

2017 FIRST HALF-YEAR FINANCIAL REPORT



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.

Contents

GENERAL

Declaration of the person responsible for the report 2

Group structure 3

BUSINESS REPORT

1 Adjusted consolidated results and significant events in the first half of 2017 5

1.1 Key figures

1.2 Definition of alternative performance indicators

1.3 Impact of the adjustments

1.4 Order intake

1.5 Net sales

1.6 Backlog

1.7 Results

1.8 Financial reporting

2 Financial structure 9

2.1 Available cash

2.2 Balance sheet

3 Outlook for 2017 9

4 Shareholder information 9

5 Related-party transactions 10

6 Risk factors and management 10

7 Group activities 10

7.1 Programs development

7.2 Customer support

8 Research & Development 12

9 New industrial manufacturing and management techniques 13

10 Environmental Policy 13

11 Health and safety at work 14

12 Human resources 14

13 Conclusion 14

CONCOLIDATED FINANCIAL STATEMENTS

Interim condensed financial statements as at June 30, 2017 15

Auditors' report 42



Declaration of the person responsible for the report

I hereby certify that, to my knowledge, the interim condensed financial statements in this report 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 DASSAULT AVIATION Group, and that the half-yearly activity report presents a

fair representation of the important events of the first six months of the financial year and their effect on the half-yearly financial statements, the main transactions between related parties and a description of the main risks and uncertainties for the remaining six months of the financial year.

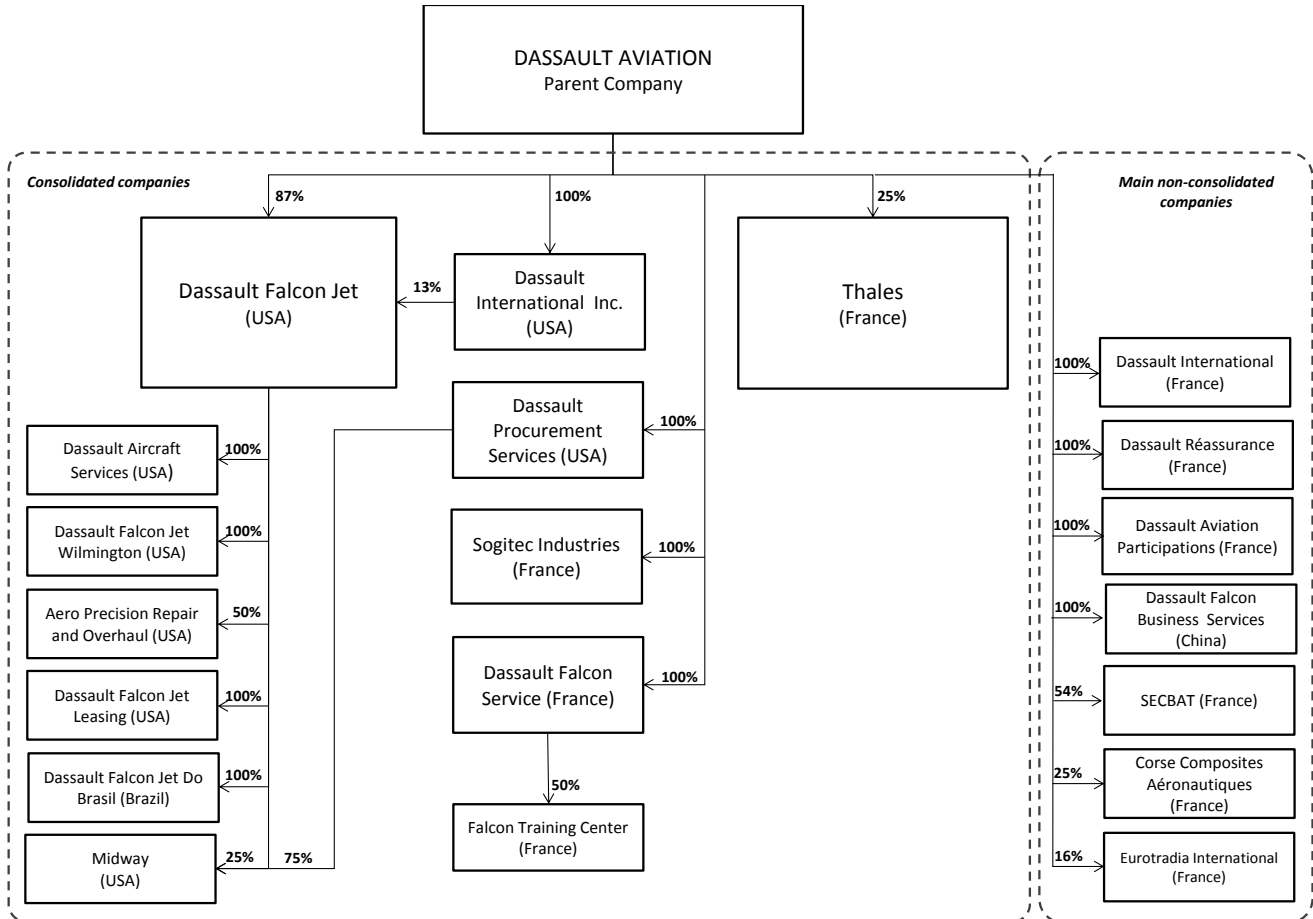
Paris, July 26, 2017

Éric Trappier
Chairman and Chief Executive Officer



Group structure

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:



The list of consolidated entities is presented in Note 2, "Scope of consolidation", of the Appendix to the interim condensed consolidated financial statements.



DASSAULT AVIATION Group's business report

for 2017 first half-year

1. ADJUSTED CONSOLIDATED RESULTS AND SIGNIFICANT EVENTS IN THE FIRST HALF OF 2017

1.1 KEY FIGURES

	2017 1 st half	2016 1 st half
Order intake	EUR 1,381 million 14 FALCON	EUR 1,378 million 11 FALCON <i>(22 - 11 F5X cancellations)</i>
<u>Adjusted</u> net sales ^(*)	EUR 2,050 million 1 RAFALE France 3 RAFALE Egypt 17 FALCON	EUR 1,662 million 4 RAFALE France 3 RAFALE Egypt 15 FALCON
	As of June 30, 2017	As of December 31, 2016
Backlog	EUR 19,762 million 106 RAFALE <i>including 75 RAFALE Export</i> <i>31 RAFALE France</i> 60 FALCON	EUR 20,323 million 110 RAFALE <i>including 78 RAFALE Export</i> <i>32 RAFALE France</i> 63 FALCON
	2017 1st half	2016 1 st half
<u>Adjusted</u> operating income ^(*)	EUR 123 million	EUR 125 million
<u>Adjusted</u> operating margin ^(*)	6.0% of net sales	7.5% of net sales
Research and development	EUR 176 million 8.6% of net sales	EUR 130 million 7.8% of net sales
<u>Adjusted</u> net income ^(*)	EUR 199 million EUR 24.3 € / share	EUR 185 million EUR 21.4 € / share
<u>Adjusted</u> net margin ^(*)	9.7 % of net sales	11.1% of net sales
	As of June 30, 2017	As of December 31, 2016
Available cash	EUR 3,842 million	EUR 3,105 million

^(*) See table of reconciliation between the consolidated income statement and the adjusted income statement.

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

DASSAULT AVIATION Group's business report

for 2017 first half-year

1.2 DEFINITION OF ALTERNATIVE PERFORMANCE INDICATORS

To reflect the actual economic performance of the Group, and for monitoring and comparability reasons, the Group presented an adjusted income statement, adjusted for the impact of:

- gains and losses resulting from the exercise of derivative hedging instruments which do not qualify for hedge accounting under IFRS standards. This income, presented as financial income in the consolidated income statement, is reclassified as net sales and thus as operating income in the adjusted income statement,
- the value of foreign exchange derivatives which do not qualify for hedge accounting, by neutralizing the change in fair value of these instruments (the Group considering that gains and losses on hedging should only impact income as commercial flows occur), with the exception of derivatives allocated to hedge balance-sheet positions whose change in fair value is presented as operating income,

- the amortization of the Thales purchase price allocation (PPA),
- the adjustments made by Thales in its financial reporting.

The Group also presents an "available cash" indicator that 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 debts.

Remind that only the interim condensed consolidated financial statements are reviewed by the Statutory Auditors. The adjusted financial data are subject to the verification procedures applicable to all information provided in the half-yearly financial report.

1.3 IMPACT OF THE ADJUSTMENTS

The impact in the first half of 2017 of the adjustments to income statement aggregates is presented below:

<i>(in EUR thousands)</i>	Consolidated income statement H1 2017	Foreign exchange deriva- tives		Thales PPA	Adjustments applied by Thales	Adjusted income statement H1 2017
		Foreign exchange gain/loss	Change in fair value			
Net sales	2,063,381	-13,392				2,049,989
Operating income	114,371	-13,392	22,017			122,996
Net financial income/expense	379,046	13,392	-376,632			15,806
Share in net income of equity associates	64,504			19,847	21,783	106,134
Income tax	-167,377		121,866			-45,511
Net income	390,544	0	-232,749	19,847	21,783	199,425
<i>Group share of net income</i>	<i>390,535</i>	<i>0</i>	<i>-232,749</i>	<i>19,847</i>	<i>21,783</i>	<i>199,416</i>
Group share of net income per share <i>(in euros)</i>	47.5					24.3



The impact in the first half of 2016 of the adjustments to income statement aggregates is presented below:

<i>(in EUR thousands)</i>	Consolidated income statement H1 2016	Foreign exchange derivatives		Thales PPA	Adjustments applied by Thales	Adjusted income statement H1 2016
		Foreign exchange gain/loss	Change in fair value			
Net sales	1,662,352					1,662,352
Operating income	125,278					125,278
Net financial income/expense	122,632		-105,407			17,225
Share in net income of equity associates	75,498			19,927	-4,185	91,240
Income tax	-85,054		36,292			-48,762
Net income	238,354	0	-69,115	19,227	-4,185	184,981
<i>Group share of net income</i>	<i>238,339</i>	<i>0</i>	<i>-69,115</i>	<i>19,227</i>	<i>-4,185</i>	<i>184,966</i>
Group share of net income per share <i>(in euros)</i>	27.5					21.4

1.4 ORDER INTAKE

Order intake in the first half of 2017 was **EUR 1,381 million**, compared with EUR 1,378 million in the first half of 2016. **Export** represented **83%**.

The change in order intake was as follows, in **EUR millions**:

	DEFENSE		FALCON	Total	% Export
	France	Export			
H1 2016	454	146	778	1,378	64%
	44%		56%		
H1 2017	215	137	1,029	1,381	83%
	25%		75%		

The order intake item is composed entirely of firm orders.

FALCON programs

During the first half of 2017, **14 orders for FALCON** were booked, compared to 11 orders over the first half of 2016 (22 - 11 FALCON 5X cancellations).

Thus, order intake for FALCON stood at **EUR 1,029 million** in the first half of 2017, com-

pared to EUR 778 million during the first half of 2016. This rise results from an increase in orders for new and second-hand aircraft.

DEFENSE programs

DEFENSE orders stood at **EUR 352 million** during the first half of 2017, compared to EUR 600 million during the first half of 2016.

The decrease in DEFENSE France orders (EUR 215 million during the first half of 2017, compared to EUR 454 million during the first half of 2016), is explained mainly by the order during the first half of 2016 for the upgrade of the MIRAGE 2000D.

1.5 NET SALES

Adjusted consolidated net sales for the first half of 2017 were **EUR 2,050 million**, compared to EUR 1,662 million for the first half of 2016. **Export** represented **85%** in the first half of 2017.

DASSAULT AVIATION Group's business report

for 2017 first half-year

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

	DEFENSE		FALCON	Total	% Export
	France	Export			
H1 2016	283	526	853	1,662	81%
	49%		51%		
H1 2017	244	699	1,107	2,050	85%
	46%		54%		

FALCON programs

Net sales of FALCON during the first half of 2017 were **EUR 1,107 million**, compared to EUR 853 million during the first half of 2016.

17 FALCON were delivered in the first half of 2017, compared to 15 in the first half of 2016. Furthermore, second-hand aircraft activity was up, compared to the first half of 2016.

DEFENSE programs

3 RAFALE were delivered to Egypt and **1 RAFALE** to France in the first half of 2017, compared to 3 RAFALE to Egypt and 4 RAFALE to France in the first half of 2016.

DEFENSE net sales were up during the first half of 2017, standing at **EUR 943 million**, compared to EUR 809 million for the first half of 2016. Higher DEFENSE net sales in the first half 2017 were due to higher support from RAFALE Export and Mirage 2000 France compared to the first half of 2016.

The "book to bill" ratio (order intake/net sales) was 0.67 in the first half of 2017.

1.6 BACKLOG

The consolidated backlog as of June 30, 2017 was **EUR 19,762 million**, compared to EUR 20,323 million as of December 31, 2016. The decrease is explained primarily by Egypt net sales during the first half of 2017.

The FALCON backlog stood at **EUR 3,081 million**, compared to EUR 3,052 million as of December 31, 2016. It specifically includes **60 FALCON** (compared to 63 as of December 31, 2016).

The France Defense backlog stood at **EUR 2,765 million**, compared to EUR 2,793 million as of December 31, 2016. It includes in particular **31 RAFALE** (compared to 32 as of December 31, 2016).

The Defense Export backlog stood at **EUR 13,916 million**, compared to EUR 14,478 million as of December 31, 2016. It includes, in particular, **15 RAFALE Egypt** (compared to 18 as of December 31, 2016), **24 RAFALE Qatar** and **36 RAFALE India**.

1.7 RESULTS

Operating income

Adjusted operating income for the first half of 2017 was **EUR 123 million**, compared to EUR 125 million during the first half of 2016.

The **operating margin** was **6.0%**, compared to 7.5% for the first half of 2016. This decrease is explained primarily by higher self-financed research and development costs (8.6% in the first half 2017 vs. 7.8% in the first half 2016), as a result of the F5X development program.

Net financial income

Adjusted financial income for the first half of 2017 was **EUR 16 million**, compared to EUR 17 million in the first half of 2016.

Net income

Adjusted net income in the first half of 2017 was **EUR 199 million**, compared to EUR 185 million in the first half of 2016. The contribution of Thales to the Group's net income was EUR 104 million, compared to EUR 89 million during the first half of 2016.

Adjusted net margin stood at **9.7%** in the first half of 2017, compared to 11.1% in the first half of 2016.

Net income per share in the first half of 2017 was **EUR 24.3/share**, up by 14% compared to the first half of 2016.



1.8 FINANCIAL REPORTING

The IFRS 8 “operational sectors” standard requires the presentation of information per segment according to internal management criteria.

The entire activity of the Dassault Aviation Group relates to the aviation and 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.

2. FINANCIAL STRUCTURE

2.1 AVAILABLE CASH

The Group uses a specific indicator called “Available Cash” defined in Section 1.2.

The Group’s **available cash** stood at **EUR 3,842 million** as of June 30, 2017, compared to EUR 3,105 million as of December 31, 2016, up by EUR 737 million mainly due to RAFALE Export down payments received.

2.2 BALANCE SHEET

Total equity amounted to **EUR 3,613 million** at June 30, 2017, compared to EUR 3,317 million at December 31, 2016. This increase is explained largely by the consolidated IFRS net income over the period.

Borrowings and financial debts amounted to EUR 1,154 million at June 30, 2017, compared to EUR 1,185 million at December 31, 2016. They include loans taken out by the Group in 2014 and 2015 for EUR 1,000 million and locked-in employee profit-sharing funds.

Inventories and work-in-progress increased by EUR 196 million and stood at EUR 4,203 million as of June 30, 2017. This increase is notably explained by the increase in RAFALE Export work-in-progress.

Advances and progress payments received from customers net of advances and progress payments paid to suppliers were up by EUR 1,140

million as of June 30, 2017, due primarily to progress payments received under the scope of RAFALE Export contracts.

Derivative financial instruments had a market value of EUR -3 million at June 30, 2017, compared to EUR -507 million at December 31, 2016. This increase is connected to changes in the EUR/USD exchange rate between June 30, 2017 and December 31, 2016 (EUR/USD 1.14 vs. EUR/USD 1.05) and a reduction in the amount hedged.

3. OUTLOOK FOR 2017

The Group confirms its forecasts published in March 2017, namely the delivery of 45 FALCON and 9 RAFALE (1 to France and 8 to Egypt) and higher net sales in 2017 than those in 2016 given the net sales of RAFALE Export.

4. SHAREHOLDER INFORMATION

In order to allow the Company to act at all times on its own shares, the General Meeting of May 18, 2017 approved the implementation of a new share buyback program. The program authorizes the acquisition of a number of shares representing up to 10% of the Company’s capital at a maximum price of EUR 1,500 per share over a period of 18 months beginning on May 18, 2017. This program enters into force on July 26, 2017.

The General Meeting of May 18, 2017 also decided to offer shareholders the opportunity to opt for a payment in shares of all or part of the dividend to which they were eligible for the year ended December 31, 2016.

Due to the option exercised by certain shareholders to receive payment of the dividend in shares, the Chairman and Chief Executive Officer recorded on June 16, 2017 the creation of 61,136 new shares. The capital of the Company has therefore increased from EUR 66,006,280 to EUR 66,495,368. These transactions took effect on June 21, 2017.

DASSAULT AVIATION Group's business report

for 2017 first half-year

Capital structure

The Company's share capital totaled EUR 66,495,368 at June 30, 2017. It is divided into 8,311,921 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.

As of June 30, 2017, Dassault Aviation shareholders are as follows:

Shareholders	Number of shares	%	Exercisable voting rights	%
GIMD	5,167,580	62.2	10,285,820	76.8
Free-Float	2,280,557	27.4	2,284,218	17.0
Airbus	825,184	9.9	825,184	6.2
Dassault Aviation	38,600	0.5	-	-
TOTAL	8,311,921	100.0	13,395,222	100.0

It should be noted that by law, shares held in registered accounts for more than two years are entitled to double voting rights since April 3, 2016.

5. RELATED-PARTY TRANSACTIONS

The related parties at June 30, 2017 are identical to those identified at December 31, 2016 and the transactions during the period are of the same type.

6. RISK FACTORS AND MANAGEMENT

There has been no major change in the main risks and uncertainties described in the 2016 annual report. Therefore, there is no need to update point 2 of the Board of Directors' management report for fiscal year 2016 published in the 2016 annual financial report.

7. GROUP ACTIVITIES

7.1 PROGRAM DEVELOPMENTS

FALCON programs

Highlights of the first half of 2017 were:

- the delivery of 17 FALCON,
- 14 FALCON ordered, including a 4th Maritime Surveillance FALCON 2000 ordered by the Japanese coastguard,

- extension of the operational capacity of FALCON 8X, a mature aircraft highly appreciated from its entry into service, including:
 - ✓ approval of operations at London City airport,
 - ✓ demonstration of a long-range flight by a Singapore/London flight of 6,300 nm, with a duration of 14 hours,
 - ✓ FAA and EASA certifications of the FALCON Eye system on FALCON 8X,
 - ✓ certification of crosswind takeoff up to 30 knots,
- high-speed Satcom certification for the entire FALCON range.

Falcon 5X has made its first flight on July 5th 2017, allowing the wide body twinjet to embark on a limited number of preliminary flight tests.

The 2-hour flight was performed with a preliminary version of the Safran Silvercrest engines, because design issues have delayed the power plant development 4 years beyond the initial schedule (the entry into service of the FALCON 5X was moved from 2017 to 2020).

This advanced flight test campaign will allow to collect data concerning the airframe and systems that could not be generated during a



ground test campaign undertaken earlier this spring. The ground campaign included ground runs as well as low and high speed taxi tests.

Flight validation and certification tests will start in 2018, once Safran delivers certifiable engines meeting Dassault Aviation's specifications.

DEFENSE programs

Highlights of the RAFALE program in the first half of 2017 were:

- the delivery of 1 RAFALE to France, bringing the total number of RAFALE delivered to 149 out of the 180 ordered,
- the delivery of 3 RAFALE to Egypt, bringing to 9 the number of aircraft delivered out of the 24 ordered,
- the delivery of the eighth Naval RAFALE, retrofitted from the F1 to the F3 standard,
- the continuation of development works on the F3-R standard, including the final validation firing of the METEOR missile,
- the continuation of development, production and support work for the RAFALE standards for Egypt, Qatar and India,
- Indian combat aircraft needs are material (additional batches for its Air Force and 57 aircraft for naval aeronautics), if we are to have any hope of winning these contracts, it is imperative that the "Make in India" is a success.

As such, we created the Dassault Reliance Aerospace Limited Joint Venture (DRAL JV) on February 10, 2017, located in NAGPUR (central India), in which 51% of the capital is held by Reliance and 49% by Dassault Aviation, overseen by a national Indian CEO and an Industrial Director from Dassault Aviation.

The corporate purpose of the DRAL JV (civil and military aeronautical activities) is to enable us to meet our offsets commitments in respect with 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's parts in India.

Production will be progressively ramped up over 5 years, from the start of production scheduled for late 2017 to the manufacture of FALCON 2000 components and RAFALE sub-assemblies, in order to build the required infrastructure, to hire and train staff, to ensure procurements, and to check each step.

For Dassault Aviation, this will have a favorable impact on its workload, both for the 36 RAFALE contract and for any future contracts,

- the continuation of promotional and prospecting activities related to the export of RAFALE.

For MIRAGE 2000, it should be noted that in the first half of 2017:

- upgrade work for the French MIRAGE 2000D continued,
- in India, the continuation of the support to Hindustan Aeronautics Ltd. (HAL) in the development of the final standard for the Indian MIRAGE 2000 and in works under its responsibility.

For Maritime Surveillance aircraft, highlights in the first half of 2017 included:

- the continuation of development works to upgrade the combat system on ATLANTIQUE 2, particularly system integration tests and test flights,
- the continuation of development work on FALCON 2000 Maritime Surveillance Aircraft for the Japanese coastguard,
- the start of work on additional capacity for dropping SAR (Search And Rescue) chains for the French Navy's FALCON 50 SURMAR fleet.

For drones, highlights in the first half of 2017 included:

- the continuation, for France, of the test campaign of the nEUROn in 2017 with radar signature measurements by the French Defense Procurement Agency. We are also negotiating a contract for a new flight campaign in the second half of 2017,

DASSAULT AVIATION Group's business report

for 2017 first half-year

- in the frame of the Franco-British treaty of Lancaster House, the continuation of the feasibility phase and the preparation with our industrial partners BAE Systems, Thales, Leonardo, Rolls-Royce, and Safran of a proposal for a launch, by the end of 2017, of an operational demonstrator Unmanned Combat Air System (UCAS),
- concerning the MALE RPAS (Medium Altitude Long Endurance – Remotely Piloted Aircraft System), the 1st half of 2017 allowed us to continue the work to define a European program, under the scope of a contract notified in 2016 by the OCCAR (Organization for Joint Armament Cooperation), in conjunction with the French, German, Italian, and Spanish Ministries of Defense. This study brings together Dassault Aviation, Airbus Defence and Space, and Leonardo. At the Franco-German summit on July 13, 2017 an announcement was made on the choice of a twin-engine solution. We are continuing the studies to prepare in 2018 a proposal for a program launch.

7.2 CUSTOMER SUPPORT

Civil customer support:

With respect to FALCON customer support, in the first half of 2017, we:

- continued to expand our FALCON after-sales network with the approval of 2 new Service Centers in Malaysia and Austria,
- marketed new services:
 - ✓ Falcon Sphere II (flight preparation assistance),
 - ✓ Falcon Immersive Training (training for mechanics using virtual reality),
 - ✓ Falcon Broadcast (connected fault-identification support system),
- intensified our customer relationship efforts by organizing nine "Maintenance and Operations" seminars.

Military customer support:

With respect to RAFALE, we:

- welcomed and trained more than 240 trainee pilots and mechanics for our Egyptian and Qatari customers,
- implemented additional aircraft and equipment maintenance resources for Egypt and provided staff training,
- continued supporting RAFALE aircraft in service delivered to France and Egypt.

With respect to MIRAGE 2000, we are continuing to:

- provide assistance for major inspections of MIRAGE 2000 and Alphajet in Qatar,
- increase the rate of periodic inspections of MIRAGE 2000-9 in the United Arab Emirates.
- the support of the MIRAGE 2000 fleet to French and foreign forces.

With respect to ATL2, we conducted a capability inspection for the implementation and maintenance of ATL2 in the frame of the upgrade program of the combat system.

8. RESEARCH & DEVELOPMENT

Our Research and Development covers all our programs; and is mainly self-financed.

As part of our business aircraft activities, we are pursuing the "Future FALCON with Innovative Technologies" plan, taking advantage of national support for civil aviation as well as European support.

We continued our involvement in the Cleansky 2 research programs and the research projects undertaken by CORAC (Strategic Committee for Civil Aviation Research).

Noteworthy events included:

- the evaluation of innovative control concepts for FALCON,
- the manufacture of primary components for a composite wing demonstrator, which will be assembled during the second half of the year,
- the installation on FALCON 7X number 1 of a vibration control system prototype, for testing.



Annual work to support commercial aviation research focusing on the development of new flight and ground pilot controls and functions, studies to eliminate uncertainties about the ruggedness (resistance to damage) of composite manufacture and assemblies.

In the military sector, the preparation of the Future Combat Air System (FCAS) is organized around three areas:

- remote-controlled aircraft components: primarily focused on technical and operational analysis, feasibility and technological maturation work for the Unmanned Combat Air Vehicle (UCAV);
- surveillance systems: participation in the definition phase for the future MALE RPAS announced by OCCAR in mid-2016 to manufacturers;
- piloted aircraft: preparation of future developments of RAFALE.

In the field of systems engineering, a project is being conducted in cooperation with IRT SystemX. It will contribute to the choice of a collaborative platform between DGA and manufacturers. In this context, we are working to build a data model and design the digital continuity required under technical and contractual data responsibilities.

9. NEW INDUSTRIAL MANUFACTURING AND MANAGEMENT TECHNIQUES

The new manufacturing techniques implemented are part of the "Leading our future" plan:

- for metal primary parts:
 - ✓ the gathering of metal machining on one site has enabled the operational implementation of all hard materials machining cells (small and large dimensions) as well as the implementation of two new small-dimension 5-axis machining centers for light alloys,
 - ✓ the improvement of our environmental footprint with the acquisition of two automated loading vertical machining machines for the manufacture of the first metal cladding panels to gradually

replace the chemical machining,

- for composite primary parts:
 - ✓ the installation in the near future of an automated topping machine, as well as new non-destructive checking resources using ultrasound for the manufacture of new composite wing panels,
 - ✓ roll out of a dedicated channel with a gradual purchase program using ALM (Additive Layers Manufacturing) resources for plastic and then metal parts for additive manufacturing,
- for assembly activities:
 - ✓ modernization work on the general RAFALE assembly lines with the implementation of a multi-energy station to replace the old test beds,
 - ✓ the first implementation of cobots to facilitate repetitive workers' tasks.

10. ENVIRONMENTAL POLICY

During the first half of 2017, activities focused on two areas of the "Eco-Approach 2021" plan: eco-design (green aircraft) and eco-production (green factory).

Regarding the "green aircraft", Dassault Aviation contributes to the European Cleansky and Cleansky 2 projects and to the CORAC platform:

- in continuity with Cleansky (Eco Design platform), Dassault Aviation has established a new consortium in Cleansky 2 to study a second generation of materials and manufacturing, maintenance and recycling technologies with an even more reduced environmental impact,
- for the development of "more electric" aircraft (GENOME project: optimized energy management),
- for the development of biocide coatings without Chrome VI (RING project: new generation innovative coatings).

DASSAULT AVIATION Group's business report

for 2017 first half-year

Regarding the "green factory" area, Dassault Aviation:

- is continuing works to replace worrying substances used in industrial processes (such as chromate, cadmium, ...), either for regulatory reasons or due to the development of more environmentally friendly technologies,
- is analyzing new industrial projects to identify potential environmental impacts from the initial phase. This assessment helps to integrate environmental criteria into the decision-making process.

Furthermore, the parent company is preparing itself to meet the requirements of the new ISO 14001 certification standard, version 2015, with the aim of achieving certification in the first quarter of 2018.

11. HEALTH AND SAFETY AT WORK

The priorities of our 2017 Health and Safety at Work policy are as follows:

- continue developing the "prevention & safety at work" culture by training management,
- reduce work-related risks by:
 - ✓ reducing workplace situations that cause muscular/skeletal problems,
 - ✓ reducing the number of procedures exposing workers to a chemical risk,
 - ✓ improving the prevention of psychological and social risks.

12. HUMAN RESOURCES

The Group employed 11,555 people at June 30, 2017, compared to 11,942 at December 31, 2016.

13. CONCLUSION

The 2017 Paris Air Show provided us with an opportunity to present the RAFALE in flight and the new FALCON 8X, along with other aircraft of our FALCON family at the static display.

It also allowed us to meet:

- the new President of the French Republic, the new Prime Minister, the new Defense Minister, as well as other government members. And we took the opportunity to increase their awareness of current and future issues,
- FALCON customers and potential customers,
- foreign military delegations.

We have to:

- insure FALCON sales of all models,
- prepare new contracts for RAFALE and successfully implement the essential "Make in India",
- obtain development contracts in France and/or in cooperation (F4, FCAS, MALE, ...) to ensure our future by maintaining the skills of our teams,
- succeed in the FALCON 5X development program, to respect the 1st deliveries to customers scheduled for 2020, subject to Safran fulfilling its new development schedule commitment,
- make sure we are ready to launch a new FALCON program, in order to enlarge our FALCON family,
- mobilize all of our resources to successfully achieve our transformation and guarantee the sustainability of the Company. This is precisely the challenge of the "Leading our Future" plan, which will enable us to increase our competitiveness and flexibility.

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

The Board of Directors





**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2017**

Consolidated Financial Statements

ASSETS

(in EUR thousands)	Notes	06/30/2017	12/31/2016
Goodwill		14,366	14,366
Intangible assets		36,594	35,159
Property, plant and equipment		479,543	498,330
Equity associates	3	1,737,004	1,731,184
Available-for-sale securities	4	3,169,488	3,142,377
Other financial assets		34,157	33,678
Deferred tax assets	14	373,839	525,720
TOTAL NON-CURRENT ASSETS		5,844,991	5,980,814
Inventories and work-in-progress	5	4,202,684	4,006,466
Trade and other receivables		794,236	646,041
Advances and progress payments to suppliers	10	2,557,255	1,793,708
Derivative financial instruments	17	86,606	4,598
Cash and cash equivalents	6	1,930,555	1,252,866
TOTAL CURRENT ASSETS		9,571,336	7,703,679
TOTAL ASSETS		15,416,327	13,684,493

EQUITY AND LIABILITIES

(in EUR thousands)	Notes	06/30/2017	12/31/2016
Capital	7	66,495	66,006
Consolidated reserves and retained earnings		3,560,059	3,190,542
Currency translation adjustments		23,433	99,122
Treasury shares	7	-37,828	-38,759
TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY		3,612,159	3,316,911
Non-controlling interests		460	451
TOTAL EQUITY		3,612,619	3,317,362
Long-term borrowings and financial debt	6, 8	1,036,482	1,094,504
Deferred tax liabilities		0	0
TOTAL NON-CURRENT LIABILITIES		1,036,482	1,094,504
Trade and other payables		821,488	854,051
Tax and social security liabilities		273,399	237,102
Customer advances and progress payments	10	8,342,198	6,439,014
Short-term borrowings and financial debt	6, 8	117,060	90,598
Provisions for contingencies and charges	9	1,123,241	1,140,481
Derivative financial instruments	17	89,840	511,381
TOTAL CURRENT LIABILITIES		10,767,226	9,272,627
TOTAL EQUITY AND LIABILITIES		15,416,327	13,684,493



INCOME STATEMENT

(in EUR thousands)	Notes	2017 H1	2016 H1	2016
NET SALES	11	2,063,381	1,662,352	3,653,417
Other revenue		20,797	36,820	57,560
Changes in inventories of finished goods and work-in-progress		169,667	572,880	501,059
Purchases consumed		-1,448,857	-1,488,894	-2,551,633
Personnel expenses (1)		-617,247	-617,456	-1,174,694
Taxes and social security contributions		-38,752	-38,208	-64,451
Amortization		-43,878	-38,977	-84,501
Allocations to provisions		-697,427	-624,273	-858,540
Reversals of provisions		727,192	664,889	812,404
Other operating income and expenses		-20,505	-3,855	-5,090
OPERATING INCOME		114,371	125,278	285,531
Cost of net financial debt		-2,977	-4,394	-9,024
Other financial income and expenses		382,023	127,026	-24,181
NET FINANCIAL INCOME/EXPENSE	13	379,046	122,632	-33,205
Share in net income of equity associates	3	64,504	75,498	202,711
Income tax	14	-167,377	-85,054	-75,971
NET INCOME		390,544	238,354	379,066
<i>Attributable to the owners of the Parent Company</i>		<i>390,535</i>	<i>238,339</i>	<i>379,030</i>
<i>Attributable to non-controlling interests</i>		<i>9</i>	<i>15</i>	<i>36</i>
Basic earnings per share (in EUR)	15	47.5	27.5	45.0
Diluted earnings per share (in EUR)	15	47.5	27.5	45.0

(1) personnel expenses include incentives schemes and profit-sharing (EUR 49,509 thousand in H1 2017, EUR 47,332 thousand in H1 2016 and EUR 84,465 thousand for 2016).

Consolidated Financial Statements

STATEMENT OF RECOGNIZED INCOME AND EXPENSE

(in EUR thousands)	Notes	2017 H1	2016 H1	2016
NET INCOME		390,544	238,354	379,066
Change in fair value of financial instruments:				
✓ Available-for-sale securities	4	-165,933	-60,674	-122,707
✓ Derivative financial instruments (1)	17	127,139	18,770	-26,240
Deferred taxes		17,174	15,624	53,336
Change in currency translation adjustments		-59,967	-15,560	24,341
Equity associate items to be recycled to P&L, net	3	28,507	15,552	-2,019
Items to be subsequently recycled to P&L		-53,080	-26,288	-73,289
Actuarial adjustments on pension benefit obligations	9	-4,871	-60,356	-15,617
Deferred taxes		4,802	17,697	4,223
Equity associate items that will not be recycled to P&L, net	3	-28,780	-101,827	-159,444
Items that will not be recycled to P&L		-28,849	-144,486	-170,838
INCOME AND EXPENSE RECOGNIZED DIRECTLY THROUGH EQUITY		-81,929	-170,774	-244,127
RECOGNIZED INCOME AND EXPENSE		308,615	67,580	134,939
<i>Attributable to the owners of the Parent Company</i>		<i>308,606</i>	<i>67,565</i>	<i>134,903</i>
<i>Attributable to non-controlling interests</i>		<i>9</i>	<i>15</i>	<i>36</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 that will be recognized when the hedges are exercised.



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					
As of 12/31/2015	72,980	3,571,156	440,401	87,742	-401,771	3,770,508	415	3,770,923
<i>Net income for the period</i>		238,339				238,339	15	238,354
<i>Income and expense recognized directly through equity</i>		-144,486	-129	-26,159		-170,774		-170,774
Recognized income and expense		93,853	-129	-26,159		67,565	15	67,580
Dividends paid		-105,422				-105,422		-105,422
Share-based payments		747				747		747
Movements on treasury shares (1)					-477,168	-477,168		-477,168
Other changes (2)		-3,045				-3,045		-3,045
As of 06/30/2016	72,980	3,557,289	440,272	61,583	-878,939	3,253,185	430	3,253,615
As of 12/31/2015	72,980	3,571,156	440,401	87,742	-401,771	3,770,508	415	3,770,923
<i>Net income for the year</i>		379,030				379,030	36	379,066
<i>Income and expense recognized directly through equity</i>		-170,838	-84,669	11,380		-244,127		-244,127
Recognized income and expense		208,192	-84,669	11,380		134,903	36	134,939
Dividends paid		-105,422				-105,422		-105,422
Share-based payments		1,173				1,173		1,173
Movements on treasury shares (1)	-6,974	-833,206			363,012	-477,168		-477,168
Other changes (2)		-7,083				-7,083		-7,083
As of 12/31/2016	66,006	2,834,810	355,732	99,122	-38,759	3,316,911	451	3,317,362

(1) cf. Note 7.

(2) for THALES, this represents in particular the change in treasury shares, employee share issues and share-based payments.

Consolidated Financial Statements

STATEMENT OF CHANGES IN EQUITY (continued)

(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					
As of 12/31/2016	66,006	2,834,810	355,732	99,122	-38,759	3,316,911	451	3,317,362
Capital increase (1)	489	76,249				76,738		76,738
<i>Net income for the period</i>		390,535				390,535	9	390,544
<i>Income and expense recognized directly through equity</i>		-28,849	22,609	-75,689		-81,929		-81,929
Recognized income and expense		361,686	22,609	-75,689		308,606	9	308,615
<i>Dividend in shares</i>		-74,731				-74,731		-74,731
<i>Dividend in cash</i>		-24,636				-24,636		-24,636
Dividends paid		-99,367				-99,367		-99,367
Share-based payments (1)		755				755		755
Movements on treasury shares (1)		-931			931	0		0
Other changes (2)		8,516				8,516		8,516
As of 06/30/2017	66,495	3,181,718	378,341	23,433	-37,828	3,612,159	460	3,612,619

(1) cf. Note 7.

(2) for THALES, this represents in particular the change in treasury shares, employee share issues and share-based payments.



STATEMENT OF CASH FLOWS

(in EUR thousands)	Notes	2017 H1	2016 H1	2016
I - NET CASH FROM OPERATING ACTIVITIES				
NET INCOME		390,544	238,354	379,066
Elimination of net income of equity associates, net of dividends received	3	2,423	-19,251	-125,437
Elimination of gains and losses from disposals of non-current assets		34	32	158
Change in the fair value of derivative financial instruments	17	-376,410	-106,674	-25,108
Income tax (including deferred taxes)	14	167,377	85,054	75,971
Allocation to and reversals of depreciation, amortization and provisions (excluding those relating to working capital) and impairment		38,809	-23,927	33,378
Other items		755	747	1,173
Net cash from operating activities before working capital changes and taxes		223,532	174,335	339,201
Income taxes paid		-58,163	-20,553	-67,641
Change in inventories and work-in-progress (net)	5	-196,218	-545,643	-578,485
Change in advances and progress payments to suppliers	10	-763,547	-314,066	-821,678
Change in trade and other receivables (net)		-89,438	33,362	106,363
Change in customer advances and progress payments	10	1,903,184	973,648	2,089,594
Change in trade and other payables		-32,563	-53,002	-35,798
Change in tax and social security liabilities		36,297	1,259	-44,044
Increase (-) or decrease (+) in working capital requirement		857,715	95,558	715,952
Total I		1,023,084	249,340	987,512
II - NET CASH FROM INVESTING ACTIVITIES				
Purchases of intangible assets and property, plant & equipment		-49,950	-69,326	-107,556
Increase in financial assets		-1,660	-737	-891
Disposals of or reductions in non-current assets		4,218	9,686	10,153
Total II		-47,392	-60,377	-98,294
III - NET CASH FROM FINANCING ACTIVITIES				
Net change in available-for-sale marketable securities (at historical cost)	4	-192,066	659,454	3,419
Capital increase and issue premiums		76,738	0	0
Purchases and sales of treasury shares	7	0	-477,168	-477,168
Increase in financial debt	8	60,601	69,294	71,951
Repayment of financial debt	8	-92,161	-87,151	-96,399
Dividends paid during the year		-99,367	-105,422	-105,422
Total III		-246,255	59,007	-603,619
IV - Impact of exchange rate fluctuations and others		-51,748	-12,586	20,855
Total IV				
CHANGE IN NET CASH AND CASH EQUIVALENTS (I+II+III+IV)		677,689	235,384	306,454
Opening net cash and cash equivalents	6	1,252,866	946,412	946,412
Closing net cash and cash equivalents	6	1,930,555	1,181,796	1,252,866

Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting principles

- 1.1 General principles
- 1.2 Changes in basis of accounting
- 1.3 Segment reporting

2 Scope of consolidation

3 Equity associates

- 3.1 Group share in net assets and net income of equity associates
- 3.2 Change in equity associates
- 3.3 Share in the net income of THALES
- 3.4 Impairment

4 Available-for-sale securities

5 Inventories and work-in-progress

6 Cash and cash equivalents

- 6.1 Net cash
- 6.2 Available cash

7 Equity

- 7.1 Share capital
- 7.2 Treasury shares
- 7.3 Share-based payments

8 Borrowings and financial debt

9 Provisions for contingencies and charges

10 Net advances and progress payments

11 Net sales

12 Research and development costs

13 Net financial income / expense

14 Tax position

- 14.1 Deferred taxes sources
- 14.2 Reconciliation of theoretical and actual tax charge

15 Earnings per share

16 Financial instruments

- 16.1 Financial instruments (assets)
- 16.2 Financial instruments (liabilities)

17 Financial risk management

- 17.1 Cash and liquidity risks
- 17.2 Credit and counterparty risks
- 17.3 Other market risks

18 Related-party transactions

19 Subsequent events



Note 1 - Accounting principles

1.1 General principles

On July 26, 2017, the Board of Directors closed and authorized the publication of the condensed consolidated financial statements of DASSAULT AVIATION dated June 30, 2017.

DASSAULT AVIATION Group prepares its interim condensed consolidated financial statements in accordance with IAS 34 "Interim Financial Reporting". The consolidated financial statements are in accordance with the IFRS standards, amendments and as adopted by the European Union and applicable at the closing date.

The interim financial statements are prepared in accordance with the accounting rules and methods used to prepare the 2016 consolidated financial statements, and reflect the changes in the basis of accounting detailed below in section 1.2.

Special characteristics of interim consolidated financial statements

Seasonality

In previous years, a recurring seasonality phenomenon has been observed. As a result, the interim results as at June 30, 2017 are not necessarily representative of what might be expected for full-year 2017.

Income tax

For the purposes of the interim financial statements, the tax expense (current and deferred) is calculated by applying the estimated average rate for the whole year to the income for the period.

Provisions for retirement payments

Pension costs for the half-year are calculated on the basis of the actuarial valuations performed at the end of the previous year. If necessary, these valuations are adjusted to take into account curtailments, settlements or other major non-recurring events during the period.

Furthermore, amounts recognized in equity and liabilities in respect of defined benefit plans are adjusted, if necessary, in order to reflect material changes impacting the yield of investment-grade corporate bonds issued in the geographic area concerned (the benchmark used to determine the discount rate) and the actual return on plan assets.

1.2 Changes in basis of accounting

Standards, amendments and interpretations which became mandatory as of January 1, 2017

There is no new text adopted by the European Union which became mandatory as of January 1, 2017.

Standards, amendments and interpretations for mandatory application after January 1, 2017

The texts presented below were not applied in advance by the Group when that option was offered.

The texts adopted by the European Union that will become mandatory after January 1, 2017 are as follows:

- IFRS 15 "Revenue from Contracts with Customers", applicable as of January 1, 2018. The analysis of our contract has been continued during the first half of the year. The impacts are still being assessed. The work undertaken does not call into question the information disclosed in the 2016 financial report;
- IFRS 9 "Financial instruments", applicable as of January 1, 2018. As described in the 2016 financial report, the main expected impact concerns the classification of marketable securities currently classified as "Available-for-sale securities" and which will be classified under "Fair value through income or loss".

Consolidated Financial Statements

The main texts published by the IASB and not yet adopted by the European Union are:

- annual improvements to IFRS 2014-2016, applicable as of January 1, 2017;
- the amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses", applicable as of January 1, 2017;
- the amendment to IAS 7 "Statement of Cash Flows", applicable as of January 1, 2017;
- clarifications to IFRS 15 "Revenue from Contracts with Customers", applicable as of January 1, 2018;
- the interpretation IFRIC 22 "Foreign Currency Transactions and Advance Consideration", applicable as of January 1, 2018;
- IFRS 2 amendment "Classification and measurement of share based payment transactions", applicable as of January 1, 2018;

- IFRS 16 "Leases", applicable as of January 1, 2019. The impacts of this text on the Group's financial statements are currently being assessed.

1.3 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 sector. The internal reporting submitted to the Chairman and 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.



Note 2 - Scope of consolidation

The consolidated financial statements comprise the financial statements of DASSAULT AVIATION and the following entities:

Name	Country	% Interest (1)		Consolidation method (2)
		06/30/2017	12/31/2016	
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	25	25	FC
- DASSAULT FALCON JET DO BRAZIL	Brazil	100	100	FC
DASSAULT FALCON SERVICE	France	100	100	FC
- FALCON TRAINING CENTER	France	50	50	EM
DASSAULT PROCUREMENT SERVICES	United States	100	100	FC
- MIDWAY	United States	75	75	FC
SOGITEC INDUSTRIES	France	100	100	FC
DASSAULT INTERNATIONAL INC.	United States	100	100	FC
THALES	France	25	25	EM

(1) the equity interest percentages are identical to the percentages of control for all Group companies except for THALES, for which the Group held 24.71% of the capital, 24.81% of the interest rights and 28.51% of the voting rights as of June 30, 2017.

(2) FC: full consolidation, EM: equity method.

(3) identity of the parent company: DASSAULT AVIATION, a *Société Anonyme* (limited company) with capital of EUR 66,495,368, listed and registered in France, Paris Trade Register No. 712 042 456 - 9, Rond-Point des Champs-Élysées Marcel Dassault - 75008 PARIS.

Note 3 - Equity associates

3.1 Group share in net assets and net income of equity associates

As of June 30, 2017, DASSAULT AVIATION held 24.81% of the interest rights of the THALES Group, compared to 24.84% as of December 31, 2016. 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		
	06/30/2017	12/31/2016	2017 H1	2016 H1	2016
THALES (1)	1,718,010	1,708,769	62,478	73,003	197,955
Other	18,994	22,415	2,026	2,495	4,756
TOTAL	1,737,004	1,731,184	64,504	75,498	202,711

(1) 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 3.3.

Consolidated Financial Statements

3.2 Change in equity associates

(in EUR thousands)	2017 H1	2016
As of January 1	1,731,184	1,774,293
Share in net income of equity associates	64,504	202,711
Elimination of dividends paid (1)	-66,927	-77,274
Income and expense recognized directly through equity		
- Available-for-sale securities	-1,913	2,537
- Derivative financial instruments (2)	65,344	12,881
- Actuarial adjustments on pensions	-29,028	-165,057
- Deferred taxes	-18,954	1,137
- Currency translation adjustments	-15,722	-12,961
Share of equity associates in other income and expense recognized directly through equity	-273	-161,463
Other movements (3)	8,516	-7,083
At end of period	1,737,004	1,731,184

(1) in H1 2017, the Group received EUR 63,038 thousand in dividends from THALES for 2016. In 2016, THALES paid the Group EUR 53,057 thousand in dividends for 2015 and EUR 21,012 thousand in interim dividends for 2016.

(2) 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 that will be recognized when the hedges are exercised.

(3) for THALES, this represents in particular the change in treasury shares, employee share issues and share-based payments.

3.3 Share in the net income of THALES

The detail of the passage between the net income published by THALES and the Group share in THALES net income is given in the table below:

(in EUR thousands)	2017 H1	2016 H1	2016
THALES net income (100%)	335,900	383,800	946,400
THALES net income - DASSAULT AVIATION share	83,337	95,605	235,086
Post-tax amortization of the purchase price allocation (1)	-19,847	-19,927	-39,742
Other consolidation restatements	-1,012	-2,675	2,611
DASSAULT AVIATION share in net income of equity associates	62,478	73,003	197,955

(1) amortization of identified assets for which the modes and periods of depreciation are identical to those used for the year ended December 31, 2016.



3.4 Impairment

Based on the market price of THALES shares at June 30, 2017 (EUR 94.24 per share), DASSAULT AVIATION's investment in THALES is valued at EUR 4,951 million.

In the absence of any objective indication of impairment, the THALES investments were not subject to an impairment test at June 30, 2017.

Note 4 - Available-for-sale securities

Available-for-sale securities are recognized at their fair value. They include in particular short-term Group investments in the form of listed marketable securities. It should be noted that other marketable securities are classified under "Cash equivalents" (see Note 6). The analysis of risks relating to all of the Group's available-for-sale securities is presented in Note 17.

(in EUR thousands)	12/31/2016	Acquisitions	Disposals	Change in fair value	Other	06/30/2017
Listed marketable securities (1) (2)	3,037,487	192,066	0	-165,017	0	3,064,536
Non-listed securities	74,088	961	0	2,064	17	77,130
EMBRAER shares	30,802	0	0	-2,980	0	27,822
Available-for-sale securities	3,142,377	193,027	0	-165,933	17	3,169,488

(1) the amount of EUR 192,066 thousand corresponds to the acquisitions, net of sale, of marketable securities listed at historical cost.

(2) the decrease in fair value of EUR 165,017 thousand is primarily from the realized gain in sale of marketable securities.

An exhaustive analysis of the performance of listed marketable securities is conducted at each balance sheet date. The investment portfolio did not present, line-by-line, any objective indication of any significant impairment as of June 30, 2017, as at December 31, 2016.

Note 5 - Inventories and work-in-progress

(in EUR thousands)	06/30/2017			12/31/2016
	Gross	Impairment	Net	Net
Raw materials	193,408	-78,689	114,719	113,126
Work-in-progress	3,285,753	-24,192	3,261,561	3,091,081
Semi-finished and finished goods	1,254,385	-427,981	826,404	802,259
Inventories and work-in-progress	4,733,546	-530,862	4,202,684	4,006,466

This increase in inventories and work-in-progress is explained primarily by the increase in RAFALE Export work-in-progress.

Consolidated Financial Statements

Note 6 - Cash and cash equivalents

6.1 Net cash

(in EUR thousands)	06/30/2017	12/31/2016
Cash equivalents (1)	1,695,194	1,082,754
Cash at bank and in hand	235,361	170,112
Cash and cash equivalents in assets	1,930,555	1,252,866
Bank overdrafts	0	0
Net cash in the cash flow statement	1,930,555	1,252,866

(1) primarily time deposits and cash equivalent marketable securities. The corresponding risk analysis is described in Note 17.

6.2 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)	06/30/2017	12/31/2016
Available-for-sale marketable securities (market value) (1)	3,064,536	3,037,487
Cash and cash equivalents (market value)	1,930,555	1,252,866
Sub-total	4,995,091	4,290,353
Borrowings and financial debt (2)	-1,153,542	-1,185,102
Available cash	3,841,549	3,105,251

(1) cf. Note 4. Given their liquidity, the available-for-sale marketable securities may be sold in a short period of time.

(2) cf. Note 8.

The increase in available cash is mainly due to the advances and progress payments received from customers under the scope of RAFALE export contracts (cf. Note 10).



Note 7 - Equity

7.1 Share capital

The share capital amounted to EUR 66,495 thousand and consisted of 8,311,921 common shares of EUR 8 each at June 30, 2017. At December 31, 2016, it amounted to EUR 66,006 thousand and consisted of 8,250,785 common shares.

In H1 2017, 61,136 new shares have been created due to the option offered to shareholders to receive all or part of the 2016 dividend in shares.

The distribution of share capital as of June 30, 2017 is as follows:

	Shares	% Capital	% Voting rights
GIMD	5,167,580	62.2%	76.8%
Free-Float	2,280,557	27.4%	17.0%
AIRBUS	825,184	9.9%	6.2%
DASSAULT AVIATION (treasury shares)	38,600	0.5%	-
Total	8,311,921	100%	100%

7.2 Treasury shares

Movements on treasury shares are detailed below:

(in number of shares)	H1 2017	H1 2016	2016
Treasury shares as of January 1	39,550	409,971	409,971
Purchase of treasury shares	0	502,282	502,282
Cancellation of treasury shares	0	0	-871,753
Share-based payments (Note 7.3)	-950	0	-950
Closing treasury shares	38,600	912,253	39,550

The impact of treasury shares on the Group's consolidated financial statements is detailed in the statement of changes in equity.

The 38,600 treasury shares as of June 30, 2017 (EUR 980 per share) were allocated to potential allocations of performance shares plans and a potential liquidity contract to ensure the market activity.

Consolidated Financial Statements

7.3 Share-based payments

Since 2015, the Group has granted to corporate officers performance shares. The characteristics of these share allocation plans are described in the 2016 annual financial report.

Grant date	Vesting period	Number of shares allocated	Share price on the grant date	Number of shares delivered in 2017	Number of shares canceled (1)	Balance of performance shares as of 06/30/2017
03/09/2016	from 03/09/2016 to 03/08/2017	950	EUR 1,038	950	0	0
03/07/2017	from 03/07/2017 to 03/06/2018	1,425	EUR 1,080	0	0	1,425

(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.

2016 plan

A total of 950 performance shares were fully vested, as the performance conditions set by the Board of Directors on March 9, 2016 were achieved. An expense of EUR 532 thousand was recognized in 2017 for this plan which had a fair value of EUR 894 thousand (average of EUR 941 per share).

2017 plan

An expense of EUR 223 thousand was recognized in 2017 for this plan, which had a fair value of EUR 1,425 thousand (average of EUR 1,000 per share).



Note 8 - Borrowings and financial debt

(in EUR thousands)	06/30/2017	12/31/2016
Bank borrowings (1)	999,178	998,916
Other financial liabilities (2)	154,364	186,186
Borrowings and financial debt	1,153,542	1,185,102

(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 50 million is repayable in 2017, EUR 75 million in 2018, EUR 625 million in 2019 and EUR 250 million in 2020.

(2) other financial liabilities essentially correspond to the locked-in employee profit-sharing funds.

Note 9 - Provisions for contingencies and charges

(in EUR thousands)	12/31/2016	Increases	Reversals	Other	06/30/2017
Warranties	647,024	9,693	-25,676	-3,398	627,643
Services and work to be performed	173,234	29,962	-27,639	-4,999	170,558
Retirement payments (1)	274,869	22,940	-8,143	925	290,591
<i>French companies</i>	<i>242,623</i>	<i>16,146</i>	<i>-7,894</i>	<i>-17,703</i>	<i>233,172</i>
<i>US companies</i>	<i>32,246</i>	<i>6,794</i>	<i>-249</i>	<i>18,628</i>	<i>57,419</i>
Others	45,354	616	-10,950	-571	34,449
Provisions for contingencies and charges	1,140,481	63,211	-72,408	-8,043	1,123,241

(1) the discount rate used to calculate the provision for retirement payments for French companies (determined by reference to the yield for high-quality corporate long-term bonds rated AA) was at 1.20% at June 30, 2017, compared to 1.00% at December 31, 2016. The rate used to calculate the provision for retirement payments for U.S. companies was 4.20% on June 30, 2017, compared to 4.60% on December 31, 2016. The actuarial adjustments contributed to the increase in provisions for retirement payments in the amount of EUR 4,871 thousand.

A 0.50 point decrease in the discount rate would increase the total commitment by EUR 64,420 thousand, while a 0.50 point increase in the discount rate would decrease the total commitment by EUR 57,493 thousand.

Note 10 - Net advances and progress payments

(in EUR thousands)	06/30/2017	12/31/2016
Customer advances and progress payments	8,342,198	6,439,014
Advances and progress payments to suppliers	-2,557,255	-1,793,708
Advances and progress payments received net of advances and progress payments paid	5,784,943	4,645,306

The increase in customer advances and progress payments, net of advances and progress payments paid to suppliers, is mainly due to advances received under 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.

Consolidated Financial Statements

Note 11 - Net sales

(in EUR thousands)	2017 H1	2016 H1	2016
France (1)	297,505	320,243	602,531
Export (2)	1,765,876	1,342,109	3,050,886
Net sales	2,063,381	1,662,352	3,653,417

(1) mainly the French state, with whom the Group realized more than 10% of its net sales, as in 2016.

(2) more than 10% of Group sales were made with the Egyptian government in H1 2017, as in 2016. The net sales from the RAFALE Egypt contract are recognized on a gross basis (including the co-contractors' parts).

Interim data is not representative of annual net sales.

Note 12 - Research and development costs

Non-capitalized research and development costs are recognized as an expense for the year in which they are incurred and represent:

(in EUR thousands)	2017 H1	2016 H1	2016
Research and development costs	-176,106	-129,728	-292,714

Note 13 - Net financial income / expense

(in EUR thousands)	2017 H1	2016 H1	2016
Income from cash and cash equivalents	2,959	3,389	6,502
Cost of gross financial debt	-5,936	-7,783	-15,526
Cost of net financial debt	-2,977	-4,394	-9,024
Dividends and other investment income	265	108	808
Interest income and gains/losses on disposal of other financial assets (<i>excluding cash and cash equivalents</i>) (1)	168,364	37,708	100,149
Foreign exchange gain/loss (2)	213,738	88,788	-125,734
Other	-344	422	596
Other financial income and expenses	382,023	127,026	-24,181
Net financial income / expense	379,046	122,632	-33,205

(1) including proceeds from the sale of marketable securities amounting to EUR 165,432 thousand in H1 2017, compared to EUR 34,964 thousand in H1 2016, and EUR 95,133 thousand in 2016.

(2) foreign exchange gain/loss includes result from exercised hedging instruments which do not qualify for hedge accounting under the terms of IAS 39 "Financial instruments", change in the market value of foreign exchange hedging instruments which do not qualify for hedge accounting (these amounts are not representative of the actual gain/loss that will be recognized when the hedges are exercised) and cost of restructuring the currency hedging portfolio, which was required following the decline in commercial flows related to the FALCON activity.



Note 14 - Tax position

14.1 Deferred tax sources

(in EUR thousands)	06/30/2017	12/31/2016
Temporary differences on provisions (profit-sharing, pension, etc.)	241,165	252,403
Available-for-sale securities and cash equivalents	-3,057	-2,472
Hedging instruments	3,226	174,598
Other temporary differences	132,505	101,191
Net deferred taxes (1)	373,839	525,720
<i>Deferred tax assets</i>	<i>373,839</i>	<i>525,720</i>
<i>Deferred tax liabilities</i>	<i>0</i>	<i>0</i>

(1) pursuant to the French 2017 Budget Act, which provides for a lower corporate tax rate for French companies from 2020, deferred tax bases for which a reversal is not expected before the end of 2019 were taxed at 28.92%.

14.2 Reconciliation of theoretical and actual tax charge

(in EUR thousands)	2017 H1	2016 H1	2016
Net income	390,544	238,354	379,066
Cancellation of the income tax	167,377	85,054	75,971
Cancellation of the Group share in net income of equity associates	-64,504	-75,498	-202,711
Income before tax and equity associates	493,417	247,910	252,326
Theoretical tax expenses calculated at the current rate (1)	-169,883	-85,355	-86,876
Effect of tax credits (2)	7,082	7,071	14,789
Effect of differences in tax rates	-1,010	324	-9,010
Other	-3,566	-7,094	5,126
Taxes recognized	-167,377	-85,054	-75,971

(1) a rate of 34.43% applies for 2017, as in 2016, for the Parent Company of the Group.

(2) research tax credit, recognized as other revenue, amounted to EUR 15,942 thousand in H1 2017, compared to EUR 16,291 thousand in H1 2016, and EUR 32,816 thousand for 2016. The tax credit for competitiveness and employment, which is recognized as a deduction from personnel expenses, represented EUR 4,627 thousand in H1 2017, compared to EUR 4,245 thousand in H1 2016 and EUR 8,411 thousand in 2016.

Consolidated Financial Statements

Note 15 - Earnings per share

Earnings per share	2017 H1	2016 H1	2016
Net income attributable to the owners of the Parent Company (in EUR thousands) (1)	390,535	238,339	379,030
Average number of shares outstanding	8,215,216	8,654,611	8,431,494
Diluted average number of shares outstanding	8,215,929	8,656,036	8,431,969
Earnings per share (in EUR)	47.5	27.5	45.0
Diluted earnings per share (in EUR)	47.5	27.5	45.0

(1) 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 corresponds 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 by performance shares granted.



Note 16 - Financial instruments

The valuation method used in the balance sheet (cost or fair value) of financial instruments (assets or liabilities) is detailed in the table 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.

16.1 Financial instruments (assets)

(in EUR thousands)	Balance sheet value as of 06/30/2017			
	Cost or amortized cost (1)	Fair value		Total
		Impact on net income	Impact on equity	
Non-current assets				
Listed investments			27,822	27,822
Non-listed investments		71	77,059	77,130
Available-for-sale marketable securities			3,064,536	3,064,536
Other financial assets	34,157			34,157
Current assets				
Trade and other receivables	794,236			794,236
Derivative financial instruments		14,020	72,586	86,606
Cash equivalents (2)		1,695,194		1,695,194
Financial instruments (assets)	828,393	1,709,285	3,242,003	5,779,681
Level 1 (2)		1,695,194	3,092,358	
Level 2		14,020	72,586	
Level 3		71	77,059	

(1) the carrying amount of the financial instruments (assets) recognized at cost or at amortized cost corresponds to a reasonable approximation of the fair value.

(2) including time deposits at 06/30/2017: EUR 1,491,276 thousand.

Consolidated Financial Statements

At December 31, 2016, the data were as follows:

(in EUR thousands)	Balance sheet value as of 12/31/2016			
	Cost or amortized cost (1)	Fair value		Total
		Impact on net income	Impact on equity	
Non-current assets				
Listed investments			30,802	30,802
Non-listed investments		71	74,017	74,088
Available-for-sale marketable securities			3,037,487	3,037,487
Other financial assets	33,678			33,678
Current assets				
Trade and other receivables	646,041			646,041
Derivative financial instruments		4,598		4,598
Cash equivalents (2)		1,082,754		1,082,754
Financial instruments (assets)	679,719	1,087,423	3,142,306	4,909,448
Level 1 (2)		1,082,754	3,068,289	
Level 2		4,598	0	
Level 3		71	74,017	

(1) the carrying amount of the financial instruments (assets) recognized at cost or at amortized cost corresponds to a reasonable approximation of the fair value.

(2) includes time deposits as of December 31, 2016: EUR 1,043,794 thousand.

16.2 Financial instruments (liabilities)

(in EUR thousands)	Balance sheet value as of 06/30/2017			
	Cost or amortized cost (1)	Fair value		Total
		Impact on net income	Impact on equity	
Non-current liabilities				
Bank borrowings	923,587			923,587
Other financial liabilities (2)	112,895			112,895
Current liabilities				
Bank borrowings	75,591			75,591
Other financial liabilities (2)	41,469			41,469
Trade and other payables	821,488			821,488
Derivative financial instruments		83,522	6,318	89,840
Financial instruments (liabilities)	1,975,030	83,522	6,318	2,064,870
Level 1		0	0	
Level 2		83,522	6,318	
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) mainly locked-in employee profit-sharing funds.



At December 31, 2016, the data were as follows:

(in EUR thousands)	Balance sheet value as of 12/31/2016			
	Cost or amortized cost (1)	Fair value		Total
		Impact on net income	Impact on equity	
Non-current liabilities				
Bank borrowings	948,302			948,302
Other financial liabilities (2)	146,202			146,202
Current liabilities				
Bank borrowings	50,614			50,614
Other financial liabilities (2)	39,984			39,984
Trade and other payables	854,051			854,051
Derivative financial instruments		450,508	60,873	511,381
Financial instruments (liabilities)	2,039,153	450,508	60,873	2,550,534
Level 1		0	0	
Level 2		450,508	60,873	
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) mainly locked-in employee profit-sharing funds.

Note 17 - Financial risk management

17.1 Cash and liquidity risks

17.1.1 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 early repayment clause based on the rating or financial ratios. The features of these loans are described in Note 8.

Consolidated Financial Statements

17.1.2 Cash, cash equivalents and available-for-sale marketable securities

The Group investment portfolio is primarily composed of money market investments with no significant risk of impairment.

(in EUR thousands)	06/30/2017			
	Historical cost	Unrealized capital gain/loss	Consolidated asset value	As %
Cash at bank, money market investments and time deposits	3,911,266	2,162	3,913,428	78%
Investments in bonds (1)	76,225	64,314	140,539	3%
Diversified investments (1)	500,334	440,790	941,124	19%
Total	4,487,825	507,266	4,995,091	100%

(1) investments in bonds and diversified investments are, in most cases, backed by warranties, which limits the risk of impairment.

The Group can therefore meet its commitments without any liquidity risk due to its cash resources and its portfolio of available-for-sale marketable securities. The Group is not faced with restrictions with regard to the availability of its cash and its portfolio of marketable securities.

17.2 Credit and counterparty risks

17.2.1 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.

17.2.2 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 (COFACE) 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 the COFACE guarantees and collateral obtained for these credits and not exercised at June 30, 2017 is comparable to that at December 31, 2016.

The manufacturing risk is also guaranteed with COFACE for major military export contracts.



17.3 Other market risks

17.3.1 Market risks

The Group hedges its foreign exchange risk, interest rate risk and the risk of fluctuations in commodity prices by means of derivative financial instruments, the carrying amount of which is presented below:

(in EUR thousands)	06/30/2017		12/31/2016	
	Assets	Liabilities	Assets	Liabilities
Exchange rate derivatives	86,606	83,006	4,521	503,373
Interest rate derivatives	0	6,673	0	8,008
Commodity derivatives	0	161	77	0
Derivative financial instruments	86,606	89,840	4,598	511,381
Net derivative financial instruments		3,234		506,783

Foreign rate exchange derivatives

The Group is exposed to a foreign exchange risk through the Parent Company in relation to its FALCON sales that are virtually all denominated in US dollars. This risk is partially hedged by using forward exchange 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 foreign exchange derivative instruments used by the Group do not all qualify for hedge accounting under the terms of IAS 39 "Financial Instruments". The analysis of the instruments is presented in the table below:

(in EUR thousands)	Market value as of 06/30/2017	Market value as of 12/31/2016
Instruments which qualify for hedge accounting	72,586	-53,234
Instruments which do not qualify for hedge accounting	-68,986	-445,618
Foreign exchange derivatives	3,600	-498,852

Interest rate derivatives

The Group is exposed to the volatility of interest rates through its loans contracted at a variable rate (see Note 9). The loans were swapped at a fixed rate to limit this risk.

Commodity derivatives

The Group marginally uses derivatives to hedge its exposure to fluctuations in kerosene prices.

Consolidated Financial Statements

17.3.2 Impacts of derivative instruments on the Group's financial statements

The impact on net income and equity of the changes of fair value in hedging instruments for the period is as follows:

(in EUR thousands)	12/31/2016	Impact on equity (1)	Impact on net financial income (2)	06/30/2017
Foreign exchange derivatives	-498,852	125,820	376,632	3,600
Interest rate derivatives	-8,008	1,319	16	-6,673
Commodity derivatives	77	0	-238	-161
Net derivative financial instruments	-506,783	127,139	376,410	-3,234

(1) 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 IAS 39 "Financial Instruments".

The change in fair value of hedging instruments is due to the evolution of the closing rate between December 31, 2016 (1.0541 \$/€) and June 30, 2017 (1.1412 \$/€) and to the decrease in the covered volume.

17.3.3 Sensitivity test for foreign exchange derivative instruments

A sensitivity analysis was performed to determine the impact of a 10 cent increase or decrease in the US dollar/euro exchange rate.

Portfolio market value (in EUR thousands)	06/30/2017		12/31/2016	
Net balance sheet position	3,600		-498,852	
Closing US dollar/euro exchange rate	1.1412 \$/€		1.0541 \$/€	
Closing US dollar/euro exchange rate +/- 10 cents	1.2412 \$/€	1.0412 \$/€	1.1541 \$/€	0.9541 \$/€
Change in value (1)	+300,841	-364,004	+450,674	-579,627
<i>Impact on net income</i>	<i>+179,141</i>	<i>-218,927</i>	<i>+347,932</i>	<i>-455,357</i>
<i>Impact on equity</i>	<i>+121,700</i>	<i>-145,077</i>	<i>+102,742</i>	<i>-124,270</i>

(1) indicative data calculated based on existing market conditions on the balance sheet dates. The data are not representative of the actual gain/loss to be recognized when the hedges are exercised.

17.3.4 Risks related to EMBRAER shares

On June 30, 2017, the EMBRAER shares were valued at EUR 27,822 thousand (see Note 4).

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 18 - Related-party transactions

The related parties at June 30, 2017 are identical to those identified at December 31, 2016 and the transactions during the period are of the same type.

Note 19 - Subsequent events

No events likely to have a material impact on the financial statements occurred between June 30, 2017 and the date the financial statements being closed by the Board of Directors.

Consolidated Financial Statements

STATUTORY AUDITORS' REVIEW REPORT ON THE HALF-YEARLY FINANCIAL INFORMATION

To the Shareholders,

In compliance with the assignment entrusted to us by your General Shareholders' Meeting and in accordance with the requirements of article L. 451-1-2-III of the French Monetary and Financial Code ("*Code monétaire et financier*"), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of DASSAULT AVIATION, for the period from January 1st to June 30th, 2017;
- the verification of the information presented in the half-yearly management report.

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

CONCLUSION ON THE FINANCIAL STATEMENTS

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

SPECIFIC VERIFICATION

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Courbevoie and Neuilly-sur-Seine, July 26th, 2017

The Statutory Auditors

MAZARS

DELOITTE & ASSOCIES

Mathieu Mougard

Jean-François Viat

