FINANCIAL REPORT

2019

NAVAL GROUP

This document is a translation into English of the original French document.
In the event of a conflict in interpretation, reference should be made to the French version, which is the authentic text.

2019 MANAGEMENT REPORT

Board of Directors of February 20, 2020
All amounts are in millions of euros unless otherwise stated.

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

1.1. PRESENTATION OF NAVAL GROUP

1.1.1. OWNERSHIP AND GOVERNANCE

Naval Group (the "company") is a *société anonyme* (public limited company) under French law. As at December 31, 2019, 62.25% of its capital was held by the French State, 35% by Thales, and 1.88% by current and former members of staff of the company and its subsidiaries through the Actions Naval Group employee mutual fund (2008 and 2019 Compartments of FCPE Actions Naval Group), the remaining 0.86% being made up of treasury shares held by Naval Group Actionnariat.

During 2019, Naval Group Actionnariat (a wholly-owned subsidiary of Naval Group) purchased 72,942 treasury shares in accordance with the share buyback guarantee granted to staff. Of these, 14,252 shares related to the 2008 Compartment of FCPE Actions Naval Group (the First Employee Share Offer), 57,232 shares related to the 2014 Compartment of FCPE Actions Naval Group (the Second Employee Share Offer), and 1,458 related to the 2019 Compartment of FCPE Actions Naval Group (2019 Collective Shareholding Plan).

At its meeting on February 20, 2019, the company's Board of Directors approved the establishment of a collective shareholding plan intended to include all employees (private-law employees and employees seconded by the State) in the company's long-term income and performance *via* the group Savings Plan.

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

As at December 31, 2019, Naval Group Actionnariat thus held 486,260 treasury shares acquired as part of the three aforementioned share offers (First Employee Share Offer, Second Employee Share Offer, and 2019 Collective Shareholding Plan).

The General Meeting of March 15, 2018 authorised the Board of Directors to grant a maximum of 112,098 existing shares of the company free of charge on one or more occasions to employees of the company and companies related to it under the conditions set forth in article L. 225-197-2 of the French Commercial Code.

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

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

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

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

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

Governance

Corporate governance means the system formed by the totality of rules, behaviours and institutions that determine the manner in which the company is managed, administered and controlled. The governance of Naval Group at December 31, 2019 is organised around an Executive Committee composed of eight members, including the Chairman and Chief Executive Officer. The other members are as follows: Senior Executive Vice President, Finance, Legal, Procurement and Real Estate; Senior Executive Vice President, Development; Executive Vice President, Services; Executive Vice President, Programs; General Secretary; Executive Vice President, Industry; Executive Vice President, Australian Future Submarine Program (AFS); Executive Vice President, Human Resources; and Executive Vice President, Strategy, Partnerships, and M&A.

The Executive Vice President, Human Resources, was appointed to be a member of the company's Executive Committee effective January 1, 2019. The Executive Vice President, Strategy, Partnerships, and M&A was appointed as a member of the company's Executive Committee with effect from October 23, 2019.

General Management

Pursuant to the decision taken by the Board of Directors of the company on June 2, 2003, the Chairman of the Board of Directors is responsible for the General Management of the company and thus holds the title of Chairman and Chief Executive Officer.

The Chairman and Chief Executive Officer chair an Executive Committee which meets on a weekly basis. The Executive Committee sets the group's objectives and rules on all matters that have a major impact on the group's strategy, its functioning, and its commercial and operational activities, and reviews the action plans in place to control the group's priority risks.

Composition and operation of the Board of Directors

The Board of Directors deliberates on all major issues concerning the strategic, economic, financial and technical orientation of the company's business. It upholds the interests of its principal stakeholders, that is, its shareholders, employees and customers.

Its 18 members were reappointed on December 19, 2014.

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

The provisions of article 7 of the Order state that employee representatives must make up one third of the Board of Directors. There are thus six such directors. In accordance with article 8 of the Order, they are elected by the workforce under the terms laid down in title II, chapter II of the Democratisation Act.

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

The French State was represented as a director by:

- Mr Vincent Le Biez, who was appointed as State representative on the company's Board of Directors on December 12, 2019 by decree of the Ministry of the Economy and Finance, replacing Mr Pierre Jeannin, who had been appointed in that capacity by order of the Ministry of the Economy and Finance on June 21, 2019.

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

- Mr Hervé Guillou;
- Ms Sophie Mantel, appointed on the recommendation of the French State;
- Ms Sandra Lagumina, appointed on the recommendation of the French State;
- Mr Jacques Hardelay, appointed on the recommendation of the French State;
- Ms Éveline Spina, co-opted by the Board on July 16, 2019 on the recommendation of the French State, replacing Ms Caroline Laurent. In accordance with article L. 225-24 of the French Commercial Code, the ratification of this co-optation will be submitted for the approval of the General Meeting called to approve the financial statements for the year ended December 31, 2019;
- Mr Bernard Rétat, appointed on the recommendation of the French State;
- Mr Patrice Caine, appointed on the recommendation of Thales;
- Ms Nathalie Ravilly, appointed on the recommendation of Thales;
- Mr Pascal Bouchiat, appointed on the recommendation of Thales;
- Ms Gabrielle Gauthey;
- Mr Luc Rémont.

Until December 18, 2019, the six directors elected as employee representatives were:

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

As the terms of office of the directors representing the company's employees had come into effect on December 19, 2014 for five (5) years, pursuant to the company's articles of association, they expired on December 18, 2019.

Pursuant to the resolution approved by the Board at its meeting of July 16, 2019, on the basis of article 18 of Law 83-675 of July 26, 1983 on the democratisation of the public sector, the election of employee representatives to the Board of Directors was held on November 28, 2019. The directors elected at these elections, whose terms of office came into effect on December 19, 2019, are the following:

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

Secretarial duties for the Board of Directors are performed by Ms Corinne Suné.

1.1.2. ACTIVITIES

Naval Group is the European leader in naval defence.

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

The group's activities

Naval Group is a world-leading industrial company whose staff design, build, maintain and upgrade submarines and surface vessels as well as the associated systems and infrastructure. It also uses its extensive skills and know-how to provide services to its customers' naval bases and shipyards. Naval Group thus develops high-technology solutions to preserve the long-term safety of the oceans against threats of all kinds.

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

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

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

Lastly, the group offers a broad range of renewable marine energy solutions through its subsidiary Naval Energies.

The group's know-how

The group can call on exceptional know-how in five major areas:

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

High-tech products

One of Naval Group's major strengths is its ability to bring to market some of the world's most complex innovative products, such as the *Le Terrible*-class of ballistic nuclear submarines. Studies carried out on this topic all show that an industrial product of this kind is one of the most complex in the world, there being no other product that requires both the mastery of so many technological fields and the management of some 3,550 partners and subcontractors.

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

- 1624: creation of the *Flotte du Levant* and the *Flotte du Ponant* – the French Navy's Mediterranean and Atlantic fleets;
- 1858: launch of *La Gloire*, the world's first ironclad steam frigate;
- 1899: launch of the *Narval*, the ancestor of the modern submarine;
- 1967: launch of Le *Redoutable*, the first ballistic nuclear submarine;
- 1980: design of the stealth frigate *La Fayette*, whose innovative design went on to influence navies worldwide;
- 2000: entry into service of the aircraft carrier *Charles de Gaulle*;
- 2006: delivery of the first Mistral-class projection and command vessel, a new warship design capable of performing a wide range of civil, military and humanitarian missions;
- 2007: cutting of the steel for the frigate *Aquitaine*;
- 2008: launch of the ballistic nuclear submarine *Le Terrible*, equipped with M51 nuclear missiles;
- 2011: the ocean patrol vessel *L'Adroit*, designed for maritime protection missions, is supplied to the French Navy;
- 2012: delivery of the projection and command vessel *Dixmude* to the French Navy;
- 2013: the FREMM multi-mission frigate *Aquitaine* fires its first Aster missile;
- 2014: delivery of the FREMM *Mohammed VI* to the Royal Moroccan Navy;
- 2015: delivery of the FREMM *Tahya Misr* to the Egyptian Navy; the FREMM *Aquitaine* successfully fires its first naval cruise missile;
- 2016: Naval Group is selected by the Australian government for the replacement of its submarine fleet;
- 2018: Naval Group completes the mid-life refit of the aircraft carrier *Charles de Gaulle*;
- 2019: Naval Group and Fincantieri sign the joint-venture agreement that in January 2020 will result in the creation of Naviris, a joint venture company equally owned by both groups, which will lead bi-national projects and export projects.

Specific products

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

- ballistic nuclear submarines, which have assured a permanent, uninterrupted French presence on the oceans for 50 years;
- Barracuda nuclear attack submarines, designed to provide the French Navy with defence equipment at the apex of technology;

- Scorpène®-class conventional submarines, 14 of which have already been sold around the world (to Chile, Malaysia, India and Brazil);
- naval surface vessel systems such as the aircraft carrier *Charles de Gaulle*, FREMM multi-mission frigates, amphibious helicopter-carrying vessels in the Mistral class, the Gowind® range, mine warfare systems and drones;
- services including the construction of shipbuilding and maintenance infrastructure, maintenance with guaranteed availability and warship upgrading and support;
- submarine armaments such as MU90 light torpedoes, F21 heavy torpedoes and Contralto® anti-torpedo protection systems;
- crew training simulators;
- turnkey power stations using marine renewable energy for the French and international markets.

1.1.3. ORGANISATION

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

- successfully complete the group's international expansion and expand the group's order book outside France;
- make a budgeting and finance culture central to the group's operations;
- ensure that design offices, production teams and the supply chain work cohesively and effectively;
- ensure that schedules, budgets and technical requirements are met and fulfil commitments with respect to surface vessel and submarine construction;
- develop the in-service support business for French Navy vessels and strengthen our partnerships with over 50 navies around the globe;
- maintain and focus on the development of marine energy;
- actively lead improvements in performance and efficiency;
- lay the ground for the group's future by actively focusing strategy and pursuing partnerships and innovation.

1.2. POSITION OF THE GROUP DURING THE 2019 FINANCIAL YEAR

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

The consolidated financial statements for Naval Group presented here for the year ended December 31, 2019 were adopted by the Board of Directors on February 20, 2020 and will be submitted for approval to the General Meeting of Shareholders to be held in March 2020.

The financial year 2019 was chiefly marked by the following major events:

- more than five billions in order intake, a large portion of which was outside France, with the confirmation of a sixth Barracuda-class submarine, twelve minesweepers for Belgium and the Netherlands, two Gowind® corvettes for export, and the order for routine maintenance of the ballistic nuclear submarines from 2020 to 2025;
- the partnership agreements between Naval Group and Fincantieri were materialised by the official launch of Naviris on October 30, 2019;
- numerous operational successes, notably including the transfer of the *Suffren* submarine (Barracuda Program) to the launching device, with the French President in attendance.

1.2.2. NAVAL GROUP RESULTS AND FINANCIAL POSITION

Revenue

The group's revenue for 2019 was €3,7 billion, a rise of 2.9% compared with 2018.

International revenue made up 29.3% of the total.

Backlog

Orders with a value of €5.3 billion were received during the course of the year. The book-to-bill ratio was 1.43.

As at December 31, 2019, the group's order book stood at €15.1 billion. Its provisional execution schedule is as follows: 24% in 2020, 21% in 2021, 18% in 2022, 14% in 2023 and 23% thereafter.

Income

An operating profit of €268.3 million (7,2% of revenue) before amortisation of intangible assets acquired in business combinations was recorded for the year, as compared with €291.0 million (8.1% of revenue) in 2018. Operating profit after net income from equity affiliates was €274.2 million, as compared with €254.0 million in 2018.

Net financial income showed a loss of €3.3 million, compared with a profit of €0.4 million in 2018.

The consolidated tax charge was €88.1 million.

The current tax is €102.9 million.

The variation in the deferred tax charge (income) of €14.8 million includes a €2.2 million charge corresponding to anticipated lowering of the current tax rate on the group's entire deferred tax inventory (at December 31, 2018, the variation in deferred tax included a charge of €16.2 million, corresponding to the anticipated the lowering of the current tax rate on the group's entire deferred tax inventory).

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

The net profit for the period was consequently €182.8 million.

Financial position and changes in net cash

	12/31/2019	12/31/2018
Non-current investment securities	275.2	251.9
Current investment securities	235.0	144.2
Net cash	1,683.5	1,976.4
TOTAL	**2,193.7**	**2,372.5**

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

1.2.3. NAVAL GROUP ACTIVITIES

Industrial and commercial activity

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

Industrial business

The year 2019 was marked by strong growth in activity (+10% vs. 2018), improved control of industrial milestones (90% of milestones achieved on time throughout the Industry Division), and a positive trend in quality (improved DGA/SQ score, reduced number of quality-related incidents). The first Barracuda, the *Suffren*, was transferred to the launching device in July.

A centralised Tenders Division was created within the Industry Division (DIN), to simplify the preparation of industrial tenders and make them more competitive.

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

- improved control of program packages and coordination of work packages, roll-out of monthly reviews, and increased robustness of annual updates. The efforts made in this area were materialised by the Level 2 Capability Maturity Model Integration (CMMI) certification of the multi-mission frigates (FREMM), defence and intervention frigates (FDI), and third-generation submarines (S3G);
- deployment of the new production management tool (Industrial flows and item standards project, FIRA) to three sites;
- deployment of the new technical information system's defence and intervention (FDI) program (lifecycle with Dassault System), and mitigation of risks relating to its application on future major submarine projects;
- deployment of the digitisation project (Digital for Quality) to the Barracuda program and the FDI program;
- completion of about fifteen Belt projects to improve industrial efficiency on the ground, and some twenty cycle-time reduction projects to increase competitiveness.

From a human-resources viewpoint, the staff increase begun in 2018 was escalated this year to respond to growth in the business and the preparation of major submarine programs (3G Ballistic Nuclear Submarines and Australian Future Submarine (AFS)). Over one year, the workforce increased by nearly 600 full-time equivalents (FTE), including 400 blue- and white-collar employees, technicians, and supervisors, who make up the foundation of the group's industrial skills. Adjustments were also made in planning and engineering (130 technicians recruited out of a total of 300).

In addition, as part of the growth plan, more than 20 competitive re-insourcing initiatives were launched, representing about 200 FTE.

As part of the skills ramp-up project for the skills development of internal teams and partners, a submarine design trade school was set up, and about 80 resident technicians were trained in 2019.

To absorb the increased workload, greater use was made of capacity subcontracting. The number of subcontractors on Industry Division sites increased by 650 FTE in one year (+22%).

To anticipate the design surge expected over the next few years, the panel of design partners was streamlined, and new entrants were integrated therein. The boost in their number and skills has been supported by Naval Group and resulted in staff numbers doubling over two years.

Work also continued on the transformation and upgrading of the company's manufacturing facilities. Key events in 2019 included the official opening of the Innov'Factory in Angoulême-Ruelle, the start of work on a new commercial building in Cherbourg to house submarine export project teams, the continued renewal of the machinery plan at Nantes-Indret, and the extension of the Flat Panels shed and paint shops at Lorient.

Significant investments are planned at the Cherbourg and Nantes-Indret sites for the coming years, in anticipation of the completion of the future SNLE 3G and the next-generation aircraft carrier.

The Industry Division made substantial reinforcements within all industrial areas (oversight and coordination, method and tools, resources, investments, and innovation capability) to prepare for upcoming challenges: ramp-up of the AFS and 3G Ballistic Nuclear

Submarine programs; successful management of new surface vessel programs obtained in a highly competitive environment; control of the scheduling and phased reduction of the Barracuda series; and development of new innovative and competitive solutions.

Programs business

Submarines

Sales highlights were:

- the signature of Amendment 19 to the Barracuda Program, leading to the order of the *Casabianca*, the sixth submarine in the series.

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

Barracuda submarines

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

- *Suffren* (Submarine 1): 2019 marked the transfer of the first submarine to the launching device on July 12, 2019. The work, which notably included the commissioning of the nuclear steam supply system, then continued for a sea trial in February 2020, and the start of testing for delivery in August 2020;
- *Duguay-Trouin* (Submarine 2): several large modules were shipped and integrated in 2019, such as the prime mover module and the weapon launch module;
- *Tourville* (Submarine 3): launch of restoration works on the nuclear steam supply system compartment. Actions were taken to secure scheduled integrations;
- *De Grasse* (Submarine 4): work on the hull continued with the manufacture of sections and cofferdams.

In Nantes-Indret, the Naval Group site is in charge of the manufacture of steam supply modules and propulsion equipment for the submarines, the year 2019 was marked by continuous manufacturing, at various stages, of numbers 4, 5, and 6 in the series, as well as the completion of the steam supply systems and propulsion equipment for Submarines 2 and 3 in Cherbourg.

3G Ballistic Nuclear Submarine Program

Detailed design studies for the third-generation ballistic nuclear submarine are in progress, under a co-contracting agreement with TechnicAtome. The year 2019 was marked by the completion of interim review no. 2 with DGA-CEA joint project management and the preparation for the final internal review of the phase design.

The technology research used to develop the program's innovations, begun several years ago, is also ongoing. In addition, 2019 saw the introduction of a new demonstrator for sonar antennas.

Simultaneously with this research, Program Management is compiling a technical and commercial proposal for the development and implementation phase.

PROSUB submarines for the Brazilian Navy

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

- in October 2019, the last two sections were added to the second Brazilian submarine: the *Humaita*. This event was marked with a ceremony at the Itaguaí naval base near Rio de Janeiro, in the presence of the President of the Federative Republic of Brazil;
- the *Riachuelo*, the first boat in the series, reached two operational milestones this year with the start of in-dock trials in September and the first static dive in November;
- the assembly and integration of the other two SBR submarines continued throughout the year at ICN, a submarine construction joint venture in Brazil.

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

- the year was marked by the entry into force of an amendment permitting the launch of advance development operations on two sections of the SNBR. This incremental three-year development period should facilitate the launch of the development – production phase in the coming years.

Scorpène® P75 submarines for the Indian Navy

This program includes the delivery of six Scorpène® submarines built entirely by the Indian shipyard Mazagon Dock Shipyard Limited (MDL) as part of a transfer of technology with Naval Group.

The second submarine, the *Khanderi*, has been operational in Indian Navy forces since September 28, 2019. The third submarine, the *Karanj*, completed its dive at maximum depth in March 2019.

The launch ceremony for the fourth submarine in the series was held on May 6, 2019 in India at the Indian shipyard MDL.

Australian Future Submarine (AFS)

For the AFS Program, 2019 was a pivotal year, with the signature of the SPA (Strategic Partnering Agremeent) on February 11, 2019 in Canberra, attended by Australian Prime Minister Scott Morrison, France's Minister of the Armed Forces Florence Parly, and her Australian counterpart Christopher Pyne.

Moreover, the partnership between France and Australia moved into a new phase on March 5, 2019, with the signature of the first part of the €361-million design contract committing Naval Group to submarine design studies, up to the Systems Functional Review (SFR) to be carried out in January 2021.

In June 2019, the Preliminary Systems Requirements Review (PSRR), the aim of which is to reduce differences in scope between client requirements and the actual performance of the Attack class, was passed, bringing the program up to the System Requirements Review milestone on December 5. The definition studies are due for completion on January 12, 2021.

At the same time, the Intermediate Baseline Review (IBR), the purpose of which is to validate the budgetary and contractual reference of the Submarine Design Contract, was conducted over the first two weeks of July 2019, and was successfully completed in the fourth quarter. It involved all teams in the program and resulted in the validation of the SDC's baseline.

With respect to provisioning, the five TOP 5 contracts were signed: Diesel-Générateurs (MTU), electrical panels (Schneider Electric France), electric drive motor (JEUMONT), and weapon launcher system (Babcock). A TOP 5 contract for battery packs was signed with Sunlight on December 9. The procurement of all Critical & Main Equipment is overseen by Naval Group Australia, with the support of Naval Group SA engineering. All specifications for this equipment were supplied in the initial version for sourcing and appointment of Australian suppliers.

At the same time, the pace picked up considerably for the development of support for all industrial activity in the form of IT solutions, networks and applications alike, in both Australia and France.

An offer was made on Additional Work Scope 1 (contract for the procurement of materials and associated studies for the shipyard and the propulsion testing platform, critical and main equipment, and the qualification of shared technology) in early October. The first part was signed in late October to order the three main pieces of equipment for the project (pressing and boring equipment). The rest of this second tranche will be negotiated in early January 2020. In 2020, the Core Work Scope 2 (CWS2), for the Basic Design phase (February 2021-June 2023) will be prepared for contract signature in January 2021.

Concerning the scaling-up of resources, in 2019, Naval Group SA welcomed a second wave of 12 engineers from Naval Group Australia who came for training at the Cherbourg Site. They have joined the program teams, where they will hold an operational position for a few years before returning to Australia to establish the future Design Authority for Sustainment. Naval Group Australia continued to grow, reaching a workforce of nearly 180 people, double its workforce at the end of 2018.

And 2020 is set to be the year in which the definition of the submarine and its propulsion testing platform is completed, while the first project infrastructure works will physically take shape.

Surface vessel business

Sales highlights were:

- the March 2019 signature of an export contract for delivery of two Gowind® corvettes built at Lorient. The ceremony for the start of machining was held in September, and the Preliminary Design Review with the client took place in October;
- on January 23, 2019, a contract with OCCAR (*Organisation Conjointe de Coopération en matière d'Armement* – Organisation for Joint Armament Cooperation) was signed for the construction of four Logistic Support Ships (LSS) for the French Navy, with Chantiers de l'Atlantique as co-contractor. This is a French-Italian program, as the vessels' design is based on the LSS Vulcano currently under construction in Genoa. Naval Group designs and installs the platform's military systems as well as the combat system. The preliminary design review is complete, and purchasing of the main equipment has been initiated;
- the notification of amendments 20 and 21 to the FREMM France program, which provide for changes to the combat and communication systems as well as corrections of obsolescence;
- notification by Belgium in May 2019 of a contract awarded to Belgium Naval & Robotics, a temporary joint venture with robotics company ECA, for the delivery of twelve minesweepers equipped with their drone systems, for the Belgian and Dutch Navies. The vessels will be built at Lorient and Concarneau by Kership, a company co-owned by Naval Group and Piriou. This is the first highly robotic mine stand-off solution in the world. This program is paired with an ambitious industrial cooperation plan with Belgium to develop a sustainable DTIB through cooperative developments on high-added-value topics (robotics, cybersecurity, artificial intelligence, etc.).

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

Gowind® Egypt

The launch of the ENS El-Moez corvette took place on May 12, 2019. This is the third unit of a four-unit program. The Naval Group teams present in the country provided their technical expertise, thus demonstrating our effectiveness in supporting our client.

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

Gowind® Malaysia

While the six vessels in the Gowind® Malaysia program are being built by the Malaysian Boustead Naval Shipyard (BNS), Naval Group is acting as design authority, carrying out studies on the combat system. The Combat Management System (CMS) is entirely created by the Mission and Combat Systems Division (MCS) at the Ollioules and Bagneux Naval Group sites. The Detailed Design portion was completed in early 2019 under Naval Group's responsibility.

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

OPV Argentina

On February 13, 2019, the contract for the sale of 3 new OPV 87s and the updated OPV *L'Adroit* came into force.

Construction of OPV 87 hulls 1 & 2 began at Lorient and Concarneau.

The updating work on *L'Adroit* (renamed *ARA Bouchard*) was carried out at Toulon, and the vessel was delivered at the end of December 2019 for departure to Argentina in early 2020.

FREMM OCCAR

The progress of the program is in line with the schedule for completion. The multi-mission frigate (FREMM) *Normandie* was delivered within the contract deadlines, on July 16, 2019, thereby meeting Naval Group's commitment to the French Navy to deliver 6 anti-submarine frigates by the end of 2019. Delivery of this frigate, the eighth in the series (6 for France and 2 for export), concludes the anti-submarine version of the program.

The last two frigates (*Alsace* and *Lorraine*), in production at the Lorient site, are equipped with enhanced anti-aircraft capabilities, and their delivery is scheduled for 2021 and 2022, respectively. The FREMM *Alsace* was launched in April 2019. Work also continued on the FREMM *Lorraine*, whose keel-laying began in September 2019.

Lastly, production of Samahé was completed. Installation of the Mantis replacement vessels is carried out progressively by the Services Division as part of the technical overhauls.

Defence and Intervention Frigate Program (FDI)

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

In 2019, several major milestones were reached. The overall design for the frigate was approved in May 2019, enabling development and detailed design studies to progress in compliance with the established timetable. The first sheet metal was cut at Lorient in October 2019, marking the start of construction of the hull. At the same time, after the effective provision of the combat system equipment test platform in Saint-Mandrier, Thales began the initial fixed-panel radar testing in September 2019. This platform will also incorporate the Combat Management System, the first version of which was approved during the first half of 2019.

Next-generation aircraft carrier (PANG)

The contract for the draft design for the next-generation aircraft carrier, reported in November 2018, was finalised between co-contractors Chantiers de l'Atlantique and TechnicAtome, and delivered in December 2019. Naval Group is the overall architect for these works, which were used to prepare a record of policy choices to be applied to decisions regarding the next phases in early 2020.

A new contract for additional sketches and risk elimination studies was shared with the co-contractors on December 27, 2019.

Services business

In 2019, commercial activity was marked by:

- the signature of amendments and a conditional tranche to the in-service support contract (MCO) on the *Rubis*-type nuclear attack submarines, covering:
  - the long-term maintenance interruption (IEL) of the *Casabianca*, and
  - the periodic unavailability for maintenance and repairs (IPER) of the *Perle*;
- the signature of a conditional tranche for the MCO of the SNLEs covering the performance of maintenance services from 2020 to 2025;
- the notification of conditional tranches for the IPER of SNLE *Le Terrible*;
- the order intake of the five-year MCO contract for vessels supplied by Naval Group to Egypt.

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

In France, this included:

- on-time completion of the first post-refit technical overhaul of the aircraft carrier *Charles de Gaulle* from July to October 2019;
- preparation for the nuclear attack submarine *Suffren* in Toulon with, first, continued adaptation of the infrastructure to accommodate Barracuda-type nuclear attack submarines in Toulon (Missiessy area), and, second, the roll-out of associated training and skills development, including a two-month period of maintenance on the *Suffren* in Cherbourg with the teams from Toulon;
- continuation of the IPER refit contract for the M51 missiles (IA M51) on ballistic nuclear submarines with *Le Téméraire*, and performance of testing;
- maintenance of capabilities with the completion of seven technical overhauls;
- the March delivery of the nuclear attack submarine *Rubis* after its life-extending technical overhaul and completion of the life-extending overhaul (10 months) of nuclear attack submarine *Casabianca*. In addition, 2019 was devoted to preparation of the IPER of the *Perle* (IPER begun at end-2019 for a period of 18 months). This is the last IPER of the *Rubis*-type SNAs. Decommissioning of the *Saphir* and the start of its dismantling (it will be replaced in 2021 by the *Suffren*, the first in the Barracuda-type SNA series);
- continued work on the deconstruction of the *Tonnant* in Cherbourg (the first of five first-generation ballistic nuclear submarines to be deconstructed);
- for heavily-armed frigates: completion of the major technical overhaul of the FDA *Le Chevalier Paul* from February to November 2019, and continued FREMM maintenance operations, with the widespread use of digitised technical overhauls;
- updating of the Offshore Patrol Vessel (OPV) *L'Adroit* for delivery to the Argentine Navy in December 2019;
- performance of various overhauls as part of in-service support contracts.

Internationally, this included:

- in Malaysia, continued IPER of the submarine *KD Tun Razak*, the second of two Scorpène® submarines, delivered in 2010, at the Kota Kinabalu base, with its launch in December 2019 and sea trials scheduled for early 2020;
- in Egypt, the group provides in-service support services both for the FREMM *Tahya Misr* and for the two projection and command vessels *Gamal Abdel Nasser* and *Anwar El Sadat*, and preparation for the first technical overhaul of the Gowind® corvette;
- in Singapore, operation of the group's procurement centre, completion of platform maintenance work for frigates in Taiwan,

creation of an R&D centre, and relocation to new premises (with offices and workshops).

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

Naval Energies business

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

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

From site studies to systems construction, from regional deployment to submarine connections bringing power on land, Naval Energies is present throughout the product life cycle and manages the entire value chain: design, manufacturing, installation and maintenance, at sea and in coastal areas.

Naval Energies provides one of the fundamental building blocks of floating wind turbine technology with its semi-submersible platform, for which the design methods have been certified by Bureau Veritas and design review approved by ABS.

Naval Energies is a partner of the EFGBI Project, which covers the development, engineering, construction, installation, commissioning, operation and maintenance of a pilot farm of three floating wind turbines of 9.5 MW each, to be installed at Groix & Belle-Île in southern Brittany by 2022. A Preliminary Engineering Agreement was signed in May 2019.

In France, Naval Energies is preparing concurrently to respond to future calls for tenders included in the recently-published Multi-Annual Energy Plan (PPE). For export, Naval Energies is being called upon for upcoming projects in Europe, the US and Asia. Cooperation was begun with Hitachi Zosen Corporation to develop activity in Japan.

The deep ocean sea water recovery stations consist of putting the advantages of deep ocean sea water to many uses. Using an ocean thermal energy conversion system, designed to generate electricity, other technology can be added, such as Sea Water Air Conditioning (SWAC), desalination, industrial cooling, or aquaculture.

In the framework of these projects, Naval Energies provides its expertise in the engineering and design of the station's entire system, as well as the design, production, and installation of heat exchangers (condensers and evaporators) for power and cold generation. Naval Energies is currently the only operator in the world capable of guaranteeing the performance of these exchangers.

This performance guarantee is the product of the continuous improvement work carried out thanks to the ETM-type land-based prototype (PAT ETM), installed in 2012 in Réunion, which conducts tests on exchangers and condensers, to validate the systems' performance and qualify the equipment.

Naval Group also develops innovative core technologies, such as to combat biofouling. As such, a test bench was installed in Martinique in 2017, in partnership with IFREMER as part of the Marlin Project (supported by ADEME, the French National Energy Agency). It is used to conduct tests on the methods implemented to combat biofouling and thereby ensure that the energy system's heat exchangers will perform throughout the life of the station.

In September 2019, Naval Energies signed the "industry territories" agreement for the eco-technoport of Bois Rouge, on Réunion Island in the Indian Ocean.

1.2.4. RESEARCH AND DEVELOPMENT (R&D) ACTIVITY

In 2019, research and development (R&D) activity was structured and conducted to address the following challenges:

- commit to winover;
- improve client satisfaction;
- And attract more external financing.

Guiding principles – R&D

Since 2018, R&D targets have been defined according to six so-called "guiding principles": Smart Ship, Smart Naval Force, Blue Ship (formerly Smart Energy), Smart Availability, Invulnerable Ship, and Smart Industry.

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

Their interest is twofold:

- provide a concise and structured 30-year vision of the group's R&D guidance, taking into account the short term, focused on the needs of the product lines and programs; the medium term (looking to the future, new threats, new uses, etc.); and the long term (guided by the forward-looking plan, science and technology S&T, and long-term development innovation). This is a resolutely client-oriented vision. It identifies the capacity upgrades to be offered in different increments to given programmatic targets. For France in particular, these guiding principles satisfy the French Navy's three priority missions:

- give the people responsible for technological guidelines the core technologies needed to be able to provide the new operational capacities identified.

In 2019, the structuring effort on the guiding principles' roadmaps was stepped up to improve consistency:

- internally: consistency between the needs of the product lines/ programs and the maturation of technologies through R&D, by way of a critical review with the entities and the various steering committees;
- externally: consistency with client visions and requirements. To achieve this, a communications kit was developed, in order to better organise dialogue and to have aspects of a common language for the whole group during the various client exchanges (incl. EMM, DGE, and AID) or with financing windows.

Commit to winover/improve Client satisfaction

The 2019 R&D projects were carried out with the aim of offering innovations to respond to:

- the requirements of tenders on vessels, current vessel programs, maintenance of the operational advantage of ships in service (incremental innovations) and future ships (concept ships);
- the short-, medium-, or longer-term requirements of these product lines and programs:
  - the defence and intervention frigate range (FTI/Belh@rra®), a vessel designed to meet the needs of the French Navy and capture the best position on the export market in its displacement range (4,000 tonnes),
  - the Gowind® range, in particular the Gowind® 2500 reference vessel, which capitalises on the experience of the Egypt program in progress, to further improve the competitiveness and attractiveness of the reference product and place it at the centre of the market,
  - the needs of third-generation ballistic nuclear submarines, the Barracuda series, future Australian submarines, and the Scorpène® and Black Sword Barracuda® product lines,
  - the submarine weapons product lines including future heavy torpedoes,
  - and refits of vessels in service.

The year's key achievements are presented below, by guiding principle:

1. Smart Ship Principle
   - work on software virtualisation (management of the Combat System and the powered platform) in the data centres (onboard IT infrastructure);
   - work on the naval data lake (Service and Data Management System) with the creation of a proof of concept of the aircraft carrier *Charles de Gaulle*, which heralds the later stages of the system's deployment;
   - work on cybersecurity in several projects (Cybersecurity Framework and cyber defence of technical information), with completion of a data insertion point prototype and completion of a rack security unit demonstration prototype;
   - continued studies on the spatial and temporal management of the electromagnetic spectrum on surface vessels as well as on the materials making antenna reconfiguration possible;
   - work on the future means of operating vessels, specifically on the Digital Bridge and the Operations Centre of the future (exploration of next-generation human-machine interfaces and algorithms, including tactical tables, virtual assistants, voice and gesture recognition, 3D display, 360° views, augmented reality, and so on);
   - artificial intelligence: creation of a partnership for setting up joint laboratories with INRIA on artificial intelligence; various studies on data fusion, planning, decision support for various applications connected to the vessel's combat system or the platform;
   - studies of alternate solutions for regeneration of the atmosphere onboard submarines;
   - technology upgrade studies for hoistable masts of submarines.
2. Smart Naval Force Principle
   - work on the cooperative commitment for anti-aircraft combat;
   - continued studies on modular weapon handling for submarines;
   - technology upgrade studies for weapon launch systems for submarines;
   - development of capacity increments for the Setis-C®, Combat Management System of corvettes in the Gowind® range;
   - development of core software for "standardised" combat systems (Green Interfaces);
   - development of core technologies for drones: autonomous navigation and decision-making, docking and handling systems, mission systems, and more;
   - risk elimination work on an onboard technical Unmanned Aerial Vehicle (UAV) system on combat vessels (risk elimination study for the French Navy, SDAMT – R&D sold);
   - development of a test platform for core technologies for underwater drones;
   - testing of the Smart Tactic Table on the SNLE 2G training platform.

3. Blue Ship Principle

- Air Independent Propulsion: continuation of tests on an anaerobic module that combines diesel reformation and second-generation hydrogen fuel cells (completion of a full system patrol in the first half of 2019) and continued development of the increments to further enhance performance;
- Lithium-ion batteries: continued maturation on the different subsystems; maturation on manufacture with the production of serial branches;
- work to reduce energy consumption on submarines and surface vessels (control tests of a high-voltage protection solution, end of testing of the software demonstrator for controlling electrical power for submarines, and testing of a low-energy climate control unit);
- end of the pre-studies for the Small and Modular Reactor (terrestrial version), which began in 2017 in partnership with EDF (lead institution), TechnicAtome, and the French Atomic Energy Commission as part of a project funded by the French National Research Agency (ANR). Continued work on the launch of the preliminary design phase, which will be guided by the future structure to be implemented starting in mid-2020;
- studies of solutions for reducing discharges of waste or pollutants or disruptions to marine life (solution for compliance with IMO TIER III), testing of a waste-treatment prototype *via* the RAPID ATHENA, studies for the European LIFE AGESCIC (Achieve Good Environmental Status for Coastal Infrastructure Construction/SubSea Quieter Section) project for Naval Group).

4. Invulnerable Ship Principle

- work on controlling vessel signatures: acoustic discretion, magnetic signature, signature above the surface, etc.;
- work on vessel self-protection: development of an anti-asymmetric threat system prototype, shielding work;
- damage control and functional security: experiments onboard a FREMM with a system that measures the status of a wireless sensor room;
- end-of-pre-project review of the Cold Launcher missile vertical launch module that may round out the Sylver® launchers range.

5. Smart Availability Principle

- deployment and experimentation on FREMM of COMPAS (Platform installations) and VODA (Combat System) predictive maintenance tools;
- onboarding of RFID sensors for monitoring equipment and/or managing hoses;
- environmental performance testing and tests of various coatings (paint, resin);
- certification of electronic security system for the Saint-Andrew's cross arrangement;
- research and study of innovative technology (fluid and electric).

6. Smart Industry Principle

- additive manufacturing: development of propellers by wire deposition for European H2020 projects, the FRAPAN contract, and self-funded studies; production of production of hydraulic turret unit by powder deposition; organic printing work for onboard spare parts;
- improving the performance of our design support tools for preliminary studies of our surface vessels and submarines: complex engineering system studies and hydrodynamic simulation tool platform study;
- work on solutions to improve productivity on production sites (refinements to the use of adhesives, introduction of engine beds made according to a new method which halves the cost, 4G communications testing in the workshops) and occupational health and safety (OH&S) (development and testing of solutions or mechanisms including exoskeleton, robotics, remote operation, and free-standing carts);
- studies as part of the Factory Lab partnership or IRT, to accelerate the development of future manufacturing technologies, in conjunction with other major industrial companies and CEA Tech (the Technological Research Division of the French Atomic Energy and Alternative Energy Commission);
- studies and development of processes and tools for the sizing of structures, welding simulations and procedures, non-destructive tests of parts' integrity, composite structures (for bridges, thrusters, and masts), and characterization of adhesives for structural assembly;
- completion of the Ship Xperience project, subsidised by the Nouvelle Aquitaine Region: development of training resources for operations and maintenance implementing the best state-of-the-art virtual-reality technology;
- work on training simulator networking and simulation for machine learning (data generation for artificial intelligence);
- marine infrastructure: experiments in virtual reality for the 3D reconstruction of a naval infrastructure; methodological note for sizing rules against external overpressure from wavelike aggression on INBS-type infrastructure.

Outlook

Outlook activity was created and developed in 2017, then integrated with monitoring and technology analysis activity in 2018. In 2019, the second edition of the Forward Plan was published. This document provides a future vision from the short to the long term, illustrated in the form of scripted prospective analyses. These analyses formed the basis for a set of concrete recommendations for the group to prepare to seize opportunities and counter identified future threats. Four topics were analysed in 2019: the growth and limits of digital technology's hold on companies; the future of work; hyperwar; and biology as a field of major breakthroughs. The recommendations resulting from the 2019 Forward Plan address the issues of future markets, business models, future solutions, and human factors.

The document closes with a presentation of a future vision of Naval Group, specifying, among all the possibilities, a desirable outlook that is attainable by the group.

Meanwhile, the Naval Group Scientific Advisory Board held two plenary sessions, the first in May 2019 in Lorient and the second in November 2019 at Naval Group headquarters. In 2019, the Scientific Advisory Board worked on three topics: energy, materials, and human factors. It was also consulted about the Forward Plan and was given a presentation on the scientific plan. Two new topics were launched for 2020: architecture (changes in this field brought on by new technology) and recognition of the multicultural aspect. The La Pérouse Prize was awarded for the optimisation of stealth routes for submarines. The Scientific Advisory Board was presented to the Board of Directors on December 13, 2019.

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

The digital transformation of the Innovation and Technical Expertise Division (DIT), begun in 2017, continued. This transformation has, first, enabled the development and later the deployment of SPIRIT, a dynamic dashboard used to track DIT's key performance and coordination indicators. Secondly, the DIT launched the development and deployment of CONNECT'US, the digital collaborative coordination tool for innovation and R&D. Its aim is to decompartmentalise and share information with stakeholders (notably to jointly build and share the R&D plan, ensuring consistency with the requirements of programs and product lines) and, ultimately, to free up time for openness and reflection over the long term. The first batch was delivered in two phases in March 2019 and July 2019, mainly concerning R&D coordination, R&D roadmap entry, and the outlook coordination module. Batch 2 was delivered in October, with new features for the strategic capture plan and the ecosystem module. Batch 3 will be delivered in the first half of 2020, thereby enriching the features with the roll-out of the commercial capture plan and technological and scientific monitoring.

Open innovation and Naval Innovation Hub

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

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

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

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

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

Events were organised to this end by open innovation in 2019 (Start We Up, Naval Innovation Partners, and Naval Innovation Supplier). Their purpose is to upend the linear view of innovation in favour of a collaborative approach.

These meeting places are for innovative companies, regional incubators, clusters, and our Naval Group employees to create synergies and stimulate creativity and innovative thinking in everyone, by identifying solutions for future projects by focusing on short-term incubations in PoC (Proof of Concept) formats.

We currently have thirteen PoCs in progress as a result of these events. The point of a PoC is to validate a concept (if the project goal is to develop a solution for which users are still struggling to express their need, the PoC puts them in front of a first mock-up) and validate technical feasibility: if the project implements a new kind of know-how, still unfamiliar to the company, then the PoC can indicate the degree of technical complexity.

Human capital is still at the core of the open innovation approach. True, a company's innovation capability relies on the existence of an innovation process, but it is, above all, its human capital that will truly influence the emergence of innovation. And such capital is built by making new connections through these internal and external events.

International development is a major issue in the naval sector. To achieve it, the group is weaving its web in the world's largest innovation hub. The Centre of Excellence (CoE), which opened in Singapore on November 21, 2019, is playing its part by hosting Asia's most talented researchers and engineers.

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

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

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

With the aim of providing a fresh perspective on NIH developments, Naval Group's Executive Committee decided to establish an **External Governance Committee**, the majority of whose members are from outside the company. This committee acts as an advisor, evaluator, and think tank. It was established in early 2019. The committee's purpose is **to evaluate NIH projects in respect of five criteria**: desirability, viability, feasibility, potential breakthroughs, and appropriateness *vis-à-vis* the strategic framework. It should afford the NIH **some perspective**

on these projects. Lastly, this committee plays an **inspirational role**, proposing new areas of development and topics for exploration by the NIH. Members are chosen with a view to empowering the committee to give its opinion in the areas of innovation, evaluation/financing for securing innovative projects, digital, strategic study (market, technology, etc.), entrepreneurship, and industry.

The Naval Innovation Hub consists of a dedicated multidisciplinary core team immersed in a highly entrepreneurial environment external to Naval Group (currently headquartered at Paris's Village by CA). In close interaction with the innovation ecosystem and with full autonomy from the topics it handles, it aims to initiate, support and accelerate disruptive innovation projects by maximising their value for the group's internal or external clients.

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

In 2019, the NIH focused on developing an internal and external ecosystem, organising workshops using new methods, and setting up a sharing network using a platform. The NIH also kicked off 29 projects. In addition, the NIH supported the "intrapreneurship" approach that was introduced group-wide on an experimental basis. The goals of this approach are to:

- identify new, innovative businesses for Naval Group that address a current or future need in the naval defence sector (France or international), with support for internal employees;
- promote a cultural change around agility, initiative, and daring;
- develop the company's human capital;
- detect and draw on our entrepreneurial talent.

Two teams joined this program in October 2019.

Increasing R&D funding

The percentage of R&D expenditures self-financed by Naval Group for naval defence included in R&D expenses amounted to €98.7 million in 2019, or 3% of total revenue.

As in previous years, in 2019, additional funding came from early-stage study plans funded by the French National Defence Procurement Agency (DGA) (€21.7 million in order intake) or subsidised/collaborative programs (€5.7 million), most of it from investments in programs.

In 2019, still with the aim of increasing R&D funding for strategic subjects related to the guiding principles, the DIT strengthened its commercial and business development operations in France (regions, DGA, etc.) and in European civilian and military areas.

With the DGA, DIT teams prepared and negotiated several early-stage study plans (PEAs) in 2019:

- PEA INCOLA, formalised in July: updates to submarine line design models, integration of feedback, consideration of new design configurations;
- PEA DISCRELEC, formalised in July: control and reduce electric indiscretions observed on surface vessels;
- PEA FRAPAN: notification of Optional Tranche 2 in March 2019 to take vibro-acoustic measurements of hollow blade demonstrators in Additive Manufacturing and composite, to have reference items for noise reduction available in the short term;
- ELR SDAM-T, notification of the optional tranche for the integration of the maritime aerial drone platform;
- PEA TSMPF SCOA, notification of a conditional tranche on multi-platform situation awareness and coordinated weapons engagement.

In addition, the DIT submitted its roadmap to its clients, so it could identify R&D projects of interest for the DGA and French Navy that could be agreed in 2020/2021 on subjects such as combating asymmetric threats, thrusters of the future, control of acoustic signatures, the new active sonar tracking algorithms, vessel resilience, laser communications, or gaining a sea state.

Within France (non-DGA), we note the signature of an agreement with the Nouvelle-Aquitaine Region and other agreements being drafted (specifically Brittany). These agreements have two sections: research & development on the one hand, and training on the other. We also note many collaborative projects in the technology research institutes (IRT).

For subsidised R&D, activity was also significantly strengthened by the preparation of several tenders in line with the group's strategic capture plan, and contracts won with direct or indirect benefits for the group's products, in particular the SECOIIA, CYBERMAR, ECHO, PIAQUO, and GRADE2XL projects. Operations expanded substantially in Europe, with programs both civil (H2020 and preparation of the next Horizon Europe program) and military (EDIDP, PADR, and preparation of the European Defence Fund).

Lastly, oversight of the research tax credit (CIR) was further strengthened in 2019. The CIR continued to increase in comparison with 2018, reaching €31 million.

Naval Group's Technology Research Centre: Naval Research

In the Innovation and Technological Expertise Division (DIT), the Research centre of excellence is tasked with the group's advanced expertise operations on vessels in development and in service. It is also a skill centre for pooling R&D for everyone's benefit and sharing it within the entities, especially within upstream so-called S&T (Science and Technology) R&D. Research continued to adjust its organisation to increase its impact and added value for everyone, structured around three business-oriented centres of excellence: Energy (CEMEP), Materials (CESMAN), and Data Processing (CEMIS).

Naval Group believes that scientific partnerships are an essential lever of performance for research for keeping the group at a high level of innovation in order to help boost its technological superiority, given the heightened international competition in naval defence. To meet this challenge and strengthen its collaborative ties with the scientific community over the long term, Naval Group has structured its upstream research into nine scientific areas: Humans and Systems, Materials and Structures, Waves and Matter, Fluid Mechanics, Energy, Data Processing, Digital Systems, Digital Model Sets, and Eco-Design. These fields are similar to the structuring of university laboratories and use the vocabulary of academic research, thus creating a link and a more effective understanding between these two communities. In addition, they are cross-disciplinary with many of the group's operations. They are formalised in a scientific plan. Furthermore, Naval Research has linked its networks of local and international partners in a skills-based ecosystem approach. This structuring has made ambitious, open, and multi-disciplinary scientific cooperation possible, and this year bore fruit with its French partners in the renovation and creation of laboratories with a geographic scope that will include Australia.

Also in 2019, Naval Research, whose missions are to anticipate disruptive technology and develop that of high added value in an open-innovation approach, with the help of its industry and academic partners (schools, universities, and research institutes), accelerated its many connections with its ecosystem, in particular by organising the second edition of its not-to-be-missed ***Journées Scientifiques et Technologiques*** (Science and Technology Days). This event is an exclusive forum for exchange with the Naval Group's scientific community about breakthroughs in applications research, issues encountered, and visions for future high-value innovations for naval defence. In this way, it supports Naval Group's major armed vessel programs through its proactive measures with the international scientific and academic community. Lastly, several partner research initiatives began, specifically on human factors, submarine acoustic communications, and energy, with the aim of discussing joint technology roadmaps with the stakeholders of its scientific innovation ecosystem, both nationally and abroad.

In 2019, Naval Research continued to grow its expertise, and developed its partnerships in France and abroad:

The partnerships entered into by Research may include joint laboratories, chairs, or framework agreements. In France, in 2019, two new joint laboratories were created: the SENI Laboratory with ENSTA Bretagne (smart onboard systems) and a joint laboratory with INRIA. This is a structured partnership focused on artificial intelligence. It consists of a "Research Division", composed mainly of INRIA members, and an "Expertise-Transfer" Division, composed mainly of Naval Group employees. The Gustave Zédé Laboratory, with ENSTA Bretagne (fatigue strength, modelling, and mechanical testing) was extended. The cyber defence chair was renewed and the cyber strategy chair with IHEDN was created.

Moreover, 2019 featured outright success for Research, in every area of research conducted with our partners. On several occasions, our expertise in materials and simulations was highlighted, for instance: self-heating testing on austeno-ferritic steels manufactured using the WAAM process, rapid characterisation in material fatigue, method of justification of composite structures under fatigue, the "Mascot-Num CNRS doctorate" prize (Stochastic Analysis Methods for Digital Codes and Processes), awarded for the innovative nature of the teaching algorithms developed by the research team of the *Laboratoire commun* JLMT (joint laboratory) with the École Centrale de Nantes.

International development

In 2019, Naval Group stepped up its actions on three R&D internationalisation objectives: to work with the best (open innovation), develop its subsidiaries using R&D funding, and create links with the countries of future Naval Group prospective clients. Thus the international innovation development strategy differs from country to country and factors in several criteria such as how strategic the country is as a client or priority prospect for Naval Group; the country's actual capacity for research and innovation (openness, available financing, ToT management, protection of intellectual property, etc.); adherence to our R&D priorities; and so on. Beginning in 2019, Phase 2.10 of the strategic plan for R&D internationalisation increased the internationalisation actions already underway and paved the way for new ones.

In 2019, as part of a strategic plan, R&D data sheets on priority countries were created. A special effort was made for the opening of R&D centres in Australia and Singapore. In Australia, it will be in the new Naval Group Pacific subsidiary created over the summer, "exporting" the Technocampus concept, in which the CNRS will come in June 2020 to create an International Research Lab on the interface between human factors, artificial intelligence, and stand-alone systems. In Singapore (the global hub of R&D, where we must have a presence), the Centre of Excellence inaugurated in November 2019 will have a special focus on new technology (artificial intelligence, Big Data, and Internet of Things) and, at the request of local clients, on additive manufacturing and i-maintenance.

In Europe, Naval Group was very active in Belgium in 2019, which played a part in its securing the mine warfare tender and launching the Mine Counter Measures Lab, specifically with Naval Research, and the Cyber Lab tied to this program. Actions are ongoing in the Netherlands to support responses to calls for submarine tenders, through scientific cooperation with Naval Research, and contacts were made in Greece to support the FDI prospect. In addition, Naval Group supported an Armaments Committee in Portugal, which will aid in the proposal of joint projects with the DGA and its counterparts for the European Defence Fund. Lastly, a structured and specific Italian-French R&D action was set up as part of the Poséidon Project with the goal of creating the joint venture Naviris.

In Saudi Arabia, Naval Group also resumed its preparatory work under the cooperation agreement with King Abdulaziz City for Science and Technology (KACST) for studies on maritime surveillance and additive fabrication, which should start up in 2020. In India, an NDA was signed with the GOA Indian Institute of Technology, and actions with the DRDO continued (particularly AIP, torpedoes and propulsion). In addition, a bilateral governmental Marine Science roadmap was begun during the Knowledge Summit in Lyon in October; Naval Group was appointed as a key player. Lastly, in Chile, efforts were focused on the preparation of R&D actions in cooperation with INRIA and SISDEF, and the start-up of MERIC Phase 2 at the end of 2019 with Naval Energies.

These will continue in 2020, intensifying with the opening of a Centre of Excellence in Australia and the intake of Saudi interns at the DIT.

1.2.5. SUBSIDIARIES AND JOINT VENTURES

Subsidiaries

Activities and results of subsidiaries and associates

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

Armaris Quater

Armaris Quater owns Naval Group Actionnariat.

Armaris Sixt

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

Naval Group Actionnariat

This company is responsible for conducting buybacks of Naval Group shares acquired by the beneficiaries of both Employee Share Offers in 2008 and 2014, as well as the 2019 collective shareholding plan. These beneficiaries contributed their shares to the FCPE Actions Naval Group.

Naval Group Participations

Naval Group Participations is a holding company. It holds equity interests in several Naval Group companies created abroad: Naval Group Technologie Canada Inc. (100%), Naval Group Arabia (90%), Alexandria Naval for Maintenance and Industry (99.99%), DCNS Zamil (55%), Naval Group Pacific (100%), and Naval Group Malaysia Sdn Bhd (not significant).

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

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

DCN International

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

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

Naval Group Far East Pte Ltd

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

Naval Group India PTE Ltd

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

Défense Environnement Services (DES) (49% holding)

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

Eurosysnav SAS (50% holding)

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

Itaguaí Construções Navais SA (ICN) (41% holding)

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

MO PA2

MO PA2 was originally created to be a contractor for the French aircraft carrier No. 2 program. The company has no business activity.

Sirehna

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

Naval Group Coopération

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

Naval Group Support

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

Naval Group Belgium

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

Alexandria Naval for Maintenance and Industry

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

Kership (45% holding)

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

Naval Group Malaysia Sdn Bhd

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

Naval Energies (59.87% holding)

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

Naval Group BR Sistemas de Defesa LTDA

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

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

Projetos e Sistemas Navais SA (PROSIN) aims to develop the engineering systems business in Brazil. Its operations have been suspended.

Naval Group Australia Pty Ltd

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

DCNS Zamil (55% holding)

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

Principia (33.33%)

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

TechnicAtome (20.32%)

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

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

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

Alliances

Implementation of the Poséidon Project: creation of Naviris

Following on from the governments' October 2018 announcement at Euronaval, Fincantieri and Naval Group signed a cooperation agreement on June 14, 2019, specifying their alliance's mode of operation and laying down the operating procedures for creating a joint venture partnership known as Naviris.

Once all conditions precedent were satisfied (approval from the competent authorities in matters of competition law, authorisation for foreign investment in Italy), the company was incorporated on January 10, 2020. The registered office is located in Genoa (Italy), with a wholly-owned French subsidiary in Ollioules, where the joint naval engineering laboratory of the alliance (CNEL) will be housed.

The joint venture has an eight-member Board of Directors (including the Chairmen and Chief Executive Officers of both groups, plus the Chief Executive Officer and Chief Operational Officer of Naviris) and is chaired by Giuseppe Bono. The Naviris management team has four members, including the Chief Executive Officer appointed by Naval Group and the Chief Operational Officer appointed by Fincantieri.

The company started up operations on January 13, 2020 at the end of its first meeting of the Board of Directors.

INRIA Agreement

On December 12, 2019, Naval Group and INRIA (*Institut national de recherche en sciences et technologies du numérique* – French National Institute for Research in Digital Science and Technology) signed a structuring agreement to create joint research laboratories in artificial intelligence. Each of the labs will assign an applied research team and engineers to mission systems for the vessels. These teams, working toward practical applications for naval defence, will empower Naval Group to improve and accelerate its roadmap in terms of integrating algorithms for the provision of innovative functions to benefit navies (*e.g.* optimised vessel routes, artificial intelligence applied to drone missions, and artificial intelligence applied to cyber defence).

ONERA Agreement

During Naval Group's Naval Innovation Days in May 2019, Naval Group and ONERA signed a letter of intent to develop and implement a joint multi-year roadmap for the preparation of controlled autonomous decision-making architecture for drones and the development of associated algorithms. This letter of intent follows up on the work completed by ONERA for the demonstration of the impact of an integrated decision-making chain in the Remorina surface drone mission system developed by Naval Group.

Brienne III

The robust development of digital technology, and the exponential growth in systems interconnection and digital data dependence, are making businesses increasingly vulnerable. This underlying trend places cybersecurity at the centre of technological and economic issues and opens up opportunities for innovative, agile, and ambitious businesses to move into new markets.

The Brienne III Investment Fund of ACE Management (a Tikehau Capital subsidiary), worth €80 million, is designed to fund start-ups that offer innovative digital-securitisation technology and to support their top management in external growth strategy, both in France and abroad. The investment spectrum covers all digital securitisation needs: industry 4.0, smart cars, smart grids, e-healthcare, transport, energy transition, Internet of Things (IoT), and more.

On May 23, 2019, Naval Group invested €5 million in the Brienne III Fund, with a view to:

- playing a part in the creation of an ecosystem dedicated to digital securitisation and providing access to French and European solutions for its operations;
- detecting and anticipating technological trends in cybersecurity, to prepare for them as far in advance as possible;
- affording Naval Group priority access to the top experts in the sector;
- strengthening its teams' expertise by bringing them face-to-face with emerging technology in the field; and
- guiding the development of products and solutions proposed by companies in the fund, so as to meet Naval Group's future needs.

Creation of Naval Group Belgium SA

As a result of its selection in 2019 by the Belgian and Dutch Navies for the installation of a drone-based anti-mine system (MCM), the creation of this Brussels subsidiary of Naval Group on December 16, 2019 reflects the group's intention to develop its anti-robotic mine operations internationally from Belgium. This subsidiary will subsequently be the prime contractor on the MCM program and supervise R&D cooperation in both anti-mine and cybersecurity operations.

Creation of Naval Group Nederland BV

As part of the Dutch Navy's renewal of its submarine fleet, and to meet the Netherlands' sovereignty requirement, Naval Group is proposing an ambitious industrial cooperation plan involving the key players in the Dutch naval industry (from government, industry, and research centres).

Naval Group Nederland, based in The Hague and created on November 13, 2018, is the operational entity of Naval Group which, in close collaboration with the rest of the group, is now playing a part in developing this cooperation plan. While Naval Group was selected by the Dutch authorities, our Dutch subsidiary will be in charge of implementing this plan and coordinating the Dutch players; it may also play an important role in the submarine design studies.

Creation of Naval Group Pacific

On August 7, 2019, Naval Group created the subsidiary Naval Group Pacific, based in Sydney. A separate entity from Naval Group Australia, based in Adelaide and dedicated to the Australian Future Submarine Program (AFS), this subsidiary is responsible for developing the group's operations in Australia and New Zealand, and creating a global centre of excellence in research and development (R&D) in Australia.

1.2.6. ETHICS AND COMPLIANCE

1.2.6.1. Ethics

For the third consecutive year, an Ethics and Compliance Day was held in early December 2019. It followed the organisation of a session focusing on international subsidiaries in April 2019. These events gave the group's employees an opportunity to ask questions about the operation of the ethics hotline and, more specifically, the confidential treatment of alerts reported to it. At the event, they were informed of the roll-out in mid-2019 an instruction relating to the "Collection and processing of reports about behaviour contrary to ethical and CSR standards", published on the Business Management System (BMS).

As part of the fight against harassment, "investigator" training for "reporting harassment" was offered to CERSE members and France's ethics officers. This training helped participants to learn more about the legal framework, understand the challenges for the company in preventing harassment and identifying and detecting inappropriate situations and behaviours at work. A training session called "Handling discrimination" was also set up for ethics and discrimination officers. In January 2020, another "Ethics and Harassment Prevention" training session will be held, open to Ethics and CSR Officers internationally.

Since the Naval Group joined the Business Ethics Circle in September 2018, group representatives have been able to attend numerous conferences and events organised by the association. In addition, following Naval Group's exchanges with the Board of Directors of the association *Entreprises pour les Droits de l'Homme* (EdH), Naval Group will join EdH in January 2020. This association promotes the understanding and integration of human rights within companies through the deployment of vigilance procedures, a voluntary and multi-sectoral initiative. This association is a place for discussion, sharing of good practices and group reflection.

The Groupement des Industries de Construction et Activités Navales (GICAN) has, for its part, proposed a CSR working group to its members to promote a sectoral approach to issues. Naval Group has joined this working group.

1.2.6.2. Prevention of corruption and influence peddling (compliance)

The group's Ethics, Compliance and Governance Department, whose head is the point of contact in the fight against corruption and influence peddling as defined in French Law no. 2016-1691 of December 9, 2016 respecting transparency, the fight against corruption and the modernisation of economic life (known as the Sapin 2 Law), is in charge of defining and deploying the compliance mechanism within the group.

In 2019, the actions carried out consisted of:

- the presentation of milestones for the deployment of the compliance system within the group (by sites and by controlled companies) to the group's executive bodies: the Executive Committee and the Audit, Accounts and Risks Committee of the Board of Directors. These points give an overview of the development of the fifteen performance indicators (on the basis of the guidelines issued by the Global Reporting Initiative) to measure the effectiveness of the compliance system throughout the group and the setting of objectives for the following year (see Anti-Corruption Policy);
- a report prepared by the Ethics and CSR Committee that includes information related to any ethical or compliance incidents observed during the year through the various detection bodies, is submitted to the Chairman and Chief Executive Officer;
- updating of the group's compliance risk mapping;
- updating of the compliance framework and, in particular, the due diligence instructions applicable to third parties with which Naval Group enters into business relationships;
- the implementation and monitoring of a plan to identify and train employees most exposed to the risk of corruption and influence peddling;
- updating of a bilingual e-learning course dedicated to raising awareness of all Naval Group employees about the fight against corruption and influence peddling in their daily lives; A specific performance indicator (measured monthly) to measure the rate of completion of this e-learning has been set up for each Naval Group site and controlled company;
- the development of a training plan updated each year that targets jobs identified as at-risk according to the corruption risk mapping (including executive posts and members of the Boards of Directors of companies controlled by Naval Group). Modules specialised by type of business line or activity have been developed. Employees affected must undergo new training (given as needed in French, English and Portuguese and translated into Arabic) at least every three years;
- continued discussions and reflections on issues relating to the fight against corruption and influence peddling through the organisation of events:
  - in June 2019, the second annual seminar for the entire Group's ethics and compliance community, members of the group's Executive Committee and external experts and speakers, including representatives of the French Anti-Corruption Agency,
  - in December 2019, the third Ethics and Compliance Day in all of the group's entities, which provided an opportunity to meet employees and disseminate ethical and compliance standards;
- the implementation and application of a plan to assess the effectiveness and maturity of the compliance system in the group's sites and controlled entities on the basis of indicators regularly monitored by General Management;
- conducting of cross-functional internal controls regarding the group's donations, patronages and sponsorships.

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

1.2.6.3. Declaration of interest under the Sapin 2 Law

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

1.2.7. RISK MANAGEMENT

1.2.7.1. Risk management plan

The group faces a number of risks and uncertainties that may impact its financial performance. For this reason, it has put in place a risk management system supervised by the Audit and Risks Department that covers strategic, operational, financial, legal and corporate social responsibility risks. It is under the guidance of the Internal Audit and Risk Committee and co-chaired by the Senior Executive Vice-President for Finance, Legal, Purchasing and Real Estate and the General Secretary. The group's business, operating profit/loss or financial position could be materially affected by the risks described below or by other risks and uncertainties of which the group is currently unaware or which it regards, as at the date of this document, as immaterial.

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

1.2.7.2. Financial risks

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

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

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

1.2.7.3. Legal risks

The group has identified four major legal risks.

Ethics and compliance

Against a background of international development and an evolving regulatory environment, Naval Group's customers expect mutual commercial relations to be exemplary in terms of demonstrating compliance with the strictest national and international standards and legislation. For the same reasons, its industrial partners express their desire to know about the organisation and the rules in place in the fight against corruption and influence peddling ("compliance") in order to be certain that they correspond to their standards.

In 2017, therefore, in addition to the whistleblowing scheme in place since 2015, the group resolved to strengthen the existing compliance system with regard to both the prevention and handling of risks so that it satisfies the highest requirements in this area (see section 1.2.6, above).

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

The risk of corruption is detailed in the chapter "Declaration of corporate social responsibility performance".

Ethical whistleblowing

Naval Group has set up channels for detecting and reporting ethical and compliance alerts that allow any Naval Group employee or stakeholder (including suppliers and subcontractors working at sites and subsidiaries) to express concerns or make a report.

The team of investigators dedicated to handling and investigating ethical and compliance alerts receives annual training in investigation techniques from an external facilitator. The content of the training is reviewed annually to take into account the instances encountered and lessons learned.

Export controls and customs matters

Export markets are of great importance to the group. Naval Group is an exporter of war and/or related materials and dual- use goods. In this context, Naval Group is subject to French and foreign export control regulations.

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

At present, there is no guarantee that the export regulations for combat and/or similar equipment to which the group is subject will not be tightened or that new generations of products developed by the group will not also be subject to stricter controls and obligations. Similarly, there is no guarantee that geopolitical factors or changes on the international scene will not prevent it from obtaining export licences for certain customers or will not reduce the group's ability to fulfil contracts that have already been signed.

Reduced access to military export markets and/or tighter restrictions risk having a negative impact on the group's activity, financial position and operating results. It follows that Naval Group must be capable of complying with a very wide range of laws and regulations, including customs rules, while also controlling its dependence on foreign suppliers. Naval Group is therefore attentive to any changes or developments in this area, whether short-term (embargos) or long-term (international conventions) and takes action to mitigate these risks with the state authorities and the group's internal players.

The Export Control Department fully exercises its responsibilities as the group's second line of risk management. To manage and reduce these risks, the Export Control Department provides continual assistance to operational staff (especially those involved in sales, programs, procurement and the supply chain) through updated frameworks, training and familiarisation measures, advice and audits. The Export Control Department's annual audit plan is coordinated with all of the group's audits.

Regarding customs matters, many actions have been undertaken to promote its importance in terms of competitiveness and international performance. These actions enabled the French Customs Administration to renew Naval Group SA's Certified Economic Operator (OEA) certification in August 2018 (it was initially obtained in 2014) following a full external audit. Employee training in this aspect has ensured reliable use of these regimes. With OEA certification, Naval Group is subject to fewer controls and receives priority clearance processing. Timeframes for operations are thus reduced, and our clients benefit.

The Naval Group account was transferred to the Toulouse Blagnac customs expertise centre in December 2018.

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

An IT solution is currently being developed to secure the tracking of equipment under customs controls and/or subject to export control regulations. A tool-based solution is to be deployed starting in 2020.

Intellectual property

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

Notwithstanding the protection sought and obtained, Naval Group may find itself in a situation where its intellectual property rights are subject to challenge, infringement, invalidation proceedings or circumvention. To reduce the risk of infringement, Naval Group performs intellectual property monitoring and analysis as part of its own patent examination procedures and in the technical and development phases for its products.

Supplier insolvency proceedings may affect Naval Group's performance. In 2019, Naval Group strengthened its sequestration policy to address the supplier scope. This policy consists of placing under the receivership of a notary or a trusted third party the items and intellectual property rights of a supplier that would enable Naval Group to take over for itself or arrange for a third party take over a supplier's activity or task in the event that the supplier is unable to perform or complete it, for example in the event of receivership or judicial liquidation.

Legal disputes

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

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

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

All disputes and guarantee claims are handled by or in coordination with the group's Legal Department.

Furthermore, all disputes with a potential material negative impact on the group's activities or financial position are examined at regular intervals by the Audit, Accounts and Risk Committee of the Board of Directors.

In order to prevent disputes, the Legal Department has had a group Contract Management Division in place since late 2015 that is able to detect risks at a much earlier stage and identify opportunities for Naval Group. This organisation is set up at the inception of programs.

1.2.7.4. Operational risks

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

Competitive environment

Growth in the global defence market does not guarantee growth for military naval manufacturers such as Naval Group because, at the same time, competition is intensifying considerably. In addition to the long-established European players that still have a strong presence, such as TKMS, Fincantieri, Navantia, Damen and so on, there are others re-joining the market, from Russia, Sweden and the United Kingdom, as well as new entrants from Korea, China and Turkey. At the same time, US competition is increasing considerably and rapidly, indirectly through the diversion of large parts of defence budgets to other areas (missiles, aircraft) and directly through the multiplication of offers of new or pre-owned units or through alliances with European "platform" partners such as Navantia and Fincantieri. These will shortly be joined by players from Singapore, Indonesia and India. This pressure of competition could therefore have an adverse effect on Naval Group's market position, revenue and profitability.

To be able to successfully compete against its current or future competitors, Naval Group must improve its competitiveness. To do this, Naval Group is strengthening its research and technology efforts, broadening its range of products and consolidating and expanding its international presence, in particular through sustainable industrial sites internationally. The creation of Naviris, a joint venture with Fincantieri in surface vessels, is part of this strategy to increase competitiveness.

Dependence on the public spending

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

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

A reduction in the defence budget can lead to delays in the receipt of orders, in the timetable for the performance of contracts or in payment, or to a reduction in funding for research and development programs.

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

Successful management of bids and programs

A significant proportion of the products and services provided by Naval Group involve a high degree of complexity, owing to their high-tech nature, operational constraints that demand ultra-high levels of reliability in particularly harsh environments, contractual arrangements associated with the sale of these products and services, which may comprise general contractor agreements for major programs, technology transfers, local parts made by partner shipbuilders, naturalisation and so on, and because of execution periods that may be in excess of a decade.

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

A risk evaluation and control system is in place with respect to tender bids, which has been reinforced by bringing the Bid Control and Financial Evaluation Department into action. With regard to programs, periodic reviews are held to monitor progress in technical, scheduling and financial terms and to keep execution- related risks under control. In addition, since 2016 a Contract Management system has been established in order to ensure more effective management of contracts at both the drafting and performance stage. This enables the group to optimise its financial and operational performance while minimising risk and exploring all opportunities.

This special effort has resulted in the introduction of a complete business reference standard consisting of over 50 documents and tools (templates, instructions, registers, checklists, etc.) that has been used to train all of the group's contract managers. A dedicated Intraneo for the function was also set up and in 2018, the group defined and approved the 12 golden rules to be applied in this area. On this basis, 2019 was an opportunity to launch awareness-raising and training modules (including one e-learning module) for all company stakeholders, so that best practices and recommendations could be implemented concretely and extensively by all program and purchasing teams.

Country risk

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

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

Naval Group evaluates this risk at the time the contract is made and monitors changes throughout its course. Naval Group also monitors country developments on an ongoing basis *via* its local subsidiaries, networks of international experts and the relevant head office departments.

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

Political hazards

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

- stricter foreign exchange controls which may limit or ban the export of currency from a client country and impede its ability to honour its financial commitments to Naval Group;
- impairments to the value of assets due to the devaluation of local currencies or other measures taken by the public authorities that significantly affect the value of business;
- the expropriation (by confiscation, nationalisation, requisition, etc.) or forced sale of Naval Group's holding in a local company or, more generally, discriminatory measures taken against Naval Group that may jeopardise its business in a particular country;
- a security situation that gives rise to the risk of attacks on the physical safety of Naval Group staff and/or facilities or severely restricts or prevents Naval Group from fulfilling its contractual performance obligations or reduces or prohibits the use of its local industrial assets (see section 1.2.7.7., "Human resources risk");
- an unforeseen breach of a contract or undertaking;
- an abusive call on a deposit or guarantee;
- the non-certification of documents due for payment or the failure to make scheduled payments as stipulated in a contract which prevents the said contract from progressing as expected.

Naval Group takes appropriate measures to hedge against the financial impact of such risks with private or public insurers. The group has also implemented a global safety, protection and monitoring system for its staff in order to ensure they enjoy an appropriate level of safety in the countries in which they perform their duties.

1.2.7.5. Management of supplier risk

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

There are many types of supplier risks:

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

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

Managing supplier default risks

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

Suppliers' management performance is monitored both from an operational point of view, such as failure to anticipate orders, loss of control of industrial processes, obsolescence of facilities, poor skills management, loss of know-how, etc., and in terms of their overall management and financial management, such as a buyout or change of strategy, loss of revenue, poor management of working capital requirement, cash flow problems, entering administration or insolvency, etc. To do this, Naval Group conducts financial scorings of its strategic and major suppliers annually, and as often as necessary for other suppliers.

Managing economic and technological dependency risks

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

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

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

Moreover, the supplier list approved at meetings of the Procurement Policy Orientation Committee (coordinated by the Procurement Department and attended by members of the operating divisions and the Strategy and Finance Departments) is allowing a better appreciation of risks across the various purchase categories through the approved group strategy for the overall number of suppliers.

CSR risk management

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

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

1.2.7.6. Product safety

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

To that end, Naval Group has put in place various procedures to constantly oversee and improve control of this risk.

- The group's Chief Technical Officer (CTO), as the senior technical authority, is responsible for the technical framework that ensures safety performance. He ensures that product offerings and programs respect this framework and determines whether key milestones in terms of design, production and product maintenance have been met, particularly those concerning safety.
- The products that the group designs offer a very high level of safety from the outset, thanks to a technical framework in which safety is fundamental. All projects are nevertheless subject to specific reviews involving our safety experts, which enables technical options to be assessed and safety-improving solutions to be put forward.
- Naval Group is convinced that our customers have safety requirements as demanding as our own, and we are certain that this factor can give us an advantage over our competitors. The group pays great attention to this point in the preparation of tenders. Its safety experts are closely involved in tender preparation and in the associated technical reviews.
- Naval Group remains at our customers' service until our products reach the end of service. In connection with the technical overhauls that we perform, we draw up safety assessments for vessels in service and assist our naval clients in researching further advances.

Quality

Organisation

- The group's Quality function, headed by the Naval Group Technical and Quality Director, reports directly to General Management *via* the direct functional link between the group Technical and Quality Director and the Chairman and Chief Executive Officer. The Technical and Quality Director is a member of the expanded Executive Committee.
- This function has approximately 700 people (almost all of whom report directly to the operating divisions) to carry out control, quality and performance management tasks in the various Naval Group entities. The breakdown of missions is as follows: 50% industrial controls, 40% quality assurance, 10% performance.
- Quality constitutes a second line of control for operational processes and as such structures control activities and supports operational teams in the effective application of rules. This principle applies to Naval Group SA and the controlled subsidiaries.

Policy and related documentation

- The Quality, Safety and Environment policy is signed by the Chairman and Chief Executive Officer and updated annually. Each year, it sets out the major areas of commitment. In 2019, for quality: customer satisfaction, management involvement and leadership, improvement of know-how to achieve "getting it right first time", reinforcing the quality of our products and in particular of the proportion of bought-in products and services, deployment of the Business Management System (BMS) internationally, and the efficiency of whistleblowing systems.
- The Business Management System operationally integrates these commitments into the group's processes and procedures. More specifically, it defines the areas of application of the procedures, the operating rules for the entire product life cycle and the certifications that cover the sites and subsidiaries.

Management and performance

- Process application control is organised around quality and inspection networks (diving, pyrotechnics and nuclear safety), which verify the correct application of group standards for all products (new construction of surface vessels and submarines, operational maintenance services, implementation of upgrades, etc.).
- The results are scrutinised at group level through:
  - process performance reviews;
  - the BMS overall performance review;
  - the specific Quality, Safety and Environment performance review.
- Different control principles are applied in Naval Group's operations:
  - self-auditing;

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

- External controls are also carried out by supervisory bodies authorised by Naval Group's customers (*e.g.* DGA/SQ, OCCAR).
- The group has put in place various methodological tools to improve performance:
  - 8D and QRQC problem-solving tools;
  - process and technical feedback.
- Action plans are defined:
  - quality improvement plan (included in the 2015-2019 group progress plan) with a focus on improving the quality of supplies, taking into account the organisational and human factor;
  - digitisation of industrial files and controls to facilitate demonstration of compliance in real time.
- Prospective subjects are under study, including data mining applied to defects discovered.

Indicators

Indicators are monitored internally and reported weekly to the Executive Committee (for quality alerts) and monthly to the group Quality dashboard published and sent to all top management. The indicators chosen are linked to the Quality, Safety and Environment policy and objectives: for example, the number of non-conformities detected by customers, the number of internal alerts, the Supply Quality frequency rate. Objectives are set annually by the Executive Committee.

Diving safety

Applying the same rigour as for nuclear safety, a field in which the utmost level of safety is required, equipment contributing to dive safety is subject to the strictest requirements in their category across a variety of areas: procurement, controls, testing, traceability, etc. The dive safety inspector is in charge of developing a dive safety culture, ensuring that the technical framework is maintained and checking its application, and managing key positions in the area.

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

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

Policies and structures in place:

- a Diving Safety Inspectorate was created in October 2014 on the model of the Nuclear Inspectorate. It is under the authority of the Chairman and Chief Executive Officer, and it is tasked with analysing technical facts, the technical normative standard, training, skills maintenance and participation in technical safety milestones;
- for each type of submarine, a survey of important equipment for diving safety is conducted. All corresponding anomalies are recorded in the anomaly processing information system. They are all subject to the approval of local experts. The most significant ones are the analyses in full by the Diving Safety Inspector;
- due to the extremely specific nature of this field, Naval Group has established its own technical standard based on several decades of experience. This standard includes regulations known to our customers, as well as directories that capitalize on our know-how. For some delicate operations, Naval Group has a mandatory personnel qualification process in place. Application of the standard is regularly monitored by all the Naval Group's control stakeholders, including the Diving Security Inspectorate;
- diving safety is part of the technical expertise that covers all of the technical risks produced. Quantified assessment of it is covered by assessment of the technical control process.

Nuclear safety

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

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

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

1.2.7.7. Human resources risk

Core skills

Given the technical complexity of Naval Group's products and the multitude of skills needed to build them, as well as the acquisition, retention, redeployment and renewal of its skills are a major challenge for the group. To limit this risk, the group is developing a set of actions (school partnerships, training policy, knowledge transfer, etc.) so that it can have skills available at the right place at the right time and anticipate its future needs.

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

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

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

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

Social relations and policies

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

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

Health and safety at work

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

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

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

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

Employee security in sensitive countries

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

An employee protection system is managed by the group Security Department (International Security Department).

It is constantly updated, and it exists to:

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

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

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

Risk of interference

The highly technical nature of Naval Group's products, its international success, its presence in a highly competitive environment and the regular increase in the mobility of its employees expose the group to the threat of espionage (from both states and competitors).

Faced with this possible interference, both human and technical, a state of awareness and vigilance is maintained within the Naval Group by the Security Department through information campaigns for employees, who also have access to e-learning information and support for their international travels.

1.2.7.8. Environmental risks

Environmental protection

Naval Group's environmental approach encompasses all of its activities, products, services, and infrastructure. This approach is developed in the company's design and performance/production processes and has been ISO 14001-certified continually since 2008. The 2015 version of the standard was applied from the start of 2016, renewed in 2017 and successfully extended in June 2019.

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

Nuclear and Pyrotechnics Inspectorate

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

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

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

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

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

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

1.2.7.9. Data security and cybersecurity

For a high-tech business such as Naval Group that operates internationally in the defence sector, the protection of confidential and sensitive information and of information systems in the general sense, including business information, classified information and industrial information systems as well as subsidiaries' information systems to guarantee their availability, integrity and protection of confidentiality is a key issue. Since 2015, increasing the security of the various Naval Group IT systems has become a priority for the group given the ever-increasing quantity and sophistication of cyber-attacks. This translates into:

- significant multi- year investments to modernise and secure the IT system make it possible, among other things, to implement recommendations of the French National Agency for Information Systems Security (ANSSI). The effectiveness of the security actions implemented is verified through independent audits;
- the creation in 2016 of a Cybersecurity Department that reports directly to the Chairman and Chief Executive Officer and is tasked with defining the group's cyber strategy and coordinating, consolidating and deploying all cyber control systems both internally and for the products and services produced by Naval Group;
- cyber requirements are now taken into consideration internally and for our products right from the design phase and throughout the life cycle of the products, backed up by the Cybersecurity Framework and skills development within the IT, engineering and production teams;
- strengthening the organisation within the General Secretary's Office to control data exchanges with third parties and within the group, whatever the level of sensitivity of such data against a backdrop of accelerated internationalisation:
  - the Chief Data Officer, who is responsible for defining a vision for the organisation, management and consultation of group data, whether strategic, industrial and/or operational in nature, in compliance with the internal and external operational and regulatory requirements,
  - Data Protection Officer: responsible for ensuring the confidentiality of personal data as described in the general data protection regulation. This risk is detailed in the chapter on the declaration of corporate social responsibility performance.

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

- starting with the design phase, through the rigorous process used to choose suppliers (publishers, hosts and service providers) who are audited regularly, with a security risk analysis and deployment of security countermeasures;
- during the maintenance phase, whether preventive (threat intelligence and application of security patches) or evolutionary (in-service security support);
- in production, through threat and vulnerability intelligence in conjunction with the State authorities and community of experts, audits, governance of identities and access, network surveillance (inward and outward flow) and cyber defence by the Safety Operations Department which is part of the group Safety Department in close collaboration with the CERT of the Cybersecurity Division.

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

1.2.7.10. Insurance

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

This policy is reviewed and updated annually. It is based on a mapping of accidental risks and a policy of prevention/protection of assets (infrastructures, industrial tools and construction) and financial liabilities (liability debts).

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

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

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

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

At the end of 2019, Naval Group launched a study on a new understanding of its risk management policy and the transfer of such risks to the insurance markets. It focuses mainly on the objectives of (i) contributing to the win-back policy by optimising friction costs inherent in any insurance program and acquiring new agility, coupled with a strengthening of the confidentiality of our commercial actions and projects, and the internationalisation of Naval Group through deployment of international insurance programs underwritten in France on the principle of *think globally, act locally* so that each subsidiary and entity abroad benefits locally from the most advanced insurance coverage and the leverage effects of Naval Group as a whole; to protect ourselves against market volatility, which exposes us to cyclical premium increases unrelated to our own claims, reduced capacity and insurer willingness to underwrite essential coverage to protect Naval Group's interests; capitalise on the maturity of internal risk management to transfer to insurers only the intensity risk, which by definition has no frequency and is not controllable, while low-intensity risks are retained because their cause is mainly human, corrective and preventive actions will reduce the frequency and impact on the balance sheet of a program and ultimately of Naval Group.

1.3. NAVAL GROUP SA'S POSITION DURING THE 2019 FINANCIAL YEAR

1.3.1. REVENUE AND RESULTS OF NAVAL GROUP SA

Order intake

Naval Group SA's order intake for 2019 was €5,345 million, as compared with €3,655 million in 2018.

As at December 31, 2019, Naval Group SA's order book stood at €15,011 million.

Revenue

Naval Group SA revenue amounted to €3,640.2 million for the 2019 financial year. This amount is not comparable with 2018 due to the change in revenue recognition method.

Income

Operating profit was €261.6 million (7.20% of revenue), an amount that cannot be compared to 2018 due to the impact of the change in revenue recognition method.

A net financial income/expense of €12.4 million was recorded, compared with net financial income/expense of €3.8 million in 2018.

There was an extraordinary loss of €9.7 million, compared with income of €29.6 million in 2018.

The company's net income/expense was €145.2 million (4.0% of revenue).

1.3.2. FIVE-YEAR FINANCIAL SUMMARY FOR NAVAL GROUP SA

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

Financial year ended	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015
Length of accounting period (months)	12	12	12	12	12
Capital at reporting date					
Share capital	563,000,000	563,000,000	563,000,000	563,000,000	563,000,000
Number of ordinary shares	56,299,700	56,299,700	56,299,700	56,299,700	56,299,700
Number of A preference shares	300	300	300	300	300
Number of B preference shares	–	–	–	–	–
Operations and results					
Revenue excluding taxes	3,640,222,336	2,852,264,434	3,564,858,418	3,133,025,184	3,007,623,309
Net profit (loss) before tax, profit-sharing, depreciation, amortisation and provisions	448,058,757	494,531,839	374,653,811	330,272,618	149,119,288
Income tax charge (income)	66,420,666	26,880,434	99,242,850	33,161,644	24,765,683
Employee profit-sharing	27,798,326	9,827,394	25,647,042	10,121,819	4,432,587
Charges to depreciation, amortisation and provisions	208,595,147	321,601,011	164,318,217	60,242,574	48,787,298
Net profit (loss) after tax, profit-sharing, depreciation, amortisation and provisions	145,244,618	136,223,000	85,445,702	226,746,581	71,133,721
Dividends paid	87,828,000	57,426,000	0	0	0
Earnings per share					
Net profit (loss) after tax and profit-sharing but before depreciation, amortisation and provisions	6.28	8.13	4.44	5.10	2.13
Net profit (loss) after tax, profit-sharing, depreciation, amortisation and provisions	2.58	2.42	1.52	4.03	1.26
Dividend allotted to each ordinary share	0.78	0.51	–	–	–
Dividend allotted to each A preference share	146,380	95,710	–	–	–
Dividend allotted to each B preference share	–	–	–	–	–
Staff					
Average number of staff	11,653	10,617	9,656	9,173	9,169
Payroll expenses	704,151,812	647,111,991	566,370,319	533,246,605	522,208,640
Payroll-related costs (Social Security, staff benefits, etc.)	308,658,768	281,506,422	248,572,255	246,021,617	233,328,122

No interim dividend was paid in 2015.
No interim dividend was paid in 2016.
No interim dividend was paid in 2017.
No interim dividend was paid in 2018.
No interim dividend was paid in 2019.

1.3.3. NAVAL GROUP SA TRADE RECEIVABLES AND TRADE PAYABLES

In accordance with articles L. 441-6-1 and D. 441-4; article 24-II of the French Law on the Modernisation of the Economy, the following table provides details of the due dates of the company's trade receivables:

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

Closing date		Total	Invoices not overdue for payment	Payment overdue by 1 to 30 days	Payment overdue by 31 to 60 days	Payment overdue by 61 to 39 days	Payment overdue by more than 90 days	Total 1 day or more
Length of time overdue								
12/31/2019	Number of invoices concerned	1,874	659	289	109	67	750	1,215
	Total value of invoices concerned excluding tax	397.2	133.9	45.7	48.2	44.6	124.8	263.3
	Share of pre-tax revenue for the financial year		3.68%	1.26%	1.32%	1.23%	3.43%	7.24%
12/31/2018	Number of invoices concerned	1,812	711	257	103	73	668	1,101
	Total value of invoices concerned excluding tax	318.5	110.9	59.0	91.5	13.9	43.2	207.7
	Share of pre-tax revenue for the financial year		3.16%	1.68%	2.61%	0.40%	1.23%	5.92%

Invoices issued that were overdue for payment in the financial year

Closing date		Total	Invoices not overdue for payment	Payment overdue by 1 to 30 days	Payment overdue by 31 to 60 days	Payment overdue by 61 to 90 days	Payment overdue by more than 90 days	Total 1 day or more
Length of time overdue								
12/31/2019	Cumulative number of invoices concerned	10,609	6,612	3,277	544	96	80	3,997
	Total cumulative value of invoices concerned excluding tax	3,434.2	1,377.8	1,598.7	267.9	92.6	97.2	2,056.4
	Share of total value of invoices issued in year, excluding tax		39.21%	45.50%	7.63%	2.64%	2.77%	58.53%
31/12/2018	Cumulative number of invoices concerned	10,377	6,405	3,117	797	25	33	3,972
	Total cumulative value of invoices concerned excluding tax	2,892.4	2,531.5	268.5	58.5	2.0	31.8	360.8
	Share of total value of invoices issued in year, excluding tax		95.33%	10.11%	2.20%	0.07%	1.20%	13.59%

In accordance with articles L. 441-6-1 and D. 441-4; Article 24-II of the French Law on the Modernisation of the Economy, the following table provides details of the due dates of the company's trade payables:

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

Closing date	Length of time overdue	Total	Invoices not overdue for payment	Payment overdue by 1 to 30 days	Payment overdue by 31 to 60 days	Payment overdue by 61 to 90 days	Payment overdue by more than 90 days	Total 1 day or more
12/31/2019	Number of invoices concerned	30,437	22,552	4,063	643	259	2,920	7,885
	Total value excluding tax of invoices concerned	341.8	228.1	76.9	15.5	4.7	16.6	113.7
	Share of invoices received excluding tax for the financial year		11.71%	3.95%	0.79%	0.24%	0.85%	5.84%
12/31/2018	Number of invoices concerned	12,084	9,860	922	371	145	786	2,224
	Total value excluding tax of invoices concerned	208.2	156.4	19.0	9.2	3.2	20.4	51.8
	Share of invoices received excluding tax for the financial year		75.11%	9.11%	4.41%	1.56%	9.81%	24.89%

Invoices received that were overdue for payment in the financial year

Closing date	Length of time overdue	Total	Invoices not overdue for payment	Payment overdue by 1 to 30 days	Payment overdue by 31 to 60 days	Payment overdue by 61 to 90 days	Payment overdue by more than 90 days	Total 1 day or more
12/31/2019	Cumulative number of invoices concerned	289,442	204,765	59,266	15,486	5,391	4,534	84,677
	Total cumulative value of invoices concerned excluding tax	2,515.2	1,762.9	474.0	147.5	52.2	78.6	752.3
	Share of total value of invoices, excluding tax, paid in year		54.58%	14.67%	4.57%	1.62%	2.43%	23.29%
12/31/2018	Cumulative number of invoices concerned	219,459	151,163	44,036	7,473	12,058	4,729	68,296
	Total cumulative value of invoices concerned excluding tax	2,265.0	1,456.8	543.2	142.3	51.9	70.8	808.2
	Share of total value of invoices, excluding tax, paid in year		64.32%	23.98%	6.28%	2.29%	3.12%	35.68%

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

In its tax filings, Naval Group SA will add back the sum of €302,640 in relation to excess depreciation on private cars.

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

Attendance fees of €117,000 were paid in 2019 in respect of 2018; they remain deductible under the tax regulations.

1.3.5. NAVAL GROUP SA – DIVIDENDS PAID IN RESPECT OF THE LAST THREE FINANCIAL YEARS

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

- in respect of the financial year ended December 31, 2016: none;
- in respect of the financial year ended December 31, 2017: €57,426,000;
- in respect of the financial year ended December 31, 2018: €87,828,000.

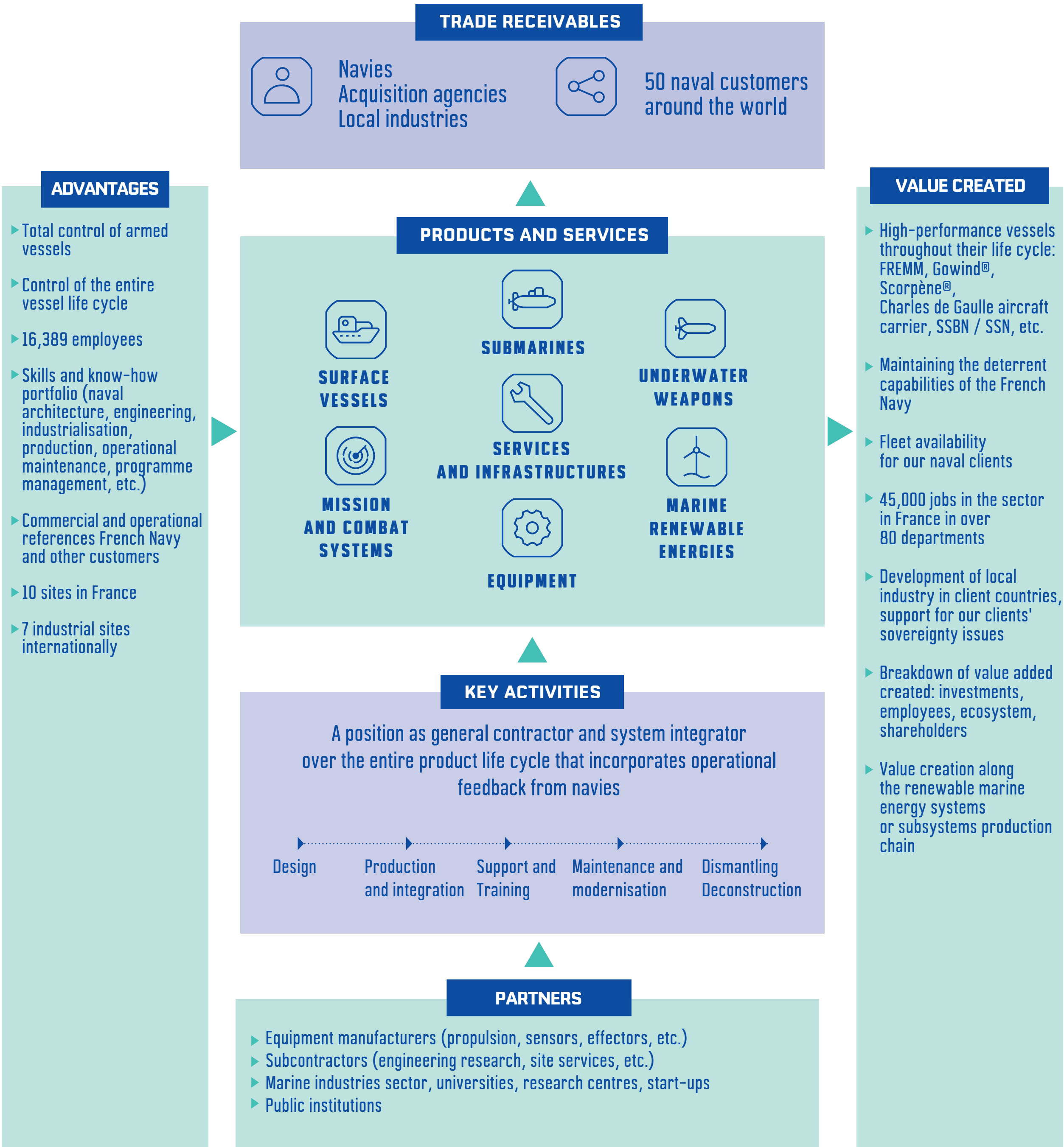
II. EVENTS AFTER THE REPORTING PERIOD

None.

III. DECLARATION OF CORPORATE SOCIAL RESPONSIBILITY PERFORMANCE

3.1. INTRODUCTION

3.1.1. BUSINESS MODEL



3.1.2. STRATEGY

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

Global Compact: Naval Group has been a member of the United Nations Global Compact since 2014 and participated in the peer review in May 2019, which concluded with the confirmation of "Advanced" level for the fifth consecutive year for the group. Only 120 companies in France have achieved this level of recognition.

3.1.3. SCOPE

Governance scope

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

Environmental scope

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

Naval Group's foreign consolidated companies make up less than 5% of the group's total number of staff. Some of these companies deploy in-service support, but most carry out design, study, technical assistance and project management, purchasing and sales and administrative support activities. Consequently, they have a reduced environmental impact compared with the French activities and are not subject to reporting.

OH&S scope

The occupational health and safety indicators cover all Naval Group sites in France.

Social scope

The social reporting scope highlights the Naval Group UES (economic and social unit), comprised of the French establishments and the French subsidiary Sirehna, and the group, which corresponds to the UES unit and the foreign subsidiaries in which Naval Group has a majority stake.

3.1.4. CSR GOVERNANCE

The company's corporate social responsibility (CSR) is a primary consideration for the group and its shareholders. In addition, Naval Group's Board of Directors now deals with CSR topics within the Remuneration, Appointments, Ethics and CSR Committee, which was expanded in 2018 to include ethics and CSR issues. CSR risk mapping is always reviewed by the Audit, Accounts and Risks Committee.

Moreover, in October 2019, Naval Group decided to bolster its ambitions for corporate social responsibility and is considering including CSR in its five-year strategic roadmap, to be defined in 2020.

Under the French law on the growth and transformation of businesses (Law No. 2019-486 of May 22, 2019), Naval Group is also reviewing the definition of its raison d'être.

Internally, the Ethics and Corporate Social Responsibility Committee (CERSE) is tasked with setting the general guidelines on ethics and corporate social responsibility as they apply to all of the group's companies. The various actions are divided between six commissions: Whistleblowing Reports, Duty of Vigilance Plan, Sustainable Development Objectives, Internationalisation, Communication and Artificial Intelligence. The CERSE is responsible for overall coordination. It has the freedom to carry out any work it deems useful in the context of its duties and role. In addition, its Chairman implements the process of reporting on any conduct that is contrary to ethics and CSR standards when any matter is reported through the ethics hotline.

The CERSE is composed of eleven individuals appointed by the Chairman and Chief Executive Officer. Its structure is defined in its internal rules, reviewed in 2019 and published on the company's Business Management System (BMS)[1].The committee relies on a network of "Ethics and CSR Officers" at every site in France and abroad. They are invited to attend conference calls every two months to discuss news, best practices, goals and the progress of current actions. They also participate in special events such as organising and leading CSR sessions at their site or subsidiary, the Ethics and Compliance Day held in December each year and the annual seminar for CSR leaders (Compliance Officers, Ethics and CSR Officers, CERSE members).

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

(1) *The Business Management System (BMS) is Naval Group's reference system. It defines the rules and implementing procedures for achieving the group's strategic and policy goals. A portal provides access to a description of all Naval Group processes, sub-processes and activities, together with the associated documents.*

3.1.5. PRIMARY CSR RISKS

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

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

3.2. CSR RISKS AND OPPORTUNITIES IDENTIFIED BY NAVAL GROUP

3.2.1. THE GROUP'S ENVIRONMENTAL COMMITMENT

The sea is both the traditional environment of Naval Group and an expression of its future. It is at the heart of the group's activities and its renewed ambitions in the naval sector.

Although the maritime space is full of business potential, it is still a fragile environment. Conscious of this reality, the group is committed to tackling environmental issues in its activities: products, services and infrastructure.

To ensure this stance is an integral part of its processes, environmental protection is included in Naval Group's ethical commitments and is the subject of an environmental policy deployed throughout all the group's sites and soon to be deployed in its subsidiaries as well.

The policy has three focal areas, as well as demanding compliance with the regulations in force:

- preventing people and the environment from being affected by the group's activities by ensuring industrial safety to reduce the impact of its activities on the air, water and soil;
- limiting the environmental footprint of products, services and infrastructure throughout their life cycle by taking a proactive approach from the design phase through to procurement to limit the consumption of natural resources, particularly energy;
- participating in the combating of climate change by reducing greenhouse gas emissions.

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

3.2.2. SERIOUS ENVIRONMENTAL INDUSTRIAL ACCIDENT

In the process of the performance/production of Naval Group's activities, the measures taken are designed to manage the industrial risks, prevent the occurrence of environmental industrial incidents and, where necessary, limit their impact on the environment. Risk situations are fully monitored and the resources that could be deployed where necessary to combat them are identified.

Naval Group is also keen to continuously reduce the environmental impact of its activities, especially regarding cutting energy consumption (for instance, by reducing the number of IT datacentres), reducing greenhouse gas emissions (for instance, by expanding the use of video conferencing and establishing new web conferencing services) and improving the treatment of waste.

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

Detailed description

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

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

Impact

A serious environmental industrial accident could:

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

Policy and organization

To control its risks, Naval Group has created a continuous environmental improvement program, through the introduction of a management system. As a result, Naval Group has continuously held ISO 14001 certification, for all its sites and activities, since 2008. The 2015 version of the standard was applied from the start of 2016, renewed in the first half of 2017 and successfully extended in June 2018.

The group also relies on a comprehensive quality, safety and environment policy renewed in 2019 and developed across all of its entities in France and abroad.

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

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

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

Naval Group's environmental approach encompasses all of its activities, products, services and infrastructure. This approach is developed in the company's design and performance/production processes.

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

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

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

Identification of these environmental contributors has continued with work carried out during the "design" phase (detailed in paragraph 3.2.3).

News

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

At French sites, all new employees are educated on environmental issues as a part of their onboarding. This process includes three training phases:

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

Naval Group University also offers staff additional training according to their area of work and their position. This training is dedicated to the environment if an employee needs to be made aware of eco-design, or more generally shared with OH&S if training in risk prevention is required.

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

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

Performance indicators

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

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

In performance terms, the group did not suffer any serious environmental industrial accidents in 2019 and, as of this date, counts three environmental events having a temporary impact on the environment (Level 2), with a target of four (see graph below).

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

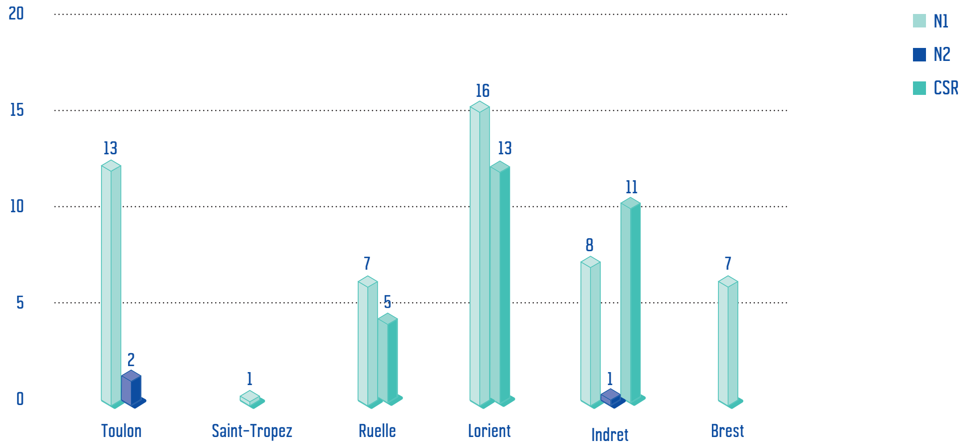


Figure 1: List of 2019 environmental events.

Environmental incidents are categorised and tracked/tallied:

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

By type of environmental impact:

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

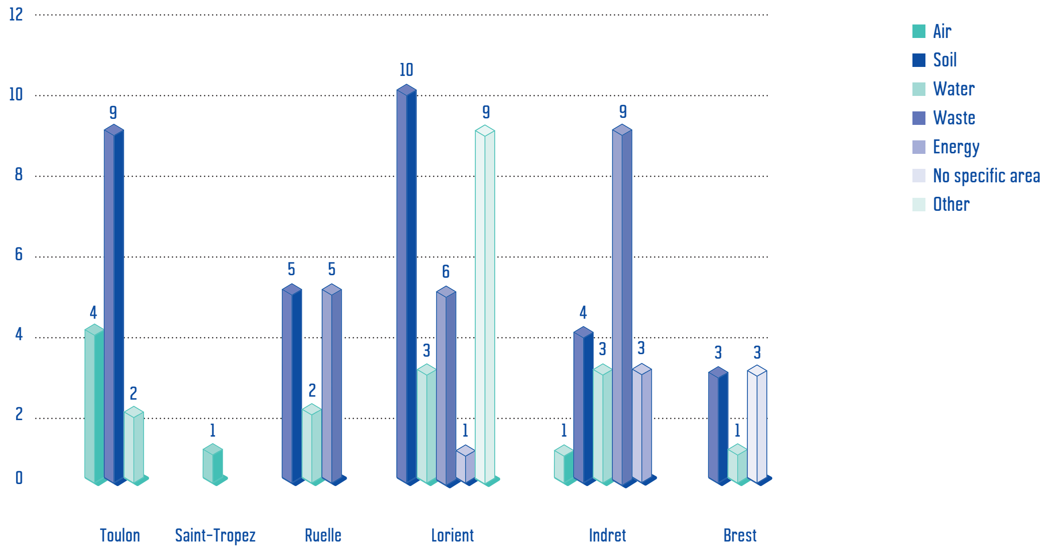


Figure 2: List of environmental events by site and by field impacted.

In 2019, there were 52 events without impact on Naval Group sites in France. Corrective and preventive actions were taken for all of them.

That same year, 29 at-risk situations were reported, demonstrating the sites' vigilance in preventing environmental risks.

3.2.3. CARBON FOOTPRINT OF PRODUCTS IN SERVICE

Detailed description

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

Annex VI of MARPOL covers the rules to be followed on gas emissions, particularly the prevention of air pollution. It is based on three themes:

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

These are taken into account when designing Naval Group products, to the extent that their application is technically feasible. As part of the third theme, the Energy Efficiency Design Index (EEDI) has required new vessels to measure their performance in reducing CO_2 emissions since January 2013. This index mainly applies to passenger ships, container ships, ro-ro ships, etc. Although it does not apply to military vessels, Naval Group has decided to comply by measuring the carbon footprint and energy efficiency of its flagship products. Accordingly, the carbon footprint of the multi-mission frigate (FREMM) was measured in 2017, that of the Gowind®-type corvette in 2018, while this year it was the turn of the Scorpène® submarine, whose post-launch results are expected in late December.

The carbon footprints of the FREMM and Gowind® estimated the share of greenhouse gas emissions that can be attributed to their use throughout their life cycle at between 80% and 90%. The results in tonnes CO_2 equivalent give a quantitative value which is representative of the scope of the environmental studies chosen. This conclusion supports the findings of the LCA studies. However, the two results are not comparable with each other, since the vessels have a completely different usage profiles, mass, speed and lifetimes.

This proactive approach demonstrates Naval Group's commitment to environmental protection. It is fully in line with the goals that the group has set itself with its overarching R&D themes, particularly "Blue Ship", which focuses on eco-design and energy optimisation.

Policy and organisation

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

Eco-design is driven by a four-person unit and the SA 19 "Environment and Eco-design" business line. This coordinates the approach and draws on a network of around 50 specialists who work on projects according to their area of expertise, whether technical or organisational. It is active in both programs and R&D.

This essentially ship-based network is gradually being extended to include infrastructure and service offerings to unify the group's objectives. The role of the officers present in each entity is to report on the group's objectives, to disseminate and adapt existing methods as required, to draw up the necessary documents, and, lastly, to educate the teams.

SA 19 is responsible for the methods used, their consistency between programs and work on standardising business rules. Various business guides have been written this year, including a guide to the allocation of environmental requirements for surface vessels and submarines, a guide to writing environmental management plans for products, a guide on the Écoveille tool, a cleantech catalogue.

SA 19 is also responsible for monitoring international environmental legislation. It participates in the IMO's Marine Environmental Protection Committees (MEPC) to stay informed of continuous updates to the rules to be applied and also to be prepared for such changes within the various product lines in the design phase.

More broadly, Naval Group, again through SA 19, is involved in the naval sector's review of environmental considerations in the shipbuilding industry, by:

- supporting the initiatives of the *Pôle Mer Bretagne Atlantique* and its "Greenship" project. The review covers energy, energy conservation and eco-design;
- participating in "Surfrider"'s accreditation work, modelled on the Canadian "Green Marine" certification and due to be transposed into a European label with the support of the European Commission;
- partnering with the maritime cluster, through "Blue Ship", to join the "Energy efficient transition of the maritime sector" project;
- giving lectures at the National Maritime College (ENSM) on environmental considerations in design for the "Vessel eco-management" engineering course.

News

In terms of programs, the projects whose activities started in previous years were extended and enhanced in 2019. New programs have also been classed as environmentally "proactive", meeting the group's target set at the beginning of the year for 50% of projects to contribute to environmental protection.

- The "Australian Future Submarine" (AFS) program is a project that incorporates methods for measuring a vessel's environmental impact from the outset. To achieve this, requirements have been assigned to the various systems and suppliers are brought in at the very start of the project.

- Third-generation ballistic nuclear submarines include an environmental audit focusing on energy and life on board. An environmental management plan is also being drawn up to define the measures put in place to meet requirements, particularly during the operational phase.
- Defence and intervention frigates (FDI) and Black Sword Barracuda® submarines follow the Business Management System's development process, applying the environmental requirements stipulated for those vessels and thereby encouraging suppliers to demonstrate their commitment and response capability and help achieve the environmental targets set.
- Mine hunters have a significant "energy efficiency" component, calling for a precise definition of the environmental requirements to be allocated to each system or item of equipment. These requirements must then be relayed to suppliers.

In terms of R&D, the target of 20% of R&D data sheets incorporating an environmental element was recently achieved. To lend more weight to the environmental aspect, the "eco-design" principle has been combined with the "energy optimisation" principle to create the "Blue Ship" umbrella project, giving them more impact and visibility. In effect, the aim of this umbrella project is to ensure that the armed vessel, by pooling energy and identifying hybrid sources, has the requisite energy self-sufficiency for all of its current and future missions with the smallest possible environmental footprint. With its "Blue Ship" project, Naval Group can face the challenge posed by the environmental and energy transition. This covers vessels, infrastructure and service offerings.

The technology blocks specific to eco-design have been reworked and are organised as follows:

- environmental impact metrology;
- anticipation of regulatory changes;
- marine biology;
- low-carbon energy;
- discharges and waste;
- green technologies.

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

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

Performance indicators

With the progress achieved on vessels, the eco-design process will be systematised on the infrastructures and services proposed by Naval Group. The group's targets, presented in paragraph 3.2.1 "The group's environmental commitment" and set for the 2018-2020 period, support this gradual development across the other "products" in the Naval Group portfolio. Participation in the IMO's MEPC 74 was another highlight of this financial year.

Performance indicators were set and tracked during the year:

- 50% of vessel projects were classed as "proactive", in other words, proactive with regard to environmental protection requirements;
- 20% of R&D data sheets contribute to environmental protection by the progress they bring about;
- launch of the third carbon footprint study of our products, with the Scorpène® submarine in 2019.

Other disclosures

Based on the energy consumption of Naval Group's French sites, it was possible to calculate the greenhouse gas emissions associated with these sites:

- direct emissions from stationary combustion sources: 17,047.23 tCO_2e;
- indirect emissions related to electricity consumption: 5,240.29 tCO_2e.

3.2.4. OCCUPATIONAL HEALTH AND SAFETY

An integrated policy

The occupational health and safety (OH&S) policy has now been incorporated into a global quality, safety and environment (QSE) policy revised and signed by the Chairman and Chief Executive Officer. This policy puts into perspective and ensures consistency between the ambitions and requirements of the group in order to meet the needs and expectations of the group's clients, develop the culture of identification and control of risks and ensure regulatory compliance.

The Afnor follow-up audit conducted during 2017 confirmed the certification of Naval Group's global QSE management system in the standards ISO 9001, ISO 14001 and OHSAS 18001.

Organisation

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

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

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

Training

The involvement of management line and developments in the behaviours of all staff, Naval Group or otherwise, present on our sites are central to the OH&S effort. Training is one of the main levers used by Naval Group to accomplish this aim.

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

OH&S performance

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

Naval Group results at December 31, 2019:

- LTAs: 135, for a target of 115 (117 LTAs in 2018);
- FR1: 5.9, for a target of 5.5 (FR1 of 5.4 in 2018);
- SR: 0.13 (SR of 0.17 in 2018).

These results show an increase in the number of LTAs and the FR1, which had fallen in 2018, although the SR has declined. The average number of days lost in 2019 per work accident is 22 days, compared with 28 days in 2018.

Primary risks

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

The main causes of these accidents in 2019 were falls at ground level or from a height following movements in workshops and vessels, and manual load handling and transportation. By themselves, these causes make up more than half of accidents with lost time.

Accidents occurring during travel, with and without lost time, make up around a third of the total number of accidents in 2019. Their severity level is high.

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

At Naval Group KSA, asbestos incidents may occur during some maintenance operations. These are analysed and appropriate local action is taken.

Control of the primary risks

Preventive actions for the primary risks, which were launched several years ago, continued in 2019. Inter-site groups specialised in the major risks are in regular contact to share their best practices and the problems they encounter. These groups of experts work together to ensure optimal management of the risks that employees are exposed to.

In addition, the primary risks are monitored using precise statistical tracking; accidents or incidents that do occur are also subjected to in-depth analyses, which are regularly presented to the local and national social and economic committees to submit findings and observations. These analyses and the ensuing preventive actions are shared throughout the prevention network so that the feedback benefits the entire group.

These primary risks are also controlled through strong management involvement and changes in behaviour. To this end, the main levers put in place in recent years were continued in 2019:

- the management and cascading of OH&S actions by managers *via* dashboards for operational staff;
- the use of control loops containing OH&S indicators (departmental tools to assess their entities' performance relative to determined KPIs);
- manager involvement in the process of analysing accidents and incidents, talking to staff on the ground;

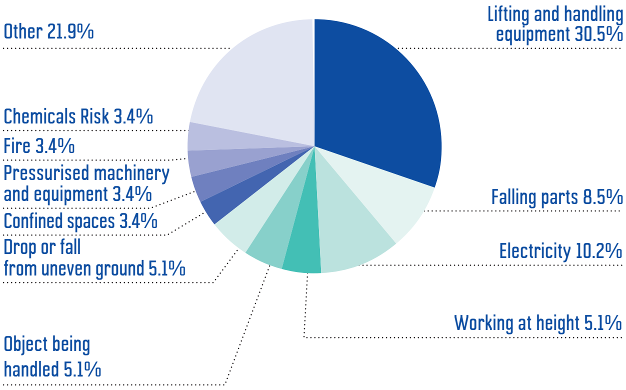
- incentives for employees to commit to risk prevention by completing risk situation reports; and
- management safety and environment inspections.

Key actions of 2019

In 2019, major initiatives were continued in order to improve our risk management. The common method of analysis of accidents and serious incidents (8D) was used to analyse the causes of major events. Prevention managers continued to implement this method at their sites and trained their teams on its use.

The chart below shows the causes of incidents that resulted in 8D analysis in 2019:

Causes of major events in 2019



The "10 golden safety rules" that Naval Group created in 2018 have been rolled out to all Naval Group sites and international subsidiaries. Their objective is to clarify the basic safety rules at Naval Group. They are non-negotiable and applicable to everyone present on the company's sites. For these rules to become company standards, they are and will be integrated into OH&S analyses, communications campaigns, and more.

Communication on occupational health and safety (OH&S)

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

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

In 2019, an OH&S communications plan was rolled out on a monthly basis. These campaigns, in the form of videos, posters, intranet articles and "safety talks", were used to present and describe each golden rule in detail.

International development is a key factor for Naval Group. The company's growth depends on our ability to meet our clients' needs in France and internationally and guarantee our employees' safety. To this end, in 2019, the international occupational health and safety network (launched in 2018) worked on managing risks and improving OH&S performance. The network includes the prevention officers of the seven Naval Group subsidiaries with the largest workforces: Australia, Malaysia, Saudi Arabia, India, Egypt, Brazil and Singapore. The purpose of this network is to define occupational health and safety requirements and expectations and to discuss them regularly and share best practices.

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

- identifying the information of each exterior shipyard located in France or abroad;
- the introduction of prevention plans by Naval Group and the client's activities to prevent risks and ensure good coordination between the various parties;
- the organisation and follow-up of staff conducted by the occupational physician and the primary-care doctor's involvement internationally;
- the definition of essential training prior to departure on an expatriation assignment.

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

Issue

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

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

Detailed description

Inappropriate conduct includes:

- non-compliance with the rules of company agreements, such as working hours, leave, overtime, compensatory time and recovery days;
- more generally, non-compliance with the Labour Code;

- failure to apply the Human Rights Charter: discrimination in all its forms and harassment;
- disciplinary misconduct: data falsification, unfounded payment claims and deviant conduct at any level whatsoever.

These situations may result from the inadequacy of internal controls.

Impact

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

Policy and structure in place

For each of the fraud risks identified by Naval Group, a supervisor is appointed from among the second lines of control.

Each department concerned manages these risks through its monitoring activities.

Fraud risk management is coordinated by the Audit and Risk Department.

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

- introducing appropriate standards for the entire group and its subsidiaries, and for its suppliers (Code of Ethics and Human Rights Charter);
- as regards suppliers and subcontractors:
  - asking suppliers on the panel to respond to an independent external firm's questionnaire on CSR issues,
  - auditing suppliers identified as "at risk" on the panel used by Naval Group SA and/or its subsidiaries *via* a dedicated platform maintained by a third-party service provider and performing due diligence, searching in particular for red flags concerning their reputation or integrity and those of their ultimate beneficiaries and managers, who must be identified,
  - auditing new suppliers of Naval Group SA and its subsidiaries during the supplier pre-qualification phase and before suppliers join the panel,
  - having suppliers on the panel of Naval Group SA or its subsidiaries sign an undertaking to adhere to Naval Group's Supplier code of conduct, which may be adapted to the legislation of the supplier's country of origin; for more occasional suppliers, a reference to Naval Group's Supplier code of conduct should be included in the general purchasing conditions.

  In accordance with the Supplier code of conduct, "should it transpire that a supplier is unable to comply fully with certain obligations of this Code, the supplier and Naval Group may agree, depending on the issues identified, to put in place an action plan that will be implemented by the supplier within agreed timescales, with a view to maintaining a productive and lasting relationship between the supplier and Naval Group. Furthermore, in the event of a material breach preventing an action plan from being agreed upon, Naval Group may review the supplier's fitness to be included on the panel. Naval Group thus reserves the right to terminate the agreements, orders and purchasing contracts signed with that supplier, without prejudice to any damages that Naval Group may claim";
- signing agreements with trade unions (three-year wage agreement, agreement on working from home, amendments to the employee savings plan and pension agreement);
- maintaining the whistleblowing system with a network of contacts for handling complaints of discrimination or harassment;
- developing a detailed joint framework for the role of the CSE member responsible for dealing with sexual harassment and gender-based discrimination;
- training and advising managers *via* labour law practitioners;
- identifying second-line risk management entities in charge of monitoring and controlling the application of the systems in place to mitigate these risks, each in their scope, such as the Financial, Procurement, Human Resources, Export Control, Group Safety and Group Ethics, Compliance and Governance Departments.

The proper application of these rules and systems also requires communication, management, and training.

Depending on the subject, a comparative analysis of the group's standards and national laws may be carried out and the applicable standards adapted accordingly.

News

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

Performance indicators

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

3.2.6. SOCIAL RELATIONS AND POLICIES

Issue

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

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

To date, this policy has only been implemented in France. However, the challenge is to develop an international approach to the core components of the group's social foundation. Australia has already embarked on this process.

Detailed description

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

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

Impact

These situations can result in unforeseen financial costs due to the delay in meeting milestones and, eventually, missing the contractual delivery date. A poor social climate and poor social dialogue also affect the company's image, especially its employer brand, which again would be detrimental to the company's ability to attract prospects and applicants.

Policy and structure in place

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

Relations with the trade unions and employee representatives are structured according to the company agreement revised in 2017. This agreement dedicates two chapters to industrial dialogue, one for rules and methods of employee representation (Social and Economic Committees, CSE) and one for the trade unions. The resources allocated go well beyond the strictly legal and the structure for informing and consulting with the entities is based on a desire for great transparency, involving players well upstream of decisions having an impact on organisations and people.

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

Moreover, the dynamism of social dialogue is reflected in the CSE's commissions, which do not meet according to a strict timetable, but in response to a genuine culture of information and consultation on all fundamental aspects of company life.

News

In 2019, the main social news was the creation of the Economic Social Committee and its commissions. This marks a step change from previous practices that were based on a structure of three separate bodies. Thanks to the negotiated contractual framework (Amendment No. 2 to the company agreement) defining the arrangements for the set-up and operation of this new body, the CSE's creation went smoothly on the whole and the newly-elected representatives have taken well to their new roles. Admittedly, some minor changes and adjustments are needed; these are already being trialled and should lead to formal agreements being signed by the deadline set.

To this end, a meeting with the CSE and CESC secretaries, the main trade union delegates and the site industrial relations officers is scheduled for early January to review the operation of this new body and its commissions. This will also be an opportunity to approve the changes being trialled and to obtain new recommendations if necessary.

In terms of collective bargaining:

- a three-year agreement on the wage policy was signed in January 2019 with three trade unions (CFDT, UNSA and CFE-CGC), defining a secure, balanced framework by factoring in Naval Group's industrial and economic performance in its remuneration policy;
- a new agreement on working from home was signed in July 2019 with all representative trade unions, including CGT which is signing its second agreement since the change in the company's status;
- amendments have also been made to the employee savings plan and pension agreement.

We have also begun an overhaul of the strategic jobs and skills management agreement in line with the French law on the freedom to choose one's professional future. This agreement is expected to be signed at the end of the first quarter of 2020.

Performance indicators

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

3.2.7. CORE SKILLS

Issue

Naval Group employs a wide range of specialisms and fields of expertise in the performance of its activities, making use of the varied skills of every member of its workforce. Naval Group's products include leading-edge technology systems and require very specific skills and know-how.

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

Detailed description

The major risk is therefore that the group might experience difficulties in having the requisite skills available in the right place at the right time in order to execute its strategy and successfully complete its programs.

These difficulties could arise from:

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

Impact

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

Policies and structure in place

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

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

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

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

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

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

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

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

Organisation

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

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

News

In 2019, the main key skills management activities were as follows:

- addition of a new family of critical skills to the portfolio of sovereign families, which now number five;
- continuation of work on the submarine ramp-up: criticality assessment, skills audit within the group, action plans and project organisation for the ramp-up of the next-generation aircraft carrier under the same terms;

- expansion of the shipyard training program (nine active schemes, plus four in the design phase);
- provision of more than 70 naval tutorials;
- development of an employer brand strategy based on Naval Group corporate communications, in conjunction with the Communications Department;
- continued support for the development of the Naval Industries Campus (CINAV): participation in industry promotional campaigns for schools and training institutions and contribution to the identification of industrial workers' training needs;
- work on employability and coaching of employees in their professional careers, GPEC and the reform of professional training.

2019 achievements

These are the objectives pursued in 2019:

- fill positions in sovereign families: followed by the creation of positions to be filled in these families;

Family	2019	Medium-term plan target (2020)
Aviation	29	34
Diving safety	499	500
Submarine architecture	41	34
Nuclear propulsion	911	920
Invulnerability	126	Work in progress

- create talent pools in occupations where there is a shortage of talent: followed up by recruitment to occupations where there is a shortage of talent; 67% of the 2019 staffing plan filled to date in occupations where there is a shortage;
- structure career pathways for high-potential employees and integrate high-potential workers, technicians and supervisors into these pathways: the framework of the 2019 career reviews included all of the group's socio-professional categories.

Performance indicators

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

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

- Naval Group (group) had hired 2,540 new recruits at the end of December 2019, including 1,865 on permanent contracts;
- 1,245 people had left the group at the end of December 2019.

3.2.8. PERSONAL DATA PROTECTION – PRIVACY

Issue, detailed description and impact

The entry into force of the General Data Protection Regulation (GDPR) has resulted in increased awareness, among individuals and professionals, of the challenges of protecting personal data and its operational, legal, financial, ethical and reputational impacts.

As part of this trend, regulations governing personal data protection are becoming stricter all over the world.

Policy and organisation

Naval Group, conscious of the challenges linked to the controlled development of IT and new technologies, has introduced a compliance policy, coordinated by the Data Protection Officer (DPO) with the support of a network within the group's various divisions and sites in France.

Naval Group is steadily rolling out this policy in order to embed privacy in the group's employee culture and in its relations with customers, partners, suppliers and subcontractors.

The policy covers the entire privacy ecosystem (HR, IT, Security, Cybersecurity, Data Office, etc.) and is based on specific group processes, methodologies and procedures, as well as awareness-raising and training for all employees.

News

In 2020, the focus will be on the need to harmonise the level of personal data protection within our foreign entities and on consolidating the group's compliance management.

Performance indicator

Metrics for assessing the effectiveness of the privacy policy are currently being developed.

3.2.9. RISK OF CORRUPTION AND INFLUENCE PEDDLING

Issue

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

Detailed description

The risk of corruption and influence peddling is identified in the group's risk mapping for activities carried out in France and internationally, particularly in the subsidiaries. It covers business dealings with third parties, sponsorship and corporate philanthropy activities, involvement in political and community life, as well as gifts and meals received or offered and the reflection of these transactions in the accounting records.

Impact

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

Policy and structure in place

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

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

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

It includes a document library containing a Compliance code of conduct and various operating procedures, especially for the evaluation of third parties, a whistleblowing hotline, a system for handling whistleblowing reports, an awareness and training program, a communications plan and a monitoring plan.

To implement and coordinate this system, Naval Group has set up an Ethics, Compliance and Governance Department. This acts as the second line of defence for compliance risks and is supported by a network of Compliance Officers who report to the directors of each entity (departments, sites and subsidiaries). As a reminder, the first line of control is composed of the operational entities which act in compliance with the group's processes and the third line of control is based on the internal audit activity which assesses all of the group's systems and activities.

The checks carried out by the first two lines are based on a 17-point grid, with scores of 1 to 4 assigned according to precise and standardised criteria. These control points mainly concern risk identification, management involvement, training, communication, knowledge and compliance with the resources in the document library. Based on these controls, it is possible to gauge to what extent the compliance system has been implemented within each entity.

News

In 2019, various actions were taken as part of the ongoing improvement of the system (see paragraph 1.2.6.2. of the financial report).

Performance indicators

The compliance performance indicators were defined in 2019. However, they are not disclosed at this stage since it will take time to establish whether they are reliable and relevant.

3.2.10. PRODUCT SAFETY – QUALITY

This risk is detailed in paragraph 1.2.7.6. "Product safety".

3.2.11. PRODUCT SAFETY – DIVING SAFETY

This risk is detailed in paragraph 1.2.7.6. "Product safety".

3.2.12. PRODUCT SAFETY – NUCLEAR SAFETY

This risk is detailed in paragraph 1.2.7.6. "Product safety".

3.3. FRENCH LAW ON THE DUTY OF VIGILANCE OF PARENT AND SUBCONTRACTING COMPANIES

Duty of vigilance plan and implementation report

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

In 2018, Naval Group launched a plan comprising reasonable vigilance measures to identify risks and prevent serious violations of human rights and fundamental freedoms, threats to health and safety and environmental damage. The plan takes into account the group's activities, as well as the activities of its subcontractors and first-tier suppliers with whom an established business relationship exists, provided the activities pertain to this relationship.

This plan includes the following five measures:

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

The 2019 duty of vigilance plan focuses on our international operations, with a more robust purchasing policy and the start of a more effective group internal dialogue on shared vigilance concerning the five measures recommended by the law. Lastly, the nature of the group's business and its media exposure already generate an internal dialogue. In 2020, the company will redouble its efforts to produce more visible action plans, given that this is one of the conditions of its development.

1. Mapping the risks associated with the duty of vigilance

Risks related to Naval Group operations

In 2018, Naval Group prepared a single risk map for corporate social responsibility (CSR) including, in addition to the topics within the scope of the law on the duty of vigilance, the fight against corruption and influence peddling. This mapping is used to assess the group's risks.

These risks, described in point 3.2 above, are monitored by each of the entities in charge, and in particular:

- the Health, Safety and Environment Department (see section 3.2.4. above);
- the Eco-design Department (see section 3.2.3.);
- the Human Resources Department (see section 3.2.5.);
- the Data Protection Officer (see section 3.2.8.);
- the group Ethics, Compliance and Governance Department (see section 3.2.9.).

The map was updated in 2019 to include all strategic subsidiaries abroad. To that end, the concept of country risk has been incorporated into the mapping methodology. Country risk is assessed on the basis of the following internal data: nature of the subsidiary's business, number of employees and external information published by the NGOs Transparency International and Freedom House and the Respeco index, produced by the Research Department of the Chamber of Commerce and Industry of the Hauts-de-France region.

Risks related to Naval Group's supply chain

In 2018, Naval Group developed a CSR risk map incorporating the CSR risks related to its supply chain. The map, which is updated each year, is used to assess the environmental, social and ethical risks of each of the group's purchasing categories by factoring in purchasing data such as the volume of business and geographical location of the supplier. All the information is evaluated by an external service provider. Naval Group then assigns a risk-weighting depending on how critical each purchasing category is.

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

2. Governance of the duty of vigilance plan

The duty of vigilance plan has been developed and is managed by a specific working group. It is overseen by the Ethics, Compliance and Governance Department. This working group, set up in mid-2017, brings together the departments exposed to the risks identified in the mapping of the duty of vigilance plan, as well as a representative from the CERSE. It met twice in 2018. The system defined for following up on actions within the company and its controlled subsidiaries stipulates that the CERSE is responsible for setting up suitable actions to mitigate risks or prevent serious breaches.

A progress report on the duty of vigilance plan was presented to the Central Social and Economic Committee (CSEC) in July 2019. Following this meeting, it was decided that a second working group devoted to the duty of vigilance plan would be set up jointly with the CERSE working group, with a view to refining the approach and identifying expectations.

The first working group met six times in 2019. The role of the second working group is to examine in more depth Naval Group's thinking around its duty of vigilance. It will meet for the first time in 2020.

3. Procedures for regular assessment, mitigation, prevention and follow-up

Regarding Naval Group operations

Pillar	Risk category	Mitigation procedures	Assessment procedures	Governance	KPI
Environment	Carbon footprint of products in service Serious environmental industrial accident Product safety – Quality	Group: • Review of the mandatory framework of Naval Group's internal requirements in 2019 (see Spotlight 1) • Review of the tracking system of on-the-job training and the working environment in 2019 (see section 3.2.2.) • Manager training and support • ISO 14001 certification, OHSAS 18001 and preparation for the transition to ISO 45001 by 2021 (see section 3.2.2.) In France: • Existence of the organisation for safety and environmental professionals In international subsidiaries: • Strengthening expertise in occupational safety through specialised recruitment in 2019 • Adaptation and international roll-out of the requirements framework • Harmonisation of on-site orientation training, implemented in all group entities	• In 2019, self-assessments by sites and the main subsidiaries using a tool developed in-house, with specific action plans to be put in place in 2020 in compliance with local regulations. • Operational visits and internal audits to ensure the proper implementation of defined practices, coordinated by the Quality Department and the group Audit and Risk Department.	• Each instance of non-compliance is monitored by the department concerned.	• Emissions of vessels in service • % of R&D data sheets incorporating an environmental element • % of new projects incorporating a "proactive" approach for vessels, infrastructure and service offerings • Number of level 1, 2 and 3 pollution events • % change in number of major non-compliances detected by customers
Health and safety	Occupational health and safety				Accidents
Human rights	Abuse and fraud (human rights, harassment, temporary staff, discrimination, regulation, including restraints)	Globally: • Human Rights Charter and Code of Ethics (see Spotlight 2) • "Diversity" agreement (see Spotlight 3) In international subsidiaries: • Appointment of an Ethics and CSR officer in 2019 (see section 3.1.4 and Spotlight 4) • Seminar for international ethics and CSR officers organised by the Ethics, Compliance and Governance Department in June 2019			Number of discrimination officers appointed in France

Spotlight 1:

The mandatory framework of Naval Group's internal requirements for occupational safety and the environment, which includes the golden safety rules, has been improved to take on board feedback, particularly in technical fields. In 2019, the international roll-out of this framework began, taking into account relations with our local subcontractors. Multi-site working groups jointly develop these new requirements in line with the best available technologies.

Spotlight 2:

In 2019, Naval Group published a Human Rights Charter outlining the company's commitments. This charter lists the "Ten Principles" of the Global Compact regarding human rights and international labour standards, which Naval Group has adopted. Like the Code of Ethics, the charter is available from the Ethics Officer at all sites in France and in controlled subsidiaries in France and abroad. The charter has been signed by all sites and controlled subsidiaries, provided that its principles comply with local legislation. In addition, all employees are made aware of human rights issues. The onboarding process for new recruits includes the presentation of the Human Rights Charter and a summary of the company's commitments in this area.

Spotlight 3:

On January 25, 2018, Naval Group signed an agreement promoting diversity, equal opportunities for men and women and the employment of people with a disability, specifically to raise awareness of workplace harassment and discrimination. During 2019, several actions were implemented under the agreement, including the training of managers and human resources supervisors, as well as the appointment of "discrimination officers" at all sites in France.

Spotlight 4:

The "Ethics and Harassment Prevention" training course, which details best practices for investigations into whistleblowing reports, is also open to Ethics and CSR Officers in other countries.

Regarding Naval Group's supply chain

Purchasing category	Risk category	Mitigation procedures	Assessment procedures	Governance	KPI
Energy storage systems (excluding standard accumulators)	Energy consumption, product end-of-life	• Supplier code of conduct recalling the obligation to comply with Naval Group's Code of Ethics and Compliance code of conduct (see section 3.2.5.) • Start of the international roll-out of the mandatory internal requirements framework, taking into account relations with local subcontractors. • On-site orientation training for subcontractors within the group via an e-learning module available in seven languages and rolled out to all group entities.	• Assessments by an independent external firm of suppliers in the purchasing categories identified as most at risk, representing 3% of the volume of purchases. An assessment is considered inadequate when the score obtained by the supplier is below the average for its peer group (based on type of business, size, location, etc.).	• The assessment results are monitored by the Supplier Risk Committee, which is chaired by the purchasing manager. The results are then incorporated into the supplier action and risk mitigation plan. • In the event of an inadequate CSR assessment, an action plan is put in place by the steering committee, which meets individually with all suppliers each year. The satisfactory implementation of the action plan is regularly monitored.	• Naval Group's average score: 49.7/100 • Number of companies with an inadequate assessment result in 2019: 0 • Number of action plans put in place in 2019: 0
Pyrotechnic equipment (powder, explosives, etc.)	Employee health and safety, supplier environmental practice, waste management				
Marine paint	Waste management, raw materials, supplier environmental practice				

4. Whistleblowing system

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

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

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

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

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

As part of the whistleblowing system, the Ethics and CSR Committee, which is chaired by the group's Chief Ethics, Compliance and Governance Officer and whose members are appointed by the Chairman and Chief Executive Officer:

- responds to any contact made *via* the hotline, whether a simple query or a whistleblowing report;
- carries out investigations, if they are decided upon to follow up on reports made through the hotline, in strict compliance with the rules of confidentiality;
- recommends, where appropriate, actions and/or sanctions where discrepancies are found with the ethical standards (as described in paragraph 1.2.6.1. above).

IV. CORPORATE GOVERNANCE REPORT

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

4.1. LIST OF OFFICES AND POSITIONS HELD BY EACH CORPORATE OFFICER DURING THE FINANCIAL YEAR ENDED DECEMBER 31, 2019

	Company	Function or office
Hervé Guillou	Naval Group	Chairman and Chief Executive Officer
	BE MAURIC	Member of the Supervisory Board
	SNEF	Director
	Compagnie Maritime d'Expertises – Comex	Director
	Les Chantiers de l'Atlantique	Director
	CICS	Officer – Treasurer
	GICAN	Chairman
	3 CAP ADVISOR	Chairman
	SCI LE CLOS DE LA BOURRASQUE	Manager
Vincent le Biez	Ministry of Finance and Public Accounts	Head of Industry Shareholdings
	Naval Group	Director (since December 12, 2019)
	Chantiers de l'Atlantique	State Representative on the Board of Directors (since October 3, 2019)
Sophie Mantel	Ministry of Finance and Public Accounts	First Grade Business and Finance Controller – Head of department, Deputy Director of Budget Management
	Naval Group	Director
	Française des Jeux	Government Commissioner on the Board of Directors (until October 15, 2019)
	PMU	Director (until October 30, 2019)
	La Poste	Director (until November 28, 2019)
	SNCF Mobilités	Director
Pascal Bouchiat	Thales	General Director, Finance and IT Systems
	Naval Group	Director
	Thales Alenia Space	Director
Nathalie Ravilly	Thales	Vice-President, Defence Strategy and Corporate Development
	Naval Group	Director
	Telespazio S.p.A	Chair of the Board of Directors
	Thales Alenia Space	Director
	Thales Germany	Director

	Company	Function or office
Gabrielle Gauthey	TOTAL	Head of Carbon Neutrality Businesses
	Naval Group	Director
	GECINA	Director – Chair of the Audit Committee
	RADIALL	Member of the Supervisory Board
	GFI Informatique	Member of the Board of Directors
Bernard Rétat	Naval Group	Director
Jacques Hardelay	Chantier naval de Marseille SAS (CNM)	Chairman
	Naval Group	Director
	GICAN	Director
	UIMM 13	Director
	Club de la Croisière	Director
Luc Rémont	Schneider Electric Industries SAS	Executive Vice-President International Operations
	Naval Group	Director
	Atos Worldline	Director
Patrice Caine	Thales	Chairman and Chief Executive Officer
	Naval Group	Director
	L'Oréal	Director
Sandra Lagumina	Meridiam	COO Asset Management
	Naval Group	Director
	FNAC Darty	Director
Éveline Spina	French National Defence Procurement Agency	Head of Plans, Programs and Budget
	Naval Group	Director (since July 16, 2019)
	Défense Conseil International SA	Director
Gilles Rapale	Naval Group	Director of Program modifications PA CDG
	Naval Group	Director (until December 18, 2019)
Isabelle Roué	Naval Group	Prevention/Environment Officer
	Naval Group	Director (until December 18, 2019)
Laurent Chagnas	Naval Group	Technical and Administrative Secretary
	Naval Group	Director
Jacques André	Naval Group	Combat System Integrator-Maintenance Engineer
	Naval Group	Director (until December 18, 2019)

	Company	Function or office
Joël Ricaud	Naval Group	Internal and External Relations Officer Greater Nantes
	Naval Group	Director (until December 18, 2019)
Thierry Barbarin	Naval Group	Safety Officer
	Naval Group	Director (until December 18, 2019)
Olivier Ménard	Naval Group	HR Attaché
	Naval Group	Director (since December 19, 2019)
Béatrice Unia	Naval $roup	Business Developer
	Naval Group	Director (since December 19, 2019)
Tony Lecorps	Naval Group	Relocation Technical Advisor
	Naval Group	Director (since December 19, 2019)
Yvon Velly	Naval Group	HR Attaché
	Naval Group	Director (since December 19, 2019)
Didier Chavrier	Naval Group	Functional Integration Manager
	Naval Group	Director (since December 19, 2019)
	SCI Casacha	Manager

DIRECTOR WHOSE TERM OF OFFICE AT NAVAL GROUP ENDED DURING THE FINANCIAL YEAR ENDED DECEMBER 31, 2019

	Company	Function or office
Caroline Laurent	French National Defence Procurement Agency	Director of Strategy
	Naval Group	Director (until July 9, 2019)
Pierre Jeannin	Ministry of the Economy and Finance	Deputy Head of Industry Shareholdings at the Government Shareholding Agency (APE)
	Naval Group	Director (from June 21, 2019 to December 12, 2019)
	Defense Conseil International	Director
	ODAS	Director
	Société technique pour l'énergie atomique	Director
	KNDS – KMW+NEXTER Defense System N.V.	Director (since June 6, 2019)

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

None.

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

None.

4.4. CHOICE OF MODE OF GENERAL MANAGEMENT

Pursuant to the decision taken by the Board of Directors of the company on June 2, 2003, the Chairman of the Board of Directors is responsible for the General Management of the company and thus holds the title of Chairman and Chief Executive Officer.

V. APPENDIX 1

PROPOSAL TO ALLOCATE THE EARNINGS OF NAVAL GROUP SA FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2019

The Board of Directors proposes to the General Meeting to allocate the profits of €145,244,618.24 for the financial year ended December 31, 2019 as follows:

- profit for the 2019 financial year: €145,244,618.24;
- to which is added retained earnings: €184,351,087.47.

Resulting in distributable earnings of €329,595,705.71:

- amount to be distributed to shareholders as dividends: €94,584,000; and
- the balance of retained earnings to carry forward: €235,011,705.71.

Retained earnings have thereby risen from €184,351,087.47 to €235,011,705.71.

VI. APPENDIX 2

LIST OF RELATED-PARTY AGREEMENTS

Order No. 2014-863 of July 31, 2014 introduced a new article 225-40-1 pertaining to the annual review by the Board of Directors of related-party agreements authorised previously and that remained in effect during the last financial year. The company's Board of Directors will carry out this review at its meeting on February 20, 2020.

RELATED-PARTY AGREEMENTS SIGNED IN 2019 AND APPROVED BY THE BOARD OF DIRECTORS

Parties to the contract	Subject matter of the contract	Date signed
	None.	

AGREEMENTS SIGNED IN PREVIOUS YEARS AND STILL IN EFFECT DURING THE 2019 FINANCIAL YEAR

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

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

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

Parties to the contract	Subject matter of the contract	Date signed
DCNS, Areva SA, the French State and the CEA – French Atomic Energy and Alternative Energy Commission	Contract on the sale and acquisition of shares relating to Société technique pour l'énergie atomique *Approved by the Board of Directors on October 28, 2016*	December 15, 2016

RELATED-PARTY AGREEMENTS SIGNED IN 2007 AND APPROVED BY THE BOARD OF DIRECTORS

Parties to the contract	Subject matter of the contract	Date signed
DCN, Thales and Armaris	Letter concerning the transfer by Armaris to Thales of the benefit of its rights under the DCN letter of October 5, 2005 no. 05000162 OL/NP *Considered by the meeting of the Board of Directors of March 22, 2007*	March 29, 2007
DCNS, Thales and Thales Naval France	Irrevocable undertaking, without compensation, for Thales to indemnify TNF or DCNS for the damaging consequences resulting from any arbitration or legal proceedings, in progress, or that might be brought against TNF as a result of the conditions for concluding or performing the Bravo contract	January 30, 2007

RELATED-PARTY AGREEMENTS SIGNED IN 2004 AND APPROVED BY THE BOARD OF DIRECTORS

Parties to the contract	Subject matter of the contract	Date signed
DCNS and Thales	Agreement governing relations between DCNS and Thales (and Armaris until it was merged with DCNS on September 30, 2009) on the assumption that the solidarity commitment made by Thales with regard to Finmeccanica in the context of the shareholders agreement of Eurosysnav SAS would be implemented by the latter	May 24, 2004

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

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

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CONSOLIDATED FINANCIAL STATEMENTS

Financial year ended December 31, 2019
All amounts are in millions of euros unless otherwise stated.

I. STATEMENT OF COMPREHENSIVE INCOME

Consolidated income statement

	Notes	2019	2018
Revenue	2.1.	3,712.1	3,608.3
Cost of sales		(3,073.7)	(2,969.2)
Research and development costs	2.2.2.	(89.5)	(82.5)
Marketing and selling expenses		(121.6)	(119.9)
General and administration expenses		(159.0)	(145,7)
Operating profit/loss from ordinary activities before amortisation of intangible assets acquired in business combinations	**2.2.**	**268.3**	**291.0**
Amortisation of intangible assets acquired in business combinations		(0.7)	(0.7)
Operating profit/loss from ordinary activities		**267.6**	**290.3**
Other operating income	2.2.4.	6.4	130.4
Other operating expenses	2.2.5.	(11.4)	(174.3)
Operating profit/loss before net income from equity affiliates		**262.6**	**246.4**
Net income from equity affiliates	3.3	11.6	7.6
Operating profit/loss after net income from equity affiliates		**274.2**	**254.0**
Interest expense on leases	2.3.	(1.2)	0.0
Income from financial investments	2.3.	7.8	7.8
Other financial income	2.3.1.	12.1	20.3
Other financial expenses	2.3.2.	(22.0)	(27.7)
Net financial expense	**2.3.**	**(3.3)**	**0.4**
Income tax	2.4.	(88.1)	(90.8)
NET PROFIT/LOSS FOR THE PERIOD)		**182.8**	**163.6**
attributable to owners of the parent		188.2	178.2
attributable to non-controlling interests		(5.4)	(14.6)
Basic and diluted earnings per ordinary share *(in €)*	2.5.	1.69	1.60

Consolidated statement of comprehensive income

	2019	2018
Net income (loss)	**182.8**	**163.6**
Items to be subsequently reclassified to the income statement	*(1.8)*	*0.2*
Cash flow hedge	(1.8)	0.2
Items that cannot be reclassified to the income statement	(18.5)	0.1
Translation differences on the conversion of foreign businesses	*(0.4)*	*(1.6)*
Actuarial gains and losses	(18.1)	1.7
Income and expenses recognised in equity, before tax	**(20.3)**	**0.3**
Tax recognised directly in equity	9.9	(0.5)
Income and expenses recognised in equity	**(10.4)**	**(0.2)**
TOTAL INCOME AND EXPENSES FOR THE PERIOD	**172.4**	**163.4**
attributable to owners of the parent	177.8	178.1
attributable to non-controlling interests	(5.4)	(14.6)

Reconciliation: operating profit from ordinary activities/EBITA

Operating profit from ordinary activities is profit from operations before:

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

EBITA (Earnings Before Interest, Taxes and Amortisation or adjusted operating profit/loss) corresponds to the operating profit/loss excluding goodwill amortisation.

	2019	2018
Operating profit/loss from ordinary activities before amortisation of intangible assets acquired in business combinations	**268.3**	**291.0**
Share of operating profit/loss of SMEs	18.6	18.7
Other operating income	6.4	130.4
Other operating expenses	(11.4)	(174.3)
EBITA	**282.0**	**265.8**

II. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

	Notes	12/31/2019	12/31/2018*
Intangible assets	3.1	80.6	72.8
Rights of use	3.1	84.6	
Goodwill	3.2	382.8	382.8
Property, plant and equipment	3.1	560.0	513.5
Share in net assets of equity affiliates	3.3	90.3	82.3
Non-current financial assets	4.1	343.1	319.7
Other non-current assets		1.1	1.0
Deferred tax assets	2.4	241.3	220.8
Non-current assets		**1,783.8**	**1,592.9**
Inventories and work in progress	3.4	415.1	452.3
Contract assets	3.9	364.4	96.6
Trade receivables	3.5	519.1	807.3
Advances and part payments paid	3.9	1,039.1	880.5
Current financial assets	4.1	235.3	144.7
Current tax receivable		1.1	81.8
Other receivables	3.5	294.0	259.6
Cash and cash equivalents	4.2	1,683.5	1,976.4
Current assets		**4,551.6**	**4,699.1**
TOTAL ASSETS		**6,335.3**	**6,292.0**

* *The data published for the 2018 financial year have been restated for the impact of IFRS 15 related to the offsetting of contract assets and liabilities. The breakdown is presented in note 1.3.2.1 of this document.*

Equity and liabilities

	Notes	12/31/2019	12/31/2018*
Share capital		563.0	563.0
Premiums		18.4	18.4
Treasury shares		(81.9)	(79.2)
Remeasurement of financial instruments		2.7	4.7
Translation differences		(7.0)	(3.0)
Actuarial gains and losses		(23.3)	(15.0)
Other reserves attributable to owners of the parent		514.3	410.2
Consolidated income attributable to owners of the parent		188.2	178.2
Equity attributable to owners of the group		**1,174.5**	**1,077.3**
Non-controlling interests		16.6	21.9
Total equity	**3.6**	**1,191.1**	**1,099.2**
Non-current provisions	3.7	208.3	168.6
Non-current financial liabilities	4.1	52.9	47.6
Non-current IFRS 16 lease liabilities	4.1	65.7	
Other liabilities		1.0	0.7
Deferred tax liabilities	2.4	4.3	7.6
Non-current liabilities		**332.1**	**224.5**
Current provisions	3.7	667.5	611.0
Current financial liabilities	4.1	27.8	25.8
Current IFRS 16 lease liabilities	4.1	19.4	
Contract liabilities	3.9	2,193.7	2,220.0
Suppliers	3.8	1,187.1	1,114.5
Advances and part payments received	3.9	0.0	305.4
Current tax payables		48.7	2.1
Other payables	3.8	667.7	689.5
Current liabilities		**4,811.9**	**4,968.3**
TOTAL EQUITY AND LIABILITIES		**6,335.3**	**6,292.0**

* *The data published for the 2018 financial year have been restated for the impact of IFRS 15 related to the offsetting of contract assets and liabilities. The breakdown is presented in note 1.3.2.1 of this document.*

III. CONSOLIDATED EQUITY

	Number of shares	Share capital	Pre-miums	Other reserves	Treasury shares	Remeasu-rement of financial instruments	Cash Flow hedge	Translation differences	Actuarial gains and losses	Equity attribu-table to owners of the group	Non-control-ling interests	Total equity
January 1, 2018	**55,767,753**	**563.0**	**18.4**	**460.3**	**(71.9)**	**3.9**	**0.6**	**(0.5)**	**(16.1)**	**957.7**	**(13)**	**944.7**
Consolidated comprehensive income				178.2			0.2	(1.6)	1.1	177.9	(14.6)	163.3
Dividend payments				(57.2)						(57.2)		(57.2)
Treasury shares	(38,938)			7.7	(7.7)							
Other				(0.7)	0.4			(0.8)		(1.1)	49.5	48.4
December 31, 2018	**55,728,815**	**563.0**	**18.4**	**588.3**	**(79.2)**	**3.9**	**0.8**	**(2.9)**	**(15)**	**1,077.3**	**21.9**	**1,099.2**
Consolidated comprehensive income				188.2			(1.8)	(0.4)[3]	(8.2)[1]	177.8	(5.4)	172.4
Dividend payments				(87.4)[2]						(87.4)		(87.4)
Treasury shares	84,935			3.8	(3.8)							
Other				9.7	1.1	0.0	(0.2)	(3.7)	(0.1)	6.8	0.1	6.9
DECEMBER 31, 2019	**55,813,740**	**563.0**	**18.4**	**702.6**	**(81.9)**	**3.9**	**(1.2)**	**(7.0)**	**(23.3)**	**1,174.5**	**16.6**	**1,191.1**

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

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

(1) The impact of actuarial gains and losses in 2019 of €(8.2) million can be broken down into two types:
- *amount before tax: (€28.8) million; See note 3.7;*
- *deferred tax recognised: (€9.9) million.*
- *Revaluation of TechnicAtome's actuarial gains and losses for an amount of €10.7 million (net of deferred taxes). See note 3.3.3.*

(2) The dividend payment of €(87.5) million was allocated as follows:
- *the French State: (€72.2) million;*
- *Thales: (€15.3) million.*

(3) See note 3.6.5.

IV. CONSOLIDATED STATEMENT OF CASH FLOWS

	2019	2018
Net income (loss)	**182.8**	**163.6**
Add (deduct):		
Net depreciation and amortisation expense/(reversal)	103.1	91.9
Net provision expense/(reversal)	67.3	57.6
Net asset impairment loss/(reversal)	5.4	88.8
Changes in fair value of financial instruments	(7.5)	6.7
Capital gains or losses on disposals	20.6	(90.6)
Change in employee share offer liability	3.8	7.7
Tax expense/(income)	88.1	90.8
Share in income/(loss) of equity affiliates	(11.6)	(7.6)
Dividends received from equity affiliates	13.0	17.9
Other dividends received (reclassified as net financial investments)	(1.1)	(0.9)
Cost of financial debt	1.7	0.5
Cash flow from operations	**465.6**	**426.4**
Change in working capital (requirement)	(420.4)	(542.7)
Tax refunded/(paid)	26.1	(172.7)
Net cash inflow/(outflow) from operating activities	**71.3**	**(289.0)**
Changes in scope of consolidation	0.0	(9.1)
Purchases of property, plant and equipment and intangible assets	(139.8)	(91.1)
Disposals of property, plant and equipment and intangible assets	0.6	46.5
Acquisitions of holdings, net of cash acquired/brought into scope of consolidation	(6.2)	(18.9)
Change in loans and advance payments	(6.4)	(3.9)
Net operating investments	**(151.8)**	**(76.5)**
Decrease/(increase) in investment securities[1]	(108.9)	(73.6)
Decrease/(increase) in financial assets	1.1	0.9
Net financial investments	**(107.8)**	**(72.7)**
Net cash inflow/(outflow) from investing activities	**(259.6)**	**(149.2)**
Increase in capital – non-controlling interests	0.2	0.1
Dividends paid to owners of the parent	(87.4)	(57.2)
Dividends paid to non-controlling interests	0.0	0.0
Sale/(purchase) of treasury shares	(3.9)	(2.0)
Cash payments to or from shareholders	**(91.1)**	**(59.1)**
Increase in financial liabilities	13.3	2.0
Decrease in financial liabilities	(6.5)	(1.4)
Repayment of IFRS 16 lease liabilities	(20.6)	
Net change in financial liabilities	**(13.8)**	**0.6**
Net cash inflow/(outflow from financing activities)	**(104.9)**	**(58.5)**
Net change in cash	**(293.2)**	**(496.6)**
Net cash at beginning of period	1,976.4	2,475.2
Change in cash	(293.2)	(496.6)
Effects of changes in exchange rates/fair value	0.2	(2.2)
Net cash at end of period	**1,683.5**	**1,976.4**

(1) As stated in note 1.3.17, the change in investment securities mainly comprises changes in certificates of deposit, term accounts and medium-term negotiable notes with an original maturity of more than three months.

Net cash plus investment securities classified under other financial assets as per note 1.3.17 amounted to €2,193.7 million at December 31, 2019 (compared to €2,372.5 million at December 31, 2018) and is made up as follows:

	12/31/2019	12/31/2018
Non-current investment securities	275.2	251.9
Current investment securities	235.0	144.2
Net cash	1,683.5	1,976.4
TOTAL	**2,193.7**	**2,372.5**

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V. NOTES

NOTE 1. RULES, METHODS AND SCOPE

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

The consolidated financial statements for Naval Group presented here for the financial year ended December 31, 2019 were adopted by the Board of Directors on February 20, 2020 and will be submitted for approval to the General Meeting to be held in March 2020.

The financial year 2019 was chiefly marked by the following major events:

- more than five billion dollars in order intake, a large portion of which was outside France, with the confirmation of a sixth Barracuda-class submarine, twelve minesweepers for Belgium and the Netherlands, two Gowind® corvettes for export, and the order for routine maintenance of the ballistic nuclear submarines from 2020 to 2025;
- the partnership agreements between Naval Group and Fincantieri were materialised by the official launch of Naviris on October 30, 2019;
- numerous operational successes, notably including the transfer of the *Suffren* submarine (Barracuda Program) to the launching device, with the French President in attendance.

1.2. GENERAL PRESENTATION OF THE GROUP'S ACTIVITIES

Naval Group is a world leader in naval defence. As a high-tech company on an international scale, Naval Group meets its clients' needs through its exceptional know-how and unique industrial resources. Naval Group designs, builds and supports submarines and surface combatants as well as associated systems and infrastructures. It also provides services to naval bases and shipyards. Lastly, the group offers a broad range of renewable marine energy solutions through its subsidiary Naval Energies.

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

1.3. ACCOUNTING RULES AND POLICIES

1.3.1. Statement of compliance

Pursuant to the option available under regulation 1606/2002 adopted on July 19, 2002 by the European Parliament and the European Council, the group has elected to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union at December 31, 2019.

The accounting rules and policies are identical to those applied in the consolidated financial statements for the financial year ended December 31, 2018, with the exception of the first-time application of IFRS 16 "Leases" and IFRIC 23 "Uncertainty over Income Tax Treatments".

1.3.2. New standards and interpretations and their mandatory application

1.3.2.1. Restatement of comparative years of contract assets and liabilities following the application of IFRS 15

Following the application of IFRS 15 "Revenue from Contracts with Customers" in the financial statements for the year ended December 31, 2018, Naval Group elected to present the financial statements to exclude the offsetting of contract assets and liabilities and to disclose the impact in note 3.9 to the consolidated financial statements for the year ended December 31, 2018.

As at December 31, 2019, the financial statements presented for the comparative years have been restated with the impacts detailed below.

Consolidated statement of financial position at December 31, 2018 (restated)	12/31/2018 published	Impact of IFRS 15 offset	12/31/2018 restated
Share in net assets of equity affiliates	82.3	0.0	82.3
Deferred tax assets	220.8	0.0	220.8
Other non-current assets	1,289.8	0.0	1,289.8
Inventories and work in progress	452.3	0.0	452.3
Contract assets	0.0	96.6	96.6
Trade receivables	10,304.8	(9,497.5)	807.3
Other current assets	3,343.0	0.0	3,343.0
TOTAL ASSETS	**15,693.0**	**(9,400.9)**	**6,292.0**
Total equity	1,099.2	0.0	1,099.2
Non-current liabilities	224.5	0.0	224.5
Current provisions	611.0	0.0	611.0
Contract liabilities	0.0	2,220.0	2,220.0
Suppliers	1,114.5	0.0	1,114.5
Advances and part payments received	11,638.4	(11,333.0)	305.4
Other current liabilities	1,005.5	(287.9)	717.6
TOTAL LIABILITIES	**15,693.0**	**(9,400.9)**	**6,292.0**

In 2018, contract assets were offset for an amount of €96.6 million. They were offset for €1,753.7 million in unbilled receivables, for (€1,658.0) million in advances and part payments received from customers and for €0.9 million in deferred income.

In 2018, contract liabilities were offset for an amount of (€2,220.0) million. They were offset for €7,743.8 million in unbilled receivables, for (€9,675.0) million in advances and part payments received from customers and for €(288.7) million in deferred income.

Please refer to note 3.9 for more details.

1.3.2.2. Initial application of IFRS 16

Accounting method and valuation rule

Leases, as defined by IFRS 16 "Leases", are recognised in the statement of financial position as:

- assets that correspond to the right to use the leased asset over the term of the contract;
- liabilities for the payment obligation.

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

The group's leases mainly relate to real estate.

The group uses the following exemptions permitted by the standard:

- exclusion of short-term leases (less than 12 months);
- exclusion of contracts where the underlying asset is of low value (new unit value of less than USD 5,000 or €5,000).

However, the group has authorised the exclusion of contracts where the new unit value is less than €10,000.

Rents for contracts excluded from the scope of IFRS 16 as well as variable payments continue to be recognised directly as operating expenses.

Valuation of the right of use

At the effective date of a lease, the right of use is valued at cost and includes:

- the initial amount of the debt plus any advance payments made to the lessor, net of any benefits received from the lessor.

The right of use is amortised on a straight-line basis over the term of the lease.

Valuation of the lease liability

At the effective date of the contract, the lease liability is recognised for an amount equal to the present value of the lease payments over the term of the contract. The amounts taken into account for rents in the valuation of the liability are:

- fixed rents.

Discount rates are calculated individually at the end of the term of the contract.

Impact at January 1, 2019

As part of the first-time adoption of IFRS 16, the group has adopted the simplified retrospective transition method, recognising the cumulative effect of the initial application of the standard at the date of first-time adoption, without restatement of comparative periods.

The impact on the opening statement of financial position at January 1, 2019 is an increase of €93.2 million in property, plant and equipment, offset by the recognition of a lease liability (without restatement of prior years).

The reconciliation between the lease liability and the sum of minimum lease payments under operating leases mentioned in note 5.3.1 to the consolidated financial statements at December 31, 2018 is presented below:

Reconciliation of off-balance sheet commitments and lease liabilities at 01/01/2019	
Sum of leases published as off-balance sheet lease commitments at December 31, 2018	123.3
Contracts outside the scope of IFRS 16	(6.8)
Discounting effect on liabilities	(4.3)
Other	(19.0)
LEASE LIABILITIES AT JANUARY 1, 2019	**93.2**

The group used discount rates corresponding to the marginal financing rate of each lessee for a maturity corresponding to the duration of the commitment. The weighted average discount rate used to value the lease liability at December 31, 2019 is 1.07%.

1.3.2.3. IFRIC 23 "Uncertainty over Income Tax Treatment"

In accordance with IFRIC 23, a tax asset or liability is recognised when the tax treatment is uncertain. If it is probable that the tax authorities will not accept a tax treatment, the group recognises a tax liability. In the event that the group considers it probable that the tax authorities will reimburse it for tax already paid, it recognises a tax asset. Tax assets and liabilities relating to such uncertainties are assessed on a case-by-case basis using the most probable amount.

This text had no impact on the financial statements at December 31, 2019.

1.3.3. Consolidation policies

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

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

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

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

1.3.4. Use of estimates

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

Recognition of revenue and profit on contracts accounted for under the percentage of completion method and related provisions (notes 2.1, 3.5 and 3.7)

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

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

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

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

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

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

Measurement of assets and liabilities under retirement benefit and similar obligations (note 3.7.1)

The group's measurement of assets and liabilities under defined benefit plans (retirement benefits, long-service bonuses, senior time bank scheme, strategic jobs and skills management and annuities) requires the use of statistical data and other variables to forecast future trends. These variables include the discount rate, the expected return on plan assets, the rate of salary increases and the employee turnover and mortality rates. If the actuarial assumptions are materially different from the actual data experienced subsequently, this may result in substantial changes in the expense for retirement and similar benefit obligations recognised through profit or loss and in the related assets and liabilities shown in the statement of financial position.

Measurement of assets (notes 3.1 and 3.2)

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

Measurement of non-current financial assets (note 4.1)

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

Measurement of trade receivables (note 3.5)

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

Risks and disputes

The group regularly identifies and reviews ongoing disputes and, where necessary, recognises accounting provisions that it considers to be reasonable (see note 3.7). Any uncertainties concerning litigation in progress are described in note 5.3.2.

1.3.5. Functional and reporting currency

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

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

1.3.6. Translation of financial statements

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

- balance sheet items are translated at the closing rate;
- income statement and cash flow statement items are translated at the average rate for the period;
- translation differences are taken directly to equity under "Translation differences".

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

1.3.7. Implementation of hedge accounting

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

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

- the change in the fair value of the hedging instrument is recognised directly in equity in the case of the effective portion of the hedge, until the hedged flows affect profit or loss. The ineffective portion is recognised in profit or loss;
- changes in the fair value of the discount or premium relating to the forward exchange contracts are recognised in "Other financial income/expense" since they are excluded from the hedging relationship.

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

1.3.8. Structure of the balance sheet

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

1.3.9. Intangible assets

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

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

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

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

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

Assets with a finite useful life are amortised over their economic useful life and are tested for impairment, as stated in note 1.3.13. The amortisation period and method for intangible assets with a finite useful life are re-examined at least once at each year-end. Any change in the expected useful life or the expected pattern of consumption of future economic benefits flowing from the asset leads to a change in the amortisation period or method, depending on the case, such changes being treated as changes in accounting estimates. The amortisation expense on intangible assets with a finite useful life is recognised through profit or loss in the expense category that is appropriate given the asset's function.

Intangible assets with an indefinite useful life (including goodwill) are not amortised but are tested for impairment annually, as stated in note 1.3.13. Whenever the useful life of an intangible asset is indefinite, it is re-examined annually to ascertain whether this designation is still valid. If it is not, the change of designation from indefinite to finite is recognised prospectively.

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

1.3.10. Research and development costs

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

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

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

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

1.3.11. Business combinations

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

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

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

Positive goodwill is recognised under the heading "Intangible assets". As stated in note 1.3.9, its recoverable amount is assessed annually and whenever events or circumstances indicate that it might be impaired. Where appropriate, an impairment loss is charged under "Other operating expenses".

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

1.3.12. Property, plant and equipment and rights of use

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

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

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

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

In accordance with IFRS 16, leases are recorded under non-current assets in the statement of financial position with a corresponding financial liability shown under financial debt. The duration corresponds to the commitment of the contract (see descriptive note in note 1.3.2.2). Initial application of IFRS 16

1.3.13. Impairment of non-current assets

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

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

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

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

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

1.3.14. Inventories

Inventories not allocated to programs

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

Inventory impairment allowances consist of:

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

Inventories allocated to programs

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

1.3.15. Revenue

The group's revenue recognition principles are as follows:

Segmentation of contracts into performance obligations

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

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

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

Allocation of the transaction price to contract performance obligations

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

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

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

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

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

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

Revenue recognition

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

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

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

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

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

Revenue from services is also recognised on a percentage of completion basis through costs based on the stage of completion of the services, with the customer benefiting from the services as Naval Group performs them.

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

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

Method for measuring progress

The group generally uses the percentage of completion method to measure progress: revenue is recognised on the basis of costs incurred to date, as a percentage of all expected costs to completion.

Recognition of profit

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

All probable losses on contracts are provided for in full as soon as they become known. (See note below on the treatment on losses on completion (LOC)).

Backlog

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

As at December 31, 2019, the group's order book stood at €15.1 billion. Its provisional execution schedule is as follows: 24% in 2020, 21% in 2021, 18% in 2022, 14% in 2023 and 23% thereafter.

Treatment on losses at completion (LOC)

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

IAS 37 requires a provision to be recorded where a contract becomes "costly"/loss-making. Any loss on completion must be assessed at contract level (and not PO level) regardless of which method is used to recognise revenue (percentage of completion by incurred costs or completion). Financial data in contracts with several PO should, therefore, continue to be consolidated.

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

1.3.16. Transactions in foreign currencies

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

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

1.3.17. Cash and cash equivalents

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

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

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

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

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

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

1.3.18. Employee benefits

Provisions for post-employment benefits

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

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

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

The obligations are calculated as follows:

- they are calculated *pro rata* to the length of service at the end of the period;
- they are discounted to present value;
- they are determined in accordance with the most favourable conditions for lump-sum payments provided for under the collective bargaining agreement for the metalworking industry and works agreements for the employees of the UES (Economic and Social Unit);
- actuarial gains and losses are disclosed under "Other comprehensive income" as items that cannot be reclassified to the income statement;
- the effects of the changes in the method used have been recognised in full in the income statement for the period in which they occurred;
- the expected return on plan assets held to cover retirement schemes is estimated using the same discounting rate as is used for the liabilities to employees.

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

Other long-term benefits

Provisions for long-service awards

Long-service awards, which constitute long-term benefits, are granted in some group companies subject to a minimum length of service for each category within the company. Employees of Naval Group must have at least ten years' service with the company to be eligible, in accordance with the company agreement dated April 11, 2017, together with its addenda.

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

Specific pensions

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

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

Provisions for the CET Senior (senior time bank) scheme

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

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

1.3.19. Employee share offer and Collective Shareholding Plan

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

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

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

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

1.3.20. Income tax

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

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

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

The future decrease in the current tax rate from 34.43% to 25.82% (scheduled between 2020 and 2022) involves a remeasurement of the deferred tax inventory. The impact of this decrease is recognised in profit or loss on the basis of the timetable for the reversal of temporary differences.

1.3.21. Earnings per ordinary share

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

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

1.4. CHANGE IN SCOPE

As at December 31, 2019, the consolidation scope, consisting of fully consolidated subsidiaries and equity affiliates, was as follows:

(in percentages)	Country	Control at 12/31/2019	Interests at 12/31/2019	Control at 12/31/2018	Interests at 12/31/2018
Parent					
Naval Group	France				
Exclusive control					
Alexandria Naval for Maintenance & Industry	Egypt	100	100	100	100
Armaris Quater SAS	France	100	100	100	100
Armaris Sixt SAS	France	100	100	100	100
DCN International SA	France	100	100	100	100
Naval Group Actionnariat SAS	France	100	100	100	100
Naval Group Coopération SA	Belgium	100	100	100	100
Naval Energies SAS	France	60	60	60	60
Naval Group Far East PTE Ltd	Singapore	100	100	100	100
Naval Group India PTE Ltd	India	100	100	100	100
Naval Group Malaysia	Malaysia	100	100	100	100
Naval Group Participations	France	100	100	100	100
Naval Group Support SAS	France	100	100	100	100
MO PA2 SAS	France	100	100	100	100
Sirehna SA	France	100	100	100	100
Naval Group BR Sistemas de Defesa	Brazil	100	100	100	100
Prosin	Brazil	100	100	100	100
DCNS Energia Marina Spa	Chile	75	44	75	44
Naval Group Australia Pty Ltd	Australia	100	100	100	100
DCNS Zamil	Saudi Arabia	55	55	55	55
Naval Group Belgium[1]	Belgium	100	100	0	0
Significant influence					
Boustead DCNS Naval Corporation SDN BHD	Malaysia	40	40	40	40
Défense Environnement Services SAS	France	49	49	49	49
Eurosysnav SAS[2]	France	0	0	50	50
Itaguaí Construções Navais SA	Brazil	41	41	41	41
Kership SAS	France	45	45	45	45
Principia SAS	France	33	33	33	33
TechnicAtome	France	20	20	20	20

[1] Fully-consolidated company since December 1, 2019.
[2] Company liquidated in December 2019.

NOTE 2. INCOME STATEMENT

2.1. REVENUE

Group revenue for the financial year ended December 31, 2019 was €3,712.1 million (*versus* €3,608.3 million for the financial year ended December 31, 2018).

Of this, €2,627.5 million was generated in France (*versus* €2,506.6 million for the financial year ended December 31, 2018).

	2019	2018
Construction contracts	3,540.9	3,489.3
Sales of goods and services	171.2	119.0
REVENUE	**3,712.1**	**3,608.3**

2.2. OPERATING PROFIT

2.2.1. Employee headcount and costs of own and seconded employees

	2019	2018
Wages and salaries (including social security charges) of own employees	(1,081.6)	(967.6)
Retirement and other long-term employee benefit expenses	(2.6)	(10.6)
Employees seconded by the French State	(171.4)	(186.7)
Other	(16.5)	(20.8)
TOTAL	**(1,272.1)**	**(1,185.7)**

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

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

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

	2019	2018
Managers	6,699	6,180
Supervisors and technicians	4,387	4,053
Blue and white-collar employees	3,028	3,073
Total workforce of fully-consolidated French companies	**14,188**	**13,306**
Total workforce of fully-consolidated non-French companies	373	306
TOTAL WORKFORCE OF FULLY-CONSOLIDATED COMPANIES	**14,561**	**13,612**
Including seconded employees	*2,272*	*2,496*

2.2.2. Research and development costs

Research and development costs, net of the research tax credit, amounted to €89.5 million for the financial year ended December 31, 2019 (€82.5 million for the financial year ended December 31, 2018).

These research and development costs correspond to the net research and development costs incurred by the group. See note 1.3.10.

2.2.3. Statutory Auditors' fees

For the financial year ended December 31, 2019, fees payable to the Statutory Auditors for their statutory audit services amounted to €1.5 million for the entire group.

2.2.4. Other operating income

	2019	2018
Competitiveness plan/restructuring[1]	4.3	8.9
OpenHydro gain on deconsolidation	-	68.7
Disposal of property, plant and equipment	-	46.0
Other unusual items[2]	2.1	6.8
OTHER OPERATING INCOME	**6.4**	**130.4**

(1) In the year to December 31, 2019, the provision for restructuring/competitiveness plan was reversed in the amount of €4.3 million (at December 31, 2018, it was reversed in the amount of €8.9 million).
(2) At December 31, 2019, €1.5 million of the amount corresponds to a reversal of provisions concerning a guarantee for a building located in Cherbourg.

2.2.5. Other operating expenses

	2019	2018
Competitiveness plan/restructuring[1]	(2.7)	(6.8)
Impairment loss on non-current assets[2]	-	(34.2)
Net value of property, plant and equipment sold	-	(14.8)
Provisions for impairment of financial assets[3]	-	(95.0)
Other[4][5]	(8.6)	(23.5)
OTHER OPERATING EXPENSES	**(11.4)**	**(174.3)**

(1) *At December 31, 2019, the cost of the competitiveness/restructuring plan incurred by Naval Group totalled €(2.7) million (versus €(6.8) million at December 31, 2018).*
(2) *At December 31, 2018, the amount of €(34.2) million corresponded to the impairment loss on R&D assets of the sub-group Naval Energies.*
(3) *At December 31, 2018, an impairment loss of €(95) million was recognised on financial assets in connection with the compulsory administration of the subsidiary OpenHydro: bonds convertible into shares with warrants attached (OCABSA) for €(46.4) million and loans for €(48.6) million.*
(4) *At December 31, 2018, the amount in other operating expenses corresponded in particular to provisions for risks recorded in connection with the compulsory administration of OpenHydro in the amount of €(10.4) million.*
(5) *At December 31, 2019, the amount mainly corresponds to the cost of free shares granted under the 2019 Collective Shareholding Plan.*

2.3. NET FINANCIAL INCOME/EXPENSE

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

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

2.3.1. Other financial income

	2019	2018
Changes in fair value of financial investments	0.8	0.0
Dividends received	1.1	0.9
Interest on overdue trade receivables	1.3	1.6
Foreign exchange gains	7.1	11.4
Reversal of impairments on provisions of long-term benefits	0.0	0.5
Reversal of impairments on financial assets	1.0	0.4
Income on cash equivalents	0.7	0.3
Other income	0.1	5.2
OTHER FINANCIAL INCOME	**12.1**	**20.3**

2.3.2. Other financial expenses

	2019	2018
Changes in fair value of financial investments	0.0	(2.7)
Change in employee share offer liability	(3.7)	(8.0)
Interest on overdue trade payables	(0.8)	(0.2)
Foreign exchange losses	(10.1)	(10.9)
Impairment losses on provisions of long-term benefits	(6.3)	(1.9)
Impairment losses on financial assets/provisions	(0.1)	(1.5)
Interest on loans	(0.5)	(0.5)
Net expenses on sale of marketable securities	(0.3)	(1.6)
Other expenses	(0.2)	(0.4)
OTHER FINANCIAL EXPENSES	**(22.0)**	**(27.7)**

2.4. INCOME TAX

2.4.1. Analysis of tax expense

	2019	2018
Current tax	(102.9)	(65.4)
Deferred tax	14.8	(25.4)
INCOME TAX	**(88.1)**	**(90.8)**

The change in deferred taxes comprises a (€2.2) million expense corresponding to the recognition of the future decrease of the current tax rate on all of the group's (positive) temporary differences (*versus* €(16.2) million as at December 31, 2018).

2.4.2. Reconciliation of actual and theoretical tax charge

	2019	2018
Net profit for the year	182.8	163.6
Income tax	(88.1)	(90.8)
Net income from equity affiliates	11.6	7.6
Net profit before tax	**259.3**	**246.8**
Theoretical tax charge at 34.43%	**(89.3)**	**(85.0)**
Offset of research tax credit in EBITA[1]	11.1	10.0
Reduction in corporation tax rate [2]	(2.2)	(16.2)
Deferred tax not recognised[3]	(6.4)	(3.6)
Difference in corporation tax rate on foreign income/(loss)[4]	(1.4)	0.9
Other permanent differences[5]	0.1	3.1
ACTUAL TAX EXPENSE	**(88.1)**	**(90.8)**
Effective tax rate[6]	*31.50%*	*35.32%*

(1) The recognition of research tax credit set against operating expenses generates a theoretical income tax expense of €(11.1) million, which must be offset.
(2) The change in the corporation tax rate had an effect of €(2.2) million on the valuation of the deferred tax inventory to take into account the gradual decrease in the normal corporation tax rate in France, which will be reduced to 31% in 2020, 27.5% in 2021 and 25% as from January 1, 2022.
(3) No deferred tax has been recognised on the deficit of certain companies as it is unlikely that they will be able to be offset.
(4) The rate difference between the theoretical corporation tax rate and the current rate applied in the overseas subsidiaries and permanent establishments.
(5) Including other tax credits and tax consolidation income for €1 million and competitiveness and employment tax credit for €3.6 million in 2018.
(6) Excluding losses not recognised.

2.4.3. Deferred tax in the balance sheet

	12/31/2019	12/31/2018
Deferred tax assets	241.3	220.8
Deferred tax liabilities	4.3	7.6
DEFERRED TAX ASSETS	**237.1**	**213.2**

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

Taxable units within the group include in particular the Naval Group tax consolidation group, which comprises all fully consolidated French companies in which its interest exceeds 95% (see note 1.4).

2.5. EARNINGS PER SHARE

The group issued no new ordinary shares during the financial years ended December 31, 2018 and December 31, 2019. The calculation of earnings per share is therefore based on the average number of ordinary shares outstanding after buybacks of treasury shares, which was 55,728,815 shares and 55,813,440 shares for the financial years ended December 31, 2018 and December 31, 2019 respectively.

No dilutive instruments were issued during the financial years ended December 31, 2018 and December 31, 2019. Diluted and basic earnings per share are therefore identical.

The articles of association provide that half of the dividend paid is due to holders of Class A preference shares, up until full payment of an amount of €300 million that bears interest at 4.76%, and that the balance is allocated between all shareholders. The numerator is thus equal to half the net profit and the denominator is the average number of shares outstanding, *i.e.* 55,728,815 shares and 55,813,440 shares for the years ended December 31, 2018 and December 31, 2019 respectively (see note 3.6 on equity).

	2019	2018
Net profit attributable to owners of the parent *(in € millions)*	188.2	178.2
Portion attributable to holders of ordinary shares *(in € millions)*	94.1	89.1
Number of ordinary shares outstanding *(in millions of shares)*	55.8	55.7
BASIC AND DILUTED EARNINGS PER SHARE *(IN €)*	**1.69**	**1.60**

NOTE 3. OPERATING ASSETS AND LIABILITIES

3.1. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND RIGHTS OF USE

3.1.1. Intangible assets

	Patents & similar	Fair value differences	Other intangible assets	Total intangible assets
Gross amounts				
Opening	205.0	167.8	20.0	392.9
Acquisitions	28.8	0.0	0.0	28.8
Disposals	(10.5)	0.0	0.0	(10.5)
Other changes	10.6	0.0	(10.3)	0.2
Closing	**233.9**	**167.8**	**9.7**	**411.4**
Depreciation, amortisation and impairment losses				
Opening	(154.5)	(165.5)	(0.1)	(320.0)
Net depreciation for the financial year	(20.6)	(0.7)	(0.1)	(21.3)
Reversals	0.0	0.0	0.0	0.0
Disposals	10.5	0.0	0.0	10.5
Other changes	0.0	0.0	0.0	0.0
Closing	**(164.5)**	**(166.2)**	**(0.1)**	**(330.8)**
Net amounts 12/31/2018	50.6	2.3	20.0	72.8
NET AMOUNTS 12/31/2019	**69.4**	**1.6**	**9.6**	**80.6**

3.1.2. Property, plant and equipment and rights of use

	Land	Buildings	Plant and machinery	Other property, plant and equipment	Total property, plant and equipment
Gross amounts					
Opening	25.3	201.1	362.3	603.3	1,191.9
Acquisitions	0.0	9.1	13.4	93.4	115.9
Disposals	0.0	(0.5)	(41.0)	(18.4)	(59.8)
Impact of initial application of IFRS 16	0.0	89.2	3.9	0.0	93.2
IFRS 16 – entry	0.0	10.8	0.4	0.0	11.2
IFRS 16 – exit	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	4.1	15.7	(18.9)	0.9
Closing	**25.3**	**313.9**	**354.7**	**659.4**	**1,353.3**
Depreciation, amortisation and impairment losses					
Opening	0.0	(79.8)	(269.1)	(329.5)	(678.4)
Net depreciation for the financial year	0.0	(7.8)	(27.3)	(40.8)	(75.8)
Reversals	0.0	0.0	13.1	0.8	13.9
Disposals	0.0	0.4	33.5	17.6	51.5
Net provisions for IFRS 16 rights of use	0.0	(18.2)	(1.6)	0.0	(19.8)
Other changes	0.0	0.0	0.0	0.0	0.0
Closing	**0.0**	**(105.5)**	**(251.3)**	**(351.9)**	**(708.7)**
Net amounts 12/31/2018	25.3	121.3	93.2	273.8	513.5
NET AMOUNTS 12/31/2019	**25.3**	**208.4**	**103.4**	**307.6**	**644.6**
Of which rights of use at 12/31/2019	*0.0*	*81.8*	*2.8*	*0.0*	*84.6*

3.2. GOODWILL

	12/31/2018	Acquisitions	Disposals	Impairment losses	12/31/2019
Naval Group (from DCN Log, June 2003)	11.4	–	–	–	11.4
Naval Group (from Armaris, March 2007)	207.5	–	–	–	207.5
Naval Group (from TNF, March 2007)	163.9	–	–	–	163.9
GOODWILL	**382.8**	**–**	**–**	**–**	**382.8**

	12/31/2017	Acquisitions	Disposals	Impairment losses	12/31/2018
Naval Group (from DCN Log, June 2003)	11.4	–	–	–	11.4
Naval Group (from Armaris, March 2007)	207.5	–	–	–	207.5
Naval Group (from TNF, March 2007)	163.9	–	–	–	163.9
GOODWILL	**382.8**	**–**	**–**	**–**	**382.8**

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

3.3. INVESTMENTS IN ASSOCIATES

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

	Group share in net assets at year-end (under equity method)		Net income	
	12/31/2019	12/31/2018	2019	2018
Principia	2.2	1.9	0.3	0.2
Alderney Renewable Energy	0.0	0.0	0.0	(0.2)
Eurosysnav[2]	0.0	1.6	0.0	0.0
Boustead DCNS Naval Corporation SDN BHD (Malaysia)[1]	(29.9)	(23.6)	(5.6)	(7.9)
Itaguaí Construções Navais SA (Brazil)[1]	4.7	5.6	5.1	5.6
Défense Environnement Services SAS (France)[1]	2.2	2.2	1.9	1.8
Kership SAS (France)[1]	1.2	(0.5)	0.6	0.7
TechnicAtome SA (France)	110.0	95.1	9.3	7.4
TOTAL	**90.4**	**82.3**	**11.6**	**7.6**

(1) Companies accounted for under the equity method since January 1, 2014 (IFRS 10 and 11).
(2) Company liquidated in December 2019.

3.3.2. Changes in "Net assets of equity affiliates"

	12/31/2019	12/31/2018
Share in net assets of equity affiliates as at 1 January	82.3	91.2
Share in income/(loss) of equity affiliates	11.6	7.6
Dividends paid	(13)	(17.9)
Actuarial gains (losses) on pensions, net of deferred taxes	(0.5)	0.0
Actuarial gains (losses) on pensions, net of deferred taxes from previous financial years	11.2	0.0
Translation differences	(0.7)	0.4
Consolidation scope changes	(1.6)	1.0
Other	1.1	0.0
SHARE IN NET ASSETS OF EQUITY AFFILIATES	**90.3**	**82.3**

3.3.3. Summary financial information on TechnicAtome

Naval Group holds 20.32% of the share capital of TechnicAtome, which specialises in nuclear power.

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

Summarised balance sheet (100%)	12/31/2019	12/31/2018
Total assets	**866.4**	**843.4**
Equity restated, entity's share before net income	118.8	107.5
Actuarial gains (losses) on pensions, net of deferred taxes	(2.5)	0.0
Actuarial gains (losses) on pensions, net of deferred taxes from previous financial years	55.0	0.0
Entity's net income	45.2	36.7
Equity restated, entity's share	216.5	144.2
Other liabilities	649.9	644.2
Total equity and liabilities	**866.4**	**788.4**
Cash and cash equivalents	562.5	603.5

Consolidation in Naval Group	12/31/2019	12/31/2018
Equity restated, entity's share before net income	118.8	107.5
Actuarial gains (losses) on pensions, net of deferred taxes	(2.5)	0.0
Actuarial gains (losses) on pensions, net of deferred taxes from previous financial years	55.0	0.0
Entity's net income	45.2	36.7
Equity restated, entity's share	216.5	144.2
Naval Group % shareholding	20.32%	20.26%
Naval Group share	**44.0**	**29.2**
Goodwill	65.9	65.9
Share in the joint venture	**109.9**	**95.1**

Income statement (100%)	12/31/2019	12/31/2018
Revenue	419.5	411.5
Operating profit	72.5	74.6
Net financial expense	1.4	(17.2)
Tax	(28.7)	(20.7)
Net income restated	**45.2**	**36.7**
Naval Group % shareholding	20.32%	20.26%
Share of net income of joint venture	**9.3**	**7.4**

3.4. INVENTORIES AND WORK IN PROGRESS

	12/31/2019	12/31/2018
Raw materials and goods for resale	417.5	446.0
Work in progress	42.6	37.9
Finished and semi-finished products	0.1	0.2
Gross amounts	**460.2**	**484.1**
Impairment allowances	(45.1)	(31.8)
Inventories and work in progress	**415.1**	**452.3**

3.5. TRADE AND OTHER RECEIVABLES

	12/31/2019	12/31/2018*
Trade receivables, gross	543.1	832.4
Trade receivables, impairment allowance	(24.0)	(25.1)
Trade receivables	**519.1**	**807.3**
Tax receivables (excluding current tax)	202.6	151.3
Employment and social benefit receivables	8.9	5.0
Tax, employment and social benefit receivables	**211.5**	**156.3**
Deferred expenses	41.0	34.0
Other receivables, gross	41.5	69.5
Other receivables, impairment allowance	0.0	(0.2)
Other receivables, net	**82.5**	**103.3**
Trade and other receivables	**813.1**	**1,066.9**

* *The data published for the financial year 2018 has been restated for the IFRS 15 presentation impact related to the offsetting of contract assets and liabilities. The breakdown is presented in note 1.3.2.1 of this document.*

3.6. TOTAL EQUITY

3.6.1. Share capital

As at December 31, 2019, the parent company's share capital comprised 56,299,700 ordinary shares and 300 Class A preference shares. Under the articles of association, each Class A preference share gives its holder a right to receive a priority dividend.

The nominal value of both ordinary and preference shares is €10.

As at December 31, 2019, shares were held as follows:

	Ordinary shares	Preference shares	Total	%
The French State	35,047,571	300	35,047,871	62.25%
Thales	19,705,000	–	19,705,000	35.00%
FCPE Actions Naval Group	1,060,869	–	1,060,869	1.88%
Naval Group Actionnariat (treasury shares)	486,260	–	486,260	0.86%
TOTAL	**56,299,700**	**300**	**56,300,000**	**100%**

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

3.6.2. Dividend payments

On March 15, 2019, the Ordinary General Meeting resolved, in respect of the financial year ended December 31, 2018, to allocate profits as follows:

- €87,828,000 as a shareholder dividend;
- €184,351,087.47 to retained earnings.

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

During the financial year ended December 31, 2019, the group recorded no changes in the fair value of financial assets and liabilities (no changes either at December 31, 2018).

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

During the period from 1 January to December 31, 2019, the group recorded a fall of €2.0 million in its cash flow hedge reserves (increase of €0.2 million in 2018).

As at December 31, 2019, the group no longer had any hedging instruments.

3.6.5. Translation differences (foreign subsidiaries)

As stated in note I.3.5, this item comprises differences arising on the translation of the financial statements of foreign companies on the basis of the closing and average exchange rates.

The following group companies do not use the euro as their functional currency: Naval Group Far East (Singapore dollar SGD), Itaguaí Construções Navais, Prosin and Naval Group BR (Brazilian real – BRL), Boustead DCNS Naval Corporation (Malaysian ringgit –

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

During the financial year ended December 31, 2019, the group recorded a decrease of €4.1 million in its reserves for translation differences (*versus* a decrease of €2.4 million in 2018).

3.6.6. Treasury shares

Naval Group Actionnariat (wholly-owned by the group) acquired 38,938 and 72,942 treasury shares during the financial years ended December 31, 2018 and December 31, 2019, respectively, under the share buyback guarantee granted to employees under the two employee share offers (2008 and 2014) and the Collective Shareholding Plan (2019). As stated in note I.3.19, Naval Group shares that are held by Naval Group Actionnariat or for which shareholders have an option to sell to Naval Group Actionnariat are recognised as a deduction from equity. The impact on equity was €81.9 million as at December 31, 2019 (as opposed to €79.2 million as at December 31, 2018).

The treasury share reserve has been revalued in accordance with the new valuation of group shares published in April 2019, resulting in an upward revaluation of the treasury share reserve (only for shares corresponding to the buyback commitment issued by Naval Group and not yet repurchased) with a corresponding decrease in other reserves of (€3.8) million.

At December 31, 2019, Naval Group Actionnariat held 486,260 Naval Group shares, and FCPE Actions Naval Group, whose shares are therefore held by beneficiaries of the transactions referred to in paragraph 1 above, held 1,060,869 shares.

All the conditions restricting the resale of shares held by staff as a result of the first employee share offer were all lifted with effect from August 2013 (2008 Employee Share Offer).

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

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

3.6.7. Capital management

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

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

3.7. PROVISIONS

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

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

(2) As at December 31, 2019, other non-current provisions include provisions for other long-term benefits (long-service bonuses, pensions and the senior time bank scheme (see note I.3.18.)), provisions for litigation and provision for liabilities relating to convertible bonds (OCABSA) for €42 million.

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

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

Please note that in 2018, the shareholders of Naval Energies brought a legal action against the company through the Commercial Court in Paris. Naval Group believes that it has all the arguments to defend its position and is of the opinion that at the end of December 2019, the contingent liability represented by this action is not quantifiable, and has therefore not set aside any provision in its financial statements.

	12/31/2017*	Expenses	Utilisation	Reversals	Other	12/31/2018
Provisions for retirement benefits[1]	82.6	13.9	(3.3)	0.0	(6.8)	86.4
Other non-current provisions[2]	30.1	57.5	(1.5)	0.0	(3.8)	82.3
Non-current provisions	**112.7**	**71.4**	**(4.8)**	0.0	**(10.7)**	**168.6**
Provisions for retirement benefits[1]	0.1	0.0	0.0	0.0	5.1	5.2
Provisions for the competitiveness plan	19.3	0.0	(8.9)	0.0	0.0	1.04
Provisions under warranties	59.6	22.4	(10.3)	0.0	0.0	71.7
Provisions on contracts[3]	340.4	63.4	(56.8)	0.0	60.4	407.4
Provisions for losses on completion[4]	115.7	8.9	(28.2)	0.0	(15.9)	80.5
Other current provisions[3][5]	91.7	11.2	(10.8)	0.0	(56.3)	35.8
Current provisions	**626.8**	**105.9**	**(115.0)**	0.0	**(6.7)**	**611.0**
PROVISIONS	**739.5**	**177.3**	**(119.8)**	0.0	**(17.4)**	**779.6**

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

(2) As at December 31, 2018, other non-current provisions included provisions for other long-term benefits (long-service bonuses, pensions and the senior time bank scheme (see note 1.3.18.)), provisions for litigation and provision for liabilities relating to convertible bonds (OCABSA) for €42 million.

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

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

(5) Other current provisions mainly include provisions relating to tax, labour and supplier disputes. At December 31, 2018, a provision for the removal of asbestos from the Cherbourg site was recorded under "Other current provisions" for €2.1 million.

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

3.7.1. Provisions for lump-sum payments payable on retirement

As at December 31, 2019, provisions for lump-sums payable on retirement for the group as a whole amounted to €123.1 million, compared to €91.6 million as at December 31, 2018, mainly related to Naval Group.

The assumptions used were as follows:

- discount rate: 0.50%, compared with 1.50% as at December 31, 2018;
- inflation rate: 1.75% (unchanged from the rate used as at December 31, 2018);
- salary increase rate: 2.5% (unchanged from the rate used as at December 31, 2018).

As at December 31, 2019, the sensitivity of the net obligation to a change in the discount rate was as follows:

- reducing the discount rate by 0.5% would lead to a provision for lump-sum retirement benefits of €178.5 million;
- increasing the discount rate by 0.5% would lead to a provision for lump-sum retirement benefits of €151.1 million.

Movements in the retirement obligation were as follows:

	2019	2018
Opening obligation	132.0	121.4
Current service cost	9.4	12.8
Accretion expense	1.9	1.4
Benefits paid	(7.9)	(3.2)
Actuarial gains and losses[1]	28.7	(0.4)
OBLIGATION AT END OF PERIOD	**164.1**	**132.0**

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

Changes in pension plan assets were as follows:

	2019	2018
Assets at start of period	40.4	38.7
Return on assets	0.6	0.4
Actuarial gains and losses	0.0	1.3
ASSETS AT END OF PERIOD	**41.0**	**40.4**

As at December 31, 2019, the assets were invested as follows: 58.97% in equities, 18.84% in bonds and 22.19% in money-market instruments.

The net charge recognised breaks down as follows:

	2019	2018
Current service cost	(9.4)	(12.8)
Accretion expense	(1.3)	(1.0)
Benefits paid	7.9	3.2
Expected return on assets	0.6	1.7
NET CHARGE	**(2.2)**	**(8.9)**

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

	12/31/2019	12/31/2018
Actuarial commitment	164.1	132.0
Fair value of assets	(41.0)	(40.4)
PROVISION AT END OF PERIOD	**123.1**	**91.6**

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

	12/31/2019
Forecast benefits 2020	2.6
Forecast benefits 2021	3.8
Forecast benefits 2022	4.9
Forecast benefits 2023	5.1
FORECAST BENEFITS FOR THE NEXT FIVE YEARS	**16.3**

3.7.2. Provisions for other long-term benefits

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

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

They are defined in note 1.3.18.

Changes in obligations to pay other long-term benefits as at December 31, 2019 were as follows:

	2019	2018
Opening obligation	31.0	29.5
Current service cost	2.3	2.1
Accretion expense	0.5	0.5
Benefits paid	(1.1)	(1.1)
Actuarial gains and losses	4.6	0.0
OBLIGATION AT YEAR-END TO PAY OTHER LONG-TERM BENEFITS	**37.2**	**31.0**

3.8. TRADE AND OTHER PAYABLES

	12/31/2019	12/31/2018*
Suppliers	1,187.1	1,114.5
Tax payables (excluding current tax)	264.0	311.6
Social benefit liabilities	228.8	215.1
Deferred income	0.0	6.6
Other payables	174.9	156.4
TRADE AND OTHER PAYABLES	**1,854.8**	**1,804.2**

* *The data published for the 2018 financial year have been restated for the impact of IFRS 15 related to the offsetting of contract assets and liabilities. The breakdown is presented in note 1.3.2.1 of this document.*

3.9. CONTRACT ASSETS AND LIABILITIES

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

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

	12/31/2019	12/31/2018
Unbilled receivables, gross	2,143.6	1,753.7
Advances and part payments received from customers	(1,775.3)	(1,658.0)
Deferred income	(3.8)	0.9
CONTRACT ASSETS	**364.4**	**96.6**
Advances and part payments received from customers	(10,180.6)	(6,975.0)
Unbilled receivables	8,360.3	(7,743.8)
Deferred income	(373.4)	(288.0)
CONTRACT LIABILITIES	**(2,193.7)**	**(2,220.0)**

NOTE 4. FINANCIAL ASSETS AND LIABILITIES

4.1. SUMMARY OF FINANCIAL INSTRUMENTS (FINANCIAL ASSETS AND LIABILITIES)

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

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

4.1.1. Fair value and classification of financial assets

	Loans and receivables at amortised cost	Fair value through profit and loss	Fair value through equity	12/31/2019	Impact of the change in fair value on equity	Impact of the change in fair value on profit and loss
Investments	0.0	0.0	67.7	67.7	0.0	0.0
Loans, non-current portion	0.0	0.0	0.0	0.0	0.0	0.0
Hedging instruments, non-current portion	0.0	0.0	0.0	0.0	0.2	(0.2)
Investment securities	0.0	275.2	0.0	275.2	0.0	(0.7)
Other non-current financial assets	0.2	0.0	0.0	0.1	0.0	0.0
Non-current financial assets	**0.2**	**275.2**	**67.7**	**343.1**	**0.2**	**(0.9)**
Trade receivables	519.1	0.0	0.0	519.1	0.0	0.0
Loans, current portion	0.0	0.0	0.0	0.0	0.0	0.0
Hedging instruments, current portion	0.0	0.0	0.0	0.0	0.1	(0.2)
Investment securities	0.0	235.0	0.0	235.0	0.0	0.9
Other current financial assets	0.3	0.0	0.0	0.3	0.0	0.0
Cash and cash equivalents	0.0	1,683.5	0.0	1,683.5	0.0	5.0
Current financial assets and trade receivables	**519.4**	**1,918.5**	**0.0**	**2,437.9**	**0.1**	**5.7**

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

4.1.2. Fair value and classification of financial liabilities

	Loans and trade payables at amortised cost	Fair value through profit and loss	Fair value through equity	12/31/2019	Impact of the change in fair value on equity	Impact of the change in fair value on profit and loss
Loans, non-current portion	0.0	0.0	0.0	0.0	–	–
IFRS 16 lease liability, non-current portion	65.7	0.0	0.0	65.7	0.0	0.0
Hedging instruments, non-current portion	0.0	0.0	0.0	0.0	0.9	(0.9)
Investment securities	0.0	0.0	0.0	–	–	–
Other non-current financial liabilities	0.0	52.9	0.0	52.9	0.0	(1.2)
Non-current financial liabilities	**55.7**	**52.9**	**0.0**	**118.5**	**0.9**	**(2.1)**
Suppliers	1,187.1	0.0	0.0	1,187.1	0.0	0.0
Loans, current portion	0.0	0.0	0.0	0.0	0.0	0.0
IFRS 16 lease liability, current portion	19.4	0.0	0.0	19.4	0.0	0.0
Hedging instruments, current portion	0.0	0.0	0.0	0.0	0.7	(0.8)
Other current financial liabilities	0.0	27.8	0.0	27.8	0.0	0.1
Current financial liabilities and trade payables	**1,206.5**	**27.8**	**0.0**	**1,234.3**	**0.7**	**(0.7)**

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

"Other non-current financial liabilities" include the group's liability to its staff in connection with the second employee share offer and the 2019 Collective Shareholding Plan.

"Other current financial liabilities" include the group's buyback commitment liability to its employees in connection with the first employee share offer.

4.1.3. Fair value of investments

Investments that are classified as "available-for-sale" financial assets are valued at fair value through equity. This breaks down as follows (the group's percentage shareholding in these companies at December 31, 2019 and, in the case of foreign countries, their country of registration, is shown in brackets):

	12/31/2019	12/31/2018
Sofema SA (10%)	6.4	6.6
Odas SA (9%)	2.7	2.7
Chantiers de l'atlantique (12%)	13.9	13.9
FCPR Sécurité (13%)	0.6	0.9
FCPR Financière de Brienne 1 (6%)	0.3	0.1
FCPR Financière de Brienne 2 (10%)	0.2	1.1
Atalaya (39%)	2.2	3.4
Naval Group Canada (100%)[1]	1.3	1.3
Other[2]	40.1	37.7
INVESTMENTS	**67.7**	**67.7**

(1) The Naval Group Canada shares are unconsolidated shares held via Naval Group Participations. The Naval Group Canada subsidiary is not material.
(2) This amount essentially consists of loans between Naval Energies and OpenHydro.

4.2. CASH AND CASH EQUIVALENTS

	12/31/2019	12/31/2018
Cash equivalents	1,241.8	1,471.9
Cash	441.7	504.5
Cash and cash equivalents	**1,683.5**	**1,976.4**
Bank overdrafts	0.0	0.0
NET CASH	**1,683.5**	**1,976.4**

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

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

4.3. RISK MANAGEMENT

4.3.1. Credit risk

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

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

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

	12/31/2017	Expenses	Reversals	Other	12/31/2018	Expenses	Reversals	Other	12/31/2019
Impairment allowances against trade receivables	(13.5)	(2.7)	1.0	(9.9)	(25.1)	(1.0)	2.1	0.0	(24.0)

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

4.3.2. Liquidity risk

Liquidity risk is currently covered by surplus cash; however, the group does not refrain from using credit facilities if necessary. Its main financial debt is its liability to staff in connection with the employee share offer and the Collective Shareholding Plan.

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

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

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4.3.3. Foreign currency exchange risk

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

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

Although the group does not **systematically** maintain specific hedge accounting, all material transactions in foreign currency with a time horizon of less than five years are subject to a currency risk management policy. This involves matching the amount of receipts in currencies to the expected disbursements in those currencies at the time a contract is drafted. In the event of differences in timing, amounts or both, the group enters into forward foreign exchange contracts or options in the relevant currencies to hedge the residual difference.

	12/31/2019	12/31/2018
Forward purchase contracts		
US dollar (USD)	2.4	
Pound sterling (GBP)	0.6	1.4
Brazilian real (BRL)		
New Zealand dollar (NZD)		
Malaysian ringgit (MYR)		0.9
Forward sale contracts		
US dollar (USD)		2.4
Pound sterling (GBP)		
Call options		
Pound sterling (GBP)	3.9	
Tunnel options		
Brazilian real (BRL)		

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

The forward purchase contract in USD corresponds to the needs of projects in Saudi Arabia.

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

4.3.4. Interest rate risk

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

NOTE 5. OTHER DISCLOSURES

5.1. NOTES TO THE CASH FLOW STATEMENT

5.1.1. Change in working capital (requirement)

	2019	2018
Net decrease (increase) in inventories	37.2	(1.2)
Net decrease (increase) in advances and part payments paid	(158.4)	202.3
Net decrease (increase) in trade receivables	(61.9)	(1,354.2)
Net increase (decrease) in other receivables	(37.0)	(67.7)
Net increase (decrease) in trade payables	73.6	(14.5)
Net increase (decrease) in advances and part payments received	0.0	394.6
Net increase (decrease) in other payables	(18.1)	298.0
Net increase (decrease) in contract assets and liabilities	(255.9)	
Change in working capital (requirement)	**(420.5)**	**(542.7)**

* *The data published for the financial year 2018 concerning the change in WCR does not take into account the offsetting of contract assets and liabilities (IFRS 15).*

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

	2019	2018
Purchases of intangible assets	(28.8)	(28.1)
Purchases of property, plant and equipment	(115.9)	(76.8)
Purchases during the period	**(144.7)**	**(104.9)**
Deferred disbursement	4.9	13.8
PURCHASES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	**(139.8)**	**(91.1)**

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

	2019	2018
Disposals of intangible assets	0.0	0.0
Disposals of property, plant and equipment	0.6	46.5
Disposals during the period	**0.6**	**46.5**
DISPOSALS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	**0.6**	**46.5**

5.2. RELATED PARTIES

The group considers the following to be related parties:

- the French State and companies over which it has exclusive control, joint control or significant influence (including in particular all companies in the Thales group);
- the "Actions Naval Group" employee mutual fund (*fonds commun de placement d'entreprise*);
- non-consolidated entities;
- entities over which the group exercises joint control or significant influence;
- the group's executives.

The companies over which the French State has exclusive control, joint control or significant influence, including in particular all companies in the Thales group, are government-related entities as defined by revised IAS 24 (Related Party Disclosures). In accordance with that standard, the group, over which the French State has exclusive control, only discloses summary information about the revenues arising from its business with the French State and the government-related entities concerned.

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

During the year ended December 31, 2019, the group generated 70.7% of its revenue with the French State and government-related entities (*versus* 69.5% of its revenue for the financial year ended December 31, 2018).

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

	2019	2018
Sales		
Non-controlled portion in equity affiliates	46.1	35.4
Shareholders and companies controlled by them (excluding the French State and government-related entities)	–	–
Other (Eurotorp)	19.6	26.3

	12/31/2019	12/31/2018
Operating receivables[1]		
Equity affiliates	206.5	57.4
Shareholders and companies controlled by them (excluding the French State and government-related entities)	–	–
Other (Eurotorp)	–	0.3
Operating payables[2]		
Equity affiliates	115.6	35.8
Shareholders and companies controlled by them (excluding the French State and government-related entities)	–	–
Other (Eurotorp)	–	–
Financial liabilities[3]		
Equity affiliates	–	–
Shareholders and companies controlled by them (excluding the French State and government-related entities)	70.2	63.9
Other	–	–

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

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

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

5.2.3. Agreements with Thales

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

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

- the non-resumption by Thales (whether directly or indirectly) of any of the activities carried out by TNF (merged with Naval Group on January 1, 2013), Armaris and MO PA2 after completion of the transaction;
- the free exercise by the French or foreign subsidiaries of Thales of activities not covered by the non-resumption undertaking;
- technical and industrial cooperation based on the specialisation of each company's activities in order to optimise each company's investments and to allow each party to the contract to benefit from the other's technological resources;
- the group's commercial freedom;
- cooperation in the areas of procurement and human resources.

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

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

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

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

5.2.4. Executive compensation

The gross remuneration and benefits in kind paid to members of the Executive Committee and employer's social benefit contributions were as follows during the financial years ended December 31, 2018 and December 31, 2019:

	2019	2018
Fixed remuneration	2.4	2.2
Variable remuneration	1.2	1.3
Benefits in kind and miscellaneous	0.1	0.1
Employer's social benefit contributions	1.5	1.5
TOTAL	**5.3**	**5.1**
Number of persons concerned	9	8

5.3. OFF-BALANCE SHEET COMMITMENTS

5.3.1. Off-balance sheet commitments arising from commercial contracts

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

These are mainly market guarantees.

	12/31/2019	12/31/2018
Performance bonds[1][2][3][4][5][6][7][8]	362.5	238.2
Guarantees in lieu of retentions[10]	11.5	18.3
Other guarantees made[9]	73.7	60.5
COMMITMENTS MADE	**447.6**	**532.4**

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

(2) Under contracts for logistics and the supply of equipment to the Indian Navy, the group's banks have issued bank guarantees of €25.1 million in favour of its customer to guarantee performance.

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

(4) Under a series of sale contracts entered into by Itaguai Construções Navais SA (hereinafter "ICN"), the group, in its capacity as a shareholder of ICN, will have its banks issue to ICN's customer bank performance guarantees requested by that customer for 41% of the commitments entered into by ICN under the terms of the aforementioned contracts. The amount of bank guarantees issued as at December 31, 2019 was €11.8 million.

(5) The group has provided guarantees of €2.6 million to Sofrantem in connection with the signing of addendum no. 20 relating to the order by the Pakistan Navy for anaerobic modules no. 2 and no. 3, in addition to the guarantee granted by the French State to Sofrantem on the main Pakistan contract.

(6) Under a sale contract in Egypt, the group's banks have issued bank guarantees of €48.5 million in favour of its customer to guarantee performance.

(7) Under a sale contract in Egypt, the group's banks have issued bank guarantees of €15.6 million in favour of its customer to guarantee performance.

(8) Under a sale contract in Belgium, the group's banks have issued bank guarantees of €7.5 million in favour of its customer to guarantee performance.

(9) In the context of the employee share offer, the group instructed its banks to issue a €28 million financial guarantee to the management company in charge of managing the fund.

(10) To release the funds frozen to retain the guarantee on certain contracts with the French Navy, guarantees of exemption from the retention of guarantee in the amount of €11.3 million were issued.

The maturity schedule as at December 31, 2019 was as follows:

	Due in less than one year	Due in one to five years	Due in more than five years
Performance bonds	101.8	105.1	155.6
Guarantees in lieu of retentions	11.5	0.0	0.0
Other guarantees made	39.8	31.3	2.6
COMMITMENTS MADE	**153.1**	**136.3**	**158.2**

	12/31/2019	12/31/2018
Performance bonds	94.5	72.4
Guarantees in lieu of retentions	1.8	1.4
Other guarantees received	41.3	34.2
COMMITMENTS RECEIVED	**137.6**	**142.7**

The maturity schedule as at December 31, 2019 was as follows:

	Due in less than one year	Due in one to five years	Due in more than five years
Performance bonds	23.5	52.8	18.1
Guarantees in lieu of retentions	1.8	0.0	0.0
Other guarantees received	19.9	21.4	0.0
COMMITMENTS RECEIVED	**45.2**	**74.3**	**18.1**

5.3.2. Other commitments

Commitments made

As at December 31, 2019, firm investment commitments totalled €162.6 million (*versus* €104.3 million as at December 31, 2018).

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

Under the partnership with the Commonwealth of Australia (CoA) for the Australian Future Submarine program, Naval Group may be required to guarantee the obligations of its subsidiary if the latter were to enter into the contract alone and directly with the CoA for part of the program.

Commitments received

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

5.4. EVENTS AFTER THE REPORTING PERIOD

None.

VI. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Financial year ended december 31, 2019

To the Shareholders of Naval Group,

OPINION

Pursuant to the assignment entrusted to us by your General Meetings, we conducted our audit of the consolidated financial statements of Naval Group for the financial year ended December 31, 2019, as presented in the attachment to this report.

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

BASIS OF OUR OPINION

AUDITING STANDARDS

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

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

INDEPENDENCE

We conducted our audit in accordance with the rules of independence relevant to our audit, over the period January 1, 2019 to the date of issue of our report and in particular we did not provide any services prohibited by the Code of Ethics for professional Auditors.

OBSERVATION

Without qualifying our opinion expressed above, we draw your attention to note I.3.2.2 to the consolidated financial statements, which presents the effects of the initial application of IFRS 16 on the consolidated financial statements at December 31, 2019.

JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we draw to your attention the following assessments which, according to our professional opinion, were the most important in our audit of the consolidated financial statements for the financial year ended December 31, 2019.

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

- Note I-3.4 "Accounting rules and policies – Use of estimates – Recognition of revenue and profit on construction contracts and long-term service agreements and related provisions" in the notes to the consolidated financial statements states that your group recognises revenue and profit on certain projects using the percentage of completion method. This involves the use by Management of estimates, in particular to determine the profit on completion of each contract, made on the basis of the most up-to-date information available with regard to its progress. These estimates affect net income as well as the assets and liabilities recorded in the balance sheet. Our work consisted of understanding the processes in place by the group in this area and assessing the underlying data and assumptions on which these estimates are based. We also assessed the reasonableness of these estimates, on the basis of the information available at the time the financial statements were prepared.

- Note I.3.4 "Accounting rules and policies – Use of estimates – Valuation of assets" states that your group conducted an annual impairment test of goodwill by using assumptions of future cash flows, discount rates and perpetual growth rates, which required the use of judgement. We assessed the conditions under which the annual impairment test was conducted and examined the assumptions used, which are justified by the information available at the balance sheet date.

SPECIFIC VERIFICATIONS

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

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

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

RESPONSIBILITIES OF THE MANAGEMENT AND PERSONS COMPRISING THE CORPORATE GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

STATUTORY AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the overriding of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting methods used and the reasonableness of accounting estimates and related disclosures made by Management, in the consolidated financial statements;

- assess the appropriateness of Management's use of the going concern accounting convention and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Naval Group's ability to continue as a going concern. This assessment is based on the audit evidence obtained at the date of our report. However, it should be pointed out that future events or conditions may cause Naval Group to cease to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's report to the related disclosures in the consolidated financial statements as regards said uncertainty or, if such disclosures are not provided or are not relevant, to certify with reservations or refuse to certify;
- evaluate the overall presentation of the consolidated financial statements and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain audit evidence that is sufficient and appropriate, regarding persons or entities included in the consolidated financial statements, to provide a basis for our opinion on said consolidated financial statements. We are responsible for managing, supervising and conducting the audit of the consolidated financial statements and for expressing our opinion.

Paris-La Défense, March 6, 2020

The Statutory Auditors

MAZARS	ERNST & YOUNG Audit
Michel Barbet Massin	Nour-Eddine Zanouda

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

Financial year ended december 31, 2019

To the General Meeting,

As an independent verifier accredited by COFRAC under number 3-1681 (for the scope of accreditation, see the website www.cofrac.fr) and member of the network of one of the Statutory Auditors of your company (the "entity"), we hereby present to you our report on the consolidated statement of non-financial performance for the financial year ended December 31, 2019 (hereinafter the "Statement"), included in the management report pursuant to the provisions of articles L. 225-102-102, R. 225-105 and R. 225-105-1 of the French Commercial Code.

ENTITY'S RESPONSIBILITY

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

The Statement was prepared using the entity's procedures (hereinafter the "Criteria"), the material elements of which are presented in the Statements and available upon request from the entity's head office.

INDEPENDENCE AND QUALITY CONTROL

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

RESPONSIBILITY OF THE INDEPENDENT VERIFIER

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

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

However, it is not our responsibility to express an opinion on the entity's compliance with other applicable legal and regulatory provisions, in particular regarding the vigilance plan and the fight against corruption and tax evasion, or on the compliance of products and services with applicable regulations.

NATURE AND SCOPE OF THE WORK

Our work described hereafter has been performed according to the provisions of article A. 225-1 *et seq* of the French Commercial Code, the professional standards of National Association of Statutory Auditors regarding this assignment and the international standard, ISAE 3000[1]:

- we acknowledged the business activities of all the entities included in the consolidation scope and the description of the main risks;
- we assessed the suitability of the Criteria in view of their relevance, completeness, reliability, neutrality and clarity, taking into account industry best practice, where appropriate;
- we verified that the Statement covers each category of social and environmental information provided for in III of article L. 225-102-1;
- we verified that the Statement presents the information provided for in II of article R. 225-105 when relevant with regard to the main risks and includes, where applicable, an explanation of the reasons justifying the absence of the information required by the second subparagraph of III of article L. 225-102-1;
- we verified that the Statement discloses the business model and the main business risks affecting all entities included in the consolidation scope, including, where relevant and proportionate, the risks arising from their business relationships, products and services, as well as policies, actions and outcomes, including the key performance indicators;
- we consulted the documentary sources and carried out interviews to:
  - assess the process for selecting and validating the main risks as well as the consistency of the results, including the key performance indicators selected, with respect to the main risks and policies presented, and
  - corroborate the qualitative information (actions and outcomes) that we considered material, as presented in Appendix 1. For some risks (personal data protection, product quality and safety, carbon footprint of products in service and cleantech-related opportunities), our work was carried out at the consolidating entity level; for other risks, work was carried out at the level of the consolidating entity and in a selection of entities listed hereafter: the Brest, Ollioules, Alexandria Naval for Maintenance & Industry (Egypt) and DCNS Zamil (Saudi Arabia);
- we verified that the Statement covers the entire consolidation scope, *i.e.* all entities included in the consolidation scope in accordance with article L. 233-16, subject to the limits specified in the Statement;
- we acknowledged the internal control procedures and the risk management implemented by the entity and evaluated the compilation process put in place by the entity to ensure that the Disclosures are comprehensive and fair.
- for the key performance indicators and the other quantitative results that we considered material, as presented in Appendix, we carried out:
  - analytical procedures to check that the data compiled had been consolidated correctly and that trends in the data were consistent,
  - a thorough examination on the basis of sampling, consisting of verifying the proper application of the definitions and procedures and reconciling the data with the supporting documents. This work was carried out with a selection of contributing entities listed hereafter and covered between 13% and 27% of the consolidated data selected for these tests (25% of the workforce, 27% of the hours worked, 13% of the environmental events);
- we assessed the overall consistency of the Statement with our knowledge of the entity and all entities included in the consolidation scope.

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

(1) *ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.*

MEANS AND RESOURCES

Our work was conducted by a team of six people over a period of approximately eight weeks between September 2019 and February 2020.

We conducted about ten interviews with the persons responsible for preparing the Statement, representing in particular the Ethics, Compliance and Group Governance, Audit and Risk management, Quality, Health, Safety and the Environment and Human Resources Departments.

CONCLUSION

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

Paris-la Défense, February 20, 2020

The Independent Verifier
EY & Associés

Eric Duvaud
Associé développement durable

Jean-François Bélorgey
Associé

APPENDIX 1 – MATERIAL INFORMATION

Texte têtière manquant	
Quantitative information (including key performance indicators)	*Qualitative information (actions or outcomes)*
▪ Total number of staff ▪ Hiring by contract ▪ Departures and turnover ▪ Incidence of workplace accidents with lost time ▪ Severity rate of workplace accidents ▪ Number of collective agreements signed ▪ Percentage of staffing plan completed	▪ Recruitment, identification and retention of core skills ▪ Occupational health and safety (identification of the main health and safety risks, training, prevention and performance actions) ▪ Employee relations (organisation in place, relations with staff representation bodies and review of collective agreements) ▪ The measures implemented to minimise the risks of abuse and fraud under the applicable legislation and the group's commitments as an employer
Environmental information	
Quantitative information (including key performance indicators)	*Qualitative information (actions or outcomes)*
▪ Environmental events by site and by impacted area ▪ Proportion of proactive vessel projects in view of environmental protection requirements ▪ Proportion of R&D data sheets contributing to environmental protection ▪ Proportion of a vessel's carbon footprint over its entire life cycle attributable to the vessel's use ▪ Greenhouse gas emissions related to energy consumption and the consumption of fossil fuel fixed combustion resources	▪ The group's environmental commitments ▪ Organisation and results of the policies in place to mitigate the risk of a serious industrial environmental accident ▪ The group's efforts to promote eco-design and measure the carbon footprint of products in service
Societal information	
Quantitative information (including key performance indicators)	*Qualitative information (actions or outcomes)*
–	▪ The organisation and measures implemented to ensure product safety in the areas of diving safety and nuclear safety ▪ The mechanisms in place to prevent corruption and influence peddling

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