2017 ANNUAL
FINANCIAL REPORT

DASSAULT
AVIATION

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

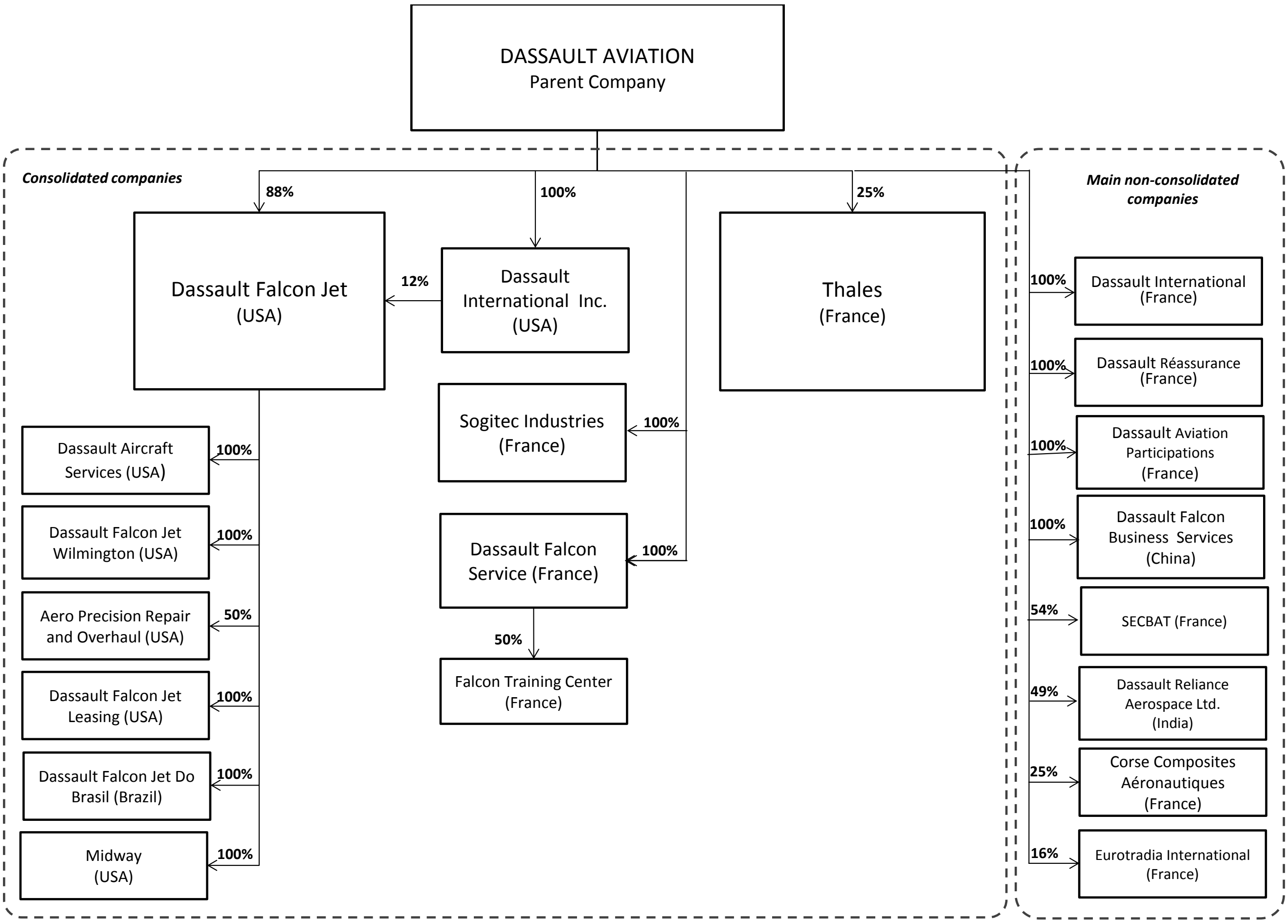
I hereby certify that, to my knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and income or loss of the company and all the other entities included in the scope 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, March 7, 2018

Éric Trappier
Chairman and Chief Executive Officer

Group structure as at December 31, 2017

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 at December 31, 2017

Honorary Chairmen
Serge DASSAULT Charles EDELSTENNE

Chairman of the Board of Directors
Éric TRAPPIER

Directors
Catherine DASSAULT
Olivier DASSAULT
Serge 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
Loïk SEGALEN

Executive Committee as at December 31, 2017

Chairman of the Committee

Éric TRAPPIER	Chief Executive Officer
Loïk SEGALEN	Chief Operating Officer
Benoit 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, 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

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

Dear Shareholders,

Before submitting the company and consolidated financial statements for the year ended December 31, 2017, 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 2017 RESULTS

1.1.1 Key data

	2017	2016
Order intake	**€3,157 million** 41 Falcon and 3 Falcon 5X canceled	€9,558 million 36 Rafale India 33 Falcon and 12 Falcon 5X canceled
Adjusted net sales(*)	**€4,808 million** 1 Rafale France 8 Rafale Egypt 49 FALCON	€3,586 million 6 Rafale France 3 Rafale Egypt 49 FALCON
Backlog (as of December 31)	**€18,818 million** 101 Rafale *(70 Export and 31 France)* 52 Falcon *(including Falcon 5X not canceled)*	€20,323 million 110 Rafale *(78 Export and 32 France)* 63 Falcon
Adjusted operating income (*)	**€348 million**	€218 million
Adjusted operating margin (*)	***7.2% of net sales***	*6.1% of net sales*
Adjusted net income (*)	**€489 million** *€59.3/share*	€384 million *€45.5/share*
Adjusted net margin (*)	***10.2% of net sales***	*10.7% of net sales*
Available cash (as of December 31)	**€4,121 million**	€3,105 million
Dividends	**€127 million** *€15.3/share*	€100 millions *€12.1/share*
Employee profit-sharing and incentives *Workforce as of 12/31*	**€99 million** *11,398*	€84 million *11,942*

Main IFRS aggregates ((*) table of reconciliation on the following page)

Consolidated net sales (*)	*€ 4,833 million*	*€ 3,653 million*
Consolidated operating income (*)	*€ 210 million*	*€ 286 million*
Consolidated net income (*)	*€ 709 million*	*€ 379 million*

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.

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;
- 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 (see 2.12) and capital gains made on marketable securities to offset that expense;
- amortization of the Thales purchase price allocation (PPA);
- adjustments applied by Thales in its financial reporting.

The Group also presents an "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 Impact of the adjustments

The impact in 2017 of adjustments to income statement aggregates 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	4,832,638	-30,941	5,833				**4,807,530**
Operating income	209,720	-30,941	36,195	133,501			**348,475**
Net financial income	587,405	30,941	-474,235	-133,501[1]			10,610
Share of net income of equity associates	178,924				26,384	39,583	244,891
Income tax	-267,055		152,313				-114,742
Net income	708,994	0	-285,727	0	26,384	39,583	**489,234**
Group share of net income	*708,952*	*0*	*-285,727*	*0*	*26,384*	*39,583*	*489,192*
Group share of net income per share *(in EUR)*	86.0						59.3

[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.

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

(in EUR thousands)	2016 consolidated income statement	Foreign exchange derivatives		Thales PPA	Adjustments applied by Thales	2016 adjusted income statement
		Foreign exchange gain/loss	Change in fair value			
Net sales	3,653,417	-67,619				**3,585,798**
Operating income	285,531	-67,619				**217,912**
Net financial income	-33,205	67,619	-23,029			11,385
Share in net income of equity associates	202,711			39,742	-19,676	222,777
Income tax	-75,971		7,688			-68,283
Net income	379,066	0	-15,341	39,742	-19,676	**383,791**
Group share of net income	*379,030*	*0*	*-15,341*	*39,742*	*-19,676*	*383,755*
Group share of net income per share *(in EUR)*	45.0					45.5

1.1.4 Order intake

2017 order intake was **EUR 3,157 million**, compared with EUR 9,558 million in 2016, the year we recorded India's order of 36 Rafale aircraft.

Export order intake represented **82%.**

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

Year	Defense		Falcon	**Total**	% Export
	France	Export			
2013	1,043	213	2,909	**4,165**	71%
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	**530**	**226**	**2,401**	**3,157**	**82%**

The order intake item is composed entirely of firm orders.

Falcon programs

2017 Falcon orders totaled **EUR 2,401 million** versus EUR 1,419 million in 2016.

41 Falcon were ordered and **3 Falcon 5X were canceled** compared to 33 Falcon ordered and 12 Falcon 5X canceled in 2016.

Defense programs

2017 Defense order intake amounted to **EUR 756 million** compared with EUR 8,139 million in 2016, the year we recorded India's order of 36 Rafale aircraft.

1.1.5 Adjusted net sales

2017 net sales amounted to **EUR 4,808 million**, compared to EUR 3,586 million in 2016. **Export** represented **89%**.

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

Year	Defense		Falcon	**Total**	% Export
	France	Export			
2013	1,225	179	3,189	**4,593**	71%
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	**482**	**1,396**	**2,930**	**4,808**	**89%**

Falcon programs

2017 Falcon net sales amounted to **EUR 2,930 million**, compared to EUR 2,342 million in 2016. Sales were favorably impacted by the level of pre-owned aircraft and the product mix.

49 Falcon were **delivered in 2017** as in 2016, which is higher than our guidance of 45 and is due to orders recorded for deliveries during the year.

Defense programs

2017 Defense net sales amounted to **EUR 1,878 million**, compared to EUR 1,244 million in 2016.

They were favorably affected by the increase in the number of Rafale deliveries to Egypt and the related delivery of new support resources, including technical assistance, spare parts and training. Indeed, **8 Rafale** were delivered to Egypt in 2017 versus 3 in 2016. In addition, **1 Rafale** was delivered to France in 2017, versus 6 in 2016.

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The book-to-bill ratio (orders intake/net sales) was 0.7 for 2017.

1.1.6 Backlog

The **backlog as of December 31, 2017** was **EUR 18,818 million**, compared to EUR 20,323 million as of December 31, 2016.

The **Falcon backlog** stood at **EUR 2,669 million**, compared to EUR 3,052 million at December 31, 2016. In particular, it includes **52 Falcon** (including Falcon 5X not canceled) compared with 63 as of December 31, 2016.

The **France Defense backlog** stood at **EUR 2,840 million**, compared to EUR 2,793 million as of December 31, 2016. It includes in particular **31 Rafale.**

The **Defense Export backlog** stood at **EUR 13,309 million,** compared with EUR 14,478 million as of December 31, 2016. It includes in particular **36 Rafale for India**, **24 Rafale for Qatar and 10 Rafale for Egypt**.

1.1.7 Adjusted results

Operating income

2017 operating income was **EUR 348 million** compared to EUR 218 million in 2016.

The operating margin was **7.2%**, compared to 6.1% in 2016. It was favorably impacted by the increase in net sales observed over 2017, and the relatively lower self-financed Research and Development costs (6.5% of the net sales in 2017, versus 8.2% in 2016) and unfavorably impacted by the depreciation of inventories and work-in-progress resulting from the end of the Falcon 5X program.

N.B: 2017 hedging rate was 1.21 €/$ compared to 1.22 €/$ in 2016.

Financial income

Financial income in 2017 was **EUR 11 million** as in 2016.

Net income

2017 net income was **EUR 489 million**, compared to EUR 384 million in 2016. The contribution of Thales to the Group's net income was EUR 241 million, compared to EUR 218 million in 2016.

The net margin was **10.2%** in 2017, compared to 10.7% in 2016.

Net income per share in 2017 stood at **EUR 59.3/share**, compared with EUR 45.5/share in 2016.

1.1.8 Dividends and profit-sharing/incentives

The Board of Directors decided to propose to the Annual Shareholders' Meeting the distribution of a dividend of **EUR 15.3/share** in 2018, corresponding to a total of EUR 127 million, i.e. a payout of 26%, as in the previous year.

Dividends paid over the last three years are as follows:

Fiscal year	Net dividend distributed (in EUR)	Allowances (*)
2014	10.0	40%
2015	12.1	40%
2016	12.1	40%

(*) *Allowance for individuals.*

Under the earnings distribution policy, Group employees will receive, in profit-sharing and incentives, **EUR 99 million** (whereas the legal formula would have led to the amount of EUR 2 million).

1.1.9 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 4,121 million** as of December 31, 2017 versus EUR 3,105 million as of December 31, 2016, up by EUR 1,016 million mainly due to down payments received under the ongoing Rafale Export contract.

1.2.2 Balance Sheet (unadjusted data)

Total equity was EUR 3,908 million as of December 31, 2017 compared with EUR 3,317 million as of December 31, 2016. This increase is mainly due to the consolidated net income for the period.

Customers advances and progress payments received net of advances and progress payments to suppliers went up by EUR 798 million as of December 31, 2017 due primarily to progress payments received in the context of the performance of Export Rafale contracts.

Inventories and work-in-progress fell by EUR 336 million and stood at EUR 3,670 million as of December 31, 2017. This decrease is mainly due to Falcon activity for the period and to the consequences of the end of the Falcon 5X program, whose inventories and work-in-progress have been partly depreciated. This was partially offset by the increase in Rafale Export work-in-progress.

Borrowings and financial debt amounted to EUR 1,095 million as of December 31, 2017, compared to EUR 1,185 million as of December 31, 2016. They include loans taken out by the Group in 2014 and 2015 which totaled EUR 950 million as of December 31, 2017 (EUR 50 million were paid back in 2017) and locked-in employee profit-sharing funds.

The market value of financial derivatives as of December 31, 2017 was EUR 161 million versus EUR -507 million as of December 31, 2016. This increase is mainly due to the change in the €/$ exchange rate between December 31, 2016 (1.05 €/$) and December 31, 2017 (1.20 €/$).

1.3 RELATED-PARTY TRANSACTIONS

The 2017 related parties are identical to those identified in 2016. Some subsidiaries are related with the Parent Company via development and hardware supply contracts, along with software and associated services contracts.

2017 transactions are specified under Note 26 to the consolidated financial statements.

1.4 GROUP ACTIVITIES

1.4.1 Program developments

Falcon programs

- **Falcon 5X:**

  The delivery of compliant Silvercrest engines was originally planned for the end of 2013 in accordance with the Falcon 5X flight test schedule.

  Safran met recurrent technical issues during the program development.

  In 2015 and 2016, major technical issues have led Safran to announce a new schedule leading to engines delivery for the Falcon 5X flight tests by the end of 2017. Consequently, Dassault Aviation had to postpone the entry into service of the Falcon 5X from 2017 to 2020, i.e. a 3-year delay. This slippage has caused customers' concerns and order cancellations (12 in 2016).

  Equipped with a preliminary version of the engine, not compliant with the specifications, the Falcon 5X performed its maiden flight, on July 5, 2017, and started a preliminary flight test campaign, limited by engine capacities. The Falcon 5X flight behaviour met all the expectations.

  In the fall of 2017, Safran experienced issues with the high pressure compressor and informed Dassault Aviation of an additional delay and new performance shortfall, making the 2020 entry into service of the aircraft impossible.

  Considering the magnitude of the risks involved both on the technical and schedule aspects of the Silvercrest program, Dassault Aviation initiated, in December 2017, the termination process of the Silvercrest contract leading to the end of the Falcon 5X program.

  Following this announcement, Dassault Aviation recorded three new Falcon 5X cancellations in late 2017.

  Dassault Aviation has initiated negotiations with Safran Aircraft Engines to obtain compensation for its damages.

In order to meet the high expectations of our customers, Dassault Aviation launched a new Falcon project, the Falcon 6X, powered by Pratt & Whitney Canada engines, featuring the same cross section as the Falcon 5X, with a range of 5,500 Nm; the entry into service is scheduled in 2022.

Highlights for 2017 also include:

- the delivery of **49 Falcon;**
- order intake for **41 Falcon and the cancellation of 3 Falcon 5X**, versus 33 Falcon ordered and 12 Falcon 5X canceled in 2016;
- the ramp-up of Falcon 8X deliveries, a mature, quiet and comfortable aircraft, which has been highly appreciated by customers since its entry into service, the reinforcement of its operational capacities with the following certifications:
  - operations at the London City airport,
  - the FalconEye system,
  - take-off in 30 knot crosswinds,
- the high-speed Satcom certification over the entire Falcon family,
- delivery of the 2,500th Falcon,
- the launch of the necessary investments for the future Falcon.

Defense programs

The highlights of 2017 for the Rafale program were:

- delivery of **8 Rafale to Egypt**, bringing the total Rafale delivered to Egyptian forces to 14 out of the 24 ordered. These deliveries also included the related support consisting in technical assistance, parts and training,
- delivery of **1 Rafale** to France, bringing the total Rafale delivered to the French Forces to 149 out of the 180 aircraft ordered,
- delivery to France of the 8th Navy Rafale retrofitted from the F1 standard to the F3 standard,
- the continuation of development works on the F3-R standard, including the final validation firing of the Meteor missile,
- continued development, production and support works on the Rafale for Qatar and India,
- the notification at the end of the year of the risk reduction task for the future F4 standard,
- the signing, on December 7, 2017, of an agreement with Qatar to exercise the option for 12 additional Rafale (which will come into force upon receipt of the first down-payment) and of an agreement on a future cooperation (option for another 36 Rafale),
- the continuation of Export promotional and prospecting activities for the Rafale.

Regarding the Mirage 2000, also note:

- continued renovation work on the French Mirage 2000D,
- in India, the continuation of support to Hindustan Aeronautics Ltd. (HAL) in the development of the final standard for the Indian Mirage 2000 for the works under their responsibility,
- the announcement by the United Arab Emirates Armed Forces of the of their intention to sign a contract with Dassault Aviation to modernize their Mirage 2000-9 fleet.

For maritime surveillance and patrol aircraft, the key events of 2017 were:

- the continued development works to upgrade the combat system on the Atlantique 2, particularly systems integration tests and flight tests,
- the order of a 4th Maritime Surveillance Falcon 2000 by the Japanese Coast Guards and progress in the development works on the first three,
- the launch of works to add capacity for dropping SAR (Search And Rescue) chains for the French Navy's Falcon 50 SURMAR fleet.

For drones, the year was marked by:

- new stealth measures for the nEUROn unmanned fighter aircraft in the Solange anechoic chamber of the French Defense Procurement Agency (DGA), and a new campaign of flight tests to demonstrate stealth capabilities,

- continuation of the feasibility phase in preparation for a Unmanned Combat Air System (UCAS) demonstration program following the French-British summit in Amiens on March 3, 2016. We prepared, with our industrial partners, the proposal for the launch of the first phase of the development of an operational demonstrator, a component of the Future Air Combat System (FCAS). Political and budget uncertainties in the United Kingdom are threatening the launch of the program; the decision to launch by the British and French Defense Ministries is now delayed,

- the continuation of the 2-year definition study for a MALE RPAS (Medium Altitude Long Endurance Remotely Piloted Aircraft System) with European technologies. This study was announced in September 2016 by OCCAR (The Organization for Joint Armament Cooperation), in conjunction with the French, German, Italian and Spanish defense ministries. This study brings together Dassault Aviation, Airbus Defence & Space and Leonardo.

  On January 29, 2018, the "System Requirements Review" milestone that allows construction of the project, on the basis of the twin-engine formula selected at the French German council meeting of July 13, 2017, was validated.

For Space, the key events for 2017 were:

- for spacecraft, the continuation of the design contract for the Space Rider reusable orbital return vehicle from the European Space Agency, and contracts for the National Centre for Space Studies (CNES): an innovative separation system and reusable first-stage demonstrator,

- for pyrotechnics, two study contracts were won for the DGA and the CNES to apply pyrodigital technology to the Callisto demonstrator and the future rescue system.

Make in India

As part of our offset commitments planned in the contract signed for the supply of 36 Rafale, Dassault Aviation committed itself into the Make in India by strengthening its presence in India.

On February 10, 2017, Dassault Aviation established, with the Indian group Reliance, the Joint-Venture Dassault Reliance Aerospace Limited (JV DRAL), located in Nagpur, (51% of the capital held by Reliance and 49% by Dassault Aviation), led by a Chief Executive of Indian nationality and a Industrial Officer from Dassault Aviation.

This company will produce civil and military aeronautical parts and prepare the future to achieve our commercial goals with India, and improve our competitiveness by manufacturing Falcon 2000 elements in India.

The corner stone of the production plant was laid on October 27, 2017 by Éric Trappier, Chairman-CEO of Dassault Aviation, and Anil D. Ambani, Chairman of Reliance, in a ceremony attended by Florence Parly, Minister of the Armies of the French Republic, and Nitin Gaskari, Minister of Transports of the Republic of India.

The management team was hired and consists of a Chief Executive Officer, a Chief Financial Officer and a Director of Human Resources of Indian nationality, along with an Industrial Director of French nationality. We have also begun to recruit and train managerial and production personnel in France and in India.

Production will gradually grow over the next 5 years, from the start of the production to manufacture Falcon 2000 parts and Rafale sub-assemblies.

In 2017, we also strengthened our presence in India through an acquisition of a 35% stake in Reliance Airport Developers Limited, which operates in the management and development of airport infrastructures.

1.4.2 Support

The Group's Falcon support services have, in 2017:

- expanded its Falcon support network with the approval of 3 new service centers in Malaysia, Canada and Austria, bringing the network up to 52 service centers,
- improved its products and services:
  - FalconSphere II (flight preparation assistance),
  - Falcon Immersive Training (training for mechanics via virtual reality),
  - extension of maintenance frequency.

In military support services, the highlights of 2017 were:

- for the Rafale:
  - hosting, support and training throughout the year of more than 300 pilot trainees and mechanics from our Egyptian and Qatari customers,
  - support for the Rafale aircraft in service to meet the availability commitments of the Forces. At the beginning of the year, the French Forces' Rafale aircraft exceeded 200,000 hours of flight,
- for the Mirage 2000:
  - notification by the French Government of the renewal of the contract for Operating Condition Maintenance of the Mirage 2000 and AlphaJet aircraft (MirageCare Contract),
  - delivery of Mirage 2000 and AlphaJet to Qatar following major checks,
  - the increase in the number of major checks on United Arab Emirates' Mirage 2000-9.
- On January 5, 2017, Babcock France and Dassault Aviation signed a partnership agreement to establish a joint venture under the leadership of Babcock France. This joint company is intended to perform the FOMEDEC contract (Supply of Modernized Training Resources and Differentiated Training of Fighter Crews) signed by Babcock France and the French Defense Procurement Agency (DGA) for 11 years. This contract falls within the context of the outsourcing of training resources for fighter pilots of the French Air Force.

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 Incorporated (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.

Dassault Procurement Services (United States) was absorbed by Dassault Falcon Jet in the second half of 2017.

Dassault Falcon Service (DFS) (France), historically based at Le Bourget airport and Merignac, contributes to Falcon support activities in the following two areas:

- service center dedicated to the maintenance of Falcon aircraft. DFS is also operating in Luton airport (United Kingdom) and Moscow-Vnukovo (Russia),
- leasing and management of Falcon aircraft as a Public Passenger Transport company,

DFS held 50/50 with Flight Safety International the subsidiary Falcon Training Center (France), that provides Falcon training.

Dassault International Incorporated (United States) represents Dassault Aviation in the United States.

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 an agreement for the acquisition of Gemalto, in order to create a worldwide leader in digital security. The takeover bid should take place in 2018.

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

1.5.2 Not consolidated 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 Defense 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 surveillance Atlantic program.

The Group is present in India through:

- 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 since 2017, 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 Hong Kong via Dassault Aviation Falcon Asia-Pacific, which has opened a sales office in Malaysia.

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

1.5.3 Branches

The Group also has one branch in Cairo, Egypt.

1.6 RESEARCH & DEVELOPMENT

Our Development effort is significant on the Falcon but also focus on F3-R Rafale standard, ATL2 upgrade, maritime surveillance aircraft, drones and Rafale Export standard development.

In addition to these major programs, the Company takes part in European projects Cleansky and Cleansky 2, and is, since 2008, a member of the Council for Civil Aviation Research (CORAC).

R&D works support the preparation of the Company's future products, including:

- the manufacture and assembly of a composite wing demonstrator on Falcon,
- the first flight of the European BLADE laminar wing demonstrator, in which Dassault Aviation is participating with Airbus,
- flight test of new control function to enhance the comfort of the Falcon.

The works in the context of support to research for business aviation takes into consideration the development of new flight control and piloting functions on ground and in flight, studies to eliminate uncertainties about the reliability (resistance to damage) of manufacturer and composite assemblies. Since 2017, this support has covered new topics, in particular the development of more precise methodologies to predict wings' load, allowing greater optimization.

In order to drive the innovation process, a first Innovathon, adopting the formula for Hackathons, was organized to bring out new ideas in order to make the flight in Falcon an unforgettable experience.

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

- remotely controlled aircraft: primarily focused on technical and operational analysis, feasibility and technological maturation works for the combat drones used in the context of the French-British UCAV program,
- surveillance systems: participation in the definition phase for the future MALE RPAS conducted since 2016 with European cooperation under the aegis of OCCAR,
- piloted aircraft: preparation of future developments of Rafale.

In 2017, the DGA ordered Dassault Aviation maintenance works and the performance of the 2017 test campaign of the nEUROn demonstrator and the upstream study program "Man Machine Teaming" co-contracted with Thales for:

- the definition and framing of the concepts of the Man System relationship in the future combat system;
- the maturation of innovative technologies in the area of Man Machine crews, particular in decision-making autonomy and machine learning;
- the creation and leadership of an "ecosystem" of partners.

1.7 TRANSFORMATION: LEADING OUR FUTURE

In October 2016, Dassault Aviation initiated the "Leading our Future" transformation plan in order to prepare for the future in an increasingly unpredictable and competitive environment. This plan is based on the women and men of the Company and relies on the "digital" leverage in order to confront the changes in our markets and meet the requirements of our military and civil customers.

It is based on:

- culture, skills and organization,
- digital tools, processes and innovation,
- industrial tools,
- program management,

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

The year 2017 saw the launch of the first effective actions of the transformation plan announced in 2016:

- Culture, skills & organization

  - reorganization of the Dassault Institute and of the Skills Conservatory, helping the emergence of managerial talents, the transfer of the corporate culture and the key know-hows capitalization,
  - transfer to Mérignac of military and Falcon aircraft support teams,

- Digital tools, processes, innovation

  - unification project of Production and Purchases management (APRISO / SAP),
  - worldwide information system for Falcon spare parts,
  - 3DExperience platform demonstration project,
  - definition of a Big Data roadmap and the launch of a first application on the Falcon health records,
  - Organization of an "Innovathon",

- Industrial organization

  - optimization of machined titanium parts production line, operational at our site in Seclin,
  - launch of :
    - ✓ studies on the Merignac 2020 building, the extension of the Seclin building, which will house the coating and sheet metal production lines from Argenteuil and the study on the transfer of pyrotechnic activities from Argenteuil and Poitiers to Martignas,
    - ✓ the optimization of the machined aluminum line at Seclin,
    - ✓ a new additive manufacturing line in Argonay,
  - start of the installation works of the exploratory development laboratories transferred from Argenteuil to Merignac,

- Program management

  - implementation of the quality approach for design and industrialization (Advanced Product Quality Planning) with the ongoing deployment in the new programs,
  - promotion of the reutilization of mature technical solutions (ReUse).

1.8 DIGITAL TOOLS, PROCESSES AND INNOVATION

The two-year project to rebuild the Production Information System on the APRISO programs of Dassault Systèmes and SAP was launched.

New digital services, such as downloading technical documentation or updating Electronic Flight Bags have been made available to customers on the Falcon and Military secure Internet portals.

A first Big Data type data analysis application using the Exalead technology from Dassault Systèmes was installed in order to manage the quality of the aircraft delivered and the Falcon "health log".

1.9 PRODUCTION AND INDUSTRIAL RESOURCES

In addition to the actions initiated as part of the Transformation plan "Leading our Future", we also:

- prepared for performance of the Rafale Export contracts through:

  - the completion of work to adapt the Mérignac shops (particularly with the replacement of the benches with an energy production plant);
  - the renovation of the Istres anechoic chamber.

- with respect to industrial resources, we:

  - Installed two mechanical milling machines and metal coating panels at Argenteuil in the context of replacing chemical machining with mechanical machining;
  - installed a new Rafale robotized wind assembly cell at Martignas and a new trimming machine for composite wing panels at Biarritz;

- with respect to the modernization of our industrial facilities:

  - implementation at Argenteuil of a new spray painting booth for the front panels of Falcon;
  - operational implementation at Argonay of two EDM machines and a storage and retrieval machine for warehousing equipment components.

1.10 TOTAL QUALITY

As part of its Integrated Management System, in 2017 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 AND MANAGEMENT

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 domain of business aviation, uncertainty about global growth and market volatility leads our customers to make their procurement decisions subject to increasingly demanding criteria, and sometimes even postpone them.

In this context, 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 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 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.

In this context, the management reports since 2014 have cited a risk to Safran Aircraft Engines' development of the Silvercrest engine. Unfortunately, the new technical problems encountered by Safran in the fall of 2017 led to the shutdown of the Falcon 5X program, as described in Section 1.4.

2.1.3 "Make In India"

In the context of the Rafale India contract, the company initiated "Make in India". Thus, the joint venture (Dassault Reliance Aerospace Limited) formed in 2017 by Dassault Aviation and Reliance Infrastructure will manufacture elements of Falcon 2000 and some Rafale sub-assemblies in the performance of the offset obligations related to the purchase agreements for 36 Rafale signed by the two countries in September 2016.

The performance of these obligations requires the adhesion and support of the current suppliers and the creation of partnerships with Indian manufacturers to create a supply chain that controls quality, costs and delivery times.

2.1.4 Adjustment of technical and industrial capacity

The cycles for business aircraft and combat markets are not synchronous. In order to adapt to the market environment, they both require flexibility and responsiveness in the production line, which is a permanent challenge.

In 2018, the launch of the studies of the future Falcon combined with the development of the Falcon 6X (consequence of the Sivercrest engine issues that led to the end of the Falcon 5X program) constitute a risk on the workload absorption by the engineering department.

2.1.5 Competition

In an increasingly unpredictable geopolitical and economic environment and the currently difficult business aviation market, we are subject to intense competition in all markets.

2.1.6 Pre-owned aircraft market

Even though, in 2017, activity in the used aircraft market was higher, it remains true that too high a number of pre-owned aircraft available for sale may have an impact on demand and market prices for new aircraft.

2.2 RISKS RELATED TO THE SUPPLY CHAIN

Our production cycle is very sensitive to the responsiveness of the procurement process for our manufacturing chains.

A supply disruption could 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 again became real in 2017 because of the additional delay and new deterioration in performance found on the Silvercrest engine from the Safran group, which led to the end of the Falcon 5X program.

Within this context, the Falcon 6X schedule, equipped with Pratt & Whitney 812 engines (entry into service of the aircraft in 2022), is a risk to monitor.

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 as described in Section 1.7.

This approach is made in line with the actions recommended by the aviation sector.

Although the Group is not significantly exposed to fluctuations in the price or availability of raw materials and energy, the introduction of multi-annual contracts helps to reduce risks from them.

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 carries out its activities in a complex and evolving legal and regulatory framework, at the national, European and international levels, and in particular:

- in the aeronautical domain in terms of the navigability of products,
- in health and safety in the workplace,
- in terms of the environment at the industrial sites (REACh in particular),
- in economic, social and financial matters.
- in the prevention and detection of corruption.

2.5 RISK OF SERIOUS VIOLATIONS RELATED TO THE DUTY OF CARE

In the context of its activities, Dassault Aviation is potentially exposed, through its controlled companies and suppliers to risks in the areas of human rights, fundamental freedoms, the health and safety of humans, and the environment.

Pursuant to Law 2017-399 of March 27, 2017 concerning the duty of vigilance of parent companies and companies placing orders, Dassault Aviation is strengthening its process through the establishment of an oversight plan to control the risks of serious violations in the companies that the Parent Company controls and with its suppliers. The oversight plan is based on the existing Company organization. It supplements the major risks approach, including external audits and the procurement process.

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;
- an assessment of the risk for the controlled companies, based on the periodic process to identify the major risks of the Parent Company;
- an assessment of the risks in the supplier approval process, which relies on the standardized questionnaires of the International Aerospace Environmental Group (IAEG) and questionnaires specific to the company;
- periodic follow-up in the process to monitor suppliers adapted to the level of risk identified;
- a mechanism for *in situ* assessment that can lead to an audit to cover the controlled companies and the listed suppliers with high risks.

The alert mechanism will be operational in 2018.

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

2.6 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 the systems 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.

2.6.1 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.

2.6.2 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.

2.7 RISKS RELATED TO PERSONNEL

Aviation technology is complex and evolving, and we must be careful to maintain our expertise in all specialized technical areas of aviation.

Moreover, the Group conducts an annual analysis of key positions in order to define a succession plan."

2.8 FINANCIAL RISKS

2.8.1 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 diversified investments, as defined by the AMF classifications, are invested in short-term and money mutual funds. In addition, the majority of the investments are backed by guarantees.

2.8.2 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 credits made are secured by Bpifrance Assurance Exportor or by collateral. The manufacturing risk is also guaranteed with Bpifrance Assurance Export for major military export contracts.

Additional information is available in Notes 7 "Trade and Other Receivables" and 23.2 "Credit and Counterparty Risk" to the consolidated financial statements.

2.9 MARKET RISKS

2.9.1 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 23.3 "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 shares in Embraer which is listed on the Brazilian stock market. It is stated in the Group's financial statements, based on market value at the balance sheet closing date, in Brazilian reals converted into euros. The value of the shares may therefore fluctuate according to the exchange rate between these two currencies.

2.9.2 Interest rate risks

The Group is exposed to the volatility of interest rates through loans taken out at a variable rate. Instruments have been put in place to set the rate of these loans.

2.9.3 Other market risks

The Group is exposed to a risk related to price fluctuations of Embraer shares. A sensitivity analysis is available in Note 23.3.4 "Risks related to Embraer Shares".

2.10 ENVIRONMENTAL RISKS

2.10.1 Risk management procedure

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. This system ensures:

- identification of risks and their potential effects,
- plans to reduce risks "at source",
- measures and means of prevention and protection,
- emergency response plans,
- periodic accident simulation exercises;
- the compliance of sites and products as well as control of their impacts.

As provided in our contractual clauses, French suppliers whose industrial processes could have a significant environmental impact undergo environmental audits. The generalization of the environmental assessment of suppliers is ongoing, in line with the efforts of the International Aerospace Environmental Group (IAEG), in which the Dassault Aviation Group participates.

2.10.2 Damage caused to the environment

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 prefectural order in 2006 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.

Following the supplementary prefectural order of July 2012 asking us to study the improvement of our plan, we have, with the agreement of the Regional Environmental, Planning and Housing Authority (DREAL), installed additional drains to collect groundwater north of the facility.

For 2017, no environmental accidents were reported.

2.10.3 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 the Argenteuil and Biarritz facilities. The Mérignac and Argonay sites will be integrated into the plan in 2018 in accordance with regulatory deadlines.

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.

Lastly, under the framework of said insurance contract and as part of a consistent risk prevention approach, the insurers carry out regular risk reviews of the facilities and draft analysis reports that serve as the basis for implementing action plans.

The Dassault Aviation Group did not have to recognize any environmental liabilities in 2017.

2.11 RISKS RELATED TO SECURITY BREACHES

The terrorist threat remained high in the territory in 2017, 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 Groupe Dassault Aviation. 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.

2017 was marked by an increasingly high cyber risk that 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 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.

2.12 OTHER RISKS

In late 2002, a group of French manufacturers, including Dassault Aviation, was collectively served a request for arbitration in the context of a dispute between them and the Republic of China relating to the execution of a former commercial contract. After a withdrawal, the client initiated a new arbitration request in November 2012 based on grounds similar to the 2002 action.

In an arbitration award notified on October 25, 2017, the three manufacturers were jointly sentenced to pay EUR 227 million including interest, to the Republic of China. Dassault Aviation paid the amount of EUR 134 million, representing its own share. The corresponding expense was recognized in other non-current operating income and expenses in the Group's financial statements as of December 31, 2017.

2.13 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.

On a regular basis, the lead underwriter conducts general and prevention audits with the Legal Affairs and Insurance Department to set up preventive actions to reduce any risks likely to affect our business 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.

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.

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 risk control*

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

  - *through the Quality Management System (QMS):*

  The QMS is coordinated by the Total Quality Management Department and relies on the Establishment Quality Control Managers and Quality Representatives of Operational Departments.

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

  The QMS 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, with respect to both "structure" and "programs," ensures the control of the budgetary process.

  It comprises a network of management auditors in all Company departments. In particular, regular budget reviews allow for reporting to Executive Management.

- Ethics Department

  The Ethics Department, created in 2017, which reports to the Chairman-CEO, is responsible for ensuring compliance with fair practices. It handles procedures implemented under the "Sapin II" 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 Department (IAD) is tasked with assessing risk management and internal auditing processes.

The Internal Audit 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.

The Audit Committee meets with the Internal Audit Director and examines 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 for 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).

As part of its proactive approach, the Company is EN 9100, ISO 9001 and ISO 14001 certified. Its Quality Management System (QMS) and Environmental Management System (EMS) underwent a joint renewal audit in March 2016 that was conducted by an outside agency (Bureau Veritas Certification). This audit confirmed that our QMS and our EMS were compliant with the requirements of the standards.

3.3 RISK MANAGEMENT PROCEDURES

The risk management procedures detailed in Chapter 2 of the this report are based on a risk mapping updated by each 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 major risks are also recorded in this mapping.

More specifically, the control of program risks at Dassault Aviation is based on the following process:

- identifying critical risks per program,

- risk analysis (assessment and prioritization),

- treatment of risks.

Risks are primarily identified through regular critical risk reviews conducted by program management, operational management and site management.

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 critical risks and monitor and reduce existing risks.

The Total Quality Management Department, which is in charge of risk control, notifies Executive Management by transmitting the list of critical risks identified.

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

Finally, the mission of the Risk Committee, based on the risk mapping and any other relevant factors, 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 that the risk management procedures are adopted in the subsidiaries.

It is presided over by the Executive Vice-President for Total Quality, and reports back to Executive 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 2016-07 approved by the Decree of September 28, 2016;
  - 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, 2017, as adopted by the European Union, which must be applied for fiscal periods beginning on or after January 1, 2017, 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 2017, 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.

3.5 2017 ACTIONS

The Internal Audit Department (IAD) and the Total Quality Management Department (DGQT) 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 2018 ACTION PLAN

For 2018, 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. SOCIAL, ENVIRONMENTAL AND CORPORATE RESPONSIBILITY INFORMATION

The Dassault Aviation Group actively pursues a policy of corporate social responsibility (CSR) and promotes six strategic development themes:

- developing innovative products and processes with a reduced environmental impact,
- developing the human potential of the Group,
- ensuring the safety and protection of employees,
- adopting a wage policy that involves employees in the results,
- achieving a responsible approach towards its partners and suppliers,
- making an active contribution to local economic and social life.

These themes are reflected in the ethical commitments of Dassault Aviation Group, which serve to unite all Group employees around them.

The CSR policy is based on the different departments of Dassault Aviation and its subsidiaries. It is well integrated with the strategy of the Dassault Aviation Group.

The information developed and presented below is part of this dynamic. It relates to the Dassault Aviation Group, comprising the Parent Company and its subsidiaries.

Most of the indicators used take account of the regulatory requirements and of the principles of the GRI (Global Reporting Initiative). A correspondence table between our indicators and these principles is included in Appendix 2 to this report.

"Quality Instructions" formalizing the reporting rules and periodic checks are carried out by our independent third party auditor.

However, as detailed in the methodological note included in Appendix 1 to this report, certain indicators cannot be consolidated because of regulatory differences between countries.

4.1 HUMAN RESOURCES INFORMATION

4.1.1 Staff policy

The fundamental principles governing the staff policy of the Dassault Aviation Group are:

- attentive job management, designed to develop our skills in a continually evolving environment;
- an attractive and motivating compensation policy,
- an ongoing dialogue with staff, manifested via:
  - the search for collective agreement,
  - the regular functioning of the staff representative institutions,
- combating all forms of discrimination through:
  - the implementation of corporate agreements or action plans, in particular with regard to job equality between men and women, the employment and retention of disabled workers, and the integration of younger workers and the retention of older workers;
  - information and training of employees, employee representatives and managers on these topics,
- the professional and career development of each employee, based in particular on:
  - Provisional Management of jobs and skills, which provides tools to each employee of the Parent Company to assist in managing his or her professional career;
  - training, in particular through the Dassault Institute for the development of our managers and the Skills Conservatory for the transfer of our skills and expertise;
  - internal mobility: all employees of the Parent Company have access to internal vacancies;
- preventive health & safety actions carried out in coordination with the medical network and the Health & Safety and Working Conditions network, in order to ensure the well-being of employees, both physically and psychologically.

4.1.2 Employment

As of December 31, 2017, the total Dassault Aviation Group workforce was 11,398 people, compared with 11,942 in 2016.

Entity	Employees as of 12/31/2017	Employees as of 12/31/2016 *Pro forma*
Dassault Aviation Parent Company	8,045 (1)	8,244
Dassault Falcon Jet	2,317(2)(3)	2,648(3)
Dassault Falcon Service	629	640
Sogitec Industries	407	410
Total	**11,398**	**11,942**

(see Appendix 1 - Reporting methodology for indicators)

(1) Early-of-carrer paid leave: 46 departures at the end of 2017 out of 127 who participated in the process
(2) 138 early retirements and 119 lay-offs within the framework of the 2016 plan
(3) change in scope of consolidation in 2017: integration of Dassault Procurement Services within Dassault Falcon Jet.

The workforce of Dassault Aviation Group consists of 1,988 women (17%) and 9,410 men (83%).

Workforce distribution by age group is as follows:

Distribution by age	
Under 35	22%
36 to 50	40%
Over 51	38%

The employees of Dassault Aviation Group are distributed as follows: 80% in France and 20% in the United States. This distribution is close to the distribution in 2016.

As of December 31, 2017, 441 Dassault Aviation Group employees were part-time, up slightly from last year.

In 2017, the Dassault Aviation Group continued to adapt its recruitment policy to its industrial and commercial environment and hired 485 people, down from 542 hires in 2016.

Furthermore, the number of departures from Dassault Aviation Group was 1,029, versus 777 in 2016. Individual lay-offs, essentially at Dassault Falcon Jet, represent about 20% of all of those departures (11% in 2016).

To prepare for its future recruitment needs, the Parent Company is pursuing its cooperation with educational institutions and establishments.

In order to promote our Company and help students to construct their career plans, some company employees are officially assigned as "ambassadors" to pass on their skills and take part in actions conducted at the Company level, or locally by our establishments.

These upstream recruitment efforts are backed by an internship policy designed to facilitate entry into working life. In 2017, the Parent Company had 346 interns, stable from 2016.

4.1.3 Compensation

The Dassault Aviation Group implements a compensation policy which aims to reward, motivate and inspire loyalty among its employees, while adapting to its position and economic environment to maintain its competitiveness in a highly competitive market.

The average annual salary of Group employees in 2017 was EUR 55,654. The average annual salary at the Parent Company, including profit-sharing and incentives, was EUR 64,881.

The Parent Company and its French subsidiaries also promote employee savings. Employees may use the Company Savings Plan, which offers a wide range of investments. Employees of Dassault Aviation also have a Collective Retirement Savings Plan (PERCO) to which the company contributes.

Furthermore, the Parent Company paid EUR 23.7 million into the Works' Committees to fund social and cultural activities, representing 5% of the total payroll.

4.1.4 Employee relations

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

This regular staff dialogue helps to maintain a climate propitious to the smooth operation of the Company. It operates at several levels, involving:

- staff representative bodies:
  - Works' Committees,
  - Health & Safety and Working Conditions Committees,
  - Staff Delegates,
  - Specialized committees (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 most votes in the elections of the works councils of the Parent Company and of its subsidiaries located in France,
  - the ESU Central Committee is also represented by one of its members.

An agreement of the Parent Company on the role, capabilities and career of staff representatives, signed in 2010, facilitates the functioning of trade unions and staff representative bodies by providing many additional resources to those provided by law (time off for trade union duties, budgetary allocations for the unions, material resources, career monitoring program for staff representatives).

4.1.5 Diversity

The Dassault Aviation Group adheres to the principles of non-discrimination and promotes its desire to encourage diversity, considered a key factor in its Human Resources policy. This desire is manifested in 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.

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.

In 2017, Dassault Aviation signed an agreement, with the unanimous consent of its social partners, on equality in the workplace and equal salaries for women and men, and thus pursues its policy to develop general diversity in the company and particularly in the technical and industrial businesses. 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 is continuing its voluntary policy to recruit women pursuant to the commitments of the agreement.

In order to increase employee awareness, Dassault Aviation organized a campaign on professional equality for men and women titled "equality and diversity: all concerned" which was conducted in two phases:

- a first phase in the form of a contest open to all employees and designed to increase awareness using humor in order to fight prejudice, sexist representations and promote a new behavior;
- a second phase in the form of a Company event deployed in all nine establishments of the Company. The goal of this event was to encourage reflection and raise awareness about the problem of professional equality and gender diversity. It was also intended to re-

mind the Company's commitments and actions in these areas; this day concluded with an interactive theatrical play titled "Ah! If I were a man."

In 2017, the French subsidiaries Dassault Falcon Service and Sogitec Industries continued their commitments under their agreement to promote professional equality between women and men, which were signed in 2015 and 2016 respectively.

In 2017, the Parent Company signed with all social partners a corporate agreement on employment and retention of disabled workers, which demonstrates the desire of the players in the group to continue mobilization for the policy conducted for many years within the Company.

The Parent Company intends to pursue its upstream actions to train disabled workers, work study programs, in the aviation businesses and trades within the framework of its partnership with the Hanvol association, created in 2010 with the support of the GIFAS (Groupement des Industries Françaises Aéronautiques et Spatiales) and other aviation and space companies. It also wants to encourage recognition and renewals of disability recognition by strengthening its communication and support measures.

The Parent Company's commitments to employing disabled workers have resulted in a direct employment rate of 5.8%, the legal surcharges linked to the employment of disabled older or younger workers allow to reach a global employment rate of 7.8% (legal minimum of 6%).

In 2017, the first agreement at Sogitec Industries to promote the employment of disabled workers, signed in 2016 for the 2017/2019 period, entered into force, with the priorities of adjusting workstations along with providing adapted training, and established authorizations for paid absences to attend medical examinations to monitor the disability.

In late 2017, the Dassault Aviation Group employed 496 disabled workers, compared to 526 in 2016. This decline essentially reflects retirements.

In addition to these actions, there were actions for the protected sector and disabled trainees.

In addition, Dassault Aviation continued its measures to promote the integration of young workers with the launch of a collaborative platform @pont d'envol [flight deck], dedicated to the trainees and work-study students at Dassault Aviation. This platform provides these young workers with information to understand our company and our businesses, generate a network among trainees, work-study students and the enterprise.

At the same time, in order to encourage end of career adjustments and facilitate the transition between work and retirement, Dassault Aviation supplemented its training program, designed to provide information on questions about retirement from the personnel in question, through the establishment of a personalized retirement information interview. This interview, conducted with an outside counselor, 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.

In 2017, these interviews were initiated at two sites and were conducted with 264 employees.

4.1.6 Human resources development

The Parent Company relies on the agreement governing the management of jobs, professional paths and the generation contract signed in late 2016. In particular, this agreement must make technical excellence permanent and develop a dynamic approach to the provisional management of businesses and expertise in order to better direct, anticipate changes, and ensure development and transmission.

For this purpose, in 2017, the Parent Company launched the restructuring of its Skills Conservatory. Until now, the role of the Conservatory has been to design and implement modules on technical themes (e.g.: impermeability, assembly by mounting, etc.). Now, its role is expanding with the development of programs and the establishment of "skills" training (adjuster, preparer, etc.). These sessions complete the employee's 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 supplemented its program with new training courses (Dassault Team Manager, Dassault Entreprise, etc.). 141 employees were trained in 2017. The training curriculum related to project and program management was also continued. In 2017, 95 employees took these training courses.

In addition, several programs continue to be implemented or enhanced as needed within the Parent Company. These include:

- the high degree of technicality of our activities, which leads us to develop special relations with the world of education, thereby helping to ensure the suitability and quality of training of our future recruits;

- integration of new hires:
  - the Flight days, which bring together newly recruited managers, are an opportunity for each of the members of the Executive Committee to present their activity. In addition, visits to military air bases are organized to allow them to talk with our customers about the use of our products and services and understand their expectations;
  - in addition, integration programs are in place within the companies and sites;

- professional mobility allows to meet the resource needs of the enterprise and the aspirations of the personnel.

In addition, in order to support the specialization of the sites implemented under the transformation plan, which leads to the transfer of activities among the sites, the Company has defined specific measures intended to facilitate the resulting transfers.

Finally, at the Group level, the actions in 2017 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 275,676 hours of training for the Dassault Aviation Group, an increase over 2016.

4.1.7 Health and safety at work

The preservation of health and safety at work of all its employees remains a high priority in the policy of the Dassault Aviation Group.

In 2017, Dassault Aviation continued to place the health of its employees, improvement in the prevention of occupational risks and working conditions at the center of its concerns with:

- an ongoing process to prevent and monitor psychosocial risks and the resulting action plans;

- a health watch and expanded monitoring of expatriate employees or those on assignment;

- assistance in the recognition of disabled personnel as well as workstation adjustments to allow them to stay on the job through the agreement with the corporate partners and allocated budgets;

- employee training on "good gestures" in their professional daily life;

- reinforcement of the "safety prevention in the workplace" culture.

The following initiatives have therefore been taken by the Company:

- the continuation of the "safety in the workplace leadership" training launched in 2016, intended for all Company managers;

- the establishment of practices and resources for "proactive management" of Health and Safety in the Workplace;

- the use and distribution of feedback from incidents and accidents for the sites;

- the implementation of a process to share experiences, innovative technical solutions or good practices in the areas of Health and Safety in the Workplace, the Environment, Ergonomics, and Chemical Products at the Company level;

- support for the sites in developing maturity in health and safety in the workplace;

- continuation of actions to reduce risks and secure resources;

- the reduction in the number of processes that are potentially exposed to a chemical risk.

In conformity with its Total Quality policy, the Company has made ergonomic improvements in all relevant sectors, with:

- a network of ergonomic agents distributed over all sites;
- a network of risk trainers (prevention of risks related to physical activity--PRAP) distributed at the sites;
- decreased exposure to musculoskeletal disorders (MSDs) and the creation of a manual handling diagnostic,
- integration of ergonomics into projects and work equipment design, and into tertiary facilities,
- leading ergonomics training sessions.

In 2017 Sogitec Industries continued its work to improve health and safety conditions in the workplace. It has in particular focused its efforts on workplace ergonomics.

For the Dassault Aviation Group, absenteeism as of December 31, 2017 was 77,811 days of absence, from all causes, excluding maternity and parental leave.

The number of occupational accidents causing absence was 157 in 2017 down from 182 in 2016, a decline of 13%. The corresponding number of days lost was 7,051 days, compared with 7,418 in 2016. The frequency rate fell from 9.57 to 8.77. The severity rate remained stable at 0.39.

Finally, across the Group as a whole in 2017, 19 cases of occupational illnesses were identified by the various competent authorities, compared with 21 in 2016. These were primarily musculoskeletal disorders.

4.2 ENVIRONMENTAL INFORMATION

4.2.1 General framework

An environmental policy has been followed by Dassault Aviation Group for over ten years. This policy is based on a management system deployed in stages:

- ISO 14001 certification of the Little Rock site of Dassault Falcon Jet in the United States (2002),
- ISO 14001 certification of the industrial sites of the Parent Company (2002-2006),
- overall certification of the Parent Company from design to customer support (2007),
- integration of Quality and Environment certifications for the Parent Company (2009),
- ISO 14001 certification of the Le Bourget Dassault Falcon Service site (2015).

The change to the 2015 version of ISO 14001 was made in 2017 for a target for certification in March 2018.

This approach has strongly contributed to:

- the significant reduction in the environmental impacts of our activities (see Section 4.2.7),
- a reduction and tighter control of our environmental risks (see Section 2.10.1),
- improved responsiveness to regulatory changes.

4.2.2 Environmental commitment

Since 2008, the Parent Company has been a member of the Council for Civil Aeronautical Research (CORAC) set up following the Grenelle de l'Environnement conference for defining and implementing technological research and innovation actions. Its purpose is to achieve the environmental objectives set at European level for 2020 and to reinforce the competitiveness of the sector.

Dassault Aviation is also one of the founding members of the IAEG (International Aerospace Environmental Group), created in 2011, whose objectives are to promote and facilitate the integration of environmental concerns in the world aerospace industry.

In 2017, the Dassault Aviation Group contributed within the IAEG to standardization in the following major areas:

- the tracking of all chemicals throughout the Supply Chain,
- the determination of which chemical substances should be substituted as a priority,
- sector standardization of greenhouse gas emission reviews,
- the environmental assessment of suppliers.

Finally, in the context of the GIFAS, Dassault Aviation, a member of the Environment and Sustainable Development Commission, participates in working groups concerning REACh, Greenhouse Gas, and Eco-Design, environmental assessment of suppliers and duty of care working groups.

4.2.3 Eco-approach

In 2011, the Parent Company formalized an "Eco-Approach 2021" plan based on two key points: eco-design (green aircraft) and eco-production (green factory).

As regards "green aircraft", the Parent Company has participated since 2008 in studies on the aircraft of the future, in the context of European Cleansky and Cleansky 2 projects.

Several demonstrators have been set up and evaluated, such as new tail configurations for improved environmental performance.

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.

Dassault Aviation is also working to reduce the environmental impact of aircraft through involvement in several projects via the CORAC platform:

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

On the "green factory" aspect, the Parent Company:

- is engaged in the replacement of substances of concern used in industrial processes (such as chromate and 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.

4.2.4 Environmental objectives

Over the past forty years, technological progress with regard to engine efficiency, aerodynamics and weight saving has made it possible to considerably reduce fuel consumption, CO_2 emissions and noise nuisance from our aircraft.

Dassault Aviation is pursuing this path and has subscribed to the 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;
- reduction of the environmental impact generated by production and the withdrawal of aircraft from service.

The results obtained at the end of CleanSky show that, for the concept of the "2020 business aircraft", the CleanSky technologies permit reductions in CO_2 emissions of around 30% and a 50% reduction in the number of persons exposed to the operations, compared with the reference "2000 business aircraft".

The CleanSky program has been extended by CleanSky 2 with a projected contribution to the targets of a 20 to 30% reduction in CO_2 and noise levels on the ground.

From an industrial standpoint, the goals for reducing the Parent Company's environmental footprint were defined for the 2015-2017 period. The desired performance improvement targets CO_2 emissions, energy consumption and waste recovery.

The results obtained by the Parent Company in 2017 were, for example:

- An 18.6% reduction of energy consumption excluding kerosene in gigajoules (GJ) compared to 2012, and a 5.1% reduction when kerosene data is taken into account,
- a 46.4% reduction in VOC emissions/production time compared to 2012,
- 77.7% of waste recovery.

4.2.5 Employee awareness

Environmental matters within Dassault Aviation Group are handled by a central team which coordinates the environmental procedures at the operating sites and departments. Specific teams perform this function in the subsidiaries.

Each establishment of the Parent Company has an environmental team and a network of representatives.

The environmental teams and environmental representatives undergo regular awareness training on environmental issues, for example, through specific seminars on the topic. In 2017, the 2015 version of ISO 14001 was at the center of these awareness training sessions.

Staff are made aware of best environmental practices in resource saving, waste sorting, the use of chemicals, etc.

For activities that have a significant impact on the environment, specific training for the following areas is implemented as needed: REACh, chemical risk, asbestos, radiation protection, etc.

Service providers to French sites are made aware of these issues primarily through prevention plans.

4.2.6 Administrative schemes

The Dassault Aviation Group's French industrial sites are subject to ICPE (Environment Protection Classified Installations) legislation and, as such, have all recent administrative authorizations:

- the Martignas, Saint-Cloud and Poitiers sites are under the "declaration scheme",
- the Seclin site is under the "registration scheme",
- the other facilities of the Parent Company and Dassault Falcon Service are under the "authorization rules".

No site is subject to SEVESO classification.

The Sogitec Industries sites are not classified.

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

4.2.7 Environmental performance

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	2017		2016	
	Parent Company	Group	Parent Company	Group
Excluding kerosene energy (ENE001)	497,068	850,600	531,353	894,405
Kerosene (ENE002)	310,905	561,219	266,147	491,872
Total	**807,974**	**1,411,819**	**797,500**	**1,386,277**

The decline in energy consumption excluding kerosene is the result of the measures taken within the framework of the Dassault Aviation environmental policy.

This decline is offset by an increase in kerosene consumption in 2017, directly related to an increase in air activity.

In Gigajoules	2017		2016	
	Parent Compa-ny	Group	Parent Compa-ny	Group
Electricity (ENE001-a)	292,463	510,628	311,680	536,791
Natural gas (ENE001-b)	203,112	334,761	217,914	352,244
LPG (ENE001-c)	0.23	0.23	0.23	0.23
Domestic fuel oil (ENE001-d)	1,494	5,211	1,759	5,370
Total (ENE001)	**497,068**	**850,600**	**531,353**	**894,405**

The actions taken in 2017 on power and gas consumption contributed to these decreases:

- building insulation,
- Centralized Technical Management (CTM) of energies and the optimization of hourly schedules for equipment use via more precisely programmed cut-offs;
- optimization of compressed air systems,
- establishment of multi-technical maintenance agreements that include a commitment to improve energy performance.

Water consumption

The water used comes mainly from the public supply networks and is supplemented by the pumping of groundwater.

In cubic meters	2017		2016	
	Parent Compa-ny	Group	Parent Compa-ny	Group
Mains water (EAU001-a)	94,878	141,919	104,618	151,810
Groundwater (EAU001-b)	21,077	21,130	22,567	23,610
Total (EAU001)	**115,955**	**163,049**	**127,185**	**175,420**

The resolution of leaks, the end of surface treatment at Biarritz, and continued improvement measures drove the decline in water consumption.

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 Parent Company seeks to reduce its impact on aluminum resources through actions in the design of our aircraft and in industrialization, such as:

- the development of new technologies, including the replacement of metal parts with composite parts and the development of new processes such as direct manufacturing, which consumes fewer raw materials, which is now being established;
  the optimization of existing supply chains, with, for example, the reduction of sheet metal formats before machining to minimize the amount of material used,
- the use of "centralized material" platforms to regulate and reduce the volumes of material consumed, and the preparation for the installation of a new "hardware" platform;
- stronger practices for selective sorting of scrap metal and reinjecting it into the raw material sector, according to circular economy principles.

The programming of default two-sided printing on the Pcs, as well as the installation of printing with a personal code have contributed to minimizing paper and ink consumption.

The modernization of the machine pool and process changes have enabled significant reductions in the quantities of chemicals used, such as solvents, chemical machining products, paints, cleaning products and cutting fluids.

Since 2013, 330 hazardous products have been replaced or are being substituted.

Atmospheric discharges

Direct greenhouse gas emissions

In tons of CO_2	2017		2016	
	Parent Compa-ny	Group	Parent Compa-ny	Group
Scope 1 (AIR001-S1)	36,262	62,655	33,106	58,017
Scope 2 (AIR001-S2)	4,874	32,770	5,195	33,736
Total 1 + 2 (AIR001)	**41,137**	**95,425**	**38,301**	**91,753**

Greenhouse Gas emissions come mostly from air activity and combustion installations (boilers and emergency sets).

As they do each year, Dassault Aviation Parent Company and Dassault Falcon Service produced, for their air activity, a CO_2 emissions statement under the "Emissions Trading Scheme" regulations. On December 18, 2017, for the Swiss equivalent of this regulation, the Dassault Aviation monitoring plan was approved by the Federal Office for the Environment.

Indirect GHG emissions

According to Article 173 of the Law on Energy Transition for Green Growth and Implementing Decree No. 2016-1138 of August 19, 2016, Dassault Aviation has identified its significant sources of indirect greenhouse gas emissions.

Because of their design, Falcon aircraft record fuel consumption and CO2 emissions 20% to 40% lower than other aircraft with comparable performance. Despite this, logically, the modeling of the environmental footprints based on a Life Cycle Analysis (LCA) approach show 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 customer air activity is predominant, Dassault Aviation Parent Company has:

- reduced the carbon impact of its professional travel by providing employees with collaborative tools, videoconferencing or self-service office space;
- established distribution platforms for chemicals and materials that contribute to the reduction of transport flows,
- continued further assessment of indirect transport-related upstream emissions and professional travel. This assessment does not yet allow a decision to be made on the contribution of upstream transportation to the Parent Company's footprint.

Emission of volatile organic compounds (VOC)

in tons of VOC	2017		2016	
	Parent Company	Group	Parent Company	Group
Total quantity (AIR004)	38	139	41	144

The reduction in VOC emissions continues in 2017 (down 46% since 2012) due to changes in industrial processes and chemical product substitutions. The installation of cleaning fountains without VOC or the use of impregnated towelettes contributes to these results.

Other atmospheric discharges

Phasing out the heavy fuel oil boilers restricted SO_2 and NOx 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, this equipment has discharge rates lower than the value limits set by the regulations.

Out of all establishments involved in the monitoring of the Release of Hazardous Substances in Water (RSDE), only the Mérignac site 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.).

in tons	2017		2016	
	Parent Company	Group	Parent Company	Group
Non-hazardous (DEC001-a)	3,897	5,148	5,027	6,309
Hazardous (DEC001-b)	1,611	2,373	1,668	2,304
Total (DEC001)	**5,508**	**7,520**	**6,695**	**8,613**
Recycling % (DEC002)	78	68	81	71

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

- recycling of metals,
- energy recovery,
- recovery of non-metallic materials and bio-waste.

Each facility has a specific collection area, fitted to prevent accidental pollution.

Land Use Conditions

Excluding the historic Saint-Cloud and Argenteuil facilities, which are located in urban zones, the sites of the Dassault Aviation Group have been laid out with a concern to preserving green spaces.

The average proportion of sealed surfaces (developed land and roads) is 54% for the Parent Company (SOL001 indicator) and 54% in consolidated data.

Noise and vibrations

In the production facilities, noise-producing elements are isolated geographically or physically. Devices capable of generating vibrations are mounted on anti-vibration pads.

Ground tests and flight operations are conducted in compliance with applicable regulations.

Biodiversity

The sites at Istres, Biarritz, Martignas, Saint-Cloud, Seclin (Parent Company) and Reno (Dassault Falcon Jet) are close to outstanding natural areas (BIO001 Indicator).

Since the facilities are located within industrial or airport areas, their activities have no significant identified impact on biodiversity.

In 2017, following new construction, actions to promote biodiversity were carried out by the Martignas and Mérignac sites as an environmental offset: reforestation, restoration of wetlands and habitat of protected species (butterflies, amphibians, orchids). In addition, the sites at Argonay and Seclin have installed hives at their sites.

Food waste

Dassault Aviation is sensitive to the problem of food waste, but the management of its company dining areas is assigned primarily to specialized providers.

4.2.8 Resources committed to the environment

Every year the Dassault Aviation Group carries out actions to preserve the environment and reduce its carbon footprint. For example, in 2017:

- the management of energy consumption through the installation of Smart Impulse (Argonay) or Apigreen (Saint-Cloud);
- the installation of street lamps powered by photovoltaic panels (Argonay);
- the optimization of electric energy consumption: latest generation lighting with each replacement, interior sensor (Argenteuil, Argonay, Biarritz, Istres, Martignas, Mérignac, Saint-Cloud, Dassault Falcon Service, Dassault Falcon Jet Little Rock and Teterboro), programmed automatic sleep on the Pcs (Saint-Cloud), installation of a variable speed compressor (Poitiers);
- optimization of gas consumption: thermal insulation, double glaze windows, heat insulation, heating system modernization, hot water network upgrade (Argonay, Biarritz, Mérignac, Saint-Cloud);

- reduction of water consumption: modification of the water treatment station to eliminate a discharge point and redirect the effluent to supply other baths (Argenteuil), replacement of the sanitary hot water and cold water networks in the kitchen (Saint-Cloud);

- the reduction of atmospheric emissions: the replacement of cooling gases with high global warming potential ("GWP") with lower GWP gases (Biarritz, Saint-Cloud), the renovation or construction of paint cabins (Argenteuil, Mérignac) with high environmental performance, the continued replacement of the combustion vehicle fleet with electric vehicles (Mérignac), the replacement of motorized mowing with sheep;

- reduction of the industrial process footprint;

- optimization of waste management: partnership with eco-organizations (Saint-Cloud).

4.2.9 Environmental risk management

The management of environmental risks is discussed in Section 2.10.

4.3 CORPORATE RESPONSIBILITY INFORMATION

4.3.1 Company commitments in favor of sustainable development

A Policy of sustainability

Due to the specific nature of its activities, the Dassault Aviation Group remains 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 is constantly innovating, supported by efficient digital industrial processes such as Product Life-cycle Management (PLM). All the Group's suppliers are involved in this process of innovation.

We optimize our production to increase efficiency while improving the working conditions of our employees. To this end, we have continued our action plan for Improving Responsiveness in Production (IRP), and we continue to develop digital factories. As an example, we can cite the use at the Argenteuil site of the training room for digital immersion for workers or, at Mérignac, the rollout of a pilot program for shop management based on a single interface between the worker and the data he or she needs. This new digital tool allows the worker to focus on the quality of the work and its added value.

Similarly, our Group's approach, with its commitment to ecology (via eco-design), the use of new materials and the definition of new clean processes, makes a strong contribution to the optimization of our products and stands us in good stead in the face of future regulations.

This approach is reflected in particular through waste recycling in our sites: metal waste and chips, paper and cardboard.

A culture of safety and performance

The markets on which our Group operates are highly competitive. In order to satisfy our clients and meet their expectations with regard to high technology, performance and innovation, we are obliged to constantly 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.

In 2016, the DGA gave Dassault Aviation a manufacturing approval (RAP) for the export Rafale.

Since 2017, Dassault Aviation has confirmed to the DGA and DSAE authorities its commitment to extend and maintain the airworthiness approvals for the military FRA 21-G and FRA 145 aircraft.

We are regularly audited by such authorities (the DGAC, the DGA, etc.) to ensure that we strictly comply with the regulations on design, manufacture and testing, maintenance, and security management.

The audit conducted by the OSAC on October 10, 2017 verified the compliance of our organization with the navigability regulatory requirements for civil production.

The necessary responsiveness, whether handled preventively or in an emergency in the event of a breakdown, has led us, through our Dassault Falcon Service and Dassault Falcon Jet subsidiaries, to develop close links with local industry, and this proximity guarantees efficiency and safety.

Starting on November 15, 2015, we implemented the new provisions required by European Regulation 376/2014 concerning reporting and analysis of incidents in civil aviation, thus improving existing good practices for safe flights.

Corporate commitment for industrial and purchasing activities

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;
- disassembles, repairs and reinstalls these same elements while the aircraft is in service,
- controls its supply chain;
- implements materials for replacement to ensure the best service to customers, informs of any procurement instabilities in order to ensure long-term compliance with its commitments on the aircraft production and throughout the aircraft service cycle.

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

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. Due to the nature of its products and the related services, the relationship that Dassault Aviation builds with its SME, intermediate-sized enterprise or major group suppliers is necessarily balanced over the long term.

The satisfaction survey conducted at the request of Dassault Aviation in December 2015 on a panel of 200 SMEs in the defense sector measured the degree of satisfaction of the SMEs with the Dassault Aviation supply chain.

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, 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. Establishing and maintaining a balanced relationship with suppliers is a cornerstone of Dassault Aviation.

Volume of purchases

In 2017, the order commitments of Dassault Aviation Group represented approximately EUR 2.4 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 320 million.

In 2017, Dassault Procurement Services was absorbed by Dassault Falcon Jet. Purchases made outside the Group by Dassault Procurement Services totaled approximately EUR 10 million in 2017.

These purchases are mostly made in US dollars.

Purchases outside the Group made by Dassault Falcon Service (airline company, maintenance center) represent approximately EUR 49 million for the year. French suppliers are responsible for nearly 75% of these purchases.

Purchases made outside the Group by Sogitec Industries represent about EUR 35.5 million. 95% of these purchases are made from French companies.

Our purchasing policy and the security of our supply chain

Our purchasing policy is intended to secure our Supply Chain in order to provide the best service to our customers.

Supplier approval is the first step in capacity verification for a supplier to deliver products/services that meet our requirements and those of our clients. It is issued for one or more fields of activity after an evaluation process.
Beyond that, we perform improvement actions. In 2017, we continued to:

- perform evaluation diagnostics on control of the management of our suppliers' supply chain;

- increase the number of qualified auditors to assist our suppliers in the development of supplier performance.

This approach is in line with the GIFAS Industrial Performance project and with the methodologies developed by SPACE (Supply Chain Progress towards Aerospace Community Excellence) in the Aerospace sector.

The results have benefited all customers.

Since 2017, Dassault Aviation has expanded this approach to the different purchasing segments.

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

- responsiveness,
- sustainability of the relationship,
- 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. The actions the Dassault Aviation Group has initiated over the past several years with its suppliers enable us to meet the requirements of the European REACh regulation.

To strengthen control of our supply chain, we have created a governing body, the Supply Chain Committee, composed of all stakeholders in the Dassault Aviation procurement process. This committee is designed to make all decisions and take all strategic actions in this area.

We also carry out training initiatives with our buyers and with our suppliers for the establishment of best practices.

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.

Territorial influence

The Dassault Aviation Group has an extensive territorial reach:

- Dassault Aviation has nine sites in France and locally manages a large number of suppliers;

- Dassault Falcon Service is located on the Le Bourget airport platform and has facilities at the airports of London-Luton and Moscow-Vnukovo. Since late 2016, a new industrial site for the performance of Falcon maintenance work has been operational in Mérignac;

- 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, primarily with Dassault Reliance Aerospace Limited, which will produce civilian and military aviation parts and sub-assemblies at the Nagpur site, and Reliance Airport Developers Limited, which manages and develops airport infrastructures.

In addition to the relationships we have with national authorities, to which we report our regulatory compliance, our establishments also have many relationships with local authorities: prefectures, Regional Environmental, Planning and Housing Authorities (DREAL), Pension and Employee Health Insurance Funds (CARSAT), the Nuclear Safety Authority (ASN), Regional Offices for Businesses, Competition, Consumers, Labor and Employment (DIRECCTE), customs authorities, etc.

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", "Aerocampus", 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" the sub-supervisory authority of CCI93, System@tic and Astech in the Ile-de-France region, and development agencies in Arkansas, Delaware, and New Jersey (Economic Advisory Committee).

In addition, we signed an agreement on the industry of the future with the Auvergne-Rhône-Alpes region on July 6, 2017.

Dassault Aviation is a member of the Conservatoire de l'Aéronautique et de l'Espace [Academy of Aeronautics and Space].

Relations with the world of education

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

The high degree of technicality of our activities has led us to develop cooperative relationships with the world of education, thereby helping to ensure the quality of the training of our future recruits and their suitability to our skills requirements.

We participate in the discussions held in the framework of professional organizations such as GIFAS (Association of French Aeronautical and Space Industries) 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. To this end, we encourage our staff to get involved and complement academic teachers through:

- supervision of technical projects,
- professional or multidisciplinary teaching,
- participation in examination panels.

We organize trade meetings (forums, company presentations, etc.) and arrange visits to our sites for pupils, students and their advisors (teachers, career counselors, principals, etc.).

Four challenges supported by Dassault Aviation also make it possible to give teams of students in technical domains experience in situations close to their future activity.
We also provide these various groups of people with the opportunity to become more familiar with our technologies, our professions, our values and our products through internships, international business volunteer programs and work-study contracts.

Our social contribution to the general development of technical expertise is also made through the teaching and research chairs we have set up or in which we participate. This contribution takes the form of financial support, which we systematically supplement with the participation of our experts in the development of educational and research projects for the benefit of the academic and scientific community.

Raising awareness of responsible behavior

Dassault Aviation Group recommends responsible behavior to its personnel through Company or local campaigns, at the initiative of site managers.

In France, Dassault Aviation has organized "road safety" days. We help our employees to find the best solution for their commutes. For this reason, the Mérignac facility organized a "mobility day" on September 19, 2017. Attendance by representatives of the Bordeaux Metropolitan Area, Transport Bordeaux Métropole (TBM), and "Boogi" (a carpooling application) enabled employees in 2017 to propose alternative solutions that contribute to sustainable development.

We have also installed remote communication tools (video conferencing) and made it available to employees to reduce travel. We organized conferences on such topics as health and safety at work, prevention of addiction, and stress, and we published a guide of good daily HSE (Health Safety Environment) practices for employees. In the United States, Dassault Falcon Jet provides training such as: Code of Conduct, Prevention of Discrimination, and Prevention of Harassment.

Charitable actions

The Dassault Aviation Group is actively involved in many charities. We contribute to initiatives such as "Course du Cœur" for organ donation, "Rêves de Gosses", which gives hot-air balloon rides to disabled children, "Hanvol" for training and employment 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" to assist flight crews and their families who are victims of accidents, the association "Les Mirauds Volants", which allows the visually impaired to fly aircraft, "L'École des pupilles de l'air", an equal opportunity organization, and "Technowest" for the integration of young people into the professional world.

We have developed a partnership with the Mercure, 4A and Canopée associations (gifts of materials and money for the restoration of aircraft by the members, all aviation enthusiasts) and events for the "Les Vieilles Racines" Association (former employees of aerospace companies).

Through a sponsorship agreement, Dassault Aviation has decided to support the renovation of the Verdun Memorial and the Le Bourget Air and Space Museum.

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 after the American hurricanes.

Fair practices

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

Observing a strict code of ethics, the Group promises to act in accordance with the Convention of the Organization for Economic Cooperation and Development (OECD), the United Nations Convention (UN) 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 commercial relations.

Pursuant to the "Sapin II" law of December 9, 2016 concerning the fight against corruption and the modernization of economic life, Dassault Aviation completed its process by implementing seven specific measures to prevent and detect corruption and influence peddling:

- an Anticorruption Code that defines and illustrates different types of behavior to be avoided as characteristics of corruption or influence peddling; this Code, integrated in the internal rules of the various Company sites, is illustrated by an Anticorruption Guide that is composed of practical examples and situations;

- 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 Anticorruption Code;
- risk mapping, intended to identify, analyze and rank the risks of exposure to corruption;
- procedures for assessing the situation of clients, first-tier suppliers and intermediaries in the mapping of risks;
- internal or external accounting control procedures intended to ensure that the books, ledgers and accounts do not mask acts of corruption or influence peddling;
- specific training sessions for the managers and personnel most exposed to risks of corruption and influence peddling;
- a system of control and internal evaluation of the measures implemented.

The Ethics Department, an independent unit reporting to the Chairman-Chief Executive Officer is responsible for establishing and monitoring these measures.

These seven measures are being implemented within the three main subsidiaries of Dassault Aviation--Dassault Falcon Service, Sogitec Industries and Dassault Falcon Jet.

Dassault Aviation is also a signatory of a number of international commitments to prevent corruption: The Global Pact, Common Industry Standards, and Global Principles. It 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).

4.3.2 Human rights

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. The Code of Ethics reflects these commitments.

The Group maintains balanced and responsible relationships with its stakeholders.

In 2003, Dassault Aviation subscribed to the UN Global Compact and adopted its ten principles, including the principle dedicated to respecting human rights that appears in its general purchasing conditions.

(see also Section 4.1 above on social information for the details of the commitments to the labor law and the website www.dassault-aviation.com "Ethics" page).

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

Order intake in 2017 for the Parent Company amounted to **EUR 2,620 million**, compared to EUR 9,218 million in 2016, the year we recorded the order from India for 36 Rafale. **Export** order intake represented **80%.**

The change was as follows in EUR millions:

Year	Defense		Falcon	Total	% Export
	France	Export			
2013	1,031	211	2,313	**3,555**	66%
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**	**79%**

The order intake item is composed entirely of firm orders.

Falcon programs

Falcon order intake in 2017 was **EUR 1,908 million**, compared with EUR 1,124 million in 2016.

In 2017, **41 Falcon** were ordered and **3 Falcon 5X canceled** versus 32 Falcon ordered and 12 Falcon 5X canceled in 2016.

Defense programs

2017 Defense orders totaled **EUR 712 million** versus EUR 8,094 million in 2016, the year we recorded India's order of 36 Rafale aircraft.

5.2.2 Net sales

Net sales in 2017 totaled **EUR 4,184 million**, versus EUR 3,161 million in 2016.

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

Year	Defense		Falcon	Total	% Export
	France	Export			
2013	1,223	166	2,577	**3,966**	66%
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%**

Falcon programs

Falcon net sales in 2017 amounted to **EUR 2,312 million**, compared with EUR 1,951 million in 2016.

49 Falcon were **delivered in 2017**, compared to 48 Falcon delivered in 2016.

Defense programs

2017 defense net sales amounted to EUR **1,872 million** compared with EUR 1,210 million in 2016. They were favorably affected by the increase in the number of Rafale deliveries to Egypt and the related delivery of new support resources, including technical assistance, spare parts and training.

Indeed, **8 Rafale** were delivered to Egypt in 2017 versus 3 in 2016. In addition, **1 Rafale** was delivered to France in 2017, versus 6 in 2016.

5.2.3 Backlog

The backlog of the Parent Company as of December 31, 2017 was **EUR 18,505 million**, compared with EUR 19,946 million at December 31, 2016.

The **Falcon backlog** stood at **EUR 2,507 million**, compared with EUR 2,787 million at December 31, 2016. In particular, it includes **52 Falcon** (including Falcon 5X not canceled) compared with 63 as of December 31, 2016.

The **France Defense backlog** stood at **EUR 2,687 million** compared to EUR 2,693 million as of December 31, 2016. In particular, this includes **31 Rafale.**

The **Defense Export backlog** stood at **EUR 13,311 million,** compared with EUR 14,466 million at December 31, 2016. It includes in particular **36 Rafale India**, **24 Rafale Qatar, and 10 Rafale Egypt**.

5.2.4 Net income

Net income for 2017 was **EUR 310 million**, compared to EUR 257 million in 2016.

In 2018, the personnel will receive EUR 94 million from profit-sharing and incentives tied to 2017 results, including:

- profit-sharing: EUR 74 million
- incentive plans: EUR 20 million

These amounts represent **20% of salaries** received in 2017. Under a formula identical to the mandatory legal participation, employees would not have received any profit-sharing for 2017.

5.2.5 Allocation of earnings

If you approve the accounts for FY 2017, we propose that you allocate the net earnings for the year, which is EUR 309,500,038.62, increased by the retained earnings from previous fiscal years? i.e. EUR 2,012,726,364.44 and reduced by the amount of EUR 48,908.80 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 Chapter 2 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. As of December 31, the composition of trade payables inclusive of all taxes was as follows, by due date, in EUR millions:

Due date	**2017**	**2016**
Due at year-end	14.3	10.9
As of mid-January	88.5	88.3
As of end of January		-
As of mid-February	2.7	-
As of end of February		-
other (fixed assets)	5.4	6.3
TOTAL	**110.9**	**105.5**

As of December 31, 2017, the composition of unpaid past-due 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	674				
Total amount of invoices involved (before VAT)	2.9	1.9	0.6	7.8	13.2
% of FY purchases (before VAT)	0.10%	0.07%	0.02%	0.26%	0.44%
Contractual payment periods: EOM +45 days					

As of December 31, 2017, the composition of unpaid past-due 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	5,597				
Total amount of invoices involved (before VAT)	25.2	5.8	8.2	50.4	89.6
% of FY net sales (before VAT)	0.60%	0.14%	0.20%	1.20%	2.14%
Payment periods: defined in the general sales terms.					

5.5 SHAREHOLDER INFORMATION

5.5.1 Capital structure

As of December 31, 2017, the share capital of the Company is EUR 66,495,368. 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. Following the increase in the free-float in 2016, 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, 2017, the shareholding structure of Dassault Aviation is as follows:

Shareholders	Number of shares	%	Exercisable voting rights [(2)]	%
GIMD	5,167,580	62.17	10,285,820	76.79
Free-float	2,280,557	27.44	2,284,219	17.05
Airbus SE	825,184 [(3)]	9.93	825,184	6.16
Treasury shares [(1)]	38,600	0.46	-	-
TOTAL	**8,311,921**	**100.00**	**13,395,223**	**100.00**

(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, 2017, 2,631 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 2017.

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 Board of Directors must determine the identity of the beneficiaries of such allocations, as well as the conditions and, where appropriate, 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 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 said General Meeting.

Pursuant to this authorization (see Table 9 of the Board of Directors' Report on Corporate Governance), on March 7, 2017 the Board of Directors decided to award 750 performance shares to the Chairman-Chief Executive Officer and 675 performance shares to the Chief Operating Officer. To acquire them, the following performance criteria must be met:

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

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

- a one-year vesting period, expiring on March 6, 2018 inclusive,
- presence in the workforce at the end of the vesting period,
- a one-year holding period, beginning on March 7, 2018 and ending on March 6, 2019 inclusive,
- starting on March 7, 2019, the retention of 20% of those shares for the duration of their term.

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 18, 2017 offered the option to each shareholder to receive, in part or in full, the payment of their 2016 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 pursuant to the sub-delegation granted by the Board of Directors, noted the creation of 61,136 new shares and the corresponding increase in the Company's capital on June 21, 2017.

5.5.4 Securities transactions by corporate officers

Securities transactions executed in 2017 by corporate officers were:

- the acquisition by Ms. Catherine Dassault and Ms. Mathilde Lemoine of their Directors' shares;
- the acquisition of performance shares by the corporate officers on March 7, 2017 (see Board of Directors' Report on Corporate Governance); and
- subscription by the corporate officers of new shares in payment for the 2016 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 on- or off-market, the Shareholders’ Meeting of May 18, 2017 authorized the establishment of a new share buyback program, identical to the programs approved on January 28, 2015 and May 19, 2016.

This new authorization, valid for a period of 18 months as of May 18, 2017, ends, on the date its is implemented, the share buyback program previously authorized by the Shareholders’ Meeting on May 19, 2016, 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 1,500 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 1,237,617,000; this condition is combined with the condition for a 10% cap on the Company's share capital.

This program was not used in 2017. Because of the capital increase on June 21, 2017, 831,192 shares could be acquired which, with a cap of EUR 1,500 per share, would represent a maximum of EUR 1,246,788,000.

This program is valid until November 17, 2018 (18 months from May 18, 2017).

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 26, 2017, 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, 2017, the Company still held 38,600 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 March 7, 2018 the Board of Directors proposed to the General Meeting of May 24, 2018, that a new share buyback program be launched under the same conditions (14^{th} 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 18, 2017, the General Meeting authorized the Board of Directors, under the same terms as the authorization of January 28, 2015, 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, 2017.

No share of Dassault Aviation stock was canceled in 2017.

In order to allow the Company to reduce its capital at any time, on March 7, 2018 the Board of Directors recommended to the General Meeting of May 24, 2018, 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 (16^{th} 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.

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, 2017.

  These financial statements were approved by the Board of Directors on March 7, 2018 after prior examination by the Audit Committee, and were the subject of Statutory Auditor reports, which appear in the 2017 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 2,322,226,403.06, to the legal reserve for EUR 48,908.80 and to the distribution of a dividend for fiscal year 2017 in the amount of EUR 15.3 per share, to be paid on June 27, 2018; with the remaining balance to the retained earnings (Resolution No. 3).

- **Option for payment of the dividend in shares**

  It is proposed that you offer shareholders the possibility of receiving the annual dividend to which they are entitled for fiscal year 2017 in cash or, either in full or in part, in the form of shares.

  If the shareholder exercises the option for payment of the dividend in shares, new shares will be issued without discount, at a price equal to the average of the last twenty prices listed on Euronext Paris regulated market preceding the day of the General Meeting, reduced by the amount of the dividend and rounded to the next-highest euro cent.

Should the amount of the dividend on which the option is exercised not equal a whole number of shares, the shareholder may receive the next-highest number of shares by paying the difference in cash, or the next-lowest number of shares, along with a cash adjustment for the difference (Resolution No. 4).

- **Approval of the elements of compensation due or attributed for fiscal year 2017 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, 2017 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. 5).

- **Approval of the elements of compensation due or attributed for fiscal year 2017 to Mr. Loïk 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, 2017 to Mr. Loïk 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. 6).

- **Approval of the 2018 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 2018, as they appear in the Corporate Governance Report in paragraph 2.3 (Resolution No. 7).

- **Approval of the 2018 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 2018, as they appear in the Corporate Governance Report in paragraph 2.3 (Resolution No. 8).

- **Renewal of the term of two Directors**

  As the terms of Directors Marie-Hélène Habert and Henri Proglio expire at the end of the General Meeting, you are asked to re-elect them for four years (Resolutions No. 9 and 10).

- **Approval of a regulated agreement relating to the acquisition of land from GIMD**

  You are asked to approve the regulated agreement authorized by the Board of Directors on March 7, 2017 for the acquisition by Dassault Aviation from GIMD of two parcels at land in Merignac (Resolution No. 11).

- **Approval of a regulated agreement relating to the supplementary pension plan of the Chairman and Chief Executive Officer.**

  You are asked to approve the regulated agreement authorized by the Board of Directors on July 26, 2017 for the application as of January 1, 2018 of a new supplementary pension plan for the Chairman and Chief Executive Officer, submitted to performance conditions, and replacing the former plan ended on December 31, 2017 (Resolution No. 12).

- **Approval of a regulated agreement relating to the supplementary pension plan of the Chief Operating Officer.**

  You are asked to approve the regulated agreement authorized by the Board of Directors on July 26, 2017 for the application as of January 1, 2018 of a new supplementary pension plan for the Chief Operating Officer, submitted to performance conditions, and replacing the former plan ended on December 31, 2017 (Resolution No. 13).

- **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) Cancelling shares in order to increase the profitability of shareholders' equity and earnings per share (subject to adopting Resolution No. 16);

  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.

  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 1,413,026,400.

  This authorization, which would be granted for a period of 18 months as of the Annual Ordinary and Extraordinary General Meeting of May 24, 2018, 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 18, 2017, and would end on November 23, 2019 (Resolution No. 14).

<u>Resolutions to be submitted to the Extraordinary General Meeting:</u>

- **Authorization to be given to the Board of Directors to allocate shares of the Company to the executive directors and certain Company employees**

  The General Meeting is asked to authorize the Board of Directors, pursuant to the provisions of Articles L.225-197-1 et seq. of the French Commercial Code, to allocate existing performance shares to employees of the Company or certain categories of employees and to the eligible corporate officers of the Company.

Allocations of performance shares made under this authorization are proposed at identical conditions as the ones currently in force and within the limit of the not-yet attributed shares.

The allocation of the shares to the beneficiaries would become final at the end of a vesting period, the term of which would be set by the Board of Directors; this term may not be less than the minimum of one year, and the beneficiaries would have to retain said shares for a period set by the Board, and this period may not be less than the minimum period required by law.

You are being asked to delegate all powers to the Board of Directors, with the option of subdelegation under legal and regulatory conditions, to implement this authorization under the conditions cited above and within the limits authorized by the laws in force; to set the dates and conditions for the allocation of shares, including the period at the end of which such allocations will be final and, as applicable, the holding period required for each beneficiary, to take all measures, as applicable, if it decides, in order to protect the rights of the beneficiaries of bonus share allocations by making any adjustments, duly note the completion of the capital increases, amend the Articles of Association accordingly and, more generally, to complete all useful formalities and to do whatever is useful and necessary as required by the laws and regulations in force.

This authorization, which would be granted for a period of 38 months from the Annual Ordinary and Extraordinary General Meeting of May 24, 2018, would eliminate the effect, as of said date, of the unused portion of the same type of authorization granted by the Combined Shareholders' Meeting of September 23, 2015 (Resolution No. 15).

- **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 subdelegation, 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, 2018.

  As of May 24, 2018, it would render the similar authorization granted by the Combined General Meeting of May 18, 2017 ineffective for the unused portion (Resolution No. 16).

- **Capital increase reserved for employees:**

  Article L.225-129-6 paragraph 2 of the French Commercial Code stipulates that, when the directors' report to the annual Ordinary General Meeting finds that the shares held by the employees of the Company or of companies affiliated with it as defined by Article L.225-180 of the French Commercial Code, represent less than 3% of the share capital, an Extraordinary General Meeting must be called every three years to vote on a proposed resolution to issue shares reserved for the participants of the Company or Group Savings Plan.

Dassault Aviation, whose employees shareholders represent less than 3% and which held an Extraordinary General Meeting on May 20, 2015, must therefore, in order to comply with these provisions, ask you to again vote on a proposed resolution for a capital increase reserved for the employees who are participants in the Company Savings Plan; the list of beneficiaries being established by the Board of Directors by delegation of the Meeting.

The Board of Directors believes that this process to offer capital to the employees is not appropriate for the shareholders of the Company because the employees benefit from a special profit-sharing agreement.

Therefore, this resolution (Resolution No. 17) is being submitted to you to meet the aforementioned legal requirements, but the Board recommends that you purely and simply vote no on this resolution.

We are, however, informing you, pursuant to Articles R.225-113 and R.225-114 of the French Commercial Code, that:

- you have been provided with information regarding the course of corporate business during the previous year and since the beginning of the current year at the beginning of this report;
- the maximum amount of the capital increase proposed is EUR 700,000;
- the preferential subscription right is canceled due to the reservation of this increase to the aforementioned employees;
- the subscription price would be determined under the conditions defined in Article L.3332-19 of the French Labor Code.

<u>Resolution to be submitted to the Ordinary General Meeting:</u>

- **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. 18).

7. CONCLUSION AND OUTLOOK

2017 was eventful in many ways, with the installation of new governments and administrations in France and the United States, the upheavals of Brexit, the will to relaunch a common European defense policy, tensions between the United States and Russia, conflicts in the Middle East and, in the economic field, the good health of the US economy in a context of a decrease of the euro/dollar rate and of oil prices instability.

2017 was also an intense year for Dassault Aviation, with mainly two highlights:

- the signing, of an agreement with Qatar to exercise the option for 12 additional Rafale (which will come into force upon receipt of the first down-payment) and of an agreement on a future cooperation (option for another 36 Rafale). This new success was achieved thanks to the partnership we have with Qatari Air Force for decades and to all teams involved in this country,

- initiation of the termination process of the Silvercrest contract leading to the end of the Falcon 5X program. Last October, Safran encountered new problems with the high-pressure compressor and announced they were unable to meet the commitment they took in 2016 (even though the engine was already four years behind contract schedule).

Given the remaining need of customers for an aircraft of this category, we have launched the Falcon 6X, featuring the same cross section as the Falcon 5X, with a range of 5,500 NM and powered by Pratt & Whitney PW812 engines; its entry into service is scheduled in 2022.

In addition to these major events, we can point, in 2017, in the military sector, the following items:

for the Rafale:

- the delivery of 8 Rafale to Egypt, bringing up to 14 units Rafale's fleet in service in this country,

- the delivery of 1 Rafale to the French Air Force, bringing up to 149 the number of aircraft delivered, out of the 180 ordered,
- the delivery of the 8th Navy Rafale retrofitted to F3 standard to the French Fleet,
- the continuation of the development work on the F3-R standard, including the final validation firing of the Meteor missile,
- the notification at the end of the year of the risk reduction task for the future F4 standard,

for other military aircraft:

- the ongoing works for the upgrade of the French Mirage 2000D, and the notification of a new 5-year contract to maintain the Mirage 2000 and the AlphaJet in operating condition,
- the support of the Mirage 2000 fleets of all countries, including main checks in the United Arab Emirates and Qatar,
- the United Arab Emirates' intention to add new capabilities to their Mirage 2000-9,
- continued renovation of the ATL2 combat system, with integration tests and flight tests;
- the order of a 4th SURMAR Falcon (maritime surveillance) by the Japanese Coast Guard,

for drones and the preparation of the future:

- the new nEUROn stealth measures and a new flight test campaign,
- the continuing feasibility phase of a UCAS (Unmanned Combat Air System) demonstration program, a component of the Future Combat Air System (FCAS), to prepare a demonstration program,
- the continuing definition study for a MALE RPAS reconnaissance drone in cooperation with Airbus Defense & Space and Leonardo, in order to equip 4 European countries,

and in the field of business aviation:

- the recovery of the pre-owned aircraft market, but at low prices, in a very competitive new aircraft market environment, despite signs of recovery in North America at the end of the year,
- the order of 41 Falcon and the cancellation of 3 Falcon 5X, compared with the 33 Falcon ordered and12 Falcon 5X canceled in 2016,
- the delivery of 49 Falcon, same as in 2016, which is higher than our guidance of 45 deliveries,
- the delivery of the 2,500th Falcon,
- the ramp-up of the Falcon 8X, a mature aircraft upon its entry into service, highly appreciated by customers for its comfort and silence, and its technical and operational capabilities such as certification of operations at London City Airport, the FalconEye system and 30-knot crosswind takeoff,
- the launch of the necessary investments for the future Falcon.

2017 has also been the year of the launch of the first actions of our "Leading Our Future" transformation plan based on 4 defined themes, relying on women and men who form the company, using the "digital" leverage to face the increasingly unpredictable developments in our markets and meet the requirements of our military and civilian customers.

Finally, 2017 was also a key year with the creation of the Dassault Reliance Aerospace Limited Joint Venture and the laying of the corner stone of the Nagpur plant to manufacture, from 2018, Falcon 2000 parts and some Rafale subassemblies. The success of offsets in India, in particular with our partners, and of the development of the "Make in India" are essential; the entire company is mobilizing to make them a success.

2018 outlook

A new French Military Procurement Law 2019-2025 was presented at the beginning of the year. It gives to the Company outlooks until 2030 (F4 standard to improve the Rafale capabilities, resumption of deliveries of the 4th Rafale batch and, in 2023, a new batch of 30 additional Rafale, Maritime Surveillance, MALE, Future Combat Air System, upgrade of the airborne component).

There are many strategic challenges in 2018:

- obtain qualification of the F3-R standard,
- conclude a contract for the Rafale F4 standard,
- sign with France the CUGE order for the Epicure mission Falcon,
- contribute in the definition of the proposal for a contract to launch the MALE program by the end of 2018,
- pursue nEUROn development and tests (additional batch of works),
- launch technico-operationnal studies to define the roadmap for the airborne warfare of the future,
- conclude with United Arab Emirates the upgrade of their Mirage 2000-9,
- continue promotion and sale of our Falcon and Rafale,
- perform the Falcon and Rafale contracts in terms of quality, time and cost objectives,
- pursue our efforts in fleet support, key to customers' loyalty,
- develop the Falcon 6X,
- design and engineer the future Falcon,
- make the start of the "Make in India" industrial line successful, from the production of the very first parts,
- ensure good execution of the Transformation Plan,

In 2018, the Group forecasts to deliver 40 Falcon, the Company having reacted to the past years' market weakness with a conservative management leading to a production rate ramp-down, and 12 Rafale (9 Export and 3 France). Net sales for 2018 should be close to 2017's.

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

The Board of Directors

Appendix 1 to the Directors' Report

Reporting Methodology for Indicators

In application of Article L 225-102-1 of the French Commercial Code, amended by Article 225 of Act 2010-788 of July 12, 2010 (the "Grenelle 2" Act) and Decree 2012-557 of April 24, 2012 as amended by Decree 2016-1138 of August 19, 2016, we have published the following information in our Directors' Report:

- social and human resources information,
- environmental information,
- corporate responsibility information.

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 2017, 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 2017:

- Dassault International Inc. (USA) and Dassault Falcon Jet Leasing Ltd (100% owned subsidiary of Dassault Falcon Jet): these companies 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 Grenelle 2 reference base for reporting social data of the Dassault Aviation group, in force starting in 2017. 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, stoppages 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.

Corporate responsibility data

Corporate responsibility information meets the requirements of the Decree of April 24, 2012. The figures contained in the Industrial and Purchasing section are qualitative and provided for illustrative purposes.

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: Pay	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
Human resources relations	**REL01: Organization of the Labor Relations Dialogue, 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

Themes	**Dassault Aviation Indicators**	**Link with GRI - Indicators & Protocols: Social (Version 3.1)**
Health and Safety	**S&S01: Conditions of Health & 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 LA9: Questions of health & safety covered by formal agreements with the unions
	S&S02: Agreements Signed with the Union Organizations or Staff Representatives with Regard to Occupational Health & Safety	
	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" (see environmental information chapter, "environmental objectives" section)	
Water consumption	**EAU001: Overall Water Consumption (by Source)**	EN8: total volume of water used by source
Biodiversity	**BIO:001: Number and Location of Outstanding Natural Areas Present Within a 500m radius of the Sites**	EN11: location and surface area of land owned, rented or managed in or within the vicinity of protected areas and in zones rich in biodiversity outside of these protected areas
Land Use Conditions	**SOL001: Proportion of Sealed Surfaces**	

Themes	Dassault Aviation Indicators	Link with GRI - Indicators & Protocols: Social (Version 3.1)
Atmospheric Discharg-es	**AIR001: Greenhouse Gas Emis-sions (Scope 1 and Scope 2)**	EN16: total (direct or indirect) green-house 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
	Indirect GHG Emission Quality Indicator	EN7: initiatives for reducing indirect en-ergy 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	

Appendix 3 to the Directors' Report

Concordance table of information relating to decree No. 2012-557 of April 24, 2012 (Human resources, environmental and corporate responsibility information)

Topics	Nature of the information	Paragraph
Human Resources Information		
a) Employment	• The total number and distribution of employees by sex, age and geographical area • Recruitment and dismissals • Pay and changes in pay	4.1.2 4.1.2 4.1.3
b) Work organization	• Working time organization • Absenteeism	4.1.2 4.1.7
c) Labor Relations	• The organization of employee relations, including procedures for staff information, consultation and negotiation • Collective bargaining agreements	4.1.4 4.1.4
d) Health & Safety	• Conditions of health & safety in the workplace • Agreements signed with the unions or staff representatives with regard to health & safety in the workplace • Work-related accidents, including their frequency and severity, as well as occupational illnesses	4.1.7 4.1.7 4.1.7
e) Training	• The policies implemented with regard to training • Total number of training hours	4.1.6 4.1.6
f) Equality of treatment	• Measures taken in favor of gender equality • Measures taken in favor of the employment and integration of disabled people • Anti-discrimination policy	4.1.5 4.1.5 4.1.5
g) Promoting respect for the stipulations of the basic conventions of the International Labour Organization with regard to:	• Respect for freedom of association and the right to collective bargaining • Eliminating discrimination in professional employment • Eliminating forced or compulsory labor • The effective abolition of child labor	4.3.2 4.3.2 4.3.2 4.3.2

Topics	Nature of the information	Paragraph
Environmental information		
a) General environmental policy	• Company structure which takes environmental issues into account and, where appropriate, steps for assessment or environmental certifications • Employee training and information actions conducted for environmental protection • The resources devoted to the prevention of environmental risks and pollution • The amount of provisions and guarantees for environmental risks (provided that such information is not likely to cause serious harm to the Company in any pending litigation)	4.2.1 4.2.5 4.2.8 2.10.3
b) Pollution and Waste Management	• Measures for the prevention, reduction or remedying of discharges into air, water and soil seriously affecting the environment • Measures for the prevention, recycling and disposal of waste • Taking into account noise and other forms of pollution specific to an activity	4.2.7 4.2.7 4.2.7
c) Circular economy	(i) waste prevention and management • Prevention measures, recycling, reuse, and other forms of waste reclamation and disposal • Food waste prevention actions (ii) sustainable use of resources • Water consumption and water supply according to local constraints • Consumption of raw materials and measures taken to improve efficient use • Energy consumption, measures taken to improve energy efficiency and use of renewable energy	4.2.7 4.2.7 4.2.7 4.2.7 4.2.7
d) Climate change	• Significant sources of greenhouse gas emissions generated by the Company's activity, particularly through the use of goods and services that it produces	4.2.7 4.2.3
e) Protection of biodiversity	• Measures taken to preserve or develop biodiversity	4.2.7

Topics	Nature of the information	Paragraph
Information on social commitments for sustainable development		
a) Territorial, economic and social impact of the Company's business	• In terms of employment and regional development on the neighboring and local residents	4.3.1
b) Relationships with persons or organizations interested in the activities of the Company (including integration associations, educational institutions, environmental protection associations, consumer associations and local residents)	• The conditions for there to be a dialogue with those persons or organizations • Partnership or sponsorship initiatives	4.3.1 4.3.1
c) Outsourcing and suppliers	• The consideration of social and environmental issues in purchasing policy • The importance of outsourcing and, in relations with suppliers and subcontractors, the consideration of their social and environmental responsibility	4.3.1 4.3.1
d) Fair practices	• Actions taken to prevent corruption • Measures taken for the health and safety of consumers • Other actions in favor of human rights	4.3.2 4.3.2 4.3.2

REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED HUMAN RESOURCES, ENVIRONMENTAL AND SOCIAL INFORMATION INCLUDED IN THE DIRECTORS' REPORT

For the year ended December 31, 2017

To the General Meeting of DASSAULT AVIATION company,

In our capacity as Statutory Auditor of Dassault Aviation, (the "Company"), appointed as independent third party and certified by COFRAC under number 3-1048[1], we hereby report to you on the consolidated human resources, environmental and social information for the year ended December 31, 2017 included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code (*Code de commerce*).

Company's responsibility

The Board of Directors is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French Commercial Code in accordance with the internal protocols used by the Company (hereinafter the "Guidelines"), summarized in the management report and available on request from the Total Quality Management Department, on the one hand, and from the Human Resources Department on the other.

Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics (*Code de déontologie*) of our profession and the requirements of article L.822-11 of the French Commercial Code.

In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional doctrine and applicable legal and regulatory requirements.

[1] whose scope is available at www.cofrac.fr

Statutory Auditor's responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

We are however not responsible for deciding on the conformity to other legal applicable provisions, in particular those planned by the article L.225-102-4 of the French Commercial Code (vigilance plan) and by the Law number 2016-1691 of December 9, 2016 called *Sapin II* (anti-corruption).

Our work involved four people and was carried out between December 2017 and February 2018 over a ten-week period. We were assisted in our work by our CSR experts.

Our work described below was carried out in accordance with the Decree of May 13, 2013, determining the conditions under which an independent third party conducts its duties, and according to the professional doctrine of the National Order of Accountants in France (*Compagnie Nationale des Commissaires aux Comptes*) relating to this involvement and, with regard to the reasoned opinion on fairness, to the ISAE 3000[2] international standard.

Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding corporate and environmental impacts of its activities and its social commitments and, where applicable, any actions or programs arising from them.

[2] ISAE 3000 – *Assurance engagements other than audits or reviews of historical financial information*

We compared the CSR Information presented in the Directors' Report with the list provided in Article R.225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with Article R.225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covered the scope of consolidation, i.e. the Company as well as its subsidiaries as defined by Article L. 233-1 and controlled entities as defined by Article L. 233-3 of the French Commercial Code, within the limitations specified in the methodological note set out in the Directors' Report.

Conclusion

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

<u>Conclusion on the fairness of CSR Information</u>

Nature and scope of our work

We conducted about ten interviews with the persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry good practices where appropriate;
- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry good practices.

Regarding the CSR Information that we considered to be the most important[3]:

- at parent entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organization, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in line with the other information in the management report;
- at the level of a representative sample of entities selected by us4 on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample represents 76% of headcount and between 13% and 34% of quantitative environmental data disclosed.

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the company.

[3] <u>Quantitative Environmental Information</u>: ISO 14001 certified sites; Emissions of Volatile Organic Compounds (VOC); Emissions of greenhouses gases (GHG) scope 1 and scope 2; Generated waste: Hazardous waste, Non-hazardous waste, Recovery percentage; Total water consumption; Total energy consumption.
<u>Quantitative Social Information</u>: Total headcount, breakdown by gender and age group, headcount evolution Y/Y-1; Number of hirings; Number of people leaving the company including proportion of individual redundancies; Average annual pay; Number of part-time employees; Total number of days of absence; Number of disabled people; Number of training hours ; Number of occupational illness identified by the competent authorities; Number of work-related accidents with lost time; Number of days lost due to work-related accidents, frequency rate and severity rate.
<u>Qualitative Information</u>: Actions in favor of employment and continued employment for disabled people; Objectives of ACARE on the reduction of the aircraft impacts; "*Eco-démarche 2021*" plan - green aircraft with different demonstrators and "*usine verte*" (green factory: replacement of substances of high concern); Actions realized as founding member of the Inter-Agency Expert Group (IAEG): Anti-corruption – conformity to the Sapin II Law.

[4] Dassault Aviation SA: Istres, Mérignac and Martignas sites; Dassault Falcon Service: Le Bourget site.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgment, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, March 7, 2018

One of the Statutory Auditors

Deloitte & Associés

Jean-François Viat

This is a free English translation of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

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 Directors' 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 March 7, 2018.

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 (French corporate associations) Code does not constitute, taken as a whole, its standard of reference for corporate governance. Nevertheless, Dassault Aviation applies principles with reference to the aforesaid Code, in regard to the independence of the Directors and the compensation of the corporate officers.

1. Corporate Governance

1.1 Composition of the Board of Directors

In 2017, the Board of Directors took note of the resignation of Ms. Nicole Dassault and Mr. Alain Garcia, who were replaced by Ms. Catherine Dassault and Ms. Mathilde Lemoine.

As of December 31, 2017, the Board of Directors was composed of ten members with the experience and expertise required to fulfill their mandates:

Mr. Éric Trappier, Mr. Serge Dassault, Mr. Charles Edelstenne, Ms. Catherine Dassault, Ms. Marie-Hélène Habert, Ms. Mathilde Lemoine, Ms. Lucia Sinapi-Thomas, Mr. Olivier Dassault, Mr. Henri Proglio and Mr. Richard Bédère (director representing the employees).

COMPOSITION OF THE BOARD OF DIRECTORS

on 12/31/2017

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 (1)
Éric Trappier French nationality	Chairman and Chief Executive Officer Director	57			2013 2012	2019 2019	5
Serge Dassault French nationality	Honorary Chairman Director	92			1967	2019	50
Charles Edelstenne French nationality	Honorary Chairman Director	79		yes	1989	2019	28
Catherine Dassault French nationality	Director	50			2017	2020	1
Olivier Dassault French nationality	Director	66			1996	2019	21
Marie-Hélène Habert French nationality	Director	52			2014	2018	3
Mathilde Lemoine French nationality	Director	48	yes		2017	2020	1
Lucia Sinapi-Thomas French nationality	Director	53	yes	yes	2014	2019	3
Henri Proglio French nationality	Director	68	yes	yes	2008	2018	9
Richard Bédère French nationality	Director representing employees	61			2014	2018	3

(1) As of December 31, 2017

The aforementioned Directors are all of French nationality. The average age was 63 as of December 31, 2017.

44% of the members of the Board of Directors are women, for a legal obligation of 40%.

As of December 31, 2017, Ms. Mathilde Lemoine, Ms. Lucia Sinapi-Thomas, and Mr. 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 one third of the Board of Directors (excluding the Director representing the employees), as recommended by the AFEP/MEDEF Code.

1.2 Offices held and duties performed by corporate officers in 2017 in other companies

1.2.1 Honorary Presidents and Directors

Serge Dassault
Age as of December 31, 2017: 92 years old
French nationality
Date of first appointment: 6/27/1967
Start and end of current term: 2015 General Meeting - 2019 General Meeting
Dassault Aviation shares held: 25

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)
  Dassault International Inc. (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
Age as of December 31, 2017: 79 years old
French nationality
Date of first appointment: 1/27/1989
Start and end of current term: 2015 General Meeting - 2019 General Meeting
Member of the Audit Committee
Dassault Aviation shares held: 67

Other corporate offices and duties:

- Chief Executive Officer:
  Groupe Industriel Marcel Dassault SAS
- Chairman of the Board of Directors:
  Dassault Systèmes SE
- Member of the Supervisory Board:
  Groupe Industriel Marcel Dassault SAS
- Director:
  Thales SA
  Carrefour SA
  Sogitec Industries SA
  SABCA (Belgium)
  Dassault Falcon Jet Corporation (USA)
  Dassault Medias SA
  Groupe Figaro CCM Benchmark SAS
  Lepercq, de Neuflize and Co. Inc.
  Monceau Dumas
- Honorary Chairman:
  GIFAS
- General Manager:
  Sociétés Civiles ARIE, ARIE 2
  Sociétés Civiles NILI, NILI 2

Other offices and duties over the last five years:

- Chairman and Chief Executive Officer:
  Dassault Aviation SA
- Chairman:
  Dassault Falcon Jet Corporation (USA)
- Chairman:
  Dassault International Inc. (USA)

1.2.2 Chairman and Chief Executive Officer

Éric Trappier
Age as of December 31, 2017: 57 years old
French nationality
Date of first appointment as Director: 12/18/2012
Start and end of current term as Director: 2015 General Meeting - 2019 General Meeting
Start and end of current term as CEO: Board meeting of 5/20/2015 - 2019 General Meeting
Dassault Aviation shares held: 1,032

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)

- Director and President:
  Dassault International Inc. (USA)

- Chairman:
  GIFAS
  ASD
  CIDEF (as of January 8, 2018)

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
Age as of December 31, 2017: 66 years old
French nationality
Date of first appointment: 4/17/1996
Start and end of current term: 2015 General Meeting - 2019 General Meeting
Dassault Aviation shares held: 25

Other corporate offices and duties:

- Vice-Chairman:
  Valmonde et Cie SA

- Director:
  Dassault Medias SA
  Groupe Figaro SAS
  Valmonde et Cie SA
  RASEC International SAS

- Chairman of the Supervisory Board:
  Groupe Industriel Marcel Dassault SAS
  Particulier et Finances Éditions SA

- Member of the Supervisory Board:
  Rubis SA

- Vice-Chairman of the Executive Committee:
  Jours de Passions SAS

- General Manager:
  HR Finance SAS
  SCI Rod Spontini

Other offices and duties over the last five years:

- General Manager:
  LBO Invest D

Marie-Hélène Habert
Age as of December 31, 2017: 52 years old
French nationality
Date of first appointment: 5/15/2014
Start and end of current term: 2014 General Meeting - 2018 General Meeting
Dassault Aviation shares held: 25

Other corporate offices and duties:

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

- Director:
  Dassault Systèmes SE
  Biomérieux SA
  Artcurial SA

- 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

Other offices and duties over the last five years:

- Member of the Strategic Committee:
  Dassault Développement SAS

Catherine Dassault
Age as of December 31, 2017: 50 years old
French nationality
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 Organizing Committee:
  Fondation pour la recherche sur la maladie d'Alzheimer

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

Other offices and duties over the last five years:

None

Henri Proglio, independent Director
Age as of December 31, 2017: 68 years old
French nationality
Date of first appointment: 4/23/2008
Start and end of current term: 2014 General Meeting - 2018 General Meeting
Chairman of the Audit Committee
Dassault Aviation shares held: 25

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 from January 19

- Chairman:
  Henri Proglio Consulting SAS
  HJF Development SAS

Other offices and duties over the last five years:

- Chairman and Chief Executive Officer:
  EDF SA

- 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
Age as of December 31, 2017: 53 years old
French nationality
Date of first appointment: 5/15/2014
Start and end of current term: 2015 General Meeting - 2019 General Meeting
Member of the Audit Committee
Dassault Aviation shares held: 25

Other corporate offices and duties:

- Executive Director:
  CapGemini Business Platforms

- Chief Executive Officer:
  CapGemini Outsourcing Services SAS

- Director:
  CapGemini Polska Sp.z.o.o (Poland)
  CapGemini Business Services (Guatemala)
  Bureau Veritas SA

- 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:

- Director:
  Capgemini SA
  Capgemini Sogeti Danmark A/S
  Sogeti SA/NV (Belgium)
  Sogeti Sverige AB (Sweden)
  Sogeti Sverige Mitt AB (Sweden)
  Sogeti Norge A/S (Norway)
  Capgemini Reinsurance International SA (Luxembourg)
  Euriware SA (France)

Mathilde Lemoine, independent Director
Age as of December 31, 2017: 48 years old
French nationality
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:

- Group Chief Economist:
  Edmond de Rothschild SA

- Director:
  Carrefour SA
  CMA CGM SA
  École Normale Supérieure

- Member of the Accounting Committee:
  Carrefour SA

- Member:
  High Council of Public Finances

Other offices and duties over the last five years:

- Director:
  Neptune Orient Lines Ltd. (Singapore)

Richard Bédère, Director representing the employees
Age as of December 31, 2017: 61 years old
French nationality
Date of first appointment: 7/10/2014
Start and end of current term: 7/10/2014-7/9/2018
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 Company’s Board of Directors

- Substitute CCE member

- Substitute Mérignac Works Council member

- Central union delegate

Nicole Dassault, Director
Age as of December 31, 2017: 86 years old
French nationality
Date of first appointment: 5/19/2010
Start and end of current term: 2016 GM – 1/6/2017
Dassault Aviation shares held: 25

Other corporate offices and duties:

- Chief Operating Officer:
  Rond-Point Immobilier SAS

- Director:
  Groupe Figaro SAS
  Dassault Medias SA
  Artcurial SA

- Founding member:
  Fondation Serge Dassault

Other offices and duties over the last five years:

- Director:
  Société des Amis du Louvre (Friends of the Louvre Association)
  Société des Amis du Musée d'Orsay (Friends of the Musée d'Orsay Association)
  Dassault Systèmes SE
  Dassault Aviation SA

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

- Vice-Chairman and Member of the Supervisory Board:
  Immobilière Dassault SA

Alain Garcia, Director
Age as of December 31, 2017: 74 years old
French nationality
Date of first appointment: 3/18/2009
Start and end of current term: 2016 GM – 1/9/2017
Dassault Aviation shares held: 25

Other corporate offices and duties:

- General Manager:
  Novation Aero Consulting SARL

Other offices and duties over the last five years:

None.

1.2.4 Chief Operating Officer

Loïk Segalen
Age as of December 31, 2017: 57 years old
French nationality
Date of first appointment as Chief Operating Officer: 1/9/2013
Start and end of current term: Board meeting of 5/20/2015 - 2019 General Meeting
Dassault Aviation shares held: 906

Other corporate offices and duties:

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

1.3.2 Activities of the Board of Directors in 2017

In 2017, the Board of Directors met three times: on March 7, July 26 and December 8. The average attendance rate at Board meetings was 87%.

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 2016 company and consolidated financial statements,
- convened the Annual General Meeting of May 18, 2017,
- approved the financial statements for the first half of 2017,
- 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 2017, 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 2016 and noted the acquisition of said shares by their beneficiaries at the end of the vesting period,
- conducted a third 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 2017 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,
- reviewed the progress of the Falcon 5X program, in particular the high-pressure compressor problems encountered by Safran Aircraft Engines on the Silvercrest engine.

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 Mr. Henri Proglio, Chairman, Mr. Charles Edelstenne and Ms. 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 Proglio 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 1, 2017 for the 2016 annual financial statements and on July 24, 2017 for those of the first half-year of 2017.

During these meetings, the Audit Committee in particular:

- examined the consolidated financial statements and those of the Parent Company, the main events of the year or half-year concerned, and the draft financial reports,
- took note of the directors’ report of the Board of Directors and of the half-yearly activity report,
- reviewed the Chairman’s report on internal auditing and risk management,
- examined actions in progress as well as the review of internal audits conducted in 2016, and reviewed the 2017 audit plan,
- met with the Statutory Auditors, without Executive Management being present, after examining the conclusions of their work and their declaration of independence,
- 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 new regulations applicable after the entry into force of the European Regulation of April 16, 2014 on market abuses.

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 on corporate governance of the Board of Directors 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.

1.8 Executive Committee

Presided over by the Chairman and CEO, this committee includes the persons in charge of the Company's various departments. It is composed 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.

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.

2. Compensation of corporate officers

2.1 Directors' fees allocation system

The Board of Directors, on March 7, 2017, modified the allocation of Directors' fees. In 2017, Directors' fees were allocated according to the following principles:

- for the Board of Directors:
  - annual fixed compensation of EUR 28,000 (double for the Chairman of the Board),
  - variable compensation of EUR 10,000 per meeting (double for the Chairman of the Board), with payment dependent on attendance at meetings,
- for the Audit Committee: variable compensation only dependent on attendance at meetings of EUR 3,000 per meeting (double for the Chairman of the Committee).

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 2017

2.2.1 Compensation paid to Serge Dassault, Honorary Chairman

- *For GIMD, which controls Dassault Aviation*

  Serge Dassault received gross annual compensation of EUR 637,560 as Chairman and EUR 28,137 (gross) in directors' fees as a member of the Supervisory Board. For part of the year, he had a chauffeur-driven company car (benefit in kind valued at EUR 1,690).

- *For Dassault Aviation*

  Serge Dassault, Director, received EUR 40,500 in directors' fees as a member of the Board and EUR 9,148 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 36,615 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 and EUR 28,137 (gross) in directors' fees as a member of the Supervisory Board.

He had a chauffeur-driven company car (benefit in kind valued at EUR 10,411) and reimbursement of actual costs incurred in connection with his functions.

- *For Dassault Aviation*

Charles Edelstenne received EUR 46,500 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. This represents a gross amount of EUR 308,660 per annum. 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 36,615 gross in directors' fees as a member of the Board of Dassault Falcon Jet and EUR 22,350 gross in directors' fees as a member of the Board of Thales.

2.2.3 Compensation paid to the Chairman and CEO

- *For Dassault Aviation*

Éric Trappier received gross annual compensation as Chairman and CEO of EUR 1,480,910 gross, a 2.5% increase from 2016.

His compensation does not include any variable or exceptional compensation.

He was not awarded any stock options.

The Board of Directors, in its meeting of March 7, 2017, allocated 750 bonus shares to him. These bonus shares were valued at EUR 1,000 per share on December 31, 2017, or EUR 750,000 for all 750 shares. The acquisition of these shares is subject to performance criteria, a vesting period of one year, and a one-year holding period.

The Board of Directors has ascertained compliance with the performance criteria to which the 500 shares allocated to him by the Board in its meeting of March 9, 2016 are subject. On March 9, 2017, he therefore acquired 500 performance shares. These performance shares were valued at EUR 941 per share, or EUR 470,500 for all 500 shares.

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.

In addition, he received gross directors' fees of EUR 81,000 as a member of the Board (double fees); EUR 76,000 for 2017 using the method of calculation approved by the Board of Directors on March 7, 2017, and EUR 5,000 for the balance of the fixed portion for 2016, which was calculated according to the former terms.

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.

On July 26, 2017, the Board decided to set up a new supplementary pension plan for the members of the Executive Committee and aircrew and to give it to Mr. Éric Trappier. This plan, which is 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.

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 K (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.

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

  In France, Éric Trappier received EUR 36,615 gross in directors' fees as a member of the Board of Dassault Falcon Jet and EUR 23,600 gross in directors' fees as a member of the Board of Thales.

2.2.4 Compensation paid to the Chief Operating Officer

- *For Dassault Aviation*

  Loïk Segalen received gross annual compensation as Chief Operating Officer of EUR 1,310,096 gross, a 2.5% increase from 2016.

  His compensation does not include any variable or exceptional compensation.

  He was not awarded any stock options.

  The Board of Directors, in its meeting of March 7, 2017, allocated 675 performance shares to him. These bonus shares were valued at EUR 1,000 per share on December 31, 2017, or EUR 675,000 for all 675 shares. The acquisition of these shares is subject to performance criteria, a vesting period of one year, and a one-year holding period.

  The Board of Directors has ascertained compliance with the performance criteria to which the 450 shares allocated to him by the Board in its meeting of March 9, 2016 are subject. On March 9, 2017, he therefore acquired 450 performance shares. These performance shares were valued at EUR 941 per share, or EUR 423,450 for all 450 shares.

  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 Loïk 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, Mr. Loïk Segalen will enjoy severance benefits applicable to employees of his category, according to the rules of our Company.

On July 26, 2017, the Board decided to set up a new supplementary pension plan for the members of the Executive Committee and aircrew and to give it to Mr. Loïk Segalen. This plan, which is 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.

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 K (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.

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

In France, Loïk Segalen received EUR 36,615 gross in directors' fees as a member of the Board of Dassault Falcon Jet and EUR 22,350 gross in directors' fees as a member of the Board of Thales.

2.2.5 Compensation paid to Directors

- *For GIMD, which controls Dassault Aviation*

Olivier Dassault received gross annual compensation of EUR 180,000 as Chairman of the Supervisory Board and EUR 165,742 (gross) as an employee. He had the use of a company car (benefit in kind valued at EUR 5,786), and he also received EUR 19,902 gross in directors' fees as a member of the Supervisory Board.

Nicole Dassault received EUR 11,667 in directors' fees.

Marie-Hélène Habert received gross annual compensation of EUR 357,496 as Director of Communications and Sponsorship. She had the use of a company car (benefit in kind valued at EUR 3,314), and also received EUR 28,137 gross in directors' fees.

- *For Dassault Aviation*

Nicole Dassault and Alain Garcia received EUR 2,960 gross and EUR 3,190 gross respectively in directors' fees.

Olivier Dassault received EUR 33,833 in directors' fees.

Marie-Hélène Habert and Richard Bédère each received EUR 40,500 gross in directors' fees.

Lucia Sinapi-Thomas received EUR 43,167 gross in directors' fees, including EUR 6,000 (gross) for her work on the Audit Committee.

Henri Proglio received EUR 49,167 gross in directors' fees, including EUR 12,000 (gross) for his work as Chair of the Audit Committee (double fees).

Catherine Dassault and Mathilde Lemoine each received EUR 33,013 gross 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)

	2017	2016
Éric Trappier, Chairman and Chief Executive Officer		
Compensation payable during the fiscal year (breakdown in table 2)	1,570,621	1,507,825
Value of year-on-year variable compensation granted during the fiscal year	-	-
Value of stock options granted during the fiscal year	-	-
TOTAL	**1,570,621**	**1,507,825**
Loïk Segalen, Chief Operating Officer		
Compensation payable during the fiscal year (breakdown in table 2)	1,318,793	1,286,616
Value of year-on-year variable compensation granted during the fiscal year	-	-
Value of stock options granted during the fiscal year	-	-
TOTAL	**1,318,793**	**1,286,616**

Valuation of shares granted to each Corporate Executive Officer (in EUR)

	2017	2016
Éric Trappier, Chairman and Chief Executive Officer Valuation of bonus shares allocated over the fiscal year *(see tables 6 and 9)*	**750,000**	470,500
Loïk Segalen, Chief Operating Officer Valuation of bonus shares allocated over the fiscal year *(see tables 6 and 9)*	**675,000**	423,450

Table 2 Summary table of compensation paid to each Executive Director (in EUR)

	2017 - amounts		2016 - amounts	
	Payable	**Paid**	**Payable**	**Paid**
Éric Trappier, Chairman and Chief Executive Officer				
Fixed compensation	1,480,910	1,480,910	1,444,618	1,444,618
Annual variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Directors' fees (1)	81,000	81,000	54,614	54,614
Benefits in kind	8,711	8,711	8,593	8,593
TOTAL	**1,570,621**	**1,570,621**	**1,507,825**	**1,507,825**
Loïk Segalen, Chief Operating Officer				
Fixed compensation	1,310,096	1,310,096	1,278,049	1,278,049
Annual variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Directors' fees (2)	-	-	-	-
Benefits in kind	8,697	8,697	8,567	8,567
TOTAL	**1,318,793**	**1,318,793**	**1,286,616**	**1,286,616**

(1) In addition, Éric Trappier received EUR 36,615 gross in directors' fees as a member of the Board of Dassault Falcon Jet and EUR 23,600 gross in directors' fees as a member of the Board of Thales.

(2) In addition, Loïk Segalen received EUR 36,615 gross in directors' fees as a member of the Board of Dassault Falcon Jet and EUR 22,350 gross in directors' fees as a member of the Board of Thales.

Table 3 Table of Directors' fees and other compensation received by non-executive Directors (in EUR)

Non-executive directors	Amounts paid in 2017 (Gross)	Amounts paid in 2016 (Gross)
Serge Dassault		
Directors' fees	40,500 (1)	27,307 (1)
Other compensation	9,148	9,148
Charles Edelstenne		
Directors' fees	46,500 (2) (3)	33,307 (2) (3)
Other compensation	-	-
Nicole Dassault		
Directors' fees	2,960	9,307
Other compensation	-	-
Olivier Dassault		
Directors' fees	33,833	21,307
Other compensation	-	-
Marie-Hélène Habert		
Directors' fees	40,500	27,307
Other compensation	-	-
Catherine Dassault		
Directors' fees	33,013	-
Other compensation	-	-
Alain Garcia		
Directors' fees	3,190	27,307
Other compensation	-	-
Henri Proglio		
Directors' fees	49,167 (4)	39,307 (4)
Other compensation	-	-
Lucia Sinapi-Thomas		
Directors' fees	43,167 (5)	33,307 (5)
Other compensation	-	-
Mathilde Lemoine		
Directors' fees	33,013	-
Other compensation	-	-
Richard Bédère		
Directors' fees	40,500	27,307
Other compensation	salary	salary
TOTAL	**375,491**	**254,911**

(1) In addition, Serge Dassault received EUR 36,615 gross in directors' fees in 2017 as a member of the Board of Directors of Dassault Falcon Jet and EUR 31,480 gross in 2016
(2) In addition, Charles Edelstenne received EUR 36,615 gross in directors' fees in 2017 as a member of the Board of Dassault Falcon Jet (versus EUR 31,480 gross in 2016) and EUR 22,350 gross in directors' fees as a member of the Board of Thales (versus EUR 42,000 gross in 2016)
(3) including EUR 6,000 in 2016 and 2017 for the Audit Committee
(4) including EUR 12,000 in 2016 and 2017 for the Audit Committee
(5) including EUR 6,000 in 2016 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 awarded during fiscal year 2017	Value of shares (in euros)*	Vesting date	Date of availability	Performance conditions
Éric Trappier	2017 shares 3/7/2017	750	750,000	3/7/2018	3/7/2019	yes
Loïk Segalen	2017 shares 3/7/2017	675	675,000	3/7/2018	3/7/2019	yes
TOTAL		**1,425**	**1,425,000**			

* price of EUR 1,000 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 2017	Vesting conditions
Éric Trappier	2015 shares 9/23/2015	500	Shares vested after a vesting period of one year and subject to performance conditions
Loïk Segalen	2015 shares 9/23/2015	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

Table 9 Previous allocations of performance shares - Information on performance shares.

	2015 shares	2016 shares	2017 shares
Date of General Meeting	9/23/2015	9/23/2015	9/23/2015
Date of Board of Directors meeting	9/23/2015	3/9/2016	3/7/2017
Number of shares allocated:	950	950	1,425
to corporate officers	950	950	1,425
• Éric Trappier	500	500	750
• Loïk Segalen	450	450	675
Vesting date of shares	9/23/2016	3/9/2017	3/7/2018
End date of holding period	9/22/2017	3/8/2018	3/6/2019
Performance conditions	yes	yes	yes
Number of shares acquired:	950	950	-
to corporate officers	950	950	-
• Éric Trappier	500	500	-
• Loïk Segalen	450	450	-
Cumulative number of canceled or expired shares	0	0	0

Table 10 Summary table of variable multi-year compensation for each Executive Director.

N/A

Table 11 Other information on corporate officers

Corporate officers	Employment contract	Additional 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 *start of term: 1/9/2013* *end of term: General Meeting of 2019*	yes [(1)]	yes [(2)]	no [(2)]	no
Loïk Segalen Chief Operating Officer *start of term: 1/9/2013* *end of term: General Meeting of 2019*	yes [(1)]	yes [(2)]	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 2018 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 II".

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. 7 and 8).

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.

In 2018, 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 2018, the Chairman and Chief Executive Officer and the Chief Operating Officer will receive bonus shares.

On March 7, 2018, the Board of Directors decided to grant them 850 and 725 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 March 6, 2019 inclusive,
- 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 by the corporate officers of 20% of those shares for the duration of their term.

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.

They benefit:
- from the rights acquired under the plan applicable to executives of the Company, which have been frozen as of December 31, 2017,
- as of 2018, from the supplementary pension plan backed by performance conditions, applicable to members of the Executive Committee and to the Company's flight crew.

2.3.2 Presentation of resolutions submitted to shareholder vote

The "Sapin II" 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 2017 to Éric Trappier, Chairman and Chief Executive Officer (Resolution No. 5);
- Approval of the elements of compensation due and attributed for fiscal year 2017 to Loïk Segalen, Chief Operating Officer (Resolution No. 6);
- Approval of the 2018 compensation policy for Éric Trappier, Chairman and Chief Executive Officer (Resolution No. 7);
- Approval of the 2018 compensation policy for Loïk Segalen, Chief Operating Officer (Resolution No. 8).

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 2017 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

DASSAULT AVIATION

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2017

ASSETS

(in EUR thousands)	Notes	12/31/2017	12/31/2016
Goodwill	3	14,366	14,366
Intangible assets	4	30,687	35,159
Property, plant and equipment	4	445,310	498,330
Equity associates	5	1,870,677	1,731,184
Available-for-sale securities	5	3,305,850	3,142,377
Other financial assets	5	38,197	33,678
Deferred tax assets	19	289,237	525,720
TOTAL NON-CURRENT ASSETS		**5,994,324**	**5,980,814**
Inventories and work-in-progress	6	3,670,155	4,006,466
Trade and other receivables	7	829,962	646,041
Advances and progress payments to suppliers	13	2,525,871	1,793,708
Derivative financial instruments	23	172,818	4,598
Cash and cash equivalents	8	2,061,419	1,252,866
TOTAL CURRENT ASSETS		**9,260,225**	**7,703,679**
TOTAL ASSETS		**15,254,549**	**13,684,493**

EQUITY AND LIABILITIES

(in EUR thousands)	Notes	12/31/2017	12/31/2016
Capital	9	66,495	66,006
Consolidated reserves and retained earnings		3,904,845	3,190,542
Currency translation adjustments		-26,300	99,122
Treasury shares	9	-37,828	-38,759
TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY		**3,907,212**	**3,316,911**
Non-controlling interests		493	451
TOTAL EQUITY		**3,907,705**	**3,317,362**
Long-term borrowings and financial debt	10	980,265	1,094,504
Deferred tax liabilities	19	0	0
TOTAL NON-CURRENT LIABILITIES		**980,265**	**1,094,504**
Trade and other payables	12	898,388	854,051
Tax and social security liabilities	12	237,616	237,102
Customer advances and progress payments	13	7,968,995	6,439,014
Short-term borrowings and financial debt	10	114,910	90,598
Provisions for contingencies and charges	11	1,134,603	1,140,481
Derivative financial instruments	23	12,067	511,381
TOTAL CURRENT LIABILITIES		**10,366,579**	**9,272,627**
TOTAL EQUITY AND LIABILITIES		**15,254,549**	**13,684,493**

INCOME STATEMENT

(in EUR thousands)	Notes	2017	2016
NET SALES	14	**4,832,638**	**3,653,417**
Other revenue	15	44,038	57,560
Change in inventories of work-in-progress		-57,004	501,059
Purchases consumed		-3,058,022	-2,551,633
Personnel expenses (1)		-1,143,040	-1,174,694
Taxes and social security contributions		-68,381	-64,451
Amortization	4	-87,270	-84,501
Allocations to provisions	11	-943,893	-858,540
Reversals of provisions	11	856,874	812,404
Other operating income and expenses	16	-32,719	-5,090
CURRENT OPERATING INCOME		**343,221**	**285,531**
Other non-current income and expenses	25	-133,501	0
OPERATING INCOME		**209,720**	**285,531**
Cost of net financial debt		-4,956	-9,024
Other financial income and expenses		592,361	-24,181
NET FINANCIAL INCOME	18	**587,405**	**-33,205**
Share in net income of equity associates	5	178,924	202,711
Income tax	19	-267,055	-75,971
NET INCOME		**708,994**	**379,066**
Attributable to the owners of the Parent Company		*708,952*	*379,030*
Attributable to non-controlling interests		*42*	*36*
Basic earnings per share (in EUR)	20	**86.0**	**45.0**
Diluted earnings per share (in EUR)	20	**86.0**	**45.0**

(1) personnel expenses include incentive schemes and profit-sharing (EUR 99,273 thousand in 2017 and EUR 84,465 thousand in 2016) as well as contributions paid to French pension plans, comparable to defined contribution plans (EUR 89,524 thousand in 2017 and EUR 90,834 thousand in 2016).

STATEMENT OF RECOGNIZED INCOME AND EXPENSE

(in EUR thousands)	Notes	Fully consolidated companies	Equity associates	2017	Fully consolidated companies	Equity associates	2016
NET INCOME		**530,070**	**178,924**	**708,994**	**176,355**	**202,711**	**379,066**
Available-for-sale securities	5	-287,767	-1,913	-289,680	-122,707	2,537	-120,170
Derivative financial instruments (1)	5, 23	193,900	93,951	287,851	-26,240	12,881	-13,359
Deferred taxes	5, 19	38,879	-26,683	12,196	53,336	-4,476	48,860
Currency translation adjustments		-94,492	-30,930	-125,422	24,341	-12,961	11,380
Items to be subsequently recycled to P&L		**-149,480**	**34,425**	**-115,055**	**-71,270**	**-2,019**	**-73,289**
Actuarial adjustments on pension benefit obligations	5, 11	10,801	14,473	25,274	-15,617	-165,057	-180,674
Deferred taxes	5, 19	-9,520	718	-8,802	4,223	5,613	9,836
Items that will not be recycled to P&L		**1,281**	**15,191**	**16,472**	**-11,394**	**-159,444**	**-170,838**
Income and expense recognized directly through equity		**-148,199**	**49,616**	**-98,583**	**-82,664**	**-161,463**	**-244,127**
RECOGNIZED INCOME AND EXPENSE		**381,871**	**228,540**	**610,411**	**93,691**	**41,248**	**134,939**
Owners of the Parent Company		*381,829*	*228,540*	*610,369*	*93,655*	*41,248*	*134,903*
Non-controlling interests		*42*		*42*	*36*		*36*

(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.

STATEMENT OF CHANGES IN EQUITY

(in EUR thousands)	Capital	Consolidated reserves and retained earnings: Additional paid-in capital, consolidated retained earnings and other reserves	Consolidated reserves and retained earnings: Derivative financial instruments and available-for-sale securities	Currency translation adjustments	Treasury shares	Total attributable to the owners of the Parent Company	Non-controlling interests	Total equity
As of 12/31/2015	**72,980**	**3,571,156**	**440,401**	**87,742**	**-401,771**	**3,770,508**	**415**	**3,770,923**
Net income for the year		379,030				379,030	36	379,066
Income and expense recognized directly through equity		-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)		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**
Capital increase (1)	489	76,249				76,738		76,738
Net income for the year		*708,952*				*708,952*	*42*	*708,994*
Income and expense recognized directly through equity		*16,472*	*10,367*	*-125,422*		*-98,583*		*-98,583*
Recognized income and expense		725,424	10,367	-125,422		610,369	42	610,411
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)		1,115				1,115		1,115
Movements on treasury shares (1)		-931			931	0		0
Other changes (2)		1,446				1,446		1,446
As of 12/31/2017	**66,495**	**3,538,746**	**366,099**	**-26,300**	**-37,828**	**3,907,212**	**493**	**3,907,705**

(1) see Note 9.

(2) 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	2017	2016
I - NET CASH FLOWS FROM OPERATING ACTIVITIES			
NET INCOME		708,994	379,066
Elimination of net income of equity associates, net of dividends received	5	-88,469	-125,437
Elimination of gains and losses from disposals of non-current assets	16	709	158
Change in the fair value of derivative financial instruments	23	-473,634	-25,108
Income tax (including deferred taxes)	19	267,055	75,971
Allocations to and reversals of depreciation, amortization and provisions (excluding those relating to working capital requirement) and impairment	4, 11	112,964	33,378
Other items		1,115	1,173
Net cash from operating activities before working capital changes and taxes		**528,734**	**339,201**
Income taxes paid	19	**-110,945**	**-67,641**
Change in inventories and work-in-progress (net)	6	336,311	-578,485
Change in advances and progress payments to suppliers	13	-732,163	-821,678
Change in trade and other receivables (net)	7	-81,930	106,363
Change in customer advances and progress payments	13	1,529,981	2,089,594
Change in trade and other payables	12	44,337	-35,798
Change in tax and social security liabilities	12	514	-44,044
Increase (-) or decrease (+) in working capital requirement		**1,097,050**	**715,952**
Total I		**1,514,839**	**987,512**
II - NET CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets and property, plant & equipment	4	-76,087	-107,556
Increase in financial assets	5	-45,828	-891
Disposals of or reductions in assets		23,484	10,153
Total II		**-98,431**	**-98,294**
III - NET CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in available-for-sale marketable securities (at historical cost)	5	-410,286	3,419
Capital increase and share premium		76,738	0
Purchases and sales of treasury shares	9	0	-477,168
Increase in financial debt	10	61,044	71,951
Repayment of financial debt	10	-150,971	-96,399
Dividends paid during the year	21	-99,367	-105,422
Total III		**-522,842**	**-603,619**
IV - Impact of exchange rate fluctuations and others **Total IV**		-85,013	20,855
CHANGE IN NET CASH AND CASH EQUIVALENTS (I+II+III+IV)		**808,553**	**306,454**
Opening net cash and cash equivalents	8	**1,252,866**	**946,412**
Closing net cash and cash equivalents	8	**2,061,419**	**1,252,866**

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Note 1 - Accounting principles

A/ GENERAL PRINCIPLES

On March 7, 2018, the Board of Directors closed and authorized the publication of the Dassault Aviation consolidated financial statements for the year ended December 31, 2017. These consolidated financial statements will be submitted for approval to the General Meeting on May 24, 2018.

• A1 Reference standards

A1-1 Basis for preparation of financial information

The consolidated financial statements of the Dassault Aviation Group are prepared in accordance with IFRS standards, amendments and interpretations as adopted by the European Union and applicable as of the balance sheet date.

A1-2 Changes in 2017 to the accounting standards applicable to Dassault Aviation

Standards, amendments and interpretations whose application has become mandatory as of January 1, 2017

The main texts that became mandatory as of January 1, 2017 are the following:

- amendment to IAS 7 "Statement of Cash Flows", whose purpose is to present changes in cash flow related to liabilities arising from financing activities. A table to this effect was added in Note 10,
- amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses", which had no impact on the Group's consolidated financial statements.

Standards, amendments and interpretations whose application is mandatory 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, which must be applied after January 1, 2017 are as follows:

- IFRS 15 "Revenue from Contracts with Customers", applicable as of January 1, 2018,
- clarifications to IFRS 15 "Revenue from Contracts with Customers", applicable as of January 1, 2018,
- IFRS 9 "Financial instruments", applicable as of January 1, 2018,
- IFRS 16 "Leases", applicable as of January 1, 2019.

The expected impacts following the implementation of IFRS 15 and IFRS 9 are presented below.

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

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration", applicable as of January 1, 2018,
- amendment to IFRS 2 "Classification and measurement of share-based payment transactions", applicable from January 1, 2018,
- amendment to IAS 28 "Investments in Associates and Joint Ventures", applicable as of January 1, 2019,
- annual improvements to IFRS 2014-2016, applicable as of January 1, 2018,
- IFRIC 23 "Uncertainty over Income Tax Treatment", applicable as of January 1, 2019.

The impacts of these texts on the Group's financial statements are currently being evaluated.

Implementation of IFRS 15

During 2017, the Group continued its work to implement IFRS 15 "Revenue from Contracts with Customers". This standard, whose application will be mandatory as of January 1, 2018, provides for:

- a segmentation of contracts into performance obligations,
- the factors to be taken into account in determining the transaction price, in particular a financing component where this is significant,
- criteria to demonstrate the progressive transfer of control of the assets and recognize the revenue over time,
- methods to determine the stage of completion. In this respect, the Group will apply the cost-to-cost method,
- regarding the assessment wether 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.

Given the Group has chosen the full retrospective method, the financial statements for the first half of 2018 and the year 2018 will include the 2017 comparative financial statements restated for the effects of the application of this new standard. The opening balance sheet as of January 1, 2017 will also be presented restated. The impact of the change of method will thus be presented in the opening equity as of January 1, 2017.

Due to the implementation of IFRS 15 the revenue of certain performance obligations will be recognized by the Group at a different pace than with the current standards. However, revenue and margin will only be deferred from one period to another, the economy of the contract remains unchanged. The implementation of IFRS 15 has no impact on cash flow.

The detailed impacts of the implementation of IFRS 15 will be stated in the 2018 interim financial statements.

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 will cause the Group to combine promises hitherto recognized as revenue in isolation by the Group. This is the case in particular for program management services and certain development services that do not meet the criteria defined by the standard to qualify as separate performance obligations. The impact of this restatement on the 2017 financial statements, which generates time lags in revenue and margin recognition, is limited, however.

Determination of the transaction price

The standard 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 will be increased by this financing component, offset by a financial expense recognized over the term of the contract.

This impact will, however, be partially offset by the financing component that will be 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 Group's current rules, revenue from goods (representing around 80% of the Group's revenue in 2016 and 2017) are recognized when the good is delivered (generally at the transfer of property), whereas revenue related to services is 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 currently recognized at a point in time to be recognized using the over time method is thus limited. Revenue will continue to be recognized xhen the goods are delivered in the majority of cases.

Revenue from performance of services will, as previously, be 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.

Measurement of progress

Under the Group's current rules, revenue from services recognized as a percentage of completion is generally recognized based on billing milestones that attest 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, for which the impact on the Group's financial statements is non-material, however.

Agent / principal

IFRS 15 standard, which defines when an entity is "agent" or "principal", does not call into question the analysis that has been conducted with regard to the current standards, namely that the Group acts as the 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 will result 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.

Implementation of IFRS 9

IFRS 9 covers accounting rules applicable to financial instruments in three main areas: classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

The impacts of IFRS 9 for the Group are still being assessed.

Classification and measurement of financial assets and liabilities

The main expected impact of this standard for the Group concerns the classification of marketable securities currently classified as "Available-for-sale". Following the implementation of IFRS 9, these financial assets will be classified as "Fair value through profit or loss". Accordingly, as of January 1, 2018, changes in unrealized gains currently recognized in "Income and expense recognized directly through equity" that are recycled as profit or loss upon the disposal of securities will be recognized in the financial income.

IFRS 9 will apply retroactively. As a result, the amount of unrealized gains included in "Income and expenses recognized directly through equity" as of December 31, 2017 will be reclassified as "Reserves" in the opening balance sheet of January 1, 2018 since they will be deemed to have been recognized in income in previous years. The amount of reclassified unrealized gains will be EUR 377 million.

With regard to the other measures of the standard, it should be noted that the Group, who renogociated a part of his borrowings in 2017, is not significantly impacted by the change in treatment of debt renegotiations that did not result in the derecogition of the original debt.

Impairment of receivables

The transition from an impairment of trade receivables based on recognized losses to a method based on expected losses will not, in the light of our initial analyses, have a material impact on the Group's financial statements. These conclusions are based in particular on the nature of the customers (States) for military trade receivables and the fact that the vast majority of Falcon sales are made in cash, as credit sales receivables are otherwise covered by insurance or collateral, which limits the credit risk.

Hedge accounting

The provisions of IFRS 9 on hedges should not have a significant impact on the Group's financial statements.

The detailed impacts of the implementation of IFRS 9 will be stated in the 2018 interim financial statements.

• 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 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 balance sheet 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, receivables, payables, advances and progress payments, 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.

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 amortization and impairment.

Each identified component of an intangible asset or item of property, plant and equipment is recognized and amortized separately.

Amortization is calculated using the straight-line method. No residual value is taken into account, except for aircraft.

Property, plant and equipment and intangible assets are amortized over their estimated useful lives. Useful lives are reviewed at each year-end for material non-current assets.

The initial useful life of an asset is extended or reduced if the conditions in which the asset is used justify it.

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	25-30 years
Office buildings	25-35 years
Fixtures and fittings	7-15 years
Plant, equipment and tools	3-15 years
Aircraft	4-15 years
Rolling stock	3-4 years
Other property, plant and equipment	3-8 years
Used goods	on a case-by-case basis

C2-3 Derecognition

Any gain or loss arising from the derecognition of an asset (difference between the net disposal gain and the 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 7.5% (compared to 8.2% as of December 31, 2016) and a 2% long-term growth rate (same as of December 31, 2016). The discount rate used includes the rates prevailing in the aviation industry and was calculated using the same method as in 2016. 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 Securities and other non-current financial assets

These fall into three categories.

C4-1 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.

C4-2 Available-for-sale securities

These mainly comprise short-term investments in the form of marketable securities and non-consolidated equity investments which the Group does not intend to sell in the short term.

They are recognized at their fair value.

For listed assets (marketable securities and equity investments), fair value corresponds to the market price prevailing at the balance sheet date. These items are classified as level 1 (as per IFRS 13).

For non-listed 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 (as per IFRS 13).

Unrealized capital gains or losses net of applicable deferred tax are recognized in the "Other income and expense recognized directly through equity" with the exception of capital losses that are considered definitive.

Once such assets are sold or their value is permanently impaired, any cumulative gains or losses recognized directly in equity during previous years are posted in financial income for marketable securities, and in operating income for equity investments.

In the event of a partial disposal of securities, the "first-in, first-out" method is used to determine the disposal gain or loss transferred from equity.

C4-3 Other financial assets

Other financial assets mainly comprise guarantee deposits 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.

• C5 Inventories and work-in-progress

Incoming inventories of raw materials, semi-finished and finished goods 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.

• C6 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 by taking into account the type of customer and the history of payments.

In the event of a risk of customer default, 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.

• C7 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.

• C8 Treasury shares

C8-1 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.

C8-2 Share-based payments

Since 2015, Dassault Aviation has had a plan 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.

• C9 Provisions for contingencies and charges

C9-1 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, 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 the delivered 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."

C9-2 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.

• C10 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.

• C11 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.

• C12 Derivative financial instruments

C12-1 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. 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.

C12-2 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 (as per IFRS 13).

The Group applies hedge accounting for the relevant transactions in accordance with the criteria set forth in IAS 39 "Financial Instruments":

- 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 operating income for foreign exchange derivatives and in net financial income for interest rate derivatives;
- when the cash flow is received, the gain or loss on the foreign exchange hedging instrument is recognized in operating 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 and commodity derivatives), then changes in its fair value are recognized in financial income.

• C13 Net sales and key figures

C13-1 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.

Sale of goods and development contracts

Net sales and net income are recognized when Dassault Aviation has transferred the principal risks and benefits of ownership to the buyer, and it is probable that 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 recorded as a work-in-progress. If the estimated costs are higher than the actual costs, a provision for work still to be performed is recognized.

Finance leases are recognized as credit sales in application of IAS 17 "Leases".

Other services contracts

Services are 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 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.

C13-2 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.

C13-3 Net financial income

Net financial income primarily represents:

- financial income related to cash and cash equivalents;
- financial expenses related to loans taken out by the Group and locked-in employee profit-sharing funds;
- dividends from non-consolidated companies recognized when the Group – as shareholder – is entitled to receive payment;
- proceeds from the sale of investment securities classified as "Available-for-sale securities";
- 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.

• C14 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.

Note 2 - Scope of consolidation

2.1 Scope as of December 31, 2017

The consolidated financial statements comprise the financial statements of Dassault Aviation and the following entities:

Names	Country	% Interest (1)		Consolidation method (2)
		12/31/2017	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	100	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**	**0**	**100**	**N/A**
- MIDWAY	United States	0	75	N/A
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, in which the Group held 24.70% of the capital, 24.77% of the interest rights, and 28.44% of the voting rights as of December 31, 2017.

(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 66,495,368, listed and registered in France, Paris Trade Register No. 712 042 456 - 9, Rond-Point des Champs-Élysées Marcel Dassault - 75008 PARIS.

2.2 2017 change in scope

Dassault Procurement Services was absorbed by Dassault Falcon Jet in the second half of 2017. 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, 2017, as of December 31, 2016.

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)	12/31/2017	12/31/2016
Net value		
France	320,612	320,664
United States	155,385	212,825
TOTAL	**475,997**	**533,489**
Intangible assets	30,687	35,159
Property, plant and equipment	445,310	498,330

4.2 Intangible assets

(in EUR thousands)	12/31/2016	Acquisitions Allocations	Disposals Reversals	Other	12/31/2017
Gross value					
Development costs (1)	162,925	0	0	0	162,925
Software, patents, licenses and similar assets	113,479	6,639	-85	1,015	121,048
Intangible assets in progress; advances and progress payments	1,282	715	0	-816	1,181
	277,686	**7,354**	**-85**	**199**	**285,154**
Amortization					
Development costs (1)	-141,274	-5,699	0	0	-146,973
Software, patents, licenses and similar assets	-101,253	-6,750	85	424	-107,494
	-242,527	**-12,449**	**85**	**424**	**-254,467**
Net value					
Development costs (1)	21,651				15,952
Software, patents, licenses and similar assets	12,226				13,554
Intangible assets in progress; advances and progress payments	1,282				1,181
Intangible assets	**35,159**	**-5,095**	**0**	**623**	**30,687**

(1) see paragraph C2-1 of the accounting principles.

4.3 Property, plant and equipment

(in EUR thousands)	12/31/2016	Acquisitions Allocations	Disposals Reversals	Other (1)	12/31/2017
Gross value					
Land	34,783	636	-20	22	35,421
Buildings	532,603	7,351	-1,259	-19,166	519,529
Plant, equipment and machinery	586,644	27,008	-15,688	-286	597,678
Other property, plant and equipment	290,559	9,873	-41,133	-15,463	243,836
Construction in progress; advances and progress payments	28,580	23,865	-3,815	-13,578	35,052
	1,473,169	**68,733**	**-61,915**	**-48,471**	**1,431,516**
Amortization					
Land	-7,251	-767	20	0	-7,998
Buildings	-296,432	-22,565	1,236	9,937	-307,824
Plant, equipment and machinery	-466,924	-34,672	15,160	5,404	-481,032
Other property, plant and equipment	-184,657	-16,817	22,045	7,354	-172,075
	-955,264	**-74,821**	**38,461**	**22,695**	**-968,929**
Impairment (2)					
Other property, plant and equipment	-19,575	-18,138	18,388	2,048	-17,277
	-19,575	**-18,138**	**18,388**	**2,048**	**-17,277**
Net value					
Land	27,532				27,423
Buildings	236,171				211,705
Plant, equipment and machinery	119,720				116,646
Other property, plant and equipment	86,327				54,484
Construction in progress; advances and progress payments	28,580				35,052
Property, plant and equipment	**498,330**	**-24,226**	**-5,066**	**-23,728**	**445,310**

(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 fo cash-generating units did not reveal any impairment to be recognized as of December 31, 2017.
- The provision for impairment of capitalized used business aircraft was revised to EUR 17,277 thousand as of December 31, 2017, compared with EUR 19,575 thousand as of December 31, 2016.

Note 5 - Non-current financial assets

5.1 Equity associates

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

As of December 31, 2017, Dassault Aviation held 24.77% 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	
	12/31/2017	**12/31/2016**	**2017**	**2016**
Thales (1)	1,850,547	1,708,769	174,826	197,955
Other	20,130	22,415	4,098	4,756
TOTAL	**1,870,677**	**1,731,184**	**178,924**	**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 5.1.3.

5.1.2 Change in equity associates

(in EUR thousands)	2017	2016
As of January 1	**1,731,184**	**1,774,293**
Share in net income of equity associates	178,924	202,711
Elimination of dividends paid (1)	-90,455	-77,274
Income and expense recognized directly through equity		
- Available-for-sale financial assets	-1,913	2,537
- Derivative financial instruments (2)	93,951	12,881
- Actuarial adjustments on pension obligations	14,473	-165,057
- Deferred taxes	-25,965	1,137
- Currency translation adjustments	-30,930	-12,961
Share of equity associates in other income and expense recognized directly through equity	49,616	-161,463
Other movements (3)	1,408	-7,083
As of December 31	**1,870,677**	**1,731,184**

(1) in 2017, the Group received EUR 63,038 thousand in Thales dividends for 2016 and EUR 23,639 thousand in interim dividends for 2017. 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, which 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.

5.1.3 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)	2017	2016
Non-current assets	8,511,000	8,623,400
Current assets (1)	14,821,100	14,066,200
Equity attributable to the owners of the Parent Company	5,325,900	4,640,100
Non-controlling interests	229,600	225,900
Non-current liabilities (2)	3,868,000	4,514,100
Current liabilities (3)	13,908,600	13,309,500
Total balance sheet	23,332,100	22,689,600
Net sales	15,795,400	14,884,800
Net income attributable to the owners of Parent Company (4)	821,700	946,400
Other comprehensive income attributable to the owners of the Parent Company	206,200	-629,600
Total comprehensive income attributable to the shareholders of the Parent Company	1,027,900	316,800

(1) of which cash and cash equivalents EUR 4,282,700 thousand in 2017 (EUR 3,616,900 thousand in 2016).

(2) including non-current financial liabilities: EUR 956,100 thousand in 2017 (EUR 1,433,700 thousand in 2016).

(3) including current financial liabilities: EUR 887,000 thousand in 2017 (EUR 589,700 thousand in 2016).

(4) including depreciation and amortization: EUR -504,100 thousand in 2017 (EUR -491,900 thousand in 2016)

including financial interest on gross debt: EUR -16,300 thousand in 2017 (EUR -11,300 thousand in 2016)

including financial income related to cash and cash equivalents: EUR 21,300 thousand in 2017 (EUR 17,600 thousand in 2016)

including income tax: EUR -264,200 thousand in 2017 (EUR -255,600 thousand in 2016).

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)	2017	2016
Thales net income (100%)	**821,700**	**946,400**
Thales net income - Dassault Aviation share	**203,535**	**235,086**
Post-tax amortization of the purchase price allocation (1)	-26,384	-39,742
Other consolidation restatements	-2,325	2,611
Dassault Aviation share in net income of equity associates	**174,826**	**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.

5.1.4 Impairment

Based on the market price of the Thales share at December 31, 2017 (EUR 89.88 per share), Dassault Aviation's investment in Thales is valued at EUR 4,722 million.

In the absence of any objective indication of impairment, the Thales investment was not subject to an impairment test as of December 31, 2017.

5.2 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 8). The analysis of risks relating to all the Group's available-for-sale securities is presented in Note 23.

(in EUR thousands)	12/31/2016	Acquisitions	Disposals	Change in fair value	Other	12/31/2017
Listed marketable securities (1) (2)	3,037,487	410,286	0	-292,860	0	3,154,913
Non-listed securities (3)	74,088	40,924	0	2,310	30	117,352
Embraer shares	30,802	0	0	2,783	0	33,585
Available-for-sale securities	**3,142,377**	**451,210**	**0**	**-287,767**	**30**	**3,305,850**

(1) the amount of EUR 410,286 thousand corresponds to the acquisition net of disposals of marketable securities listed at historical cost.

(2) the decrease in the fair value of EUR -292,860 thousand is mainly due from the sale of marketable securities.

(3) in 2017, Dassault Reliance Aerospace Limited Joint Venture has been created by Dassault Aviation and the Indian group Reliance (capital owned at 51% by Reliance and at 49% by Dassault Aviation). Acquisitions of non-listed securities also include the 34.79% equity participation in Reliance Airport Developers Limited.

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, 2017 (as it was the case on December 31, 2016).

(in EUR thousands)	12/31/2017			12/31/2016		
	Historical cost	Unrealized capital gain/loss (1)	Consolidated asset value	Historical cost	Unrealized capital gain/loss (1)	Consolidated asset value
Listed marketable securities	2,777,797	377,116	3,154,913	2,367,511	669,976	3,037,487
Non-listed securities	89,959	27,393	117,352	49,005	25,083	74,088
Embraer shares	32,120	1,465	33,585	32,120	-1,318	30,802
Available-for-sale securities	**2,899,876**	**405,974**	**3,305,850**	**2,448,636**	**693,741**	**3,142,377**

(1) unrealized gains or losses are recognized directly through equity with the exception of losses considered definitive.

5.3 Other financial assets

(in EUR thousands)	12/31/2016	Increase	Decrease	Other	12/31/2017
Receivables from equity investments	0	4,000	0	0	4,000
Advance lease payments	32,434	804	-39	0	33,199
Housing loans and other	1,588	100	-523	-13	1,152
Other gross financial assets (1)	**34,022**	**4,904**	**-562**	**-13**	**38,351**
Provision	-344	0	177	13	-154
Other net financial assets	**33,678**	**4,904**	**-385**	**0**	**38,197**

(1) maturing at more than one year: EUR 33,568 thousand as of December 31, 2017 and EUR 33,249 thousand as of December 31, 2016.

Note 6 - Inventories and work-in-progress

(in EUR thousands)	12/31/2017			12/31/2016
	Gross	Impairment	Net	Net
Raw materials	179,545	-80,482	99,063	113,126
Work-in-progress	3,009,130	-149,083	2,860,047	3,091,081
Semi-finished and finished goods	1,098,059	-387,014	711,045	802,259
Inventories and work-in-progress	**4,286,734**	**-616,579**	**3,670,155**	**4,006,466**

Considering the magnitude of the risks involved both on the technical and schedule aspects of the Silvercrest program, Dassault Aviation initiates the termination process of the Silvercrest contract leading to the end of the Falcon 5X program. The Group assessed the impact of the end of the Falcon 5X program on its assets and liabilities as of December 31, 2017. As a result, the Group impaired a portion of the assets related to the program, mainly inventory and work-in-progress.

Note 7 - Trade and other receivables

7.1 Details

(in EUR thousands)	12/31/2017			12/31/2016
	Gross	Impairment	Net	Net
Trade receivables (1)	532,788	-80,893	451,895	378,889
Corporate income tax receivables	125,343	0	125,343	67,597
Other receivables	240,414	0	240,414	185,369
Prepayments	12,310	0	12,310	14,186
Trade and other receivables	**910,855**	**-80,893**	**829,962**	**646,041**

(1) see Note 7.3 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 23.2.

7.2 Schedule

(in EUR thousands)	12/31/2017			12/31/2016		
	Total	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year
Trade receivables (1)	532,788	340,615	192,173	470,579	221,621	248,958
Corporate income tax receivables	125,343	125,343	0	67,597	67,597	0
Other receivables	240,414	240,414	0	185,369	185,369	0
Prepayments	12,310	12,310	0	14,186	14,186	0
Trade and other receivables	**910,855**	**718,682**	**192,173**	**737,731**	**488,773**	**248,958**

(1) see Note 7.3 for receivables relating to finance leases.

7.3 Receivables relating to finance leases

(in EUR thousands)	12/31/2017	12/31/2016
Minimum lease receivables	120,486	131,136
Unearned financial income	-11,427	-8,900
Provisions for impairment	-10,067	-18,775
Net value	**98,992**	**103,461**

The amount due within one year of minimum lease receivables is EUR 27,039 thousand.

Note 8 - Cash and cash equivalents

8.1 Net cash

(in EUR thousands)	12/31/2017	12/31/2016
Cash equivalents (1)	1,656,383	1,082,754
Cash at bank and in hand	405,036	170,112
Cash and cash equivalents in assets	**2,061,419**	**1,252,866**
Bank overdrafts	0	0
Net cash in the cash flow statement	**2,061,419**	**1,252,866**

(1) primarily time deposits and cash equivalent marketable securities. The corresponding risk analysis is described in Note 23.1.

8.2 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)	12/31/2017	12/31/2016
Available-for-sale marketable securities (market value) (1)	3,154,913	3,037,487
Cash and cash equivalents (market value)	2,061,419	1,252,866
Subtotal	**5,216,332**	**4,290,353**
Borrowings and financial debt (2)	-1,095,175	-1,185,102
Available cash	**4,121,157**	**3,105,251**

(1) see Note 5. Given their liquidity, the available-for-sale marketable securities may be sold in a short period of time.

(2) see Note 10.

Note 9 - Equity

9.1 Share capital

The share capital amounts to EUR 66,495 thousand and consists of 8,311,921 common shares of EUR 8 each as of December 31, 2017. As of December 31, 2016, it amounted to EUR 66,006 thousand and consisted of 8,250,785 common shares.

In 2017, 61,136 new common shares were created following the option offered to shareholders to receive all or part of the 2016 dividend in shares.

The distribution of share capital as of December 31, 2017 is as follows:

	Shares	% Capital	% Voting rights
GIMD (1)	5,167,580	62.2%	76.8%
Float	2,280,557	27.4%	17.0%
Airbus SE	825,184	9.9%	6.2%
Dassault Aviation (treasury shares)	38,600	0.5%	-
Total	**8,311,921**	**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.

9.2 Treasury shares

Movements on treasury shares are detailed below:

(in number of shares)	2017	2016
Treasury shares as of January 1	**39,550**	**409,971**
Purchase of shares	0	502,282
Cancellation of shares	0	-871,753
Share-based payments (see Note 9.3)	-950	-950
Treasury shares as of December 31	**38,600**	**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 held as of December 31, 2017 were allocated to potential allocations of performance shares plans and a potential liquidity contract to guarantee market activity.

9.3 Share-based payments

Since 2015, performance shares have been allocated to corporate officers (characteristics of the plans are described in Section 5.5 of the Directors' 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 12/31/2017
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 shares were definitively allotted, as the performance conditions set by the Board of Directors on March 9, 2016 were achieved. An expense of EUR 532 thousand was recorded in 2017 under this plan, the fair value of which totaled EUR 894 thousand (average value of EUR 941 per share).

2017 plan

An expense of EUR 583 thousand was recorded in 2017 under this plan, the fair value of which totaled EUR 1,425 thousand (average value of EUR 1,000 per share).

Note 10 - Borrowings and financial debt

(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*

(in EUR thousands)	Total as of 12/31/2016	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)	**998,916**	50,614	948,302	*948,302*	*0*
Other financial debt (2)	**186,186**	39,984	146,202	*146,127*	*75*
Borrowings and financial debt	**1,185,102**	90,598	1,094,504	*1,094,429*	*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 75 million is repayable in 2018, EUR 625 million in 2019 and EUR 250 million in 2020.

There were no bank overdrafts as of December 31, 2017, as was the case on December 31, 2016.

(2) as of December 31, 2017 and December 31, 2016, 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 2016 and 2017 breaks down as follows:

(in EUR thousands)	12/31/2016	Cash flow	Reclassifi-cation	12/31/2017
Long-term borrowings and financial debt	**1,094,504**	671	-114,910	**980,265**
Short-term borrowings and financial debt (1)	**90,598**	-90,598	114,910	**114,910**
Borrowings and financial debt	**1,185,102**	**-89,927**	**0**	**1,095,175**

(1) EUR 50 million in bank borrowings were repaid in 2017.

Note 11 - Current provisions

11.1 Provisions for contingencies and charges and for impairment

(in EUR thousands)	12/31/2016	Allocations	Reversals	Other (1)	12/31/2017
Provisions for contingencies and charges					
Operational	1,140,481	229,541	-203,420	-31,999	1,134,603
	1,140,481	**229,541**	**-203,420**	**-31,999**	**1,134,603**
Provisions for impairment					
Financial assets	344	0	-177	-13	154
Property, plant and equipment	19,575	18,138	-18,388	-2,048	17,277
On inventories and work-in-progress	561,850	615,371	-543,598	-17,044	616,579
Trade receivables	91,690	80,843	-91,468	-172	80,893
	673,459	**714,352**	**-653,631**	**-19,277**	**714,903**
Provisions for contingencies and charges and for impairment	**1,813,940**	**943,893**	**-857,051**	**-51,276**	**1,849,506**

(1) including foreign exchange differences and actuarial adjustments recognized directly through equity.

11.2 Details of provisions for contingencies and charges

(in EUR thousands)	12/31/2016	Allocations	Reversals	Other	12/31/2017
Warranties (1)	647,024	67,113	-74,775	-5,151	634,211
Services and work still to be performed	173,234	97,546	-85,231	-8,161	177,388
Retirement payments (2)	274,869	63,626	-20,234	-17,647	300,614
French companies	*242,623*	*50,601*	*-19,788*	*-48,930*	*224,506*
US companies	*32,246*	*13,025*	*-446*	*31,283*	*76,108*
Others (3)	45,354	1,256	-23,180	-1,040	22,390
Provisions for contingencies and charges	**1,140,481**	**229,541**	**-203,420**	**-31,999**	**1,134,603**

(1) warranty provisions are updated to reflect the fleet in service and contracts delivered. See accounting principles C9-1.

(2) actuarial gains and losses contributed to the decrease in the provision for retirement costs in the amount of EUR -10,801 thousand. They are distributed as follows:

French companies	*-48,930*
US companies	*38,129*
Total actuarial adjustments	*-10,801*

(3) as of December 31, 2017, the other long-term benefits relating to long-service awards amounted to EUR 3,676 thousand, compared to EUR 3,599 thousand at the end of 2016. The workforce adjustment measures (including early retirement) are accrued at the end of 2017 in the amount of EUR 15,908 thousand. They represent EUR 39,159 thousand as of the end of 2016.

11.3 Provisions for retirement payments

11.3.1 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.

11.3.2 Assumptions used

	France		United States	
	2017	**2016**	**2017**	**2016**
Inflation rate	2.00%	2.00%	2.15%	2.25%
Discount rate	1.50%	1.00%	3.85%	4.60%
Weighted average salary increase rate	3.90%	3.90%	2.25%	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.

11.3.3 Change in commitments and plan assets

Changes in commitments and plan assets over the last five years are as follows:

(in EUR thousands)	2017	2016	2015	2014	2013
Commitment	800,621	800,609	741,037	700,535	556,649
Plan assets	500,007	525,740	446,435	213,908	175,084
Unfunded status	**300,614**	**274,869**	**294,602**	**486,627**	**381,565**

Changes over the year of commitments break down as follows:

(in EUR thousands)	2017			2016		
	France	United States	**Total**	France	United States	**Total**
As of January 1	504,301	296,308	**800,609**	470,809	270,228	**741,037**
Current service cost	28,110	11,372	39,482	25,689	11,849	37,538
Past service cost (1)	18,344	0	18,344	0	0	0
Interest expense	5,325	12,580	17,905	7,441	12,642	20,083
Benefits paid	-19,788	-9,804	-29,592	-16,665	-8,404	-25,069
Actuarial adjustments	-42,272	34,863	-7,409	17,027	302	17,329
Foreign exchange differences	0	-38,718	-38,718	0	9,691	9,691
As of December 31	494,020	306,601	**800,621**	504,301	296,308	**800,609**

(1) the change in the statutory severance pay scale included in the "Labor Market Modernization Act" ("Loi de Modernisation du Marché du Travail") voted in 2017 contributed to the increase in the provision for retirement costs by EUR 18,344 thousand.

A 0.50 point decrease in the discount rate would increase the total commitment by EUR 64,045 thousand, while a 0.50 point increase in the discount rate would decrease the total commitment by EUR 57,445 thousand.

Changes in investments during the period are as follows:

(in EUR thousands)	2017			2016		
	France	United States	Total	France	United States	Total
As of January 1	261,678	264,062	**525,740**	200,184	246,251	**446,435**
Expected return on plan assets	1,178	10,927	12,105	1,970	10,957	12,927
Actuarial adjustments	6,658	-3,266	3,392	4,524	-2,812	1,712
Employer contributions	0	446	446	55,000	9,523	64,523
Benefits paid	0	-9,804	-9,804	0	-8,404	-8,404
Foreign exchange differences	0	-31,872	-31,872	0	8,547	8,547
As of December 31	269,514	230,493	**500,007**	261,678	264,062	**525,740**

The costs for defined benefit plans can be analyzed as follows:

(in EUR thousands)	2017			2016		
	France	United States	Total	France	United States	Total
Current service cost	28,110	11,372	39,482	25,689	11,849	37,538
Past service cost	18,344	0	18,344	0	0	0
Interest expense	5,325	12,580	17,905	7,441	12,642	20,083
Expected return on plan assets	-1,178	-10,927	-12,105	-1,970	-10,957	-12,927
Cost for defined benefit plans	50,601	13,025	**63,626**	31,160	13,534	**44,694**

Plan assets are invested as follows:

	2017		2016	
	France	**United States**	**France**	**United States**
Bonds and debt securities	85%	97%	86%	100%
Real estate	7%	0%	8%	0%
Equities	8%	0%	6%	0%
Liquidities	0%	3%	0%	0%
Total	**100%**	**100%**	**100%**	**100%**

The fund invests largely in bonds with a minimum guaranteed annual yield.

Note 12 - Operating liabilities

(in EUR thousands)	12/31/2017			12/31/2016		
	Total	**Within 1 year**	**More than 1 year**	**Total**	**Within 1 year**	**More than 1 year**
Trade payables	595,814	595,814	0	611,699	611,699	0
Other liabilities	131,886	131,886	0	88,611	88,611	0
Deferred income	170,688	94,059	76,629	153,741	77,941	75,800
Trade and other payables	**898,388**	**821,759**	**76,629**	**854,051**	**778,251**	**75,800**
Income tax liabilities	0	0	0	0	0	0
Other tax and social security liabilities	237,616	237,616	0	237,102	237,102	0
Tax and social security liabilities	**237,616**	**237,616**	**0**	**237,102**	**237,102**	**0**

Note 13 - Advances and progress payments

(in EUR thousands)	12/31/2017			12/31/2016		
	Total	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year
Customer advances and progress payments	**7,968,995**	1,974,295	5,994,700	**6,439,014**	1,748,026	4,690,988

Advances and progress payments received under the Rafale Egypt, Qatar and India contracts include the co-contractors' parts. Correspondingly, the advances and progress payments to suppliers reflect the transfer of these parts to the co-contractors, as shown in the table below:

(in EUR thousands)	12/31/2017	12/31/2016
Customer advances and progress payments	7,968,995	6,439,014
Advances and progress payments to suppliers	-2,525,871	-1,793,708
Customer advances and progress payments net of advances and progress payments to suppliers	**5,443,124**	**4,645,306**

Note 14 - Net sales

(in EUR thousands)	2017	2016
France (1)	550,316	602,531
Export (2)	4,282,322	3,050,886
Net sales	**4,832,638**	**3,653,417**

(1) the Group made more than 10% of its total net sales with the French government in 2017, as in 2016.

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

Net sales break down as follows:

(in EUR thousands)	2017	2016
Finished goods	3,831,371	2,974,778
Services	1,001,267	678,639
Net sales	**4,832,638**	**3,653,417**

By origin, net sales break down as follows:

(in EUR thousands)	2017	2016
France	3,725,343	2,820,652
United States	1,107,295	832,765
Net sales	**4,832,638**	**3,653,417**

Note 15 - Other revenue

(in EUR thousands)	2017	2016
Research tax credits	32,643	32,816
Interest on arrears	370	1,108
Capitalized production (1)	129	12,181
Other operating subsidies	650	81
Other operating income	10,246	11,374
Other business income	**44,038**	**57,560**

(1) including capitalized development costs: 0 in 2017 and EUR 12,101 thousand in 2016.

Note 16 - Other operating income and expenses

(in EUR thousands)	2017	2016
Gains/losses from disposals of non-current assets	-709	-158
Foreign exchange gains or losses from business transactions (1)	-27,402	-5,069
Income/loss from management operations	-70	746
Other operating expenses	-4,538	-609
Other operating income and expenses	**-32,719**	**-5,090**

(1) particularly foreign exchange gains and losses on trade receivables and payables.

Note 17 - 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)	2017	2016
Research and development costs	-312,539	-292,714

The Group's research and development strategy and initiatives are described in the Directors' Report.

Note 18 - Net financial income

(in EUR thousands)	2017	2016
Income from cash and cash equivalents	6,948	6,502
Cost of gross financial debt	-11,904	-15,526
Cost of net financial debt	**-4,956**	**-9,024**
Dividends and other investment income	1,425	808
Interest income and gains/losses on disposal of other financial assets (excluding cash and cash equivalents) (1)	297,330	100,149
Foreign exchange gain/loss (2)	293,804	-125,734
Other	-198	596
Other financial income and expenses	**592,361**	**-24,181**
Net financial income	**587,405**	**-33,205**

(1) of which gain from sale of marketable securities for EUR 292,385 thousand (EUR 95,133 thousand in 2016).

(2) 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 IAS 39 "Financial instruments" (see Note 23.2), 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) and the cost of restructuring the currency hedging portfolio, which was necessary because of the decline in commercial flows related to Falcon activity.

Note 19 - Tax position

19.1 Net effect of taxes on net income

(in EUR thousands)	2017	2016
Corporate tax	-110,945	-67,641
Deferred tax income/expense	-156,110	-8,330
Income tax	**-267,055**	**-75,971**

19.2 Net effect of taxes on income and expense recognized directly through equity - fully consolidated companies

(in EUR thousands)	2017	2016
Derivative financial instruments	-62,108	9,034
Available-for-sale securities	100,987	44,302
Actuarial adjustments	-9,520	4,223
Taxes recognized directly in equity	**29,359**	**57,559**

19.3 Reconciliation of theoretical and actual tax expense

(in EUR thousands)	2017	2016
Net income	708,994	379,066
Cancellation of the income tax	267,055	75,971
Cancellation of the Group share of net income of equity associates	-178,924	-202,711
Income before tax	797,125	252,326
Theoretical tax expenses calculated at the current rate (1)	**-354,163**	**-86,876**
Effect of tax credits (2)	19,579	14,789
Effect of differences in tax rates (3)	51,357	-9,010
Other	16,172	5,126
Taxes recognized	**-267,055**	**-75,971**

(1) a rate of 44.43% applies for 2017, compared to a rate of 34.43% in 2016 for the Parent Company of the Group.

(2) the amount of the research tax credit, which is recognized in other revenue, is EUR 32,643 thousand for 2017 and EUR 32,816 thousand for 2016. The tax credit for competitiveness and employment, which is recognized as a deduction from employee costs, represented EUR 9,545 thousand in 2017 and EUR 8,411 thousand in 2016.

(3) in 2017 includes the impact from the change to the income tax rate on deferred tax (see Note 19.4).

19.4 Deferred tax sources

(in EUR thousands)	Balance sheet		Consolidated income statement	
	12/31/2017	**12/31/2016**	**2017**	**2016**
Temporary differences on provisions (profit-sharing, pension, etc.)	268,074	252,403	33,174	9,966
Available-for-sale securities and cash equivalents	-3,906	-2,472	-430	-309
Derivative financial instruments	-48,352	174,598	-160,842	-8,400
Other temporary differences	73,421	101,191	-28,012	-9,587
Deferred tax income/expense			**-156,110**	**-8,330**
Net deferred taxes (1)	**289,237**	**525,720**		
Deferred tax assets	*289,237*	*525,720*		
Deferred tax liabilities	*0*	*0*		

(1) the impact on the deferred tax rate of the decrease in the corporate income tax rate in France and the United States is EUR -21,352 thousand (impact on deferred tax expense of EUR -19,716 thousand and other income and expenses recognized directly as equity of EUR -1,636 thousand).

19.5 Deferred tax assets not recognized in balance sheet

(in EUR thousands)	12/31/2017	12/31/2016
Deferred tax assets not recognized in balance sheet	11,854	28,079

These are temporary differences for which reversal is not expected for ten years.

Note 20 - Earnings per share

Earnings per share	2017	2016
Net income attributable to the owners of the Parent Company (in EUR thousands) (1)	708,952	379,030
Average number of shares outstanding	8,244,507	8,431,494
Diluted average number of shares outstanding	8,245,220	8,431,969
Earnings per share (in EUR)	**86.0**	**45.0**
Diluted earnings per share (in EUR)	**86.0**	**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, adjusted for performance shares granted.

Note 21 - Dividends paid and proposed

Dividends	2017	2016
Decided and paid during the year (in EUR thousands) (1)	99,367	105,422
i.e. per share (EUR)	12.10	12.10
Proposed by the Board of Directors to the Annual General Meeting for approval, not recognized as a liability as of December 31 (in EUR thousands)	127,172	99,834
i.e. per share (EUR)	15.30	12.10

(1) net of dividends on treasury shares.

Note 22 - 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.

22.1 Financial instruments (assets)

(in EUR thousands)	Balance sheet value as of 12/31/2017			
	Cost or amortized cost (1)	Fair value		Total
		Through net income	Through equity	
Non-current assets				
Listed investments			33,585	33,585
Non-listed investments		71	117,281	117,352
Available-for-sale marketable securities			3,154,913	3,154,913
Other financial assets	38,197			38,197
Current assets				
Trade and other receivables	829,962			829,962
Derivative financial instruments		33,358	139,460	172,818
Cash equivalents (2)		1,656,383		1,656,383
Total financial instruments (assets)	**868,159**	**1,689,812**	**3,445,239**	**6,003,210**
Level 1 (2)		1,656,383	3,188,498	
Level 2		33,358	139,460	
Level 3		71	117,281	

(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, 2017: EUR 1,487,529 thousand.

As of 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
		Through net income	Through 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
Total 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 amortized cost corresponds to a reasonable approximation of the fair value.

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

22.2 Financial instruments (liabilities)

(in EUR thousands)	Balance sheet value as of 12/31/2017			
	Cost or amortized cost (1)	Fair value		Total
		Through net income	Through equity	
Non-current liabilities				
Bank borrowings	873,311			873,311
Other borrowings and financial debt (2)	106,954			106,954
Current liabilities				
Bank borrowings	75,512			75,512
Other borrowings and financial debt (2)	39,398			39,398
Trade and other payables	898,388			898,388
Derivative financial instruments		5,634	6,433	12,067
Total financial instruments (liabilities)	**1,993,563**	**5,634**	**6,433**	**2,005,630**
Level 1		0	0	
Level 2		5,634	6,433	
Level 3		0	0	

As of 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
		Through net income	Through equity	
Non-current liabilities				
Bank borrowings	948,302			948,302
Other borrowings and financial debt (2)	146,202			146,202
Current liabilities				
Bank borrowings	50,614			50,614
Other borrowings and financial debt (2)	39,984			39,984
Trade and other payables	854,051			854,051
Derivative financial instruments		450,508	60,873	511,381
Total 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 amortized cost corresponds to a reasonable approximation of the fair value.

(2) primarily locked-in employee profit-sharing funds (see Note 10).

Note 23 - Financial risk management

23.1 Cash and liquidity risks

23.1.1 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 10.

23.1.2 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)	12/31/2017			
	Historical cost	**Unrealized capital gain**	**Consolidated asset value**	**As %**
Cash at bank, money market investments and time deposits	3,913,003	1,107	3,914,110	75%
Investments in bonds (1)	321,964	38,512	360,476	7%
Diversified investments (1)	602,006	339,740	941,746	18%
Total	**4,836,973**	**379,359**	**5,216,332**	**100%**

(1) investments in bonds subscribed by the Group are investments with a short-term management horizon and diversified 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 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.

Fair values classification:

(in EUR thousands)	12/31/2017		
	Impact on net income	**Impact on equity**	**Total**
Cash at bank, money market investments and time deposits	2,061,419	1,852,691	3,914,110
Investments in bonds	0	360,476	360,476
Diversified investments	0	941,746	941,746
Total	**2,061,419**	**3,154,913**	**5,216,332**

23.2 Credit and counterparty risks

23.2.1 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.

23.2.2 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 24).

The manufacturing risk is also guaranteed with Bpifrance Assurance Export for major military export contracts.

23.3 Other market risks

23.3.1 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)	12/31/2017		12/31/2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Exchange rate derivatives	172,782	4,705	4,521	503,373
Interest rate derivatives	0	7,362	0	8,008
Commodity derivatives	36	0	77	0
Derivative financial instruments	**172,818**	**12,067**	**4,598**	**511,381**
Net derivative financial instruments	**160,751**			**506,783**

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 IAS 39 "Financial instruments" are defined in paragraph C12 of the accounting principles.

The foreign exchange derivatives purchased by the Group are not all eligible for hedge accounting under IAS 39 "Financial instruments". The breakdown is presented in the table below:

(in EUR thousands)	Market value as of 12/31/2017	Market value as of 12/31/2016
Instruments which qualify for hedge accounting	139,460	-53,234
Instruments which do not qualify for hedge accounting	28,617	-445,618
Foreign exchange derivatives	**168,077**	**-498,852**

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, 2017, this counterparty risk is insignificant.

The breakdown of the fair value of the financial instrument derivatives per maturity segment is as follows:

(in EUR thousands)	Under 1 year	More than 1 year	Total
Foreign exchange derivatives	29,465	138,612	**168,077**

Interest rate derivatives

The Group is exposed to the volatility of interest rates through loans taken out at a variable rate (see Note 10). 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.

23.3.2 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)	12/31/2016	Impact on equity (1)	Impact on net financial income (2)	12/31/2017
Exchange rate derivatives	-498,852	192,694	474,235	168,077
Interest rate derivatives	-8,008	1,206	-560	-7,362
Commodity derivatives	77	0	-41	36
Net derivative financial instruments	**-506,783**	**193,900**	**473,634**	**160,751**

(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 IAS 39 "Financial instruments".

23.3.3 Sensitivity test for foreign exchange derivatives

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

Market Value of the Portfolio (in EUR thousands)	**12/31/2017**		**12/31/2016**	
Net balance sheet position	168,077		-498,852	
Closing US dollar/euro exchange rate	EUR = 1.1993 USD		EUR = 1.0541 USD	
Closing dollar/euro exchange rate +/- 10 cents	USD 1.2993/EUR	USD 1.0993/EUR	USD 1.1541/EUR	USD 0.9541/EUR
Change in net balance sheet position (1)	+208,996	-247,822	+450,674	-579,627
Impact on net income	*+98,185*	*-116,850*	*+347,932*	*-455,357*
Impact on equity	*+110,811*	*-130,972*	*+102,742*	*-124,270*

(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 hedges are made.

23.3.4 Risks related to Embraer shares

On December 31, 2017, the Embraer shares were valued at EUR 33,585 thousand (see Note 5.2). 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 24 - 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)	**12/31/2017**	**12/31/2016**
Commitments given under commercial contracts	10,573,062	12,172,763
Guarantees and deposits	55,366	11,858
Commitments given secured by bank guarantees	1,526,242	1,456,538
Commitments given	**12,154,670**	**13,641,159**

(in EUR thousands)	**12/31/2017**	**12/31/2016**
Backlog	18,818,200	20,322,800
Other commitments received under commercial contracts	1,633,129	1,633,129
Collateral	80,508	129,764
Bpifrance Assurance Export guarantees	66,043	50,544
Commitments received secured by bank guarantees	8,720	5,274
Commitments received	**20,606,600**	**22,141,511**

Operating leases	**TOTAL**	**Within 1 year**	**More than 1 year**
Minimum future non-cancellable payments (not discounted)	**204,644**	42,185	162,459

The Group's main operating leases concern industrial office buildings.

Note 25 - Contingent assets and liabilities

In late 2002, a group of French manufacturers, including Dassault Aviation, was collectively served a request for arbitration in the context of a dispute between them and the Republic of China relating to the execution of a former commercial contract. After a withdrawal, the client initiated a new arbitration request in November 2012 based on grounds similar to the 2002 action. In an arbitration award notified on October 25, 2017, the three manufacturers were jointly sentenced to pay EUR 227 million including interest, to the Republic of China. Dassault Aviation paid the amount of EUR 134 million, representing its own share. The corresponding expense was recognized in other non-current operating income and expenses in the Group's financial statements as of December 31, 2017.

Dassault Aviation has 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.

Note 26 - 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 2017, 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.

26.1 Details of transactions

(in EUR thousands)	2017	2016
Sales	57,954	7,286
Purchases	411,819	310,496
Trade receivables	1,762	1,264
Customer advances and progress payments	3,921	41,300
Trade payables	69,911	76,379
Advances and progress payments to suppliers	1,538,824	1,053,494
Advance lease payments	31,359	30,698

26.2 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)	2017	2016
Fixed compensation	2,791	2,723
Directors' fees	593	426
Benefits in kind	17	17
Performance shares	894	943
Other	9	9
Compensation of corporate officers and benefits in kind	**4,304**	**4,118**

Note 27 - Average number of employees

	2017	2016
Managers	5,713	5,766
Supervisors and technicians	2,325	2,408
Employees	1,054	1,175
Workers	2,466	2,812
Average number of employees	**11,558**	**12,161**

Note 28 - Environmental information

The Dassault Aviation Group recognized environmental capital expenditures amounting to EUR 3,377 thousand and posted approximately EUR 1,216 thousand in expenses related to risk, impact and regulatory compliance analyses in 2017. The Group did not have to recognize any environmental liabilities.

Note 29 - Auditors' fees

The statutory auditors' fees recognized as expenses for 2017 and 2016 are as follows:

(in EUR thousands)	DELOITTE & ASSOCIES		MAZARS	
	2017	2016	2017	2016
Certification of accounts (1)	283	281	557	542
Other audit services (2)	41	41	53	70
Auditor's fees	**324**	**322**	**610**	**612**

(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 social and environmental information audit, 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 2017 and EUR 50 thousand in 2016 paid to Gerec company.

Note 30 - Subsequent events

No events likely to have a material impact on the financial statements occurred between December 31, 2017 and the date the financial statements were approved by the Board of Directors.

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2017

To Annual General Meeting of Dassault Aviation Company,

Opinion

In compliance with the engagement entrusted to us by your annual general meeting we have audited the accompanying consolidated financial statements of Dassault Aviation Company for the year ended December 31, 2017, as enclosed to this report.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5 paragraph 1 of Regulation (EU) No 537/2014 or in the French code of ethics (code de déontologie) for statutory auditors.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Risk identified	*Our response*
Valuation of warranty provisions (Note C9-1 and item 11.2 of the notes to the consolidated financial statements) Dassault Aviation provides warranties for its aircraft deliveries against hardware or software defects and is required to remedy any regulatory non-compliance identified after the delivery of the necessary equipment. These guarantees therefore constitute a commitment for the Group whose costs are expected to be provisioned upon delivery of the airplane. The estimated amount of the provisions is based on the data and expenses recorded by airplane model and type of transactions taken as collateral and on estimated costs, in particular cost estimates for specialists, handling of malfunctions and regulatory non-compliance. Given the fleet in service and the variety of costs potentially incurred, provisions for guarantees are determined by complex models that require judgments by several Operational Departments. Management's valuation of these commitments caused Dassault Aviation to recognize provisions for guarantees of EUR 634 million as of December 31, 2017. The valuation of these provisions is a key point of the audit due to: • the level of judgment required for their determination, • the complex nature of their valuation, • their amount, • and, consequently, the potentially significant impact on earnings and consolidated equity if their estimates vary.	On the basis of discussions with the relevant Operational Departments, we took note of the procedures to identify the risks to be guaranteed and the procedures put in place to determine the costs and other data used as a basis for the valuation of provisions for guarantees. We also tested the functioning of key controls that we considered relevant to our audit. In addition, our work consisted of: • assessing the adequacy of the funding methodology used by the Group's management and the judgments exercised by it, • assessing, through discussions with the relevant Operational Departments, the reasonableness of the assumptions used to determine provisions for guarantees, • randomly testing the observed data and costs used for the valuation of the provisions and the calculations made. We also assessed the appropriateness of the information given in Note C9-1 and item 11.2 of the notes to the consolidated financial statements.

Risk identified	*Our response*
Defense contract monitoring (Notes C13-1, 11.1 and 14 of the consolidated financial statements) For Defense contracts, Dassault Aviation operates through contracts for which net sales and the margin are recognized: • upon completion upon the transfer to the purchaser of the principal risks and rewards for sales of goods and for certain development services; or • under the percentage of completion method according to the milestones set forth in contracts for the other service contracts; Earnings from contracts, and any provisions for loss on completion at the closing date, depend on: • the ability of the entity to measure the costs incurred on a contract and • the ability to reliably estimate the costs yet to be incurred until the end of the contract. The Group's Management believes that the program monitoring process conducted by experienced employees within the Program Departments and the Finance Department through management control is sufficiently robust to make reliable estimates of earnings of contracts at completion given the items known at the end of the year. For 2017, Defense net sales recognized by the Group amounted to EUR 1,878 million. The monitoring of defense contracts is a key point of the audit due to: • the level of estimates required to determine earnings upon the completion of contracts, • and their amount.	On the basis of discussions with the relevant Operational Departments, we took note of the procedures to identify the costs and valuation of margins at completion. We also tested the functioning of key controls that we considered relevant to our audit. As part of our audit, our work consisted of: • Testing controls for net sales and cost forecasts with respect to contracts; • Corroborating the stage of progress used for recognition of net sales by examining in particular the technical and contractual documentation available; • Selecting a random sample of contracts, for which we met with the program monitoring managers; • Assessing the reasonableness of future cost estimates; • Reconciling the accounting data with their operational analytical monitoring; • Verifying the correct analytical allocation of costs; • For a selection of contracts whose estimated margin level experienced a certain change in the margin compared to previous estimates, we sought to explain the origin of the changes observed in order to corroborate those changes with technical and operational justifications for the basis of our experience and interviews with management; We also assessed the appropriateness of the information given in Notes C13-1, 11-1 and 14 of the consolidated financial statements.

Risk identified	***Our response***
Assessment of provisions resulting from the end of the Falcon 5X program (Notes 6 and 25 to the consolidated financial statements) On December 13, 2017, Dassault Aviation initiated the termination process of the contract with Safran for the supply of the Silvercrest engine leading to the end of the Falcon 5X program. The Group's Management, in conjunction with the Finance, Programs, Manufacturing, Purchasing and Legal Departments, assessed the impact of the end of the Falcon 5X program on the assets and liabilities of Dassault Aviation at the end of the year. As a result, the Group: • impaired a portion of the assets related to the program, mainly inventories and work-in-progress. • recognized provisions that covered risks associated with the end of the Program, with the understanding that the Group has entered into negotiations with Safran to obtain compensation for its loss as specified in Note 25 Contingent assets and liabilities. The assessment of the impacts of the end of the Falcon 5X program is a key point of our audit due to: • the diversity of those impacts, which significantly affected several balance sheet and income statement items; • the complexity of the valuation as of the balance sheet date of the assets related to the program and the importance of the judgment exercised by Management in this regard, particularly as regards the reusability of inventories and work-in-progress, and the associated risks.	Through interviews with the relevant Departments, we became aware of the provisions of the contract, the risks identification process and implications related to the end of the Falcon 5X program. For risks identified and related financial impacts, our work consisted of: • assessing the relevance of the approach adopted by the Group's Departments and the judgments exercised by them, in particular through critical examination of (i) the analyses and assumptions made by the Business Departments to determine the inventories and work-in-progress of the F5X program that are reusable by Dassault Aviation, based on available technical documentation, and (ii) the process to identify commitments made to suppliers and subcontractors; • reviewing memorandums of understanding and communications with suppliers and subcontractors; • reconciling the data used for impairment estimates of inventory and works-in-progress with the accounting data extracted from the management and operational analytical monitoring systems and randomly verifying the calculations made in accordance with the analyses performed and assumptions made by the Business Departments.

Verification of the Information Pertaining to the Group Presented in the Management Report

As required by law, we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of the Board of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Dassault Aviation Company by the General Meeting held on April 25, 2002 for cabinet Deloitte & Associés and held on June 19, 1990 for cabinet Mazars.

As at December 31, 2017, audit firm Deloitte & Associés and audit firm Mazars were in the 16th year and 28th year of total uninterrupted engagement.

Responsibilities of Management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were closed by the Board of Directors.

Statutory Auditors' responsibilities for the audit of the consolidated financial statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.

- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (Code de commerce) and in the French Code of Ethics (Code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Courbevoie and Neuilly-sur-Seine, March 7, 2018

The statutory auditors

Mazars	Deloitte & Associés
Mathieu Mougard	Jean-François Viat

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in the French language and is provided solely for the convenience of English speaking users.
The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes explanatory paragraphs discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.
This report also includes information relating to the specific verification of information given in the management report.
This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

PARENT COMPANY FINANCIAL STATEMENTS AS OF DECEMBER 31, 2017

ASSETS

(in EUR thousands)	Notes	12/31/2017			12/31/2016
		Gross	Depreciation, amortization and provisions	Net	Net
Intangible assets	2	111,712	-96,799	14,913	15,312
Property, plant and equipment	2	1,050,130	-755,760	294,370	253,427
Financial assets	3	2,265,739	-6,386	2,259,353	2,215,832
TOTAL NON-CURRENT ASSETS		**3,427,581**	**-858,945**	**2,568,636**	**2,484,571**
Inventories and work-in-progress	4	3,753,260	-490,186	3,263,074	3,446,617
Advances and progress payments to suppliers		2,670,370	0	2,670,370	1,905,648
Trade receivables	6	500,848	-65,364	435,484	388,325
Other receivables and prepayments	6	503,731	0	503,731	486,989
Marketable securities and cash instruments	9	2,958,670	0	2,958,670	2,406,248
Cash at bank and in hand		1,188,629	0	1,188,629	658,788
TOTAL CURRENT ASSETS		**11,575,508**	**-555,550**	**11,019,958**	**9,292,615**
TOTAL ASSETS		**15,003,089**	**-1,414,495**	**13,588,594**	**11,777,186**

EQUITY AND LIABILITIES

(in EUR thousands)	Notes	12/31/2017	12/31/2016
Capital	10,13	66,495	66,006
Share premium	13	76,249	0
Reserves	12	2,023,463	1,866,135
Net income for the year		309,500	256,696
Investment subsidies		3,110	3,726
Regulated provisions	14	118,270	118,331
TOTAL EQUITY	13	**2,597,087**	**2,310,894**
PROVISIONS FOR CONTINGENCIES AND CHARGES	14	**940,321**	**955,323**
Borrowings and financial debt (1)	15	1,093,046	1,183,559
Customer advances and progress payments on orders		7,841,142	6,333,280
Trade payables	16	627,517	578,587
Other payables, cash instruments and deferred income	17	489,481	415,543
TOTAL LIABILITIES		**10,051,186**	**8,510,969**
TOTAL EQUITY AND LIABILITIES		**13,588,594**	**11,777,186**
(1) including bank overdrafts:		0	0

INCOME STATEMENT

(in EUR thousands)	Notes	2017	2016
NET SALES	20	**4,184,368**	**3,161,147**
Change in work-in-progress		38,797	473,467
Reversals of provisions, depreciation and amortization, charges transferred		607,306	584,364
Other income		49,913	2,999
OPERATING INCOME		**4,880,384**	**4,221,977**
Purchases consumed		-2,605,931	-2,149,051
Personnel expenses (1)		-726,312	-726,821
Other operating expenses		-363,745	-378,478
Taxes and social security contributions		-58,183	-56,191
Depreciation and amortization	2	-53,760	-51,811
Allocations to provisions	14	-697,750	-609,659
OPERATING EXPENSES		**-4,505,681**	**-3,972,011**
NET OPERATING INCOME		**374,703**	**249,966**
NET FINANCIAL INCOME	22	**231,006**	**77,131**
CURRENT INCOME		**605,709**	**327,097**
Non-recurring items	23	-133,278	39,448
Employee profit-sharing and incentive schemes		-94,019	-79,895
Income tax	24	-68,912	-29,954
NET INCOME		**309,500**	**256,696**

(1) incl. tax credit for competitiveness and employment (CICE) (see Note 7):	8,737	7,819

STATEMENT OF CASH FLOWS

(in EUR thousands)	Notes	2017	2016
I - NET CASH FROM OPERATING ACTIVITIES			
NET INCOME		309,500	256,696
Elimination of gains and losses from disposals of non-current assets	23	-161	-130
Net allocations to and reversals of depreciation, amortization and provisions (excluding those relating to working capital requirement)	2,3,14	46,887	-49,369
Net cash from operating activities before working capital changes		**356,226**	**207,197**
Change in inventories and work-in-progress (net)	4	183,543	-542,862
Change in advances and progress payments to suppliers		-764,722	-892,787
Change in trade receivables (net)	6	-47,159	78,513
Change in other receivables, cash instruments and accrued income	6	-29,805	61,261
Change in customer advances and progress payments		1,507,862	2,068,476
Change in trade payables		48,930	-1,878
Change in other payables and deferred income	17	73,938	-14,564
Increase (-) or decrease (+) in working capital requirement		**972,587**	**756,159**
Total I		**1,328,813**	**963,356**
II - NET CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of intangible assets and property, plant & equipment	2	-104,718	-68,072
Increase in financial assets	3	-74,783	-477,917
Change in investment subsidies		-616	2,802
Disposals of or reductions in non-current assets	2,3,23	33,646	849,363
Total II		**-146,471**	**306,176**
III - NET CASH FLOWS FROM FINANCING ACTIVITIES			
Change in capital	13	489	-6,974
Increase in other equity items	13	76,249	-832,275
Increase in financial debt	15	58,897	68,611
Repayment of financial debt	15	-149,410	-94,525
Dividends paid during the year	33	-99,367	-105,422
Total III		**-113,142**	**-970,585**
CHANGE IN NET CASH AND CASH EQUIVALENTS (I + II +III)		**1,069,200**	**298,947**
Opening net cash (1)		**3,065,036**	**2,766,089**
Closing net cash (1)		**4,134,236**	**3,065,036**

(1) Cash comprise the following balance sheet items:

[cash at bank and in hand] + [marketable securities] – [bank overdrafts]

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DASSAULT AVIATION
9, Rond-Point des Champs-Élysées Marcel Dassault - 75008 PARIS

A French Société Anonyme (Corp.) capitalized at EUR 66,495,368, publicly traded and registered in France
Paris Trade Registry number 712 042 456

Note 1 - Accounting rules and methods

A/ GENERAL PRINCIPLES

The financial statements of the Parent Company as of December 31, 2017 were closed by the Board of Directors on March 7, 2018, and will be submitted for approval to the Annual General Meeting on May 24, 2018.

The company financial statements have been prepared in accordance with ANC Regulation 2016-07 approved by the Decree of December 28, 2016, 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 contengencies 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 <u>Intangible assets and property, plant and equipment</u>

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.

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 asset is used.

Useful lives are as follows:

Software	3-4 years
Industrial buildings	25-30 years
Office buildings	25-35 years
Fixtures and fittings	7-15 years
Plant, equipment and tools	3-15 years
Aircraft	4-15 years
Rolling stock	3-4 years
Other property, plant and equipment	3-8 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 present value. The amount of impairment recognized in income is equal to the difference between the net carrying amount and present value.

The present 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 7.5% (compared to 8.2% as of December 31, 2016) and a 2% long-term growth rate (same as of December 31, 2016). The discount rate used includes the rates prevailing in the aviation industry and was calculated using the same method as in 2016. 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 provisional operating conditions used by the Group's 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 provisions appearing on the balance sheet include:

- Provisions for price increases,
- Provisions for medium-term credit risks,
- Depreciation by derogation.

• B8 Provisions for contingencies and charges

B8-1 Warranty provisions

In the framework of sales or procurement contracts, Dassault Aviation has formal warranty obligations for the equipment, products and/or services (software development, systems integrations, etc.) delivered.

These obligations can be distinguished between:

- "current" warranty: repair of defective equipment during the contractual warranty period, 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 <u>Retirement payments and related benefits</u>

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.

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 <u>Hedging instruments</u>

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.

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.

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, ie 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.

The provisions set out in the new ANC Regulation 2015-05, mandatory from 1 January 2017, have no significant impact on the financial statements of the company.

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 <u>Foreign currency transactions</u>

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 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 uncovered 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) wich are revised as the contract progression 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 principal 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 millestones 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' parts).

• 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, 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.

Note 2 - Intangible assets and property, plant and equipment

2.1 Intangible assets

(in EUR thousands)	12/31/2016	Acquisitions Allocations	Disposals Reversals	Other	12/31/2017
Gross value					
Software, patents, licenses and similar assets	103,579	6,220	-84	816	110,531
Construction in progress; advances and progress payments	1,282	715	0	-816	1,181
	104,861	**6,935**	**-84**	**0**	**111,712**
Amortization					
Software, patents, licenses and similar assets	-89,549	-7,334	84	0	-96,799
	-89,549	**-7,334**	**84**	**0**	**-96,799**
Net value					
Software, patents, licenses and similar assets	14,030				13,732
Construction in progress; advances and progress payments	1,282				1,181
Total	**15,312**	**-399**	**0**	**0**	**14,913**

2.2 Property, plant and equipment

(in EUR thousands)	12/31/2016	Acquisitions Allocations	Disposals Reversals	Other	12/31/2017
Gross value					
Land	34,502	636	-20	22	35,140
Buildings	291,446	5,413	-1,245	2,747	298,361
Plant, equipment and machinery	490,381	21,187	-11,871	6,417	506,114
Other property, plant and equipment	140,930	48,556	-4,893	978	185,571
Construction in progress; advances and progress payments	16,933	21,991	-3,816	-10,164	24,944
	974,192	**97,783**	**-21,845**	**0**	**1,050,130**
Amortization					
Land	-7,251	-767	20	0	-7,998
Buildings	-196,198	-11,486	1,227	0	-206,457
Plant, equipment and machinery	-410,183	-24,968	11,805	0	-423,346
Other property, plant and equipment	-106,032	-9,205	4,654	0	-110,583
	-719,664	**-46,426**	**17,706**	**0**	**-748,384**
Impairment (1)					
Other property, plant and equipment	-1,101	-7,376	1,101	0	-7,376
	-1,101	**-7,376**	**1,101**	**0**	**-7,376**
Net value					
Land	27,251				27,142
Buildings	95,248				91,904
Plant, equipment and machinery	80,198				82,768
Other property, plant and equipment	33,797				67,612
Construction in progress; advances and progress payments	16,933				24,944
Total	**253,427**	**43,981**	**-3,038**	**0**	**294,370**

(1) impairment tests on property, plant and equipment (see Paragraph B2 of the Accounting rules and methods):

- A provision of EUR 7,376 thousand was recognized in 2017 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, 2017.

Note 3 - Financial assets

(in EUR thousands)	12/31/2016	Acquisitions Allocations	Disposals Reversals	Other	12/31/2017
Equity associates (1)	2,150,315	69,888	-28,965	0	2,191,238
Receivables from equity investments	0	4,000	0	0	4,000
Other investment securities	37,387	0	0	0	37,387
Loans	1,398	100	-346	0	1,152
Other financial assets	31,199	795	-32	0	31,962
Total	**2,220,299**	**74,783**	**-29,343**	**0**	**2,265,739**
Provisions	-4,467	-6,232	4,313	0	-6,386
Net value	**2,215,832**	**68,551**	**-25,030**	**0**	**2,259,353**

(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, 2017 (EUR 89.88 per share), Dassault Aviation's stake in Thales is valued at EUR 4,722 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, 2017.

Acquisitions include Dassault Reliance Aerospace Limited and Reliance Airport Developers Limited investment securities. The absorption of Dassault Procurement Services by Dassault Falcon Jet during the second half of 2017 led to an exchange of Dassault Procurement Services 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	4,000	0	4,000
Loans	1,152	209	943
Other financial assets	31,962	0	31,962
Total	**37,114**	**209**	**36,905**

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 (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 latest 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	94,935	*99.99*	59,453	59,453	0	0	175,147	3,388	0
Dassault International	1,529	20,077	*99.63*	19,236	19,236	0	0	802	144	0
Dassault Réassurance	10,459	8,734	*99.99*	10,133	10,133	0	0	1,044	86	0
Dassault Aviation Participations	4,037	-49	*100.00*	4,037	4,037	0	0	0	-2	0
Sogitec Industries	4,578	181,770	*99.80*	25,446	25,446	0	0	95,042	21,298	0
Total				**118,305**	**118,305**	**0**	**0**			**0**
b. Foreign subsidiaries										
Dassault Falcon Jet	12,016	698,189	*88.49*	36,732	36,732	0	55,366	1,423,558	7,086	0
Dassault International inc. (USA)	4,211	62,451	*100.00*	3,727	3,727	0	0	908	5,239	0
Dassault Falcon Business Services (China)	1,501	698	*100.00*	2,294	2,294	0	0	2,438	93	0
Total				**42,753**	**42,753**	**0**	**55,366**			**0**
Total subsidiaries				**161,058**	**161,058**	**0**	**55,366**			**0**
2. Equity associates (between 10 and 50% owned)										
a. French associates										
Corse Composites Aeronautiques	1,707	9,652	*24.81*	996	996	0	0	67,494	1,444	0
Eurotradia International (1)	3,000	29,838	*16.20*	3,099	3,099	0	0	30,840	592	97
Thales (2)	638,000	6,243,800	*24.70*	1,984,272	1,984,272	0	0	258,500	383,800	86,677
Total				**1,988,367**	**1,988,367**	**0**	**0**			**86,774**
b. Foreign associates (1)										
Dassault Reliance Aerospace Limited	1,795	0	*49.00*	962	962	4,000	0	0	0	0
Reliance Airport Developers Limited	932	8,323	*34.79*	39,962	39,962	0	0	0	-13	0
Total				40,924	40,924	4,000	0			0
Total associates				**2,029,291**	**2,029,291**	**4,000**	**0**			**86,774**

(1) information available: Eurotradia International 12/31/2016 - Dassault Reliance Aerospace Limited not applicable - Reliance Airport Developers Limited 03/31/2017.

(2) Parent company financial statements.

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	5,535	2,540	0	0	940
b. Foreign associates	32,172	28,935	790	0	388
Total	**37,707**	**31,475**	**790**	**0**	**1,328**

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	55,366	0
Total	**161,628**	**161,628**	**0**	**55,366**	**0**
2. Associates					
a. French associates	1,993,902	1,990,907	0	0	87,714
b. Foreign associates	73,096	69,859	4,790	0	388
Total	**2,066,998**	**2,060,766**	**4,790**	**0**	**88,102**
Grand total	**2,228,626**	**2,222,394**	**4,790**	**55,366**	**88,102**

Note 4 - Inventories and work-in-progress

(in EUR thousands)	12/31/2017			12/31/2016
	Gross	Impairment	Net	Net
Raw materials	175,545	-78,520	97,025	110,354
Work-in-progress	2,741,868	-128,000	2,613,868	2,703,071
Semi-finished and finished goods	835,847	-283,666	552,181	633,192
Total	**3,753,260**	**-490,186**	**3,263,074**	**3,446,617**

Considering the magnitude of the risks involved both on the technical and schedule aspects of the Silvercrest program, Dassault Aviation initiates the termination process of the Silvercrest contract leading to the end of the Falcon 5X program. The Company assessed the impact of the end of the Falcon 5X program on its assets and liabilities as of December 31, 2017. As a result, the Company impaired a portion of the assets related to the program, mainly inventory and work-in-progress.

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)	12/31/2017			12/31/2016
	Gross	Impairment	Net	Net
Trade receivables				
Trade receivables	500,848	-65,364	435,484	388,325
	500,848	**-65,364**	**435,484**	**388,325**
Other receivables and prepayments				
Other receivables	330,809	0	330,809	223,532
Prepayments	149,499	0	149,499	251,571
Sundry accounts	23,423	0	23,423	11,886
	503,731	**0**	**503,731**	**486,989**
Total	**1,004,579**	**-65,364**	**939,215**	**875,314**

The percentage of outstanding receivables not written-down at year-end is regularly monitored individually.

6.2 Age debtor schedule

(in EUR thousands)	12/31/2017			12/31/2016		
	Total	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year
Trade receivables (1)	500,848	395,910	104,938	457,592	290,889	166,703
Other receivables	330,809	330,623	186	223,532	223,346	186
Prepayments	149,499	149,499	0	251,571	251,571	0
Sundry accounts	23,423	23,423	0	11,886	11,886	0
Total	**1,004,579**	**899,455**	**105,124**	**944,581**	**777,692**	**166,889**

(1) including receivables represented by commercial paper: EUR 69,519 thousand as of December 31, 2017 and EUR 53,205 thousand as of December 31, 2016.

Note 7 - Accrued income

Accrued income included in the following balance sheet items (in EUR thousands)	**12/31/2017**	**12/31/2016**
Trade receivables	230,512	234,244
Other receivables and prepayments (1)	18,132	7,819
Cash at bank and in hand	527	81
Total	**249,171**	**242,144**

(1) including tax credit for competitiveness and employment (CICE): EUR 8,737 thousand in 2017 and EUR 7,819 thousand in 2016. On the income statement, it is recorded as a deduction from personnel expenses. In 2017, it is 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 productivity, reduce costs and improve working conditions.

Note 8 - Prepaid expenses and deferred income

(in EUR thousands)	**12/31/2017**	**12/31/2016**
Operating income	137,541	96,238
Operating expenses (1)	149,499	251,571
(1) income tax on unrealized capital gains	140,966	242,957

Note 9 - Difference in measurement of marketable securities

Marketable securities and cash instruments (in EUR thousands)	**12/31/2017**	**12/31/2016**
Treasury shares	37,828	38,759
Marketable securities - balance sheet value	2,907,779	2,367,489
Marketable securities - market value	3,284,895	3,037,465
Cash instruments	13,063	0

Note 10 - Share capital and treasury shares

10.1 Share capital

The share capital amounts to EUR 66,495 thousand and consists of 8,311,921 common shares of EUR 8 each as of December 31, 2017. As of December 31, 2016, share capital amounted to EUR 66,006 thousand and consisted of 8,250,785 shares. In 2017, 61,136 new common shares were created following the option offered to shareholders to receive all or part of the 2016 dividend in shares.

10.2 Treasury shares

Movements on treasury shares are detailed below:

(in number of shares)	2017	2016
Treasury shares as of January 1	**39,550**	**409,971**
Purchase of treasury shares	0	502,282
Cancellation of shares	0	-871,753
Share-based payments	-950	-950
Treasury shares as of December 31	**38,600**	**39,550**

The 38,600 treasury shares held as of December 31, 2017 were allocated to potential allocations of performance shares plans and 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 09, 2016 and March 07, 2017 (characteristics are described in paragraph 5.5 of the Director's Report).

A total of 950 performance shares were acquired by corporate officers on March 08, 2017, as the performance conditions set by the Board of Directors on March 09, 2016 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 2017	Number of shares canceled (1)	Balance of performance shares as of 12/31/2017
03/09/2016	From 03/09/2016 to 03/08/2017	950	950	0	0
03/07/2017	From 03/07/2017 to 03/06/2018	1,425	0	0	1,425

(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	62.17%

Note 12 - Reserves

12.1 Reserves

(in EUR thousands)	12/31/2017	12/31/2016
Revaluation difference	4,136	4,136
Legal reserve	6,601	6,601
Retained earnings	2,012,726	1,855,398
Total	**2,023,463**	**1,866,135**

12.2 Revaluation reserves

(in EUR thousands)	Change in revaluation reserves			
	12/31/2016	2017 movements		12/31/2017
		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

	2017		2016	
Accounting income				
In EUR thousands	309,500		256,696	
In EUR per share	37.24		31.11	
Change in equity excluding net income for the year				
In EUR thousands	76,061		-875,019	
In EUR per share	9.15		-106.05	
Dividends				
In EUR thousands	127,172	(1)	99,834	(2)
In EUR per share	15.30	(1)	12.10	(2)

(1) proposed by the Board of Directors to the Shareholders' Meeting.

(2) dividends of EUR 99,367 thousand were paid for the year ended December 31, 2016, net of dividends on treasury shares.

2/ Statement of changes in equity excluding net income for the year (in EUR thousands)

	Before appropriation of 2016 result 12/31/2017		**After appropriation of 2016 result 12/31/2017**
A -			
1. 2016 closing equity excluding net income for the year	2,054,198		2,054,198
2. 2016 net income before appropriation	256,696		
3. Appropriation of 2016 net income to net equity by the Shareholders' Meeting			157,329
4. 2017 equity at opening	2,310,894		2,211,527
B - Additional paid-in capital, effective retroactively to beginning of 2017			**0**
1. Change in capital		0	
2. Change in other items		0	
C - (= A4 + B) Equity at 2017 opening			**2,211,527**
D - Changes during the year excluding 2017 net income			**76,061**
1. Change in capital (1)		489	
2. Change in additional paid-in capital, reserves, retained earnings (1)		76,249	
3. Revaluation offsetting entries - Reserve		0	
4. Change in tax provisions and investment subsidies		-677	
5. Other changes		0	
E - 2017 closing equity excluding 2017 net income before AGM (= C + D)			**2,287,588**
F - Total change in equity in 2017 excluding 2017 net income (= E - C)			**76,061**

(1) the General Meeting of May 18, 2017 proposed an option for payment in shares for the 2016 dividend to each shareholder. As a result, on June 21, 2017, the Company's capital was increased to EUR 66,495 thousand and a share premium of EUR 76,249 thousand was recorded in the financial statements.

Note 14 - Provisions

14.1 Provisions

(in EUR thousands)	12/31/2016	Increases	Reversals	Other	12/31/2017
Regulated provisions					
For price increases	64,680	7,718 (3)	-6,564 (3)	0	65,834
Depreciation by derogation	53,422	11,354 (3)	-12,358 (3)	0	52,418
For medium-term credit risks	211	0 (3)	-211 (3)	0	0
Realized gains reinvested	18	0 (3)	0 (3)	0	18
	118,331	**19,072**	**-19,133**	**0**	**118,270**
Provisions for contingencies and charges					
Operating	943,437	134,824 (1)	-137,940 (1)	0	940,321
Financial	11,886	0 (2)	-11,886 (2)	0	0
Non-recurring	0	0 (3)	0 (3)	0	0
	955,323	**134,824**	**-149,826**	**0**	**940,321**
Provisions for impairment					
On intangible assets	0	0 (1)	0 (1)	0	0
On property, plant and equipment	1,101	7,376 (1)	-1,101 (1)	0	7,376
On financial assets	4,467	6,232 (2)	-4,313 (2)	0	6,386
On inventories and work-in-progress	398,274	490,186 (1)	-398,274 (1)	0	490,186
Trade receivables	69,267	65,364 (1)	-69,267 (1)	0	65,364
	473,109	**569,158**	**-472,955**	**0**	**569,312**
Total	**1,546,763**	**723,054**	**-641,914**	**0**	**1,627,903**

	{ - Operating	697,750 (1)	-606,582 (1)
Allocations and reversals	{ - Financial	6,232 (2)	-16,199 (2)
	{ - Non-recurring	19,072 (3)	-19,133 (3)
		723,054	**-641,914**

14.2 Details of provisions for contingencies and charges

(in EUR thousands)	12/31/2016	Allocations	Reversals	Other	12/31/2017
Operating					
Retirement payments and related benefits (1)	227,324	18,057	-33,972	0	211,409
Early retirement (2)	27,531	0	-11,623	0	15,908
Warranty (3)	596,000	54,500	-56,500	0	594,000
Services and work to be performed	92,582	57,719	-35,845	0	114,456
Foreign exchange losses	0	4,548	0	0	4,548
	943,437	**134,824**	**-137,940**	**0**	**940,321**
Financial					
Foreign exchange losses	11,886	0	-11,886	0	0
	11,886	**0**	**-11,886**	**0**	**0**
Non-recurring					
Other	0	0	0	0	0
	0	**0**	**0**	**0**	**0**
Total provisions for contingencies and charges	**955,323**	**134,824**	**-149,826**	**0**	**940,321**

(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 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 (see Accounting principles B8-2).

The calculation takes into account the following annual assumptions: salary increase of 3.93% and discount rate of 1.5%.

The Company decided to outsource a portion of its commitments by purchasing an insurance policy for EUR 250,000 thousand.

As of December 31, 2017, the balance of the provision for long-service awards was EUR 3,321 thousand.

(2) provisions 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 warranty:

Warranty provisions are updated to reflect the fleet in service and contracts delivered (see Accounting principles B8-1).

Note 15 - Borrowings and financial debt

(in EUR thousands)	12/31/2017	12/31/2016
Bank borrowings (1)	950,529	1,000,644
Other financial debt (2)	142,517	182,915
Total	**1,093,046**	**1,183,559**

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

(2) as of December 31, 2017 and December 31, 2016, 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)	950,529	75,512	875,017	0
Other financial debt (1)	142,517	38,835	103,607	75
Trade payables (2)	627,517	627,517	0	0
Tax and social security liabilities	200,498	200,498	0	0
Liabilities on fixed assets and related accounts	5,440	5,440	0	0
Other liabilities	115,224	115,224	0	0
Total	**2,041,725**	**1,063,026**	**978,624**	**75**

(1) see Note 15.

(2) including liabilities represented by commercial paper: EUR 55,335 thousand.

Note 17 - Other liabilities, cash instruments and accruals

(in EUR thousands)	12/31/2017	12/31/2016
Tax and social security liabilities	200,498	192,470
Liabilities on fixed assets and related accounts	5,440	6,278
Other liabilities	115,224	81,333
Deferred income	137,541	96,238
Accruals and deferred income	20,703	39,224
Cash instruments	10,075	0
Total	**489,481**	**415,543**

Note 18 - Accrued expenses

Accrued expenses included in the following balance sheet items (in EUR thousands)	12/31/2017	12/31/2016
Borrowings and financial debt (1)	1,319	3,436
Trade payables	521,910	479,348
Other payables and deferred income	218,007	208,445
Total	**741,236**	**691,229**

(1) including accrued interest on loans from credit institutions: EUR 499 thousand as of December 31, 2017 and EUR 600 thousand as of December 31, 2016.

Note 19 - Notes on affiliated companies and equity associates

(in EUR thousands)	Amount relating to	
	affiliated companies	Companies with a shareholding link
Equity investments	161,888	2,029,350
Receivables from equity investments	0	4,000
Loans and other financial assets	31,362	0
Advances and progress payments to suppliers	156,924	1,535,018
Trade receivables	134,623	1,347
Other receivables	790	0
Customer advances and progress payments on orders	122,974	2,205
Trade payables	171,468	37,714

Note 20 - Net sales

(in EUR thousands)	2017	2016
A) By product:		
Finished goods	3,225,924	2,537,985
Services	958,444	623,162
Total	**4,184,368**	**3,161,147**
B) By geographic region:		
France	568,918	590,221
Export (1)	3,615,450	2,570,926
Total	**4,184,368**	**3,161,147**

(1) The net sales realized as part of Rafale Export contracts are recognized on a gross basis (including the co-contractors parts).

Note 21 - Research and development costs

Research and development costs are recognized in expenses as incurred and represent:

(in EUR thousands)	2017	2016
Research and development costs	-281,679	-272,353

The Company's research and development strategy and initiatives are described in the Director's Report. .

Note 22 - Net financial result

(in EUR thousands)	2017	2016
Investment income (1)	86,774	74,232
Income from other securities and assets	1,351	678
Other interest and similar income	1,137	2,095
Reversals of provisions for foreign exchange losses	11,886	14,176
Reversals of provisions for equity investments	4,313	2,900
Foreign exchange gains	0	0
Net gains on sale of marketable securities	292,385	95,133
Financial income	**397,846**	**189,214**
Allocation to provisions for foreign exchange losses	0	-11,886
Allocation to provisions for equity investments	-6,232	-4,313
Interest and similar expenses	-11,118	-14,740
Foreign exchange losses (2)	-149,490	-81,144
Net losses on sales of marketable securities	0	0
Financial expenses	**-166,840**	**-112,083**
Net financial result	**231,006**	**77,131**

(1) in 2017, the Company received EUR 63,038 thousand in Thales dividends for 2016 and EUR 23,639 thousand in interim dividends for 2017. In 2016, Thales paid the Company EUR 53,057 thousand in dividends for 2015 and EUR 21,012 thousand in interim dividends for 2016.

(2) The foreign exchange gains or 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)	2017	2016
Gains on sales of assets		
- Property, plant and equipment	487	503
- Financial assets	28,965	0
	29,452	**503**
Other non-recurring income	**63**	**872**
Reversals of regulated provisions		
- For investments	0	37,693
- For price increases	6,564	8,335
- For medium-term credit risks	211	277
- Depreciation by derogation	12,358	13,824
- Realized gains reinvested	0	0
	19,133	**60,129**
Non-recurring income	**48,648**	**61,504**
Non-recurring expenses on operating activities	**-12**	**-15**
Carrying value of assets sold		
- Intangible assets	0	0
- Property, plant and equipment	-326	-373
- Financial assets	-28,965	0
	-29,291	**-373**
Other non-recurring expenses (1)	**-133,551**	**-111**
Allocations to regulated provisions		
- For price increases	-7,718	-8,560
- Depreciation by derogation	-11,354	-12,997
	-19,072	**-21,557**
Other non-recurring provisions	**0**	**0**
Non-recurring expenses	**-181,926**	**-22,056**
Non-recurring items	**-133,278**	**39,448**

(1) cf. Note 26

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	605,709	-173,022	0	432,687
Non-recurring items (including profit-sharing and incentive schemes)	-227,297	104,110	0	-123,187
Net income	378,412	-68,912	0	309,500
		-68,912	(1)	

(1) including Research Tax Credit: EUR 31,075 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)	12/31/2017	12/31/2016
Commitments in connection with the performance of operating contracts	10,538,667	12,058,011
Guarantees and deposits	55,366	11,858
Commitments guaranteed with bank deposits	1,526,242	1,456,538
Total	**12,120,275**	**13,526,407**

Commitments received (in EUR thousands)	12/31/2017	12/31/2016
Backlog	18,505,400	19,946,300
Other commitments in connection with the performance of operating agreements	1,633,129	1,633,129
Collateral	80,508	129,764
Bpifrance guarantees	66,043	50,544
Commitments guaranteed with bank deposits	8,720	5,274
Total	**20,293,800**	**21,765,011**

Operating leases (in EUR thousands)	TOTAL	Within 1 year	More than 1 year
Minimum future payments not subject to cancellation (not discounted)	**128,757**	36,990	91,767

The Company's main operating leases concern industrial office buildings.

Note 26 - Contingent assets and liabilities

In late 2002, a group of French manufacturers, including Dassault Aviation, was collectively served a request for arbitration in the context of a dispute between them and the Republic of China relating to the execution of a former commercial contract. After a withdrawal, the client initiated a new arbitration request in November 2012 based on grounds similar to the 2002 action. In an arbitration award notified on October 25, 2017, the three manufacturers were jointly sentenced to pay EUR 227 million including interest, to the Republic of China. Dassault Aviation paid the amount of EUR 134 million, representing its own share. The corresponding expense was recognized in other non-recurring expenses as of December 31, 2017.

Dassault Aviation has 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.

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.

	12/31/2017		12/31/2016	
Market value	In USD thousands	In EUR thousands	In USD thousands	In EUR thousands
Foreign exchange options	34,320	28,617	-469,726	-445,618
Forward transactions	167,254	139,460	-56,114	-53,234
Total	**201,574**	**168,077**	**-525,840**	**-498,852**

Sensitivity testing of 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)	12/31/2017		12/31/2016	
Net balance sheet position Closing US dollar/ euro exchange rate	168,077 1 EUR = 1.1993 USD		-498,852 1 EUR = 1.0541 USD	
Closing dollar/ euro exchange rate +/- 10 cents Change in net balance sheet position (1)	1.2993 $/€ +208,996	1.0993 $/€ -247,822	1.1541 $/€ +450,674	0.9541 $/€ -579,627

(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)	12/31/2017	12/31/2016
Net income for the year	309,500	256,696
Income tax	68,912	29,954
Income before tax	**378,412**	**286,650**
Depreciation by derogation	-1,004	-827
Provision for price increases	1,154	225
Provision for medium-term risks	-211	-277
Increase in regulated provisions	**-61**	**-879**
Net income excluding tax valuations by derogation (before tax)	**378,351**	**285,771**

Note 29 - Increases and reductions in deferred tax

(in EUR thousands)	12/31/2017	12/31/2016
Regulated provisions:		
- For price increases	65,834	64,680
- For medium-term credit risks	0	211
- Depreciation by derogation	52,418	53,422
- Realized gains reinvested	18	18
Basis for increases	**118,270**	**118,331**
Increases in deferred tax	***52,547***	***40,741***
Items not deductible in the current year:		
- Employee profit-sharing	74,019	59,895
- Retirement payments and related benefits	207,365	223,400
- For early retirement	8,052	27,531
Other temporary timing differences	667,513	618,329
Basis for decreases	**956,949**	**929,155**
Reductions in deferred tax	***425,172***	***319,908***
Long-term capital losses	0	0

Tax rate as of December 31, 2017 of 44.43% compared to 34.33% as of December 31, 2016.

Note 30 - Compensation of corporate officers

Total compensation received by corporate officers, as detailed in the management report of the board, amounted to EUR 4,158,855 for 2017.

Note 31 - Average number of employees

	Salaried employees
Managers	4,817
Supervisors and technicians	2,023
Employees	399
Workers	916
2017 total	**8,155**
2016 total	8,396

Note 32 - Environmental information

Dassault Aviation recognized environmental capital expenditures amounting to EUR 3,377 thousand and posted approximately EUR 691 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)	2013	2014	2015	2016	2017
1/Financial position at year-end					
a. Share capital	81,007	73,710	72,980	66,006	66,495
b. Number of shares outsatnding	10,125,897	9,213,754	9,122,538	8,250,785	8,311,921
2/Summary of operating results					
a. Net sales, excluding tax	3,965,672	3,194,910	3,325,998	3,161,147	4,184,368
b. Earnings before tax, depreciation, amortization and provisions	581,481	308,162	216,355	324,766	513,312
c. Corporate income tax	133,146	64,837	42,327	29,954	68,912
d. Earnings after tax, depreciation, amortization and provisions	360,328	272,135	283,254	256,696	309,500
e. Dividends paid (1)	90,120	92,138	110,383	99,834	127,172 (2)
3/Earnings per share in euros					
a. Earnings after tax, but before depreciation, amortization and provisions	44.3	26.4	19.1	35.7	53.5
b. Earnings after tax, depreciation, amortization and provisions	35.6	29.5	31.0	31.1	37.2
c. Dividend paid per share	8.9	10.0	12.1	12.1	15.3 (2)
4/Personnel					
a. Average number of employees during the year	8,082	8,106	8,284	8,396	8,155
b. Total personnel expenses	441,956	449,978	472,158	472,939	475,416
c. Social security and other staff benefits	244,119	241,998	252,729	253,882	250,896
5/Employee profit-sharing	**88,936**	**63,367**	**66,629**	**59,895**	**74,019**
6/Incentive payments	**20,000**	**20,000**	**21,000**	**20,000**	**20,000**

(1) dividends of EUR 99,367 thousand were paid for the year ended December 31, 2016, EUR 105,422 thousand for the year ended December 31, 2015, and 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.

STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Year ended December 31, 2017

To Annual General Meeting of Dassault Aviation Company,

Opinion

In compliance with the engagement entrusted to us by your annual general meeting we have audited the accompanying financial statements of Dassault Aviation Company for the year ended December 31, 2017, as enclosed to this report.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5 paragraph 1 of Regulation (EU) No 537/2014 or in the French Code of ethics (Code de déontologie) for statutory auditors.

Observation

While we do not question the opinion expressed above, kindly note the following point set out in Note B9 "Hedging instruments" to the annual financial statements concerning the first application of the new ANC Regulation No. 2015-05 relating to financial futures and hedging transactions.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Risk identified	*Our response*
Valuation of warranty provisions (Note B8-1 and item 14.2 of the notes to the annual financial statements) Dassault Aviation provides warranties for its aircraft deliveries against hardware or software defects and is required to remedy any regulatory non-compliance identified after the delivery of the necessary equipment. These guarantees therefore constitute a commitment for the Company whose costs are expected to be provisioned upon delivery of the airplane. The estimated amount of the provisions is based on the data and expenses recorded by airplane model and type of transactions taken as collateral and on estimated costs, in particular cost estimates for specialists, handling of malfunctions and regulatory non-compliance. Given the fleet in service and the variety of costs potentially incurred, provisions for guarantees are determined by complex models that require judgments by several Operational Departments. Management's valuation of these commitments caused Dassault Aviation to recognize provisions for guarantees of EUR 594 million as of December 31, 2017. The valuation of these provisions is a key point of the audit due to: • the level of judgment required for their determination, • the complex nature of their valuation, • their amount, • and, consequently, the potentially significant impact on earnings and equity if their estimates vary.	On the basis of discussions with the relevant Operational Departments, we took note of the procedures to identify the risks to be guaranteed and the procedures put in place to determine the costs and other data used as a basis for the valuation of provisions for guarantees. We also tested the functioning of key controls that we considered relevant to our audit. In addition, our work consisted of: • assessing the adequacy of the funding methodology used by the Company's management and the judgments exercised by it, • assessing, through discussions with the relevant Operational Departments, the reasonableness of the assumptions used to determine provisions for guarantees, • randomly testing the observed data and costs used for the valuation of the provisions and the calculations made. We also assessed the appropriateness of the information given in Note B8-1 and item 14.2 of the notes to the annual financial statements.

Risk identified	***Our response***
Defense contract monitoring (Note B11 and item 20 of the notes to the annual financial statements) For Defense contracts, Dassault Aviation operates through contracts for which net sales and the margin are recognized: • upon completion upon the transfer to the purchaser of the principal risks and rewards for sales of goods and for certain development services; or • as a percentage depending on the stage of progress of the costs incurred for the other service contracts; Earnings from contracts, and any provisions for loss on completion at the closing date, depend on: • the ability of the entity to measure the costs incurred on a contract and • the ability to reliably estimate the costs yet to be incurred until the end of the contract. The Company's Management believes that the program monitoring process conducted by experienced employees within the Program Departments and the Finance Department through management control is sufficiently robust to make reliable estimates of earnings of contracts at completion given the items known at the end of the year. For 2017, Defense net sales recognized by the company amounted to EUR 1,872 million. The monitoring of defense contracts is a key point of the audit due to: • the level of estimates required to determine earnings upon the completion of contracts, • and their amount.	On the basis of discussions with the relevant Operational Departments, we took note of the procedures to identify the costs and valuation of margins at completion. We also tested the functioning of key controls that we considered relevant to our audit. As part of our audit, our work consisted of: • Testing controls for net sales and cost forecasts with respect to contracts; • Corroborating the stage of progress used for recognition of net sales by examining in particular the technical and contractual documentation available; • Selecting a random sample of contracts, for which we met with the program monitoring managers, • Assessing the reasonableness of future cost estimates; • Reconciling the accounting data with their operational analytical monitoring; • Verifying the correct analytical allocation of costs; • For a selection of contracts whose estimated margin level experienced a certain change in the margin compared to previous estimates, we sought to explain the origin of the changes observed in order to corroborate those changes with technical and operational justifications for the basis of our experience and interviews with management; We also assessed the appropriateness of the information given in Note B11 and item 20 of the notes to the annual financial statements.

Risk identified	***Our response***
Assessment of provisions resulting from the end of the Falcon 5X program (Notes 4 and 26 to the annual financial statements) On December 13, 2017, Dassault Aviation initiated the termination process of the contract with Safran for the supply of the Silvercrest engine leading to the end of the Falcon 5X program. The Company's Management, in conjunction with the Finance, Programs, Manufacturing, Purchasing and Legal Departments, assessed the impact of the end of the Falcon 5X program on the assets and liabilities of Dassault Aviation at the end of the year. As a result, the Company: • impaired a portion of the assets related to the program, mainly inventories and work-in-progress. • recognized provisions that covered risks associated with the end of the Program, with the understanding that the company has entered into negotiations with Safran to obtain compensation for its loss as specified in item 26 Contingent assets and liabilities. The assessment of the impacts of the end of the Falcon 5X program is a key point of our audit due to: • the diversity of those impacts, which significantly affected several balance sheet and income statement items; • the complexity of the valuation as of the balance sheet date of the assets related to the program and the importance of the judgment exercised by Management in this regard, particularly as regards the reusability of inventories and work-in-progress, and the associated risks.	Through interviews with the relevant Departments, we became aware of the provisions of the contract, the risks identification process and implications related to the end of the Falcon 5X program. For risks identified and related financial impacts, our work consisted of: • assessing the relevance of the approach adopted by the Company's Departments and the judgments exercised by them, in particular through critical examination of (i) the analyses and assumptions made by the Business Departments to determine the inventories and work-in-progress of the F5X program that are reusable by Dassault Aviation, based on available technical documentation, and (ii) the process to identify commitments made to suppliers and subcontractors; • reviewing memorandums of understanding and communications with suppliers and subcontractors; • reconciling the data used for impairment estimates of inventory and works-in-progress with the accounting data extracted from the management and operational analytical monitoring systems and randomly verifying the calculations made in accordance with the analyses performed and assumptions made by the Business Departments.

Verification of the Management report and of the other documents provided to shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information given in the management report and in the other documents provided to shareholders with respect to the financial position and the financial statements

We have no matters to report on the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the other documents provided to the shareholders with respect to the financial position and the financial statements.

Management report

We attest that the information required in accordance with the requirements of articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code (Code de commerce) is disclosed in the Management report.

Concerning the information required in accordance with the requirements of article L. 225-37-3 of the French Commercial Code (code de commerce) relating to remunerations and benefits received by the corporate officers and any other commitments made in their favour, we verified their consistency with the financial statements or with the data used to produce the financial statements, and where applicable, with the items received by your Company from Societies controlling your Society or from Societies controlled by your Society. On the basis of this work, we certify the accuracy and sincerity of the information.

Other information

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Dassault Aviation Company by the General Meeting held on April 25, 2002 for cabinet Deloitte & Associés and held on June 19, 1990 for cabinet Mazars.

As at December 31, 2017, audit firm Deloitte & Associés and audit firm Mazars were in the 16th year and 28th year of total uninterrupted engagement.

Responsibilities of Management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were closed by the Board of Directors.

Statutory Auditors responsibilities for the audit of the financial statements

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.

- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (Code de commerce) and in the French Code of Ethics (Code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Courbevoie and Neuilly-sur-Seine, March 7, 2018

The Statutory Auditors

Mazars	Deloitte & Associés
Mathieu Mougard	Jean-François Viat

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users.
The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.
This report also includes information relating to the specific verifications of information given in the management report and in the documents addressed to shareholders.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS

General Meeting to approve the financial statements for the fiscal year ended December 31, 2017

Dear Shareholders,

In our capacity as Statutory Auditors of your Company, we are submitting our report on regulated agreements and commitments.

It is our responsibility to inform you, on the basis of the information provided to us, of the features, essential conditions and the reasons that justify the interest for the Company, in the agreements and commitments of which we have been informed or which we discovered during our audit engagement, without having to issue an opinion on their usefulness or appropriateness, or to look for the existence of other agreements and commitments. It is your responsibility, pursuant to Article R. 225-31 of the French Commercial Code, to assess the interest attached to the performance of these agreements and commitments for the purpose of their approval.

Moreover, it is our duty, where applicable, to provide you with the information specified in Article R. 225-31 of the French Commercial Code relating to the performance, during the past year, of agreements and commitments already approved by the General Meeting.

We have performed those procedures that we considered necessary in terms of professional standards issued by the National Order of Accountants in France *(Compagnie Nationale des Commissaires aux Comptes)* relating to this audit engagement. Those standards require that we check that the information provided to us is consistent with the relevant source documents.

AGREEMENTS AND COMMITMENTS SUBMITTED TO THE GENERAL MEETING FOR APPROVAL

Agreements and commitments authorized over the past fiscal year

In accordance with Article L. 225-40 of the French Commercial Code, we have been informed of the following agreements that were subject to the prior approval of your Board of Directors.

Regarding Mr Éric TRAPPIER, Chairman and Chief Executive Officer

Type and purpose

Continued benefit from the supplementary pension plan for the senior executives of your Company, benefiting the Chairman and Chief Executive Officer.

Terms and conditions

Mr. Éric Trappier will benefit from the group supplementary defined benefits pension plan for the Executive Committee and the Flight Crew of the Company.

On July 26, 2017, the Board of Directors previously authorized the implementation of a new supplementary pension plan applicable starting January 1, 2018 for members of the Executive Committee (including corporate officers) and the Flight Crew.

This new supplementary pension plan, which is applicable starting January 1, 2018, allows for an annual acquisition of additional pension benefits equal to 2% of annual gross compensation, provided that, for the corporate officers, the Parent Company achieves a net margin level defined each year. In order to comply with the provisions of the Macron Law of 2015 and the requirements of the AFEP-MEDEF Code, the payment of the pension is conditional, for retiring corporate officers, 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 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.

Reasons justifying your Company's interest in this agreement

The Board of Directors believed that the implementation of this new supplementary pension plan was in the Company's interest because this new plan is more restrictive than the previous one and complies with the provisions of the 2015 Macron Law and the requirements of the AFEP-MEDEF Code.

Regarding Mr Loïk SEGALEN, Chief Operating Officer

Type and purpose

Continued benefit from the supplementary pension plan for the senior executives of your Company, benefiting the Chief Operating Officer.

Terms and conditions

Mr. Loïk Segalen will benefit from the group supplementary defined benefits pension plan for senior executives of your Company, the main characteristics of which are set out in paragraph I.a above.

Reasons justifying your Company's interest in this agreement

The Board of Directors believed that the implementation of this new supplementary pension plan was in the Company's interest because this new plan is more restrictive than the previous one and complies with the provisions of the 2015 Macron Law and the requirements of the AFEP-MEDEF Code.

With Groupe Industriel Marcel Dassault (GIMD), Majority Shareholder of Dassault Aviation

Persons concerned

Messrs. Serge Dassault (Director), also Chairman and member of the Supervisory Board of GIMD, Charles Edelstenne (Director), also CEO and member of the Supervisory Board of GIMD, and Mr. Olivier Dassault, and Ms. Marie-Hélène Habert (Directors), also members of the Supervisory Board of GIMD.

Type and purpose

Dassault Aviation acquired two parcels of land in Mérignac from GIMD.

Terms and conditions

On March 7, 2017, the Board of Directors previously authorized the acquisition by Dassault Aviation of two parcels of land in Mérignac from GIMD. This acquisition of two parcels of land of 4.28 hectares and 11.42 hectares respectively will be completed for a total price of €2.9 million by April 2018.

This agreement has not yet been entered into as of the date of this report. It should be signed before the General Meeting called to approve the financial statements for 2017.

Reasons justifying your Company's interest in this agreement

The Board of Directors believed that the acquisition of that land should allow Dassault Aviation to expand in anticipation of future construction and is part of the "Leading our Future" transformation plan.

AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE GENERAL MEETING

Agreements and commitments approved in previous fiscal years which continued over the past fiscal year

In accordance with Article R. 225-30 of the French Commercial Code, we were informed that the performance of the following agreements and commitments, already approved by the General Meeting in previous fiscal years, continued during the past fiscal year.

With Groupe Industriel Marcel Dassault (GIMD), Majority Shareholder of Dassault Aviation

Persons concerned

Messrs. Serge Dassault (Director), also Chairman and member of the Supervisory Board of GIMD, Charles Edelstenne (Director), also CEO and member of the Supervisory Board of GIMD, and Mr. Olivier Dassault, and Ms. Marie-Hélène Habert (Directors), also members of the Supervisory Board of GIMD.

Type and purpose

DASSAULT AVIATION has continued to rent from GIMD a certain number of premises, land and industrial facilities under commercial leases that came into force on January 1, 2009 and March 11, 2016.

Terms and conditions

Rental expenses under these leases totaled €36,990,350.38 excluding tax in 2017. As the aforementioned rentals were higher than in 2016, owing to the rise in the benchmark indices used for certain rentals, DASSAULT AVIATION paid GIMD €664,406.65 as a guarantee deposit.

Regarding all Executives and Corporate Officers of Your Company

Type and purpose

An "Executives and Corporate Officers Liability" insurance policy was taken out with AXA Global Risks, now called AXA Corporate Solutions, with effect from July 1, 1999. A second line of coverage was taken out with ZURICH with effect from January 1, 2015, in excess of the first line.

In 2017, these policies covered all executives and corporate officers of your Company and its subsidiaries up to an annual coverage amount of €50,000,000, of which €25,000,000 was under the first line of coverage and €25,000,000 under the second.

Terms and conditions

The total amount of annual premiums in 2017 was €129,611.90 including tax, of which €82,196.90 was under the first line of coverage and €47,415.00 under the second.

Agreements and commitments approved in previous fiscal years, not performed over the past fiscal year

As stated in Sections I.a and I.b above, we were also informed of the following commitments, already approved by the General Meeting in previous years, which have not been performed during the past year.

Regarding Messrs. Eric Trappier, Chairman and Chief Executive Officer, and Loïk Segalen, Chief Operating Officer

Type and purpose

Continued benefit from the supplementary pension plan for the senior executives of your Company, benefiting the Chairman and Chief Executive Officer and the Chief Operating Officer.

Terms and conditions

It had been decided that, upon reinstatement of their employment contract (contract suspended), Messrs. Eric Trappier and Loïk Segalen would benefit from the group supplementary defined benefits pension plan for senior executives of your Company.

The previous supplementary pension plan for the Company's executives with at least 10 years of seniority who are present in the Company at the time of their retirement and are at least 60 years of age, and whose salary is greater than 4 times the Annual Social Security Caps (EUR 156,912 in 2017) provides eligible persons with a replacement rate, all pension plans combined, that decreases according to compensation (41% to 35%, provided that there is no change in the pensions paid by the mandatory plans). The additional annual income provided, calculated on the basis of the average gross annual compensation of corporate officers over the last three years, is capped at 10 times PASS (i.e. €392,280 in 2017).

The rights acquired under the old plan were frozen on December 31, 2017 following the implementation of a new additional pension plan, applicable from January 1, 2018, the main characteristics of which are set out in paragraphs I.a and I.b of this report. Messrs. Eric Trappier and Loïk Segalen will have, on the basis of retirement at age 65, an additional annual pension of respectively €392,000 and €355,000, which represents 26% and 27% of their gross fixed compensation.

Courbevoie and Neuilly-sur-Seine, March 7, 2018

The Statutory Auditors

Mazars	Deloitte & Associés
Mathieu Mougard	Jean-François Viat

This is a free English translation of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.