

2018 SHORT FORM ANNUAL FINANCIAL REPORT

*The audit procedures were performed and the audit report for certification purposes is
being issued*



The English language version of this report is a free translation from the original, which was prepared in French language. All possible care has been taken to ensure that the translation is an accurate presentation of the original. However, in all matters of interpretation, views or opinion expressed in the original language version of the document in French take precedence over the translation.

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Declaration of the person responsible for the report

I hereby certify that, to my knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and income or loss of the company and all the other entities included in the scope of consolidation, and that the enclosed directors' report

presents a fair view of the development of the business, performance and financial situation of the company and of all the other companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

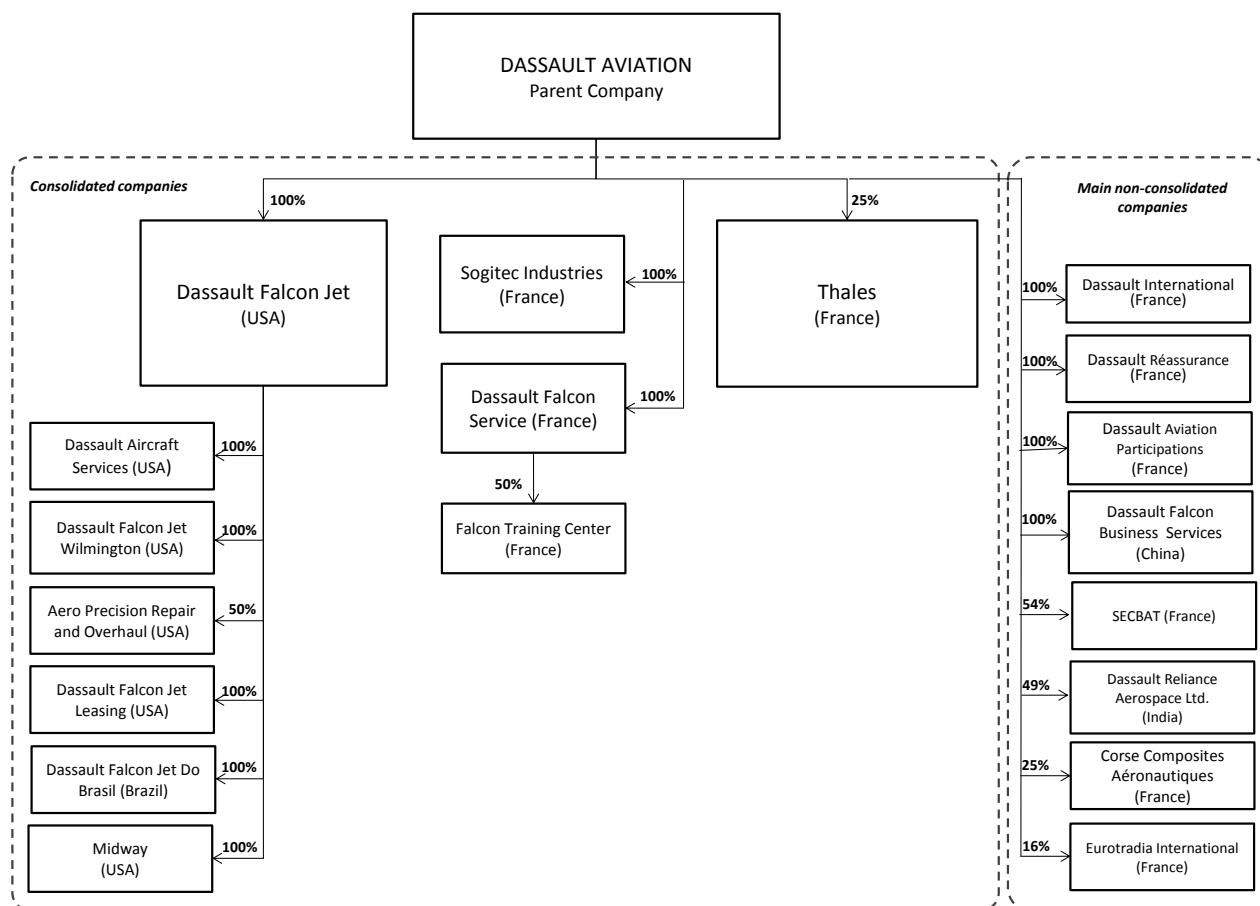
Paris, February 27, 2019

Éric Trappier
Chairman and Chief Executive Officer



Group structure as of December 31, 2018

The Dassault Aviation Group is an international group that encompasses most of the aeronautical business of the Marcel Dassault Industrial Group. The main Group companies are as follows:



Detailed information on the main Group companies is given in paragraph 1.5 of the Directors' Report.

The list of consolidated entities is presented in note 2, "Scope of consolidation", to the consolidated financial statements.

Board of Directors as of December 31, 2018

Honorary Chairman

Charles Edelstenne

Chairman of the Board of Directors

Éric Trappier

Directors

Catherine Dassault

Olivier Dassault

Charles Edelstenne

Marie-Hélène Habert

Mathilde Lemoine

Henri Proglio

Lucia Sinapi-Thomas

Richard Bédère (director representing employees)

Executive Management

Chief Executive Officer

Éric Trappier

Chief Operating Officer

Loïc Segalen

Executive Committee as of December 31, 2018

Chairman of the Committee

Éric Trappier

Chief Executive Officer

Loïc Segalen

Chief Operating Officer

Benoît Berger

Senior Executive Vice-President, Procurement and Purchasing

Bruno Chevalier

Senior Executive Vice-President, Military Customer Support

Denis Dassé

Chief Financial Officer

Benoît Dussaugéy

Senior Executive Vice-President, International

Jean-Marc Gasparini

Executive Vice-President, Military Programs

Bruno Giorgianni

Executive Committee Secretary and Executive Vice-President, Public Affairs and Security

Didier Gondoin^(*)

Senior Executive Vice-President, Engineering

Frédéric Lherm

Senior Executive Vice-President, Industrial Operations

Gérald Maria

Senior Executive Vice-President, Total Quality

Philippe Massot

Senior Vice-President, Military Sales France

Frédéric Petit

Senior Vice-President, Falcon Programs

Yves Petit

Senior Vice-President, Human Resources

Jean Sass

Chief Digital Officer

Olivier Villa

Senior Executive Vice-President, Civil Aircraft

^(*) Nicolas Mojaïsky, since January 1, 2019

Government Commissioner

Mr. Paul Fouilland, French Armed Forces General Inspector

Auditors

Mazars S.A., represented by Mr. Mathieu Mougard, partner

Deloitte & Associés S.A., represented by Mr. Jean-François Viat, partner



Directors' Report

TRIBUTE TO SERGE DASSAULT

The Board of Directors pays tribute to Serge Dassault, who passed away on May 28 at the age of 93.

Serge Dassault, a graduate of the École Polytechnique and the École Nationale Supérieure de l'Aéronautique, started at the Company's engineering department in 1951 under the direction of Henri Deplane before taking responsibility for flight tests.

In that capacity, he oversaw the development of several aircraft, such as the Super Mystère B2, Mirage III, Etendard and Mirage IV.

After being appointed Military Export Director, he handled the negotiations that led to the purchase of the Mirage III by Switzerland and Australia. He also launched the Mystère 20 sales campaign in the United States.

After his time at Société Electronique Marcel Dassault, which later became Electronique Serge Dassault, he became Chairman and CEO of our Company from the end of 1986 until April 2000.

During that period, under his leadership, our company successfully deployed long-term and large-scale strategies consistent with the long cycles typical of our products.

He was a tenacious and hard worker man with a spirit of conquest.

Aeronautics was his passion.

At last, he anticipated and settled his successorship by appointing Charles Edelstenne, as head of GIMD with the agreement of all of his children.

Our business model

Dassault Aviation
Shaping the Future

Resources

Human

11,500

employees,
including 80%
in France

Expertise

A renowned
design
office

A century
of experience

Industrial

18

specialized
sites,
including
13 in France

Societal

500

partner
firms

Environmental

ISO 14001

A certified
environmental
policy

Financial

€4 billion

in equity capital

2018 Achievements

Human

856

new hires, 22%
of whom are women

Expertise

6X

Launch of
a new Falcon

Rafale F3-R

Qualification
of the standard

Industrial

12

Rafales delivered

1,000

combat aircraft supported

Societal

Regional development

3D printing sector in
Auvergne-Rhône-Alpes

Defense SMEs

Support Agreement

Environmental

↓11%

in CO₂ emissions

Financial

€681 million

in adjusted net
income

Human

856

new hires, 22%
of whom are women

Expertise

6X

Launch of
a new Falcon

Rafale F3-R

Qualification
of the standard

Industrial

12

Rafales delivered

1,000

combat aircraft supported

Societal

Regional development

3D printing sector in
Auvergne-Rhône-Alpes

Defense SMEs

Support Agreement

Environmental

↓11%

in CO₂ emissions

Financial

€681 million

in adjusted net
income

State and local authorities

€178 million

Tax expense in France
(93% of the Group's tax
is paid in France)

Employees

€168 million

in profit-sharing
and incentive bonuses,
including corporate contribution

€57,100

Average gross annual salary,
before profit-sharing
and incentive bonuses

Shareholders

€177 million

in dividends*

Industry

Dassault Aviation, a key player
in a strategic ecosystem and
Thales' reference industrial shareholder

Society

Integration

Support for aeronautical job
integration associations

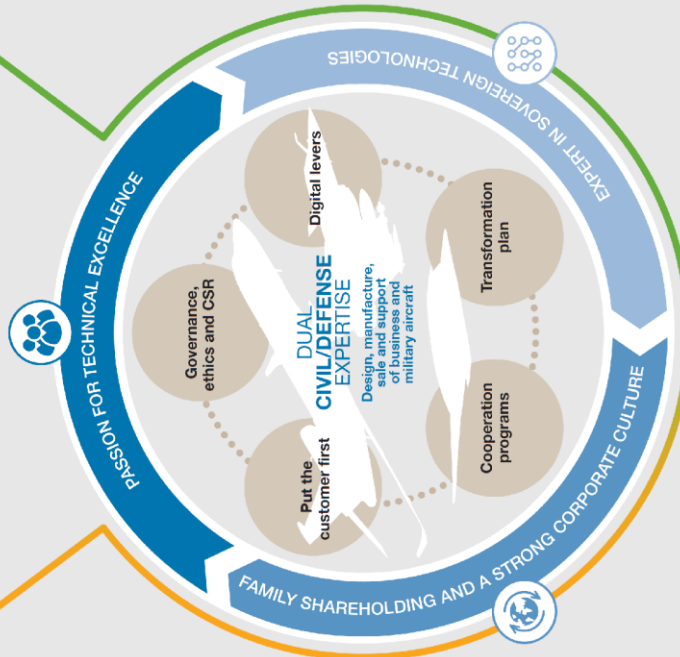
Sustainable development

↓11%

in gas consumption
in 5 years

Contribution to **8** United Nations
Sustainable Development Goals

* Proposed at the AGM in May 2019.



Dear Shareholders,

Before submitting the company and consolidated financial statements for the year ended December 31, 2018, and the appropriation of earnings, we would like to take this opportunity to present our consolidated results, the activities of the Group and of the Parent Company during the past year, their future prospects and the other information required by law.

1. DASSAULT AVIATION GROUP

1.1 2018 RESULTS

1.1.1 Key data

	2018	2017 (<i>pro forma</i> IFRS 15)
Order intake	EUR 5,024 million 12 Rafale Qatar 42 Falcon (52 orders and cancellation of the last 10 Falcon 5X)	EUR 3,289 million 38 Falcon (41 orders and cancellation of 3 Falcon 5X)
Adjusted net sales (*)	EUR 5,084 million 9 Rafale Egypt 3 Rafale France 41 Falcon	EUR 4,876 million 8 Rafale Egypt 1 Rafale France 49 Falcon
Backlog as of December 31	EUR 19,376 million 101 Rafale (73 Export and 28 France) 53 Falcon (no longer including Falcon 5X)	EUR 19,460 million 101 Rafale (70 Export and 31 France) 52 Falcon (incl. Falcon 5X not canceled)
Adjusted operating income (*)	EUR 669 million	EUR 357 million
Adjusted operating margin	13.2% of net sales 9.2% without Safran compensation	7.3% of net sales
Adjusted net income (*)	EUR 681 million € 82.1 / share	EUR 410 million € 49.8 / share
Adjusted net margin	13.4% of net sales 10.8% without Safran compensation	8.4% of net sales
Available cash as of December 31	EUR 5,211 million	EUR 4,121 million
Dividends	EUR 177 million € 21.2 / share	EUR 127 million € 15.3 / share
Employee profit-sharing and incentives including 20% correlated social tax Workforce as of December 31	EUR 168 million 11,494	EUR 119 million 11,398

Note: Dassault Aviation recognizes the Rafale Export contracts in their entirety (including the Thales and Safran parts), whereas for France, only the Dassault Aviation part is recognized.

Main IFRS aggregates (see reconciliation table in the Appendix)

(*) Consolidated net sales	EUR 5,119 million	EUR 4,901 million
(*) Consolidated operating income	EUR 708 million	EUR 218 million
(*) Consolidated net income	EUR 573 million	EUR 630 million

Directors' Report

1.1.2 Definition of alternative performance indicators

To reflect the actual economic performance of the Group, and to monitor and compare performance, the Dassault Aviation Group presents an adjusted income statement of the following elements:

- gains and losses resulting from the exercise of derivative hedging instruments that do not qualify for hedge accounting under IFRS. This income/loss, presented as financial income/loss in the consolidated income statement, is reclassified as net sales, and therefore in operating income within the adjusted income statement,
- the valuation of foreign currency derivatives that do not qualify for hedge accounting, by neutralizing the change in fair value of these instruments (the Group considering that the gains and losses on hedging should impact the result only as commercial flows occur), with the exception of the derivatives allocated to hedge balance sheet positions whose change in fair value is presented in operating income,
- the amortization of the Thales Purchase Price Allocation (PPA),
- adjustments applied by Thales in its financial reporting,
- in 2017, the arbitration award relating to the commercial dispute between the Republic of China and a group of three French industrial companies, among which Dassault Aviation and capital gains made on marketable securities to offset that expense.

The Group also presents the "available cash" indicator, which reflects the amount of the Group's total liquidities, net of financial debt. It covers the following balance sheet items:

- cash and cash equivalents,
- available-for-sale marketable securities (at their market value),
- financial debt.

Note that only the consolidated financial statements are audited by the Statutory Auditors. Adjusted financial data are subject to the verification procedures applicable to all the information provided in the annual report.

1.1.3 IFRS 15 impacts – Revenue Recognition

The 2017 financial statements were restated in accordance with the application of IFRS 15, which sets out standards for revenue recognition. The most material impact for the Group of applying this standard is the inclusion of a financing component when it is significant, to reflect a "cash sale price" for the service provided. The financing component exists when there is, for a given contract, a significant difference between the moment when the receipts are received and the moment when the revenue is recognized.

Future revenue and therefore the operating income, from the relevant contracts will be increased by this financing component, offset by a financial expense recognized along the duration of the contract.



The IFRS 15 impacts on 2017 adjusted net income are as follows:

<i>In EUR thousands</i>	2017 Adjusted Published	IFRS 15 impact	2017 Adjusted Restated
Net sales	4,807,530	68,442	4,875,972
Operating income	348,475	8,215	356,690
<i>Operating margin</i>	<i>7.2%</i>		<i>7.3%</i>
Financial income	10,610	-67,846	-57,236
Share in net income of equity associates	244,891	-34,973	209,918
Income tax	-114,742	15,692	-99,050
Net Income	489,234	-78,912	410,322
<i>Net margin</i>	<i>10.2%</i>		<i>8.4%</i>

1.1.4 Impact of the adjustments

The impact in 2018 of adjustments to income statement aggregates is presented below:

<i>(in EUR thousands)</i>	2018 consolidated income statement	Foreign exchange derivatives		THALES PPA	Adjustments applied by Thales	2018 adjusted income statement
		Foreign exchange gain/loss	Change in fair value			
Net sales	5,119,219	-30,162	-5,223			5,083,834
Operating income	707,529	-30,162	-8,527			668,840
Financial income	-145,883	30,162	38,243			-77,478
Share in net income of equity associates	205,849			39,580	48,545	293,974
Income tax	-194,693		-9,505			-204,198
Net income	572,802	0	20,211	39,580	48,545	681,138
<i>Group share of net income</i>	<i>572,741</i>	<i>0</i>	<i>20,211</i>	<i>39,580</i>	<i>48,545</i>	<i>681,077</i>
Group share of net income per share <i>(in EUR)</i>	69.1					82.1

Directors' Report

The impact in 2017 of adjustments to income statement aggregates (**IFRS 15 pro forma**) is presented below:

(in EUR thousands)	2017 consolidated income statement	Foreign exchange derivatives		Commercial dispute	THALES PPA	Adjustments applied by Thales	2017 adjusted income statement
		Foreign exchange gain/loss	Change in fair value				
Net sales	4,901,080	-30,941	5,833				4,875,972
Operating income	217,935	-30,941	36,195	133,501			356,690
Net financial income	519,559	30,941	-474,235	-133,501 ⁽¹⁾			-57,236
Share in net income of equity associates	143,951				26,384	39,583	209,918
Income tax	-251,363		152,313				-99,050
Net income	630,082	0	-285,727	0	26,384	39,583	410,322
Group share of net income	630,040	0	-285,727	0	26,384	39,583	410,280
Group share of net income per share (in EUR)	76.4						49.8

⁽¹⁾ in order to reflect the actual economic performance of the Group, the amount of the capital gains made on marketable securities to offset the expense recognized for the commercial dispute is also adjusted.

1.1.5 Order intake

2018 Order intake was **EUR 5,024 million**, compared with EUR 3,289 million in 2017 (IFRS 15 *pro forma*).

Export **order intake** represented **80%**.

Order records are as follows, in **EUR millions**:

Year	Defense		Falcon	Total	% Export
	France	Export			
2014	441	252	3,946	4,639	89%
2015	391	7,891	1,602	9,884	96%
2016	696	7,443	1,419	9,558	92%
2017	552	353	2,384	3,289	82%
2018	1,038	1,672	2,314	5,024	80%

The order intake item is composed entirely of firm orders. The data for 2017 was restated for the impact of IFRS 15.

Defense programs

2018 Defense orders totaled **EUR 2,710 million**, compared with EUR 905 million in 2017 (IFRS 15 *pro forma*), due in particular to the order of **12 Rafale** following the coming into force of the option exercised by Qatar and the **F4 Standard notification** for the Rafale (firm and optional batches announced, however firm batch only recorded in 2018 order intake).



Falcon programs

2018 Falcon orders totaled **EUR 2,314 million** versus EUR 2,384 million in 2017 (IFRS 15 *pro forma*). **42 Falcon** were **ordered in 2018** (52 orders and cancellation of the last 10 Falcon 5X). In 2017, 38 Falcon were ordered (41 orders and 3 cancellations of Falcon 5X).

1.1.6 Adjusted net sales

2018 net sales amounted to **EUR 5,084 million**, compared to EUR 4,876 million in 2017 (IFRS 15 *pro forma*). **Export** represented **78%**.

The change in net sales was as follows, in **EUR millions**:

Year	Defense		Falcon	Total	% Export
	France	Export			
2014	770	225	2,685	3,680	77%
2015	632	1,037	2,507	4,176	83%
2016	525	719	2,342	3,586	83%
2017	473	1,402	3,001	4,876	89%
2018	1,066	1,419	2,599	5,084	78%

Defense programs

2018 Defense net sales amounted to **EUR 2,485 million**, compared to EUR 1,875 million in 2017 (IFRS 15 *pro forma*).

Sales were impacted by the delivery of the Rafale F3-R standard to France and by the increase in the number of Rafale deliveries. **9 Rafale** were delivered to Egypt and **3 Rafale** to France in 2018, compared with 8 to Egypt and 1 to France in 2017. In addition, 2 Rafale Marine retrofitted to the F3 standard were delivered to France in 2018.

Falcon programs

2018 Falcon net sales amounted to **EUR 2,599 million**, compared to EUR 3,001 million in 2017 (IFRS 15 *pro forma*). Sales were impacted by the lower number of new aircraft delivered.

41 new Falcon were **delivered in 2018**, (in line with our delivery guidance of 40 Falcon), compared to 49 in 2017.

The "book-to-bill ratio" (orders intake/net sales) was 1.0 for 2018.

1.1.7 Backlog

The **backlog as of December 31, 2018** was **EUR 19,376 million**, compared to EUR 19,460 million as of December 31, 2017 (IFRS 15 *pro forma*).

The **Defense Export backlog** stood at **EUR 14,217 million**, compared with EUR 13,964 million at December 31, 2017. It includes in particular **36 Rafale for India, 36 Rafale for Qatar and 1 Rafale for Egypt** (versus 36 Rafale for India, 24 Rafale for Qatar and 10 Rafale for Egypt in 2017).

Directors' Report

The **France Defense backlog** stood at **EUR 3,011 million** compared to EUR 3,039 million as of December 31, 2017. It includes **28 Rafale**, versus 31 Rafale at the end of 2017.

The **Falcon backlog** stood at **EUR 2,148 million**, compared with EUR 2,457 million at December 31, 2017. In particular, it includes **53 Falcon** (no longer including Falcon 5X), compared with 52 Falcon (including Falcon 5X) as of December 31, 2017.

1.1.8 Adjusted results

Operating income

2018 operating income was **EUR 669 million** compared to EUR 357 million in 2017 (IFRS 15 *pro forma*).

The operating margin was **13.2%**, compared to 7.3% in 2017. Without the compensation of USD 280 million received from Safran following the termination of the Silvercrest engine contract, the operating margin would stand at 9.2%.

The improvement in the operating margin can also be explained by the recovery in the pre-owned aircraft market and by the improvement in the hedge rate (USD 1.19/EUR in 2018 vs. USD 1.21/EUR in 2017). Besides, 2017 had been adversely impacted by the depreciation of inventories and work-in-progress resulting from the end of the Falcon 5X program.

The higher percentage of self-financed Research and Development expenses (7.7% of net sales in 2018 compared with 6.4% in 2017) partially offsets these positive elements.

Net financial result

The 2018 net financial result was **EUR -77 million** compared to EUR -57 million in 2017 (IFRS 15 *pro forma*). The negative net financial result is the consequence of the financing component recognized for Rafale contracts in a first time as a financial expense before being recognized in net sales along with deliveries.

Net income

2018 net income was **EUR 681 million** compared to EUR 410 million in 2017 (IFRS 15 *pro forma*). Thales' contribution to the Group's net income was EUR 290 million, compared to EUR 206 million in 2017 (IFRS 15 *pro forma*).

The net margin was **13.4%** in 2018, compared to 8.4% in 2017. Without the compensation of USD 280 million received from Safran following the termination of the Silvercrest engine contract, the net margin would stand at 10.8%.

Net income per share in 2018 stood at **EUR 82.1/share**, compared with EUR 49.8/share in 2017.

1.1.9 Dividends and profit-sharing/incentives

The Board of Directors decided to propose to the Annual Shareholders' Meeting the distribution of a dividend of **€ 21.2/share in 2019**, corresponding to a total of EUR 177 million, i.e. a payout of 26%, as in the previous year.



Under the earnings distribution policy, Group employees will receive, in profit-sharing and incentives, EUR 140 million (whereas the legal formula would have led to the amount of EUR 30 million), i.e. EUR 168 million including 20% correlated social tax.

Dividends per share over the 5 last years are reminded in the note 33 of the Parent Company Financial statements.

1.1.10 Financial reporting

The IFRS 8 "Operating Segments" standard requires the presentation of information per segment according to internal management criteria.

The entire activity of the Dassault Aviation Group relates to the aerospace domain. The internal reporting made to the Chairman and CEO, and to the Chief Operating Officer, as used for the strategy and decision-making, includes no performance analysis, under the terms of IFRS 8, at a level subsidiary to this domain.

1.2 FINANCIAL STRUCTURE

1.2.1 Available cash

The Group uses a specific indicator called "Available Cash" defined in paragraph 1.1.2.

Available Cash of the Group amounted to EUR **5,211 million** as of December 31, 2018 versus EUR 4,121 million as of December 31, 2017, up by EUR 1,090 million mainly due to the net income for the period and the down payments received under the ongoing Rafale Export contract.

1.2.2 Balance Sheet (data in IFRS)

Total equity was EUR 4,277 million as of December 31, 2018 compared with the opening balance of EUR 3,721 million. This increase is mainly due to the consolidated net income for the period.

Customers down payments received net of down payments paid to suppliers went up by EUR 563 million as of December 31, 2018 due primarily to down payments received under the ongoing Export Rafale contracts.

Inventories and work-in-progress decreased by EUR 68 million and stood at EUR 3,403 million as of December 31, 2018. The decrease in inventories and work-in-progress resulting from Falcon activity was partly offset by the increase in work-in-progress related to Rafale Export contracts.

Borrowings and financial debt amounted to EUR 991 million as of December 31, 2018, compared to EUR 1,095 million as of December 31, 2017. They include loans subscribed by the Group in 2014 and 2015 which totaled EUR 875 million as of December 31, 2018 (EUR 75 million were paid back in 2018) and locked-in employee profit-sharing funds.

Derivative financial instruments had a market value of EUR 14 million as of December 31, 2018, compared to EUR 161 million as of December 31, 2017. This increase is mainly due to the change in the \$/€ exchange rate between December 31, 2017 (1.20 \$/€) and December 31, 2018 (1.15 \$/€).

Note: data restated for the application of IFRS 15 and IFRS 9.

Directors' Report

1.3 RELATED-PARTY TRANSACTIONS

The 2018 related parties are identical to those identified in 2017. Some subsidiaries are related with the Parent Company via development and equipment supply contracts, along with software and associated services contracts.

2018 transactions are specified under Note 27 to the consolidated financial statements.

1.4 GROUP ACTIVITIES

1.4.1 Program developments

Defense programs

Main events of 2018, for the Rafale program:

- the entry into force of the option for 12 additional Rafale for Qatar following the receipt of the first down payment on March 27, 2018,
- the notification of the F4 standard (firm and optional batches) announced by the French Minister of the Armed Forces during her visit in Mérignac in early January 2019 showing the ongoing efforts to improve the Rafale, which will add innovative connectivity (new satellite and intra-patrol connections, communication server, software radio), new capabilities (enhanced radar sensors and optronic frontal sector) and incorporate new weapons (Mica NG air-to-air missile and 1,000 kg modular air-to-ground weapons),
- delivery of 9 Rafale to Egypt, bringing the total Rafale delivered to Egyptian forces to 23 out of the 24 ordered. These deliveries also included the related support consisting in technical assistance, parts and training,
- delivery of 3 Rafale to France, bringing the total Rafale delivered to the French Forces to 152 out of the 180 aircraft ordered,
- the delivery to France of the ninth and tenth Rafale Marine retrofitted from the F1 standard to the F3 standard; all 10 Rafale Marine now meet the F3 standard,
- the delivery to the French Air Force of the Rafale F3-R standard. This standard includes the Meteor European long-range air-to-air missile, the new-generation Talios laser designator pod, the laser-guidance version of the AASM and an automatic anti-collision system. The F3-R standard strengthens the omnirole character of the Rafale,
- continued development, production and support works and continued performance of Rafale contracts for Qatar and India,
- continued actions to promote Rafale to Export customers, including the response in July 2018 to the "Request for Information" for the supply of 110 combat aircraft to the Indian Air Force,

Regarding the Mirage 2000, we also note the continuations of the upgrade work on the French Mirage 2000D. Besides, in June 2018, the Mirage 2000N was retired from operational service after 30 years in the French forces.

For drones, the year was marked by:

- in June 2018, in Meseberg, at the Franco-German council, in the presence of the French President and the German Chancellor, France and Germany signed a Letter of Intent materializing their will to build to-



gether the future weapons systems and act towards the construction of the Europe of Defense. This Letter of Intent was followed, on November 19 2018, by a common statement to launch the initial works of the Future Combat Air System (FCAS) : on January 31 2019, a 2-year conception and architecture study was notified under the leadership of Dassault Aviation and Airbus ; demonstrators for the combat aircraft and its engine are to be launched at the 2019 Paris Air Show ; Dassault Aviation being the leader of the New Generation Fighter (NGF),

- the start of a new nEUROn flight test campaign dedicated to stealthiness demonstration with the French Procurement Agency, the French Air Force, and the French Navy, in the frame of a contract for studies and flight tests over 2018-2020,
- the launch of the MALE RPAS (Medium Altitude Long Endurance Remotely Piloted Aircraft System) drone project with European technologies (cooperation between Airbus, Dassault Aviation and Leonardo). The final stage of the System Preliminary Design Review was approved on November 22, 2018, and the Invitation To Tender was issued by the Joint Organisation for Armament Cooperation (OCCAR) on October 31, 2018. Germany is the leader country and Airbus the industrial leader,

regarding space programs (2018 was remarkable for on interest in the new Defense space policy), we notice:

- for space vehicles, a new batch of the study contract for the reusable orbital vehicle "Space Rider" from the European Space Agency (ESA), of which the first flight is scheduled in 2021. Dassault Aviation is in charge of the vehicle shape design,
- for the pyrotechnic, the contractualization of 2 studies with the French Defense Procurement Agency (DGA) and the French Space Agency (CNES) in order to apply the pyrodigital technology allowing a securitized digital bus to convey the pyrotechnic orders for both Callisto demonstrator and Rafale.

Make in India

The success of Make in India is a priority and involves all areas of Dassault Aviation areas of activity.

The members of the Dassault Aviation Executive Committee, meeting in New Delhi in April 2018, were able to observe developments in the JV DRAL and reaffirm Dassault Aviation's commitment to Make in India.

The GIFAS visit to India led by Éric Trappier, Chairman of GIFAS, also gave a large delegation of French industry leaders the opportunity to go to Nagpur to interact with the JV DRAL management team and promote the development of partnerships between Indian and French Supply Chains.

Indian needs for combat aircraft are material (Request For Information for 110 aircraft for its Air Force and Request For Information for 57 aircraft for the Navy).

In this context, the civil and military aeronautical activities of the Dassault Reliance Aerospace Limited Joint Venture (JV DRAL), created in 2017, should enable us to meet our offsets commitments provided for in the contract signed to supply 36 Rafale, to build the foundations to reach our commercial goals with India, and to improve our competitiveness in manufacturing Falcon 2000 parts in India.

JV DRAL industrial operations were launched in April 2018 in the presence of Loïk Segalen, Chief Operating Officer of Dassault Aviation, and Suresh Kakani, Vice Chairman & Managing Director of the supervisory authority for the development of the free zone where JV DRAL is located.

The implementation of the first transfers of Falcon 2000 elements (T1 and front tank of T3) in 2018 mark the start of the JV DRAL ramp-up. We have completed the second capitalization phase for the JV DRAL and launched the construction of the first part of the final infrastructure, which should be operational in the summer of 2019. At the same time, we are preparing future transfers, in accordance with a pre-determined phased plan. The first Falcon 2000 subassemblies went out of production in December 2018.

We also intensified the development of our industrial ecosystem in India, in terms of deployment of our

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production line through the deployment of a local Supply Chain, regarding at first primary parts, tools, pylons, containers, as well as our engineering department activities, with the establishment of an engineering center in Pune (India).

MARitime SURveillance and MARitime PATrol programs

Main events of 2018, for MARitime PATrol and SURveillance aircraft:

- the order of a 5th MARitime SURveillance Falcon 2000 by the Japanese Coast Guards and progress in the development and modification on the first four orders,
- the announcement by the French State of the choice of a Falcon platform for Archange digital data collection aircraft, which carry the Universal Electronic Warfare Capacity (CUGE) and are slated to replace the Transall C-160 Gabriel, as well as the notification of a preliminary study to prepare the development and manufacturing contract for these aircraft,
- the continued efforts to upgrade the combat system on the ATL2, particularly systems integration tests and flight tests, and the launch of the first conversion project; delivery of the upgrade is scheduled for 2019,
- delivery to the DGA for the French Navy of the first retrofitted Falcon 50 SURMAR with hatches for Search and Rescue (SAR) chains and consolidation of the transformation projects for the other three Falcon 50 SURMAR,
- the notification of a preliminary study for the definition of the future Maritime Surveillance and Response Aircraft (AVSIMAR) based on a Falcon 2000 LXS platform for the replacement of the French Navy's current fleet.

Falcon programs

Highlights for 2018 include:

- the order intake of 42 Falcon in 2018 (52 orders and cancellation of the last 10 Falcon 5X),
- the delivery of 41 Falcon,
- the official launch and start of marketing of the Falcon 6X to replace the Falcon 5X, this new aircraft will have a range of 5,500 NM, unequaled comfort with a cabin width of 2.7 m and a volume of 52.2 m³. This twinjet will be equipped with Pratt & Whitney PWC 812D engines and will reach a maximum speed of Mach 0.9,

a 1:1 scale model of a cabin was presented at the NBAA show in Orlando and another was exhibited at the Paris Air Show,

the program development is in line with the schedule : the primarily development stage has been completed; first structural parts are being manufactured. Tests on the PW812D engine are also on time: 4 engines are being tested and 120 hours were run on a flying test bench. Design shelves have been set up in Saint-Cloud and Merignac in cooperation with our industrial partners.

- the signing of an amicable agreement with Safran ending the dispute over the Silvercrest engine to be installed in the Falcon 5X,
- the future Falcon is in progress: marketing and technical studies are ongoing,
- the Falcon 8X which demonstrated its long range capacity (Singapore – London in 14 hours) is still an unmatched aircraft in terms of comfort and is acknowledged for being the most silent aircraft on the market,



- the certification of Electronical Flight Vision System operational gains of up to 100 feet for approaches in poor weather made by the FalconEye system for Falcon 7X, Falcon 8X, Falcon 2000 LX and Falcon 2000LXS, in progress of certification for the Falcon 900LX as of December 31, 2018 (certification in February 2019),
- the new service offer for a broadband connectivity such as “FalconConnect”, an integrated management solution for communications and data exchanges between aircraft and ground networks, and technical solutions (Ka for Falcon 900LX, Ku and 4G for Falcon 7X).

1.4.2 Customer support

Military customer support

In terms of logistics support, the major items for 2018 were:

- continued support for the Egyptian Rafale and the entry into force of the related Operational Maintenance contract,
- aircraft availability levels acknowledged by our customers,
- the completion of the first deliveries of supporting elements intended for Qatari users,
- training of over 250 pilots and mechanics trainees for our Rafale customers over the year,
- for the Mirage 2000:
 - continued conducting of Major Visits or periodic visits of Mirage 2000 and AlphaJet fleets in Qatar and the Mirage 2000-9 fleet in the United Arab Emirates,
 - support for the Mirage 2000 fleet for French and foreign armed forces.

Falcon after-sales

The Group’s Falcon support services have, in 2018:

- the development of a high-quality customer support network, by the acquisition of service centers strengthening our footprint, in Europe, Asia-Pacific, Africa and Middle-East,
- launched the upgrade of Dassault Falcon Service’s maintenance capabilities at Le Bourget to increase its Falcon 7X and 8X capacity,
- launched the development of a global IT system that will facilitate the logistics and commercial activities for the supply and distribution of Falcon spare parts,
- successfully promoted the FalconCare offering to customers,
- supported its customers with the Falcon Response offer with 2 dedicated Falcon,
- continued the communication effort with customers through maintenance & operations seminars and meetings with the Operator Advisory Board (OAB),
- in Customer Support , Dassault Aviation was first in several categories of the Aviation International News (AIN) ranking (#1 Overall Average, #1 AOG Response, #1 Warranty Fulfillment, #1 Parts Availability, #1 Overall Aircraft Reliability, #1 Technical Reps). Besides, the Falcon Response offer which includes 2 dedicated Falcon, has performed 191 missions (1,395 flight hours),

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1.5 GROUP STRUCTURE

The parent company Dassault Aviation has a predominant weight in the structure of the Group.

1.5.1 Consolidated subsidiaries and companies

Dassault Falcon Jet (DFJ) (United States) markets our Falcon on the American continent and performs interior upgrades. The company is headquartered in Teterboro, New Jersey, and industrial activities are located in Little Rock, Arkansas.

The principal subsidiaries of DFJ are:

- Dassault Falcon Jet - Wilmington Corporation (United States), aviation and maintenance services,
- Dassault Aircraft Services Corporation (United States), promotion of aviation maintenance and service sales in the United States,
- Aero Precision Repair And Overhaul Company Inc. (APRO) (United States) (held 50/50 with Safran Landing Systems Miami, Inc.), repair and maintenance of landing gear and flight controls,
- Midway Aircraft Instrument Corporation (United States), overhaul and repair of civil aviation equipment for French equipment manufacturers,
- Dassault Falcon Jet Do Brasil Limitada (Brazil), aviation services and maintenance,
- Dassault Falcon Jet Leasing LLC (United States), company that holds the Falcon financing structures.

Moreover, **Dassault International Incorporated (USA)**, which held 12% of DFJ and represented Dassault Aviation in the United States, was absorbed by DFJ, and at the end of December 2018, Dassault Aviation directly owned 100% of the capital of DFJ.

Dassault Falcon Service (DFS) (France), located at the Paris Le Bourget airport and in Mérignac, contributes to Falcon's after-sales service through its service center activity dedicated to Falcon maintenance. DFS is also present at the Moscow-Vnukovo airport (Russia). Besides DFS also leases and manages Falcon as part of Public Passenger Transport activity.

DFS is 50% owner of Falcon Training Center (France), which provides Falcon training at Le Bourget.

Sogitec Industries (France) produces and distributes simulation tools and aeronautical documentation.

Thales (France), a listed group that operates in the aviation, aerospace, defense and security markets. Its activities are described in their Annual Report.

On December 17, 2017, Thales announced the signing of an agreement for the acquisition of Gemalto in the form of a public offering to create a worldwide leader in digital security. The offer is contingent on the obtaining of regulatory approvals, and the transaction should be completed shortly after the required authorizations have been obtained, which was announced in the first half of 2019.

Additional information on consolidated subsidiaries and companies is provided in Note 2 "Scope of consolidation" to the consolidated financial statements.



1.5.2 Unconsolidated subsidiaries and holdings

The main unconsolidated holdings of the Group are:

- GIE Rafale International (France), coordination of feasibility and definition studies for Rafale combat aircraft (60% owned, with the other 40% held equally by Thales and Safran Aircraft Engines),
- GIE French Defence Aeronautical Institute (FDAI) (France), a service provider in the domain of military aircraft mechanics training (owned 50/50 with Défense Conseil International),
- Dassault Assurances Courtage, Dassault-Réassurance and Agence Aéronautique d'Assurance (France), insurance and reinsurance,
- Corse Composites Aéronautiques (France), production of composite aviation parts, particularly for its corporate shareholders (Airbus, Latécoère, Safran and Dassault Aviation),
- SECBAT (France), responsible for cooperation in the MARitime PATrol Atlantic program,
- Cognac Formation Aéro (France), training of fighter pilots.

The Group is present in India :

- Dassault Aircraft Services India Private Ltd., which is responsible for promotion in India and is 100% held by Dassault Aviation Participations (France),
- Dassault Reliance Aerospace Limited, a company held at 49% by Dassault Aviation, which will produce military and civil aeronautical parts and subassemblies,
- Reliance Airport Developers Limited, a company 35% held by Dassault Aviation, which operates in the management and development of airport infrastructures.

The Group is also present in China through Dassault Falcon Business Services Co. Ltd (Beijing) and in Dassault Aviation Falcon Asia-Pacific (Hong Kong).

Finally, the Group operates in the United Arab Emirates via DASBAT Aviation LLC.

1.5.3 Branches

The Group also has a branch in Cairo (Egypt) and Doha (Qatar).

1.6 RESEARCH AND DEVELOPMENT

Beyond its civilian and military programs, to improve existing products and prepare future products, the Company endeavors to maintain its Research & Development (R&D) effort. It takes part in European projects CleanSky and CleanSky 2, and, since 2008, has been a member of the Council for Civil Aviation Research (CORAC).

R&D work supports the maturation of technological developments and concepts such as:

- the preparation of extended control functions and an initial piloting concept that will allow one of the two pilots to rest at their seat,
- the development of a new type of radome surge protector called "flush".

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We have made significant progress in cabin pressure measurement along with wing deformation measurements.

The Company's roadmap for additive manufacturing has been established; the implementation of shared resources is being encouraged.

The innovation process is boosted by the launch of Innovlab to link and network creativity lab initiatives to encourage them to work collaboratively.

The Man Machine Teaming upstream program started in early 2018. It focuses on the definition and modeling of concepts for the Human-System relationship in future combat systems and the maturation of innovative technologies for Man and Machine crews, especially in decision-making autonomy and machine learning. The creation and oversight of an "ecosystem" of partners from the world of start-ups is a key element.

1.7 TRANSFORMATION PLAN: LEADING OUR FUTURE

The "Leading our Future" transformation plan was initiated to prepare for the future in an increasingly unpredictable and competitive environment. This plan is based on the women and men of the Company who use the "digital" as a lever to confront the changes in our markets and meet the requirements of our military and civil customers.

It is based on four axes:

- Culture, skills and organization,
- Digital tools, processes and innovation,
- Industrial tool,
- Program management,

and carries our willingness to globally and concurrently improve our processes, structures and digital tools.

Actions were continued in 2018:

1. Culture, skills & organization:

- Enhanced training (maintenance of skills),
- Recruitment of 856 people in 2018 in the Group,
- Extended engineering department to better take into account compliance, quality, performance, and customer satisfaction requirements from the design phase through production to support of our products,
- Casting: adaptation of Dassault Institute programs to better detect and prepare future managers and leaders
- Organization: grouping of Dassault Aviation and Sogitec teams for documentation and training activities

2. Digital tools, processes, innovation:

Signature of a strategic partnership between Dassault Aviation and Dassault Systèmes to:

- implement the 3DEXperience™ collaborative engineering platform, for initial applications on the future Falcon and the FCAS then general application on all programs,



- development of the Big Data strategy that will allow us to improve our products and services and offer new ones, provide company-based data management tools based on data sharing,
- Decision to use SAPRISO for manufacturing functions.

3. Industrial tools:

- New buildings and collaborative workspaces, in accordance with extended engineering office :
 - Saint-Cloud, in 2019, renovation of the building located Boulevard Sénart and creation of collaborative shelves for new programs,
 - Merignac 2020, new building of 25 000 square feet for up to 1 500 people.
- Industrial specialization of our plants :
 - Argenteuil: decision to transfer to a new site located nearby in the same employment area in Cergy
 - Argonay: extension project that deals in particular with changes to REACh regulations
 - Biarritz: decision to launch the upgrade of the site in 2019
 - Istres: scope of activities retained
 - Le Bourget: project of Falcon 7X and Falcon 8X capacity expansion, additional floor area: 1,800 m²
 - Martignas: in 2018, works on a new pyrotechnics building, transfer of Argenteuil and Poitiers activities scheduled for summer 2019
 - Mérignac: transfer of CDE/TME labs in 2018
 - Nagpur (India): launch of a second 12,000 m² building, scheduled mid-2019
 - Poitiers: transfer of activities and aerostructure repair activities in 2020
 - Seclin: extension of the building for "metal parts" activity in progress (framework installed)

1.8 DIGITAL TOOLS, PROCESSES AND INNOVATION

An agreement between Dassault Aviation and Dassault Systèmes has been signed for the implementation of the Dassault Systèmes 3DEXperience™ collaborative platform in all of the company's engineering activities.

A 3DEXperience™ deployment plan for all of the company's civilian and military programs has started and an initial version of the new platform was made available.

The use of the Dassault Systèmes Exalead™ data analytics platform (Big Data), which was implemented in 2017 to monitor Falcon fleets, was extended to military activities and is a major new efficiency tool for the operational maintenance activities of our customers' Rafale fleets.

The already-supplied Dassault Aviation application portfolio, which uses virtual reality, has been supplemented by a new high-end promotional and demonstration tool for real-size immersive Falcon interiors. More specifically, this tool can be used to present future changes to the Falcon 6X.

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1.9 PRODUCTION AND INDUSTRIAL RESOURCES

In addition to the actions pursued as part of the "Leading Our Future" transformation plan described in paragraph 1.7 above, we also implemented robotic installation of non-destructive control in Biarritz, and modernized the Rafale fuel test device in Mérignac and the listening rooms in Istres.

1.10 TOTAL QUALITY

As part of its Integrated Management System, in 2018 Dassault Aviation renewed its EN 9100 certification, a standard specific to the aviation industry, and its ISO 14001 environmental certification.

Dassault Aviation has also established a Health and Safety at Work management system that meets the requirements of the Occupational Health and Safety Assessment Series (OHSAS) 18001 standard.

We are also monitoring our certifications for the design, production and maintenance of civil aircraft, as well as our recognition for our capability to design military aircraft and produce for the Rafale Export markets.

In our new programs, we are deploying the APQP (Advanced Product Quality Planning) quality assurance process in development, which stimulates collaborative work and focuses, very early in the process, on the control of product and process risks.

Finally, we continue to implement our program, product, process, environment, and occupational health & safety risk management measures at all Dassault Aviation entities.



2. RISK FACTORS

The Group is exposed to the following main risks and uncertainties.

2.1 RISKS RELATED TO PROGRAMS

2.1.1 Aerospace cycle

The nature of Dassault Aviation's activity exposes it to a sector risk. Our customers are sensitive to the uncertainty and volatility of the global economy and political instability:

- governments, although restricted by drastic budgetary policies, must ensure their safety and maintain their projection capability,
- in the business aviation sector, market recovery is confirmed but in a context of uncertainty amidst international tensions and signs of slowing global growth.

Competition is becoming increasingly aggressive, both in terms of commercial and price policies, and in terms of technological innovation. The advantage they enjoy in terms of economic competitiveness and flexibility remain a constraint on our sales.

To respond to this threat by adapting ourselves to a demanding market, we continue our innovation efforts, the expansion of our Falcon line, the preparation of future air combat systems, and the streamlining of our production and cost reduction.

In this context, the proper implementation of the "Leading Our Future" transformation plan is a major challenge for the Company in order to improve our competitiveness, the quality and image of our products and thus meet market expectations.

2.1.2 Control of programs

Given the complexity of the Falcon and Defense program technologies, we must ensure that we have instituted the necessary resources to meet our commitments to our customers and our development, production and delivery deadlines, in order to safeguard our net sales.

As an industrial architect and integrator, we must manage a multitude of associates, partners and suppliers while observing technical, legal and financial constraints, particularly in relation to contracts involving transfers of technology.

Our technical choices must match customer expectations. Our investment in Research and Development must take into account technological developments and result in targeted and fully-controlled innovations.

2.1.3 "Make In India"

The company initiated Make in India as part of the performance of offset obligations related to the acquisition contract for 36 Rafale India. Accordingly, the joint venture (Dassault Reliance Aerospace Limited) created in 2017 between Dassault Aviation and Reliance Infrastructure began manufacturing the first Falcon 2000 and Rafale components.

We continue to deploy our production lines and engineering department activities with our Indian partners to support scalability while controlling quality, costs and deadlines.

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2.1.4 Adjustment of technical and industrial capacity

The cycles for business aircraft and combat markets are not synchronous. To adapt to the market environment, we need to be flexible and reactive with regard to the production line, which is proving to be an ongoing challenge.

This issue is also relevant for our developments, with the 2018 launch of the Falcon 6X and the studies for future Falcon.

2.1.5 Competition

In an uncertain economic and geopolitical environment, we are subject to intense competition in our markets.

2.1.6 Pre-owned aircraft market

The recovery of the business aircraft market has allowed us to significantly reduce the number of pre-owned aircraft in stock. Nevertheless, this market remains highly dependent on the economic environment, and too many pre-owned aircraft available for sale can have an impact on demand and market prices for new aircraft.

2.2 RISKS RELATED TO THE SUPPLY CHAIN

Our production cycle is sensitive to the responsiveness of the procurement process for our manufacturing chains. A supply disruption may lead to the shutdown of our chains. Similarly, delays or failures by our associates, partners or suppliers in terms of development may cause major risks for our programs.

This last risk became real in 2017 through delays and deteriorations in performance observed for the Silvercrest engine by the Safran Group, which led to the end of the Falcon 5X program.

The Falcon 6X schedule, equipped with PW812D engines (entry into service of the aircraft in 2022), is to be monitored.

It is strategic to ensure proper management of the supply chain, selection of suppliers, control of developments up to the measurement of performance (timeliness, quality).

In addition to the standards already in place, actions are being taken in the context of the procurement and supply component of the transformation plan. This approach is made in line with the actions recommended by the aviation sector.

The introduction of multi-year contracts with suppliers in the upstream phases of programs reduces exposure to supply risks.

In the context of its activities, Dassault Aviation is potentially exposed through its suppliers to risks in the areas of human rights, fundamental freedoms, the health and safety of humans, and the environment. A vigilance plan has been put in place to control these risks (see Sections 4.8 Duty of care and 4.5.3 Purchasing policy and supply chain security).

2.3 RISKS RELATED TO THE INFORMATION SYSTEM

The scope of cyber risks is increasingly extensive, particularly for the connectivity of our aircraft, our services and our industrial tool.



A failure of our information systems could result in data loss, errors and/or delays that would prevent the Company from running smoothly. We have put in place mechanisms that can maximize the reliability, confidentiality and availability of our data.

The Group has implemented procedures to protect itself against the risk of attacks on the security of its information technology systems and to protect its highly confidential data. The Group has also taken into account changes in threats to onboard systems and the services offered to our customers.

Our disaster recovery plan in the event of system shutdown is tested annually to ensure the continuity of our operations.

2.4 RISKS RELATED TO REGULATORY CHANGES

Dassault Aviation's activities are addressed in a complex and evolving legal and regulatory framework, at the national level, European and international levels, and in particular:

- in the aeronautical domain in terms of product airworthiness,
- in social matters and health and safety at work, see Section 4.3 Human Resources information,
- in environmental matters (REACH, etc.), see Section 4.4.3 Regulatory requirements and administrative schemes,
- in economic and financial matters.

In this complex regulatory environment, risks regarding compliance, obsolescence, competitiveness or distortion of competition may occur.

2.5 RISKS RELATED TO THE FIGHT AGAINST CORRUPTION

Dassault Aviation is potentially exposed to risks related to corruption.

In accordance with Article 17 of Law No. 2016-1691 of December 9, 2016 respecting transparency, the fight against corruption and the modernization of economic life, Dassault Aviation handles these risks and takes measures to prevent and detect, in France and abroad, acts of corruption or influence peddling.

These measures are detailed in Section 4.7.1 Fight against corruption.

2.6 RISKS RELATED TO THE FIGHT AGAINST TAX EVASION

Dassault Aviation is potentially exposed to risks related to tax evasion.

We handle these risks in accordance with all applicable tax regulations, as outlined in Section 4.7.2 Fight against tax evasion.

2.7 RISKS RELATED TO THE RESPECT OF HUMAN RIGHTS

Dassault Aviation is potentially exposed to risks related to the respect of human rights.

Dassault Aviation handles these risks and is committed to respecting human rights through its Code of Ethics, internal organization, the evaluation and monitoring of its suppliers, as well as various international texts to which we adhere. The measures taken in favor of this commitment are detailed in Section 4.6 Human Rights.

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2.8 RISKS RELATED TO INTELLECTUAL PROPERTY

Innovation has become an essential tool to guarantee the success of Dassault Aviation products.

The protection of intellectual property, principally via patents, copyright fees and trademarks, is a major challenge in the protection of our assets.

In particular, Dassault Aviation uses intellectual property rights to protect its technology, to prevent competitors from using its protected technology, and to remain competitive.

Dassault Aviation has always robustly protected its innovations for reasons of confidentiality. Employees are encouraged to adopt appropriate organization required to avoid any non-protected disclosures.

Some of our innovations remain secret and evidence of their creation is produced, if necessary. Other innovations are patented.

2.8.1 Actions

The portfolio of Dassault Aviation patents continues to grow. It comprises French and foreign patents filed in strategic countries. Trademarks are also registered regularly to protect the names of the Company's leading products and services in the countries where it operates.

Awareness-raising sessions focusing on intellectual property and confidentiality are organized periodically for all employees concerned to ensure they are able to actively protect the Company's technological assets.

2.8.2 Organization

Employees are encouraged to create inventions through a pay policy that has been tailored accordingly. "Intellectual Property Representatives" are tasked with identifying the inventions to be protected within various departments of the Company.

An "Intellectual Property Committee" meets regularly to decide on protections that require strategic inventions for the Company.

2.9 RISKS RELATED TO PERSONNEL

The loss of our technical skills is a risk as they are one of our main assets and the guaranty of the quality expected by our customers.

The company's significant recruitment ambitions are facing a highly competitive job market and the need for new profiles, particularly in digital.

For several years, Dassault Aviation has been committed to a systematic policy of reducing occupational risks and improving working conditions.

2.10 FINANCIAL RISK

2.10.1 Cash and liquidity risks

The Group investment portfolio is primarily composed of money market investments as classified by the AMF, with no significant risk of impairment.



The bond investments made by the Group are investments with a short-term management horizon, and the unspecified investments, as defined by the AMF classification, are invested in short-term and money mutual funds. In addition, the majority of the investments are backed by guarantees.

2.10.2 Credit and Counterparty Risks

The Group performs its cash and foreign exchange transactions with recognized financial institutions. It divides its investments and bank accounts among these various institutions.

The Group limits counterparty risk by performing most of its sales in cash and ensuring that the loans granted to a limited number of customers are secured by export insurance guarantees (Bpifrance Assurance Export) or collateral. The manufacturing risk is also guaranteed with Bpifrance Assurance Export for major military export contracts.

Additional information is available in Notes 8 "Trade and Other Receivables" and 24.2 "Management of Credit and Counterparty Risks" to the consolidated financial statements.

2.11 MARKET RISK

2.11.1 Foreign exchange risks

Hedging portfolio

The Group is exposed to a foreign exchange risk through the parent company on Falcon sales, which are almost all denominated in US dollars.

The foreign exchange risk of the Parent Company is partially hedged by its purchases in dollars, and partly by the use of forward currency contracts and options.

The Parent Company partially hedges the cash flows that are considered highly probable. The Parent Company ensures that the initial future cash flows will be sufficient to use the foreign exchange hedges in place. The hedged amount may be adjusted according to the variability in the timing of expected cash flows.

A sensitivity analysis of the hedge portfolio may be found in Note 24.3 "Management of Foreign Exchange Risks".

Military competitiveness

Our competitiveness is also impacted by the fluctuations in the US Dollar for the sale of our military aircraft; comparisons with our competitors is done in US dollars.

Embraer shares

The Parent Company owns Embraer shares. Embraer is listed on the Brazilian market. It is stated in the Group's financial statements, based on market value at the balance sheet closing date, in Brazilian reais converted into euros. The value of the shares may therefore fluctuate according to the exchange rate between these two currencies.

2.11.2 Interest rate risks

The Group is exposed to interest rate volatility through its floating rate loans and elsewhere. However, instruments have been put in place to fix the rates of these loans.

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2.11.3 Other market risks

The Group is exposed to a risk related to price fluctuations of Embraer shares. A sensitivity analysis is available in Note 24.3.4 "Risks related to Embraer Shares".

2.12 ENVIRONMENTAL RISKS

2.12.1 Damage caused to the environment

For control of environmental risks, the Environmental Management System (EMS) of the Parent Company integrates a risk analysis methodology deployed since 2015 at all sites.

No court has ever found Dassault Aviation Group guilty of pollution or ordered it to pay compensation to repair damage caused to the environment.

The Biarritz site was subject to a 2006 prefectural order (which was supplemented in 2012) calling for an impact analysis and a treatment study for past groundwater pollution (chrome and halogenated solvents). The treatment plan was established in accordance with the management plan.

In 2018, the Dassault Aviation Group declared no environmental accidents.

2.12.2 Risks related to the consequences of climate change

Due to its geographical location, the Dassault Aviation Group has low exposure to the consequences of climate change on its industrial sites.

The fight against climate change is one of the strategic objectives of the International Civil Aviation Organization (ICAO). This is expressed in binding emissions standards for aircraft that are incorporated into the design requirements of our products.

2.12.3 Provisions and financial guarantees

Subsequent to Decree No. 2012-633 of May 3, 2012 which imposes the establishment of financial guarantees on facilities that are subject to ICPE (Environment Protection Classified Installations) legislation, the Parent Company is subject to the obligation of financial guarantees for four of its facilities. These financial guarantees were initiated in 2014 for Argenteuil and Biarritz. In accordance with regulatory deadlines, the Mérignac and Argonay sites submitted their financial guarantee proposals to their respective prefectures in December 2018.

In addition to its General Operations Civil Liability insurance policy (EUR 1.5 million for environmental damage risks), the Parent Company has subscribed to Environmental Impairment Liability insurance cover for EUR 13 million, EUR 4 million of which covers natural protected species and habitats. Since January 1, 2012, the environmental damage guarantee, as defined by European Directive 2004/35/E has been extended to include damage caused to wildlife and ecological damage. In this context, insurers regularly conduct site risk reviews.

In 2018, the Dassault Aviation Group did not have to recognize any environmental liabilities.

2.13 RISKS RELATED TO SECURITY BREACHES

The terrorist threat remained high in the territory in 2018, and the government's protection plans were maintained everywhere. The full program to bring physical systems into compliance is now being deployed at the various sites, in delegations abroad and in the main subsidiaries of the Dassault Aviation Group.



Preservation of the technical, scientific and industrial assets of the Group was strengthened by a policy to control protection procedures, by the implementation of a supplier assessment process, by a program to increase awareness among all employees, and by the implementation of a "security" step in all recruitment processes.

Cyber risk is increasingly high and resulted in very aggressive attacks on our information systems. The protection mechanisms set up demonstrated their effectiveness and allowed us to resist many ransomware attempts, financial fraud of all kinds, destabilization, and even industrial data theft. The employees most exposed to the cyber threats received specific education in this area.

Finally, the software to monitor expatriates and travelers demonstrated their relevance and facilitated anticipation of events in order to guarantee optimal safety during travel and stays.

2.14 INSURANCE

The Legal Affairs and Insurance Department implements the risk transfer policy of the Dassault Aviation Group defined by the General Management.

Coverage of all the risks generated by the aeronautical activities of Dassault Aviation and its subsidiaries (work-in-progress, changing aircraft, civil liability after delivery, maintenance and logistical support, etc.) constitutes the largest item of the insurance budget.

Coverage is obtained from a broad panel of insurers and reinsurers that specialize in the aviation industry and offer high solvency margins to ensure they are able to handle any long-term claims.

The Group sites, as well as its industrial facilities, are insured for fire and other risks.

The lead insurer, together with the Legal Affairs and Insurance Department, conducts a regular audit program to implement preventive actions to reduce risks that could disrupt our operations.

Other programs are purchased in order to reduce risks not related to aviation activity; civil liability under the headings of general operations, environmental damage, or any arising from the fleet of vehicles, as well as to cover the civil liability of company directors and officers.

The Group ensures that all insurance obtained will optimally cover changes in its risk exposure. Thus, specific insurance is subscribed as necessary, as is the case, in particular, to cover projects implemented in the context of the transformation plan launched by Dassault Aviation.

Dassault Assurances Courtage handles the placement of risks. Dassault-Réassurance handles the subscription of reinsurance portions for our aviation and fire risks.

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3. INTERNAL AUDITING AND RISK MANAGEMENT PROCEDURES

3.1 INTERNAL AUDITING OBJECTIVES

The purpose of the internal control procedures set up in our Company is to:

- ensure that the conducting of operations and management actions, and the behavior of staff fall within the framework defined by Executive Management (the Chairman and CEO and the Chief Operating Officer), applicable laws and regulations, and our Company's internal values and rules,
- verify that the information provided and communications addressed to the Board of Directors and to the General Meetings are reliable and give a true and fair view of the Company's activity.

One of the main purposes of the internal auditing system is to anticipate and control the risks resulting from the Company's activity and risks of error or fraud, particularly with respect to finance and accounting. However, as with any control system, it cannot provide absolute assurance that these risks have been totally eliminated.

Dassault Aviation draws on the reference framework of the AMF of July 22, 2010.

3.2 ENVIRONMENT AND GENERAL ORGANIZATION OF INTERNAL AUDITING

Internal auditing reference documents

The Company's internal auditing is guided by the following reference documents:

- the Quality Manual, which describes the Company processes,
- the Organization Manual, which describes the tasks and organization of each department,
- for financial and accounting activities, the "Managing Economic and Financial Data" process described in the Quality Manual,
- an Anticorruption Code and an Internal Alert Procedure complete the processes that already exist,
- a Supplier Vigilance Plan.

Internal auditing bodies

The main internal auditing bodies in Dassault Aviation are the following:

- Executive Committee

The composition and the role of this Committee are detailed in Section 1.8 of the Board of Directors' corporate governance report. Each Committee member is responsible for the internal auditing of his or her department.

The actions and recommendations decided upon by the Committee are assigned to one or more of its members, and a manager is designated to ensure coordination. At each meeting, the Committee secretary monitors the progress of these actions through to their effective completion.



- Total Quality Management Department

- *through the Internal Audit and Risk Department*

This Department ensures that the risk management process relating to corporate programs, products and activities runs smoothly. It identifies Company risks and makes sure that Executive Management is alerted of them.

- *through the Quality Management System (QMS) and Environment and Health and Safety at Work management systems*

The QMS is coordinated by the Total Quality Management Department and implemented by the Quality Control Managers, the Health Safety Environment (HSE) managers of the Establishments and the Quality Representatives of Operational Departments.

The system uses a structured document repository, comprised of process descriptions and procedures and instructions.

The Management System is monitored through a program of internal audits, quality assessments and Management reviews.

- Program Departments through Program Management

The Program Departments report to Executive Management on the completion of programs for all costs, deadlines and performance.

- Financial Department via Management Auditing

Management auditing is responsible for overseeing the budget process and economic performance.

It consists of a network of management auditors who cover all of the Company's processes. In particular, regular budget reviews allow for reporting to Executive Management and all economic performance actors.

- Ethics Department

The Ethics Department, which reports to the Chairman-CEO, is responsible for ensuring compliance with fair practices. It handles procedures implemented under the "Sapin 2" law.

Control of subsidiaries

The Company maintains an effective presence on the Boards of Directors and management bodies of its subsidiaries.

Periodic directors' reports are prepared by each subsidiary for the Parent Company.

Internal auditing

Attached to the Total Quality Management Department, the Internal Audit and Risk Department is tasked with assessing risk management and internal auditing processes.

The Internal Audit and Risk Director reports to Executive Management on the results of the audits and the recommendations implemented. The Internal Audit Director also presents the internal audit plan to Executive Management for approval prior to its implementation.

Directors' Report

The Audit Committee meets with the Internal Audit and Risk Director and examines the Group's major risks, the audit plan and the findings of the audits.

External auditing factors

The Company operates in a particular external auditing environment due to its French government contracts and aviation activity:

- the calculation of our cost price components (hourly rates, procurement and non-production expenses) as well as the cost prices of our activities related to French government contracts are examined by the French Defensive Procurement Agency (DGA),
- in the field of military aviation, product monitoring, our acknowledgment of design skills and our acknowledgment of skill in the production of Rafale Export is overseen by the DGA,
- the Company, in the field of civil aviation, possesses design, production and maintenance certifications. These certifications are subject to ongoing monitoring by the airworthiness authorities that have issued them:
 - the Direction Générale de l'Aviation Civile (DGAC) (French Civil Aviation Authority),
 - the European Aviation Safety Agency (EASA),
 - the Federal Aviation Administration (FAA).

The Parent Company and its subsidiaries DFJ and DFS are EN9100-, ISO9001- and ISO14001-certified. Audits conducted in 2018 by outside organizations confirmed the compliance of our management systems with the requirements of the standards.

3.3 RISK MANAGEMENT PROCEDURES

The risk management procedures detailed in Chapter 2 of this report are based on a risk mapping updated by all of the Company's major departments for the activities that concern them.

The risks identified in this mapping, whatever their nature, have been assessed according to their seriousness and their frequency of occurrence. The procedures for treating risks are also recorded in this mapping.

The risk management procedures are defined and applied by the departments of the Company.

In particular, audits of Program risks at Dassault Aviation are performed through regular risk reviews held by the Program Departments with the Operational Departments.

Risks are monitored at the various stages in a product's life cycle based on various reviews. The purpose of these reviews is to identify new risks and monitor and reduce existing risks.

The Total Quality Management Department, through the Internal Audit and Risk Department, notifies Executive Management of risks by transmitting the list of most critical risks identified.

Finally, the Risk Committee's mission, based on risk mapping and a campaign of interviews with all Departments, is to:

- validate the identified risks, their classification and the risk reduction actions carried out,
- ensure that new risks are identified, taken into account and their financial impacts measured.



To this end, the Committee conducts interviews with those in charge of the Company's processes who are responsible for updating the risk mapping.

This Committee also ensures, through interviews with Dassault Falcon Jet, Dassault Falcon Service and Sogitec Industries executives, that the risk management system in the subsidiaries is taken into account.

It is chaired by the Senior Executive Vice President, Total Quality, assisted by the Director of Internal Audit and Risks, secretary of the Committee, and reports to the General Management.

3.4 INTERNAL AUDITING PROCEDURES FOR FINANCIAL AND ACCOUNTING PURPOSES

Organization of the financial and accounting function

This function, described in the Quality Manual, is managed by the Financial Department for both the Parent Company and Group consolidation. This aforesaid function consists of:

- validating and auditing the Company's financial and accounting information system, implemented by Information Systems General Management,
- updating the consolidation software configuration used by the Parent Company and its subsidiaries.

General references

The financial statements are prepared in accordance with:

- the accounting standards applicable to French companies:
 - regulation ANC 2017-03 approved by the Decree of November 3, 2017,
 - subsequent opinions and recommendations of the Accounting Standards Authority.
- the international standards for the valuation and presentation of IFRS financial information in force as of December 31, 2018, as adopted by the European Union, which must be applied for fiscal periods beginning on or after January 1, 2018, for the consolidated financial statements,
- the operating and control procedures described in the "Economic and Financial Data Management" process, supplemented by the special procedures for the preparation of company and half-yearly financial statements of the Parent Company and the Consolidated Group. These procedures and the IT applications used by the finance and accounting department are regularly reviewed by the Statutory Auditors in connection with their annual certification of the financial statements.

Financial and accounting information process

In 2018, the Financial Department centralized the accounting data and produced the financial statements for the Parent Company and the Group.

It distributed a schedule of the tasks and controls to be performed at each period-end to the relevant persons in the Parent Company and subsidiaries. This schedule indicated the start date for the Statutory Auditors' certification procedures at approximately four weeks prior to the Board meeting at which the financial statements are submitted for approval.

In parallel, the financial reports and statements are reviewed by a review committee independent of the teams participating in the drafting of these documents.

Directors' Report

3.5 2018 ACTIONS

The Internal Audit and Risks Department and the Total Quality Management Department continued to monitor the internal audit procedures for all parties involved by using the risk mapping that was updated during the year.

They performed the audits in order to verify the proper application of the internal auditing procedures.

3.6 2019 ACTION PLAN

For 2019, the Internal Audit Department and the Total Quality Management Department are tasked with continuing the audits that ensure oversight of internal controls and risk management, and the proper application of procedures.



4. NON-FINANCIAL PERFORMANCE DECLARATION

4.1 IDENTIFICATION OF RELEVANT NON-FINANCIAL RISKS

The CSR risks relevant to the Company were identified according to the process detailed in Section 3.3 for the following six themes.

Theme	Relevant CSR risks	Policies, due diligence procedures and indicators	Sustainable Development Goals (SDGs) affected
HSE regulatory compliance	§2.4	§4.3.5 and §4.4.3	 
Climate change	§2.12.2	§4.4.1 and §4.4.2	
Employment and skills	§2.9	§4.3.1	 
Compensation and benefits	§2.9	§4.3.2	 
Health, safety and workplace conditions	§2.9	§4.3.5	 
Supply chain: customer duty	§2.2	§4.5.3 and §4.8	 

Directors' Report

4.2 GENERAL POLICY

The Dassault Aviation Group pursues a Corporate Social Responsibility (CSR) policy that contributes to the Sustainable Development Goals. In this context, the Parent Company has been a signatory of the United Nations Global Compact since 2003.



The Dassault Aviation Group, through its corporate agreements and HSE policy, is committed to the well-being of its employees. Many actions to improve workplace conditions and reduce occupational risks are carried out with the support of physicians, prevention specialists and the HR function. In addition, the Parent Company is committed to the replacement of the main hazardous substances used in its activities.

§4.3.5 and §4.4.2



Convinced that diversity is a major issue and a performance factor for the company, we affirm our commitment to the prevention of discrimination. We also strive to promote equality of opportunity and treatment through the implementation of company agreements.

§4.3.1, §4.3.2 and §4.3.4



We develop close links with regional and international industrial fabrics, thus contributing to the sustainable economic growth of the global aviation industry.

In addition, the Dassault Aviation Group is committed to maintaining and developing the skills of its employees, taking into account its operational needs and the individual desires of its employees.

§4.3.1, §4.3.3, §4.5 and §4.8



As part of our "Leading Our Future" transformation plan, we are modernizing our industrial tools through the use of better performing and more environmentally friendly technologies.

§4.4.1, §4.4.2 and §4.4.3



Optimizing resource and energy consumption and controlling and managing waste are fundamental elements of our HSE policy. *§4.4.2 and §4.8*



The innovations made by Dassault Aviation's teams in aviation design contribute to reducing the impact of the air sector on the environment in a permanent quest for customer satisfaction. *§4.4.1 and §4.4.2*



The zero tolerance policy, the strengthening of procedures and resources for fighting against corruption characterize our search for rigorous business ethics. *§4.6, §4.7 and §4.8*



4.3 HUMAN RESOURCES INFORMATION

People are at the core of our activities. The strength of our Group lies in the individual and collective performance of its employees.

4.3.1 Employment and skills

Contribution to SDGs

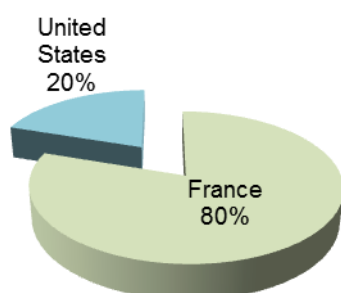


The Group's companies pursue an employment policy based on recruitment and the development of their employees' skills in a constantly changing environment.

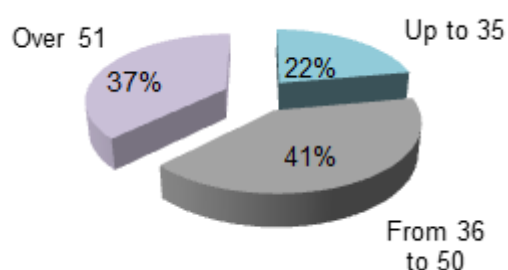
Workforce monitoring

	Employees as of 12/31/2018	Employees as of 12/31/2017
Dassault Aviation Parent Company	8,205	8,045
Dassault Falcon Jet	2,282	2,317
Dassault Falcon Service	601	629
Sogitec Industries	406	407
Total	11,494	11,398

The breakdown of the Group's workforce between France and the United States is identical to 2017.



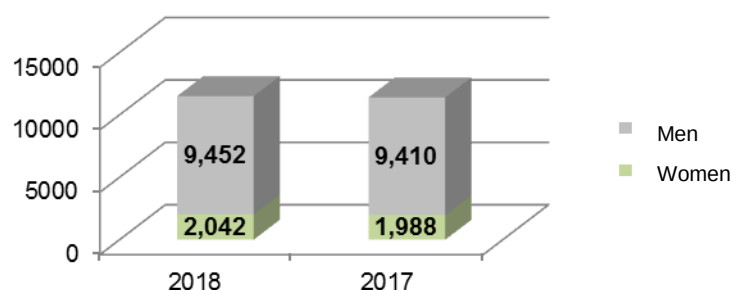
Workforce distribution by age group is as follows:



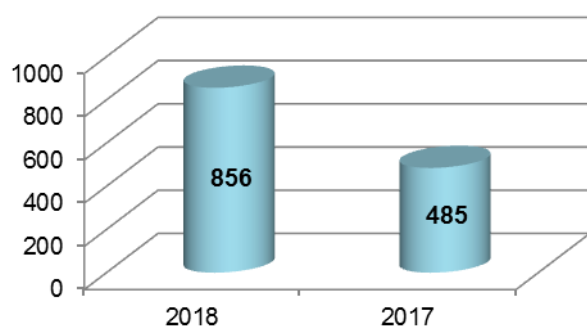
Directors' Report

Women represent 18% of the Group's workforce, an increase from 2017.

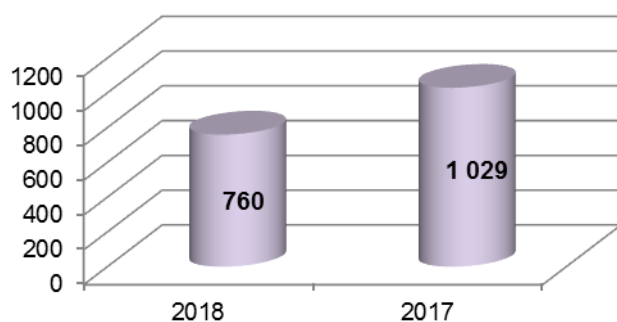
Breakdown of the Group's workforce by gender



Given the numerous projects at Dassault Aviation and the combination of two Falcon developments (Falcon 6X and Future Falcon) and the start of the development of the new F4 standard for the Rafale at the same time as the beginning of work on the SCAF, the Mother Company and the Group relaunched their recruitment effort in 2018.



In addition, there was a decrease in the number of leavings from the Dassault Aviation Group in 2018 compared to 2017.



Individual lay-offs represent about 8% of all of those departures (20% in 2017, mostly at Dassault Falcon Jet).

The number of resignations for French companies in the Group was 92 in 2018, which represents less than 1% of the workforce of those companies.

Recruitment and integration

To prepare for the recruitment of the talents of tomorrow and meet current needs, the Group's companies continue their cooperative efforts with secondary and higher education institutions.



To support educational institutions in their pedagogical projects, help students plan their careers and increase awareness of our Company, employee ambassadors meet with students and faculty to pass on our skills. These actions are carried out at the Company level or by our regional sites.

The Group's companies also promote knowledge of their businesses by organizing tours of their facilities for high school teachers and middle and high school and university students. These upstream recruitment efforts are backed by an internship policy designed to facilitate entry into working life. In 2018, the Parent Company and its French subsidiaries had 416 interns.

To promote the integration of new hires, the companies of the Group have implemented integration programs aiming at promoting their activities, their organization and their functioning.

Furthermore, the Mother Company organizes the "Flight Days" ("*Journées Envol*"), which bring together newly recruited managers, are an opportunity for each of the members of the Executive Committee to present their activities. Visits to military air bases allow new employees to talk with our customers about the use of our products and services and understand their expectations.

Development and transfer of skills

The implementation of the management agreement for jobs, career paths and the generation contract, which was signed in 2016, reflects our commitment to the development and transfer of skills.

In particular, this agreement must make technical excellence permanent and develop a dynamic approach to the provisional management of businesses and expertise. The objective is to better control and anticipate their growth and to ensure the development and transmission of skills.

The Parent Company launched the restructuring of its Skills Conservatory, which began in 2017. In addition to the design and implementation of modules on specific technical topics (sealing or joining through fastening, for example), the Conservatory now offers courses in business training, as illustrated by the "*Industrialization: from conception to completion*" training course intended for process operators. These sessions supplement the employees' initial training with the contribution of specific skills necessary to perpetuate the Dassault Aviation expertise and meet the expected quality requirements.

In order to detect and prepare future Managers more effectively, the Dassault Institute has deployed new training courses (Dassault Team Manager, Dassault Entreprise, etc.) that supplement its management programs, open to French subsidiaries of the Group. In 2018, 268 employees were trained. Courses related to project and program management were reviewed to meet the development priorities of the Program Departments. In 2018, 201 employees took these training courses.

At the Group level, the actions taken in 2018 maintained and developed the level of employee skills by taking into consideration the operational needs of the companies and individual wishes. The investment in professional training represented 238,416 hours of training for the Dassault Aviation Group, a decrease over 2017.

DFJ has also set up a tuition assistance plan to enable its employees to join a higher education program that will develop their skills. This program must be directly related to the position held by the employee or relate to their career development prospects. In 2018, 44 employees benefited from this plan.

Supporting change

To support our transformation, a change management expert joined the Human Resources Department in June 2018. Her action focuses on supporting digital transformation, which is the lever of the Leading Our Future plan.

In addition, the specialization of the sites established under the transformation plan leads to the transfer of activities between institutions. The Company has defined specific measures to facilitate the resulting changes.

Directors' Report

4.3.2 Compensation and benefits

Contribution to SDGs



The Dassault Aviation Group is committed to keeping its employees motivated at a high level by offering interesting projects along with an attractive compensation policy.

The Group's compensation policy rewards and inspires loyalty among its employees while adapting to the economic situation and to the economic environment in order to maintain its competitiveness in a highly competitive market.

In addition, the Group's French companies are developing a very attractive employee participation policy. Sector-based participation agreements are signed to distribute a large portion of profits to employees. These companies also promote employee savings by offering company savings plans with a wide choice of investments.

Dassault Aviation and Sogitec also have a collective retirement savings plan which is financed by Dassault Aviation.

In addition, the Parent Company and Dassault Falcon Service give employees a sense of involvement in the financial results of the company by entering into a particularly advantageous incentive agreement.

The average annual salary of Group employees in 2018 was EUR 57,092. The average annual salary at the Parent Company, including profit-sharing and incentives, was EUR 67,372. The French subsidiaries of the Group hold derogatory participation agreements.

Furthermore, the French companies of the Group paid EUR 25.8 million into the works committees to fund social and cultural activities, representing 5% of the total payroll.

4.3.3 Employee relations

Contribution to SDGs



The Dassault Aviation Group implements an active employee relations policy. Regular negotiations take place with the staff representatives, giving rise to a staff dialog based on the quest for collective agreement.

In 2018, for the Parent Company:

- six agreements and amendments were signed for working time organization, the wage policy, the organization of collective bargaining in the company and the collective retirement savings plan. This information is available on the Parent Company's intranet site,
- four negotiations were in progress in 2018 concerning electronic voting for the upcoming professional elections, the roles, resources and careers of employee representatives, quality of work life (agreement unanimously signed by the union organizations at the beginning of 2019) and the 2019 wage policy.



The regular staff dialog within the Group helps to maintain a climate propitious to the smooth operation of the Parent Company and of its subsidiaries Sogitec and Dassault Falcon Service. It operates at several levels:

- Staff representative bodies
 - Local and central Works Committees,
 - Health & Safety and Working Conditions Committees,
 - Staff Delegates,
 - Specialized Commissions (economic, training, employment and gender equality, prevention of psychosocial risks, disabilities, etc.),
 - Central Committee of the Economic and Social Unit (ESU).
- Union organizations
 - Local Union Delegates and central Union Delegates,
 - Representatives of the Union Sections,
- The Board of Directors
 - a director representing the employees with voting rights was appointed by the union organization that obtained the largest number of votes in the elections of the work committees of the Parent Company and of its subsidiaries located in France,
 - the ESU Central Committee is also represented by one of its members.

4.3.4 **Diversity and equality of opportunity**

Contribution to SDGs



The Dassault Aviation Group is very committed to principles of non-discrimination. Firmly believing that diversity is a major issue and a performance factor for the company, Group companies restate their commitment to prevent discrimination and commit to promoting equal opportunity and treatment.

This desire is manifested in compliance with national regulations, the signing of corporate agreements and the implementation of action plans in the following areas:

- professional gender equality,
- employment of disabled people,
- employment of young workers and seniors,
- careers of staff representatives.

Professional gender equality

In 2018, Dassault Aviation implemented the agreement for professional and wage equality for women and men, which was signed unanimously by the social partners in 2017. It continues its policy of expanding diversity in the company, especially in the technical and industrial businesses. As a result, the Company's proactive policy of recruiting women employees is expressed in a commitment that at least 25% of executive hires and 20% of non-executive hires will be women for the duration of the agreement. In 2018, those hires represented 26% for executives and nearly 24% for non-executives.

Directors' Report

Through this agreement, Dassault Aviation intends to pay particular attention to the training and career development of women, notably by continuing its policy of providing access to Dassault Institute management training, and promoting women to positions of responsibility. In addition, the Company has offered special experimental training to some women managers to help them develop their leadership and influence by teaching them to value their qualities and special talents and to assert their own style of leadership.

In 2018, the French subsidiary Sogitec Industries continued its commitments under their agreement to promote professional equality between women and men, which was signed in 2016. The French subsidiary Dassault Falcon Service has signed a new agreement whose priority is the implementation of actions to foster sustainable change in company attitudes and practices to encourage greater diversity in the aviation maintenance sector.

Employment of disabled people

In 2017, all social partners of the Parent Company signed a company agreement on the employment and retention of people with disabilities. All of the company's stakeholders affirm their willingness to continue the mobilization in order to promote the policy that has been pursued for many years within Dassault Aviation. In particular, the Parent Company has financed many adaptations of workstations so that it can continue to employ people with disabilities.

It also renewed its actions upstream to train people with disabilities in the aviation professions through work-study programs as part of its partnership with the association Hanvol¹.

At the same time, Dassault Aviation has strengthened its communication and support measures to promote recognition of the quality of disabled workers and their renewal.

The Parent Company's commitments regarding the employment of people with disabilities have resulted in a direct employment rate of 5,6%. Statutory increases related to the employment of older employees or young people with disabilities have allowed us to achieve an overall employment rate of 7,4% (for a legal minimum of 6%).

In 2018, Sogitec Industries continued to implement its agreement for the employment of disabled workers, which was signed in 2016. Concrete measures have been taken such as the adaptation of workstations accompanied by appropriate training, employee awareness campaigns about disabilities in the workplace and schedule accommodations. In addition to these actions, there were actions for the protected sector and disabled trainees.

In late 2018, the Dassault Aviation Group employed 534 disabled workers, compared to 496 in 2017. This increase can be explained by the recruitment efforts of people with disabilities in the Group's companies and by regular communication about ways to recognize the status of disabled workers.

Employment of young workers and seniors

Dassault Aviation continued its policy of hiring young people through work-study programs, internships and recruitment at the end of initial training.

At the same time, the Parent Company promotes end-of-career planning and facilitates the transition between activity and retirement. As a result, Dassault Aviation has supplemented its retirement preparation program for the relevant employees with a personalized retirement information interview. Conducted with an outside counselor, it allows the employee to assess his or her professional situation, obtain a pension estimate, and better prepare for his or her future based on the actual programs.

These interviews were initiated at two institutions and have been very successful. They were deployed at a third site this year. In 2018, 241 employees took these interviews.

¹ An association created in 2010 with the support of the French Aerospace Industries Group (GIFAS) and other companies in the sector.



Careers of staff representatives.

A Parent Company agreement on staff representative roles, resources and careers has been in force since 2010 and facilitates the functioning of trade unions and staff representative institutions. Many resources in addition to the ones required by law are available to them: time off for trade union duties, budgetary allocations for trade union organizations, and material resources. The agreement also provides a career monitoring mechanism to ensure equal treatment.

4.3.5 Health, safety and workplace conditions

Contribution to SDGs



Dassault Aviation preserves the workplace health and safety of all of its employees through three pillars of its health and HSE policy: "promoting employee health", "ensuring a healthy and safe work environment" and "meeting regulatory requirements".

Quality of work life

Dassault Falcon Service has set up a concierge service and a company nursery since several years. Dassault Aviation will implement similar devices following the agreement signed with all Union Organizations in January 2019. This agreement also provides the right to disconnection. Those provisions are already effective at Sogitec and Dassault Falcon Service.

Promoting employee health**Ensuring the health monitoring of employees**

The Dassault Aviation Group has set up autonomous occupational health services at most of its sites. They ensure the individual monitoring and respond to individual requests from employees.

In addition, employees who occupy positions at risk or are expatriates or on mission receive specific monitoring and specialized support.

Finally, the Mother Company has put in place an agreement with the Psychological Support and Resources Institute (IAPR), which offers a listening and support system for employees who are victims of stress and psychological trauma in the context of their work.

Conducting prevention and awareness campaigns

Prevention and awareness campaigns, offered locally or by the Company and led by occupational health services and HSE services are organized regularly or occasionally around various themes:

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- flu prevention (awareness campaign and free vaccinations),
- prevention of heat wave-related risks,
- prevention of low back pain and injuries from carrying heavy loads,
- prevention of addictions (alcohol, psychotropic products, games, cyberdependence),
- help and guidance with quitting smoking,
- food hygiene,
- prevention of psychosocial risks,
- prevention of cardiovascular diseases,
- prevention of sleep disorders.

Promoting retention and return to employment

Upon return from an absence due to maternity leave, occupational disease or accident, a return visit is organized. This visit ensures that the employee can resume his or her activity without restriction.

If the state of health of the employee requires it, appropriate measures are studied so that he or she can retain, insofar as possible, a job corresponding to his or her qualifications.

The occupational physician may recommend modifications to and adaptations of the workstation. The physician may also recommend reclassification and professional training to facilitate the redeployment of the employee or his or her professional reorientation.

Guaranteeing a healthy and secure work environment

A successful culture of prevention

The sharing of a culture of safety by all employees of the Group is necessary to achieve a higher level of performance. In 2018, Dassault Aviation continued its efforts to deploy this culture through the perpetuation of practices and resources for proactive management of workplace health and safety. In addition, support for establishments has been stepped up to strengthen their maturity through the creation of standards, sharing of experience or good practices and management-focused awareness campaigns.

Improving working conditions through general application of the principles of ergonomics

Consideration of ergonomics in Dassault Aviation's activities remains a priority.

As far as organization is concerned, the Parent Company has expanded its networks of ergonomics agents and Physical Activity Risk Prevention trainers. Training in ergonomics and communication actions, for the tertiary sector in particular, were conducted in 2018.

The transformation of workstations continued, taking into account the existing manual movement diagnostic. This transformation aims to reduce the risk of accidents and occupational diseases and to adapt positions for use by disabled people.

At the same time, innovative prospective studies are being conducted to introduce cobot-like technologies, collaborative robots, assisted gloves and automated postural stress assessment systems at workplaces where they are needed.

Continuing to reduce physical and chemical hazards at workstations

Controlling the risk of workplace accidents and occupational diseases also means reducing physical and chemical risks. Actions to secure complex devices, such as polyenergy, and the reduction of exposure to chemical risks (substitution plans, renovation of paint cabins or ventilation systems) contribute to the achievement of the objectives set.



Monitoring indicators

For the Dassault Aviation Group, absenteeism in 2018 was 82,856 days of absence, from all causes, excluding maternity and parental leave.

The number of occupational accidents causing absence was 157, the same as in 2017. The corresponding number of days lost was 5,619 days, compared with 7,051 in 2017. The frequency rate fell from 8.77 to 8.68. The severity rate decreased from 0.39 in 2017 to 0.31 in 2018.

Finally, across the Group as a whole in 2018, 14 cases of occupational illnesses were identified by the various competent authorities, compared with 19 in 2017. These were primarily musculoskeletal disorders.

A regulatory oversight system

Each Dassault Aviation entity has a regulatory oversight system. This system identifies the requirements applicable to its activities and allows compliance actions to be carried out if necessary. The system in place covers the risk of regulatory non-compliance and anticipates the potential impacts of future regulations.

Compliance with regulatory requirements contributes significantly to reduction of the risk of workplace accidents and occupational diseases.

4.4 ENVIRONMENTAL INFORMATION

For over fifteen years, the Dassault Aviation Group has been committed to an environmental strategy based on:

- an ISO 14001-certified management system deployed in stages:
 - Dassault Falcon Jet (Little Rock – 2002),
 - Parent Company (2002-2006 by site, Company certification from conception to support in 2007),
 - Dassault Falcon Service (Le Bourget – 2015 and Mérignac – 2018),
 and 2015 version certification since 2018,
- an Environment function staffed within the Dassault Aviation Group by a central coordination team, dedicated teams by establishment and functional representatives by process,
- raising employee awareness of environmental issues,
- involvement in professional bodies that promote the environment:
 - the International Aerospace Environmental Group (IAEG), as a founding member since 2011, whose objectives are to promote and facilitate the integration of environmental concerns in the world aerospace industry,
 - the French Aerospace Industries Group (GIFAS), for which Dassault Aviation is a member of the Environment and Sustainable Development Commission,
- a 2018-2020 HSE policy for the Parent Company that places the environment at the core of three of its four fundamental pillars:
 - improving the environmental performance of our products and activities,
 - meeting regulatory and compliance requirements,
 - having responsible procedures in place.

Directors' Report

4.4.1 Improving the environmental performance of our products

Contribution to SDGs



By taking action on the environmental performance of its products, the Dassault Aviation Group contributes to the control of risks related to climate change.

Over the past forty years, technological progress with regard to engine efficiency, aerodynamics and weight saving has considerably reduced fuel consumption, CO₂ emissions and noise levels from our aircraft.

Dassault Aviation is pursuing this path and has subscribed to the reduction objectives defined by the Advisory Council for Aeronautics Research in Europe (ACARE):

- 50% reduction of noise levels on the ground in 2020 and 60% in 2050,
- 50% reduction in CO₂ emissions in 2020 and 75% in 2050,
- 80% reduction in NO_x emissions in 2020 and 90% in 2050.

Several demonstrators have been set up and evaluated, such as new tail configurations for improved environmental performance. The results obtained show that, for the concept of the "2020 business aircraft", the CleanSky technologies permit reductions in CO₂ emissions of around 30% and a 50% reduction in the number of persons exposed to the operations, compared with the reference "2000 business aircraft".

CleanSky 2 is an extension of the CleanSky program. Its projected contribution to the targets is a 20% to 30% reduction in CO₂ and noise levels on the ground. In this context, Dassault Aviation has established a new consortium to study a second generation of materials and manufacturing, maintenance and recycling technologies with an even more reduced environmental impact.

Since 2008, Dassault Aviation has been a member of the Civil Aviation Research Advisory Council (CORAC), which was established in the wake of the Grenelle de l'Environnement Law. The purpose of CORAC is to achieve the environmental objectives set at the European level by 2020 through research and technological innovation actions. In this context, Dassault Aviation is also working to reduce the environmental footprint of aircraft through involvement in several projects:

- GENOME, for the development of the "more electric" aircraft,
- RING, for the development of biocide coatings without Chrome VI.

4.4.2 Improving the environmental performance of our activities

Contribution to SDGs



As part of its HSE policy, the Parent Company has set environmental footprint reduction targets for the period 2018-2020. The desired performance improvement targets energy consumption, water consumption, air emissions and waste recovery.



In general, the performances observed for 2018 are directly related to an increase in the Company's production activity. This leads to an increase in all consumption and emissions in the annual balance sheet.

Energy consumption

Energy is mostly consumed within the framework of the industrial activity of the production sites (electricity and gas), and the aviation activity (kerosene).

In Gigajoules	2018		2017	
	Parent Company	Group	Parent Company	Group
Excluding kerosene energy (ENE001)	517,120	891,612	499,309	851,045
<i>Electricity (ENE001-a)</i>	<i>305,622</i>	<i>529,361</i>	<i>292,486</i>	<i>509,861</i>
<i>Natural gas (ENE001-b)</i>	<i>210,472</i>	<i>357,748</i>	<i>205,330</i>	<i>335,973</i>
<i>LPG (ENE001-c)</i>	<i>0.12</i>	<i>0.12</i>	<i>0.23</i>	<i>0.23</i>
<i>Heating oil (ENE001-d)</i>	<i>1,027</i>	<i>4,503</i>	<i>1,493</i>	<i>5,210</i>
Kerosene (ENE002)	303,789	586,020	310,905	655,475
Total	820,909	1,477,632	810,214	1,506,520

Despite the increase recorded in 2018, non-kerosene energy consumption by the Parent Company decreased by 17% in 10 years, a result of the actions carried out as part of Dassault Aviation's environmental policy. In 2018, efforts focused on controlling energy consumption (centralized technical management), building insulation and replacing energy-intensive equipment (lighting, furnaces, air heaters, air dryers, motors and compressors) with more efficient equipment.

Water consumption

The majority of water comes from public water supply systems and to a lesser extent from groundwater pumping. Most (85%) water is used for non-industrial purposes.

In cubic meters	2018		2017	
	Parent Company	Group	Parent Company	Group
Municipal water (EAU001-a)	111,557	150,472	94,876	142,496
Groundwater (EAU001-b)	34,428	34,447	21,077	21,130

For the past ten years, the analysis of water consumption stations and strict management have led to a 21% reduction in overall use by the Parent Company. In 2018, actions such as the rehabilitation of networks, installation of meters and the continued improvement of sanitary networks were carried out.

Raw materials and other products

Aluminum, titanium, steel and composites are the materials most widely used for the manufacturing of our products. In terms of mass, aluminum, 80% of which comes from recycled material, is preponderant in aircraft structures.

The Dassault Aviation Group is taking action to reduce its raw material impact:

- the development of new technologies, such as composite or direct metal and plastic fabrication (Aeroprime project, see Section 4.5.4), which consumes less raw material,
- the use of centralized platforms to regulate the volumes of raw material consumed, and the preparation of a new hardware platform,
- selective sorting of scrap metal and reinjecting it into the raw material sector, according to circular economy principles.

Directors' Report

The modernization of the machine fleet and the changes in processes conducted, as encouraged by the "Leading Our Future" transformation plan, contribute to the optimization of the quantities of chemicals used such as solvents, chemical machining products, paints, detergents and cutting fluids. Since 2013, 339 hazardous products have been replaced or are being substituted.

Paper and ink consumption are minimized by default programming on computers of printing in two-sided mode and the introduction in 2018 of printing by badge.

Atmospheric discharges

Direct greenhouse gas (GHG) emissions

Direct greenhouse gas emissions come mostly from air activity, combustion installations (boilers and emergency sets) and electricity consumption.

In tons of CO ₂	2018		2017	
	Parent Company	Group	Parent Company	Group
Scope 1 (AIR001-S1)	32,970	60,492	36,336	69,546
Scope 2 (AIR001-S2)	4,848	30,285	4,875	32,757
Total 1 + 2 (AIR001)	37,818	90,777	41,211	102,303

The decrease observed in 2018 is related to a lower air activity than in 2017 and to a decrease in refrigerant emissions.

As they do each year, Dassault Aviation Parent Company and Dassault Falcon Service produced, for their air activity, a CO₂ emissions statement under the "Emission Trading Scheme" regulations.

Indirect GHG emissions

Dassault Aviation has identified its significant indirect greenhouse gas emissions.

The Falcon's design has resulted in fuel consumption and CO₂ emissions 20% lower than for competing aircraft with comparable performance, and up to 40% lower for some models. Despite this, the modeling of the environmental footprints of our products, which is based on a Life Cycle Analysis (LCA) approach, shows that the use of aircraft is behind the majority of the Company's indirect emissions (more than 95% of total emissions).

Although the carbon footprint from our customers' air activity is predominant, Dassault Aviation Parent Company has:

- limited professional travel by providing employees with collaborative tools, videoconferencing or self-service office space,
- deployed solutions within the mobility plans of the relevant sites,
- reduced transport flows through establishment of distribution platforms for chemicals and materials.

Emission of volatile organic compounds (VOC)

Dassault Aviation's production activities require the implementation of a variety of chemical products, including solvent-based paints and cleaning products that create VOCs. VOC emissions are monitored under solvent management and establishment emission control plans.



in tons of VOC	2018		2017	
	Parent Company	Group	Parent Company	Group
Total quantity (AIR004)	39	121	36	135

The reduction in VOC emissions continues in 2018 (down 45% since 2012 for the Parent Company) due to changes in industrial processes and chemical product substitutions. Optimized container packaging decreases evaporation during transfer operations, and the widespread use of product-impregnated wipes contributes to these results.

Other atmospheric discharges

Phasing out the heavy fuel oil boilers restricted SO₂ and NO_x emissions to the discharges from the aviation activity only (kerosene).

Wastewater

The production sites likely to generate industrial wastewater are equipped with detoxification stations or wastewater treatment installations of the "zero liquid discharge" type. For heavy metals, these equipments have discharge rates lower than the value limits set by the regulations.

Out of all sites involved in the monitoring of the Release of Hazardous Substances in Water (RSDE), only Méri-gnac is subject to continuous monitoring.

In order to prevent accidental pollution, the sites are equipped with hydrocarbon separators, fitted dumping areas and containment basins for fire-extinguishing water. Sites situated over water tables have instituted monitoring of the water quality (piezometer) when their activities so require.

Waste

The waste is divided into non-hazardous waste (paper, cardboard, metals, etc.) and hazardous waste (contaminated packaging, oils, metal hydroxide sludge, solvents, etc.). Sorting is carried out at the source by employees who are constantly informed of new requirements.

In tons	2018		2017	
	Parent Company	Group	Parent Company	Group
Non-hazardous (DEC001-a)	5,288	6,428	3,904	5,171
Hazardous (DEC001-b)	1,561	2,339	1,620	2,388
Total (DEC001)	6,849	8,767	5,524	7,559
Recycling % (DEC002)	85	79	78	69

In accordance with circular economy principles, the sites identify their waste flows and focus on two areas:

- reduction at the source of the amount of waste produced with, for example, the short-term re-use of thermal cladding and insulation, the introduction of fuel-powered vacuums to replace the use of cloths, or the modification of the assembly process in composite polymerization of reusable bladders,
- identification of recovery and disposal solutions best suited to their local environment.

The significant increase in non-hazardous waste and the recovery rate is mainly related to the production of metal filings.

Directors' Report

Three main channels are used for the recycling and recovery of our waste:

- metal, paper, cardboard and plastic recycling,
- energy recovery,
- bio-waste recovery.

The new recovery channels put in place in 2018 by Dassault Falcon Jet also contribute to the improved Dassault Aviation recovery rate.

In addition, to avoid accidental pollution, each site has a grouping area specifically designed for the storage of its waste.

Fight against food waste and insecurity

Dassault Aviation is aware of the food waste problem. However, only company restaurants are involved in reducing it. Since they are mainly run by specialized service providers, the Dassault Aviation Group does not carry out any specific actions.

Respect for animal welfare and a responsible and sustainable diet

The Dassault Aviation Group's activities have no impact in these areas.

4.4.3 Regulatory requirements and administrative regimes

Contribution to SDGs



Each Dassault Aviation entity has a regulatory oversight system that makes it possible to identify the requirements applicable to its activities and carry out compliance actions when necessary.

The system in place contributes to controlling risk of regulatory non-compliance and anticipation of the potential impacts of planned regulations.

Compliance with regulatory requirements significantly contributes to the control of environmental accident risks and of exposure risks for employees and the areas surrounding Dassault Aviation sites.

The Dassault Aviation Group's French industrial sites are subject to ICPE (Environment Protection Classified Installations) legislation. As such, they all have administrative authorizations.

- No site is SEVESO classified.
- The Argenteuil, Argonay, Istres, Mérignac and Dassault Falcon Service sites are under the authorization rules.
- The Seclin site is under the registration scheme.
- The Biarritz, Martignas, Saint-Cloud and Poitiers sites are under the declaration scheme.
- The Sogitec Industries sites are not classified.

The industrial sites of foreign subsidiaries are monitored in accordance with the regulations of their country.

4.5 CORPORATE RESPONSIBILITY INFORMATION

4.5.1 Sustainability policy

Contribution to SDGs



Due to the specific nature of its activities, the Dassault Aviation Group is committed to a policy of sustainability, both in the choice of its partners and in its purchasing policy. The service life of our aircraft requires us to anticipate the constraints relating to their life cycle from the time of their design. To achieve this, Dassault Aviation Group innovates, supported by efficient digital industrial processes such as "*Product Lifecycle Management*" (PLM).

4.5.2 Culture of safety and performance

Our markets are highly competitive. In order to satisfy our clients and meet their expectations with regard to high technology, performance and innovation, we optimize the features of our aircraft, the on-board services and the associated ground services.

In the framework of our security and performance policy, we work closely with the French and international airworthiness authorities, both civil and military. Since Dassault Aviation confirmed to the DGA and DSAE authorities in 2017 its commitment to extend and maintain the airworthiness approvals for the military FRA 21-G and FRA 145 aircraft, work is progressing.

We are regularly audited by such authorities (the French General Directorate for Civil Aviation, the French General Defence Procurement Delegation, etc.) to ensure that we strictly comply with the regulations on design, manufacture and testing, maintenance, and security management.

The audits conducted by the OSAC in October 2017 and the EASA in November 2018 verified the compliance of our organization with the navigability regulatory requirements for civil production.

4.5.3 Corporate commitment for industrial and purchasing activities

Contribution to SDGs



In the framework of its industrial and purchasing activities, the Dassault Aviation Group :

- supplies, purchases, manufactures and integrates all the elements making up its aircraft, and then, for Falcon business aircraft, creates the internal fittings according to the requirements of its customers,
- controls its supply chain,
- implements materials for replacement that ensure the best service to customers, handles any procurement instabilities to comply with its long-term commitments for aircraft production and throughout the aircraft service cycle.

All these activities have a strong territorial, economic and social impact.

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SMEs and intermediate-sized enterprises

For several decades, the Dassault Aviation Group has worked with and supported a broad network of French aerospace companies and contributes to the growth of many SMEs. The very nature of Dassault Aviation's products and the related services leads to a relationship that is necessarily balanced over the long term with its SME, intermediate-sized enterprise or major group suppliers. Active participation in professional bodies such as the GIFAS (French Aerospace Industries Association) allows Dassault Aviation to support SMEs and ETIs of the French aerospace supply chain in their plans to improve competitiveness.

On January 10, 2014 and on January 14, 2019, Dassault Aviation signed the SME Defense Pact membership agreement with the French Ministry of Defense, thereby reaffirming its commitment to advancing the French SMEs and ETIs in the Defense sector, and to strengthening good business practices. This commitment is confirmed through discussions with the Ministry that are aimed at renewing and developing the guidelines for this agreement.

Dassault Aviation acts to support the development of French SMEs and intermediate-sized enterprises.

- At trade fairs abroad (Aero India in Bangalore in India, LIMA in Malaysia, IDEX in Abu Dhabi, the Dubai Airshow in Dubai, EBACE in Geneva, Switzerland, etc.), Dassault Aviation, in relation with GIFAS, promotes exchanges and meetings between local contractors and SMEs and intermediate-sized enterprises.
- In the prospective countries, Dassault Aviation involves SMEs and intermediate-sized enterprises in cooperation and offsets.
- Dassault Aviation presents business opportunities abroad in regional conferences.

Make in India

The order of 36 Rafale by the Indian Air Force was made possible through a strong commitment by Dassault Aviation in "Make in India". This initiative, which was launched by the Indian government in September 2014, intends to transform India into a "Global Design and Manufacturing Hub".

Programs related to "Make in India" are detailed in Section 1.4.1.

Purchasing policy and supply chain security

Contribution to SDGs



Our purchasing policy aims to secure our supply chain by strengthening the structural evaluation of our suppliers. This evaluation has two phases: authorization, which authorizes the referencing of a supplier, and monitoring, which makes it possible to ensure that it remains compliant with our reference system.

A supplier approval procedure has been in place since 2007. In 2016, Finance and Security components were added to this procedure. In 2018, the Sapin 2 and Duty of Care aspects were added to supplement the Prevention of Corruption and Influence Peddling components on the one hand, and the HSE and Human Rights / Basic Freedoms components on the other.

The monitoring of suppliers takes into account the same themes.

We are taking steps to improve supplier performance:

- evaluation of control of the management of our suppliers' supply chain,
- increase in the panel of qualified auditors to support our suppliers.



This approach, which is applied to all areas of purchasing, is in line with the GIFAS Industrial Performance project and the methodologies developed by SPACE (*Supply Chain Progress towards Aerospace Community Excellence*) in the Aerospace sector.

The guiding principles of our purchasing policy lead us to integrate our suppliers in the industrial and logistical processes, with a view to:

- better responsiveness,
- sustainable relationships,
- cost control,
- optimization of the consumption of resources,
- inventory reduction.

The strengthening of collaborative work with our suppliers is based on the deployment of the "BoostAeroSpace/Air Supply" digital platform, the standard in our industry.

Our corporate approach is passed on to our suppliers by way of our technical and industrial specifications, our Quality/Environment purchasing clauses and our contractual requirements.

Efforts to raise awareness of potential environmental risks are conducted with Dassault Aviation subcontractors. These actions target subcontractors whose industrial processes have a potential environmental impact.

To strengthen monitoring of our suppliers, we have a Supply Chain Committee. This committee is made up of stakeholders in the supply process of the Parent Company. It makes all decisions and takes all strategic actions in this area.

Internal training of our buyers and suppliers results in the issuing of a "Passport" (Buyer Passport and Supplier Performance Manager Passport) to give them the keys necessary for the performance of their missions.

Volume of purchases

In 2018, the order commitments of Dassault Aviation Group represented approximately EUR 2.9 billion.

Each subsidiary of Dassault Aviation manages its own purchasing.

The purchases made outside the Group by Dassault Falcon Jet for executing its missions (distribution of aircraft and spare parts, internal fittings, maintenance) represent EUR 302 million.

These purchases are mostly made in US dollars.

Purchases outside the Group made by Dassault Falcon Service (airline company, maintenance center) represent approximately EUR 56 million for the year. French suppliers are responsible for nearly 70% of these purchases.

Purchases made outside the Group by Sogitec Industries represent about EUR 38 million. 98% of these purchases are made from French companies.

Directors' Report

4.5.4 Territorial influence

Contribution to SDGs



Significant territorial influence:

- Dassault Aviation has nine sites in France and locally manages a large number of suppliers,
- Dassault Falcon Service, located on two sites in France, also has a location at the Moscow-Vnukovo Airport,
- Sogitec Industries is established at three sites in France,
- Dassault Falcon Jet, directly or through its subsidiaries, is established at seven sites in the United States and two sites in Brazil,
- In India, Dassault Reliance Aerospace Limited will produce civilian and military aerostructure elements at the Nagpur site.

In 2016, Dassault Aviation obtained renewal of the Approved Economic Operator certification.

We actively participate in regional organizations such as Chambers of Commerce & Industry, Regional Economic & Social Councils, Environmental Committees and the Franco-American Chamber of Commerce, the Little Rock Regional Chamber of Commerce, State of Arkansas Workforce Development and the Delaware River Administration.

We also participate actively in competitiveness hubs and regional professional organizations, such as: SAFE in Provence-Alpes-Côte d'Azur, BAAS, Aerospace Valley, Aérocampus, the campus of ESTIA, the Agence de Développement et de l'Innovation (ADI), Alpha route des lasers (Alpha RLH), Bordeaux Technowest, PDIE and AEROTEAM in the Nouvelle Aquitaine region, Plan de Déplacement Inter-Entreprises under the sub-supervisory authority of CCI93, System@tic and Astech in Île-de-France, and development agencies in Arkansas, Delaware, and New Jersey (Economic Advisory Committee).

On November 5, 2018, Dassault Aviation signed a memorandum of understanding with the Auvergne-Rhône-Alpes region for the industrialization of additive manufacturing applied to aeronautics. The Aeroprint project is driven by excellence. All public and private actors in Auvergne-Rhône-Alpes combine their expertise and know-how to create, with the support of the region, a reference additive manufacturing line.

4.5.5 Cooperation with the world of education

Dassault Aviation invests on the material level and the human level to prepare those who will be joining us at the end of their studies.

The highly technical nature of our activities leads us to develop cooperation with the world of education focused on the sponsorship of skills.

In this context, Dassault Aviation:

- contributes to the quality and relevance of the training courses of our future employees and all future professionals in our industry,
- participates in the discussions held in the framework of professional organizations such as GIFAS and with teaching bodies and institutions (engineering schools, universities, and vocational schools) to adapt the curriculum to the identified medium or long-term needs of the aeronautical industry,



- encourages its employees to supervise technical projects and participate in business or multidisciplinary courses and examination boards,
- organizes trade meetings (forums, company presentations, etc.) and arranges visits to our sites for pupils, students and their advisors (teachers, career counselors, principals, etc.). Two challenges supported by Dassault Aviation make it possible to give teams of students in technical domains experience in situations close to their future activity.

We also give students the opportunity to get to know us better through internships, international volunteer programs and work-study contracts.

We also contribute to the general development of the technical skills of future technicians, engineers and researchers by creating or participating in teaching and research chairs. This contribution takes the form of financial support, which we supplement with the participation of our experts in the development of educational and research projects for the benefit of the academic and scientific community.

Finally, for the development of the activities of our subsidiaries and to benefit the entire aviation industry in India more generally, in 2018, Dassault Aviation created the Dassault Skill Academy. This entity coordinates various institutional and academic partners in France and India to develop new aeronautical training courses on-site, from the Bac professionnel to higher education levels.

4.5.6 Charitable actions

The Dassault Aviation Group is actively involved in many charities:

- La Course du Cœur, for organ donation;
- Rêves de Gosses, to give children with disabilities an opportunity to have their first flight;
- Hanvol, for employment training and insertion of people with disabilities;
- Fondation Antoine de Saint-Exupéry pour la Jeunesse, which works to improve the lives of young people in many countries;
- Fondation des Œuvres Sociales de l'Air and the association Les Ailes Brisées, which aim to help flight crew members who were victims of accidents and their families;
- Les Mirauds Volants, which enables the visually impaired to fly planes;
- L'École des pupilles de l'air, an equality of opportunity actor;
- Association pour le Développement des Œuvres Sociales de la Marine;
- and Technowest, for the insertion of young people in the professional world.

We have developed:

- a partnership with the associations 4A and Canopée (donations of equipment and financial support for the restoration of aircraft by members who are passionate about aviation),
- and activities for the association Vieilles Racines (former employees of aviation companies).

Through sponsorship agreements, Dassault Aviation supports the Fondation de l'Armée de l'Air, the Fondation d'Auteuil pour la prévention et la protection de l'enfance and the Bourget Air and Space Museum. Dassault Aviation also has a partnership with Aviation Sans Frontières (ASF).

In the United States, Dassault Falcon Jet takes part in initiatives including Habitat for Humanity, the Arkansas Food Bank, the American Red Cross and the Muscular Dystrophy Association. Humanitarian missions were also conducted in 2017 in the Americas after the hurricanes.

Directors' Report

4.6 HUMAN RIGHTS

Contribution to SDGs



The Dassault Aviation Group, whose main facilities are located in France and the United States, is committed to the respect of all national and international laws and regulations regarding the protection of human rights, especially as regards occupational health and safety of employees and non-discrimination in the workplace. It acts in conformity with the Universal Declaration of Human Rights, and the provisions of the OECD and the International Labor Organization relating to Human Rights.

Since 2003, the Dassault Aviation Parent Company has been a member of the UN Global Compact. It has adopted the ten principles, including the one dedicated to respect for human rights.

The Dassault Aviation Group holds a Group Code of Ethics which reflects these commitments. This Code is available on the Company's intranet site and is given to new Dassault Aviation hires. The Code also pays particular attention to respect for human rights and fundamental labor rights and to the proper application of the essential principles:

- non-discrimination on grounds of origin, morals, gender, disabilities, political or religious opinions, trade union membership;
- respect for the individual and his or her private life;
- maintenance of a safe working environment and conditions.

(See Section 4.3 Human resources information)

Our general purchasing conditions require our suppliers and service providers to comply with our Code of Ethics when they execute their orders. Our corporate approach is passed on to our suppliers in our technical and industrial specifications and quality and environment purchasing clauses.

Under our purchasing and supply chain security policy, the evaluation procedure for suppliers and service providers in place since 2007 now incorporates parameters for evaluating respect for human rights. During the supplier approval phase, the human rights and fundamental freedoms aspects are evaluated through a questionnaire in which the supplier summarizes its commitments in those areas. Each structural change on the part of the supplier triggers a follow-up phase in which the same themes and principles (finance, security, ethics, hygiene, environment and human rights) are reanalyzed.

Environmental risks are also taken into account to respect the right to a healthy environment of a sufficient quality to live in dignity and comfort, in accordance with the 1992 Rio Declaration.

Finally, the Ethics Department, an independent body that reports to the Chairman and Chief Executive Officer, is required to intervene in the internal alert procedure for any report that it receives, especially when harassment and discrimination are involved.



4.7 BUSINESS ETHICS

Contribution to SDGs



4.7.1 Fight against corruption

Through its Code of Ethics, Dassault Aviation Group asserts the values that serve to unite the actions of all its employees. This charter also sets out a code of conduct that the Group follows with its customers, partners, suppliers and subcontractors.

Observing a strict code of ethics, the Group commits to acting in accordance with the Convention of the Organization for Economic Cooperation and Development (OECD), the United Nations Convention and national laws.

For many years, the Dassault Aviation Group has implemented strict internal procedures to prevent corruption and ensure the integrity, ethics and reputation of the Group in its industrial and commercial relations.

Pursuant to the Sapin 2 Law of December 9, 2016 concerning the fight against corruption and the modernization of economic life, the Dassault Aviation Group supplemented and enhanced its process to prevent and detect corruption and influence peddling in both the Parent Company and its subsidiaries under the guidance of the Chairman and Chief Executive Officer who promotes a zero-tolerance policy. The measures required by the Sapin 2 Law have been effective within the Group as of December 31, 2018.

An Ethics Department, an independent body that reports to the Chairman and Chief Executive Officer of Dassault Aviation, was created. It is tasked with implementing and monitoring procedures related to the fight against corruption, in compliance with the new regulation. Risk mapping has been deployed within the Group. Its purpose is to identify, analyze and rank our risks of exposure to corruption. This mapping specifies and summarizes activities and risks of corruption and associated influence peddling throughout the Group's various processes. It takes into account the sectors of activity, both military and civilian, as well as the geographical areas in which the company deploys its activity. The mapping led the Dassault Aviation Group to strengthen existing anti-corruption procedures and put new measures in place.

An Anti-corruption Code specifically dedicated to the prevention of and fight against corruption was implemented in the Dassault Aviation Group alongside the Code of Ethics. This Code defines and illustrates the different types of employee behavior to be proscribed as likely to constitute acts of bribery or influence peddling. It is integrated into the internal rules of the company's various sites. Any violation is therefore punishable. The Anti-Corruption Code is illustrated by an Anti-Corruption Guide consisting of practical examples and scenarios.

An Internal Alert Procedure that allows employees and outside and occasional agents to signal a crime or offense, violations of international commitments, laws or regulations, or even the Anti-Corruption Code, was also implemented. The Ethics Department is responsible for receiving and processing internal alerts. For this purpose, a dedicated e-mail address accessible to employees equipped with an encryption system has been created. This process has not been activated for acts of corruption or influence peddling for as long as it has existed.

The Ethics Department launched specific training sessions for the managers and personnel most exposed to risks of corruption and influence peddling. Three training sessions taught by a specialized law firm took place during 2018. The content of each session is set in consultation with the Ethics Department, the relevant Management Department and the law firm. Its purpose is to provide customized training for each of the

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most exposed categories of employees. These sessions must allow the fundamental principles of the Sapin 2 Law to be acquired based on concrete situations.

The procedures for evaluating customer, supplier and consultant situations have been strengthened (see Section 4.6 Human Rights).

Special internal and external accounting control procedures intended to ensure that the books, ledgers and accounts do not mask acts of corruption or influence peddling have been deployed within the Finance Department, thus reinforcing existing procedures.

Finally, the Ethics Division conducted three follow-up missions for the new evaluation procedures for first-tier suppliers and civilian aircraft customers. In particular, the supplier evaluation monitoring procedure revealed that the evaluation process that incorporated the Sapin 2 issue is securely in place.

A page dedicated to the Ethics Department is available on the Parent Company Intranet site. This page presents the Company's Ethics Policy, Ethics Department contacts, and the reference documents, including the Anti-Corruption Code, the Anti-Corruption Guide and the Internal Alert Procedure.

A page dedicated to ethics is also accessible on the Group's website.

The compliance program deployed by Dassault Aviation and its subsidiaries Dassault Falcon Service, Dassault Falcon Jet and Sogitec demonstrates our commitment to effectively combating corruption and influence peddling.

Moreover, Dassault Aviation is also a signatory of a number of international commitments to prevent corruption: the Global Pact, Common Industry Standards, and Global Principles. The Company is also a member of several ethics and corporate responsibility committees at the national, European and international levels (see website www.dassault-aviation.com, ethics page).

4.7.2 **Fight against tax evasion**

Dassault Aviation complies with the tax regulations in force and, as such, pays taxes in the countries in which it operates.

4.8 **DUTY OF CARE**

Contribution to SDGs



The Company's risk assessment process (see Section 3.3 Risk management procedures) makes it possible to manage the risk of serious harm in the environment, workplace health and safety, human rights and fundamental freedoms for the activities of the Group. In addition, a vigilance plan was defined to cover the suppliers of the Parent Company and its subsidiaries with whom an established commercial relationship has been maintained.



4.8.1 Dassault Aviation process prior to the duty of care law

Through its Code of Ethics, adherence to the UN Global Compact in 2003, organization and internal processes (Human Resources, Environment, Ethics, etc.), Dassault Aviation takes into account the risks generated by its activities and services in the fields of workplace health and safety, the environment, human rights and fundamental freedoms.

In this context, the risks of serious harm directly related to the activities of the Dassault Aviation Group are handled by the Company Risk Committee for both Dassault Aviation and its subsidiaries (see Section 3.3 Risk management procedures).

Since 2013, a specific process to evaluate and monitor production subcontractors related to environmental and workplace health and safety risks has also been in place. To that end, 156 production subcontractors have been evaluated. We were able to identify the 20% lowest-ranking subcontractors in terms of consideration of environmental and chemical issues in their activities. Of those, 22 underwent a surveillance audit with information sessions since 2015.

4.8.2 Process set up under the Duty of Care law

Pursuant to Law 2017-399 of March 27, 2017 concerning the duty of vigilance of parent companies and companies placing orders, Dassault Aviation strengthened its process through the establishment of an oversight plan to identify the risks of serious violations with its suppliers and its subsidiaries' suppliers. This oversight plan is based on the existing Company organization.

The main components of the oversight plan are:

- risk mapping by country, taking into consideration environmental criteria, rights and freedoms in the workplace, and working conditions. It is based on global indicators published periodically by specialized organizations such as Yale University, UNICEF and ILO,
- risk mapping by activity (industrial, tertiary, completion, infrastructure, etc.),
- an assessment of the risks by integrated supplier in the approval and oversight process, which relies on the standardized questionnaires of the International Aerospace Environmental Group (IAEG) and questionnaires specific to the company,
- an onsite evaluation process that may result in an audit for high-risk subsidiaries and suppliers,
- a mechanism for the internal reporting of potentially risky situations detected among suppliers that gave anyone outside the Company an additional opportunity to use one of the existing means of communication to submit any reports.

This vigilance plan was presented to the relevant subsidiaries for further deployment with their specific suppliers in 2019. Suppliers common to the subsidiaries and Parent Company are evaluated by the Parent Company.

In the context of its missions, the Department of Total Quality coordinates the vigilance plan and ensures the correct operation and effectiveness of the process established.

The Dassault Aviation supplier panel consists of under 50 companies with whom we have an established commercial relationship located in States that we consider to be a potential risk. An evaluation of those suppliers has been completed or is in progress.

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The other suppliers are evaluated in the accreditation and monitoring process. In this context, over 200 suppliers were evaluated.

As a result of these evaluations, we did not detect any immediate high-risk suppliers. Nevertheless, among all of the suppliers evaluated, 4% were identified as presenting a potential risk due to a weakness in one of the areas of evaluation. These suppliers were placed under surveillance and will be given a special audit in 2019.



5. DASSAULT AVIATION, PARENT COMPANY

5.1 ACTIVITIES

The activities of Dassault Aviation (Parent Company), particularly in the area of program evolution, Research & Development, and production, have been presented to you within the framework of the Group's activities.

5.2 RESULTS

5.2.1 Order intake

Parent Company **order intake in 2018** was **EUR 4,332 million**, compared with EUR 2,620 million in 2017. **Export** order intake represented **77%**.

The change was as follows in EUR millions:

Year	Defense		Falcon	Total	% Export
	France	Export			
2014	418	250	3,429	4,097	87%
2015	358	7,889	1,269	9,516	96%
2016	662	7,432	1,124	9,218	92%
2017	489	223	1,908	2,620	80%
2018	996	1,525	1,811	4,332	77%

The order intake item is composed entirely of firm orders.

Falcon programs

Falcon order intake in 2018 was **EUR 1,811 million**, compared with EUR 1,908 million in 2017.

41 Falcon were **ordered in 2018** (51 orders and cancellation of the last 10 Falcon 5X). In 2017, 38 Falcon were ordered (41 orders and 3 cancellations of Falcon 5X).

Defense programs

2018 Defense orders totaled **EUR 2,521 million**, compared with EUR 712 million in 2017, due in particular to the order of **12 Rafale** following the entry into force of the option exercised by Qatar and the **F4 Standard notification**.

5.2.2 Net sales

Net sales in 2018 totaled **EUR 4,399 million**, versus EUR 4,184 million in 2017.

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Their trends were as follows, in **EUR millions**:

Year	Defense		Falcon	Total	% Export
	France	Export			
2014	721	224	2,250	3,195	75%
2015	550	1,035	1,741	3,326	81%
2016	500	710	1,951	3,161	81%
2017	494	1,378	2,312	4,184	86%
2018	1,002	1,371	2,026	4,399	76%

Falcon programs

Falcon net sales in 2018 amounted to **EUR 2,026 million**, compared with EUR 2,312 million in 2017.

40 Falcon were **delivered in 2018**, compared to 49 Falcon delivered in 2017.

Defense programs

2018 defense net sales amounted to **EUR 2,373 million** compared with EUR 1,872 million in 2017. It was favorably impacted by the increase in Rafale deliveries and the delivery of the F3-R Standard.

Indeed, **9 Rafale** were delivered to Egypt in 2018 versus 8 in 2017. In addition, **3 Rafale** were delivered to France in 2018, versus 1 in 2017.

5.2.3 Backlog

The backlog of the Parent Company as of December 31, 2018 was **EUR 18,426 million**, compared with EUR 18,505 million at December 31, 2017.

The **Falcon backlog** stood at **EUR 2,279 million**, compared with EUR 2,507 million at December 31, 2017. In particular, it includes **53 Falcon** compared with 52 as of December 31, 2017.

The **France Defense backlog** stood at **EUR 2,682 million**, compared to EUR 2,687 million as of December 31, 2017. In particular, this includes **28 Rafale**.

The **Defense Export backlog** stood at **EUR 13,465 million**, compared with EUR 13,311 million at December 31, 2017. It includes in particular **36 Rafale India, 36 Rafale Qatar, and 1 Rafale Egypt**.

5.2.4 Net income

Net income for 2018 was **EUR 442 million**, compared to EUR 310 million in 2017.

In 2019, the personnel will receive EUR 131 million from profit-sharing and incentives tied to 2018 results, including:

- profit-sharing: EUR 111 million
- incentive plans: EUR 20 million

These amounts represent **27% of salaries** received in 2018. Under a formula identical to the mandatory legal participation, employees would have received EUR 26 million in profit-sharing for 2018.



5.2.5 Allocation of earnings

If you approve the accounts for FY 2018, we propose that you allocate the net earnings for the year, which is EUR 442,437,677.28, increased by the retained earnings from previous fiscal years, i.e. EUR 2,195,573,880.46 and reduced by the amount of EUR 29,425.60 allocated to the legal reserve and dividends applied to shares other than treasury shares ^(*) to the retained earnings balance.

() The amount of dividends which, in accordance with the provisions of the 4th paragraph of Article L. 225-210 of the French Commercial Code, may not be paid in relation to the treasury shares held by the Company, shall be reallocated to the Retained Earnings item.*

5.2.6 Five-year results summary

The Dassault Aviation five-year summary is shown in Note 33 to the Annual Financial Statements.

5.2.7 Tax consolidation

Our Company opted for the tax consolidation scheme in 1999. Since January 1, 2012, the Group's tax consolidation scope includes Dassault Aviation, Dassault Aéro Service and Dassault Aviation Participations. A tax integration agreement, tacitly renewable for five-year periods, was signed with these companies.

5.3 RISK MANAGEMENT

The risks and uncertainties to which the Company is exposed are the same as those outlined regarding the Group in Section 2 "Risk factors" above, since the Parent Company plays a predominant role within the scope of consolidation.

5.4 TERMS OF PAYMENT

In application of the law, Dassault Aviation implemented the necessary procedures to assure payment to its suppliers at EOM (End-Of-Month) +45 days. The composition of unpaid past-due supplier invoices received by the balance sheet date was as follows (in EUR millions, VAT excluded):

	1 to 30 days	31 to 60 days	61 to 90 days	91 days and over	Total
Late payment tranches					
Number of invoices involved	3,796				
Total amount of invoices involved (before VAT)	14.9	6.0	3.0	20.7	44.6
% of FY purchases (before VAT)	0.45%	0.18%	0.09%	0.63%	1.36%
Contractual payment terms: EOM + 45 days.					

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The composition of unpaid past-due customer invoices issued by the closing date was as follows (in EUR millions, VAT excluded):

	1 to 30 days	31 to 60 days	61 to 90 days	91 days and over	Total
Late payment tranches					
Number of invoices involved	5,751				
Total amount of invoices involved (before VAT)	52.1	10.7	3.4	46.0	112.2
% of FY net sales (before VAT)	1.18%	0.24%	0.08%	1.05%	2.55%
Payment periods: defined in the general sales terms.					

5.5 SHAREHOLDER INFORMATION

5.5.1 Capital structure

As of December 31, 2018, the share capital of the Company is EUR 66,789,624. It is divided into 8,348,703 shares, each with a par value of EUR 8. The shares are listed on the regulated "Euronext Paris" market – Compartment A – International Securities Identification Numbers (ISIN Code): FR0000121725. They are eligible for deferred settlement. In 2016, following the increase in the free-float, Dassault Aviation joined the following market indices: Sociétés des Bourses Françaises 120 (SBF 120) and the Morgan Stanley Capital International World (MSCI World).

As of December 31, 2018, the shareholding structure of Dassault Aviation is as follows:

Shareholders	Number of shares	%	Exercisable voting rights ⁽²⁾	%
GIMD	5,196,076	62.2	10,314,316	76.8
Float	2,289,624	27.4	2,294,226	17.1
Airbus SE	825,828 ⁽³⁾	9.9	825,828	6.1
Treasury shares ⁽¹⁾	37,175	0.5	-	-
TOTAL	8,348,703	100.0	13,434,370	100.0

⁽¹⁾ Treasury shares recorded in the "fully registered shares" account, without voting rights.

⁽²⁾ Pursuant to the Florange Law, and in the absence of contrary provisions in the articles of association of Dassault Aviation, shares held in a registered account for more than two years are entitled to double voting rights.

⁽³⁾ Shares underlying the bonds exchangeable for Dassault Aviation shares issued by Airbus SE on June 9, 2016.

5.5.2 Information on capital, shareholders and voting rights

Direct or indirect shareholdings in the Company of which it is aware, pursuant to Articles L. 233-7 and L.233-12 of the French Commercial Code are set forth in the table above.

As of December 31, 2018, 2,152 shares (0.03% of the share capital) were held by one of the corporate investment funds whose members are current or former employees of the Company.

Pursuant to Law No. 2014-384 of March 29, 2014, "seeking to reconquer the real economy," and since April 3, 2016, shares issued by the Company and held in a registered account for two years or more are entitled to double voting rights.

The Company has not issued any securities representative of its current capital. The only securities giving rights to Dassault Aviation shares are the bonds issued by Airbus SE on June 9, 2016. The Company did not create any stock options in 2018.



The General Meeting of September 23, 2015 authorized the Board of Directors to allocate, in one or more stages, existing performance shares of the Company (to the benefit of Company employees or certain employee categories it may determine, and to the benefit of eligible corporate officers of the Company). The General Meeting states that the Board of Directors shall determine the identity of the beneficiaries of such allocations and, as required, the conditions and the criteria for allocating the shares.

This authorization was for a maximum of 40,500 shares representing 0.44% of the capital as of September 23, 2015. It was the responsibility of the Board of Directors to determine the length of the vesting and holding period for such shares. This authorization was valid for a period of 38 months from said General Meeting.

Pursuant to this authorization (see Table 9 of the Board of Directors' Report on Corporate Governance), on March 7, 2018 the Board of Directors decided to award 850 performance shares to the Chairman-Chief Executive Officer and 725 performance shares to the Chief Operating Officer. To acquire them, the following performance criteria had to be met:

- Parent Company net margin level,
- qualitative assessment of individual performance.

In addition, this same Board Meeting defined the following other conditions:

- a vesting period of one year, expiring on March 7, 2019,
- presence in the workforce at the end of the vesting period,
- a one-year holding period, beginning on March 7, 2019 and ending on March 6, 2020 inclusive,
- starting on March 7, 2020, the retention of 20% of those shares for the duration of their term.

Since the authorization granted by the General Meeting of September 23, 2015 to the Board of Directors was only for 38 months, a similar authorization was granted by the General Meeting of May 24, 2018 to the Board of Directors. It affects a maximum number of 35,600 shares representing 0.43% of the share capital as of May 24, 2018. It is the responsibility of the Board of Directors to determine the length of the vesting and holding period for such shares. This authorization is valid for a period of 38 months from that General Meeting.

The Shareholders' Meeting has not agreed to delegate any authority or powers to the Board of Directors regarding capital increases.

Since the General Meeting of May 20, 2015, there has been a statutory obligation to provide information on the crossing of ownership thresholds for any fraction equal to or greater than 1% of the capital and voting rights of the Company, and any multiple of that percentage.

The Company's Articles of Association do not include any restrictions on the exercise of voting rights or on the transfer of shares.

No shareholder has special control rights. In particular, there is no shareholding system offering employees specific control.

5.5.3 Payment of the dividend in shares

The Annual General Meeting of May 24, 2018 offered the option to each shareholder to receive, in part or in full, the payment of their 2017 dividend in new shares of the Company. Because of the option exercised by some shareholders for payment of the dividend in shares, the Chairman and Chief Executive Officer, acting

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pursuant to the sub-delegation granted by the Board of Directors, noted the creation of 36,782 new shares and the corresponding increase in the Company's capital on June 27, 2018.

5.5.4 Securities transactions by corporate officers

Securities transactions executed in 2018 by Corporate Officers were:

- the acquisition of performance shares by the Corporate Officers on March 7, 2018 (see Board of Directors' Report on Corporate Governance); and
- subscription by the Corporate Officers of new shares in payment for the 2017 dividend.

No other acquisition or sale of Dassault Aviation shares by the Officers was executed. Such transactions, when they occur, must be reported to the AMF and the Company, pursuant to the provisions of Article L. 621-18-2 of the French Monetary and Financial Code and Articles 223-22-A et seq. of the General Regulations of the AMF.

5.5.5 Agreements between shareholders

There is no shareholders' agreement between Groupe Industriel Marcel Dassault (GIMD) and Airbus Group SE. However, the following two agreements are in place:

- a) Agreement between the French government, Airbus Group SE (formerly Airbus Group N.V.) and Airbus SE:

Pursuant to Article L.233-11 of the French Commercial Code, the Company has been informed by the French Commissioner of State Holdings that on June 21, 2013, the French government signed a shareholders' agreement with Airbus Group N.V. and Airbus Group SAS that established concerted action with respect to Dassault Aviation.

This agreement, to last 90 years, provides as follows:

- Airbus Group SAS may exercise its voting rights in General Meetings following consultation with the French government,
- the French government is granted a right of first refusal and a right of first offer in case Airbus Group SAS were to seek to dispose of all or part of its shares in the stock of Dassault Aviation.

Airbus SE, which also signed the agreement, is bound by these commitments.

- b) Agreement between the French government and GIMD:

In application of Article L.233-11 of the French Commercial Code, the Company was informed by GIMD that, on November 28, 2014, the French government signed an agreement with GIMD, which would enter into force on December 2, 2014. The purpose of this agreement is to confer to the French government preemptive rights in case of transfer of Dassault Aviation shares by GIMD that would drop below the 40% threshold in Dassault Aviation capital, and in case of any subsequent share transfers below this threshold.

This agreement does not constitute an act in concert between the French government and GIMD, each remaining at total liberty to manage its shareholding and exercise its voting rights.

These two agreements have no impact on the Company's governance.

GIMD holds the majority of the capital and voting rights in Dassault Aviation.



5.5.6 Implementation of a share buyback program

In order to allow Dassault Aviation to trade its own shares market or off-market, the Shareholders' Meeting of May 24, 2018 authorized the establishment of a new share buyback program, identical to the programs approved on January 28, 2015, May 19, 2016 and May 18, 2017.

This new authorization, valid for a period of 18 months as of May 24, 2018 (until November 23, 2019 inclusive), ends, on the date it was implemented by the Board of Directors on July 19, 2018, the share buyback program previously authorized by the Shareholders' Meeting on May 18, 2017, for the unused portion of this program.

This share buyback program is in line with the provisions of Articles L.225-209 et seq. of the French Commercial Code and European Regulation 596/2014 of April 16, 2014.

This share buyback authorization may be used by the Board of Directors for the following objectives:

- to cancel shares in order to increase the profitability of shareholders' equity and earnings per share,
- to ensure market trading or liquidity of Dassault Aviation stock through an investment services provider under a liquidity contract compliant with an ethics charter recognized by the French Financial Markets Authority,
- to transfer or allocate shares to Company employees and Executive Officers and/or associated companies under the conditions and in accordance with the law, particularly in case of the exercising of stock options or allocations of existing performance shares, or by granting and/or subscription of existing shares in an employee stock ownership scheme,
- to retain shares with a view to subsequent use, to hand them over as payment or in exchange, including under the scope of potential external growth transactions, of up to 5% of the share capital,
- to remit shares upon exercise of rights attaching to securities providing access to Dassault Aviation's capital,
- to implement any market practice that would be recognized by the law or by the French Financial Markets Authority.

Shares could, within the limits imposed by the regulations, be acquired, sold, traded or transferred by any means, on whatever market (regulated or not), on a multilateral trading facility (MTF), via a systematic internalizer or over-the-counter through buyback of blocks of shares or otherwise, at times that the Board of Directors or the person acting in a sub-delegated capacity decides, in accordance with the provisions provided for by law.

These means include the use of available cash as well as recourse to any derivative financial instruments, including the use of options or warrants, and without limitations.

The authorization given by the General Meeting to the Board of Directors entitles Dassault Aviation to buy its own shares up to a limit of 10% of its capital, with a unit price ceiling of EUR 1,700 exclusive of acquisition costs, subject to adjustments linked to capital transactions, particularly through the incorporation of reserves and allocation of performance shares and/or division of the par value or consolidation of shares.

The maximum amount to be used to purchase the Company's shares was EUR 1,413,026,400; this condition is combined with the condition for a 10% cap on the Company's share capital. This program was not used in 2018. Because of the capital increase on June 27, 2018, 834,870 shares could be acquired which, with a cap of EUR 1,700 per share, would represent a maximum of EUR 1,419,279,000.

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The General Meeting conferred all powers to the Board of Directors, with an option to sub-delegate where authorized by the law, to place any stock market or off-market orders, sign any agreements, draw up any documents including information documents, set the terms for the Company's market or off-market dealings, as well as the terms and conditions for acquisition and disposal of shares, to make any declarations including to the French Financial Markets Authority, fulfill any formalities and, in general, do what is necessary to close these transactions.

On July 19, 2018, the Board of Directors, which implemented this new share buyback program, sub-delegated the aforementioned powers to the Chairman and CEO.

The General Meeting also conferred all powers to the Board of Directors if the law or the French Financial Markets Authority were to extend or add to the objectives authorized for the share buyback program, in order to bring to public attention, within applicable legal and regulatory terms and conditions, any amendments with regard to the program's objectives.

As of December 31, 2018, the Company still held 37,175 treasury shares, allocated for distribution of performance shares and the establishment of a possible liquidity contract to stimulate the market or ensure the liquidity of the stock through an investment services provider.

In order to allow the Company to act at any time with regard to its own shares, on February 27, 2019, the Board of Directors proposed to the General Meeting of May 16, 2019, that a new share buyback program be launched under the same conditions (13th resolution).

Pursuant to the provisions of Articles L.225-211 and R.225-160 of the French Commercial Code, the Company maintains registers of the purchase and sale of shares acquired and sold in the context of its share buyback program.

5.5.7 Authorization of reduction in the Company's share capital

On May 24, 2018, the General Meeting authorized the Board of Directors, under the same terms as the authorization of May 18, 2017, to:

- reduce its share capital by way of cancellation, in one or more stages, of all or some of the shares acquired by the Company under the scope of its own share buyback program, and limited to 10% of the capital per 24-month period,
- allocate the difference between the buyback value of canceled shares and their nominal value to premiums and available reserves.

To this end, the General Meeting has granted all powers to the Board of Directors to set the terms and conditions for any capital reductions consecutive to any cancellation operations decided upon.

This authorization was given for a period that expires at the end of the Ordinary General Meeting called to approve the financial statements for the year ended December 31, 2018.

No share of Dassault Aviation stock was canceled in 2018.

In order to allow the Company to reduce its capital at any time, on February 27, 2019, the Board of Directors recommended to the General Meeting of May 16, 2019, that it authorize the Board to reduce the capital of the Company through the cancellation of shares purchased or to be purchased under a share buyback program (14th resolution).



5.5.8 Significant agreements entered into by the Company

The Company did not enter into any major agreement that would be amended or automatically terminated in the event of a change in control of the Company.

However, in such a case, the "National Defense" contracts entered into with the French government would be reexamined by the French Ministry of Defense, which could require that all or some of these contracts be transferred to another French company for reasons of national interest.

There is no agreement offering compensation for:

- members of the Board of Directors, should they resign or be dismissed,
- employees, should they resign or be dismissed unjustifiably and without proper cause, or should their employment contract be terminated due to a takeover, over and above the provisions of the collective bargaining agreement.

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6. PROPOSED RESOLUTIONS

The resolutions submitted for your approval cover the following points:

Resolutions to be submitted to the Ordinary General Meeting:

- **Approval of Annual and Consolidated Financial Statements**

You are asked to approve the Annual Financial Statements of the Parent Company (Resolution No. 1) and the consolidated financial statements (Resolution No. 2) for the fiscal year ended December 31, 2018.

These financial statements were approved by the Board of Directors on February 27, 2019 after prior examination by the Audit Committee, and were the subject of Statutory Auditor reports, which appear in the 2018 Annual Financial Report.

- **Allocation and distribution of the net income of the Parent Company**

You are asked to allocate the net income for the year, plus the retained earnings from prior years, which raises the total distributable to EUR 2,637,982,132.14, to the legal reserve for EUR 29,425.60, and to the distribution of a dividend for fiscal year 2018 in the amount of EUR 21.2 per share, to be paid on May 24, 2019; with the remaining balance to the retained earnings (Resolution No. 3).

- **Approval of the elements of compensation due or attributed for fiscal year 2018 to Mr. Éric Trappier, Chairman and Chief Executive Officer**

Pursuant to Article L.225-100 II of the French Commercial Code, the General Meeting is asked to approve the fixed, variable and exceptional components of the total compensation and the benefits of any kind paid or awarded for the year ended December 31, 2018 to Mr. Éric Trappier, Chairman and Chief Executive Officer, as they appear in the Report on Corporate Governance in paragraphs 2.2.3 – Compensation of the Chairman and Chief Executive Officer and 2.2.6 – Summary compensation tables (Resolution No. 4).

- **Approval of the elements of compensation due or attributed for fiscal year 2018 to Mr. Loïc Segalen, Chief Operating Officer**

Pursuant to Article L.225-100 II of the French Commercial Code, the General Meeting is asked to approve the fixed, variable and exceptional components of the total compensation and the benefits of any kind paid or awarded for the year ended December 31, 2018 to Mr. Loïc Segalen, Chief Operating Officer, as they appear in the Report on Corporate Governance in paragraphs 2.2.4 – Compensation of the Chief Operating Officer and 2.2.6 – Summary compensation tables (Resolution No. 5).

- **Approval of the 2019 compensation policy for Mr. Éric Trappier, Chairman and Chief Executive Officer**

Pursuant to Article L.225-37-2 of the French Commercial Code, the General Meeting is asked to approve the principles and criteria for the determination, distribution and award of the fixed, variable and exceptional components of the total compensation and benefits of any kind attributable to Mr. Éric Trappier, Chairman and Chief Executive Officer, for his position for fiscal year 2019, as they appear in the Corporate Governance Report in paragraph 2.3 (Resolution No. 6).



- **Approval of the 2019 compensation policy for Mr. Loïk Segalen, Chief Operating Officer**

Pursuant to Article L.225-37-2 of the French Commercial Code, the General Meeting is asked to approve the principles and criteria for the determination, distribution and award of the fixed, variable and exceptional components of the total compensation and benefits of any kind attributable to Mr. Loïk Segalen, Chief Operating Officer, for his position for fiscal year 2019, as they appear in the Corporate Governance Report in paragraph 2.3 (Resolution No. 7).

- **Renewal of the term of four Directors**

As the terms of Directors Ms. Lucia Sinapi-Thomas, MM. Charles Edelstenne, Olivier Dassault and Éric Trappier expire at the end of the General Meeting, you are asked to re-elect them for four years (Resolutions No. 8, 9, 10 and 11).

- **Approval of a regulated agreement relating to the transfer of Sogitec Industries' documentation and training activities to Dassault Aviation**

You are asked to approve the regulated agreement authorized by the Board of Directors on December 13, 2018 relating to the transfer of Sogitec Industries' documentation and training activities to Dassault Aviation (Resolution No. 12).

- **Authorization to be given to the Board of Directors to allow the Company to purchase its own shares under a share buyback program**

Companies whose shares are admitted to trading on a regulated market are allowed to purchase their own shares if they are authorized by the General Meeting of Shareholders.

Under Article L.225-209 of the French Commercial Code and the provisions of European Regulation 596/2014 of April 16, 2014, you are being asked to authorize the Board of Directors to implement a share buyback program.

Such a program could be used for the following objectives:

- 1) Canceling shares in order to increase the profitability of shareholders' equity and earnings per share (subject to adopting Resolution No. 14),
- 2) Ensuring market trading or liquidity of Dassault Aviation stock through an investment services provider via a liquidity contract compliant with an ethics charter recognized by the French Financial Markets Authority,
- 3) Transferring or allocating shares to Company employees and executive officers and/or associated companies under the conditions and in accordance with the law, particularly in case of the exercising of stock options or allocations of existing shares, or by granting and/or subscription of existing shares in an employee stock ownership scheme,
- 4) Retaining shares with a view to subsequent use, to hand them over as payment or in exchange for potential external growth transactions or other purposes, within the limit of 5% of the share capital,
- 5) Remitting shares upon exercise of rights attached to securities convertible to Dassault Aviation shares,
- 6) Implementing any market practice that would be recognized by the law or by the French Financial Markets Authority.

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Under the proposed authorization, the Board could, with an option to sub-delegate, proceed to buy back Dassault Aviation shares up to a limit of 10% of Dassault Aviation stock, for a maximum price of EUR 1,700 per share, representing a maximum investment of EUR 1 419 279 000.

This authorization, which would be granted for a period of 18 months as of the Annual Ordinary and Extraordinary General Meeting of May 16, 2019, would take effect as of the next Board Meeting, which would decide on the implementation of this new share buyback program. This new authorization would terminate the unused portion of the share buyback program previously authorized by the Annual Ordinary and Extraordinary General Meeting of May 24, 2018, and would end on November 16, 2020 (Resolution No. 13).

Resolutions to be submitted to the Extraordinary General Meeting:

- **Authorization to be given to the Board of Directors to reduce the Company's share capital by cancellation of shares purchased or to be purchased under the scope of a share buyback program**

The General Meeting is asked to authorize the Board of Directors, with the option of sub-delegation, and pursuant to the provisions of Article L.225-209 of the French Commercial Code, to:

- reduce its share capital by way of cancellation, in one or more stages, of all or some of the shares acquired by the Company under the scope of its own share buyback program, and limited to 10% of the capital per 24-month period,
- allocate the difference between the buyback value of canceled shares and their nominal value to premiums and available reserves.

This new authorization would be granted for a period that expires at the end of the Annual Ordinary Meeting called to approve the financial statements for the year ended December 31, 2019.

As of May 16, 2019, it would render the similar authorization granted by the Combined General Meeting of May 24, 2018 ineffective for the unused portion (Resolution No. 14).

Resolution to be submitted to the Ordinary General Meeting:

- **Powers to perform formalities**

This resolution is intended to grant powers to complete the legal formalities that will have to be performed after the General Meeting (Resolution No. 15).



7. CONCLUSION AND OUTLOOK

Above all, 2018 will be remembered for Serge Dassault's passing away. His passion, his tenacity, his vision, his patriotism stay in our hearts and our history. We are grateful to his memory as to our founder's Marcel Dassault. Our task is to carry on their legacy.

Besides, 2018 was eventful for the Company, in both defense and civilian programs. The following events in particular stand out:

- the announcement of the launch of the Falcon 6X to replace the Falcon 5X and the amicable agreement signed with Safran to settle the dispute over the difficulties encountered with the Silvercrest engine,
- the entry into force of the option for 12 additional Rafale for Qatar,
- the notification of the F4 standard (firm and optional batches) announced by the French Minister of the Armed Forces during her visit in Mérignac in early January 2019 showing the ongoing efforts to improve the Rafale, which will add innovative connectivity (new satellite and intra-patrol connections, communication server, software radio), new capabilities (enhanced radar sensors and optronic frontal sector) and incorporate new weapons (Mica NG air-to-air missile and 1,000 kg modular air-to-ground weapons).

In addition to these major events, 2018 was marked by:

In defense programs:

- the 2019-2025 French Military Procurement Law passed in 2018 shows a positive trend in the Nation's defense efforts and gives the Company expectations for the coming years: a batch of 30 additional Rafale (reaffirmation by the French Minister of the Armed Forces on January 14th in Mérignac), notification expected for 2023 ; launch of the European MALE drone program in 2019 (cooperation between Airbus, Dassault Aviation and Leonardo) ; selection by the Ministry of the Armed Forces of the Falcon platform to carry the Universal Electronic Warfare Capacity (CUGE), studies notified ; upgrade of 18 ATL2 instead of the 15 initially planned; initialization of the ATL2 replacement program (future PATMAR); renewal of the MARitime SURveillance aircraft fleet based on the Falcon 2000LXS, first studies notified ; and confirmation of the airborne component upgrade,
- in June 2018, in Meseberg, at the Franco-German council, in the presence of the French President and the German Chancellor, France and Germany signed a Letter of Intent materializing their will to build together the future weapons systems and act towards the construction of the Europe of Defense. This Letter of Intent was followed, on November 19 2018, by a common statement to launch the initial works of the Future Combat Air System (FCAS): on January 31, 2019, a 2-year conception and architecture study was notified under the leadership of Dassault Aviation and Airbus ; demonstrators for the combat aircraft and its engine are to be launched at the 2019 Paris Air Show ; Dassault Aviation being the leader of the New Generation Fighter (NGF),
- delivery of 3 Rafale to France, bringing the total Rafale delivered to the French Forces up to 152 (the last 28 Rafale out of the 180 aircraft ordered being forecasted to be delivered from 2022 on),
- the delivery to France of the last 2 Rafale Navy retrofitted from the F1 standard to the F3 standard; all 10 Rafale Marine now meet the F3 standard,
- the delivery to the French Air Force of the F3-R standard,
- the delivery of 9 Rafale to Egypt, bringing the total number of aircraft delivered to 23 out of the 24 ordered,
- the continuation of the Egyptian Rafale support and the entry into force of the associated Maintenance in Operational Conditions contract,
- the continued execution of the 36 Rafale contract with Qatar, including pilots training and support implementation : the official acceptance of the first Qatari Rafale took place on February 6 2019,

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- the continued execution of the 36 Rafale Indian contract. The Indian Air Force is getting ready for the entry into service of the Rafale. Considering the important needs in India for combat aircraft, we answered in July 2018 the "Request for Information" for the supply of 110 combat aircraft to the Indian Air Force (in May 2017, we had answered the "Request for Information" for the supply of 57 combat aircraft to the Indian Navy),
- the continued upgrading works on the French Mirage 2000D (the Mirage 2000N entered into service in 1988 was discarded from French Air Forces),
- the start of a new nEUROn flight test campaign dedicated to stealthiness demonstration with the French Procurement Agency, the French Air Force, and the French Navy, in the frame of a contract for studies and flight tests over 2018-2020.

for the "Make in India" project we :

- launched the industrial operations of the JV DRAL: 2018 being the start of the ramp-up. Production of the first Falcon 2000 subassemblies (T3 front tank) completed in December 2018, first T1 section in February 2019,
- expanded our industrial ecosystem in India for our production line, with the deployment of a Supply Chain, regarding at first primary parts, tools, pylons, containers, as well as our engineering department activities, with the establishment of an engineering center in Pune (India).

in MARitime SURveillance and MARitime PATrol aircraft:

- the order of a 5th SURMAR Falcon 2000 (maritime surveillance) by the Japanese Coast Guard (first deliveries scheduled in first half 2019),
- the delivery of the 1st retrofitted SURMAR Falcon 50 with additional capacity for dropping SAR (Search And Rescue) chains.

regarding space programs (2018 was remarkable for on interest in the new Defense space policy), we notice:

- for space vehicles, a new bath of the study contract for the reusable orbital vehicle "Space Rider" from the European Space Agency (ESA), of which the first flight is scheduled in 2021. Dassault Aviation is in charge of the vehicle shape design,
- for the pyrotechnic, the contractualization of 2 studies with the French Defense Procurement Agency (DGA) and the French Space Agency (CNES) in order to apply the pyrodigital technology allowing a securitized digital bus to convey the pyrotechnic orders for both Callisto demonstrator and Rafale.

in civilian programs:

- the order intake of 42 Falcon in 2018 (52 orders and cancellation of the last 10 Falcon 5X). In 2017, 38 Falcon were ordered (41 orders and 3 Falcon 5X cancellations),
- the delivery of 41 Falcon,
- the official launch of the Falcon 6X program, in early 2018 for an entry into service scheduled in 2022. The program development is in line with the schedule: the primarily development stage has been completed; first structural parts are being manufactured. Tests on the PW812D engine are also on time: 4 engines are being tested and 120 hours were run on a flying test bench. Design shelves have been set up in Saint-Cloud and Merignac in cooperation with our industrial partners,
- the Falcon 8X which demonstrated its long range capacity (Singapore – London in 14 hours) is still an unmatched aircraft in terms of comfort and is acknowledged for being the most silent aircraft on the market,
- the certification of Electronical Flight Vision System operational gains of up to 100 feet for approaches in poor weather conditions with the FalconEye system for Falcon 7X, Falcon 8X, Falcon 2000LX and Falcon 2000LXS; FalconEye system certification for Falcon 900LX is in progress,
- the new service offer for a broadband connectivity such as "FalconConnect", an integrated management solution for communications and data exchanges between aircraft and ground networks,



- in Customer Support , Dassault Aviation was first in several categories of the Aviation International News (AIN) ranking (#1 Overall Average, #1 AOG Response, #1 Warranty Fulfillment, #1 Parts Availability, #1 Overall Aircraft Reliability, #1 Technical Reps). Besides, the Falcon Response offer which includes 2 dedicated Falcon, has performed 191 missions (1,395 flight hours),
- the future Falcon is in progress: marketing and technical studies are ongoing,
- the development of a high-quality customer support network, by the acquisition of service centers strengthening our footprint, in Europe, Asia-Pacific, Africa and Middle-East.

In 2018 we pursued our transformation plan "Leading Our Future".

2019 outlook

There are many strategic challenges for 2019:

- Continue promotion and sale of our Falcon and Rafale
- Complete FCAS studies and obtain the launch of a demonstrator for the future combat aircraft at the Paris Air Show
- Continue the Falcon 6X development for an entry into service in 2022
- Confirm the future Falcon launch
- Start of the Rafale F4 standard development
- Perform the Falcon and Rafale contracts in terms of quality, time and cost objectives
- Participate in the response to the "Invitation To Tender" for a contract launching the MALE RPAS program
- Continue to work on preparing the Falcon MARitime SURveillance and CUGE order with France
- Deliver the ATL2 upgrade in 2019
- Finalize the new Rafale France Maintenance in Operational Conditions contract
- Increase the effectiveness of Falcon support and continue to develop a network of high-quality service centers
- Continue the development of the "Make in India" industrial line
- Promote our skills in space
- Continue to implement the Transformation Plan

The Group plans to deliver **45 Falcon** and **26 Export Rafale in 2019. 2019 net sales will rise significantly.**

The Board of Directors would like to express its thanks to all the personnel for their dedication, efficiency and skills in executing our programs.

Directors' Report

Appendix 1 to the Directors' Report

Reporting Methodology for Indicators

In accordance with Order No. 2017-1180 of July 19, 2017 and Decree No. 2017-1265 of August 9, 2017, in the Directors' Report, we publish a non-financial performance declaration that includes the following information:

- Social information,
- Environmental information,
- Information relating to respect for human rights,
- Information relating to the fight against corruption,
- Information relating to the fight against tax evasion.

Most of the published information follows the third-generation guidelines relating to management and reporting of the *Global Reporting Initiative (GRI)*. The GRI is an initiative co-piloted by the United Nations Environment Program that aims to harmonize and consolidate data on sustainable development. The guidelines propose principles to be followed in order to help organizations to provide a balanced and reasonable presentation of their economic, environmental and labor relations performance.

The published indicators that follow the principles of the Global Reporting Initiative (GRI) are stated in the correspondence table in Appendix 2.

Scope of consolidation

For FY 2018, the reporting scope includes Dassault Aviation (Parent Company, including all its sites) and its fully-owned subsidiaries.

It should be noted, however, that the following are excluded from the reporting scope for 2018:

- Dassault Falcon Jet Leasing Ltd (100% owned subsidiary of Dassault Falcon Jet): this company have had no significant CSR activity,
- Dassault Falcon Service Moscow (100% subsidiary of Dassault Falcon Service),
- Dassault Aircraft Services India Private Ltd (99% subsidiary of Dassault Participation and 1% of Dassault Aéro Services),
- Dassault Falcon Business Services (100% subsidiary of Dassault Aviation).

Control and Consolidation

Each published indicator is subject to a reporting protocol detailing the definition of the indicator, the scope and the calculation methodology. Indicators are calculated on the basis of a calendar year (from January 1 to December 31).

Taking into account the mode of data gathering and the locations of the subsidiaries, the reporting scope may vary according to the indicators. Certain indicators cannot be consolidated on account of the differences in regulations between the countries.



Under the framework of ISO 14001 certification, reporting procedures for environmental indicators are applied by the Parent Company.

Social and Human Resources Data

The social data of this report is based on fact sheets and methodology sheets that form the reference base for reporting social data of the Dassault Aviation Group, in force starting in 2018. The defined indicators are in compliance with national regulations.

The following details are given for the following indicators:

- absenteeism: the causes of absences taken into account for the absenteeism indicator are sickness, stop-pages for work-related accidents and accidents when traveling to/from work, and unjustified absences. The indicated number of days are normal working days,
- departures and dismissals: traditional terminations are to be counted as departures but are not counted within the number of dismissals,
- Group compensation: the average annual compensation is a gross compensation that includes the base salary, the 13th month and the seniority bonus, excluding other bonuses,
- Parent Company compensation: the average annual compensation is a gross figure that includes the base salary, the 13th month and the seniority bonus, excluding other bonuses, plus profit-sharing and incentive schemes,
- training hours: work-study training hours recorded in the training plan as well as the in-school training hours of professional development contracts are also taken into account. Training hours in the workplace are also taken into account when they are part of a training program with precise formal monitoring.

Environmental Data

The environmental indicators and the associated generation methods are subject to descriptive methodological procedures both for the Parent Company and for its French and American subsidiaries.

These procedures are included in the documentation repository of the Parent Company and distributed to the various entities contributing to the generation of these indicators.

The balances are produced per calendar year and consolidated, when the data so allows, against invoices and meter readings for the period from January to December. Unavailable information relating to the last months of the year is estimated by comparison with the equivalent months of the previous year or based on the average for the same month of the last three years.

The consumption of kerosene for maintenance activities is calculated on the basis of the purchased, non-reinvoiced fuel.

The consumption of kerosene for production activities includes both civil and military aircraft.

Information relating to respect for human rights

Dassault Aviation is committed to respecting human rights through its Code of Ethics, internal organization, the evaluation and monitoring of its suppliers, as well as various international texts to which we adhere. The measures taken in favor of this commitment are detailed in Section 4.6 Human Rights.

Directors' Report

Information relating to the fight against corruption

In accordance with Article 17 of Law No. 2016-1691 of December 9, 2016 respecting transparency, the fight against corruption and the modernization of economic life, Dassault Aviation takes measures to prevent and detect, in France and abroad, acts of corruption or influence peddling.

Information relating to the fight against tax evasion

Dassault Aviation complies with the tax regulations in force and, as such, pays taxes in the countries in which it operates.

External Verification

The data generated in this report as well as the collection and validation procedures have been subject to an external audit by Deloitte & Associés; the corporate responsibility information has also been checked on a qualitative basis.



Appendix 2 to the Directors' Report
Table of correspondence between the Dassault Aviation indicators and the Global Reporting Initiative (GRI).

Themes	Dassault Aviation Indicators	Link with GRI – Indicators & Protocols: Social (Version 3.1)
Employment	EMP01: Total Workforce	LA1: Total workforce per type of employment, work contract and geographical zone
	EMP02: Employee Distribution by Gender	
	EMP03: Employee Distribution by Age	LA13: Composition of management bodies and distribution of employees by gender, age group, identifying as a minority and other diversity indicators
	EMP04: Employee Distribution by Geographical Zone	LA1: Total workforce per type of employment, work contract and geographical zone
	EMP05: Hiring	LA2: Staff turnover in number of employees and percentage per age group, gender and geographical zone
	EMP06: Departures and Dismissals	
	EMP07: Compensation	EC1: Direct economic value created and distributed, including revenues, operational costs, employee compensation and benefits, donations and other community investments, retained earnings, and payments to capital providers and governments EC5: Range of ratios of standard entry level salary compared to local minimum on the main operating sites
Work Organization	ORG01: Working Time Organization	LA1: Total workforce per type of employment, work contract and geographical zone
	ORG02: Absenteeism	LA7: Rate (...) of absenteeism (...) per geographical zone
Labor Relations	REL01: Organization of the Labor Relations Dialog, Procedures for Informing and Consulting Personnel and for Negotiations	LA4: Percentage of employees covered by a collective bargaining agreement
	REL02: Collective bargaining agreements	LA5: Minimum notice period(s) regarding significant organizational changes, including whether it is specified in a collective bargaining agreement

Directors' Report

Themes	Dassault Aviation Indicators	Link with GRI – Indicators & Protocols: Social (Version 3.1)
Health and Safety	S&S01: Conditions of health and safety in the workplace	LA6: Percentage of the total workforce represented on formal joint management-worker health & safety committees, for monitoring and issuing statements on occupational health & safety programs LA8: Programs for risk education, training, consulting, prevention and management put in place in order to help employees, their families or the members of their local communities in the event of serious illness
	S&S02: Agreements Signed with the Union Organizations or Staff Representatives with Regard to Occupational Health and Safety	LA9: Questions of health and safety covered by formal agreements with the unions
	S&S03: Work-Related Accidents	LA7: Rate of work-related accidents, occupational illnesses, (...) number of days lost and total number of fatal work-related accidents, per geographical zone
	S&S04: Frequency Rate of Work-Related Accidents	
	S&S05: Severity Rate of Work-Related Accidents	
	S&S06: Occupational Illnesses	
Training	FOR01: Policies Implemented with Regard to Training	LA11: Lifelong skills and training development programs, designed to guarantee employability
	FOR02: Total Number of Training Hours	LA10: Average number of training hours per year, per employee and per professional category
Equality of Treatment	EGA01: Measures Taken in Favor of Gender Equality	LA14: Basic pay ratio between men and women per professional category
	EGA02: Measures taken in favor of the employment and integration of disabled people	LA13: Composition of management bodies and distribution of employees by gender, age group, identifying as a minority and other diversity indicators
	EGA03: Anti-discrimination policy	



Themes	Dassault Aviation Indicators	Link with GRI – Indicators & Protocols: Social (Version 3.1)
Promotion and Respect for the Stipulations of the Basic Conventions of the International Labour Organization	OIT01: Respect for freedom of association and the right to collective bargaining	HR5: Identified activities in the course of which the right to union freedom and collective bargaining risks being threatened; measures taken to ensure this right is maintained LA4: Percentage of employees covered by a collective bargaining agreement LA5: Minimum notice period(s) regarding significant organizational changes, including whether it is specified in a collective bargaining agreement
	OIT02: Eliminating Employment and Professional Discrimination	HR4: Total number of discrimination incidents and measures taken LA13: Composition of management bodies and distribution of employees by gender, age group, identifying as a minority and other diversity indicators LA14: Basic pay ratio between men and women per professional category
	OIT03: Elimination of forced or compulsory labor	HR7: Activities identified as presenting a serious risk of incidents involving forced or compulsory labor; measures taken to contribute to the prohibition of this type of labor
	OIT04: Effective Abolition of Child Labor	HR6: Activities identified as presenting a serious risk of incidents involving child labor; measures taken to contribute to the prohibition of this type of labor
Energy	ENE001: Energy Consumption Excluding Kerosene and Mobile Sources	EN3: direct energy consumption distributed according to primary energy source EN7: initiatives for reducing indirect energy consumption and reductions achieved
	ENE002: Kerosene Consumption Qualitative indicator, "aircraft design performance/kerosene consumption"	
Water Consumption	EAU001: Overall Water Consumption (by Source)	EN8: total volume of water used by source
Atmospheric Discharges	AIR001: Greenhouse Gas Emissions (Scope 1 and Scope 2)	EN16: total (direct or indirect) greenhouse gas emissions, in weight (CO2 TEQ)
	AIR004: Emissions of Volatile Organic Compounds (VOC)	EN20: NOx, SOx and other significant atmospheric emissions, by type and by weight

Directors' Report

Themes	Dassault Aviation Indicators	Link with GRI – Indicators & Protocols: Social (Version 3.1)
	Indirect GHG Emission Quality Indicator	EN7: initiatives for reducing indirect energy consumption and reductions achieved
Waste	DEC001: Total Production of Hazardous and Non-Hazardous Waste	EN22: total mass of waste, by type and by treatment method
	DEC002: Proportion of Recycled Waste	



Report of the Board of Directors on Corporate Governance

Dear Shareholders,

This report is intended to inform you of the composition of the Board of Directors of the Company and of the conditions for preparing and organizing its work, along with the components of the corporate officers' compensation.

This report, prepared in application of Article L.225-37 of the French Commercial Code, is presented to you along with the Management Report. The Legal Affairs and Insurance Department and the Financial Department carried out preparatory checks on the drafting of said report, which was then reviewed by the Audit Committee and approved by the Board of Directors on February 27, 2019.

Taking account of the structure of its shareholding (the majority of shares are held by GIMD, which belongs to the Dassault family), Dassault Aviation considers that the AFEP/MEDEF Code does not constitute, taken as a whole, its standard of reference for corporate governance. Nevertheless, Dassault Aviation applies principles with reference to the aforementioned Code, in regard to the independence of the Directors and the compensation of the corporate officers.

Report of the Board of Directors on Corporate Governance

1. Corporate Governance

1.1 Composition of the Board of Directors

In 2018, the Board of Directors mourned the loss of Serge Dassault, former Chairman and Chief Executive Officer and Honorary Chairman of the Board of Directors, who died on May 28, 2018.

The Board announced that no successor to Serge Dassault would be appointed and that the term of office of Richard Bédère, the Director representing employees appointed by the union organization with the highest number of votes in the first round of employee elections, would be renewed.

As of December 31, 2018, the Board of Directors was composed of nine members with the experience and expertise required to fulfill their offices: Éric Trappier, Charles Edelstenne, Catherine Dassault, Marie-Hélène Habert, Mathilde Lemoine, Lucia Sinapi-Thomas, Olivier Dassault, Henri Proglio and Richard Bédère.

COMPOSITION OF THE BOARD OF DIRECTORS on 12/31/2018

Name	Office	Age (1)	Independent Director	Participation on the Audit Committee	Start of 1st term	End of current term	Years of service on the Board
Éric Trappier French nationality	Chairman and Chief Executive Officer Director	58			2013 2012	2019 2019	6
Charles Edelstenne French nationality	Honorary Chairman Director	80		Yes	1989	2019	29
Catherine Dassault French nationality	Director	51			2017	2020	2
Olivier Dassault French nationality	Director	67			1996	2019	22
Marie-Hélène Habert French nationality	Director	53			2014	2022	4
Mathilde Lemoine French nationality	Director	49	Yes		2017	2020	2
Lucia Sinapi-Thomas French nationality	Director	54	Yes	Yes	2014	2019	4
Henri Proglio French nationality	Director	69	Yes	Yes	2008	2022	10
Richard Bédère French nationality	Director representing employees	62			2014	2022	4

The aforementioned Directors are all of French nationality. The average age was 60 as of December 31, 2018.

50% of the members of the Board of Directors are women, for a legal obligation of 40%.

As of December 31, 2018, Mathilde Lemoine, Lucia Sinapi-Thomas, and Henri Proglio were considered to be independent directors in accordance with the criteria of the AFEP/MEDEF Code. These criteria are based on the principle that independent Directors must not be in a position likely to alter their freedom of judgment or place them in a real or potential conflict of interest. The three independent Directors mentioned above represent 37.5% of the Board of Directors (excluding the Director representing the employees), which is higher than the percentage recommended by the AFEP/MEDEF Code (33.3%).



1.2 Offices held and duties performed by corporate officers in 2018 in other companies

1.2.1 Honorary Presidents and Director

Serge Dassault: *Deceased May 28, 2018*

Date of first appointment: 6/27/1967

Dassault Aviation shares held: 26

Other corporate offices and duties:

- Chairman:
Groupe Industriel Marcel Dassault SAS
Groupe Figaro SAS
Rond-Point Holding SAS
Rond-Point Immobilier SAS
Société du Figaro SAS
Fondation Serge Dassault
- Chairman and Chief Executive Officer:
Dassault Medias SA (formerly SOCPRESSE)
- Chairman of the Board of Directors:
Dassault Belgique Aviation SA
- Chief Executive Officer:
Dassault Wine Estates SAS
- Member of the Supervisory Board:
Groupe Industriel Marcel Dassault SAS
- Director:
Dassault Falcon Jet Corporation (USA)
Groupe Figaro SAS
Dassault Belgique Aviation SA
- Honorary Chairman:
GIFAS
- General Manager:
Rond-Point Investissements SARL
Société Civile Immobilière de Maison Rouge
Société Civile Immobilière des Hautes Bruyères

Other offices and duties over the last five years:

- Director:
DOW KOKAM LLC (USA)
Société Financière Terramaris (Switzerland)
SITA SA (Switzerland)
Dassault Systèmes SE
Marcel Dassault Trading Corporation (USA)
Serge Dassault Trading Corporation (USA)

- Member of the Strategic Committee:
Dassault Développement SAS

Charles Edelstenne

Date of first appointment: 1/27/1989

Start and end of current term: 2015 GM - 2019 GM

Member of the Audit Committee

Dassault Aviation shares held: 67

Other corporate offices and duties:

- President:
Groupe Industriel Marcel Dassault SAS
Rond-Point Immobilier SAS
Rond-Point Holding SAS
Société du Figaro SAS
Dassault Belgique Aviation (Belgium)
Groupe Figaro SASU
- Chairman of the Board of Directors:
Dassault Systèmes SE
- Chairman of the Board of Directors and Chief Executive Officer:
Dassault Media SA
- Chief Executive Officer:
Dassault Wine Estates SAS
- Director:
Thales SA
Carrefour SA
Sogitec Industries SA
SABCA (Belgium)
Dassault Falcon Jet Corporation (USA)
Groupe Figaro SASU
Lepercq, de Neuflize and Co. Inc.
Monceau Dumas
- Honorary Chairman:
GIFAS
- General Manager:
Sociétés Civiles ARIE, ARIE 2
Sociétés Civiles NILI, NILI 2
SCI de Maison-Rouge
Rond-Point Investissement

Report of the Board of Directors on Corporate Governance

Other offices and duties over the last five years:

- Chief Executive Officer:
Groupe Industriel Marcel Dassault SAS
- Member of the Advisory Committee:
Groupe Industriel Marcel Dassault SAS

1.2.2 Chairman and Chief Executive Officer

Éric Trappier

Date of first appointment as Director: 12/18/2012

Start and end of current term as Director: 2015 GM - 2019 GM

Start and end of current term as CEO: Board meeting of 5/20/2015 - 2019 GM

Dassault Aviation shares held: 1,794

Other corporate offices and duties:

- Director:
Thales SA
Sogitec Industries SA
Dasbat Aviation LLC (UAE)
- Chairman:
Dassault Falcon Jet Corporation (USA)
Dassault Reliance Aerospace Limited (India)
- Chairman:
GIFAS
ASD
CIDEF

Other offices and duties over the last five years:

- Permanent representative of Dassault Aviation on the Board of Directors of:
SOFRESA SA
ODAS SA
SOFEMA SA
Eurotradia International SA
- Director-General Manager:
GIE Rafale International
- General Manager:
Dassault International SARL
- Senior Vice President:
GIFAS

- Chair of Defense Committee:
ASD

1.2.3 Directors

Olivier Dassault

Date of first appointment: 4/17/1996

Start and end of current term: 2015 GM - 2019 GM

Dassault Aviation shares held: 26

Other corporate offices and duties:

- Director:
Dassault Medias SA
RASEC International SAS
- Chairman of the Supervisory Board:
Particulier et Finances Éditions SA
- Member of the Supervisory Board:
Rubis SA
- Chairman of the Strategy and Development Committee:
Groupe Industriel Marcel Dassault SAS
- Vice-Chairman of the Executive Committee:
Jours de Passions SAS
- General Manager:
Groupement Forestier des Hautes Bruyères
HR Finance SAS
SCI Nasthel II
Rhetho
SCI Rod Spontini
Tod

Other offices and duties over the last five years:

- Vice-Chairman:
Valmonde et Cie SA
- General Manager:
LBO Invest D
SCI Nasthel I
- Director:
Groupe Figaro SAS
Valmonde et Cie SA
- Chairman of the Supervisory Board:
Groupe Industriel Marcel Dassault SAS



Marie-Hélène Habert

Date of first appointment: 5/15/2014

Start and end of current term: 2018 GM - 2022 GM

Dassault Aviation shares held: 25

Other corporate offices and duties:

- Chair of the Supervisory Board:
Groupe Industriel Marcel Dassault SAS
Rond-Point Immobilier
- Director:
Dassault Systèmes SE
Biomérieux SA
Artcurial SA
SIPAREX
- General Manager:
H. Investissements SARL
SCI Duquesne
HDH (Civil Partnership)
- Permanent representative of GIMD on the Supervisory Board:
Immobilière Dassault SA
- Member of the Strategic Committee:
HDF SAS
- Vice-Chairman:
Fondation Serge Dassault
Immobilière Dassault SA

Other offices and duties over the last five years:

- Member of the Strategic Committee:
Dassault Développement SAS
- Member of the Supervisory Board:
Groupe Industriel Marcel Dassault SAS

Catherine Dassault

Date of first appointment: 3/7/2017

Start and end of current term: 3/7/2017 - 2020 GM

Dassault Aviation shares held: 25

Other corporate offices and duties:

- Director:
Dassault Systèmes SE
Institut de l'Engagement (association)
- General Manager:
TCBD & Fils (civil partnership)
Goya SCI
Falke (civil partnership)
- Member of the Strategic Communication Committee:
Fondation pour la recherche sur la maladie d'Alzheimer

Other offices and duties over the last five years:

- Member of the Organizing Committee:
Fondation pour la recherche sur la maladie d'Alzheimer

Henri Proglio, independent Director

Date of first appointment: 4/23/2008

Start and end of current term: 2018 GM - 2022 GM

Chairman of the Audit Committee

Dassault Aviation shares held: 27

Other corporate offices and duties:

- Director:
Natixis SA
ABR Management (Russia)
Fomentos de Construcciones y Contratas (FCC) (Spain)
Akkuyu Nuclear (Turkey)
Atalian SAS
- General Manager:
SCI du 19 janvier
- Chairman:
Henri Proglio Consulting SAS
HJF Development SAS

Other offices and duties over the last five years:

- Chairman and Chief Executive Officer:
EDF SA

Report of the Board of Directors on Corporate Governance

- Chairman of the Board of Directors:
Edison SpA (Italy)
EDF Energy Holdings Ltd (UK)
Fondation d'entreprise EDF
Fondation européenne pour les énergies de demain
- Director:
EDF SA
CNP Assurances SA
FCC (Spain)
Dalkia SA
EDF Energies Nouvelles SA
EDF International SAS
South Stream Transport BV (Netherlands)
South Stream Transport AG (Switzerland)
Fennovoima (Finland)
Thales SA
- Member of the Supervisory Board:
Dalkia SAS
- Vice Chairman:
Eurelectric (association) (Belgium)

Lucia Sinapi-Thomas, independent Director

Date of first appointment: 5/15/2014

Start and end of current term: 2015 GM - 2019 GM

Member of the Audit Committee

Dassault Aviation shares held: 26

Other corporate offices and duties:

- Executive Director:
Capgemini Ventures
- Director:
Capgemini SE
Capgemini Business Services (Guatemala)
Bureau Veritas SA
Sogeti Sverige AB (Sweden)
Sogeti Sverige MITT AB (Sweden)
Sogeti Norge A/S (Norway)
Capgemini Danmark A/S (Denmark)
- Chairman:
Capgemini Employees Worldwide SAS
- Chairman of the Supervisory Board:
FCPE Capgemini

- Member of the Supervisory Board:
FCPE Esop Capgemini
- Member of the Audit and Risks Committee:
Bureau Veritas SA

Other offices and duties over the last five years:

- Chairman:
Prosodie SAS
- Chief Executive Officer:
Capgemini Outsourcing Services SAS
Sogeti France SAS
- Executive Officer:
Capgemini Business Platforms
- Director:
Capgemini Polska Sp.z.o.o. (Poland)
Sogeti SA/NV (Belgium)
Capgemini Reinsurance International SA
(Luxembourg)
Euriware SA (France)

Mathilde Lemoine, independent Director

Date of first appointment: 3/7/2017

Start and end of current term: 3/7/2017 - 2020 GM

Dassault Aviation shares held: 25

Other corporate offices and duties:

- Director:
Carrefour SA
CMA CGM SA
École Normale Supérieure
- Member of the Audit Committee:
Carrefour SA

Other offices and duties over the last five years:

- Director:
Neptune Orient Lines Ltd. (Singapore)
- Member:
High Council of Public Finances



Richard Bédère, Director representing employees

Date of first appointment: 7/10/2014

Start and end of current term: 7/10/2018

09/07/2022

Dassault Aviation shares held: none

Other corporate offices and duties:

None.

Other offices and duties over the last five years:

- CCE (Comité Central d'Entreprise - Central Works Council) delegate on the Dassault Aviation Board of Directors
- Substitute CCE member
- Substitute Mérignac Works Council member
- Central union delegate

1.2.4 Chief Operating Officer

Loïk Segalen

Date of first appointment as Chief Operating Officer: 1/9/2013

Start and end of current term: Board meeting of 5/20/2015 - 2019 GM

Dassault Aviation shares held: 1,592

Other corporate offices and duties:

- Director:
Thales SA
Sogitec Industries SA
Dassault Falcon Jet Corporation (USA)
Midway Aircraft Instrument Corporation (USA)
Dassault Belgique Aviation SA (Belgium)
SABCA (Belgium)
SABCA Limburg (Belgium)

- Board Member:
GIFAS

Other offices and duties over the last five years:

- Director:
Dassault Procurement Services (USA)

1.3 Conditions for preparing and organizing the work of the Board of Directors

1.3.1 Directors information

To ensure the attendance of Directors at Board meetings, the Board of Directors' meeting held to approve the financial statements of the first half-year determines the meeting schedule of the Board of Directors and the Audit Committee for the following year.

The notices of Board meetings specifying the agenda are sent to the Directors, the Statutory Auditors and the Government Commissioner at least one week in advance, except in emergencies.

Prior to each Board meeting, the Chairman of the Board of Directors ensures that the relevant documents are provided to each Director within a sufficient period of time, except in emergencies.

The Statutory Auditors and the Government Commissioner receive the same documents as the Directors.

Report of the Board of Directors on Corporate Governance

1.3.2 Activities of the Board of Directors in 2018

In 2018, the Board of Directors met four times: on March 7, July 19, September 5 and December 13. The average attendance rate at Board meetings was 81%.

The Board of Directors supervised the implementation of the strategies chosen and inspected the general operations of the Company. In particular, the Board of Directors:

- analyzed the amount of orders entered, the order book and net sales, self-financed consolidated research and development,
- oversaw the roll-out of civil and military programs and changes in workforce of the Parent Company and subsidiaries,
- set the medium-term strategy in the civil and military domains.

In addition, the Board of Directors:

- approved the fiscal year 2017 company and consolidated financial statements,
- convened the Annual General Meeting of May 24, 2018,
- approved the financial statements for the first half-year of 2018,
- noted the increase of the share capital following the payment of the dividend in shares,
- reviewed the Parent Company's forward-looking management documents in March and July 2018, and reviewed the budgets for self-financed technology investments and industrial investments,
- renewed the annual authorization of the Chairman and CEO to grant guarantees and deposits,
- ruled on the workplace equality and compensation policy,
- approved the wording of the half-yearly and annual financial press releases,
- reminded the Directors of their obligation to refrain from trading the Company's shares when financial statements or financial communications are being approved and of their obligation to declare their transactions and the registration of their shares to the AMF (Autorité des Marchés Financiers - French Financial Markets Authority),
- evaluated the performance criteria relating to performance shares granted in 2017 and noted the acquisition of said shares by their beneficiaries at the end of the vesting period,
- conducted a fourth performance share plan by preparing the list of beneficiaries and defining the conditions under which their shares become fully vested (achievement of performance criteria, vesting and holding periods, employment on the day the shares become fully vested), with delegation to the Chairman and Chief Executive Officer of all powers to implement the allocation of performance shares,
- set out the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional compensation components and benefits of any kind that constitute the executive compensation policy for 2018 subject to the approval of the General Meeting,
- implemented a new supplementary pension plan for executive directors, members of the Executive Committee and the flight crew that is compatible with legal requirements,



- put into operation the share buyback program and sub-delegated to the Chairman and CEO the powers granted by the General Meeting to the Board of Directors to implement the new share buyback and capital reduction program,
- noted the signing of an amicable agreement ending the dispute with Safran over the Silvercrest engine to be installed in the Falcon 5X,
- noted the new organizational structure for Group documentation and training activities and approved the new regulated agreement related thereto.

1.3.3 Audit Committee

Pursuant to the order of December 8, 2008, which transposed Directive 2006/43/EC of May 17, 2006 on statutory audits of company and consolidated financial statements, on July 22, 2009 the Board of Directors established an Audit Committee.

The Audit Committee consists of Henri Proglia, Chairman, Charles Edelstenne and Lucia Sinapi-Thomas. They were appointed because of the expertise they received from their academic training, their experience in finance and accounting for listed companies, and their time as members of Executive Management. All three are non-executive Directors.

This composition meets the requirements of the aforementioned order. The Board of Directors considered that Lucia Sinapi-Thomas and Henri Proglia met the recommended independence criteria set forth in paragraph 1.1 above.

The Audit Committee is responsible for monitoring:

- the procedure for preparing the financial information,
- the effectiveness of the risk management and internal auditing systems,
- the auditing of the company and consolidated financial statements by the Statutory Auditors,
- the independence of the Statutory Auditors.

It met on March 2, 2018 for the 2017 annual financial statements and on July 18, 2017 for the financial statements for the first half-year of 2018. The attendance rate of Committee members at meetings in 2018 was 100%.

The Audit Committee:

- examined the consolidated and Parent Company financial statements and the main events of the relevant year or half-year,
- reviewed the draft financial press releases,
- took note of the directors' report of the Board of Directors and of the half-yearly activity report,
- reviewed the report of the Board of Directors on Corporate Governance,
- met with the Statutory Auditors, without Executive Management being present, after examining the conclusions of their work and their declaration of independence,

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- questioned the Internal Audit Director and examined actions in progress as well as the review of internal audits conducted in 2017, and reviewed the 2018 audit plan,
- reported back on its work to the Board of Directors.

1.3.4 Internal Bylaws

The Board meeting of July 25, 2012 approved the internal bylaws of the Board of Directors, which allow Directors to take part in meetings (debating and voting) by means of telecommunications that are compliant with applicable regulations.

1.3.5 Prevention of Insider Trading

In accordance with the recommendations stated in the November 3, 2010 AMF Guide and in the October 26, 2016 AMF guide for permanent information and the management of privileged information, the Company established procedures for "black-out periods" (periods to refrain from transactions involving the shares issued by the Company), which begin at least 30 days before the publication of company and half-yearly financial statements. Since the financial statements are in general published by the Company before the opening of the stock market, the date of publication is included in the prohibited period.

Every year, the Directors are informed by letter of the calendar of "black-out periods" for the coming year.

The financial calendar is published online on the Company's website at the start of each financial period.

The Company took into account the regulations applicable after the entry into force of the European Regulation of April 16, 2014 on market abuses.

In addition, the list of permanent and occasional insiders is reviewed quarterly and at any other time as needed.

1.4 Agreements between a shareholder of the Company and one of its subsidiaries

Pursuant to Article L.225-37-4-2 of the French Commercial Code, as issued by Order No. 2017-1180 of July 19, 2017, agreements entered into directly or indirectly or by proxy must be mentioned in the report of the Board of Directors on corporate governance if they are:

- between one of the shareholders of Dassault Aviation holding a fraction greater than 10% of the voting rights,
- and a subsidiary of Dassault Aviation in which the latter holds more than half of its capital,

with the exception of "agreements representing a current transaction entered into under normal terms and conditions".

To the Company's knowledge, there is no agreement:

- between GIMD, which holds more than 10% of the voting rights in Dassault Aviation, or one of their subsidiaries,
- and Dassault Falcon Jet (or one of its subsidiaries), Dassault Falcon Service, Sogitec Industries or any other subsidiary of Dassault Aviation,

that would not constitute a current transaction concluded under normal conditions.



1.5 Operations of Executive Management

In accordance with the applicable laws, the possibility of separating the duties of the Chairman of the Board of Directors and those of the CEO was introduced into the Company's Articles of Association during the General Meeting of April 25, 2002.

On April 25, 2002, the Board of Directors decided that the Chairman of the Board of Directors would be responsible for the Executive Management of the Company.

This was because the Board of Directors had chosen the Executive Management option that it deemed best suited to the Company's specific features. The decision was therefore made not to separate the duties of Chairman of the Board of Directors and of CEO.

Since January 9, 2013, the Chairman and CEO has been assisted by a Chief Operating Officer.

This mode of Executive Management was maintained by the Board of Directors on May 20, 2015, when it also renewed the terms of the Chairman and CEO and of the Chief Operating Officer for four years with the same powers.

1.6 Powers of the Chairman and Chief Executive Officer

The powers of the Chairman and CEO are not limited by the Company's Articles of Association nor by the Board of Directors.

The Chairman of the Board of Directors organizes and directs the work of said Board, reporting back on this to the General Meeting. The Chairman executes the decisions of the Board. He sees to it that the Company management bodies run smoothly and ensures that the Directors are able to fulfill their duties.

The CEO is vested with the broadest powers to act in all circumstances on behalf of the Company. The CEO therefore exercises his powers with no other limits than those set forth by the applicable regulations concerning the powers attributed expressly by law to General Meetings of shareholders and to the Board of Directors.

1.7 Powers of the Chief Operating Officer

The Chief Operating Officer assists the Chairman and CEO. With respect to third parties, he has the same powers as the CEO.

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1.8 Executive Committee

Presided over by the Chairman and CEO, this committee includes the persons in charge of the Company's various departments. As of December 31, 2018, it consisted of:

- Éric Trappier, Chairman and Chief Executive Officer,
- Loïk Segalen, Chief Operating Officer,
- Benoît Berger, Senior Executive Vice President, Procurement and Purchasing,
- Bruno Chevalier, Senior Executive Vice President, Military Customer Support,
- Denis Dassé, Chief Financial Officer,
- Benoît Dussaugey, Senior Executive Vice-President, International,
- Jean-Marc Gasparini, Executive Vice-President, Military Programs,
- Bruno Giorgianni, Executive Committee Secretary and Executive Vice-President, Public Affairs and Security,
- Didier Gondoin^(*), Senior Executive Vice-President, Engineering,
- Frédéric Lherm, Senior Executive Vice-President, Industrial Operations,
- Gérald Maria, Senior Executive Vice-President, Total Quality,
- Philippe Massot, Senior Vice-President, Sales,
- Frédéric Petit, Senior Vice-President, Falcon Programs,
- Yves Petit, Senior Vice-President, Human Resources,
- Jean Sass, Chief Digital Officer,
- Olivier Villa, Senior Executive Vice-President, Civil Aircraft.

^(*) Nicolas Mojaïsky, since January 1, 2019.

This Committee covers all subjects related to running and operating the different aspects of the Company. It meets once per week.

1.9 General Meetings of shareholders

1.9.1 Specific conditions governing shareholders' attendance at the General Meeting

1.9.1.1 Admission

The conditions governing shareholders' attendance at General Meetings are set forth in Articles 29 and 31 of the Articles of Association. These conditions are as follows:

- the right to attend General Meetings is subject to:
 - for holders of registered shares, registration in the registered shareholder accounts held by the Company,
 - for holders of bearer shares, registration in the bearer shareholder accounts held by the authorized intermediary (i.e. a bank, financial institution or investment service provider) and production of a shareholding certificate issued by the intermediary,
- the period during which these formalities must be completed is two business days, in accordance with the provisions of Decree No. 2014-1466 of December 8, 2014,



- the Board of Directors retains the right to accept the attendance certificate after the above deadline,
- shareholders may be represented by proxy according to legal and regulatory conditions.

Notification of the designation and revocation of the proxy agent may be made either on paper or by electronic means. In the latter case, the shareholder's signature may constitute in practice a reliable means of identification guaranteeing his/her link to the associated document, and may in particular consist of a login and password.

These conditions are reiterated in the meeting notice and the final notice of the General Meeting that are published in the BALO (Bulletin des Annonces Légales Obligatoires - French official announcements bulletin) and online on the Company's website.

1.9.1.2 Voting rights

Subject to special circumstances set forth by law, all members present at the General Meeting have as many votes, without limitation, as the number of fully paid-up shares they own or represent.

Since April 3, 2016, the shares issued by the Company registered in nominal accounts for more than two years receive double voting rights.

Voting is performed by the raising of hands and/or use of voting slips.

A secret ballot may be requested, either by the Board of Directors or by shareholders representing at least one quarter of the share capital, subject to the submission of written notification to the Board of Directors or the authority convening the meeting at least three days prior to the General Meeting.

Shareholders may also vote by correspondence in accordance with the legal conditions.

Furthermore, the bylaws of the Company state that:

- voting may be performed using OCR slips or electronically,
- shareholders may also, if the Board has so decided upon convening the meeting, to vote by any means of telecommunications that enables them to be identified, subject to and according to the procedures provided for by applicable laws and regulations.

1.9.2 Convening of general Meetings of Shareholders

General Meetings of Shareholders are called by the Board of Directors in accordance with applicable laws and regulations. All shareholders, regardless of the number of shares they own, may take part. The date of each General Meeting is provided on the Company's website (www.dassault-aviation.com) approximately six months in advance.

No later than 21 days before the General Meeting, the documentation may be viewed on the aforementioned website in the Finance/General Meetings section.

The results of the vote on the resolutions and the minutes of the General Meeting are also placed online within 15 days following the meeting.

Report of the Board of Directors on Corporate Governance

2. Compensation of corporate officers

2.1 Directors' fees allocation system

Directors' fees are allocated according to the following principles:

- for the Board of Directors:
 - fixed compensation of EUR 28,000,
 - variable compensation of EUR 10,000 multiplied by the attendance rate at meetings,these amounts are doubled for the Chairman of the Board of Directors,
- for the Audit Committee: variable compensation only dependent on attendance at meetings of EUR 3,000 per meeting (double for the Chairman).

The overall amount authorized by the Annual General Meeting of May 15, 2014 (EUR 444,000) was not modified.

2.2 Compensation of corporate officers in 2018

2.2.1 Compensation paid to Serge Dassault, Honorary Chairman

- *For GIMD, which controls Dassault Aviation*

Serge Dassault received gross annual compensation of EUR 265,650 as Chairman and EUR 27,286 (gross) in directors' fees as a member of the Supervisory Board.

- *For Dassault Aviation*

Serge Dassault, Director, received EUR 38,000 in directors' fees as a member of the Board and EUR 3,745 in gross compensation for his duties as Advisor.

He had a chauffeur-driven car for the performance of his duties as Advisor described above.

He also had the right to reimbursement of expenses incurred in the interest of the Company as part of that mission.

- *From French and foreign companies controlled by Dassault Aviation as determined by Article L.233-16 of the French Commercial Code (i.e. companies within the scope of consolidation)*

In France, Serge Dassault received EUR 38,734 gross in directors' fees as a member of the Board of Directors of Dassault Falcon Jet.



2.2.2 Compensation paid to Charles Edelstenne, Honorary Chairman

- *For GIMD, which controls Dassault Aviation*

Charles Edelstenne received gross annual compensation of EUR 804,828 as CEO, then as Chairman, and EUR 27,286 (gross) in directors' fees as a member of the Supervisory Board.

He had a chauffeur-driven company car (benefit in kind valued at EUR 10,440) and reimbursement of actual costs incurred in connection with his functions.

- *For Dassault Aviation*

Charles Edelstenne received EUR 44,000 gross in directors' fees, including EUR 6,000 (gross) for his work on the Audit Committee.

Supplementary pension

Dassault Aviation agreed to pay a supplementary pension to Charles Edelstenne. It represents a gross amount of EUR 310,512 per year, after revaluation of the AGIRC point in 2018. Dassault Aviation has made a provision for this amount in its books, for payments which should have begun in 2013.

However, at the end of his term of office as Chairman and CEO of Dassault Aviation in January 2013, Charles Edelstenne did not retire from his positions at Dassault Systèmes and GIMD. He cannot therefore draw on his statutory pension.

Consequently, in spite of its commitment, Dassault Aviation has had to postpone the payment of this pension.

- *From other French and foreign companies of the Dassault Aviation Group*

In France, Charles Edelstenne received EUR 38,734 gross in directors' fees as a member of the Board of Dassault Falcon Jet and EUR 39,740 gross in directors' fees as a member of the Board of Thales.

2.2.3 Compensation of Éric Trappier, Chairman and Chief Executive Officer

- *For Dassault Aviation*

Éric Trappier received gross annual compensation as Chairman and CEO of EUR 1,519,992 gross, a 2.6% increase from 2017.

His compensation does not include any variable or exceptional compensation.

He was not awarded any stock options.

The Board of Directors has ascertained compliance with the performance criteria to which the 750 shares allocated to him by the Board in its meeting of March 7, 2017 are subject. On March 7, 2018, he therefore acquired 750 performance shares. These performance shares were valued at EUR 1,000 per share, or EUR 750,000 for all 750 shares.

The Board of Directors, in its meeting of March 7, 2018, allocated 850 performance shares to him. These bonus shares were valued at EUR 1,313 per share on December 31, 2018, or EUR 1,116,050 for all 850 shares (0.010% of capital as of December 31, 2018). The acquisition of these shares is subject to performance criteria, a vesting period of one year, and a one-year holding period.

He does not benefit as an executive officer from any compensation linked to the cessation of his term of office.

He had a chauffeur-driven company car (benefit in kind valued at EUR 8,711) and reimbursement of actual costs incurred in connection with his functions.

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In addition, he received gross directors' fees of EUR 76,000 on the Board of Directors (double fees).

On January 9, 2013, the date of his appointment as CEO, the employment contract of Éric Trappier was suspended due to:

- his length of service of 28 years in the Company on the date of his appointment as CEO in January 2013,
- the desire of the Company to use internal promotion in the appointment of Executive Directors, entrusting these responsibilities to experienced executives with deep knowledge of the industry and the aviation sector.

The decision to suspend his employment contract was consistent with the AMF's position in its reports on corporate governance in relation to the contracts of executive officers.

Upon reinstatement of his employment contract, Éric Trappier will enjoy severance benefits applicable to employees of his category, according to the rules of our Company.

He has the supplementary retirement plan provided for the members of the Executive Committee and the flight crew. This plan, which has been applicable starting January 1, 2018, allows for an annual acquisition of additional pension benefits equal to 2% of annual gross compensation, upon performance conditions as defined each year by the Board of Directors, for an amount of EUR 30,574 for 2018.

The payment of the pension is conditional, upon retirement, on the determination by the Board of Directors that the annual conditions have been met in at least two-thirds of the years of the term.

The rights acquired as of December 31, 2017 under the old plan (as described in the 2016 Annual Report) have been frozen and are amounting to EUR 392,000 (based on retirement at 65 years old).

The pension paid under the old and the new plan will be capped at 45% of gross annual compensation for the corporate officer's last year.

During his term of office, the Chairman and Chief Executive Officer also has the benefit of health and welfare plans applicable to all executive employees of the Company.

The Chairman and Chief Executive Officer has not entered into a service agreement directly or indirectly with Dassault Aviation or its subsidiaries.

- *From other French and foreign companies of the Dassault Aviation Group*

In France, Éric Trappier received EUR 38,734 gross in directors' fees as a member of the Board of Dassault Falcon Jet and EUR 40,990 gross in directors' fees as a member of the Board of Thales.

2.2.4 Compensation of Loïc Segalen, Chief Operating Officer

- *For Dassault Aviation*

Loïc Segalen received gross annual compensation as Chief Operating Officer of EUR 1,344,647 gross, a 2.6% increase from 2017.

His compensation does not include any variable or exceptional compensation.

He was not awarded any stock options.

The Board of Directors has ascertained compliance with the performance criteria to which the 675 shares allocated to him by the Board in its meeting of March 7, 2017 are subject. On March 7, 2018, he therefore acquired 675 performance shares. These performance shares were valued at EUR 1,000 per share, or EUR 675,000 for all 675 shares.



The Board of Directors, in its meeting of March 7, 2018, allocated 725 performance shares to him. These bonus shares were valued at EUR 1,313 per share on December 31, 2018, or EUR 951,925 for all 725 shares (0.009% of capital as of December 31, 2018). The acquisition of these shares is subject to performance criteria, a vesting period of one year, and a one-year holding period.

He does not benefit as an executive officer from any compensation linked to the cessation of his term of office.

He had a chauffeur-driven company car (benefit in kind valued at EUR 8,697) and reimbursement of actual costs incurred in connection with his functions.

On January 9, 2013, the date of his appointment as Chief Operating Officer, the employment contract of Loïc Segalen was suspended due to:

- his length of service of 27 years with the Company on the date of his appointment as Chief Operating Officer in January 2013,
- the desire of the Company to use internal promotion in the appointment of Executive Directors, entrusting these responsibilities to experienced executives with deep knowledge of the industry and the aviation sector.

The decision to suspend his employment contract was consistent with the AMF's position in its reports on corporate governance in relation to the contracts of executive officers.

Upon reinstatement of his employment contract, Loïc Ségalen will enjoy severance benefits applicable to employees of his category, according to the rules of our Company.

He has the supplementary retirement plan provided for the members of the Executive Committee and the flight crew. This plan, which has been applicable starting January 1, 2018, allows for an annual acquisition of additional pension benefits equal to 2% of annual gross compensation, upon performance conditions as defined each year by the Board of Directors, for an amount of EUR 27,067 for 2018.

The payment of the pension is conditional, upon retirement, on the determination by the Board of Directors that the annual conditions have been met in at least two-thirds of the years of the term.

The rights acquired as of December 31, 2017 under the old plan (as described in the 2016 Annual Report) have been frozen and are amounting to EUR 355,000 (based on retirement at 65 years old).

The pension paid under the old and the new plan will be capped at 45% of gross annual compensation for the corporate officer's last year.

During his term of office, the Chief Operating Officer also benefits from health and welfare plans applicable to all management employees of the Company.

The Chief Operating Officer has not entered into a service agreement directly or indirectly with Dassault Aviation or its subsidiaries.

- *From other French and foreign companies of the Dassault Aviation Group*

In France, Loïc Segalen received EUR 38,734 gross in directors' fees as a member of the Board of Dassault Falcon Jet and EUR 40,990 gross in directors' fees as a member of the Board of Thales.

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2.2.5 Compensation paid to Directors

- *For GIMD, which controls Dassault Aviation*

Olivier Dassault received gross annual compensation of EUR 39,500 as Chairman of the Supervisory Board and EUR 311,268 (gross) as an employee. He had the use of a company car (benefit in kind valued at EUR 5,801), and he also received EUR 22,286 gross in directors' fees as a member of the Supervisory Board.

Marie-Hélène Habert received gross annual compensation of EUR 10,000 as Chair of the Supervisory Board and, as an employee, an annual gross amount of EUR 359,548 as Director of Communications and Sponsorship. She received EUR 27,286 gross in directors' fees and had the use of a company car (benefit in kind valued at EUR 3,324).

- *For Dassault Aviation*

Olivier Dassault received EUR 30,500 in directors' fees.

Marie-Hélène Habert and Richard Bédère each received EUR 38,000 gross in directors' fees.

Lucia Sinapi-Thomas received EUR 44,000 gross in directors' fees, including EUR 6,000 (gross) for her work on the Audit Committee.

Henri Proglio received EUR 47,500 gross in directors' fees, including EUR 12,000 (gross) for his work as Chair of the Audit Committee (double fees).

Catherine Dassault received EUR 33,000 in directors' fees.

Mathilde Lemoine received EUR 35,500 in directors' fees.

- *From other French and foreign companies of the Dassault Aviation Group*

The Directors referred to in the paragraph above did not receive any compensation, directors' fees or benefits in kind.

2.2.6 Summary of compensation tables

Table 1 Summary table of compensation due and options and shares granted to each Executive Director (in EUR)

	2018	2017
Éric Trappier, Chairman and Chief Executive Officer		
Compensation payable during the fiscal year (breakdown in table 2)	1,604,703	1,570,621
Value of year-on-year variable compensation granted during the fiscal year	-	-
Value of stock options granted during the fiscal year	-	-
TOTAL	1,604,703	1,570,621
Loïc Segalen, Chief Operating Officer		
Compensation payable during the fiscal year (breakdown in table 2)	1,353,344	1,318,793
Value of year-on-year variable compensation granted during the fiscal year	-	-
Value of stock options granted during the fiscal year	-	-
TOTAL	1,353,344	1,318,793



Valuation of shares granted to each Corporate Executive Officer (in EUR)

	2018	2017
Éric Trappier, Chairman and Chief Executive Officer		
Valuation of bonus shares allocated over the fiscal year (see tables 6 and 9)	1,116,050	750,000
Loïc Segalen, Chief Operating Officer		
Valuation of bonus shares allocated over the fiscal year (see tables 6 and 9)	951,925	675,000

Table 2 Summary table of compensation paid to each Executive Director (in EUR)

	2018 - amounts		2017 - amounts	
	Payable	Paid	Payable	Paid
Éric Trappier, Chairman and Chief Executive Officer				
Fixed compensation	1,519,992	1,519,992	1,480,910	1,480,910
Annual variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Directors' fees ⁽¹⁾	76,000	76,000	81,000	81,000
Benefits in kind	8,711	8,711	8,711	8,711
TOTAL	1,604,703	1,604,703	1,570,621	1,570,621
Loïc Segalen, Chief Operating Officer				
Fixed compensation	1,344,647	1,344,647	1,310,096	1,310,096
Annual variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Directors' fees ⁽¹⁾	-	-	-	-
Benefits in kind	8,697	8,697	8,697	8,697
TOTAL	1,353,344	1,353,344	1,318,793	1,318,793

⁽¹⁾ In addition, Éric Trappier and Loïc Ségalen received EUR 38,734 gross in directors' fees as a member of the Board of Dassault Falcon Jet and EUR 40,990 gross in directors' fees as a member of the Board of Thales.



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Table 3 Table of Directors' fees and other compensation received by non-executive Directors (in EUR)

Non-executive directors	Amounts paid in 2018 (Gross)	Amounts paid in 2017 (Gross)
Serge Dassault		
Directors' fees	38,000 ⁽¹⁾	40,500 ⁽¹⁾
Other compensation	3,745	9,148
Charles Edelstenne		
Directors' fees	44,000 ^{(2) (3)}	46,500 ^{(2) (3)}
Other compensation	-	-
Olivier Dassault		
Directors' fees	30,500	33,833
Other compensation	-	-
Marie-Hélène Habert		
Directors' fees	38,000	40,500
Other compensation	-	-
Catherine Dassault		
Directors' fees	33,000	33,013
Other compensation	-	-
Henri Progllo		
Directors' fees	47,500 ⁽⁴⁾	49,167 ⁽⁴⁾
Other compensation	-	-
Lucia Sinapi-Thomas		
Directors' fees	44,000 ⁽³⁾	43,167 ⁽³⁾
Other compensation	-	-
Mathilde Lemoine		
Directors' fees	35,500	33,013
Other compensation	-	-
Richard Bédère		
Directors' fees	38,000	40,500
Other compensation	salary	salary
TOTAL	352,245	369,341

⁽¹⁾ In addition, Serge Dassault received EUR 38,734 gross in directors' fees in 2018 as a member of the Board of Directors of Dassault Falcon Jet and EUR 36,615 gross in 2017

⁽²⁾ In addition, Charles Edelstenne received EUR 38,734 gross in directors' fees in 2018 as a member of the Board of Dassault Falcon Jet (versus EUR 36,615 gross in 2017) and EUR 39,740 gross in directors' fees as a member of the Board of Thales (versus EUR 22,350 gross in 2017)

⁽³⁾ including EUR 6,000 in 2018 and 2017 for the Audit Committee

⁽⁴⁾ including EUR 12,000 in 2018 and 2017 for the Audit Committee



Table 4 Options to subscribe for or purchase shares allocated during the fiscal year to each executive officer by the issuer and by any Group company.

N/A

Table 5 Options to subscribe for or purchase shares exercised during the fiscal year by each Executive Officer.

N/A

Table 6 Performance shares awarded during the fiscal year to each Executive Officer by the issuer or any Group company.

	Plan name and date	Number of performance shares allocated during fiscal year 2018	Value of shares (in euros)*	Vesting date	Date of availability	Performance conditions
Éric Trappier	2018 Shares 3/7/2018	850	1,116,050	3/7/2019	3/7/2020	Yes
Loïk Segalen	2018 Shares 3/7/2018	725	951,925	3/7/2019	3/7/2020	Yes
TOTAL		1,575	2,067,975			

* price of EUR 1,313 per share (IFRS 2)

Table 7 Performance shares that became available during the fiscal year for each Executive Officer.

	Plan name and date	Number of shares that became available during fiscal year 2018	Vesting conditions
Éric Trappier	2016 Shares 3/9/2016	500	Shares vested after a vesting period of one year and subject to performance conditions
Loïk Segalen	2016 Shares 3/9/2016	450	Shares vested after a vesting period of one year and subject to performance conditions
TOTAL		950	

Table 8 Previous allocations of subscription options or purchase of shares - Information on subscription or purchase options.

N/A



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Table 9 Previous allocations of performance shares - Information on performance shares.

	2015 Shares	2016 Shares	2017 Shares	2018 Shares
Date of General Meeting	9/23/2015	9/23/2015	9/23/2015	9/23/2015
Date of Board of Directors meeting	9/23/2015	3/9/2016	3/7/2017	3/7/2018
Number of shares allocated	950	950	1,425	1,575
corporate officers	950	950	1,425	1,575
• Éric Trappier	500	500	750	850
• Loïk Segalen	450	450	675	725
Vesting date of shares	9/23/2016	3/9/2017	3/7/2018	3/7/2019
End date of holding period	9/22/2017	3/8/2018	3/6/2019	3/6/2020
Performance conditions	yes	yes	yes	yes
Number of shares acquired	950	950	1,475	1,575
corporate officers	950	950	1,425	1,575
• Éric Trappier	500	500	750	850
• Loïk Segalen	450	450	675	725
Cumulative number of canceled or expired shares	0	0	0	0

Table 10 Summary table of variable multi-year compensation for each Executive Director.

N/A



Table 11 Other information on Executive Officer

Corporate officers	Employment contract	Supplemental pension plan	Compensation or benefits payable or likely to be payable due to termination or change of office	Compensation for non-compete agreement
Éric Trappier				
Chairman and Chief Executive Officer <i>start of term: 1/9/2013</i> <i>end of term: General Meeting of 2019</i>	yes ⁽¹⁾	yes	no ⁽²⁾	no
Loïc Segalen				
Chief Operating Officer <i>start of term: 1/9/2013</i> <i>end of term: General Meeting of 2019</i>	yes ⁽¹⁾	yes	no ⁽²⁾	no

⁽¹⁾ employment contract suspended as of January 9, 2013,

⁽²⁾ at the end of their terms of office, corporate officers receive retirement allowances according to the rules applicable to employees in their category

2.3 2019 report on executive compensation policy

This report is prepared pursuant to Article L. 225-37-2 of the French Commercial Code, under Law No. 2016-1691 of December 9, 2016 known as "Sapin 2".

Its aim is to present you with the principles and criteria for determining, distributing and attributing the fixed, variable and exceptional elements that make up the total compensation and benefits in kind attributable to the Chairman and Chief Executive Officer and to the Chief Operating Officer because of their term of office. This compensation policy is subject to your approval (Resolutions No. 6 and 7).

Pursuant to Article L. 225-37-2 paragraph 2 of the French Commercial Code, we confirm that the payment of variable and exceptional compensation elements is contingent on approval by the Ordinary General Meeting of the compensation elements of the person concerned in the terms and conditions stipulated in Article L. 225-100 of the aforesaid Code.

2.3.1 Principles and rules used to determine compensation and benefits in kind granted to corporate officers

The compensation of the Chairman and Chief Executive Officer and of the Chief Operating Officer, along with their benefits in kind, have been determined by the Board of Directors with reference to the recommendations of the AFEP/MEDEF Code. They are in accordance with the annual report of the AMF on corporate governance and the compensation of executives of listed companies.

The compensation of the Chairman and CEO and of the Chief Operating Officer consists exclusively of fixed compensation.

This compensation changes according to the increase policy for executives of the Company resulting from the Annual Mandatory Negotiations, unless decided otherwise by the Board of Directors.



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In 2019, the Chairman and Chief Executive Officer and the Chief Operating Officer, by way of their corporate officer status, will not receive:

- any variable or exceptional compensation,
- any stock options,
- any private unemployment insurance,
- any severance packages,
- any special supplementary pensions.

In 2019, the Chairman and Chief Executive Officer and the Chief Operating Officer will receive bonus shares.

On February 27, 2019, the Board of Directors decided to grant them 1,100 and 925 shares respectively. These shares will become vested provided the following performance criteria are met:

- parent Company net margin level,
- qualitative assessment of individual performance.

Furthermore, the Board of Directors has determined the following additional conditions:

- a vesting period of one year, expiring on February 26, 2020 inclusive,
- presence in the workforce at the end of the vesting period,
- a one-year holding period, beginning on February 27, 2020 and ending on February 26, 2021 inclusive,
- starting on February 27, 2021, the retention by the corporate officers of 20% of those shares for the duration of their term.

In addition, the 2019 Share plan prohibits executive officers who have been granted performance shares from not using risk hedging.

The employment contracts of the Chairman and CEO and Chief Operating Officer have been suspended. Upon effective reinstatement of the contracts, they will recover the rights of salaried senior executives in their category, according to Company rules.

For supplementary pensions, they benefit:

- from the supplementary pension plan backed by performance conditions, applicable to members of the Executive Committee and to the Company's flight crew,
- from the rights acquired under the plan applicable to executives of the Company, which have been frozen as of December 31, 2017.

2.3.2 Presentation of resolutions submitted to shareholder vote

The "Sapin 2" Law has implemented a new system relating to the consultation of shareholders with regard to the compensation of corporate officers. Shareholders are called upon to express an opinion in two stages:

- prior voting on the compensation policy (known as an "ex-ante vote"): the executive compensation policy is subject to annual shareholders' approval,
- retrospective voting (known as an "ex-post vote"): elements of compensation paid or attributed to executives during the previous fiscal year are subject to shareholders' approval.



Consequently, the following resolutions will be submitted for your approval:

- Approval of the elements of compensation due and attributed for fiscal year 2018 to Éric Trappier, Chairman and Chief Executive Officer (Resolution No. 4),
- Approval of the elements of compensation due and attributed for fiscal year 2018 to Loïc Segalen, Chief Operating Officer (Resolution No. 5),
- Approval of the 2019 compensation policy for Éric Trappier, Chairman and Chief Executive Officer (Resolution No. 6),
- Approval of the 2019 compensation policy for Loïc Segalen, Chief Operating Officer (Resolution No. 7).

3. Information mentioned in Article L. 225-37-5 of the French Commercial Code

The information set forth in this Article is contained in paragraph 5.5 of the accompanying Directors' Report, to which this report is attached. Both these reports are included in the 2018 Annual Financial Report that has been published electronically and filed with the AMF by our distributor, "HUGIN AS, part of NASDAQ OMX". They are published online on our Company website in the Finance/Publications section.

The Board of Directors







***CONSOLIDATED
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018***



Consolidated Financial Statements

ASSETS

(in EUR thousands)	Notes	12/31/2018	01/01/2018 (2)	12/31/2017 (1)	01/01/2017 (1)
Goodwill	3	14,366	14,366	14,366	14,366
Intangible assets	4	28,881	30,687	30,687	35,159
Property, plant and equipment	4	489,009	445,310	445,310	498,330
Equity associates	5	1,924,093	1,766,792	1,770,557	1,668,811
Available-for-sale securities				3,305,850	3,142,377
Other non-current financial assets	6	204,618	189,134	38,197	33,678
Deferred tax assets	20	378,728	323,291	323,291	544,082
TOTAL NON-CURRENT ASSETS		3,039,695	2,769,580	5,928,258	5,936,803
Inventories and work-in-progress	7	3,403,278	3,471,434	3,471,434	3,863,741
Contract assets	14	16,967	0	0	0
Trade and other receivables	8	1,068,312	870,161	870,161	665,137
Advances and progress payments to suppliers	14	3,282,220	2,525,871	2,525,871	1,793,708
Derivative financial instruments	24	40,407	172,818	172,818	4,598
Other current financial assets	6, 9	3,211,968	3,154,913		
Cash and cash equivalents	9	2,990,141	2,061,419	2,061,419	1,252,866
TOTAL CURRENT ASSETS		14,013,293	12,256,616	9,101,703	7,580,050
TOTAL ASSETS		17,052,988	15,026,196	15,029,961	13,516,853

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.A).



EQUITY AND LIABILITIES

(in EUR thousands)	Notes	12/31/2018	01/01/2018 (2)	12/31/2017 (1)	01/01/2017 (1)
Capital	10	66,790	66,495	66,495	66,006
Consolidated reserves and retained earnings		4,237,360	3,716,436	3,720,201	3,088,996
Currency translation adjustments		8,317	-24,888	-24,888	99,122
Treasury shares	10	-36,432	-37,828	-37,828	-38,759
TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY		4,276,035	3,720,215	3,723,980	3,215,365
Non-controlling interests		554	493	493	451
TOTAL EQUITY		4,276,589	3,720,708	3,724,473	3,215,816
Long-term borrowings and financial debt	11	335,306	980,265	980,265	1,094,504
Deferred tax liabilities	20	0	0	0	0
TOTAL NON-CURRENT LIABILITIES		335,306	980,265	980,265	1,094,504
Contract liabilities	14	9,198,007	8,126,973	8,126,973	6,562,569
Trade and other payables	13	914,298	735,754	735,754	701,102
Tax and social security liabilities	13	309,191	237,616	237,616	237,102
Short-term borrowings and financial debt	11	656,070	114,910	114,910	90,598
Provisions for contingencies and charges	12	1,337,402	1,097,903	1,097,903	1,103,781
Derivative financial instruments	24	26,125	12,067	12,067	511,381
TOTAL CURRENT LIABILITIES		12,441,093	10,325,223	10,325,223	9,206,533
TOTAL EQUITY AND LIABILITIES		17,052,988	15,026,196	15,029,961	13,516,853

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.A).



Consolidated Financial Statements

INCOME STATEMENT

(in EUR thousands)	Notes	2018	2017 (1)
NET SALES	15	5,119,219	4,901,080
Other revenue	16	110,494	44,038
Change in work-in-progress		-52,505	-108,296
Purchases consumed		-3,287,081	-3,062,529
Personnel expenses (2)		-1,204,926	-1,143,040
Taxes		-68,935	-68,381
Depreciation and amortization	4	-82,211	-87,270
Allocations to provisions	12	-1,047,885	-948,321
Reversals of provisions	12	983,211	856,874
Other operating income and expenses	17	-2,852	-32,719
CURRENT OPERATING INCOME		466,529	351,436
Other non-current income and expenses	26	241,000	-133,501
OPERATING INCOME		707,529	217,935
Cost of net financial debt		-86,507	-72,802
Other financial income and expenses		-59,376	592,361
NET FINANCIAL INCOME	19	-145,883	519,559
Share in net income of equity associates	5	205,849	143,951
Income tax	20	-194,693	-251,363
NET INCOME		572,802	630,082
<i>Attributable to the owners of the Parent Company</i>		<i>572,741</i>	<i>630,040</i>
<i>Attributable to non-controlling interests</i>		<i>61</i>	<i>42</i>
Earnings per share (in EUR)	21	69.1	76.4
Diluted earnings per share (in EUR)	21	69.1	76.4

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) personnel expenses include incentive schemes and profit-sharing (EUR -139,713 thousand in 2018 and EUR -99,273 thousand in 2017) as well as contributions paid to French pension plans, comparable to defined contribution plans (EUR -89,957 thousand in 2018 and EUR -89,524 thousand in 2017). The tax credit for competitiveness and employment represented EUR 8,367 thousand in 2018 and EUR 9,545 thousand in 2017. In 2018, personnel expenses also include the purchasing power bonus for EUR 4,340 thousand.



STATEMENT OF RECOGNIZED INCOME AND EXPENSE
2018

(in EUR thousands)	Notes	Fully consolidated companies	Equity associates	2018
NET INCOME		366,953	205,849	572,802
Derivative financial instruments (1)	5, 24	-108,511	-26,262	-134,773
Deferred taxes	5, 20	33,839	8,961	42,800
Currency translation adjustments		33,987	-782	33,205
Items to be subsequently recycled to P&L		-40,685	-18,083	-58,768
Other non-current financial assets	6	-1,699	0	-1,699
Actuarial adjustments on pension benefit obligations	5, 12	49,818	72,434	122,252
Deferred taxes	5, 20	-9,862	-1,124	-10,986
Items that will not be recycled to P&L		38,257	71,310	109,567
Income and expense recognized directly through equity		-2,428	53,227	50,799
RECOGNIZED INCOME AND EXPENSE		364,525	259,076	623,601
<i>Owners of the Parent Company</i>		<i>364,464</i>	<i>259,076</i>	<i>623,540</i>
<i>Non-controlling interests</i>		<i>61</i>		<i>61</i>

(1) the amounts stated represent the change in the market value over the period for instruments that qualify for hedge accounting. They are not representative of the actual gain/loss which will be recognized when the hedges are exercised.

2017

(in EUR thousands)	Notes	Fully consolidated companies	Equity associates	2017 (1)
NET INCOME		486,131	143,951	630,082
Available-for-sale securities		-287,767	-1,913	-289,680
Derivative financial instruments (2)	5, 24	193,900	94,199	288,099
Deferred taxes	5, 20	38,879	-26,683	12,196
Currency translation adjustments		-94,492	-29,518	-124,010
Items to be subsequently recycled to P&L		-149,480	36,085	-113,395
Actuarial adjustments on pension benefit obligations	5, 12	10,801	14,473	25,274
Deferred taxes	5, 20	-9,520	718	-8,802
Items that will not be recycled to P&L		1,281	15,191	16,472
Income and expense recognized directly through equity		-148,199	51,276	-96,923
RECOGNIZED INCOME AND EXPENSE		337,932	195,227	533,159
<i>Owners of the Parent Company</i>		<i>337,890</i>	<i>195,227</i>	<i>533,117</i>
<i>Non-controlling interests</i>		<i>42</i>		<i>42</i>

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) the amounts stated represent the change in the market value over the period for instruments that qualify for hedge accounting. They are not representative of the actual gain/loss which will be recognized when the hedges are exercised.



Consolidated Financial Statements

STATEMENT OF CHANGES IN EQUITY

(in EUR thousands)	Capital	Consolidated reserves and retained earnings		Currency translation adjustments	Treasury shares	Total attributable to the owners of the Parent Company	Non-controlling interests	Total equity
		Additional paid-in capital, consolidated retained earnings and other reserves	Derivative financial instruments and available-for-sale securities					
Published as of 12/31/2016	66,006	2,834,810	355,732	99,122	-38,759	3,316,911	451	3,317,362
IFRS 15 adjustments (1)		-101,546				-101,546		-101,546
Restated as of 01/01/2017	66,006	2,733,264	355,732	99,122	-38,759	3,215,365	451	3,215,816
Capital increase	489	76,249				76,738		76,738
Net income for the year		630,040				630,040	42	630,082
Income and expense recognized directly through equity		16,472	10,615	-124,010		-96,923		-96,923
Recognized income and expense		646,512	10,615	-124,010		533,117	42	533,159
Dividend in shares		-74,731				-74,731		-74,731
Dividend in cash		-24,636				-24,636		-24,636
Dividends paid		-99,367				-99,367		-99,367
Share-based payments		1,115				1,115		1,115
Movements on treasury shares (2)		-931			931	0		0
Other changes (3)		-2,988				-2,988		-2,988
Restated as of 12/31/2017	66,495	3,353,854	366,347	-24,888	-37,828	3,723,980	493	3,724,473
IFRS 9 adjustments (1)		262,196	-265,961			-3,765		-3,765
Restated as of 01/01/2018	66,495	3,616,050	100,386	-24,888	-37,828	3,720,215	493	3,720,708
Capital increase	295	60,937				61,232		61,232
Net income for the year		572,741				572,741	61	572,802
Income and expense recognized directly through equity		109,567	-91,973	33,205		50,799		50,799
Recognized income and expense		682,308	-91,973	33,205		623,540	61	623,601
Dividend in shares		-59,675				-59,675		-59,675
Dividend in cash		-66,929				-66,929		-66,929
Dividends paid		-126,604				-126,604		-126,604
Share-based payments		1,689				1,689		1,689
Movements on treasury shares (2)		-1,396			1,396	0		0
Other changes (3)		-4,037				-4,037		-4,037
As of 12/31/2018	66,790	4,228,947	8,413	8,317	-36,432	4,276,035	554	4,276,589

(1) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.A).

(2) see Note 10.

(3) for Thales, this represents in particular the change in treasury shares, employee share issues and share-based payments.



CASH FLOW STATEMENT

(in EUR thousands)	Notes	2018	2017 (1)
I – NET CASH FLOWS FROM OPERATING ACTIVITIES			
NET INCOME		572,802	630,082
Elimination of net income of equity associates, net of dividends received	5	-108,111	-53,496
Elimination of gains and losses from disposals of non-current assets	17	4,444	709
Change in the fair value of derivative financial instruments	24	37,958	-473,634
Change in the fair value of other current financial assets	6	-4,820	
Income tax (including deferred taxes)	20	194,693	251,363
Allocations to and reversals of depreciation, amortization and provisions (excluding those related to working capital requirement)	4, 12	361,123	112,964
Other items	10	1,689	1,115
Net cash from operating activities before working capital changes and taxes		1,059,778	469,103
Income taxes paid		-222,409	-110,945
Change in inventories and work-in-progress (net)	7	68,156	392,307
Change in contract assets	14	-16,967	0
Change in advances and progress payments to suppliers	14	-756,349	-732,163
Change in trade and other receivables (net)	8	-199,941	-103,033
Change in contract liabilities	14	1,071,034	1,564,404
Change in trade and other payables	13	178,544	34,652
Change in tax and social security liabilities	13	71,575	514
Increase (-) or decrease (+) in working capital requirement		416,052	1,156,681
Total I		1,253,421	1,514,839
II – NET CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets and property, plant & equipment	4	-140,206	-76,087
Increase in non-current financial assets	6	-17,542	-45,828
Disposals of or reductions in non-current assets		26,720	23,484
Total II		-131,028	-98,431
III - NET CASH FLOWS FROM FINANCING ACTIVITIES			
Net change, as acquisition cost, of other current financial assets	6	-52,235	-410,286
Capital increase and share premium	10	61,232	76,738
Increase in financial debt	11	70,866	61,044
Repayment of financial debt	11	-174,665	-150,971
Dividends paid during the year	22	-126,604	-99,367
Total III		-221,406	-522,842
IV - Impact of exchange rate fluctuations and others		27,735	-85,013
Total IV			
CHANGE IN NET CASH AND CASH EQUIVALENTS (I+II+III+IV)		928,722	808,553
Opening net cash and cash equivalents	9	2,061,419	1,252,866
Closing net cash and cash equivalents	9	2,990,141	2,061,419

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).



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Note 1 - Accounting principles

A/ GENERAL PRINCIPLES

On February 27, 2019, the Board of Directors closed and authorized the publication of the Dassault Aviation consolidated financial statements for the year ended December 31, 2018. These consolidated financial statements will be submitted for approval to the General Meeting on May 16, 2019.

- **A1 Reference standards**

A1-1 Basis for preparation of financial information

Dassault Aviation Group consolidated financial statements are prepared in accordance with IFRS standards, amendments and interpretations as adopted by the European Union and applicable on the closing date.

A1-2 Changes in 2018 to the accounting standards applicable to Dassault Aviation

Standards, amendments and interpretations whose application has become mandatory as of January 1, 2018

Since January 1, 2018, the Group has applied the following standards, amendments, and interpretations:

- IFRS 15 "Revenue from Contracts with Customers",
- clarifications to IFRS 15 "Revenue from Contracts with Customers",
- IFRS 9 "Financial Instruments",
- annual improvements to IFRS 2014-2016,
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration",
- IFRS 2 amendment "Classification and Measurement of Share-based Payment Transactions".

The impacts of IFRS 15 and IFRS 9 application on the Group financial statements are detailed below.

The other texts have no impact on the Group consolidated financial statements.

Standards, amendments and interpretations whose application is mandatory after January 1, 2018

The texts presented below were not applied in advance by the Group when that option was offered.

The texts adopted by the European Union, which must be applied after January 1, 2018, are as follows:

- IFRS 16 "Leases", applicable as of January 1, 2019. The Group initiated its work of implementation. When a lease is signed, this standard requires the recognition of a right of use on the assets in counterpart of a liability corresponding to discounted future payments. The amount of the liability will depend substantially on the assumptions made regarding the discount rate and the commitments' duration. The identification of leases and the collection of data necessary for an accurate estimate of the impact on the balance sheet of the first application of IFRS 16 are in progress. Impacts related to the implementation of IFRS 16 will mainly concern real estate leases. The Group has chosen the simplified retrospective transition method,
- IFRIC 23 "Uncertainty over Income Tax Treatment", applicable as of January 1, 2019.

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The main texts published by the IASB and not yet adopted by the European Union include:

- amendment to IAS 28 "Investments in Associates and Joint Ventures", applicable as of January 1, 2019,
- annual improvements to IFRS 2015-2017, applicable as of January 1, 2019,
- amendments to IAS 19 "Employee Benefits", applicable as of January 1, 2019,
- amendments to IFRS 3 "Business Combinations", applicable as of January 1, 2020,
- amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", applicable as of January 1, 2020,
- amendments to the conceptual framework, applicable starting January 1, 2020.

The impacts of these texts on the Group financial statements are currently being assessed.

Implementation of IFRS 15

IFRS 15, which is mandatory for fiscal years beginning on or after January 1, 2018, deals with the recognition of "Revenue from Contracts with Customers". It replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue".

More specifically, this standard requires:

- a segmentation of contracts into performance obligations,
- the factors to be taken into account in determining the transaction price, in particular a financing component when it is significant,
- criteria to demonstrate the progressive transfer of control of the assets and to recognize the revenue over time,
- a methodology to determine the stage of completion. In this respect, the Group will apply the cost-to-cost method,
- new principles regarding the assessment whether an entity is a principal or an agent with respect to a contract,
- the notion of 'transaction price allocated to the remaining performance obligations', which is similar to the backlog.

The impacts of IFRS 15 on Thales financial statements are presented in their financial statements.

Due to the implementation of IFRS 15, the revenue from certain performance obligations will be recognized by the Group at a different pace than with the former standard. However, revenue and margin will only be deferred from one period to another; the economy of the contract remains the same. The implementation of IFRS 15 has therefore no impact on cash flow.

Segmentation of contracts into performance obligations

IFRS 15 requires the segmentation of contracts into performance obligations when certain criteria are fulfilled for promises identified in a contract, with differentiated margin rates per performance obligation. If the criteria are not fulfilled, the promises of the contract must be bundled until a separate performance obligation is identified. The provisions set out in the standard have brought the Group to combine certain obligations that it had previously recognized separately as revenue under the former standard. This is especially the case of program management services and certain development services that do not meet the criteria defined by the standard to qualify as separate performance obligations.

However, the impact of this restatement on the financial statements, which generates time lags in revenue and margin recognition, is limited.



Determination of transaction price

IFRS 15 specifies the elements to be taken into account when determining the transaction price. The standard provides, in particular, that the selling price be adjusted for the financing components deemed significant, to reflect a "cash sale price" for the service provided. The financing component exists when there is, for a given contract, a significant difference between the moment when the receipts are received and the moment when the revenue is recognized.

For the Group, the financing component is significant for long-term Defense contracts (primarily Rafale sales contracts), whose financing plan provides for the payment of significant advance payments and whose revenue from the majority of the performance obligations is recognized upon delivery of the goods.

Revenue, and therefore the operating income, from the relevant contracts are thus increased by this financing component, offset by a financial expense recognized over the term of the contract.

This impact is, however, partially offset by the financing component recognized for advance payments to co-contractors, when the Group acts as principal on a contract, which is the case for Rafale Export contracts.

Recognition of revenue over time or at a point in time

According to the former standard, revenue from goods (representing around 80% of the Group's revenue in 2017) was recognized when the good was delivered (generally upon transfer of ownership), whereas revenue related to services was recognized over time according to the milestones set forth in contract.

IFRS 15 standard sets out criteria for determining whether the transfer of control of goods and services to the customer is progressive and, if necessary, recognizing revenue over time. In certain situations, it is necessary to demonstrate that the good sold has no alternative use and that the Group has an irrevocable right to payment (including a reasonable margin) for work carried out to date, in the event of termination of the contract for the convenience of the customer.

The detailed analysis of the Group's portfolio of contracts led to the confirmation that, for the majority of its contracts, the criteria of IFRS 15 for the recognition of revenue over time were not met, in particular for Rafale sales and sales of Falcon civil aircraft whose alternative use could be demonstrated. The reclassification of contracts recognized under the former standard at a point in time to be recognized using the percentage of completion method is thus limited. Revenue will continue to be recognized when the goods are delivered in the majority of cases.

Revenue from performance of services is, as previously, recognized over time, if the criteria of IFRS 15 are met, as is the case for maintenance contracts. Services for which the criteria of IFRS 15 are not met, as is the case for certain development contracts, will continue to be recognized at the end of the service provided.

Completion method

Under the former standard, revenue from services recognized as a percentage of completion was generally recognized based on billing milestones that attested to the actual progress of part of the work or the performance of the services provided for by the contract. Under IFRS 15, the percentage-of-completion method used by the Group will be the cost-to-cost method: whereby revenue is recognized based on costs incurred at a given date divided by total costs expected at completion. For each contract, depending on the stage of completion and the type of milestones achieved and costs incurred during the period, this change in method may lead to defer the recognition of revenue and margin from one period to another. However, the impact of this on the Group's financial statements is non-material.



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Agent / principal

IFRS 15, which defines when an entity is agent or principal, does not call into question the analysis that had been conducted with regard to the former standard, namely that the Group acts as principal for the Rafale Export contracts. The Group will continue to recognize the revenue from those contracts on a gross basis.

Backlog

IFRS 15 introduces the notion of “transaction price allocated to the remaining performance obligations”, which is similar to the backlog. For the Group, the implementation of the standard’s provisions results in the inclusion in the measurement of its backlog of contract price revisions (in connection with the application of the provisions regarding estimates of variable amounts) and the financing component for the contracts for which it was deemed significant.

Transition method

Given the Group has chosen the full retrospective method, the financial statements as of December 31, 2018 include the 2017 comparative financial statements restated for the effects of the application of this new standard.

Implementation of IFRS 9

IFRS 9 “Financial Instruments” replaces IAS 39 “Financial Instruments: Recognition and Measurement”. It covers accounting rules applicable to financial instruments in three main areas: classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

Classification and measurement of financial assets and liabilities

IFRS 9 provides a single approach for the classification and measurement of financial assets based on the asset characteristics and the Group management intention.

The main impact of this standard for the Group concerns the classification and valuation of financial assets classified as available-for-sale securities under the former standard. This means that:

- available-for-sale marketable securities are reclassified as other current financial assets. Changes in unrealized gains formerly recognized in income and expense recognized directly through equity that were recycled as profit or loss upon the disposal of securities will now be recognized in the financial income. Since IFRS 9 applies retrospectively, the amount of unrealized gains recorded as other income and expenses recognized directly in equity as of December 31, 2017 is reclassified as reserves as of January 1, 2018. The amount of reclassified unrealized gains is EUR 377 million before tax,
- unlisted equity securities and listed Embraer securities are reclassified as other non-current financial assets. Changes in fair value and gains or losses on disposal will be recognized under other income and expense directly recorded under equity, without any effect to profit or loss. Only dividends continue to be recognized in profit or loss.



Impairment of receivables

The transition from an impairment of trade receivables based on recognized losses to a method based on expected losses has no material impact on the Group's financial statements due to:

- the nature of customers (States) for military trade receivables,
- the fact that the majority of Falcon sales are made in cash, as credit sales receivables are otherwise covered by insurance or collateral,
- the provisioning methods already practiced by the Group for each kind of trade receivable.

Hedge accounting

The provisions of IFRS 9 on hedges have no significant impact on the Group's financial statements. Hedging instruments not eligible for hedge accounting under IAS 39 remain not eligible under IFRS 9.

Transition method

IFRS 9 has been applied retrospectively as from January 1, 2018. Comparative figures for 2017 have not been restated in accordance with the standard.



Consolidated Financial Statements

Impact of IFRS 15 and IFRS 9 on the Group's financial statements

2017 consolidated income statement

(in EUR thousands)	2017 Published	Impact from IFRS 15	2017 Restated
NET SALES	4,832,638	68,442	4,901,080
Other revenue	44,038		44,038
Change in work-in-progress	-57,004	-51,292	-108,296
Purchases consumed	-3,058,022	-4,507	-3,062,529
Personnel expenses	-1,143,040		-1,143,040
Taxes	-68,381		-68,381
Depreciation and amortization	-87,270		-87,270
Allocations to provisions	-943,893	-4,428	-948,321
Reversals of provisions	856,874		856,874
Other operating income and expenses	-32,719		-32,719
CURRENT OPERATING INCOME	343,221	8,215	351,436
Other non-current income and expenses	-133,501		-133,501
OPERATING INCOME	209,720	8,215	217,935
Cost of net financial debt	-4,956	-67,846	-72,802
Other financial income and expenses	592,361		592,361
NET FINANCIAL INCOME/EXPENSE	587,405	-67,846	519,559
Share in net income of equity associates	178,924	-34,973	143,951
Income tax	-267,055	15,692	-251,363
NET INCOME	708,994	-78,912	630,082
Share in net income of equity associates	708,952	-78,912	630,040
Income tax	42		42
Earnings per share (in EUR)	86.0		76.4
Diluted earnings per share (in EUR)	86.0		76.4



Consolidated balance sheet as of January 1, 2017

(in EUR thousands)	12/31/2016 Published	Impact from IFRS 15	01/01/2017 Restated
Goodwill, intangible assets and property, plant and equipment	547,855		547,855
Equity associates	1,731,184	-62,373	1,668,811
Available-for-sale securities	3,142,377		3,142,377
Other non-current financial assets	33,678		33,678
Deferred tax assets	525,720	18,362	544,082
TOTAL NON-CURRENT ASSETS	5,980,814	-44,011	5,936,803
Inventories and work-in-progress	4,006,466	-142,725	3,863,741
Contract assets			0
Trade and other receivables	646,041	19,096	665,137
Advances and progress payments to suppliers	1,793,708		1,793,708
Derivative financial instruments	4,598		4,598
Cash and cash equivalents	1,252,866		1,252,866
TOTAL CURRENT ASSETS	7,703,679	-123,629	7,580,050
TOTAL ASSETS	13,684,493	-167,640	13,516,853
Capital	66,006		66,006
Consolidated reserves and retained earnings	3,190,542	-101,546	3,088,996
Currency translation adjustments	99,122		99,122
Treasury shares	-38,759		-38,759
TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	3,316,911	-101,546	3,215,365
Non-controlling interests	451		451
TOTAL EQUITY	3,317,362	-101,546	3,215,816
Long-term borrowings and financial debt	1,094,504		1,094,504
TOTAL NON-CURRENT LIABILITIES	1,094,504		1,094,504
Contract liabilities		6,562,569	6,562,569
Trade and other payables	854,051	-152,949	701,102
Tax and social security liabilities	237,102		237,102
Customer advances and progress payments	6,439,014	-6,439,014	
Short-term borrowings and financial debt	90,598		90,598
Provisions for contingencies and charges	1,140,481	-36,700	1,103,781
Derivative financial instruments	511,381		511,381
TOTAL CURRENT LIABILITIES	9,272,627	-66,094	9,206,533
TOTAL EQUITY AND LIABILITIES	13,684,493	-167,640	13,516,853



Consolidated Financial Statements

Consolidated balance sheet as of January 1, 2018

(in EUR thousands)	12/31/2017 Published	Impact from IFRS 15	12/31/2017 Restated	Impact from IFRS 9	01/01/2018 Restated
Goodwill, intangible assets and property, plant and equipment	490,363		490,363		490,363
Equity associates	1,870,677	-100,120	1,770,557	-3,765	1,766,792
Available-for-sale securities	3,305,850		3,305,850	-3,305,850	
Other non-current financial assets	38,197		38,197	150,937	189,134
Deferred tax assets	289,237	34,054	323,291		323,291
TOTAL NON-CURRENT ASSETS	5,994,324	-66,066	5,928,258	-3,158,678	2,769,580
Inventories and work-in-progress	3,670,155	-198,721	3,471,434		3,471,434
Contract assets			0		0
Trade and other receivables	829,962	40,199	870,161		870,161
Advances and progress payments to suppliers	2,525,871		2,525,871		2,525,871
Derivative financial instruments	172,818		172,818		172,818
Other current financial assets				3,154,913	3,154,913
Cash and cash equivalents	2,061,419		2,061,419		2,061,419
TOTAL CURRENT ASSETS	9,260,225	-158,522	9,101,703	3,154,913	12,256,616
TOTAL ASSETS	15,254,549	-224,588	15,029,961	-3,765	15,026,196
Capital	66,495		66,495		66,495
Consolidated reserves and retained earnings	3,904,845	-184,644	3,720,201	-3,765	3,716,436
Currency translation adjustments	-26,300	1,412	-24,888		-24,888
Treasury shares	-37,828		-37,828		-37,828
TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	3,907,212	-183,232	3,723,980	-3,765	3,720,215
Non-controlling interests	493		493		493
TOTAL EQUITY	3,907,705	-183,232	3,724,473	-3,765	3,720,708
Long-term borrowings and financial debt	980,265		980,265		980,265
TOTAL NON-CURRENT LIABILITIES	980,265		980,265		980,265
Contract liabilities		8,126,973	8,126,973		8,126,973
Trade and other payables	898,388	-162,634	735,754		735,754
Tax and social security liabilities	237,616		237,616		237,616
Customer advances and progress payments	7,968,995	-7,968,995			
Short-term borrowings and financial debt	114,910		114,910		114,910
Provisions for contingencies and charges	1,134,603	-36,700	1,097,903		1,097,903
Derivative financial instruments	12,067		12,067		12,067
TOTAL CURRENT LIABILITIES	10,366,579	-41,356	10,325,223		10,325,223
TOTAL EQUITY AND LIABILITIES	15,254,549	-224,588	15,029,961	-3,765	15,026,196



Backlog as of December 31, 2017, in EUR thousands

Backlog as of 12/31/2017 published	18,818,200
Financing component	446,068
Price revision	420,775
Pace of recognition of net sales	-224,855
Backlog as of 12/31/2017 restated	19,460,188

• **A2 Key Management choices and estimates**

To prepare the Group's financial statements, Management is required to make estimates and issue assumptions that could have an impact on the amounts entered in the balance sheet and in the income statement.

These estimates concern in particular:

- the results of contracts in progress,
- the calculation of provisions for contingencies and charges and provisions for impairment,
- the calculation of development costs that meet capitalization criteria,
- the recoverability of deferred tax assets.

These estimates are calculated by taking into account past experience, elements known at the closing date and any reasonable change assumptions.

Subsequent results may therefore differ from such estimates.

• **A3 Presentation of consolidated financial statements**

Consolidated balance sheet items are presented as Current/Non-current. The Group's activities have long operating cycles. As a result, the assets/liabilities generally realized/settled in the context of the operating cycle (inventories and work-in-progress, contract assets and liabilities, receivables, payables, etc.) are presented in the consolidated balance sheet as current assets and liabilities, without distinction between the amount due within one year and the amount due at more than one year.

Consolidated income statement items are presented by nature.

Net operating income represents all income and expenses not arising from financial activities, equity associates, discontinued operations or operations being sold, and income taxes. It is composed of two separate parts: current operating income and other non-current income and expenses. Only significant unusual items are recorded in other non-current income and expenses.

• **A4 Segment reporting**

IFRS 8, "Operating Segments", requires the presentation of information according to internal management criteria. The activity of the Dassault Aviation Group relates entirely to the aerospace domain. The internal reporting made to the Chairman-Chief Executive Officer and to the Chief Operating Officer, which is used for strategy and decision-making, includes no performance analysis, as defined by IFRS 8, at a level lower than this sector.

B/ CONSOLIDATION PRINCIPLES AND METHODS

• B1 Scope and methods of consolidation

B1-1 Companies under exclusive control

Companies over which Dassault Aviation exercises exclusive control, directly or indirectly, are fully consolidated if their significance justifies it.

B1-2 Companies under significant influence

Companies over which Dassault Aviation exercises significant influence, directly or indirectly, are consolidated using the equity method if their relative importance justifies it.

B1-3 Companies under joint control

Joint arrangements classified as joint venture are accounted for using the equity method if their relative size justifies it.

B1-4 Consolidation thresholds

For the application of the factor of relative significance, a company controlled by the Group or in which it has significant influence is included in the scope of consolidation if all of the following criteria are met:

- total assets and liabilities exceed 2% of the equivalent Group totals;
- total net sales exceed 2% of the Group total;
- equity exceeds 3% of the Group total.

B1-5 Elimination of inter-company transactions

All material inter-company transactions, and internal gains and losses included in non-current assets, are eliminated in the inventories and work-in-progress of consolidated companies.

• B2 Closing date

All consolidated companies close their fiscal years on December 31.

• B3 Conversion of financial statements of subsidiaries outside the euro area

The currency used in the preparation of the consolidated financial statements is the euro.

The financial statements of non-euro area subsidiaries are translated as follows:

- assets and liabilities are translated at the year-end rate;
- the income statement is translated at the average annual rate.

Currency translation adjustments are recognized in equity and do not impact the income statement.



C/ VALUATION PRINCIPLES

• **C1 Goodwill and business combinations**

No business combinations have occurred since January 1, 2010, the date when revised IFRS 3 came into force.

Business combinations prior to January 1, 2010 were recognized using the acquisition method as defined by IFRS 3 before revision.

The assets and liabilities identified are recognized at their fair value on the acquisition date.

Goodwill is the difference between the acquisition cost of investments and the share of the revalued net assets.

Goodwill is recognized:

- if it is negative, in net income,
- if it is positive, in balance sheet assets as:
 - "goodwill" if the company is fully consolidated,
 - "equity associates" if the company is consolidated under the equity method.

Goodwill can be adjusted within twelve months following the acquisition date to take into account the final estimate of the fair value of the purchased assets and liabilities.

Goodwill is not amortized. It is subject to an impairment test at each year-end, or if an indication of impairment has been detected (see *C3 Impairment value and recoverable value*).

When IFRS were initially applied, Dassault Aviation chose not to restate goodwill recognized prior to January 1, 2004. The goodwill recognized on this date represents the value net of any previously recognized amortization.

• **C2 Intangible assets and property, plant & equipment**

C2-1 Accounting principles

Intangible assets and property, plant and equipment are recognized at acquisition or production cost, less accumulated depreciation or amortization and impairment.

Each identified component of an intangible asset or item of property, plant and equipment is recognized and depreciated or amortized separately.

Depreciation and amortization are calculated using the straight-line method. No residual value is taken into account, except for aircraft.

Property, plant and equipment and intangible assets are depreciated and amortized over their estimated useful lives. Useful lives are reviewed at each year-end for material non-current assets.

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In accordance with IAS 38 "Intangible Assets" concerning development costs, the Group determines the development phase of its programs that meets the criteria for capitalization. Development costs are capitalized if they satisfy the following three determining criteria:

- the technical criterion is met when the period for validation of results after the maiden flight has elapsed without calling the project into question;
- the economic criterion is validated by the orders placed or options obtained on the date the technical requirement is considered satisfied;
- the financial information reliability criterion is satisfied for significant programs because the information system differentiates research and development phases. If such a distinction cannot be made, as may be the case for minor developments (e.g. modification, improvement, etc.), those development costs are not capitalized.

The asset must generate clearly identifiable future economic benefits attributable to a specific product.

Capitalized development costs are valued at the production cost. They are amortized on the basis of the number of aircraft delivered during the year, divided by an estimated number of aircraft to be delivered under the program.

C2-2 Useful lives

Useful lives are as follows:

Software	3-4 years
Development costs	depend on the number of units to be produced
Industrial buildings	20-25 years
Office buildings	20-25 years
Fixtures and fittings	7-15 years
Plant, equipment and tools	3-10 years
Aircraft	4-15 years
Rolling stock	4 years
Other property, plant and equipment	3-10 years
Used goods	on a case-by-case basis

The initial useful life of an asset is extended or reduced if the conditions in which the asset is used justify it.

C2-3 Derecognition

Any gain or loss arising from the derecognition of an asset (difference between the net disposal gain and the net carrying value) is included in the income statement in the year of derecognition.

• C3 Impairment and recoverable value of tangible and intangible assets and goodwill

In accordance with IAS 36 "Impairment of Non-Current Assets", all non-current assets (tangible and intangible), and goodwill are subject to an impairment test when an indication of impairment is detected, and at least once a year on December 31 for goodwill and intangible assets with an indefinite useful life.

Indications of impairment derive from significant adverse changes of a lasting nature, affecting the economic environment or the assumptions or objectives used by the Group.



Impairment tests consist of ensuring that the recoverable values of the tangible assets, intangible assets and cash-generating units to which the goodwill is assigned are at least equal to their net book value. Otherwise, impairment is recognized in net income and the net book value of the asset is reduced to its recoverable value.

The recoverable value of a tangible or intangible asset is the higher value between its fair value, less the costs of disposal, and its value in use.

The recoverable amount of a cash-generating unit corresponds to its value in use. Each consolidated company represents a cash-generating unit, i.e.: the smallest identifiable group of assets that generates cash inflows and outflows.

The value in use of an asset is calculated using the discounted future cash flow method, with a post-tax discount rate of 7.2% (compared to 7.5% as of December 31, 2017) and a 2% long-term growth rate (same as of December 31, 2017). The discount rate used includes the rates prevailing in the aviation industry and was calculated using the same method as in 2017. Post-tax cash flows are projected over a period not exceeding 5 years and the method takes into account a terminal value. These future cash flows result from the economic assumptions and projected operating conditions adopted by Management.

When a cash-generating unit needs to be impaired, the impairment is first of all applied to the goodwill then, if appropriate, to the other assets of the cash-generating unit proportionate to their net book value amount. Impairments may be reversed, except for those relating to goodwill.

- **C4 Equity associates**

Investments in equity associates undergo an impairment test once there are objective indications of any long-term loss in value.

Impairment is recognized if the recoverable value is lower than the carrying amount, with the recoverable value being equivalent to the value in use, as defined in paragraph C3, or the fair value net of transaction costs, whichever is higher.

Concerning the equity investment in Thales, when an impairment test is carried out, the operational and financial assumptions used come directly from data provided directly by Thales Management.

Impairment may be reversed if the recoverable value once again exceeds the carrying value.

- **C5 Non-current financial assets**

- C5-1 Unlisted securities and Embraer shares*

For listed assets (Embraer shares), fair value corresponds to the market price as of the balance sheet date. These items are classified as level 1 (according to IFRS 13).

For non-listed unconsolidated investments, in the absence of any external valuation elements, fair value represents the Group's share in net assets plus any significant unrealized gains. Fair value is calculated on the basis of the most recent financial statements available at year-end. These items are classified as level 3 (according to IFRS 13).

Changes in fair value and gains or losses on disposal for these shares will be recognized under other income and expense directly recorded through equity, without any effect to profit or loss. Only dividends continue to be recognized in profit or loss.

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C5-2 Other financial assets

Other financial assets mainly comprise guarantee deposits, loans granted to investments in non consolidated companies and loans granted to employees for a housing loan.

Loans are recognized at amortized cost (historical cost less repayments). Other assets are recognized at their historical cost.

• C6 Inventories and work-in-progress

Incoming raw materials, semi-finished and finished goods inventories are measured at acquisition cost for items purchased and production cost for items produced. Outgoing inventories are valued at the weighted average cost, except for used aircraft which are stated at acquisition cost. Work-in-progress is stated at production cost.

Inventories and work-in-progress are impaired when their net realizable value is less than their carrying amount.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs for completion and making the sale. It takes into account the technical or commercial obsolescence of articles and the risks associated with their low turnover.

• C7 Receivables

Trade and other receivables are presented separately on the balance sheet. They are systematically classified as current assets.

Receivables resulting from finance leases are presented under "Trade and other receivables". They represent the discounted amount of the expected lease revenues, plus the residual value of the aircraft at the end of the finance lease.

A provision for impairment is recorded when the recoverable value of a receivable is lower than the book value.

The recoverable amount of a receivable is estimated based on expected losses and takes into account the type of customer and the history of payments.

The receivable is written down in the amount of the estimated risk for the portion not covered by credit insurance (Bpifrance Assurance Export or collateral).

Non written-down receivables are recent receivables and/or receivables with no material credit risk.

Foreign currency receivables, translated by each subsidiary into their local currency at the day's rate, are revalued at each closing on the basis of the closing rate. Revaluation differences are recognized in operating income.

• C8 Other current financial assets

These mainly correspond to cash investments in the form of marketable securities.

They are recognized at fair value, corresponding to the market price as of the balance sheet date. These items are classified as level 1 (according to IFRS 13).

Changes in fair value and gains or losses on the sale of these securities are recognized as financial income.



- **C9 Cash and cash equivalents**

Cash and cash equivalents satisfy the criteria set forth in IAS 7 "Statement of Cash Flows": short-term investments that are readily convertible to known amounts of cash and which are not subject to a material risk of changes in value.

They are initially recognized at acquisition cost, and subsequently at fair value; this is the market price on the account closing date for listed securities.

The changes in fair value and net disposal gains or losses are recognized in financial income as income from cash and cash equivalents.

- **C10 Treasury shares**

C10-1 Treasury shares

Treasury shares are deducted from equity at their acquisition cost. Any gains or losses from the sale of treasury shares are recognized directly in equity and do not impact income for the period.

C10-2 Share-based payments

Dassault Aviation has plans in place to grant performance shares. These allotments are recognized as an expense representing the fair value of the services rendered by the beneficiaries.

The fair value of the services is determined by reference to the fair value of the shares on the grant date, adjusted for dividends not received during the vesting period and the cost of non-transferability.

The performance conditions are taken into account when estimating the number of shares to be granted at the end of the vesting period.

The benefits granted constitute personnel expenses and are recognized on a straight-line basis over the vesting period. This expense is recognized against consolidated reserves.

- **C11 Provisions for contingencies and charges**

C11-1 Warranties

Within the framework of sales or procurement contracts, Dassault Aviation has formal warranty obligations for the equipment, products and/or services (software development, systems integration, etc.) delivered.

These obligations can be distinguished between:

- "current" warranty: repair of defective equipment during the contractual warranty period or by implicit obligations, handling hardware or software malfunctions identified following qualification and handover to users, etc.
- "regulatory" warranty: treatment by the manufacturer of any changes to the regulatory framework determined by the regulatory authorities or any regulatory non-compliance identified by the manufacturer or a user after delivery of materials or products.

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Determining the amount of the warranty provisions is mainly done as follows:

- for the current equipment warranty: based on experience with recorded costs, depending on the warranty items covered contractually and the aircraft models in question;
- for handling of malfunctions or regulatory changes and nonconformities: based on estimates established by specialists from the business lines affected by the corrective actions to be implemented; these corrections have been identified in "technical files".

C11-2 Retirement costs

Commitments to employees for retirement costs are provisioned for the obligations remaining. The commitments are estimated for all employees on the basis of vested rights and a projection of current salaries, after taking into account the mortality risk, employee turnover, and a discounting assumption. The rates have been determined based on the yield for top-ranking corporate long-term bonds, with maturity equivalent to the duration of the calculated liabilities.

The Group applies revised IAS 19 which stipulates:

- the recognition of all actuarial adjustments in income and expense recognized directly through equity;
- immediate recognition of the cost of past services;
- alignment of the expected return from the plan's assets to the discount rates;
- the recognition of only the administrative costs relating to management of the assets as a deduction from their actual return.

The provision that appears in the balance sheet corresponds to the total commitment net of plan assets. The impact on the income statement is fully recognized in operating income.

• C12 Borrowings and payables

Foreign currency borrowings and payables, translated by each subsidiary into their local currency at the day's rate, are revalued at each closing on the basis of the closing rate. Revaluation differences are recognized in operating income.

Loans taken out by the Group are initially recorded at the amount received net of transaction costs, and subsequently at the amortized cost, calculated using the effective interest rate.

• C13 Discounting of receivables, payables and provisions

Receivables and payables are recognized for their discounted amounts when the payment date is more than one year and the effects of the discounting are significant.

The provisions relating to the retirement costs and other long-term benefits are discounted in accordance with IAS 19 "Employee benefits".

Other provisions are stated at present value.

In accordance with IFRS standards, deferred tax assets and liabilities are not discounted.



- **C14 Derivative financial instruments**

C14-1 Derivative financial instruments subscribed by the Group

The Group uses derivative financial instruments to hedge its exposure to risks from fluctuations in foreign exchange rates, interest rates and, more marginally, from fluctuations in commodity prices.

These risks mainly arise from US dollar-denominated sales. The corresponding future cash flows are partially hedged using forward exchange contracts and currency options.

Interest rate risks result from variable rate borrowings contracted by the Group. Interest rate risks are hedged using interest rate swaps.

C14-2 Evaluation and recognition of derivatives

Upon initial recognition, derivatives are booked at acquisition cost in the balance sheet under "Derivative Financial Instruments".

They are subsequently stated at fair value, calculated on the basis of the market price communicated by the relevant financial institutions and the market parameters observed on the closing date, taking into account any counterparty risks. The valuation of financial instruments is level 2 (according to IFRS 13).

The Group applies hedge accounting when the criteria defined by IFRS 9 "Financial Instruments" are met. Foreign exchange derivatives are documented, on a case-by-case basis, on the basis of spot or forward prices.

Derivatives eligible for hedge accounting are recognized as follows:

- changes in fair value of hedging instruments are posted, net of tax, to other income and expense recognized through equity, with the exception of the ineffective amount of the hedge, if any, which is recognized in income;
- when the cash flow is received, the gain or loss on the foreign exchange hedging instrument is recognized in income;
- interest on interest rate hedging instruments, for the elapsed period, is recognized as financial income.

If a derivative, chosen for the effectiveness of the economic hedging it provides, does not meet the conditions required by the hedge accounting standard (foreign exchange options), then changes in its fair value are recognized in financial income.

- **C15 Net sales and key figures**

C15-1 Recognition of net sales and operating income

The results on completion are based on estimates of net sales and costs at completion (taking into account the Program Departments' forecasts) which are revised as the contract progresses and take into account the latest known events at the closing date. The potential losses on completion are recognized as soon as they are known.



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Sale of goods

Net sales and net income are recognized over time if the transfer of control of goods is progressive and at a given moment otherwise.

For the majority of its contracts, the criteria of IFRS 15 for the recognition of revenue over time are not met, in particular for Rafale sales and sales of Falcon civil aircraft whose alternative use could be demonstrated. Revenue is therefore recognized when the goods are delivered in the majority of cases.

Finance leases are recognized as credit sales in application of IAS 17 "Leases".

Sale of services

Revenue from performance of services is recognized over time, if the criteria of IFRS 15 are met, as it is the case for maintenance contracts. The percentage-of-completion method used by the Group will be the cost-to-cost method: whereby revenue is recognized based on costs incurred at a given date divided by total costs expected at completion.

Services for which the criteria of IFRS 15 are not met, as it is the case for certain development contracts, are recognized at the end of the service provided.

Agent / principal

Contracts involving co-contractors for which Dassault Aviation is the sole signatory are analyzed to determine the Company's status as a principal or agent. If the analysis classifies the Company as an agent, only the proportionate share of net sales due to the agent is recognized. Otherwise, the entirety of net sales and related expenses (including the co-contractors' parts) is recognized.

The impacts of IFRS 15 on the Group's financial statements are presented in Note A1-2.

C15-2 Tax credits for competitiveness and employment and research tax credits

The amounts acquired as tax credits for competitiveness and employment by the French companies of the Group are deducted from personnel expenses.

Research tax credits are included in operating income in "other revenue" when obtaining them does not depend on the realization of a tax profit.

C15-3 Net financial income

Net financial income primarily represents:

- financial income related to cash and cash equivalents and other current financial assets;
- financial expenses related to loans taken out by the Group and locked-in employee profit-sharing funds;
- the financing component when there is, for a given contract, a significant difference between the moment when the receipts are received and the moment when the revenue is recognized,
- dividends from non-consolidated companies recognized when the Group – as shareholder – is entitled to receive payment;
- financial income from financial lease transactions;
- losses and gains on derivative instruments that do not meet the conditions required by the standard for hedge accounting.



- C16 Deferred taxes

Deferred taxes linked to temporary differences are calculated per company.

In accordance with the requirements of IAS 12 "Income Taxes", deferred tax assets are only recognized, for each company, insofar as the estimated future profits are sufficient to cover these assets and their maturity does not exceed ten years.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is paid, based on local tax rates (and tax laws) that have been enacted by year-end.

Taxes on items recognized directly through equity are charged or credited to equity.

Deferred tax assets and liabilities are offset per entity for presentation on the balance sheet.



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Note 2 - Scope of consolidation

2.1 Scope as of December 31, 2018

The consolidated financial statements comprise the financial statements of Dassault Aviation and the following entities:

Names	Country	% Interest (1)		Consolidation method (2)
		12/31/2018	12/31/2017	
DASSAULT AVIATION (3)	France	Parent company	Parent company	
DASSAULT FALCON JET	United States	100	100	FC
- DASSAULT FALCON JET WILMINGTON	United States	100	100	FC
- DASSAULT AIRCRAFT SERVICES	United States	100	100	FC
- DASSAULT FALCON JET LEASING	United States	100	100	FC
- AERO PRECISION	United States	50	50	EM
- MIDWAY	United States	100	100	FC
- DASSAULT FALCON JET DO BRAZIL	Brazil	100	100	FC
DASSAULT FALCON SERVICE	France	100	100	FC
- FALCON TRAINING CENTER	France	50	50	EM
SOGITEC INDUSTRIES	France	100	100	FC
DASSAULT INTERNATIONAL INC.	United States	N/A	100	N/A
THALES	France	25	25	EM

(1) the equity interest percentages are identical to the percentages of control for all Group companies except for Thales, in which the Group held 24,65% of the capital, 24,73% of the interest rights and 28,39% of the voting rights as of December 31, 2018.

(2) FC: full consolidation, EM: equity method, N/A: non applicable.

(3) identity of the parent company: Dassault Aviation, a Société Anonyme (limited company) with capital of EUR 66,789,624, listed and registered in France, Paris Trade Register No. 712 042 456 - 9, Rond-Point des Champs-Élysées Marcel Dassault - 75008 Paris.

2.2 2018 change in scope

Dassault International Inc. was absorbed by Dassault Falcon Jet in the second half of 2018. This change in scope has no impact on the Group's consolidated financial statements.



Note 3 - Goodwill

Goodwill totaled EUR 14,366 thousand as of December 31, 2018 and as of December 31, 2017.

As the tests performed in accordance with IAS 36 "Impairment of Assets" did not indicate any impairment loss, no provision for goodwill impairment was recognized. A 10% variation in the discount rate and the long-term growth rate does not affect the absence of goodwill impairment.

Pursuant to IFRS, the goodwill for Thales, which is consolidated under the equity method, is included under "Equity associates" (see Note 5).

Note 4 - Intangible assets and property, plant and equipment

4.1 Geographic breakdown

(in EUR thousands)	12/31/2018	12/31/2017
Net value		
France	341,131	320,612
United States	176,759	155,385
TOTAL	517,890	475,997
Intangible assets	28,881	30,687
Property, plant and equipment	489,009	445,310

4.2 Intangible assets

(in EUR thousands)	12/31/2017	Acquisitions Allocations	Disposals Reversals	Other	12/31/2018
Gross value					
Development costs (1)	162,925	0	0	0	162,925
Software, patents, licenses and similar assets	121,048	4,489	-12	710	126,235
Intangible assets in progress; advances and progress payments	1,181	3,921	0	-776	4,326
	285,154	8,410	-12	-66	293,486
Amortization					
Development costs (1)	-146,973	-3,344	0	0	-150,317
Software, patents, licenses and similar assets	-107,494	-6,660	12	-146	-114,288
	-254,467	-10,004	12	-146	-264,605
Net value					
Development costs (1)	15,952				12,608
Software, patents, licenses and similar assets	13,554				11,947
Intangible assets in progress; advances and progress payments	1,181				4,326
TOTAL	30,687	-1,594	0	-212	28,881

(1) see paragraph C2-1 of the accounting principles.

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4.3 Property, plant and equipment

(in EUR thousands)	12/31/2017	Acquisitions Allocations	Disposals Reversals	Other (1)	12/31/2018
Gross value					
Land	35,421	3,091	-75	58	38,495
Buildings	519,529	39,530	-2,413	11,965	568,611
Plant, equipment and machinery	597,678	36,480	-13,734	12,072	632,496
Other property, plant and equipment	243,836	23,303	-29,528	8,323	245,934
Construction in progress; advances and progress payments	35,052	29,392	-13,234	-15,978	35,232
	1,431,516	131,796	-58,984	16,440	1,520,768
Depreciation					
Land	-7,998	-780	66	0	-8,712
Buildings	-307,824	-22,381	2,365	-3,879	-331,719
Plant, equipment and machinery	-481,032	-35,015	12,571	-2,141	-505,617
Other property, plant and equipment	-172,075	-14,031	16,519	-2,106	-171,693
	-968,929	-72,207	31,521	-8,126	-1,017,741
Impairment (2)					
Other property, plant and equipment	-17,277	-13,681	17,492	-552	-14,018
	-17,277	-13,681	17,492	-552	-14,018
Net value					
Land	27,423				29,783
Buildings	211,705				236,892
Plant, equipment and machinery	116,646				126,879
Other property, plant and equipment	54,484				60,223
Construction in progress; advances and progress payments	35,052				35,232
TOTAL	445,310	45,908	-9,971	7,762	489,009

(1) this essentially represents currency translation adjustments.

(2) impairment tests on property, plant and equipment (see paragraph C3 on accounting principles):

- The impairment tests performed on cash-generating units did not reveal any impairment to be recognized as of December 31, 2018,
- The provision for impairment of capitalized used business aircraft was revised to EUR 14,018 thousand as of December 31, 2018, compared with EUR 17,277 thousand as of December 31, 2017.



Note 5 - Equity associates

5.1 Group share in net assets and net income of equity associates

As of December 31, 2018, Dassault Aviation held 24.73% of the interest rights of the Thales Group, compared to 24.77% as of December 31, 2017. Dassault Aviation has significant influence over Thales, especially with regard to the shareholders' agreement between Dassault Aviation and the public sector.

(in EUR thousands)	Equity associates			Share in net income of equity associates	
	12/31/2018	01/01/2018 (1)	12/31/2017 (2)	2018	2017 (2)
Thales (3)	1,902,173	1,746,662	1,750,427	201,823	139,853
Other	21,920	20,130	20,130	4,026	4,098
TOTAL	1,924,093	1,766,792	1,770,557	205,849	143,951

(1) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.A).

(2) restated for the impact of the application of IFRS 15 (see Note 1.A).

(3) the value of the securities includes goodwill amounting to EUR 1,101,297 thousand. The Group share in Thales net income after consolidation restatements is detailed in Note 5.3.

5.2 Change in equity associates

(in EUR thousands)	2018 (1)	2017 (2)
As of January 1	1,766,792	1,668,811
Share in net income of equity associates	205,849	143,951
Elimination of dividends paid (3)	-97,738	-90,455
Income and expense recognized directly through equity		
- Securities at fair value	0	-1,913
- Derivative financial instruments (4)	-26,262	94,199
- Actuarial adjustments on pensions	72,434	14,473
- Deferred taxes	7,837	-25,965
- Currency translation adjustments	-782	-29,518
Share of equity associates in other income and expense recognized directly through equity	53,227	51,276
Other movements (5)	-4,037	-3,026
At end of period	1,924,093	1,770,557

(1) restated as of January 1, 2018 for the impact of the application of IFRS 9 (see Note 1.A).

(2) restated for the impact of the application of IFRS 15 (see Note 1.A).

(3) in 2018, the Group received EUR 68,291 thousand in Thales dividends for 2017 and EUR 26,266 thousand in interim dividends for 2018. In 2017, Thales paid the Group EUR 63,038 thousand in dividends for 2016 and EUR 23,639 thousand in interim dividends for 2017.

(4) the amounts stated correspond to the change in the market value of the portfolio over the period. They are not representative of the actual gain/loss, which will be recognized when the hedges are exercised.

(5) for Thales, this represents in particular the change in treasury shares, employee share issues and share-based payments.

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5.3 Thales summary financial statements (100%) and share in net income of equity associates by Dassault Aviation

Thales Group operates in the fields of aerospace, transport, defense and security and provides integrated solutions and equipment designed to increase reliability and secure, monitor and control, protect and defend (see <http://www.thalesgroup.com>). The headquarters of Thales Group is located at Tour Carpe Diem, 31, place des Corolles, 92098 Paris La Défense.

(in EUR thousands)	2018	2017 (1)
Non-current assets	8,531,900	8,620,300
Current assets (2)	16,973,900	14,829,400
Equity attributable to the owners of the Parent Company	5,699,600	4,921,700
Non-controlling interests	224,900	216,800
Non-current liabilities (3)	4,964,700	3,861,300
Current liabilities (4)	14,616,600	14,449,900
Total balance sheet	25,505,800	23,449,700
Net sales	15,854,700	15,227,500
Net income attributable to the owners of Parent Company (5)	981,800	679,800
Other comprehensive income attributable to the owners of the Parent Company	209,100	212,900
Total comprehensive income attributable to the shareholders of the Parent Company	1,190,900	892,700

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) including cash and cash equivalents: EUR 5,637,500 thousand in 2018 (EUR 4,282,700 thousand in 2017).

(3) including non-current financial liabilities: EUR 2,421,600 thousand in 2018 (EUR 956,100 thousand in 2017).

(4) including current financial liabilities: EUR 594,900 thousand in 2018 (EUR 887,000 thousand in 2017).

(5) including depreciation and amortization: EUR -485,000 thousand in 2018 (EUR -504,100 thousand in 2017)

including financial interest on gross debt: EUR -26,500 thousand in 2018 (EUR -16,300 thousand in 2017)

including financial income related to cash and cash equivalents: EUR 19,600 thousand in 2018 (EUR 21,300 thousand in 2017)

including income tax: EUR -314,200 thousand in 2018 (EUR -236,700 thousand in 2017).

The breakdown between the Group share of net income published by Thales and that applied by Dassault Aviation appears in the table below:

(in EUR thousands)	2018	2017 (1)
Thales net income (100%)	981,800	679,800
Thales net income - Dassault Aviation share	242,799	168,386
Post-tax amortization of the purchase price allocation (2)	-39,580	-26,384
Other consolidation restatements	-1,396	-2,149
Dassault Aviation share in net income of equity associates	201,823	139,853

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) amortization of identified assets for which the modes and periods of amortization are identical to those used for the year ended December 31, 2017.



5.4 Impairment

Based on the market price of the Thales share at December 31, 2018 (EUR 102 per share), Dassault Aviation's investment in Thales is valued at EUR 5,358 million.

In the absence of any objective indication of impairment, the Thales investment was not subject to an impairment test as of December 31, 2018.

Note 6 - Other current and non-current financial assets

Non-listed equity investments and Embraer shares classified as other non-current financial assets are valued at their fair value, as are other current financial assets, which include cash investments of the Group in the form of listed marketable securities. It should be noted that other marketable securities are classified under "Cash equivalents" (see Note 9). The risk analysis relating to all other non-current and current financial assets of the Group is described in Note 24.

(in EUR thousands)	01/01/2018	Acquisitions	Disposals	Change in fair value	Other	12/31/2018
Non-listed securities (1)	117,352	2,761	0	-661	-9	119,443
Embraer shares (1)	33,585	0	0	-1,038	0	32,547
Other financial assets (2)	38,197	14,781	-350	0	0	52,628
<i>Receivables from equity investments</i>	<i>4,000</i>	<i>12,863</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>16,863</i>
<i>Advance lease payments</i>	<i>33,199</i>	<i>708</i>	<i>-85</i>	<i>0</i>	<i>0</i>	<i>33,822</i>
<i>Housing loans and other</i>	<i>998</i>	<i>1,210</i>	<i>-265</i>	<i>0</i>	<i>0</i>	<i>1,943</i>
Other non-current financial assets	189,134	17,542	-350	-1,699	-9	204,618
Other current financial assets (3)	3,154,913	52,235	0	4,820	0	3,211,968

(1) following the application of IFRS 9, these shares have been measured at fair value against other income and expenses recognized directly through equity, which will not be recycled to P&L. The risk analysis for Embraer shares is described in Note 24.

(2) maturing at more than one year: EUR 51,950 thousand.

(3) this essentially represents marketable securities. Given their liquidity, the latter could be disposed of in the short-term. In application of IFRS 9, these securities are measured at fair value through profit or loss. The corresponding risk analysis is described in Note 24. An analysis of the performance of listed marketable securities is conducted at each balance sheet date. The investment portfolio does not present, line-by-line, any objective indication of significant impairment as of December 31, 2018 (as it was the case on December 31, 2017).

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Historical costs of current and non-current assets and related unrealized gains are presented below:

(in EUR thousands)	12/31/2018			01/01/2018		
	Historical cost	Unrealized capital gain/loss	Asset value	Historical cost	Unrealized capital gain/loss	Asset value
Non-listed securities	92,711	26,732	119,443	89,959	27,393	117,352
Embraer shares	32,120	427	32,547	32,120	1,465	33,585
Other financial assets	52,628	0	52,628	38,197	0	38,197
Other non-current financial assets	177,459	27,159	204,618	160,276	28,858	189,134
Other current financial assets	2,830,032	381,936	3,211,968	2,777,797	377,116	3,154,913

Note 7 - Inventories and work-in-progress

(in EUR thousands)	12/31/2018			12/31/2017 (1)
	Gross	Impairment	Net	Net
Raw materials	186,424	-88,610	97,814	99,063
Work-in-progress	2,840,675	-17,434	2,823,241	2,637,910
Semi-finished and finished goods	771,311	-289,088	482,223	734,461
Inventories and work-in-progress	3,798,410	-395,132	3,403,278	3,471,434

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

The decline in inventories and work-in-progress resulting from the Falcon activity was partially offset by the increase of work-in-progress related to Rafale Export contracts.

On December 31, 2017, the Group has assessed a first impact of the end of the Falcon 5X program on its assets and liabilities. Following the cancellation in 2018 of the last Falcon 5X customers' orders, the Group carried out a new evaluation of these impacts. As a consequence, the Group has notably reduced the net value of inventories and work-in-progress relating to the F5X program to zero.



Note 8 - Trade and other receivables

8.1 Details

(in EUR thousands)	12/31/2018			12/31/2017 (1)
	Gross	Impairment	Net	Net
Trade receivables (2)	606,731	-72,293	534,438	451,895
Corporate income tax receivables	87,271	0	87,271	125,343
Other receivables	340,721	0	340,721	280,613
Prepayments	105,882	0	105,882	12,310
Trade and other receivables	1,140,605	-72,293	1,068,312	870,161

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) see Note 8.3 for receivables relating to finance leases.

The percentage of outstanding receivables not written-down at year-end is subject to regular individual monitoring. The exposure of Dassault Aviation to the credit risk is presented in Note 24.2.

8.2 Schedule

(in EUR thousands)	12/31/2018			12/31/2017 (1)		
	Total	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year
Trade receivables (2)	606,731	417,090	189,641	532,788	340,615	192,173
Corporate income tax receivables	87,271	87,271	0	125,343	125,343	0
Other receivables	340,721	245,587	95,134	280,613	247,668	32,945
Prepayments	105,882	27,555	78,327	12,310	12,310	0
Trade and other receivables	1,140,605	777,503	363,102	951,054	725,936	225,118

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) see Note 8.3 for receivables relating to finance leases.

8.3 Receivables relating to finance leases

(in EUR thousands)	12/31/2018	12/31/2017
Minimum lease receivables	193,181	120,486
Unearned financial income	-22,116	-11,427
Provisions for impairment	-5,484	-10,067
Net value	165,581	98,992

The amount due within one year of minimum lease receivables is EUR 25,144 thousand as of December 31, 2018.

Note 9 - Cash and cash equivalents

9.1 Net cash

(in EUR thousands)	12/31/2018	12/31/2017
Cash equivalents (1)	1,923,547	1,656,383
Cash at bank and in hand	1,066,594	405,036
Cash and cash equivalents in assets	2,990,141	2,061,419
Bank overdrafts	0	0
Net cash in the cash flow statement	2,990,141	2,061,419

(1) primarily time deposits and cash equivalent marketable securities. The corresponding risk analysis is described in Note 24.1.

9.2 Available cash

The Group uses a specific indicator, referred to as "Available cash", which reflects the total liquidities available to the Group, net of any financial debt. It is calculated as follows:

(in EUR thousands)	12/31/2018	12/31/2017
Other current financial assets (market value) (1)	3,211,968	3,154,913
Cash and cash equivalents (market value)	2,990,141	2,061,419
Subtotal	6,202,109	5,216,332
Borrowings and financial debt (2)	-991,376	-1,095,175
Available cash	5,210,733	4,121,157

(1) see Note 6.

(2) see Note 11.



Note 10 - Equity

10.1 Share capital

The share capital amounts to EUR 66,790 thousand and consists of 8,348,703 common shares of EUR 8 each as of December 31, 2018. As of December 31, 2017, the share capital amounted to EUR 66,495 thousand and consisted of 8,311,921 common shares.

In 2018, 36,782 new common shares were created following the option offered to shareholders to receive all or part of the 2017 dividend in shares.

The distribution of share capital as of December 31, 2018 is as follows:

	Shares	% Capital	% Voting rights
GIMD (1)	5,196,076	62.2%	76.8%
Float	2,289,624	27.4%	17.1%
Airbus	825,828	9.9%	6.1%
Dassault Aviation (treasury shares)	37,175	0.5%	-
Total	8,348,703	100%	100%

(1) the Parent Company, Groupe Industriel Marcel Dassault (GIMD), located at 9, Rond-Point des Champs-Élysées - 75008 Paris, fully consolidates the Group financial statements.

The Group regularly distributes dividends.

10.2 Treasury shares

Movements on treasury shares are detailed below:

(in number of shares)	2018	2017
Treasury shares as of January 1	38,600	39,550
Purchase of shares	0	0
Cancellation of shares	0	0
Share-based payments (see Note 10.3)	-1,425	-950
Treasury shares as of December 31	37,175	38,600

The impact of treasury shares on the Group's consolidated financial statements is detailed in the statement of changes in equity.

The 37,175 treasury shares held as of December 31, 2018 (EUR 980 per share) were allocated to potential allocations of performance shares plans and a potential liquidity contract to guarantee market activity.

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10.3 Share-based payments

The Group grants performance shares to corporate officers. The characteristics of these allocation plans are described in the Directors' report.

Grant date	Vesting period	Number of shares allocated	Share price on the grant date	Number of shares delivered in 2018	Number of shares canceled (1)	Balance of performance shares as of 12/31/2018
03/07/2017	du 03/07/2017 au 03/06/2018	1,425	1,080	1,425	0	0
03/07/2018	du 03/07/2018 au 03/06/2019	1,575	1,405	0	0	1,575

(1) shares canceled in the event of partial or total non-achievement of performance conditions.

The Group did not grant any stock option plans to its employees and corporate officers.

2017 plan

An expense of EUR 842 thousand was recorded in 2018 under this plan, the fair value of which totaled EUR 1,425 thousand (average value of EUR 1,000 per share).

2018 plan

An expense of EUR 847 thousand was recorded in 2018 under this plan, the fair value of which totaled EUR 2,068 thousand (average value of EUR 1,313 per share).



Note 11 - Borrowings and financial debt

(in EUR thousands)	Total as of 12/31/2018	Amount due within one year	Amount due in more than one year		
			Total more than one year	Maturing > 1 year and < 5 years	Maturing > 5 years
Bank borrowings (1)	874,565	624,557	250,008	250,008	0
Other financial debt (2)	116,811	31,513	85,298	85,223	75
Borrowings and financial debt	991,376	656,070	335,306	335,231	75

(in EUR thousands)	Total as of 12/31/2017	Amount due within one year	Amount due in more than one year		
			Total more than one year	Maturing > 1 year and < 5 years	Maturing > 5 years
Bank borrowings (1)	948,823	75,512	873,311	873,311	0
Other financial debt (2)	146,352	39,398	106,954	106,879	75
Borrowings and financial debt	1,095,175	114,910	980,265	980,190	75

(1) initially at a variable rate, loans taken out by the Group were swapped at fixed rate. These loans are denominated in euros and EUR 625 million is repayable in 2019 and EUR 250 million in 2020.

There were no bank overdrafts as of December 31, 2018, as was the case on December 31, 2017.

(2) as of December 31, 2018 and December 31, 2017, other financial debt mainly includes locked-in employee profit-sharing funds. Employee profit-sharing corresponds to "other long-term benefits", and should be valued and discounted according to the principles of revised IAS 19. However, in view of the low historical differences between remuneration rate and discount rate, we consider that the evaluation method by cost less repayments constitutes a satisfactory approximation of the profit-sharing liability.

The change in borrowings and financial debt between 2017 and 2018 breaks down as follows:

(in EUR thousands)	12/31/2017	Cash flow	Reclassifi- cation	12/31/2018
Long-term borrowings and financial debt	980,265	11,111	-656,070	335,306
Short-term borrowings and financial debt (1)	114,910	-114,910	656,070	656,070
Borrowings and financial debt	1,095,175	-103,799	0	991,376

(1) EUR 75 million in bank borrowings were repaid in 2018.



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Note 12 - Current provisions

12.1 Provisions for contingencies and charges and for impairment

(in EUR thousands)	12/31/2017 (1)	Allocations	Reversals	Other (2)	12/31/2018
Provisions for contingencies and charges					
Operational	1,097,903	549,738	-267,015	-43,224	1,337,402
	1,097,903	549,738	-267,015	-43,224	1,337,402
Provisions for impairment					
Financial assets	154	0	0	0	154
Property, plant and equipment	17,277	13,681	-17,492	552	14,018
On inventories and work-in-progress	596,064	412,222	-617,794	4,640	395,132
Trade receivables	80,893	72,244	-80,910	66	72,293
	694,388	498,147	-716,196	5,258	481,597
Provisions for contingencies and charges and for impairment	1,792,291	1,047,885	-983,211	-37,966	1,818,999

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) including foreign exchange differences and actuarial adjustments recognized directly through equity.

12.2 Details of provisions for contingencies and charges

(in EUR thousands)	12/31/2017 (1)	Allocations	Reversals	Other	12/31/2018
Warranties (2)	622,011	341,147	-61,044	1,658	903,772
Services (2)	152,888	159,500	-89,068	2,703	226,023
Retirement payments (3)	300,614	45,966	-104,827	-47,738	194,015
<i>French companies</i>	<i>224,506</i>	<i>31,707</i>	<i>-70,569</i>	<i>-21,175</i>	<i>164,469</i>
<i>US companies</i>	<i>76,108</i>	<i>14,259</i>	<i>-34,258</i>	<i>-26,563</i>	<i>29,546</i>
Others (4)	22,390	3,125	-12,076	153	13,592
Provisions for contingencies and charges	1,097,903	549,738	-267,015	-43,224	1,337,402

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) warranty provisions are updated to reflect changes to the fleet in service and contracts delivered. In 2018, this change is mainly related to the military contracts delivered (see accounting principles C11-1).

(3) actuarial gains and losses contributed to the decrease in the provision for retirement costs in the amount of EUR -49,818 thousand. They are distributed as follows:

<i>French companies</i>	<i>-21,175</i>
<i>US companies</i>	<i>-28,643</i>
<i>Total actuarial adjustments</i>	<i>-49,818</i>

(4) as of December 31, 2018, the other long-term benefits relating to long-service awards amounted to EUR 3,608 thousand, compared to EUR 3,676 thousand at the end of 2017. The workforce adjustment measures (including early retirement) are accrued at the end of 2018 in the amount of EUR 5,317 thousand. They represented EUR 15,908 thousand as of the end of 2017.



12.3 Provisions for retirement payments

12.3.1 Calculation methods (defined benefit plans)

Retirement payment commitments are calculated for all Group employees using the projected unit credit method. They are provisioned in full for the remaining obligations.

Employment projections are weighted using French insurance code mortality rates and the recorded employee turnover rate (this may vary according to age). The obligation is estimated and prorated to the employee's length of service at the end of the period in relation to their total career expectancy.

Note that no Group companies have commitments for medical insurance plans.

12.3.2 Assumptions used

	France		United States	
	2018	2017	2018	2017
Inflation rate	2.00%	2.00%	2.25%	2.15%
Discount rate	1.60%	1.50%	4.55%	3.85%
Weighted average salary increase rate	3.80%	3.90%	2.22%	2.25%

The discount rates were based on the yield for top-ranking corporate long-term bonds (rated AA) corresponding to the currency and the maturity of the commitments.

12.3.3 Change in commitments and plan assets

Changes in commitments and plan assets over the last five years are as follows:

(in EUR thousands)	2018	2017	2016	2015	2014
Commitment	794,245	800,621	800,609	741,037	700,535
Plan assets	600,230	500,007	525,740	446,435	213,908
Unfunded status	194,015	300,614	274,869	294,602	486,627

Changes over the year of commitments break down as follows:

(in EUR thousands)	2018			2017		
	France	United States	Total	France	United States	Total
As of January 1	494,020	306,601	800,621	504,301	296,308	800,609
Current service cost	26,452	11,686	38,138	28,110	11,372	39,482
Past service cost (1)	0	0	0	18,344	0	18,344
Interest expense	7,808	11,878	19,686	5,325	12,580	17,905
Benefits paid	-20,569	-10,088	-30,657	-19,788	-9,804	-29,592
Actuarial adjustments	-16,623	-30,912	-47,535	-42,272	34,863	-7,409
Foreign exchange differences	0	13,992	13,992	0	-38,718	-38,718
As of December 31	491,088	303,157	794,245	494,020	306,601	800,621

(1) in 2017, the change in the statutory severance pay scale included in the "Labor Market Modernization Act" ("Loi de Modernisation du Marché du Travail") contributed to the increase in the provision for retirement costs of EUR 18,344 thousand.

A 0.50 point decrease in the discount rate would increase the total commitment by EUR 61,442 thousand, while a 0.50 point increase in the discount rate would decrease the total commitment by EUR 54,923 thousand.

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Changes in investments during the period are as follows:

(in EUR thousands)	2018			2017		
	France	United States	Total	France	United States	Total
As of January 1	269,514	230,493	500,007	261,678	264,062	525,740
Expected return on plan assets	2,553	9,305	11,858	1,178	10,927	12,105
Actuarial adjustments	4,552	-2,269	2,283	6,658	-3,266	3,392
Employer contributions	50,000	34,258	84,258	0	446	446
Benefits paid	0	-10,088	-10,088	0	-9,804	-9,804
Foreign exchange differences	0	11,912	11,912	0	-31,872	-31,872
As of December 31	326,619	273,611	600,230	269,514	230,493	500,007

The costs for defined benefit plans can be analyzed as follows:

(in EUR thousands)	2018			2017		
	France	United States	Total	France	United States	Total
Current service cost	26,452	11,686	38,138	28,110	11,372	39,482
Past service cost	0	0	0	18,344	0	18,344
Interest expense	7,808	11,878	19,686	5,325	12,580	17,905
Expected return on plan assets	-2,553	-9,305	-11,858	-1,178	-10,927	-12,105
Cost for defined benefit plans	31,707	14,259	45,966	50,601	13,025	63,626

Plan assets are invested as follows:

	2018		2017	
	France	United States	France	United States
Bonds and debt securities	86%	99%	85%	97%
Real estate	8%	0%	7%	0%
Shares	6%	0%	8%	0%
Liquidities	0%	1%	0%	3%
Total	100%	100%	100%	100%

The fund invests largely in bonds with a minimum guaranteed annual yield.



Note 13 - Operating liabilities

(in EUR thousands)	12/31/2018			12/31/2017 (1)		
	Total	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year
Trade payables	738,873	738,873	0	600,758	600,758	0
Other liabilities	173,015	173,015	0	131,886	131,886	0
Deferred income	2,410	542	1,868	3,110	700	2,410
Trade and other payables	914,298	912,430	1,868	735,754	733,344	2,410
Income tax liabilities	6,257	6,257	0	0	0	0
Other tax and social security liabilities	302,934	302,934	0	237,616	237,616	0
Tax and social security liabilities	309,191	309,191	0	237,616	237,616	0

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

Note 14 - Contract assets and liabilities

(in EUR thousands)	Contract assets (1)	Contract liabilities (1)
Contract assets / liabilities as of January 1	0	-8,126,973
<i>Customer advances and progress payments</i>	0	-7,968,995
<i>Other contract assets / liabilities</i>	0	-157,978
Change in customer advances and progress payments	16,553	-1,336,132
Change in other contract assets / liabilities	75,798	189,714
Reclassification	-75,384	75,384
Contract assets / liabilities as of December 31	16,967	-9,198,007
<i>Customer advances and progress payments</i>	-57,433	-9,231,141
<i>Other contract assets / liabilities</i>	74,400	33,134

(1) following the implementation of IFRS 15 (see Note 1.A).

The increase in contract liabilities is mainly the result of the progress payments received under the Rafale Export contracts. As Dassault Aviation is principal on the Rafale Egypt, Qatar and India contracts, the advances received include the co-contractors' parts. The progress payments paid reflect the transfer of these parts to the co-contractors as shown in the table below:

(in EUR thousands)	12/31/2018	12/31/2017
Customer advances and progress payments	-9,288,574	-7,968,995
Advances and progress payments to suppliers	3,282,220	2,525,871
Customer advances and progress payments net of advances and progress payments to suppliers	-6,006,354	-5,443,124

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Note 15 - Net sales

The breakdown of net sales by geographical area is as follows:

(in EUR thousands)	2018	2017 (1)
France (2)	1,132,841	541,877
Export (3)	3,986,378	4,359,203
Net sales	5,119,219	4,901,080

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) mainly the French state, with whom the Group realized more than 10% of its total net sales in 2018, as in 2017.

(3) more than 10% of Group net sales were made with the Egyptian government in 2018, as in 2017. The net sales from Rafale Export contracts are recognized on a gross basis (including the co-contractors parts).

By activity, net sales break down as follows:

(in EUR thousands)	2018	2017 (1)
Falcon	2,634,824	3,025,920
Defense	2,484,395	1,875,160
Net sales	5,119,219	4,901,080

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

By type, net sales break down as follows:

(in EUR thousands)	2018	2017 (1)
Finished goods	3,797,398	3,954,627
Services	1,321,821	946,453
Net sales	5,119,219	4,901,080

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

By origin, net sales break down as follows:

(in EUR thousands)	2018	2017 (1)
France	4,037,389	3,796,997
United States	1,081,830	1,104,083
Net sales	5,119,219	4,901,080

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).



Note 16 - Other revenue

(in EUR thousands)	2018	2017
Research tax credits	32,443	32,643
Interest on arrears	2,073	370
Capitalized production	0	129
Other operating income	75,978	10,896
Other revenue	110,494	44,038

Note 17 - Other operating income and expenses

(in EUR thousands)	2018	2017
Gains/losses from disposals of non-current assets	-4,444	-709
Foreign exchange gains or losses from business transactions (1)	2,323	-27,402
Other operating expenses	-731	-4,608
Other operating income and expenses	-2,852	-32,719

(1) particularly foreign exchange gains and losses on trade receivables and payables.

Note 18 - Research and development costs

Non-capitalized research and development costs are recognized as expenses for the year in which they are incurred and represent:

(in EUR thousands)	2018	2017
Research and development costs	-391,775	-312,539

The Group's research and development strategy and initiatives are described in the Directors' Report.

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Note 19 - Net financial income

(in EUR thousands)	2018	2017 (1)
Income from cash and cash equivalents	3,374	6,948
Change in fair value of other current financial assets	4,820	
Cost of gross financial debt (1)	-94,701	-79,750
Cost of net financial debt	-86,507	-72,802
Dividends and other investment income	305	1,425
Interest income and gains/losses on disposal of other financial assets (excluding cash and cash equivalents) (2)	8,724	297,330
Foreign exchange gain/loss (3)	-68,405	293,804
Other	0	-198
Other financial income and expenses	-59,376	592,361
Net financial income	-145,883	519,559

(1) restated for the impact of the application of IFRS 15 (see Note 1.A). The financial expense recognized for the financing component of long-term Defense contracts was EUR -84,273 thousand in 2018, and EUR -67,846 thousand in 2017.

(2) of which gain from sale of marketable securities for EUR 292,385 thousand in 2017.

(3) foreign exchange gains or losses for the period include the gains or losses associated with the exercise of foreign exchange hedging instruments that do not qualify for hedge accounting under IFRS 9 "Financial instruments" and the change in the market value of foreign exchange hedging instruments that do not qualify for hedge accounting (which amounts are not representative of key figures, which will be recognized when the hedges occur). In 2017, it included the restructuring costs of the currency hedging portfolio, necessitated by the decline in commercial flows related to the Falcon activity.



Note 20 - Tax position

20.1 Net effect of taxes on net income

(in EUR thousands)	2018	2017 (1)
Corporate tax	-222,409	-110,945
Deferred tax income/expense	27,716	-140,418
Income tax	-194,693	-251,363

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

20.2 Net effect of taxes on income and expense recognized directly through equity - fully consolidated companies

(in EUR thousands)	2018	2017
Derivative financial instruments	33,839	-62,108
Other current and non-current financial assets	376	100,987
Actuarial adjustments	-10,238	-9,520
Taxes recognized directly in equity	23,977	29,359

20.3 Reconciliation of theoretical and actual tax expenses

(in EUR thousands)	2018	2017 (1)
Net income	572,802	630,082
Cancellation of the income tax	194,693	251,363
Cancellation of the Group share of net income of equity associates	-205,849	-143,951
Income before tax	561,646	737,494
Theoretical tax expenses calculated at the current rate (2)	-193,375	-327,669
Effect of tax credits (3)	14,805	19,579
Effect of differences in tax rates (4)	-24,922	40,555
Other	8,799	16,172
Taxes recognized	-194,693	-251,363

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) a rate of 34.43% applies for 2018, compared to a rate of 44.43% in 2017, for the Parent Company of the Group.

(3) the amount of the research tax credit, which is recognized in other revenue, is EUR 32,443 thousand for 2018 and EUR 32,643 thousand for 2017. The tax credit for competitiveness and employment, which is recognized as a deduction from employee costs, represented EUR 8,367 thousand in 2018 and EUR 9,545 thousand in 2017.

(4) in 2018, the impact of the decrease in the corporate income tax rate in France is a deferred tax expense of EUR -28,898 thousand. In 2017, the impact on the deferred tax rate of the decrease in the corporate income tax rate in France and in the United States was a deferred tax expense of EUR -24,552 thousand.

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20.4 Deferred tax sources

(in EUR thousands)	Balance sheet		Consolidated income statement	
	12/31/2018	12/31/2017 (1)	2018	2017 (1)
Temporary differences on provisions (profit-sharing, pension, etc.)	301,429	268,074	42,062	33,174
Other current and non-current financial assets and cash equivalents	-2,567	-3,906	-827	-430
Derivative financial instruments	-3,921	-48,352	10,592	-160,842
Other temporary differences	83,787	107,475	-24,111	-12,320
Deferred tax income/expense			27,716	-140,418
Net deferred taxes	378,728	323,291		
<i>Deferred tax assets</i>	<i>378,728</i>	<i>323,291</i>		
<i>Deferred tax liabilities</i>	<i>0</i>	<i>0</i>		

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

20.5 Deferred tax assets not recognized in balance sheet

(in EUR thousands)	12/31/2018	12/31/2017
Deferred tax assets not recognized	10,948	11,854

These are temporary differences for which reversal is not expected for ten years.



Note 21 - Earnings per share

Earnings per share	2018	2017 (1)
Net income attributable to the owners of the Parent Company (in EUR thousands) (2)	572,741	630,040
Average number of shares outstanding	8,293,441	8,244,507
Diluted average number of shares outstanding	8,294,229	8,245,220
Earnings per share (in EUR)	69.1	76.4
Diluted earnings per share (in EUR)	69.1	76.4

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) net income is fully attributable to income from continuing operations (no discontinued operations).

Earnings per share are calculated by dividing net income attributable to the owners of the Parent Company by the weighted average number of common shares outstanding during the year, minus treasury shares.

Diluted earnings per share correspond to net income attributable to owners of the Parent Company divided by the diluted weighted average number of shares. This corresponds to the weighted average number of common shares outstanding, increased for performance shares granted.

Note 22 - Dividends paid and proposed

Dividends	2018	2017
Decided and paid during the year (in EUR thousands) (1)	126,604	99,367
i.e. per share (EUR)	15.30	12.10
Proposed to the Annual General Meeting for approval, not recognized as a liability as of December 31 (in EUR thousands)	176,993	127,172
i.e. per share (EUR)	21.20	15.30

(1) net of dividends on treasury shares.

Note 23 - Financial instruments

The valuation method on the balance sheet (cost or fair value) of financial instruments (assets or liabilities) is detailed in the tables below.

The Group used the following hierarchy for the fair value valuation of the financial assets and liabilities:

- Level 1: quoted prices on an active market;
- Level 2: valuation techniques based on observable market data;
- Level 3: valuation techniques based on non-observable market data.



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23.1 Financial instruments (assets)

(in EUR thousands)	Balance sheet value as of 12/31/2018			
	Cost or amortized cost (1)	Fair value		Total
		Through net income	Through equity	
Non-current assets				
Other non-current financial assets	52,628		151,990	204,618
Current assets				
Trade and other receivables	1,068,312			1,068,312
Derivative financial instruments		7,984	32,423	40,407
Other current financial assets		3,211,968		3,211,968
Cash equivalents (2)		1,923,547		1,923,547
Total financial instruments (assets)	1,120,940	5,143,499	184,413	6,448,852
Level 1 (2)		5,135,515	32,547	
Level 2		7,984	32,423	
Level 3		0	119,443	

(1) the carrying amount of the financial instruments (assets) recognized at cost or amortized cost corresponds to a reasonable approximation of the fair value.

(2) including time deposits as of December 31, 2018: EUR 1,884,827 thousand.

As of January 1, 2018, the data were as follows:

(in EUR thousands)	Balance sheet value as of 01/01/2018 (1)			
	Cost or amortized cost (2)	Fair value		Total
		Through net income	Through equity	
Non-current assets				
Other non-current financial assets	38,197		150,937	189,134
Current assets				
Trade and other receivables	870,161			870,161
Derivative financial instruments		33,358	139,460	172,818
Other current financial assets		3,154,913		3,154,913
Cash equivalents (3)		1,656,383		1,656,383
Total financial instruments (assets)	908,358	4,844,654	290,397	6,043,409
Level 1 (3)		4,811,296	33,585	
Level 2		33,358	139,460	
Level 3		0	117,352	

(1) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.A).

(2) the carrying amount of the financial instruments (assets) recognized at cost or at amortized cost corresponds to a reasonable approximation of the fair value.

(3) including time deposits as of December 31, 2017: EUR 1,487,529 thousand.



23.2 Financial instruments (liabilities)

(in EUR thousands)	Balance sheet value as of 12/31/2018			
	Cost or amortized cost (1)	Fair value		Total
		Through net income	Through equity	
Non-current liabilities				
Bank borrowings	250,008			250,008
Other financial debt (2)	85,298			85,298
Current liabilities				
Bank borrowings	624,557			624,557
Other financial debt (2)	31,513			31,513
Trade and other payables	914,298			914,298
Derivative financial instruments		18,218	7,907	26,125
Total financial instruments (liabilities)	1,905,674	18,218	7,907	1,931,799
Level 1		0	0	
Level 2		18,218	7,907	
Level 3		0	0	

(1) the carrying amount of the financial instruments (liabilities) recognized at cost or at amortized cost corresponds to a reasonable approximation of the fair value.

(2) primarily locked-in employee profit-sharing funds.

As of December 31, 2017, the data were as follows:

(in EUR thousands)	Balance sheet value as of 12/31/2017 (1)			
	Cost or amortized cost (2)	Fair value		Total
		Through net income	Through equity	
Non-current liabilities				
Bank borrowings	873,311			873,311
Other financial debt (3)	106,954			106,954
Current liabilities				
Bank borrowings	75,512			75,512
Other financial debt (3)	39,398			39,398
Trade and other payables	735,754			735,754
Derivative financial instruments		5,634	6,433	12,067
Total financial instruments (liabilities)	1,830,929	5,634	6,433	1,842,996
Level 1		0	0	
Level 2		5,634	6,433	
Level 3		0	0	

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) the carrying amount of the financial instruments (liabilities) recognized at cost or at amortized cost corresponds to a reasonable approximation of the fair value.

(3) primarily locked-in employee profit-sharing funds.

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Note 24 - Financial risk management

24.1 Cash and liquidity risks

24.1.1 Financial debt

The Group has no significant risk in relation to its financial debt. The contracts for these loans include the usual default clauses and restrictions in terms of security conditions and merger or sale transactions. One of the loan clauses stipulates an early repayment would be demanded if GIMD were to hold less than 50% of the capital of Dassault Aviation before the loan maturity date. These loans do not contain any accelerated repayment or prepayment clauses based on rating or financial ratios. The features of these loans are described in Note 11.

24.1.2 Cash, cash equivalents and other current financial assets

The Group investment portfolio is primarily composed of money market investments with no significant risk of impairment.

(in EUR thousands)	12/31/2018			
	Historical cost	Unrealized capital gain	Asset value	As %
Cash at bank, money market investments and time deposits	4,862,784	2,024	4,864,808	79%
Investments in bonds (1)	340,941	38,396	379,337	6%
Unspecified investments (1)	614,332	343,632	957,964	15%
Total	5,818,057	384,052	6,202,109	100%

(1) investments in bonds subscribed by the Group are investments with a short-term management horizon and unspecified investments as defined by the AMF classification are invested in short-term bond and money market funds. In addition, most of them are backed by guarantees, which limits the risk of loss of value.

The Group can therefore meet its commitments without any liquidity risk due to its cash resources and its portfolio of marketable securities. The Group is not faced with restrictions with regard to the availability of its cash and its portfolio of marketable securities.

Fair values classification:

(in EUR thousands)	12/31/2018		
	Through net income	Through equity	Total
Cash at bank, money market investments and time deposits	4,864,808	0	4,864,808
Investments in bonds	379,337	0	379,337
Unspecified investments	957,964	0	957,964
Total	6,202,109	0	6,202,109



24.2 Credit and counterparty risks

24.2.1 Credit risk on bank counterparties

The Group allocates its investments and performs its cash and foreign exchange transactions with recognized financial institutions. The Group has no investments or accounts with financial institutions presenting a significant risk of default.

24.2.2 Customer default risk

The Group limits counterparty risk by performing most of its sales in cash and ensuring that the loans are secured by export insurance guarantees (Bpifrance Assurance Export) or collateral. The share of receivables not covered by these procedures is subject to regular individual monitoring and, if necessary, a provision for impairment.

Given the arrangements in risk mitigation that are in place, and the provisions made in its accounts, the Group's residual exposure to the risk of default by a customer in a country subject to uncertainties is limited.

The amount of export insurance guarantees and collateral obtained and not exercised at year-end appear in the table of off-balance sheet commitments (see Note 25).

The manufacturing risk is also guaranteed with Bpifrance Assurance Export for major military export contracts.

24.3 Other market risks

24.3.1 Market risks

The Group covers risks from exchange rates, interest rates and changes in the price of raw materials using derivative financial instruments whose book value is presented below:

(in EUR thousands)	12/31/2018		12/31/2017	
	Assets	Liabilities	Assets	Liabilities
Exchange rate derivatives	40,407	22,043	172,782	4,705
Interest rate derivatives	0	4,082	0	7,362
Commodity derivatives	0	0	36	0
Derivative financial instruments	40,407	26,125	172,818	12,067
Net derivative financial instruments	14,282		160,751	

Exchange rate derivatives

The Group is exposed to a foreign exchange risk through the Parent Company in relation to its Falcon sales, which are virtually all denominated in US dollars. This risk is partially hedged by using forward currency contracts and foreign exchange options.

The Group partially hedges its cash flows that are considered highly probable. It ensures that the initial future cash flows will be sufficient to use the foreign exchange hedges in place. The hedged amount may be adjusted as a function of changes over time in expected net cash flows.

The derivative financial instruments used by the Group (foreign exchange hedging instruments) along with their recognition under hedge accounting principle as defined by IFRS 9 "Financial instruments" are defined in paragraph C14 of the accounting principles.

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The foreign exchange derivatives subscribed by the Group are not all eligible for hedge accounting under IFRS 9 "Financial instruments". The breakdown is presented in the table below:

(in EUR thousands)	Market value as of 12/31/2018	Market value as of 12/31/2017
Instruments which qualify for hedge accounting	27,990	139,460
Instruments which do not qualify for hedge accounting	-9,626	28,617
Foreign exchange derivatives	18,364	168,077

The counterparty risk for foreign exchange derivatives (CVA/DVA) is based on the current exposure method and on the historical default probabilities per rating class communicated by the rating agencies. As of December 31, 2018, this counterparty risk is insignificant.

The breakdown of the fair value of the financial instrument derivatives per maturity rate is as follows:

(in EUR thousands)	Less than one year	More than one year	Total
Foreign exchange derivatives	-8,012	26,376	18,364

Interest rate derivatives

The Group is exposed to the volatility of interest rates through loans taken out at a variable rate (see Note 11). The loans were swapped at a fixed rate to limit this risk.

Commodity derivatives

The Group marginally uses derivatives to hedge its exposure to changes in kerosene prices. The Group no longer has any commodity derivatives in its portfolio as of December 31, 2018.

24.3.2 Impacts of derivatives on the Group's financial statements

The impact on net income and equity of the changes in fair value in hedging instruments over the period is as follows:

(in EUR thousands)	12/31/2017	Impact on equity (1)	Impact on net financial income (2)	12/31/2018
Exchange rate derivatives	168,077	-111,470	-38,243	18,364
Interest rate derivatives	-7,362	2,959	321	-4,082
Commodity derivatives	36	0	-36	0
Net derivative financial instruments	160,751	-108,511	-37,958	14,282

(1) recognized directly under income and expenses recognized directly through equity, share of fully consolidated companies.

(2) change in fair value of foreign exchange hedging instruments which do not qualify for hedge accounting under the terms of IFRS 9 "Financial instruments".



24.3.3 Sensitivity test for foreign exchange derivatives

A sensitivity analysis was conducted to determine the impact of 10 cent increase or decrease in US dollar/Euro exchange rate.

Market Value of the Portfolio (in EUR thousands)	12/31/2018		12/31/2017	
Net balance sheet position	18,364		168,077	
Closing US dollar/ euro exchange rate	1.1450 \$/€		1.1993 \$/€	
Closing dollar/ euro exchange rate +/- 10 cents	1.2450 \$/€	1.0450 \$/€	1.2993 \$/€	1.0993 \$/€
Change in net balance sheet position (1)	+157,947	-190,721	+208,996	-247,822
<i>Impact on net income</i>	<i>+35,209</i>	<i>-44,496</i>	<i>+98,185</i>	<i>-116,850</i>
<i>Impact on equity</i>	<i>+122,738</i>	<i>-146,225</i>	<i>+110,811</i>	<i>-130,972</i>

(1) data calculated based on existing market conditions on the balance sheet dates. They are not representative of the actual gain/loss to be recognized when the transactions are made.

24.3.4 Risks related to Embraer shares

On December 31, 2018, the Embraer shares were valued at EUR 32,547 thousand (see Note 6). The Group is exposed to a currency risk on its stake in Embraer, which is listed in reals on the Brazilian market, and a price risk related to the fluctuation in the share price. A 10% upward or downward variation in the exchange rate and/or share price would have no significant impact on the Group's equity and results.

Note 25 - Off-balance sheet commitments

The off-balance sheet commitments of the Group relate essentially to its operational activities and can be analyzed as follows:

(in EUR thousands)	12/31/2018	12/31/2017
Commitments given under commercial contracts	12,142,096	11,587,348
Guarantees and deposits	46,458	55,366
Commitments given secured by bank guarantees	1,688,860	1,526,242
Commitments given	13,877,414	13,168,956

(in EUR thousands)	12/31/2018	12/31/2017 (1)
Transaction price allocated to the remaining performance obligations	19,375,871	19,460,188
Other commitments received under commercial contracts	1,633,129	1,633,129
Collateral	71,029	80,508
Bpifrance Assurance Export guarantees	62,854	66,043
Commitments received secured by bank guarantees	11,684	8,720
Commitments received	21,154,567	21,248,588

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

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The breakdown of the backlog by maturity is as follows:

(in percentage)	Less than one year	Between one and four years	More than four years	Total
Transaction price allocated to the remaining performance obligations	35%	58%	7%	100%

Lease commitments as of December 31, 2018 are as follows:

Operating leases	TOTAL	Within one year	More than one year
Minimum future payments not subject to cancellation (not discounted)	222,192	49,165	173,027

The Group's main operating leases concern real estate leases.

Note 26 - Contingent assets and liabilities

At the end of 2017, Dassault Aviation initiated negotiations with Safran Aircraft Engines to obtain compensation for its damages as part of the termination process of the Silvercrest contract leading to the end of the Falcon 5X program. In 2018, Dassault Aviation signed an amicable agreement with Safran that settled their dispute over the Silvercrest engine that was expected to equip the Falcon 5X. Under the terms of this agreement, Dassault Aviation received an indemnity of USD 280 million from Safran. The corresponding income was recognized as a non-current operating income in the Group financial statements as of December 31, 2018.

There are no more contingent assets or liabilities as of December 31, 2018.



Note 27 - Related party transactions

The Group's related parties are:

- Groupe Industriel Marcel Dassault and its subsidiaries,
- Thales Group and its subsidiaries,
- the Chairman and Chief Executive Officer, and the Chief Operating Officer of Dassault Aviation,
- the directors of Dassault Aviation.

Terms and conditions of related-party transactions

Sales and purchases are made at market prices. Balances outstanding at year-end are not guaranteed and payments are made in cash. No guarantees were provided or received for related-party receivables. For 2018, the Group did not recognize any provisions for bad debts relating to amounts receivable from related parties. The need for provisions is assessed each year by examining the financial position of the related parties and the market in which they operate.

27.1 Details of transactions

(in EUR thousands)	2018	2017
Sales	5,662	57,954
Purchases	465,564	411,819
Trade receivables	3,501	1,762
Customer advances and progress payments	1,834	3,921
Trade payables	40,508	69,911
Advances and progress payments to suppliers	1,938,151	1,538,824
Advance lease payments	31,879	31,359

27.2 Compensation of corporate officers and benefits in kind

The compensation and benefits in kind paid by the Dassault Aviation Group to the corporate officers can be analyzed as follows:

(in EUR thousands)	2018	2017
Fixed compensation	2,865	2,791
Directors' fees	580	593
Benefits in kind	17	17
Performance shares	1,425	894
Other	4	9
Compensation of corporate officers and benefits in kind	4,891	4,304



Consolidated Financial Statements

Note 28 - Average number of employees

	2018	2017
Managers	5,744	5,713
Supervisors and technicians	2,275	2,325
Employees	1,025	1,054
Workers	2,351	2,466
Average number of employees	11,395	11,558

Note 29 - Environmental information

The Dassault Aviation Group recognized environmental capital expenditures amounting to EUR 2,480 thousand and posted approximately EUR 1,110 thousand in expenses related to risk, impact and regulatory compliance analyses in 2018. The Group did not have to recognize any environmental liabilities.

Note 30 - Auditors' fees

The statutory auditors' fees recognized as expenses for 2018 and 2017 are as follows:

(in EUR thousands)	DELOITTE & ASSOCIES		MAZARS	
	2018	2017	2018	2017
Certification of accounts (1)	311	283	634	557
Other audit services (2)	50	41	26	53
Auditor's fees	361	324	660	610

(1) these fees primarily include the review and certification of the Group's consolidated financial statements, certification of the financial statements of the parent company Dassault Aviation and its subsidiaries and compliance with local regulations.

(2) these fees are mainly for services relative to non-financial performance declaration, drafting of specific certifications, technical consultations and services rendered for possible disposals or acquisitions of entities.

In addition, the fees from fully consolidated subsidiaries paid to statutory auditors other than Deloitte & Associés and Mazars must be added to the above amounts: EUR 52 thousand in 2018 as in 2017, paid to Gerec.

Note 31 - Subsequent events

No events likely to have a material impact on the financial statements occurred between December 31, 2018 and the date the financial statements were approved by the Board of Directors.





***PARENT COMPANY
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018***



Company Financial Statements

ASSETS

(in EUR thousands)	Notes	12/31/2018			12/31/2017
		Gross	Depreciation, amortization and provisions	Net	Net
Intangible assets	2	119,209	-103,926	15,283	14,913
Property, plant and equipment	2	1,132,737	-786,045	346,692	294,370
Financial assets	3	2,282,903	-3,578	2,279,325	2,259,353
TOTAL NON-CURRENT ASSETS		3,534,849	-893,549	2,641,300	2,568,636
Inventories and work-in-progress	4	3,663,770	-296,216	3,367,554	3,263,074
Advances and progress payments to suppliers		3,421,666	0	3,421,666	2,670,370
Trade receivables	6	744,796	-57,122	687,674	435,484
Other receivables and prepayments	6	611,049	0	611,049	503,731
Marketable securities and cash instruments	9	2,870,659	-150	2,870,509	2,958,670
Cash at bank and in hand		2,126,277	0	2,126,277	1,188,629
TOTAL CURRENT ASSETS		13,438,217	-353,488	13,084,729	11,019,958
TOTAL ASSETS		16,973,066	-1,247,037	15,726,029	13,588,594



EQUITY AND LIABILITIES

(in EUR thousands)	Notes	12/31/2018	12/31/2017
Capital	10, 13	66,790	66,495
Share premiums	13	137,186	76,249
Reserves	12	2,206,360	2,023,463
Net income for the year		442,438	309,500
Investment subsidies		2,410	3,110
Regulated provisions	14	118,521	118,270
TOTAL EQUITY	13	2,973,705	2,597,087
PROVISIONS FOR CONTINGENCIES AND CHARGES	14	1,223,800	940,321
Borrowings and financial debt (1)	15	988,785	1,093,046
Customer advances and progress payments on orders		9,179,471	7,841,142
Trade payables	16	758,997	627,517
Other liabilities, cash instruments, accruals and deferred income	17	601,271	489,481
TOTAL LIABILITIES		11,528,524	10,051,186
TOTAL EQUITY AND LIABILITIES		15,726,029	13,588,594

(1) including bank overdrafts:

0

0



Company Financial Statements

INCOME STATEMENT

(in EUR thousands)	Notes	2018	2017
NET SALES	20	4,398,911	4,184,368
Change in work-in-progress		136,476	38,797
Reversals of provisions, depreciation and amortization, charges transferred		774,127	607,306
Other income		105,051	49,913
OPERATING INCOME		5,414,565	4,880,384
Purchases consumed		-2,852,156	-2,605,931
Personnel expenses (1)		-758,718	-726,312
Other operating expenses		-435,693	-363,745
Taxes and social security contributions		-59,693	-58,183
Depreciation and amortization	2	-57,776	-53,760
Allocations to provisions	14	-852,465	-697,750
OPERATING EXPENSES		-5,016,501	-4,505,681
NET OPERATING INCOME		398,064	374,703
NET FINANCIAL INCOME	22	92,689	231,006
CURRENT INCOME		490,753	605,709
Non-recurring items	23	240,523	-133,278
Employee profit-sharing and incentive schemes		-130,835	-94,019
Income tax	24	-158,003	-68,912
NET INCOME		442,438	309,500

(1) incl. tax credit for competitiveness and employment (CICE) (see Note7):	7,695	8,737
purchasing power bonus:	-3,879	0



CASH FLOW STATEMENT

(in EUR thousands)	Notes	2018	2017
I - NET CASH FLOWS FROM OPERATING ACTIVITIES			
NET INCOME		442,438	309,500
Elimination of gains and losses from disposals of non-current assets	23	-21	-161
Net allocations to and reversals of depreciation, amortization and provisions (excluding those related to working capital requirement)	2, 3, 14	336,708	46,887
Net cash from operating activities before working capital changes		779,125	356,226
Change in inventories and work-in-progress (net)	4	-104,480	183,543
Change in advances and progress payments to suppliers		-751,296	-764,722
Change in trade receivables (net)	6	-252,190	-47,159
Change in other receivables, cash instruments and accrued income	6	-98,450	-29,805
Change in customer advances and progress payments		1,338,329	1,507,862
Change in trade payables		131,480	48,930
Change in other payables and deferred income	17	111,790	73,938
Increase (-) or decrease (+) in working capital requirement		375,183	972,587
Total I		1,154,308	1,328,813
II - NET CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of intangible assets and property, plant and equipment	2	-118,697	-104,718
Increase in financial assets	3	-21,242	-74,783
Change in investment subsidies		-700	-616
Disposals of or reductions in non-current assets	2, 3, 23	14,469	33,646
Total II		-126,170	-146,471
III - NET CASH FLOWS FROM FINANCING ACTIVITIES			
Change in capital	13	295	489
Increase in other equity items	13	60,937	76,249
Increase in financial debt	15	69,020	58,897
Repayment of financial debt	15	-173,281	-149,410
Dividends paid during the year	33	-126,604	-99,367
Total III		-169,633	-113,142
CHANGE IN NET CASH AND CASH EQUIVALENTS (I + II + III)		858,505	1,069,200
Opening net cash (1)		4,134,236	3,065,036
Closing net cash (1)		4,992,741	4,134,236

(1) Cash comprise the following balance sheet items:

[cash at bank and in hand] + [gross marketable securities] – [bank overdrafts]



Company Financial Statements

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DASSAULT AVIATION **9, ROND-POINT DES CHAMPS-ÉLYSÉES MARCEL DASSAULT- 75008 PARIS**

*A French Société Anonyme (Corp.) capitalized at EUR 66,789,624, publicly traded and registered in France
Paris Trade Register number 712 042 456*

Note 1 - Accounting rules and methods

A/ GENERAL PRINCIPLES

The financial statements of the Parent Company as of December 31, 2018 were closed by the Board of Directors on February 27, 2019, and will be submitted for approval to the Annual General Meeting on May 16, 2019.

The company financial statements have been prepared in accordance with ANC Regulation 2017-03 approved by the Decree of November 3, 2017, and subsequent notices and recommendations of the French Accounting Standards Authority (ANC).

The methods used to present the financial statements are comparable year-on-year.

The general accounting conventions have been applied, in compliance with the principle of prudence, and in line with the following basic assumptions:

- going concern of operations,
- permanence of the accounting methods from one year to the next,
- independence of fiscal years,

and in line with the general rules for the establishment and presentation of annual financial statements.

The individual financial statements have been prepared on the basis of historical cost.

The preparation of the company's financial statements leads management to make estimations and assumptions that could have an impact on the amounts reported in the balance sheet and in the income statement.

These estimations concern notably:

- the results of contracts in progress,
- the calculation of the amount of provisions for contingencies and charges and provisions for impairment.

These estimations are calculated by taking into account past experience, elements known at the closing date and any reasonable change assumptions.

Results realized subsequently may therefore differ from such estimations.

B/ VALUATION PRINCIPLES

• B1 Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are recognized at acquisition or production cost, less accumulated depreciation or amortization and impairment. Interest expense is not capitalized. Each identified component of an intangible asset or item of property, plant and equipment is recognized and depreciated or amortized separately.

Company Financial Statements

Depreciation and amortization are calculated using the straight-line method. No residual value is taken into account, except for aircraft.

Property, plant and equipment and intangible assets are depreciated and amortized over their estimated useful lives. Useful lives are reviewed at each year-end for material non-current assets. Initial useful lives are extended or reduced depending on the conditions in which the assets is used.

Initial useful lives are determined as follows:

Software	3-4 years
Industrial buildings	20-25 years
Office buildings	20-25 years
Fixtures and fittings	7-15 years
Plant, equipment and tools	3-10 years
Aircraft	10-15 years
Rolling stock	4 years
Other property, plant and equipment	3-10 years
Used goods	on a case-by-case basis

• B2 Impairment of assets

The Company conducts an impairment test if an indication of loss of value has been detected. Indications of impairment come from significant long-term adverse changes that affect the economic environment or the assumptions or objectives used by the Company.

Intangible assets and property, plant and equipment are impaired by the Company when the net carrying amount exceeds their current value. The amount of impairment recognized in income is equal to the difference between the net carrying amount and current value. The current value of an asset is the higher of its market value (less selling costs) and its value in use.

The value in use of an asset is calculated using the discounted future cash flow method, with a post-tax discount rate of 7.2% (compared to 7.5% as of December 31, 2017) and a 2% long-term growth rate (same as of December 31, 2017). The discount rate used includes the rates prevailing in the aviation industry and was calculated using the same method as in 2017. Post-tax cash flows are projected over a period not exceeding 5 years and the method takes into account a terminal value. These future cash flows result from the economic assumptions and projected operating conditions adopted by the Management.

Concerning the equity investment in Thales, when an impairment test is carried out, the operational and financial assumptions used come directly from data provided by Thales.

• B3 Equity investments, other non-current and marketable securities

Gross values are represented by the purchase cost excluding incidental charges, except in the case of those subject to the 1976 legal revaluation. A provision for depreciation is recorded when the book value is lower than the gross value. The book value is the higher of its market value and its value in use.

Dassault Aviation evaluates the inventory value for listed investment securities based on the quotation for the reporting month and for unlisted securities, in the absence of any external valuation elements, according to the share in net assets.

• B4 Inventories and work-in-progress

Incoming raw materials, semi-finished and finished goods inventories are measured at acquisition cost for items purchased and production cost for items produced. Outgoing inventories are valued at the weighted average cost, except for used aircraft which are stated at acquisition cost. Work-in-progress is measured at production cost and does not include interest expense.



Inventories and work-in-progress are impaired when their net realizable value is less than their carrying amount.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs for completion and making the sale. It takes into account the technical or commercial obsolescence of articles and the risks associated with their low turnover.

- **B5 Receivables**

Receivables are stated at nominal value. A provision for impairment is recorded when the recoverable value is lower than the carrying amount.

- **B6 Borrowings**

Borrowings are recorded at the amount received. Transaction costs are posted to expenses for the year.

- **B7 Regulated tax provisions**

Regulated tax provisions appearing on the balance sheet include provisions for price increases and depreciation by derogation.

- **B8 Provisions for contingencies and charges**

B8-1 Warranty provisions

Within the framework of sales or procurement contracts, Dassault Aviation has formal warranty obligations for the equipment, products and/or services (software development, systems integration, etc.) delivered.

These obligations can be distinguished between:

- "current" warranty: repair of defective equipment during the contractual warranty period or by implicit obligations, handling hardware or software malfunctions identified by the user following qualification and handover to users, etc.
- "regulatory" warranty: treatment by the manufacturer of any changes to the regulatory framework determined by the regulatory authorities or any regulatory non-compliance identified by the manufacturer or a user after delivery of materials or products.

Determining the amount of the warranty provisions is mainly done as follows:

- for the current equipment warranty: based on experience with recorded costs, depending on the warranty items covered contractually and the aircraft models in question;
- for handling of malfunctions or regulatory changes and nonconformities: based on estimates established by specialists from the business lines affected by the corrective actions to be implemented; these corrections have been identified in "technical files."

B8-2 Retirement payments and related benefits

Commitments to employees for retirement payments and related benefits are provisioned in full for the obligations remaining. The commitments are estimated for all employees on the basis of vested rights and a projection of current salaries, after taking into account the mortality risk, employee turnover, and a discounting assumption. The rates have been determined based on the yield for top-ranking corporate long-term bonds, with maturity equivalent to the duration of the calculated liabilities.



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Actuarial gains or losses, or those gains or losses that are analyzed as such, are fully recognized in operating income in the period during which they are incurred.

The provision that appears in the balance sheet is the amount of the total commitment net of outsourced amounts.

• B9 Hedging instruments

The Company uses derivative financial instruments to hedge its exposure to risks from fluctuations in exchange rates, interest rates and, more marginally, from fluctuations in commodity prices.

Exchange rates risks mainly arise from US dollar-denominated sales. The corresponding future cash flows are partially hedged using forward exchange contracts and currency options.

Interest rate risks result from variable rate borrowings contracted by the Group. Interest rate risks are hedged using interest rate swaps.

The effects of the hedge, including the carrying forward / backwardation, are recorded at the rhythm of the hedged item and follow the same classification as the hedged item, i.e. the operating profit.

Premiums paid or received on the purchase or potential sale of options are recognized as income only at the expiration of these options, with the exception of the premiums relating to "zero premium" hedging strategies, which are immediately recognized as income to avoid temporary timing differences.

Hedging instruments are off-balance sheet commitments with the exception of those that hedge balance sheet positions that are accounted for in cash instruments.

• B10 Foreign currency transactions

Expenses and income in foreign currencies are recognized at their equivalent value in euros on the date of the payment or settlement transaction, with the exception of the net flows associated with global foreign exchange hedging, which are recorded at the hedge rate for the year.

Currency receivables and payables outstanding at year-end are revalued into euros at the closing rate of exchange.

When the application of the translation rate on the closing date has the effect of modifying the amounts in euros previously recognized, the currency translation differences are booked to suspense accounts:

- unrealized translation losses to assets,
- unrealized translation gains to liabilities.

An overall foreign exchange position is calculated by maturity of unhedged receivables and debts. When an overall foreign exchange position by maturity is a latent loss, a provision is set up for that risk.

Translation gains and losses arising on cash at bank and in hand as of December 31 are recognized on the income statement.

• B11 Net sales and key figures

The results on completion are based on estimations of net sales and costs at completion (taking into account the Program Departments' forecasts) which are revised as the contract progresses and take into account the latest known events at the closing date. The potential losses on completion are recognized as soon as they are known.



Sales of goods and development contracts:

Net sales and net income are recognized when Dassault Aviation has transferred the main risks and benefits of ownership to the buyer, and it is probable that the future economic benefits will benefit the company.

As a general rule, net sales are recognized upon delivery of goods or development services. The corresponding costs are valued on the basis of net income at completion estimated in the contract. If the estimated costs are lower than the actual costs, the difference is classified as work-in-progress. If the estimated costs are higher than the actual costs, a provision for services and work still to be performed is recognized at closing.

Other service contracts:

Income from sales of services is recognized under the percentage of completion method according to the milestones set forth in contracts. Income or loss is recognized at each stage of completion if it can be reliably measured.

Contracts involving co-contractors for which Dassault Aviation is the only signatory are recognized for the entire amount of net sales and related expenses (including the co-contractors' share).

• B12 Unrealized capital gains on marketable securities

Unrealized capital gains on marketable securities are not recognized in the income statement until effectively realized. The tax charge relating to unrealized gains is recorded under prepayments until the gain is recognized in financial income.

This method, which constitutes a departure from the general principle of full recognition of deferred taxes, has been adopted to provide a fairer presentation of the results of the Company.

• B13 Treasury shares

The book value of treasury shares at year-end is determined by the average market price in the month before closing. If the market price is lower than the purchase value, an impairment is recorded, with the exception of securities being canceled or shares held for allotment under a defined plan.

C/ TAX CONSOLIDATION

The Company opted for the tax consolidation scheme in 1999, pursuant to Articles 223-A and following of the French General Tax Code. As of January 1, 2012, the tax consolidation scope of the Group includes Dassault Aviation, Dassault Aéro Service and Dassault Aviation Participations.

This tax consolidation arrangement is tacitly renewable per period of five fiscal years.

By agreement, it does not have an impact on the results of consolidated companies: tax liabilities are borne by the tax group companies as if no tax consolidation existed.

Company Financial Statements

Note 2 - Intangible assets and property, plant and equipment

2.1 Intangible assets

(in EUR thousands)	12/31/2017	Acquisitions Allocations	Disposals Reversals	Other	12/31/2018
Gross value					
Software, patents, licenses and similar assets	110,531	3,588	-12	776	114,883
Construction in progress; advances and progress payments	1,181	3,921	0	-776	4,326
	111,712	7,509	-12	0	119,209
Amortization					
Software, patents, licenses and similar assets	-96,799	-7,139	12	0	-103,926
	-96,799	-7,139	12	0	-103,926
Net value					
Software, patents, licenses and similar assets	13,732				10,957
Construction in progress; advances and progress payments	1,181				4,326
Total	14,913	370	0	0	15,283



2.2 Property, plant and equipment

(in EUR thousands)	12/31/2017	Acquisitions Allocations	Disposals Reversals	Other	12/31/2018
Gross value					
Land	35,140	3,091	-75	58	38,214
Buildings	298,361	4,362	-1,351	2,431	303,803
Plant, equipment and machinery	506,114	32,700	-10,665	7,215	535,364
Other property, plant and equipment	185,571	46,248	-6,943	2,417	227,293
Construction in progress; advances and progress payments	24,944	24,787	-9,547	-12,121	28,063
	1,050,130	111,188	-28,581	0	1,132,737
Amortization					
Land	-7,998	-780	66	0	-8,712
Buildings	-206,457	-11,691	1,304	0	-216,844
Plant, equipment and machinery	-423,346	-26,440	10,481	0	-439,305
Other property, plant and equipment	-110,583	-11,726	6,360	0	-115,949
	-748,384	-50,637	18,211	0	-780,810
Impairment (1)					
Other property, plant and equipment	-7,376	-5,235	7,376	0	-5,235
	-7,376	-5,235	7,376	0	-5,235
Net value					
Land	27,142				29,502
Buildings	91,904				86,959
Plant, equipment and machinery	82,768				96,059
Other property, plant and equipment	67,612				106,109
Construction in progress; advances and progress payments	24,944				28,063
Total	294,370	55,316	-2,994	0	346,692

(1) impairment tests on property, plant and equipment (see Paragraph B2 of the Accounting rules and methods):

- A provision of EUR 5,235 thousand was recognized in 2018 on capitalized aircraft.
- The impairment tests carried out on property, plant and equipment did not indicate any other impairment to be recognized as of December 31, 2018.

Company Financial Statements

Note 3 - Financial assets

(in EUR thousands)	12/31/2017	Acquisitions Allocations	Disposals Reversals	Other	12/31/2018
Equity associates (1)	2,191,238	6,488	-3,726	0	2,194,000
Receivables from equity investments	4,000	12,863	0	0	16,863
Other investment securities	37,387	0	0	0	37,387
Loans	1,152	1,210	-266	0	2,096
Other financial assets	31,962	681	-86	0	32,557
Total	2,265,739	21,242	-4,078	0	2,282,903
Provisions	-6,386	-3,424	6,232	0	-3,578
Net value	2,259,353	17,818	2,154	0	2,279,325

(1) inc. Thales: EUR 1,984,272 thousand.

Market price of Thales shares and impairment test:

Based on the market price of the Thales share as of December 31, 2018 (EUR 102.00 per share), Dassault Aviation's stake in Thales is valued at EUR 5,358 million.

In the absence of any objective indication of impairment, the Thales investment had not been subject to an impairment test as of December 31, 2018.

The absorption of Dassault International Inc. by Dassault Falcon Jet during the second half of 2018 led to an exchange of Dassault International Inc. investment securities by Dassault Falcon Jet with no impact on the result.

Maturity of financial assets

(in EUR thousands)	Total	Within 1 year	More than 1 year
Receivables from equity investments	16,863	33	16,830
Loans	2,096	180	1,916
Other financial assets	32,557	0	32,557
Total	51,516	213	51,303



Note 3 - Financial assets (continued)
A. List of subsidiaries and associates with a gross value exceeding 1% of the company's share capital and in which the Company holds at least 10% of the shares

Companies or groups of companies (in EUR thousands)	Capital	Equity other than capital	Share of the capital held (%)	Book value of securities		Loans and advances granted by the Company	Amount of deposits and guarantees provided by the Company	Net sales of the most recent fiscal year	Net income (+)/loss (-) of the most recent fiscal year	Dividends received by the Company during the fiscal year
				Gross	Net					
1. Subsidiaries (more than 50% owned)										
a. French subsidiaries										
Dassault Falcon Service	3,680	100,392	99.99	59,453	59,453	0	0	172,483	5,519	0
Dassault International	1,529	25,388	99.63	19,236	19,236	0	0	586	5,311	0
Dassault Réassurance	10,459	8,761	99.99	10,133	10,133	0	0	1,055	26	0
Dassault Aviation Participations	4,037	-54	100.00	4,037	4,037	0	0	0	-4	0
Sogitec Industries	4,578	216,359	99.80	25,446	25,446	0	0	196,549	34,533	0
Total				118,305	118,305	0	0			0
b. Foreign subsidiaries										
Dassault Falcon Jet	9,919	793,911	100.00	40,459	40,459	0	46,458	1,256,621	27,001	0
Dassault Falcon Business Services (China)	1,487	874	100.00	2,294	2,294	0	0	2,332	224	0
Total				42,753	42,753	0	46,458			0
Total Subsidiaries				161,058	161,058	0	46,458			0
2. Equity associates (between 10 and 50% owned)										
a. French associates										
Corse Composites Aéronautiques (1)	1,707	9,652	24.81	996	996	0	0	67,494	1,444	0
Eurotradia International (1)	3,000	24,263	16.53	3,099	3,099	0	0	29,860	-4,960	0
Thales (2)	639,300	6,330,100	24.65	1,984,272	1,984,272	0	0	228,600	453,400	94,557
Total				1,988,367	1,988,367	0	0			94,557
b. Foreign associates (1)										
Dassault Reliance Aerospace Limited	1,725	-498	49.00	3,717	3,717	16,863	0	78	-492	0
Reliance Airport Developers Limited	895	7,984	34.79	39,962	39,962	0	0	7	-13	0
Total				43,679	43,679	16,863	0			0
Total associates				2,032,046	2,032,046	16,863	0			94,557

(1) information available: Corse Composites Aéronautiques and Eurotradia International 12/31/2017 - Dassault Reliance Aerospace Limited and Reliance Airport Developers Limited 03/31/2018.

(2) Parent company financial statements.



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Note 3 - Financial assets (continued)

B. Other subsidiaries and associates

Global information (in EUR thousands)	Book value of securities		Loans and advances granted by the Company	Amount of deposits and guarantees provided by the Company	Dividends received by the Company during the fiscal year
	Gross	Net			
1. Subsidiaries					
a. French subsidiaries	570	570	0	0	0
b. Foreign subsidiaries	0	0	0	0	0
Total	570	570	0	0	0
2. Associates					
a. French associates	5,540	2,545	0	0	0
b. Foreign associates	32,172	31,743	790	0	306
Total	37,712	34,288	790	0	306

C. General information on securities (A+B)

Global information (in EUR thousands)	Book value of securities		Loans and advances granted by the Company	Amount of deposits and guarantees provided by the Company	Dividends received by the Company during the fiscal year
	Gross	Net			
1. Subsidiaries					
a. French subsidiaries	118,875	118,875	0	0	0
b. Foreign subsidiaries	42,753	42,753	0	46,458	0
Total	161,628	161,628	0	46,458	0
2. Associates					
a. French associates	1,993,907	1,990,912	0	0	94,557
b. Foreign associates	75,851	75,422	17,653	0	306
Total	2,069,758	2,066,334	17,653	0	94,863
Grand total	2,231,386	2,227,962	17,653	46,458	94,863



Note 4 - Inventories and work-in-progress

(in EUR thousands)	12/31/2018			12/31/2017
	Gross	Impairment	Net	Net
Raw materials	182,032	-86,591	95,441	97,025
Work-in-progress	2,878,344	0	2,878,344	2,613,868
Semi-finished and finished goods	603,394	-209,625	393,769	552,181
Total	3,663,770	-296,216	3,367,554	3,263,074

On December 31, 2017, the Company has assessed a first impact of the end of the Falcon 5X program on its assets and liabilities. Following the cancellation in 2018 of the last Falcon 5X customers' orders, the Company carried out a new evaluation of these impacts. As a consequence, the Company has notably reduced the net value of inventories and work-in-progress relating to the F5X program to zero.

Note 5 - Interest on assets

No interest is included in the value of inventories and work-in-progress.

Note 6 - Trade and other receivables

6.1 Details

(in EUR thousands)	12/31/2018			12/31/2017
	Gross	Impairment	Net	Net
Trade receivables				
Trade receivables	744,796	-57,122	687,674	435,484
	744,796	-57,122	687,674	435,484
Other receivables and prepayments				
Other receivables	346,704	0	346,704	330,809
Prepayments	246,409	0	246,409	149,499
Sundry accounts	17,936	0	17,936	23,423
	611,049	0	611,049	503,731
Total	1,355,845	-57,122	1,298,723	939,215

The percentage of outstanding receivables not written-down at year-end is regularly monitored individually.

6.2 Age debtor schedule

(in EUR thousands)	12/31/2018			12/31/2017		
	Total	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year
Trade receivables (1)	744,796	616,112	128,684	500,848	395,910	104,938
Other receivables	346,704	277,704	69,000	330,809	330,623	186
Prepayments	246,409	168,082	78,327	149,499	149,499	0
Sundry accounts	17,936	17,936	0	23,423	23,423	0
Total	1,355,845	1,079,834	276,011	1,004,579	899,455	105,124

(1) including receivables represented by commercial paper: EUR 66,162 thousand as of December 31, 2018 and EUR 69,519 thousand as of December 31, 2017.



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Note 7 - Accrued income

Accrued income included in the following balance sheet items (in EUR thousands)	12/31/2018	12/31/2017
Trade receivables	452,110	230,512
Other receivables and prepayments (1)	76,702	18,132
Marketable securities	201	5
Cash at bank and in hand	952	527
Total	529,965	249,176

(1) including tax credit for competitiveness and employment (CICE): EUR 7,695 thousand in 2018 and EUR 8,737 thousand in 2017. On the income statement, it is recorded as a deduction from personnel expenses. In 2018, it was used to improve production tools through the acquisition and replacement of equipment, particularly in relation to the implementation of projects to maintain operating conditions, improve working conditions, improve productivity and reduce costs.

Note 8 - Prepaid expenses and deferred income

(in EUR thousands)	12/31/2018	12/31/2017
Operating income	157,327	137,541
Operating expenses (1)	246,409	149,499

(1) income tax on unrealized capital gains 142,756 140,966

Note 9 - Difference in measurement of marketable securities

Marketable securities and cash instruments (in EUR thousands)	12/31/2018	12/31/2017
Marketable securities and cash instruments - gross balance sheet value	2,834,227	2,920,842
Marketable securities and cash instruments - market value	3,216,163	3,297,958



Note 10 - Share capital and treasury shares

10.1 Share capital

The share capital amounts to EUR 66,790 thousand and consists of 8,348,703 common shares of EUR 8 each as of December 31, 2018. As of December 31, 2017, share capital amounted to EUR 66,495 thousand and consisted of 8,311,921 shares. In 2018, 36,782 new common shares were created following the option offered to shareholders to receive all or part of the 2017 dividend in shares.

10.2 Treasury shares

Movements on treasury shares are detailed below:

(in number of shares)	2018	2017
Treasury shares as of January 1	38,600	39,550
Purchase of treasury shares	0	0
Cancellation of shares	0	0
Share-based payments	-1,425	-950
Treasury shares as of December 31	37,175	38,600

The 37,175 treasury shares held as of December 31, 2018 are allocated to potential allocations of performance shares and to a potential liquidity contract to guarantee market activity.

10.3 Share-based payments

Performance shares were granted to corporate officers at the Board of Directors meetings of March 7, 2017 and March 7, 2018 (characteristics are described in paragraph 5.5 of the Director's Report).

A total of 1,425 performance shares were acquired by corporate officers on March 07, 2018, as the performance conditions set by the Board of Directors on March 07, 2017 were achieved.

Shares granted and not yet vested are subject to performance conditions.

Grant date	Vesting period	Number of shares allocated	Number of shares delivered in 2018	Number of shares canceled (1)	Balance of performance shares as of 12/31/2018
03/07/2017	From 03/07/2017 to 03/06/2018	1,425	1,425	0	0
03/07/2018	From 03/07/2018 to 03/06/2019	1,575	0	0	1,575

(1) shares canceled in the event of partial or total non-achievement of performance conditions.

Note 11 - Identity of the consolidating Parent Company

	% of control
GROUPE INDUSTRIEL MARCEL DASSAULT (GIMD) 9, Rond-Point des Champs-Élysées - Marcel Dassault 75008 PARIS	62.52%

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Note 12 - Reserves

12.1 Reserves

(in EUR thousands)	12/31/2018	12/31/2017
Revaluation difference	4,136	4,136
Legal reserve	6,650	6,601
Retained earnings	2,195,574	2,012,726
Total	2,206,360	2,023,463

12.2 Revaluation reserves

(in EUR thousands)	Change in revaluation reserves			
	12/31/2017	2018 movements		12/31/2018
		Decreases due to disposals	Other changes	
Land	3,615	0	0	3,615
Equity investments	521	0	0	521
Total	4,136	0	0	4,136
Revaluation reserve (1976)	4,136	0	0	4,136

Note 13 - Statement of changes in equity during the year

1/ Income for the year

	2018	2017
Accounting income		
In EUR thousands	442,438	309,500
In EUR per share	52.99	37.24
Change in equity excluding net income for the year		
In EUR thousands	60,783	76,061
In EUR per share	7.28	9.15
Dividends		
In EUR thousands	176,993 (1)	127,172 (2)
In EUR per share	21.20 (1)	15.30 (2)

(1) proposed by the Board of Directors to the Shareholders' Meeting.

(2) dividends of EUR 126,604 thousand were paid for the year ended December 31, 2017, net of dividends on treasury shares.



2/ Statement of changes in equity excluding net income for the year (in EUR thousands)

	Before appropriation of 2017 result 12/31/2018	After appropriation of 2017 result 12/31/2018
A -		
1. 2017 closing equity excluding net income for the year	2,287,587	2,287,587
2. 2017 net income before appropriation	309,500	
3. Appropriation of 2017 net income to net equity by the Shareholders' Meeting		182,897
4. 2018 equity at opening	2,597,087	2,470,484
B - Additional paid-in capital, effective retroactively to beginning of 2018		0
1. Change in capital		0
2. Change in other items		0
C - (= A4 + B) Equity at 2018 opening		2,470,484
D - Changes during the year excluding 2018 net income		60,783
1. Change in capital (1)		295
2. Change in additional paid-in capital, reserves, retained earnings (1)		60,937
3. Revaluation offsetting entries – Reserve		
4. Change in tax provisions and investment subsidies		-449
5. Other changes		0
E - 2018 closing equity excluding 2018 net income before AGM (= C + D)		2,531,267
F - Total change in equity in 2018 excluding 2018 net income (= E - C)		60,783

(1) the General Meeting of May 24, 2018 proposed an option for payment in shares for the 2017 dividend to each shareholder. As a result, on June 27, 2018, the Company's capital was increased to EUR 66,790 thousand and a share premium of EUR 60,937 thousand was recorded in the financial statements.



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Note 14 - Provisions

14.1 Provisions

(in EUR thousands)	12/31/2017	Allocations	Reversals	Other	12/31/2018
Regulated provisions					
For price increases	65,834	9,293 (3)	-11,434 (3)	0	63,693
Depreciation by derogation	52,418	14,206 (3)	-11,814 (3)	0	54,810
Realized gains reinvested	18	0 (3)	0 (3)	0	18
	118,270	23,499	-23,248	0	118,521
Provisions for contingencies and charges					
Operating	940,321	493,892 (1)	-210,413 (1)	0	1,223,800
Financial	0	0 (2)	0 (2)	0	0
Non-recurring	0	0 (3)	0 (3)	0	0
	940,321	493,892	-210,413	0	1,223,800
Provisions for impairment					
On intangible assets	0	0 (1)	0 (1)	0	0
On property, plant and equipment	7,376	5,235 (1)	-7,376 (1)	0	5,235
On financial assets	6,386	3,424 (2)	-6,232 (2)	0	3,578
On inventories and work-in-progress	490,186	296,216 (1)	-490,186 (1)	0	296,216
Trade receivables	65,364	57,122 (1)	-65,364 (1)	0	57,122
On marketable securities	0	150 (2)	0 (2)	0	150
	569,312	362,147	-569,158	0	362,301
Total	1,627,903	879,538	-802,819	0	1,704,622

	{ - Operating	852,465 (1)	-773,339 (1)
Allocations and reversals	{ - Financial	3,574 (2)	-6,232 (2)
	{ - Non-recurring	23,499 (3)	-23,248 (3)
		879,538	-802,819



14.2 Details of provisions for contingencies and charges

(in EUR thousands)	12/31/2017	Allocations	Reversals	Other	12/31/2018
Operating					
Retirement payments and related benefits (1)	211,409	25,596	-85,360	0	151,645
Early retirement (2)	15,908	0	-10,591	0	5,317
Warranty (3)	594,000	324,600	-47,300	0	871,300
Services and work to be performed (3)	114,456	139,611	-62,614	0	191,453
Foreign exchange losses	4,548	4,085	-4,548	0	4,085
	940,321	493,892	-210,413	0	1,223,800
Financial					
Other	0	0	0	0	0
	0	0	0	0	0
Non-recurring					
Other	0	0	0	0	0
	0	0	0	0	0
Total provisions for contingencies and charges	940,321	493,892	-210,413	0	1,223,800

(1) provisions for retirement payments and related benefits:

Retirement payment commitments are calculated for all employees using the projected unit credit method. They are provisioned in full for the remaining obligations.

Employment projections are weighted using French insurance code mortality rates and the recorded employee turnover rate (this may vary according to age). The obligations is estimated and prorated to the employee's length of service at the end of the period in relation to his total career expectancy (see Accounting principles B8-2).

The calculation takes into account the following annual assumptions: salary increase of 3.93% and discount rate of 1.6%.

The Company decided to outsource a portion of its commitments by purchasing an insurance policy for EUR 300,000 thousand, of which EUR 50,000 thousand in 2018.

As of December 31, 2018, the balance of the provision for long-service awards was EUR 3,248 thousand.

(2) provision for early retirement:

The provision corresponds to the expenditures expected for the funding of the period of inactivity of the relevant employees until the age of retirement.

(3) provisions for warranties, services and work to be performed:

Provisions are updated to reflect changes to the fleet in service and contracts delivered. For 2018, this change is mainly related to the military contracts delivered.

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Note 15 - Borrowings and financial debt

(in EUR thousands)	12/31/2018	12/31/2017
Bank borrowings (1)	875,421	950,529
Other financial debt (2)	113,364	142,517
Total	988,785	1,093,046

(1) initially variable rate, loans subscribed by the company were swapped at a fixed rate. The contracts for these loans include the usual default clauses and restrictions in terms of security conditions and merger or sale transactions. One of the loan clauses stipulates an early repayment would be demanded if GIMD were to hold less than 50% of the capital of Dassault Aviation before the loan maturity date. These loans do not contain any accelerated repayment or prepayment clauses based on rating or financial ratios.

These loans are denominated in euros, and EUR 625 million is repayable in 2019 and EUR 250 million in 2020.

(2) as of December 31, 2018 and December 31, 2017, other financial debt mainly includes locked-in employee profit-sharing funds.

There are no participating loans.

Note 16 - Maturity of borrowings

(in EUR thousands)	Total	Within 1 year	Between 1 and 5 years	More than 5 years
Bank borrowings (1)	875,421	625,413	250,008	0
Other financial debt (1)	113,364	31,160	82,129	75
Trade payables (2)	758,997	758,997	0	0
Tax and social security liabilities	252,743	252,743	0	0
Liabilities on fixed assets and related accounts	5,448	5,448	0	0
Other liabilities	160,675	160,675	0	0
Total	2,166,648	1,834,436	332,137	75

(1) see Note 15.

(2) including liabilities represented by commercial paper: EUR 77,484 thousand.

Note 17 - Other liabilities, cash instruments, accruals and deferred income

(in EUR thousands)	12/31/2018	12/31/2017
Tax and social security liabilities	252,743	200,498
Liabilities on fixed assets and related accounts	5,448	5,440
Accruals and deferred income	160,675	115,224
Translation gains to liabilities	157,327	137,541
Accruals and deferred income	15,622	20,703
Cash instruments	9,456	10,075
Total	601,271	489,481



Note 18 - Accrued expenses

Accrued expenses included in the following balance sheet items (in EUR thousands)	12/31/2018	12/31/2017
Borrowings and financial debt (1)	1,116	1,319
Trade payables	570,945	521,910
Other payables and deferred income	279,444	218,007
Total	851,505	741,236

(1) including accrued interest on loans from credit institutions: EUR 405 thousand as of December 31, 2018 and EUR 499 thousand as of December 31, 2017.

Note 19 - Notes on affiliated companies and equity associates

(in EUR thousands)	Amount relating to	
	affiliated companies	Companies with a shareholding link
Equity investments	161,889	2,032,111
Receivables from equity investments	0	16,863
Loans and other financial assets	31,879	0
Advances and progress payments to suppliers	149,955	1,932,505
Trade receivables	165,835	4,086
Other receivables	790	0
Customer advances and progress payments on orders	155,954	107
Trade payables	206,899	20,095

Note 20 - Net sales

(in EUR thousands)	2018	2017
A) By product:		
Finished goods	3,163,609	3,225,924
Services	1,235,302	958,444
Total	4,398,911	4,184,368
B) By geographic region:		
France	1,075,301	568,918
Export (1)	3,323,610	3,615,450
Total	4,398,911	4,184,368

(1) the net sales realized as part of Rafale Export contracts are recognized on a gross basis (including the co-contractors parts).

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Note 21 - Research and development costs

Research and development costs are recognized in expenses as incurred and represent:

(in EUR thousands)	2018	2017
Research and development costs	-371,771	-281,679

The Company's research and development strategy and initiatives are described in the Director's Report.

Note 22 - Net financial income

(in EUR thousands)	2018	2017
Investment income (1)	94,666	86,774
Income from other securities and assets	329	1,351
Other interest and similar income	12,726	1,137
Reversals of provisions for foreign exchange losses	0	11,886
Reversals of provisions for equity investments	6,232	4,313
Net gains on sale of marketable securities	0	292,385
Financial income	113,953	397,846
Allocation to provisions for equity investments	-3,424	-6,232
Allocations to provisions for marketable securities	-150	0
Interest and similar expenses	-9,679	-11,118
Foreign exchange losses (2)	0	-149,490
Net losses on sales of marketable securities	-8,011	0
Financial expenses	-21,264	-166,840
Net financial income	92,689	231,006

(1) in 2018, the Company received EUR 68,291 thousand in Thales dividends for 2017 and EUR 26,266 thousand in interim dividends for 2018. In 2017, Thales paid the Company EUR 63,038 thousand in dividends for 2016 and EUR 23,639 thousand in interim dividends for 2017.

(2) in 2017, foreign exchange losses for the period include the restructuring costs of the currency hedging portfolio, necessitated by the decline in commercial flows related to the Falcon activity.



Note 23 - Non-recurring items

(in EUR thousands)	2018	2017
Gains on sales of assets		
- Property, plant and equipment	844	487
- Financial assets	3,726	28,965
	4,570	29,452
Other non-recurring income (1)	241,050	63
Reversals of regulated provisions		
- For price increases	11,434	6,564
- For medium-term credit risks	0	211
- Depreciation by derogation	11,814	12,358
- Realized gains reinvested	0	0
	23,248	19,133
Non-recurring income	268,868	48,648
Non-recurring expenses on operating activities	0	-12
Carrying value of assets sold		
- Intangible assets	0	0
- Property, plant and equipment	-822	-326
- Financial assets	-3,727	-28,965
	-4,549	-29,291
Other non-recurring expenses	-296	-133,551
Allocations to regulated provisions		
- For price increases	-9,293	-7,718
- Depreciation by derogation	-14,207	-11,354
	-23,500	-19,072
Other non-recurring provisions	0	0
Non-recurring expenses	-28,345	-181,926
Non-recurring items	240,523	-133,278

(1) see Note 26.

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Note 24 - Analysis of corporate income tax

(in EUR thousands)	Income before tax	Corporate income tax	Long-term capital gains tax	Income after tax
Current income	490,753	-107,518	0	383,235
Non-recurring items (including profit-sharing and incentive schemes)	109,688	-50,485	0	59,203
Net income	600,441	-158,003	0	442,438
		-158,003	(1)	

(1) including Research Tax Credit: EUR 31,198 thousand.

Note 25 - Off-balance sheet commitments

The Company's off-balance sheet commitments essentially concern its operating activities and break down as follows:

Commitments given (in EUR thousands)	12/31/2018	12/31/2017
Commitments in connection with the performance of operating contracts	12,142,096	11,552,953
Guarantees and deposits	46,458	55,366
Commitments guaranteed with bank deposits	1,688,860	1,526,242
Total	13,877,414	13,134,561

Commitments received (in EUR thousands)	12/31/2018	12/31/2017
Backlog	18,425,600	18,505,400
Other commitments in connection with the performance of operating agreements	1,633,129	1,633,129
Collateral	71,029	80,508
Bpifrance Assurance Export guarantees	62,854	66,043
Commitments guaranteed with bank deposits	11,684	8,720
Total	20,204,296	20,293,800

Operating leases (in EUR thousands)	Total	Within 1 year	More than 1 year
Minimum future payments not subject to cancellation (not discounted)	113,598	40,436	73,162

The Company's main operating leases concern industrial office buildings.

Note 26 - Contingent assets and liabilities

At the end of 2017, Dassault Aviation initiated negotiations with Safran Aircraft Engines to obtain compensation for its damages as part of the termination process of the Silvercrest contract leading to the end of the Falcon 5X program. In 2018, Dassault Aviation signed an amicable agreement with Safran that settled their dispute over the Silvercrest engine that was expected to equip the Falcon 5X. Under the terms of this agreement, Dassault Aviation received an indemnity of USD 280 million from Safran. The corresponding income was recognized in other non-recurring income as of December 31, 2018.

There are no more contingent assets or liabilities as of December 31, 2018.



Note 27 - Financial instruments: dollar foreign exchange transaction portfolio

Dassault Aviation is exposed to a foreign exchange risk on its Falcon sales that are almost all denominated in US dollars. This risk is partially hedged by using forward currency contracts and foreign exchange options.

The financial instruments held by Dassault Aviation are valued below at market value.

Market value represents the amounts received or paid in the event of total liquidation of the portfolio; the equivalent in euros is calculated on the basis of the price of the dollar at year-end. This is not representative of the actual gain/loss which will be recognized when the transactions are made.

The portfolio market value is therefore provided for information only. All derivatives subscribed by the Company are for hedging purposes. The subscribed options are derivatives with an optimization component without additional risk taking.

	12/31/2018		12/31/2017	
Market value	In USD thousands	In EUR thousands	In USD thousands	In EUR thousands
Foreign exchange options	-11,022	-9,626	34,320	28,617
Forward transactions	32,049	27,990	167,254	139,460
Total	21,027	18,364	201,574	168,077

Sensitivity testing of foreign exchange derivatives

A sensitivity analysis was conducted to determine the impact of a 10 cent increase or decrease in US dollar/Euro exchange rate.

Market value of the portfolio (in EUR thousands)	12/31/2018		12/31/2017	
Net balance sheet position	18,364		168,077	
Closing US dollar/euro exchange rate	1 EUR = 1.1450 USD		1 EUR = 1.1993 USD	
Closing dollar/ euro exchange rate +/- 10 cents	1.2450 \$/€	1.0450 \$/€	1.2993 \$/€	1.0993 \$/€
Change in net balance sheet position (1)	+157,947	-190,721	+208,996	-247,822

(1) data calculated based on existing market conditions on the balance sheet dates. They are not representative of the actual gain/loss to be recognized when the transactions are made.

Note 28 - Impact of tax valuations by derogation

(in EUR thousands)	12/31/2018	12/31/2017
Net income for the year	442,438	309,500
Income tax	158,003	68,912
Income before tax	600,441	378,412
Depreciation by derogation	2,392	-1,004
Provision for price increases	-2,141	1,154
Provision for medium-term risks	0	-211
Increase in regulated provisions	251	-61
Net income excluding tax valuations by derogation (before tax)	600,692	378,351



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Note 29 - Increases and reductions in deferred tax

(in EUR thousands)	12/31/2018	12/31/2017
Regulated provisions:		
- For price increases	63,693	65,834
- Depreciation by derogation	54,810	52,418
- Realized gains reinvested	18	18
Basis for increases	118,521	118,270
<i>Increases in deferred tax</i>	<i>40,807</i>	<i>52,547</i>
Items not deductible in the current year:		
- Employee profit-sharing	110,835	74,019
- Retirement payments and related benefits	147,610	207,365
- For early retirement	5,317	8,052
Other temporary timing differences	782,236	667,513
Basis for reductions	1,045,998	956,949
<i>Reductions in deferred tax</i>	<i>360,137</i>	<i>425,172</i>
Long-term capital losses	0	0

Tax rate as of December 31, 2018 of 34.43% compared to 44.43% as of December 31, 2017.

Note 30 - Compensation of corporate officers

Total compensation received by corporate officers, as detailed in the report of the Board of Directors on Corporate Governance, amounted to EUR 4,735,292 for 2018.

Note 31 - Average number of employees

	Salaried employees
Managers	4,854
Supervisors and technicians	1,980
Employees	393
Workers	881
2018 total	8,108
2017 total	8,155



Note 32 - Environmental information

Dassault Aviation recognized environmental capital expenditures amounting to EUR 2,480 thousand and posted approximately EUR 637 thousand in expenses allocated to risk, impact and regulatory compliance analyses.

Dassault Aviation did not have to recognize any environmental liabilities.

Note 33 - Five-year results summary

Nature of information (in EUR thousands except for point 3, stated in EUR/share)	2014	2015	2016	2017	2018
1/Financial position at year-end					
a. Share capital	73,710	72,980	66,006	66,495	66,790
b. Number of shares outstanding	9,213,754	9,122,538	8,250,785	8,311,921	8,348,703
2/Summary of operating results					
a. Net sales, excluding tax	3,194,910	3,325,998	3,161,147	4,184,368	4,398,911
b. Earnings before tax, depreciation, amortization and provisions	308,162	216,355	324,766	513,312	734,937
c. Corporate income tax	64,837	42,327	29,954	68,912	158,003
d. Earnings after tax, depreciation, amortization and provisions	272,135	283,254	256,696	309,500	442,438
e. Dividends paid (1)	92,138	110,383	99,834	127,172	176,993 (2)
3/Earnings per share in euros					
a. Earnings after tax, but before depreciation, amortization and provisions	26.4	19.1	35.7	53.5	69.1
b. Earnings after tax, depreciation, amortization and provisions	29.5	31.0	31.1	37.2	53.0
c. Dividend paid per share	10.0	12.1	12.1	15.3	21.2 (2)
4/Personnel					
a. Average number of employees during the year	8,106	8,284	8,396	8,155	8,108
b. Total personnel expenses	449,978	472,158	472,939	475,416	492,506
c. Social security and other staff benefits	241,998	252,729	253,882	250,896	266,212
5/Employee profit-sharing	63,367	66,629	59,895	74,019	110,835
6/Incentive payments	20,000	21,000	20,000	20,000	20,000

(1) dividends of EUR 126,604 thousand were paid for the year ended December 31, 2017, of EUR 99,367 thousand for the year ended December 31, 2016, of EUR 105,422 thousand for the year ended December 31, 2015, and of EUR 87,126 thousand for the year ended December 31, 2014, net of dividends on treasury shares.

(2) proposed by the Board of Directors to the Annual General Meeting, subject to the dividend not paid to treasury shares at the time of payment.

