



# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 2019



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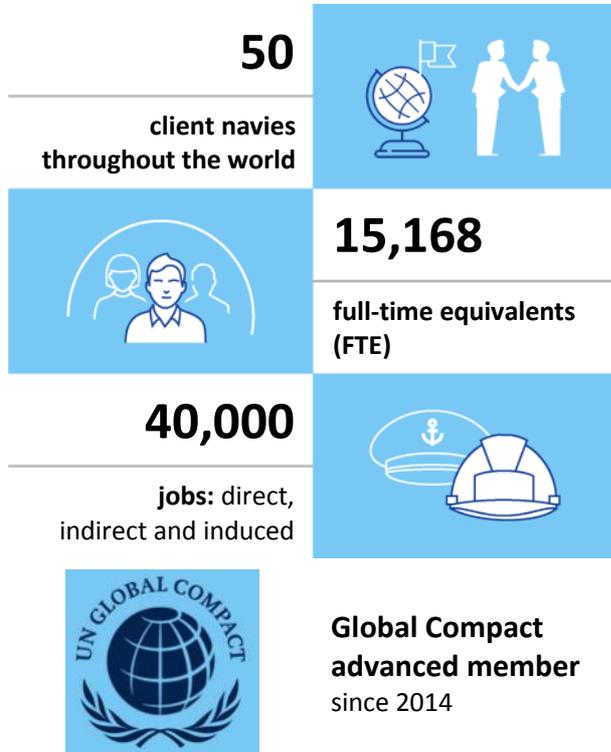
Table of contents

- I. **GROUP GOVERNANCE** ..... 6
  - 1. **Ambitions**..... 8
    - a. Profile of the organisation..... 8
    - b. Strategy and analysis ..... 8
    - c. Relevant aspects and scopes identified ..... 10
  - 2. **Governance**..... 10
    - a. Administration and control ..... 10
    - b. Composition and operation of the Board of Directors..... 10
    - c. General management of the company ..... 18
    - d. Governance of subsidiaries and jointly controlled companies..... 18
    - e. Integrated risk management system..... 18
  - 3. **CSR governance** ..... 23
- II. **HUMAN RIGHTS** ..... 25
  - 1. **Health and safety at work: a right for everyone and a priority for Naval Group** ..... 26
    - a. Policy ..... 26
    - b. Organisation..... 26
    - c. Health and Safety at Work (H&SW) communication ..... 28
  - 2. **Diversity, a strong commitment by Naval Group to benefit performance** . 30
    - a. Professional gender equality ..... 31
- III. **LABOUR PRACTICES** ..... 36
  - 1. **2019, an important year for the renovation of social dialogue**..... 36
  - 2. **Continuing the momentum of managerial and cultural transformation** ..... 37
    - a. Collaborative innovation by considering ideas on the ground and firmly anchoring experiments within the teams' operating modes ..... 37
    - b. Strengthening cooperation within teams - from the manager down - through a commitment approach involving all of the group's employees..... 38
    - c. Development of the managerial community through an approach that hinges on specific provisions with respect to field coaching ..... 38
    - d. A specific training path for managers aimed at better understanding what is expected of them and which becomes Naval Group's management baseline ..... 39
  - 3. **Transformation momentum to strengthen the employer brand** ..... 39
    - a. The deployment of "school partnerships" to benefit development challenges..... 40
    - b. Focus on the Naval Industries Campus (CINAV), a mechanism to foster the emergence of the maritime world's talents of tomorrow ..... 41
  - 4. **Developing and maintaining skills to ensure the sustainability of the group's activities and performance** ..... 42
    - a. Strategic workforce planning ..... 42
    - b. Skills development ..... 42
    - c. Knowledge transfer to ensure that skills are maintained ..... 44
  - 5. **Career progression, a major development issue**..... 45

6.	An attractive compensation and benefits policy .....	46
a.	Compensation and benefits policy.....	46
b.	Compensation of directors .....	47
7.	A more flexible organisation of working hours and the work itself.....	48
a.	Organisation of working time .....	48
b.	Remote working .....	48
8.	Quality of life at work, a lever for self-fulfilment and performance .....	49
<b>IV.</b>	<b>ENVIRONMENT.....</b>	<b>49</b>
1.	Ecodesign .....	54
a.	Blue Ship.....	55
b.	Carbon footprint.....	57
c.	Ocean thermal energy.....	59
d.	Datacenter .....	59
e.	Participatory actions .....	59
2.	Site management .....	60
a.	Naval Group’s environmental footprint.....	60
b.	Atmospheric emissions .....	61
c.	Emissions into water .....	63
d.	Waste Management.....	64
e.	Bio-waste.....	65
f.	Noise.....	65
g.	Water consumption .....	65
h.	Energy consumption .....	65
i.	Property operations .....	66
j.	Biodiversity.....	67
3.	Marine renewable energies (MREs).....	68
a.	Global Naval Energies .....	68
b.	Floating wind turbine product line.....	68
c.	OTEC product line / exploitation of deep sea water .....	68
d.	Proactive involvement of Naval Energies in its national and international ecosystem .....	69
e.	Activity control.....	70
f.	MERIC in Chile .....	70
<b>V.</b>	<b>FAIR PRATICES.....</b>	<b>72</b>
1.	Anti-corruption compliance arrangement .....	72
2.	Organisation.....	73
3.	Risks mapping .....	73
4.	Awareness, training and communication .....	74
5.	Reporting and due diligence compliance system.....	74
6.	A reinforced alert collection and processing system .....	75
7.	Internal control.....	76
8.	Protection of innovation and anti-counterfeiting measures.....	77
<b>VI.</b>	<b>QUESTIONS ABOUT CUSTOMERS.....</b>	<b>78</b>
1.	Contractual process .....	78

a.	Naval Group’s commitment to sustainable procurement.....	79
b.	Suppliers: seeking shared competitiveness .....	80
c.	Ethics and procurement.....	81
d.	Sharing insights and listening to suppliers.....	83
2.	Progress Plan .....	85
3.	Resolution of claims .....	89
4.	Customer satisfaction .....	89
5.	Clubs .....	91
6.	Quality management.....	92
<b>VII. COMMUNITIES AND LOCAL DEVELOPMENT .....</b>		<b>93</b>
1.	Integrating our stakeholders .....	93
2.	Innovation, a development challenge .....	94
a.	Open Innovation.....	95
b.	Subsidisation.....	96
c.	Innovation partnerships .....	97
3.	The development of local communities .....	99
d.	Investments.....	101
4.	Patronage, education and partnerships.....	103
a.	Armed Forces-Nation bond .....	103
b.	Social and outreach initiatives by the French Navy.....	105
c.	Enhancing the know-how and heritage of shipbuilding industry. ....	105
d.	Partnerships .....	106
<b>VIII. CONCLUSION .....</b>		<b>109</b>
<b>IX. GRI TABLE .....</b>		<b>110</b>
5.	Methodology note for the reporting of environmental, social and governance indicators at Naval Group .....	110
e.	Scope.....	110
f.	Indicators .....	111

## NAVAL GROUP AT A GLANCE



In a world where economic and political instability are increasingly prevalent, Naval Group must define a clear strategic vision to address societal challenges and ensure the sustainability of its growth. In this complex environment, Naval Group implements an active and proactive policy in terms of innovation, respect for human rights, diversity and the fight against all forms of corruption, and has made the fight against climate change one of its major concerns. Located in numerous employment areas in France and abroad, the group operates with a network of reliable suppliers and partners and strives to provide its customers with the best possible services and products.

Committed to the Global Compact since 2014, Naval Group has reached the "Advanced" level for the fifth consecutive year, i.e. the highest level of distinction conferred by the United Nations Global Compact. The group also strives to address the seven pillars of ISO 26000, as this report will show, while pursuing six sustainable development goals, i.e. Sustainable Development Goals (SDGs) 5, 7, 9, 13, 14 and 16. The scope of its social responsibility is thus defined and the priority areas of action identified.

## I. GROUP GOVERNANCE



### FOCUS SDG 16

“Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.”

Beyond its technological know-how, the stability and sustainability of Naval Group depends to a large extent on its governance model, at a time when the company is being deeply transformed by its increasingly international dimension. This governance is based on nearly 400 years of naval innovation and a presence on all continents. It has demonstrated its ability to adapt to increasingly complex and dangerous environments.



Naval Group’s presence worldwide

## HISTORY AT THE SERVICE OF THE GROUP'S FUTURE

1631	1751	1778	1899
 <p>First arsenals created by Cardinal Richelieu</p>	 <p>Navy canon foundry in Ruelle</p>	 <p>The Lorient arsenal succeeds the Indies Company</p>	 <p>Launch of <i>Le Narval</i> in Cherbourg, the ancestor of the modern submarine</p>
1967	1996	2003	2016
 <p>Launch of <i>Le Redoutable</i>, the first SSBN</p>	 <p>Entry into service of the La Fayette-class stealth frigates</p>	 <p>DCN becomes a state-owned private limited company</p>	 <p>Selected by Australia for its future submarine program</p>
<p>2017</p>  <p>DCNS becomes Naval Group</p>			

Drawing on its rich history, Naval Group is present on all continents and capitalises on its strengths to prepare for the future and address the ambitions of the world's major navies.

## KEY FIGURES

### 1. Ambitions

#### a. Profile of the organisation

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

In its capacity as an international high-tech company, Naval Group is able to address the needs of its customers through its exceptional know-how and unique industrial resources.

The group designs, builds, integrates, provides through life support, deconstructs and dismantles submarines and surface ships. As industrial contractor, designer and overall integrator of whole warships and combat systems, it also offers a full range of services to naval bases and shipyards. Lastly, Naval Group is able to offer its combat system and solutions in the civilian nuclear energy and marine renewable energies sectors.

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

#### b. Strategy and analysis

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

According to Hervé Guillou, CEO of Naval Group:

*Our ambition is that within ten years Naval Group, well-established in France, will have naturally and gradually become the consolidator of European naval systems, with a multi-domestic industrial base, in Europe and globally. A portfolio of innovative and competitive products and services will drive its profitability and growth, backed by skilled and motivated employees capable of visualising, absorbing and incorporating technologies of the future and able to maintain the skills necessary for the sovereignty of France. Its revenue will reach approximately €5 billion through growth in international business and in marine-energy sources. As the creator of high-tech jobs, its presence will be balanced between France, Europe and third-world countries. Its competitiveness and profitability will be on a par with the best of its peers."*

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

- 
Guarantee the superiority of the French navy
- 
Develop our revenue internationally
- 
Meet program deadlines
- 
Maintain our technical and industrial lead
- 
Draw on new growth drivers

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

Maintaining essential know-how is based in particular on the deployment of five sovereign families – naval architecture, nuclear, aviation, diving safety, invulnerability, the latter having been created in 2019.



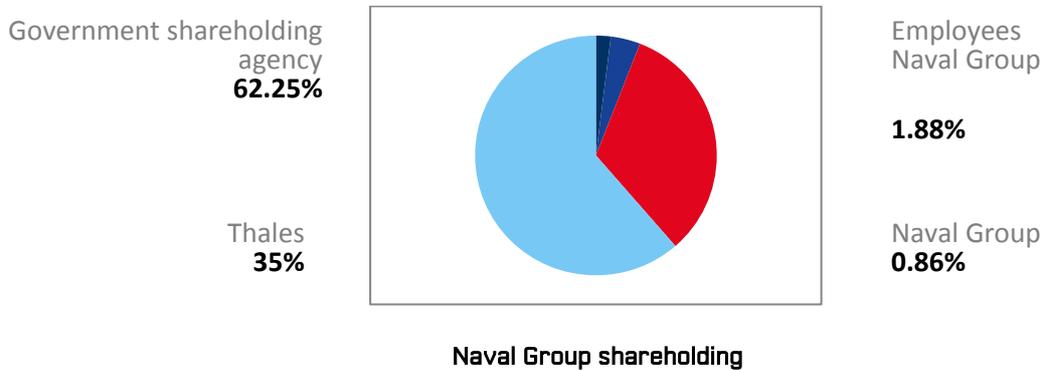
**c. Relevant aspects and scopes identified**

This point is dealt with in the 2019 financial report, published online, in paragraph I.1. Presentation of Naval Group

**2. Governance**

**a. Administration and control**

Naval Group, hereinafter the “Company”, is a French Société Anonyme [limited company] with the following share ownership structures as at 31 December 2019:



The composition of, appointments to and rules of procedure for the Company’s Board of Directors have been made consistent with the provisions of the French Commercial Code pertaining to public limited companies (*sociétés anonymes*), the provisions of Order no. 2014-948 of 20 August 2014, hereinafter the “Order”, the provisions of law no. 83-675 of 26 July 1983 concerning the democratisation of the public sector, hereinafter the “Democratisation Act”, with regard to the election and status of directors representing employees, and the Company’s Articles of Association and the internal rules of the Board itself.

**b. Composition and operation of the Board of Directors**

See Financial Report 2019 I.1 p. 2

Pursuant to Article L. 225-18-1, paragraph 1 of the French Commercial Code, the proportion of directors of each gender may not be less than 40%, it being specified that the Government representative designated on the basis of Article 4 of the Order be taken into account for the application of this rule, in accordance with the provisions of the 4th paragraph of Article 5 of the Order.

Since 25 May 2018, the Board of Directors of the Company comprises five women out of a total of twelve directors appointed by the Shareholders' General Meeting or appointed by the State based on Article 4 of the Order. The provisions of Article L. 225-18-1, paragraph 1 of the French Commercial Code are therefore fully respected within the Board of Directors of the Company. Through this approach, Naval Group also addresses sustainable development goal 5 on gender equality.

In application of Clause 6 of Act No. 2011-103, 27 January 2011 dealing with the balanced presence of women and men on the Board of Directors and the Steering Committee and with professional equality, lists of candidates presented to employees for voting shall be composed alternatively of one candidate of each gender and the difference between the number of candidates of each gender on each list shall not exceed one, starting from the second renewal of the Board of Directors in accordance with publication of the law. These provisions were implemented in the context of the elections of directors representing employees on 28 November 2019.

In accordance with the provisions of the Company's Articles of Association, the terms of office of the eleven directors appointed by the General Meeting will expire at the end of the General Meeting that will be called to approve the financial statements for the financial year ending 31 December 2019.

#### *Term of office of directors*

All directors sitting on the Company's Board of Directors have a term of office of five years, in accordance with article 9 of the Company's Articles of Association, it being specified that the terms of office of the directors appointed by the Shareholders General Meeting of 19 December 2014 will expire, as an exception to this rule, at the close of the Ordinary General Meeting called to approve the financial statements for the year ending 31 December 2019. Upon taking office, each director receives firstly a copy of the Articles of Association of the Company and the internal rules of the Board of Directors, and secondly the information and documents necessary for carrying out their duties.

The Ordinary General Meeting called to approve the financial statements for the financial year ending 31 December 2019, which will be convened in 2020, must decide on the appointment of eleven directors.

#### *Obligation and duties of directors*

The work of the Board of Directors is governed by a charter of the Board of Directors, which forms an integral part of the internal rules of the Board of Directors. The charter defines the rights and duties of members of the Board of Directors, particularly in relation to situations of conflict of interests with which they may be faced, independence of analysis, judgement, decision-making and action, of which they are required to provide evidence, the time which they must devote to their office and confidentiality obligations incumbent upon them in

respect of information communicated to them in writing or orally for the purposes of performing their duties and as a result of their involvement in the work of the Board of Directors and the committees of the Board of Directors.

In particular, the internal rules place each director under an obligation to inform the Board of Directors, fully and in advance, of any actual or potential situation of a conflict of interests either directly between the Company and himself or herself, or indirectly through a company in which he or she has an interest, and make him or her aware that he or she will have to refrain from taking part in the discussions about, and votes on, the corresponding resolutions of the committees and of the Board of Directors.

In accordance with the provisions of Article 21 of the Democratisation Act, the directors elected to represent employees have the same rights and obligations as the other directors. They are subject to all the provisions that apply to the other directors, subject to the specific provisions of the above-mentioned law.

***Remuneration paid to directors appointed by the Shareholders' General Meeting***

In accordance with the provisions of the Order and the Democratisation Act, only the directors appointed by the Shareholders' General Meeting and the person appointed by the State pursuant to Article 4 of the Order to represent it as a director may receive attendance fees in remuneration for their office insofar as the office of the directors elected to represent employees is unpaid, without prejudice to the Company's reimbursement of expenses incurred by these directors in performing their duties.

The Order specifies that any remuneration received by the representative of the State for the performance of his or her duties be transferred to the State budget pursuant to the provisions of the 3rd paragraph of Article 5 of the Order.

Article 6-V of the Order provides that any remuneration received by directors who are civil servants appointed by the General Meeting on the recommendation of the State be transferred to the State budget.

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

- 85% of this amount is paid to the director;
- 15% of this amount is paid to the State budget.

Directors who are eligible for payment of said remuneration receive attendance fees for regularly attending meetings of the Board of Directors and additional attendance fees where they are involved, either as chairperson, or as a member, in the work of special committees of the Board of Directors. These fees

are also allocated depending on regular attendance at meetings of the special committees of the Board of Directors, it being stated that the amount of the attendance fees received by the chairpersons of said committees is higher than the amount of attendance fees received by committee members in order to take account of the time spent on the Chairperson's duties and the responsibilities associated with exercising these functions.

The General Meeting held on 26 November 2015 set the total maximum amount of attendance fees to be shared between the State's representative appointed on the Board pursuant to article 4 of the Order and directors appointed by the Shareholders' General Meeting, with the exception of the Chairman and Chief Executive Officer of the company who has waived these fees, equal to the sum of €175,000 per annum as from 19 December 2014 and for future financial years, until the Meeting decides otherwise.

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

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

#### *Powers and duties of the Board of Directors*

Powers devolved to the Board of Directors of the Company are firstly all those provided for by the French Commercial Code applicable to public limited companies and the Company's Articles of Association.

The internal rules of the Board of Directors also specify that the Company's Board of Directors must ensure, in particular, that the risks created by the Company's activities, the contracts by which it is bound or by the investment and disinvestment operations that it performs, be identified and controlled, thus highlighting the increased responsibility now incumbent upon Boards of Directors in the areas of internal control and risk management.

#### *Operation of the Board of Directors during the 2019 financial year*

The Board of Directors met seven times during the 2019 financial year. The average attendance rate at meetings of the Board of Directors was 89% in 2019. The Board of Directors was brought up to date at each ordinary meeting about developments with a commercial, financial and operational nature through detailed progress reports presented by the Chairman and Chief Executive Officer and the General Secretary.

*Board of Directors internal rules*

In order to increase its effectiveness and allow it to discharge its responsibilities to the best of its ability, on 16 July 2003 the Company's Board of Directors adopted internal rules for the first time.

The internal rules of the Board of Directors were amended:

- on 29 March 2007, following the acquisition of Thales' stake in the Company's share capital;
- on 17 February 2010, in particular to take into account new recommendations made by the French Institute of Administrators (IFA) regarding internal control and risk management;
- on 19 December 2014, to increase the number of members of the Remuneration and Appointments Committee from four to five, thus allowing a director elected as employee representative to sit on this Committee;
- on 21 July 2017, in order to increase the number of members of the Bids Committee from five to six and of the Strategy Committee from six to seven, and thus to allow a director elected as employee representative to sit on each of these two committees;
- on 4 April 2018, in order to take account of the recommendations resulting from the self-assessment of the Board's operation;
- on 18 October 2018, in order to change the name and adapt the tasks of the Remuneration, Appointments and Ethics Committee, which will become the Remuneration, Appointments, Ethics and Corporate Social Responsibility Committee.

The internal rules specify the role and the main responsibilities of the Board of Directors. They also provide for the setting up of four special committees, for which they set the memberships, missions and rules of operation.

The above-mentioned committees are tasked with looking into matters which the Board of Directors or its Chairman refer to it for advice. Generally speaking, the role of these committees is to gather and provide the Board of Directors with appropriate additional information, thereby facilitating decision-making by formulating opinions, proposals and recommendations.

As a consequence, the Board of Directors alone is competent to decide on matters within its scope which have been referred for preliminary consideration to the special committees, which serve merely to investigate and make recommendations in these areas.

The four special committees set up by the Board of Directors are as follows:

- the **Audit, Accounts and Risks Committee**, which is tasked with monitoring:
  - the economic and financial reporting process;
  - the effectiveness of the internal control and risk management systems;
  - the legal control, exercised by the Statutory Auditors, of the annual accounts and, if necessary, of the consolidated accounts of the company;
  - independence of the Statutory Auditors;
  - identification and monitoring of the Regulated Agreements and related-party Agreements referred to in Articles L 225-38 et subsequent articles in the French Commercial Code.

With regard to risks, each year it examines the map of all the kinds of risks to which the group is exposed as a result of its operations, and the processes and action plans put in place to identify and manage these risks, in particular taking account of feedback from past programs.

The Audit, Accounts and Risks Committee is composed of Isabelle Roué, Luc Rémont, Pierre Jeannin (appointed member of this Committee by the Board on 16 July 2019) and Pascal Bouchiat. The committee is chaired by Luc Rémont.

The Audit, Accounts and Risks Committee meets at least three times per year or more frequently when necessary. It met seven times during 2019, with an average attendance rate of 100%.

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

The Bids Committee is composed of Caroline Laurent (appointed member of this Committee by the Board on 17 July 2018), Bernard Rétat, Pierre Jeanin (appointed member of this Committee by the Board on 16 July 2019), Pascal Bouchiat, Jacques Hardelay and Thierry Barbarin. The committee is chaired by Bernard Rétat.

Caroline Laurent was a member of this Committee until she resigned as a director on 9 July 2019.

The Bids Committee meets every six months or more frequently when necessary. It met six times in 2019, with an average attendance rate of 73%.

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

a- With regard to remuneration:

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

b - Concerning appointments:

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

c – With regard to Ethics and Corporate Social Responsibility:

- review and monitor measures adopted within the group regarding ethics, compliance, the management of conflicts of interest and, more generally, corporate social responsibility.

d- With regard to governance:

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

The Remuneration, Appointments, Ethics and Corporate Social Responsibility Committee is composed of Gabrielle Gauthey and Sandra Lagumina (who was appointed a member of this Committee by the Board on 16 July 2019), Patrice Caine and Jacques André. The committee is chaired by Patrice Caine.

The Remuneration, Appointments and Ethics Committee meets every six months or more frequently when necessary. It met four times in 2019, with an average attendance rate of 85%.

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

The Strategic Committee is composed of Nathalie Ravilly, Sandra Lagumina, Eveline Spina (appointed member of this Committee by the Board on 16 July 2019), Hervé Guillou, Pierre Jeannin (appointed member of this Committee by the Board on 16 July 2019), Patrice Caine and Laurent Chagnas. The committee is chaired by Hervé Guillou. The Strategic Planning Committee meets three times per year or more frequently when necessary. It met five times in 2019, with an average attendance rate of 81%.

***Evaluation of the functioning of the Board of Directors***

The internal rules of the Board of Directors require the Board to perform, at regular intervals and at least annually, an assessment of its own operation. The Chairman of the Remuneration, Appointments, Ethics and Corporate Social Responsibility Committee, in collaboration with one of the independent directors, proposes procedures for the assessment carried out by this independent director.

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

At its meeting on 16 July 2019, the Board of Directors resolved to assess its own functioning again and appointed Gabrielle Gauthey to present the report on the results of this new exercise.

At the 17 October 2019 Board meeting, Gabrielle Gauthey presented the conclusions of this assessment work and the resulting recommendations.

### **c. General management of the company**

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

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

The terms of office as director, Chairman of the Board of Directors and Chief Executive Officer of Hervé Guillou will expire at the end of the General Meeting called to approve the financial statements for the financial year ending 31 December 2019.

At the end of this Meeting, the Board of Directors will be asked to propose to the President of the Republic the appointment of the Chairman of the Board of Directors and the Chief Executive Officer (these two positions may be held by the same person).

### **d. Governance of subsidiaries and jointly controlled companies**

The company has subsidiaries and holdings both in France (DCN International, Sirehna, Naval Group Support, Naval Energies, Défense Environnement Services (DES), Les Chantiers de l'Atlantique, Technicatome) and abroad (Naval Group India, Naval Group Far East, Naval Group BR Sistemas de Defesa LTDA, Naval Group Cooperation, Naval Group Arabia, Naval Group Malaysia Sdn. Bhd, PROSIN, Naval Group Technologies Canada Inc., Naval Group Australia Pty Ltd, Alexandria Naval for Maintenance and Industry, Naval Group Nederland BV, Naval Group Pacific and Naval Group Belgium).

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

### **e. Integrated risk management system**

The various risk factors are dealt with in paragraph I.2.7. of the 2018 Financial Report published online.

### *Risk control process*

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

- anticipating risks, which can negatively impact earnings;
- implementing opportunities, which can favourably contribute to earnings.

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

- identify and characterise risks and opportunities in the short and medium term (current year + three years);
- estimate and evaluate the criticality of risks and the attractiveness of opportunities in order to prioritise them;
- define, decide and implement actions to control risks and fulfil opportunities, commensurate with the issues at stake;
- assess the effectiveness of checks put in place and control actions;
- continuously improve the system in place through a feedback loop;
- audit the integrated system.

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

### **Reference framework**

With the ambition of matching the best practices of the largest international companies, Naval Group, a private company whose reference industrial shareholder is a listed group, has chosen the COSO<sup>1</sup> (2013 version) as the reference standard for the design, implementation and assessment of the group's risk management and internal control system.

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<sup>1</sup> COSO: *Committee of Sponsoring Organizations of the Treadway Commission* is a think tank established in the United States in 1985, which has developed a common internal control model that can be used to evaluate internal controls.

## Risk management

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

In addition, the risk management system is supervised by the Audit and Risks Department. For this purpose, it relies on a network of Risk and Opportunity Managers within these entities.

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

## Assessing the effectiveness of internal control

Internal control helps to manage operations in terms of the effectiveness of the company's internal processes, protect assets, comply with laws and regulations, ensure the quality and reliability of any information produced and communicated as well as apply any instructions and guidelines fixed by the group.

Internal control helps to achieve the group's objectives, yet it is not an absolute guarantee because of the limitations inherent to any system.

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

Operational and functional managers are responsible for carrying out checks, but also for self-assessment of the effectiveness of internal control within their area of responsibility. This self-assessment enables the entities to assess their maturity and identify areas for improvement. An adapted internal control matrix for controlled subsidiaries was deployed in 2017 and 2018. The Audit and Risks Department oversees internal control, ensures its relevance and assesses its effectiveness. It is supported by a network of Risk and Opportunity Managers.

The Audit and Risks Department tests the quality of the responses to the internal control matrix through audits.

#### Yearly letters of representation

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

#### Internal audit of the integrated system

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

#### Improvement loop of the system

The following subjects are reviewed regularly within the group's entities and by its governance bodies:

- monitoring of actions to manage large risks;
- monitoring of action plans arising from audit recommendations;
- progress as regards the implementation of control plans.

The Internal Control and Risks department handles the continuous improvement loop of the entities' risk management and internal control system and their suitability for the group's development.

#### *Governance of the system*

The bodies described below control the integrated risk management system.

#### The Executive Committee (COMEX)

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

#### The Audit and Internal Risks Committee

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

- helping Executive Committee members to identify, assess and manage the group’s main risks;
- monitoring internal control efficiency systems;
- providing visibility on subjects with high stakes for the group identified in the audits.

It decides on the mapping of strategic, operational and financial risks, their criticality and the reduction objectives to be achieved; it verifies the implementation, management and completion of the actions to control them.

#### The Audit and Risks Department

The Audit and Risks Department directs activities and supervises internal audit, internal control and risk and opportunity management resources. It carries out its activities independently for the entire group, in accordance with the audit, risk control and internal control charter, while observing international professional standards. Since 2012, it has been certified by the French Audit and Internal Control Institute (*Institut français de l’audit et du contrôle interne* - IFACI) for the international standards of the Institute of Internal Auditors (IIA).

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

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

#### The Audit, Accounts and Risks Committee of the Board of Directors

This committee examines the accounts and accounting procedures presented by the Finance Department; the results of internal audits and work relating to internal control, as well as work relating to the group’s main risks presented by the Audit and Risks Department (particular attention is paid to risks related to the execution of the group’s major programs); the content of the forecast program of internal audit activities by the Audit and Risks Management department.

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

It also examines the findings of the work done by the statutory auditors, ensuring moreover, that they are independent; points regarding the main legal disputes presented by the Legal Department; the group's internal audit charter endorsed by the Chairman of the Audit and Risks Committee.

The Board of Directors ensures that the company has procedures for identifying, assessing and monitoring its commitments and risks<sup>2</sup>.

#### Statutory auditors

As part of their work for auditing and certifying the group's annual and consolidated financial statements, the statutory auditors examine the procedures of the company's processes involved in generating accounting and financial information. They report their findings to the Audit, Accounts and Risks Committee and to the Board of Directors.

### 3. CSR governance

Corporate social responsibility (CSR) is a major issue for the group and its shareholders. In addition, the Naval Group Board of Directors now deals with CSR matters at the Remuneration, Appointments, Ethics and CSR Committee, which was extended in 2018 to include ethics and CSR issues. CSR risk mapping continues to be reviewed by the Audit, Accounts and Risks Committee.

In October 2019, Naval Group also decided to strengthen its ambitions in terms of corporate social responsibility and is considering integrating CSR into its five-year strategic roadmap to be defined in 2020.

In the scope of the law on the growth and transformation of companies (Law no. 2019-486 of 22 May 2019), Naval Group is also holding discussions on the definition of its rationale.

Internally, the role of the Corporate Ethics and Social Responsibility committee (*Comité éthique et responsabilité sociétale de l'entreprise* - CERSE) is to set general guidelines regarding ethics and corporate social responsibility, as applicable to all group companies. All actions are handled by six committees: reports, vigilance plan, sustainable development objectives, internationalisation, communication and artificial intelligence. The CERSE coordinates the committees. It is free to carry out any work it deems useful, within the framework of its missions and role. In addition, its President implements the process for reporting behaviour contrary to the ethics and CSR repository when the ethics hotline (ethics@naval-group.com) is notified.

CERSE is composed of eleven persons appointed by the Chief Executive Officer. Its organisation is specified by its internal rules, revised in 2019, published in the

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<sup>2</sup>See internal rules of the Board of Directors (17 February 2010 version)

company's Business Management System – BMS3. It relies on a network of "ethics and CSR relays" on each site and subsidiary in France and abroad. These are invited to video conferences every two months to share news and good practices, and to report on the progress of ongoing actions and objectives. In addition, they participate in specific actions such as leading and running sessions dedicated to CSR at their site or subsidiary, or in the Ethics and Compliance Day in December of each year, and in the annual seminar which brings together CSR coordinators (Compliance officers, ethics and CSR relays, members of the CERSE).

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

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<sup>3</sup> The Business Management System (BMS) is the Naval Group system repository. It defines the application rules and methods required to address the Group's strategic and political objectives. A portal provides access to the description of all Naval Group processes, sub-processes and activities and to the associated documents.

## II. HUMAN RIGHTS

FOCUS	
	<p>Through the formalisation of the human rights charter, Naval Group completes and clarifies its commitment to the Global Compact, particularly to provide support on this subject for its international development. This charter complies with the principles and rules defined by the main international texts, the Global Compact, the 2011 John Ruggie report, the OECD’s guiding principles for multinationals (2011), the International Labour Organization’s declaration on Fundamental Principles and Rights at Work (1998), the Tripartite Declaration of Principles Concerning Multinationals and Social Policy (ILO 2006), the Grenelle 2 Act (Art. 225) and its 2012 decree. It also responds to the ISO 26000 criteria.</p> <p>It states and clarifies commitments in the fields of human rights and international labour standards, clarifying their application for each stakeholder.</p> <p>This charter thus helps to support the group’s ambitions in social and societal responsibility at the very highest level.</p>

In September 2018, Naval Group joined the Business Ethics Circle (*Cercle d'éthique des affaires*), which has set itself the task of promoting ethics and compliance in the management and governance of French companies and, through its work, influencing both private and public sector decision-makers. Following exchanges with the Board of Directors of Businesses for Human Rights (*Entreprises pour les Droits de l'Homme - EDH*), Naval Group will join EDH in January 2020. This association aims to promote understanding and integration of human rights in companies by deploying vigilance procedures. This is a voluntary and multi-sectoral initiative. It provides a platform for dialogue, sharing of good practices and collective reflection.

## 1. Health and safety at work: a right for everyone and a priority for Naval Group

### a. Policy

The first fundamental right for any Naval Group employee is to be able to work with complete peace of mind in an environment that preserves the employee's physical and psychological health.

The Health and Safety at Work (H&SW) policy has now been incorporated into a global quality, safety and environment (QSE) policy revised and signed by the Chairman & 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 its customers, develop the culture of identification and risks control, and ensure regulatory compliance.

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

### b. Organisation

The Health and Safety at Work policy is carried out by the central Health, Safety and Environment department and deployed locally by the prevention teams. These teams ensure that all employees are involved in a process of boosting individual and collective vigilance so that everyone is aware of the role and responsibility incumbent on them.

Present on each site, these teams are composed of prevention coordinators and advisers, managed by prevention managers. These managers provide advice to site directors. Together, they ensure the prevention of risks, provide advice and expertise to operators and management, and manage the coordination of activities from an H&SW perspective.

This H&SW network also relies on experts to contain all the risks generated by industrial activities. Ergonomics, hazardous chemical agents and asbestos are subjects on which these specialists provide their expertise.



Figure1: example of an H&SW communication campaign on the issue of "ergonomics"

International development is a key element for Naval Group; the company's growth depends on its capacity to satisfy its customers in France and abroad by guaranteeing the safety of its employees. To this end, the international Health and Safety at Work network, launched in 2018, worked during 2019 to control risks and improve H&SW performance. This network brings together prevention managers from the seven Naval Group subsidiaries with the largest workforce located in Australia, Malaysia, Saudi Arabia, India, Egypt, Brazil and Singapore. The aim of this network is to define the requirements and expectations in terms of health and safety at work, and to maintain regular dialogue in order to share best practices.

Furthermore, in order to guarantee an optimal level of control over the safety of expatriate or mission-based employees, actions launched in previous years have been continued:

- identifying the information of each external worksite located in France or abroad;
- implementing prevention plans between Naval Group and the customer's activities to prevent risks and ensure good coordination between the various parties;
- organisation and follow-up of staff conducted by the occupational physician and the international primary physician;
- definition of essential training prior to departure on an expatriation assignment.

### **c. Health and Safety at Work (H&SW) communication**

Communication actions remain an essential vector for sharing results, actions and programs with all employees, and obtaining everyone's support. They are carried out through the intranet, the Naval Group internal magazine and the local H&SW newspapers, in connection with events such as the Health and Safety at Work week or World Environment Day.

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

In 2019, an H&SW communication plan was implemented on a monthly basis. These campaigns, deployed in the form of videos, posters, articles on the intranet and support for "safety talks", enabled the presentation and breakdown of each of the ten golden rules.



Figure2: poster listing the 10 golden rules of safety at Naval Group

## 2. Diversity, a strong commitment by Naval Group to benefit performance

Naval Group is strongly committed to ensuring that each employee finds their place within the company and considers diversity, in all its components, as a major lever for improving the Group's operation and, accordingly, its performance.

The agreement, signed on 25 January 2018, promoting diversity and relating to professional equality between men and women and the employment of people with disabilities, anchors the ambition of Naval Group and the trade unions to help employees work together with their differences, and to enable everyone, based solely on their skills, to find and maintain a job that suits them and to advance in their professional career, thus contributing to better performance both individually and collectively.

Accordingly, Naval Group implements an active human resources policy that grants access to the company and professional developments without any discrimination. This is mainly expressed through:

- raising awareness and training managers and employees involved in recruitment, training and career management on the issues of non-discrimination and diversity;
- promoting and respecting the application of the principle of non-discrimination in all its forms and at all stages of resource management;
- the integration of employees with varied profiles in view of the skills sought;
- communication to employees about Naval Group's commitment to non-discrimination and diversity, and the practical results of this commitment.

In addition to the ethics line of alert provided, a specific and innovative discrimination prevention system has been set up to enable employees who consider themselves discriminated against in their professional situation to examine and process their individual cases.

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A discrimination officer will soon be appointed on each site, after having received training to acquire the competence required for this mission. This officer may be contacted in the event of any difficulty interpreting or applying the non-discrimination rules as well as following a request relating to any form of discrimination observed and for which he/she will be responsible for analysing the situation, performing a mediation role and, if necessary, proposing an action plan to remedy the situation.

Internationally, policies to promote diversity and non-discrimination have been defined. In Australia, for example, the Diversity and Inclusion policy carries commitments on gender equality, the employment of people with disabilities and equal opportunities for minorities, particularly indigenous minorities. In India, a diversity promotion policy has also been established: in addition to involvement in specific networks and events, the Women's Days and the Holi festival, the subsidiary implements an anti-sexual harassment policy.

**a. Professional gender equality**

As Naval Group's percentage of women is around 20%, the group seeks to achieve greater diversity in the exercise of its trades in order to reduce the structural imbalance. The latter can be explained by the group's business sector, but also by the fact that few women pursue higher learning in engineering and production.

Naval Group is therefore committed in the following areas:

- promoting diversity in jobs with the aim of increasing the number of women holding jobs in technical specialities and in positions of responsibility. It is important to make women aware of the different opportunities and varied careers offered by Naval Group in order to stimulate careers among young students, as well as among women considering a career change outside and inside the group;
- the upstream promotion of technical sectors and professions among young women, in particular, as part of communication initiatives - job-specific films - towards the educational system;
- equal treatment between women and men in the course of professional careers, at all levels of responsibility, by proposing at least one woman among candidates for professional development, raising awareness of stereotypes, supporting female talent and integrating professional equality indicators into the group's objectives;

- the increase in the number of women in management positions and in management bodies for a more balanced male-female representation;
- equal pay for women and men.

*For information, the professional gender equality index in 2019 is 88/100.*

- reconciling professional life, private life and family responsibilities by reducing the constraints related to parenthood thanks to accommodation options in the organisation of work (working hours, part-time measures), and allocating financial assistance for childcare (via the CESU Universal Service Employment Voucher mechanism).

By 2025, Naval Group aims to succeed in recruiting 35% of women in managerial and production functions.

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

**Targets for the recruitment of women in 2020 by production speciality**

To support these commitments, various actions are carried out, both in terms of recruitment and communication on social networks, forums and partnerships, in particular with the association “*Elles bougent*”. Naval Group now has 110 sponsors who are regularly mobilised through these different initiatives.

### A dynamic recruitment policy for younger generations

Naval Group is developing a dynamic policy of using work-study programs which offer young people the opportunity to pursue identified, long-term missions in connection with their career plans.

On average, 350 trainees and 350 work-study trainees are welcomed each year. Currently, the workforce includes more than 500 work-study trainees, 60% of whom are in the production trades.

To facilitate their integration, a pathway is organised upon their arrival and an onboarding booklet is given to them to accompany their first steps in the company. The booklet details the people they will meet and provides them with useful logistical information: security, badge, site life, company restaurant, etc. A best practice guide is given to managers and tutors to help them manage these populations.

Specific induction days for new work-study trainees are set up on all sites to present the activity and create a “community” of work-study trainees who can exchange ideas with one another.

These trainees, who will have received solid training, are therefore immediately operational and naturally in line for permanent recruitment within the group, depending on available vacancies and their aspirations.

Furthermore, once a year, a career review of work-study trainees is set up, based on the assessments made by tutors and managers. This review will serve to analyse the case of each work-study trainee at the end of the contract.

Consequently, even though Naval Group cannot guarantee long-term employment for all work-study trainees, these contracts provide a real springboard to facilitate their integration into professional life.

In particular, Naval Group has developed "destination job" workshops to help these trainees obtain their first job: CV workshop, mock interviews, learning to use professional social networks, etc. During these meetings, internal positions are offered to them and they also have the opportunity to exchange with partner companies.

### **The strength of different generations coming together: the power of knowledge transfer**

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

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

In addition, the employment retention rate of seniors - employees over 50 - was 29.4%: the objective of the strategic workforce planning agreement was 25%.

Older employees are in high demand to pass on knowledge as tutors and internal trainers or via advisory tasks.

Moreover, the new strategic workforce planning agreement includes a new mechanism to improve retirement benefits. This allows future retirees to declare their status. It also serves to anticipate departures and to manage skills retention as early as possible.

### **Proactive integration of people with disabilities**

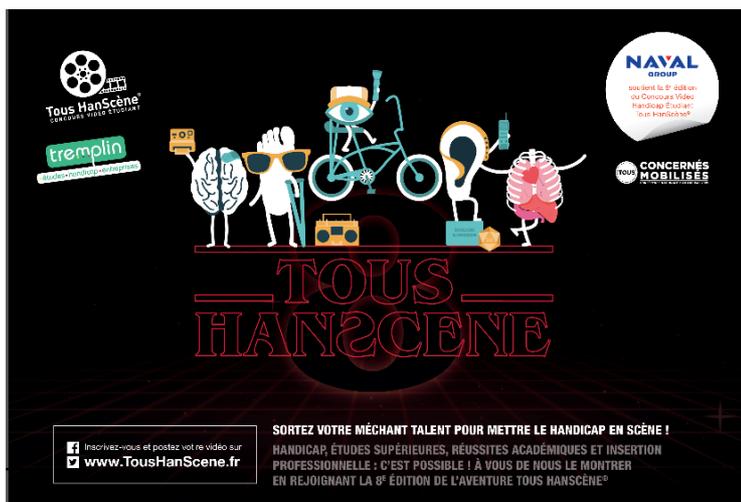
In 2019, Naval Group continued its proactive policy of integrating people with disabilities through concrete actions:

- 18 recruitments of people with disabilities;
- 26 disabled workers newly recognised;
- More than €2.8 million in purchases in the protected sector;
- 93 adapted work stations.

Mission Handicap continued and completed its reorganisation which begun in 2018. A special effort was made to raise employee awareness and train all company stakeholders.

Several measures were deployed:

- a *roadshow* was organised on each site to welcome people with disabilities and to use tools such as the recruitment interview guide, for example, made available to HR teams to deploy the company's disability policy. These moments provided an opportunity to listen to the testimonies of key figures involved in the subject, such as Virginie Delalande, Fabien Hérault and Loïc Blaise;
- Naval Group became a partner of the TousHanScène event with 16 other major companies. This student video competition enables each employee to vote for the videos of their choice and thus better understand the challenges of training and integrating people with disabilities. This partnership will be renewed in 2020 as it also serves as a communication channel on the company's diversity policy, particularly for students;



- The company's partnership agreements were renewed with:
  - “Osons l'égalité”, an association that sets up activities to promote, raise awareness and support young people with disabilities;
  - HandiSup, which contributes its expertise on disability to all higher education institutions and implements actions aimed at introducing disabled students to companies, and vice versa;
  - the Gesat network, which brings together companies and establishments in the protected and adapted sector.

Lastly, specific pathways and assistance are systematically offered for employees with disabilities: integration with a tutor and an external participant, job retention, training, adjustment of positions and working hours, CESU.

### III. LABOUR PRACTICES

#### LIST OF WINNERS

The tenth edition of the Randstad Awards selected Naval Group as the most attractive company for the general public from among major groups in France. In 2019, more than one in two people familiar with the group wanted to join it.

The study measures the relative attractiveness of companies. Naval Group is thus perceived as an innovative company that is financially sound, offering interesting missions that contribute to France's international appeal.

For several years, Naval Group has been part of a social and cultural transformation aimed at pushing forward operating methods and relations at work, and offering attractive conditions to employees in order to retain them and attract new talents.

#### 1. 2019, an important year for the renovation of social dialogue

The quality and vitality of social dialogue are essential levers for Naval Group's performance and the success of its transformation. They help to establish a contractual social base that is decisive for the confidence of employees in both the company's management and its representatives.

Naval Group is therefore particularly attentive to the quality of social dialogue, in particular to carry out the company's transformation projects, to implement new organisations or to change operating methods, and for anything that may impact jobs and employees.

The CSE, an economic and social council, has been set up. This is the new single employee representation body. This represents a profound change from previous practices based on three bodies. Thanks to the negotiated contractual framework (Amendment No. 2 to the company agreement) defining the procedures for setting up and operating this new body, the installation of the CSE has generally gone well and the new elected representatives have effectively integrated the new scope of their action.

## 2. Continuing the momentum of managerial and cultural transformation

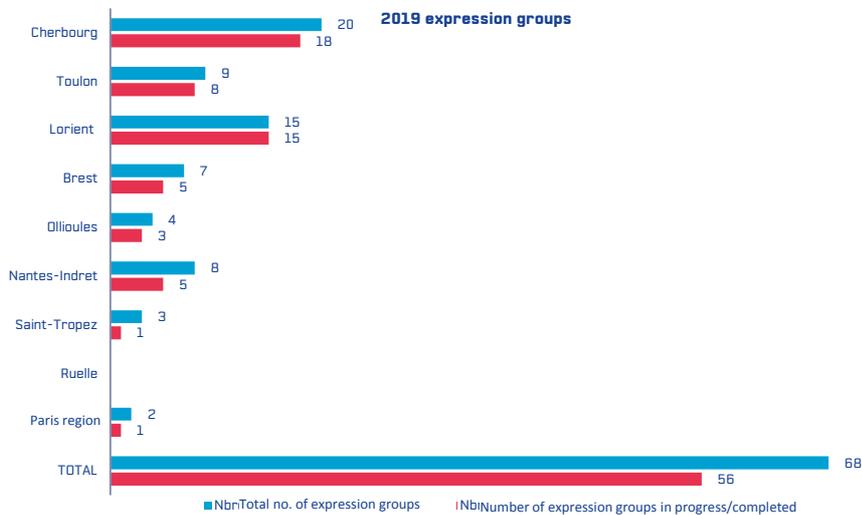
In 2019, the cultural and managerial transformation took shape through the implementation of several projects aimed at freeing up collaborative innovation, empowering teams and ensuring business-oriented management which also promotes conditions conducive to team commitment.

Naval Group has thus entered a new phase of cultural and managerial transformation with the development of the four orientations taken in 2018, indicated below. These orientations form a coherent whole for the benefit of the desired transformation.

### a. Collaborative innovation by considering ideas on the ground and firmly anchoring experiments within the teams' operating modes

The target set for many expression and trial groups has been greatly exceeded, underlining employees' interest in this type of initiative.

By way of indication, the number of people involved amounts to more than 1,000, with 68 expression groups, resulting in 56 action plans and experiments implemented, according to the following breakdown:



Expression groups in 2019

## FOCUS

Some examples of initiatives taken by the expression groups: implementation of a next-generation workshop model on the Brest site, an experiment aimed at enhancing the onboarding of new arrivals on the Ollioules site or the creation of a self-service library on the theme of management in Indret.

### **b. Strengthening cooperation within teams - from the manager down - through a commitment approach involving all of the group's employees**

A company's performance is correlated with its employees' commitment rate. To establish Naval Group's position in this area, an initial survey was conducted in January 2019 as part of the three-year Forward commitment process. This approach is based on world-recognised studies and an improvement process.

The Forward commitment approach also includes employees from consolidated subsidiaries, enabling a common identity to be conveyed and a base of managerial practices conducive to team commitment.



A strong mobilisation was observed groupwide:

- Overall survey response rate: 77%;
- 1,689 teams concerned;
- 8 countries participating in the approach.

To support managers in this process, a network of 175 ambassadors was developed, 12 of whom are international, mainly from the HR sector or managers.

### **c. Development of the managerial community through an approach that hinges on specific provisions with respect to field coaching**

In order to strengthen team cohesion and foster dialogue, several measures have been implemented:

- inter-site managerial visits and meetings with the managers of the Naval Group Top 300 during which time was devoted to sharing good managerial practices in connection with the Forward approach;
- the managers' clubs on the different sites, providing a cross-functional view of each person's activity;

- the introduction of team coaching training which, since 2018, has prompted an increase in cohesion actions within Management Committee teams or other teams.

**d. A specific training path for managers aimed at better understanding what is expected of them and which becomes Naval Group's management baseline**

Two training courses, “Engage your team” and “Positive Management”, were rolled out to nearly 1,500 group managers.

The aim of these courses is to provide managers with the keys to motivating and supporting their employees, making demanding requests and refocusing them when necessary.

In addition to this common baseline, an action plan was set up to develop the understanding of teams working in an intercultural environment, including the organisation of targeted intercultural training courses.

More generally, initiatives to raise awareness among all employees were initiated: after an initial experiment, international weeks were organised on sites and in subsidiaries.

Following the implementation of these four work focuses, effects are already being felt in relations between managers and their teams, such as:

- team coaching requests to better understand how each person works for a more balanced redistribution of tasks based on individual talents;
- multiple mechanisms for exchanging good managerial practices that are positively perceived by managers;
- discussion topics between managers and employees that were very rarely discussed before such as feedback, taking into account opinions as well as skills, individual talents, progress made, etc.

### **3. Transformation momentum to strengthen the employer brand**

The signing of structuring contracts in France and abroad, and the group's international development, in particular in Brazil, India and Australia, are pushing up recruitment needs.

Job creations planned each year concern all types of profiles and at all levels of education in order to meet highly diverse production needs. Blue collar workers,

technicians and engineers are the main target. In 2019, Naval Group recruited over 1300 new employees.

Faced with these major challenges, the priority is to increase the company's attractiveness among candidates: experienced or not, from all the employment areas in France or elsewhere, all candidates have their place at Naval Group.

To convince them to join the group, a targeted attractiveness policy has been implemented: this involves organising forums, in partnership with the French Navy and the French Ministry of Defence, mobility conventions with specialised companies to target experienced candidates, and the participation of HR teams in more than fifty annual forums throughout France.

To face up to the competition and attract the most sought-after profiles, the teams in charge of recruitment have implemented innovative and more reactive methods such as matching CVs or chatting with candidates on social media platforms. In addition, recruitment events are organised regardless of the job sought. They are called "machining days", "afterwork technicians", "open days", or "immersion days" for immersive local recruitment!

**a. The deployment of "school partnerships" to benefit development challenges**

The challenge for Naval Group is significant: increasing the visibility of unknown trades and promoting the wealth and importance of professions such as metalworker, welder, mechatronics technician, machining technician, electrician, handler, etc., while highlighting their specificities within in the naval defence sector.

Naval Group is therefore consolidating its presence and visibility in engineering schools, in particular by setting up a School Partners program in which 28 employees act as experts who share their enthusiasm with students from their former engineering and business schools, universities and other higher-learning institutions, thereby actively leading their alumni circle.

In all, more than 130 initiatives were held in 2019 (forums, conferences, visits to Naval Group sites, etc.), many of which took place in target and partner schools, for the benefit of all sites.

These actions are diverse:

- informal meetings during which candidates can talk directly with enthusiastic professionals who have already worked on several ships and submarines. This system enables young graduates to project themselves in a practical manner and identify whether this path corresponds to their vocation;

- trade days held regularly on the sites, which are an opportunity for people interested in Naval Group's trades to throw themselves into the heart of the activity and discover, on the ground, the complexity of the work carried out;
- a trades ship, i.e. a travelling set-up consisting of two containers designed to introduce young people to the professions of the naval industry and which is intended to call in at major maritime and employment events throughout the year;
- introductory courses for third grade students at all Naval Group sites.

Meanwhile, in response to its significant recruitment requirements, Naval Group has stepped up its presence at forums and held numerous initiatives in the field of cyber security.

In 2019, the group intensified its relations with international schools, in particular by welcoming trainees and PhD students as part of the signing, in 2017, of a Memorandum Of Understanding (MoU) between four French engineering schools, organised into a consortium, and the University of Flinders in Australia.

**b. Focus on the Naval Industries Campus (CINAV), a mechanism to foster the emergence of the maritime world's talents of tomorrow**

Launched in November 2017 under the impetus of the Brittany region and Naval Group, the Naval Industries Campus is the fruit of a public-private partnership that consists of 16 organisations:

- four manufacturers: Naval Group, Piriou, Chantier de l'Atlantique and CMN;
- four ministries: Ministry of National Education, Ministry of the Economy, Industry and Employment, Ministry of Higher Education and Research, Ministry for the Ecological and Inclusive Transition of France/Ministry in charge of Transport;
- four regions: Brittany, Pays de la Loire, Normandy, Nouvelle Aquitaine;
- four partners: the *Groupement des industries de construction et activités navales* (GICAN), the *Union des industries et Métiers de la Métallurgie* (IUMM), the French Navy and the Bretagne Pôle Naval (BPN).

Created to meet the recruitment needs of industrialists in the marine sector, its fields of action are numerous:

- creation of a pool based on initial professional training, job seekers and reconversions to give priority to the 17 trades under tension for which it is difficult to recruit;

- the "navalisation" of training courses to provide knowledge of the shipbuilding sector and its jobs with certified courses in liaison with France's National Education Department;
- promoting the sector and its jobs by giving clearer expression to career prospects and by creating "showcases" for the general public (Trades Ship).

#### 4. Developing and maintaining skills to ensure the sustainability of the group's activities and performance

##### a. Strategic workforce planning

Naval Group is pursuing its strategic workforce planning policy. Two meetings of the trades joint monitoring observatory were organised to discuss changes in specialities within the group.

In addition, operational strategic workforce planning has prompted the creation of local plans to anticipate skills and jobs on sites. 2019 was marked by the reopening of negotiations on the strategic workforce planning agreement: an intermediate review was shared in April 2019.

Substantial forward-looking work on the business lines was carried out, making it possible to analyse the qualitative and quantitative impacts of digitalisation, internationalisation, new developments in society, changes in business processes and market needs for each speciality.

Naval Group has a policy to identify skills that enable it to meet needs in terms of key and sovereign skills.

##### FOCUS

In 2019, the Invulnerability family was added to the four sovereign families specifically managed by a head of family. An action plan is defined, implemented and monitored within each family and presented annually to the Executive Committee.

##### b. Skills development

Naval Group relies on rare and very high-level skills whose durability must be guaranteed through various training, transmission and maintenance systems.

The training policy responds to the strategic challenges and priorities of Naval Group in order to:

- guarantee proficiency in the skills needed to execute its programs, including key skills, over the entire product life cycle;
- ensure that the skills of tomorrow – emerging trades, new trades, skills development, new skills, digitalisation and internationalisation – are prepared;
- also make it possible to respond to societal and individual challenges: by individualising each employee's skills development, by seeking to improve employability, by supporting career paths, and by promoting continuous learning and its agility using new teaching, modular and progressive methods.

The training provided mainly concerns Naval Group's core business: mandatory and regulatory training, i.e. HSE standards and business standards, represents 23% of the training plan, and training on technical and tertiary business skills represents 35%.

### Key figures 2019:

- 404,000 training hours delivered;
- 75% of employees received training;
- 4.5% of the wage bill dedicated to investment in training.

The offer must evolve to accommodate new practices and changes in the company. This is why Naval Group has initiated educational innovation projects focusing on digitalisation, the creation of “blended” courses, i.e., mixed learning systems that combine online and face-to-face learning, and access to the offer for subsidiaries abroad.

Lastly, a common core of internationally accessible training courses is now available via the Learning Management System online training platform: “onboarding” and language modules, acquisition of a digital training library available in multiple languages.

#### **c. Knowledge transfer to ensure that skills are maintained**

To address the challenges of technological and managerial change, the use of the best-suited learning practices, the maintenance of critical skills and the international dimension, Naval Group also prioritises knowledge transfer. This involves training or supporting employees in work situations.

- Learning worksites: this is a specific educational method based on experimentation, under the supervision of a third-party expert. In 2019, Naval Group expanded its offer in the production and design trades. These are, for example, dedicated to diving safety, nuclear power, piping assembly or metalwork.
- On-the-job training: this system allows students to learn and perfect their skills by immersing themselves in the activity alongside experienced and recognised professionals. This method is used for onboarding new arrivals or for employees taking up of a new position.
- Tutorials: tutorial-type training solution. The aim is to acquire technical actions in order to transfer know-how. Tutorials thus contain footage accompanied by comments and quizzes accessible to all employees via the LMS (Learning Management System) portal. In 2019, more than 70 “naval tutorials” were made available.
- The “designer-integrator” school: as part of its development, Naval Group must train several hundred designer-integrators. This trade consists in

integrating the equipment and networks comprising a submarine into a 3D model. Specific training has been designed in cooperation with training organisations, the Normandy region and the Naval Industries Campus (*Campus des industries navales* - CINAV). Recognised nationally, this one-year training course forms part of a joint qualification certificate in metallurgy (*certificat de qualification paritaire de la métallurgie* - CQPM), in "industrial project management". Certified at university degree level or equivalent, it is designed for students with a two-year technical diploma or equivalent, with experience.

## 5. Career progression, a major development issue

Naval Group considers the progression of its employees as a fundamental challenge. This assistance to ensure the development of skills allows everyone to progress, improve their performance, increase their autonomy and adapt to changes in the company.

This process recognises new developments in skills and responsibilities through promotion and progress in France and abroad. Each employee is thus able to enhance their skills throughout their career and can progress depending on the different opportunities offered.

Naval Group also organises and develops professional promotion programs inside the company:

- internal promotion: internal promotion courses are organised around three possibilities: a qualifying or diploma course, an experience-based recognition course and an individualised modular course. More than 90 people were promoted through one of these paths in 2019;
- the management transition path: transition from technician/supervisor to manager. In 2019, 36 technicians/supervisors benefited from it;
- professional progression of blue collar workers and administrative staff towards technician or supervisory positions. In 2019, 83 blue collar workers and administrative staff were upgraded to technicians and supervisors;
- managerial training and promotions: internal changes are encouraged (team leader training, executive promotion training);
- talents: the "high fliers" identified to benefit from managerial training and specific support preparing them for higher-level positions, such as senior managers.

Naval Group has designed a specific policy for the characterisation of its experts and suitable career development. This policy is implemented under the aegis of the Technical Department, the Human Resources Department and the Operational Departments.

## 6. An attractive compensation and benefits policy

### a. Compensation and benefits policy

Naval Group's compensation and benefits policy aims to:

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

To reach these objectives, this policy is based on a solid foundation. On hiring, compensation is set according to an objective internal reference system taking into account the levels applied internally and the market levels. The minimum wage is also much higher than the minimum legal requirements, particularly those of the branch - group of metalworking industries in the Paris region.

Thanks to a rich and constructive form of social dialogue conducted with the employee representatives, 2019's compulsory annual negotiations resulted in a basic budget increase of 2% for 2019, 2020 and 2021, where this budget may vary annually depending on Naval Group's commercial and operational performance. In 2019, the wage increase budget was 2.2%, to which was added an additional budget of 0.6% devoted to wage adjustments.

Executives also receive variable compensation, 40% of which depends on the attainment of collective financial and operational targets, and 60% on individual objectives linked to their position and their local collective targets. The collective component plays a significant role in the variable compensation of engineers and managers. This orientation echoes the values of Naval Group. The attainment rate of individual targets is assessed during an interview during which managers and employees have a special opportunity to discuss performance with respect to the duties of the position.

In addition, there are collective remuneration components: the profit-sharing bonus and the incentive bonus linked to the incentive agreement signed with the social partners. The 2018-2020 profit-sharing agreement aims to continue to improve operational performance and quality, in other words the satisfaction of our customers, and the quality of life at work for employees. The additional profit-sharing arrangement granted by the Board of Directors in 2019

demonstrates Naval Group's desire to ensure that all employees benefit from the company's successes.

All employees benefit from a group savings plan and a collective retirement savings plan. Employee payments to either of these plans are supplemented by the company. Engineers and executives also benefit from an additional pension plan under Article 83 of the French General Tax Code.

In addition to these long-term social benefits, in the summer of 2019 Naval Group successfully launched a collective shareholding plan, thus offering employees the possibility of subscribing indirectly to the company's shares. Employees' investment in this project (9,500 employees participated in this operation) demonstrates their confidence in the company, as well as their pride of belonging.

Lastly, social protection is an integral part of Naval Group's compensation policy. In fact, it is part of an international core package: all foreign subsidiaries are covered in the event of death. In France, a mutual insurance fund supplements social security benefits for the reimbursement of health expenses, and a personal protection contract provides insurance against the vagaries of life, whether it be long illness, disability or death.

#### **b. Compensation of directors**

The Chairman and Chief Executive Officer is Naval Group's sole corporate officer; the other members of the Executive Committee are salaried employees.

The corporate officer's salary is fixed by the State, by the Ministry of Finance, on the basis of a recommendation made by the Board of Directors' Appointment and Remuneration Committee pursuant to order no. 2014-948 of 20 August 2014 on governance and transactions involving the capital of partially State-owned companies.

Members of the Executive Committee are remunerated through a fixed salary and a variable portion determined as a percentage of the fixed salary. Variable compensation has the same structure as that of managers: collective and individual objectives.

In accordance with legal and regulatory requirements, the salaries of the ten highest earners are listed in the Management report, the social audit and the auditors' statement, and are reported in a tax declaration using form 2027 on remuneration and expenses allocated to the highest paid people in the company.

## 7. A more flexible organisation of working hours and the work itself

### a. Organisation of working time

As part of its cultural transformation, new work organisations were tested throughout 2018 and in 2019, in order to adapt time slots to the inherent pace of the operational activities concerned.

Time slots have been arranged to adapt employees' working pace to the specific needs of the organisations or sites concerned:

- common variable time slot cycles have been set up to encourage the working community;
- adjusted hours over a limited period in order to carry out specific operations have been deployed;
- arrangements have been organised for the lunchtime break.

These experiments, which take “local” needs into account, have been discussed with social partners at the local and national levels.

More generally, the promotion of part-time work or a fixed number of days on a reduced time basis is applied at all levels of the company, thus enabling all employees to benefit without it being an obstacle to career or salary development.

### b. Remote working

To respond to the challenge of flexibility and provide employees with greater leeway in the organisation of their work, on 15 July 2019 the group signed an agreement, with all of the representative trade unions, on the introduction and promotion of remote working.

This method of organisation is part of an overall approach for ensuring quality of life at work, enabling a better work-life balance, integrating environmental issues by reducing the number of commutes, thereby reducing the carbon footprint and the risk of accidents for employees, and enhancing performance.

Once authorised, remote working can be carried out from home or any other location during one fixed day per week and/or two “floating” days per month. In the event of unexpected weather events, pollution episodes or situations with a significant impact on traffic conditions, Naval Group may exceptionally set up remote working arrangements.

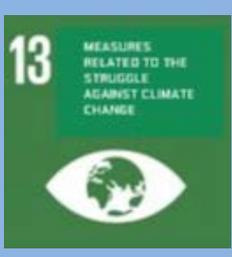
Lastly, for people with disabilities, for those suffering from a chronic progressive disease, for those with the status of close caregivers, or for pregnant women, the conditions required for remote working are relaxed and the need to prove six months of service in these cases is not required.

## 8. Quality of life at work, a lever for self-fulfilment and performance

In April 2017, Naval Group and the trade unions signed an agreement on quality of life at work. This agreement incorporates the previously mentioned elements relating to the cultural and managerial transformation now deployed.

Additional provisions aim to facilitate employees' work accessibility such as: the quality of the physical environment, the use of new information and communication technologies (NICT), the company travel plan encouraging the use of public transport and carpooling and the use of bicycles: possibility of receiving annual mileage compensation capped at €200.

## IV. ENVIRONMENT

 <p><b>7</b> CLEAN ENERGY AND AFFORDABLE COST</p>	<p><b>FOCUS SDG 7</b></p> <p>“Ensure access to affordable, reliable, sustainable and modern energy for all”</p>
 <p><b>13</b> MEASURES RELATED TO THE STRUGGLE AGAINST CLIMATE CHANGE</p>	<p><b>FOCUS SDG 13</b></p> <p>“Take urgent action to combat climate change and its impacts”</p>

	<p><b>FOCUS SDG 14</b></p> <p>“Conserve and sustainably use the oceans, seas and marine resources for sustainable development”</p>
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In order to meet the requirements of SDG 13, Naval Group strives to continuously reduce the environmental impact of its activities, in particular by reducing energy consumption through fewer computer data centers or by reducing greenhouse gas emissions through the promotion of videoconferences and the opening of webconference services, and by improving waste treatment.

Ambitious environmental performance improvement targets have been set, particularly to reduce the number of incidents with a temporary impact on the environment.

To control its risks, Naval Group has created a continuous environmental improvement program, thanks to the introduction of a dedicated 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 starting in 2016, successfully renewed and continued in 2019.

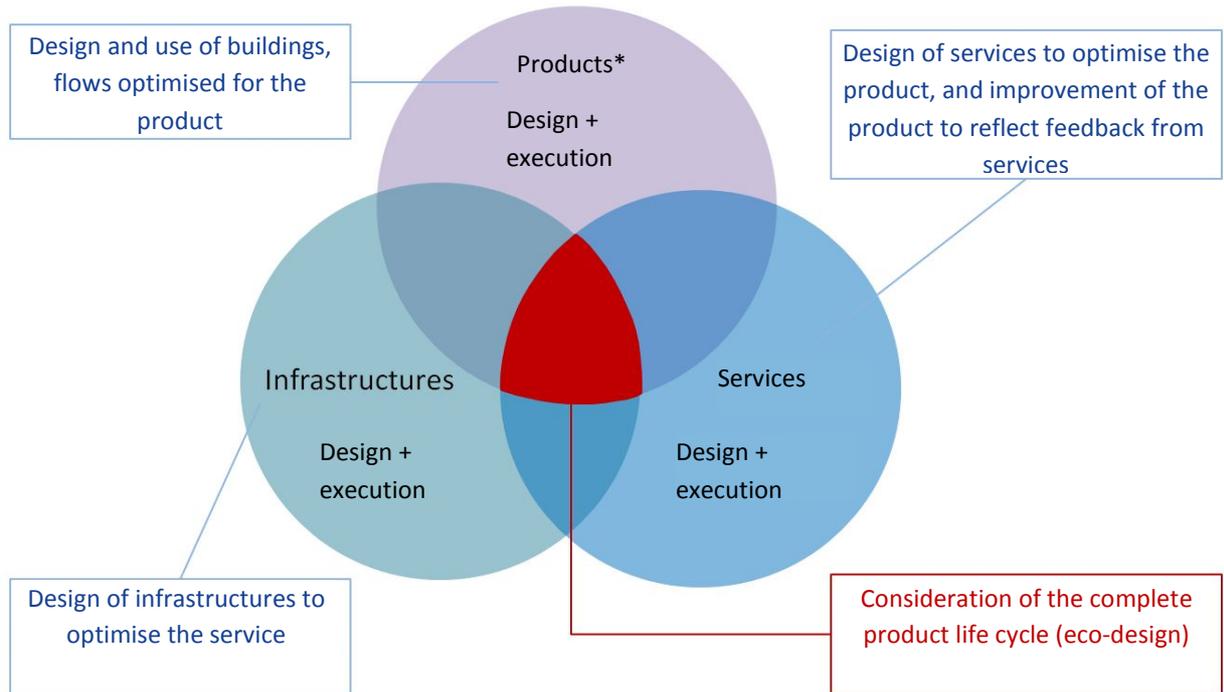
The group also relies on a global quality, safety and environment policy that was renewed in 2019 and deployed in all entities.

To challenge the teams in environment-related issues, the group has identified the main players and contributors to the environment in its main activities: products, infrastructures and services.

In keeping with this environmental challenge, the group has set ambitious three-year targets, 2018-2020, shared among the various divisions, in particular in terms of the number of incidents concerning industrial environmental performance:

- zero level-3 serious industrial environmental accidents;
- level-2 accidents with a significant impact on the environment: 4 in 2018, 4 in 2019 and 3 in 2020.

Naval Group’s environmental approach encompasses all its activities, products, services and infrastructures. This approach is applied in the company’s design and production processes.



**The environment at Naval Group**

A network of environmental contributors within Naval Group has been set up to clarify roles and responsibilities:

- the industrial environment, composed of environment managers: spread out across all Naval Group sites, they deal with regulatory compliance, deploy and implement pollution prevention and control resources on their sites and outside, etc.;
- the Purchasing department: environmental concerns are factored into both equipment and service purchases;
- the Site Management department, with its network of local managers, is responsible for managing the use of resources such as energy consumption (water, electricity, gas, etc.) and emissions (greenhouse gases, waste).

Now that the environment has become a societal issue, the group is continuing to promote employees' environmental knowledge in two ways: through training and communication.

Each new employee is made aware of environmental issues during their onboarding process. This consists of three training stages:

- on-site reception;

- work station training;
- access to the work area.

Naval Group University also offers employees 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 H&SW if training in risk prevention is required.

In addition to training initiatives and targeted, group-wide communications are carried out according to an annual communication plan covering the areas of safety and the environment. This includes national or international celebrations whenever possible: sustainable development, energy, mobility, waste for the environment. National communication campaigns are then implemented and supplemented locally on each of the France sites.

To highlight environmental rules, the group updated all its “environmental standards” in 2018. These are now available in the group’s Business Management System (BMS). Each of these standards addresses a specific theme by providing elements of understanding and recalling good practices such as HCA, “hazardous chemical agents”, “waste”, “anti-pollution measures”, “information and communication techniques, Green IT” or “energy management”.

### UNDERSTAND

1. HCAs are chemicals that may pose a risk to workers' health and safety and/or the environment
2. HCAs may be produced or used voluntarily but may also be emitted during a process.
3. HCAs come in the form of gases, liquids, solids, dust, fumes or vapours.
4. HCAs must be used with risk-appropriate prevention measures and stored under special conditions.
5. HCAs must be transported in accordance with the regulations on the Transport of Dangerous Goods (ADR, IATA, IMGO, etc.)

### INCOMPATIBILITIES

	●	●	●	●	●	●
	●	●	●	●	●	●
	●	●	●	●	●	●
	●	●	●	●	●	●
	●	●	●	●	●	●
	●	●	●	●	●	●

● Can be stored together

● Cannot be stored together

● Can be stored together under conditions (see SDS)

If in doubt, contact the HSE department

### Environment standard No. 1

Hazardous chemical agents (HCAs)

<p style="color: red; font-weight: bold; transform: rotate(-45deg);">Route toxicity</p> <p>Xn-harmful T - Toxic T+ - Very Toxic</p>	<p style="color: red; font-weight: bold; transform: rotate(-45deg);">Corrosive</p> <p>C - Corrosive</p>	<p style="color: red; font-weight: bold; transform: rotate(-45deg);">Combustion agent</p> <p>D - Combustion agent</p>
<p style="color: red; font-weight: bold; transform: rotate(-45deg);">Hazardous to health</p> <p>C - Corrosive Xn - Harmful Xi - Irritating</p>	<p style="color: red; font-weight: bold; transform: rotate(-45deg);">Explosive</p> <p>E - Explosive D - Combustion agent</p>	<p style="color: red; font-weight: bold; transform: rotate(-45deg);">Permitted gas</p>
<p style="color: red; font-weight: bold; transform: rotate(-45deg);">Hazardous to health</p> <p>Xn-nocif T-Toxique T+ - Très Toxique</p>	<p style="color: red; font-weight: bold; transform: rotate(-45deg);">Flammability</p> <p>F-Highly flammable F+-Extremely flammable</p>	<p style="color: red; font-weight: bold; transform: rotate(-45deg);">Environmentally hazardous</p> <p>N - Environmentally hazardous</p>

NON-SENSITIVE

POWER AT SEA

NON-SENSITIVE

Figure3: example of an environmental standard on the issue of "hazardous chemical agents" (HCAs)

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

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

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

The number of incidents has steadily fallen as a result of environmental risk prevention measures and operators' vigilance. Since 2013, the group has not experienced any uncontrolled pollution or pollution requiring an external response. Meanwhile, incidents responsible for a temporary impact - occasional exceeding of thresholds or localised pollution - have been constantly declining over several years. These incidents are subject to an in-depth analysis (8D) to avoid any new occurrence of the event.

All these elements help to demonstrate Naval Group's commitment to the monitoring of sustainable development goals 13 and 14.

## 1. Ecodesign

Since 2008, Naval Group has developed an eco-design approach and is ISO 14001 certified. Initiated on ships, the approach has been progressively extended to the Group's infrastructures and service offers in order to fully respond to SDG 13. It is supported by the goals set and reviewed during group performance reviews:



Figure: Naval Group "Environment" goals for 2018-2020

In 2019, the goals were attained for ships, both for projects in which the environment is part of the performance requirements, and for R&D, for which the technological innovation project sheets contribute to environmental protection. For infrastructures and service offers, the approach was recently launched and the attainment of these goals should be measurable in the coming years.

To clarify expectations, the aim of eco-design is to help architects develop products that are more environmentally friendly, with a lower carbon footprint,

by offering a maximum level of *cleantech* while respecting international and national environmental rules, without degrading operational performance.

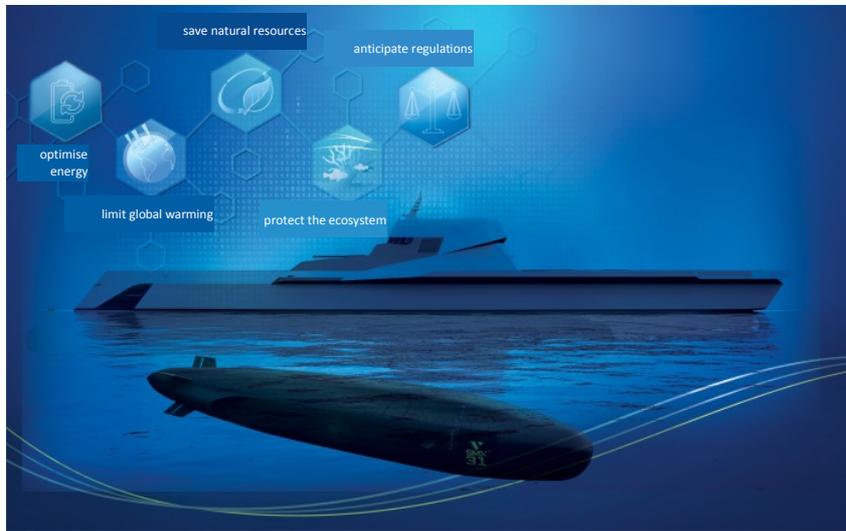
Note that naval defence is, in principle, exempt from compliance with international regulations issued in particular from the International Maritime Organisation (IMO). Nevertheless, Naval Group undertakes to be exemplary and has been very actively involved in this body for several years in order to anticipate future rules.

In concrete terms, this is reflected in work on the programs and on R&D. For the programs, this involves adapting, monitoring and then controlling environmental requirements throughout the program by dedicated design teams.

For R&D, the focus is placed on defining methods for measuring environmental impacts on the complete life cycle of products, regulatory anticipation, waste and emissions management, protection of the marine environment and the impact of products on the biotope, cleantech or green technologies, carbon-free energies and energy efficiency.

Two factors particularly strengthened this R&D approach in 2019:

- the *Blue Ship* combined R&D project;
- the continuity of carbon footprint measures for ships.



*Blue Ship*

**a. Blue Ship**

*Blue Ship* is committed to blue growth. R&D is an integral part of this approach because, in addition to proposing technical innovations, it must drive responsible choices.

*Blue Ship*, as one of the six unifying pillars of the group's R&D, is part of this approach. By bringing together all environmental themes, *Blue Ship* aims to combine innovation, new operational capabilities and sustainable growth. It endeavours to take into account the complete life cycle of ships, from design to the end of life, based on circular economy concepts. For example, on-board waste management or vessel deconstruction are designed to limit environmental impacts and progressively integrate recovery criteria. Energy optimisation focuses on the availability of current energy sources, but also on the needs of the future, or on new modes of propulsion aimed at reducing consumption and environmental impacts. Naval Group does not work alone on these topics. The group offers innovative solutions to its customers in close collaboration with its suppliers, start-ups and the academic world. The entire Naval Group ecosystem participates in *Blue Ship* to ensure a seamless environmental value chain.

For Naval Group, *Blue Ship* demonstrates the group's commitment to fully participating in blue growth and the European strategy, for which the oceans are a real potential for innovation and sustainable growth.

Through its *Blue Ship* program, Naval Group is studying all the areas of the "*GreenShip*" in order to increase the readiness of the different technologies concerned, both for the needs of military navies and those of ship owners and civilian shipyards. Naval Group aims to use this unifying program to achieve excellence and leadership in the field.

	<p><b>AWARDS</b></p> <p>The project was awarded the bronze medal for the “Approach centred on sustainable and alternative practices” category at the 7th “Nuit de la RSE” (CSR Night) Trophies, organised by APF France Handicap.</p> 
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**b. Carbon footprint**

The approach to control the carbon footprint of ships was initiated two years ago. In 2019, the FREMM multi-mission frigate and the Gowind® corvette were the first two products assessed, followed thirdly by the Scorpène® submarine. The results are expected for the first quarter of 2020. Naval Group's ultimate objective is to ascertain the carbon footprint of each of its product lines.

The footprint serves to assess, in CO<sub>2</sub> equivalent, greenhouse gas emissions over the entire product life cycle, according to a defined and, if possible, standardised scope and calculation methodology. This is a single-criteria assessment which includes raw materials extraction phases as well as manufacture, transport, use and product end of life phases.

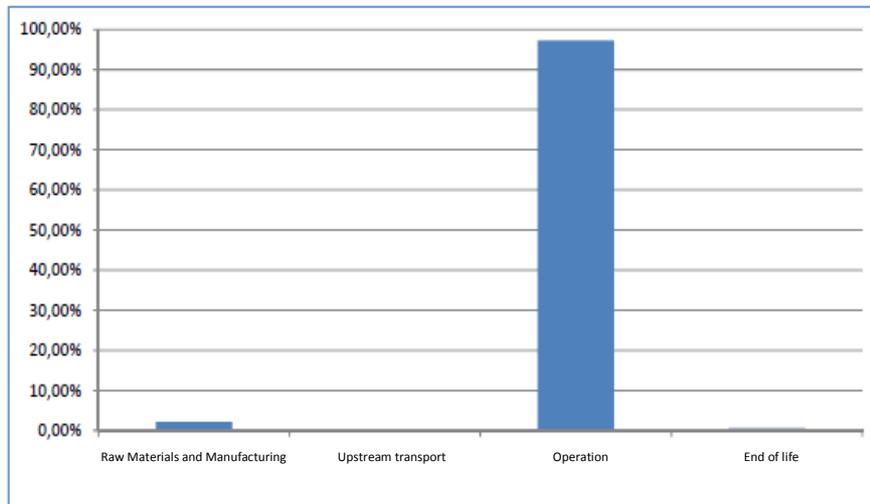
The carbon footprint is not the same as the greenhouse gas balance or the carbon balance® as defined by the Bilan Carbone Association, historically created by ADEME. The methodology chosen by Naval Group to define the most complete carbon footprint of its products is based on the cross review of environmental studies:

- Life Cycle Analysis (LCA);
- carbon footprint of sites.

Cross-referencing these studies is essential as they complement each other. In fact, the manufacturing stage modelled in the LCAs is enhanced by the

information collected from the GHG balance. Once these studies have been analysed and the results cross-referenced, working assumptions, as well as the allocation and distribution keys for the carbon impacts of products on the different life cycle stages, are established, in order to obtain the overall carbon footprint.

By examining the results of life cycle analyses cross-referenced with the GHG assessments of the production sites, it has been possible to assess the carbon footprint in CO<sub>2</sub> tonnes equivalent.



**Carbon footprint of products throughout their life cycle**

The carbon footprints of the FREMM, like the Gowind<sup>®</sup>, measured the proportion of greenhouse gas emissions attributable to the use phase over its entire life cycle at between 80 and 90%. Naval Group is waiting to see whether the Scorpène<sup>®</sup> garners the same results, which would be entirely logical considering that the longest phase of the life cycle is that of operation.

For its part, Naval Energies is developing systems and subsystems for the production of renewable and decarbonised electricity from two different sources of marine energy: offshore wind and the thermal potential of tropical seas. Naval Energies thus contributes to the development of alternative, renewable and environmentally friendly energy.

From site studies to the construction of sub-systems, from deployment in a zone with underwater connections bringing energy back to land, Naval Energies is positioned over the entire product life cycle: design, manufacture, installation and maintenance, both at sea and in coastal areas in order to contribute to the attainment of SDG 7.

### c. Ocean thermal energy

Oceanothermia (or ocean thermal energy conversion, OTEC) exploits the difference between surface water temperature, which is around 25°C, and marine depths where the temperature is around 5°C at less than 1000 metres based on the principle of heat exchange. Energy produced in this way is predictable, continuously available and decarbonised. Naturally present in intertropical areas, this inexhaustible source of energy is an effective response to environmental challenges and to the energy problems of isolated regions on the planet.

Naval Energies intervenes on a number of levels in the OTEC field. The company designs and produces heat exchangers (condensers and evaporators), as well as complete onshore OTEC systems, with the possibility of combining co-products such as desalination, ORC (*Organic Rankine Cycle*), aquaculture or SWAC (*sea water air conditioning*), in relation with other industrial partners.

Naval Energies' experts are also developing innovative technological building blocks, such as the fight against biofouling and the optimisation of energy system performance.

Technical developments for OTEC heat exchangers underwent a test campaign on the onshore prototype at Reunion Island, which served to qualify both technologies - flooded and spray evaporator.

### d. Datacenter

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

### e. Participatory actions

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

Naval Energies also contributed to the French debate on the multi-annual energy plan (MEP) by participating in several round tables and conferences such as, for

example, the conference on the place of marine energy in the MEP, organised by French deputies from Brittany in October at the National Assembly, or at regional and local level:

- in Cherbourg in June during a round table organised by French deputy Sonia Krimi;
- in Narbonne at the Floating wind turbines gathering in Occitanie, organised by the region in November.

Lastly, Naval Energies signed the Cherbourg Call to support the development of marine renewable energies in France and the Narbonne Pact to support the ambitions of the Occitanie region on floating offshore wind turbines.

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

## 2. Site management

### a. Naval Group's environmental footprint

For the first time, in 2017, Naval Group carried out an assessment of the environmental footprint produced by all the purchases of its French sites. This study was able to evaluate 96% of the Group's French and foreign purchases.

It used the *Local Footprint*<sup>®</sup> impact assessment model based on monetary equivalents. The model was used to reproduce the behaviour of the entire supplier chain, from rank 1 to rank N, by sector and by country.

The analysis focused on greenhouse gas (GHG) emissions, consumption of resources, water consumption and land use.

In 2016, Naval Group's supply chain was responsible for emitting 723,148 tonnes of CO<sub>2</sub> equivalent worldwide. At the same time, almost 14.2 million m<sup>3</sup> of water and 1.5 million tonnes of resources (fossil inorganic, animal, vegetable) were consumed, and 1,000 hectares of land used.

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

## b. Atmospheric emissions

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

The quantity of paint consumed within the group greatly depends on the construction and maintenance activities. A major refit of the aircraft carrier, for example, doubles the volumes usually used in the course of a year. VOC emissions per tonne of paint used are decreasing each year, however, above all because of the product-related measures taken by manufacturers and the positive change in spraying processes.

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

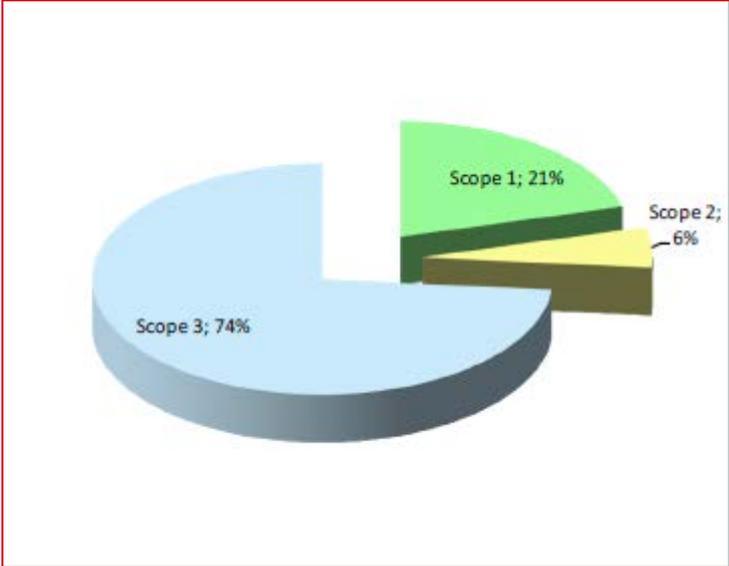
Besides VOCs, the group's activities emit sulphur dioxide (SO<sub>2</sub>) and nitrogen oxide (NO<sub>x</sub>), produced by burning fossil fuels. These emissions are steadily falling, in direct relation to energy savings made on Naval Group's sites.

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

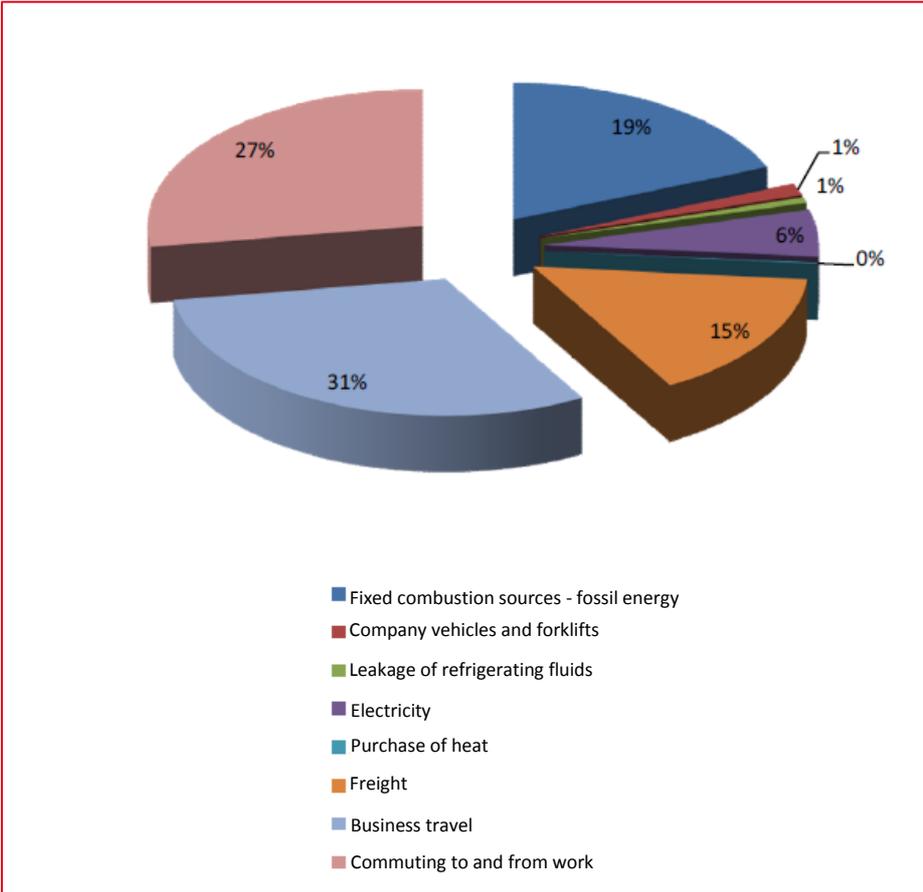
The following emission sources are monitored:

- scope 1: direct emissions related to the consumption of fossil fuels and cooling fluid leaks;
- scope 2: indirect emissions associated with energy, such as electricity and the purchase of heat linked to electricity consumption;
- scope 3: other indirect emissions related to business travel within France and abroad (rental cars, trains and aeroplanes), home-work travel and the freight transportation of goods (inside and outside France). Greenhouse gas emissions related to vessels purchased and operated (ships in operation) are studied separately and are not included in scope 3 of Naval Group. Since the 2015 assessment, upstream emissions linked to energy production in scopes 1 and 2 have been included in scope 3.

The last 2018 assessment carried out in 2017 indicates that most of Naval Group's atmospheric emissions are related to SCOPE 3.



**Atmospheric emissions**



**Origin of GHG emissions**

Home-work travel, fixed sources of combustion and business travel account for the three largest emission sources, with 27% of the group’s total emissions for

home-work travel, 19% for fixed sources of combustion and 31% for business travel, respectively.

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

Like other Naval Group sites, the Toulon site has deployed a company transport plan aimed at promoting alternative modes of transport in relation to individual motorised modes (application of a local requirement in the Var department's atmosphere protection plan). This is aimed at attaining Sustainable Development Goal 13: "take urgent action to combat climate change and its impacts".

In addition, the international subsidiaries are committed to implementing environmental prevention measures to combat greenhouse gas emissions. This is the case of the Naval Group Malaysia subsidiary, which, to limit or even reduce harmful emissions, uses hybrid cars and has set up a car sharing system for employees required to travel regularly.

### **c. Emissions into water**

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

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

During the second half of 2016, the Health, Safety and Environment (HSE) Department, the Submarine Atmosphere Regeneration-Control laboratory (R-CASM) and the R&D service of the Methods Performances Department on the Brest site led a project aimed at improving the real-time control of effluents resulting from the careening of vessels. This method is now applied to careening operations at the Brest naval base and on the Île Longue site. Naval Group now has the in-house capability to detect a deviation or to demonstrate the compliance of analyses in 48 hours, compared with three weeks previously. It

can now respond very rapidly if results show a failure and make corrections during the course of an operation.

Local examples show Naval Group's commitment to conserve and sustainably use the oceans, seas and marine resources for sustainable development (SDG 14):

- marine sludge is regularly dredged in Lorient;
- in Angoulême-Ruelle, measures are being taken to ensure that the Touvre River is not polluted;
- in Toulon, the impact of aqueous discharges is reduced by the filtration of stripping effluents in fairing basins in application of the Naval Staff Basin Directive, the quality of industrial discharges from workshops and groundwater (piezometers) is monitored and the site participates in the annual "clean harbour" operation conducted by the Maritime Prefecture.

#### d. Waste Management

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

#### Focus on Malaysia

To reduce its consumption of plastic bottles, Naval Group Malaysia has provided its employees with water fountains. Similarly, it is currently looking for a company that can recover and recycle the unused assets of subsidiaries or employees. Lastly, with a view to recycling, at the Lumut shipyard, cleaning and laundry companies are asked to avoid and/or reduce the consumption of plastic bags when delivering work clothes.

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

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

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

### e. Bio-waste

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

Like best practices on Naval Group France sites, international subsidiaries implement actions to control the impact of their activities on the environment, in particular the management of their waste. To reduce the consumption of plastic bottles, for example, Naval Group Malaysia provides employees with water tank fountains and encourages them to use water bottles. The subsidiary aims to provide Naval Group employees with water bottles.

Naval Group Malaysia is currently looking for a company that can recover and recycle unused assets from subsidiaries or employees. In the interests of recycling and sustainable environment, cleaning and laundry companies are asked to avoid and/or reduce the consumption of plastic bags when delivering work clothes.

### f. Noise

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

### g. Water consumption

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

Only the Nantes-Indret site is continuing to pump significant volumes from the Loire during heat engine tests; these tests only last a few weeks, however, and several years may elapse between two tests. To reduce these occasional consumption peaks, the site planned to carry out work in the coming years to adapt pumping installations to its exact needs.

### h. Energy consumption

Given its awareness of energy issues and their impact on the climate, Naval Group has set an ambitious target of reducing baseload consumption by 10% for 2020 and 2021.

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

In 2019, an energy audit was conducted on each group site. It provided an up-to-date outside opinion of every activity's energy efficiency and identified new areas for improvement. It offers a real opportunity to boost efficiency measures throughout the group, although most of the sites did not wait until this regulatory obligation was introduced to roll out a consumption reduction program. Most industrial sites have in fact integrated this program within their practices for many years, in areas like lighting, heating and industrial activities.

Since 2012, the Lorient site has been working on reducing its "baseload", which corresponds to non-production time consumption. Analysis of consumption levels served to identify actions both on behaviours - switching off what is not useful at the end of the session - and on the techniques used: LED lighting, air destratifiers, etc. This led to a 50% reduction in the "baseload over the 2012-2017 period. Since 2019, this practice has been extended to all sites in order to continue the energy reduction process.

In 2019, Naval Group also published an energy manual which is a guide to help improve energy performance. This document details the steps to be taken to reduce energy consumption on sites.

These different actions demonstrate Naval Group's commitment to guarantee access for all to reliable and modern energy services at an affordable cost (SDG 7).

### **i. Property operations**

Like the sites in France, international subsidiaries strive to build sustainable and environmentally-friendly premises. This is the case for the Naval Group Malaysia subsidiary located in a *Green Building* in Menara Binjai.

This building meets environmental standards for several reasons: consumption of around 30% less electricity compared to the average for Malaysian buildings, open-air gardens, energy-saving air conditioning and lighting, etc.



The Malaysian subsidiary's certified building

## j. Biodiversity

The group naturally pays attention to biodiversity issues because of the location of its sites and the nature of its activities. Each industrial site is located close to a natural land or marine reserve, listed as a result of the rarity or fragility of the indigenous species, both fauna and flora, and their habitats.

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

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

Five other sites, Cherbourg, Brest, Lorient, Toulon and Saint Tropez, are in the immediate vicinity of a Natura 2000 site or a natural site protected for ecological, fauna and floral reasons (*zone naturelle d'intérêt écologique, faunistique et floristique* - ZNIEFF).

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

### 3. Marine renewable energies (MREs)

#### a. Global Naval Energies

Naval Energies develops systems and subsystems for the production of renewable and decarbonised electricity from two different sources of marine energy: offshore wind and the thermal potential of tropical seas. Naval Energies thus contributes to the development of alternative, renewable and environmentally-friendly energy.

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

#### b. Floating wind turbine product line

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

Naval Energies handles the design and construction of floaters for the three wind turbines of the "Groix and Belle-Île floating wind turbines" project, managed by Eolfi, as well as the offshore installation of the three 9.5 MW wind turbines each for the production of the electricity required to power 20,000 households on the Atlantic coast.

#### c. OTEC product line / exploitation of deep sea water

The exploitation of deep sea water plants consist in harnessing the advantages of deep ocean water for multiple uses. Starting from the ocean thermal energy conversion system, designed to produce electricity, other technologies can be added such as Sea Water Air Conditioning (SWAC), desalination, industrial cooling or aquaculture. For instance, seawater pumping, used for electricity production, benefits other players.

In the context of these projects, Naval Energies contributes its expertise both in the engineering and sizing of the plant's overall system, and in the design, production and installation of heat exchangers – condensers and evaporators – for the electricity and cold production.

#### **d. Proactive involvement of Naval Energies in its national and international ecosystem**

At the French level, Naval Energies contributed to the debate on the multi-annual energy plan (MEP) by participating in several round tables and conferences.

In 2018, Naval Energies also responded to the online consultation organised by the national conference on public debate (*Conférence nationale du débat public - CNDP*) on the multi-annual energy plan, and signed the Cherbourg Call to support the development of marine renewable energies in France, and the Narbonne Pact to support the ambitions of the Occitanie region on floating offshore wind turbines.

In 2019, Naval Energies also took part in the “industrial territories” government initiative, which has a general goal of reindustrialising territories, and which, in October 2019, led to the signing, in connection with Emmanuel Macron’s presidential trip to the island of La Réunion, of an agreement on the Bois Rouge ecotechnoport project with the French State and all partners, including Naval Energies.

At the international level, on 28 September 2019, at the United Nations, Naval Energies signed a memorandum of understanding with SIDS DOCK - an intergovernmental organisation launched in 2015 under the aegis of the UN and the World Bank, bringing together the member states of the Alliance of Small Island States - to support the development of deep sea water recovery projects and floating wind turbine projects in small islands and thereby contribute to the objective of transforming these countries into low-carbon economies to adapt to climate change.

Naval Energies also has a subsidiary in Chile, Energia Marina, which, in October 2019, celebrated the success of the first phase of the MERIC project for scientific research on the development of marine renewable energy (MRE), with CORFO and the project’s two university partners: the Pontificia Universidad Católica de Chile and the Universidad Austral de Chile.

Energia Marina is positioned in Chile and South America as a key player in interdisciplinary scientific research applied to MRE. The results obtained are innovative both on a scientific level and in human and social sciences. They cover wide areas such as bio-fouling and corrosion, the study of offshore resources, the interactive mapping of Chile to provide all the data needed by any public or private actor to assess the relevance of MRE projects, the assessment of local communities’ perception of MRE projects, or the contribution to the worldwide monitoring of the life habits of large marine mammals to better identify and limit the impacts of future projects, etc.

### e. Activity control

Naval Energies systematically deploys the analyses of significant environmental aspects and impacts (AIES), on its operations and installations, in order to be able to integrate the “avoid reduce compensate” doctrine as early as possible. It also includes environmental risk prevention measures in its management of external operations, both onshore and offshore.

In addition, Naval Energies has an LCA on the wind turbine floater and is currently working on the development of an LCA on the onshore OTEC.

### f. MERIC in Chile

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

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

The results obtained are innovative both in so-called “exact” sciences and in human and social sciences. They cover wide areas such as:

- bio-fouling and corrosion, which provide results of sea tests on various material samples, compare them with experimental laboratory results and pave the way for future characterisation processes;
- the study of offshore resources to evaluate and develop new digital energy measurement models including the interaction of MRE devices, through collaboration with industry;
- the interactive map of Chile which provides all that data that each player needs to assess the relevance of public or private MRE projects;
- the process of evaluation of local communities’ perception of projects, which qualitatively measures the perception of supposed impacts, compares them with other energy sources, and establishes a scale of issues for stakeholders by identifying the trust placed in the various information provided according to their sources;

- the worldwide contribution to monitoring of living habits of large marine mammals, which makes it possible to know and limit the impacts of future projects, in application of SDG 14;
- the comparative analysis of French and Chilean rights applied to MRE projects as the first step for MERIC to present to the Chilean government recommendations for good project development in Chile;
- the comparative economic study of MRE technologies when a project development is carried out in Chile, identifying potential sources of competitiveness of the Chilean logistics chain.

In 2019-2020, MERIC will make it possible for other international sea trial sites to adapt the devices to extreme sea conditions (earthquakes and tsunamis) and to Chile. This involves the Open Sea Lab, a test and measurement tool installed off the Chilean coast. This will be a first in South America. The Open Sea Lab will represent an essential step in the possible development of marine energies in Chile and Latin America and will prepare the launch in Chile of the first pilot projects or demonstrators by 2023. This work is continuing in collaboration between universities and Chilean and international industrial companies.

## V. FAIR PRACTICES

### AWARD WINNERS

In 2019, Naval Group’s Compliance team received the “Special Mention” Trophy in front of 700 law professionals for the 5th edition of the Business version of the Law Awards.

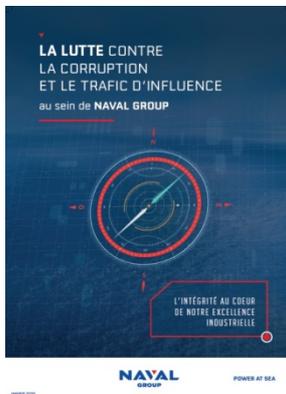


### 1. Anti-corruption compliance arrangement

Anti-corruption and influence peddling compliance is encouraged within the group and its controlled companies by the CEO who, every year, signs the **policy** in this respect, thus reasserting the group's commitments, the necessary involvement of management and the areas for progress decided for the year.

The implementation of this policy is based on a system that complies with French law no. 2016-1691 of 9 December 2016 on “transparency, the fight against corruption and the modernisation of economic life, known as the “Sapin 2” Act, as well as the law applicable in countries where Naval Group operates.

It includes a dedicated organisation, a documentary reference system drawn up on the basis of a regularly updated risk map composed of a compliance code of conduct and several operational instructions (see “Key instructions” published on the Group’s website), an awareness-raising and training program, a communication plan, and finally an internal control plan.



The system’s deployment is detailed in the “Anti-corruption brochure” document available on the group’s website.

## 2. Organisation

To implement and coordinate this system, Naval Group has set up a dedicated team of six people forming the second line in the corruption risk management process, and relies on a network of Compliance Officers placed with entity directors: departments, sites and subsidiaries. As a reminder, the first line of control is made up of the operational entities that act in compliance with the processes, and the third line is based on the internal audit activity that assesses all of the Group's systems and activities.

## 3. Risks mapping

In a context of international development, Naval Group complies with the standards and national and international legislation applicable to it, in particular with regard to the fight against corruption and influence peddling.

The risk of corruption and influence peddling is taken into account for ethical and legal reasons, but also for its potential negative impacts on the group's economic activity, finances and image and ultimately on employment and the viability of the company.

In order to implement the necessary preventive measures, Naval Group draws up a corruption risk map which covers all activities conducted in France and abroad. It takes into account all factors specific to the group's context, in particular its business sector, stakeholders, processes, business lines and the countries concerned.

Abroad, the risk level taken into account during the mapping exercise is highly variable and depends on several factors:

- the scope of our activities (subsidiary, representative office, regional representative);
- the importance of exchanges made (contracts signed, revenues, prospects);
- the nature of our activities (sales, shipbuilding, ship maintenance);
- the level of corruption perception via rankings drawn up by recognised international institutions and bodies such as *Transparency International*.

As regards third parties with which Naval Group has a contractual relationship, a ranking has been established according to their expectations and the nature of the relationships maintained. A risk level has been defined and preventive measures are implemented (such as *due diligence compliance*, see below).

## 4. Awareness, training and communication



Each new employee joining the Group is made aware of the risks of corruption and undertakes to read the compliance code of conduct. A specific anti-corruption bilingual e-learning module has also been set up for all Group employees.

Based on the risk map, updated each year, the persons most exposed to the risk of corruption are identified and trained accordingly. In addition to the company's top management and middle managers, three trade families are particularly targeted: sales, purchasing and specifiers. These populations receive training at least every three years.

To complement awareness-raising and training, an annual communication plan enables the group to coordinate the anti-corruption system, from the highest level of each entity down to the employees. The organisation of an annual Ethics and Compliance Day during the UN International Human Rights and Anti-Corruption Days illustrates this approach.

The risk of conflict of interest is dealt with in a group instruction which sets out the appropriate steps to be taken on four levels:

- detection: mapping, self-declaration, reporting;
- integration, in the recruitment process, of a prior assessment, due diligence, on the candidate with a declaration of interest;
- management and processing, in the event of suspicion;
- sanction in the event of proven facts.

This instruction also provides a framework for hiring directors from the public sector in accordance with applicable laws and regulations relating to the employment of former public officials in the private sector.

## 5. Reporting and due diligence compliance system

Gifts, meals and tokens of hospitality given or received may be perceived as natural in one country and illegal in another.

That is why Naval Group employees must report gifts, meals and tokens of hospitality offered or received in the *Compliance* software (tool specifically developed by Naval Group) or in a dedicated register. These procedures are then subject to the authorisation of the manager and, where applicable, the Group

Ethics *Compliance* Governance department, depending on their amount and the stakeholder concerned.

Similarly, draft contracts or agreements with third parties identified as being at risk are subject to due diligence and periodic checks (Due Diligence Compliance) carried out by DECG or the Compliance Officer. These due diligence compliance procedures are intended to assess, before entering into any binding contract and at least every three years, the project's level of exposure to the risk of corruption. This assessment is expressed in a compliance opinion containing, if necessary, a risk mitigation plan or identified warning signals.

Due diligence compliance procedures are applied to all Group sites and subsidiaries and focus in particular on the types of activities identified as most exposed in the Group's risk map, such as, for example:

- high-risk clients;
- at-risk suppliers;
- offset projects;
- sales consultants and industrial partners;
- projects for strategic partnerships and M&As;
- charitable, philanthropic, patronage or sponsoring activities;
- lobbying.

Due diligence compliance on these activities includes investigations that mainly serve to identify the final beneficiaries and the main leaders of the third party(parties) concerned and to verify their integrity.

If the identified risks cannot be satisfactorily mitigated, the entity in charge of the contractual relationship will take appropriate measures, which can go as far as the abandonment of the draft contract or the termination of the current contract.

## 6. A reinforced alert collection and processing system

Naval Group encourages all individuals to speak out when they become aware of conduct that is contrary to the group's ethics and CSR guidelines, in particular when it concerns acts of corruption or influence peddling.

In this respect, Naval Group has drawn up a group instruction defining the methods for collecting and processing reports relating to behaviour contrary to the Ethics and CSR reference framework. There are many ways in which to escalate an alert:

- line management, local relays;
- the ethics liaison officer, compliance officer;
- the human resources department;
- the ethics hotline ([ethics@naval-group.com](mailto:ethics@naval-group.com)).

The use of the latter in good faith guarantees the protection of the whistleblower's identity as well as the absence of exposure to any sanction or dismissal, a direct or indirect discriminatory measure, or retaliation, even if the facts are not substantially proven after processing and investigation.

The alert line is also accessible to the group's external stakeholders (customers, suppliers, subcontractors, consultants employed on a Naval Group site) who wish to issue an alert: the address is indicated on the Naval Group website. This notification may be made in English or French and in the language used in the subsidiary.

When the hotline is activated, investigations are carried out by two members of the group's Ethics and CSR Committee (CERSE) using a common investigation method. All investigators receive training in investigative techniques that ensure the confidentiality of the data processed and the impartiality of the procedure.

The issuer and the persons directly concerned are informed, as far as necessary, of the alert's processing by the CERSE when it is reported via the ethics hotline. When the results of the investigation are likely to result in disciplinary proceedings or legal proceedings, they are sent to the departments concerned as soon as possible so that all necessary measures are taken.

In addition to processing the alerts themselves, Naval Group undertakes to ensure that no sanction is directed against one of its employees who, in good faith, refuses to apply an order or carry out an action that would be contrary to the group's ethics or values. Naval Group encourages them to speak up using the various means at their disposal to escalate an alert.

## 7. Internal control

The Group regularly carries out internal controls to ensure the proper implementation of the anti-corruption system and compliance with the Group's reference framework according to a plan defined annually.

A control grid has been established to enable the control lines to carry out a control and precisely measure the level of control of the entity concerned. In addition to the controls, this table explains and shares the group's expectations regarding the deployment of the compliance system.

Performance indicators have been drawn up by the Group Ethics and Compliance Department to enable it to accurately monitor the progress and state of control of the compliance system within the Group and to report this to the Group Executive Committee and shareholders annually.

The Group sets annual objectives for site and subsidiary directors to improve the overall level of control (see anti-corruption policy).

In addition to the self-controls carried out by the entities, the division responsible for fighting corruption and influence peddling within the group carries out checks on sites, as well as in controlled subsidiaries, according to a three-year cycle.

## 8. Protection of innovation and anti-counterfeiting measures

Naval Group protects all its know-how and innovations through commercial confidentiality and intellectual property. In particular, patents are regularly filed for innovations in the field of energy for sustainable development. These represent a significant portion of the group's patent portfolio.

For example, Naval Group's second-generation air-independent propulsion system, AIP FC-2G, combines two breakthrough technologies protected by 70 patents. This system provides enhanced safety for people due to the absence of hydrogen storage on board.

In 2018, Naval Energies filed over 10 patents to protect its innovative systems using offshore wind energy and ocean thermal energy conversion.

Tapping into the innovative capacity of academic institutions and small and medium-sized enterprises (SMEs) is an essential lever for optimising Naval Group's R&D program in France and abroad. Naval Group is part of a responsible cooperation approach. As part of this approach, Naval Group strives to propose intellectual property plans or licences that take into account the economic models and market prospects of its partners.

The presence of counterfeit equipment in a Naval Group product would be critical, in particular if this equipment directly or indirectly affects the safety or safety performance of the product. In 2019, Naval Group deployed a system to combat counterfeiting in its supply chain. This system is based on supplier inspections and audits conducted by the Purchasing department, the Quality department and the Naval Group Intellectual Property department.

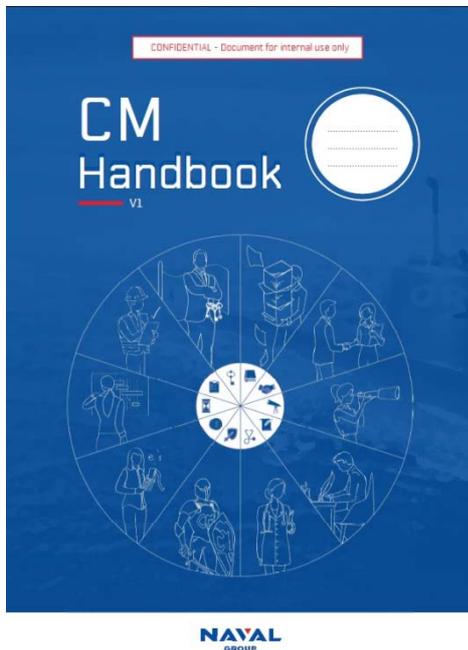
## VI. QUESTIONS ABOUT CUSTOMERS

To meet its ambitions, Naval Group relies on sustainable innovation, as we have seen and will go on to see, but also on operational excellence to meet the high expectations of its customers.

The Group’s commitments in terms of quality and safety form the basis for its customers’ confidence and satisfaction. To meet their requirements, Naval Group relies on numerous suppliers and implements a reference purchasing policy.

### 1. Contractual process

During the bidding and kick-off phases, the Legal and Contract Management department works to develop and establish clear, precise, balanced and transparent contractual terms and conditions, both from the customer’s viewpoint and that of suppliers and subcontractors, in the common interest of all parties. Among other things, this guarantees rapid agreement and mobilisation based on firm and informed commitments. It also facilitates the proper execution of the work and services.



In this context, the legal teams ensure that the contracts are comprehensive and balanced, that they do not contain abusive terms, rights or exclusions of an unfair nature, and that all legal and regulatory constraints applicable at the time of signing are understood and respected. Contract Management teams ensure the feasibility of the objectives set, as well as the clear, balanced, transparent, reasonable, sufficient and state-of-the-art compliance of the hypotheses, conditions, rules, mechanisms, rights and obligations defined, in particular those relating to reception and acceptance, but also payment, of the various products and services.

To this end, the operational staff use multiple tools made available to them:

- a “Contract Manual” defining the group's contractual policy;
- standard “General Purchasing Conditions” for suppliers and subcontractors;

- a list of questions resulting from feedback and good practices, to be asked during the bidding phase, ensuring the assessment of all major or recurring risks;
- a list of topics to be covered in the clarifications given to the implementation teams, during the transfer and launch phase;
- a transposition matrix used to develop scoping notes intended for purchasing.

During the execution phase, the Legal and Contract Management department ensures that all stakeholders fulfil their commitments and deal with any variance or deviation in an open but formal manner, through changes, amendments or memoranda of understanding, so that the contractual conditions are updated and continue to best describe the rights, obligations and commitments of the parties.

In this respect, any exceptional circumstances, any major changes - typically those affecting prices, deadlines, characteristics or results, and any change in the applicable regulatory or legal systems (changes in law) are taken into account.

This approach contributes actively to establishing agreements in the event of a dispute or deviation, better dialogue, greater trust and collaboration between the stakeholders.

In the event that no agreement is found, the Legal and Contract Management Department seeks, as a last resort, to draw up the claim file which will recall the facts, determine the prejudice suffered, the grounds for compensation, and the allocation of faults and liability, in order to substantiate and clarify the requests, refer the matter to the competent authorities or courts, and find a definitive end to the dispute.

#### **a. Naval Group's commitment to sustainable procurement**

Naval Group's commitment to sustainable procurement is based on a continuous improvement approach, which is managed at the highest level. It is passed on to all suppliers, who must sign a formal pledge through the supplier code of conduct.

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

## b. Suppliers: seeking shared competitiveness

### *The main objectives assigned to the Purchasing department*

Naval Group has integrated the development of long-term relationships with its suppliers into its purchasing policy. The main objectives set concern the Purchasing department, and are monitored via indicators by general management. In particular, these objectives concern purchases made from the appropriate sector, controlling invoice payment times with a systematic focus on any fragile suppliers, reducing the accident rate of subcontractors, monitoring steering committees involving all internal stakeholders, and implementing supplier development plans.

### *Evaluation of the CSR performance of panel suppliers*

In 2019, Naval Group launched a new CSR performance assessment campaign for its panel of 1,200 suppliers. The restated objective is to have this performance assessment for all suppliers on its panel. Any new entrant to the panel will thus be subject to a CSR performance assessment.

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

The results of CSR performance assessments are taken into account in the overall evaluation of supplier performances. This assessment is made annually for the main suppliers in the panel, and special attention is paid to suppliers involved in purchasing types identified as most at risk in the CSR risk map. If necessary, when a supplier's performance proves inadequate compared with the performance of same-type suppliers operating in the same business sector, action plans are put in place.

### *Equal treatment*

The choice of supplier stems from a collective decision at each step in the process concerning selection criteria, sourcing, comparison of bids, etc. These decisions are made with a president and formalised by the supplier quality department's signature via three milestones called GATES: entry into consultation, negotiation objective, and choice of the selected supplier.

### *Financial equity*

Compliance with payment terms is a legal commitment to which Naval Group pays particular attention. Furthermore, in the event of difficulties anticipated by the purchaser or notified by the supplier, the payment period may be reduced with a simple validation by the Purchasing Director of the site concerned.

Contracts are mainly negotiated with payment terms of between 30 and 60 days net. The general purchasing conditions adapted to SMEs set a payment period of 30 days.

The supplier's requests are listened to and taken into consideration. The buyer is free to negotiate the terms of payment, and the group has an extensive and frequent advance and down payment policy, which allows it to offer relief to suppliers if the works require significant disbursements on their behalf. This supplier-friendly down payment policy is enhanced for SMEs and fragile companies, for which down payments in 2019 accounted for 41% of the amounts and 37% in number, even though the contracts concern shorter-term services.

#### *Mediation*

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

### **c. Ethics and procurement**

#### *Ethics and compliance*

In particular, the Purchasing function applies the instruction entitled "Entering into a relationship with a designated third party" which describes the rules to be followed for an external contact. Naval Group establishes the traceability of gifts, invitations and tokens of hospitality given or received thanks to the development of the Compliance software solution. The Compliance software solution is accessible to all employees via the IT application portal, where the link is available on the home page of all employees. Its use is mandatory. All these provisions, set out in chapter V, are described in the Purchasing repository used on a daily basis by all buyers. A complete file named "Naval Group Ethics and Compliance repository" is distributed to all employees. It contains the following in particular: the code of ethics, the compliance code of conduct, the human rights charter, the "compliance at Naval Group" brochure, the "ethics at Naval Group" brochure, as well as the details of contact persons in the event of an alert.

On the supplier side, during the pre-qualification of a supplier, the company is subject to due diligence based in particular on the replies given in the questionnaire sent by Naval Group to its future suppliers and which the latter must notably complete and sign.

#### *Supplier Code of Conduct*

The code of conduct, a summary of the group's CSR requirements and a contractual document, indicates that signing the code and adhering to it is a prerequisite for entering into a contractual relationship. It also indicates that

major defects may call into question the relationship with the supplier. The signature of the Supplier Code of Conduct is requested from each supplier in the Naval Group panel and its subsidiaries.

The Supplier Code of Conduct includes the following:

- prevention of conflicts of interest;
- prevention of corruption;
- fair competition;
- the environment, including reducing energy consumption, compliance with regulatory texts and the environmental management system;
- human rights and social issues, according to the OECD guidelines and the eight fundamental conventions.

#### ***Business ethics survey***

In 2016, Naval Group reiterated the business ethics self-assessment, introduced for the first time in 2011. The goal of this second edition of the survey was to verify the successful integration, by a representative population, of the ethics rules at play in the relationship between Naval Group and its suppliers, and to measure the progress in this level of integration. Nearly 600 Naval Group staff members were asked to take part in the survey. A number of areas for improvement were identified. These were communicated to the entire purchasing population.

In addition, measures for strengthening the internal control actions of the purchasing process were implemented, in particular on subjects that may have an impact on the compliance of purchasing actions. This strengthening has been operational since the end of 2018. Gradual integration of the purchasing entities of the subsidiaries in the process began in 2019.

#### ***Responsible Supplier Relations and Procurement Label and ISO 20400***

Naval Group was awarded the Responsible Supplier Relations label in December 2014. This label, awarded by the Mediation Service for a three-year period, recognises organisations that have implemented responsible purchasing practices, thereby making a significant contribution to strengthening the industrial sectors. In 2017, the requirements of the label and the recommendations of “Responsible Purchasing” standard ISO 20400 were seen to converge. Also in 2017, Naval Group showed its willingness to help implement this approach. Therefore, the group again applied to renew this label, now known as the “Responsible Supplier and Purchasing Relations” label. In December 2017, Naval Group was awarded this label by the Awards Committee, led by the Mediation Service. This distinction rewards Naval Group for the action it has taken over many years to establish responsible relations with its suppliers. This

label was maintained in December 2018 following the monitoring audit, confirming the implementation of identified improvement actions in 2018, such as the continued professionalisation of purchasing actors, the continuation of actions contributing to the development of balanced and lasting relations with suppliers, and the integration of CSR requirements in the purchasing process.

*Supplier Code of Conduct Committee*

Since 2013, this multi-directional Committee has been tasked with managing the CSR performance of the suppliers and with preventing any associated risks all along the supply chain. The regulatory requirements on economic transparency and duty of care supplement the steps already taken by Naval Group since 2014 in particular as part of the "Responsible Supplier Relations" label of the Intercompany Mediation panel and the international SME development plan.

It is the responsibility of this committee to ensure that the group embraces the supplier mediation process and follows the guidelines of ISO 20400, the sustainable procurement international standard.

This committee meets periodically and includes the mediator for suppliers as well as purchasing representatives and the group ethics and compliance department.

**d. Sharing insights and listening to suppliers**

*Feedback*

An annual assessment is carried out at least for each strategic and major supplier. It addresses five criteria: technical and quality; lead times; costs; H&SW, environment and CSR; management relations and progress plans. It also includes the reasons for the assessment and the corresponding areas for improvement. This assessment is communicated to and discussed with the supplier, and may lead to the implementation of development plans in the event of a rating deemed insufficient.

*Listening to suppliers*

Several listening systems are used by Naval Group:

- supplier satisfaction survey conducted by an external service provider (see below);
- annual national convention: 250 major suppliers, points of contact for the Supplier Departments. During this convention, a review of the supplier satisfaction survey is established, and various suppliers are given the opportunity to express their views on their relationship with Naval Group, both in terms of positive points and areas for improvement;
- local agreements with varying frequency depending on the site. the contacts are the suppliers' local management teams;

- steering committees with the panel's strategic and major suppliers: held at least annually. Contacts on the supplier side are the business contact points or the strategic supplier management representatives, and, on the Naval Group side, all the internal stakeholders with the participation of an operational director;
- Special events such as Techdays, meeting days with innovative companies dedicated to innovation, or Quality days.

**Supplier satisfaction survey**

In addition to holding steering committees with its strategic and major suppliers, Naval Group organises an annual survey of all suppliers on the panel. This supplier satisfaction survey was reiterated in 2019 in consultation with the Pacte PME association (SME Pact). The results of this survey were incorporated and included in the report published by Pacte PME. The survey, which contains around forty questions covering all areas of the relationship (innovation, contractual relations, partnership relations and progress drivers), is conducted by an independent body based on a process that guarantees confidentiality of individual responses. A total of 853 suppliers were contacted; 50% of them responded, which corresponds to a very satisfactory response rate for this type of survey.

The results of the 2019 survey again show progress compared to the results obtained in the 2017 survey: +2% increase in the satisfaction index. This index served to demonstrate a very significant improvement compared to previous surveys. The 2019 edition confirmed satisfactory results and progress on numerous criteria, which bears out the relevance of the actions carried out over several years:

Openness to mediation in case of major difficulty	83% satisfied	increase of +2 points vs. 2017
Payment terms	83% satisfied	increase of +4 points vs. 2017
Naval Group support for the implementation of social-environmental-ethical requirements	84% satisfied	increase of +4 points vs. 2017

Identified lines of progress were followed up by action plans. The results of this survey were also presented in June 2019 at the annual supplier's convention, to which all the group's major and strategic suppliers were invited. This supplier survey will be repeated in 2020.

## 2. Progress Plan

The Progress Plan is reaching the end of its first full cycle.

Initially engaged in 2015 following reports of time and cost performance overruns with an impact on staff motivation, the Progress Plan prompted the company's transformation actions.

This is mainly reflected in financial results that exceed expectations and projections made five years ago, with EBITA approaching 8%, revenues of €3.7 billion and an order intake level of around €5 billion at the end of 2019.

These actions revolve around four major themes: simplification, standardisation, innovation and anchoring, and are based on four levers: implementation of methods, tools, indicators, and putting people at the centre of the transformation process. These actions were launched via a frontal approach at all levels of the company: the group, the departments, the sites, the teams on the sites.

The logic of standardisation, innovation and simplification takes precedence in our activities, which require governance through clear and non-interpretable business processes. This logic is illustrated below.

The Project Management Office was created in mid-2016. It laid the foundations for project/program management with a business management and configuration management process whose implementation quality is controlled via a CMMI approach, including the standard WBS, standard OBS, and systematic gates throughout the processes; in addition, a risk and opportunity management tool has been deployed, IPMA certification of the project managers is in progress, and the deployment of an integrated schedule has been launched.

## FOCUS

The objective of implementing the CMMI level 2 approach is to strengthen the group's ability to design and produce solutions in a way that is consistent with rapid delivery, cost control, adaptation to changes, customer satisfaction and uncompromising quality.

The CMMI approach is used to assess the Group's maturity in terms of program management compared to international best practices, modelled by level 2, and to identify those practices that lead to higher performance levels.

Designed to meet business development challenges, the CMMI model helps organisations improve performance and rigour by strengthening and comparing the key capabilities required to drive programs.

Thus, after a maturity ramp-up phase in various entities and programs, Naval Group is committed to generalising the process to all new construction sites and programs.

Other reflections of standardisation and new trade approaches:

- for the past four years, the SPID tool has been used to assess industrial maturity in the spheres of management / design / production engineering / production / purchasing / supply chain / human resources / quality, demonstrating the acquisition of increasingly mature industrial reflexes by all the sites;
- the choice of a single logistics service provider for the group and the alignment of good practices for continuous improvement, in particular in terms of H&SWE with a warehouse risk prevention plan;
- the use of tools to comply with rules, and semantics that are shared groupwide:
  - in the BMS group process repository with the structuring of a single group glossary, accurate definitions, and a clear allocation of the roles and the responsibilities associated with each activity;
  - in the tool for structuring standard references associated with a product line's reference bids, initially deployed for the Gowind® 2500 corvette;
  - in the new PLM tool, the new CAPM/CMMS system (industrial flow and item repository), the new global configuration management tool, whose developments follow an incremental logic;

- a catalogue of mandatory items, created and managed under the responsibility of the Group Items department, used to select a limited number of items necessary for the design, production and maintenance of ships, and to lock the technologies on the products;
- the setup of subcontracting offices to better assess the use of these operations in terms of capacity and reduce their cost;
- a better understanding of Naval Group's economic and financial operation thanks to the "Taking control of our economic sovereignty" training course and the application of IFRS15 to all our programs.

The level of anchoring presently achieved stems from these efforts undertaken by the entire company.

It also ties in with the creation and organisation of teams dedicated to planning management, supply chain management and item repository management activities, and of objectives to which the Progress Plan has responded favourably in terms of reducing program dry cost overruns - from €443m at the end of 2014 to €131m at the end of 2018 - in addition to the launch of Belt/Lean actions, implemented by the sites, and work on updating the documents used from the design phases through to procurement, with a significant impact on the number of non-conformities identified during product acceptance.

It is also directly reflected by:

- the structuring and implementation of tooling solutions for the Sales and Operations Plan, the Studies Master Plan and the Master Production Schedule;
- strengthening the skills of procurement leaders, export control employees, purchasers, planners, program package managers, all managers, system engineers, quality specialists, etc. by implementing a secure training plan for the Progress Plan;
- trade training and awareness-raising sessions on "Getting it right the first time" and "Clearly specifying" aspects;
- the Forward engagement program for all Naval Group employees and "positive management" training;
- the increased contribution of the supply chain to the programs, as soon as the bids are prepared;
- the deployment of key tooling solutions such as OPTI, FIRA, Global Configuration Management, ARM and CDV;

- the deployment of solutions dedicated to real-time compliance traceability, whether for new constructions or through-life support operations;
- preventive inspections and preventive "quality walls" for quality accidents, as well as the use of a complete quality tool box, both of which have led to a significantly higher DGA Quality Department satisfaction level;
- the launch of a joint operation by the finance, programs, purchasing and supply chain departments for reinforced stock management on deliveries of high-value equipment, aimed at improving the company's cash flow.

In addition, certain progress actions demonstrate that, when undertaken in the form of a Lean project on the sites, they become key objectives for the company in terms of reducing production lead times and, accordingly, costs.

They have resulted in the following:

- the strengthening of the culture and the management of deadlines/quality/costs/safety at all levels of the company;
- as with the Indret site, the application of the critical chain method on the components of the nuclear reactor, as well as the Make or Buy analysis for pipes, leading to the re-internalisation of production by the creation of the group pipe factory;
- the building of an innovative partnership approach with strategic suppliers to reduce purchasing costs;
- the identification and implementation of actions to reduce ship and equipment manufacturing lead times and improve responsiveness in handling customer requests;
- as with the Lorient and Cherbourg sites, the implementation of actions for "pre-outfitting rings" and the C20F30S60 plan to reduce vessel production engineering and production times;
- as with the Toulon site, the provision of the Navygate spare parts catalogue to all Integrated Logistics support customers.

The Progress Plan is now naturally reflected in the day-to-day work of the teams, sites and subsidiaries, with matters that go beyond the divisions and specificities.

### 3. Resolution of claims

Each customer requirement is noted in a contract. Accordingly, Naval Group must concurrently comply with technical and non-technical requirements, management and quality assurance requirements in the programs, duly noted in the contract, as well as legal and regulatory requirements.

Since compliance means fulfilling a requirement, any deviation from a requirement by Naval Group, whether on the product itself or on the services or deliverables related to the product, initiates the non-conformity handling process. This process is written in the Naval Group repository.

This process describes the provisions for dealing with non-conformities, the rules for processing waiver requests, the processing, the monitoring of compliance and the operations.

Each non-conformity must be reported in the group non-conformity monitoring tool and is followed by an action plan.

The non-conformity life cycle starts with the reporting of the non-conformity, and continues with the analysis, decision, quality verification, execution according to the decision, verification, and finally closure. This is done after checking that the correction of the non-conformity is consistent with the decision.

For the specific case of non-conformities detected by the Customer, these trigger an 8D or QRQC analysis and therefore additional action sheets to deal with the root causes of the problem and to avoid recurrence.

### 4. Customer satisfaction

Naval Group is a European leader in naval defence, whose strategy is based on two pillars: ensuring the technological superiority of the French Navy, and increasing its international presence to develop the group and improve its competitiveness. To this end, it must swiftly respond to the needs of its customers and demonstrate its capacity to innovate throughout its core business, namely the design, construction and through-life support of submarines and surface ships, as well as services for shipyards and naval bases.

“Customer focus” sessions have been carried out since 2005 with the French Navy and, since 2012, with the French Defence Procurement Agency (Direction Générale de l’Armement - DGA), the Fleet Support Service (Service de Soutien de la Flotte - SSF) and the Defence Infrastructure Service (Service des Infrastructures de Défense - SID). These two-year “focus” sessions are intended to better identify and understand customer expectations, assess the perception

of the quality of our products and services, and strengthen the quality of customer relations.

In 2018, Naval Group continued to listen to French customers, with a panel of 120 people, in order to measure and analyse changes in "customer confidence" compared to the 2016 customer focus program. Customer focus in 2018 was performed by an independent consulting firm, using the same method as in 2016, on a scope that embraced four important themes: program execution, preparing the future, customer relations and the group's image.

Overall, the results of the 2018 session are positive and show an increase in customer confidence compared with the 2016 focus program, with positive dynamics recognised in particular for:

- program execution: Naval Group is still recognised for its expertise and capacity to manage complex programs. The desire to move forward and the ability to mobilise are highlighted;
- preparing the future: the ability to be a proactive force and consider feedback is valued by the France Customer. The annual Naval Innovation Days event in 2017, dedicated to digitalisation, was greatly appreciated;
- customer relations: on the rise thanks to the creation, several years ago, of a Key Account Manager-based organisation, dedicated to customer relations management, across the group's different departments and activities;
- overall image, considered to be modern and partly highlighted in the group's command of new technologies - digital, drones, Cyber Security, predictive maintenance, etc. - and the change to a more international name.

Areas for progress have been identified in which Naval Group has undertaken to advance, thanks to the continuation of actions launched in 2016 and the development of the Strategic Plan updated this year. The results of the customer focus were presented in April 2019 by the members of the Executive Committee to France's Naval Headquarters and the Armed Forces, during the Marine Days, and to the DGA, at a specific presentation.

Moreover, the focus process was extended to international customers for the first time in 2019. Still based on the same method, this customer focus approach has allowed the group to measure the level of trust of stakeholders and users, i.e. the French Navy, chiefs of staff, armed forces, industrial partners or political institutions in ten countries where the group operates. International customers mostly spoke about: execution quality, transfer of technology and skills, quality of the relationship, and the ability to provide support and adapt to the specific needs and operating modes of the country.

Ultimately, Naval Group has successfully established and maintained a high-quality relationship with its international customers. It will pursue this development by stepping up its local presence in order to be able to respond rapidly to routine support requests and, alongside major calls for tender, demonstrate greater agility in its upgrade and modernisation proposals throughout the life cycle of the vessels sold. To improve the level of trust, all employees concerned by the countries covered by this Focus have already been mobilised.

## 5. Clubs

A user club is an organisation that periodically brings together users of the group's products, whether they be sailors or operators, with the main challenge of retaining them as customers.

This challenge is reflected in two major objectives of these clubs: developing mutual trust, and collective pride.

With regard to pride, the club and its receptive setting, complemented by exceptional visits, is in itself a unifying and targeted recognition mechanism around a common culture and products with strong symbolic power.

In terms of trust, the resources implemented within the club are primarily based on two main activities:

- sequences of shared experiences and feedback relating to the operation of products - construction, operation, maintenance - with the aim of increasing the perceived value of the product;
- sequences of exchanges on future operational and capacity requirements, as well as on shared work and experiments making it possible to imagine future technologies and solutions likely to meet them. These sequences serve to translate customer focus into cooperative acts and to anchor the collective in the long term, i.e. two factors instrumental to building a relationship of trust.



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There are currently two user clubs: The Scorpène® club which brings together customers operating Scorpène® vessels, and the 7Seas club which consists of members operating warships.

These clubs hold plenary meetings every two years and meet in thematic working groups once or twice a year. The coordination of these groups is currently being set up.

The Scorpène® club held its second plenary session in Chile in April 2019 and the 7Seas club its first plenary session in October 2019.

## 6. Quality management

Naval Group's Quality, Safety and Environment (QSE) policy is based on the group's business management system, the BMS, which complies with the ISO 9001, ISO 14001, OHSAS 18001 and AQAP2110 standards that the group has chosen in the QSE fields.

Certified ISO9001, the Group follows the QSE policy which is signed by the CEO and updated annually. Each year, this policy sets out the main commitment areas.

In 2019, for quality: customer satisfaction, involvement and leadership of management, improvement of know-how to "get it right the first time", strengthening the quality of our products and in particular that of the purchased portion, deployment of the BMS internationally, and effectiveness of whistleblowing systems. The latter constitutes the Naval Group repository. It defines the application rules and methods required to address the Group's strategic and political objectives. A portal provides access to the description of all Naval Group processes, sub-processes and activities and the associated documents.

The BMS integrates these commitments operationally into the Group's processes and procedures; in particular, it defines the fields of application of the procedures, the operating rules over the entire product life cycle, and the certifications covering the sites and subsidiaries.

## VII. COMMUNITIES AND LOCAL DEVELOPMENT

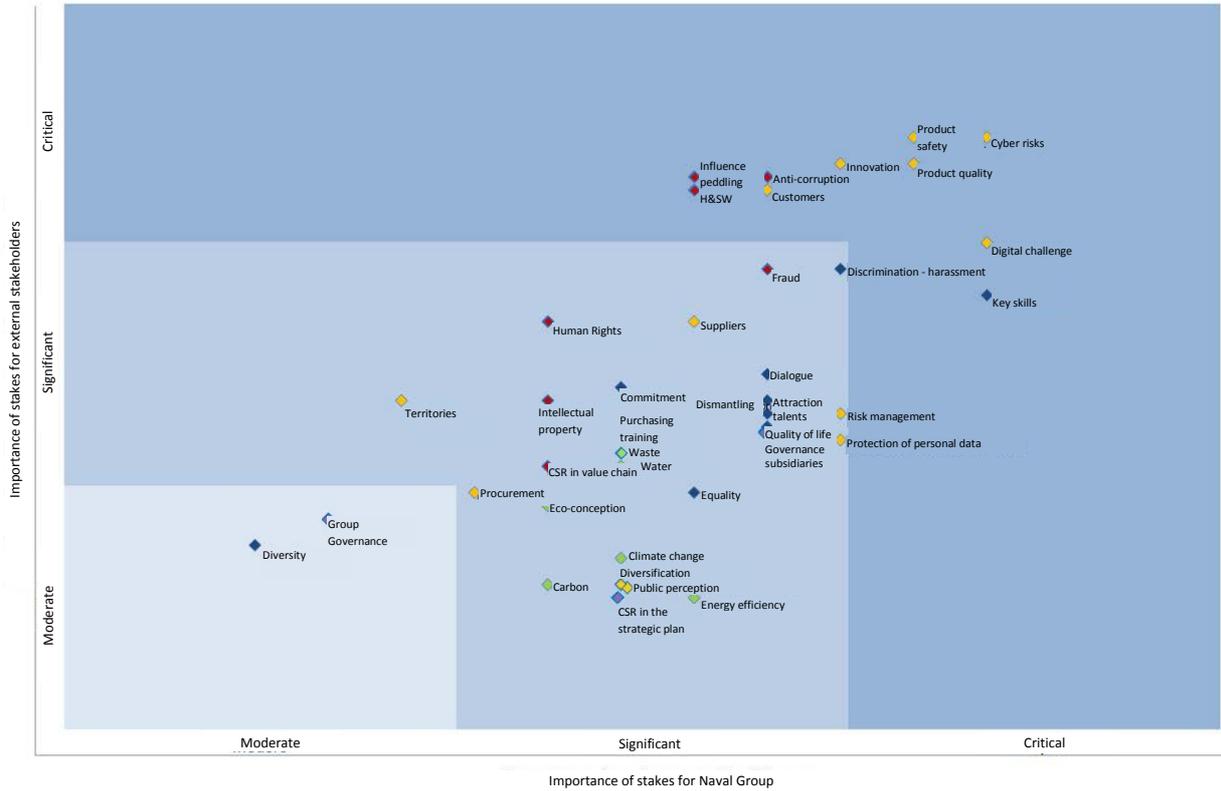
	<p><b>FOCUS SDG 9</b></p> <p>“Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation”</p>
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### 1. Integrating our stakeholders

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

- to be one of the best enterprises in its business sectors in terms of compliance;
- to ensure that stakeholders adhere to its values;
- to make its day-to-day commitment to corporate social responsibility more effective and more discernible.

Naval Group therefore maintains relations with all its stakeholders and integrates their concerns in its priorities. Initiated at a very early stage on the sites, this exercise has been carried out for Naval Group SA since 2018. It serves to summarise CSR-related issues within a materiality matrix, i.e. a veritable mapping of the most important issues for the group.



**Materiality matrix**

This matrix is used to prioritise the most important issues with regard to the group's activities and their impacts and to foster strategic thinking for contributing to sustainable development goals.

**2. Innovation, a development challenge**

After a long downward trend, defence budgets have recently been adjusted upwards to maintain France's strategic independence and respond to the new geopolitical challenges arising from tensions all over the world. In Europe, new initiatives emerged with, in 2017, the creation of the European Defence Fund and the mobilisation of new Community defence credits, mainly allocated to research and development.

In this context, and for several years now, Naval Group has been investing part of its revenue in innovation to respond to the needs of the French Navy and to its foreign navy customers and partners.

The naval market is growing rapidly with the entry of new competitors from China, Korea, Turkey and other places. Faced with these new entrants, Naval Group must meet the technological and environmental challenges to fulfil its ambition. The Group is also operating in a fast-changing industrial landscape in

which environmental issues must now be taken into account, and the French Ministry of the Armed Forces itself has taken this factor into account since 2019.

Innovation is hardwired into the group's DNA, backed by 400 years of naval history. New fields of innovation have emerged, including artificial intelligence and big data, materials and processes, etc.

### a. Open Innovation

In less than 10 years, the group's environment has changed radically and rapidly, driven in particular by multiple innovation developments.

The group's innovation strategy has two major objectives: accelerating innovation and triggering disruptions.

Attaining these two objectives is contingent on four pillars: culture and skills, user centricity, forward planning, and open innovation. The implementation of this strategy is guided by three principles: experimentation, human capital and speed.

Accelerating innovation is a crucial challenge in order to respond to the operational needs of customer navies and always staying one step ahead of the competition and threats.

The success of this strategy hinges on the development of a number of new means and tools needed to achieve the objectives set.

For this purpose, events were set up by the *open innovation* in 2019, such as *Start We Up*, *Naval Innovation Partners*, or *Naval Innovation Supplier*. Their aim is to shake up the top-down vision of innovation and replace it with a collaborative approach.

These spaces for meeting with innovative companies, regional incubators, clusters and Naval Group employees make it possible to create synergies and stimulate the creativity and innovative spirit of all concerned by identifying solutions for future projects destined for short-term incubation using Proof Of Concept (POC) formats.

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Naval Group currently has 13 POCs in the wake of these events. The purpose of a POC is to:

- validate a concept: if the project aims to develop a solution for which users are still struggling to express their need, the POC makes it possible to compare them with an initial model;
- validate the technical feasibility: if the project implements a new expertise, still unknown to the company, it serves to understand the degree of technical complexity.

Human capital remains at the centre of the open innovation approach. To be sure, a company's capacity for innovation depends on the existence of an innovation process, but above all, it is its human capital that will really influence the emergence of innovation. This capital is built through new meetings organised via internal and external events.

Developing on an international scale is a major challenge in the naval sector. To achieve this, the group is forging a network within the world's largest innovation hub. Inaugurated on 21 November 2019 in Singapore, the *Centre of Excellence* (CoE) contributes to this effort by bringing together Asia's most talented researchers and engineers.

### b. Subsidisation

In 2019, the Innovation and technical control department had already strengthened its commercial activity and business development both with French stakeholders (regions, DGA, etc.) and with European civilian stakeholders and the Europe of defence, with the aim of increasing R&D funding.

With stakeholders:

- signing of an agreement with France's Nouvelle Aquitaine region. Other agreements are currently being drafted, in particular with the Brittany region. These agreements have two components: research and development, and training;
- there are also many collaborative projects within technology research institutes (Instituts de Recherche Technologique - IRT).

At the level of subsidised R&D, the activity was also significantly strengthened by the preparation of several offers in line with the Group's strategic acquisition

plan, and the obtaining of contracts with direct or indirect benefits on the Group's products, in particular the AGESCIC, ICARE (RAPID), SRA and STARCOM projects. The activity has developed in particular towards Europe, in the context of both civilian (H2020) and military programs, in anticipation of preparatory defence programs while waiting for the European Defence Fund.

Lastly, the management of France's research tax credit (crédit impôt recherche - CIR) was enhanced in 2019 and has thus significantly improved compared to 2018.

Associating with external partners to create innovative products or services using complementary expertise is the very definition of open innovation.

The benefits of this "free trade" are numerous: lower costs, improved relevance, time to market, reduced risk. Pooling resources between partners becomes an essential practice for staying on track in the innovation race.

### c. Innovation partnerships

Scientific partnerships are an essential research performance lever to maintain Naval Group at a high level of technological innovation. To meet this challenge and sustainably consolidate collaboration with the scientific world, Naval Research implemented efforts in 2019 to network its local and international partners in a skills ecosystem approach. This global approach aims to act on more structural parameters to create ambitious, open and multidisciplinary scientific cooperations leading to partnership agreements, joint laboratories or academic and industrial chairs, i.e. sources of long-term value creation with public research and the academic world: schools, universities and research institutes.

#### a) *Joint Laboratories*

- JLMT laboratory, created in 2016 with the Ecole Centrale de Nantes, for research in additive manufacturing, naval hydrodynamics, multi-physical numerical simulation;
- Gustave Zédé laboratory, created in 2015 and renewed on 30 December 2019 with the ENSTA Bretagne engineering school, for research on fatigue resistance, modelling and mechanical testing;
- LTISM laboratory, created in 2017 with the University of Toulon, for research work in submarine data processing;
- LC2IA laboratory, created in 2017 with the ENSTA Paris engineering school for research in artificial intelligence;
- SENI laboratory, created in 2019 with the ENSTA Bretagne engineering school for research into intelligent embedded systems;

- joint laboratory, signed with INRIA for research into artificial intelligence and cyber security on 9 December 2019.

*Academic Chairs*

- ISC Chair, in the field of research on complex system engineering. It involves the Ecole Polytechnique, ENSTA Paris & Télécom Paris at the academic level and Dassault Aviation, Naval Group, the DGA and Thales at industrial and state level;
- RESOH chair, in the field of human safety organisation research, involving Orano, Naval Group, IRSN and Andra;
- Cyberdefence chair, which comprises the École Navale, Naval Group, THALES, IMT Atlantique and ENSTA Bretagne;
- Cyberstrategy CASTEX chair, in support of the IHEDN endowment fund.

*Collaboration agreements between engineering schools and universities*

Collaborative agreements with privileged partners concerning actions related to teaching, the professional integration of students and research work in common scientific and technical fields.

- Ensta Bretagne framework agreement;
- Ensta Paris framework agreement;
- Ecole Navale framework agreement;
- University of South Brittany framework agreement.

*Research Institute Cooperation Agreement*

**FOCUS: the Naval Group scientific council**

Comprised of thirteen key scientific figures of five different nationalities, the mission of this advisory body is to provide opinions on Naval Group's scientific policy and technical strategy. The purpose is to help the Group think "outside the box" and push its innovative capacity towards breakthroughs that will "make the difference".

The members are not – and are not supposed to be – scientific experts in the group's specialities, however the group expects their expertise and experience to help it identify potential breakthroughs and disruptive technologies to develop and acquire the corresponding content, i.e. the method. While they are all experts recognised in their field, whether in history, aeronautics, sociology, renewable energies, innovation, economics, philosophy, etc., and, for the most part, members of other scientific councils, few of them are specialists in the group's activities. Naval Group is precisely interested in this knowledge, which is open to other backgrounds.

The opinions of the Council, which meets twice a year, are addressed to the Group's general management.



**Meeting of the Scientific Council**

**3. The development of local communities**

Through the integration of its stakeholders, the development of Group purchasing or the intensification of partnerships, Naval Group helps to develop local communities and employment areas surrounding its sites in France and abroad, while helping to maintain skills and create jobs.

Within the Grand Angoulême community of municipalities, for example, the site has joined the Board of Directors of Technopole Eurekatech, responsible for developing the region's economic fabric; in particular, it enables all types of companies in the region to come together for collaborative projects. Through

"start we up" style events, the site mainly promotes an artificial intelligence project with a view to reducing the cognitive burden of operators.

**Contribution of Naval Group's purchases to socio-economic impact**

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

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

**FOCUS: DIRECT AND INDIRECT EMPLOYMENT**

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

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

Furthermore, the innovation effort carried out by Naval Group contributes to the competitiveness of the economic fabric. This effort is materialised through several million Euros of self-funded R&D, PhD students working for the group under *Conventions industrielles de formation par la recherche* (CIFRE - industrial

agreements on training through research), and its participation in several competitiveness clusters (the *Pôle Mer Bretagne Atlantique* (Brittany Atlantic Sea Cluster), the *Pôle Mer Méditerranée*, (Mediterranean Sea Cluster), and the *Jules Verne Institut de Recherche Technologique* (IRT -Technological Research Institute) at the Ocean Technocampus.

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

Internally, the procurement function has been decentralised to ensure the proximity of suppliers and local SMEs, in particular around production sites. The purchasing organisation includes a large number of Lead Buyers, with the objective of strengthening the group's capacity to manage relations with its major suppliers. Regular meetings are organised between local manufacturers involved in the shipbuilding industry.

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

#### **d. Investments**

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

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

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

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

- the negotiation of clear, balanced and reasonable contract terms and conditions;
- compliance with contractual obligations by both Naval Group and all the parties concerned;
- the formal handling of any event that may lead to deviations in relation to contract provisions, schedules and initial budgets (and compensation for any damage that might be linked to them);
- the resolution, upstream and as far as possible, of any dispute that may potentially evolve into a disagreement or a dispute (commercial relationship).

The framework put in place was recognised and rewarded by several awards, given by the Legal and Contract Management departments of major groups, in 2018. Naval Group then delivered training on this basis, in 2018 and 2019, through four training modules representing a total of nine days of training, the group's entire community of Contract Managers, i.e. around one hundred people spread over 10 sites, in France and abroad.

In 2019, the Contract Management Department began to communicate with the other players in the company: project, program and purchasing teams. It is working to change the company culture in order to incorporate Contract Management into its DNA. To this end, it implements numerous resources: communication and training actions, awareness-raising materials, instructions, tools, events, operational support and expertise, etc. This approach should make it possible to draw up and perform contracts as transparently, sincerely and loyally as possible and thus limit any risks, losses, delays and additional costs that may impact not only the company, but also its customers, partners, suppliers and subcontractors. It therefore plays a significant role in the corporate social responsibility effort and in achieving better performance and better results, while at the same time protecting the essential interests of Naval Group as well as those of its customers, partners, suppliers and subcontractors.

## 4. Patronage, education and partnerships

Naval Group's commitment to civil society is considerable and meets the expectations of its civil and military stakeholders.

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

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

This approach is structured around three areas: the armed forces-nation bond, the social and solidarity work of the French Navy, and the enhancement and promotion of know-how and heritage in terms of shipbuilding.

### a. Armed Forces-Nation bond

#### *a) Armed Forces-Youth Commission*

Naval Group is a member of the Armed Forces Youth Commission, a think tank and action organisation working with the Minister of the Armed Forces.

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

#### *The Federation of Defence Clubs*

Naval Group is a partner of the Federation of Defence Clubs (Fédération des clubs de la Défense - FCD). It is recognised for its activities that benefit of sport and culture within the Defence community. Today, nearly 190,000 members, from military and non-military backgrounds, share their enthusiasm in the federation's 430 clubs. As a key player in the implementation of the Ministry of Defence's social policy, the Federation of Defence clubs is also a prime contact for the sporting policy of the armed forces.

The aim of this partnership is to help the "Cadets de la Défense du Var", for example, carry out activities that allow as many young citizens as possible to find their place in society.

## FOCUS: THE RESERVE

Because Naval Group is a partner in the sovereignty of states, the commitment of its reserve employees in the armed forces for the benefit of national security is encouraged and supported. In France, on 28 June 2019, Naval Group signed a support agreement with the National Guard for the operational reserve. Created in October 2016 following the terrible attacks of 2015 and 2016 in Paris and Nice, the National Guard aims to bring together 85,000 volunteers, i.e. 40,000 army reservists and the associated units under the Ministry of the Armed Forces, and 45,000 reservists under the Ministry of the Interior.

Naval Group reservists thus see their spirit of solidarity as well as their military qualities of resilience and management promoted inside the group:

- 10 days of absence to carry out their military activities are fully paid by the group;
- a simple prior notification to the employer is sufficient for periods of 1 to 8 days of absence. From 9 to 10 days, prior authorisation is required. These notification or authorisation times are shortened.

In addition, Naval Group grants reservist employees the insertion of a reactivity clause in their reserve contracts which allows the armed forces to draft them with only 15 days notice.



To coordinate the support agreement, a reserve expert has been appointed to provide continuous internal information and ensure a constant relationship with the National Guard.

Naval Group is thus recognised by the French authorities as a “national defence partner”.

Drawing on its citizen reserve, the French Navy has also set up “Alidade” groups to enrich discussions, provide expertise and draw up proposals for the problems it encounters.

One of these think tanks focuses, for example, on the subject of “Navy and sustainable development” for which a first report was submitted to the Chief of Staff of the French Navy in June 2016. Work is currently continuing on nuclear propulsion and bio-fuels.

At the request of the chairman of this group, a delegation from Naval Group was heard, in April 2019, on these subjects in order to contribute to the discussions currently in progress. For Naval Group, the aim was to present its CSR approach, in relation to the sustainable development goals (SDG) and the 2030 agenda, as well as the status of its reflections on the compatibility between nuclear propulsion and sustainable development, renewable energies and the eco-design aspects.

## **b. Social and outreach initiatives by the French Navy**

### **a) Association for the development of charitable initiatives by the Navy, ADOSM**

Naval Group is very receptive to the events organised to help the families of sailors who have been injured or killed, and has therefore been supporting for many years now the various actions carried out by the *Association pour le développement des œuvres sociales de la Marine* (ADOSM) which supports the families of civilian and military personnel who serve in the Navy in times of serious difficulties.

#### **PMS-EM Gala**

Created in 2001, the PMS-EM – Chief of Staff senior military preparation – trains the future reserve officers of the French Navy. PMS organises a gala to raise funds to support the charities that work with the French Navy. The funds raised by the gala were donated to the *Association pour le développement des œuvres sociales de la Marine*, to the *Association des Ailes Brisées*, which works for injured airborne aviators and their families, and the SNSM, the *Société nationale de sauvetage en mer* (National Society for Sea Rescue) to highlight the crew spirit championed by the French Navy.

#### **Concord Cup**

Naval Group decided to partner with Phratrria, the association that organises the Concord Cup, a Franco-British canoe race organised to raise funds for the *Association pour le développement des œuvres sociales de la Marine* and its British equivalent, the RNRMC, the Royal Navy and Royal Marines Charity. Keen supporters of the cause of the families of injured or missing sailors represented by these charities, both Naval Group and Phratrria wanted to team up to promote this cause.

## **c. Enhancing the know-how and heritage of shipbuilding industry.**

### **a) National Navy Museum**

Naval Group is a partner of the National Naval Museum and of all its sites throughout France. It supports them in scientific and cultural programs such as the enrichment and restoration of collections, the creation of temporary exhibitions, publications of exhibition catalogues and reference works, action in favour of accessibility and museum and architectural renovation.

The ambition of the National Navy Museum is to become the leading address in Paris where sea lovers and sailors can meet. A powerful tool for raising public awareness to shed light on the maritime, civilian and military issues of our planet, but also a showcase for technical and scientific innovation over the centuries.

Naval Group has therefore joined forces with the National Navy Museum because the Group is historically inseparable from the French maritime heritage through its history, its "shipyards", the ships, the industrial tools and the know-how developed to build them.

*The Hermione La Fayette association*

Naval Group has undertaken to support the program of the Hermione association to promote military shipbuilding and promote the values of commitment, passion, transmission, unique know-how and interpersonal skills.

This partnership allowed Naval Group employees to conduct reconnaissance actions (blue worker specialists, technical specialists, particularly invested trainers, tutors, etc.) and discover the frigate and experience the Hermione adventure on board.

Through this strong link created with the Hermione association, Naval Group developed the notions of cohesion, synergies and solidarity between people, essential for designing, building and maintaining ships.

Through this partnership, Naval Group and the Hermione La Fayette association have been able to promote their shared values of passion for the sea, the excellence of French maritime know-how and its transmission to the younger generations.

**d. Partnerships**

The Naval Group ecosystem is a sustainable growth factor in an increasingly competitive environment. In terms of partnerships, the group has selected a number of partners essential to its development.



Naval Group is thus a member of the Board of Directors of the Universcience Partenaires association, a think tank comprised of companies, public research institutions, and science centres and museums, driven by the desire to promote and disseminate scientific, technological and industrial culture, particularly to younger generations. It works in concert with Universcience, which comprises the *Palais de la découverte* and the *Cité des Sciences et de l'Industrie* in Paris. Naval Group recently participated, together with Ifremer, in the creation of

"*Sous l'océan*" (Under the Ocean), a permanent 400 sq. m. exhibition on the seabed, at the *Cité des Sciences et de l'Industrie* next to the Argonaute submarine in Paris.

Naval Group is also a member of the Board of Directors of the French National Association for Research and Technology (*Association nationale pour la recherche et la technologie* - ANRT). This association has a mandate from the French State to manage and subsidise doctoral students under the industrial research-based training agreement: some thirty are in progress at Naval Group. ANRT is the French research inter-sector public-private network. It offers its members good conditions for dialogue and debates at seminars, conferences or through working groups. It carries their opinions and views to the French and European public authorities. In 2019, for example, it contributed to the preparation of the future law on the multiannual programming of research. Thanks to its members, each year, ANRT publishes an indicator on the cost of researchers in France and worldwide.

Other types of partnerships exist between Naval Group and structures that are less focused on research. For instance, a partnership was signed between Naval Group and the Ultim Brest Atlantique 2019 trimarans race. This illustrates the synergies between the cutting-edge technologies of Defence and the sails used in competitions, as these trimarans are genuine ocean going Formula 1 vessels. Similarly, in October 2019, Naval Group was interviewed by the *Fondation de la Mer* and the Boston Consulting Group to participate in discussions on the creation of indicators related to Sustainable Development Goal 14.

Relations with the Nouvelle Aquitaine region have also grown in several areas. In terms of education, meetings are organised at least every six months - in situ, after work, etc. - with schools and universities in the region to develop the attractiveness of the company as well as R&D activities by including several doctoral students; more locally, a partnership agreement has also been signed with the Angoulême Technical Institute.

With respect to concerted regional economic development and acceleration of innovation, particularly for the Plant of the Future and additive manufacturing, the partnership with the Region, prepared in 2018, was signed on 6 September 2019 at the Innov'Factory: this new building is an innovation hub open to all interested parties, as well as a real transformation tool, equipped with modular functions (incubation spaces, Lab, virtual reality rooms, etc.). Without including meeting areas, Innov'Factory can accommodate 280 people from all backgrounds: trainees, subcontractors, local or international partners.



Inauguration of the Naval Industries Campus

## VIII. CONCLUSION

2019 confirmed Naval Group's positioning and strategy, as shown in the financial report, with solid financial results and exceeded objectives compared to those set at the start of the year.

This performance was achieved thanks to the mobilisation of the group's employees, the vitality of the commercial action and the focus on technological innovation, with a view to developing the CSR strategy.

## IX. GRI TABLE

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

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

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

The concept of corporate social responsibility is communicated throughout the group, but also upstream and downstream of its scope, to its customers, suppliers and direct stakeholders.

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

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

The non-financial performance statement (DPEF), in Naval Group's financial report and CSR report, can be viewed on the Naval Group website and is available on the UN Global Compact website.

#### a. Scope

##### *a) Scope of Governance*

The reporting scope concerning the governance of subsidiaries and joint ventures, addressed under "governance" of the CSR report (link to the Fériel section) mainly consists of companies consolidated by Naval Group.

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

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

*Environmental and health and safety at work scope*

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

*Social scope*

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

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

Employees are presented for the UES and for the group based on registered employees.

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

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

**b. Indicators**

*a) Environmental indicators*

The following indicators concern all French sites.

✓	Power	<ul style="list-style-type: none"> <li>• Electricity consumption</li> <li>• Fossil energy consumption: gas, light fuel oil, heavy fuel oil, RNG</li> </ul>
	Water	<ul style="list-style-type: none"> <li>• Consumption of drinking water and river water</li> </ul>
✓ ✓	Waste	<ul style="list-style-type: none"> <li>• Production of non-hazardous waste (NHW)</li> <li>• Production of hazardous waste (HW)</li> <li>• Production of metal waste (ferrous and non-ferrous metals)</li> </ul>
✓		<ul style="list-style-type: none"> <li>• Direct CO<sub>2</sub> emissions linked to fossil energy consumption</li> </ul>

*Social indicators*

<b>EMPLOYEES</b>	
✓	Total number of registered employees
✓	Total registered employees by socio-professional category
✓	Total registered employees by age bracket
✓	Percentage of women amongst total employees
	Number of expatriates
	Number of employees with non-French nationality
	Percentage of women in executive management
	Average age
✓	Recruitments men, women, total
✓	Entries on permanent contracts Number of fixed-term contracts that received a permanent contract
✓	Departures
✓	<i>Turnover</i>
<b>ABSENTEEISM RATE (%) Naval Group UES</b>	
<b>DISABLED WORKERS</b>	
	Number of disabled workers (TH) Naval Group economic and social unit (UES)
	Percentage of employees with disabilities (%) Naval Group economic and social unit (UES)
	Recruitment of disabled workers on permanent contracts with Naval Group economic and social unit (UES)
<b>TRAINING</b>	
✓	Number of Naval Group UES training hours
✓	Average number of training hours per person Naval Group UES
	Percentage of payroll related to continuous professional training Naval Group UES
	Average monthly remuneration (in Euros) Naval Group UES
<b>Hygiene Safety and Working Environment</b>	
✓	Frequency rate of workplace accidents

	FR = Number of occupational accidents with lost time x 1,000,000 / Number of hours worked
✓	Occupational accident severity rate
	SR = Number of days lost due to accidents in the year x 1,000 / Number of hours worked  Number of cases of occupational illnesses reported

*Relevance of indicators*

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

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

## 2. GRI Table

Audited indicator	In relation to Standard GRI indicators	2017	2017	2018	2018	2019	2019	Standard GRI Reference	ISO 26000	SDG [1]
		UES Naval Group (Naval Group SA and Sirehna)	GROUP Naval Group (UES Naval Group + subsidiaries ≥50%)	UES Naval Group (Naval Group SA and Sirehna)	GROUP Naval Group (UES Naval Group + subsidiaries ≥50%)	UES Naval Group (Naval Group SA and Sirehna)	GROUP Naval Group (UES Naval Group + subsidiaries ≥50%)			
<b>Social data</b>										
X	Total number of registered employees	13,943	14,515	14,670	15,163	15,773	16,389	102-7		9
	by socio-professional category:									
X	OE	3,398	3,615	3,271	3,409	3,296	3,534	102-8		9
X	Technicians, supervisors	4,452	4,454	4,755	4,869	5,327	5,457	102-8		9
X	Engineers and executives	6,093	6,346	6,644	6,885	7,150	7,398	102-8		9
X	Male employees	11,207	11,615	11,762	12,114	12,582	13,010	102-8		
X	Number of women	2,736	2,900	2,908	3,049	3,191	3,379	102-8		5
	By age group									
X	- 25 years	814	839	897	905	1083	1107	102-8		9
X	25 - 29 years	1,151	1,239	1,271	1,346	1,469	1,548	102-8		9
X	30 - 34 years	1,539	1,683	1,763	1,885	2,006	2,145	102-8		9
X	35 - 39 years	2,118	2,207	2,201	2,295	2,235	2,357	102-8		9
X	40 - 44 years	1,905	1,990	2,059	2,125	2,295	2,376	102-8		9
X	45 - 49 years	2,323	2,364	2,318	2,355	2,296	2,350	102-8		9
X	50 - 54 years	2,292	2,338	2,289	2,329	2,389	2,438	102-8		9
X	55 - 59 years	1,384	1,413	1,466	1,495	1,505	1,543	102-8		9
X	60 years or more	417	442	406	428	495	525	102-8		9
Audited indicator	In relation to Standard GRI indicators	2017	2017	2018	2018	2019	2019	Standard GRI Reference	ISO 26000	SDG [1]
		UES Naval Group	GROUP	UES Naval Group	GROUP	UES Naval Group	GROUP			

		Naval Group		Naval Group		Naval Group				
		(Naval Group SA and Sirehna)		(Naval Group SA and Sirehna)		(Naval Group SA and Sirehna)				
		(UES Naval Group + subsidiaries ≥50%)		(UES Naval Group + subsidiaries ≥50%)		(UES Naval Group + subsidiaries ≥50%)				
X	Percentage of women in total workforce	19.62	19.98	19.82	20.11	20.23	20.62	102-8	6.3.7	5
	Number of expatriates	181	181	172	172	149	150	102-8		
	Number of employees with non-French nationality	20	385	27	341	44	475	102-8	6.4.3	9
	Percentage of women in executive management	11.7	12	11.33	11.11	12.11	11.65	102-8	6.3.7	5
	Average age	42.27	42.12	41.89	41.85	41.52	41.44	102-8		5
	Number of disabled workers (TH)	715	715	694 (Naval Group SA)	694	732	732	405-1	6.3.7	
	Employment rate (%)	6.28		6.02 (Naval Group SA)	6.02	5.84%	5.84%	405-1	6.3.7	9
	Recruitment of TH with permanent contract	19	19	20	20	18	18	405-1	6.3.7	
	Absenteeism rate (%)	4.76% Naval Group SA		4.32% Naval Group SA		4.33% Naval Group SA		403-2		

Audited indicator	In relation to Standard GRI indicators	2017	2017	2018	2018	2019	2019	Standard GRI Reference	ISO 26000	SDG[ <a href="#">1</a> ]
		UES Naval Group	GROUP	UES Naval Group	GROUP	UES Naval Group	GROUP			
			Naval Group		Naval Group		Naval Group			
		(Naval Group SA and Sirehna)		(Naval Group SA and Sirehna)		(Naval Group SA and Sirehna)				
			(UES Naval Group + subsidiaries ≥50%)		(UES Naval Group + subsidiaries ≥50%)		(UES Naval Group + subsidiaries ≥50%)			
X	Number of training hours	322,984		346,269		404,236		404-1	6.4.7	9
X	Average number of training hours per person	23.16		23.6		34.2		404-1	6.4.7	9
	Percentage of payroll in relation to continuous professional training	4.03		4.1		4.50%		404-1	6.4.7	9
	<b>Total recruitments over the year</b>									
X	Men	1,241	1,413	1,480	1,604	1,748	1,929	401-1		
X	Women	323	404	431	473	518	611	401-1		
X	Assembly	1,564	1,817	1,911	2,066	2,266	2,540	401-1		9
X	Number of permanent contract hires	1,117	1,292	1,407	1,544	1,642	1,865	401-1		9
X	Number of fixed-term contracts that received a permanent contract	23	25	57	59	59	59	401-1	6.4.4	9
	Number of fixed-term contract hires (including direct transfer from work-study or trainee ==> fixed-term contract)	127	150	136	160	123	171	401-1	6.4.4	9

Audited indicator	In relation to Standard GRI indicators	2017	2017	2018	2018	2019	2019	Standard GRI Reference	ISO 26000	<a href="#">SDG[1]</a>
		UES Naval Group	GROUP	UES Naval Group	GROUP	UES Naval Group	GROUP			
			Naval Group		Naval Group		Naval Group			
		(Naval Group SA and Sirehna)		(Naval Group SA and Sirehna)		(Naval Group SA and Sirehna)				
			(UES Naval Group + subsidiaries ≥50%)		(UES Naval Group + subsidiaries ≥50%)		(UES Naval Group + subsidiaries ≥50%)			
	Number of fixed-term and work-study hires, CIFRE ( <i>Convention Industrielle de Formation pour la Recherche</i> - Industrial Research Training Agreement)	325	327	367	368	512	513	401-1		9
	Number of recruitments under fixed-term contracts (including work-study and CIFRE PhD contracts)	452	477	503	528	635	684	401-1		9
	including % fixed-term contracts (including work-study contracts)	28.90%	26.70%	26.30%	25.60%	28.02%	26.93%	401-1		9
	Of which % fixed-term contracts (excluding work-study contracts)	8.10%	8.60%	7.10%	7.70%	5.43%	6.73%	401-1		9
	including % women under fixed-term and permanent contracts	20.20%	22.10%	22.00%	22.40%	23.46%	24.75%	401-1	6.3.7	9
	Of which % disabled persons (permanent contract + fixed-term contract)	1.70%	1.40%	0.40%	0.40%	0.84%	0.75%	401-1	6.3.7	9

	including % seniors (aged 50 and over) on permanent contracts	7.80%	9.20%	6.10%	6.70%	7.19%	8.36%	401-1	6.3.7	9
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Audited indicator	In relation to Standard GRI indicators	2017	2017	2018	2018	2019	2019	Standard GRI Reference	ISO 26000	<a href="#">SDG[1]</a>
		UES Naval Group	GROUP	UES Naval Group	GROUP	UES Naval Group	GROUP			
			Naval Group		Naval Group		Naval Group			
		(Naval Group SA and Sirehna)		(Naval Group SA and Sirehna)		(Naval Group SA and Sirehna)				
			(UES Naval Group + subsidiaries ≥50%)		(UES Naval Group + subsidiaries ≥50%)		(UES Naval Group + subsidiaries ≥50%)			
	including % employees under 25 (including work-study contracts)	31.50%	28.30%	29.80%	27.80%	32.35%	29.76%	401-1		9
	Of which % employees below 25 (excluding work-study contracts)	17.60%	16.00%	16.30%	15.10%	17.79%	16.55%	401-1		9
	No. of work-study contracts, end of period	558	562	589	590	703	704	401-1		9
	<b>Departures</b>									
X	Total number of departures	<b>1,052</b>	<b>1,172</b>	<b>1,186</b>	<b>1,417</b>	<b>1,164</b>	<b>1,317</b>	401-1		9
X	including layoffs (interrupted test period or lack of physical fitness or for personal reasons)	30	33	48	48	24	25	401-1		
X	Turnover	7.50%	8.10%	8.10%	9.30%	7.38%	8.04%	401-1		9

Audited indicator	In relation to Standard GRI indicators	2017	2017	2018	2018	2019	2019	Standard GRI Reference	ISO 26000	<a href="#">SDG[1]</a>
		UES Naval Group	GROUP	UES Naval Group	GROUP	UES Naval Group	GROUP			
			Naval Group		Naval Group		Naval Group			
		(Naval Group SA and Sirehna)		(Naval Group SA and Sirehna)		(Naval Group SA and Sirehna)				
			(UES Naval Group + subsidiaries ≥50%)		(UES Naval Group + subsidiaries ≥50%)		(UES Naval Group + subsidiaries ≥50%)			
	<b>Hygiene Safety and Working Environment</b>									
X	Frequency rate of workplace accidents  FR = Number of occupational accidents with lost days x 1,000,000 / Number of hours worked	6.4		5.4		5.9		403-2	6.4.6	
X	Occupational accident severity rate  SR = Number of days lost due to accidents in the year x 1,000 / Number of hours worked	0.149		0.17		0.13		403-2	6.4.6	
	Number of cases of occupational illnesses	37		39		45		403-2	6.4.6	