoyed a major success, having been chosen by Australia to renew its submarine fleet. So, the group is currently involved in industrial programs for clients based on five continents – notably in Brazil, India, Malaysia, Saudi Arabia, Egypt and now Australia.

The group wishes to be in a position to support these countries as they modernise or overhaul their fleets by developing industrial partnerships with local players.

When carrying out surface ship, submarine and service programs for international clients, a considerable "transfer of technology" component is now taken into account. Countries are becoming ever more demanding in their technical and industrial ambitions for their national industrial bases, to ensure increasing control of their strategic independence.

Therefore the ability to manage Transfers of Technology (ToT) 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 transformed to be beneficial for all the group's 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 broadening the portfolio of activities by setting a target of earnings of approximately €2 billion per annum by 2020 for international naval defence (ToT and work done in its own right taken together);
- increasing profitability and synergies from gains in productivity (costs) when carrying out ToT programs;
- strengthening key resources by guaranteeing a durable basis for industrial activities and supporting our skills;
- preventing the risk of the emergence of new competitors by continuing to make financial and human investments in R&D and R&T and fully controlling Naval Group's intellectual property.

The ToT process that has been set up, and is in force today, covers the entire draft proposal/offer/execution process. The extensive nature of these measures is very useful, especially during the proposal preparation phase; the benchmarking carried out has provided particularly valuable information. The tool kit (identification of our Core activities, at the heart of our know-how; check lists for proposals and programs, exploitation of know-how; basis of feedback, description of the ToT in the program management process) is in place and is described in the group's Business Management System (BMS).

The current phase is to terminate systematic application for offers and programs, which will allow us to test, improve and standardise our ToT management processes as well as this tool kit.

This work also continues through improved upstream integration within product lines, there being constraints as well as opportunities for technology transfer.

All these measures should help to continue to reduce industrial risks and allow us to retain some key know-how, in addition to facilitating the preparation of our sales proposals that have a ToT aspect and helping to control related industrial and financial risks.

b. Procurement practices

Naval Group's commitment to sustainable procurement

Naval Group's General Management has committed to a corporate responsibility strategy at the highest level. These clearly defined commitments can be accessed via the group's website. The group's support of the UN Global Compact is one of the ways in which it demonstrates Naval Group's commitment at operational level in this field. A review of the information produced in the Board of the Global Compact led to the company being graded as "Advanced".

These commitments are circulated to all employees via the Blue Book (a document summarising the group's organisation and challenges faced by it). The commitments to responsible procurement are circulated to all suppliers, who make a formal commitment through the supplier code of conduct.

Naval Group's commitment to sustainable procurement is based on a continuous improvement approach, which is managed at the highest level.

Naval Group's commitment is expressed through very tangible actions at operational level and active participation in the industry's initiatives and bodies: involvement in GICAN (naval activities and construction industries group) and in CEDEF (Convention on the Elimination of All Forms of Discrimination Against Women); involvement in the sector's Strategic Planning Committee and in the Sea Clusters; membership of Pacte PME and the charter encouraging innovative SMEs (2012); bipartite agreement of the SMEs defence plan (2013), and so on.

Evaluation of panel suppliers' performance

In 2018, Naval Group continued to assess the CSR performances of suppliers on its panel. The restated objective is to have this performance assessment for all suppliers on its panel. New entrants to the panel will be subject to a CSR performance assessment.

Naval Group uses two firms specialising in performance assessment to carry out this task.

The results of CSR performance evaluations have been taken into account since this year in the overall evaluation of supplier performances. This assessment is made annually for the main suppliers in the panel, and special attention is paid to suppliers involved in purchasing types identified as most at risk in the CSR risk mapping. If necessary, in cases in which a supplier's performance is inadequate compared with the performance of suppliers of the same type and in the same business sector, this would lead to action plans being put in place.

Just as in the previous year, an analysis of the findings of the assessments carried out shows that the CSR level of performance of suppliers on Naval Group's panel is higher than the average performance level of suppliers assessed by the firms specialising in performance assessments, based on all fields of activity.

Less than 3% of the panel's suppliers assessed in 2017 were identified as potentially posing a risk as regards achieving CSR performance. The suppliers in question are subject to an improvement plan.

The procedure for CSR performance assessment of suppliers will also be rolled out for suppliers on the panels of all subsidiaries in the group. This expanded deployment began at the end of 2018.

Management of supplier risk

The specific committees dedicated to analysing supplier risks met in 2018. These committees, chaired by the Procurements Director and made up of representatives of the departments concerned, are tasked with defining the action plans required for managing the risks identified by procurement players. These risks are characterised according to the main supplier risk categories. A CSR risk is one of the four main types of risk associated with supplier risk management.

This risk analysis is carried out on a regular basis and updated as required. Naval Group's entire panel of suppliers is subject to a thorough and rigorous risk analysis from two angles: inability to deliver and impact on company image. This analysis is also considered over the short- and medium-term (program risks) and over the medium- and long-term (sovereignty/market leadership).

The risk analysis conducted for each supplier specifically involves regulatory compliance, OHS, CSR and image as well as the legal aspect and fraud.

The CSR aspect of this supplier risk analysis is going to be strengthened and adjusted in 2018, by more accurately characterising risks associated with supplier fields of activity, typology and location. This more precise characterisation will take account of aspects associated with CSR, from every angle:

- Governance: de facto management, transparency, conflict of interest, fraud, corruption, compliance with the rules of competition;
- Environment: respect for the environment, use of dangerous substances;
- Human rights and rights pertaining to how staff are treated by the company: provisions regulating terms and conditions of employment, discrimination, social legislation;
- H&SW.

Where necessary, the results of this analysis will give rise to specific actions built into the action plan for mitigating supplier risks.

Responsible Supplier Relations and Procurement Label: renewal in 2017

Naval Group was awarded the Responsible Supplier Relations label in December 2014. In 2017, this label was changed and renamed the Responsible Supplier Relations and Sustainable Procurement label, incorporating the recommendations of ISO 20400 "Sustainable Procurement" standard.

The sustainable procurement development policy operated by Naval Group is completely consistent with the requirements of the new repository of the label.

It is, therefore, extremely logical that Naval Group decided to apply to renew this label, which it again obtained in December 2017. This label was confirmed in December 2018 following the monitoring audit, confirming the implementation of identified improvement actions in 2018, such as the continued professionalisation of purchasing actors, the continuation of actions contributing to the development of balanced and lasting relations with suppliers, and the integration of CSR requirements in the purchasing process.

Supplier satisfaction survey

In 2017, Naval Group once again conducted the annual satisfaction survey with a large number of its suppliers. This survey was conducted in consultation with the association Pacte PME. The results of this survey were incorporated and included in the report published by Pacte PME. The survey, which contains around forty questions covering all areas of the relationship (innovation, contractual relations, partnership relations and progress drivers), is conducted by an independent body, which uses a process that guarantees confidentiality of individual responses.

The results of the 2017 survey indicate a marked improvement on the results of the 2016 survey (a 5% increase in the satisfaction index) which had also shown a very significant improvement in relation to the previous surveys. A total of 870 suppliers were contacted and 38% of them responded, which is a very satisfactory response for this type of survey. Identified lines of progress were followed up by action plans. The

results of this survey were also presented in June 2018 at the annual supplier's convention, to which all the group's major and strategic suppliers were invited. This supplier survey will be repeated in 2019.

Mediation

Naval Group favours dialogue with its stakeholders in order to resolve disputes. As far as relations with suppliers are concerned, Naval Group has had an internal mediator since 2010. The person responsible for mediation reports direct to the group's General Secretary. Recourse to mediation is specified in the general purchasing conditions and standard contracts for every type of purchase. A broad range of information on the mediator's duties and responsibilities is communicated within the group. Permanent information is available on the group's website, where there is a link that any supplier can follow to alert the group's mediator directly.

4. Environment

Atmospheric emissions

Naval Group uses solvents that lead to the emission of volatile organic compounds (VOCs) in its industrial activities. A group-wide map of VOC emissions and methods used to control them was produced in 2016 in order to identify and extend best practices.

The quantity of paint consumed within the group greatly depends on the construction and maintenance activities. A major refit of the 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.

Naval Group also regularly participates in working groups led by NATO and the Association pour la certification et la qualification en peinture anticorrosion (ACQPA) (association for anti-corrosion paint certification and qualification), being aware of the importance of tightening standards to reduce emissions.

Besides VOCs, the group's activities emit sulphur dioxide (SO₂) and nitrogen oxide (NO_x), produced by burning fossil fuels. These emissions are steadily falling, in direct relation to energy savings made on Naval Group's sites.

As part of a continuous improvement program, Naval Group actively contributes to reducing its greenhouse gas emissions and for the last 3 years has annually conducted its greenhouse gas emission assessments for the group's 11 sites; emission factors are taken from the regulatory carbon database.

The following emission sources are monitored:

- scope 1: direct emissions related to the consumption of fossil fuels and cooling fluid leaks;
- scope 2: indirect emissions associated with energy, such as electricity and the purchase of heat linked to electricity consumption;

- scope 3: other indirect emissions related to business travel within France and abroad (rental cars, trains and aeroplanes), home-work travel and the freight transportation of goods (inside and outside France). Greenhouse gas emissions related to vessels purchased and operated (ships in operation) are studied separately (see below) and are not included in scope 3 of Naval Group. Since the 2015 assessment, upstream emissions linked to energy production in scopes 1 and 2 have been included in scope 3.

The last assessment (provisional on January 25, 2018), which was conducted in 2017 for the 2016 financial year, shows an 8.8% reduction compared with the previous year thanks to the efforts made primarily in scopes 1 and 3.

Home-work travel, fixed sources of combustion and business travel account for the three largest emission sources, at 33 % of the group's total emissions for home-work travel, 27% for fixed sources of combustion and 30% for business travel, respectively.

To take action on this scope, Naval Group has introduced a per-km allowance for bicycle users to encourage the use of this mode of transport and to have an impact on its emissions. In addition, charging stations for electric cars are being considered at sites in Paris to promote and facilitate the use of this type of vehicle by staff. Furthermore, like Saint Tropez, the Cherbourg site now has a car-sharing site to allow staff to journey together and reduce their environmental impact. Car-sharing areas have been opened in Lorient.

Emissions into water

As all industrial sites are on the sea coast or close to rivers, particular attention is paid to liquid effluents. These are usually a by-product of industrial processes and are only released into the natural environment after inspection and *in situ* treatment if necessary. If this is not possible, the effluents are considered to be hazardous waste and are dealt with through appropriate channels.

For example, during hull cleaning operations, paint effluents, consisting of anti-fouling paint mixed with water, are systematically collected at the bottom of the dock and then treated through filtering, decantation and purification. They are then discharged into the sea, once the analyses performed show that the copper and zinc content in particular are not above acceptable levels. This applies especially to the Brest, Toulon and Lorient sites.

During the second half of 2016, the Health, Safety and Environment (HSE) Department, the Submarine Atmosphere Regeneration-Control laboratory (R-CASM) and the R&D service of the Methods Performances Department on the Brest site led a project aimed at improving the real-time control of effluents resulting from the careening of vessels. This method is now applied to careening operations at the Brest naval base and on the Île Longue site. We now have the in-house capability to detect a deviation or to demonstrate the compliance of analyses in 48 hours, compared with 3 weeks previously. We can now respond very rapidly if results show a failure and make corrections during the course of an operation.

Waste

Non-hazardous waste accounts for two thirds of the waste produced by Naval Group by tonnage. Its recycling depends on the upstream quality of sorting carried out on the sites, and downstream on closeness to treatment units. This last, geographic criterion causes significant disparities between the sites.

Naval Group is striving to reduce and more effectively recycle its waste, in accordance with the principles of circular economy, by setting targets.

A target of $\geq 90\%$ sorting compliance has therefore been set for each of the sites, while a global material recycling and energy recovery target of $\geq 70\%$ has been set for the group as a whole, with a minimum per site of 50% .

Hazardous waste is particularly difficult to recycle, as the processes are often complex and costly. This is why Naval Group is attempting to reduce this waste at its source.

Bio-waste

The group's canteens are continuing to improve their recycling of biowaste. Following the Lorient, Brest and Nantes-Indret sites, the Toulon, Finlay and Bagneux sites introduced biowaste sorting and recovery, although the regulatory threshold of 10 tonnes of biowaste produced was not reached at the Finlay and Bagneux sites.

Noise

Some activities create noise inside sites, and sometimes outside them, and Naval Group's installations are usually close to housing. This issue is managed as a specific environmental risk: noise levels are periodically measured to check compliance of installations with operating permits, and action is taken as a result.

Water consumption

The quantities of water used to cool installations are decreasing each year, as most of the installations have transitioned to closed cycles.

Only the Nantes-Indret site is continuing to pump significant volumes from the Loire during heat engine tests; however these tests only last a few weeks, however, and several years may elapse between two tests. Consumption was especially high in 2014 and 2015, when the brand new Barracuda submarine engines were qualified. To reduce these occasional consumption peaks, the site planned to carry out work in the coming years to adapt pumping installations to its exact needs.

Energy consumption

Given its awareness of energy issues and their impact on the climate, Naval Group has set an ambitious target of reducing consumption by 10% for 2019 and 2020.

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

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

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

In 2016, Naval Group's supply chain was responsible for emitting 723,148 tonnes of CO2 equivalent worldwide. At the same time, almost 14.2 million m³ of water and 1.5 million tonnes of resources (fossil inorganic, animal, vegetable) were consumed, and 1,000 hectares of land used.

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

Property operations

At the end of 2015, Naval Group took delivery of new premises for its on-board combat system activities. Located in the Sea Technopolis in Ollioules, the buildings were awarded NF HQE Tertiary Building and BREEAM International Commercial Building 2013 certifications. They have a truly bioclimatic design, reducing consumption by 10% compared with a building conforming with French regulation RT 2012: 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 locker room hot water needs). Office lighting is controlled according to the brightness and the actual presence of staff. Performance is further ensured by a centralised management system that controls heating and air conditioning units.

a. Biodiversity

Naturally, the group has always paid attention to biodiversity issues because of the location of its sites and the nature of its activities. Each industrial site is close to an onshore or offshore natural site that has been singled out for the scarcity or fragility of its wildlife, whether animal or plant, and their habitats.

For instance, two Naval Group sites include zones within a Natura 2000 site:

- Angoulême-Ruelle: the route of the Touvre river, which crosses the Naval Group site, is part of the "Charente Valley between Angoulême and Cognac and its main tributaries" site.
- Nantes-Indret: a 40-hectare zone, where no industrial activity takes place, is part of the "Loire Estuary" site.

Five other sites (Cherbourg, Brest, Lorient, Toulon and Saint Tropez) are in the immediate vicinity of a Natura 2000 site or a protected natural site (zone naturelle

d'intérêt écologique, faunistique et floristique [ZNIEFF] [natural zone of ecological, faunal and floral interest]).

In each of these cases, industrial and economic decisions are not made to the detriment of the preservation of nature; the two dimensions are considered and neither of them is compromised. The Nantes-Indret site conducts eco-pasturage on part of its site as a replacement for plant protection products and has obtained the "bat sanctuary" label for refitting an old building to house bats. In 2017, the site also installed beehives to promote biodiversity in the region and to protect bees

b. Products and environment

In this field, Naval Group shares its expertise internationally, as demonstrated by the recent creation in Chile of a marine renewable energy (MRE) research and innovation centre, MERIC, the objectives of which include studying tools for testing MRE 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.

Some of these products designed by the group are directly intended for government action at sea, which among other assignments includes inspecting illegal discharges and the fight against pollution. Naval Group's role is of course to construct specific vessels, as well as to design information systems, such as that currently installed at the regional operational centres for monitoring and rescue (CROSS). In addition to these systems, a module called "SURPOL" specific to pollution management was developed in 2015 and has been installed in CROSS(es) starting in 2016.

As well as the preventive measures taken to control risks, the group prepares for the possibility of accidents, in close collaboration with local players. An organisational structure and material resources are in place on each site and are tested at least once per year through drills. Establishments also invest in environmental pollution prevention equipment every year. In Brest, Toulon and Cherbourg, the close proximity to the French Navy ensures access, by agreement, to substantial pollution response capabilities. In Lorient, the harbour's main economic players have been bound by a charter that pools their response capabilities since 2014.

Soil depollution is undertaken case by case depending on needs, e.g. in the event of the change of activity or disposal. In such cases, the soil is treated on-site as far as possible, to limit the impact on the environment. Any new building is only considered after a systematic soil pollution analysis.

Naval Group provided financial guarantees in accordance with the May 31, 2012 orders, intended to cover the potential restoration of sites if the group were to go bankrupt. Three sites are affected by these provisions: Nantes-Indret, Angoulême-Ruelle and Cherbourg.

The number of incidents has steadily fallen as a result of environmental risk prevention measures and operators' vigilance. Since 2013, the group has not experienced any uncontrolled pollution or pollution requiring an external response. For their part, incidents responsible for a temporary impact (occasional exceeding of thresholds or

localised pollution) have constantly declined over the last 4 years. These results reflect a very effective control on the ground.

Note that, in July 2016, the Cherbourg site received the necessary authorisations from local administrations to create a submarine break-up operation. The first vessel will be accepted for break-up during 2018, and all effluents and emissions will be managed in compliance with strict environmental requirements and the prefectorial order thus obtained.

To improve its energy efficiency, the group applies the principles of standard ISO 50001, without seeking to obtain certification, but using the Quality, Safety and Environment (QSE) management system already in place. A person has therefore been designated to lead the program and coordinate improvement actions on each site.

In 2015-2016, an energy audit was conducted on each group site. These audits provided an up-to-date outside opinion of every activity's energy efficiency and identified new areas for improvement. They offer a real opportunity to boost efficiency measures throughout the group, although most of the sites did not wait until this regulatory obligation was introduced to roll out a consumption reduction program. Most industrial sites have in fact integrated this program within their practices for many years, in areas like lighting, heating and industrial activities.

In 2015 and 2016, the Cherbourg site replaced the opaque roofs of three buildings with translucent glass to allow daylight through, save energy and improve quality of life for staff.

In 2016, the Lorient site worked on lowering its "energy consumption in non-production times" by asking its staff to switch off devices that do not need to be continuously operating at weekends. The "energy consumption in non-production times" is partly generated by equipment that unnecessarily remained switched on. This test reduced the energy "heel" "energy consumed in non-production times" of the site and identified the sectors on which non-negligible gains can be made. This exercise will be conducted on all sites in the coming years to take the energy reduction initiative forward.

In 2017, the Toulon site introduced meters that take an accurate reading of electricity consumption. As a result of these meters, electricity consumption was 60% less than the previous year.

Naval Group's sites, except for those in the Paris region, are on the sea coast or close to rivers, which are common property and shared with other parties for industrial, commercial and leisure activities.

Naval Group therefore communicates regularly about its activities and projects, and maintains ongoing relations with local residents, associations and local authorities.

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.

5. Social

For the human resources policy, 2018 is characterised by strong employment activity with a strong increase in recruitment (1,513 hires) and mobility in operational activities and intense social activity with the implementation of the employment adaptation plan, signing of amendment no. 2 to the company agreement of April 2017 to the employee representation and union rights bodies was concluded in June 2018. The purpose of this agreement is to define procedures for setting up and operating the new single employee representation body, the Economic and Social Council, in the context of work orders. This new single form of staff representation has strengthened the quality of dialogue and debate with elected representatives. Thus, beyond information and consultation obligations incumbent upon us, this new body constitutes an essential vector in conduct of the company's transformation both at the site level and at group level.

This amendment also comes with a joint approach aimed at creating a support mechanism guaranteeing professional recognition of the commitment to exercising union responsibilities.

a. Employment

Changes in the workforce

The Naval Group workforce is 15,163, up 4.5% compared with 2017 (14,515 registered). This workforce is divided into 14,616 employees registered in Naval Group in France, 156 in French subsidiaries and 391 in foreign subsidiaries.

At the UES (economic and social unit, Naval Group in France and Sirehna), the workforce is 14,691 registered staff, with a 19.8% female employment rate versus a 20% target.

Recruitment and mobility

There was extensive recruitment activity in 2018, with 1,911 recruitments at the UES, 1,407 of which are on permanent contracts (1,117 permanent-contract recruitments in 2017). There was also intensive mobility activity, including support for the employment adjustment plan. In total, there were 1608 internal mobility transfers in 2018, of which 206 were geographical transfers.

The commitments made regarding an increase in study-and-work interns in production and the permanent-contract recruitment of study-and-work interns who had completed their training were met in 2018, with 88 permanent-contract recruitments of study-and-work interns after their training, compared with 120 in 2017.

As part of the industrial and social pact, Naval Group committed to recruiting more than 2,200 people between 2017 and 2020, with a proactive distribution of engineers and executives/technicians and supervisors/manual and non-manual staff that enables a target of more than 56 % manual and non-manual staff/technicians and supervisors to be met over the term of the pact.

Territorial impact

Naval Group is a major player in all of the territories in which it has a presence. It is one of the main private local employers and a leading commercial customer.

Each site's management is in contact with all of the authorities and stakeholders in the territory.

The site's managers are involved in the region's economic and social bodies (competitiveness clusters, Chambers of Commerce and Industry [CCI], professional associations defending economic and social interests).

They also work closely with local education authorities (University Institutes of Technology [IUT], engineering schools) and attend organised events in the field of employment or the territory's economy (employment forums, job forums, etc.).

A number of managers and engineers teach higher education courses in law, finance and engineering.

Naval Group set up the French Naval Campus and made a significant contribution to the creation of a professional naval construction degree together with the French State Education system and other industry partners.

International development

The International HRD is in place with the International Human Resources Business Partners HRBPs distributed by zone or country, the international mobility department which defines expatriation conditions and the International CSP which ensures payment of expatriate's salaries, application of social coverage and departure and return logistics.

The international HRD pursues a policy with a dual objective. One of the objectives is to develop reception of French personnel in our international subsidiaries and reception of personnel from our international subsidiaries on Naval Group's French sites.

The other goal is to ensure that the HR policies are rolled out in each country with the necessary adaptations, notably the career review, the appraisals, payroll consolidation policies (Global Payroll) and recruitment (Talent Soft).

The subsidiaries' staff internationally totalled 584 registered staff (versus 560 in 2017), of whom 172 were expatriates. Local staff (including on the "local +" contract) grew, with 412 registered at the end of December 2018, versus 394 at the end of 2017. Expatriate staff numbers fell (172 at the end of December, versus 178 at the end of 2017).

Strategic jobs and skills management (GPEC)

Naval Group is continuing its predicted jobs and skills management policy and implemented the GPEC agreement in 2018. Two meetings of the trades joint monitoring observatory were organised to discuss changes in specialities within the group. Operational strategic jobs and skills management has also resulted in the creation of local plans to anticipate skills and jobs on sites.

Anticipating and supporting skills development and changing jobs

Naval Group has a policy to identify skills that enable it to meet needs in terms of sovereignty. A ten-year analysis was carried out on the 4 sovereign families in order to immediately anticipate actions to be implemented to maintain skills in these families.

Organisation of work

Title 4 of the company-wide agreement signed on April 11, 2017 gave an in-depth review of the rules on the organisation of working time. This agreement amended the variability of daytime hours and shift-work hours. The purpose of this agreement is to improve operational performance by ensuring a greater common presence during the working day of staff from the same group or the same work area. This resulted in a 15-minute limitation on the variable range when starting a shift and a 1-hour-15-minute limitation on the total variable range for production staff. For shift work, the purpose of the agreement was to define common rules from both an organisational viewpoint (the use of this working structure) and a functional viewpoint (working hours of the position, breaks, etc.). The implementation of these new rules became effective for variable daytime working hours at the beginning of September. Posted and specific working hours have been in place since January 2018.

Remuneration and employee benefits

Naval Group's compensation and benefits policy aims to:

- encourage and acknowledge individual and collective performance;
- ensure fair pay for everyone;
- guarantee competitive salaries compared with the market.

Staff remuneration under State labour laws is defined and modified in accordance with its own regulatory framework.

Salary changes are determined during the mandatory annual negotiations (NAO). Wage negotiations for 2018 took place within the framework of the 2016 agreement on wage measures and the effective duration and organisation of working time for the 2016 financial year and multiannual measures for 2017 and 2018 (agreement signed by CFDT, CFE-CGC and UNSA). The budget increase for 2018 is 2.7%.

In addition, the profit-sharing bonus and a new profit-sharing agreement signed with union partners (CFDT, UNSA and CFE-CGC) were added for the 2018 to 2020 financial years. The criteria chosen to determine the profit-sharing budget are aimed at continuing to improve operational performance in its financial component with the EBITA/sales ratio, the improvement to the quality of the group's products through satisfaction of our customers and the quality of life at work of employees.

In addition, all employees benefit from a collective pension savings plan (PERCO), and matching payments (profit-sharing and voluntary payments) are added to this plan. An additional retirement plan (article 83 of the General Tax Code) is also available to engineers and managers.

The remuneration policy incorporates welfare protection with a mutual benefit organisation, which supplements Social Security contributions relating to the reimbursement of health-related costs and a welfare contract providing insurance against life risks: incapacity, disability, death.

Lastly, managers have a fixed salary and a variable portion, 60% of which is based on the achievement of collective targets and 40% on the achievement of individual targets.

Remuneration of directors

This point relates to salaries of the Chairman and Chief Executive Officer and members of the Board of Directors. The Chairman and Chief Executive Officer is Naval Group's sole corporate officer; other members of the Executive Committee are employees.

The corporate officer's salary is fixed by the State (Ministry of Finance) 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.

Welfare benefits available to the members of the Executive Committee are identical to those provided for under the remuneration and welfare benefits policy of 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 highest paid people in the company.

The National Shared Services Centre (CSPN)

The National Shared Services Centre (CSPN) was created in 2015. It has been based in Ollioules since October 2016. It brings together the staff and tools responsible for the administrative management of Naval Group's staff. The CSPN is responsible for the administrative management of Naval Group staff's salaries and time (through the creation and updating of staff files, processing events relating to their development, responding to their requests for assistance and information, etc.), management of public careers (management of "asbestos" departures, pensions, preparation of progress and reform committees for State representatives from the Ministry of Defence), management of logistical matters relating to expatriation (moving house, immigration, housing, etc.), management of information systems (SIRH) and reporting systems for the human resources function.

Staff thus have a single system that manages every aspect of their files (administrative management, pay, time, etc.), understands their particular requirements and provides continuity of service, notably during periods of leave.

The HR service space, which can be accessed through the SeaRH portal, enables staff to submit requests online directly to the CSPN and track the history of their responses more effectively.

Each member of staff is entitled to an electronic safe that is managed by an external service provider and enables private-law staff to receive their wage slip in electronic format. This forms part of Naval Group's corporate social responsibility drive.

b. Employer/employee relations

The culture of social dialogue is one of the essential bases of Naval Group in its day-to-day relations with employees either directly or via employee representatives. Thus, the continuous transformation process of the company and, in particular, the change in status of the company made in 2003 could not have been a success without a quality social dialogue. In particular, it has resulted in contractual dynamics that has enabled the signing of major agreements for the company and that are often cited as references

A company agreement was concluded on May 11, 2004 creating the new social framework of the company with a new status. This agreement was renegotiated at the end of 2016 following its termination and resulted in a new agreement signed on April 11, 2017. This agreement applicable to Naval Group revised in depth the provisions on career development and the organisation of working time.

The provisions on career development now also include new coefficients that integrate with those established by the metallurgy classification to create a stronger dynamic. The agreement also adapted the career development rules based on the qualification required for a position. At the same time, a benchmark positions structure for each of the company's 27 specialities was devised and introduced during the last quarter of 2017.

Naval Group offered trade union organisations an industrial and social pact that supplements this new agreement, in which the company commits to seven goals to be accomplished by 2020, including the continuation of work organisation trials, the improvement of efficient working hours, the conduct of recruitments and industrial investments, an increase in the rate of career promotion, the continuation of predictive jobs and skills management, and training in naval professions. These commitments are linked to the achievement of the anticipated gains to finance them and to the absence of any major commercial changes.

An agreement on quality of life at work was also signed in 2017 and new telework options were defined in an agreement following a trial period.

An amendment to this company agreement on employee representation bodies and union rights was concluded in June 2018. The purpose of this agreement is to define procedures for setting up and operating the new single employee representation body, the Economic and Social Council, in the context of work orders. It also sets out the principles and framework for high-quality social dialogue.

The provisions concerning retirement and employee benefits were the subject of a group agreement signed on June 1, 2017 in order to align, throughout France, the retirement and employee benefits provisions, thereby facilitating individual staff mobility between group entities.

A new diversity agreement dealing with the employment of people with disabilities and professional equality between women and men was concluded in January 2018.

The professional equality index, mandatory since March 2019, is 88/100 for the group, which places Naval Group among the best French companies in terms of professional equality policy.

Solidarity leave

Naval Group and the Central Works Council renewed the "solidarity leave" offer in 2018.

The idea is to offer staff the opportunity to dedicate some of their leave to missions concerning:

- improving adults' skills;
- socio-educational support and assistance for children and teenagers;
- environmental protection and use.

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 this types of initiative. It manages more than 350 projects and has already sent more than 6,500 members of company staff on missions.

Ten missions were on offer in 2018. The social committee of the Central Works Council and the company's Management selected the 10 candidates from 21 applications submitted by Naval Group staff

This initiative was a success, with everyone involved enthusiastically commenting on how rewarding the experience was.

c. Other Health and Safety at work information

This participation by all staff is a key program and is integrated into the improvement plans undertaken by Naval Group, notably via the repositories of the Naval Group industrial production system (SPIID) rolled out in 2016. The industrial performance system initiative is integrated into the Naval Group Progress Plan and aims to strengthen the fundamentals of industrial management. Drawing on business line repositories for each of the six areas – design, industrialisation, supply chain, production, quality and management –, regular assessments based on factual criteria are used to measure the teams' level of maturity. Since H&SW is a key element of teams' performance, the safety aspect is included in each of the repositories. Safety culture analysis actions were launched by site directors to strengthen our efforts in connection with the behavioural approach to work.

Accidents occurring during travel with and without lost time have been specifically analysed over the last four years, because they account for over a quarter of accidents and display a high severity. All of these actions help to strengthen the approach taken by the company travel plans, in which all of the sites are involved together with local partners.

A collaborative approach to improvement with outsourcing

Naval Group conducts a policy to improve the SH&W results of its suppliers and subcontractors: the "no two-speed SH&W" slogan is reiterated every year. Contract requirements on accident reporting, the ways in which data gathered are used and an introduction of SH&W performance improvement action plans are used to assess suppliers present on group sites and in training to encourage greater consideration of risks.

Work in liaison with staff representatives (national CHSCT)

The national CHSCT met four times in 2018 and a new working group on addiction prevention was set up. During its meetings the National CSHSCT was consulted on several reorganisation projects. On this occasion, a method for analysing human impacts of the change and developing associated prevention plans, as well as a standard presentation of the file, was developed and deployed.

The end of 2018 was marked by the establishment of new bodies resulting from the 2017 orders and consequently by the disappearance of the CHSCT, the duties of which were transferred to the new social and economic committees (CSE). The first meetings of the Health, Safety and Working Conditions Committees (CSSCT) were devoted to the implementation of new operating rules and procedures for implementing the provisions of the amendment to the company agreement on this subject.

Quality of life (QVT) and hardship at work

Deployment of the QVT agreement continued in 2018. The functioning and development of expression groups and experiments were integrated into the profit-sharing agreement as an additional criterion. The objectives of the profit-sharing agreement were largely exceeded with 84 expression groups deployed and 45 action plans and experiments implemented.

Implementation of the QVT agreement has also resulted in the establishment of two working groups.

A working group on ergonomics has made it possible to mobilise the company's stakeholders on this subject. Experimentation with new systems took place (exoskeletons, work support systems, ergonomic analysis and evaluation tools). Ergonomists have been recruited on industrial sites and a professional network is being set up.

A working group on company travel plans has been formed to bring together those involved in this topic on the sites and take stock of actions deployed locally. National-scale actions have also been identified and are being deployed. The issues focused on the use of alternative modes of travel other than the use of motorised land vehicles, particularly using bicycles.

In accordance with the expectations of the QVT agreement, a management charter has been drawn up and validated by General Management. Focused on benevolent management, it is now the managerial model for the company and actions have been implemented so that the managers can appropriate it.

A document for project initiators has been drawn up and presented to the National QVT Committee to enable the assessment and analysis of human impacts of the change and thus better support it. It will be rolled out in 2019.

The launch of a commitment approach concerning all the company's teams and employees reflects the desire to implement more participative management as provided for in the QVT agreement. This approach will be deployed in 2019 for a period of three years.

Company catering and actions to combat food waste (act of February 11,

2016 concerning the fight against food waste)

In liaison with establishment committees, Naval Group's sites provide staff with a company restaurant managed by a specialised service provider or by Naval Group staff. Special attention is paid to combating food waste. The Purchasing Department establishes contracts with service providers including this obligation in the specifications. Each restaurant puts in place actions to:

- communicate with and inform diners;
- manage stocks and adjust the choice of dishes and dish weights in accordance with consumer profiles;
- sort waste.

Some restaurants have also formed ties with associations for the collection and donation of unsold products.

d. Training and education

As part of the strategic jobs and skills management agreement signed in April 2017, Naval Group integrated a training and knowledge transfer component.

The new training schemes, such as on-the-job training or the integration of new arrivals through "live my life" as well as the creation of video capsules (tutorials) intended to film technical actions to create a digital knowledge library were successfully continued in 2018.

In addition, the creation of school projects has developed. In a context that simulates the work environment, training deals with technical skills and the work is carried out under the supervision of an experienced third party. These training courses apply knowledge, know-how and soft skills, particularly in the case of critical skills.

The co-investment and investment matching scheme remains in force for training eligible for the Personal Training Account (CPF) and this scheme was opened to seconded employees in June 2018.

Starting from 2017, the training guidelines and associated themes are defined for a 3-year period; every year, clarifications are made to take the company's context into account.

These guidelines are structured around the following points:

- the group's strategic orientations;
- anticipated developments in professional skills and their development, stemming notably from the work of group speciality managers;
- anticipated developments in company policies: introduction of new technologies, tools, digitisation, software, management.

In 2018, the main training orientations were built around 4 of the group's challenges:

- Improve the company's business performance;

- Gain proficiency in sovereign skills;
- Expand internationally;
- Manage our diversification.

The training plan forms part of these guidelines, at over 50% for core business training and around 10% for staff accreditation training.

HR training and Naval Group University teams are continuing to focus their efforts on optimising the effectiveness of the training provided while at the same time reducing the cost.

This dual objective was achieved by developing e-learning, tutorials, serious games, targeting actions at the company's core business, re-internalising training specific to our business lines.

A training pathway (managerial passport) for managers is structured around the 7 managerial pillars derived from the managerial charter drawn up in 2017. Its goal is to enhance managerial skills and create a sense of community between all Naval Group managers. The passport will use different teaching methods: face-to-face, e-learning, co-development, get-together.

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 a path towards recognition through experience. More than 50 people were promoted through one of these paths in 2018.

Combined study-and-work apprenticeships are a way of maintaining the company's key skills by training up young people who will then join the company on a permanent contract. It is also an act of social responsibility that the company has laid down in its strategic jobs and skills management agreement. The company's needs are defined on an annual basis. The alternation policy remains very dynamic. Thus 350 individuals were recruited on new study-and-work contracts, all specialities combined, during 2018.

Relations with schools

2017 enabled Naval Group to consolidate its presence and visibility in schools. A total of more than 130 initiatives were held in 2018 (forums, conferences, visits to Naval Group sites, etc.), a significant proportion of which took place in target and partner schools, for the benefit of all sites.

Meanwhile, in response to significant recruitment requirements, Naval Group stepped up its presence on forums and held numerous initiatives in the field of cybersecurity.

In total, nearly 70 HR and operational employees were invited to participate in these attractiveness actions with young audiences.

Lastly, 2018 saw our school relations gain a firmer footing internationally. Following the signing in 2017 of a Memorandum of Understanding (MoU) between four French engineering schools grouped together in a consortium, and the University of

Flinders in Australia, Franco-Australian exchanges between academic and university structures have started, including particularly student exchanges and research. Other exchanges and cooperation actions between Australian and French establishments were established in 2018 and 2019.

The Naval Campus

In 2017, the Regional Council of Brittany and Naval Group decided to undertake an ambitious initiative aimed at strengthening our training structures, at an inter-regional and, in the future, national scale, bringing together coastal regions and businesses interested in this preservation and in the enhancement of these skills. Called "Naval Campus", the project aims to unite regions, industry participants and training participants to more effectively respond to the needs of the naval sector in the broad sense. The regions of Normandy, Nouvelle-Aquitaine and Pays de la Loire, major industrial groups (STX, Piriou, CMN), the GICAN and regional businesses are being called on to join this initiative. The support of the Union of Metallurgy Industries and Professions (UIMM) and the French Ministries of National Education and Higher Education, Research and Innovation is also requested. The goal is to make the initiative public by the end of the current year.

The initiative's main objectives are as follows:

- strengthen the identity and attractiveness of the naval sector: make the training courses clear in terms of versatility and social promotion;
- unite and govern a training offering suited to the needs of industry participants, the core aim being to adapt to the specific characteristics of the naval sector;
- pool engineering and training courses specific to the industry that can be rolled out in the various employment catchment areas concerned and highlighting the "navalisation" of traditional industrial training, as part of a training rationale spanning vocational diplomas to engineering qualifications.

The initiatives undertaken through the Skills workshop together with the Ministry for National Education, the GICAN and Naval Group continued, including the naval mechatronics vocational diploma, the navalisation vocational baccalaureate for industrial metal fabrication technicians and the Naval and Maritime Industry Professions (MINM) naval professional licence. These will be integrated into the Naval Campus initiative.

Naval Group's involvement in the company schools network is continuing. The latest meeting was held in Poissy on March 27.

e. Diversity and equal opportunities

An agreement on diversity, occupational equality between men and women and the employment of people with a disability was signed on January 25, 2018.

As part of this agreement, Naval Group undertook to carry out a diagnosis on gender equality in the company.

The results show that remuneration between men and women is balanced, but that there is still room for improvement in the promotion of women within the group.

Naval Group proposes the implementation of a more proactive policy for the recruitment

and promotion of women aimed at:

- increase the ratios of female employees among manual and non-manual staff/technicians and supervisors and in management
- raise awareness among players about stereotypes, support female talent, incorporate professional equality indicators into objectives, etc.
- set three-year targets for hiring women
- propose at least one woman among the candidates for professional development.

Production specialties as defined by National Education	Ratio of women after training by level (source National Education)	Target ratio of women in recruitment			
		2018 target	2019 target	2021 target	2025 target
Executive (school leaving certificate (SLC) + 5 years)	28% (Engineering school)	25%	28%	35%	35%
Technicians Foremen (SLC + 2 to SLC + 3 years)	22% (Production Technical certificate)	18%	22%	25%	35%
WORKMEN (vocational school leaving certificate)	11.5% (vocational school leaving certificate)	9%	12%	15%	

The generation contract

2017 saw the signature of a new generation contract integrated into the strategic jobs and skills management agreement. It incorporates elements of the previous agreement by adopting a proactive policy regarding the recruitment of young people under the age of 30 and older people over the age of 50, as well as a job-stability component.

The results for the financial year ended on a positive note, with a permanent contract recruitment rate among the under-30s of 40% and 7% among the over-50s.

Meanwhile, the job stability rate stood at 29.4%.

Commitments to young people

Naval Group implemented its policy to foster the employment of youth, with 120 young people recruited on permanent contracts after their study-and-work apprenticeship contract and the provision of support for more than 50 young people experiencing difficulties with occupational integration. Naval Group's promotion policy aimed at schools and universities resulted in over 100 initiatives being conducted. The implementation of initiatives for the induction and integration of new recruits and to instil intergenerational cooperation was renewed as part of the new strategic jobs and skills management agreement.

Among other factors, this agreement indicated Naval Group's commitment to the integration of young people through the introduction of "live my life" for certain specialties and the implementation of seamanship for professions that involve a long apprenticeship period in a working situation.

Commitments to older people

Older employees are in high demand to pass on knowledge as tutors and internal trainers or via advisory tasks. In addition, the new strategic jobs and skills management agreement included a new mechanism to improve retirement gratuities, enabling declarations, forward-planning for retirements and advance management of skills maintenance.

Preparations for retirement include the ability to reduce working time to 80% or 50% in the final months leading up to retirement and an interview conducted at least 1 year before the planned retirement date. A gradual retirement scheme for manual and non-manual staff/technicians and supervisors was also put in place.

Commitments to everyone

Every member of staff is eligible for a career guidance assessment with their manager, providing an opportunity to discuss career development opportunities. Each member of staff can also receive in-house or external advice in order to more effectively identify his or her professional abilities or skills and to be given help with career guidance by gaining knowledge of structures at their disposal in order to achieve their plans.

For staff members who are retraining, support through training can also be provided as required. The local strategic jobs and skills management conferences held each year define foreseeable developments in job trends. This dialogue provides input for the map construction work.

Talent management

This program, developed since 2012, aims to meet the company's need to identify high-potential individuals and set them on ambitious career paths commensurate with their aspirations.

These actions to prepare for the future involve around thirty people per year. Support is structured around a development programme based on simulation exercises, an individualised development plan, mentoring: the end-goal is to support these high potentials throughout their career towards new responsibilities within the company. In 2018, two programmes were put in place, one of which was completely readapted to better meet participants' development objectives.

Talent management also applies to experienced staff with recognised potential. These staff receive specific training support.

For managers, training support is structured around a specific program for team managers and a managerial offering revised to ensure consistency with the seven themes of managerial behaviour defined within Naval Group. For all employees, the career development system, updated following signature of the company agreement of 11 April 2017, allows career paths based on each employee's skills and aspirations.

Gender equality in the workplace

As an extension to the previous agreement, an agreement on diversity and professional equality was signed in early 2018. A diagnosis of the perception of staff concerning professional equality and diversity was carried out in spring 2018. A first draft action plan has been prepared as a result.

As of 2019, legislation requires that we measure a level of results with regard to indicators relating to differences in pay between women and men, and publish it annually. It requires adequate and relevant corrective measures to be taken when the result level is less than 75 points out of 100. The sum of the results obtained by Naval Group for each of the indicators gave an overall score of 88 points out of 100.

Disabilities

An agreement on diversity was negotiated and signed with the trade unions in 2018. This agreement contains a chapter on the employment of people with disabilities, which was approved by DIRECCTE in May 2018.

Preparation of this agreement firstly provided an opportunity to assess both the quantity and quality of the previous agreement on disability, covering the 2014-2017 period.

With regard to the quantitative assessment, it should be emphasised that deployment of the agreement has made possible:

- 160 recruitments of people with disabilities
- 265 new recognitions of the quality of disabled workers
- €2.8 million in purchases in the protected sector

In terms of quality, the observation made highlights an excessive concentration of activities related to disability in the company within the Disability Mission and insufficient consideration of the subject by all of the company's stakeholders.

The agreement on diversity, in its section devoted to the employment of people with disabilities, included most of the measures in favour of integration (CESU, technical and human assistance) while maintaining a significant budget devoted to these measures. The recruitment plan has provided objectives now expressed as a percentage of the different types of recruitment made.

The organisation and missions of the Disability Mission have been profoundly transformed to enable a better understanding of the subject of disability in the company, . Disability mission leaders, formerly fully dedicated to all aspects of the agreement at one or more sites, are now in charge of national control of the various aspects of the agreement (recruitment, retention in employment, purchases from the protected sector, specific administrative management, budget, monitoring of indicators, site management).

The Disabilities Mission ensures that all aspects relating to the employment of disabled persons are taken into account by operational players on sites (managers, HR managers, buyers, recruiters, etc.). It provides its expertise to everyone and monitors communication on disability as well as investment in innovative projects. It is also responsible for raising awareness among company stakeholders about the employment of people with disabilities.

On sites, job maintenance advisers have been put in place to take into account actions to be carried out regarding adjustments to jobs. Local disability managers link up with the

disability mission to monitor actions carried out on sites and the level of awareness of players. They are involved in local actions of the Disabilities Mission.

2018 was devoted mainly to implementing this new organisation. The employment rate remained above 6% (6.01%), with a slight decrease of 0.27% compared to 2017 due to the necessary adjustments required to ensure that each employee understands the new roles, strong growth in global recruitment with difficulty in finding high-skill profiles among people with disabilities and a significant number of departures of employees with an RQTH.

f. Human rights

The human rights charter completes and clarifies the group's commitment to the Global Pact, particularly to provide support on this subject for its international development. It complies with the principles and rules defined by the main international texts, the Global Pact, the 2011 John Ruggie report, the OECD's guiding principles for multinationals (2011), the OIT declaration about principles and human rights at work (1998), the declaration of tripartite principles for multinationals and the social policy (OIT 2006), the Grenelle 2 Act (Art. 225) and its 2012 decree. It also satisfies ISO 26000 criteria and Vigeo repositories for corporate social responsibility.

It states and clarifies commitments in the fields of human rights and international labour standards, clarifying their application for each stakeholder.

This charter thus helps to support the group's ambitions in social and societal responsibility at the very highest level.

III. Global Reporting Initiative (GRI) Table

Audited indicator	In relation to Standard GRI indicators	2016 UES Naval Group (Naval Group SA and Sirehna)	2016 GROUP (UES Naval Group + subsidiaries ≥50%)	2017 UES Naval Group (Naval Group SA and Sirehna)	2017 GROUP (UES Naval Group + subsidiaries ≥50%)	2018 UES Naval Group (Naval Group SA and Sirehna)	2018 GROUP (UES Naval Group + subsidiaries ≥50%)	Standard GRI reference	ISO 26000	SDO ³
	Social data									
X	Total number of registered staff	13,431	13,870	13,943	14,515	14,670	15,163	102-7		9
	by socio-professional category:									
X	OE	3,454	3,624	3,398	3,615	3,271	3,409	102-8		9
X	Technicians, supervisors	4,321	4,396	4,452	4,454	4,755	4,869	102-8		9
X	Engineers and executives	5,656	5,850	6,093	6,346	6,644	6,885	102-8		9
X	Male employees	10,795	11,119	11,207	11,615	11,762	12,114	102-8		
X	Number of women	2,636	2,751	2,736	2,900	2,908	3,049	102-8		
	By age group									
X	- 25 years	718	744	814	839	897	905	102-8		9
X	25 - 29 years	1,003	1,077	1,151	1,239	1,271	1,346	102-8		9
X	30 - 34 years	1,417	1,512	1,539	1,683	1,763	1,885	102-8		9
X	35 - 39 years	2,048	2,126	2,118	2,207	2,201	2,295	102-8		9
X	40 - 44 years	1,895	1,955	1,905	1,990	2,059	2,125	102-8		9
X	45 - 49 years	2,349	2,384	2,323	2,364	2,318	2,355	102-8		9
X	50 - 54 years	2,211	2,240	2,292	2,338	2,289	2,329	102-8		9
X	55 - 59 years	1,393	1,416	1,384	1,413	1,466	1,495	102-8		9
X	60 years or more	397	416	417	442	406	428	102-8		9
X	Percentage of women in total workforce	19.63	19.83	19.62	19.98	19.82	20.11	102-8	6.3.7	5
	Number of expatriates	190	190	181	181	172	172	102-8		
	Number of employees with non-French nationality	6	267	20	385	27	341	102-8	6.4.3	9
	Percentage of women in executive management	10.76	10.55	11.70	12.00	11.33	11.11	102-8	6.3.7	5
	Average age	43.08	42.94	42.27	42.12	41.89	41.85	102-8		5

³ (Sustainable Development Objective)

Audited indicator	In relation to Standard GRI indicators	2016 UES Naval Group (Naval Group SA and Sirehna)	2016 GROUP (UES Naval Group + subsidiaries ≥50%)	2017 UES Naval Group (Naval Group SA and Sirehna)	2017 GROUP Naval Group (UES Naval Group + subsidiaries ≥50%)	2018 UES Naval Group (Naval Group SA and Sirehna)	2018 GROUP Naval Group (UES Naval Group + subsidiaries ≥50%)	Standard GRI reference	ISO 26000	SDO ³
	Number of disabled workers (TH)	679	679	715	715	694 (Naval Group SA)	694	405-1	6.3.7	
	Employment rate (%)	6.27		6.28		6.02 (Naval Group SA)	6.02	405-1	6.3.7	9
	Recruitment of TH with permanent contract	10	10	19	19	20	20	405-1	6.3.7	
	Absenteeism rate (%)	5% Naval Group SA		4.76% Naval Group SA		4.32% Naval Group SA		403-2		
X	Number of training hours	estimate 301958 on 31/01/2017		322,984		346,269		404-1	6.4.7	9
X	Average number of training hours per person	estimate 22.5 on 31/01/2017		23.16		23.6		404-1	6.4.7	9
	Percentage of payroll in relation to continuous professional training	estimate 3.85 on 31/01/2017		4.03		4.1		404-1	6.4.7	9
	Total recruitments over the year									
X	Men	737	905	1,241	1,413	1,480	1,604	401-1		
X	Women	204	261	323	404	431	473	401-1		
X	Assembly	941	1166	1,564	1,817	1,911	2,066	401-1		9
X	Number of permanent contract hires	524	706	1,117	1,292	1,407	1,544	401-1		9
X	Number of fixed-term contracts that received a permanent contract	12	12	23	25	57	59	401-1	6.4.4	9
X	Number of fixed-term contract hires (including direct transfer	107	140	127	150	136	160	401-1	6.4.4	9

Audited indicator	In relation to Standard GRI indicators	2016 UES Naval Group (Naval Group SA and Sirehna)	2016 GROUP (UES Naval Group + subsidiaries ≥50%)	2017 UES Naval Group (Naval Group SA and Sirehna)	2017 GROUP Naval Group (UES Naval Group + subsidiaries ≥50%)	2018 UES Naval Group (Naval Group SA and Sirehna)	2018 GROUP Naval Group (UES Naval Group + subsidiaries ≥50%)	Standard GRI reference	ISO 26000	SDO ³
	from work-study or trainee ==> fixed-term contract)									
X	Number of fixed-term and work-study hires, CIFRE (Convention Industrielle de Formation pour la Recherche - Industrial Research Training Agreement)	313	323	325	327	367	368	401-1		9
X	Number of hires under fixed-term contracts (including work-study contracts and CIFRE contracts)	420	463	452	477	503	528	401-1		9
	including % fixed-term contracts (including work-study contracts)	44.6%	39.7%	28.9%	26.7%	26.3%	25.6%	401-1		9
	including % fixed-term contracts (excluding work-study contracts)	11.4%	12.0%	8.1%	8.6%	7.1%	7.7%	401-1		9
	including % women under fixed-term and permanent contracts	20.4%	20.4%	20.2%	22.1%	22.0%	22.4%	401-1	6.3.7	9
	including % disabled persons (permanent contract + fixed-term contract)	0.9%	1.1%	1.7%	1.4%	0.4%	0.4%	401-1	6.3.7	9
	including %	5.7%	9.1%	7.8%	9.2%	6.1%	6.7%	401-1	6.3.7	9

Audited indicator	In relation to Standard GRI indicators	2016 UES Naval Group (Naval Group SA and Sirehna)	2016 GROUP (UES Naval Group + subsidiaries ≥50%)	2017 UES Naval Group (Naval Group SA and Sirehna)	2017 GROUP Naval Group (UES Naval Group + subsidiaries ≥50%)	2018 UES Naval Group (Naval Group SA and Sirehna)	2018 GROUP Naval Group (UES Naval Group + subsidiaries ≥50%)	Standard GRI reference	ISO 26000	SDO ³
	seniors (aged 50 and over) on permanent contracts									
	including % employees under 25 (including work-study contracts)	46.2%	39.0%	31.5%	28.3%	29.8%	27.8%	401-1		9
	including % employees under 25 (excluding work-study contracts)	26.0%	20.9%	17.6%	16.0%	16.3%	15.1%	401-1		9
	No. of work-study contracts, end of period	520	529	558	562	589	590	401-1		9
	Departures									
X	Total number of departures	1,117	1,174	1,052	1,172	1,186	1,417	401-1		9
X	including layoffs (interrupted test period or physical inaptitude or for personal reasons)	28	28	30	33	48	48	401-1		
X	Turnover	8.3%	8.5%	7.5%	8.1%	8.1%	9.3%	401-1		9
	Health, safety and working conditions									
X	Frequency rate of workplace accidents TF = Number of workplace accidents with absence x 1,000,000 / Number of hours worked	7.1 on 08/01/2016 subject to 11 current reservations		6.4		5.4		403-2	6.4.6	
X	Severity rate of workplace accidents TG = Number of days lost due to accidents in	0.183		0.149		0.168		403-2	6.4.6	

Audited indicator	In relation to Standard GRI indicators	2016 UES Naval Group	2016 GROUP	2017 UES Naval Group	2017 GROUP	2018 UES Naval Group	2018 GROUP	Standard GRI reference	ISO 26000	SDO ³
		(Naval Group SA and Sirehna)	(UES Naval Group + subsidiaries ≥50%)	(Naval Group SA and Sirehna)	(UES Naval Group + subsidiaries ≥50%)	(Naval Group SA and Sirehna)	(UES Naval Group + subsidiaries ≥50%)			
	the year x 1,000 / number of hours worked									
X	Number of cases of occupational illnesses	45		37		39		403-2	6.4.6	

Audited indicator	In relation to Standard GRI indicators	2016 UES Naval Group (Naval Group SA and Sirehna)	2017 UES Naval Group (Naval Group SA and Sirehna)	2018 UES Naval Group (Naval Group SA and Sirehna)	Standard GRI reference	ISO26000	SDGs supported by Naval Group
	Environmental data (excluding Sirehna)						
	Energy consumption						
	Electricity consumption (MWh)	119,812	107,730	124,468	302-1	6.5.4	13
	Consumption of fossil energy (nat. gas, light fuel oil) (MWh)	92,465	104,075	95,867	302-1	6.5.4	14
	Water consumption						
	Water consumption (industrial, drinking water, etc.) (m3)	950,058	1,988,694	1,988,694	303-1	6.5.4	13
	Waste						
	Production of Non-Hazardous Waste (t)	3,405	3,709	3,657	306-2	6.5.3	
	Production of Hazardous Waste (t)	1,814	1,875	1,800	306-2	6.5.3	
	Ferrous metals	3,847	3,299	3,200			
	Air emissions						
	Direct releases of CO ₂ (t)	17,574	17,832	Under consolidation	305-1	6.5.3	13

IV. Methodology note for the reporting of environmental, social and governance indicators at Naval Group

In accordance with the Grenelle 2 Act, Naval Group communicates information on how the company takes into account the environmental, social and governance consequences of its activities, as well as its societal commitments.

Following its application in 2014, Naval Group was recognised as a member of the UN Global Compact and takes care to draw on best practices generally accepted in its sectors of activity.

The concept of corporate social responsibility (CSR) is spread throughout the group, but also before and after its own contributions, towards its clients, suppliers and direct stakeholders.

Naval Group's CSR draws on seven of the main fields of standard ISO 26000, recognised by the non-financial rating agency Vigeo.

Actions conducted under the CSR policy are regularly presented to various independent external auditors and in the annual reports, which present CSR indicators in connection with the international indicators of the GRI (Global Reporting Initiative).

The non-financial performance statement (DPEF), in the financial report and the RSE report of the Naval Group, can be viewed on the Naval Group website and is available on the website of the UN Global Pact.

1. Reporting protocol

The 2018 reporting protocol is an internal document.

As such, it serves as a guide for internal reporting and as a repository for external verification in 2018 of the various CSR indicators arising from Article 225 of the Grenelle environmental round table.

The reporting protocol is established by the Legal, HR, H&SW and Environment departments and consolidated with Naval Group CSR.

The reporting protocol is updated regularly to take account of changes to reporting and CSR indicators.

2. Scope

a. Scope of Governance

The reporting scope concerning the governance of subsidiaries and joint ventures, addressed in point II.1.3 of the CSR report, is in large part composed of companies consolidated by Naval Group.

Consolidated companies that are dormant or that only serve to hold shares (Armaris Quater, Naval Group Actionnariat, Naval Group Participations and MOPA 2) are not included in this CSR reporting scope.

The companies Naval Group Arabia and Naval Group Technologies Canada, the financial statements of which are not consolidated at the Naval Group level, are part of the CSR reporting scope defined above.

b. Environmental scope

The environmental information covers all French sites, namely Cherbourg, Brest, Lorient, Nantes-Indret, Angoulême-Ruelle, Saint Tropez, Toulon, Ollioules, Paris and Bagneux.

c. Social scope

The scope of social reporting makes a distinction between the Naval Group UES (Economic and Social Unit) composed of French sites and the French subsidiary Sirehna, and the group, that corresponds to the UES unit + French and foreign subsidiaries in which Naval Group has a majority stake.

Social indicators are defined in the operating document "Social indicators for CSR" of the Business Management System.

Headcounts are presented for the UES and for the group based on registered headcounts.

Recruitments and departures are presented for the UES and for the group.

Training, disability, remuneration, absenteeism, hygiene, safety and working conditions data are presented at a UES level.

3. Indicators

a. Environmental indicators

The following indicators concern all French sites.

Power	<ul style="list-style-type: none">• Electricity consumption• Fossil energy consumption: gas, light fuel oil, heavy fuel oil, RNG
Water	<ul style="list-style-type: none">• Consumption of drinking water and river water
Waste	<ul style="list-style-type: none">• Production of non-hazardous waste (NHW)• Production of metal waste (ferrous and non-ferrous metals)• Production of hazardous waste (HW)• Air Emissions• Direct CO2 emissions linked to fossil energy consumption


b. Social indicators

STAFF	
✓	Total number of registered staff
✓	Total registered workforce by socio-professional category
✓	Total registered employees by age bracket
✓	Percentage of women in the total workforce
	Number of expatriates
	Number of employees with non-French nationality
	Percentage of women in executive management
	Average age
✓	Recruitments men, women, total
✓	Recruitments on permanent, fixed-term and work-study contracts
✓	Departures
ABSENTEEISM RATE (%) Naval Group UES	
DISABLED WORKERS	
	Number of disabled workers (TH) Naval Group economic and social unit (UES)
	Percentage of employees with disabilities (%) Naval Group economic and social unit (UES)
	Recruitment of disabled workers on permanent contracts with Naval Group economic and social unit (UES)
TRAINING	
✓	Number of Naval Group UES training hours
✓	Average number of training hours per person Naval Group UES
	Percentage of payroll related to continuous professional training Naval Group UES
	Average monthly remuneration (in Euros) Naval Group UES
HEALTH, SAFETY AND WORKING CONDITIONS	
✓	Frequency rate of workplace accidents
	FR = Number of lost time occupational accidents x 1,000,000 / Number of hours worked
✓	Occupational accident severity rate
	SR = Number of days lost due to accidents in the year x 1,000 / Number

	of hours worked
	Number of cases of occupational illnesses reported

c. Relevance of indicators

CSR indicators used by Naval Group translate actions carried out by Naval Group.

Actions and indicators included in the non-financial performance declaration included in the Naval Group management report, some of which are reproduced here, have been checked and are the subject of an opinion on sincerity issued by an independent third party. Indicators preceded by a  are part of the DPEF audited by this independent third party.