2016

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.

Contents

Declaration of the person responsible for the report

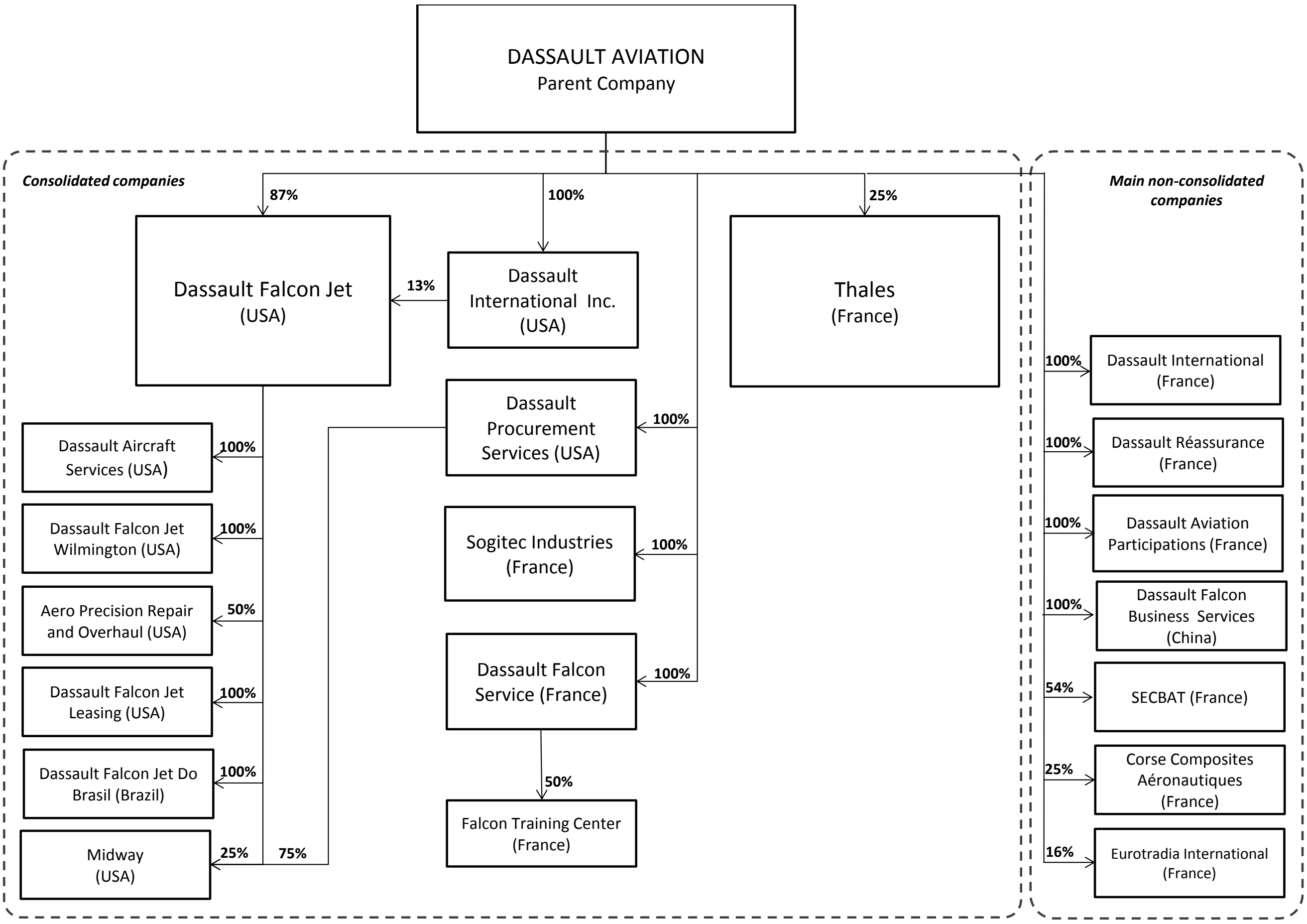
I hereby certify that, to my knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and income or loss of the company and all the other entities included in the scope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

Paris, March 7, 2017

Éric Trappier
Chairman and Chief Executive Officer

Group structure as at December 31, 2016

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



Detailed information on the main Group companies is given in paragraph 1.5 of the directors' report.

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

Board of Directors as at December 31, 2016

Honorary Chairmen

Serge DASSAULT
Charles EDELSTENNE

Chairman of the Board of Directors

Éric TRAPPIER

Directors

Nicole DASSAULT
Olivier DASSAULT
Serge DASSAULT
Charles EDELSTENNE
Alain GARCIA
Marie-Hélène HABERT
Henri PROGLIO
Lucia SINAPI-THOMAS
Richard BÉDÈRE (director representing employees)

Executive Management

Chief Executive Officer

Éric TRAPPIER

Chief Operating Officer

Loïk SEGALEN

Executive Committee as at December 31, 2016

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
Didier GONDOIN	Senior Executive Vice-President, Engineering
Frédéric LHERM	Senior Executive Vice-President, Industrial Operations
Gérald MARIA	Senior Executive Vice-President, Total Quality
Philippe MASSOT	Senior Vice-President, Military Sales France
Frédéric PETIT	Senior Vice-President, Falcon Programs
Yves PETIT	Senior Vice-President, Human Resources
Jean SASS	Chief Digital Officer
Olivier VILLA	Senior Executive Vice-President, Civil Aircraft

Government Commissioner

Mr. Paul FOUILLAND, French Armed Forces General Inspector

Auditors

Mazars S.A., represented by Mrs. Manuela BAUDOIN-REVERT, partner
Deloitte & Associés S.A., represented by Mr. Jean-François VIAT, partner

Directors' Report

Dear Shareholders,

Before submitting the annual and consolidated financial statements for the year ended December 31, 2016, we would like to take this opportunity to present the consolidated key figures, the activities of the Group and of the Parent Company during the past year, their future prospects and the other information required by law.

1. DASSAULT AVIATION GROUP

1.1 2016 RESULTS IN ADJUSTED CONSOLIDATED DATA

1.1.1 Key data

(in millions of euros, except where otherwise indicated)	2016	2015
Order intake	9,558	9,884
Adjusted net sales	3,586	4,176
Backlog	20,323	14,175
Adjusted operating income	218	361
Adjusted operating margin	*6.1%*	*8.6%*
Adjusted net income	384	482
Adjusted net margin	*10.7%*	*11.5%*
Adjusted earnings per share	€45.5/share	€54.6/share
Dividend per share	€12.1/share	€12.1/share
Available cash	3,105	2,885

1.1.2 Definition of alternative performance indicators

To reflect the actual economic performance of the Group, and to monitor and compare performance, the Dassault Aviation Group presents the following alternative performance indicators:

- net sales and operating income are adjusted by gains and losses resulting from the exercise of derivative hedging instruments which do not qualify for hedge accounting under IFRS standards (recorded in financial income in the consolidated financial statements);
- net income adjusted by the following elements:
  - value of foreign exchange derivatives which do not qualify for hedge accounting, by neutralizing the change in fair value of these instruments, the Group considering that gains or losses on hedging should only impact income as commercial flows occur;
  - amortization of the Thales purchase price allocation (PPA);
  - adjustments applied by Thales in its financial reporting.
- available cash that reflects the amount of the Group's total liquidities, net of financial debt. It covers the following balance sheet items:
  - cash and cash equivalents,
  - available-for-sale marketable securities (at their market value),
  - financial debts.

Note that only the consolidated financial statements are audited by the Group's statutory auditors. Adjusted financial data are subject to the verification procedures applicable to all the information provided in the annual report.

1.1.3 Impact of the adjustments

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

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

The impact in 2015 of adjustments to income statement aggregates is set out below:

(in EUR thousands)	2015 consolidated income statement	Foreign exchange derivatives		Thales PPA	Adjustments applied by Thales	2015 adjusted income statement
		Foreign exchange gain/loss	Change in fair value			
Net sales	4,175,805					**4,175,805**
Operating income	361,190					**361,190**
Net financial income/expense	-425,862		444,496			18,634
Share in net income of equity associates	144,409			37,820	11,050	193,279
Income tax	61,762		-153,040			-91,278
Net income	141,499	0	291,456	37,820	11,050	**481,825**
Group share of net income	*141,457*	*0*	*291,456*	*37,820*	*11,050*	*481,783*
Group share of net income per share *(in euros)*	16.0					54.6

1.1.4 Order intake

2016 **order intake** was **EUR 9,558 million**, compared to EUR 9,884 million in 2015. **92%** are **export.**

Order trends are as follows, in **millions of euros**:

Year	Defense		FALCON	**Total**	% Export
	France	Export			
2012	634	159	2,532	**3,325**	78%
2013	1,043	213	2,909	**4,165**	71%
2014	441	252	3,946	**4,639**	89%
2015	391	7,891	1,602	**9,884**	96%
2016	**696**	**7,443**	**1,419**	**9,558**	**92%**

Order intake consists entirely of firm orders.

FALCON programs

21 FALCON were ordered (including **12 FALCON 5X that were canceled** as a result of Safran Aircraft Engines being late with the SilverCrest engine), compared to 25 FALCON ordered (including 20 FALCON Netjets canceled) in 2015.

Thus **FALCON orders** represented **EUR 1,419 million**, compared to EUR 1,602 million in 2015.

The weakness of orders reflects a difficult business aviation market.

DEFENSE programs

DEFENSE order intake was **EUR 8,139 million** in 2016, compared to EUR 8,282 million in 2015. The signature and coming into force of the contract for **36 RAFALE with India** follow the coming into force in 2015 of contracts with Egypt (24 RAFALE) and Qatar (24 RAFALE).

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

1.1.5 Net sales

2016 net sales amounted to **EUR 3,586 million**, compared to EUR 4,176 million in 2015. **Exports** represented **83%**.

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

Year	Defense		FALCON	**Total**	% Export
	France	Export			
2012	936	208	2,797	**3,941**	75%
2013	1,225	179	3,189	**4,593**	71%
2014	770	225	2,685	**3,680**	77%
2015	632	1,037	2,507	**4,176**	83%
2016	**525**	**719**	**2,342**	**3,586**	**83%**

FALCON programs

49 FALCON were delivered in 2016, compared to 55 in 2015. This is in line with our forecast of 50 deliveries in 2016.

2016 FALCON net sales amounted to **EUR 2,342 million**, compared to EUR 2,507 million in 2015.

DEFENSE programs

6 RAFALE were delivered to France and **3 RAFALE** to Egypt during fiscal year 2016.

DEFENSE net sales in 2016 amounted to **EUR 1,244 million**, compared to EUR 1,669 million in 2015. The higher DEFENSE net sales for 2015 benefited from the delivery of modernization work to bring the Indian MIRAGE 2000 in line with the I/TI standard.

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The book to bill ratio (the order intake/net sales ratio) stood at 2.7 in 2016; this was due particularly to the RAFALE India contract, for which net sales will be recognized over several years.

1.1.6 Backlog

The backlog as of December 31, 2016 was **EUR 20,323 million**, compared to EUR 14,175 million as of December 31, 2015. The increase is explained by the RAFALE India order in 2016.

The FALCON backlog stood at **EUR 3,052 million,** compared to EUR 3,798 million as of December 31, 2015. It particularly includes **63 FALCON** (compared to 91 as of December 31, 2015).

The France Defense backlog stood at **EUR 2,793 million**, compared to EUR 2,622 million as of December 31, 2015. It includes in particular **32 RAFALE** (compared to 38 as of December 31, 2015).

The Defense Export backlog stood at **EUR 14,478 million**, compared to EUR 7,755 million as of December 31, 2015. It includes in particular **36 RAFALE India**, **24 RAFALE Qatar** (compared to 24 as of December 31, 2015) and **18 RAFALE Egypt** (compared to 21 as of December 31, 2015).

1.1.7 Key figures

Operating income

The 2016 **operating income** was **EUR 218 million,** compared to EUR 361 million in 2015.

The operating margin was **6.1%**, compared to 8.6% in 2015. This decrease is the result of an unfavorable volume effect (reduction in net sales) combined with an increase in competitive pressure on the FALCON market. This also led the Group to take measures to downsize the workforce, provisioned at EUR 39 million at the end of 2016.

Net Financial income

2016 financial income totaled **EUR 11 million,** compared to EUR 19 million in 2015.

Net income

Net income was **EUR 384 million** in 2016, compared to EUR 482 million in 2015. The contribution of Thales to the Group's net income was EUR 218 million, compared to EUR 189 million in 2015.

Net margin stood at **10.7%** in 2016, compared to 11.5% in 2015.

Net income per share in 2016 stood at **EUR 45.50/share**, compared to EUR 54.60/share in 2015.

1.1.8 Dividend and profit-sharing / incentives schemes

The Board of Directors decided to propose to the Annual General Shareholders' Meeting the distribution of a dividend of **EUR 12.10/share** in 2017, corresponding to a total of EUR 100 million, i.e. a payout of 26%, as in 2016.

Dividends paid in respect of the last three years are as follows:

Fiscal year	Net dividend distributed (in EUR)	Allowances (*)
2013	8.90	40%
2014	10.00	40%
2015	12.10	40%

* *Allowance for individuals.*

In terms of earnings distribution policy, Group employees will receive, under profit-sharing and incentives schemes, **EUR 84 million** (whereas the legal formula would have led to an amount of EUR 2 million).

1.1.9 Financial reporting

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

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

1.2 FINANCIAL STRUCTURE

1.2.1 Available Cash

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

Available cash stood at **EUR 3,105 million** as of December 31, 2016, compared to EUR 2,885 million as of December 31, 2015, up by EUR 220 million.

Operational cash flows favorably impacted the available cash. The working capital requirement reduced significantly because of advances received due to RAFALE Export contracts.

The increase in cash related to operational activities was partially offset by own share buybacks of EUR 477 million during 2016.

1.2.2 Balance sheet

Total equity amounted to **EUR 3,317** million as of December 31, 2016, compared to EUR 3,771 million as of December 31, 2015. This decrease is explained largely by own shares buyback of EUR 477 million, with income for the period partially offsetting this decrease

Borrowings and financial debts amounted to EUR 1,185 million as of December 31, 2016, compared to EUR 1,210 million as of December 31, 2015. They include loans taken out by the Group in 2014 and 2015 for EUR 1,000 million and locked-in employee profit-sharing funds.

Inventories and work-in-progress increased by EUR 578 million and stood at EUR 4,006 million as of December 31, 2016. This increase is notably explained by the increase in RAFALE Export work-in-progress.

Advances and down-payments received from customers net of advances and down-payments paid to suppliers went up by EUR 1,268 million as of December 31, 2016 due primarily to progress payments received under the scope of RAFALE Export contracts, particularly with the RAFALE India contract.

The market value of financial derivatives as of December 31, 2016 was stable at EUR -507 million (EUR -506 million as of December 31, 2015).

1.3 RELATED-PARTY TRANSACTIONS

The 2016 related parties are identical to those identified in 2015. Some subsidiaries are related with the Parent Company via development and hardware supply contracts, along with software and associated services contracts.

2016 transactions are specified under Note 26 to the consolidated financial statements.

1.4 GROUP ACTIVITIES

1.4.1 Program developments

FALCON programs

Highlights for 2016 include:

- the first delivery of a FALCON 8X, on October 5, 2016, on schedule as announced at the launch of the program in May 2014, following its certification by the EASA and the FAA in June 2016, and a particularly successful worldwide flight campaign that demonstrated the maturity of our new flagship aircraft;
- after the announcement by Safran Aircraft Engines of its schedule for catching up with development of the SilverCrest engine (delay in delivery of the first complete engine from the end of 2013 to the beginning of 2018), it was possible to draw up a new schedule for the FALCON 5X program, which led to the deferral of the first customer deliveries from the end of 2017 to the beginning of 2020.
  Engine modifications are in the course of development. The first engine with all the corrections will be tested in 2017 by Safran on the ground and in flight on the aircraft test bench before the integration campaign in 2018;
- certification of the FalconEye pilot tool;
- the first presentation of the equipped FALCON 8X at trade shows in Shanghai, Geneva and Orlando;
- the introduction of an upgraded version of the Falcon 900LX at the Orlando trade show; and
- the development and commissioning of the FalconSphere II software suite designed to facilitate FALCON operation.

DEFENSE programs

The year 2016 was marked by the signing of a third RAFALE contract for export on September 23, 2016. After Egypt and Qatar, India signed a contract for the purchase of 36 RAFALE.

It was also marked by:

- delivery of 6 RAFALE aircraft to France, bringing the total RAFALE aircraft delivered to the French Forces to 148;
- delivery of 3 RAFALE aircraft to Egypt, bringing the total RAFALE aircraft delivered to Egyptian forces to 6;
- delivery of 2 Naval RAFALE to France retrofitted to the F3 standard;
- the continuation of promotional and prospecting activities in other countries;
- the continued work to develop the RAFALE F3-R standard. The new generation laser designation pod TALIOS successfully completed its first integration flights under RAFALE;

- in view of managing offsets related to the contract for 36 RAFALE India, we announced the creation of a Joint Venture with RELIANCE Group. On February 10, 2017, Dassault Reliance Aerospace Limited was created.

Regarding the MIRAGE 2000, also note:

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

For maritime surveillance and patrol aircraft, the key events of 2016 were:

- the order of a third FALCON 2000 for maritime surveillance by the Japanese coastguards, included in our FALCON order intake;
- the notification by the French government of a contract to provide additional capacity for dropping SAR (Search And Rescue) chains for the National Navy's FALCON 50 SURMAR fleet;
- the continued development works to upgrade the combat system on the ATLANTIQUE 2, particularly system integration tests and the launch of flight tests.

For drones, the year was marked by:

- a new flight test program for the nEUROn unmanned fighter plane, dedicated to stealth demonstrations, as well as tests at sea with the Charles de Gaulle aircraft carrier; Stealth measurements will continue in the first half of 2017 in the Solange anechoic chamber of the French Defensive Procurement Agency (DGA);
- the notified one-year extension of the feasibility program preparing for a demonstration program; the preparation with our industrial partners of the proposal for the late 2017 launch of the first phase in the development of a UCAS (Unmanned Combat Air System) operational demonstrator, one of the components of the Future Air Combat System (SCAF), following the French-British summit in Amiens on March 3, 2016. The additional notification from the DGA of national technological maturation works;
- launch by OCCAR (The Organization for Joint Armament Cooperation) in conjunction with the French, German, Italian and Spanish defense ministries, of a two-year definition study for a MALE RPAS (Medium Altitude Long Endurance - Remotely Piloted Aircraft System) drone with European technologies. This study brings together Dassault Aviation, Airbus Defence & Space, and Leonardo.

SPACE programs

The key events for 2016 were:

- for spacecraft: a design contract was won for the Space Rider (formerly Pride) reusable orbital return vehicle from the European Space Agency, and two contracts for the National Centre for Space Studies(CNES): an innovative separation system and reusable first-stage demonstrator;
- for pyrotechnics: continued financing by the CNES for the integration of a digital pyrotechnics-based sub-assembly for mounting on a reusable rocket demonstrator.

1.4.2 After-sales

In 2016, the Group:

- in FALCON after-sales:
  - inaugurated the new Dassault Falcon Service maintenance center in Merignac, which is designed for major FALCON 7X inspections;
  - continued to expand our FALCON after-sales network with the approval of 2 new service stations in Finland and France;
  - intensified our customer communication efforts through the organization of nine "Maintenance and Operations" seminars;
  - developed and commissioned a new tool and a method for training mechanics within a virtual reality 3D environment.

- in Military after-sales:
  - continued to support French forces, both on the Air and Naval RAFALE and on the MIRAGE 2000, particularly in their engagement in foreign operations;
  - was notified of a 5-year contract for Maintenance in Operation Conditions (MCO) for the ATLANTIQUE 2, of a one-year extension of the French MIRAGE CARE MCO contract, and of a project to modify the MIRAGE 2000;
  - completed Major Maintenance Checks for export (Mirage 2000 in the United Arab Emirates, Mirage 2000 and Alphajet in Qatar,…);
  - continued support services for the Egyptian RAFALE, completed the training on RAFALE for Qatari trainees and completed the first missions on the bases intended to welcome the Indian RAFALE;
  - on January 5, 2017, Babcock France and Dassault signed a partnership agreement to create a joint venture under the leadership of Babcock France. This joint company (10% of the capital held by Dassault Aviation) will perform the FOMEDEC contract signed by Babcock France and the Direction Générale de l'Armement for a term of 11 years. This contract falls within the context of the outsourcing of training resources for fighter pilots of the French Air Corps in Cognac. It includes the financing of the infrastructures (with the purchase of 17 Pilatus PC21 and 2 flight simulators) and their maintenance.

1.5 GROUP STRUCTURE

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

1.5.1 Consolidated subsidiaries and companies

- **Dassault Falcon Jet (DFJ) (United States)** markets a portion of our FALCON and performs interior upgrades. The company is headquartered in Teterboro, New Jersey, and industrial activities are located in Little Rock, Arkansas.

  The principal subsidiaries of DFJ are:
  - Dassault Falcon Jet - Wilmington Corporation (United States), aviation and maintenance services;
  - Dassault Aircraft Services Corporation (United States), promotion of aviation maintenance and service sales in the United States;
  - Aero Precision Repair And Overhaul Company Incorporated (APRO) (United States) (held 50/50 with Messier-Services Inc.), repair and maintenance of landing gear and flight controls;
  - Midway Aircraft Instrument Corporation (United States), overhaul and repair of civil aviation equipment for French equipment manufacturers;
  - Dassault Falcon Jet Do Brasil Limitada (Brazil), aviation services and maintenance;
  - Dassault Falcon Jet Leasing LLC (United States), company that holds the FALCON financing structures.
- **Dassault Falcon Service (DFS) (France)**, historically based at Le Bourget airport, contributes to FALCON after-sales activities in the following two areas:
  - service station dedicated to the maintenance of FALCON aircraft,
  - leasing and management of FALCON aircraft as part of civil transport activities.

  In 2016, DFS opened its new maintenance center at the Mérignac airport.

  The principal subsidiary of DFS, the Falcon Training Center (FTC, owned 50/50 with Flight Safety International), at Le Bourget airport, provides training to FALCON pilots.

  DFS also has a facility at Luton Airport (UK) and a maintenance subsidiary at the Moscow-Vnukovo airport (Russia);
- **Dassault International Incorporated (United States),** represents Dassault Aviation in the United States and provides after-sales services for FALCON aircraft;
- **Dassault Procurement Services (United States),** the central purchasing hub in the United States for FALCON aviation equipment;

- **Sogitec Industries (France),** simulation and documentation;
- **Thales (France),** the Thales Group operates in aviation, aerospace, defense and security markets. Its activities are described in its Registration Document.

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

1.5.2 Non-consolidated subsidiaries and holdings

The main holdings of the Group are:

- GIE RAFALE International (France), coordination of feasibility and definition studies for RAFALE combat aircraft (60% owned, with the remainder held equally by Thales and Safran Aircraft Engines);
- GIE French Defence Aeronautical Institute (FDAI) (France), a service provider in the domain of military aircraft mechanics training (owned 50/50 with Defense Conseil International);
- Dassault Assurances Courtage, Dassault Reassurance and Agence Aeronautique D'assurance (France), insurance and reinsurance;
- Corse Composites Aéronautiques (France), production of aviation parts made of composites, particularly for its corporate shareholders (Airbus, Latecoere, Safran, Dassault Aviation);
- SECBAT (France), responsible for cooperation on the ATLANTIQUE maritime surveillance program (stake raised to 54% in 2016).

The Group is present in India through Dassault Aircraft Services India Private Ltd., which is responsible for promotion in India and is held through Dassault Aviation Participations (France).

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

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

1.5.3 Branches

The Group also had one branch in Cairo, Egypt.

1.6 RESEARCH & DEVELOPMENT

Most of our research and development in 2016 focused on the **FALCON and the F3-R RAFALE standard**.

In addition to major programs, some of this work received support from either French civil aviation or the European Clean Sky Joint Technology Initiative.

Noteworthy events included:

- the test bench demonstration of a new cockpit concept for FALCON and related functions;
- detailed design review and the start of manufacture of a composite wing demonstrator;
- scale 1 ground tests to improve the design of the rear body of FALCON aircraft.

The 2016 commercial aviation research support project recently started, focusing on the development of new flight and ground pilot controls and functions, studies to eliminate uncertainties about the ruggedness (resistance to damage) of fabrications and composite assemblies.

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

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

In 2016, the DGA notified Dassault Aviation of the following:

- the conditional tranche of the additional contract for the FCAS project for national technological maturation work;
- the first tranche of the work to define the design method for the air intake for fighter aircraft;
- work to support technological developments of anemometer sensors outsourced to Thales.

In the area of systems engineering, Dassault Aviation is working with the DGA to structure a data model, create a tool-based process, and build the desired digital continuity between the DGA process and the industrial process, in compliance with the technical and contractual responsibilities for the data.

A study of the link between government technical and operational simulations and industrial simulations continued with the DGA.

1.7 TRANSFORMATION: LEADING OUR FUTURE

Today, our challenge is to prepare for the future in an increasingly unpredictable and competitive environment. Our transformation shall contribute to the launch of a new FALCON and allow us to increase our markets shares, while improving our competitiveness (costs, quality, competitive advantages).

To achieve this goal, we launched a transformation plan called "Leading our Future".

It is based on:

- culture, skills and organization,
- digital tools, processes and innovation,
- industrial tools (Dassault Aviation industrial sites and subcontracting),
- program management,

and relies on:

- women and men, at the center of the transformation,
- user-oriented digital technology, which will be the driver of our transformation.

Culture, skills and organization

- Implement consistency between operational challenges and human resources policy, relying on team expertise, improving the global performance of the organization and the individual development of each employees;
- develop an attachment to performance (technical, industrial, economic, etc.) and to respect for quality and the customer;
- encourage individual responsibility and teamwork;
- ensure the proper transmission of knowledge between generations;
- refocus the Departments on their businesses with attention to excellence and innovation;
- entrusted the global organization of civil aviation to the Chief Executive Officer of Civil Aviation based in Saint-Cloud;
- integrate the subsidiaries more closely in our strategy by appointing operational managers of subsidiaries;
- bring together the teams closer to the aircraft, particularly at our Mérignac site.

Digital tools, processes, innovation

- Put digital transformation strategy of the enterprise to serve the user, in close connection with all the businesses and by strengthening our strategic partnership with Dassault Systèmes. The future FALCON and RAFALE India will be the first beneficiaries of the use of the 3D Experience in the context of our Product Life Management (PLM) strategy and PLM systems;
- strengthen the consistency of the "up-stream" research activities by improving the inter-disciplinary aspect and by expanding study in the area of break-through innovations;
- We have therefore appointed:
  - a Chief Technology Officer - CTO, attached to the technical division and responsible for uniting the initiatives of the different businesses and reporting to Executive Management;
  - a Chief Digital Officer (CDO) who will define a strategic partnership with Dassault Systèmes in order to accelerate the digitization of the Company by naming.

Industrial organization

Encouraging the maintenance of the existing sites, our production facilities must be adapted to improve efficiency and responsiveness to market changes.

Therefore, it is necessary to:

- improve the efficiency of internal production:
  - strengthen the specialization of our sites around strategic industries;
  - increase "re-use" for our FALCON aircraft;
  - optimize the design/industrialization hinge;
  - establish a shared information system serving the teams, ensuring digital continuity, data quality and real time;
- adapt the level of subcontracting to improve our flexibility and competitiveness.

Purchases and supplies

Purchases represent a large proportion of the cost of an aircraft. The Department of Purchasing must:

- establish strategic long-term relations with our major international partners, suppliers and subcontractors;
- optimize the operation of purchases and supplies by:
  - combining, under the Purchasing function, buyers from all segments (aerostructure, services, etc.) and bringing buyers as closely as possible to key influencers of need;
  - strengthening the supply chain with supply chain managers that have a stronger presence with our suppliers;
  - bringing suppliers closer to the industrial organization by strategic insdustries.

Program management

- Unite the programs under two Program Departments, "Military" and "FALCON";
- strengthen the role and scope of these two Departments so that they become true Operational Departments with responsibility for ensuring technical commitments and respect for quality, schedule and costs;
- upgrade our quality assurance methods in development in order to allow systematic consideration *ab initio* of industrial and support requirements.

1.8 DIGITAL TOOLS, PROCESSES AND INNOVATION

In the area of the digital plant, 2016 was marked by the operational start-up of the Argenteuil training room in a virtual 3D environment. Employees are "immersed" in digital modeling and can be trained in operations before working in the production chain.

In addition, the installation of the Internet Of Things (IOT) was initialized in Biarritz to ensure logistical monitoring of composite manufacture using RFID technology.

1.9 PRODUCTION

Within the framework of our transformation plan "Leading our future", detailed in Section 1.7 above, our production organization will be reorganized according to specialization by industry.

For the composites, the main development measures cover the work initiated by the council for Civil Aviation Research (CORAC), for the design of a composite wing box demonstrator for commercial aircraft. The tools have been produced and the first auto-tightening panels have been made and are satisfactory.

In the area of assembly robotization, both on the wings and the fuselages in addition to the already existing solutions, we have initiated a plan for development of "Cobot"-based solutions. These are very low-cost and easy-to-use small robots that are used to share repetitive and hard work with employees in the shops.

In the primary part segments, we are continuing the approach initiated to improve the environmental impact:

- we are replacing the processes based on chemical machining with mechanical machining processes. The first machines have now been installed. The first fuselage skin panels are being fabricated;
- the new processes for surface treatment without chromium, in compliance with the REACH expectations, are now being qualified at our suppliers;
- with our industrial partners we are continuing to qualify directly manufactured combinations of "Materials and Processes" via Additive Layers Manufacturing (ALM) for our aircraft programs.

Under the Future Investment Plan (PIA2), the Civil Aviation Executive Management (DGAC) in 2016 notified the development works for the technological building blocks eligible for our future FALCON aircraft. This covers work for the next five years.

The approach "Improving Responsiveness in Production" (IRP) continues to be deployed at all our sites and gradually includes the primarily parts fabrication shops after initial applications on assemblies. It is intended to improve working conditions (particularly the reduction of work-related stress), as well as quality and flexibility, while reducing work cycles and cutting costs.

Supply Chain side: the deployment of the AIR SUPPLY portal for relations with our subcontractors and suppliers is actively continuing.

1.10 PRODUCTION FACILITIES

In 2016, the reorganization of the segment machining our light metal alloy and titanium parts resulted in combining production lines at the Seclin site to generate synergies between machined parts and the very large parts already produced at the site.

In this area we have invested in new next-generation resources offering better performance.

For 2016 and 2017, this includes:

- the purchase and installation of two 5-axes machining centers for hard materials (Titanium) and the transfer of one large-dimension machining center from Biarritz to Seclin;
- the purchase of four 5-axes machining centers for the light alloys. These resources will be installed in early 2017 and will be online as of this summer;
- the purchase of production peripherals (pre-adjustment benches for cutting tools, control equipment, etc.).

For composite, the lapping machine ordered in 2015 to handle the RAFALE load and the development of composites in the future is now in production and is expected to be delivered at the end of 2017.

At the same time, the following should be noted:

- the first studies and work related to the adaptation of the Mérignac shops to the increased pace of the RAFALE (particularly the replacement of now obsolete benches with an energy production power plant);
- the upgrade to the RAFALE fuselage finishing line in Argenteuil;
- the continued equipping of our robotized wing assembly tools with an integrated dust vacuum system.

1.11 TOTAL QUALITY

As part of its Integrated Management System, in 2016 Dassault Aviation renewed its EN 9100 certification, a standard specific to the aviation industry, and its ISO 14001 environmental certification.

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

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

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

2. RISK FACTORS AND MANAGEMENT

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

2.1 RISKS RELATED TO PROGRAMS

2.1.1 Aerospace cycle

Because of the nature of its activity, Dassault Aviation is exposed to sector risk, and our customers are sensitive to the fragility of the global economy and political instability:

- governments, although restricted by drastic budgetary policies, must ensure their safety and maintain their projection capability,
- in the domain of business aviation, weak global growth leads our customers to make their procurement decisions subject to increasingly demanding criteria, and sometimes even postpone them.

In this context, competition is becoming increasingly aggressive, both in terms of commercial and price policies, and in terms of technological innovation. This pressure threatens the profitability of Dassault Aviation and our market share.

To respond to this threat by adapting ourselves to a demanding market, we continue our innovation efforts, the expansion of our FALCON line, the streamlining of our production and the reduction of costs.

2.1.2 Control of programs

Given the implementation of the complex technologies of FALCON and DEFENSE programs, we must ensure that we have instituted the necessary resources to meet our commitments to our customers and our development, production and delivery deadlines, in order to safeguard our net sales.

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

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

In this context, the 2014 Directors' Report mentioned a proven risk concerning the FALCON 5X program, in particular the brand new engine developed by Safran Aircraft Engines, the SilverCrest.

After the announcement by Safran Aircraft Engines of its schedule for catching up with development of the SilverCrest engine (delay in delivery of the first complete engine from the end of 2013 to the beginning of 2018), it was possible to draw up a new schedule for the FALCON 5X program, which led to the deferral of the first customer deliveries from the end of 2017 to the beginning of 2020.

Engine modifications are in the course of development. The first engine with all the corrections will be tested in 2017 by Safran on the ground and in flight on the aircraft test bench before the integration campaign in 2018.

2.1.3 Adjustment of industrial capacity

The cycles for the business aircraft and warplane markets are not synchronous, but both require their production tools to maintain a high level of responsiveness, which is why the flexibility issue is proving to be an ongoing challenge.

2.1.4 Competition

In an increasingly unpredictable geopolitical and economic environment, our competitiveness is subject to intense competition on all of its markets.

2.1.5 Used aircraft market

A too high number of used aircraft available for sale may have an impact on demand and market prices for new aircraft.

2.2 RISKS RELATED TO THE SUPPLY CHAIN

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

A supply disruption could lead to the shutdown of our chains. Similarly, delays or failures by our associates, partners or suppliers in terms of development may cause major risks for our programs.

It is thus strategic to ensure proper management of the supply chain, selection of suppliers, control of developments up to the measurement of critical aspects of performance (timeliness, quality of catch-up plans established or development plans for the performance of suppliers if deviations are identified).
This approach is made in line with the actions recommended by the aviation sector.

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

2.3 RISKS RELATED TO THE INFORMATION SYSTEM

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

The Group protects itself against the risk of attempted breaches of the security of its information technology systems and guarantees the protection of highly confidential data.

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

Furthermore, the Company took into account changes in threats to flying embedded systems.

2.4 RISKS RELATED TO REGULATORY CHANGES

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

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

2.5 RISKS RELATED TO INTELLECTUAL PROPERTY

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

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

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

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

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

2.5.1 Actions

Patent filings have intensified, and the portfolio of Dassault Aviation patents has been growing regularly. It comprises French and foreign patents filed in strategic countries. Trademarks are also registered regularly to protect the names of the Company's leading products and services in the countries where it operates.

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

2.5.2 Organization

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

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

2.6 RISKS RELATED TO PERSONNEL

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

The Group conducts an annual analysis of high-risk positions, which helps to establish a succession plan for key roles and strategic functions.

2.7 FINANCIAL RISKS

2.7.1 Cash and liquidity risks

The Group investment portfolio mainly comprises money market investments with no significant risk of impairment.

85% of the Group's investments are backed by guarantees. The remaining 15% are invested in bond and diversified funds, themselves invested in short-term bond funds and money market funds.

The Group can therefore meet its commitments without any liquidity risk due to its cash resources and its portfolio of available-for-sale marketable securities.

The breakdown of the Group's investment portfolio is shown in Note 23.1 "Cash and Liquidity Risk Management" of the consolidated financial statements.

2.7.2 Credit and Counterparty Risks

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

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

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

2.8 MARKET RISKS

2.8.1 Foreign exchange risks

- Hedging portfolio:

The Group is exposed to a foreign exchange risk through the parent company with regard to FALCON sales, which are mostly denominated in US dollars.

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

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

A sensitivity analysis of the hedge portfolio may be found in Note 23.3 "Management of Foreign Exchange Risks".

- EMBRAER shares:

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

2.8.2 Interest rate risks

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

2.8.3 Other market risks

The Group is exposed to a pricing risk relating to price fluctuations of EMBRAER shares. A sensitivity analysis is available in Note 23.3.4, "EMBRAER Shares".

2.9 ENVIRONMENTAL RISKS

2.9.1 Risk management procedure

In terms of controlling environmental risks, we have implemented a structure at our industrial sites to carry out the following:

- identification of risks and their potential effects,
- plans to reduce risks "at source",
- measures and means of prevention and protection,
- emergency response plans,
- periodic accident simulation exercises.

The new environmental risk analysis methodology developed in 2015 was deployed at all facilities of the parent company in 2016.

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

2.9.2 Damage caused to the environment

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

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

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

For 2016, no environmental accidents were reported.

2.9.3 Provisions and financial guarantees

Subsequent to Decree No. 2012-633 of May 3, 2012 which imposes the establishment of financial guarantees on facilities that are subject to ICPE (Environment Protection Classified Installations) legislation, the Parent Company is subject to the obligation of financial guarantees for four of its facilities. These financial guarantees started in 2014 for the Argenteuil and Biarritz facilities. The Mérignac and Argonay sites will be integrated into the plan by 2018 according to regulatory time frames.

In addition to its General Operations Civil Liability insurance policy (EUR 1.5 million for environmental damage risks), the Parent Company has subscribed to Environmental Impairment Liability insurance cover for EUR 11 million, EUR 3 million of which covers natural protected species and habitats. Since January 1, 2012, the environmental damage guarantee, as defined by European Directive 2004/35/EC, has been extended to include damage caused to wildlife and ecological damage.

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

The Dassault Aviation Group did not have to recognize any environmental liabilities in 2016.

2.10 RISKS RELATED TO SECURITY BREACHES

In 2016, risks remained linked to a very unstable international situation, which has exposed the Dassault Aviation Group to a high threat level. The deployment of a plan to upgrade physical protection measures, as well as control measures, has allowed employee safety and the preservation of the Group's technical, scientific and industrial assets and liabilities to be strengthened.

Several safety audits performed by State agencies have led to scheduling the modernization of some protection systems and to reconsidering the environments of various sites to adjust local safety policies. The monitoring of expatriates and travelers is now standard, thus ensuring the constant dissemination of safety information worldwide.

Finally, in line with awareness actions carried out in 2015, the Group has the capacity to assess the safety levels of our suppliers, subcontractors and partners that have access to our industrial sites.

2.11 OTHER RISKS

In late 2002, a group of French manufacturers, including Dassault Aviation, was collectively issued with a request for arbitration from a common client claiming a sum which, according to the plaintiff, would amount to no less than USD 260 million, and for which the group of manufacturers may be jointly liable with regard to the plaintiff. This request related to the performance of old contracts implemented by these manufacturers. Under the framework of an agreement signed between the parties in June 2003, the plaintiff withdrew its action.

In November 2012, the plaintiff gave notice of a new request for arbitration based on grounds similar to the 2002 action, for a total now amounting to EUR 226 million. The manufacturers strongly deny this request and to date, it is not possible to assess the potential financial risk; accordingly, Dassault Aviation has not made any provision. This proceeding is still in progress.

2.12 INSURANCE

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

The set of risks generated by the aeronautical activities of Dassault Aviation and its subsidiaries (work under production, aircraft, civil liability after delivery, maintenance, etc.) constitutes the main item for the insurance budget.

The cover is obtained from a broad panel of insurers and reinsurers that specialize in the aviation industry and offer high solvency margins (in accordance with Solvency II), to ensure they are able to handle any longer-term claims.

The industrial facilities, the French plants and production tools are covered for fire and miscellaneous risks.

On a regular basis, the leading underwriter conducts general and prevention audits with the Legal Affairs and Insurance Department to mitigate any risks likely to affect our business operations.

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

Our specialized subsidiary Dassault Assurances Courtage handles investment risk, and our specialized subsidiary Dassault Réassurance purchases reinsurance for our aeronautical and fire risks.

3. SOCIAL, ENVIRONMENTAL AND CORPORATE RESPONSIBILITY INFORMATION

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

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

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

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

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

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

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

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

3.1 SOCIAL INFORMATION

3.1.1 Staff policy

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

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

3.1.2 Employment

As of December 31, 2016, the total Dassault Aviation Group workforce was 11,942 people, compared to 12,177 in 2015.

Entity	Staff as of 12/31/2016	Staff as of 12/31/2015 *Pro forma*
DASSAULT AVIATION, Parent Company	8,244	8,412
DASSAULT FALCON JET	2,600	2,699
DASSAULT FALCON SERVICE	640	619
SOGITEC INDUSTRIES	410	397
DASSAULT PROCUREMENT SERVICES	48	50
Total:	11,942	12,177

(see Appendix 1 - Reporting methodology for indicators)
Note a change in scope in 2016 for Dassault Procurement Services (integration of Midway)

The workforce of Dassault Aviation Group consists of 2,066 women (17%) and 9,876 men (83%).

Workforce distribution by age group is as follows:

Distribution by age	
Under 35	23%
36 to 50	40%
Over 51	37%

The employees of Dassault Aviation Group are distributed as follows: 78% in France and 22% in the United States. This distribution is the same as in 2015.

As of December 31, 2016, 432 Dassault Aviation Group employees were part-time employees, a figure comparable to last year.

In 2016, the Dassault Aviation Group adapted its recruitment policy to its industrial and commercial environment and hired 542 people, compared to 1,167 hires in 2015.

Furthermore, the number of departures from Dassault Aviation Group was 777, versus 742 in 2015. Individual redundancies represent about 11% of all of those departures, the same as last year.

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

In order to promote our company and help students to construct their career plans, some company employees are officially assigned as "ambassadors" for passing on their skills and taking part in actions run at company level, or at local level by our establishments.

These upstream recruitment efforts are backed by an internship policy designed to facilitate entry into working life. In 2016, the Parent Company had 349 interns, for a slight decline compared to 2015.

3.1.3 Pay

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

As of December 31, 2016, the average annual salary of Group employees was EUR 56,224. The average annual salary of the Parent Company, including profit-sharing and incentives, amounts to EUR 64,586.

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

Furthermore, the Parent Company channeled EUR 23.6 million into the Works' Committees to fund social and cultural activities, representing 5% of the payroll.

3.1.4 Employee relations

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

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

- staff representative bodies:
  - Works' Committees,
  - Health & Safety and Working Conditions Committees,
  - Staff Delegates,
  - Specialized committees (economic, training, employment and gender equality, prevention of psychosocial risks, disabilities, etc.),
  - Central Committee of the Economic and Social Unit (ESU).
- union organizations:
  - local union delegates and central union delegates,
  - representatives of the union sections.
- the Board of Directors:
  - a salaried administrator with voting rights was appointed by the union organization that obtained the most votes in the elections of the works councils of the Parent Company and of its subsidiaries located in France,
  - the ESU Central Committee is also represented by one of its members.

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

3.1.5 Diversity

The Dassault Aviation Group adheres to the principles of non-discrimination and promotes its desire to encourage diversity, considered a key factor in its Human Resources policy. This desire is manifested in the signing of corporate agreements and the implementation of action plans in the following areas:

- professional gender equality;
- employment of disabled people;
- integration and retention in employment of younger and older employees.

Firmly believing that diversity is a major issue and a performance factor for the company, Group companies restate their commitment to prevent discrimination and commit to promoting equal opportunity and treatment.

Dassault Aviation continued its commitments under the agreement on equality in the workplace and equal salaries for women and men, which was signed at the end of 2014 to ensure the development of gender diversity in the company.

Increasing gender diversity in the company involves very early recruitment efforts to make those still in school and university aware of training and career opportunities for women.

To enable young women to really discover the aviation industry through company internships, the Company has continued its goal of encouraging more women to take internships. As a result, in 2016, 25% of trainees were young women.

The Company has established a network of men and women to act as ambassadors to promote our technical careers among female students. This network strengthens the parallel actions of the association "Elles bougent", which is particularly devoted to the promotion of engineering and high-level technical careers among women.

Dassault Aviation pays particular attention to the training and career development of women, notably by continuing its policy of providing access to DASSAULT Institute management training, and promoting women to the highest levels.

In 2016, Dassault Falcon Service implemented its first agreement to promote gender equality based on themes of recruitment, compensation, career development and work-life balance.

Sogitec signed its first agreement on this topic on April 21, 2016. It wants to make an effort to increase gender diversity and improve the balance between private and professional life.

All of the French companies of the group now have an agreement to promote gender equality and equal pay in the workplace.

In 2016, the Parent Company continued its actions to promote employment and retention in employment of people with disabilities in accordance with the agreement signed in 2014.

In this context, Dassault Aviation has organized a disability awareness-raising campaign.

Deployed at all the new facilities of the company, the event aimed to promote discussions about disabilities, using a playful approach based on the conventional wisdom on that topic, and to make employees aware of the realities of disabilities (disability types, origin, existing programs, etc.).

This campaign was accompanied by a retreat for members of local committees and the "cap avenir" steering committee, which has made it possible to share and highlight the commitments of Dassault Aviation and the actions undertaken at each facility in terms of management of workstations, feedback and continued employment.

The commitments of the Parent Company with regard to the employment of disabled people are manifested through an employment rate of 6.3% (the legal minimum is 6%) across all its establishments.

Sogitec signed its first agreement to promote the employment of disabled workers on November 24, 2016. Its purpose is to guide its actions on the recognition of disabled people and develop positions and schedules designed to facilitate continued employment.

In late 2016, the Dassault Aviation Group employed 526 disabled workers, compared to 586 in 2015. This is in addition to actions to promote protected sectors and the inclusion of disabled trainees.

In addition, Dassault Aviation continued its commitments under the "intergenerational agreement" signed in 2013 to promote the integration of youth and seniors in the workplace.

At the same time, it ensures the continued employment of employees aged 55 and over, exceeding its target of maintaining a 19% minimum of employees in that age group in the active workforce.

Furthermore, to promote retirement arrangements and facilitate the transition from work to retirement, Dassault Aviation has set up training that aims to raise employee awareness of issues relating to retirement. In 2016, 91 employees were trained in the six sessions offered.

3.1.6 Human resources development

Throughout the Group, the actions undertaken in 2016 underpinned the maintenance and development of employee skills levels, taking into account both individual and collective aspirations, on the one hand, and the social and economic climate of the Company, on the other.

Our investments in professional training meet the operational needs of the companies and employees of the Group. They represent 258,224 hours of training for the Dassault Aviation Group, a relatively stable figure compared to 2015.

In the Parent Company, several arrangements continue to bear fruit. These include:

- the high degree of technicality of our activities, which leads us to develop special relations with the world of education, thereby helping to ensure the suitability and quality of training of our future recruits;
- integration of new hires:
  - Envol days bring together newly recruited executives for whom visits to military air bases are organized to enable them to talk with our customers about the use of our products and services, and thus understand their expectations;
  - In addition, integration programs for non-executives have been put in place within facilities.
- professional mobility allows the company to satisfy its human resources needs while catering to the aspirations of employees;
- the transfer of operational know-how through the Skills Conservatory (the range of training courses continues to develop) is deployed on all sites;

- Dassault Institute management programs lay the groundwork for the future by developing the skills of managers and improving the performance of our organization in an ever-changing and evolving environment. In 2016, 44 managers were trained as a result. New training curricula related to project and program management have also been deployed. In 2016, 64 employees took these training courses.

In late 2016, the Parent Company signed a new agreement for the management of jobs, professional careers and for the generation contract. This agreement aims to strengthen and sustain technical excellence and develop a dynamic approach to the forward-looking management of trades and skills, to better manage and anticipate developments to them and to ensure that they are preserved and transferred.

This agreement will also enable everyone to improve expertise in their professions, and to encourage the adaptation of their skills to technological and economic developments.

In this context, the initial development studies of the Institute and the Skills Conservatory have been launched.

To better detect and prepare future Managers, two new seminars will be added to the Institute's Dassault Management seminar. One is intended for managers who could not attend the Dassault Management seminar, and the second for the younger generation of managers in order to prepare them for future responsibilities by making sure they are involved players in the transformation of the company. These new seminars will be deployed during 2017.

Out of a desire to strengthen the ways we transfer our knowledge and expertise, the Skills Conservatory began its growth from a structured approach to technical topics, to an approach based on professions and major activities that integrate aspects of equipped process.

3.1.7 Health and safety at work

Maintaining employees' occupational health and safety are priorities of the Dassault Aviation Group's policy.

In 2016, Dassault Aviation continued to be concerned first and foremost with the health of its employees, improving occupational risk prevention and workplace conditions, notably through:

- the continuation of the policy to prevent and monitor psychosocial risks and associated action plans,
- health monitoring and monitoring of expatriate employees and employees on assignment, especially with regard to risks related to air pollution,
- a stronger culture of prevention and workplace safety,
- analysis via feedback on experiences with work accidents and occupational illness, as well as near-accidents.

The following initiatives have therefore been taken by the Company:

- engineering and launch of workplace leadership and safety training for all Company management, the definition of a health, safety and environment (HSE) structure for assignments and work sites outside of the Company, in France and abroad,
- the use and dissemination of feedback from incidents and accidents for the facilities,
- stronger occupational safety monitoring for subcontractors working at our facilities,
- definition of the stress diagnostic and guidelines to associated functions,
- continuing our progress on making work at heights safer,
- the definition of a Company organization for lock-outs and tag-outs of electrical, fluid and mechanical installations.

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

- the creation of an ergonomics representative network at all sites,

- the creation of a network of physical activity-related risk prevention trainers distributed among the facilities,
- decreased exposure to musculoskeletal disorders (MSDs) and the creation of a manual handling diagnostic,
- integration of ergonomics into projects and work equipment design, and into tertiary facilities,
- leading ergonomics training sessions.

In 2016, SOGITEC conducted several actions to improve occupational health and safety conditions. It has in particular focused its efforts on workplace ergonomics.

For the Dassault Aviation Group, absenteeism as of December 31, 2016 amounted to 90,858 days of absence for all causes combined, except for maternity and parental leave.

The number of occupational accidents causing absence was 182 in 2016 compared with 162 in 2015, up by 12%. The corresponding number of days lost was 7,418 days, compared to 5,316 in 2015. The frequency rate increased, from 8.44 to 9.57. The severity rate increased from 0.28 in 2015 to 0.39 in 2016.

Finally, across the whole Group in 2016, 23 cases of occupational illnesses were identified by the various competent authorities, compared with 11 in 2015. This mainly involved musculoskeletal disorders.

3.2 ENVIRONMENTAL INFORMATION

3.2.1 General framework

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

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

This approach has strongly contributed to:

- the significant reduction in the environmental impacts of our activities (see Section 3.2.7),
- the reduction and tighter control of our environmental risks (see Section 2.9.1),
- improved responsiveness to regulatory changes.

3.2.2 Environmental commitment

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

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

In 2016, the Dassault Aviation Group contributed within the IAEG to standardization in the following major areas:

- the monitoring of all chemicals throughout the supply chain,
- the determination of which chemical substances should be substituted as a priority,
- sector standardization of greenhouse gas emission reviews,
- the environmental evaluation of suppliers,
- risk reduction related to the REACh 2018 registration phase.

Dassault Aviation hosted the annual IAEG seminar in France, which gathered more than 130 representatives from world aerospace industry players.

Finally, as part of GIFAS, Dassault Aviation, a member of the Environment and Sustainable Development Commission, participates in REACh, Greenhouse Gas, and Eco-Design workgroups.

3.2.3 Eco-approach

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

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

Several demonstrations were conducted and evaluated, such as new tail configurations for improved environmental performance.

In continuity with Cleansky (Eco Design platform), Dassault Aviation has established a new consortium in Cleansky 2 to study a second generation of materials and manufacturing, maintenance and recycling technologies with an even more reduced environmental impact.

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

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

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

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

3.2.4 Environmental objectives

Over the past 40 years, technological progress with regard to engine efficiency, aerodynamics and weight saving has made it possible to considerably reduce fuel consumption, CO_2 emissions and noise nuisance from our aircraft.

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

- 50% reduction of noise levels on the ground,
- 50% reduction in CO_2 emissions,
- reducing the environmental impact created by the production and withdrawal from service of aircraft.

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

The key figures obtained by the Parent Company in 2016 were, for example:

- the reduction of energy consumption excluding kerosene in gigajoules (GJ) compared to 2012 by 13.7%, and by 6.8% when kerosene data is taken into account,
- a 29.7% reduction in VOC emissions/production time compared to 2012,
- 80.3% of waste recycled.

3.2.5 Employee awareness

In the Dassault Aviation Group, environmental matters are the responsibility of a central team coordinating the environmental initiatives of the facilities, departments and subsidiaries.

Each of the Parent Company's facilities has an Environmental Team and a network of officers. Each subsidiary has at least one environmental representative.

The environmental teams and environmental representatives undergo regular awareness training on environmental issues, for example, through specific seminars on the topic.

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

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

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

In 2016, a communications campaign for good environmental practices was conducted at all sites of the Parent Company.

3.2.6 Administrative schemes

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

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

No site is subject to SEVESO classification.

The Sogitec Industries sites are not classified.

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

3.2.7 Environmental performance

Energy consumption

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

In Gigajoules	2016		2015	
	Parent Company	Group	Parent Company	Group
Excluding kerosene energy (ENE001)	527,504	891,980	549,863	894,863
Kerosene (ENE002)	266,147	491,872	296,874	607,335
Total	793,651	1,383,852	846,737	1,502,198

The decline in energy consumption observed is due primarily to more favorable weather conditions in 2015 and less dense air activity.

In Gigajoules	2016		2015	
	Parent Company	Group	Parent Company	Group
Electricity (ENE001-a)	311,254	536,936	329,722	525,436
Natural gas (ENE001-b)	214,453	349,637	218,370	363,967
LPG (ENE001-c)	0.23	0.23	53	53
Domestic fuel oil (ENE001-d)	1,797	5,407	1,718	5,407
Total (ENE001)	527,504	891,980	549,863	894,863

Electricity and gas consumption fluctuations remain limited thanks to actions pursued in 2016:

- building insulation,
- Building Management System (BMS) for energy,
- optimization of compressed air systems,
- installation of heaters,
- establishment of multi-technical maintenance agreements that include a commitment to improve energy performance.

Water consumption

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

In cubic meters	2016		2015	
	Parent Company	Group	Parent Company	Group
Mains water (EAU001-a)	104,625	150,868	101,700	147,557
Groundwater (EAU001-b)	22,567	23,610	30,105	31,254
Total (EAU001)	127,192	174,477	131,805	178,811

Water consumption remained stable across the Group during 2016.

Raw materials and other products

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

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

- the development of new technologies, which involves replacing metal parts with composite parts and developing new processes such as direct manufacturing, which consumes less raw material,
- the optimization of existing supply chains, with, for example, the reduction of sheet metal formats before machining to minimize the amount of material used,
- the use of centralized material platforms to regulate and reduce the volumes of material consumed,
- stronger practices for recycling scrap metal and reinjecting it into the raw material sector, according to circular economy principles.

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

Since 2013, 307 hazardous products have been replaced or are being substituted.

Atmospheric discharges

Direct greenhouse gas emissions

In tons of CO_2	2016		2015	
	Parent Company	Group	Parent Company	Group
Scope 1 (AIR001-S1)	32,944	57,915	36,055	67,784
Scope 2 (AIR001-S2)	5,188	33,810	5,495	30,546
Total 1 + 2 (AIR001)	38,131	91,725	41,550	98,330

Greenhouses Gas emissions come mostly from air activity and combustion plants (boilers and emergency sets).

As it does each year, Dassault Aviation Parent Company and Dassault Falcon Service produced, for their air activity, a CO_2 emissions statement under the "Emissions Trading Scheme" regulations.

Indirect GHG emissions

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

Through their design, FALCON aircraft record fuel consumption and CO_2 emissions 20% to 40% lower than other aircraft of comparable performance. Despite this, logically, the modeling of the environmental footprints based on a Life Cycle Analysis (LCA) approach show that the use of aircraft is behind the majority of the Company's indirect emissions (more than 95% of total emissions).

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

- already reduced the carbon impact of its travel professionals by providing employees with collaborative tools, videoconferencing or self-service office space,
- optimized the paths and capacities of employee bus shuttles to be adapted to sites as needed,
- established distribution platforms for chemicals and materials that contribute to the reduction of transport flows,
- undertaken further assessment of indirect transport-related upstream emissions and professional travel.

Four facilities (Saint-Cloud, Istres, Argenteuil, Dassault Falcon Service) have a company Travel Plan in place that limits the use of private cars. In 2016, the Seclin facility continued to improve its company travel plan through a study of local alternatives.

Emission of volatile organic compounds (VOC)

in tons of VOC	2016		2015	
	Parent Company	Group	Parent Company	Group
Total quantity (AIR004)	45	144	58	166

The reduction in VOC emissions continues in 2016 (down 36% since 2012) due to changes in industrial processes and chemical product substitutions.

Other atmospheric discharges

Phasing out the heavy fuel oil boilers restricted SO_2 and NOx emissions to just the discharges from the aviation activity (kerosene).

Wastewater

The production sites likely to generate industrial wastewater are equipped with detoxification stations or wastewater treatment installations of the "zero liquid discharge" type.

For heavy metals, this equipment has discharge rates lower than the value limits set by the regulations.

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

In order to prevent accidental pollution, the sites are equipped with hydrocarbon separators, stripping areas and containment basins for fire-extinguishing water.

Sites situated over water tables have instituted monitoring of the water quality (piezometer) when their activities so require.

Waste

The waste is divided into Non-Hazardous Waste (paper, cardboard, metals, etc.) and Hazardous Waste (contaminated packaging, oils, metal hydroxide sludge, solvents, etc.).

in tons	2016		2015	
	Parent Company	Group	Parent Company	Group
Non-hazardous (DEC001-a)	5,050	6,335	6,761	8,064
Hazardous (DEC001-b)	1,724	2,360	1,738	2,315
Total (DEC001)	6,774	8,695	8,499	10,379
Recycling % (DEC002)	80	NA	81	NA

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

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

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

Land use conditions

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

The average proportion of sealed surfaces (developed land and roads) is 50% for the Parent Company (SOL001 indicator) and 54% in consolidated data.

Noise and vibrations

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

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

Biodiversity

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

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

In 2016, along with new construction, actions to promote biodiversity were carried out by the Mérignac site as an environmental offset: reforestation, restoration of wetlands and habitat of protected species (butterfly, amphibian, orchid).

Food waste

Dassault Aviation is not very concerned by the problem of food waste, as its staff dining areas are run mostly by specialized providers.

3.2.8 Resources committed to the environment

Every year the Dassault Aviation Group carries out actions to preserve the environment and reduce its carbon footprint. For example, in 2016:

- the implementation of centralized energy management (Argonay) continued,
- electrical power consumption: (LED lighting, presence detectors (Argenteuil, Biarritz, Istres, Martignas, Mérignac, Saint-Cloud, Dassault Falcon Service, Dassault Falcon Jet Teterboro)) was optimized,
- gas consumption (thermal insulation, lagging, modernization of heating system, hot water network rehabilitation (Argonay, Biarritz, Istres, Martignas, Mérignac, Saint-Cloud)) was optimized,
- water consumption (plastic micro-bead washing machines (Biarritz)) was decreased,
- buildings with energy performance requirements (assault Falcon Service Le Bourget, Saint-Cloud) were built or modified,
- R22 refrigerant air conditioners (Biarritz, Poitiers, Saint Cloud) were replaced and ion chamber smoke detectors (Biarritz, Poitiers, Saint Cloud) were gradually removed,
- the impact from industrial processes was reduced, through oiling cabins (Seclin), VOC-free paint gun washers (Martignas), perchloroethylene-free washing machines (Argonay), replacement of chemical machining by mechanical machining (Argenteuil), and discontinuation of use of methyl ethyl ketone (Argenteuil).

3.2.9 Environmental risk management

The management of environmental risks is discussed in paragraph 2.9.

3.3 CORPORATE RESPONSIBILITY INFORMATION

3.3.1 Company commitments in favor of sustainable development

A Policy of sustainability

Due to the specific nature of its activities, the Dassault Aviation Group remains committed to a policy of sustainability, both in the choice of its partners and in its purchasing policy.

The service life of our aircraft requires us to anticipate the constraints relating to their life cycle from the time of their design. To achieve this, Dassault Aviation Group is constantly innovating, supported by efficient digital industrial processes such as Product Life-cycle Management (PLM). All the Group's suppliers are involved in this process of innovation.

We optimize our production to increase efficiency while improving the working conditions of our employees. To this end, we have continued our action plan for Improving Responsiveness in Production (IRP), and we continue to develop digital factories. For example, there was the opening, at the Argenteuil site, of the training room through digital immersion of colleagues, or, at the Biarritz site, the deployment of manufacturing monitoring; manufactured items become connected objects that interact with the computer system.

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

This approach is reflected in particular through recycling of waste (metal waste and chips, paper and paperboard) at all of our facilities.

A culture of safety and performance

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

As part of our security policy and performance, we work closely with the French and international airworthiness authorities, both civil and military.

During the first half of 2016, the DGA gave Dassault Aviation a manufacturing approval (RAP) for the RAFALE export. The Production Skills Award demonstrates the DGA's confidence in our production, control and flight processes for those aircraft.

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

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

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

Corporate commitment for industrial and purchasing activities

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

- procures, purchases, manufactures and integrates all the elements making up its aircraft, and then, for FALCON business aircraft, carries out the internal fittings according to the requirements of its customers,
- disassembles, repairs and reinstalls these same elements while the aircraft is in service,
- ensures control of its Supply Chain,
- implements materials for replacement to ensure the best service to customers, informs of any procurement instabilities in order to ensure long-term adherence to its commitments on the aircraft production and throughout the aircraft service cycle.

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

For several decades, the Dassault Aviation Group has worked with and supported a broad network of French aerospace companies and contributes to the growth of many SMEs. Due to the nature of its products and the related services, the relationship that Dassault Aviation builds with its SME, ETI or major group suppliers is necessarily balanced over the long term.

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

Active participation in professional bodies such as the GIFAS (French Aerospace Industries Association) allows Dassault Aviation to support SMEs and middle-market companies of the French aerospace supply chain in their plans to improve competitiveness.

On January 10, 2014, Dassault Aviation signed the SME Defense Pact membership agreement with the French Ministry of Defense, thereby reaffirming its commitment to advancing the French SMEs and ETIs in the Defense sector, and to strengthening good business practices. The Ministry of Defense expressed its satisfaction to Éric TRAPPIER about seeing "Dassault Aviation maintain a dialogue and balanced relationship with its suppliers".

Importance of purchases

In 2016, the purchasing commitments of Dassault Aviation Group represented approximately EUR 2.2 billion, nearly 70% of which went to French companies.

This drop in this figure reflects a difficult business aviation market.

During the last quarter of 2016, Dassault Aviation undertook a transformation plan to better understand the future. This plan contains a particularly large component for large purchases, with objectives such as improving effectiveness of the procurement function to reduce costs and the development of relationships with certain partners.

Each subsidiary of Dassault Aviation manages its own purchasing.

The purchases made outside the Group by Dassault Falcon Jet for executing its missions (distribution of aircraft and spare parts, internal fittings, maintenance) represent EUR 275 million.

These purchases are mostly made in US dollars.

Purchases made outside the Group by Dassault Procurement Services represent approximately EUR 167 million. Purchases are made based on orders sent by Dassault Aviation and Dassault Falcon Jet to North American companies. These purchases are mostly made in US dollars.

Purchases outside the Group made by Dassault Falcon Service (airline, maintenance center) represent approximately EUR 47 million for the year. French suppliers are responsible for nearly 75% of these purchases.

Purchases made outside the Group by Sogitec Industries represent about EUR 28 million. Ninety-five percent of these purchases are made from French companies.

Our purchasing policy and the securing of our supply chain

Our purchasing policy aims to secure our Supply Chain, in order to bring the best service to our customers.

Supplier approval is the first step in capacity verification for a supplier to deliver products/services that meet our requirements and those of our clients. It is issued for one or more fields of activity after an evaluation process.

Beyond that, we perform improvement actions. For example, in 2016, we:

- performed evaluation diagnostics on control of the management of our suppliers' supply chain,
- strengthened supply chain governance, from the operational level to the managerial level, with the launch of no less than ten projects, including planning control, upstream supply chain performance, economic performance and operational performance,
- put in place support for our suppliers to improve supplier performance with the appointment of a team of qualified auditors.

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

The results have benefited all customers. As a result, Dassault Aviation saw that in 2016, key supply chain indicators (OTD = On Time Delivery, DQOs = The Quality Delivery and Depth of Delay) have improved.

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

- responsiveness,
- long-lasting relationship,
- cost control,
- optimization of the consumption of resources,
- inventory reduction.

The strengthening of collaborative efforts with our suppliers is based on the deployment of the Air Supply digital platform in the BoostAérospace standard.

Our corporate approach is passed on to our suppliers by way of our technical and industrial specifications, our Quality/Environment purchasing clauses and our contractual requirements. Actions taken for several years toward its suppliers by the Dassault Aviation Group enable us to meet EU REACh regulation requirements.

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

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

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

Territorial influence

The Dassault Aviation Group has an extensive territorial reach:

- Dassault Aviation has nine sites in France and locally manages a large number of suppliers,
- Dassault Falcon Service is located on the Le Bourget airport platform and has facilities at the airports of London-Luton and Moscow-Vnukovo. On November 10, 2016, a new site for the performance of FALCON maintenance work was inaugurated in Mérignac,
- Sogitec Industries is established at three sites in France,
- Dassault Falcon Jet, directly or through its subsidiaries, is established at seven sites in the United States and at two sites in Brazil.

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

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

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

We also participate actively in competitiveness clusters and regional professional bodies such as "Aerospace Valley" in Midi-Pyrénées and Aquitaine, "Pegase" in Provence-Alpes-Côte d'Azur, "BAAS" (Bordeaux Aquitaine Aéronautique et Spatial), "Aérocampus" in Aquitaine, "AEROTEAM" in Poitou-Charentes, "Plan de Déplacement Inter-Entreprises" under CCI93 (LE BOURGET pro-mobility initiative), and development agencies in Arkansas, Delaware, and New Jersey (Economic Advisory Committee).

Dassault Aviation is a member of the Academy of Aeronautics and Space.

Relations with the world of education

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

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

We participate in the discussions held in the framework of professional organizations such as GIFAS (Association of French Aeronautical and Space Industries) and with teaching bodies and institutions (engineering schools, universities, and vocational schools) to adapt the curriculum to the needs identified in the medium or long-term aeronautical industries. To this end, we encourage our staff to get involved and complement academic teachers through:

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

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

Four challenges supported by Dassault Aviation also make it possible to give teams of students in technical domains experience in situations close to their future activity.

We also give these various groups of people the opportunity to become more familiar with our technologies, our professions, our values and our products through internships, international business volunteer programs and work-study contracts.

Raising awareness of responsible behavior

Dassault Aviation Group encourages staff to demonstrate responsible behavior through Company or local campaigns, at the initiative of the managers of our sites.

In France, Dassault Aviation has organized road safety days. We help our employees to find the best solution for their commutes. To this end, on September 8, 2016, the Mérignac facility organized a "mobility day". Attendance by representatives of the Bordeaux Metropolitan Area, Transport Bordeaux Métropole (TBM), and "Boogi" (a carpooling application) enabled employees to propose alternative solutions that contribute to sustainable development.
Dassault Falcon Service participated in the implementation of a 100% electric shuttle to facilitate travel for employees of the Le Bourget airport platform. This project, which has been operational since November 2, 2016, received co-financing from the Drancy municipal government.

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

Charitable actions

The Dassault Aviation Group is actively involved in many charities. We contribute to initiatives such as "Course du Cœur" for organ donation, "Rêves de Gosses", which gives hot-air balloon rides to disabled children, "Hanvol" for employment training and integration of people with disabilities, "Fondation Antoine de Saint-Exupéry pour la Jeunesse", which works to improve the lives of young people in many countries, "Fondation des œuvres Sociales de l'Air" and the association "Les Ailes Brisées" to assist flight crews and their families who are victims of accidents, the association "Les Mirauds Volants", which allows the visually impaired to fly aircraft, "L'École des pupilles de l'air", an equal opportunities organization, "Technowest" for the integration of young people into the professional world, and "Humaquitaine" for the renovation of public schools in Senegal.

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

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

In the United States, Dassault Falcon Jet takes part in initiatives including Habitat for Humanity, the Arkansas Food Bank, the American Red Cross and the Muscular Dystrophy Association.

Loyal practices

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

Observing a strict code of ethics, the Group promises to act in accordance with the Convention of the Organization for Economic Cooperation and Development (OECD), the United Nations Convention (UN) and national legislation on the fight against corruption.

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

The Sapin II law of December 9, 2016 relating to combating corruption and the modernization of economic life requires us to implement eight specific measures to prevent and detect corruption and influence peddling (compliance obligation June 1, 2017):

- a code of conduct defining and illustrating the various types of behavior to prohibit as being capable of constituting instances of corruption or influence peddling; the code is integrated in the internal regulations of the company;
- an internal alert system intended to ensure the collection of alerts from employees, relating to the existence of behaviors or situations contrary to the code of conduct;
- regularly updated risk mapping, intended to identify, analyze and rank the risks of exposure of the company to external solicitations for corruption, depending on sectors and geographic areas of activity;
- procedures for assessing the situation of clients, first-tier suppliers and intermediaries in the mapping of risks;
- procedures of internal or external accounting controls intended to ensure that the books, registers and accounts do not mask instances of corruption or influence peddling;
- a training scheme for executives and staff most exposed to risks of corruption and influence peddling;
- a disciplinary scheme to sanction employees of the company in the event they violate the code of conduct;
- a system of control and internal evaluation of the measures implemented;

A Director of Ethics is responsible for the implementation and monitoring of these measures.

Dassault Aviation is also a signatory to many international agreements on the prevention of corruption such as: The Global Compact, Common Industry Standards, and Global Principles. It is also a member of several ethics and corporate responsibility committees at a national, European and international level (see website, www.dassault-aviation.com, Ethics section.

3.3.2 Human rights

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

The Group maintains balanced and responsible relationships with its stakeholders.

In 2003, Dassault Aviation subscribed to the UN Global Compact and adopted the latter's ten principles, including the principle dedicated to respecting human rights that appears in its general purchasing conditions.
(see also Section 3.1 above for details of commitments to labor law and the website www.dassault-aviation.com, ETHICS section).

4. DASSAULT AVIATION (Parent Company)

4.1 ACTIVITIES

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

4.2 KEY FIGURES

4.2.1 Order intake

Order intake in 2016 for the Parent Company amounted to **EUR 9,218 million**, compared to EUR 9,516 million in 2015. **Export** order intake represented **92%.**

Ordering trends were as follows, in EUR millions:

Year	Defense		FALCON	**Total**
	France	Export		
2012	473	152	2,063	**2,688**
2013	1,031	211	2,313	**3,555**
2014	418	250	3,429	**4,097**
2015	358	7,889	1,269	**9,516**
2016	**662**	**7,432**	**1,124**	**9,218**

The order intake item is composed entirely of firm orders.

FALCON programs

In 2016, 20 FALCON were ordered (including 12 canceled FALCON 5X) compared to 24 FALCON ordered (including 20 canceled FALCON Netjets) in 2015.

DEFENSE programs

Defense order intake amounted to **EUR 8,094 million in 2016** compared to EUR 8,247 million in 2015. The signing and coming into force of 36 RAFALE with India follows the coming into force in 2015 of contracts with Egypt (24 RAFALE) and Qatar (24 RAFALE).

4.2.2 Net Sales

The Parent Company's **net sales for 2016** amounted to **EUR 3,161 million**, compared to EUR 3.326 million in 2015.

Sales for the last five years are as follows, in EUR millions:

Year	Defense		FALCON	**Total**
	France	Export		
2012	929	165	2,248	**3,342**
2013	1,223	166	2,577	**3,966**
2014	721	224	2,250	**3,195**
2015	550	1,035	1,741	**3,326**
2016	**500**	**710**	**1,951**	**3,161**

48 FALCON were delivered in 2016, compared to 54 in 2015.

6 RAFALE were delivered to France and **3 RAFALE** were delivered to Egypt in 2016. The higher DEFENSE 2015 net sales benefited from the delivery of the Indian MIRAGE 2000 that were upgraded to the I/TI standard.

4.2.3 Net income

Net profit for 2016 was **EUR 257 million**, compared to EUR 283 million in 2015.

In 2017, the personnel will receive EUR 80 million from the profit-sharing scheme and incentive plan linked to 2016 results. Of this amount:

- profit-sharing: EUR 60 million
- incentive plans: EUR 20 million

These amounts represent **17% of wages** received in 2016. Under a formula identical to the mandatory legal participation, employees would not have received any profit-sharing for 2016.

4.2.4 Allocation of profit

If you approve the accounts for FY 2016, we propose that you allocate the net profit, EUR 256,695,962.15, increased by the amounts carried forward from previous fiscal years (EUR 1,855,397,840.79) and reduced by dividends applied to shares other than treasury shares(*) in the retained earnings balance.

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

4.2.5 Five-year results summary

The Dassault Aviation five-year summary is shown in Note 33 to the annual financial statements.

4.2.6 Tax consolidation

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

4.3 RISK MANAGEMENT

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

4.4 TERMS OF PAYMENT

In application of the law, Dassault Aviation implemented the necessary procedures to assure payment to its suppliers at EOM (End-Of-Month) +45 days. As of December 31, the composition of trade payables inclusive of all taxes was as follows (in EUR millions, VAT included):

Due-date	**2016**	**2015**
Due at year-end	10.9	9.5
As of mid-January	88.3	115.9
As of end of January	-	-
As of mid-February	-	9.5
As of end of February	-	-
other (fixed assets)	6.3	3.6
TOTAL	**105.5**	**138.5**

As of December 31, 2016, the composition of unpaid past-due invoices received by the balance sheet date was as follows (in EUR millions, VAT excluded):

	1 to 30 days	31 to 60 days	61 to 90 days	91+ days	Total
Late payment tranches					
Numberb of invoices involved	763				
Total amount of invoices involved (without VAT)	2.1	1.3	0.7	5.9	10.0
% of total purchases (without VAT) for the fiscal year	0.08%	0.05%	0.03%	0.24%	0.40%
Contractual payment periods: EOM +45 days					

As of December 31, 2016, the composition of unpaid past-due invoices issued by the closing date was as follows (in EUR millions, VAT excluded):

	1 to 30 days	31 to 60 days	61 to 90 days	91+ days	Total
Late payment tranches					
Number of invoices involved	6,176				
Total amount of invoices involved (without VAT)	31.4	4.9	4.0	55.0	95.3
% of FY net sales (without VAT)	0.99%	0.16%	0.13%	1.74%	3.01%
Payment periods: defined in the general sales terms.					

4.5 SHAREHOLDER INFORMATION

4.5.1 Acquisition of Dassault Aviation shares from Airbus Group SAS

Under the terms of an agreement signed by Dassault Aviation and Airbus Group SAS on June 9, 2016 (previously authorized by the Board of Directors on June 3, 2016), on June 10, 2016 the Company bought 502,282 treasury shares representing 5.51% of its capital, at the price of EUR 950 per share, for a total of EUR 477 million. This operation was financed through Dassault Aviation's internal cash. Concurrently, Airbus Group SAS proceeded to transfer Dassault Aviation shares through private market placement, and Airbus Group SE issued bonds exchangeable for Dassault Aviation shares.

By the end of this operation, Dassault Aviation held 912,253 of its treasury shares, representing close to 10% of its capital.

The Board of Directors of Dassault Aviation decided to allocate these 502,282 shares to the cancellation scheme established in the share buy-back program authorized by the General Meeting of May 19, 2016 and entering into force June 3, 2016. The cancellation of these 502,282 shares, and of the 369,471 shares that were also slated for cancellation, took place on December 23, 2016, at the end of the two-year period starting from the preceding cancellation, which took place on December 22, 2014.

4.5.2 Reclassification of Dassault Aviation shares by Airbus Group SAS

During the summer of 2016, Airbus Group SAS informed Dassault Aviation of its intention to proceed with the internal reclassification of its interest in its parent company Airbus Group SE, which took effect on September 13, 2016. This interest corresponds to the shares underlying the bonds convertible into Dassault Aviation shares issued by Airbus Group SE on June 9, 2016, mentioned in paragraph 4.5.1 above.

4.5.3 Capital structure

As of December 31, 2016, the share capital of the Company is EUR 66,006,280. It is divided into 8,250,785 shares, each with a par value of EUR 8. The shares are listed on the regulated "Euronext Paris" market - Compartment A - International Securities Identification Numbers (ISIN Code): FR0000121725. They are eligible for deferred settlement.

As of December 31, 2016, the main Dassault Aviation shareholders are as follows:

Shareholders	Number of shares	%	Exercisable voting rights (2)	%
GIMD	5,118,240	62.03	10,236,480	76.77
Free-float	2,267,811	27.49	2,271,446	17.04
Airbus Group SE	825,184 (3)	10.00	825,184	6.19
Treasury shares (1)	39,550	0.48	-	-
TOTAL	**8,250,785**	**100.00**	**13,333,110**	**100.00**

(1) Treasury shares recorded in the "fully registered shares" account, without voting rights.
(2) In application of the Florange Law, and in the absence of contrary provisions in the articles of association of Dassault Aviation, shares held in a directly registered account for two years or more are entitled to double voting rights as of April 3, 2016.
(3) Shares underlying the bonds convertible into Dassault Aviation shares issued by Airbus Group SE on June 9, 2016, mentioned in paragraph 4.5.1 above.

4.5.4 Information on capital, shareholders and voting rights

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

As of December 31, 2016, 3,143 shares (0.04% of the share capital) were held by one of the corporate mutual funds whose members are employees or former employees of the Company.

In application of Law N° 2014-384 of March 29, 2014, "seeking to reconquer the real economy," shares issued by the Company and held in a directly registered account for two years or more are entitled to double voting rights as of April 3, 2016 (i.e. two years after the entry into force of the aforementioned law).

The Company has not issued any securities representative of its current capital. The only securities giving ownership of Dassault Aviation shares are the bonds issued by Airbus Group SE, mentioned in paragraph 4.5.1 above.

The Company did not create any stock options in 2016.

The General Meeting of September 23, 2015 authorized the Board of Directors to allocate, in one or more stages, bonus shares of the Company (to the benefit of Company employees or certain employee categories it may determine, and to the benefit of eligible corporate officers of the Company).

The Board of Directors must determine the identity of the beneficiaries of such allocations, as well as the conditions and, where appropriate, the criteria for allocating the shares.

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

Pursuant to this authorization, on March 9, 2016 the Board of Directors decided to allocate 500 bonus shares to the Chairman and Chief Operating Officer and 450 bonus shares to the Chief Operating Officer. To acquire them, the following performance criteria must be met:

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

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

- a one-year vesting period, expiring on March 8, 2017 (inclusive),
- presence in the workforce at the end of the vesting period,
- a one-year holding period, beginning on March 9, 2017 and ending on March 9, 2018 inclusive,
- starting on March 9, 2018, the retention of 20% of those shares for the duration of their term.

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

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

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

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

4.5.5 Securities transactions by Directors

In 2016, apart from the acquisition of bonus shares by the executive officers on September 23, 2016 (paragraph 4.8.6 table 9 below), the executive officers have not performed any transactions involving the granting or transfer of Dassault Aviation shares. Such transactions, when they occur, are required to be reported to the AMF and the Company, pursuant to the provisions of Article L. 621-18-2 of the French Monetary and Financial Code and Articles 223-22 et seq. of the General Regulations of the AMF.

4.5.6 Agreements between shareholders

There is no shareholding agreement between Groupe Industriel Marcel Dassault (GIMD) and Airbus Group SE.

However, the following two agreements are in place:

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

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

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

   - Airbus Group SAS may exercise its voting rights in General Meetings following consultation with the French government,

- the French government is granted a right of first refusal and a right of first offer in case Airbus Group SAS were to seek to dispose of all or part of its shares in the stock of Dassault Aviation.

Airbus Group SE, which also adheres to the agreement, is bound by these undertakings.

b) Agreement between the French government and GIMD

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

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

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

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

4.5.7 Implementation of a share buyback program

In order to allow Dassault Aviation to trade treasury shares on- or off-market, in particular participating in any private placement initiated by Airbus Group SAS, the General Meeting of Shareholders of May 19, 2016 authorized setting up a new share buyback program, identical to the one voted on January 28, 2015 (as amended by the General Meeting of September 23, 2015, raising the ceiling from EUR 1,200 to EUR 1,500).

This new authorization, valid for a period of 18 months as of May 19, 2016, supersedes the share buyback program previously authorized by the General Meeting of Shareholders on January 28, 2015 for the unused portion of the program.

This share buyback program is in line with the provisions of Articles L. 225-209 et seq. of the French Commercial Code.

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

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

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

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

The authorization given by the General Meeting to the Board of Directors entitles Dassault Aviation to buy its own shares up to a limit of 10% of its capital, with a unit price ceiling of EUR 1,500 exclusive of acquisition costs, subject to adjustments linked to capital transactions, particularly through the incorporation of reserves and allocation of performance shares and/or division of the par value or consolidation of shares.

The Company allocated a maximum of EUR 1,368,379,500 to the share buyback program, which was cumulative to the 10% Company capital ceiling.

The program was used to buy 502,282 shares from Airbus Group SAS on June 10, 2016 (see above). It would allow it to buy another 322,796 shares, which, with a ceiling of EUR 1,500 per share, would represent a maximum of EUR 484,194,000.

This program is valid until November 18, 2017 (18 months from May 19, 2016).

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

On June 3, 2016, the Board of Directors subdelegated the aforementioned powers to the Chairman and CEO.

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

During fiscal year 2016, under the aforementioned authorization, on June 10, 2016 Dassault Aviation acquired 502,282 shares from Airbus Group SAS, representing 5.51% of the Company's capital, for a total amount of EUR 477 million.

Trading charges were borne by Airbus Group SAS, not by the Company.

As described below, in a meeting held on June 3, 2016, the Board of Directors of Dassault Aviation decided to allocate 502,282 shares, representing 5.51% of its capital, to the cancellation scheme established in the share buy-back program. The cancellation could only begin on December 23, 2016, concurrently with that of the 369,471 shares in AIRBUS GROUP acquired on March 25, 2015, for a total of 871,753 shares. This cancellation effectively occurred on December 23, 2016.

As of December 31, 2016, the Company still held 39,550 treasury shares, which were pegged for distribution of performance shares and the establishment of a possible liquidity contract for market trading or security liquidity through an investment services provider.

In order to allow the Company to act at any time with regard to its own shares, on March 7, 2017 the Board of Directors proposed to the General Meeting of May 18, 2017, that a new share buyback program be launched under the same conditions (14th resolution).

In accordance with the provisions of Articles L. 225-211 and R. 225-160 of the French Commercial Code, the Company maintains registers of the purchase and sale of shares acquired and sold under the scope of its share buyback program.

4.5.8 Authorization of reduction in the Company's share capital

On January 28, 2015, the General Meeting authorized the Board of Directors, under the same terms as the authorization of September 24, 2014, to:

- reduce its share capital by way of cancellation, in one or more stages, of all or some of the shares acquired by the Company under the scope of its own share buyback program, and limited to 10% of the capital per 24-month period,

- allocate the difference between the buyback value of canceled shares and their nominal value to premiums and available reserves.

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

This authorization was given for a period that expires at the end of the Annual Ordinary General Meeting convened to approve the financial statements for the 2016 fiscal year.

The Board Meeting of January 28, 2015 also sub-delegated to the Chairman and Chief Executive Officer all powers to amend the Company's articles of association accordingly, to make any declarations to the French Financial Markets Authority or any other body, to fulfill all formalities and, in general, to do anything which could be necessary.

In 2016, 871,753 Dassault Aviation shares were canceled as part of the buyback program authorized by the General Meeting of May 19, 2016 (see. paragraph 4.5.7 above).

4.5.9 Significant agreements entered into by the Company

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

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

There is no agreement offering compensation for:

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

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

Ruling No. 2014-863 of July 31, 2014 relating to company law states that reference should be made in the Directors' Report to agreements made directly or indirectly, or through a third party:

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

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

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

- between GIMD or Airbus Group SE, each holding more than 10% of the voting rights until June 10, 2017 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.

4.5.11 Board of Directors

Rules governing appointment and replacement of members of the Board of Directors and amendments to the Articles of Association are based on applicable legislation.

The Board of Directors has the powers provided for under applicable legislation.

4.6 OPERATION OF THE EXECUTIVE MANAGEMENT

The Board of Directors, which met after the Combined Ordinary and Extraordinary General Meeting of April 25, 2002, decided that the Chairman of the Board of Directors would be responsible for the Company's Executive Management, an option that it deemed best suited to the specific features of the Company.

4.7 OFFICES HELD AND DUTIES PERFORMED BY CORPORATE OFFICERS IN 2016 IN OTHER COMPANIES

4.7.1 Honorary Presidents and Directors

Serge DASSAULT
Age as of December 31, 2016: 91 years old
French nationality
Date of first appointment: 6/27/1967
Start and end of current term: 2015 General Meeting - 2019 General Meeting
Dassault Aviation shares held: 25

Other corporate offices and duties:

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

Other offices and duties over the last five years:

- Director:
  DOW KOKAM LLC (USA)
  Dassault International Inc. (USA)
  Société Financière Terramaris (Switzerland)
  SITA SA (Switzerland)
- Member of the Strategic Committee:
  Dassault Développement SAS

Charles EDELSTENNE
Age as of December 31, 2016: 78 years old
French nationality
Date of first appointment: 1/27/1989
Start and end of current term as Director in progress: 2015 General Meeting - 2019 General Meeting
Member of the Audit Committee
Dassault Aviation shares held: 67

Other corporate offices and duties:

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

Other offices and duties over the last five years:

- Chairman:
  CIDEF
  ASD

- Chairman and Chief Executive Officer:
  Dassault Aviation

- Chairman:
  Dassault Falcon Jet Corporation (USA)

- Chairman:
  Dassault International Inc. (USA)

4.7.2 Chairman and Chief Executive Officer

Éric TRAPPIER
Age as of December 31, 2016: 56 years old
French nationality
Date of first appointment as Director: 12/18/2012
Start and end of current term as Director: 2015 General Meeting - 2019 General Meeting
Start and end of current term as CEO: Board meeting of 05/20/2015 - 2019 General Meeting
Dassault Aviation shares held: 525

Other corporate offices and duties:

- Director:
  Thales SA
  Sogitec Industries SA

- Chairman:
  Dassault Falcon Jet Corporation (USA)

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

- Senior Vice President:
  GIFAS

- Chair of Defense Committee:
  ASD

- Chair of Defense Commission
  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

4.7.3 Directors

Nicole DASSAULT
Age as of December 31, 2016: 85 years old
French nationality
Date of first appointment: 5/19/2010
Start and end of current term: 2016 General Meeting - 2020 General Meeting
Dassault Aviation shares held: 25

Other corporate offices and duties:

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

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

- Chief Operating Officer:
  Rond-Point Immobilier SAS

- Director:
  Groupe Figaro SAS
  Dassault Medias SA
  Artcurial SA
  Fondation Serge Dassault

Other offices and duties over the last five years:

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

- Founding member:
  Fondation Serge Dassault

Olivier DASSAULT
Age as of December 31, 2016: 65 years old
French nationality
Date of first appointment: 4/17/1996
Start and end of current term: 2015 General Meeting - 2019 General Meeting
Dassault Aviation shares held: 25

Other corporate offices and duties:

- Vice-Chairman:
  Valmonde et Cie SA

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

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

- Member of the Supervisory Board:
  Rubis SA

- General Manager:
  HR Finance SAS
  SCI Rod Spontini

Other offices and duties over the last five years:

- General Manager:
  LBO Invest D

Marie-Hélène HABERT
Age as of December 31, 2016: 51 years old
French nationality
Date of first appointment: 5/15/2014
Start and end of current term: 2014 General Meeting - 2018 General Meeting
Dassault Aviation shares held: 25

Other corporate offices and duties:

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

- Director:
  Dassault Systèmes SE
  Biomérieux SA
  Artcurial SA

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

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

- Member of the Strategic Committee:
  HDF SAS

Other offices and duties over the last five years:

- Vice-President:
  Fondation Serge Dassault

- Member of the Strategic Committee:
  Dassault Développement

Alain GARCIA, independent Director
Age as of December 31, 2016: 73 years old
French nationality
Date of first appointment: 3/18/2009
Start and end of current term: 2016 General Meeting - 2020 General Meeting
Dassault Aviation shares held: 25

Other corporate offices and duties:

- General Manager:
  Novation Aero Consulting EURL

Other offices and duties over the last five years:

None.

Henri PROGLIO, independent Director
Age as of December 31, 2016: 67 years old
French nationality
Date of first appointment: 4/23/2008
Start and end of current term: 2014 General Meeting - 2018 General Meeting
Chairman of the Audit Committee
Dassault Aviation shares held: 25

Other corporate offices and duties:

- Director:
  NATIXIS SA
  ABR Management (Russia)
  Fomentos de Construcciones y Contratas (Spain)
  Akkuyu (Turkey)

Other offices and duties over the last five years:

- Chairman and Chief Executive Officer:
  EDF SA

- Chairman of the Board of Directors:
  VEOLIA Propreté SA
  VEOLIA Transport SA
  Transalpina di Energia Spa (Italy)
  Edison SpA (Italy)
  EDF Energy Holdings Ltd (UK)

- Director:
  VEOLIA Environment North America Operations
  VEOLIA Propreté SA
  VEOLIA Environnement SA
  CNP Assurances SA
  FCC SA (Spain)
  DALKIA SA
  EDF Energies Nouvelles
  EDF International SAS
  FCC SA (Spain)
  South Stream Transport BV (Netherlands)
  South Stream Transport AG (Switzerland)
  Fennovoima (Finland)
  Thales SA

- Member of the Supervisory Board:
  DALKIA SAS
  VEOLIA Eau - Cie Générale des Eaux SCA

Lucia SINAPI-THOMAS, independent Director
Age as of December 31, 2015: 52 years old
French nationality
Date of first appointment: 5/15/2014
Start and end of current term: 2015 General Meeting - 2019 General Meeting
Member of the Audit Committee
Dassault Aviation shares held: 25

Other corporate offices and duties:

- Executive Director:
  CapGemini (Business Platforms)

- Member of the Supervisory Board:
  CapGemini Polska Sp.z.o.o (Poland)

- Vice-President of the Board:
  CapGemini Business Services (Guatemala)

Other offices and duties over the last five years:

- Chairman:
  Capgemini Employees Worldwide SAS (France)

- Deputy CFO:
  Capgemini SA (France)

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

- Member of the Audit and Risks Committee:
  Bureau Veritas (France)

Richard BÉDÈRE, Director representing the employees
Age as of December 31, 2016: 60 years old
French nationality
Date of first appointment: 7/10/2014
Start and end of current term: 07/10/2014 - 07/09/2018
Dassault Aviation shares held: none

Other corporate offices and duties:

None.

Other offices and duties over the last five years:

- CCE (Comité Central d'Entreprise - Central Works Council) delegate on the Company's Board of Directors

- Substitute CCE member

- Substitute Mérignac Works Council member

- Central union delegate

4.7.4 Chief Operating Officer

Loïk SEGALEN
Age as of December 31, 2016: 56 years old
French nationality
Date of first appointment as Chief Operating Officer: 01/09/2013
Start and end of current term: Board meeting of 05/20/2015 - 2019 General Meeting
Dassault Aviation shares held: 450

Other corporate offices and duties:

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

- Board Member:
  GIFAS

Other offices and duties over the last five years:

- Director:
  Dassault Procurement Services (USA)

4.8 COMPENSATION OF CORPORATE OFFICERS IN 2016

4.8.1 Compensation paid to Serge DASSAULT, Honorary Chairman

- *For GIMD, which controls Dassault Aviation*

  Serge DASSAULT received gross annual compensation of EUR 637,560 as Chairman and EUR 28,740 (gross) in directors' fees as member of the Supervisory Board. He had a chauffeur-driven company car (benefit in kind valued at EUR 17,039).

- *For Dassault Aviation*

  Serge DASSAULT, Director, received EUR 27,307 in directors' fees as a member of the Board and EUR 9,148 in gross compensation for his duties as Advisor.

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

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

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

  In France, Serge DASSAULT received EUR 31,480 gross in directors' fees as a member of the Board of Directors of Dassault Falcon Jet.

4.8.2 Compensation paid to Charles EDELSTENNE, Honorary Chairman

- *For GIMD, which controls Dassault Aviation*

  Charles EDELSTENNE received gross annual compensation of EUR 802,404 as CEO and EUR 28,740 (gross) in directors' fees as member of the Supervisory Board.

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

- *From Dassault Aviation*

  Charles EDELSTENNE received EUR 27,307 gross in directors' fees.

  With regard to the Audit Committee, Charles EDELSTENNE received an additional EUR 6,000 gross in directors' fees.

  Supplementary pension

  Dassault Aviation agreed to pay a supplementary pension to Charles EDELSTENNE. This represents a gross amount of EUR 308,660 per annum. Dassault Aviation has made a provision for this amount in its books, for payments which should have begun in 2013.

  However, at the end of his term of office as Chairman/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.

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

  In France, Charles EDELSTENNE received EUR 31,480 gross in directors' fees as a member of the Board of Dassault Falcon Jet and EUR 42,000 gross in directors' fees as a member of the Board of Thales.

4.8.3 Compensation paid to the Chairman and CEO

- *For Dassault Aviation*

Éric TRAPPIER received gross annual compensation as Chairman/CEO of EUR 1,444,618.

His compensation does not include any variable or exceptional compensation.

He was not awarded any stock options.

The Board of Directors, in its meeting of March 9, 2016, allocated 500 bonus shares to him. These bonus shares were valued at EUR 941 per share on December 31, 2016, or EUR 470,500 for all 500 shares. The acquisition of these shares is subject to performance criteria, a vesting period of one year, and a one-year holding period.

The Board of Directors has ascertained compliance with the performance criteria to which the 500 shares allocated to him by the Board in its meeting of September 23, 2015 are subject. Therefore, on September 23, 2016, he acquired 500 performance shares, valued on December 31, 2016 at EUR 993 per share, or EUR 496,500 for all 500 shares.

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

He had a chauffeur-driven company car (benefit in kind valued at EUR 8,593), and was also entitled to reimbursement of actual expenses incurred as part of his duties.

In addition, he received EUR 54,614 gross in directors' fees (double fees).

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

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

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

Upon reinstatement of his employment contract, Éric TRAPPIER will enjoy severance and supplementary pension benefits(*) applicable to employees of his category, according to the rules of our Company.

The Board of Directors decided on May 20, 2015 that Éric TRAPPIER will continue to have the benefit of the supplementary pension plan(*) applicable to senior executives of the Company. The pension paid shall be calculated according to the average gross annual compensation for his last three years as an executive officer.

Based on his gross annual compensation for 2016, the supplementary regime would yield an annual income of €381k, representing 26% of his fixed gross compensation as Chairman/CEO.

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

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

In France, Éric TRAPPIER received EUR 31,480 gross in directors' fees as a member of the Board of Dassault Falcon Jet, and EUR 38,250 gross in directors' fees as a member of the Board of Thales.

(*) The supplementary pension scheme targets Company executive officers with a seniority of at least 10 years, who are present in the Company at the time of their retirement, are at least 60 years old, and whose salaries are more than four times the annual limit of the French Social Security (PASS) (€154k in 2016).
The income paid out is capped at 10x PASS (€386k in 2016) and allows for a declining compensation-based replacement rate, all schemes included, of between 35% and 41%.

4.8.4 Compensation paid to the Chief Operating Officer

- *For Dassault Aviation*

Loïk SEGALEN received gross annual compensation as Chief Operating Officer of EUR 1,278,049.

His compensation does not include any variable or exceptional compensation.

He was not awarded any stock options.

The Board of Directors, in its meeting of March 9, 2016, allocated 450 bonus shares to him. These bonus shares were valued at EUR 941 per share on December 31, 2016, or EUR 423,450 for all 450 shares. The acquisition of these shares is subject to performance criteria, a vesting period of one year, and a one-year holding period.

The Board of Directors has ascertained compliance with the performance criteria to which the 450 shares allocated to him by the Board in its meeting of September 23, 2015 are subject. Therefore, on September 23, 2016, he acquired 450 performance shares, valued on December 31, 2016 at EUR 993 per share, or EUR 446,850 for all 450 shares.

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

He had a chauffeur-driven company car (benefit in kind valued at EUR 8,567) and he also had the right to reimbursement of actual expenses incurred as part of his duties.

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

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

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

Upon reinstatement of his employment contract, Loïk SEGALEN will have severance and supplementary pension benefits(*) applicable to employees of his category, according to the rules of our Company.

The Board of Directors decided on May 20, 2015 that, like Éric TRAPPIER, Loïk SEGALEN will continue to benefit from the supplementary pension plan(*) applicable to senior executives of the Company. The pension paid shall be calculated according to the average gross annual compensation for his last three years as an executive officer.

Based on his gross annual compensation for 2016, the supplementary scheme would yield an annual income of €315k, representing 25% of his fixed gross compensation as Chief Operating Officer.

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

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

In France, Loïk SEGALEN received EUR 31,480 gross in directors' fees as a member of the Board of Dassault Falcon Jet, and EUR 42,000 gross in directors' fees as a member of the Board of Thales.

(*) The supplementary pension scheme targets Company executives with a seniority of at least 10 years, who are present in the Company at the time of their retirement, are at least 60 years old, and whose salaries are more than four times the annual limit of the French Social Security (PASS) (€154k in 2016).
The income paid out is capped at 10x PASS (€386k in 2016) and allows for a declining compensation-based replacement rate, all schemes included, of between 35% and 41%.

4.8.5 Compensation paid to Directors

- *From GIMD, which controls Dassault Aviation*

  Olivier DASSAULT received gross annual compensation of EUR 180,000 as Chairman of the Supervisory Board and a gross annual salary of EUR 159,187 as an employee. He had the use of a company car (benefit in kind valued at EUR 4,942), and he also received EUR 15,081 gross in directors' fees as a member of the Supervisory Board.

  Nicole DASSAULT received EUR 21,911 in directors' fees.

  Marie-Hélène HABERT received gross annual compensation of EUR 348,830 as Director of Communications and Sponsorship. She had the use of a company car (benefit in kind valued at EUR 3,324) and received EUR 25,325 gross in directors' fees.

- *For Dassault Aviation*

  Nicole DASSAULT received EUR 9,307 gross in directors' fees.

  Olivier DASSAULT received EUR 21,307 gross in directors' fees.

  Marie-Hélène HABERT, Alain GARCIA, Henri PROGLIO, Lucia SINAPI-THOMAS and Richard BÉDÈRE each received EUR 27,307 gross in directors' fees.

  For the Audit Committee, Lucia SINAPI-THOMAS received EUR 6,000 in gross additional directors' fees, and Henri PROGLIO received EUR 12,000 in gross additional directors' fees (including EUR 6,000 gross in his capacity as Chairman of that Committee).

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

  The Directors referred to in the paragraph above did not receive any compensation, directors' fees or benefits in kind.

4.8.6 Summary compensation tables

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

	2016	2015
Éric TRAPPIER, Chairman and Chief Executive Officer		
Compensation payable during the fiscal year (breakdown in table 2)	1,507,825	1,510,761
Value of year-on-year variable compensation granted during the fiscal year	-	-
Value of stock options granted during the fiscal year	-	-
TOTAL	**1,507,825**	**1,510,761**
Loïk SEGALEN, Chief Operating Officer		
Compensation payable during the fiscal year (breakdown in table 2)	1,286,616	1,255,932
Value of year-on-year variable compensation granted during the fiscal year	-	-
Value of stock options granted during the fiscal year	-	-
TOTAL	**1,286,616**	**1,255,932**

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

	2016	2015
Éric TRAPPIER, Chairman and Chief Executive Officer Valuation of bonus shares allocated over the fiscal year *(see tables 6 and 9)*	**470,500**	496,500
Loïk SEGALEN, Chief Operating Officer Valuation of bonus shares allocated over the fiscal year *(see tables 6 and 9)*	**423,450**	446,850

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

	2016 - amounts		**2015 - amounts**	
	Payable	**Paid**	**Payable**	**Paid**
Éric TRAPPIER, Chairman and Chief Executive Officer				
Fixed compensation	1,444,618	1,444,618	1,410,760	1,410,760
Annual variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Directors' fees (1)	54,614	54,614	92,000	92,000
Benefits in kind	8,593	8,593	8,001	8,001
TOTAL	**1,507,825**	**1,507,825**	**1,510,761**	**1,510,761**
Loïk SEGALEN, Chief Operating Officer				
Fixed compensation	1,278,049	1,278,049	1,248,015	1,248,015
Annual variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Directors' fees (2)	-	-	-	-
Benefits in kind	8,567	8,567	7,917	7,917
TOTAL	**1,286,616**	**1,286,616**	**1,255,932**	**1,255,932**

(1) In addition, Éric TRAPPIER received EUR 31,480 gross in directors' fees as a member of the Board of Dassault Falcon Jet and EUR 38,250 gross in directors' fees as a member of the Board of Thales.
(2) In addition, Loïk SEGALEN received EUR 31,480 gross in directors' fees as a member of the Board of Dassault Falcon Jet and EUR 42,000 gross in directors' fees as a member of the Board of Thales.

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

Non-executive directors	Amounts paid in 2016 (Gross)	Amounts paid in 2015 (Gross)
Serge DASSAULT		
Directors' fees	27,307 (1)	46,000 (1)
Other compensation	9,148	16,009
Charles EDELSTENNE		
Directors' fees	33,307 (2) (3)	52,000 (2) (3)
Other compensation	-	-
Nicole DASSAULT		
Directors' fees	9,307	40,000
Other compensation	-	-
Olivier DASSAULT		
Directors' fees	21,307	22,000
Other compensation	-	-
Marie-Hélène HABERT		
Directors' fees	27,307	40,000
Other compensation	-	-
Pierre de BAUSSET		
Directors' fees	0	26,125
Other compensation	-	-
Alain GARCIA		
Directors' fees	27,307	46,000
Other compensation	-	-
Henri PROGLIO		
Directors' fees	39,307 (4)	52,000 (4)
Other compensation	-	-
Lucia SINAPI-THOMAS		
Directors' fees	33,307 (5)	52,000 (5)
Other compensation	-	-
Richard BÉDÈRE		
Directors' fees	27,307	46,000
Other compensation	salary	salary
TOTAL	**254,911**	**438,134**

(1) In addition, Serge DASSAULT received EUR 31,480 gross in directors' fees as a member of the Board of Dassault Falcon Jet in 2016, and EUR 32,536 gross in 2015.

(2) In addition, Charles EDELSTENNE received EUR 31,480 gross in directors' fees as a member of the Board of Dassault Falcon Jet in 2016 (vs EUR 32,536 gross in 2015) and EUR 42,000 gross in directors' fees as a member of the Board of Thales (vs EUR 36,250 gross in 2015).

(3) including EUR 6,000 in 2016 and EUR 6,000 in 2015 from the Audit Committee

(4) including EUR 12,000 in 2016 and EUR 12,000 in 2015 from the Audit Committee

(5) including EUR 6,000 in 2016 and EUR 6,000 in 2015 from 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.

Void

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

Void

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

	Plan name and date	Number of performance shares awarded during fiscal year 2016	Value of shares (in euros)*	Vesting date	Date of availability	Performance conditions
Éric TRAPPIER	2016 shares 3/9/2016	500	470,500	3/9/2017	3/9/2018	yes
Loïk SEGALEN	2016 shares 3/9/2016	450	423,450	3/9/2017	3/9/2018	yes
TOTAL		**950**	**893,950**			

* price of EUR 941 per share (IFRS 2)

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

Void

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

Void

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

	Plan name and date	Number of performance shares awarded during fiscal year 2015	Value of shares (in euros)*	Vesting date	Date of availability	Performance conditions
Éric TRAPPIER	2015 shares 9/23/2015	500	496,500	9/23/2016	9/23/2017	yes
Loïk SEGALEN	2015 shares 9/23/2015	450	446,850	9/23/2016	9/23/2017	yes
TOTAL		**950**	**943,350**			

* price of EUR 993 per share (IFRS 2)

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

Void

Table 11 Other information on Executive Officers

Executive directors	Employment contract	Additional pension plan	Compensation or benefits payable or likely to be payable due to termination or change of office	Compensation for non-compete agreement
Éric TRAPPIER				
Chairman/CEO	yes (1)	yes (2)	no (2)	no
start of term: 01/09/2013				
end of term: General Meeting of 2019				
Loïk SEGALEN				
Chief Operating Officer:	yes (1)	yes (2)	no (2)	no
start of term: 01/09/2013				
end of term: ditto Chairman-CEO				

(1) employment contract suspended as of January 9, 2013,
(2) at the end of their terms of office, executive officers receive retirement allowances and supplementary pensions according to the rules applicable to employees in their category. The Board of Directors decided on May 20, 2015 that the reference compensation for the calculation of supplementary pensions will be the average annual compensation for their last three years as executive officer.

5. PROPOSED RESOLUTIONS

The resolutions submitted for your approval cover the following points:

- **Approval of annual and consolidated financial statements**

  You are asked to approve the annual financial statements of the Parent Company (Resolution 1) and the consolidated financial statements (Resolution 2) for the fiscal year ended December 31, 2016.

  These financial statements were approved by the Board of Directors on March 07, 2017 after prior examination by the Audit Committee, and were the subject of Statutory Auditor reports, which appear in the 2016 Annual Financial Report.

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

  It is proposed that you allocate the net income for the fiscal year, increased by the retained earnings from previous fiscal years, constituting a total distributable amount of EUR 2,112,093,802.94, for the distribution of a fiscal year 2016 dividend of EUR 12.10 per share, to be paid on June 21, 2017, with rhe remaining balance to retained earnings (resolution no. 3).

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

  It is proposed that you offer shareholders the possibility of receiving the annual dividend to which they are entitled for fiscal year 2016 in cash or, either in full or in part, in the form of shares.

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

  Should the amount of the dividend on which the option is exercised not match a full number of shares, the shareholder may receive the next-highest number of shares by paying the difference in cash, or the next-lowest number of shares, completing the difference by means of a cash adjustment (resolution no. 4).

- **Advisory opinion on the compensation package of the Chairman and Chief Executive Officer**

  It is recommended to submit the compensation of Corporate Officers to a consultative vote by the shareholders. It is thus proposed to the Meeting (resolution no. 5) that it issue an opinion on the compensation package due and allocated for the fiscal year ended December 31, 2016 to Éric TRAPPIER, Chairman and Chief Executive Officer, as noted in paragraphs 4.8.3 (Compensation paid to the Chairman and Chief Executive Officer) and 4.8.6 (Summary table of compensation).

- **Advisory opinion on the compensation package of the Chief Operating Officer**

  It is recommended to submit the compensation of Corporate Officers to a consultative vote by the shareholders. It is thus proposed to the Meeting (resolution no. 6) that it issue an opinion on the compensation package due and allocated for the fiscal year ended December 31, 2016 to Loïk SEGALEN, Chief Operating Officer, as noted in paragraphs 4.8.4 (Compensation Paid to the Chief Operating Officer) and 4.8.6 (Summary table of compensation).

- **Approval of the 2017 compensation policy for Éric TRAPPIER, Chairman and Chief Executive Officer**

  In application of Article L. 225-37-2 of the French Commercial Code, the General Meeting is asked to decide on the principles and criteria for determination, distribution and allocation of the fixed, variable and exceptional items that make up the total compensation and benefits of any nature attributable to Éric TRAPPIER, Chairman and Chief Executive Officer, for his term of office in fiscal year 2017 as described in Appendix 4 of the Directors' Report (resolution no. 7).

- **Approval of the 2017 compensation policy for Loïk SEGALEN, Chief Operating Officer**

  In application of Article L. 225-37-2 of the French Commercial Code, the General Meeting is asked to decide on the principles and criteria for determination, distribution and allocation of the fixed, variable and exceptional items that make up the total compensation and benefits of any nature attributable to Loïk Segalen, Chief Operating Officer, for his term of office in fiscal year 2017 as described in Appendix 4 of the Directors' Report (resolution no. 8).

- **Discharge of Directors**

  We propose that you grant discharge to the Directors for the performance of their functions during fiscal year 2016 (resolution no. 9).

- **Ratification of the appointment of two Directors**

  In its meeting of March 7, 2017, the Board of Directors proceeded to appoint two Directors, Catherine DASSAULT and Mathilde LEMOINE, in replacement of resigning members Nicole DASSAULT and Alain GARCIA. Please find in Appendix 5 their biographical details. You are asked to ratify these appointments (resolution nos. 10 and 11).

- **Approval of a regulated agreement relating to a real property lease granted by GIMD**

  You are asked to approve the regulated agreement authorized by the Board of Directors on March 9, 2016 relative to the lease terms granted by GIMD to Dassault Aviation on office building located in Suresnes (resolution no. 12).

- **Approval of a regulated agreement relating to a disposal contract concluded with AIRBUS GROUP SAS**

  You are asked to approve the regulated agreement authorized by the Board of Directors on June 3, 2016 relating to the over-the-counter acquisition by Dassault Aviation of a block of 502,282 of its own shares (representing 5.51% of its capital) from AIRBUS GROUP SAS under the scope of its share buyback program authorized by the General Meeting of May 19, 2016 (resolution no. 13).

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

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

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

Such a program can be used for the following objectives:

1) To cancel shares in order to increase the profitability of shareholders' equity and earnings per share (subject to adopting resolution no. 15 below);

2) To ensure market trading or liquidity of Dassault Aviation stock through an investment services provider via a liquidity contract compliant with an ethic charter recognized by the French Financial Markets Authority;

3) To transfer or allocate shares to Company employees and executive officers, and/or associated companies under the conditions and in accordance with the law, particularly in the event of exercising stock options or allocations of existing performance shares, or by granting and/or subscription of existing shares under an employee stock ownership scheme;

4) To retain shares with a view to subsequent use, to hand them over as payment or in exchange, including under the scope of potential external growth transactions, up to 5% of the share capital;

5) To remit shares upon exercise of rights attached to securities convertible to Dassault Aviation shares;

6) To implement any market practices recognized by law or by the French Financial Markets Authority.

Under the proposed authorization, the Board could, with an option to subdelegate, proceed to buy back Dassault Aviation shares up to the limit of 10% of Dassault Aviation stock, for a maximum price of EUR 1,500 per share (maximum investment of EUR 1,237,617,000).

This authorization, valid for a period of 18 months as of the annual ordinary and extraordinary General Meeting of Shareholders of May 18, 2017, will take effect as of the next Board meeting, which will decide on the implementation of this new share buyback program. This new authorization would supersede the share buyback program previously authorized by the General Meeting of Shareholders on May 19, 2016 for the unused portion of the program, and would end on November 17, 2018 (resolution no. 14).

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

  The General Meeting of Shareholders is asked to authorize the Board of Directors, with an option to subdelegate, pursuant to Article L. 225-209 of the French Commercial Code, to:

  - reduce its share capital by way of cancellation, in one or more stages, of all or some of the shares acquired by the Company under the scope of its own share buyback program, and limited to 10% of the capital per 24-month period,

  - allocate the difference between the buyback value of canceled shares and their nominal value to premiums and available reserves.

  This new authorization will be granted for a period starting at the end of the annual Ordinary General Meeting called to approve the financial statements for the fiscal year ended December 31, 2017.

  It will render ineffective, starting on May 18, 2017, for the unused portion, the authorization granted by the Combined General Meeting of Shareholders of January 28, 2015 (resolution no. 15).

- **Powers to perform formalities**

  This resolution is intended to grant powers to handle the legal formalities that will have to be effected after the Meeting (resolution no. 16).

6. CONCLUSION AND OUTLOOK

In 2016, we celebrated our centennial, which presented an opportunity to reaffirm our Company's DNA: a passion for aviation, our civil and military duality, the search for technological innovation, sound management to ensure the financial health of the Company whilst investing in the future, family shareholding and spirit, teamwork, responsiveness and tenacity, not forgetting the element of luck, symbolized by the clover in our logo.

2016 will be remembered for two major events:

- a further success for RAFALE with the sale of 36 RAFALE to India,
- the first delivery of a FALCON 8X, on October 5, 2016 following its certification in June 2016 by the EASA and the FAA, and the particularly successful flight campaign around the world that demonstrated the maturity of our new flagship aircraft.

Furthermore, Dassault Aviation's values were recognized in 2016 when it received the Randstad Award for the most attractive French company for all categories combined, which was followed by the Company being elected the best employer in France, all categories combined, in early 2017 by the Statista Institute for the Capital financial magazine.

Despite these successes and this collective pride, 2016 will also be remembered for the global economic and geopolitical uncertainty that weighed heavily on the business aviation market, which had already been difficult in 2015, in an increasingly gloomy and fierce price war backdrop.

In terms of business aviation, in addition to the first delivery of a FALCON 8X on October 5, 2016, the year was marked by:

- 21 FALCON ordered (including 12 FALCON 5X that were canceled as a result of Safran Aircraft Engines being late with the SilverCrest engine), compared to 25 FALCON ordered (including 20 FALCON Netjets canceled) in 2015,
- 49 FALCON delivered, compared to 55 in 2015, in line with our guidance of 50 deliveries,
- after the announcement by Safran Aircraft Engines of its schedule for catching up with development of the SilverCrest engine (delay in delivery of the first complete engine from the end of 2013 to the beginning of 2018), it was possible to draw up a new schedule for the FALCON 5X program, which led to the deferral of the first customer deliveries from the end of 2017 to the beginning of 2020. Engine modifications are in the course of development. The first engine with all the corrections will be tested in 2017 by Safran on the ground and in flight on the aircraft test bench before the integration campaign in 2018,
- the order of a third Maritime Surveillance FALCON 2000 by the Japanese coastguards.

With regard to our military aircraft, 2016 resulted in:

- the signing of an offset agreement simultaneously with the signing and the coming into force of a sales agreement for 36 RAFALE with India,
- the delivery of 6 RAFALE to France and 3 RAFALE to Egypt, in line with our forecasts,
- the delivery of 2 Naval RAFALE retrofitted to the F3 standard to French navy,
- the continuation of development works on the F3-R standard,
- the notification by France of the MIRAGE 2000D upgrade contract,
- the continued development works to upgrade the combat system on the ATLANTIQUE 2.

In terms of future combat drones:

- a new flight test program for the nEUROn unmanned fighter aircraft, dedicated to stealth demonstrations, as well as tests at sea with the Charles de Gaulle aircraft carrier,
- the notification of a one-year extension of the feasibility phase to prepare for a demonstration program; the preparation with our industrial partners of the proposal to launch at the end of 2017 the first development phase of an operational UCAS (Unmanned Combat Air System) demonstrator, one of the components of the Future Combat Aircraft System (FCAS), following the Franco-British Summit in Amiens on March 3, 2016. The DGA (French Defense Procurement Agency) also notified a national technological development works,
- the launch by OCCAR (The Organization for Joint Armament Cooperation), in conjunction with the French, German, Italian and Spanish defense ministries, of a 2-year definition study for a MALE RPAS (Medium Altitude Long Endurance - Remotely Piloted Aircraft System)

drone using European technologies. This study brings together Dassault Aviation, Airbus Defence and Space and Leonardo.

In 2016, we also announced the creation of a Joint Venture with RELIANCE Group in view of managing offsets related to the contract for 36 RAFALE India. On February 10, 2017, Dassault Reliance Aerospace Limited was created.

The year 2016 will also be noted for the continued withdrawal by Airbus Group from the capital of Dassault Aviation, leading to further consolidation by our traditional and majority shareholder, GIMD. Dassault Aviation's capital is now 62.0% held by GIMD, 27.5% by free float, 10.0% by Airbus Group and 0.5% by Dassault Aviation.

Today, our challenge is to prepare for the future in an increasingly unpredictable and competitive environment. Our transformation shall contribute to the launch of a new FALCON and allow us to increase our markets shares, while improving our competitiveness (costs, quality, competitive advantages).

To achieve this goal, we launched a transformation plan called "Leading our Future".

It is based on:

- culture, skills and organization,
- digital tools, processes and innovation,
- industrial tools (Dassault Aviation industrial sites and subcontracting),
- program management,

and relies on:

- women and men, at the center of the transformation,
- user-oriented digital technology, which will be the driver of our transformation.

For 2017, our objectives are to:

- to sell FALCON aircraft and obtain new RAFALE Export contracts,
- further to the execution of the RAFALE contract with India, to implement the offset contract notably through the Joint-Venture in India,
- to ensure that the SilverCrest engine program keeps on track in accordance with the new schedule, on which the FALCON 5X schedule depends,
- to reinforce the France roadmap for RAFALE and drones,
- to define the technological "building blocks" for the future FALCON, and establish the conditions to launch a new FALCON, according to the results of a market survey,
- to ensure the Company's transformation in order to, in particular, improve industrial tools and competitiveness.

The Group forecasts that in 2017, it will deliver **45 FALCON** and **9 RAFALE** (1 to France and 8 to Egypt). 2017 net sales should be higher than in 2016 given the RAFALE Export net sales.

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

The Board of Directors

Appendix 1 to the Directors' Report

Reporting Methodology for Indicators

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

- social information,
- environmental information,
- corporate governance information.

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

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

Scope of Consolidation

For FY 2016, the reporting scope includes Dassault Aviation (Parent Company, including all its sites) and its fully-owned subsidiaries.

However, the following are excluded from the reporting scope for 2016:

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

Control and Consolidation

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

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

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

Social and Human Resources Data

The social data of this report is based on fact sheets and methodology sheets that form the Grenelle 2 reference base for reporting social data of the Dassault Aviation group, in force starting in 2016. The defined indicators are in compliance with national regulations.

The following details are given for the following indicators:

- absenteeism: the causes of absences taken into account for the absenteeism indicator are sickness, stoppages for work-related accidents and accidents when traveling to/from work, and unjustified absences. The indicated number of days are normal working days,
- departures and redundancies: traditional terminations are to be counted as departures but are not counted within the number of redundancies,
- Group compensation: the average annual compensation is a gross figure that includes

the base salary, the 13th month and the seniority bonus, excluding other bonuses,

- Parent Company compensation: the average annual compensation is a gross figure that includes the base salary, the 13th month and the seniority bonus, excluding other bonuses, plus profit-sharing and incentive schemes,

- training hours: work-study training hours recorded in the training plan as well as the in-school training hours of professional development contracts are also taken into account. Training hours in the workplace are also taken into account when they are part of a training program with precise formal monitoring.

Environmental Data

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

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

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

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

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

Corporate Governance Data

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

External Verification

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

Appendix 2 to the Directors' Report

Table of correspondence between the Dassault Aviation indicators and the Global Reporting Initiative (GRI).

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

Themes	Dassault Aviation Indicators	Link with GRI - Indicators & Protocols: Social (Version 3.1)
Health and Safety	**S&S01: Conditions of Health & Safety in the Workplace**	LA6: Percentage of the total workforce represented on formal joint management-worker health & safety committees, for monitoring and issuing statements on occupational health & safety programs LA8: Programs for risk education, training, consulting, prevention and management put in place in order to help employees, their families or the members of their local communities in the event of serious illness
	S&S02: Agreements Signed with the Union Organizations or Staff Representatives with Regard to Occupational Health & Safety	LA9: Questions of health & safety covered by formal agreements with the unions
	S&S03: Work-Related Accidents	LA7: Rate of work-related accidents, occupational illnesses, (.) number of days lost and total number of fatal work-related accidents, per geographical zone
	S&S04: Frequency Rate of Work-Related Accidents	
	S&S05: Severity Rate of Work-Related Accidents	
	S&S06: Occupational Illnesses	
Training	**FOR01: Policies Implemented with Regard to Training**	LA11: Lifelong skills and training development programs, designed to guarantee employability
	FOR02: Total Number of Training Hours	LA10: Average number of training hours per year, per employee and per professional category
Equality of Treatment	**EGA01: Measures Taken in Favor of Gender Equality**	LA14: Basic pay ratio between men and women per professional category
	EGA02: Measures Taken in Favor of the Employment and Integration of Disabled People	LA13: Composition of management bodies and distribution of employees by gender, age group, appurtenance to a minority group and other diversity indicators
	EGA03: Anti-Discrimination Policy	
Promoting Respect for the Stipulations of the Basic Conventions of the International Labour Organization	**OIT01: Respect for Freedom of Association and the Right to Collective Bargaining**	HR5: Identified activities in the course of which the right to union freedom and collective bargaining risks being threatened; measures taken to ensure this right is maintained LA4: Percentage of employees covered by a collective bargaining agreement LA5: Minimum notice period(s) regarding significant organizational changes, including whether it is specified in a collective bargaining agreement

Themes	Dassault Aviation Indicators	Link with GRI - Indicators & Protocols: Social (Version 3.1)
	OIT02: Eliminating Employment and Professional Discrimination	HR4: Total number of discrimination incidents and measures taken LA13: Composition of management bodies and distribution of employees by gender, age group, appurtenance to a minority group and other diversity indicators LA14: Basic pay ratio between men and women per professional category
	OIT03: Elimination of forced or compulsory labor	HR7: Activities identified as presenting a serious risk of incidents involving forced or compulsory labor; measures taken to contribute to the prohibition of this type of labor
	OIT04: Effective Abolition of Child Labor	HR6: Activities identified as presenting a serious risk of incidents involving child labor; measures taken to contribute to the prohibition of this type of labor
Energy	**ENE001: Energy Consumption Excluding Kerosene and Mobile Sources**	EN3: direct energy consumption distributed according to primary energy source
	ENE002: Kerosene Consumption	
	Qualitative indicator, "aircraft design performance/kerosene consumption" (see environmental information chapter, "environmental objectives" section)	EN7: initiatives for reducing indirect energy consumption and reductions achieved
Water Consumption	**EAU001: Overall Water Consumption (by Source)**	EN8: total volume of water used by source
Biodiversity	**BIO001: Number and Location of Outstanding Natural Areas Present Within a 500m radius of the Sites**	EN11: location and surface area of land owned, rented or managed in or within the vicinity of protected areas and in zones rich in biodiversity outside of these protected areas
Land Use Conditions	**SOL001: Proportion of Sealed Surfaces**	
Atmospheric Discharges	**AIR001: Greenhouse Gas Emissions (Scope 1 and Scope 2)**	EN16: total (direct or indirect) greenhouse gas emissions, in weight (CO2 TEQ)
	AIR004: Emissions of Volatile Organic Compounds (VOC)	EN20: NOx, SOx and other significant atmospheric emissions, by type and by weight

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

Appendix 3 to the Directors' Report

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

Themes	Nature of the Information	Paragraph
Human Resources Information		
a) Employment	• The total number and distribution of employees by sex, age and geographical area • Recruitment and dismissals • Pay and changes in pay	3.1.2 3.1.2 3.1.3
b) Work organization	• Working time organization • Absenteeism	3.1.2 3.1.7
c) Social relations	• The organization of employee relations, including procedures for staff information, consultation and negotiation • Collective bargaining agreements	3.1.4 3.1.4
d) Health & Safety	• Conditions of health & safety in the workplace • Agreements signed with the unions or staff representatives with regard to health & safety in the workplace • Work-related accidents, including their frequency and severity, as well as occupational illnesses	3.1.7 3.1.7 3.1.7
e) Training	• The policies implemented with regard to training • Total number of training hours	3.1.6 3.1.6
f) Equality of treatment	• Measures taken in favor of gender equality • Measures taken in favor of the employment and integration of disabled people • Anti-discrimination policy	3.1.5 3.1.5 3.1.5
g) Promoting respect for the stipulations of the basic conventions of the International Labour Organization with regard to:	• Respect for freedom of association and the right to collective bargaining • Eliminating discrimination in professional employment • Eliminating forced or compulsory labor • The effective abolition of child labor	3.3.2 3.3.2 3.3.2 3.3.2

Themes	Nature of the Information	Paragraph
Environmental Information		
a) General environmental policy	• Company structure which takes environmental issues into account and, where appropriate, steps for assessment or environmental certifications • The training and information of employees conducted on environmental protection • The resources devoted to the prevention of environmental risks and pollution • The amount of provisions and guarantees for environmental risks (provided that such information is not likely to cause serious harm to the Company in any pending litigation)	3.2.1 3.2.5 3.2.8 2.9.3
b) Pollution and Waste Management	• Measures for the prevention, reduction or remedying of discharges into air, water and soil seriously affecting the environment • Measures for the prevention, recycling and disposal of waste • Taking into account noise and other forms of pollution specific to an activity	3.2.7 3.2.7 3.2.7
c) Circular economy	(i) waste prevention and management • Prevention measures, recycling, reuse, and other forms of waste reclamation and disposal • Food waste prevention actions (ii) sustainable use of resources • Water consumption and water supply according to local constraints • Consumption of raw materials and measures taken to improve efficient use • Energy consumption, measures taken to improve energy efficiency and use of renewable energy	3.2.7 3.2.7 3.2.7 3.2.7 3.2.7
d) Climate change	• Significant sources of greenhouse gas emissions generated by the Company's activity, particularly through the use of goods and services that it produces	3.2.7 3.2.3
e) Protection of diversity	• Measures taken to preserve or develop diversity	3.2.7

Themes	Nature of the information	Paragraph
Information on social commitments for sustainable development		
a) Territorial, economic and social impact of the Company's business	• In terms of employment and regional development on the neighboring and local residents	3.3.1
b) Relationships with persons or organizations interested in the activities of the Company (including integration associations, educational institutions, environmental protection associations, consumer associations and local residents)	• The conditions for there to be a dialogue with those persons or organizations • Partnership or sponsorship initiatives	3.3.1 3.3.1
c) Outsourcing and suppliers	• The consideration of social and environmental issues in purchasing policy • The importance of outsourcing and, in relations with suppliers and subcontractors, the consideration of their social and environmental responsibility	3.3.1 3.3.1
d) Loyal practices	• Actions taken to prevent corruption • Measures taken for the health and safety of consumers • Other actions in favor of human rights	3.3.2 3.2.2 3.3.2

Appendix 4 to the Directors' Report

2017 report on the executive compensation policy

Dear Shareholders,

This report is prepared pursuant to Article L. 225-37-2 of the French Commercial Code, under Law No. 2016-1691 of December 9, 2016 known as "Sapin II".

Its aim is to present you with the principles and criteria for determining, distributing and attributing the fixed, variable and exceptional elements that make up the total compensation and benefits in kind attributable to the Chairman and Chief Executive Officer and to the Chief Operating Officer because of their term of office. This compensation policy is subject to your approval (Resolutions No. 7 and 8).

Pursuant to Article L. 225-37-2 paragraph 2 of the French Commercial Code, we confirm that the payment of variable and exceptional compensation elements is made subject to 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.

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 (see paragraphs 4.8.3 and 4.8.4 of the Directors' Report).

This compensation changes in line with the salary increase rate of Parent Company executives, unless decided otherwise by the Board of Directors.

In 2017, 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 specific supplementary pension.

In 2017, the Chairman and Chief Executive Officer and the Chief Operating Officer will receive bonus shares.

On March 7, 2017, the Board of Directors decided to grant them 750 and 675 shares respectively. These shares will become vested provided the following performance criteria are met:

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

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

- a vesting period of one year, expiring on March 6, 2018 inclusive,
- presence in the workforce at the end of the vesting period,
- a one-year holding period, beginning on March 7, 2018 and ending on March 6, 2019 inclusive,

- starting on March 7, 2019, the retention by the corporate officers of 20% of these shares for the duration of their term of office.

The employment contracts of the Chairman and CEO and Chief Operating Officer have been suspended (see paragraphs 4.8.3 and 4.8.4 of the Directors’ Report).

Upon effective reinstatement of the contracts, they will recover the rights of salaried senior executives in their category, according to Company rules.

They receive the supplementary pension plan applicable to senior executives of the Company, based on the average gross annual salary of the three most recent years of their term of office (see paragraphs 4.8.3 and 4.8.4 mentioned above of the Directors’ Report).

2. Presentation of resolutions submitted to shareholder vote

The Sapin II Law has implemented a new system relating to the consultation of shareholders with regard to the compensation of corporate officers. Shareholders are called upon to express an opinion in two stages:

- prior voting on the compensation policy (known as an “ex-ante vote”): the executive compensation policy is subject to annual shareholders’ approval. This provision is applicable as of the 2017 Annual General Meeting;
- retrospective voting (known as an “ex-post vote”): elements of compensation paid or attributed to executives during the previous fiscal year are subject to shareholders’ approval. This provision is applicable as of the 2018 Annual General Meeting.

At the General Meeting of May 18, 2017, a transitional scheme must be applied, combining the Say on Pay procedure as recommended by the AFEP-MEDEF Corporate Governance Code and the new provisions of the Sapin II Law on the ex-ante vote.

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

- Advisory opinion on the elements of compensation due and attributed for fiscal year 2016 to Mr. Éric TRAPPIER, Chairman and Chief Executive Officer (Resolution No. 5);
- Advisory opinion on the elements of compensation due and attributed for fiscal year 2016 to Mr. Loïk SEGALEN, Chief Operating Officer (Resolution No. 6);
- Approval of the 2017 compensation policy for Mr. Éric TRAPPIER, Chairman and Chief Executive Officer (Resolution No. 7);
- Approval of the 2017 compensation policy for Mr. Loïk SEGALEN, Chief Operating Officer (Resolution No. 8).

Appendix 5 to the Directors' Report

Biographies of new directors

Catherine DASSAULT (age 49) – Resolution No. 10

Date of co-option: March 7, 2017
Expiration of term of office: 2020 General Meeting

Corporate offices and duties

- **In France:** director of Dassault Systèmes and the Institut de l'Engagement. Member of the Organization Committee and the Strategic Communications Committee of the Foundation for Research into Alzheimer's Disease
- **Abroad:** none

CAREER

Born on April 23, 1967, of French nationality, Catherine DASSAULT studied Law at Aix-Marseille University and Psychology at Paris Descartes University (Paris V).

She began her career in the communications sector, notably within the Publicis group.

She has been involved since 2009 in charitable work and is a member of the Organization Committee and the Strategic Communications Committee of the Foundation for Research into Alzheimer's Disease, which is engaged in the development and funding of medical research projects. She has also, since March 2016, been a member of the Board of Directors of the Institut de l'Engagement, which helps Civic Service volunteers in their studies, job search and business start-up.

Mathilde LEMOINE (age 47) – Resolution No. 11

Date of co-option: March 7, 2017
Expiration of term of office: 2020 General Meeting

Corporate offices and duties

- **In France:** Director of Carrefour (and member of the Accounts Committee) and the École Normale Supérieure. Member of the High Council of Public Finances
- **Abroad:** none

CAREER

Born on September 27, 1969, of French nationality, Mathilde LEMOINE holds a degree in Applied Economics from Paris Dauphine University (Paris IX) and has a PhD in Economics from the Paris Institute of Political Studies.

She began her career as a research professor at the National Foundation of Political Science and then joined the Observatoire Français des Conjonctures Économiques (French economic observatory) as economist and General Secretary. From 2002 to 2005 she was an advisor to the Ministers of Economics, Finance and Industry responsible for external trade and globalization and then to the Prime Minister, responsible for macroeconomics and tax affairs. In 2006, she became Director of Economic Research and Market Strategy for HSBC France, and senior economist of HSBC Global Research.

Mathilde LEMOINE is currently Group Chief Economist of Edmond de Rothschild. She has also been a Professor of Macro economy at Sciences Po in Paris since 1997. The author of many works and publications in economic reviews, she regularly appears in the national and international media on matters related to the economy.

Mathilde LEMOINE is a Chevalier de l'Ordre National du Mérite (Knight of the National Order of Merit).

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

For the year ended December 31, 2016

To the Shareholders,

In our capacity as Statutory Auditor of Dassault Aviation, (the "Company"), appointed as independent third party and certified by COFRAC under number 3-1048[1], we hereby report to you on the consolidated human resources, environmental and social information for the year ended December 31, 2015 included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code (*Code de commerce*).

Company's responsibility

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

Independence and quality control

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

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

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

Statutory Auditor's responsibility

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

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

Our work involved four people and was carried out between October 2016 and February 2017 over a ten-week period. We were assisted in our work by our CSR experts.

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

<u>Attestation regarding the completeness of CSR Information</u>

Nature and scope of our work

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

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

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

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

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

Conclusion

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

Conclusion on the fairness of CSR Information

Nature and scope of our work

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

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

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

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

- at parent entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organization, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- at the level of a representative sample of entities selected by us4 on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample represents 84% of headcount and between 13% and 65% of quantitative environmental data disclosed.

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

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

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[3] Quantitative Environmental Information: ISO 14001 certified sites; Emissions of Volatile Organic Compounds (VOC); Emissions of greenhouses gases (GHG) scope 1 and scope 2; Generated waste: Hazardous waste, Non-hazardous waste, Recycling percentage; Total water consumption; Total energy consumption; Sites close to outstanding natural areas.
Quantitative Social Information: Total headcount, breakdown by gender and age group; Number of hirings; Number of people leaving the company including proportion of individual redundancies; Average annual pay; Number of part-time employees; Total number of days of absence; Number of disabled people; Number of training hours ; Number of occupational illness identified by the competent authorities; Number of work-related accidents with lost time; Number of days lost due to work-related accidents.
Qualitative Information: Health and safety conditions at work, Measures taken to promote gender equality; Loyalty of practices; Size of purchases; Purchasing policy and securitization of the Supply Chain; Resources engaged for the environment; Consumption of raw materials and efficiency in their use; Indirect greenhouse gas emissions

[4] Dassault Aviation SA: Biarritz and Argonay sites; Dassault Falcon Jet: Little Rock site.

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

Conclusion

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

Neuilly-sur-Seine, March 7th, 2017

One of the Statutory Auditors

Deloitte & Associés

Jean-François Viat

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

Chairman's Report
on corporate governance and internal auditing

Dear Shareholders,

This report is intended to inform you of the composition of the Board of Directors of the Company and of the conditions for preparing and organizing its work, along with the internal audit and risk management procedures put in place by the Company.

This report, prepared in application of Article L.225-37 of the French Commercial Code, is presented to you along with the Directors' Report. The Legal Affairs and Insurance Department, the Internal Auditing Department and the Financial Department carried out preparatory checks on the drafting of said report, which was then reviewed by the Audit Committee and approved by the Board of Directors on March 7, 2017.

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

1. Corporate Governance

1.1 Composition of the Board of Directors

As of December 31, 2016, the Board of Directors was composed of ten members with the experience and expertise required to fulfill their mandates:

Éric TRAPPIER, Serge DASSAULT, Charles EDELSTENNE, Nicole DASSAULT, Marie-Hélène HABERT, Lucia SINAPI-THOMAS, Olivier DASSAULT, Alain GARCIA, Henri PROGLIO and Richard BÉDÈRE (director representing the employees).

The aforementioned directors are all of French nationality. The average age was 68 as of December 31, 2016.

Their terms of office and functions in other companies are detailed in paragraph 4.7 of the Directors' Report.

As concerns the presence of women on the Board, it should be noted that the Annual General Meetings of May 19, 2010 and May 15, 2014 appointed Ms. Nicole DASSAULT and Ms. Marie-Hélène HABERT as directors. The term of office of Ms. Nicole DASSAULT was renewed by the Annual General Meeting of May 19, 2016. The Board of Directors Meeting of May 15, 2014 co-opted Ms. Lucia SINAPI-THOMAS as director, replacing Mr. Denis KESSLER. Her Term of office had been renewed by the Annual General Meeting on May 20, 2015.

Following the resignations of Ms. Nicole DASSAULT and Mr. Alain GARCIA, the Board of Directors co-opted Ms. Catherine DASSAULT and Ms. Mathilde LEMOINE, on March 7, 2017. These appointments allow Dassault Aviation to respect legal requirements regarding equal gender representation. At the end of that Board of Directors meeting, subject to the ratification of their co-option by the General Meeting, the percentage of women on the Board of Directors (excluding the director representing the employees) will be 44.4%, and thus higher than the legal minimum of 40%.

COMPOSITION OF THE BOARD OF DIRECTORS
on 12/31/2016

Name	Office	Age [1]	Independent director	Participation on the Audit Committee	Start of 1st term as director	End of current term	Years of service on the Board [1]
Éric TRAPPIER French nationality	Chairman and Chief Executive Officer Director	56			2013 2012	2019 2019	4
Serge DASSAULT French nationality	Honorary Chairman Director	91			1967	2019	49
Charles EDELSTENNE French nationality	Honorary Chairman Director	78		yes	1989	2019	27
Nicole DASSAULT French nationality	Director	85			2010	2020	6
Olivier DASSAULT French nationality	Director	65			1996	2019	20
Marie-Hélène HABERT French nationality	Director	51			2014	2018	2
Alain GARCIA French nationality	Director	73	yes		2009	2020	7
Lucia SINAPI-THOMAS French nationality	Director	52	yes	yes	2014	2019	2
Henri PROGLIO French nationality	Director	67	yes	yes	2008	2018	8
Richard BÉDÈRE French nationality	Director representing employees	60			2014	2018	2

[1] As of Dec. 31, 2016

As of December 31, 2016, Lucia SINAPI-THOMAS, Alain GARCIA and Henri PROGLIO were considered to be independent directors in accordance with the criteria of the AFEP/MEDEF Corporate Governance Code. Ms. Mathilde LEMOINE, co-opted to replace Mr. Alain Garcia, is also considered independent.

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.

One third of the members of the Board of Directors (excluding the director representing the employees) are independent, as recommended by the AFEP/MEDEF Code.

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

1.2.1 Director information

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

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

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

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

1.2.2 Activities of the Board of Directors in 2016

In 2016, the Board of Directors met three times: on March 9, June 3 and July 21. The average attendance rate at Board meetings was 86.7%.

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

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

In addition, the Board of Directors:

- approved the fiscal year 2015 company and consolidated financial statements,
- convened the Annual General Meeting of May 19, 2016,
- approved the financial statements for the first half of 2016,
- reviewed the Parent Company's forward-looking management documents in March and July 2016, and reviewed the budgets for self-financed technology investments and industrial investments,
- renewed the annual authorization of the Chairman and CEO to grant guarantees and deposits,
- ruled on the workplace equality and compensation policy,
- approved the wording of the half-yearly and annual financial press releases,
- reminded the directors of their obligation to refrain from trading the Company's shares when financial statements or financial communications are being approved and of their obligation to declare their transactions and the registration of their shares to the AMF (Autorité des Marchés Financiers - French Financial Markets Authority),
- evaluated the performance criteria relating to bonus shares granted in 2015 and noted the acquisition of said shares by their beneficiaries at the end of the vesting period,
- conducted a second bonus share plan by preparing the list of beneficiaries and defining the conditions under which their shares become fully vested (achievement of performance criteria, vesting and holding periods, employment on the day the shares become fully vested), with delegation to the Chairman and Chief Executive Officer of all powers to implement the allocation of bonus shares,

- 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 share buyback and capital reduction program,
- authorized the acquisition of 5.51% of the share capital of the Company from Airbus Group (the transaction took place on June 10, 2016) and decided to allocate all of those shares to the cancellation target described in the new buyback program,
- decided to reduce the capital through cancellation of the shares mentioned above, and of the surplus allocated to this purpose that could not be canceled in 2015, and sub-delegated to the Chairman and Chief Executive Officer the powers granted by the General Meeting to the Board of Directors to that end.

1.2.3 Audit Committee

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

The Audit Committee consists of Mr. Henri PROGLIO, Chairman, Mr. Charles EDELSTENNE and Ms. Lucia SINAPI-THOMAS. They were appointed because of the expertise they received from their academic training, their experience in finance and accounting for listed companies, and their time as members of Executive Management. All three are non-executive directors.

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

The Audit Committee is responsible for monitoring:

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

It met on March 2, 2016 for the financial statements of 2015 and on July 20, 2016 for those of the first half-year of 2016.

During these meetings, the Audit Committee in particular:

- examined the consolidated financial statements and those of the Parent Company, the main events of the year or half-year concerned, and the draft financial reports,
- took note of the directors' report of the Board of Directors and of the half-yearly activity report,
- reviewed the Chairman's report on internal auditing and risk management,
- examined actions in progress as well as the review of internal audits conducted in 2015, and reviewed the 2016 audit plan,
- met with the Statutory Auditors, without Executive Management being present, after examining the conclusions of their work and their declaration of independence,
- reported back on its work to the Board of Directors.

1.2.4 Internal Bylaws

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

1.2.5 Prevention of Insider Trading

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

The directors are informed by letter every December of the calendar of "black-out periods" for the following year.

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

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

1.3 Operations of Executive Management

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

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

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

Shareholders and third parties are fully informed of this decision in the Directors' Report (see Section 4.6).

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

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

1.4 Powers of the Chairman and Chief Executive Officer

The powers of the Chairman and CEO are not limited by the Company's Articles of Association or the Board of Directors.

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

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

1.5 Powers of the Chief Operating Officer

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

1.6 Executive Committee

Presided over by the Chairman and CEO, this committee includes the persons in charge of the Company's various departments (cf. annual financial report). Under the transformation plan, the Executive Committee has incorporated the FALCON Program and Military Departments, the Financial Department and the Human Resources Department. This Committee covers all subjects related to running and operating the different aspects of the Company. It meets once per week.

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

1.7.1 Compensation of corporate officers

The compensation of the Chairman and CEO, 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 Chief Executive Officer and the Chief Operating Officer are fixed (see paragraphs 4.8.3 and 4.8.4 of the directors' report).

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

In 2016, the Chairman and Chief Executive Officer and the Chief Operating Officer did not benefit from, based on their status as executive officers:

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

In 2016, the Chairman and CEO and Chief Operating Officer received bonus shares. On March 9, 2016, the Board of Directors decided to grant them 500 and 450 shares respectively. These shares will become vested provided the following performance criteria are met:

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

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

- a vesting period of one year, expiring on March 8, 2017 inclusive,
- presence in the workforce at the end of the vesting period,
- a one-year holding period, beginning on March 9, 2017 and ending on March 8, 2018 inclusive,
- starting on March 9, 2018, the retention by the corporate officers of 20% of those shares for the duration of their term.

The employment contracts of the Chairman and CEO and Chief Operating Officer have been suspended (see paragraphs 4.8.3 and 4.8.4 of the directors' report).

Upon effective reinstatement of the contracts, they will recover the rights of salaried senior executives in their category, according to Company rules.

They receive the supplementary pension plan applicable to senior executives of the Company, based on the average gross annual salary of the three most recent years of their term of office (see paragraphs 4.8.3 and 4.8.4 mentioned above of the directors' report).

1.7.2 Directors' Fees

In 2016, Directors' fees were allocated according to the following principles:

- for the Board of Directors:
  - annual fixed compensation of EUR 10,000 (double for the Chairman of the Board),
  - variable compensation of EUR 6,000 per meeting (double for the Chairman of the Board), with payment dependent on attendance at meetings,
- for the Audit Committee: variable compensation only dependent on attendance at meetings of EUR 3,000 per meeting (double for the Chairman of the Committee).

These amounts were not modified in 2016 as part of the overall amount authorized by the Annual General Meeting of May 15, 2014 (EUR 444,000).

The Board of Directors, on March 7, 2017, modified the allocation of Directors' fees as follows, as of 2017:

- annual fixed compensation of EUR 28,000 (double for the Chairman of the Board),
- variable compensation of EUR 10,000 (double for the Chairman of the Board) multiplied by the attendance rate to the Board meetings.

The allocation method of Directors' fees to the members of the Audit Committee is unmodified.

The aforementioned overall amount is steady.

1.8 General Meetings of shareholders

1.8.1 Specific conditions governing shareholders' attendance at the General Meeting

1.8.1.1 Admission

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

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

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

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

1.8.1.2 Voting rights

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

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

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

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

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

Furthermore, the statutes of the Company state that:

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

1.8.2 Convening of general Meetings of Shareholders

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

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

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

2. Internal auditing and risk management procedures

2.1 Internal auditing objectives

The Company's internal auditing procedures are intended to:

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

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

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

2.2 Environment and general organization of internal auditing

- ***Internal auditing reference documents***

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

- the Code of Ethics, which defines our values, and our code of conduct,
- the Quality Manual, which describes the Company processes,
- the Organization Manual, which describes the tasks and organization of each department,
- for financial and accounting activities, the economic and financial data management procedure defined in the Quality Manual.

- ***Internal auditing bodies***

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

- Executive Committee

  The composition and the role of this Committee are detailed in paragraph 1.6 above. Each Committee member is responsible for the internal auditing of his or her department.

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

- Total Quality Management Department

  - *through risk control*

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

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

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

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

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

- Program Departments through Program Management

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

- Financial Department via Management Auditing

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

  It comprises a network of management auditors in all Company departments. Monthly and quarterly budget reviews are produced, particularly for the purpose of reporting to Executive Management.

- ***Control of subsidiaries***

The Dassault Aviation strategy is to exercise majority control over its subsidiaries, or otherwise, to exercise significant influence as in the case of THALES.

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

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

o ***Internal auditing***

The Internal Audit Department (IAD) has been attached to the Total Quality Management Department since January 1, 2017, and it is tasked with assessing risk management and internal auditing processes.

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

The Audit Committee meets with the Internal Audit Director and examines the audit plan and the conclusions of the audits.

o ***External auditing factors***

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

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

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

2.3 Risk management procedures

The risk management procedures, detailed in Chapter 2 of the Directors' Report, is based on a risk mapping that is updated by each of the Company's major departments for the activities that concern them.

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

Moreover, risk control at Dassault Aviation is based on the following approach:

- identifying critical risks per program,
- risk analysis (assessment and prioritization),
- treatment of risks.

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

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

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

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

For Supply Chain risks, the Purchasing Department has established a benchmark to reduce the risk of shortages on the manufacturing line and supplier defaults.

With regard to information systems, the Group has put in place procedures designed to ensure the security of the IT systems and the integrity of data.

The social risk of maintaining adequate skill levels is subject to joint management between each operational department and the Human Resources Department.

Management of financial risks is detailed in paragraph 2.7 of the Directors' Report.

Environmental risk management:

- concerns the compliance of sites and products as well as the control of their impacts,
- is performed based on the Group's Environmental Management System (cf. paragraph 2.9 of the Directors' Report).
- also relates to the effects of climate change on infrastructures and industrial tools. The Company has taken steps for the relevant sites. Furthermore, the Company continues its commitment and its investments to reduce its carbon footprint in industry as well as for the FALCON aircraft.

Finally, the mission of the Risk Committee, based on the risk mapping and any other relevant factors, is to:

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

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

This Committee also ensures that the risk management procedures are adopted in the subsidiaries.

It is presided over by the Executive Vice-President for Total Quality, and reports back to General Management.

2.4 Internal auditing procedures for financial and accounting purposes

o *Organization of the financial and accounting function*

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

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

o *General references*

The financial statements are prepared in accordance with:

- the accounting standards applicable to French companies:
  - Regulation ANC 2014-03 endorsed by the Decree of September 8, 2014,
  - opinion and subsequent recommendations of the Accounting Standards Authority,
- the international standards for the assessment and presentation of IFRS financial information in force as of December 31, 2016, as adopted by the European Union, which must be applied for fiscal periods beginning on or after January 1, 2016, for the consolidated financial statements,
- the operating and control procedures described in the "Economic and Financial Data Management" process, supplemented by the special procedures for the preparation of company and half-yearly financial statements of the Parent Company and the Consolidated Group. These procedures and the IT applications used by the

finance and accounting department are regularly reviewed by the Statutory Auditors in connection with their annual certification of the financial statements.

- ***Financial and accounting information process***

In 2016, the Financial Department centralized the accounting data and produced the financial statements for the Parent Company and the Group.

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

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

2.5 2016 actions

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

The aforementioned departments worked together to decide on the breakdown of the audits.

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

2.6 2017 action plan

For 2017, the Internal Audit Department and the Total Quality Management Department are tasked with continuing the audits that ensure oversight of internal controls and risk management, and the proper application of procedures.

Furthermore, the Total Quality Management Department ensures the implementation of the "Steering Our Future" transformation plan in compliance with our risk control procedures.

3. Information mentioned in Article L. 225-100-3 of the French Commercial Code

The information set forth in this Article is contained in paragraph 4.5 of the accompanying Directors' Report, to which this report is attached. Both these reports are included in the 2016 Annual Financial Report that has been published electronically and filed with the AMF by our distributor, "HUGIN AS, part of NASDAQ OMX". They are published online on our Company website in the Finance/Publications section.

The Chairman of the Board of Directors

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

ASSETS

(in EUR thousands)	Notes	12/31/2016	12/31/2015
Goodwill	3	14,366	14,366
Intangible assets	4	35,159	28,866
Property, plant and equipment	4	498,330	485,149
Equity associates	5	1,731,184	1,774,293
Available-for-sale securities	5	3,142,377	3,268,357
Other financial assets	5	33,678	33,826
Deferred tax assets	19	525,720	512,353
TOTAL NON-CURRENT ASSETS		**5,980,814**	**6,117,210**
Inventories and work-in-progress	6	4,006,466	3,427,981
Trade and other receivables	7	646,041	714,063
Advances and progress payments to suppliers		1,793,708	972,030
Derivative financial instruments	23	4,598	26,813
Cash and cash equivalents	8	1,252,866	946,412
TOTAL CURRENT ASSETS		**7,703,679**	**6,087,299**
TOTAL ASSETS		**13,684,493**	**12,204,509**

EQUITY AND LIABILITIES

(in EUR thousands)	Notes	12/31/2016	12/31/2015
Capital	9	66,006	72,980
Consolidated reserves and retained earnings		3,190,542	4,011,557
Currency translation adjustments		99,122	87,742
Treasury shares	9	-38,759	-401,771
TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY		**3,316,911**	**3,770,508**
Non-controlling interests		451	415
TOTAL EQUITY		**3,317,362**	**3,770,923**
Long-term borrowings and financial debt	10	1,094,504	1,161,229
Deferred tax liabilities	19	0	0
TOTAL NON-CURRENT LIABILITIES		**1,094,504**	**1,161,229**
Trade and other payables	12	854,051	889,849
Tax and social security liabilities	12	237,102	281,146
Customer advances and progress payments	13	6,439,014	4,349,420
Short-term borrowings and financial debt	10	90,598	48,321
Provisions for contingencies and charges	11	1,140,481	1,171,157
Derivative financial instruments	23	511,381	532,464
TOTAL CURRENT LIABILITIES		**9,272,627**	**7,272,357**
TOTAL EQUITY AND LIABILITIES		**13,684,493**	**12,204,509**

INCOME STATEMENT

(in EUR thousands)	Notes	2016	2015
NET SALES	14	**3,653,417**	**4,175,805**
Other revenue	15	57,560	49,868
Changes in inventories of finished goods and work-in-progress		501,059	292,955
Purchases consumed		-2,551,633	-2,990,405
Personnel expenses (1)		-1,174,694	-1,167,799
Taxes and social security contributions		-64,451	-63,616
Amortization	4	-84,501	-74,994
Allocations to provisions	11	-858,540	-774,654
Reversals of provisions	11	812,404	902,873
Other operating income and expenses	16	-5,090	11,157
OPERATING INCOME		**285,531**	**361,190**
Cost of net financial debt		-9,024	-8,808
Other financial income and expenses		-24,181	-417,054
NET FINANCIAL INCOME/EXPENSE	18	**-33,205**	**-425,862**
Share in net income of equity associates	5	202,711	144,409
Income tax	19	-75,971	61,762
NET INCOME		**379,066**	**141,499**
Attributable to the owners of the Parent Company		*379,030*	*141,457*
Attributable to non-controlling interests		*36*	*42*
Basic earnings per share (in EUR)	20	**45.0**	**16.0**
Diluted earnings per share (in EUR)	20	**45.0**	**16.0**

(1) personnel expenses include incentive schemes and profit-sharing (EUR 84,465 thousand in 2016 and EUR 91,888 thousand in 2015) as well as contributions paid to French pension plans, comparable to defined contribution plans (EUR 90,834 thousand in 2016 and EUR 87,437 thousand in 2015).

STATEMENT OF RECOGNIZED INCOME AND EXPENSE

(in EUR thousands)	Notes	2016	2015
NET INCOME		**379,066**	**141,499**
Change in fair value of financial instruments:			
✓ Available-for-sale securities	5	-122,707	-184,553
✓ Derivative financial instruments (1)	23	-26,240	-19,099
Deferred taxes	19	53,336	72,024
Change in currency translation adjustments		24,341	77,394
Equity associate items to be recycled to P&L, net	5	-2,019	-25,939
Items to be subsequently recycled to P&L		**-73,289**	**-80,173**
Actuarial adjustments on pension benefit obligations	11	-15,617	11,857
Deferred taxes	19	4,223	18,188
Equity associate items that will not be recycled to P&L, net	5	-159,444	75,603
Items that will not be recycled to P&L		**-170,838**	**105,648**
INCOME AND EXPENSE RECOGNIZED DIRECTLY THROUGH EQUITY		**-244,127**	**25,475**
RECOGNIZED INCOME AND EXPENSE		**134,939**	**166,974**
Attributable to the owners of the Parent Company		*134,903*	*166,932*
Attributable to non-controlling interests		*36*	*42*

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

STATEMENT OF CHANGES IN EQUITY

(in EUR thousands)	Capital	Consolidated reserves and retained earnings		Currency translation adjustments	Treasury shares	Total attributable to the owners of the Parent Company	Non-controlling interests	Total equity
		Additional paid-in capital, consolidated retained earnings and other reserves	Derivative financial instruments and available-for-sale securities					
As of 12/31/2014	**73,710**	**3,459,902**	**610,873**	**-2,557**	**-39,690**	**4,102,238**	**373**	**4,102,611**
Net income for the year		141,457				141,457	42	141,499
Income and expense recognized directly through equity		105,648	-170,472	90,299		25,475		25,475
Recognized income and expense		247,105	-170,472	90,299		166,932	42	166,974
Dividends paid		-87,126				-87,126		-87,126
Movements on treasury shares (1)	-730	-88,662			-362,081	-451,473		-451,473
Other changes (2)		39,937				39,937		39,937
As of 12/31/2015	**72,980**	**3,571,156**	**440,401**	**87,742**	**-401,771**	**3,770,508**	**415**	**3,770,923**
Net income for the year		379,030				379,030	36	379,066
Income and expense recognized directly through equity		-170,838	-84,669	11,380		-244,127		-244,127
Recognized income and expense		208,192	-84,669	11,380		134,903	36	134,939
Dividends paid		-105,422				-105,422		-105,422
Movements on treasury shares (1)	-6,974	-833,206			363,012	-477,168		-477,168
Other changes (2)		-5,910				-5,910		-5,910
As of 12/31/2016	**66,006**	**2,834,810**	**355,732**	**99,122**	**-38,759**	**3,316,911**	**451**	**3,317,362**

(1) see Note 9.

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

STATEMENT OF CASH FLOWS

(in EUR thousands)	Notes	2016	2015
I - NET CASH FROM OPERATING ACTIVITIES			
NET INCOME		379,066	141,499
Elimination of net income of equity associates, net of dividends received	5	-125,437	-82,172
Elimination of gains and losses from disposal of non-current assets	16	158	823
Change in the fair value of derivative financial instruments	23	-25,108	446,749
Income tax (including deferred taxes)	19	75,971	-61,762
Allocation to and reversals of depreciation, amortization and provisions (excluding those relating to working capital) and impairment	4.11	33,378	-63,428
Other items		1,173	133
Net cash from operating activities before working capital changes and taxes		**339,201**	**381,842**
Income taxes paid	19	**-67,641**	**-107,757**
Change in inventories and work-in-progress (net)	6	-578,485	-336,419
Change in advances and progress payments to suppliers		-821,678	-879,363
Change in trade and other receivables (net)	7	106,363	67,084
Change in customer advances and progress payments	13	2,089,594	2,077,990
Change in trade and other payables	12	-35,798	54,950
Change in tax and social security liabilities	12	-44,044	36,587
Increase (-) or decrease (+) in working capital requirement		**715,952**	**1,020,829**
Total I		**987,512**	**1,294,914**
II - NET CASH FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets and property, plant and equipment	4	-107,556	-152,272
Increase in financial assets	5	-891	-2,764
Disposals of or reductions in assets		10,153	4,865
Net cash from acquisitions and disposals of subsidiaries		0	-1,389
Total II		**-98,294**	**-151,560**
III - NET CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in available-for-sale marketable securities (at historical cost)	5	3,419	-657,174
Capital increase		0	0
Purchases and sales of treasury shares	9	-477,168	-451,473
Increase in financial debt	10	71,951	358,857
Repayment of financial debt	10	-96,399	-85,729
Dividends paid during the year	21	-105,422	-87,126
Total III		**-603,619**	**-922,645**
IV - Impact of exchange rate fluctuations and others **Total IV**		20,855	65,625
CHANGE IN NET CASH AND CASH EQUIVALENTS (I+II+III+IV)		**306,454**	**286,334**
Opening net cash and cash equivalents	8	**946,412**	**660,078**
Closing net cash and cash equivalents	8	**1,252,866**	**946,412**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Accounting principles

A/ GENERAL PRINCIPLES

On March 7, 2017, the Board of Directors closed and authorized the publication of the DASSAULT AVIATION consolidated financial statements for the year ended December 31, 2016. These consolidated financial statements will be submitted for approval to the General Meeting on May 18, 2017.

• A1 Reference standards

A1-1 Basis for preparation of financial information

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

A1-2 Changes in 2016 to the accounting standards applicable to DASSAULT AVIATION

Standards, amendments and interpretations whose application is mandatory as of January 1, 2016

The main texts that became mandatory as of January 1, 2016 are the following:

- the amendment to IAS 19 on employee benefits;
- the amendment to IFRS 11 "Accounting for acquisition of interests in joint operations";
- the amendment to IAS 16 and IAS 38 on acceptable methods of depreciation and amortization;
- the amendment to IAS 1 "Disclosure initiative";
- IFRS annual improvements to the 2010-2012 cycle;
- IFRS annual improvements to the 2012-2014 cycle.

These texts had no significant impact on the Group's consolidated financial statements.

Standards, amendments and interpretations whose application is mandatory after January 1, 2016

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, 2016 are as follows:

- IFRS 15 "Revenue from Contracts with Customers", applicable as of January 1, 2018;
- IFRS 9 "Financial instruments", applicable as of January 1, 2018.

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

- annual improvements to IFRS 2014-2016, applicable as of January 1, 2017;
- the amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses", applicable as of January 1, 2017;
- the amendment to IAS 7 "Statement of Cash Flows", applicable as of January 1, 2017;
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration", applicable as of January 1, 2018;
- IFRS 16 "Leases", applicable as of January 1, 2019.

IFRS 15

IFRS 15 provides a more prescriptive and detailed contract analysis model than IAS 18 "Revenue" and IAS 11 "Construction Contracts" to determine the rate of recognition of revenue and the amount to be recognized for all types of transactions. It is structured around five steps:

- identify the contract(s),
- identify the distinct performance obligations in the contracts,
- determine the transaction price,
- allocate the transaction price to the identified performance obligations,
- determine when to recognize revenue (over time or at a point in time) for each performance obligation.

The work to implement IFRS 15 is still in progress. The analysis focused on our main contract of sales of aircraft, which represent more than half of net sales for 2016, and highlights the following points.

Regarding current practices, revenue is most often recognized on the date of delivery of the goods, as that date corresponds to the transfer to the buyer of the key risks and benefits inherent in the ownership of the assets.

The implementation of IFRS 15 will not significantly affect the rate of recognition of revenue for the majority of our contracts, both civil and military. The transfer of control to the customer for sales of aircraft takes place upon delivery of each aircraft, not over time, as none of the criteria described in the standard have been met.

For aircraft sales agreements currently in progress and analyzed, we also anticipate no significant impacts after the application of the principles described in the standard for the determination of transaction prices and the allocation of such prices to various performance obligations.

Finally, the Group plans to use the total retrospective approach on the transition date.

Further information on the impacts of IFRS 15 will be stated in the 2017 interim financial statements.

IFRS 9

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

The impacts of IFRS 9 for the group are being assessed.

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

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

Further information on the impacts of IFRS 9 will be stated in the 2017 interim financial statements.

• A2 Key Management estimates

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

These estimates concern, in particular:

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

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

Subsequent results may therefore differ from such estimates.

• A3 Presentation of consolidated financial statements

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

Consolidated income statement items are presented by nature.

Net operating income represents all income and expenses not arising from financial activities, equity associates, discontinued operations or operations being sold, and income taxes.

• 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 sector. The internal reporting made to the Chairman-Chief Executive Officer and to the Chief Operating Officer, which is used for strategy and decision-making, includes no performance analysis, as defined by IFRS 8, at a level lower than this sector.

B/ CONSOLIDATION PRINCIPLES AND METHODS

• B1 Scope and methods of consolidation

B1-1 Companies under exclusive control

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

B1-2 Companies under significant influence

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

B1-3 Companies under joint control

Joint arrangements classified as joint venture are accounted for using the equity method.

B1-4 Consolidation thresholds

For the application of the factor of relative significance, a company controlled by the Group or in which it has significant influence is included in the scope of consolidation if all of the following criteria are met:

- total assets and liabilities exceed 2% of the equivalent Group totals;
- total net sales exceed 2% of the Group total;
- equity exceeds 3% of the Group total.

B1-5 Elimination of inter-company transactions

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

• B2 Closing dates

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 zone subsidiaries are translated as follows:
- assets and liabilities are translated at the year-end rate;
- income statement items are translated at the average 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 and equipment

C2-1 Accounting principles

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

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

Amortizations 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 amortized over their estimated useful lives. Useful lives are reviewed at each year-end for material assets.

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

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

- the technical criterion is met when the period for validation of results after the maiden flight has elapsed without calling the project into question;
- the economic criterion is validated by the orders placed or options obtained on the date the technical requirement is considered satisfied;

- the financial information reliability criterion is satisfied for significant programs because the information system differentiates research and development phases. If such a distinction cannot be made, as may be the case for minor developments (e.g. modification, improvement, etc.), those development costs are not capitalized.

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

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

C2-2 Useful lives

Useful lives are as follows:

Software	3-4 years
Development costs	depend on the number of units to be produced
Industrial buildings	25-30 years
Office buildings	25-35 years
Fixtures and fittings	7-15 years
Plant, equipment and tools	3-15 years
Aircraft	4-10 years
Rolling stock	3-4 years
Other property, plant and equipment	3-8 years
Used goods	on a case-by-case basis

C2-3 Derecognition

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

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

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

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

Impairment tests consist of ensuring that the recoverable values of the intangible assets, tangible 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 an intangible or tangible 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 of use is calculated using the discounted future cash flow method, with a post-tax discount rate of 8.2% (compared to 8.6% as of December 31, 2015) and a long-term growth rate of 2% (same as of December 31, 2015). The discount rate used includes the rates prevailing in the aviation industry and was calculated using the same method as in 2015. 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 Group's 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. Impairments may be reversed, except for those relating to goodwill.

• C4 Securities and other non-current financial assets

These fall into three categories:

C4-1 Equity associates

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

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

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

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

C4-2 Available-for-sale securities

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

They are recognized at their fair value.

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

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

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

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

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

C4-3 Other financial assets

Other financial assets mainly comprise guarantee deposits and loans granted to employees for a housing loan.

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

• C5 Inventories and work-in-progress

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

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

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs for completion and making the sale.

• C6 Receivables

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

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

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

The recoverable amount of a receivable is estimated by taking into account the type of customer and the history of payments.

In the event of a risk of customer default, the receivable is written down in the amount of the estimated risk for the portion not covered by credit insurance (COFACE or collateral).

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

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

• C7 Cash and cash equivalents

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

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

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

• C8 Shareholders' equity

C8-1 Treasury shares

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

C8-2 Share-based payments

Since 2015, DASSAULT AVIATION has had a plan in place to grant performance shares. These allotments are recognized as an expense representing the fair value of the services rendered by the beneficiaries.

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

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

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

• C9 Provisions for contingencies and charges

C9-1 Warranties

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

These obligations can be distinguished between:

- "current" warranty: repair of defective equipment during the contractual warranty period, handling hardware or software malfunctions identified by the user following qualification and handover to users, etc.
- "regulatory" warranty: handling 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 following delivery of the delivered materials or products.

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

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

C9-2 Retirement costs

Commitments to employees for retirement costs are provisioned for the obligations remaining. The commitments are estimated for all employees on the basis of vested rights and a projection of current salaries, after taking into account mortality rates, employee turnover, and a discounting assumption. The rates have been determined based on the yield for top-ranking corporate long-term bonds, with equivalent maturity 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 on the balance sheet corresponds to the total commitments net of the plan assets. The impact on the income statement is fully recognized in operating income.

• C10 Borrowings and payables

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

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

• C11 Discounting of receivables, payables and provisions

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

Provisions relating to retirement costs and other long-term benefits are updated following IAS 19 "Employee Benefits".

Other provisions are stated at present value.

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

• C12 Derivative financial instruments

C12-1 Derivative financial instruments subscribed by the Group

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

C12-2 Evaluation and recognition of derivatives

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

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

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

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

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

• C13 Net sales and key figures

C13-1 Recognition of net sales and operating income

Revenue from sales of goods is recognized when the risks and rewards of ownership are transferred to the buyer. Generally, this represents the transfer of ownership for the Group.

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

Services are recognized under the percentage of completion method according to the milestones set forth in contracts. Income or loss is recognized at each stage of completion if it can be reliably measured.

Losses on completion are recognized as soon as they are known.

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 on the Group financial statements of IFRS 15, which deals with the recognition of net sales, are being assessed.

C13-2 Tax credits for competitiveness and employment and Research tax credits

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

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

C13-3 Net financial income

Net financial income primarily represents:

- financial income related to cash and cash equivalents;
- financial expenses related to loans taken out by the Group and locked-in employee profit-sharing funds;
- dividends from non-consolidated companies recognized when the Group – as shareholder – is entitled to receive payment;
- proceeds from the sale of investment securities classified as "Available-for-sale securities";
- financial income from financial lease transactions;
- losses and gains on derivative instruments that do not meet the conditions required by the standard for hedge accounting.

• C14 Deferred taxes

Deferred taxes linked to temporary differences are calculated per company.

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

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

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

Names	Country	% Interest (1)		Consolidation method (2)
		12/31/2016	12/31/2015	
DASSAULT AVIATION (3)	**France**	**Parent company**	**Parent company**	
DASSAULT FALCON JET	**United States**	**100**	**100**	**FC**
- DASSAULT FALCON JET WILMINGTON	United States	100	100	FC
- DASSAULT AIRCRAFT SERVICES	United States	100	100	FC
- DASSAULT FALCON JET LEASING	United States	100	100	FC
- AERO PRECISION	United States	50	50	EM
- MIDWAY	United States	25	25	FC
- DASSAULT FALCON JET DO BRAZIL	Brazil	100	100	FC
DASSAULT FALCON SERVICE	**France**	**100**	**100**	**FC**
- FALCON TRAINING CENTER	France	50	50	EM
DASSAULT PROCUREMENT SERVICES	**United States**	**100**	**100**	**FC**
- MIDWAY	United States	75	75	FC
SOGITEC INDUSTRIES	**France**	**100**	**100**	**FC**
DASSAULT INTERNATIONAL INC.	**United States**	**100**	**100**	**FC**
THALES	**France**	**25**	**25**	**EM**

(1) the equity interest percentages are identical to the percentages of control for all Group companies except for THALES, in which the Group held 24.76% of the capital, 24.84% of the interest rights, and 28.53% of the voting rights as of December 31, 2016.

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

(3) identity of the parent company: DASSAULT AVIATION, a Société Anonyme (limited company) with capital of EUR 66,066,280, listed and registered in France, Paris Trade Register No. 712 042 456 - 9, Rond-Point des Champs-Élysées Marcel Dassault - 75008 PARIS.

Note 3 - Goodwill

(in EUR thousands)	12/31/2015	Acquisitions	Disposals	Other	12/31/2016
DASSAULT FALCON SERVICE	3,702	0	0	0	3,702
DASSAULT PROCUREMENT SERVICES	5,887	0	0	0	5,887
SOGITEC INDUSTRIES	4,777	0	0	0	4,777
TOTAL	**14,366**	**0**	**0**	**0**	**14,366**

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)	12/31/2016	12/31/2015
Net value		
France	320,664	295,833
United States	212,825	218,182
TOTAL	**533,489**	**514,015**
Intangible assets	35,159	28,866
Property, plant and equipment	498,330	485,149

4.2 Intangible assets

(in EUR thousands)	12/31/2015	Acquisitions Increases	Disposals Reversals	Other	12/31/2016
Gross value					
Development costs (1)	150,824	12,101	0	0	162,925
Software, patents, licenses and similar assets	107,674	3,590	-178	2,393	113,479
Intangible assets in progress; advances and progress payments	2,629	927	0	-2,274	1,282
	261,127	**16,618**	**-178**	**119**	**277,686**
Amortization					
Development costs (1)	-138,089	-3,185	0	0	-141,274
Software, patents, licenses and similar assets	-94,172	-7,148	178	-111	-101,253
	-232,261	**-10,333**	**178**	**-111**	**-242,527**
Net value					
Development costs (1)	12,735				21,651
Software, patents, licenses and similar assets	13,502				12,226
Intangible assets in progress; advances and progress payments	2,629				1,282
TOTAL	**28,866**	**6,285**	**0**	**8**	**35,159**

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

4.3 Property, plant and equipment

(in EUR thousands)	12/31/2015	Acquisitions Increases	Disposals Reversals	Other (1)	12/31/2016
Gross value					
Land	30,529	4,314	-130	70	34,783
Buildings	501,621	13,395	-2,119	19,706	532,603
Plant, equipment and machinery	557,024	39,421	-25,714	15,913	586,644
Other property, plant and equipment	275,752	13,387	-4,600	6,020	290,559
Construction in progress; advances and progress payments	45,500	20,421	-8,826	-28,515	28,580
	1,410,426	**90,938**	**-41,389**	**13,194**	**1,473,169**
Amortization					
Land	-6,826	-552	127	0	-7,251
Buildings	-274,161	-21,697	2,043	-2,617	-296,432
Plant, equipment and machinery	-458,174	-32,819	25,475	-1,406	-466,924
Other property, plant and equipment	-167,535	-19,100	4,223	-2,245	-184,657
	-906,696	**-74,168**	**31,868**	**-6,268**	**-955,264**
Impairment (2)					
Other property, plant and equipment	-18,581	-18,729	18,292	-557	-19,575
	-18,581	**-18,729**	**18,292**	**-557**	**-19,575**
Net value					
Land	23,703				27,532
Buildings	227,460				236,171
Plant, equipment and machinery	98,850				119,720
Other property, plant and equipment	89,636				86,327
Construction in progress; advances and progress payments	45,500				28,580
TOTAL	**485,149**	**-1,959**	**8,771**	**6,369**	**498,330**

(1) this essentially represents currency translation adjustments.

(2) impairment tests of property, plant and equipment (see Note C3 of the accounting principles):

- The impairment tests performed for cash-generating units did not reveal any impairment to be recognized as of December 31, 2016.
- The provision for impairment of capitalized used business aircraft was revised to EUR 19,575 thousand as of December 31, 2016, compared with EUR 18,581 thousand as of December 31, 2015.

Note 5 - Non-current financial assets

5.1 Equity associates

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

As of December 31, 2016, DASSAULT AVIATION held 24.84% of the interest rights of the THALES Group, compared to 25.00% as of December 31, 2015. 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	
	12/31/2016	**12/31/2015**	**2016**	**2015**
THALES (1)	1,708,769	1,754,130	197,955	140,330
Other	22,415	20,163	4,756	4,079
TOTAL	**1,731,184**	**1,774,293**	**202,711**	**144,409**

(1) the value of the securities includes goodwill amounting to EUR 1,101,297 thousand. The Group share in THALES net income after consolidation restatements is detailed in Note 5.1.3.

5.1.2 Change in equity associates

(in EUR thousands)	2016	2015
As of January 1	**1,774,293**	**1,602,653**
Share in net income of equity associates	202,711	144,409
Elimination of dividends paid (1)	-77,274	-62,237
Income and expense recognized directly through equity		
- Available-for-sale securities	2,537	162
- Hedging instruments (2)	12,881	-49,818
- Actuarial adjustments on pension obligations	-165,057	74,128
- Deferred taxes	1,137	12,287
- Currency translation adjustments	-12,961	12,905
Share of equity associates in other income and expense recognized directly through equity	-161,463	49,664
Other movements (3)	-7,083	39,804
As of December 31	**1,731,184**	**1,774,293**

(1) in 2016, the Group received EUR 53,057 thousand in THALES dividends for 2015 and EUR 21,012 thousand in interim dividends for 2016. In 2015, THALES paid the Group EUR 40,975 thousand in dividends for 2014 and EUR 18,386 thousand in interim dividends for 2015.

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

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

5.1.3 THALES summary financial statements (100%) and share in net income of equity associates by DASSAULT AVIATION

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

(in EUR thousands)	2016	2015
Non-current assets	8,623,400	8,466,900
Current assets (1)	14,066,200	13,093,300
Equity attributable to the owners of the Parent Company	4,640,100	4,645,900
Non-controlling interests	225,900	295,900
Non-current liabilities (2)	4,514,100	3,414,400
Current liabilities (3)	13,309,500	13,204,000
Total balance sheet	22,689,600	21,560,200
Net sales	14,884,800	14,063,200
Net income attributable to the owners of Parent Company (4)	946,400	765,100
Other comprehensive income attributable to the owners of the Parent Company	-629,600	167,800
Total comprehensive income attributable to the shareholders of the Parent Company	316,800	932,900

(1) including cash and cash equivalents: EUR 3,616,900 thousand in 2016 (EUR 3,450,200 thousand in 2015).

(2) including non-current financial liabilities: EUR 1,433,700 thousand in 2016 (EUR 837,600 thousand in 2015).

(3) including current financial liabilities: EUR 589,700 thousand in 2016 (EUR 1,104,000 thousand in 2015).

(4) including amortization: EUR -491,900 thousand in 2016 (EUR -492,900 thousand in 2015).

including financial interest on gross debt: EUR -11,300 thousand in 2016 (EUR -15,500 thousand in 2015).

including financial income related to cash and cash equivalents: EUR 17,600 thousand in 2016 (EUR 19,300 thousand in 2015).

including income tax: EUR -255,600 thousand in 2016 (EUR -219,900 thousand in 2015).

Moreover, THALES is exposed to the contingent liability described in Note 25.

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

(in EUR thousands)	2016	2015
THALES net income (100%)	**946,400**	**765,100**
THALES net income - DASSAULT AVIATION share	**235,086**	**191,275**
Post-tax amortization of the purchase price allocation (1)	-39,742	-37,820
Other consolidation restatements	2,611	-13,125
DASSAULT AVIATION share in net income of equity associates	**197,955**	**140,330**

(1) amortization of identified assets for which the modes and periods of depreciation are identical to those used for the year ended December 31, 2015.

5.1.4 Impairment

Based on the market price of the THALES share at December 31, 2016 (EUR 92.13 per share), DASSAULT AVIATION's investment in THALES is valued at EUR 4,840 million.

In the absence of any objective indication of impairment, the THALES investment was not subject to an impairment test as of December 31, 2016.

5.2 Available-for-sale securities

Available-for-sale securities are recognized at their fair value. They include in particular short-term Group investments in the form of listed marketable securities. It should be noted that other marketable securities are classified under "Cash equivalents" (see Note 8). The analysis of risks relating to all the Group's available-for-sale securities is presented in Note 23.

(in EUR thousands)	12/31/2015	Acquisitions	Disposals	Change in fair value	Other	12/31/2016
Listed marketable securities (1)(2)	3,148,612	0	-3,419	-107,706	0	3,037,487
Non-listed securities	73,033	249	0	814	-8	74,088
EMBRAER shares	46,712	0	0	-15,910	0	30,802
Available-for-sale securities	**3,268,357**	**249**	**-3,419**	**-122,802**	**-8**	**3,142,377**

(1) the amount of EUR -3,419 thousand corresponds to the sale net of acquisitions of marketable securities listed at historical cost.

(2) the decrease in the fair value of EUR 107,706 thousand is mainly from the sale of marketable securities.

An analysis of the performance of listed marketable securities is conducted at each balance sheet date. The investment portfolio does not present, line-by-line, any objective indication of significant impairment as of December 31, 2016 (as it was the case on December 31, 2015).

(in EUR thousands)	12/31/2016			12/31/2015		
	Historical cost	Unrealized capital gain/loss (1)	Total	Historical cost	Unrealized capital gain/loss (1)	Total
Marketable securities (listed)	2,367,511	669,976	3,037,487	2,370,930	777,682	3,148,612
Non-listed securities	49,005	25,083	74,088	48,764	24,269	73,033
EMBRAER shares	32,120	-1,318	30,802	32,120	14,592	46,712
Available-for-sale securities	**2,448,636**	**693,741**	**3,142,377**	**2,451,814**	**816,543**	**3,268,357**

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

5.3 Other financial assets

(in EUR thousands)	12/31/2015	Acquisitions Increases	Disposals Reversals	Other	12/31/2016
Advance lease payments	32,276	595	-437	0	32,434
Housing loans and other	1,888	47	-353	6	1,588
Other gross financial assets (1)	**34,164**	**642**	**-790**	**6**	**34,022**
Provision	-338	0	0	-6	-344
Other net financial assets	**33,826**	**642**	**-790**	**0**	**33,678**

(1) maturing at more than one year: EUR 33,249 thousand as of December 31, 2016 and EUR 33,382 thousand as of December 31, 2015.

Note 6 - Inventories and work-in-progress

(in EUR thousands)	12/31/2016			12/31/2015
	Gross	Impairment	Net	Net
Raw materials	190,255	-77,129	113,126	107,993
Work-in-progress	3,110,670	-19,589	3,091,081	2,583,100
Semi-finished and finished goods	1,267,391	-465,132	802,259	736,888
Inventories and work-in-progress	**4,568,316**	**-561,850**	**4,006,466**	**3,427,981**

Note 7 - Trade and other receivables

7.1 Details

(in EUR thousands)	12/31/2016			12/31/2015
	Gross	Impairment	Net	Net
Trade receivables (1)	470,579	-91,690	378,889	443,322
Corporate income tax receivables	67,597	0	67,597	92,491
Other receivables	185,369	0	185,369	166,785
Prepayments	14,186	0	14,186	11,465
Trade and other receivables	**737,731**	**-91,690**	**646,041**	**714,063**

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

The percentage of outstanding receivables not written-down at year-end is subject to regular individual monitoring. The exposure of DASSAULT AVIATION to the credit risk is presented in Note 23.2.

7.2 Schedule

(in EUR thousands)	12/31/2016			12/31/2015		
	Total	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year
Trade receivables (1)	470,579	221,621	248,958	533,275	262,402	270,873
Corporate income tax receivables	67,597	67,597	0	92,491	92,491	0
Other receivables	185,369	185,369	0	166,785	166,785	0
Prepayments	14,186	14,186	0	11,465	11,465	0
Trade and other receivables	**737,731**	**488,773**	**248,958**	**804,016**	**533,143**	**270,873**

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

7.3 Receivables relating to finance leases

(in EUR thousands)	12/31/2016	12/31/2015
Minimum lease receivables (1)	131,136	127,577
Unearned financial income	-8,900	-9,708
Provisions for impairment	-18,775	-5,154
Net value	**103,461**	**112,715**

(1) the amount due within one year of minimum lease receivables is EUR 43,362 thousand.

Note 8 - Cash and cash equivalents

8.1 Net cash

(in EUR thousands)	12/31/2016	12/31/2015
Cash equivalents (1)	1,082,754	832,129
Cash at bank and in hand	170,112	114,283
Cash and cash equivalents in assets	**1,252,866**	**946,412**
Bank overdrafts	0	0
Net cash in the cash flow statement	**1,252,866**	**946,412**

(1) primarily time deposits and cash equivalent marketable securities. The corresponding risk analysis is described in Note 23.

8.2 Available cash

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

(in EUR thousands)	12/31/2016	12/31/2015
Available-for-sale marketable securities (market value) (1)	3,037,487	3,148,612
Cash and cash equivalents (market value)	1,252,866	946,412
Subtotal	**4,290,353**	**4,095,024**
Borrowings and financial debt (2)	-1,185,102	-1,209,550
Available cash	**3,105,251**	**2,885,474**

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

(2) see Note 10.

Note 9 - Equity

9.1 Share capital

The share capital amounts to EUR 66,006 thousand and consists of 8,250,785 common shares of EUR 8 each as of December 31, 2016. As of December 31, 2015, share capital amounted to EUR 72,980 thousand and consisted of 9,122,538 common shares. The distribution of share capital as of December 31, 2016 is as follows:

	Shares	% Capital	% Voting rights
GIMD (1)	5,118,240	62.0%	76.8%
Float	2,267,811	27.5%	17.0%
Airbus Group SE	825,184	10.0%	6.2%
Dassault Aviation (treasury shares)	39,550	0.5%	-
Total	**8,250,785**	**100%**	**100%**

(1) the Parent Company GROUPE INDUSTRIEL MARCEL DASSAULT (GIMD), located at 9, Rond-point des Champs-Élysées - 75008 Paris, fully consolidates the Group financial statements.

The Group regularly distributes dividends.

9.2 Treasury shares

Movements on treasury shares are detailed below:

(in number of shares)	2016	2015
Treasury shares as of January 1	**409,971**	**40,500**
Purchase of shares	502,282	460,687
Cancellation of shares	-871,753	-91,216
Share-based payments (Note 9.3)	-950	0
Treasury shares as of December 31	**39,550**	**409,971**

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

On June 10, 2016, DASSAULT AVIATION acquired from AIRBUS GROUP SAS 502,282 shares at a price of EUR 950 per share, for a total amount of EUR 477,168 thousand. The Board of Directors decided to allocate these shares for the cancellation purpose planned by the buyback program.

In the first half of 2015, DASSAULT AVIATION had purchased 460,687 shares from AIRBUS GROUP SAS at a price of EUR 980 per share for a total amount of EUR 451,473 thousand. The Board of Directors had decided to allocate these shares for the cancellation purpose planned by the buyback program. 91,216 shares were canceled on July 24, 2015.

The balance of 871,753 shares allocated for cancellation was canceled on December 23, 2016. The 39,550 treasury shares held as of December 31, 2016 were allocated to potential allocations of performance shares and a potential liquidity contract to ensure the liquidity of the market.

9.3 Share-based payments

Since 2015, the Group has granted to corporate officers performance shares, which are allotted to performance conditions (characteristics of the plans are described in Section 4.5.4 of the Directors' Report).

Grant date	Vesting period	Number of shares allocated	Share price on the grant date	Number of shares delivered in 2016	Number of shares canceled (1)	Balance of performance shares as of 12/31/2016
09/23/2015	from 09/23/2015 to 09/22/2016	950	EUR 1,095	950	0	0
03/09/2016	from 03/09/2016 to 03/08/2017	950	EUR 1,038	0	0	950

(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.

2015 plan

A total of 950 performance shares were fully vested, as the performance conditions set by the Board of Directors on September 23, 2015 were achieved. An expense of EUR 810 thousand was recognized for this plan in 2016. The fair value of the plan totaled EUR 943 thousand (average of EUR 993 per share).

2016 plan

An expense of EUR 363 thousand was recognized in 2016 for the 2016 plan. The fair value of the plan totaled EUR 894 thousand (average of EUR 941 per share).

Note 10 - Borrowings and financial debt

(in EUR thousands)	12/31/2016	Amount due within one year	Amount due in more than one year		
			Total more than one year	Maturing >1 year and <5 years	Maturing >5 years
Bank borrowings (1)	**998,916**	50,614	948,302	948,302	0
Other financial liabilities (2)	**186,186**	39,984	146,202	146,127	75
Borrowings and financial debt	**1,185,102**	90,598	1,094,504	1,094,429	75

(in EUR thousands)	12/31/2015	Amount due within one year	Amount due in more than one year		
			Total more than one year	Maturing >1 year and <5 years	Maturing >5 years
Bank borrowings (1)	**998,359**	614	997,745	997,745	0
Other financial liabilities (2)	**211,191**	47,707	163,484	163,484	0
Borrowings and financial debt	**1,209,550**	48,321	1,161,229	1,161,229	0

(1) initially at a variable rate, loans taken out by the Group were swapped at fixed rate. These loans are denominated in euros and EUR 50 million is repayable in 2017, EUR 75 million in 2018, EUR 625 million in 2019 and EUR 250 million in 2020.

There were no bank overdrafts as of December 31, 2016, as was the case on December 31, 2015.

(2) as of December 31, 2016 and December 31, 2015, the other financial liabilities mainly include locked-in employee profit-sharing funds. Employee profit-sharing corresponds to "other long-term benefits", and should be valued and discounted according to the principles of revised IAS 19. However, in view of the low historical differences between remuneration rate and discount rate, we consider that the evaluation method by cost less repayments constitutes a satisfactory approximation of the profit-sharing liability.

Note 11 - Current provisions

11.1 Provisions for contingencies and charges and for impairment

(in EUR thousands)	12/31/2015	Increases	Reversals	Other (1)	12/31/2016
Provisions for contingencies and charges					
Operational	1,171,157	193,811	-245,466	20,979	1,140,481
	1,171,157	**193,811**	**-245,466**	**20,979**	**1,140,481**
Provisions for impairment					
On financial assets	338	0	0	6	344
On property, plant and equipment	18,581	18,729	-18,292	557	19,575
On inventories and work-in-progress	461,282	554,718	-459,052	4,902	561,850
On trade receivables	89,953	91,282	-89,594	49	91,690
	570,154	**664,729**	**-566,938**	**5,514**	**673,459**
Provisions for contingencies and charges and for impairment	**1,741,311**	**858,540**	**-812,404**	**26,493**	**1,813,940**

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

11.2 Details of provisions for contingencies and charges

(in EUR thousands)	12/31/2015	Increases	Reversals	Other	12/31/2016
Warranties (1)	699,155	50,661	-104,178	1,386	647,024
Services and work still to be performed	171,816	58,271	-59,046	2,193	173,234
Retirement payments (2)	294,602	44,694	-81,188	16,761	274,869
French companies	*270,625*	*31,160*	*-71,665*	*12,503*	*242,623*
US companies	*23,977*	*13,534*	*-9,523*	*4,258*	*32,246*
Others (3)	5,584	40,185	-1,054	639	45,354
Provisions for contingencies and charges	**1,171,157**	**193,811**	**-245,466**	**20,979**	**1,140,481**

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

(2) the actuarial adjustments for the period amounted to EUR 15,617 thousand and break down as follows:

French companies	*12,503*
US companies	*3,114*
Total actuarial adjustments	*15,617*

(3) as of December 31, 2016, the other long-term benefits relating to long-service awards amounted to EUR 3,599 thousand, compared to EUR 3,535 thousand at the end of 2015. Workforce adjustment measures (including early retirement) were accrued at the end of 2016 in the amount of EUR 39,159 thousand.

11.3 Provisions for retirement payments

11.3.1 Calculation methods (defined benefit plans)

Retirement payment commitments are calculated for all Group employees using the projected unit credit method and are accrued in full.

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 pro rata of the employee's length of service at year-end in relation to his total career expectancy.

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

11.3.2 Assumptions used

	France		United States	
	2016	2015	2016	2015
Inflation rate	2.00%	2.00%	2.25%	2.25%
Discount rate	1.00%	1.50%	4.60%	4.80%
Weighted average salary increase rate	3.90%	3.90%	2.25%	3.00%

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

11.3.3 Change in commitments and plan assets

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

(in EUR thousands)	2016	2015	2014	2013	2012
Commitment	800,609	741,037	700,535	556,649	579,783
Plan assets (1)	525,740	446,435	213,908	175,084	172,725
Unfunded status	**274,869**	**294,602**	**486,627**	**381,565**	**407,058**

(1) In 2016 and 2015, the Group outsourced a portion of the pension benefits commitments of the Group's Parent Company by entering into a contract of insurance.

Changes over the year of commitments break down as follows:

(in EUR thousands)	2016			2015		
	France	United States	**Total**	France	United States	**Total**
As of January 1	470,809	270,228	**741,037**	452,244	248,291	**700,535**
Current service cost	25,689	11,849	37,538	24,601	12,467	37,068
Interest expense	7,441	12,642	20,083	6,118	11,800	17,918
Benefits paid	-16,665	-8,404	-25,069	-12,895	-16,535	-29,430
Actuarial adjustments	17,027	302	17,329	741	-14,269	-13,528
Foreign exchange differences	0	9,691	9,691	0	28,474	28,474
As of December 31	504,301	296,308	**800,609**	470,809	270,228	**741,037**

A 0.50 point decrease in the discount rate would increase the total commitment by EUR 64,743 thousand, while a 0.50 point increase in the discount rate would decrease the total commitment by EUR 57,628 thousand.

Changes in investments during the period are as follows:

(in EUR thousands)	2016			2015		
	France	United States	**Total**	France	United States	**Total**
As of January 1	200,184	246,251	**446,435**	0	213,908	**213,908**
Expected return on plan assets	1,970	10,957	12,927	41	9,970	10,011
Actuarial adjustments	4,524	-2,812	1,712	143	-1,814	-1,671
Employer contributions	55,000	9,523	64,523	200,000	15,810	215,810
Benefits paid	0	-8,404	-8,404	0	-16,406	-16,406
Foreign exchange differences	0	8,547	8,547	0	24,783	24,783
As of December 31	261,678	264,062	**525,740**	200,184	246,251	**446,435**

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

(in EUR thousands)	2016			2015		
	France	United States	**Total**	France	United States	**Total**
Current service cost	25,689	11,849	37,538	24,601	12,467	37,068
Interest expense	7,441	12,642	20,083	6,118	11,800	17,918
Expected return on plan assets	-1,970	-10,957	-12,927	-41	-9,970	-10,011
Cost for defined benefit plans	31,160	13,534	**44,694**	30,678	14,297	**44,975**

Plan assets are invested as follows:

	2016		2015	
	France	United States	France	United States
Bonds and debt securities	86%	100%	84%	97%
Real estate	8%	0%	9%	0%
Equities	6%	0%	7%	0%
Liquidities	0%	0%	0%	3%
Total	**100%**	**100%**	**100%**	**100%**

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

Note 12 - Operating liabilities

(in EUR thousands)	12/31/2016			12/31/2015		
	Total	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year
Trade payables	611,699	611,699	0	657,239	657,239	0
Other liabilities	88,611	88,611	0	99,339	99,339	0
Deferred income	153,741	77,941	75,800	133,271	72,654	60,617
Trade and other payables	**854,051**	**778,251**	**75,800**	**889,849**	**829,232**	**60,617**
Income tax liabilities	0	0	0	9,870	9,870	0
Other tax and social security liabilities	237,102	237,102	0	271,276	271,276	0
Tax and social security liabilities	**237,102**	**237,102**	**0**	**281,146**	**281,146**	**0**

Note 13 - Customer advances and progress payments

(in EUR thousands)	12/31/2016			12/31/2015		
	Total	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year
Customer advances and progress payments	**6,439,014**	1,748,026	4,690,988	**4,349,420**	1,211,489	3,137,931

Advances and progress payments received under the RAFALE Egypt, Qatar and India contracts include the co-contractors parts. Correspondingly, the advances and progress payments to suppliers reflect the transfer of these parts to the co-contractors.

Note 14 - Net sales

(in EUR thousands)	2016	2015
France (1)	602,531	718,610
Export (2)	3,050,886	3,457,195
Net sales	**3,653,417**	**4,175,805**

(1) mainly the French State, with which the Group realized more than 10% of its total net sales, as in 2015.

(2) more than 10% of Group net sales are made with the Egyptian government in 2016, as in 2015. The net sales from the RAFALE Egypt contract are recognized on a gross basis (including the co-contractors parts).

Net sales break down as follows:

(in EUR thousands)	2016	2015
Finished goods	2,974,778	3,169,149
Services	678,639	1,006,656
Net sales	**3,653,417**	**4,175,805**

By origin, net sales break down as follows:

(in EUR thousands)	2016	2015
France	2,820,652	2,505,040
United States	832,765	1,670,765
Net sales	**3,653,417**	**4,175,805**

Information on the breakdown of sales between civil and military activities is available in the Directors' Report.

Note 15 - Other revenue

(in EUR thousands)	2016	2015
Research tax credits	32,816	34,438
Interest on arrears	1,108	1,348
Capitalized production (1)	12,181	7,515
Other operating subsidies	81	125
Other operating income	11,374	6,442
Other business income	**57,560**	**49,868**

(1) including capitalized development costs: EUR 12,101 thousand in 2016, EUR 7,515 thousand in 2015.

Note 16 - Other operating income and expenses

(in EUR thousands)	2016	2015
Gains/losses from disposals of non-current assets	-158	-823
Foreign exchange gains or losses from business transactions (1)	-5,069	17,817
Income/loss from management operations	746	664
Other operating expenses	-609	-6,501
Other operating income and expenses	**-5,090**	**11,157**

(1) particularly foreign exchange gains and losses on trade receivables and payables. Foreign exchange gains and losses on hedging transactions are recognized in net sales.

Note 17 - Research and development costs

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

(in EUR thousands)	2016	2015
Research and development costs	-292,714	-431,161

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

Note 18 - Net financial income/expense

(in EUR thousands)	2016	2015
Income from cash and cash equivalents	6,502	7,207
Cost of gross financial debt	-15,526	-16,015
Cost of net financial debt	**-9,024**	**-8,808**
Dividends and other investment income	808	3,177
Interest income and gains/losses on disposal of other financial assets *(excluding cash and cash equivalents) (1)*	100,149	192,263
Foreign exchange gain/loss (2)	-125,734	-610,186
Other	596	-2,308
Other financial income and expenses	**-24,181**	**-417,054**
Net financial income/expense	**-33,205**	**-425,862**

(1) of which gain from sale of marketable securities for EUR 95,133 thousand (EUR 186,330 thousand in 2015).

(2) foreign exchange gains or losses for the period include the gains or losses associated with the exercise of foreign exchange hedging instruments that do not qualify for hedge accounting under IAS 39 "Financial instruments" (see Note 23.2), the change in the market value of foreign exchange hedging instruments that do not qualify for hedge accounting (which amounts are not representative of key figures, which will be recognized when the hedges occur) and the cost of restructuring the currency hedging portfolio, which was necessary because of the decline in commercial flows related to FALCON activity.

Note 19 - Tax position

19.1 Net effect of taxes on net income

(in EUR thousands)	2016	2015
Corporate tax	-67,641	-107,757
Deferred tax income/expense	-8,330	169,519
Income tax	**-75,971**	**61,762**

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

(in EUR thousands)	2016	2015
Derivative financial instruments	9,034	6,576
Available-for-sale securities	44,302	65,448
Actuarial adjustments	4,223	18,188
Taxes recognized directly in equity	**57,559**	**90,212**

19.3 Reconciliation of theoretical and actual tax expense

(in EUR thousands)	2016	2015
Net income	379,066	141,499
Cancellation of the income tax	75,971	-61,762
Cancellation of the Group share of net income of equity associates	-202,711	-144,409
Income before tax	252,326	-64,672
Theoretical tax expenses calculated at the current rate (1)	**-86,876**	**24,575**
Effect of tax credits (2)	14,789	17,380
Effect of differences in tax rates (3)	-9,010	-17,674
Other (4)	5,126	37,481
Taxes recognized	**-75,971**	**61,762**

(1) a rate of 34.43% applies for 2016, compared to a rate of 38.00% in 2015 for the Parent Company of the Group.

(2) the amount of the research tax credit, which is recognized in other revenue, is EUR 32,816 thousand for 2016 and EUR 34,438 thousand for 2015. The tax credit for competitiveness and employment, which is recognized as a deduction from employee costs, represented EUR 8,411 thousand in 2016 and EUR 8,400 thousand in 2015.

(3) includes in 2016 the impact from the change to the deferred tax rate used for the calculation of the deferred tax. See Note 19.4.

(4) includes the impact from outsourcing a portion of the Group's pension benefit commitments.

19.4 Deferred tax sources

(in EUR thousands)	Balance sheet		Income statement	
	12/31/2016	**12/31/2015**	**2016**	**2015**
Temporary differences on provisions (profit-sharing, pension, etc.)	252,403	236,474	9,966	-25,365
Available-for-sale securities and cash equivalents	-2,472	-8,124	-309	321
Hedging instruments	174,598	173,964	-8,400	153,725
Other temporary differences	101,191	110,039	-9,587	40,838
Deferred tax income/expense			**-8,330**	**169,519**
Net deferred taxes (1)	**525,720**	**512,353**		
Deferred tax assets	*525,720*	*512,353*		
Deferred tax liabilities	*0*	*0*		

(1) pursuant to the French 2017 Budget Act, which provides for a lower corporate tax rate for French companies from 2020, the deferred tax bases for which a reversal is not expected before the end of 2019 were taxed at 28.92%. This change in the deferred tax rate reduced deferred tax assets by EUR 14,879 thousand (impact on the deferred tax expense of EUR -8,531 thousand and on other income and expenses recognized directly in equity of EUR -6,348 thousand).

19.5 Deferred tax not recognized in balance sheet

(in EUR thousands)	12/31/2016	12/31/2015
Deferred tax assets not recognized	28,079	47,452

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

Note 20 - Earnings per share

Earnings per share	2016	2015
Net income attributable to the owners of the Parent Company (in EUR thousands) (1)	379,030	141,457
Average number of shares outstanding	8,431,494	8,817,326
Diluted average number of shares outstanding	8,431,969	8,817,801
Earnings per share (in EUR)	**45.0**	**16.0**
Diluted earnings per share (in EUR)	**45.0**	**16.0**

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

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

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

Note 21 - Dividends paid and proposed

Dividends	2016	2015
Decided and paid during the year (in EUR thousands) (1)	105,422	87,126
i.e. per share (EUR)	12.10	10.00
Proposed to the Annual General Meeting for approval, not recognized as a liability as of December 31 (in EUR thousands)	99,834	110,383
i.e. per share (EUR)	12.10	12.10

(1) net of dividends on treasury shares.

Note 22 - Financial instruments

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

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

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

22.1 Financial instruments (assets)

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

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

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

As of December 31, 2015, the data were as follows:

(in EUR thousands)	Balance sheet value as of 12/31/2015			
	Cost or amortized cost (1)	Fair value		Total
		Trough P&L	Through equity	
Non-current assets				
Listed investments			46,712	46,712
Non-listed investments		166	72,867	73,033
Available-for-sale marketable securities			3,148,612	3,148,612
Other financial assets	33,826			33,826
Current assets				
Trade and other receivables	714,063			714,063
Derivative financial instruments		615	26,198	26,813
Cash equivalents (2)		832,129		832,129
Total financial instruments (assets)	**747,889**	**832,910**	**3,294,389**	**4,875,188**
Level 1 (2)		832,129	3,195,324	
Level 2		615	26,198	
Level 3		166	72,867	

(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) include time deposits as of December 31, 2015: EUR 781,888 thousand.

22.2 Financial instruments (liabilities)

(in EUR thousands)	Balance sheet value as of 12/31/2016			
	Cost or amortized cost (1)	Fair value		Total
		Trough P&L	Through equity	
Non-current liabilities				
Bank borrowings	948,302			948,302
Other financial liabilities (2)	146,202			146,202
Current liabilities				
Bank borrowings	50,614			50,614
Other financial liabilities (2)	39,984			39,984
Trade and other payables	854,051			854,051
Derivative financial instruments		450,508	60,873	511,381
Total financial instruments (liabilities)	**2,039,153**	**450,508**	**60,873**	**2,550,534**
Level 1 (2)		0	0	
Level 2		450,508	60,873	
Level 3		0	0	

As of December 31, 2015, the data were as follows:

(in EUR thousands)	Balance sheet value as of 12/31/2015			
	Cost or amortized cost (1)	Fair value		Total
		Trough P&L	Through equity	
Non-current liabilities				
Bank borrowings	997,745			997,745
Other financial liabilities (2)	163,484			163,484
Current liabilities				
Bank borrowings	614			614
Other financial liabilities (2)	47,707			47,707
Trade and other payables	889,849			889,849
Derivative financial instruments		471,633	60,831	532,464
Total financial instruments (liabilities)	**2,099,399**	**471,633**	**60,831**	**2,631,863**
Level 1 (2)		0	0	
Level 2		471,633	60,831	
Level 3		0	0	

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

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

Note 23 - Financial risk management

23.1 Cash and liquidity risks

23.1.1 Financial debt

The Group has no significant risk in relation to its financial debt. The contracts for these loans include the usual default clauses and restrictions in terms of security conditions and merger or sale transactions. One of the loan clauses stipulates an early repayment would be demanded if GIMD were to hold less than 50% of the capital of DASSAULT AVIATION before the loan maturity date. These loans do not contain any accelerated repayment or prepayment clauses based on rating or financial ratios. The features of these loans are described in Note 10.

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

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

(in EUR thousands)	12/31/2016			
	Historical cost	**Unrealized capital gain/loss**	**Consolidated asset value**	**As %**
Cash at bank, money market investments and time deposits	2,826,662	39,120	2,865,782	67%
Investments in bonds (1)	211,132	136,570	347,702	8%
Diversified investments (1)	580,229	496,640	1,076,869	25%
Total	**3,618,023**	**672,330**	**4,290,353**	**100%**

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

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

Fair values classification:

(in EUR thousands)	12/31/2016		
	Fair value through P&L	**Fair value through equity**	**Total**
Cash at bank and in hand, money market investments and time deposits	1,252,866	1,612,916	2,865,782
Investments in bonds	0	347,702	347,702
Diversified investments	0	1,076,869	1,076,869
Total	**1,252,866**	**3,037,487**	**4,290,353**

23.2 Credit and counterparty risks

23.2.1 Credit risk on bank counterparties

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

23.2.2 Customer default risk

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

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

The amount of COFACE export insurance guarantees and collateral obtained and not exercised at year-end appear in the table of off-balance sheet commitments (see Note 24).

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

23.3 Other market risks

23.3.1 Market risks

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

(in EUR thousands)	12/31/2016		12/31/2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Exchange rate derivatives	4,521	503,373	26,813	526,892
Interest rate derivatives	0	8,008	0	3,582
Commodity derivatives	77	0	0	1,990
Derivative financial instruments	**4,598**	**511,381**	**26,813**	**532,464**
Net derivative financial instruments		**506,783**		**505,651**

Exchange rate derivatives

The Group is exposed to a foreign exchange risk through the Parent Company in relation to its FALCON sales that are virtually all denominated in US dollars. This risk is partially hedged by using forward 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 along with their recognition under hedge accounting principle as defined by IAS 39 "Financial Instruments" are defined in paragraph C12 of the accounting principles.

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

(in EUR thousands)	Market value as of 12/31/2016	Market value as of 12/31/2015
Instruments which qualify for hedge accounting	-53,234	-31,432
Instruments which do not qualify for hedge accounting	-445,618	-468,647
Foreign exchange derivatives	**-498,852**	**-500,079**

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, 2016, as was the case as of December 31, 2015, this counterparty risk is insignificant.

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

(in EUR thousands)	Within 1 year	> 1 year and < 3 years	More than 3 years	Total
Foreign exchange derivatives	-247,658	-255,715	4,521	**-498,852**

Interest rate derivatives

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

Commodity derivatives

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

23.3.2 Impacts of derivatives on the Group's financial statements

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

(in EUR thousands)	12/31/2015	Impact on equity (1)	Impact on net financial income (2)	12/31/2016
Exchange rate derivatives	-500,079	-21,802	23,029	-498,852
Interest rate derivatives	-3,582	-4,438	12	-8,008
Commodity derivatives	-1,990	0	2,067	77
Net derivative financial instruments	**-505,651**	**-26,240**	**25,108**	**-506,783**

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

(2) change in fair value of foreign exchange hedging instruments which do not qualify for hedge accounting under the terms of IAS 39 "Financial Instruments".

23.3.3 Sensitivity test for foreign exchange derivatives

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

Market Value of the Portfolio (in EUR thousands)	**12/31/2016**		**12/31/2015**	
Net balance sheet position	-498,852		-500,079	
Closing US dollar/euro exchange rate	1.0541 $/€		1.0887 $/€	
Closing dollar/euro exchange rate +/- 10 cents	1.1541 $/€	0.9541 $/€	1.1887 $/€	0.9887 $/€
Change in value (1)	+450,674	-579,627	+540,962	-714,972
Impact on net income	*+347,932*	*-455,357*	*+425,757*	*-576,462*
Impact on equity	*+102,742*	*-124,270*	*+115,205*	*-138,510*

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

23.3.4 Risks related to EMBRAER shares

On December 31, 2016, the EMBRAER shares were valued at EUR 30,802 thousand (see Note 5.2). The Group is exposed to a currency risk on its stake in EMBRAER, which is listed in reals on the Brazilian market, and a price risk related to the fluctuation in the share price. A 10% upward or downward variation in the exchange rate and/or share price would have no significant impact on the Group's equity and results.

Note 24 - Off-balance sheet commitments

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

(in EUR thousands)	12/31/2016	12/31/2015
Commitments given under commercial contracts	12,172,763	5,356,567
Guarantees and deposits	11,858	62,122
Commitments given secured by bank guarantees	1,456,538	1,458,161
Commitments given	**13,641,159**	**6,876,850**

(in EUR thousands)	12/31/2016	12/31/2015
Backlog	20,322,800	14,175,100
Other commitments received under commercial contracts	1,633,129	0
Collateral	129,764	108,521
COFACE guarantees	50,544	76,580
Commitments received secured by bank guarantees	5,274	9,075
Commitments received	**22,141,511**	**14,369,276**

Operating leases	TOTAL	Within 1 year	More than 1 year
Minimum future non-cancellable payments (not discounted)	**245,887**	42,077	203,810

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

Note 25 - Contingent liabilities

In late 2002, a group of French manufacturers, including DASSAULT AVIATION, was collectively issued with a request for arbitration from a common client claiming a sum which, according to the plaintiff, would amount to no less than USD 260 million, and for which the group of manufacturers may be jointly liable with regard to the plaintiff. This request related to the performance of old contracts implemented by these manufacturers. In the framework of an agreement signed between the parties in June 2003, the plaintiff withdrew its action.

In November 2012, the plaintiff notified a new request for arbitration based on grounds similar to the 2002 action, for a total now amounting to EUR 226 million. The manufacturers strongly deny this request and to date, it is not possible to assess the potential financial risk; accordingly, DASSAULT AVIATION has not made any provision. This proceeding is still in progress.

Note 26 - Related-party transactions

The Group's related parties are:

- GROUPE INDUSTRIEL MARCEL DASSAULT (GIMD), 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 2016, the Group did not recognize any provisions for bad debts relating to amounts receivable from related parties. The need for provisions is assessed each year by examining the financial position of the related parties and the market in which they operate.

26.1 Details of transactions

(in EUR thousands)	2016	2015
Sales	7,286	9,077
Purchases	310,496	248,935
Trade receivables	1,264	1,354
Customer advances and progress payments	41,300	25,885
Trade payables	76,379	48,587
Advances and progress payments to suppliers	1,053,494	562,689
Advance lease payments	30,698	30,694

26.2 Compensation of corporate officers and benefits in kind

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

(in EUR thousands)	2016	2015
Fixed compensation	2,723	2,659
Directors' fees	426	644
Benefits in kind	17	16
Performance shares	943	0
Other	9	16
Compensation of corporate officers and benefits in kind	**4,118**	**3,335**

Note 27 - Average number of employees

	2016	2015
Managers	5,766	5,626
Supervisors and technicians	2,408	2,353
Employees	1,175	1,202
Workers	2,812	2,803
Average number of employees	**12,161**	**11,984**

Note 28 - Environmental information

The DASSAULT AVIATION Group recognized environmental capital investments amounting to EUR 2,376 thousand and EUR 1,555 thousand in expenses relating to risk, impact and regulatory compliance analyses. The Group did not have to recognize any environmental liabilities.

Note 29 - Auditors' fees

The statutory auditors' fees recognized as expenses for 2016 and 2015 are as follows:

(in EUR thousands)	Deloitte & Associés		MAZARS	
	2016	**2015**	**2016**	**2015**
Statutory audit, certification, review of individual and consolidated financial statements (1)				
DASSAULT AVIATION	215	200	237	200
Fully consolidated subsidiaries	66	0	305	369
Other audit engagements (2)				
DASSAULT AVIATION	41	67	70	34
Fully consolidated subsidiaries	0	0	0	6
Auditors' fees	**322**	**267**	**612**	**609**

(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 for services normally rendered as an extension of the mission of the independent auditors (drafting of specific certifications, notices and opinions relating to accounting standards, etc.).

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 50 thousand in 2016 as in 2015, paid to GEREC auditors.

Note 30 - Subsequent events

No events likely to have a material impact on the financial statements occurred between December 31, 2016 and the date of the financial statements being closed by the Board of Directors.

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2016

To the Shareholders,

In compliance with the assignment entrusted to us by your General meeting, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying consolidated financial statements of Dassault Aviation Company;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been closed by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 31st, 2015 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.

JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L. 823-9 of the French Commercial Code *(code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

Evaluation of the THALES investment

Notes 1-C4-1 and 5.1.4 of the appendix to the consolidated financial statements describe the methods for implementing, where applicable, an impairment test of the investment stake in THALES. We have checked the appropriate character of the accounting methods cited above, and we can express our assurance that they are correctly applied.

Provisions for contingencies and charges

Our work consisted in particular in assessing the data and assumptions used to determine the estimated provisions for contingencies and charges, as described in the "Note 1-C9" and "Note 11" of the appendix to the consolidated financial statements, reviewing the calculations performed by the Company and examining the procedures adopted by Management to approve such estimates. On this basis, we assessed the reasonableness of these estimates.

Multi-annual contracts

Your Company's income relating to service provision is stated according to the completion method for multi-annual contracts, as described in "Note 1-C13-1" of the appendix to the consolidated financial statements. On the basis of data available to date, our work consisted in assessing the data and the assumptions drawn up by Management and on which they based their estimates of the profit/loss on completion of those contracts and their trends, reviewing the calculations made, and comparing the estimates made in previous years with the actual profits and losses.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

SPECIFIC VERIFICATION

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

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

Courbevoie and Neuilly-sur-Seine, March 7th, 2017

The statutory auditors

Mazars	Deloitte & Associés
Manuela Baudoin-Revert	Jean-François Viat

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in the French language and is provided solely for the convenience of English speaking users.
The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes explanatory paragraphs discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.
This report also includes information relating to the specific verification of information given in the management report.
This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

PARENT COMPANY FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

ASSETS

(in EUR thousands)	Notes	12/31/2016			12/31/2015
		Gross	Depreciation, amortization and provisions	Net	Net
Intangible assets	2	104,861	-89,549	15,312	18,882
Property, plant and equipment	2	974,192	-720,765	253,427	243,158
Financial assets	3	2,220,299	-4,467	2,215,832	2,579,361
TOTAL NON-CURRENT ASSETS		**3,299,352**	**-814,781**	**2,484,571**	**2,841,401**
Inventories and work-in-progress	4	3,844,891	-398,274	3,446,617	2,903,755
Advances and progress payments to suppliers		1,905,648	0	1,905,648	1,012,861
Trade receivables	6	457,592	-69,267	388,325	466,838
Other receivables, prepayments and accrued income	6	486,989	0	486,989	548,250
Marketable securities and cash instruments	9	2,406,248	0	2,406,248	2,410,598
Cash at bank and in hand		658,788	0	658,788	355,491
TOTAL CURRENT ASSETS		**9,760,156**	**-467,541**	**9,292,615**	**7,697,793**
TOTAL ASSETS		**13,059,508**	**-1,282,322**	**11,777,186**	**10,539,194**

EQUITY AND LIABILITIES

(in EUR thousands)	Notes	12/31/2016	12/31/2015
Capital	10,13	66,006	72,980
Reserves	12	1,866,135	2,520,578
Net income for the year		256,696	283,254
Investment subsidies		3,726	924
Regulated provisions	14	118,331	156,903
TOTAL EQUITY	13	**2,310,894**	**3,034,639**
PROVISIONS FOR CONTINGENCIES AND CHARGES	14	**955,323**	**1,019,706**
Borrowings and financial debt (1)	15	1,183,559	1,209,473
Customer advances and progress payments		6,333,280	4,264,804
Trade and other payables	16	578,587	580,465
Other liabilities and deferred income	17	415,543	430,107
TOTAL LIABILITIES		**8,510,969**	**6,484,849**
TOTAL EQUITY AND LIABILITIES		**11,777,186**	**10,539,194**

(1) including bank overdrafts:	0	0

STATEMENT OF INCOME

(in EUR thousands)	Notes	2016	2015
NET SALES	20	**3,161,147**	**3,325,998**
Change in work-in-progress		473,467	395,097
Reversals of provisions, depreciation and amortization, charges transferred		584,364	659,283
Other income		2,999	3,307
OPERATING INCOME		**4,221,977**	**4,383,685**
Purchases consumed		-2,149,051	-2,139,735
Personnel expenses (1)		-726,821	-724,887
Other operating expenses		-378,478	-573,459
Taxes and social security contributions		-56,191	-53,785
Depreciation and amortization	2	-51,811	-50,662
Allocations to provisions	14	-609,659	-526,954
OPERATING EXPENSES		**-3,972,011**	**-4,069,482**
NET OPERATING INCOME		**249,966**	**314,203**
NET FINANCIAL INCOME	22	**77,131**	**68,340**
CURRENT INCOME		**327,097**	**382,543**
Non-recurring items	23	39,448	30,667
Employee profit-sharing and incentive schemes		-79,895	-87,629
Income tax	24	-29,954	-42,327
NET INCOME		**256,696**	**283,254**
(1) incl. tax credit for competitiveness and employment (CICE) (see Note 7):		7,819	7,812

STATEMENT OF CASH FLOWS

(in EUR thousands)	Notes	2016	2015
I - NET CASH FROM OPERATING ACTIVITIES			
NET INCOME		256,696	283,254
Elimination of gains and losses from disposals of non-current assets	23	-130	48
Net allocations to and reversals of depreciation, amortization and provisions (excluding those relating to working capital requirement)	2,3,14	-49,369	-135,942
Net cash from operating activities before working capital changes		**207,197**	**147,360**
Change in inventories and work-in-progress (net)	4	-542,862	-358,102
Change in advances and progress payments to suppliers		-892,787	-919,666
Change in trade receivables (net)	6	78,513	23,302
Change in other receivables, prepayments and accrued income	6	61,261	11,066
Change in customer advances and progress payments		2,068,476	2,291,463
Change in trade payables		-1,878	25,772
Change in other payables and deferred income	17	-14,564	54,541
Increase (-) or decrease (+) in working capital requirement		**756,159**	**1,128,376**
Total I		**963,356**	**1,275,736**
II - NET CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of intangible assets and property, plant & equipment	2	-68,072	-74,317
Increase in financial assets	3	-477,917	-454,481
Change in investment subsidies		2,802	924
Disposals of or reductions in non-current assets	2,3,23	849,363	133,893
Total II		**306,176**	**-393,981**
III - NET CASH FLOWS FROM FINANCING ACTIVITIES			
Change in capital	13	-6,974	-730
Increase in other equity items	13	-832,275	-88,662
Increase in financial debt	15	68,611	366,812
Repayment of financial debt	15	-94,525	-94,079
Dividends paid during the year	33	-105,422	-87,126
Total III		**-970,585**	**96,215**
CHANGE IN NET CASH AND CASH EQUIVALENTS (I + II +III)		**298,947**	**977,970**
Opening net cash and cash equivalents (1)		**2,766,089**	**1,788,119**
Closing net cash and cash equivalents (1)		**3,065,036**	**2,766,089**

(1) Cash and cash equivalents comprise the following balance sheet items:

[cash at bank and in hand] + [marketable securities and cash instruments] - [bank overdrafts]

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

DASSAULT AVIATION
9, Rond-Point des Champs-Élysées Marcel Dassault - 75008 PARIS

A French Société Anonyme (limited company) capitalized at EUR 66,006,280, publicly traded and registered in France
Paris Trade Registry number 712 042 456

Note 1 - Accounting rules and methods

A/ GENERAL PRINCIPLES

The financial statements of the Parent Company as of December 31, 2016 were closed by the Board of Directors on March 7, 2017, and will be submitted for approval to the Annual General Meeting on May 18, 2017.

The company financial statements have been prepared in accordance with ANC Regulation 2014-03 approved by the Decree of September 8, 2014, 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.

B/VALUATION PRINCIPLES

• B1 Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are recognized at acquisition or production cost, less accumulated depreciation or amortization and impairment. As an exception to the rule, assets acquired prior to December 31, 1976 were revalued. Interest expense is not capitalized. Each identified component of an intangible asset or item of property, plant and equipment is recognized and depreciated or amortized separately.

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

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

Initial useful lives are extended or reduced depending on the conditions in which the asset is used.

Useful lives are as follows:

Software	3-4 years
Industrial buildings	25-30 years
Office buildings	25-35 years
Fixtures and fittings	7-15 years
Plant, equipment and tools	3-15 years
Aircraft	4-10 years
Rolling stock	3-4 years
Other property, plant and equipment	3-8 years
Used goods	on a case-by-case basis

• B2 Impairment of assets

The Company conducts an impairment test if an indication of loss of value has been detected.

Indications of impairment come from significant long-term adverse changes that affect the economic environment or the assumptions or objectives used by the Company.

Intangible assets and property, plant and equipment are impaired by the Company when the net carrying amount exceeds their present value. The amount of impairment recognized in income is equal to the difference between the net carrying amount and present value.

The present value of an asset is the higher of its market value (less selling costs) and its value in use.

The value in use of an asset is calculated using the discounted future cash flow method, with a post-tax discount rate of 8.2% (compared to 8.6% as of December 31, 2015) and a 2% long-term growth rate (same as of December 31, 2015). The discount rate used includes the rates prevailing in the aviation industry and was calculated using the same method as in 2015. Post-tax cash flows are projected over a period not exceeding 5 years and the method takes into account a terminal value. These future cash flows result from the economic assumptions and provisional operating conditions used by the Group's Management.
Concerning the equity investment in THALES, when an impairment test is carried out, the operational and financial assumptions used come directly from data provided by THALES.

• B3 Equity investments, other non-current and marketable securities

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

• 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.

• B5 Receivables

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

• B6 Borrowings

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

• B7 Regulated tax provisions

Regulated provisions appearing on the balance sheet include:

- Provisions for investments,
- Provisions for price increases,
- Provisions for medium-term credit risks,
- Depreciation by derogation.

• B8 Provisions for contingencies and charges

B8-1 Warranty provisions

In the framework of sales or procurement contracts, DASSAULT AVIATION has formal warranty obligations for the equipment, products and/or services (software development, systems integrations, etc.) delivered.

These obligations can be distinguished between:

- "current" warranty: repair of defective equipment during the contractual warranty period, handling hardware or software malfunctions identified by the user following qualification and handover to users, etc.

- "regulatory" warranty: treatment by the manufacturer of any changes to the regulatory framework determined by the regulatory authorities or any regulatory non-compliance identified by the manufacturer or a user after delivery of materials or products.

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

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

B8-2 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 mortality rates, 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.

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.

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.

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

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

A provision is recorded in respect of unrealized losses.

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

Contracts involving co-contractors for which DASSAULT AVIATION is the only signatory are recognized for the entire amount of net sales and related expenses (including the co-contractors' parts).

Revenue from sales of goods is recognized when the risks and rewards of ownership are transferred to the buyer. This is normally the transfer of ownership for the Company.

Services are recognized under the percentage of completion method according to the milestones set forth in contracts.

Income or loss is recognized at each stage of completion if it can be reliably measured. Losses on completion are recognized as soon as they are known.

• 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

Whatever their accounting classification (as "other non-current securities" or as "marketable securities"), the book value of treasury shares at year-end is determined by the average market price in the month before closing. If the market price is lower than the purchase value, impairment is recorded, with the exception of securities being canceled or shares held for allotment under a defined plan.

C/ TAX CONSOLIDATION

The Company opted for the tax consolidation scheme in 1999, pursuant to Articles 223-A and following of the French General Tax Code. As of January 1, 2012, the tax consolidation scope of the Group includes DASSAULT AVIATION, DASSAULT AÉRO SERVICE and DASSAULT AVIATION PARTICIPATIONS.

This tax consolidation arrangement is tacitly renewable per period of five fiscal years.

By agreement, it does not have an impact on the results of consolidated companies; tax liabilities are borne by the tax group companies as if no tax consolidation existed.

Note 2 - Intangible assets and property, plant and equipment

2.1 Intangible assets

(in EUR thousands)	12/31/2015	Acquisitions Increases	Disposals Decreases	Other	12/31/2016
Gross value					
Software, patents, licenses and similar assets	98,251	3,231	-178	2,275	103,579
Construction in progress; advances and progress payments	2,629	928	0	-2,275	1,282
	100,880	**4,159**	**-178**	**0**	**104,861**
Amortization					
Software, patents, licenses and similar assets	-81,998	-7,729	178	0	-89,549
	-81,998	**-7,729**	**178**	**0**	**-89,549**
Net value					
Software, patents, licenses and similar assets	16,253				14,030
Construction in progress; advances and progress payments	2,629				1,282
TOTAL	**18,882**	**-3,570**	**0**	**0**	**15,312**

2.2 Property, plant and equipment

(in EUR thousands)	12/31/2015	Acquisitions Increases	Disposals Decreases	Other	12/31/2016
Gross value					
Land	30,248	4,314	-129	69	34,502
Buildings	286,802	5,549	-1,706	801	291,446
Plant, equipment and machinery	477,635	29,749	-22,003	5,000	490,381
Other property, plant and equipment	135,691	8,604	-4,032	667	140,930
Construction in progress; advances and progress payments	16,600	15,697	-8,827	-6,537	16,933
	946,976	**63,913**	**-36,697**	**0**	**974,192**
Amortization					
Land	-6,826	-552	127	0	-7,251
Buildings	-186,339	-11,493	1,634	0	-196,198
Plant, equipment and machinery	-407,705	-24,402	21,924	0	-410,183
Other property, plant and equipment	-102,209	-7,635	3,812	0	-106,032
	-703,079	**-44,082**	**27,497**	**0**	**-719,664**
Impairment (1)					
Other property, plant and equipment	-739	-1,101	739	0	-1,101
	-739	**-1,101**	**739**	**0**	**-1,101**
Net value					
Land	23,422				27,251
Buildings	100,463				95,248
Plant, equipment and machinery	69,930				80,198
Other property, plant and equipment	32,743				33,797
Construction in progress; advances and progress payments	16,600				16,933
TOTAL	**243,158**	**18,730**	**-8,461**	**0**	**253,427**

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

- A provision of EUR 1,101 thousand was recognized in 2016 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, 2016.

Note 3 - Financial assets

(in EUR thousands)	12/31/2015	Acquisitions Increases	Disposals Decreases	Other	12/31/2016
Equity associates (1)	2,150,066	249	0	0	2,150,315
Other investment securities (2)	399,469	477,167	-839,249	0	37,387
Loans	1,704	47	-353	0	1,398
Other financial assets	31,176	454	-431	0	31,199
TOTAL	**2,582,415**	**477,917**	**-840,033**	**0**	**2,220,299**
Provisions	-3,054	-4,313	2,900	0	-4,467
NET VALUE	**2,579,361**	**473,604**	**-837,133**	**0**	**2,215,832**

(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, 2016 (EUR 92.13 per share), DASSAULT AVIATION's investment in THALES is valued at EUR 4,840 million.

In the absence of any objective indication of impairment, the THALES investment was not subject to an impairment test as of December 31, 2016.

(2) including buyback of 502,282 shares for EUR 477,167 thousand (see Note 10).

including cancellation of 871,753 shares for EUR 839,249 thousand (see Note 10).

Maturity of financial assets

(in EUR thousands)	Total	Within 1 year	More than 1 year
Loans	1,398	249	1,149
Other financial assets	31,199	0	31,199
TOTAL	**32,597**	**249**	**32,348**

Note 3 - Financial assets (continued)

A. List of subsidiaries and associates with a gross value exceeding 1% of the company's share capital and in which the Company holds at Least 10% of the shares

Companies or groups of companies (EUR thousands)	Capital	Equity other than capital	Share of the capital held (%)	Book value of securities		Loans and advances granted by the Company	Amount of deposits and guarantees provided by the Company	Net sales of the most recent fiscal year	Net income (+)/ loss (-) of the latest fiscal year	Dividends received by the Company during the fiscal year
				Gross	Net					
1. SUBSIDIARIES (more than 50% owned)										
a. French subsidiaries										
DASSAULT FALCON SERVICE	3,680	91,411	*99.99*	59,453	59,453	0	0	164,713	7,413	0
DASSAULT INTERNATIONAL	1,529	19,920	*99.63*	19,236	19,236	0	0	1,027	342	0
DASSAULT RÉASSURANCE	10,459	8,649	*99.99*	10,133	10,133	0	0	941	56	0
DASSAULT AVIATION PARTICIPATIONS	4,037	-47	*100.00*	4,037	4,037	0	0	0	-3	0
SOGITEC INDUSTRIES	4,578	160,435	*99.80*	25,446	25,446	0	0	91,321	16,332	0
Total				**118,305**	**118,305**	**0**	**0**			**0**
b. Foreign subsidiaries										
DASSAULT FALCON JET (1)	13,331	745,959	*87.47*	7,767	7,767	0	11,858	1,101,045	-14,293	0
DASSAULT INTERNATIONAL INC. (USA)	4,791	66,024	*100.00*	3,727	3,727	0	0	1,251	29	0
DASSAULT PROCUREMENT SERVICES INC. (USA)	95	69,473	*100.00*	28,965	28,965	0	0	254,523	2,480	0
DASSAULT FALCON BUSINESS SERVICES	1,600	769	*100.00*	2,294	2,294	0	0	3,227	300	0
Total				**42,753**	**42,753**	**0**	**11,858**			**0**
Total SUBSIDIARIES				**161,058**	**161,058**	**0**	**11,858**			**0**
2. EQUITY ASSOCIATES (between 10 and 50% owned)										
a. French associates										
CORSE COMPOSITES AERONAUTIQUES	1,707	7,818	*24.81*	996	996	0	0	55,075	1,009	0
EUROTRADIA INTERNATIONAL (2)	3,000	30,293	*16.20*	3,099	3,099	0	0	37,665	963	163
THALES (3)	636,600	6,192,600	*24.76*	1,984,272	1,984,272	0	0	233,300	431,100	74,069
Total				**1,988,367**	**1,988,367**	**0**	**0**			**74,232**
b. Foreign associates										
Total				0	0	0	0			0
Total ASSOCIATES				**1,988,367**	**1,988,367**	**0**	**0**			**74,232**

(1) direct holding; the remaining 12.53% of the shares are held by Dassault International Inc. (USA), which in turn is a wholly-owned subsidiary of DASSAULT AVIATION.

(2) information for 2015 fiscal year.

(3) parent company financial statements.

Note 3 - Financial assets (continued)

B. Other subsidiaries and associates

Global information (in EUR thousands)	Book value of securities		Loans and advances granted by the Company	Amount of deposits and guarantees provided by the Company	Dividends received by the Company during the fiscal year
	Gross	Net			
1. SUBSIDIARIES					
a. French subsidiaries	570	570	0	0	0
b. Foreign subsidiaries	0	0	0	0	0
Total	**570**	**570**	**0**	**0**	**0**
2. ASSOCIATES					
a. French associates	5,535	2,540	0	0	440
b. Foreign associates	32,172	30,854	790	0	204
Total	**37,707**	**33,394**	**790**	**0**	**644**

C. General information on securities (A+B)

Global information (in EUR thousands)	Book value of securities		Loans and advances granted by the Company	Amount of deposits and guarantees provided by the Company	Dividends received by the Company during the fiscal year
	Gross	Net			
1. SUBSIDIARIES					
a. French subsidiaries	118,875	118,875	0	0	0
b. Foreign subsidiaries	42,753	42,753	0	11,858	0
Total	**161,628**	**161,628**	**0**	**11,858**	**0**
2. ASSOCIATES					
a. French associates	1,993,902	1,990,907	0	0	74,672
b. Foreign associates	32,172	30,854	790	0	204
Total	**2,026,074**	**2,021,761**	**790**	**0**	**74,876**
GRAND TOTAL	**2,187,702**	**2,183,389**	**790**	**11,858**	**74,876**

Note 4 - Inventories and work-in-progress

(in EUR thousands)	12/31/2016			12/31/2015
	Gross	Impairment	Net	Net
Raw materials	185,505	-75,151	110,354	104,899
Work-in-progress	2,703,071	0	2,703,071	2,229,604
Semi-finished and finished goods	956,315	-323,123	633,192	569,252
TOTAL	**3,844,891**	**-398,274**	**3,446,617**	**2,903,755**

Note 5 - Interest on assets

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

Note 6 - Trade and other receivables

6.1 Details

(in EUR thousands)	12/31/2016			12/31/2015
	Gross	Impairment	Net	Net
Trade receivables				
Trade receivables	457,592	-69,267	388,325	466,838
	457,592	**-69,267**	**388,325**	**466,838**
Other receivables and prepayments				
Other receivables	223,532	0	223,532	245,642
Prepaid expenses	251,571	0	251,571	288,432
Prepayments	11,886	0	11,886	14,176
	486,989	**0**	**486,989**	**548,250**
TOTAL	**944,581**	**-69,267**	**875,314**	**1,015,088**

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

6.2 Age debtor schedule

(in EUR thousands)	12/31/2016			12/31/2015		
	Total	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year
Trade receivables (1)	457,592	290,889	166,703	540,904	357,458	183,446
Other receivables	223,532	223,346	186	245,642	245,642	0
Prepaid expenses	251,571	251,571	0	288,432	288,432	0
Prepayments	11,886	11,886	0	14,176	14,176	0
TOTAL	**944,581**	**777,692**	**166,889**	**1,089,154**	**905,708**	**183,446**

(1) including receivables and payables represented by commercial paper: EUR 53,205 thousand as of December 31, 2016 and EUR 78,928 thousand as of December 31, 2015.

Note 7 - Accrued income

Deferred income is included in the following balance sheet items (in EUR thousands)	**12/31/2016**	**12/31/2015**
Trade receivables	234,244	248,718
Other receivables , prepayments and accrued income (1)	7,819	7,812
Cash at bank and in hand	81	87
TOTAL	**242,144**	**256,617**

(1) including tax credit for competitiveness and employment (CICE): EUR 7,819 thousand in 2016 and EUR 7,812 thousand in 2015. On the income statement, it is recorded as a deduction from personnel expenses. In 2016, it is used to improve production tools through the acquisition and replacement of equipment, particularly in relation to the implementation of projects to improve productivity, working conditions and responsiveness in production.

Note 8 - Prepaid expenses and deferred income

(in EUR thousands)	**12/31/2016**	**12/31/2015**
Operating income	96,238	75,956
Operating expenses (1)	251,571	288,432
(1) income tax on unrealized capital gains	242,957	281,298

Note 9 - Difference in measurement of marketable securities

MARKETABLE SECURITIES AND CASH INSTRUMENTS		
(in EUR thousands)	**12/31/2016**	**12/31/2015**
Treasury shares	38,759	39,690
Marketable securities - balance sheet value	2,367,489	2,370,908
Marketable securities - market value	3,037,465	3,148,591

Note 10 - Share capital and treasury shares

10.1 Share capital

The share capital amounts to EUR 66,006 thousand and consists of 8,250,785 common shares of EUR 8 each as of December 31, 2016. As of December 31, 2015, share capital amounted to EUR 72,980 thousand and consisted of 9,122,538 shares.

10.2 Treasury shares

Movements on treasury shares are detailed below:

(in number of shares)	2016	2015
Treasury shares as of January 1	**409,971**	**40,500**
Purchase of treasury shares	502,282	460,687
Cancellation of shares	-871,753	-91,216
Share-based payments	-950	0
Treasury shares as of December 31	**39,550**	**409,971**

On June 10, 2016, DASSAULT AVIATION acquired from AIRBUS GROUP SAS 502,282 shares at a price of EUR 950 per share. The Board of Directors decided to allocate these shares for the cancellation planned by the buyback program.

In the first half of 2015, DASSAULT AVIATION had purchased from AIRBUS GROUP SAS 460,687 shares at a price of EUR 980 per share. The Board of Directors had decided to allocate these shares for the cancellation planned by the buyback program. 91,216 shares were canceled on July 24, 2015.

The balance of 871,753 shares allocated for cancellation was canceled on December 23, 2016. The 39,550 treasury shares held as of December 31, 2016 were allocated to potential allocations of performance shares plans and a potential liquidity contract to guarantee market activity.

10.3 Share-based payments

Performance shares were granted to corporate officers at the Board of Directors meetings of September 23, 2015 and March 9, 2016.

A total of 950 performance shares were acquired by corporate officers on September 22, 2016, as the performance conditions set by the Board of Directors on September 23, 2015 were achieved.

Shares granted and not yet vested are subject to performance conditions.

Grant date	Vesting period	Number of shares granted	Number of shares delivered in 2016	Number of shares canceled (1)	Balance of performance shares as of 12/31/2016
09/23/2015	From 09/23/2015 to 09/22/2016	950	950	0	0
03/09/2016	From 03/09/2016 to 03/08/2017	950	0	0	950

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

Note 11 - Identity of the consolidating Parent Company

	% consolidation
GROUPE INDUSTRIEL MARCEL DASSAULT (GIMD) 9, Rond-Point des Champs-Élysées - Marcel Dassault 75008 Paris	62.03%

Note 12 - Reserves

12.1 Reserves

(in EUR thousands)	12/31/2016	12/31/2015
Revaluation difference	4,136	4,136
Legal reserve	6,601	7,298
Retained earnings	1,855,398	2,509,144
TOTAL (1)	**1,866,135**	**2,520,578**

(1) allocation of the capital reduction (see Note 13 for details).

12.2 Revaluation reserves

(in EUR thousands)	Change in revaluation reserves			
	12/31/2015	2016 MOVEMENTS		12/31/2016
		Decreases due to disposals	Other changes	
Land	3,615	0	0	3,615
Investments	521	0	0	521
TOTAL	**4,136**	**0**	**0**	**4,136**
Revaluation reserve (1976)	**4,136**	**0**	**0**	**4,136**

Note 13 - Statement of changes in equity during the year

1/ INCOME FOR THE YEAR

	2016	2015
ACCOUNTING INCOME		
In EUR thousands	256,696	283,254
In EUR per share	31.11	31.05
CHANGE IN EQUITY EXCLUDING NET INCOME FOR THE YEAR		
In EUR thousands	-875,019	-118,534
In EUR per share	-106.05	-12.99
DIVIDENDS		
In EUR thousands	99,834 (1)	110,383 (2)
In EUR per share	12.10 (1)	12.10 (2)

(1) proposed by the Board of Directors to the Shareholders’ Meeting.

(2) dividends of EUR 105,422 thousand were paid for the year ended December 31, 2015, net of dividends on treasury shares.

2/ STATEMENT OF CHANGES IN EQUITY EXCLUDING NET INCOME FOR THE YEAR (in EUR thousands)

	Before appropriation of 2015 result 12/31/2016		**After appropriation of 2015 result 12/31/2016**
A -			
1. 2015 closing equity excluding net income for the year	2,751,385		2,751,385
2. 2015 net income before to appropriation	283,254		
3. Appropriation of 2015 net income to net equity by the Shareholders' Meeting			177,832
4. 2016 equity at opening	3,034,639		2,929,217
B - Additional paid-in capital, effective retroactively to beginning of 2016			**0**
1. Change in capital		0	
2. Change in other items		0	
C - (= A4 + B) Equity at 2016 opening			**2,929,217**
D - Changes during the year excluding 2016 net income			**-875,019**
1. Change in capital (1)		-6,974	
2. Change in additional paid-in capital, reserves, retained earnings (1)		-832,275	
3. Revaluation offsetting entries - Reserve		0	
4. Change in tax provisions and investment subsidies		-35,770	
5. Other changes		0	
E - 2016 CLOSING EQUITY EXCLUDING 2016 NET INCOME BEFORE AGM (= C + D)			**2,054,198**
F - TOTAL CHANGE IN EQUITY IN 2016 EXCLUDING 2016 NET INCOME (= E- C)			**-875,019**

(1) on June 3, 2016, the Board of Directors, under the authority given to it by Annual General Meetings of shareholders of January 28, 2015 and May 19, 2016, decided to reduce the share capital of the Company through the cancellation of 871,753 shares, or EUR 839,249 thousand, by allocating the reduction as follows:

(in EUR thousands)	**12/31/2016**
Share Capital (EUR 8 X 871,753)	6,974
Legal reserve	697
Retained earnings	831,578
TOTAL CHARGED TO CAPITAL REDUCTION	**839,249**

3/ DEFERRED TAX (in EUR thousands)

Regulated provisions excluding provisions for investments: 118,331 x 34.43% = 40,741

Note 14 - Provisions

14.1 Provisions

(in EUR thousands)	12/31/2015	Allocations		Reversals		Other	12/31/2016
Regulated provisions							
For investments	37,693	0	(3)	-37,693	(3)	0	0
For price increases	64,455	8,560	(3)	-8,335	(3)	0	64,680
Depreciation by derogation	54,249	12,997	(3)	-13,824	(3)	0	53,422
For medium-term credit risks	488	0	(3)	-277	(3)	0	211
Realized gains reinvested	18	0	(3)	0	(3)	0	18
	156,903	**21,557**		**-60,129**		**0**	**118,331**
Provisions for contingencies and charges							
Operating	1,005,530	141,017	(1)	-203,110	(1)	0	943,437
Financial	14,176	11,886	(2)	-14,176	(2)	0	11,886
Non-recurring	0	0	(3)	0	(3)	0	0
	1,019,706	**152,903**		**-217,286**		**0**	**955,323**
Provisions for impairment							
On intangible assets	0	0	(1)	0	(1)	0	0
On property, plant and equipment	739	1,101	(1)	-739	(1)	0	1,101
On financial assets	3,054	4,313	(2)	-2,900	(2)	0	4,467
On inventories and work-in-progress	305,990	398,274	(1)	-305,990	(1)	0	398,274
Trade receivables	74,066	69,267	(1)	-74,066	(1)	0	69,267
	383,849	**472,955**		**-383,695**		**0**	**473,109**
TOTAL	**1,560,458**	**647,415**		**-661,110**		**0**	**1,546,763**

	{ - Operating	609,659	(1)	-583,905	(1)
Allocations and reversals	{ - Financial	16,199	(2)	-17,076	(2)
	{ - Non-recurring	21,557	(3)	-60,129	(3)
		647,415		**-661,110**	

14.2 Details of provisions for contingencies and charges

(in EUR thousands)	12/31/2015	Allocations	Reversals	Other	12/31/2016
Operating					
Retirement payments and related benefits (1)	253,374	53,630	-79,680	0	227,324
Early retirement (2)	0	27,531	0	0	27,531
Warranties (3)	644,000	39,000	-87,000	0	596,000
Services and work to be performed	108,156	20,856	-36,430	0	92,582
	1,005,530	**141,017**	**-203,110**	**0**	**943,437**
Financial					
Foreign exchange losses	14,176	11,886	-14,176	0	11,886
	14,176	**11,886**	**-14,176**	**0**	**11,886**
Non-recurring					
Other	0	0	0	0	0
	0	**0**	**0**	**0**	**0**
TOTAL PROVISIONS FOR CONTINGENCIES AND CHARGES	**1,019,706**	**152,903**	**-217,286**	**0**	**955,323**

(1) provisions for retirement payments and related benefits:

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

Employment projections are weighted using French insurance code mortality rates and the recorded employee turnover rate (this may vary according to age). The obligation is estimated and prorated to the employee's length of service at the end of the period in relation to their total career expectancy (see Accounting principles B8-2).

The calculation takes into account the following annual assumptions: salary increase of 3.93% and discount rate of 1%.

The Company decided to outsource a portion of its commitments by purchasing an insurance policy for EUR 50,000 thousand in 2016 and EUR 200,000 thousand in 2015.

As of December 31, 2016, the balance of the provision for long-service awards was EUR 3,460 thousand.

(2) provisions for early retirement:

A provision was made corresponding to the expenditures expected for the funding of the period of inactivity of the relevant employees until the age of retirement.

(3) warranty provisions:

Warranty provisions are updated to reflect the fleet in service and contracts delivered (See Accounting principles B8-1).

Note 15 - Borrowings and financial debt

(in EUR thousands)	12/31/2016	12/31/2015
Bank borrowings (1)	1,000,644	1,000,657
Other borrowing and financial debt (2)	182,915	208,816
TOTAL	**1,183,559**	**1,209,473**

(1) initially variable rate, loans purchased by the Company were swapped to fixed rate. These loans are denominated in euros and EUR 50 million is repayable in 2017, EUR 75 million in 2018, EUR 625 million in 2019 and EUR 250 million in 2020.

There were no bank overdrafts as of December 31, 2016, as was the case on December 31, 2015.

These loans are denominated in euros. 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.

(2) as of December 31, 2016 and December 31, 2015, 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)	1,000,644	50,614	950,030	0
Other financial debt (1)	182,915	39,952	142,888	75
Trade payables (2)	578,587	578,587	0	0
Tax and social security liabilities	192,470	192,470	0	0
Liabilities on fixed assets and related accounts	6,278	6,278	0	0
Other liabilities	81,333	81,333	0	0
TOTAL	**2,042,227**	**949,234**	**1,092,918**	**75**

(1) see Note 15.

(2) including liabilities represented by commercial paper: EUR 50,592 thousand.

Note 17 - Other liabilities and deferred income

(in EUR thousands)	12/31/2016	12/31/2015
Tax and social security liabilities	192,470	210,024
Liabilities on fixed assets and related accounts	6,278	3,551
Other liabilities	81,333	93,438
Deferred income	96,238	75,956
Translation difference and exchange rate adjustment	39,224	47,138
TOTAL	**415,543**	**430,107**

Note 18 - Accrued expenses

Accrued expenses are included in the following balance sheet items (in EUR thousands)	**12/31/2016**	**12/31/2015**
Borrowings and financial debt (1)	3,436	3,911
Trade payables	479,348	445,516
Other payables and deferred income	208,445	227,609
TOTAL	**691,229**	**677,036**

(1) including accrued interest on loans from credit institutions: EUR 600 thousand as of December 31, 2016 and EUR 600 thousand as of December 31, 2015.

Note 19 - Notes on affiliated companies and equity associates

(in EUR thousands)	**Amount relating to**	
	affiliated companies	**in which the Company holds a stake**
Equity investments	161,888	1,988,427
Loans and other non-current financial assets	30,698	0
Advances and progress payments to suppliers	129,619	1,047,635
Trade receivables	180,726	1,188
Other receivables	790	0
Customer advances and progress payments on orders	203,258	5,541
Trade payables	149,555	32,079

Note 20 - Net sales

(in EUR thousands)	**2016**	**2015**
A) BY PRODUCT:		
Finished goods	2,537,985	2,363,878
Services	623,162	962,120
TOTAL	**3,161,147**	**3,325,998**
B) BY GEOGRAPHIC REGION:		
France	590,221	647,515
Export (1)	2,570,926	2,678,483
TOTAL	**3,161,147**	**3,325,998**

(1) the net sales from the RAFALE Egypt contract 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)	2016	2015
Research and development costs	-272,353	-399,586

The Company's research and development strategy and initiatives are described in the Management Report.

Note 22 - Net financial income

(in EUR thousands)	2016	2015
Investment income (1)	74,232	59,620
Income from other securities and assets	678	2,912
Other interest and similar income	2,095	2,798
Reversals of provisions for foreign exchange losses	14,176	13,786
Reversals of provisions for equity investments	2,900	940
Foreign exchange gains	0	0
Net gains on sale of marketable securities	95,133	186,330
FINANCIAL INCOME	**189,214**	**266,386**
Allocation to provisions for foreign exchange losses	-11,886	-14,176
Allocation to provisions for equity investments	-4,313	-2,900
Allocation to provisions for loans	0	0
Interest and similar expenses	-14,740	-15,280
Foreign exchange losses	-81,144	-165,690
Net losses on sales of marketable securities	0	0
FINANCIAL EXPENSES	**-112,083**	**-198,046**
NET FINANCIAL INCOME	**77,131**	**68,340**

(1) in 2016, the Company received EUR 53,057 thousand in THALES dividends for 2015 and EUR 21,012 thousand in interim dividends for 2016. In 2015, THALES paid the Company EUR 40,975 thousand in dividends for 2014 and EUR 18,386 thousand in interim dividends for 2015.

Note 23 - Non-recurring items

(in EUR thousands)	2016	2015
Gains on sales of assets		
- Property, plant and equipment	503	558
- Financial assets	0	258
	503	**816**
Other non-recurring income	**872**	**662**
Reversals of regulated provisions		
- For investments	37,693	36,280
- For price increases	8,335	9,708
- For medium-term credit risks	277	277
- Depreciation by derogation	13,824	13,649
- Realized gains reinvested	0	0
	60,129	**59,914**
NON-RECURRING INCOME	**61,504**	**61,392**
Non-recurring expenses on operating activities	**-15**	**0**
Carrying value of assets sold		
- Intangible assets	0	0
- Property, plant and equipment	-373	-606
- Financial assets	0	-258
	-373	**-864**
Other non-recurring expenses	**-111**	**-13**
Allocations to regulated provisions		
- For price increases	-8,560	-17,437
- Depreciation by derogation	-12,997	-12,411
	-21,557	**-29,848**
Other non-recurring provisions	**0**	**0**
NON-RECURRING EXPENSES	**-22,056**	**-30,725**
NON-RECURRING ITEMS	**39,448**	**30,667**

Note 24 - Analysis of corporate income tax

(in EUR thousands)	Income before tax	Corporate income tax	Long-term capital gains tax	Income after tax
Net income from ordinary activities before tax	327,097	-59,174	0	267,923
Non-recurring items (including profit-sharing and incentive schemes)	-40,447	29,220	0	-11,227
Net income	286,650	-29,954	0	256,696
		-29,954 (1)		

(1) including Research Tax Credit: EUR 30,597 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)	**12/31/2016**	**12/31/2015**
Commitments in connection with the performance of operating contracts	12,058,011	5,251,585
Guarantees and deposits	11,858	62,122
Commitments guaranteed with bank deposits	1,456,538	1,458,161
TOTAL	**13,526,407**	**6,771,868**

COMMITMENTS RECEIVED (in EUR thousands)	**12/31/2016**	**12/31/2015**
Backlog	19,946,300	13,724,300
Other commitments in connection with the performance of operating agreements	1,633,129	0
Collateral	129,764	108,521
COFACE guarantees	50,544	76,580
Commitments guaranteed with bank deposits	5,274	9,075
TOTAL	**21,765,011**	**13,918,476**

OPERATING LEASES (in EUR thousands)	**TOTAL**	**Within 1 year**	**More than 1 year**
Minimum future payments not subject to cancellation (not discounted)	**162,496**	36,229	126,267

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

Note 26 - Contingent liabilities

In late 2002, a group of French manufacturers, including DASSAULT AVIATION, was collectively issued with a request for arbitration from a common client claiming a sum which, according to the plaintiff, would amount to no less than USD 260 million, and for which the group of manufacturers may be jointly liable with regard to the plaintiff.

This request related to the performance of old contracts implemented by these manufacturers. Under the framework of an agreement signed between the parties in June 2003, the plaintiff withdrew its action. In November 2012, the plaintiff gave notice of a new request for arbitration based on grounds similar to the 2002 action, for a total now amounting to EUR 226 million. The manufacturers strongly deny this request and to date, it is not possible to assess the potential financial risk; accordingly, DASSAULT AVIATION has not made any provision. This proceeding is still pending.

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 hedges are realized.

The portfolio market value is therefore provided for information only.

	12/31/2016		12/31/2015	
MARKET VALUE	In USD thousands	In EUR thousands	In USD thousands	In EUR thousands
Foreign exchange options	-469,726	-445,618	-510,216	-468,647
Forward transactions	-56,114	-53,234	-34,220	-31,432
TOTAL	**-525,840**	**-498,852**	**-544,436**	**-500,079**

Note 28 - Impact of tax valuations by derogation

(in EUR thousands)	12/31/2016	12/31/2015
Net income for the year	256,696	283,254
Income tax	29,954	42,327
INCOME BEFORE TAX	**286,650**	**325,581**
Depreciation by derogation	-827	-1,238
Provision for price increases	225	7,729
Provision for realized gains reinvested	0	0
Provision for medium-term credit risks	-277	-277
INCREASE IN REGULATED PROVISIONS	**-879**	**6,214**
NET INCOME EXCLUDING TAX VALUATIONS BY DEROGATION (BEFORE TAX)	**285,771**	**331,795**

Note 29 - Increases and reductions in deferred tax

(in EUR thousands)	12/31/2016	12/31/2015
Regulated provisions:		
- For price increases	64,680	64,455
- For medium-term credit risks	211	488
- Depreciation by derogation	53,422	54,249
- Realized gains reinvested	18	18
BASIS FOR INCREASES	**118,331**	**119,210**
INCREASES IN DEFERRED TAX	***40,741***	***41,044***
Items not deductible in the current year:		
- Employee profit-sharing	59,895	66,629
- Retirement payments and related benefits	223,400	253,374
- For early retirement	27,531	0
Other temporary timing differences	618,329	613,064
BASIS FOR DECREASES	**929,155**	**933,067**
REDUCTIONS IN DEFERRED TAX	***319,908***	***321,255***
Long-term capital losses	0	0

Note 30 - Compensation of corporate officers

Total compensation received by corporate officers, as detailed in the management report, amounted to EUR 3,992,702 for 2016.

Note 31 - Average number of employees

	Salaried employees
Managers	4,870
Supervisors and technicians	2,083
Employees	417
Workers	1,026
2016 TOTAL	**8,396**
2015 TOTAL	8,284

Note 32 - Environmental information

DASSAULT AVIATION recognized environmental capital expenditures amounting to EUR 2,371 thousand and posted approximately EUR 994 thousand in expenses allocated to risk, impact and regulatory compliance analyses.

The Company did not have to recognize any environmental liabilities.

Note 33 - Five-year results summary

Nature of information (in EUR thousands except per share data in point 3 stated in EUR/share)	2012	2013	2014	2015	2016
1/FINANCIAL POSITION AT YEAR-END					
a. Share capital	81,007	81,007	73,710	72,980	66,006
b. Number of shares outstanding	10,125,897	10,125,897	9,213,754	9,122,538	8,250,785
2/SUMMARY OF OPERATING RESULTS					
a. Net sales, excluding tax	3,341,778	3,965,672	3,194,910	3,325,998	3,161,147
b. Earnings before tax, depreciation, amortization and provisions	522,253	581,481	308,162	216,355	324,766
c. Corporate income tax	141,486	133,146	64,837	42,327	29,954
d. Earnings after tax, depreciation, amortization and provisions	282,658	360,328	272,135	283,254	256,696
e. Dividends paid	94,171	90,120	92,138 (1)	110,383 (1)	99,834 (2)
3/EARNINGS PER SHARE (EUR)					
a. Earnings after tax, but before depreciation, amortization and provisions	37.6	44.3	26.4	19.1	35.7
b. Earnings after tax, depreciation, amortization and provisions	27.9	35.6	29.5	31.0	31.1
c. Dividend per share	9.3	8.9	10.0	12.1	12.1 (2)
4/PERSONNEL					
a. Average number of employees during the year	8,097	8,082	8,106	8,284	8,396
b. Total personnel expenses	430,604	441,956	449,978	472,158	472,939
c. Social security and other staff benefits	245,876	244,119	241,998	252,729	253,882
5/EMPLOYEE PROFIT-SHARING	**94,219**	**88,936**	**63,367**	**66,629**	**59,895**
6/INCENTIVE PAYMENTS	**14,000**	**20,000**	**20,000**	**21,000**	**20,000**

(1) dividends of EUR 105,422 thousand were paid for the year ended December 31, 2015, net of dividends on treasury shares.
Dividends of EUR 87,126 thousand were paid for the year ended December 31, 2014, net of dividends on treasury shares.

(2) proposed by the Board of Directors to the Shareholder's Meeting.

STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Year ended December 31, 2016

Dear Shareholders,

In performance of the engagement entrusted to us by your General Meeting, we hereby present our report for the financial year ended December 31, 2016, on:

- the audit of the accompanying financial statements of Dassault Aviation Company;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been closed by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

OPINION ON THE ANNUAL FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used, the significant estimates made, and the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We hereby certify that the annual financial statements are, with regard to French accounting principles and regulations, consistent and sincere and give a true and fair view of the income from operations over the past year, as well as the financial position and assets of the company at the end of this fiscal year.

JUSTIFICATION OF ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of the French Commercial Code relating to the justification of our assessments, we bring the following matters to your attention.

Equity investments

Notes 1-B2, 1-B3 and 3 to the financial statements describe the evaluation principles for equity investments, and the estimations and assumptions that your company is led to make concerning the methods for implementing, where applicable, an impairment test of the investment stake in THALES. We have verified that the accounting methods cited above are appropriate, and we can express our assurance that they have been correctly applied.

Provisions for Contingencies and Charges

Our work consisted in particular in assessing the data and assumptions used to determine the estimated provisions for contingencies and charges, as described in Notes 1-B8 and 14 to the financial statements, reviewing the calculations performed by the Company and examining the procedures adopted by Management to approve such estimates. On this basis, we assessed the reasonableness of these estimates.

Multi-Annual Contracts

For multi-annual contracts, the Company's income relating to service provisions is calculated according to the completion method, as described in Note 1-B11 to the financial statements. On the basis of data available to date, our work consisted of assessing the data and the assumptions drawn up by Management, and on which they based their estimates of the profit/loss on completion of those contracts and their trends, reviewing the calculations made, and comparing the estimates made in previous years with the actual profits and losses.

These assessments were made as part of our audit of the financial statements taken as a whole, and thus contributed to the opinion we formed which is expressed in the first part of this report.

SPECIFIC VERIFICATIONS AND DISCLOSURES

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

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 documents addressed to shareholders with respect to the financial position and the financial statements.

Concerning the information provided in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code relating to remunerations and benefits received by the corporate officers and any other commitments made in their favor, we have verified that they are consistent 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 companies controlling your company or that are controlled by it. Based on this work, we certify the accuracy and fair presentation of this information.

In accordance with French law, we have ensured that the required information concerning equity stakes, takeovers and the identity of holders of capital and voting rights has been properly disclosed in the management report.

Courbevoie and Neuilly-sur-Seine, March 7, 2017

The Statutory Auditors

Mazars	Deloitte & Associés
Manuela Baudoin-Revert	Jean-François Viat

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users.
The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.
This report also includes information relating to the specific verifications of information given in the management report and in the documents addressed to shareholders.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

STATUTORY AUDITORS' REPORT PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE (CODE DE COMMERCE) ON THE CHAIRMAN'S REPORT

Year ended December 31, 2016

Dear Shareholders,

In our capacity as Statutory Auditors of Dassault Aviation and in accordance with the provisions of Article L. 225-235 of the French Commercial Code, we hereby present our report on the report prepared by the Chairman of your company in accordance with the provisions of Article L. 225-37 of the French Commercial Code for the fiscal year ended December 31, 2016.

It is the Chairman's responsibility to prepare and submit for approval by the Board of Directors a report on the internal control and risk management procedures implemented within the Company, and providing the other disclosures required by Article L. 225-37 of the French Commercial Code, particularly in terms of corporate governance.

It is our responsibility:

- to report to you our observations on the disclosures contained in the Chairman's report with respect to the internal control and risk management procedures relating to the preparation and processing of accounting and financial information, and
- to certify that the report contains the other disclosures required by Article L. 225-37 of the French Commercial Code, it being specified that we are not responsible for verifying the sincerity of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report with respect to the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based, as well as the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our assignment are properly disclosed in the Chairman's report.

On the basis of this work, we have nothing to report on the information with respect to the Company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the Chairman's report, prepared in accordance with Article L. 225-37 of the French Commercial Code.

Other Disclosures

We hereby certify that the Chairman's report includes the other disclosures required by Article L. 225-37 of the French Commercial Code.

Courbevoie and Neuilly-sur-Seine, March 7, 2017,

The Statutory Auditors

Mazars	Deloitte & Associés
Manuela Baudoin-Revert	Jean-François Viat

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STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS

General Meeting to approve the financial statements for the fiscal year ended December 31, 2016

Dear Shareholders,

In our capacity as Statutory Auditors of your Company, we are submitting our report on regulated agreements and commitments.

It is our responsibility to inform you, on the basis of the information provided to us, of the features, essential conditions and the reasons that justify the interest for the Company, in the agreements and commitments of which we have been informed or which we discovered during our audit engagement, without having to issue an opinion on their usefulness or appropriateness, or to look for the existence of other agreements and commitments. It is your responsibility, pursuant to Article R. 225-31 of the French Commercial Code, to assess the interest attached to the performance of these agreements and commitments for the purpose of their approval.

Moreover, it is our duty, where applicable, to provide you with the information specified in Article R. 225-31 of the French Commercial Code relating to the performance, during the past year, of agreements and commitments already approved by the General Meeting.

We have performed those procedures that we considered necessary in terms of professional standards issued by the National Order of Accountants in France *(Compagnie Nationale des Commissaires aux Comptes)* relating to this audit engagement. Those standards require that we check that the information provided to us is consistent with the relevant source documents.

AGREEMENTS AND COMMITMENTS SUBMITTED TO THE GENERAL MEETING FOR APPROVAL

Agreements and commitments authorized over the past fiscal year

In accordance with Article L. 225-40 of the French Commercial Code, we have been informed of the following agreements that were subject to the prior approval of your Board of Directors.

WITH GROUPE INDUSTRIEL MARCEL DASSAULT (GIMD), MAJORITY SHAREHOLDER OF DASSAULT AVIATION

Persons concerned

Messrs. Serge DASSAULT (Director), also Chairman and member of the Supervisory Board of GIMD, Charles EDELSTENNE (Director), also CEO and member of the Supervisory Board of GIMD, and Mr. Olivier DASSAULT, and Mrs Nicole DASSAULT and Marie-Hélène HABERT (Directors), also members of the Supervisory Board of GIMD.

Type and purpose

DASSAULT AVIATION has rented from GIMD an office building (Le Vinci) under the scope of a lease negotiated at a rent comparable with market rentals, which came into force on March 11, 2016.

Terms and conditions

On March 9, 2016 your Board of Directors pre-authorized the signing of the aforementioned lease between GIMD and DASSAULT AVIATION. This lease was signed on the same day.

Its main terms and conditions are as follows:

- a fixed term of 12 years, in derogation of general law;
- a surface area of 5,181m² as well as 121 underground parking spaces and 14 outside parking spaces;
- a rental/rent of €1,430,000 euros per year excluding charges, payable quarterly in advance;
- a guarantee deposit of 3 months' rent.

Rental expenses under this lease totaled €1,155,000 excluding tax in 2016. Furthermore, your company paid GIMD an additional sum of €357,500 as guarantee deposit.

Reasons justifying your Company's interest in this agreement

The board of Directors considered that the conclusion of the lease was in the interest of the Company given that these premises are located very close to the Saint-Cloud 2000 office complex, and that they are able to accommodate the new staff required by the RAFALE Export contracts on the Saint-Cloud site.

WITH AIRBUS GROUP SAS, A SHAREHOLDER OF DASSAULT AVIATION HOLDING MORE THAN 10% OF THE VOTING RIGHTS

Persons concerned

AIRBUS GROUP SAS, a legal entity, which held more than 10% of the voting rights of DASSAULT AVIATION up to the date of signing the agreement.

Type and purpose

Contract for the acquisition by DASSAULT AVIATION of 502,282 of its own shares (representing 5.51% of its capital) at the same time as a private investment transaction by AIRBUS GROUP SAS on the equities market for DASSAULT AVIATION shares and bonds issued by AIRBUS GROUP SAS and exchangeable into DASSAULT AVIATION shares.

Terms and conditions

On June 3, 2016, your Board of Directors pre-authorized the signing of the aforementioned contract of sale between DASSAULT AVIATION and AIRBUS GROUP SAS. This contract was signed on June 9, 2016.

As per this contract, the sale price provided for in the contract was capped at the price of investment, subject to the completion of all or part of the intended transaction by AIRBUS GROUP SAS no later than June 21, 2016.

On June 10, 2016, DASSAULT AVIATION purchased from AIRBUS GROUP SAS the 502,282 shares at the unit price of EUR 950 euros per share in accordance with the contract of sale (i.e. a total sum of €477,167,900) ; the settlement of this transaction took place on June 14, 2016.

Reasons justifying your Company's interest in this agreement

The Board of Directors considers that this transaction, financed by DASSAULT AVIATION's cash flow and falling within the scope of the divestment announced by DASSAULT AVIATION's AIRBUS GROUP SAS, supports the enlargement of DASSAULT AVIATION's free float of shares whilst regulating it, and establishes the distribution of capital between DASSAULT AVIATION's shareholders after the shares thus acquired have been canceled.

AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE GENERAL MEETING

Agreements and commitments approved in previous fiscal years which continued over the past fiscal year

In accordance with Article R. 225-30 of the French Commercial Code, we were informed that the performance of the following agreements and commitments, already approved by the General Meeting in previous fiscal years, continued during the past fiscal year.

WITH GROUPE INDUSTRIEL MARCEL DASSAULT (GIMD), MAJORITY SHAREHOLDER OF DASSAULT AVIATION

Persons concerned

Messrs. Serge DASSAULT (Director), also Chairman and member of the Supervisory Board of GIMD, Charles EDELSTENNE (Director), also CEO and member of the Supervisory Board of GIMD, and Mr. Olivier DASSAULT, and Mrs. Nicole DASSAULT and Marie-Hélène HABERT (Directors), also members of the Supervisory Board of GIMD.

Type and purpose

DASSAULT AVIATION has continued to rent from GIMD a certain number of premises, land and industrial facilities under commercial leases that came into force on January 1, 2009.

Terms and conditions

Rental expenses under these leases totaled €34,799,311.87 excluding tax in 2016. As the aforementioned rentals were lower than in 2015, owing to the fall in the benchmark indices used for certain rentals, GIMD refunded a sum of €353,727.47 to DASSAULT AVIATION by way of guarantee deposit.

REGARDING ALL EXECUTIVES AND CORPORATE OFFICERS OF YOUR COMPANY

Type and purpose

An "Executives and Corporate Officers Liability" insurance policy was taken out with AXA GLOBAL RISKS, now called AXA CORPORATE SOLUTIONS, with effect from July 1, 1999. A second line of coverage was taken out with ZURICH with effect from January 1st, 2015, in excess of the first line.

In 2016, these policies covered all executives and corporate officers of your Company and its subsidiaries up to an annual coverage amount of €50,000,000, of which €25,000,000 was under the first line of coverage and €25,000,000 under the second.

Terms and conditions

The total amount of annual premiums in 2016 was €147,182.70 including tax, of which €91,336.55 was under the first line of coverage and €55,846.15 under the second.

Agreements and commitments approved in previous fiscal years, not performed over the past fiscal year

We were also informed of the following commitments, already approved by the General Meeting of May 19, 2016 on the Statutory Auditors' Special Report of March 9, 2016, which have not been performed during the past year.

REGARDING MR. ERIC TRAPPIER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Type and purpose

Continued benefit from the supplementary pension plan for the senior executives of your Company, benefitting the Chairman and Chief Executive Officer.

Terms and conditions

Upon reinstatement of his employment contract (contract suspended), Mr. Eric TRAPPIER will benefit from the group supplementary defined benefits pension plan for senior executives of the Company.

This supplementary pension plan is intended for executives of your Company with at least 10 years' service and still working for your Company at the time of their retirement, who are at least 60 years old and whose salary is 4 times higher than the Annual Social Security Ceiling (PASS) (i.e. €154,464 euros in 2016). It provides eligible individuals with a tapered replacement rate, all pension plans included, on the basis of compensation (41% to 35%, provided that there is no change in the pensions paid by the State plans). The additional annual income provided, calculated on the basis of the average gross annual compensation of corporate officers over the last three years, is capped at 10 times PASS (i.e. €386,160 euros in 2016).

This supplementary pension plan, based on their compensation in 2016, would provide, if all the conditions were fulfilled, an additional annual income of €381,000, representing 26% of their fixed gross compensation.

REGARDING MR. LOÏK SEGALEN, CHIEF OPERATING OFFICER

Type and purpose

Continued benefit from the supplementary pension plan for the senior executives of your Company, benefitting the Chief Operating Officer.

Terms and conditions

Upon reinstatement of his employment contract (contract suspended), Mr. Loïk SEGALEN will benefit from the group supplementary defined benefits pension plan for senior executives of your

Company, the main characteristics of which are set out in paragraph II.2.a above.

Based on his compensation in 2016, this supplementary pension plan, if all the conditions were fulfilled, would provide for an additional annual income of €315,000, representing 25% of his fixed gross compensation.

The Combined General Meeting of May 19, 2016 approved the continuation of the benefit of this additional pension plan for Mr. Eric TRAPPIER and Mr. Loïk SEGALEN, following the renewal of their terms of office by the Board of Directors on May 20,2015.

Courbevoie and Neuilly-sur-Seine, March 7, 2017

The Statutory Auditors

Mazars	Deloitte & Associés
Manuela Baudoin-Revert	Jean-François Viat

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