2018 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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GENERAL

DIRECTORS' REPORT

REPORT OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE

CONSOLIDATED FINANCIAL STATEMENTS

PARENT COMPANY FINANCIAL STATEMENTS

Declaration of the person responsible for the report

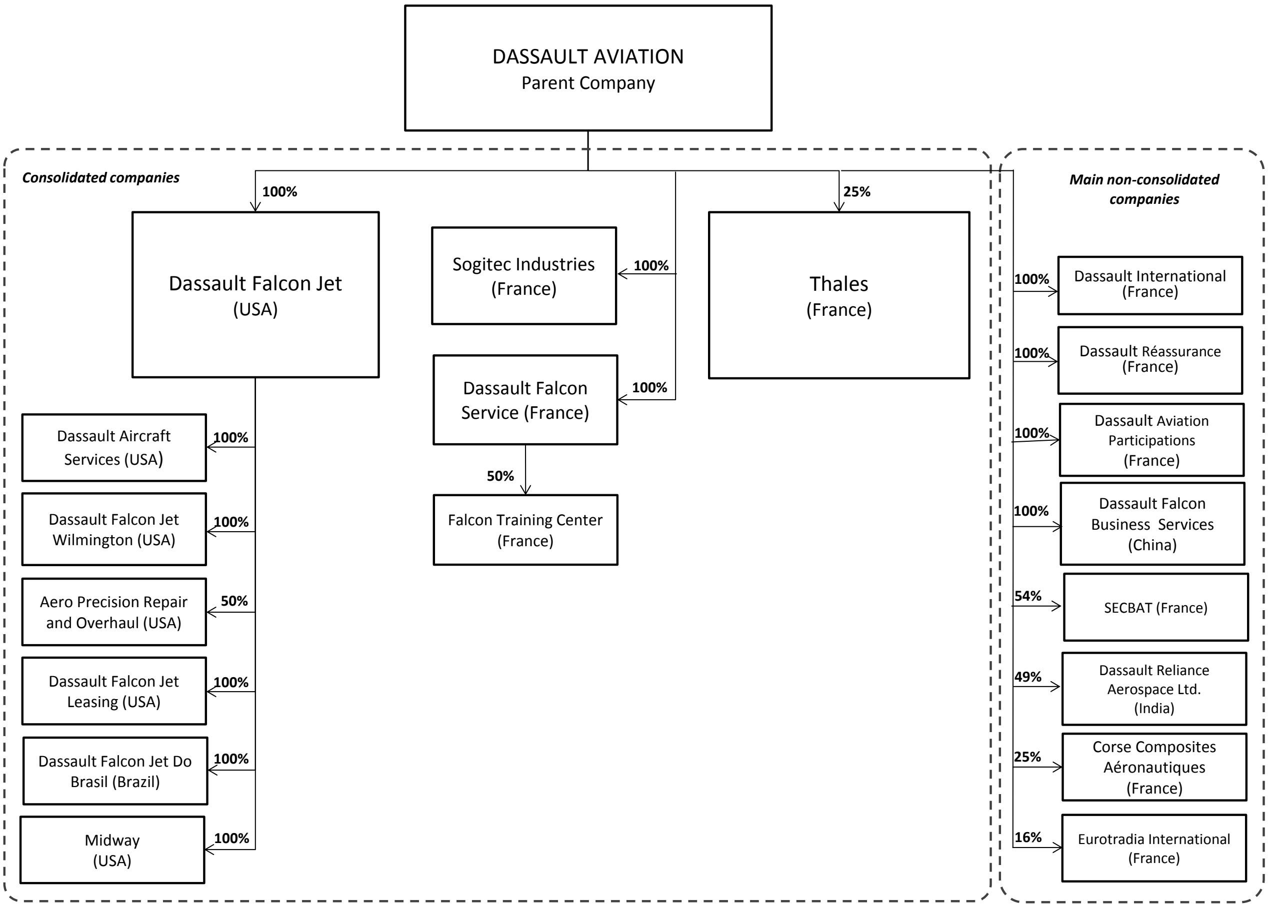
I hereby certify that, to my knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and income or loss of the company and all the other entities included in the scope of consolidation, and that the enclosed directors' report presents a fair view of the development of the business, performance and financial situation of the company and of all the other companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Paris, February 27, 2019

Éric Trappier
Chairman and Chief Executive Officer

Group structure as of December 31, 2018

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



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

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

Board of Directors as of December 31, 2018

Honorary Chairman
Charles Edelstenne

Chairman of the Board of Directors
Éric Trappier

Directors
Catherine Dassault
Olivier Dassault
Charles Edelstenne
Marie-Hélène Habert
Mathilde Lemoine
Henri Proglio
Lucia Sinapi-Thomas
Richard Bédère (director representing employees)

Executive Management

Chief Executive Officer
Éric Trappier

Chief Operating Officer
Loïk Segalen

Executive Committee as of December 31, 2018

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

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

Government Commissioner

Mr. Paul Fouilland, French Armed Forces General Inspector

Auditors

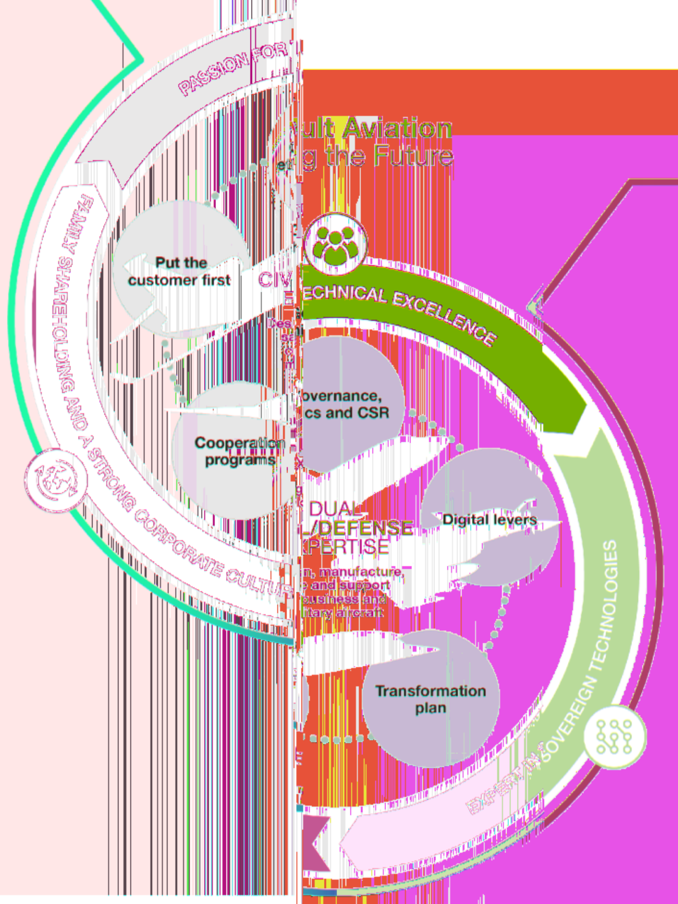
Mazars S.A., represented by Mr. Mathieu Mougard, partner
Deloitte & Associés S.A., represented by Mr. Jean-François Viat, partner

TRIBUTE TO SERGE DASSAULT

Our business model

Resources

man
1,500
loyees,
ncluding 80%
Expertise
owned
century
experience
Industrial
cialized
France
Societal
00
Environmental
14001
rtified
onmental
Financial
billion
quity capital



Achievements

2018

Human
22%
are women
Expertise
F3-R
Industrial
delivered
aircraft supported
Societal
pment
Rhône-Alpes
SMEs
agreement
Environmental
%
issions
Financial
1 million

FCAS/NGF
Leader in new generation fighter
MMT
Leader in defense AI research
41
Falcons delivered
2,000
Falcons supported
79%
of waste recovered
78%
of revenue generated abroad

Financial & non-financial contributions

State and local authorities
78 million
expense in France
of the Group's tax
(93% paid in France)
Employees
68 million
profit-sharing
incentive bonuses,
including corporate contribution
57,100
average gross annual salary,
profit-sharing
incentive bonuses
Shareholders
77 million
dividends*
Industry
ault Aviation, a key player
strategic ecosystem and
es' reference industrial shareholder
Society
Integration
port for aeronautical job
ration associations
Sustainable development
1%
s consumption
years
ribution to 8 United Nations
Sustainable Development Goals

* sed at the AGM in May 2019.

1.1.2 Definition of alternative performance indicators

1.1.3 IFRS 15 impacts ±Revenue Recognition

	2017 Adjusted Published		2017 Adjusted Restated
Net sales	**4,807,530**	**68,442**	**4,875,972**
Operating income	**348,475**	**8,215**	**356,690**
Net Income	**489,234**	**-78,912**	**410,322**

1.1.4 Impact of the adjustments

Net sales	**5,083,834**
Operating income	**668,840**
Net income	**681,138**

(IFRS 15 *pro forma*)

Net sales	**4,875,972**
Operating income	**356,690**

Falcon programs

2018 Falcon orders EUR 2,314 million
42 Falcon ordered in 2018

1.1.6 Adjusted net sales

2018 net sales to EUR 5,084 million
Export 78%

EUR millions:

				Total	
				3,680	
				4,176	
				3,586	
				4,876	
2018	1,066	1,419	2,599	5,084	78%

Defense programs

2018 Defense net sales EUR 2,485 million

9 Rafale 3 Rafale

Falcon programs

2018 Falcon net sales EUR 2,599 million

41 new Falcon delivered in 2018

1.1.7 Backlog

backlog as of December 31, 2018 EUR 19,376 million,

Defense Export backlog EUR 14,217 million
36 Rafale for India 36 Rafale for Qatar and 1 Rafale for Egypt

France Defense backlog EUR 3,011 million
. 28 Rafale

Falcon backlog EUR 2,148 million
53 Falcon

1.1.8 Adjusted results

Operating income

2018 operating income EUR 669 million

The operating margin 13.2%

Net financial result

The 2018 net financial result EUR -77 million

Net income

2018 net income EUR 681 million
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The net margin 13.4%

Net income per share in 2018 EUR 82.1/share

1.1.9 Dividends and profit-sharing/incentives

¼ V K D U H L Q

1.1.10 Financial reporting

1.2 FINANCIAL STRUCTURE

1.2.1 Available cash

Available Cash	**5,211 million**

1.2.2 Balance Sheet (data in IFRS)

1.3 RELATED-PARTY TRANSACTIONS

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

the start of a new nEUROn flight test campaign dedicated to stealthiness demonstration with the French Procurement Agency, the French Air Force, and the French Navy, in the frame of a contract for studies and flight tests over 2018-2020,

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

for space vehicles, a new batch of the study contract for the reusable orbital vehicle “Space Rider” from the European Space Agency (ESA), of which the first flight is scheduled in 2021. Dassault Aviation is in charge of the vehicle shape design,

for the pyrotechnic, the contractualization of 2 studies with the French Defense Procurement Agency (DGA) and the French Space Agency (CNES) in order to apply the pyrodigital technology allowing a securitized digital bus to convey the pyrotechnic orders for both Callisto demonstrator and Rafale.

Make in India

MARitime SURveillance and MARitime PATrol programs

Falcon programs

the future Falcon is in progress: marketing and technical studies are ongoing

the Falcon 8X which demonstrated its long range capacity (Singapore – London in 14 hours) is still an unmatched aircraft in terms of comfort and is acknowledged for being the most silent aircraft on the market the new service offer for a broadband connectivity such as “FalconConnect”, an integrated management solution for communications and data exchanges between aircraft and ground networks,

1.4.2 Customer support

Military customer support

-

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Falcon after-sales

1.5 GROUP STRUCTURE

1.5.1 Consolidated subsidiaries and companies

Dassault Falcon Jet (DFJ) (United States)

1.5.2 Unconsolidated subsidiaries and holdings

1.5.3 Branches

1.6 RESEARCH AND DEVELOPMENT

1.7 TRANSFORMATION PLAN: LEADING OUR FUTURE

1.8 DIGITAL TOOLS, PROCESSES AND INNOVATION

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1.10 TOTAL QUALITY

2. RISK FACTORS

2.1 RISKS RELATED TO PROGRAMS

2.1.1 Aerospace cycle

2.1.2 Control of programs

2.1.3 ³0DNH ,Q ,QGLD´

2.1.4 Adjustment of technical and industrial capacity

2.1.5 Competition

2.1.6 Pre-owned aircraft market

2.2 RISKS RELATED TO THE SUPPLY CHAIN

2.3 RISKS RELATED TO THE INFORMATION SYSTEM

2.4 RISKS RELATED TO REGULATORY CHANGES

2.5 RISKS RELATED TO THE FIGHT AGAINST CORRUPTION

2.6 RISKS RELATED TO THE FIGHT AGAINST TAX EVASION

2.7 RISKS RELATED TO THE RESPECT OF HUMAN RIGHTS

2.8 RISKS RELATED TO INTELLECTUAL PROPERTY

2.8.1 Actions

2.8.2 Organization

2.9 RISKS RELATED TO PERSONNEL

2.10 FINANCIAL RISK

2.10.1 Cash and liquidity risks

2.10.2 Credit and Counterparty Risks

2.11 MARKET RISK

2.11.1 Foreign exchange risks

Hedging portfolio

Military competitiveness

Embraer shares

2.11.2 Interest rate risks

2.11.3 Other market risks

2.12 ENVIRONMENTAL RISKS

2.12.1 Damage caused to the environment

2.12.2 Risks related to the consequences of climate change

2.12.3 Provisions and financial guarantees

2.13 RISKS RELATED TO SECURITY BREACHES

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3. INTERNAL AUDITING AND RISK MANAGEMENT PROCEDURES

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3.2 ENVIRONMENT AND GENERAL ORGANIZATION OF INTERNAL AUDITING

Internal auditing reference documents

Internal auditing bodies

Control of subsidiaries

Internal auditing

External auditing factors

3.3 RISK MANAGEMENT PROCEDURES

3.5 2018 ACTIONS

3.6 2019 ACTION PLAN

4. NON-FINANCIAL PERFORMANCE DECLARATION

4.1 IDENTIFICATION OF RELEVANT NON-FINANCIAL RISKS

Theme	Relevant CSR risks	Policies, due diligence procedures and indicators	Sustainable Development Goals (SDGs) affected
			
			
			
			
			

4.2 GENERAL POLICY

The Dassault Aviation Group, through its corporate agreements and HSE policy, is committed to the well-being of its employees. Many actions to improve workplace conditions and reduce occupational risks are carried out with the support of physicians, prevention specialists and the HR function. In addition, the Parent Company is committed to the replacement of the main hazardous substances used in its activities.
§4.3.5 and §4.4.2

Convinced that diversity is a major issue and a performance factor for the company, we affirm our commitment to the prevention of discrimination. We also strive to promote equality of opportunity and treatment through the implementation of company agreements.
§4.3.1, §4.3.2 and §4.3.4

We develop close links with regional and international industrial fabrics, thus contributing to the sustainable economic growth of the global aviation industry.
In addition, the Dassault Aviation Group is committed to maintaining and developing the skills of its employees, taking into account its operational needs and the individual desires of its employees.
§4.3.1, §4.3.3, §4.5 and §4.8

As part of our “Leading Our Future” transformation plan, we are modernizing our industrial tools through the use of better performing and more environmentally friendly technologies.
§4.4.1, §4.4.2 and §4.4.3

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

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

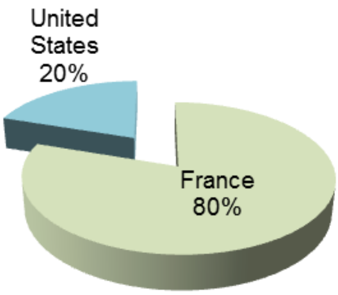
The zero tolerance policy, the strengthening of procedures and resources for fighting against corruption characterize our search for rigorous business ethics. §4.6, §4.7 and §4.8

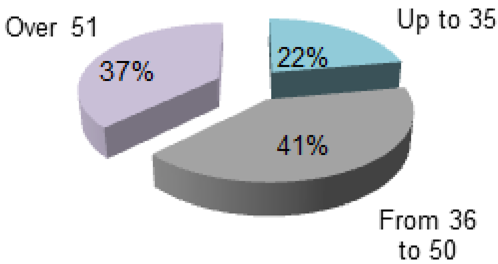
4.3 HUMAN RESOURCES INFORMATION

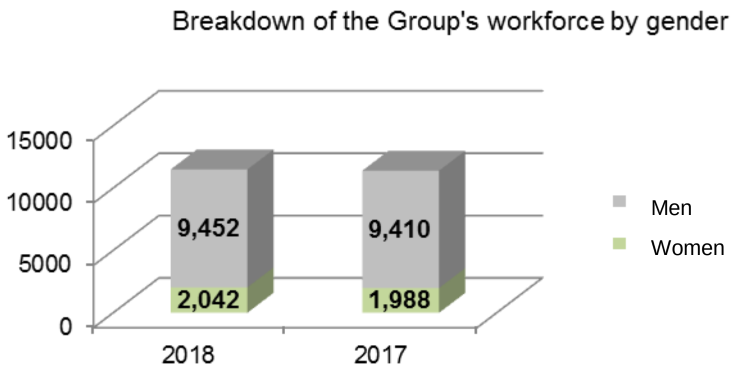
4.3.1 Employment and skills

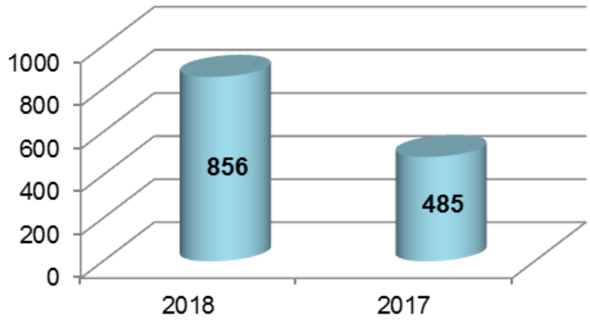
Workforce monitoring

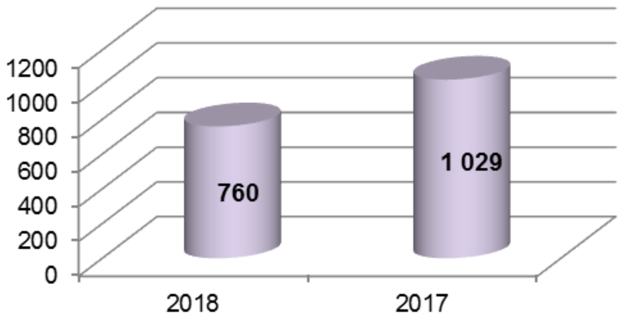
Total	**11,494**	**11,398**











Recruitment and integration

Development and transfer of skills

Supporting change

4.3.2 Compensation and benefits

4.3.3 Employee relations

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4.3.4 Diversity and equality of opportunity

Professional gender equality

Employment of disabled people

Employment of young workers and seniors

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

Careers of staff representatives.

4.3.5 Health, safety and workplace conditions

Quality of work life

Promoting employee health

Ensuring the health monitoring of employees

Conducting prevention and awareness campaigns

Promoting retention and return to employment

Guaranteeing a healthy and secure work environment

A successful culture of prevention

Improving working conditions through general application of the principles of ergonomics

Continuing to reduce physical and chemical hazards at workstations

Monitoring indicators

A regulatory oversight system

4.4 ENVIRONMENTAL INFORMATION

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4.4.1 Improving the environmental performance of our products

4.4.2 Improving the environmental performance of our activities

Energy consumption

Excluding kerosene energy (ENE001)	**517,120**	**891,612**	**499,309**	**851,045**
Kerosene (ENE002)	**303,789**	**586,020**	**310,905**	**655,475**
Total	**820,909**	**1,477,632**	**810,214**	**1,506,520**

Water consumption

Raw materials and other products

Atmospheric discharges

Direct greenhouse gas (GHG) emissions

Total 1 + 2 (AIR001)	**37,818**	**90,777**	**41,211**	**102,303**

Indirect GHG emissions

Emission of volatile organic compounds (VOC)

Other atmospheric discharges

Wastewater

Waste

Total (DEC001)	**6,849**	**8,767**	**5,524**	**7,559**

Fight against food waste and insecurity

Respect for animal welfare and a responsible and sustainable diet

4.4.3 Regulatory requirements and administrative regimes

4.5 CORPORATE RESPONSIBILITY INFORMATION

4.5.1 Sustainability policy

4.5.2 Culture of safety and performance

4.5.3 Corporate commitment for industrial and purchasing activities

SMEs and intermediate-sized enterprises

Make in India

Purchasing policy and supply chain security

Volume of purchases

4.5.4 Territorial influence

4.5.5 Cooperation with the world of education

4.5.6 Charitable actions

4.6 HUMAN RIGHTS

4.7 BUSINESS ETHICS

4.7.1 Fight against corruption

its customers, partners, suppliers and subcontractors.

-corruption procedures and put new measures in place.

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

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

Anti-Corruption Code, the Anti-Corruption Guide and the Internal Alert Procedure.

4.7.2 Fight against tax evasion

4.8 DUTY OF CARE

4.8.1 Dassault Aviation process prior to the duty of care law

4.8.2 Process set up under the Duty of Care law

5. DASSAULT AVIATION, PARENT COMPANY

5.1 ACTIVITIES

5.2 RESULTS

5.2.1 Order intake

order intake in 2018 EUR 4,332 million
Export 77%.

				Total	
				4,097	
				9,516	
				9,218	
				2,620	
2018	**996**	**1,525**	**1,811**	**4,332**	**77%**

Falcon programs

Falcon order intake in 2018 EUR 1,811 million

41 Falcon ordered in 2018

Defense programs

2018 Defense orders EUR 2,521 million
12 Rafale
F4 Standard notification

5.2.2 Net sales

Net sales in 2018 EUR 4,399 million

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

				Total	
				3,195	
				3,326	
				3,161	
				4,184	
2018	**1,002**	**1,371**	**2,026**	**4,399**	**76%**

Falcon programs

Falcon net sales in 2018 **EUR 2,026 million**

40 Falcon **delivered in 2018**

Defense programs

2018 defense net sales **EUR 2,373 million** 7. It was favorably impacted by the increase in Rafale deliveries and the delivery of the F3-R Standard.

9 Rafale **3 Rafale**
8, versus 1 in 2017.

5.2.3 Backlog

The backlog of the Parent Company as of December 31, 2018 **EUR 18,426 million**

Falcon backlog **EUR 2,279 million**
53 Falcon

France Defense backlog **EUR 2,682 million**
28 Rafale.

Defense Export backlog **EUR 13,465 million,**
36 Rafale India 36 Rafale Qatar, and 1 Rafale Egypt

5.2.4 Net income

Net income for 2018 **EUR 442 million**

In 2019 the personnel will receive EUR 131 million from profit-sharing and incentives
8 results, :

27% of salaries

5.2.5 Allocation of earnings

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

5.2.6 Five-year results summary

5.2.7 Tax consolidation

5.3 RISK MANAGEMENT

5.4 TERMS OF PAYMENT

5.5 SHAREHOLDER INFORMATION

5.5.1 Capital structure

In 2016, following the increase in the free-float, Dassault Aviation joined the following market indices: Sociétés des Bourses Françaises 120 (SBF 120) and the Morgan Stanley Capital International World (MSCI World).

Shareholders	Number of shares	%	Exercisable voting rights	%
TOTAL	**8,348,703**	**100.0**	**13,434,370**	**100.0**

5.5.2 Information on capital, shareholders and voting rights

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March 7, 2018 the Board of Directors decided to award 850 performance shares to the Chairman-Chief Executive Officer and 725 performance shares to the Chief Operating Officer. To acquire them, the following performance criteria had to be met:

March 7, 2019 and ending on March 6, 2020 inclusive,

March 7, 2020, the retention of 20% of those shares for the duration of their term.

5.5.3 Payment of the dividend in shares

May 24, 2018 offered the option to each shareholder to receive, in part or in full, the payment of their 2017 dividend in new shares of the Company. Because of the option exercised by some shareholders for payment of the dividend in shares, the Chairman and Chief Executive Officer, acting pursuant to the sub-delegation granted by the Board of Directors, noted the creation of 36,782 new shares and the corresponding increase in the Company's capital on June 27, 2018.

5.5.4 Securities transactions by corporate officers

March 7, 2018 (see Board of Directors' Report on Corporate Governance); and

5.5.5 Agreements between shareholders

5.5.6 Implementation of a share buyback program

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

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

, the Board of Directors proposed to the General Meeting of May 16, 2019, that a new share buyback program be launched under the same conditions (resolution).

5.5.7 $XWKRUL]DWLRQ RI UHGXFWLRQ LQ WKH &RPSDQ\¶V V

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

December 31, 2018.

5.5.8 Significant agreements entered into by the Company

6. PROPOSED RESOLUTIONS

Approval of Annual and Consolidated Financial Statements

Allocation and distribution of the net income of the Parent Company

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

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

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

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

Renewal of the term of four Directors

Approval of a regulated agreement relating to the transfer a-
tion and training activities to Dassault Aviation

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

7. CONCLUSION AND OUTLOOK

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capacity for dropping SAR (Search And Rescue) chains.

3 ´

3 ´

45 Falcon **26 Export Rafale in 2019** **2019 net sales will rise significantly**

$SSHQGL[WR WKH 'LUHFWRUV¶ 5HSRUW

Reporting Methodology for Indicators

-

-

- relating to respect for human rights,

-

-

Scope of consolidation

-

-

-

-

Control and Consolidation

Social and Human Resources Data

8. The defined indicators are in compliance with national regulations.

-

-

-

-

-

Environmental Data

Information relating to respect for human rights

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

Information relating to the fight against corruption

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

Information relating to the fight against tax evasion

External Verification

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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	
	EMP02: Employee Distribution by Gender	
	EMP03: Employee Distribution by Age	
	EMP04: Employee Distribution by Geographical Zone	
	EMP05: Hiring	
	EMP06: Departures and Dismissals	
	EMP07: Compensation	
Work Organization	ORG01: Working Time Organization	
	ORG02: Absenteeism	
Labor Relations	REL01: Organization of the Labor Relations Dialog, Procedures for Informing and Consulting Personnel and for Negotiations	
	REL02: Collective bargaining agreements	

Themes	Dassault Aviation Indicators	Link with GRI ± Indicators & Protocols: Social (Version 3.1)
Health and Safety	**S&S01: Conditions of health and safety in the workplace**	
	S&S02: Agreements Signed with the Union Organizations or Staff Representatives with Regard to Occupational Health and Safety	
	S&S03: Work-Related Accidents	
	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**	
	FOR02: Total Number of Training Hours	
Equality of Treatment	**EGA01: Measures Taken in Favor of Gender Equality**	
	EGA02: Measures taken in favor of the employment and integration of disabled people	
	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**	
	OIT02: Eliminating Employment and Professional Discrimination	
	OIT03: Elimination of forced or compulsory labor	
	OIT04: Effective Abolition of Child Labor	
Energy	**ENE001: Energy Consumption Excluding Kerosene and Mobile Sources**	
	ENE002: Kerosene Consumption	
	4XDOLWDWLYH LQGLFD\ **design performance/kerosene** FRQVXPSWLRQ´	
Water Consumption	**EAU001: Overall Water Consumption (by Source)**	
Atmospheric Discharges	**AIR001: Greenhouse Gas Emissions (Scope 1 and Scope 2)**	
	AIR004: Emissions of Volatile Organic Compounds (VOC)	

Themes	Dassault Aviation Indicators	Link with GRI ± Indicators & Protocols: Social (Version 3.1)
	Indirect GHG Emission Quality Indicator	
Waste	**DEC001: Total Production of Hazardous and Non-Hazardous Waste**	
	DEC002: Proportion of Recycled Waste	

Report of one of the Statutory Auditors, appointed as independent third party, on the consolidated non-financial performance declaration published in the group management report

Year ended December 31, 2018

To the General Meeting of Dassault Aviation Company,

In our capacity as Statutory Auditor of Dassault Aviation, appointed as independent third party and accredited by COFRAC under number 3-1048 (scope of accreditation available at www.cofrac.fr), we hereby report to you on the consolidated non-financial statement for the year ended December 31, 2018 ΚΗΥΗΛΘΔΙΩΗΥ ΩΚΗ ≥6ΩΔΩΗΠΗΘΩ× ΣΥΗΣΗΘΩΗΓ ΛΘ ΩΚΗ ϑΥΞΣ management report pursuant to the legal and regulatory provisions of Articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (Code de commerce).

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The Board of Directors is responsible for preparing a Statement pursuant to legal and regulatory provisions, including a presentation of the business model, a description of the main extra-financial risks, a presentation of the policies implemented with respect to these risks as well as the results of these policies, including key ΣΗΥΙΡΥΠΔΘΦΗ ΛΘΓΛΦΔΩΡΥς 7ΚΗ 6ΩΔΩΗΠΗΘΩ ΖΔς ΣΥΗΣΔΥΗΓ Ε∴ ΔΣΣΟ∴ΛΘϑ ≥∗ΞΛΓΗΟΛΘΗς× ςΞΠΠΔΥΛ]ΗΓ ΛΘ ΩΚΗ 6ΩΔΩΗΠΗΘΩ website or on request from its ΡΘ ΩΚΗ headquarters.

Independence and quality control

Our independence is defined by Article L. 822-11-3 of the French Commercial Code and the French Code of Ethics for Statutory Auditors (Code de déontologie). In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional standards and applicable legal and regulatory requirements.

Responsibility of the statutory auditor appointed as independent third party

Based on our work, our responsibility is to express a limited assurance conclusion on:

the compliance of the Statement with Article R. 225-105 of the French Commercial Code;

the fairness of the information provided pursuant to part 3 of sections I an d II of Article R. 225-105 of the French Commercial Code, i.e. the outcomes of policies, including key performance indicators, and measures ΥΗΟΔΩΛΘϑ ΩΡ ΩΚΗ ΠΔΛΘ ΥΛςΝς ΚΗΥΗΛΘΔΙΩΗΥ ΩΚΗ ≥,ΘΙΡΥΠΔΩΛΡΘ ×

However, it is not our responsibility to provide any con clusion on:

ΩΚΗ ΦΡΠΣΔΘ∴∂ς ΦΡΠΣΟΛΔΘΦΗ ΖΛΩΚ ΡΩΚΗΥ ΔΣΣΟΛΦΔΕΟΗ ΟΗϑΔΟ ΔΘΓ ΥΗϑΞ
the duty of vigilance, anti -corruption and taxation

the compliance of products and services with the applicable regulations.

Nature and scope of procedures

We performed our work in accordance with Articles A. 225-1 et seq. of the French Commercial Code defining the conditions under which the independent third party performs its mission and in accordance with the professional standards issued by the French Institute of Statutory Auditors (Compagnie nationale des commissaires aux comptes) relating to this engagement and with ISAE 3000 (Assurance engagements other than audits or reviews of historical financial information).

We conducted works in order to assess the Statement's compliance with regulatory provisions, and the fairness of the Information:

:Η ΙΔΠΛΟΛΔΥΛ]ΗΓ ΡΞΥςΗΟΨΗς ΖΛΩΚ ΩΚΗ ∗ΥΡΞΣ∂ς ΕΞςΛΘΗςς ΔΦΩΛΨΛΩ∴ ΩΚ
risks relating to this activit y and the impacts thereof with regard to the respect for human rights and the fight against corruption and tax evasion, together with the subsequent policies and their results.

We assessed the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and clarity, taking into account, where appropriate, best practices within the sector;

We verified that the Statement covers each category of information stipulated in section III of Article L. 225-102-1 governing social and environmental affairs, the respect for human rights and the fight against corruption and tax evasion.

We verified that the Statement includes an explanation justifying the absence of information required by paragraph 2 of section III of Article L. 225-102-1.

:Η ΨΗΥΛΙΛΗΓ ΩΚΔΩ ΩΚΗ 6ΩΔΩΗΠΗΘΩ ΣΥΗςΗΘΩς ΩΚΗ ΕΞςΛΘΗςς ΠΡΓΗΟ ΔΘ
business activity, including, where relevant and proportionate, the risks generated by its business relations, products or services as well as policies, measures and outcomes, including key performance indicators.

We verified that, when relevant to the main risks or policies presented, the Statement presents the information stipulated in section II of Article R. 225-105.

We assessed the process ofselecting and validating the main risks.

We inquired as to the existence of internal control and risk management procedures set up by the company.

We assessed the consistency of the results and key performance indicators used with regard to the main risks and policies presented.

We verified that the Statement covers the consolidated scope, i.e. all companies within the consolidation scope in accordance with Article L. 233-16, with the limits specified in the Statement.

We assessed the collection process setup by the entity to ensure the completeness and fairness of the Information.

For the key performance indicators and other quantitative outcomes[1] that in our judgment were of most significance, we carried out:

- analytical procedures that consisted in verifying the correct consolidation of collected data as well as the consistency of changes thereto;
- substantive tests, on a sampling basis, that consisted in verifying the proper application of definitions and procedures and reconciling data with supporting documents. These procedures were conducted for a selection of contributing entities[2] and covered between 15% and 91% of the consolidated data for the key performance indicators and outcomes selected for these tests;

We consulted documentary sources and conducted interviews to corroborate the qualitative information (measures and outcomes) that in our judgment were of most significance [3];

We assessed the overall consistency of the Statement in relation to our knowledge of the company.

We believe that the procedures we have performed, based on our professional judgment, are sufficient to provide a basis for a limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures.

Means and resources

Our work engaged the skills of eight people between October 2018 and February 2019.

To assist us in conducting our work, we referred to our corporate social responsibility and sustainable development experts. We conducted around ten interviews with people responsible for preparing the Statement.

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1 Quantitative environmental information: ISO 14001 certified sites; Total waste production: hazardous waste, non-hazardous waste, recovery rate; Total water consumption; Total energy consumption; Greenhouse Gases (GHG) emissions: scope 1 and 2; Volatile Organic CompoundsEmissions (VOC)

Quantitative social information: Total headcount; Number of hirings; Number of leavings and lay-off rate; Number of part-time employees; Number of disabled employees; Average annual pay; Total number of days of absence; Number of work-related accidents with lost time; Number of lost days due to work-related accidents; Number of occupational illnesses identified by the competent authorities; Frequency rate and severity rate; Number of training hours.

2 Selected sites: Dassault Aviation SA (France): Biarritz site; Dassault Falcon Service (France): Le Bourget site; Dassault Falcon Jet (US): Little Rock site.

3 Qualitative information: Supplier assessment; Environmental performance of products and CleanSky 2 program; Regulatory watch system; Improvement of working conditions and ergonomics.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the non -financial statement does not comply with the applicable regulatory provisions and that the Information, taken as a whole, is not fairly presented in accordance with the Guidelines.

Paris-La Défense, March 7, 2019

One of the statutory auditors,

Deloitte & Associés

Jean-François Viat

This is a free English translation of the Statutory ∃ΞΓΛΩΡΥς∂ ΥΗΣΡΥΩ ΛςςΞΗΓ ΛΘ)ΥΗΘΦΚ ΔΘΓ Λς 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 ZRUN DORQJ ZLWK WKH FRPSRQHQWV m- RI WKH pensation.

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

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

1. Corporate Governance

1.1 Composition of the Board of Directors

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

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

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

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

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

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

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

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

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

1.2.1 Honorary Presidents and Director

Serge Dassault: *Deceased May 28, 2018*
Date of first appointment: 6/27/1967
Dassault Aviation shares held: 26

Other corporate offices and duties:

- Chairman:
  Groupe Industriel Marcel Dassault SAS
  Groupe Figaro SAS
  Rond-Point Holding SAS
  Rond-Point Immobilier SAS
  Société du Figaro SAS
  Fondation Serge Dassault

- Chairman and Chief Executive Officer
  Dassault Medias SA (formerly SOCPRESSE)

- Chairman of the Board of Directors:
  Dassault Belgique Aviation SA

- Chief Executive Officer:
  Dassault Wine Estates SAS

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

- Director:
  Dassault Falcon Jet Corporation (USA)
  Groupe Figaro SAS
  Dassault Belgique Aviation SA

- Honorary Chairman:
  GIFAS

- General Manager:
  Rond-Point Investissements SARL
  Société Civile Immobilière de Maison Rouge
  Société Civile Immobilière des Hautes Bruyères

Other offices and duties over the last five years:

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

- Member of the Strategic Committee:
  Dassault Développement SAS

Charles Edelstenne
Date of first appointment: 1/27/1989
Start and end of current term: 2015 GM - 2019 GM
Member of the Audit Committee
Dassault Aviation shares held: 67

Other corporate offices and duties:

- President:
  Groupe Industriel Marcel Dassault SAS
  Rond-Point Immobilier SAS
  Rond-Point Holding SAS
  Société du Figaro SAS
  Dassault Belgique Aviation (Belgium)
  Groupe Figaro SASU

- Chairman of the Board of Directors:
  Dassault Systèmes SE

- Chairman of the Board of Directors and Chief Executive Officer:
  Dassault Media SA

- Chief Executive Officer:
  Dassault Wine Estates SAS

- Director:
  Thales SA
  Carrefour SA
  Sogitec Industries SA
  SABCA (Belgium)
  Dassault Falcon Jet Corporation (USA)
  Groupe Figaro SASU
  Lepercq, de Neuflize and Co. Inc.
  Monceau Dumas

- Honorary Chairman:
  GIFAS

- General Manager:
  Sociétés Civiles ARIE, ARIE 2
  Sociétés Civiles NILI, NILI 2
  SCI de Maison-Rouge
  Rond-Point Investissement

Other offices and duties over the last five years:

- Chief Executive Officer:
  Groupe Industriel Marcel Dassault SAS

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

1.2.2 Chairman and Chief Executive Officer

Éric Trappier
Date of first appointment as Director: 1 2/18/2012
Start and end of current term as Director: 2015 GM - 2019 GM
Start and end of current term as CEO: Board meeting of 5/20/2015 - 2019 GM
Dassault Aviation shares held: 1,794

Other corporate offices and duties:

- Director:
  Thales SA
  Sogitec Industries SA
  Dasbat Aviation LLC (UAE)

- Chairman:
  Dassault Falcon Jet Corporation (USA)
  Dassault Reliance Aerospace Limited (India)

- Chairman:
  GIFAS
  ASD
  CIDEF

Other offices and duties over the last five years:

- Permanent representative of Dassault Aviation on the Board of Directors of:
  SOFRESA SA
  ODAS SA
  SOFEMA SA
  Eurotradia International SA

- Director-General Manager:
  GIE Rafale International

- General Manager:
  Dassault International SARL

- Senior Vice President
  GIFAS

- Chair of Defense Committee:
  ASD

1.2.3 Directors

Olivier Dassault
Date of first appointment: 4/17/1996
Start and end of current term: 2015 GM - 2019 GM
Dassault Aviation shares held: 26

Other corporate offices and duties:

- Director:
  Dassault Medias SA
  RASEC International SAS

- Chairman of the Supervisory Board:
  Particulier et Finances Éditions SA

- Member of the Supervisory Board:
  Rubis SA

- Chairman of the Strategy and Development Committee:
  Groupe Industriel Marcel Dassault SAS

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

- General Manager:
  Groupement Forestier des Hautes Bruyères
  HR Finance SAS
  SCI Nasthel II
  Rhetho
  SCI Rod Spontini
  Tod

Other offices and duties over the last five years:

- Vice-Chairman:
  Valmonde et Cie SA

- General Manager:
  LBO Invest D
  SCI Nasthel I

- Director:
  Groupe Figaro SAS
  Valmonde et Cie SA

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

Marie-Hélène Habert
Date of first appointment: 5/15/2014
Start and end of current term: 2018 GM - 2022 GM
Dassault Aviation shares held: 25

Other corporate offices and duties:

- Chair of the Supervisory Board:
  Groupe Industriel Marcel Dassault SAS
  Rond-Point Immobilier

- Director:
  Dassault Systèmes SE
  Biomérieux SA
  Artcurial SA
  SIPAREX

- General Manager:
  H. Investissements SARL
  SCI Duquesne
  HDH (Civil Partnership)

- Permanent representative of GIMD on the Supervisory Board:
  Immobilière Dassault SA

- Member of the Strategic Committee:
  HDF SAS

- Vice-Chairman:
  Fondation Serge Dassault
  Immobilière Dassault SA

Other offices and duties over the last five years:

- Member of the Strategic Committee:
  Dassault Développement SAS

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

Catherine Dassault
Date of first appointment: 3/7/2017
Start and end of current term: 3/7/2017 - 2020 GM
Dassault Aviation shares held: 25

Other corporate offices and duties:

- Director:
  Dassault Systèmes SE
  , Q V W L W X W   G H   O ¶ (Q J D J H P H Q W   D V V

- General Manager:
  TCBD & Fils (civil partnership)
  Goya SCI
  Falke (civil partnership)

- Member of the Strategic Communication Committee:
  Fondation pour la recherche sur la maladie G ¶ $ O] K H L P H U

Other offices and duties over the last five years:

- Member of the Organizing Committee:
  Fondation pour la recherche sur la maladie G ¶ $ O] K H L P H U

Henri Proglio, independent Director
Date of first appointment: 4/23/2008
Start and end of current term: 2018 GM - 2022 GM
Chairman of the Audit Committee
Dassault Aviation shares held: 27

Other corporate offices and duties:

- Director:
  Natixis SA
  ABR Management (Russia)
  Fomentos de Construcciones y Contratas (FCC) (Spain)
  Akkuyu Nuclear (Turkey)
  Atalian SAS

- General Manager:
  SCI du 19 janvier

- Chairman:
  Henri Proglio Consulting SAS
  HJF Development SAS

Other offices and duties over the last five years:

- Chairman and Chief Executive Officer:
  EDF SA

- Chairman of the Board of Directors:
  Edison SpA (Italy)
  EDF Energy Holdings Ltd (UK)
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  Fondation européenne pour les énergies de demain

- Director:
  EDF SA
  CNP Assurances SA
  FCC (Spain)
  Dalkia SA
  EDF Energies Nouvelles SA
  EDF International SAS
  South Stream Transport BV (Netherlands)
  South Stream Transport AG (Switzerland)
  Fennovoima (Finland)
  Thales SA

- Member of the Supervisory Board:
  Dalkia SAS

- Vice Chairman:
  Eurelectric (association) (Belgium)

Lucia Sinapi-Thomas, independent Director
Date of first appointment: 5/15/2014
Start and end of current term: 2015 GM - 2019 GM
Member of the Audit Committee
Dassault Aviation shares held: 26

Other corporate offices and duties:

- Executive Director:
  Capgemini Ventures

- Director:
  Capgemini SE
  Capgemini Business Services (Guatemala)
  Bureau Veritas SA
  Sogeti Sverige AB (Sweden)
  Sogeti Sverige MITT AB (Sweden)
  Sogeti Norge A/S (Norway)
  Capgemini Danmark A/S (Danmark)

- Chairman:
  Capgemini Employees Worldwide SAS

- Chairman of the Supervisory Board:
  FCPE Capgemini

- Member of the Supervisory Board:
  FCPE Esop Capgemini

- Member of the Audit and Risks Committee:
  Bureau Veritas SA

Other offices and duties over the last five years:

- Chairman:
  Prosodie SAS

- Chief Executive Officer:
  Capgemini Outsourcing Services SAS
  Sogeti France SAS

- Executive Officer:
  Capgemini Business Platforms

- Director:
  Capgemini Polska Sp.z.o.o. (Poland)
  Sogeti SA/NV (Belgium)
  Capgemini Reinsurance International SA (Luxembourg)
  Euriware SA (France)

Mathilde Lemoine, independent Director
Date of first appointment: 3/7/2017
Start and end of current term: 3/7/2017 - 2020 GM
Dassault Aviation shares held: 25

Other corporate offices and duties:

- Director:
  Carrefour SA
  CMA CGM SA
  École Normale Supérieure

- Member of the Audit Committee:
  Carrefour SA

Other offices and duties over the last five years:

- Director:
  Neptune Orient Lines Ltd. (Singapore)

- Member:
  High Council of Public Finances

Richard Bédère, **Director representing employees**
Date of first appointment: 7/10/2014
Start and end of current term: 7/10/2018 09/07/2022
Dassault Aviation shares held: none

Other corporate offices and duties:

None.

Other offices and duties over the last five years:

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

1.2.4 Chief Operating Officer

Loïk Segalen
Date of first appointment as Chief Operating Officer: 1/9/2013
Start and end of current term: Board meeting of 5/20/2015 - 2019 GM
Dassault Aviation shares held: 1,592

Other corporate offices and duties:

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

Other offices and duties over the last five years:

- Director:
  Dassault Procurement Services (USA)

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

1.3.1 Directors

1.3.2 Activities of the Board of Directors in 2018

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

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

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

In addition, the Board of Directors:

- approved the fiscal year 2017 company and consolidated financial statements,
- convened the Annual General Meeting of May 24, 2018,
- approved the financial statements for the first half -year of 2018,
- noted the increase of the share capital following the payment of the dividend in shares,
- [illegible] -looking management documents in March and July 2018, and reviewed the budgets for self-financed technology investments and industrial investments,
- renewed the annual authorization of the Chairman and CEO to grant guarantees and deposits,
- ruled on the workplace equality and compensation policy,
- approved the wording of the half -yearly and annual financial press releases,
- [illegible] statements or financial communications are being approved and of their obligation to declare their tran s-actions and the registration of their shares to the AMF (Autorité des Marchés Financiers - French Financial Markets Authority),
- evaluated the performance criteria relating to performance shares granted in 2017 and noted the acquis i-tion of said shares by their beneficiaries at the end of the vesting period,
- conducted a fourth performance share plan by preparing the list of beneficiaries and defining the cond i-tions 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 a nd allocating the fixed, variable and excep-tional compensation components and benefits of any kind that constitute the executive compensation po l-icy for 2018 subject to the approval of the General Meeting,
- implemented a new supplementary pension plan for executive directors, members of the Executive Com-mittee and the flight crew that is compatible with legal requirements,

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

1.3.3 Audit Committee

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

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

This composition meets the requirements of the aforementioned order. The Board of Directors considered that Lucia Sinapi-Thomas and Henri 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 2, 2018 for the 2017 annual financial statements and on July 18, 2017 for the financial statements for the first half-year of 2018. The attendance rate of Committee members at meetings in 2018 was 100%.

The Audit Committee:

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

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

1.3.4 Internal Bylaws

The Board meeting of July 25, 2012 approved the internal bylaws of the Board of Directors, which allow Dire c-tors 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 e s-WDEOLVKHG SURFHGXUHV IRU ³EODFNRXW´ SHULRGV 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.

(YHU\ \HDU WKH 'LUHFWRUV DUH LQIRUPHG RI EODFNRXW SHULRGV IRU WKH FRPLQJ

7KH ILQDQFLDO FDOHQGDU LV SXEOLVKHG at the start of each financial period RQ WKH &RPSDQ\¶V Z

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

In addition, the list of permanent and occasional insiders is re viewed quarterly and at any other time as nee d-ed.

1.4 Agreements between a shareholder of the Company and one of its subsidiar-ies

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

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

ZLWK WKH H[FHSWLRQ pertaining to current transaction entered into under normal terms and FRQGLWLRQV´

7R WKH &RPSDQ\¶V NQRZOHGJH WKHUH LV QR DJUHHPHQW

- 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 'LUHFWRUV DQG WKRVH RI WKH &(2 ZDV LQWURGXFHG LQWR WKH &RPS 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 VXLWHG WR WKH &RPSDQ\¶V VSHFLILF IHDWXUHV 7KH GHFLVLRQ ZDV 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

[illegible] 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.

Report of the Board of Directors
on Corporate Governance

1.8 Executive Committee

Presided over by the Chairman and CEO, this committee includes the S H U V R Q V L Q F K D U J H R I W K H various departments. As of December 31, 2018, it consisted of:

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

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

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

1.9 General Meetings of shareholders

1.9.1 Specific conditions governing shareholders' attendance at the General Meeting

1.9.1.1 Admission

[illegible] 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,

•

2. Compensation of corporate officers

2.1 Directors' fees allocation system

'LUHFWRUV¶ IHHV are allocated according to the following principles:

- for the Board of Directors:
  - fixed compensation of EUR 28,000,
  - variable compensation of EUR 10,000 multiplied by the attendance rate at meetings,

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

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

2.2 Compensation of corporate officers in 2018

2.2.1 Compensation paid to Serge Dassault, Honorary Chairman

- *For GIMD, which controls Dassault Aviation*

  Serge Dassault received gross annual compensation of EUR 265,650 as Chairman and EUR 27,286 (gross) LQ GLUHFWRUV¶ IHHV DV D PHPEHU RI WKH 6XSHUYLVRU\ %RDUG

- *For Dassault Aviation*

  6HUJH 'DVVDXOW 'LUHFWRU UHFHLYHG (85 member of the Board and EUR 3,745 LQ GLUHFWRUV¶ IHH 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 (85 JURVV LQ GLUHFWRUV¶ IHHV of DV D PH Directors of Dassault Falcon Jet.

2.2.2 Compensation paid to Charles Edelstenne, Honorary Chairman

- *For GIMD, which controls Dassault Aviation*

  Charles Edelstenne received gross annual compensation of EUR 804,828 as CEO, then as Chairman, and (85 JURVV LQ GLUHFWRUV¶ IHHV DV D PHPEHU RI WKH 6XSHUYL

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

- *For Dassault Aviation*

  &KDUOHV (GHOVWHQQH UHFHLYHG (85 JURVV LQ GLUHFWRUV¶ IH on the Audit Committee.

  Supplementary pension

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

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

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

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

  In France, Charles Edelstenne UHFHLYHG (85 JURVV LQ GLUHFWRUV¶of IHHV D 'DVVDXOW)DOFRQ -HW DQG (85 JURVV LQ GLUHFWRUV¶ IHHV DV

2.2.3 Compensation of Éric Trappier, Chairman and Chief Executive Officer

- *For Dassault Aviation*

  Éric Trappier received gross annual compensation as Chairman and CEO of EUR 1,519,992 gross, a 2.6% increase from 2017.
  His compensation does not include any variable or exceptional compensation.

  He was not awarded any stock options.

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

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

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

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

[illegible]

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.

7KH GHFLVLRQ WR VXVSHQG KLV HPSOR\PHQW FRQW [illegible] FRQVL[illegible] corporate governance in relation to the contracts of executive officers.

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

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

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

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

The pension paid under the old and the new plan will be capped at 45% of gross annual compensation for WKH FRUSRUDWH RIILFHU¶V ODVW \HDU

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

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

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

,Q)UDQFH eULF 7UDSSLHU UHFHLYHG (85 JURVV L[illegible]FWRUV[illegible]
)DOFRQ -HW DQG (85 JURVV LQ GLUHFWRUV¶ IHHV DV D PHPEHU [illegible]

2.2.4 Compensation of Loïk Segalen, Chief Operating Officer

- *For Dassault Aviation*

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

His compensation does not include any variable or exceptional compensation.

He was not awarded any stock options.

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

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

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

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

On January 9, 2013, the date of his appointment as Chief Operating Officer, the employment contract of 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 deciVLRQ WR VXVSHQG KLV HPSOR\PHQW FRQWUDFW ZDV FRQVLVWH
corporate governance in relation to the contracts of executive officers.

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

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

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

The rights acquired as of December 31, 2017 under the old plan (as described in the 2016 Annual Report) have been frozen and are amounting to EUR 355,000 (based on retirement at 65 years old).

The pension paid under the old and the new plan will be capped at 45% of gross annual compensation for the corporate oIILFHU¶V ODVW \HDU

During his term of office, the Chief Operating Officer also benefits from health and welfare plans applicable to all management employees of the Company.

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

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

,Q)UDQFH /RwN 6HJDOHQ UHFHLYHG (85 JURVV LQ of Dassault GLUHFWRUV¶
Falcon Jet and EUR JURVV LQ GLUHFWRUV¶ IHHV DV D PHPEHU RI WKH %

2.2.5 Compensation paid to Directors

- *For GIMD, which controls Dassault Aviation*

Olivier Dassault received gross annual compensation of EUR 39,500 as Chairman of the Supervisory Board and EUR 311,268 (gross) as an employee. He had the use of a company car (benefit in kind valued at EUR DQG KH DOVR UHFHLYHG (85 JURVV LQ GLUHFWRUV¶ IHHV D

Marie-Hélène Habert received gross annual compensation of EUR 10,000 as Chair of the Supervisory Board and, as an employee, an annual gross amount of EUR 359,548 as Director of Communications and 6SRQVRUVKLS 6KH UHFHLYHG (85 JURVV LQ GLUHFWRUV¶ IHHV D in kind valued at EUR 3,324).

- *For Dassault Aviation*

2OLYLHU 'DVVDXOW UHFHLYHG (85 LQ GLUHFWRUV¶ IHHV

Marie-+pOqQH +DEHUW DQG 5LFKDUG %pGqUH HDFK UHFHLYHG (85 J

Lucia Sinapi-7KRPDV UHFHLYHG (85 fees, including EUR 6,000 (gross) for her work on the Audit Committee.

+HQUL 3URJOLR UHFHLYHG (85 JURVV LQ GLUHFWRUV¶ IHHV LQ Chair of the Audit Committee (double fees).

Catherine Dassault received EUR 3 LQ GLUHFWRUV¶ IHHV

0DWKLOGH /HPRLQH UHFHLYHG (85 LQ GLUHFWRUV¶ IHHV

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

7KH 'LUHFWRUV UHIHUUHG WR LQ WKH SDUDJUDSK DERYH GLG QRW benefits in kind.

2.2.6 Summary of compensation tables

Table 1 Summary table of compensation due and options and shares granted to each Executive Director (in EUR)

	2018	2017
Éric Trappier, Chairman and Chief Executive Officer		
Compensation payable during the fiscal year (breakdown in table 2)	1,604,703	1,570,621
Value of year-on-year variable compensation granted during the fiscal year	-	-
Value of stock options granted during the fiscal year	-	-
TOTAL	**1,604,703**	**1,570,621**
Loïk Segalen, Chief Operating Officer		
Compensation payable during the fiscal year (breakdown in table 2)	1,353,344	1,318,793
Value of year-on-year variable compensation granted during the fiscal year	-	-
Value of stock options granted during the fiscal year	-	-
TOTAL	**1,353,344**	**1,318,793**

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

	2018	2017
Éric Trappier, Chairman and Chief Executive Officer Valuation of bonus shares allocated over the fiscal year*(see tables 6 and 9)*	**1,116,050**	750,000
Loïk Segalen, Chief Operating Officer Valuation of bonus shares allocated over the fiscal year*(see tables 6 and 9)*	**951,925**	675,000

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

	2018 - amounts		2017 - amounts	
	Payable	**Paid**	**Payable**	**Paid**
Éric Trappier, Chairman and Chief Executive Officer				
Fixed compensation	1,519,992	1,519,992	1,480,910	1,480,910
Annual variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
LUHFRUVIHHV [1]	76,000	76,000	81,000	81,000
Benefits in kind	8,711	8,711	8,711	8,711
TOTAL	**1,604,703**	**1,604,703**	**1,570,621**	**1,570,621**
Loïk Segalen, Chief Operating Officer				
Fixed compensation	1,344,647	1,344,647	1,310,096	1,310,096
Annual variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
LUHFRUVIHHV [1]	-	-	-	-
Benefits in kind	8,697	8,697	8,697	8,697
TOTAL	**1,353,344**	**1,353,344**	**1,318,793**	**1,318,793**

(1) In addition, Éric Trappier and Loïk Ségalen UHFHLYHG (85 JURVV LQ GLUHFWRUV¶ IHHV DV D PHPEH
Jet and EUR 40,99 JURVV LQ GLUHFWRUV¶ IHHV DV D PHPEHU RI WKH %RDUG RI 7KDOHV

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

Non-executive directors	Amounts paid in 2018 (Gross)	Amounts paid in 2017 (Gross)
Serge Dassault		
'LUHFWRUV¶ IHHV	38,000 [(1)]	40,500 [(1)]
Other compensation	3,745	9,148
Charles Edelstenne		
'LUHFWRUV¶ IHHV	44,000 [(2)] [(3)]	46,500 [(2)] [(3)]
Other compensation	-	-
Olivier Dassault		
'LUHFWRUV¶ IHHV	30,500	33,833
Other compensation	-	-
Marie-Hélène Habert		
'LUHFWRUV¶ IHHV	38,000	40,500
Other compensation	-	-
Catherine Dassault		
'LUHFWRUV¶ IHHV	33,000	33,013
Other compensation	-	-
Henri Proglio		
'LUHFWRUV¶ IHHV	47,500 [(4)]	49,167 [(4)]
Other compensation	-	-
Lucia Sinapi-Thomas		
'LUHFWRUV¶ IHHV	44,000 [(3)]	43,167 [(3)]
Other compensation	-	-
Mathilde Lemoine		
'LUHFWRUV¶ IHHV	35,500	33,013
Other compensation	-	-
Richard Bédère		
'LUHFWRUV¶ IHHV	38,000	40,500
Other compensation	salary	salary
TOTAL	**352,245**	**369,341**

(1) ,Q DGGLWLRQ 6HUJH 'DVVDXOW UHFHLYHG (85 JURVV LQ GLDirectors of DassaultIHHV LQ Falcon Jet and EUR 36,615 gross in 2017

(2) ,Q DGGLWLRQ &KDUOHV (GHOVWHQQH UHFHLYHG (85 JURVV LQ GLUHcomWUctRUV¶ IHHV (versus EUR 36,615 gross in 2017) and EUR 39,740 gross in GLUHFWRUV¶ IHHV DV D PHPEHU RI WKH %RDUG RI gross in 2017)

(3) including EUR 6,000 in 2018 and 2017 for the Audit Committee

(4) including EUR 12,000 in 2018 and 2017 for the Audit Committee

Table 4 Options to subscribe for or purchase shares allocated during the fiscal year to each executive officer by the issuer and by any Group company.

N/A

Table 5 Options to subscribe for or purchase shares exercised during the fiscal year by each Executive Officer.

N/A

Table 6 Performance shares awarded during the fiscal year to each Executive Officer by the issuer or any Group company.

	Plan name and date	Number of performance shares allocated during fiscal year 2018	Value of shares (in euros)*	Vesting date	Date of availability	Performance conditions
Éric Trappier	2018 Shares 3/7/2018	850	1,116,050	3/7/2019	3/7/2020	Yes
Loïk Segalen	2018 Shares 3/7/2018	725	951,925	3/7/2019	3/7/2020	Yes
TOTAL		**1,575**	**2,067,975**			

* price of EUR 1,313 per share (IFRS 2)

Table 7 Performance shares that became available during the fiscal year for each Executive Officer.

	Plan name and date	Number of shares that became available during fiscal year 2018	Vesting conditions
Éric Trappier	2016 Shares 3/9/2016	500	Shares vested after a vesting period of one year and subject to performance conditions
Loïk Segalen	2016 Shares 3/9/2016	450	Shares vested after a vesting period of one year and subject to performance conditions
TOTAL		**950**	

Table 8 Previous allocations of subscription options or purchase of shares - Information on subscription or purchase options.

N/A

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

	2015 Shares	2016 Shares	2017 Shares	2018 Shares
Date of General Meeting	9/23/2015	9/23/2015	9/23/2015	9/23/2015
Date of Board of Directors meeting	9/23/2015	3/9/2016	3/7/2017	3/7/2018
Number of shares allocated	950	950	1,425	1,575
corporate officers	950	950	1,425	1,575
• Éric Trappier	500	500	750	850
• Loïk Segalen	450	450	675	725
Vesting date of shares	9/23/2016	3/9/2017	3/7/2018	3/7/2019
End date of holding period	9/22/2017	3/8/2018	3/6/2019	3/6/2020
Performance conditions	yes	yes	yes	yes
Number of shares acquired	950	950	1,475	1,575
corporate officers	950	950	1,425	1,575
• Éric Trappier	500	500	750	850
• Loïk Segalen	450	450	675	725
Cumulative number of canceled or expired shares	0	0	0	0

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

N/A

Table 11 Other information on Executive Officer

Corporate officers	Employment contract	Supplemental pension plan	Compensation or benefits payable or likely to be payable due to termination or change of office	Compensation for non-compete agreement
Éric Trappier Chairman and Chief Executive Officer *start of term: 1/9/2013* *end of term: General Meeting of 2019*	yes [1]	yes	no [2]	no
Loïk Segalen Chief Operating Officer *start of term: 1/9/2013* *end of term: General Meeting of 2019*	yes [1]	yes	no [2]	no

[1] employment contract suspended as of January 9, 2013,
[2] at the end of their terms of office, corporate officers receive retirement allowances according to the rules applicable to employees in their category

2.3 2019 report on executive compensation policy

This report is prepared pursuant to Article L. 225-37-2 of the French Commercial Code, under Law No. 2016-1691 of December 9, N Q R Z Q D V ³6 D S L Q ´

Its aim is to present you with the principles and criteria for determining, distributing and attributing the fixed, variable and exceptional elements that make up the total compensation and benefits in kind attributable to the Chairman and Chief Executive Officer and to the Chief Operating Officer because of their term of office. This compensation policy is subject to your approval (Resolutions No. 6 and 7).

Pursuant to Article L. 225-37-2 paragraph 2 of the French Commercial Code, we confirm that the payment of variable and exceptional compensation elements is contingent on approval by the Ordinary General Meeting of the compensation elements of the person concerned in the terms and conditions stipulated in Article L. 225-100 of the aforesaid Code.

2.3.1 Principles and rules used to determine compensation and benefits in kind granted to corporate officers

The compensation of the Chairman and Chief Executive Officer and of the Chief Operating Officer, along with their benefits in kind, have been determined by the Board of Directors with reference to the recommendations of the AFEP/MEDEF Code. They are in accordance with the annual report of the AMF on corporate governance and the compensation of executives of listed companies.

The compensation of the Chairman and CEO and of the Chief Operating Officer consists exclusively of fixed compensation.

This compensation changes according to the increase policy for executives of the Company resulting from the Annual Mandatory Negotiations, unless decided otherwise by the Board of Directors.

In 2019, the Chairman and Chief Executive Officer and the Chief Operating Officer, by way of their corporate officer status, will not receive:

- any variable or exceptional compensation,
- any stock options,
- any private unemployment insurance,
- any severance packages,
- any special supplementary pensions

In 2019, the Chairman and Chief Executive Officer and the Chief Operating Officer will receive bonus shares.

On February 27, 2019, the Board of Directors decided to grant them 1,100 and 925 shares respectively. These shares will become vested provided the following performance criteria are met:

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

Furthermore, the Board of Directors has determined the following additional conditions:

- a vesting period of one year, expiring on February 26, 2020 inclusive,
- presence in the workforce at the end of the vesting period,
- a one-year holding period, beginning on February 27, 2020 and ending on February 26, 2021 inclusive,
- starting on February 27, 2021, the retention by the corporate officers of 20% of those shares for the du-ration of their term.

In addition, the 2019 Share plan prohibits executive officers who have been granted performance shares from not using risk hedging.

The employment contracts of the Chairman and CEO and Chief Operating Officer have been suspended. Upon effective reinstatement of the contracts, they will recover the rights of salaried senior executives in their category, according to Company rules.

For supplementary pensions, they benefit:

- from the supplementary pension plan backed by performance conditions, applicable to members of the Executive Committee and to the &RPSDQ\¶V IOLJKW FUHZ
- from the rights acquired under the plan applicable to executives of the Company, which have been frozen as of December 31, 2017.

2.3.2 Presentation of resolutions submitted to shareholder vote

7KH ³6D\ RQ 3D\´ KDV LPSOHPHQWHG D QHZ V\VWHP UHODWLQJ WR WKH FRQ 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 ³H[DQWH YRWH´ WKH H[HFXWLYH FRP is subject to DQQXDO VKDUHKROGHUV¶ DSSURYDO
- HW\SHRIYRWH -SRVW YRWH´ HOHPHQWV RI FRPSHQVDWLRQ S tives during the previous fiscal year are subject to sharHKROGHUV¶ DSSURYDO

Consequently, the following resolutions will be submitted for your approval:

- Approval of the elements of compensation due and attributed for fiscal year 2018 to Éric Trappier, Chairman and Chief Executive Officer (Resolution No. 4),
- Approval of the elements of compensation due and attributed for fiscal year 2018 to Loïk Segalen, Chief Operating Officer (Resolution No. 5),
- Approval of the 2019 compensation policy for Éric Trappier, Chairman and Chief Executive Officer (Resolution No. 6),
- Approval of the 2019 compensation policy for Loïk Segalen, Chief Operating Officer (Resolution No. 7).

3. Information mentioned in Article L. 225-37-5 of the French Commercial Code

The information set forth in this Article is contained in paragraph 5.5 RI WKH DFFRPSDQ\LQJ 'LUHFW to which this report is attached. Both these reports are included in the 2018 Annual Financial Report that has EHHQ SXEOLVKHG HOHFWURQLFDOO\ DQG ILOHG ZLWK WKH $0) E\ RXU They are published online on our Company website in the Finance/Publications section.

The Board of Directors

CONSOLIDATED
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018

ASSETS

(in EUR thousands)	Notes	12/31/2018	01/01/2018 (2)	12/31/2017 (1)	01/01/2017 (1)
Goodwill	3	14,366	14,366	14,366	14,366
Intangible assets	4	28,881	30,687	30,687	35,159
Property, plant and equipment	4	489,009	445,310	445,310	498,330
Equity associates	5	1,924,093	1,766,792	1,770,557	1,668,811
Available-for-sale securities				3,305,850	3,142,377
Other non-current financial assets	6	204,618	189,134	38,197	33,678
Deferred tax assets	20	378,728	323,291	323,291	544,082
TOTAL NON-CURRENT ASSETS		**3,039,695**	**2,769,580**	**5,928,258**	**5,936,803**
Inventories and work-in-progress	7	3,403,278	3,471,434	3,471,434	3,863,741
Contract assets	14	16,967	0	0	0
Trade and other receivables	8	1,068,312	870,161	870,161	665,137
Advances and progress payments to suppliers	14	3,282,220	2,525,871	2,525,871	1,793,708
Derivative financial instruments	24	40,407	172,818	172,818	4,598
Other current financial assets	6, 9	3,211,968	3,154,913		
Cash and cash equivalents	9	2,990,141	2,061,419	2,061,419	1,252,866
TOTAL CURRENT ASSETS		**14,013,293**	**12,256,616**	**9,101,703**	**7,580,050**
TOTAL ASSETS		**17,052,988**	**15,026,196**	**15,029,961**	**13,516,853**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.A).

EQUITY AND LIABILITIES

(in EUR thousands)	Notes	12/31/2018	01/01/2018 (2)	12/31/2017 (1)	01/01/2017 (1)
Capital	10	66,790	66,495	66,495	66,006
Consolidated reserves and retained earnings		4,237,360	3,716,436	3,720,201	3,088,996
Currency translation adjustments		8,317	-24,888	-24,888	99,122
Treasury shares	10	-36,432	-37,828	-37,828	-38,759
TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY		**4,276,035**	**3,720,215**	**3,723,980**	**3,215,365**
Non-controlling interests		554	493	493	451
TOTAL EQUITY		**4,276,589**	**3,720,708**	**3,724,473**	**3,215,816**
Long-term borrowings and financial debt	11	335,306	980,265	980,265	1,094,504
Deferred tax liabilities	20	0	0	0	0
TOTAL NON-CURRENT LIABILITIES		**335,306**	**980,265**	**980,265**	**1,094,504**
Contract liabilities	14	9,198,007	8,126,973	8,126,973	6,562,569
Trade and other payables	13	914,298	735,754	735,754	701,102
Tax and social security liabilities	13	309,191	237,616	237,616	237,102
Short-term borrowings and financial debt	11	656,070	114,910	114,910	90,598
Provisions for contingencies and charges	12	1,337,402	1,097,903	1,097,903	1,103,781
Derivative financial instruments	24	26,125	12,067	12,067	511,381
TOTAL CURRENT LIABILITIES		**12,441,093**	**10,325,223**	**10,325,223**	**9,206,533**
TOTAL EQUITY AND LIABILITIES		**17,052,988**	**15,026,196**	**15,029,961**	**13,516,853**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.A).

INCOME STATEMENT

(in EUR thousands)	Notes	2018	2017 (1)
NET SALES	15	**5,119,219**	**4,901,080**
Other revenue	16	110,494	44,038
Change in work-in-progress		-52,505	-108,296
Purchases consumed		-3,287,081	-3,062,529
Personnel expenses (2)		-1,204,926	-1,143,040
Taxes		-68,935	-68,381
Depreciation and amortization	4	-82,211	-87,270
Allocations to provisions	12	-1,047,885	-948,321
Reversals of provisions	12	983,211	856,874
Other operating income and expenses	17	-2,852	-32,719
CURRENT OPERATING INCOME		**466,529**	**351,436**
Other non-current income and expenses	26	241,000	-133,501
OPERATING INCOME		**707,529**	**217,935**
Cost of net financial debt		-86,507	-72,802
Other financial income and expenses		-59,376	592,361
NET FINANCIAL INCOME	19	**-145,883**	**519,559**
Share in net income of equity associates	5	205,849	143,951
Income tax	20	-194,693	-251,363
NET INCOME		**572,802**	**630,082**
Attributable to the owners of the Parent Company		*572,741*	*630,040*
Attributable to non-controlling interests		*61*	*42*
Earnings per share (in EUR)	21	**69.1**	**76.4**
Diluted earnings per share (in EUR)	21	**69.1**	**76.4**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) personnel expenses include incentive schemes and profit-sharing (EUR -139,713 thousand in 2018 and EUR -99,273 thousand in 2017) as well as contributions paid to French pension plans, comparable to defined contribution plans (EUR -89,957 thousand in 2018 and EUR -89,524 thousand in 2017). The tax credit for competitiveness and employment represented EUR 8,367 thousand in 2018 and EUR 9,545 thousand in 2017. In 2018, personnel expenses also include the purchasing power bonus for EUR 4,340 thousand.

STATEMENT OF RECOGNIZED INCOME AND EXPENSE

2018

(in EUR thousands)	Notes	Fully consolidated companies	Equity associates	2018
NET INCOME		**366,953**	**205,849**	**572,802**
Derivative financial instruments (1)	5, 24	-108,511	-26,262	-134,773
Deferred taxes	5, 20	33,839	8,961	42,800
Currency translation adjustments		33,987	-782	33,205
Items to be subsequently recycled to P&L		**-40,685**	**-18,083**	**-58,768**
Other non-current financial assets	6	-1,699	0	-1,699
Actuarial adjustments on pension benefit obligations	5, 12	49,818	72,434	122,252
Deferred taxes	5, 20	-9,862	-1,124	-10,986
Items that will not be recycled to P&L		**38,257**	**71,310**	**109,567**
Income and expense recognized directly through equity		**-2,428**	**53,227**	**50,799**
RECOGNIZED INCOME AND EXPENSE		**364,525**	**259,076**	**623,601**
Owners of the Parent Company		*364,464*	*259,076*	*623,540*
Non-controlling interests		*61*		*61*

(1) the amounts stated represent the change in the market value over the period for instruments that qualify for hedge accounting. They are not representative of the actual gain/loss which will be recognized when the hedges are exercised.

2017

(in EUR thousands)	Notes	Fully consolidated companies	Equity associates	2017 (1)
NET INCOME		**486,131**	**143,951**	**630,082**
Available-for-sale securities		-287,767	-1,913	-289,680
Derivative financial instruments (2)	5, 24	193,900	94,199	288,099
Deferred taxes	5, 20	38,879	-26,683	12,196
Currency translation adjustments		-94,492	-29,518	-124,010
Items to be subsequently recycled to P&L		**-149,480**	**36,085**	**-113,395**
Actuarial adjustments on pension benefit obligations	5, 12	10,801	14,473	25,274
Deferred taxes	5, 20	-9,520	718	-8,802
Items that will not be recycled to P&L		**1,281**	**15,191**	**16,472**
Income and expense recognized directly through equity		**-148,199**	**51,276**	**-96,923**
RECOGNIZED INCOME AND EXPENSE		**337,932**	**195,227**	**533,159**
Owners of the Parent Company		*337,890*	*195,227*	*533,117*
Non-controlling interests		*42*		*42*

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) the amounts stated represent the change in the market value over the period for instruments that qualify for hedge accounting. They are not representative of the actual gain/loss which will be recognized when the hedges are exercised.

STATEMENT OF CHANGES IN EQUITY

(in EUR thousands)	Capital	Consolidated reserves and retained earnings		Currency translation adjustments	Treasury shares	Total attributable to the owners of the Parent Company	Non-controlling interests	Total equity
		Additional paid-in capital, consolidated retained earnings and other reserves	Derivative financial instruments and available-for-sale securities					
Published as of 12/31/2016	**66,006**	**2,834,810**	**355,732**	**99,122**	**-38,759**	**3,316,911**	**451**	**3,317,362**
IFRS 15 adjustments (1)		-101,546				-101,546		-101,546
Restated as of 01/01/2017	**66,006**	**2,733,264**	**355,732**	**99,122**	**-38,759**	**3,215,365**	**451**	**3,215,816**
Capital increase	489	76,249				76,738		76,738
Net income for the year		*630,040*				*630,040*	*42*	*630,082*
Income and expense recognized directly through equity		*16,472*	*10,615*	*-124,010*		*-96,923*		*-96,923*
Recognized income and expense		646,512	10,615	-124,010		533,117	42	533,159

CASH FLOW STATEMENT

(in EUR thousands)	Notes	2018	2017 (1)
I – NET CASH FLOWS FROM OPERATING ACTIVITIES			
NET INCOME		572,802	630,082
Elimination of net income of equity associates, net of dividends received	5	-108,111	-53,496
Elimination of gains and losses from disposals of non-current assets	17	4,444	709
Change in the fair value of derivative financial instruments	24	37,958	-473,634
Change in the fair value of other current financial assets	6	-4,820	
Income tax (including deferred taxes)	20	194,693	251,363
Allocations to and reversals of depreciation, amortization and provisions (excluding those related to working capital requirement)	4, 12	361,123	112,964
Other items	10	1,689	1,115
Net cash from operating activities before working capital changes and taxes		**1,059,778**	**469,103**
Income taxes paid		**-222,409**	**-110,945**
Change in inventories and work-in-progress (net)	7	68,156	392,307
Change in contract assets	14	-16,967	0
Change in advances and progress payments to suppliers	14	-756,349	-732,163
Change in trade and other receivables (net)	8	-199,941	-103,033
Change in contract liabilities	14	1,071,034	1,564,404
Change in trade and other payables	13	178,544	34,652
Change in tax and social security liabilities	13	71,575	514
Increase (-) or decrease (+) in working capital requirement		**416,052**	**1,156,681**
Total I		**1,253,421**	**1,514,839**
II – NET CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets and property, plant & equipment	4	-140,206	-76,087
Increase in non-current financial assets	6	-17,542	-45,828
Disposals of or reductions in non-current assets		26,720	23,484
Total II		**-131,028**	**-98,431**
III - NET CASH FLOWS FROM FINANCING ACTIVITIES			
Net change, as acquisition cost, of other current financial assets	6	-52,235	-410,286
Capital increase and share premium	10	61,232	76,738
Increase in financial debt	11	70,866	61,044
Repayment of financial debt	11	-174,665	-150,971
Dividends paid during the year	22	-126,604	-99,367
Total III		**-221,406**	**-522,842**
IV - Impact of exchange rate fluctuations and others **Total IV**		27,735	-85,013
CHANGE IN NET CASH AND CASH EQUIVALENTS (I+II+III+IV)		**928,722**	**808,553**
Opening net cash and cash equivalents	9	2,061,419	1,252,866
Closing net cash and cash equivalents	9	2,990,141	2,061,419

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Accounting principles

A/ GENERAL PRINCIPLES

On February 27, 2019, the Board of Directors closed and authorized the publication of the Dassault Aviation consolidated financial statements for the year ended December 31, 2018. These consolidated financial statements will be submitted for approval to the General Meeting on May 16, 2019.

A1 Reference standards

A1-1 Basis for preparation of financial information

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

A1-2 Changes in 2018 to the accounting standards applicable to Dassault Aviation

Standards, amendments and interpretations whose application has become mandatory as of January 1, 2018

Since January 1, 2018, the Group has applied the following standards, amendments, and interpretations:

- IFRS 15 "Revenue from Contracts with Customers",
- clarifications to IFRS 15 "Revenue from Contracts with Customers",
- IFRS 9 "Financial Instruments",
- annual improvements to IFRS 2014-2016,
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration",
- IFRS 2 amendment "Classification and Measurement of Share-based Payment Transactions".

The impacts of IFRS 15 and IFRS 9 application on the Group financial statements are detailed below.

The other texts have no impact on the Group consolidated financial statements.

Standards, amendments and interpretations whose application is mandatory after January 1, 2018

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

The texts adopted by the European Union, which must be applied after January 1, 2018, are as follows:
- IFRS 16 "Leases", applicable as of January 1, 2019. The Group initiated its work of implementation. When a lease is signed, this standard requires the recognition of a right of use on the assets in counterpart of a liability corresponding to discounted future payments. The amount of the liability will depend substantially on the assumptions made regarding the discount rate and the commitments' duration. The identification of leases and the collection of data necessary for an accurate estimate of the impact on the balance sheet of the first application of IFRS 16 are in progress. Impacts related to the implementation of IFRS 16 will mainly concern real estate leases. The Group has chosen the simplified retrospective transition method,
- IFRIC 23 "Uncertainty over Income Tax Treatment", applicable as of January 1, 2019.

The main texts published by the IASB and not yet adopted by the European Union include:
- amendment to IAS 28 "Investments in Associates and Joint Ventures", applicable as of January 1, 2019,
- annual improvements to IFRS 2015-2017, applicable as of January 1, 2019,
- amendments to IAS 19 "Employee Benefits", applicable as of January 1, 2019,
- amendments to IFRS 3 "Business Combinations", applicable as of January 1, 2020,
- amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", applicable as of January 1, 2020,
- amendments to the conceptual framework, applicable starting January 1, 2020.

The impacts of these texts on the Group financial statements are currently being assessed.

Implementation of IFRS 15

IFRS 15, which is mandatory for fiscal years beginning on or after January 1, 2018, deals with the recognition of "Revenue from Contracts with Customers". It replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue".

More specifically, this standard requires:
- a segmentation of contracts into performance obligations,
- the factors to be taken into account in determining the transaction price, in particular a financing component when it is significant,
- criteria to demonstrate the progressive transfer of control of the assets and to recognize the revenue over time,
- a methodology to determine the stage of completion. In this respect, the Group will apply the cost-to-cost method,
- new principles regarding the assessment whether an entity is a principal or an agent with respect to a contract,
- the notion of 'transaction price allocated to the remaining performance obligations', which is similar to the backlog.

The impacts of IFRS 15 on Thales financial statements are presented in their financial statements.

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

Segmentation of contracts into performance obligations

IFRS 15 requires the segmentation of contracts into performance obligations when certain criteria are fulfilled for promises identified in a contract, with differentiated margin rates per performance obligation. If the criteria are not fulfilled, the promises of the contract must be bundled until a separate performance obligation is identified. The provisions set out in the standard have brought the Group to combine certain obligations that it had previously recognized separately as revenue under the former standard. This is especially the case of program management services and certain development services that do not meet the criteria defined by the standard to qualify as separate performance obligations.

However, the impact of this restatement on the financial statements, which generates time lags in revenue and margin recognition, is limited.

Determination of transaction price

IFRS 15 specifies the elements to be taken into account when determining the transaction price. The standard provides, in particular, that the selling price be adjusted for the financing components deemed significant, to reflect a "cash sale price" for the service provided. The financing component exists when there is, for a given contract, a significant difference between the moment when the receipts are received and the moment when the revenue is recognized.

For the Group, the financing component is significant for long-term Defense contracts (primarily Rafale sales contracts), whose financing plan provides for the payment of significant advance payments and whose revenue from the majority of the performance obligations is recognized upon delivery of the goods.

Revenue, and therefore the operating income, from the relevant contracts are thus increased by this financing component, offset by a financial expense recognized over the term of the contract.

This impact is, however, partially offset by the financing component recognized for advance payments to co-contractors, when the Group acts as principal on a contract, which is the case for Rafale Export contracts.

Recognition of revenue over time or at a point in time

According to the former standard, revenue from goods (representing around 80% of the Group's revenue in 2017) was recognized when the good was delivered (generally upon transfer of ownership), whereas revenue related to services was recognized over time according to the milestones set forth in contract.

IFRS 15 standard sets out criteria for determining whether the transfer of control of goods and services to the customer is progressive and, if necessary, recognizing revenue over time. In certain situations, it is necessary to demonstrate that the good sold has no alternative use and that the Group has an irrevocable right to payment (including a reasonable margin) for work carried out to date, in the event of termination of the contract for the convenience of the customer.

The detailed analysis of the Group's portfolio of contracts led to the confirmation that, for the majority of its contracts, the criteria of IFRS 15 for the recognition of revenue over time were not met, in particular for Rafale sales and sales of Falcon civil aircraft whose alternative use could be demonstrated. The reclassification of contracts recognized under the former standard at a point in time to be recognized using the percentage of completion method is thus limited. Revenue will continue to be recognized when the goods are delivered in the majority of cases.

Revenue from performance of services is, as previously, recognized over time, if the criteria of IFRS 15 are met, as is the case for maintenance contracts. Services for which the criteria of IFRS 15 are not met, as is the case for certain development contracts, will continue to be recognized at the end of the service provided.

Completion method

Under the former standard, revenue from services recognized as a percentage of completion was generally recognized based on billing milestones that attested to the actual progress of part of the work or the performance of the services provided for by the contract. Under IFRS 15, the percentage-of-completion method used by the Group will be the cost-to-cost method: whereby revenue is recognized based on costs incurred at a given date divided by total costs expected at completion. For each contract, depending on the stage of completion and the type of milestones achieved and costs incurred during the period, this change in method may lead to defer the recognition of revenue and margin from one period to another. However, the impact of this on the Group's financial statements is non-material.

Agent / principal

IFRS 15, which defines when an entity is agent or principal, does not call into question the analysis that had been conducted with regard to the former standard, namely that the Group acts as principal for the Rafale Export contracts. The Group will continue to recognize the revenue from those contracts on a gross basis.

Backlog

IFRS 15 introduces the notion of "transaction price allocated to the remaining performance obligations", which is similar to the backlog. For the Group, the implementation of the standard's provisions results in the inclusion in the measurement of its backlog of contract price revisions (in connection with the application of the provisions regarding estimates of variable amounts) and the financing component for the contracts for which it was deemed significant.

Transition method

Given the Group has chosen the full retrospective method, the financial statements as of December 31, 2018 include the 2017 comparative financial statements restated for the effects of the application of this new standard.

Implementation of IFRS 9

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement". It covers accounting rules applicable to financial instruments in three main areas: classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

Classification and measurement of financial assets and liabilities

IFRS 9 provides a single approach for the classification and measurement of financial assets based on the asset characteristics and the Group management intention.

The main impact of this standard for the Group concerns the classification and valuation of financial assets classified as available-for-sale securities under the former standard. This means that:

- available-for-sale marketable securities are reclassified as other current financial assets. Changes in unrealized gains formerly recognized in income and expense recognized directly through equity that were recycled as profit or loss upon the disposal of securities will now be recognized in the financial income. Since IFRS 9 applies retrospectively, the amount of unrealized gains recorded as other income and expenses recognized directly in equity as of December 31, 2017 is reclassified as reserves as of January 1, 2018. The amount of reclassified unrealized gains is EUR 377 million before tax,
- unlisted equity securities and listed Embraer securities are reclassified as other non-current financial assets. Changes in fair value and gains or losses on disposal will be recognized under other income and expense directly recorded under equity, without any effect to profit or loss. Only dividends continue to be recognized in profit or loss.

Impairment of receivables

The transition from an impairment of trade receivables based on recognized losses to a method based on expected losses has no material impact on the Group's financial statements due to:

- the nature of customers (States) for military trade receivables,
- the fact that the majority of Falcon sales are made in cash, as credit sales receivables are otherwise covered by insurance or collateral,
- the provisioning methods already practiced by the Group for each kind of trade receivable.

Hedge accounting

The provisions of IFRS 9 on hedges have no significant impact on the Group's financial statements. Hedging instruments not eligible for hedge accounting under IAS 39 remain not eligible under IFRS 9.

Transition method

IFRS 9 has been applied retrospectively as from January 1, 2018. Comparative figures for 2017 have not been restated in accordance with the standard.

Impact of IFRS 15 and IFRS 9 on the Group's financial statements

2017 consolidated income statement

(in EUR thousands)	**2017 Published**	Impact from IFRS 15	**2017 Restated**
NET SALES	**4,832,638**	68,442	**4,901,080**
Other revenue	44,038		44,038
Change in work-in-progress	-57,004	-51,292	-108,296
Purchases consumed	-3,058,022	-4,507	-3,062,529
Personnel expenses	-1,143,040		-1,143,040
Taxes	-68,381		-68,381
Depreciation and amortization	-87,270		-87,270
Allocations to provisions	-943,893	-4,428	-948,321
Reversals of provisions	856,874		856,874
Other operating income and expenses	-32,719		-32,719
CURRENT OPERATING INCOME	**343,221**	8,215	**351,436**
Other non-current income and expenses	-133,501		-133,501
OPERATING INCOME	**209,720**	8,215	**217,935**
Cost of net financial debt	-4,956	-67,846	-72,802
Other financial income and expenses	592,361		592,361
NET FINANCIAL INCOME/EXPENSE	**587,405**	-67,846	**519,559**
Share in net income of equity associates	178,924	-34,973	143,951
Income tax	-267,055	15,692	-251,363
NET INCOME	**708,994**	-78,912	**630,082**
Share in net income of equity associates	*708,952*	*-78,912*	*630,040*
Income tax	*42*		*42*
Earnings per share (in EUR)	**86.0**		**76.4**
Diluted earnings per share (in EUR)	**86.0**		**76.4**

Consolidated balance sheet as of January 1, 2017

(in EUR thousands)	**12/31/2016 Published**	Impact from IFRS 15	**01/01/2017 Restated**
Goodwill, intangible assets and property, plant and equipment	547,855		547,855
Equity associates	1,731,184	-62,373	1,668,811
Available-for-sale securities	3,142,377		3,142,377
Other non-current financial assets	33,678		33,678
Deferred tax assets	525,720	18,362	544,082
TOTAL NON-CURRENT ASSETS	**5,980,814**	-44,011	**5,936,803**
Inventories and work-in-progress	4,006,466	-142,725	3,863,741
Contract assets			0
Trade and other receivables	646,041	19,096	665,137
Advances and progress payments to suppliers	1,793,708		1,793,708
Derivative financial instruments	4,598		4,598
Cash and cash equivalents	1,252,866		1,252,866
TOTAL CURRENT ASSETS	**7,703,679**	-123,629	**7,580,050**
TOTAL ASSETS	**13,684,493**	-167,640	**13,516,853**

Capital	66,006		66,006
Consolidated reserves and retained earnings	3,190,542	-101,546	3,088,996
Currency translation adjustments	99,122		99,122
Treasury shares	-38,759		-38,759
TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**3,316,911**	-101,546	**3,215,365**
Non-controlling interests	451		451
TOTAL EQUITY	**3,317,362**	-101,546	**3,215,816**
Long-term borrowings and financial debt	1,094,504		1,094,504
TOTAL NON-CURRENT LIABILITIES	**1,094,504**		**1,094,504**
Contract liabilities		6,562,569	6,562,569
Trade and other payables	854,051	-152,949	701,102
Tax and social security liabilities	237,102		237,102
Customer advances and progress payments	6,439,014	-6,439,014	
Short-term borrowings and financial debt	90,598		90,598
Provisions for contingencies and charges	1,140,481	-36,700	1,103,781
Derivative financial instruments	511,381		511,381
TOTAL CURRENT LIABILITIES	**9,272,627**	-66,094	**9,206,533**
TOTAL EQUITY AND LIABILITIES	**13,684,493**	-167,640	**13,516,853**

Consolidated balance sheet as of January 1, 2018

(in EUR thousands)	**12/31/2017 Published**	Impact from IFRS 15	**12/31/2017 Restated**	Impact from IFRS 9	**01/01/2018 Restated**
Goodwill, intangible assets and property, plant and equipment	490,363		490,363		490,363
Equity associates	1,870,677	-100,120	1,770,557	-3,765	1,766,792
Available-for-sale securities	3,305,850		3,305,850	-3,305,850	
Other non-current financial assets	38,197		38,197	150,937	189,134
Deferred tax assets	289,237	34,054	323,291		323,291
TOTAL NON-CURRENT ASSETS	**5,994,324**	-66,066	**5,928,258**	-3,158,678	**2,769,580**
Inventories and work-in-progress	3,670,155	-198,721	3,471,434		3,471,434
Contract assets			0		0
Trade and other receivables	829,962	40,199	870,161		870,161
Advances and progress payments to suppliers	2,525,871		2,525,871		2,525,871
Derivative financial instruments	172,818		172,818		172,818
Other current financial assets				3,154,913	3,154,913
Cash and cash equivalents	2,061,419		2,061,419		2,061,419
TOTAL CURRENT ASSETS	**9,260,225**	-158,522	**9,101,703**	3,154,913	**12,256,616**
TOTAL ASSETS	**15,254,549**	-224,588	**15,029,961**	-3,765	**15,026,196**

Capital	66,495		66,495		66,495
Consolidated reserves and retained earnings	3,904,845	-184,644	3,720,201	-3,765	3,716,436
Currency translation adjustments	-26,300	1,412	-24,888		-24,888
Treasury shares	-37,828		-37,828		-37,828
TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**3,907,212**	-183,232	**3,723,980**	-3,765	**3,720,215**
Non-controlling interests	493		493		493
TOTAL EQUITY	**3,907,705**	-183,232	**3,724,473**	-3,765	**3,720,708**
Long-term borrowings and financial debt	980,265		980,265		980,265
TOTAL NON-CURRENT LIABILITIES	**980,265**		**980,265**		**980,265**
Contract liabilities		8,126,973	8,126,973		8,126,973
Trade and other payables	898,388	-162,634	735,754		735,754
Tax and social security liabilities	237,616		237,616		237,616
Customer advances and progress payments	7,968,995	-7,968,995			
Short-term borrowings and financial debt	114,910		114,910		114,910
Provisions for contingencies and charges	1,134,603	-36,700	1,097,903		1,097,903
Derivative financial instruments	12,067		12,067		12,067
TOTAL CURRENT LIABILITIES	**10,366,579**	-41,356	**10,325,223**		**10,325,223**
TOTAL EQUITY AND LIABILITIES	**15,254,549**	-224,588	**15,029,961**	-3,765	**15,026,196**

Backlog as of December 31, 2017, in EUR thousands

Backlog as of 12/31/2017 published	18,818,200
Financing component	446,068
Price revision	420,775
Pace of recognition of net sales	-224,855
Backlog as of 12/31/2017 restated	**19,460,188**

A2 Key Management choices and estimates

To prepare the Group's financial statements, Management is required to make estimates and issue assumptions that could have an impact on the amounts entered in the balance sheet and in the income statement.

These estimates concern in particular:

- the results of contracts in progress,
- the calculation of provisions for contingencies and charges and provisions for impairment,
- the calculation of development costs that meet capitalization criteria,
- the recoverability of deferred tax assets.

These estimates are calculated by taking into account past experience, elements known at the closing date and any reasonable change assumptions.

Subsequent results may therefore differ from such estimates.

A3 Presentation of consolidated financial statements

Consolidated balance sheet items are presented as Current/Non-current. The Group's activities have long operating cycles. As a result, the assets/liabilities generally realized/settled in the context of the operating cycle (inventories and work-in-progress, contract assets and liabilities, receivables, payables, etc.) are presented in the consolidated balance sheet as current assets and liabilities, without distinction between the amount due within one year and the amount due at more than one year.

Consolidated income statement items are presented by nature.

Net operating income represents all income and expenses not arising from financial activities, equity associates, discontinued operations or operations being sold, and income taxes. It is composed of two separate parts: current operating income and other non-current income and expenses. Only significant unusual items are recorded in other non-current income and expenses.

A4 Segment reporting

IFRS 8, "Operating Segments", requires the presentation of information according to internal management criteria. The activity of the Dassault Aviation Group relates entirely to the aerospace domain. The internal reporting made to the Chairman-Chief Executive Officer and to the Chief Operating Officer, which is used for strategy and decision-making, includes no performance analysis, as defined by IFRS 8, at a level lower than this sector.

B/ CONSOLIDATION PRINCIPLES AND METHODS

B1 Scope and methods of consolidation

B1-1 Companies under exclusive control

Companies over which Dassault Aviation exercises exclusive control, directly or indirectly, are fully consolidated if their significance justifies it.

B1-2 Companies under significant influence

Companies over which Dassault Aviation exercises significant influence, directly or indirectly, are consolidated using the equity method if their relative importance justifies it.

B1-3 Companies under joint control

Joint arrangements classified as joint venture are accounted for using the equity method if their relative size justifies it.

B1-4 Consolidation thresholds

For the application of the factor of relative significance, a company controlled by the Group or in which it has significant influence is included in the scope of consolidation if all of the following criteria are met:
- total assets and liabilities exceed 2% of the equivalent Group totals;
- total net sales exceed 2% of the Group total;
- equity exceeds 3% of the Group total.

B1-5 Elimination of inter-company transactions

All material inter-company transactions, and internal gains and losses included in non-current assets, are eliminated in the inventories and work-in-progress of consolidated companies.

B2 Closing date

All consolidated companies close their fiscal years on December 31.

B3 Conversion of financial statements of subsidiaries outside the euro area

The currency used in the preparation of the consolidated financial statements is the euro.

The financial statements of non-euro area subsidiaries are translated as follows:
- assets and liabilities are translated at the year-end rate;
- the income statement is translated at the average annual rate.

Currency translation adjustments are recognized in equity and do not impact the income statement.

C/ VALUATION PRINCIPLES

C1 Goodwill and business combinations

No business combinations have occurred since January 1, 2010, the date when revised IFRS 3 came into force.

Business combinations prior to January 1, 2010 were recognized using the acquisition method as defined by IFRS 3 before revision.

The assets and liabilities identified are recognized at their fair value on the acquisition date.

Goodwill is the difference between the acquisition cost of investments and the share of the revalued net assets.

Goodwill is recognized:
- if it is negative, in net income,
- if it is positive, in balance sheet assets as:
    - "goodwill" if the company is fully consolidated,
    - "equity associates" if the company is consolidated under the equity method.

Goodwill can be adjusted within twelve months following the acquisition date to take into account the final estimate of the fair value of the purchased assets and liabilities.

Goodwill is not amortized. It is subject to an impairment test at each year-end, or if an indication of impairment has been detected (see *C3 Impairment value and recoverable value).*

When IFRS were initially applied, Dassault Aviation chose not to restate goodwill recognized prior to January 1, 2004. The goodwill recognized on this date represents the value net of any previously recognized amortization.

C2 Intangible assets and property, plant & equipment

C2-1 Accounting principles

Intangible assets and property, plant and equipment are recognized at acquisition or production cost, less accumulated depreciation or amortization and impairment.

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

Depreciation and amortization are calculated using the straight-line method. No residual value is taken into account, except for aircraft.

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

In accordance with IAS 38 "Intangible Assets" concerning development costs, the Group determines the development phase of its programs that meets the criteria for capitalization. Development costs are capitalized if they satisfy the following three determining criteria:

- the technical criterion is met when the period for validation of results after the maiden flight has elapsed without calling the project into question;
- the economic criterion is validated by the orders placed or options obtained on the date the technical requirement is considered satisfied;
- the financial information reliability criterion is satisfied for significant programs because the information system differentiates research and development phases. If such a distinction cannot be made, as may be the case for minor developments (e.g. modification, improvement, etc.), those development costs are not capitalized.

The asset must generate clearly identifiable future economic benefits attributable to a specific product.

Capitalized development costs are valued at the production cost. They are amortized on the basis of the number of aircraft delivered during the year, divided by an estimated number of aircraft to be delivered under the program.

C2-2 Useful lives

Useful lives are as follows:

Software	3-4 years
Development costs	depend on the number of units to be produced
Industrial buildings	20-25 years
Office buildings	20-25 years
Fixtures and fittings	7-15 years
Plant, equipment and tools	3-10 years
Aircraft	4-15 years
Rolling stock	4 years
Other property, plant and equipment	3-10 years
Used goods	on a case-by-case basis

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

C2-3 Derecognition

Any gain or loss arising from the derecognition of an asset (difference between the net disposal gain and the net carrying value) is included in the income statement in the year of derecognition.

C3 Impairment and recoverable value of tangible and intangible assets and goodwill

In accordance with IAS 36 "Impairment of Non-Current Assets", all non-current assets (tangible and intangible), and goodwill are subject to an impairment test when an indication of impairment is detected, and at least once a year on December 31 for goodwill and intangible assets with an indefinite useful life.

Indications of impairment derive from significant adverse changes of a lasting nature, affecting the economic environment or the assumptions or objectives used by the Group.

Impairment tests consist of ensuring that the recoverable values of the tangible assets, intangible assets and cash-generating units to which the goodwill is assigned are at least equal to their net book value. Otherwise, impairment is recognized in net income and the net book value of the asset is reduced to its recoverable value.

The recoverable value of a tangible or intangible asset is the higher value between its fair value, less the costs of disposal, and its value in use.

The recoverable amount of a cash-generating unit corresponds to its value in use. Each consolidated company represents a cash-generating unit, i.e.: the smallest identifiable group of assets that generates cash inflows and outflows.

The value in use of an asset is calculated using the discounted future cash flow method, with a post-tax discount rate of 7.2% (compared to 7.5% as of December 31, 2017) and a 2% long-term growth rate (same as of December 31, 2017). The discount rate used includes the rates prevailing in the aviation industry and was calculated using the same method as in 2017. Post-tax cash flows are projected over a period not exceeding 5 years and the method takes into account a terminal value. These future cash flows result from the economic assumptions and projected operating conditions adopted by Management.

When a cash-generating unit needs to be impaired, the impairment is first of all applied to the goodwill then, if appropriate, to the other assets of the cash-generating unit proportionate to their net book value amount. Impairments may be reversed, except for those relating to goodwill.

C4 Equity associates

Investments in equity associates undergo an impairment test once there are objective indications of any long-term loss in value.

Impairment is recognized if the recoverable value is lower than the carrying amount, with the recoverable value being equivalent to the value in use, as defined in paragraph C3, or the fair value net of transaction costs, whichever is higher.

Concerning the equity investment in Thales, when an impairment test is carried out, the operational and financial assumptions used come directly from data provided directly by Thales Management.

Impairment may be reversed if the recoverable value once again exceeds the carrying value.

C5 Non-current financial assets

C5-1 Unlisted securities and Embraer shares

For listed assets (Embraer shares), fair value corresponds to the market price as of the balance sheet date. These items are classified as level 1 (according to IFRS 13).

For non-listed unconsolidated investments, in the absence of any external valuation elements, fair value represents the Group's share in net assets plus any significant unrealized gains. Fair value is calculated on the basis of the most recent financial statements available at year-end. These items are classified as level 3 (according to IFRS 13).

Changes in fair value and gains or losses on disposal for these shares will be recognized under other income and expense directly recorded through equity, without any effect to profit or loss. Only dividends continue to be recognized in profit or loss.

C5-2 Other financial assets

Other financial assets mainly comprise guarantee deposits, loans granted to investments in non consolidated companies and loans granted to employees for a housing loan.

Loans are recognized at amortized cost (historical cost less repayments). Other assets are recognized at their historical cost.

C6 Inventories and work-in-progress

Incoming raw materials, semi-finished and finished goods inventories are measured at acquisition cost for items purchased and production cost for items produced. Outgoing inventories are valued at the weighted average cost, except for used aircraft which are stated at acquisition cost. Work-in-progress is stated at production cost.

Inventories and work-in-progress are impaired when their net realizable value is less than their carrying amount.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs for completion and making the sale. It takes into account the technical or commercial obsolescence of articles and the risks associated with their low turnover.

C7 Receivables

Trade and other receivables are presented separately on the balance sheet. They are systematically classified as current assets.

Receivables resulting from finance leases are presented under “Trade and other receivables”. They represent the discounted amount of the expected lease revenues, plus the residual value of the aircraft at the end of the finance lease.

A provision for impairment is recorded when the recoverable value of a receivable is lower than the book value.

The recoverable amount of a receivable is estimated based on expected losses and takes into account the type of customer and the history of payments.

The receivable is written down in the amount of the estimated risk for the portion not covered by credit insurance (Bpifrance Assurance Export or collateral).

Non written-down receivables are recent receivables and/or receivables with no material credit risk.

Foreign currency receivables, translated by each subsidiary into their local currency at the day’s rate, are revalued at each closing on the basis of the closing rate. Revaluation differences are recognized in operating income.

C8 Other current financial assets

These mainly correspond to cash investments in the form of marketable securities.

They are recognized at fair value, corresponding to the market price as of the balance sheet date. These items are classified as level 1 (according to IFRS 13).

Changes in fair value and gains or losses on the sale of these securities are recognized as financial income.

C9 Cash and cash equivalents

Cash and cash equivalents satisfy the criteria set forth in IAS 7 "Statement of Cash Flows": short-term investments that are readily convertible to known amounts of cash and which are not subject to a material risk of changes in value.

They are initially recognized at acquisition cost, and subsequently at fair value; this is the market price on the account closing date for listed securities.

The changes in fair value and net disposal gains or losses are recognized in financial income as income from cash and cash equivalents.

C10 Treasury shares

C10-1 Treasury shares

Treasury shares are deducted from equity at their acquisition cost. Any gains or losses from the sale of treasury shares are recognized directly in equity and do not impact income for the period.

C10-2 Share-based payments

Dassault Aviation has plans in place to grant performance shares. These allotments are recognized as an expense representing the fair value of the services rendered by the beneficiaries.

The fair value of the services is determined by reference to the fair value of the shares on the grant date, adjusted for dividends not received during the vesting period and the cost of non-transferability.

The performance conditions are taken into account when estimating the number of shares to be granted at the end of the vesting period.

The benefits granted constitute personnel expenses and are recognized on a straight-line basis over the vesting period. This expense is recognized against consolidated reserves.

C11 Provisions for contingencies and charges

C11-1 Warranties

Within the framework of sales or procurement contracts, Dassault Aviation has formal warranty obligations for the equipment, products and/or services (software development, systems integration, etc.) delivered.

These obligations can be distinguished between:

- "current" warranty: repair of defective equipment during the contractual warranty period or by implicit obligations, handling hardware or software malfunctions identified following qualification and handover to users, etc.
- "regulatory" warranty: treatment by the manufacturer of any changes to the regulatory framework determined by the regulatory authorities or any regulatory non-compliance identified by the manufacturer or a user after delivery of materials or products.

Determining the amount of the warranty provisions is mainly done as follows:

- for the current equipment warranty: based on experience with recorded costs, depending on the warranty items covered contractually and the aircraft models in question;
- for handling of malfunctions or regulatory changes and nonconformities: based on estimates established by specialists from the business lines affected by the corrective actions to be implemented; these corrections have been identified in "technical files".

C11-2 Retirement costs

Commitments to employees for retirement costs are provisioned for the obligations remaining. The commitments are estimated for all employees on the basis of vested rights and a projection of current salaries, after taking into account the mortality risk, employee turnover, and a discounting assumption. The rates have been determined based on the yield for top-ranking corporate long-term bonds, with maturity equivalent to the duration of the calculated liabilities.

The Group applies revised IAS 19 which stipulates:

- the recognition of all actuarial adjustments in income and expense recognized directly through equity;
- immediate recognition of the cost of past services;
- alignment of the expected return from the plan's assets to the discount rates;
- the recognition of only the administrative costs relating to management of the assets as a deduction from their actual return.

The provision that appears in the balance sheet corresponds to the total commitment net of plan assets. The impact on the income statement is fully recognized in operating income.

C12 Borrowings and payables

Foreign currency borrowings and payables, translated by each subsidiary into their local currency at the day's rate, are revalued at each closing on the basis of the closing rate. Revaluation differences are recognized in operating income.

Loans taken out by the Group are initially recorded at the amount received net of transaction costs, and subsequently at the amortized cost, calculated using the effective interest rate.

C13 Discounting of receivables, payables and provisions

Receivables and payables are recognized for their discounted amounts when the payment date is more than one year and the effects of the discounting are significant.

The provisions relating to the retirement costs and other long-term benefits are discounted in accordance with IAS 19 "Employee benefits".

Other provisions are stated at present value.

In accordance with IFRS standards, deferred tax assets and liabilities are not discounted.

C14 Derivative financial instruments

C14-1 Derivative financial instruments subscribed by the Group

The Group uses derivative financial instruments to hedge its exposure to risks from fluctuations in foreign exchange rates, interest rates and, more marginally, from fluctuations in commodity prices.

These risks mainly arise from US dollar-denominated sales. The corresponding future cash flows are partially hedged using forward exchange contracts and currency options.

Interest rate risks result from variable rate borrowings contracted by the Group. Interest rate risks are hedged using interest rate swaps.

C14-2 Evaluation and recognition of derivatives

Upon initial recognition, derivatives are booked at acquisition cost in the balance sheet under "Derivative Financial Instruments".

They are subsequently stated at fair value, calculated on the basis of the market price communicated by the relevant financial institutions and the market parameters observed on the closing date, taking into account any counterparty risks. The valuation of financial instruments is level 2 (according to IFRS 13).

The Group applies hedge accounting when the criteria defined by IFRS 9 "Financial Instruments" are met. Foreign exchange derivatives are documented, on a case-by-case basis, on the basis of spot or forward prices.

Derivatives eligible for hedge accounting are recognized as follows:

- changes in fair value of hedging instruments are posted, net of tax, to other income and expense recognized through equity, with the exception of the ineffective amount of the hedge, if any, which is recognized in income;
- when the cash flow is received, the gain or loss on the foreign exchange hedging instrument is recognized in income;
- interest on interest rate hedging instruments, for the elapsed period, is recognized as financial income.

If a derivative, chosen for the effectiveness of the economic hedging it provides, does not meet the conditions required by the hedge accounting standard (foreign exchange options), then changes in its fair value are recognized in financial income.

C15 Net sales and key figures

C15-1 Recognition of net sales and operating income

The results on completion are based on estimates of net sales and costs at completion (taking into account the Program Departments' forecasts) which are revised as the contract progresses and take into account the latest known events at the closing date. The potential losses on completion are recognized as soon as they are known.

Sale of goods

Net sales and net income are recognized over time if the transfer of control of goods is progressive and at a given moment otherwise.

For the majority of its contracts, the criteria of IFRS 15 for the recognition of revenue over time are not met, in particular for Rafale sales and sales of Falcon civil aircraft whose alternative use could be demonstrated. Revenue is therefore recognized when the goods are delivered in the majority of cases.

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

Sale of services

Revenue from performance of services is recognized over time, if the criteria of IFRS 15 are met, as it is the case for maintenance contracts. The percentage-of-completion method used by the Group will be the cost-to-cost method: whereby revenue is recognized based on costs incurred at a given date divided by total costs expected at completion.

Services for which the criteria of IFRS 15 are not met, as it is the case for certain development contracts, are recognized at the end of the service provided.

Agent / principal

Contracts involving co-contractors for which Dassault Aviation is the sole signatory are analyzed to determine the Company's status as a principal or agent. If the analysis classifies the Company as an agent, only the proportionate share of net sales due to the agent is recognized. Otherwise, the entirety of net sales and related expenses (including the co-contractors' parts) is recognized.

The impacts of IFRS 15 on the Group's financial statements are presented in Note A1-2.

C15-2 Tax credits for competitiveness and employment and research tax credits

The amounts acquired as tax credits for competitiveness and employment by the French companies of the Group are deducted from personnel expenses.

Research tax credits are included in operating income in "other revenue" when obtaining them does not depend on the realization of a tax profit.

C15-3 Net financial income

Net financial income primarily represents:

- financial income related to cash and cash equivalents and other current financial assets;
- financial expenses related to loans taken out by the Group and locked-in employee profit-sharing funds;
- the financing component when there is, for a given contract, a significant difference between the moment when the receipts are received and the moment when the revenue is recognized,
- dividends from non-consolidated companies recognized when the Group – as shareholder – is entitled to receive payment;
- financial income from financial lease transactions;
- losses and gains on derivative instruments that do not meet the conditions required by the standard for hedge accounting.

C16 Deferred taxes

Deferred taxes linked to temporary differences are calculated per company.

In accordance with the requirements of IAS 12 "Income Taxes", deferred tax assets are only recognized, for each company, insofar as the estimated future profits are sufficient to cover these assets and their maturity does not exceed ten years.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is paid, based on local tax rates (and tax laws) that have been enacted by year-end.

Taxes on items recognized directly through equity are charged or credited to equity.

Deferred tax assets and liabilities are offset per entity for presentation on the balance sheet.

Note 2 - Scope of consolidation

2.1 Scope as of December 31, 2018

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

Names	Country	% Interest (1)		Consolidation method (2)
		12/31/2018	12/31/2017	
DASSAULT AVIATION (3)	**France**	**Parent company**	**Parent company**	
DASSAULT FALCON JET	**United States**	**100**	**100**	**FC**
- DASSAULT FALCON JET WILMINGTON	United States	100	100	FC
- DASSAULT AIRCRAFT SERVICES	United States	100	100	FC
- DASSAULT FALCON JET LEASING	United States	100	100	FC
- AERO PRECISION	United States	50	50	EM
- MIDWAY	United States	100	100	FC
- DASSAULT FALCON JET DO BRAZIL	Brazil	100	100	FC
DASSAULT FALCON SERVICE	**France**	**100**	**100**	**FC**
- FALCON TRAINING CENTER	France	50	50	EM
SOGITEC INDUSTRIES	**France**	**100**	**100**	**FC**
DASSAULT INTERNATIONAL INC.	**United States**	**N/A**	**100**	**N/A**
THALES	**France**	**25**	**25**	**EM**

(1) the equity interest percentages are identical to the percentages of control for all Group companies except for Thales, in which the Group held 24,65% of the capital, 24,73% of the interest rights and 28,39% of the voting rights as of December 31, 2018.

(2) FC: full consolidation, EM: equity method, N/A: non applicable.

(3) identity of the parent company: Dassault Aviation, a Société Anonyme (limited company) with capital of EUR 66,789,624, listed and registered in France, Paris Trade Register No. 712 042 456 - 9, Rond-Point des Champs-Élysées Marcel Dassault - 75008 Paris.

2.2 2018 change in scope

Dassault International Inc. was absorbed by Dassault Falcon Jet in the second half of 2018. This change in scope has no impact on the Group's consolidated financial statements.

Note 3 - Goodwill

Goodwill totaled EUR 14,366 thousand as of December 31, 2018 and as of December 31, 2017.

As the tests performed in accordance with IAS 36 "Impairment of Assets" did not indicate any impairment loss, no provision for goodwill impairment was recognized. A 10% variation in the discount rate and the long-term growth rate does not affect the absence of goodwill impairment.

Pursuant to IFRS, the goodwill for Thales, which is consolidated under the equity method, is included under "Equity associates" (see Note 5).

Note 4 - Intangible assets and property, plant and equipment

4.1 Geographic breakdown

(in EUR thousands)	12/31/2018	12/31/2017
Net value		
France	341,131	320,612
United States	176,759	155,385
TOTAL	**517,890**	**475,997**
Intangible assets	28,881	30,687
Property, plant and equipment	489,009	445,310

4.2 Intangible assets

(in EUR thousands)	12/31/2017	Acquisitions Allocations	Disposals Reversals	Other	12/31/2018
Gross value					
Development costs (1)	162,925	0	0	0	162,925
Software, patents, licenses and similar assets	121,048	4,489	-12	710	126,235
Intangible assets in progress; advances and progress payments	1,181	3,921	0	-776	4,326
	285,154	**8,410**	**-12**	**-66**	**293,486**
Amortization					
Development costs (1)	-146,973	-3,344	0	0	-150,317
Software, patents, licenses and similar assets	-107,494	-6,660	12	-146	-114,288
	-254,467	**-10,004**	**12**	**-146**	**-264,605**
Net value					
Development costs (1)	15,952				12,608
Software, patents, licenses and similar assets	13,554				11,947
Intangible assets in progress; advances and progress payments	1,181				4,326
TOTAL	**30,687**	**-1,594**	**0**	**-212**	**28,881**

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

4.3 Property, plant and equipment

(in EUR thousands)	12/31/2017	Acquisitions Allocations	Disposals Reversals	Other (1)	12/31/2018
Gross value					
Land	35,421	3,091	-75	58	38,495
Buildings	519,529	39,530	-2,413	11,965	568,611
Plant, equipment and machinery	597,678	36,480	-13,734	12,072	632,496
Other property, plant and equipment	243,836	23,303	-29,528	8,323	245,934
Construction in progress; advances and progress payments	35,052	29,392	-13,234	-15,978	35,232
	1,431,516	**131,796**	**-58,984**	**16,440**	**1,520,768**
Depreciation					
Land	-7,998	-780	66	0	-8,712
Buildings	-307,824	-22,381	2,365	-3,879	-331,719
Plant, equipment and machinery	-481,032	-35,015	12,571	-2,141	-505,617
Other property, plant and equipment	-172,075	-14,031	16,519	-2,106	-171,693
	-968,929	**-72,207**	**31,521**	**-8,126**	**-1,017,741**
Impairment (2)					
Other property, plant and equipment	-17,277	-13,681	17,492	-552	-14,018
	-17,277	**-13,681**	**17,492**	**-552**	**-14,018**
Net value					
Land	27,423				29,783
Buildings	211,705				236,892
Plant, equipment and machinery	116,646				126,879
Other property, plant and equipment	54,484				60,223
Construction in progress; advances and progress payments	35,052				35,232
TOTAL	**445,310**	**45,908**	**-9,971**	**7,762**	**489,009**

(1) this essentially represents currency translation adjustments.

(2) impairment tests on property, plant and equipment (see paragraph C3 on accounting principles):

The impairment tests performed on cash-generating units did not reveal any impairment to be recognized as of December 31, 2018,

The provision for impairment of capitalized used business aircraft was revised to EUR 14,018 thousand as of December 31, 2018, compared with EUR 17,277 thousand as of December 31, 2017.

Note 5 - Equity associates

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

As of December 31, 2018, Dassault Aviation held 24.73% of the interest rights of the Thales Group, compared to 24.77% as of December 31, 2017. Dassault Aviation has significant influence over Thales, especially with regard to the shareholders' agreement between Dassault Aviation and the public sector.

(in EUR thousands)	Equity associates			Share in net income of equity associates	
	12/31/2018	**01/01/2018 (1)**	**12/31/2017 (2)**	**2018**	**2017 (2)**
Thales (3)	1,902,173	1,746,662	1,750,427	201,823	139,853
Other	21,920	20,130	20,130	4,026	4,098
TOTAL	**1,924,093**	**1,766,792**	**1,770,557**	**205,849**	**143,951**

(1) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.A).

(2) restated for the impact of the application of IFRS 15 (see Note 1.A).

(3) the value of the securities includes goodwill amounting to EUR 1,101,297 thousand. The Group share in Thales net income after consolidation restatements is detailed in Note 5.3.

5.2 Change in equity associates

(in EUR thousands)	**2018 (1)**	**2017 (2)**
As of January 1	**1,766,792**	**1,668,811**
Share in net income of equity associates	205,849	143,951
Elimination of dividends paid (3)	-97,738	-90,455
Income and expense recognized directly through equity		
- Securities at fair value	0	-1,913
- Derivative financial instruments (4)	-26,262	94,199
- Actuarial adjustments on pensions	72,434	14,473
- Deferred taxes	7,837	-25,965
- Currency translation adjustments	-782	-29,518
Share of equity associates in other income and expense recognized directly through equity	53,227	51,276
Other movements (5)	-4,037	-3,026
At end of period	**1,924,093**	**1,770,557**

(1) restated as of January 1, 2018 for the impact of the application of IFRS 9 (see Note 1.A).

(2) restated for the impact of the application of IFRS 15 (see Note 1.A).

(3) in 2018, the Group received EUR 68,291 thousand in Thales dividends for 2017 and EUR 26,266 thousand in interim dividends for 2018. In 2017, Thales paid the Group EUR 63,038 thousand in dividends for 2016 and EUR 23,639 thousand in interim dividends for 2017.

(4) the amounts stated correspond to the change in the market value of the portfolio over the period. They are not representative of the actual gain/loss, which will be recognized when the hedges are exercised.

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

5.3 Thales summary financial statements (100%) and share in net income of equity associates by Dassault Aviation

Thales Group operates in the fields of aerospace, transport, defense and security and provides integrated solutions and equipment designed to increase reliability and secure, monitor and control, protect and defend (see http://www.thalesgroup.com). The headquarters of Thales Group is located at Tour Carpe Diem, 31, place des Corolles, 92098 Paris La Défense.

(in EUR thousands)	2018	2017 (1)
Non-current assets	8,531,900	8,620,300
Current assets (2)	16,973,900	14,829,400
Equity attributable to the owners of the Parent Company	5,699,600	4,921,700
Non-controlling interests	224,900	216,800
Non-current liabilities (3)	4,964,700	3,861,300
Current liabilities (4)	14,616,600	14,449,900
Total balance sheet	25,505,800	23,449,700
Net sales	15,854,700	15,227,500
Net income attributable to the owners of Parent Company (5)	981,800	679,800
Other comprehensive income attributable to the owners of the Parent Company	209,100	212,900
Total comprehensive income attributable to the shareholders of the Parent Company	1,190,900	892,700

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) including cash and cash equivalents: EUR 5,637,500 thousand in 2018 (EUR 4,282,700 thousand in 2017).

(3) including non-current financial liabilities: EUR 2,421,600 thousand in 2018 (EUR 956,100 thousand in 2017).

(4) including current financial liabilities: EUR 594,900 thousand in 2018 (EUR 887,000 thousand in 2017).

(5) including depreciation and amortization: EUR -485,000 thousand in 2018 (EUR -504,100 thousand in 2017)
including financial interest on gross debt: EUR -26,500 thousand in 2018 (EUR -16,300 thousand in 2017)
including financial income related to cash and cash equivalents: EUR 19,600 thousand in 2018 (EUR 21,300 thousand in 2017)
including income tax: EUR -314,200 thousand in 2018 (EUR -236,700 thousand in 2017).

The breakdown between the Group share of net income published by Thales and that applied by Dassault Aviation appears in the table below:

(in EUR thousands)	2018	2017 (1)
Thales net income (100%)	**981,800**	**679,800**
Thales net income - Dassault Aviation share	**242,799**	**168,386**

5.4 Impairment

Based on the market price of the Thales share at December 31, 2018 (EUR 102 per share), Dassault Aviation's investment in Thales is valued at EUR 5,358 million.

In the absence of any objective indication of impairment, the Thales investment was not subject to an impairment test as of December 31, 2018.

Note 6 - Other current and non-current (m[illegible]n)l(iale)4(a)-12sse

Historical costs of current and non-current assets and related unrealized gains are presented below:

(in EUR thousands)	12/31/2018			01/01/2018		
	Historical cost	Unrealized capital gain/loss	Asset value	Historical cost	Unrealized capital gain/loss	Asset value
Non-listed securities	92,711	26,732	119,443	89,959	27,393	117,352
Embraer shares	32,120	427	32,547	32,120	1,465	33,585
Other financial assets	52,628	0	52,628	38,197	0	38,197
Other non-current financial assets	**177,459**	**27,159**	**204,618**	**160,276**	**28,858**	**189,134**
Other current financial assets	**2,830,032**	**381,936**	**3,211,968**	**2,777,797**	**377,116**	**3,154,913**

Note 7 - Inventories and work-in-progress

(in EUR thousands)	12/31/2018			12/31/2017 (1)
	Gross	Impairment	Net	Net
Raw materials	186,424	-88,610	97,814	99,063
Work-in-progress	2,840,675	-17,434	2,823,241	2,637,910
Semi-finished and finished goods	771,311	-289,088	482,223	734,461
Inventories and work-in-progress	**3,798,410**	**-395,132**	**3,403,278**	**3,471,434**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

The decline in inventories and work-in-progress resulting from the Falcon activity was partially offset by the increase of work-in-progress related to Rafale Export contracts.

On December 31, 2017, the Group has assessed a first impact of the end of the Falcon 5X program on its assets and liabilities. Following the cancellation in 2018 of the last Falcon 5X customers' orders, the Group carried out a new evaluation of these impacts. As a consequence, the Group has notably reduced the net value of inventories and work-in-progress relating to the F5X program to zero.

Note 8 - Trade and other receivables

8.1 Details

(in EUR thousands)	12/31/2018			12/31/2017 (1)
	Gross	Impairment	Net	Net
Trade receivables (2)	606,731	-72,293	534,438	451,895
Corporate income tax receivables	87,271	0	87,271	125,343
Other receivables	340,721	0	340,721	280,613
Prepayments	105,882	0	105,882	12,310
Trade and other receivables	**1,140,605**	**-72,293**	**1,068,312**	**870,161**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) see Note 8.3 for receivables relating to finance leases.

The percentage of outstanding receivables not written-down at year-end is subject to regular individual monitoring. The exposure of Dassault Aviation to the credit risk is presented in Note 24.2.

8.2 Schedule

(in EUR thousands)	12/31/2018			12/31/2017 (1)		
	Total	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year
Trade receivables (2)	606,731	417,090	189,641	532,788	340,615	192,173
Corporate income tax receivables	87,271	87,271	0	125,343	125,343	0
Other receivables	340,721	245,587	95,134	280,613	247,668	32,945
Prepayments	105,882	27,555	78,327	12,310	12,310	0
Trade and other receivables	**1,140,605**	**777,503**	**363,102**	**951,054**	**725,936**	**225,118**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) see Note 8.3 for receivables relating to finance leases.

8.3 Receivables relating to finance leases

(in EUR thousands)	12/31/2018	12/31/2017
Minimum lease receivables	193,181	120,486
Unearned financial income	-22,116	-11,427
Provisions for impairment	-5,484	-10,067
Net value	**165,581**	**98,992**

The amount due within one year of minimum lease receivables is EUR 25,144 thousand as of December 31, 2018.

Note 9 - Cash and cash equivalents

9.1 Net cash

(in EUR thousands)	**12/31/2018**	**12/31/2017**
Cash equivalents (1)	1,923,547	1,656,383
Cash at bank and in hand	1,066,594	405,036
Cash and cash equivalents in assets	**2,990,141**	**2,061,419**
Bank overdrafts	0	0
Net cash in the cash flow statement	**2,990,141**	**2,061,419**

(1) primarily time deposits and cash equivalent marketable securities. The corresponding risk analysis is described in Note 24.1.

9.2 Available cash

The Group uses a specific indicator, referred to as "Available cash", which reflects the total liquidities available to the Group, net of any financial debt. It is calculated as follows:

(in EUR thousands)	**12/31/2018**	**12/31/2017**
Other current financial assets (market value) (1)	3,211,968	3,154,913
Cash and cash equivalents (market value)	2,990,141	2,061,419
Subtotal	**6,202,109**	**5,216,332**
Borrowings and financial debt (2)	-991,376	-1,095,175
Available cash	**5,210,733**	**4,121,157**

(1) see Note 6.

(2) see Note 11.

Note 10 - Equity

10.1 Share capital

The share capital amounts to EUR 66,790 thousand and consists of 8,348,703 common shares of EUR 8 each as of December 31, 2018. As of December 31, 2017, the share capital amounted to EUR 66,495 thousand and consisted of 8,311,921 common shares.

In 2018, 36,782 new common shares were created following the option offered to shareholders to receive all or part of the 2017 dividend in shares.

The distribution of share capital as of December 31, 2018 is as follows:

	Shares	% Capital	% Voting rights
GIMD (1)	5,196,076	62.2%	76.8%
Float	2,289,624	27.4%	17.1%
Airbus	825,828	9.9%	6.1%
Dassault Aviation (treasury shares)	37,175	0.5%	-
Total	**8,348,703**	**100%**	**100%**

(1) the Parent Company, Groupe Industriel Marcel Dassault (GIMD), located at 9, Rond-Point des Champs-Élysées - 75008 Paris, fully consolidates the Group financial statements.

The Group regularly distributes dividends.

10.2 Treasury shares

Movements on treasury shares are detailed below:

(in number of shares)	2018	2017
Treasury shares as of January 1	**38,600**	**39,550**
Purchase of shares	0	0
Cancellation of shares	0	0
Share-based payments (see Note 10.3)	-1,425	-950
Treasury shares as of December 31	**37,175**	**38,600**

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

The 37,175 treasury shares held as of December 31, 2018 (EUR 980 per share) were allocated to potential allocations of performance shares plans and a potential liquidity contract to guarantee market activity.

10.3 Share-based payments

The Group grants performance shares to corporate officers. The characteristics of these allocation plans are described in the Directors' report.

Grant date	Vesting period	Number of shares allocated	Share price on the grant date	Number of shares delivered in 2018	Number of shares canceled (1)	Balance of performance shares as of 12/31/2018
03/07/2017	03/07/2017 to 03/06/2018	1,425	1,080	1,425	0	0
03/07/2018	03/07/2018 to 03/06/2019	1,575	1,405	0	0	1,575

(1) shares canceled in the event of partial or total non-achievement of performance conditions.

The Group did not grant any stock option plans to its employees and corporate officers.

2017 plan

An expense of EUR 842 thousand was recorded in 2018 under this plan, the fair value of which totaled EUR 1,425 thousand (average value of EUR 1,000 per share).

2018 plan

An expense of EUR 847 thousand was recorded in 2018 under this plan, the fair value of which totaled EUR 2,068 thousand (average value of EUR 1,313 per share).

Note 11 - Borrowings and financial debt

(in EUR thousands)	Total as of 12/31/2018	Amount due within one year	Amount due in more than one year		
			Total more than one year	*Maturing > 1 year and < 5 years*	*Maturing > 5 years*
Bank borrowings (1)					

Note 12 - Current provisions

12.1 Provisions for contingencies and charges and for impairment

(in EUR thousands)	12/31/2017 (1)	Allocations	Reversals	Other (2)	12/31/2018
Provisions for contingencies and charges					
Operational	1,097,903	549,738	-267,015	-43,224	1,337,402
	1,097,903	**549,738**	**-267,015**	**-43,224**	**1,337,402**
Provisions for impairment					
Financial assets	154	0	0	0	154
Property, plant and equipment	17,277	13,681	-17,492	552	14,018
On inventories and work-in-progress	596,064	412,222	-617,794	4,640	395,132
Trade receivables	80,893	72,244	-80,910	66	72,293
	694,388	**498,147**	**-716,196**	**5,258**	**481,597**
Provisions for contingencies and charges and for impairment	**1,792,291**	**1,047,885**	**-983,211**	**-37,966**	**1,818,999**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

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

12.2 Details of provisions for contingencies and charges

(in EUR thousands)	12/31/2017 (1)	Allocations	Reversals	Other	12/31/2018
Warranties (2)	622,011	341,147	-61,044	1,658	903,772
Services (2)	152,888	159,500	-89,068	2,703	226,023
Retirement payments (3)	300,614	45,966	-104,827	-47,738	194,015
French companies	*224,506*	*31,707*	*-70,569*	*-21,175*	*164,469*
US companies	*76,108*	*14,259*	*-34,258*	*-26,563*	*29,546*
Others (4)	22,390	3,125	-12,076	153	13,592
Provisions for contingencies and charges	**1,097,903**	**549,738**	**-267,015**	**-43,224**	**1,337,402**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) warranty provisions are updated to reflect changes to the fleet in service and contracts delivered. In 2018, this change is mainly related to the military contracts delivered (see accounting principles C11-1).

(3) actuarial gains and losses contributed to the decrease in the provision for retirement costs in the amount of EUR -49,818 thousand. They are distributed as follows:

French companies	*-21,175*
US companies	*-28,643*
Total actuarial adjustments	*-49,818*

(4) as of December 31, 2018, the other long-term benefits relating to long-service awards amounted to EUR 3,608 thousand, compared to EUR 3,676 thousand at the end of 2017. The workforce adjustment measures (including early retirement) are accrued at the end of 2018 in the amount of EUR 5,317 thousand. They represented EUR 15,908 thousand as of the end of 2017.

12.3 Provisions for retirement payments

12.3.1 Calculation methods (defined benefit plans)

Retirement payment commitments are calculated for all Group employees using the projected unit credit method. They are provisioned in full for the remaining obligations.

Employment projections are weighted using French insurance code mortality rates and the recorded employee turnover rate (this may vary according to age). The obligation is estimated and prorated to the employee's length of service at the end of the period in relation to their total career expectancy.

Note that no Group companies have commitments for medical insurance plans.

12.3.2 Assumptions used

	France		United States	
	2018	**2017**	**2018**	**2017**
Inflation rate	2.00%	2.00%	2.25%	2.15%
Discount rate	1.60%	1.50%	4.55%	3.85%
Weighted average salary increase rate	3.80%	3.90%	2.22%	2.25%

The discount rates were based on the yield for top-ranking corporate long-term bonds (rated AA) corresponding to the currency and the maturity of the commitments.

12.3.3 Change in commitments and plan assets

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

(in EUR thousands)	2018	2017	2016	2015	2014
Commitment	794,245	800,621	800,609	741,037	700,535
Plan assets	600,230	500,007	525,740	446,435	213,908
Unfunded status	**194,015**	**300,614**	**274,869**	**294,602**	**486,627**

Changes over the year of commitments break down as follows:

(in EUR thousands)	2018			2017		
	France	United States	**Total**	France	United States	**Total**
As of January 1	494,020	306,601	**800,621**	504,301	296,308	**800,609**
Current service cost	26,452	11,686	38,138	28,110	11,372	39,482
Past service cost (1)	0	0	0	18,344	0	18,344
Interest expense	7,808	11,878	19,686	5,325	12,580	17,905
Benefits paid	-20,569	-10,088	-30,657	-19,788	-9,804	-29,592
Actuarial adjustments	-16,623	-30,912	-47,535	-42,272	34,863	-7,409
Foreign exchange differences	0	13,992	13,992	0	-38,718	-38,718
As of December 31	491,088	303,157	**794,245**	494,020	306,601	**800,621**

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

A 0.50 point decrease in the discount rate would increase the total commitment by EUR 61,442 thousand, while a 0.50 point increase in the discount rate would decrease the total commitment by EUR 54,923 thousand.

Changes in investments during the period are as follows:

(in EUR thousands)	2018			2017		
	France	United States	**Total**	France	United States	**Total**
As of January 1	269,514	230,493	**500,007**	261,678	264,062	**525,740**
Expected return on plan assets	2,553	9,305	11,858	1,178	10,927	12,105
Actuarial adjustments	4,552	-2,269	2,283	6,658	-3,266	3,392
Employer contributions	50,000	34,258	84,258	0	446	446
Benefits paid	0	-10,088	-10,088	0	-9,804	-9,804
Foreign exchange differences	0	11,912	11,912	0	-31,872	-31,872
As of December 31	326,619	273,611	**600,230**	269,514	230,493	**500,007**

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

(in EUR thousands)	2018			2017		
	France	United States	**Total**	France	United States	**Total**
Current service cost	26,452	11,686	38,138	28,110	11,372	39,482
Past service cost	0	0	0	18,344	0	18,344
Interest expense	7,808	11,878	19,686	5,325	12,580	17,905
Expected return on plan assets	-2,553	-9,305	-11,858	-1,178	-10,927	-12,105
Cost for defined benefit plans	31,707	14,259	**45,966**	50,601	13,025	**63,626**

Plan assets are invested as follows:

	2018		2017	
	France	United States	France	United States
Bonds and debt securities	86%	99%	85%	97%
Real estate	8%	0%	7%	0%
Shares	6%	0%	8%	0%
Liquidities	0%	1%	0%	3%
Total	**100%**	**100%**	**100%**	**100%**

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

Note 13 - Operating liabilities

(in EUR thousands)	12/31/2018			12/31/2017 (1)		
	Total	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year
Trade payables	738,873	738,873	0	600,758	600,758	0
Other liabilities	173,015	173,015	0	131,886	131,886	0
Deferred income	2,410	542	1,868	3,110	700	2,410
Trade and other payables	**914,298**	**912,430**	**1,868**	**735,754**	**733,344**	**2,410**
Income tax liabilities	6,257	6,257	0	0	0	0
Other tax and social security liabilities	302,934	302,934	0	237,616	237,616	0
Tax and social security liabilities	**309,191**	**309,191**	**0**	**237,616**	**237,616**	**0**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

Note 14 - Contract assets and liabilities

(in EUR thousands)	Contract assets (1)	Contract liabilities (1)
Contract assets / liabilities as of January 1	**0**	**-8,126,973**
Customer advances and progress payments	*0*	*-7,968,995*
Other contract assets / liabilities	*0*	*-157,978*
Change in customer advances and progress payments	16,553	-1,336,132
Change in other contract assets / liabilities	75,798	189,714
Reclassification	-75,384	75,384
Contract assets / liabilities as of December 31	**16,967**	**-9,198,007**
Customer advances and progress payments	*-57,433*	*-9,231,141*
Other contract assets / liabilities	*74,400*	*33,134*

(1) following the implementation of IFRS 15 (see Note 1.A).

The increase in contract liabilities is mainly the result of the progress payments received under the Rafale Export contracts. As Dassault Aviation is principal on the Rafale Egypt, Qatar and India contracts, the advances received include the co-contractors' parts. The progress payments paid reflect the transfer of these parts to the co-contractors as shown in the table below:

(in EUR thousands)	12/31/2018	12/31/2017
Customer advances and progress payments	-9,288,574	-7,968,995
Advances and progress payments to suppliers	3,282,220	2,525,871
Customer advances and progress payments net of advances and progress payments to suppliers	**-6,006,354**	**-5,443,124**

Note 15 - Net sales

The breakdown of net sales by geographical area is as follows:

(in EUR thousands)	2018	2017 (1)
France (2)	1,132,841	541,877
Export (3)	3,986,378	4,359,203
Net sales	**5,119,219**	**4,901,080**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) mainly the French state, with whom the Group realized more than 10% of its total net sales in 2018, as in 2017.

(3) more than 10% of Group net sales were made with the Egyptian government in 2018, as in 2017. The net sales from Rafale Export contracts are recognized on a gross basis (including the co-contractors parts).

By activity, net sales break down as follows:

(in EUR thousands)	2018	2017 (1)
Falcon	2,634,824	3,025,920
Defense	2,484,395	1,875,160
Net sales	**5,119,219**	**4,901,080**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

By type, net sales break down as follows:

(in EUR thousands)	2018	2017 (1)
Finished goods	3,797,398	3,954,627
Services	1,321,821	946,453
Net sales	**5,119,219**	**4,901,080**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

By origin, net sales break down as follows:

(in EUR thousands)	2018	2017 (1)
France	4,037,389	3,796,997
United States	1,081,830	1,104,083
Net sales	**5,119,219**	**4,901,080**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

Note 16 - Other revenue

(in EUR thousands)	2018	2017
Research tax credits	32,443	32,643
Interest on arrears	2,073	370
Capitalized production	0	129
Other operating income	75,978	10,896
Other revenue	**110,494**	**44,038**

Note 17 - Other operating income and expenses

(in EUR thousands)	2018	2017
Gains/losses from disposals of non-current assets	-4,444	-709
Foreign exchange gains or losses from business transactions (1)	2,323	-27,402
Other operating expenses	-731	-4,608
Other operating income and expenses	**-2,852**	**-32,719**

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

Note 18 - Research and development costs

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

(in EUR thousands)	2018	2017
Research and development costs	-391,775	-312,539

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

Note 19 - Net financial income

(in EUR thousands)	2018	2017 (1)
Income from cash and cash equivalents	3,374	6,948
Change in fair value of other current financial assets	4,820	
Cost of gross financial debt (1)	-94,701	-79,750
Cost of net financial debt	**-86,507**	**-72,802**
Dividends and other investment income	305	1,425
Interest income and gains/losses on disposal of other financial assets (excluding cash and cash equivalents) (2)	8,724	297,330
Foreign exchange gain/loss (3)	-68,405	293,804
Other	0	-198
Other financial income and expenses	**-59,376**	**592,361**
Net financial income	**-145,883**	**519,559**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A). The financial expense recognized for the financing component of long-term Defense contracts was EUR -84,273 thousand in 2018, and EUR -67,846 thousand in 2017.

(2) of which gain from sale of marketable securities for EUR 292,385 thousand in 2017.

(3) foreign exchange gains or losses for the period include the gains or losses associated with the exercise of foreign exchange hedging instruments that do not qualify for hedge accounting under IFRS 9 "Financial instruments" and the change in the market value of foreign exchange hedging instruments that do not qualify for hedge accounting (which amounts are not representative of key figures, which will be recognized when the hedges occur). In 2017, it included the restructuring costs of the currency hedging portfolio, necessitated by the decline in commercial flows related to the Falcon activity.

Note 20 - Tax position

20.1 Net effect of taxes on net income

(in EUR thousands)	2018	2017 (1)
Corporate tax	-222,409	-110,945
Deferred tax income/expense	27,716	-140,418
Income tax	**-194,693**	**-251,363**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

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

(in EUR thousands)	2018	2017
Derivative financial instruments	33,839	-62,108
Other current and non-current financial assets	376	100,987
Actuarial adjustments	-10,238	-9,520
Taxes recognized directly in equity	**23,977**	**29,359**

20.3 Reconciliation of theoretical and actual tax expenses

(in EUR thousands)	2018	2017 (1)
Net income	572,802	630,082
Cancellation of the income tax	194,693	251,363
Cancellation of the Group share of net income of equity associates	-205,849	-143,951
Income before tax	561,646	737,494
Theoretical tax expenses calculated at the current rate (2)	**-193,375**	**-327,669**
Effect of tax credits (3)	14,805	19,579
Effect of differences in tax rates (4)	-24,922	40,555
Other	8,799	16,172
Taxes recognized	**-194,693**	**-251,363**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) a rate of 34.43% applies for 2018, compared to a rate of 44.43% in 2017, for the Parent Company of the Group.

(3) the amount of the research tax credit, which is recognized in other revenue, is EUR 32,443 thousand for 2018 and EUR 32,643 thousand for 2017. The tax credit for competitiveness and employment, which is recognized as a deduction from employee costs, represented EUR 8,367 thousand in 2018 and EUR 9,545 thousand in 2017.

(4) in 2018, the impact of the decrease in the corporate income tax rate in France is a deferred tax expense of EUR -28,898 thousand. In 2017, the impact on the deferred tax rate of the decrease in the corporate income tax rate in France and in the United States was a deferred tax expense of EUR -24,552 thousand.

20.4 Deferred tax sources

(in EUR thousands)	Balance sheet		Consolidated income statement	
	12/31/2018	12/31/2017 (1)	2018	2017 (1)
Temporary differences on provisions (profit-sharing, pension, etc.)	301,429	268,074	42,062	33,174
Other current and non-current financial assets and cash equivalents	-2,567	-3,906	-827	-430
Derivative financial instruments	-3,921	-48,352	10,592	-160,842
Other temporary differences	83,787	107,475	-24,111	-12,320
Deferred tax income/expense			**27,716**	**-140,418**
Net deferred taxes	**378,728**	**323,291**		
Deferred tax assets	*378,728*	*323,291*		
Deferred tax liabilities	*0*	*0*		

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

20.5 Deferred tax assets not recognized in balance sheet

(in EUR thousands)	**12/31/2018**	**12/31/2017**
Deferred tax assets not recognized	10,948	11,854

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

Note 21 - Earnings per share

Earnings per share	2018	2017 (1)
Net income attributable to the owners of the Parent Company (in EUR thousands) (2)	572,741	630,040
Average number of shares outstanding	8,293,441	8,244,507
Diluted average number of shares outstanding	8,294,229	8,245,220
Earnings per share (in EUR)	**69.1**	**76.4**
Diluted earnings per share (in EUR)	**69.1**	**76.4**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

(2) net income is fully attributable to income from continuing operations (no discontinued operations).

Earnings per share are calculated by dividing net income attributable to the owners of the Parent Company by the weighted average number of common shares outstanding during the year, minus treasury shares.

Diluted earnings per share correspond to net income attributable to owners of the Parent Company divided by the diluted weighted average number of shares. This corresponds to the weighted average number of common shares outstanding, increased for performance shares granted.

Note 22 - Dividends paid and proposed

Dividends	2018	2017
Decided and paid during the year (in EUR thousands) (1)	126,604	99,367
i.e. per share (EUR)	15.30	12.10
Proposed to the Annual General Meeting for approval, not recognized as a liability as of December 31 (in EUR thousands)	176,993	127,172
i.e. per share (EUR)	21.20	15.30

(1) net of dividends on treasury shares.

Note 23 - Financial instruments

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

The Group used the following hierarchy for the fair value valuation of the financial assets and liabilities:

- Level 1: quoted prices on an active market;
- Level 2: valuation techniques based on observable market data;
- Level 3: valuation techniques based on non-observable market data.

23.1 Financial instruments (assets)

(in EUR thousands)	Balance sheet value as of 12/31/2018			
	Cost or amortized cost (1)	Fair value		Total
		Through net income	Through equity	
Non-current assets				
Other non-current financial assets	52,628		151,990	204,618
Current assets				
Trade and other receivables	1,068,312			1,068,312
Derivative financial instruments		7,984	32,423	40,407
Other current financial assets		3,211,968		3,211,968
Cash equivalents (2)		1,923,547		1,923,547
Total financial instruments (assets)	**1,120,940**	**5,143,499**	**184,413**	**6,448,852**
Level 1 (2)		5,135,515	32,547	
Level 2		7,984	32,423	
Level 3		0	119,443	

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

(2) including time deposits as of December 31, 2018: EUR 1,884,827 thousand.

As of January 1, 2018, the data were as follows:

(in EUR thousands)	Balance sheet value as of 01/01/2018 (1)			
	Cost or amortized cost (2)	Fair value		Total
		Through net income	Through equity	
Non-current assets				
Other non-current financial assets	38,197		150,937	189,134
Current assets				
Trade and other receivables	870,161			870,161
Derivative financial instruments		33,358	139,460	172,818
Other current financial assets		3,154,913		3,154,913
Cash equivalents (3)		1,656,383		1,656,383
Total financial instruments (assets)	**908,358**	**4,844,654**	**290,397**	**6,043,409**
Level 1 (3)		4,811,296	33,585	
Level 2		33,358	139,460	
Level 3		0	117,352	

(1) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.A).

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

(3) including time deposits as of December 31, 2017: EUR 1,487,529 thousand.

23.2 Financial instruments (liabilities)

(in EUR thousands)	Balance sheet value as of 12/31/2018			
	Cost or amortized cost (1)	Fair value		Total
		Through net income	Through equity	
Non-current liabilities				
Bank borrowings	250,008			250,008
Other financial debt (2)	85,298			85,298
Current liabilities				
Bank borrowings	624,557			624,557
Other financial debt (2)	31,513			31,513
Trade and other payables	914,298			914,298
Derivative financial instruments		18,218	7,907	26,125
Total financial instruments (liabilities)	**1,905,674**	**18,218**	**7,907**	**1,931,799**
Level 1		0	0	
Level 2		18,218	7,907	
Level 3		0	0	

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

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

As of December 31, 2017, the data were as follows:

(in EUR thousands)	Balance sheet value as of 12/31/2017 (1)			
	Cost or amortized cost (2)	Fair value		Total
		Through net income	Through equity	
Non-current liabilities				
Bank borrowings	873,311			873,311
Other financial debt (3)	106,954			106,954
Current liabilities				
Bank borrowings	75,512			75,512
Other financial debt (3)	39,398			39,398
Trade and other payables	735,754			735,754
Derivative financial instruments		5,634	6,433	12,067
Total financial instruments (liabilities)	**1,830,929**	**5,634**	**6,433**	**1,842,996**
Level 1		0	0	
Level 2		5,634	6,433	
Level 3		0	0	

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

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

(3) primarily locked-in employee profit-sharing funds.

Note 24 - Financial risk management

24.1 Cash and liquidity risks

24.1.1 Financial debt

The Group has no significant risk in relation to its financial debt. The contracts for these loans include the usual default clauses and restrictions in terms of security conditions and merger or sale transactions. One of the loan clauses stipulates an early repayment would be demanded if GIMD were to hold less than 50% of the capital of Dassault Aviation before the loan maturity date. These loans do not contain any accelerated repayment or prepayment clauses based on rating or financial ratios. The features of these loans are described in Note 11.

24.1.2 Cash, cash equivalents and other current financial assets

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

(in EUR thousands)	12/31/2018			
	Historical cost	**Unrealized capital gain**	**Asset value**	**As %**
Cash at bank, money market investments and time deposits	4,862,784	2,024	4,864,808	79%
Investments in bonds (1)	340,941	38,396	379,337	6%
Unspecified investments (1)	614,332	343,632	957,964	15%
Total	**5,818,057**	**384,052**	**6,202,109**	**100%**

(1) investments in bonds subscribed by the Group are investments with a short-term management horizon and unspecified investments as defined by the AMF classification are invested in short-term bond and money market funds. In addition, most of them are backed by guarantees, which limits the risk of loss of value.

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

Fair values classification:

(in EUR thousands)	12/31/2018		
	Through net income	**Through equity**	**Total**
Cash at bank, money market investments and time deposits	4,864,808	0	4,864,808
Investments in bonds	379,337	0	379,337
Unspecified investments	957,964	0	957,964
Total	**6,202,109**	**0**	**6,202,109**

24.2 Credit and counterparty risks

24.2.1 Credit risk on bank counterparties

The Group allocates its investments and performs its cash and foreign exchange transactions with recognized financial institutions. The Group has no investments or accounts with financial institutions presenting a significant risk of default.

24.2.2 Customer default risk

The Group limits counterparty risk by performing most of its sales in cash and ensuring that the loans are secured by export insurance guarantees (Bpifrance Assurance Export) or collateral. The share of receivables not covered by these procedures is subject to regular individual monitoring and, if necessary, a provision for impairment.

Given the arrangements in risk mitigation that are in place, and the provisions made in its accounts, the Group's residual exposure to the risk of default by a customer in a country subject to uncertainties is limited.

The amount of export insurance guarantees and collateral obtained and not exercised at year-end appear in the table of off-balance sheet commitments (see Note 25).

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

24.3 Other market risks

24.3.1 Market risks

The Group covers risks from exchange rates, interest rates and changes in the price of raw materials using derivative financial instruments whose book value is presented below:

(in EUR thousands)	12/31/2018		12/31/2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Exchange rate derivatives	40,407	22,043	172,782	4,705
Interest rate derivatives	0	4,082	0	7,362
Commodity derivatives	0	0	36	0
Derivative financial instruments	**40,407**	**26,125**	**172,818**	**12,067**
Net derivative financial instruments	**14,282**		**160,751**	

Exchange rate derivatives

The Group is exposed to a foreign exchange risk through the Parent Company in relation to its Falcon sales, which are virtually all denominated in US dollars. This risk is partially hedged by using forward currency contracts and foreign exchange options.

The Group partially hedges its cash flows that are considered highly probable. It ensures that the initial future cash flows will be sufficient to use the foreign exchange hedges in place. The hedged amount may be adjusted as a function of changes over time in expected net cash flows.

The derivative financial instruments used by the Group (foreign exchange hedging instruments) along with their recognition under hedge accounting principle as defined by IFRS 9 "Financial instruments" are defined in paragraph C14 of the accounting principles.

The foreign exchange derivatives subscribed by the Group are not all eligible for hedge accounting under IFRS 9 "Financial instruments". The breakdown is presented in the table below:

(in EUR thousands)	**Market value as of 12/31/2018**	**Market value as of 12/31/2017**
Instruments which qualify for hedge accounting	27,990	139,460
Instruments which do not qualify for hedge accounting	-9,626	28,617
Foreign exchange derivatives	**18,364**	**168,077**

The counterparty risk for foreign exchange derivatives (CVA/DVA) is based on the current exposure method and on the historical default probabilities per rating class communicated by the rating agencies. As of December 31, 2018, this counterparty risk is insignificant.

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

(in EUR thousands)	**Less than one year**	**More than one year**	**Total**
Foreign exchange derivatives	-8,012	26,376	**18,364**

Interest rate derivatives

The Group is exposed to the volatility of interest rates through loans taken out at a variable rate (see Note 11). The loans were swapped at a fixed rate to limit this risk.

Commodity derivatives

The Group marginally uses derivatives to hedge its exposure to changes in kerosene prices. The Group no longer has any commodity derivatives in its portfolio as of December 31, 2018.

24.3.2 Impacts of derivatives on the Group's financial statements

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

(in EUR thousands)	**12/31/2017**	**Impact on equity (1)**	**Impact on net financial income (2)**	**12/31/2018**
Exchange rate derivatives	168,077	-111,470	-38,243	18,364
Interest rate derivatives	-7,362	2,959	321	-4,082
Commodity derivatives	36	0	-36	0
Net derivative financial instruments	**160,751**	**-108,511**	**-37,958**	**14,282**

(1) recognized directly under income and expenses recognized directly through equity, share of fully consolidated companies.

(2) change in fair value of foreign exchange hedging instruments which do not qualify for hedge accounting under the terms of IFRS 9 "Financial instruments".

24.3.3 Sensitivity test for foreign exchange derivatives

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

Market Value of the Portfolio (in EUR thousands)	**12/31/2018**		**12/31/2017**	
Net balance sheet position	18,364		168,077	
Closing US dollar/ euro exchange rate	1.1450 $/€		1.1993 $/€	
Closing dollar/ euro exchange rate +/- 10 cents	1.2450 $/€	1.0450 $/€	1.2993 $/€	1.0993 $/€
Change in net balance sheet position (1)	+157,947	-190,721	+208,996	-247,822
Impact on net income	*+35,209*	*-44,496*	*+98,185*	*-116,850*
Impact on equity	*+122,738*	*-146,225*	*+110,811*	*-130,972*

(1) data calculated based on existing market conditions on the balance sheet dates. They are not representative of the actual gain/loss to be recognized when the transactions are made.

24.3.4 Risks related to Embraer shares

On December 31, 2018, the Embraer shares were valued at EUR 32,547 thousand (see Note 6). The Group is exposed to a currency risk on its stake in Embraer, which is listed in reals on the Brazilian market, and a price risk related to the fluctuation in the share price. A 10% upward or downward variation in the exchange rate and/or share price would have no significant impact on the Group's equity and results.

Note 25 - Off-balance sheet commitments

The off-balance sheet commitments of the Group relate essentially to its operational activities and can be analyzed as follows:

(in EUR thousands)	**12/31/2018**	**12/31/2017**
Commitments given under commercial contracts	12,142,096	11,587,348
Guarantees and deposits	46,458	55,366
Commitments given secured by bank guarantees	1,688,860	1,526,242
Commitments given	**13,877,414**	**13,168,956**

(in EUR thousands)	**12/31/2018**	**12/31/2017 (1)**
Transaction price allocated to the remaining performance obligations	19,375,871	19,460,188
Other commitments received under commercial contracts	1,633,129	1,633,129
Collateral	71,029	80,508
Bpifrance Assurance Export guarantees	62,854	66,043
Commitments received secured by bank guarantees	11,684	8,720
Commitments received	**21,154,567**	**21,248,588**

(1) restated for the impact of the application of IFRS 15 (see Note 1.A).

The breakdown of the backlog by maturity is as follows:

(in percentage)	Less than one year	Between one and four years	More than four years	Total
Transaction price allocated to the remaining performance obligations	35%	58%	7%	**100%**

Lease commitments as of December 31, 2018 are as follows:

Operating leases	**TOTAL**	**Within one year**	**More than one year**
Minimum future payments not subject to cancellation (not discounted)	**222,192**	49,165	173,027

The Group's main operating leases concern real estate leases.

Note 26 - Contingent assets and liabilities

At the end of 2017, Dassault Aviation initiated negotiations with Safran Aircraft Engines to obtain compensation for its damages as part of the termination process of the Silvercrest contract leading to the end of the Falcon 5X program. In 2018, Dassault Aviation signed an amicable agreement with Safran that settled their dispute over the Silvercrest engine that was expected to equip the Falcon 5X. Under the terms of this agreement, Dassault Aviation received an indemnity of USD 280 million from Safran. The corresponding income was recognized as a non-current operating income in the Group financial statements as of December 31, 2018.

There are no more contingent assets or liabilities as of December 31, 2018.

Note 27 - Related party transactions

The Group's related parties are:

- Groupe Industriel Marcel Dassault and its subsidiaries,
- Thales Group and its subsidiaries,
- the Chairman and Chief Executive Officer, and the Chief Operating Officer of Dassault Aviation,
- the directors of Dassault Aviation.

Terms and conditions of related-party transactions

Sales and purchases are made at market prices. Balances outstanding at year-end are not guaranteed and payments are made in cash. No guarantees were provided or received for related-party receivables. For 2018, the Group did not recognize any provisions for bad debts relating to amounts receivable from related parties. The need for provisions is assessed each year by examining the financial position of the related parties and the market in which they operate.

27.1 Details of transactions

(in EUR thousands)	2018	2017
Sales	5,662	57,954
Purchases	465,564	411,819
Trade receivables	3,501	1,762
Customer advances and progress payments	1,834	3,921
Trade payables	40,508	69,911
Advances and progress payments to suppliers	1,938,151	1,538,824
Advance lease payments	31,879	31,359

27.2 Compensation of corporate officers and benefits in kind

The compensation and benefits in kind paid by the Dassault Aviation Group to the corporate officers can be analyzed as follows:

(in EUR thousands)	2018	2017
Fixed compensation	2,865	2,791
Directors' fees	580	593
Benefits in kind	17	17
Performance shares	1,425	894
Other	4	9
Compensation of corporate officers and benefits in kind	**4,891**	**4,304**

Note 28 - Average number of employees

	2018	2017
Managers	5,744	5,713
Supervisors and technicians	2,275	2,325
Employees	1,025	1,054
Workers	2,351	2,466
Average number of employees	**11,395**	**11,558**

Note 29 - Environmental information

The Dassault Aviation Group recognized environmental capital expenditures amounting to EUR 2,480 thousand and posted approximately EUR 1,110 thousand in expenses related to risk, impact and regulatory compliance analyses in 2018. The Group did not have to recognize any environmental liabilities.

Note 30 - Auditors' fees

The statutory auditors' fees recognized as expenses for 2018 and 2017 are as follows:

(in EUR thousands)	DELOITTE & ASSOCIES		MAZARS	
	2018	**2017**	**2018**	**2017**
Certification of accounts (1)	311	283	634	557
Other audit services (2)	50	41	26	53
Auditor's fees	**361**	**324**	**660**	**610**

(1) these fees primarily include the review and certification of the Group's consolidated financial statements, certification of the financial statements of the parent company Dassault Aviation and its subsidiaries and compliance with local regulations.

(2) these fees are mainly for services relative to non-financial performance declaration, drafting of specific certifications, technical consultations and services rendered for possible disposals or acquisitions of entities.

In addition, the fees from fully consolidated subsidiaries paid to statutory auditors other than Deloitte & Associés and Mazars must be added to the above amounts: EUR 52 thousand in 2018 as in 2017, paid to Gerec.

Note 31 - Subsequent events

No events likely to have a material impact on the financial statements occurred between December 31, 2018 and the date the financial statements were approved by the Board of Directors.

Statutory auditors' report on the consolidated financial statements

Year ended December 31, 2018

To the 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, 2018.

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 Group as at December 31, 2018 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, 2018 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

Without qualifying the opinion expressed above, we draw your attention to Note "A1-2 Change in 2018 in the accounting standard applicable to Dassault Aviation" of the notes to the consolidated financial statements which sets out changes in accounting methods relating to the application, as from January 1, 2018 of IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial instruments".

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 which, 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.

<table>
<tr><th>Risk identified</th><th>Our response</th></tr>
<tr><td>
Adoption of IFRS 15 “Revenue from Contracts with Customers”

(Notes A1-2, C15 items 14, 15 and 25 to the consolidated financial statements)

IFRS 15, which is mandatory as from January 1, 2018, replaces IAS 11 “Construction Contracts” and IAS 18 “Revenue”, and is applied by the Group using the full retrospective method.

This new standard modifies and clarifies the criteria for recognizing revenue, either gradually or at a given time, with the introduction of 3 specific criteria, the last of which concerns the determination of an alternative use to the property sold and the irrevocable right to payment including a reasonable margin. The standard also introduces new financial reporting requirements.

The Group has carried out a detailed analysis of its contract portfolio in order to determine the revenue recognition method to be adopted under this new framework and to assess its impact on its financial statements.

The impact of the retrospective application of the standard on the Group's shareholders' equity was €-102 million at January 1, 2017 and €-183 million at January 1, 2018.

The adoption of IFRS 15 is a key point of the audit since the analysis of contracts required a significant amount of judgment in:
the identification of performance obligations;
the assessment of whether or not the financing component is significant for determining the transaction price;
the allocation of the transaction price to each of the performance obligations; and
the determination of the revenue recognition rate (progressively or at a given time).
</td><td>
Our work consisted of:
revenue recognition to assess compliance of the new principles with IFRS 15 and methods of revenue recognition described in notes A1-2 and C15 to the financial statements.
based on a selection of the most significant contracts in terms of revenue, assessing the relevance of the analyses carried out by the Group and carry out a critical review on:
o the identification of performance obligations;
o the evaluation of the materiality or otherwise of the financing components by assessing their impact on the economics of the contracts and also by corroborating the payment schedule with the contractual data and rates used in the calculations;
o the allocation of the transaction price by examining the contracts;
o the rate of revenue recognition based in particular on (i) technical analyses documenting the notion of alternative use, (ii) contractual clauses and analyses prepared by the Group to document the notion of reasonable margin in the event of termination for customer convenience;
reconciling the basic data used to determine the impacts of IFRS 15 on the financial statements with accounting and contractual data;
validating the accounting consequences of the analyses carried out both on shareholders' equity and on other aggregates of the balance sheet and income statement as at January 1, 2017 and for 2017 on the order book as at December 31, 2017 by reconciling the data used to determine the impacts with accounting and contractual data.

We also assessed the appropriateness of the information given in Notes A1-2, C15, items 14, 15 and 25 of the consolidated financial statements.
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<tr><th>Risk identified</th><th>Our response</th></tr>
<tr><td>
Defense contract monitoring

(Notes C11-1, C15, items 12.2, 14 and 15 of the consolidated financial statements.)

For Defense contracts, Dassault Aviation operates through contracts for which net sales and the margin is now recognized in accordance with IFRS 15.

IFRS 15 provides for criteria for determining, for each performance obligation (sale of aircraft or services), whether the transfer of control to the customer is progressive (revenue by percentage of completion) or at a given time.

Earnings from contracts, and any provisions for loss on completion at the closing date, depend on the entity's ability:
- to measure the costs incurred on a contract, and
- 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 in 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 the 2018 financial year, Defense net sales recognized by the Group increased to €2,484 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.
</td><td>
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 internal 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;
- conducting interviews with program monitoring managers and carry out tests on sampled documents for a selection of the contracts that contributed most to the results of the period, in order to:
  o confirm the performance of the contract when the revenue is recognized at a given time;
  o test the costs and thus corroborate their degree of progress as revenue is gradually recognized;
- reconciling the accounting data with their operational analytical monitoring for these contracts; and
- verifying the correct analytical allocation of costs.

For a selection of contracts, for which there was a significant change in margin of the estimated margin level compared with previous estimates, we sought to explain the origin of the changes observed in order to corroborate these with technical and operational justifications for the basis of our experience and interviews with the relevant management;

We also assessed the appropriateness of the information given in Notes C11-1, C15, items 12.2, 14 and 15 of the consolidated financial statements.
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Risk identified	***Our response***
Valuation of warranty provisions *(Note C11-1 and item 12.2 of the notes to the consolidated financial statements)* Dassault Aviation provides "regular" 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 warranties therefore constitute a commitment for the Company. The costs of this commitment must 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 warranties 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 warranties of €904 million as at December 31, 2018. 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 internal 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 C11-1 and item 12.2 of the notes to the consolidated financial statements.

Specific Verifications

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.

We attest that the consolidated non-financial performance declaration required by Article L.225-102-1 of the French Commercial Code (Code de commerce) is included in the Group management report, being specified that, in accordance with the provisions of Article L.823-10 of the Code, we have not verified the fair presentation and the consistency with the consolidated financial statements of the information contained therein and should be reported on by an independent insurance services provider.

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, 2018, audit firm Deloitte & Associés and audit firm Mazars were in the 17th year and 29th year of total uninterrupted engagement respectively.

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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

Evaluates the overall presentation of the consolidated 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. When appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense and Courbevoie, March 7, 2019

The Statutory Auditors

Deloitte & Associés	Mazars
Jean-François Viat	Mathieu Mougard

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.

QBSFOU DPNQBO

GJOBODJBM TUBUFNFOUT

BT PG EFDFNCFS 42- 3129

BTTFUT

(in EUR thousands)	Notes	2304203129			2304203128
		Gross	Depreciation, amortization and provisions	Net	Net
Intangible assets	2	119,209	-103,926	15,283	14,913
Property, plant and equipment	2	1,132,737	-786,045	346,692	294,370
Financial assets	3	2,282,903	-3,578	2,279,325	2,259,353
UPUBMOP O.DVSSFOU BTTFUT		**4-645-95:**	**.9: 4-65:**	**3-752-411**	**3-679-747**
Inventories and work-in-progress	4	3,663,770	-296,216	3,367,554	3,263,074
Advances and progress payments to suppliers		3,421,666	0	3,421,666	2,670,370
Trade receivables	6	744,796	-57,122	687,674	435,484
Other receivables and prepayments	6	611,049	0	611,049	503,731
Marketable securities and cash instruments	9	2,870,659	-150	2,870,509	2,958,670
Cash at bank and in hand		2,126,277	0	2,126,277	1,188,629
UPUBMDVSSFOU BTTFUT		**24-549-328**	**.464-599**	**24-195-83:**	**22-12: -: 69**
UPUBMBTTFUT		**27-: 84-177**	**.2-358-148**	**26-837-13:**	**24-699-6: 5**

FRVJU BOE MJBCJMJUJFT

(in EUR thousands)	Notes	2304203129	2304203128
Capital	10, 13	66,790	66,495
Share premiums	13	137,186	76,249
Reserves	12	2,206,360	2,023,463
Net income for the year		442,438	309,500
Investment subsidies		2,410	3,110
Regulated provisions	14	118,521	118,270
UPUBMFRVJU	13	**3-: 84-816**	**3-6: 8-198**
QSPWJTJPOT GPS DPOUJOHFODJFT BOE D BSHFT	14	**2-334-911**	**: 51-432**
Borrowings and financial debt (1)	15	988,785	1,093,046
Customer advances and progress payments on orders		9,179,471	7,841,142
Trade payables	16	758,997	627,517
Other liabilities, cash instruments, accruals and deferred income	17	601,271	489,481
UPUBMMJBCJMJUJFT		**22-639-635**	**21-162-297**
UPUBMFRVJU BOE MJBCJMJUJFT		**26-837-13:**	**24-699-6: 5**

(1) including bank overdrafts:		0	0

JODPNF TUBUFNFOU

(in EUR thousands)	Notes	**3129**	**3128**
OFU TBMFT	20	**5-4: 9-: 22**	**5-295-479**
Change in work-in-progress		136,476	38,797
Reversals of provisions, depreciation and amortization, charges transferred		774,127	607,306
Other income		105,051	49,913
PQFSBUJOH JODPNF		**6-525-676**	**5-991-495**
Purchases consumed		-2,852,156	-2,605,931
Personnel expenses (1)		-758,718	-726,312
Other operating expenses		-435,693	-363,745
Taxes and social security contributions		-59,693	-58,183
Depreciation and amortization	2	-57,776	-53,760
Allocations to provisions	14	-852,465	-697,750
PQFSBUJOH FYQFOTFT		**.6-127-612**	**.5-616-792**
OFU PQFSBUJOH JODPNF		**4: 9-175**	**485-814**
OFU GJOBODJBM JODPNF	22	**: 3-79:**	**342-117**
DVSSFOU JODPNF		**5: 1-864**	**716-81:**
Non-recurring items	23	240,523	-133,278
Employee profit-sharing and incentive schemes		-130,835	-94,019
Income tax	24	-158,003	-68,912
OFU JODPNF		**553-549**	**41: -611**

(1) incl. tax credit for competitiveness and employment (CICE) (see Note7):	7,695	8,737
purchasing power bonus:	3,879	0

DBT GMPX TUBUFNFOU

(in EUR thousands)	Notes	3129	3128

OPUFT UP U F QBSFOU DPNQBO GJOBODJBM TUBUFNFOUT

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Qb U bef Sfh f cf 823153567

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B0 HFOFSBM QSJODJQMFT

The financial statements of the Parent Company as of December 31, 2018 were closed by the Board of Directors on February 27, 2019, and will be submitted for approval to the Annual General Meeting on May 16, 2019.

The company financial statements have been prepared in accordance with ANC Regulation 2017-03 approved by the Decree of November 3, 2017, and subsequent notices and recommendations of the French Accounting Standards Authority (ANC).

The methods used to present the financial statements are comparable year-on-year.

The general accounting conventions have been applied, in compliance with the principle of prudence, and in line with the following basic assumptions:

- going concern of operations,
- permanence of the accounting methods from one year to the next,
- independence of fiscal years,

and in line with the general rules for the establishment and presentation of annual financial statements.

The individual financial statements have been prepared on the basis of historical cost.

The preparation of the company’s financial statements leads management to make estimations and assumptions that could have an impact on the amounts reported in the balance sheet and in the income statement.

These estimations concern notably:

- the results of contracts in progress,
- the calculation of the amount of provisions for contingencies and charges and provisions for impairment.

These estimations are calculated by taking into account past experience, elements known at the closing date and any reasonable change assumptions.

Results realized subsequently may therefore differ from such estimations.

C0 WBMVBUJPO QSJODJQMFT

B1 Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are recognized at acquisition or production cost, less accumulated depreciation or amortization and impairment. Interest expense is not capitalized. Each identified component of an intangible asset or item of property, plant and equipment is recognized and depreciated or amortized separately.

Depreciation and amortization are calculated using the straight-line method. No residual value is taken into account, except for aircraft.

Property, plant and equipment and intangible assets are depreciated and amortized over their estimated useful lives. Useful lives are reviewed at each year-end for material non-current assets. Initial useful lives are extended or reduced depending on the conditions in which the assets is used.

Initial useful lives are determined as follows:

Software	3-4 years
Industrial buildings	20-25 years
Office buildings	20-25 years
Fixtures and fittings	7-15 years
Plant, equipment and tools	3-10 years
Aircraft	10-15 years
Rolling stock	4 years
Other property, plant and equipment	3-10 years
Used goods	on a case-by-case basis

B2 Impairment of assets

The Company conducts an impairment test if an indication of loss of value has been detected. Indications of impairment come from significant long-term adverse changes that affect the economic environment or the assumptions or objectives used by the Company.

Intangible assets and property, plant and equipment are impaired by the Company when the net carrying amount exceeds their current value. The amount of impairment recognized in income is equal to the difference between the net carrying amount and current value. The current value of an asset is the higher of its market value (less selling costs) and its value in use.

The value in use of an asset is calculated using the discounted future cash flow method, with a post-tax discount rate of 7.2% (compared to 7.5% as of December 31, 2017) and a 2% long-term growth rate (same as of December 31, 2017). The discount rate used includes the rates prevailing in the aviation industry and was calculated using the same method as in 2017. Post-tax cash flows are projected over a period not exceeding 5 years and the method takes into account a terminal value. These future cash flows result from the economic assumptions and projected operating conditions adopted by the Management.

Concerning the equity investment in Thales, when an impairment test is carried out, the operational and financial assumptions used come directly from data provided by Thales.

B3 Equity investments, other non-current and marketable securities

Gross values are represented by the purchase cost excluding incidental charges, except in the case of those subject to the 1976 legal revaluation. A provision for depreciation is recorded when the book value is lower than the gross value. The book value is the higher of its market value and its value in use.

Dassault Aviation evaluates the inventory value for listed investment securities based on the quotation for the reporting month and for unlisted securities, in the absence of any external valuation elements, according to the share in net assets.

B4 Inventories and work-in-progress

Incoming raw materials, semi-finished and finished goods inventories are measured at acquisition cost for items purchased and production cost for items produced. Outgoing inventories are valued at the weighted average cost, except for used aircraft which are stated at acquisition cost. Work-in-progress is measured at production cost and does not include interest expense.

Inventories and work-in-progress are impaired when their net realizable value is less than their carrying amount.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs for completion and making the sale. It takes into account the technical or commercial obsolescence of articles and the risks associated with their low turnover.

B5 Receivables

Receivables are stated at nominal value. A provision for impairment is recorded when the recoverable value is lower than the carrying amount.

B6 Borrowings

Borrowings are recorded at the amount received. Transaction costs are posted to expenses for the year.

B7 Regulated tax provisions

Regulated tax provisions appearing on the balance sheet include provisions for price increases and depreciation by derogation.

B8 Provisions for contingencies and charges

B8-1 Warranty provisions

Within the framework of sales or procurement contracts, Dassault Aviation has formal warranty obligations for the equipment, products and/or services (software development, systems integration, etc.) delivered.

These obligations can be distinguished between:

- "current" warranty: repair of defective equipment during the contractual warranty period or by implicit obligations, handling hardware or software malfunctions identified by the user following qualification and handover to users, etc.
- "regulatory" warranty: treatment by the manufacturer of any changes to the regulatory framework determined by the regulatory authorities or any regulatory non-compliance identified by the manufacturer or a user after delivery of materials or products.

Determining the amount of the warranty provisions is mainly done as follows:

- for the current equipment warranty: based on experience with recorded costs, depending on the warranty items covered contractually and the aircraft models in question;
- for handling of malfunctions or regulatory changes and nonconformities: based on estimates established by specialists from the business lines affected by the corrective actions to be implemented; these corrections have been identified in "technical files."

B8-2 Retirement payments and related benefits

Commitments to employees for retirement payments and related benefits are provisioned in full for the obligations remaining. The commitments are estimated for all employees on the basis of vested rights and a projection of current salaries, after taking into account the mortality risk, employee turnover, and a discounting assumption. The rates have been determined based on the yield for top-ranking corporate long-term bonds, with maturity equivalent to the duration of the calculated liabilities.

Actuarial gains or losses, or those gains or losses that are analyzed as such, are fully recognized in operating income in the period during which they are incurred.

The provision that appears in the balance sheet is the amount of the total commitment net of outsourced amounts.

B9 Hedging instruments

The Company uses derivative financial instruments to hedge its exposure to risks from fluctuations in exchange rates, interest rates and, more marginally, from fluctuations in commodity prices.

Exchange rates risks mainly arise from US dollar-denominated sales. The corresponding future cash flows are partially hedged using forward exchange contracts and currency options.

Interest rate risks result from variable rate borrowings contracted by the Group. Interest rate risks are hedged using interest rate swaps.

The effects of the hedge, including the carrying forward / backwardation, are recorded at the rhythm of the hedged item and follow the same classification as the hedged item, i.e. the operating profit.

Premiums paid or received on the purchase or potential sale of options are recognized as income only at the expiration of these options, with the exception of the premiums relating to "zero premium" hedging strategies, which are immediately recognized as income to avoid temporary timing differences.

Hedging instruments are off-balance sheet commitments with the exception of those that hedge balance sheet positions that are accounted for in cash instruments.

B10 Foreign currency transactions

Expenses and income in foreign currencies are recognized at their equivalent value in euros on the date of the payment or settlement transaction, with the exception of the net flows associated with global foreign exchange hedging, which are recorded at the hedge rate for the year.

Currency receivables and payables outstanding at year-end are revalued into euros at the closing rate of exchange.

When the application of the translation rate on the closing date has the effect of modifying the amounts in euros previously recognized, the currency translation differences are booked to suspense accounts:

- unrealized translation losses to assets,
- unrealized translation gains to liabilities.

An overall foreign exchange position is calculated by maturity of unhedged receivables and debts. When an overall foreign exchange position by maturity is a latent loss, a provision is set up for that risk.

Translation gains and losses arising on cash at bank and in hand as of December 31 are recognized on the income statement.

B11 Net sales and key figures

The results on completion are based on estimations of net sales and costs at completion (taking into account the Program Departments' forecasts) which are revised as the contract progresses and take into account the latest known events at the closing date. The potential losses on completion are recognized as soon as they are known.

Sales of goods and development contracts:
Net sales and net income are recognized when Dassault Aviation has transferred the main risks and benefits of ownership to the buyer, and it is probable that the future economic benefits will benefit the company.

As a general rule, net sales are recognized upon delivery of goods or development services. The corresponding costs are valued on the basis of net income at completion estimated in the contract. If the estimated costs are lower than the actual costs, the difference is classified as work-in-progress. If the estimated costs are higher than the actual costs, a provision for services and work still to be performed is recognized at closing.

Other service contracts:
Income from sales of services is recognized under the percentage of completion method according to the 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' share).

B12 Unrealized capital gains on marketable securities

Unrealized capital gains on marketable securities are not recognized in the income statement until effectively realized. The tax charge relating to unrealized gains is recorded under prepayments until the gain is recognized in financial income.

This method, which constitutes a departure from the general principle of full recognition of deferred taxes, has been adopted to provide a fairer presentation of the results of the Company.

B13 Treasury shares

The book value of treasury shares at year-end is determined by the average market price in the month before closing. If the market price is lower than the purchase value, an impairment is recorded, with the exception of securities being canceled or shares held for allotment under a defined plan.

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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.

O f 3. J b h c f b f b e f - b b e f f

3/2 J b h c f b f

(in EUR thousands)	2304203128	Bd B db	E b Sf f b	P i f	2304203129
H b f					
Software, patents, licenses and similar assets	110,531	3,588	-12	776	114,883
Construction in progress; advances and progress payments	1,181	3,921	0	-776	4,326
	222-823	**8-61:**	**.23**	**1**	**22: -31:**
B f b					
Software, patents, licenses and similar assets	-96,799	-7,139	12	0	-103,926
	.: 7-8: :	**.8-24:**	**23**	**1**	**.214-: 37**
Of b f					
Software, patents, licenses and similar assets	13,732				10,957
Construction in progress; advances and progress payments	1,181				4,326
U b	**25-: 24**	**481**	**1**	**1**	**26-394**

3/3 Q f - b b e f f

(in EUR thousands)	23042031 28	Bd B db	E b Sf f b	P i f	23042031 29
H b f					
Land	35,140	3,091	-75	58	38,214
Buildings	298,361	4,362	-1,351	2,431	303,803
Plant, equipment and machinery	506,114	32,700	-10,665	7,215	535,364
Other property, plant and equipment	185,571	46,248	-6,943	2,417	227,293
Construction in progress; advances and progress payments	24,944	24,787	-9,547	-12,121	28,063
	2-161-241	**222-299**	**.39-692**	**1**	**2-243-848**
B b					
Land	-7,998	-780	66	0	-8,712
Buildings	-206,457	-11,691	1,304	0	-216,844
Plant, equipment and machinery	-423,346	-26,440	10,481	0	-439,305
Other property, plant and equipment	-110,583	-11,726	6,360	0	-115,949
	.859-495	**.61-748**	**29-322**	**1**	**.891-921**
J b f (1)					
Other property, plant and equipment	-7,376	-5,235	7,376	0	-5,235
	.8-487	**.6-346**	**8-487**	**1**	**.6-346**
Of b f					
Land	27,142				29,502
Buildings	91,904				86,959
Plant, equipment and machinery	82,768				96,059
Other property, plant and equipment	67,612				106,109
Construction in progress; advances and progress payments	24,944				28,063
U b	**3: 5-481**	**66-427**	**.3-: : 5**	**1**	**457-7: 3**

(1) impairment tests on property, plant and equipment (see Paragraph B2 of the Accounting rules and methods):

A provision of EUR 5,235 thousand was recognized in 2018 on capitalized aircraft.

The impairment tests carried out on property, plant and equipment did not indicate any other impairment to be recognized as of December 31, 2018.

O f 4. G b db b f

(in EUR thousands)	23042031 28	Bd B db	E b Sf f b	P i f	23042031 29
Equity associates (1)	2,191,238	6,488	-3,726	0	2,194,000
Receivables from equity investments	4,000	12,863	0	0	16,863
Other investment securities	37,387	0	0	0	37,387
Loans	1,152	1,210	-266	0	2,096
Other financial assets	31,962	681	-86	0	32,557
U b	**3-376-84:**	**32-353**	**.5-189**	**1**	**3-393-: 14**
Provisions	-6,386	-3,424	6,232	0	-3,578
Of b f	**3-36: -464**	**28-929**	**3-265**	**1**	**3-38: -436**

(1) inc. Thales: EUR 1,984,272 thousand.

Market price of Thales shares and impairment test:

Based on the market price of the Thales share as of December 31, 2018 (EUR 102.00 per share), Dassault Aviation's stake in Thales is valued at EUR 5,358 million.

In the absence of any objective indication of impairment, the Thales investment had not been subject to an impairment test as of December 31, 2018.

The absorption of Dassault International Inc. by Dassault Falcon Jet during the second half of 2018 led to an exchange of Dassault International Inc. investment securities by Dassault Falcon Jet with no impact on the result.

Nb gg b db b f

(in EUR thousands)	U b	X i 2 fb	N f i b 2 fb
Receivables from equity investments	16,863	33	16,830
Loans	2,096	180	1,916
Other financial assets	32,557	0	32,557
U b	**62-627**	**324**	**62-414**

O f 4. G b db b f)d fe

B/M g c eb f b eb db f i bh b f f dffe h2 g i f d 1 b ' i b f db b b e i di i f D 1 b i e b fb 21 g i f i b f

Companies or groups of companies (in EUR thousands)	Capital	Equity other than capital	Share of the capital held (%)	Book value of securities		Loans and advances granted by the Company	Amount of deposits and guaran-tees provided by the Company	Net sales of the most recent fiscal year	Net income (+)/loss (-) of the most recent fiscal year	Dividends received by the Company during the fiscal year
				Gross	Net					
2/T c eb f) f i b 61 fe										
b/G f di c eb f										
Dassault Falcon Service	3,680	100,392	*99.99*	59,453	59,453	0	0	172,483	5,519	0
Dassault International	1,529	25,388	*99.63*	19,236	19,236	0	0	586	5,311	0
Dassault Réassurance	10,459	8,761	*99.99*	10,133	10,133	0	0	1,055	26	0
Dassault Aviation Participations	4,037	-54	*100.00*	4,037	4,037	0	0	0	-4	0
Sogitec Industries	4,578	216,359	*99.80*	25,446	25,446	0	0	196,549	34,533	0
U b				**229-416**	**229-416**	**1**	**1**			**1**
c/G f h c eb f										
Dassault Falcon Jet	9,919	793,911	*100.00*	40,459	40,459	0	46,458	1,256,621	27,001	0
Dassault Falcon Business Services (China)	1,487	874	*100.00*	2,294	2,294	0	0	2,332	224	0
U b				**53-864**	**53-864**	**1**	**57-569**			**1**
U b T c eb f				**272-169**	**272-169**	**1**	**57-569**			**1**
3/F b db f)cf ff 21 b e 61 fe										
b/G f di b db f										
Corse Composites Aéronautiques (1)	1,707	9,652	*24.81*	996	996	0	0	67,494	1,444	0
Eurotradia International (1)	3,000	24,263	*16.53*	3,099	3,099	0	0	29,860	-4,960	0
Thales (2)	639,300	6,330,100	*24.65*	1,984,272	1,984,272	0	0	228,600	453,400	94,557
U b				**2-: 99-478**	**2-: 99-478**	**1**	**1**			**: 5-668**
c/G f h b db f (1)										
Dassault Reliance Aerospace Limited	1,725	-498	*49.00*	3,717	3,717	16,863	0	78	-492	0
Reliance Airport Developers Limited	895	7,984	*34.79*	39,962	39,962	0	0	7	-13	0
U b				**54-78:**	**54-78:**	**27-974**	**1**			**1**
U b b db f				**3-143-157**	**3-143-157**	**27-974**	**1**			**: 5-668**

(1) information available: Corse Composites Aéronautiques and Eurotradia International 12/31/2017 - Dassault Reliance Aerospace Limited and Reliance Airport Developers Limited 03/31/2018.

(2) Parent company financial statements.

O f 4. G b db b f)d f e

C/P i f c e b f b e b db f

H cb g b (in EUR thousands)	C b f g fd f		M b b e be b df h b e c i f D b	B g ef b e h b b f f e e c i f D b	E e f df e c i f D b e h i f g db f b
	H	Of			
2/T c e b f					
a. French subsidiaries	570	570	0	0	0
b. Foreign subsidiaries	0	0	0	0	0
U b	**681**	**681**	**1**	**1**	**1**
3/B db f					
a. French associates	5,540	2,545	0	0	0
b. Foreign associates	32,172	31,743	790	0	306
U b	**48-823**	**45-399**	**8: 1**	**1**	**417**

D/Hf f b g b fd f)B, C

H cb g b (in EUR thousands)	C b f g fd f		M b b e be b df h b e c i f D b	B g ef b e h b b f f e e c i f D b	E e f df e c i f D b e h i f g db f b
	H	Of			
2/T c e b f					
a. French subsidiaries	118,875	118,875	0	0	0
b. Foreign subsidiaries	42,753	42,753	0	46,458	0
U b	**272-739**	**272-739**	**1**	**57-569**	**1**
3/B db f					
a. French associates	1,993,907	1,990,912	0	0	94,557
b. Foreign associates	75,851	75,422	17,653	0	306
U b	**3-17: -869**	**3-177-445**	**28-764**	**1**	**: 5-974**
H b e b	**3-342-497**	**3-338-: 73**	**28-764**	**57-569**	**: 5-974**

O f 5. J f f b e . . h f

(in EUR thousands)	2304203129			2304203128
	H	J b f	Of	Of
Raw materials	182,032	-86,591	95,441	97,025
Work-in-progress	2,878,344	0	2,878,344	2,613,868
Semi-finished and finished goods	603,394	-209,625	393,769	552,181
U b	**4-774-881**	**.3: 7-327**	**4-478-665**	**4-374-185**

On December 31, 2017, the Company has assessed a first impact of the end of the Falcon 5X program on its assets and liabilities. Following the cancellation in 2018 of the last Falcon 5X customers' orders, the Company carried out a new evaluation of these impacts. As a consequence, the Company has notably reduced the net value of inventories and work-in-progress relating to the F5X program to zero.

O f 6. J f f b f

No interest is included in the value of inventories and work-in-progress.

O f 7. U bef b e i f f df bc f

7/2 Ef b

(in EUR thousands)	2304203129			2304203128
	H	J b f	Of	Of
U bef f df bc f				
Trade receivables	744,796	-57,122	687,674	435,484
	855-8: 7	**.68-233**	**798-785**	**546-595**
P i f f df bc f b e f b f				
Other receivables	346,704	0	346,704	330,809
Prepayments	246,409	0	246,409	149,499
Sundry accounts	17,936	0	17,936	23,423
	722-15:	**1**	**722-15:**	**614-842**
U b	**2-466-956**	**.68-233**	**2-3: 9-834**	**: 4: -326**

The percentage of outstanding receivables not written-down at year-end is regularly monitored individually.

7/3 Bhf ef c di f e f

(in EUR thousands)	2304203129			2304203128		
	U b	X i 2 fb	N f i b 2 fb	U b	X i 2 fb	N f i b 2 fb
Trade receivables (1)	744,796	616,112	128,684	500,848	395,910	104,938
Other receivables	346,704	277,704	69,000	330,809	330,623	186
Prepayments	246,409	168,082	78,327	149,499	149,499	0
Sundry accounts	17,936	17,936	0	23,423	23,423	0
U b	**2-466-956**	**2-18: -945**	**387-122**	**2-115-68:**	**9: : -566**	**216-235**

(1) including receivables represented by commercial paper: EUR 66,162 thousand as of December 31, 2018 and EUR 69,519 thousand as of December 31, 2017.

O f 8. Bdd fe d f

Bdd fe d f d efe i f g h cb b df i f f f (in EUR thousands)	2304203129	2304203128
Trade receivables	452,110	230,512
Other receivables and prepayments (1)	76,702	18,132
Marketable securities	201	5
Cash at bank and in hand	952	527
U b	**63: -: 76**	**35: -287**

(1) including tax credit for competitiveness and employment (CICE): EUR 7,695 thousand in 2018 and EUR 8,737 thousand in 2017. On the income statement, it is recorded as a deduction from personnel expenses. In 2018, it was used to improve production tools through the acquisition and replacement of equipment, particularly in relation to the implementation of projects to maintain operating conditions, improve working conditions, improve productivity and reduce costs.

O f 9. Qf bef f f b efgf fe d f

(in EUR thousands)	2304203129	2304203128
Operating income	157,327	137,541
Operating expenses (1)	246,409	149,499

(1) income tax on unrealized capital gains 142,756 140,966

O f :. Eggf f df fb f f g b f bc f fd f

Nb f bc f fd f b edb i f (in EUR thousands)	2304203129	2304203128
Marketable securities and cash instruments - gross balance sheet value	2,834,227	2,920,842
Marketable securities and cash instruments - market value	3,216,163	3,297,958

O f 21 . Ti b f db b b e fb i b f

21 /2 Ti b f db b

The share capital amounts to EUR 66,790 thousand and consists of 8,348,703 common shares of EUR 8 each as of December 31, 2018. As of December 31, 2017, share capital amounted to EUR 66,495 thousand and consisted of 8,311,921 shares. In 2018, 36,782 new common shares were created following the option offered to shareholders to receive all or part of the 2017 dividend in shares.

21 /3 U fb i b f

Movements on treasury shares are detailed below:

(in number of shares)	31 29	31 28
U fb i b f b g b b [redacted] 2	**49-711**	**4: -661**
Purchase of treasury shares	0	0
Cancellation of shares	0	0
Share-based payments	-1,425	-950
U fb i b f b gEfdf T [redacted]f 42	**48-286**	**49-711**

The 37,175 treasury shares held a[redacted] of December 31, 2018 are allocated to potential allocations of performance shares and to a potential liquidity contract to guar[redacted]ntee market activity.

21 /4 Ti b f .cb f e b [redacted] f

Performance shares were granted to corporate officers at the Board of Directors meetings of March 7, 2017 and March 7, 2018 (characteristics are described in paragraph 5.5 of the Director's Report).

A total of 1,425 performance shares were acquired by corporate officers on March 07, 2018, as the performance conditions set by the Board of Directors on March 07, 2017 were achieved.

Shares granted and not yet vested are subject to performance conditions.

H b ob f	Wf b f o	O T cf g i b f	O T cf g i b f	O T cf g i b f	Cb b df g f g b df

[redacted]

[redacted]

O f 23 . Sf f f

23/2 Sf f f

(in EUR thousands)	23042031 29	23042031 28
Revaluation difference	4,136	4,136
Legal reserve	6,650	6,601
Retained earnings	2,195,574	2,012,726
U b	**3-317-471**	**3-134-574**

23/3 Sf b b f f f

(in EUR thousands)

2/ Statement of changes in equity excluding net income for the year (in EUR thousands)

	Cfg f b b g3128 f 23042031 29		Bgf b b g3128 f 23042031 29
B .			
1. 2017 closing equity excluding net income for the year	2,287,587		2,287,587
2. 2017 net income before appropriation	309,500		
3. Appropriation of 2017 net income to net equity by the Shareholders' Meeting			182,897
4. 2018 equity at opening	2,597,087		2,470,484
C . Bee b b e. db b - fggfd f f bd f cfh h g3129			**1**
1. Change in capital		0	
2. Change in other items		0	
D .) B5 , C F b 3129 f h			**3-581-595**
E . Di b hf e h i f fb f d e h 3129 f d ꜙ f			**71-894**
1. Change in capital (1)		295	
2. Change in additional paid-in capital, reserves, retained earnings (1)		60,937	
3. Revaluation offsetting entries – Reserve			
4. Change in tax provisions and investment subsidies		-449	
5. Other changes		0	
F . 3129 d h f f d e h 3129 f d ꜙ f cfg f BHN) D , E			**3-642-378**
G. U b di b hf f 3129 f d e h 3129 f d ꜙ f) F . D			**71-894**

(1) the General Meeting of May 24, 2018 proposed an option for payment in shares for the 2017 dividend to each shareholder. As a result, on June 27, 2018, the Company's capital was increased to EUR 66,790 thousand and a share premium of EUR 60,937 thousand was recorded in the financial statements.

Note 14 - Provisions

14.1 Provisions

(in EUR thousands)	12/31/2017	Allocations	Reversals	Other	12/31/2018
Regulated provisions					
For price increases	65,834	9,293 (3)	-11,434 (3)	0	63,693
Depreciation by derogation	52,418	14,206 (3)	-11,814 (3)	0	54,810
Realized gains reinvested	18	0 (3)	0 (3)	0	18
	118,270	**23,499**	**-23,248**	**0**	**118,521**
Provisions for contingencies and charges					
Operating	940,321	493,892 (1)	-210,413 (1)	0	1,223,800
Financial	0	0 (2)	0 (2)	0	0
Non-recurring	0	0 (3)	0 (3)	0	0
	940,321	**493,892**	**-210,413**	**0**	**1,223,800**
Provisions for impairment					
On intangible assets	0	0 (1)	0 (1)	0	0
On property, plant and equipment	7,376	5,235 (1)	-7,376 (1)	0	5,235
On financial assets	6,386	3,424 (2)	-6,232 (2)	0	3,578
On inventories and work-in-progress	490,186	296,216 (1)	-490,186 (1)	0	296,216
Trade receivables	65,364	57,122 (1)	-65,364 (1)	0	57,122
On marketable securities	0	150 (2)	0 (2)	0	150
	569,312	**362,147**	**-569,158**	**0**	**362,301**
Total	**1,627,903**	**879,538**	**-802,819**	**0**	**1,704,622**

Allocations and reversals	{ - Operating	852,465 (1)	-773,339 (1)
	{ - Financial	3,574 (2)	-6,232 (2)
	{ - Non-recurring	23,499 (3)	-23,248 (3)
		879,538	**-802,819**

14.2 Details of provisions for contingencies and charges

(in EUR thousands)	12/31/2017	Allocations	Reversals	Other	12/31/2018
Operating					
Retirement payments and related benefits (1)	211,409	25,596	-85,360	0	151,645
Early retirement (2)	15,908	0	-10,591	0	5,317
Warranty (3)	594,000	324,600	-47,300	0	871,300
Services and work to be performed (3)	114,456	139,611	-62,614	0	191,453
Foreign exchange losses	4,548	4,085	-4,548	0	4,085
	940,321	**493,892**	**-210,413**	**0**	**1,223,800**
Financial					
Other	0	0	0	0	0
	0	**0**	**0**	**0**	**0**
Non-recurring					
Other	0	0	0	0	0
	0	**0**	**0**	**0**	**0**
Total provisions for contingencies and charges	**940,321**	**493,892**	**-210,413**	**0**	**1,223,800**

(1) provisions for retirement payments and related benefits:

Retirement payment commitments are calculated for all employees using the projected unit credit method. They are provisioned in full for the remaining obligations.

Employment projections are weighted using French insurance code mortality rates and the recorded employee turnover rate (this may vary according to age). The obligations is estimated and prorated to the employee's length of service at the end of the period in relation to his total career expectancy (see Accounting principles B8-2).

The calculation takes into account the following annual assumptions: salary increase of 3.93% and discount rate of 1.6%.

The Company decided to outsource a portion of its commitments by purchasing an insurance policy for EUR 300,000 thousand, of which EUR 50,000 thousand in 2018.

As of December 31, 2018, the balance of the provision for long-service awards was EUR 3,248 thousand.

(2) provision for early retirement:

The provision corresponds to the expenditures expected for the funding of the period of inactivity of the relevant employees until the age of retirement.

(3) provisions for warranties, services and work to be performed:

Provisions are updated to reflect changes to the fleet in service and contracts delivered. For 2018, this change is mainly related to the military contracts delivered.

Note 15 - Borrowings and financial debt

(in EUR thousands)	12/31/2018	12/31/2017
Bank borrowings (1)	875,421	950,529
Other financial debt (2)	113,364	142,517
Total	**988,785**	**1,093,046**

(1) initially variable rate, loans subscribed by the company were swapped at a fixed rate. The contracts for these loans include the usual default clauses and restrictions in terms of security conditions and merger or sale transactions. One of the loan clauses stipulates an early repayment would be demanded if GIMD were to hold less than 50% of the capital of Dassault Aviation before the loan maturity date. These loans do not contain any accelerated repayment or prepayment clauses based on rating or financial ratios.

These loans are denominated in euros, and EUR 625 million is repayable in 2019 and EUR 250 million in 2020.

(2) as of December 31, 2018 and December 31, 2017, other financial debt mainly includes locked-in employee profit-sharing funds.

There are no participating loans.

Note 16 - Maturity of borrowings

(in EUR thousands)	Total	Within 1 year	Between 1 and 5 years	More than 5 years
Bank borrowings (1)	875,421	625,413	250,008	0
Other financial debt (1)	113,364	31,160	82,129	75
Trade payables (2)	758,997	758,997	0	0
Tax and social security liabilities	252,743	252,743	0	0
Liabilities on fixed assets and related accounts	5,448	5,448	0	0
Other liabilities	160,675	160,675	0	0
Total	**2,166,648**	**1,834,436**	**332,137**	**75**

(1) see Note 15.

(2) including liabilities represented by commercial paper: EUR 77,484 thousand.

Note 17 - Other liabilities, cash instruments, accruals and deferred income

(in EUR thousands)	12/31/2018	12/31/2017
Tax and social security liabilities	252,743	200,498
Liabilities on fixed assets and related accounts	5,448	5,440
Accruals and deferred income	160,675	115,224
Translation gains to liabilities	157,327	137,541
Accruals and deferred income	15,622	20,703
Cash instruments	9,456	10,075
Total	**601,271**	**489,481**

Note 18 - Accrued expenses

Accrued expenses included in the following balance sheet items (in EUR thousands)	**12/31/2018**	**12/31/2017**
Borrowings and financial debt (1)	1,116	1,319
Trade payables	570,945	521,910
Other payables and deferred income	279,444	218,007
Total	**851,505**	**741,236**

(1) including accrued interest on loans from credit institutions: EUR 405 thousand as of December 31, 2018 and EUR 499 thousand as of December 31, 2017.

Note 19 - Notes on affiliated companies and equity associates

(in EUR thousands)	**Amount relating to**	
	affiliated companies	**Companies with a shareholding link**
Equity investments	161,889	2,032,111
Receivables from equity investments	0	16,863
Loans and other financial assets	31,879	0
Advances and progress payments to suppliers	149,955	1,932,505
Trade receivables	165,835	4,086
Other receivables	790	0
Customer advances and progress payments on orders	155,954	107
Trade payables	206,899	20,095

Note 20 - Net sales

(in EUR thousands)	**2018**	**2017**
A) By product:		
Finished goods	3,163,609	3,225,924
Services	1,235,302	958,444
Total	**4,398,911**	**4,184,368**
B) By geographic region:		
France	1,075,301	568,918
Export (1)	3,323,610	3,615,450
Total	**4,398,911**	**4,184,368**

(1) the net sales realized as part of Rafale Export contracts are recognized on a gross basis (including the co-contractors parts).

Note 21 - Research and development costs

Research and development costs are recognized in expenses as incurred and represent:

(in EUR thousands)	2018	2017
Research and development costs	-371,771	-281,679

The Company's research and development strategy and initiatives are described in the Director's Report.

Note 22 - Net financial income

(in EUR thousands)	2018	2017
Investment income (1)	94,666	86,774
Income from other securities and assets	329	1,351
Other interest and similar income	12,726	1,137
Reversals of provisions for foreign exchange losses	0	11,886
Reversals of provisions for equity investments	6,232	4,313
Net gains on sale of marketable securities	0	292,385
Financial income	**113,953**	**397,846**
Allocation to provisions for equity investments	-3,424	-6,232
Allocations to provisions for marketable securities	-150	0
Interest and similar expenses	-9,679	-11,118
Foreign exchange losses (2)	0	-149,490
Net losses on sales of marketable securities	-8,011	0
Financial expenses	**-21,264**	**-166,840**
Net financial income	**92,689**	**231,006**

(1) in 2018, the Company received EUR 68,291 thousand in Thales dividends for 2017 and EUR 26,266 thousand in interim dividends for 2018. In 2017, Thales paid the Company EUR 63,038 thousand in dividends for 2016 and EUR 23,639 thousand in interim dividends for 2017.

(2) in 2017, foreign exchange losses for the period include the restructuring costs of the currency hedging portfolio, necessitated by the decline in commercial flows related to the Falcon activity.

Note 23 - Non-recurring items

(in EUR thousands)	2018	2017
Gains on sales of assets		
- Property, plant and equipment	844	487
- Financial assets	3,726	28,965
	4,570	**29,452**
Other non-recurring income (1)	**241,050**	**63**
Reversals of regulated provisions		
- For price increases	11,434	6,564
- For medium-term credit risks	0	211
- Depreciation by derogation	11,814	12,358
- Realized gains reinvested	0	0
	23,248	**19,133**
Non-recurring income	**268,868**	**48,648**
Non-recurring expenses on operating activities	**0**	**-12**
Carrying value of assets sold		
- Intangible assets	0	0
- Property, plant and equipment	-822	-326
- Financial assets	-3,727	-28,965
	-4,549	**-29,291**
Other non-recurring expenses	**-296**	**-133,551**
Allocations to regulated provisions		
- For price increases	-9,293	-7,718
- Depreciation by derogation	-14,207	-11,354
	-23,500	**-19,072**
Other non-recurring provisions	**0**	**0**
Non-recurring expenses	**-28,345**	**-181,926**
Non-recurring items	**240,523**	**-133,278**

(1) see Note 26.

Note 24 - Analysis of corporate income tax

(in EUR thousands)	Income before tax	Corporate income tax	Long-term capital gains tax	Income after tax
Current income	490,753	-107,518	0	383,235
Non-recurring items (including profit-sharing and incentive schemes)	109,688	-50,485	0	59,203
Net income	600,441	-158,003	0	442,438
		-158,003	(1)	

(1) including Research Tax Credit: EUR 31,198 thousand.

Note 25 - Off-balance sheet commitments

The Company's off-balance sheet commitments essentially concern its operating activities and break down as follows:

Commitments given (in EUR thousands)	**12/31/2018**	**12/31/2017**
Commitments in connection with the performance of operating contracts	12,142,096	11,552,953
Guarantees and deposits	46,458	55,366
Commitments guaranteed with bank deposits	1,688,860	1,526,242
Total	**13,877,414**	**13,134,561**

Commitments received (in EUR thousands)	**12/31/2018**	**12/31/2017**
Backlog	18,425,600	18,505,400
Other commitments in connection with the performance of operating agreements	1,633,129	1,633,129
Collateral	71,029	80,508
Bpifrance Assurance Export guarantees	62,854	66,043
Commitments guaranteed with bank deposits	11,684	8,720
Total	**20,204,296**	**20,293,800**

Operating leases (in EUR thousands)	**Total**	**Within 1 year**	**More than 1 year**
Minimum future payments not subject to cancellation (not discounted)	**113,598**	40,436	73,162

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

Note 26 - Contingent assets and liabilities

At the end of 2017, Dassault Aviation initiated negotiations with Safran Aircraft Engines to obtain compensation for its damages as part of the termination process of the Silvercrest contract leading to the end of the Falcon 5X program. In 2018, Dassault Aviation signed an amicable agreement with Safran that settled their dispute over the Silvercrest engine that was expected to equip the Falcon 5X. Under the terms of this agreement, Dassault Aviation received an indemnity of USD 280 million from Safran. The corresponding income was recognized in other non-recurring income as of December 31, 2018.

There are no more contingent assets or liabilities as of December 31, 2018.

Note 27 - Financial instruments: dollar foreign exchange transaction portfolio

Dassault Aviation is exposed to a foreign exchange risk on its Falcon sales that are almost all denominated in US dollars. This risk is partially hedged by using forward currency contracts and foreign exchange options.

The financial instruments held by Dassault Aviation are valued below at market value.

Market value represents the amounts received or paid in the event of total liquidation of the portfolio; the equivalent in euros is calculated on the basis of the price of the dollar at year-end. This is not representative of the actual gain/loss which will be recognized when the transactions are made.
The portfolio market value is therefore provided for information only. All derivatives subscribed by the Company are for hedging purposes. The subscribed options are derivatives with an optimization component without additional risk taking.

	12/31/2018		12/31/2017	
Market value	In USD thousands	In EUR thousands	In USD thousands	In EUR thousands
Foreign exchange options	-11,022	-9,626	34,320	28,617
Forward transactions	32,049	27,990	167,254	139,460
Total	**21,027**	**18,364**	**201,574**	**168,077**

Sensitivity testing of foreign exchange derivatives

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

Market value of the portfolio (in EUR thousands)	12/31/2018		12/31/2017	
Net balance sheet position	18,364		168,077	
Closing US dollar/euro exchange rate	1 EUR = 1.1450 USD		1 EUR = 1.1993 USD	
Closing dollar/ euro exchange rate +/- 10 cents	1.2450 $/€	1.0450 $/€	1.2993 $/€	1.0993 $/€
Change in net balance sheet position (1)	+157,947	-190,721	+208,996	-247,822

(1) data calculated based on existing market conditions on the balance sheet dates. They are not representative of the actual gain/loss to be recognized when the transactions are made.

Note 28 - Impact of tax valuations by derogation

(in EUR thousands)	12/31/2018	12/31/2017
Net income for the year	442,438	309,500
Income tax	158,003	68,912
Income before tax	**600,441**	**378,412**
Depreciation by derogation	2,392	-1,004
Provision for price increases	-2,141	1,154
Provision for medium-term risks	0	-211
Increase in regulated provisions	**251**	**-61**
Net income excluding tax valuations by derogation (before tax)	**600,692**	**378,351**

Note 29 - Increases and reductions in deferred tax

(in EUR thousands)	12/31/2018	12/31/2017
Regulated provisions:		
- For price increases	63,693	65,834
- Depreciation by derogation	54,810	52,418
- Realized gains reinvested	18	18
Basis for increases	**118,521**	**118,270**
Increases in deferred tax	***40,807***	***52,547***
Items not deductible in the current year:		
- Employee profit-sharing	110,835	74,019
- Retirement payments and related benefits	147,610	207,365
- For early retirement	5,317	8,052
Other temporary timing differences	782,236	667,513
Basis for reductions	**1,045,998**	**956,949**
Reductions in deferred tax	***360,137***	***425,172***
Long-term capital losses	0	0

Tax rate as of December 31, 2018 of 34.43% compared to 44.43% as of December 31, 2017.

Note 30 - Compensation of corporate officers

Total compensation received by corporate officers, as detailed in the report of the Board of Directors on Corporate Governance, amounted to EUR 4,735,292 for 2018.

Note 31 - Average number of employees

	Salaried employees
Managers	4,854
Supervisors and technicians	1,980
Employees	393
Workers	881
2018 total	**8,108**
2017 total	8,155

Note 32 - Environmental information

Dassault Aviation recognized environmental capital expenditures amounting to EUR 2,480 thousand and posted approximately EUR 637 thousand in expenses allocated to risk, impact and regulatory compliance analyses.

Dassault Aviation did not have to recognize any environmental liabilities.

Note 33 - Five-year results summary

Nature of information (in EUR thousands except for point 3, stated in EUR/share)	**2014**	**2015**	**2016**	**2017**	**2018**
1 / Financial position at year-end					
a. Share capital	73,710	72,980	66,006	66,495	66,790
b. Number of shares outstanding	9,213,754	9,122,538	8,250,785	8,311,921	8,348,703
2 / Summary of operating results					
a. Net sales, excluding tax	3,194,910	3,325,998	3,161,147	4,184,368	4,398,911
b. Earnings before tax, depreciation, amortization and provisions	308,162	216,355	324,766	513,312	734,937
c. Corporate income tax	64,837	42,327	29,954	68,912	158,003
d. Earnings after tax, depreciation, amortization and provisions	272,135	283,254	256,696	309,500	442,438
e. Dividends paid (1)	92,138	110,383	99,834	127,172	176,993 (2)
3 / Earnings per share in euros					
a. Earnings after tax, but before depreciation, amortization and provisions	26.4	19.1	35.7	53.5	69.1
b. Earnings after tax, depreciation, amortization and provisions	29.5	31.0	31.1	37.2	53.0
c. Dividend paid per share	10.0	12.1	12.1	15.3	21.2 (2)
4 / Personnel					
a. Average number of employees during the year	8,106	8,284	8,396	8,155	8,108
b. Total personnel expenses	449,978	472,158	472,939	475,416	492,506
c. Social security and other staff benefits	241,998	252,729	253,882	250,896	266,212
5 / Employee profit-sharing	**63,367**	**66,629**	**59,895**	**74,019**	**110,835**
6 / Incentive payments	**20,000**	**21,000**	**20,000**	**20,000**	**20,000**

(1) dividends of EUR 126,604 thousand were paid for the year ended December 31, 2017, of EUR 99,367 thousand for the year ended December 31, 2016, of EUR 105,422 thousand for the year ended December 31, 2015, and of EUR 87,126 thousand for the year ended December 31, 2014, net of dividends on treasury shares.
(2) proposed by the Board of Directors to the Annual General Meeting, subject to the dividend not paid to treasury shares at the time of payment.

Statutory auditors' report on the financial statements

Year ended December 31, 2018

To the General Meeting of Dassault Aviation Company,

Opinion

In compliance with the engagement entrusted to us by our annual General Meeting, we have audited the accompanying financial statements of Dassault Aviation Company for the year ended December 31, 2018.

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, 2018 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, 2018 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 relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement which, 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.

<table>
<tr><th>Risk identified</th><th>Our response</th></tr>
<tr><td>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 warranties therefore constitute a commitment for the Company. The costs of this commitment must 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, warranty provisions are determined by complex models that involve the judgment of several Operational Departments.

Management’s valuation of these commitments caused Dassault Aviation to recognize warranty provisions of €871.3 million as at December 31, 2018.

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.</td><td>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 internal controls that we considered relevant to our audit.

In addition, our work consisted in:
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.</td></tr>
</table>

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, during the transfer to the purchaser of the principal risks and benefits 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 in 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 2018, Defense net sales recognized by the company amounted to €2,373 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.	Based on 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 internal controls that we considered relevant to our audit. As part of our audit, our work consisted in: - Testing controls for net sales and cost forecasts with respect to contracts; - Corroborating the stage of progress used in the 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 on 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.

Specific Verifications

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 as to 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 shareholders with respect to the financial position and the financial statements.

We attest the fair presentation and the consistency with the financial statements of the information relating to payment deadlines mentioned in Article D.441-4 of the French Commercial Code.

Report on corporate governance

We attest that the Board of Directors report on corporate governance sets out the information required by Articles L. 225-37-3 and L. 225-37-4 the French Commercial Code.

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

Other Information

In accordance with French law, we have verified that the required information concerning 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, 2018, audit firm Deloitte & Associés and audit firm Mazars were in the 17th year and 29[illegible]

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

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 that 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 which, 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 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.

Paris-La Défense and Courbevoie, March 7, 2019

The Statutory Auditors

Deloitte & Associés	Mazars
Jean-François Viat	Mathieu Mougard

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, 2018

Dear Shareholders,

In our capacity as Statutory Auditors of your Company, we are submitting our report on the regulated agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the principal terms and conditions of those agreements and commitments, as well as the reasons justifying their interest for the Company, indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any other agreements and commitments. It is your responsibility, pursuant to Article R. 225-31 of the French Commercial Code (Code de Commerce), 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 performed those procedures which we considered necessary to comply with professional guidance issued by the National Order of the Accountants (Compagnie Nationale des Commissaires aux Comptes) relating to this type of engagement. Those standards require that we check that the information provided to us is consistent with the relevant source documents.

I. AGREEMENTS AND COMMITMENTS SUBMITTED TO THE GENERAL MEETING FOR APPROVAL

Agreements and commitments authorized and/or entered into during the past fiscal year

In accordance with Article L. 225-40 of the French Commercial Code (Code de commerce), we have been advised of the following agreement, entered into after closing, which was subject to the prior approval of your Board of Directors in the past financial year.

With Sogitec Industries SA (Sogitec), a subsidiary in which Dassault Aviation holds 99.99%

Persons concerned

Eric Trappier (Chief Executive Officer), Loïk Segalen (Chief Operating Officer) and Charles Edelstenne (Director), also Directors of Sogitec.

Type and purpose

Termination of all agreements with Sogitec as a result of the transfer of the Documentation and Training activities to Dassault Aviation

Terms and conditions

On December 13, 2018, the Board of Directors authorized the signature of an agreement between Dassault Aviation and Sogitec terminating all agreements with Sogitec due to the transfer of the Documentation and Training activities to Dassault Aviation that Sogitec carried out almost exclusively for Dassault Aviation. This agreement provides for the payment by Dassault Aviation to Sogitec of (i) compensation of €5,000,000 for the termination of the commercial relationship established between the two companies, and (ii) an amount of €304,154 for the acquisition by Dassault Aviation of assets related to this activity, at their carrying amount as at March 1, 2019.

This agreement was entered into on February 11, 2019 on the terms set out above.

Reasons justifying your Company's interest in this agreement

The Board of Directors believed that this operation of bringing together the activities and teams of Documentation and Training in your Company with those of design and development of digital tools could optimize processes and increase competitiveness.

II. AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE GENERAL MEETING

1. 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 (Code de commerce), 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.

a. With Groupe Industriel Marcel Dassault (GIMD), majority shareholder of Dassault Aviation

Persons concerned

Serge Dassault (Director until May 28, 2018), also Chairman and Member of the Supervisory Board of GIMD until May 28, 2018, Charles Edelstenne (Director), also Chairman and Member of the Supervisory Board of GIMD, Marie-Hélène Habert (Director), also Chairwoman of the Supervisory Board of GIMD, as well as Olivier Dassault, also Member of the Supervisory Board of GIMD.

Rental of premises, land and industrial installations

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

Their main conditions are as follows:

- a 12-year firm term expiring on December 31, 2020 (except for the Saint-Cloud building, formerly La Mondiale, which expires on July 9, 2025, and the Le Vinci building, which expires on March 10, 2028);
- rent payable quarterly or semi-annually and indexed to the evolution of the INSEE construction cost index;
- a security deposit of two rent terms (except for the Saint-Cloud building, formerly La Mondiale, and the Le Vinci building in an amount equal to a rent term).

In 2018, the rental costs under these leases amounted to a total of €37,602,729.00, excluding tax. As said rents have increased compared to 2017, due to the increase in the reference indices used for certain rents, Dassault Aviation has paid GIMD the amount of €516,902.50 as a security deposit.

Acquisition of land in Mérignac

Type and purpose

Dassault Aviation has 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 land, covering 4.28 hectares and 11.42 hectares, respectively, was completed on April 23, 2018 under the terms authorized by the Board of Directors, for a total price of €2.9 million.

b. Concerning all the Executives and Corporate Officers of your Company

Type and purpose

An "Executives and Corporate Officers' Liability" insurance policy was taken out with effect from July 1, 1999 with Axa Global Risks, now called Axa Corporate Solutions. A second line of coverage was taken out with Zurich with effect from January 1, 2015, in excess of the first line.

In 2018, these policies covered all executives and corporate officers of your Company and its subsidiaries up to an annual limit of €50,000,000, including €25,000,000 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 €125,502.60 including VAT, of which 78,087.60 euros under the first line of coverage and €47,415.00 under the second.

2. Agreements and commitments approved in previous fiscal years, not performed over the past fiscal year

As stated in the Sections 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.

With regard to 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

Eric Trappier and Loïk Segalen will benefit from the collective supplementary defined benefits pension schemes for the Executive Committee and for the Company's Flight Crew.

It has been established that a new supplementary retirement scheme would be created as from January 1, 2018, for members of the Management Committee (including corporate officers) and for Flight Crew, which follows the old scheme for which the rights were frozen on December 31, 2017. Eric Trappier and Loïk Segalen will receive an additional annual pension of respectively €392,000 and €355,000 representing 26% of their gross fixed compensation, on the basis of retirement at age 65.

The new supplementary pension scheme provides for the annual acquisition of additional pension benefits equal to 2% of annual gross compensation (i.e. €30,574 for Eric Trappier and €27,067 for Loïk Segalen for 2018), subject to the condition that the corporate officers reach a net margin level defined each year by the parent company. 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.

Paris-La Défense and Courbevoie, March 7, 2019

The Statutory Auditors

Deloitte & Associés	Mazars
Jean-François Viat	Mathieu Mougard

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