# *2014 HALF-YEAR*

# *FINANCIAL REPORT*

DASSAULT
AVIATION

# Contents


## GENERAL INFORMATION

Declaration of the person responsible for the report 2

Group structure 3

## ACTIVITY REPORT

1 Consolidated results and important events in H1 5

2 Financial structure 7

3 Outlook 7

4 Related-party transactions 8

5 Risk factors and risk management 8

6 Group activities 8

7 Research and development 9

8 New manufacturing and industrial management techniques 10

9 Industrial resources 10

10 Environmental policy 11

11 Health and safety at work 11

12 Human resources 11

13 Conclusion 11

## CONSOLIDATED FINANCIAL STATEMENTS

Financial statements 15

Statutory auditors' report 36

# Declaration of the person responsible for the report

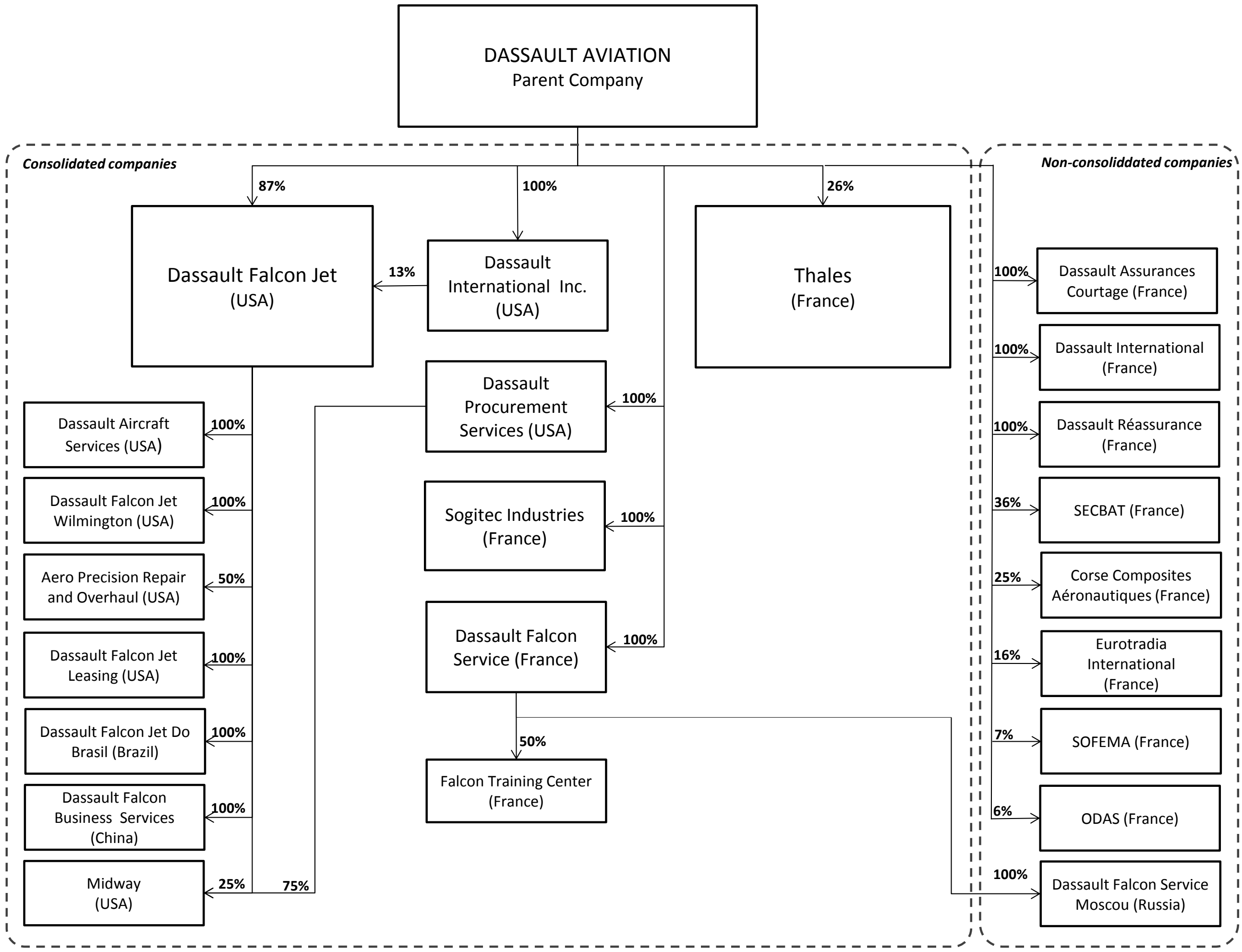
I hereby certify that, to my knowledge, the condensed half-yearly financial statements in this report were prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and income or loss of the Dassault Aviation Group, and that the half-yearly activity report presents a fair representation of the important events of the first six months of the financial year and their effect on the half-yearly financial statements, the main transactions between related parties and a description of the main risks and uncertainties for the remaining six months of the financial year.

Paris, July 24, 2014

Éric Trappier
Chairman and Chief Executive Officer

# Group structure

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




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

# 1. First half-year (H1) consolidated key figures and events

## 1.1 ORDERS

**2014 first half-year orders** amounted to **EUR 1,865 million** compared to EUR 1,410 million in the 2013 first half-year, up by 32%.

Orders booked by the Group were as follows, in **EUR millions**:

| | DEFENSE | | FALCON | Total | % Export |
|---|---|---|---|---|---|
| | France | Export | | | |
| H1 2013 | 89 | 79 | 1,242 | 1,410 | 93% |
| | 12% | | 88% | | |
| **H1 2014** | **130** | **136** | **1,599** | **1,865** | **92%** |
| | **14%** | | **86%** | | |

**FALCON programs**

**38 new FALCON** aircraft were ordered in the first half of 2014. This compares to 27 FALCON aircraft in the first half of 2013.

**DEFENSE programs**

DEFENSE orders corresponded to the development and Maintenance and Operational Support Program (MCO) Support Package. Orders were up by 58% compared to the 2013 first half-year, largely due to the signing of a contract of MCO of MIRAGE 2000 France and after-sales related to the United Arab Emirates MIRAGE 2000-9.

## 1.2 NET SALES

**Consolidated sales** for the first half of 2014 were EUR 1,514 million, a decrease of 17% compared to EUR 1,826 million for the first half of 2013.

**76%** of sales were exports.

The trends of consolidated net sales were as follows, **in EUR millions**:

| | DEFENSE | | FALCON | Total | % Export |
|---|---|---|---|---|---|
| | France | Export | | | |
| H1 2013 | 411 | 86 | 1,329 | 1,826 | 74% |
| | 27% | | 73% | | |
| **H1 2014** | **353** | **118** | **1,043** | **1,514** | **76%** |
| | **31%** | | **69%** | | |

**FALCON programs**

FALCON net sales decreased by 22% compared to last year same period. **25 FALCON were delivered in the 2014 first half-year** compared to 29 in the 2013 first half-year.

The FALCON "book to bill" (order intake/deliveries ratio) reached 1.52 in the 2014 first half-year.

FALCON net sales represented 69% of consolidated net sales in the first half of 2014.

**DEFENSE programs**

**5 RAFALE** were delivered to French Air Force and Navy in the 2014 first half-year, as in 2013 first half-year.

DEFENSE France net sales showed a downturn of 14%, due, more particularly, to the partial invoicing of the nEUROn program in the 2013 first half-year.

DEFENSE Export net sales improved by 37% because of an increase in after-sales for United Arab Emirates and India.

## 1.3 BACKLOG

As of June 30th, 2014, consolidated backlog amounted to **EUR 7,612 million** compared to EUR 7,379 million as of December 31st, 2013, representing an increase of 3%, related to the FALCON "book to bill" ratio which is higher than 1.

## 1.4 PERFORMANCE FOR THE FIRST HALF OF 2014 - ADJUSTED DATA

### 1.4.1 Preamble

To reflect the actual economic performance of the Group, and for monitoring and comparability reasons, the DASSAULT AVIATION Group has prepared **an adjusted income statement**. The consolidated income statement of the Group is therefore adjusted:

- by neutralizing the amortization of the THALES purchase price allocation (PPA),
- by neutralizing the change in fair value of derivative exchange instrument which do not qualify for hedge accounting.

Since the end of 2013, the Group's financial reporting includes its share of income from THALES based on the adjusted income of THALES. The adjusted statements for the first half of 2013 have been corrected to reflect this change.

### 1.4.2 Key data for the first half of 2014 - adjusted data

The following table presents the key data for the first half of 2013 and the first half of 2014 by detailing the **adjusted** aggregates (reconciliation between consolidated income and adjusted income given in the Appendix):

| (EUR thousands) | **H1 2013** | **H1 2014** |
|---|---|---|
| Net sales | 1,826,453 | 1,514,255 |
| Operating Income | 187,480 | 113,208 |
| **Adjusted** financial income | 1,998 | 16,515 |
| **Adjusted** share of income/loss of equity affiliates | 52,412 | 60,760 |
| **Adjusted** corporate income tax charge | - 67,274 | -45,545 |
| **Adjusted net income** | **174,616** | **144,938** |
| *Attributable to the owners of the Parent Company* | *174,604* | 144,927 |
| *Attributable to minority interests* | *12* | 11 |

In the first half of 2014, net adjusted income excluding Thales was EUR 84,201 compared to EUR 122,234 in the first half of 2013.

## 1.5 OPERATING INCOME

2014 first half-year **operating income** reached **EUR 113 million** compared to EUR 187 million in the 2013 first half-year, down by 40%.

The operating margin rate stood at **7.5%** compared to 10.3% in the 2013 first half-year.

The continuation of a high self-funded Research and Development level combined with the decrease of the net sales and a less favorable currency hedging (1.27$/€ vs. 1.24$/€) explains, for the most part, the deterioration of the operating margin.

## 1.6 ADJUSTED FINANCIAL INCOME

In the 2014 first half-year, adjusted financial income amounted to EUR 17 million, compared to EUR 2 million in the 2013 first half-year. In particular, the Group made a profit of EUR 10 million on the sale of some available-for-sale marketable securities in the 2014 first half-year.

## 1.7 ADJUSTED NET INCOME

2014 first half-year **adjusted net income (excluding THALES)** stood at **EUR 84 million** compared to EUR 122 million in the 2013 first half-year.

The **adjusted** net margin rate **(excluding THALES)** reached **5.6%,** compared to 6.7% in the 2013 first half-year.

THALES adjusted contribution to the Group net income, before amortization of Purchase Price Allocation, amounted to EUR 61 million in the 2014 first half-year compared to EUR 53 million in the 2013 first half-year.

2014 first half-year **adjusted net income** stood at **EUR 145 million** compared to EUR 175 million in the 2013 first half-year, down by 17%.

The **Adjusted** net margin rate reached **9.6%,** as in the 2013 first half-year.

*In terms of IFRS standards, net income for the first half of 2014 stood at EUR 220 million compared to EUR 135 million for the first half of 2013.*

## 1.8 SEGMENT REPORTING

IFRS 8 "Operational segments" requires information to be presented according to internal management criteria. The business activities of DASSAULT AVIATION Group are wholly connected to the aviation sector. The internal reporting to the Chairman and CEO, and to the Chief Operating Officer, which is used for strategy and decision-making purposes, does not analyze performance (within the meaning of the IFRS 8) at a more detailed level than the aforesaid sector.

# 2. Financial structure

## 2.1 CASH

The Group uses its own indicator, referred to as "Available cash", which reflects the Group's total liquidities minus any financial debt. It covers the following balance sheet headings:

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

**Consolidated available cash** was **EUR 3,147 million as of June 30th, 2014** compared to EUR 3,708 million as of December 31st, 2013, down by EUR 561 million.

This decrease is mainly due to an increase in working capital (EUR -586 million, consequence of the rise in inventories and work-in-progress), the dividends payout (EUR -90 million), partially offset by the half-year consolidated net cash from operating activities (EUR +127 million).

The Group has no significant risk in relation to its marketable securities. The Group's portfolio of marketable securities mainly comprises money market investments and guaranteed investments.

## 2.2 BALANCE SHEET

The Group has no structural bank debt. The financial liabilities shown on the consolidated balance sheet include, inter alia, locked-in employee profit-sharing funds.

As at June 30, 2014, inventories and work-in-progress amounted to EUR 3,083 million, with customer advances and progress payment on work-in-progress amounting to EUR 2,227 million.

The provision for retirement benefits amounted to EUR 426 million at June 30, 2014 compared with EUR 382 million at December 31, 2013. This change is mainly due to the lower discount rate applied to such schemes in France.

# 3. Outlook

In 2014, DASSAULT AVIATION Group expects to deliver around 70 FALCON and 11 RAFALE. 2014 net sales should be lower than 2013 net sales.

# 4. Related-party transactions

At June 30, 2014, the related parties were identical to those reported at 31 December, 2013, and the transactions that occurred over the six months were of an identical type.

# 5. Risk factors and management

For the remaining six months of the financial year, the Group will be exposed to main risks and uncertainties that are identical to those stated in Section 1.5 of Director's Report published in the 2013 Annual Financial Report.

# 6. Group activities

## 6.1 PROGRAM DEVELOPMENTS

***FALCON programs:***

Highlights in the first half of 2014 were:

- in May, the launch of FALCON 8X at the European Business Aviation Convention & Exhibition (EBACE) in Geneva to supplement our sales offer. Its features include a 12,000 km (6,450 nm) range, the longest passenger cabin of all FALCON aircraft and low running costs. General assembly has begun at Mérignac, and its commissioning is scheduled for the end of 2016,

- the continued development of FALCON 5X, whose first fuselage components, manufactured in our facilities at Argenteuil, Biarritz and Seclin, were assembled at Biarritz,

- the continuation of the expansion and modernization work at the Little Rock (USA) site of DASSAULT FALCON JET,

- the 250th FALCON 7X leaving the Mérignac plant.

***DEFENSE programs:***

Highlights of the RAFALE program in the first half of 2014 were:

- the start of F3-R standard development, following the notification of the market at the end of 2013; this standard, to be delivered in 2018, includes, inter alia, the METEOR long range air-to-air missile, the New-Generation Laser Designator Pod (PDL – NG) and the modular air-to-ground weapon with terminal laser guidance (AASM),

- the continuation of exclusive negotiations with the Indian authorities and Indian industrial partners to finalize the contract for 126 RAFALE,

- the continuation of the prospection and promotion efforts in other countries,

Noteworthy highlights in relation to other military aircraft programs include:

- the continuation of work and testing to upgrade the Indian MIRAGE 2000,

- the continuation of work to develop and renovate the standards of the ATLANTIQUE 2 combat system,

- the delivery of the second FALCON 50 SURMAR to the DGA (Direction Générale de l'Armement - French Defense Procurement Agency) and the operational commissioning of the first plane by the French Navy,

- regarding UCAVs (Unmanned Combat Air Vehicles):

  - the successful clearance of the flight envelope of the UCAV nEUROn demonstrator and, in Istres, starting to flight test its embedded sensor,

  - the launch, by French and British governments, and under the scope of the Lancaster House Treaty, of a feasibility phase to jointly prepare a potential demonstration program for a Future Combat Air System (FCAS). During this 24-month phase, DASSAULT AVIATION and BAE SYSTEMS will act as the lead contractors of an industrial set-up that includes SAFRAN, ROLLS-ROYCE, THALES and SELEX,

- regarding UAV (Unmanned Air Vehicles), MALE (Medium Altitude Long Endurance): the finalization of discussions with our partners AIRBUS DEFENCE AND SPACE and ALENIA/AERMACCHI. An update to our joint proposal was submitted to the French, German and Italian Ministries of Defense regarding the definition phase of the European MALE drone program.

In the space sector, we received an order for a new tranche of pyrotechnical equipment for 18 new ARIANE 5 launchers.

### 6.2 AFTER-SALES

In the first half of 2014, we:

- continued to extend our FALCON after-service network, by agreeing to a new service station in Istanbul,

- conducted 9 information and exchange seminars worldwide with our FALCON clients and operators.

Regarding military after-sales, we:

- set up a group of manufacturers (with TARMAC, DCI, THALES and SAFRAN) to answer requests for information from the French Government in relation to the dismantling of military aircraft whose service lives are over,

- started a Major Inspection program on Egyptian MIRAGE 2000,

- pursued several different negotiations in the Middle East regarding a Major Inspection program for the maintenance of MIRAGE 2000s and ALPHA-JET,

- also, and in the area of exports, held discussions regarding global support contracts for MIRAGE 2000, equivalent to the French "RAFALE CARE" In-Service Support Package.

## 7. Research & Development

Most of our research and development focused on FALCON 5X, FALCON 8X, as recently announced at the EBACE fair, and the F3-R RAFALE standard.

Apart from these major programs, we are continuing with the self-financed "Futur FALCON à Technologies Innovantes" plan ("FALCON Future with Innovative Technologies"). Some of this work has received either French aid for civil aviation or support from the European CLEAN SKY Joint Technology Initiative.

Noteworthy events included:

- preparatory work for the definition of the future FALCON system (architecture, advanced cockpit functions, etc.),

- the development of a composite wing-box demonstrator,

- studies and modeling for new cabin fitting concepts.

We are preparing our participation in the CLEAN SKY 2 research program and the first appeal for collaborative projects under the scope of the European Framework Programme for Research H2020.

We are extending our participation in three demonstration platforms initiated by the Conseil d’Orientation de la Recherche de l’Aéronautique Civile (CORAC, Strategic Committee for Aviation Research) and proposed under the second phase of the Future Investment Programme.

In terms of the military, we are preparing the Future Combat Air System (FCAS), structured around 2 areas:

- a UCAV component, focusing primarily on the work prior to the launch of a Franco-British demonstration program,

- a piloted aircraft component, to prepare the future developments of RAFALE (F4 and MLU).

We continued our work to achieve protection via anodic oxidation of sulfur, under the scope of the Replacement of Chromium (VI) plan.

## 8. New industrial manufacturing and management techniques

We are continuing the development of composites:

- as part of the actions initiated by CORAC, we are studying a demonstrator for a composite wing box for business aircraft,

- we use fiber placement technology to manufacture the composite parts on our new FALCON 5X aircraft.

In the area of metallic materials, we are continuing our work to automate the forming of machined panels with a view to using low density aluminum alloys.

We are using robotized assemblies both for wings and fuselages, with the implementation of the friction-stir welding process (FSW) for some FALCON 5X components.

In terms of primary parts, in order to improve our impact on the environment:

- we are replacing chemical-based methods by mechanical machining processes,

- we are developing and qualifying new chrome-free surface treatment processes in order to satisfy in advance the future requirements of European REACh regulations.

In all our production establishments, we are continuing to implement IRP (Improving Responsiveness in Production) projects, which aim to improve working conditions (especially reducing stress in work environments), as well as focusing on quality, flexibility, and gaining a competitive edge.

We are continuing to deploy our corporate digitization policy and are adopting a Product Lifecycle Management (PLM) system, thereby keeping us technologically ahead of the game.

To achieve this:

- we are using new collaborative processes enabling the coordination of all program stakeholders (both inside and outside the company),

- we are industrializing FALCON 5X with the new PLM V6 version of DASSAULT SYSTEMES

- we are developing production-line processes placing production-line or control operators in an environment that meets their needs.

Finally, to improve control over and the efficacy of our Supply Chain we are improving exchanges with our suppliers by adopting trade standards such as AIR SUPPLY for all collaborative exchanges in relation to procurement orders and logistics.

## 9. Production facilities

During the first half of 2014, our in-service support, automation and adaptation of our production facilities were illustrated by:

- the operational release of:

  - Phase 2 of a Resin Transfer Molding (RTM) installation for the manufacturing of composites at Biarritz,

  - Phase 2 of the robot cell for wing assembly on FALCON 5X at Martignas.

- the ordering of:

  - a cold spray metal bonding robot in Argenteuil,

  - a grit-blasting robot for large parts in Seclin,

  - a digitally controlled correction machine in Argonay,

  - two booths for paint and the application of sealant compounds in Argenteuil.

- the acquisition of land in Mérignac as part of a cooperation agreement signed with SABENA TECHNICS. This land provides access to the runways and will allow DASSAULT FALCON SERVICE to develop its FALCON 7X maintenance offer, as the facilities in Le Bourget are saturated.

## 10. Environmental policy

We have continued to implement environmental actions in accordance with our "Eco-approach 2021" plan.

We are continuing to develop life cycle analyses for our industrial sectors and the products we manufacture, in compliance with the objectives stipulated in the plan. After the initial life-cycle analysis for FALCON 2000, we launched another in relation to FALCON 7X.

Studies on the replacement of hazardous substances to control statutory obsolescence in the future are underway.

We launched a project to extend our ISO 14001 Management System to ISO 50001, for energy management, following the energy pre-analysis carried out in 2013.

The environmental evaluation of our suppliers is now operational. A second phase has begun internationally to standardize our practices.

## 11. Health and Safety at Work

In compliance with our Total Quality Policy, we are rolling out an ambitious action plan in all the Company's facilities to reduce occupational risks and improve working conditions.

This action plan is based, inter alia, on the development of a culture of prevention within the company and on the integration of ergonomics into the design and upgrading of workstations.

## 12. Human Resources

The Group's workforce stood at 11,637 as at June 30, 2014.

## 13. Conclusion

After the launch of FALCON 5X in October 2013, we unveiled FALCON 8X in May 2014. Self-financing rose sharply despite the crisis, in anticipation of client needs and a highly innovative market. Our range now offers six business jets.

On a military level, budgetary constraints in France continue to weigh heavily on capital expenditure. However, during his visit to Bordeaux and Istres last June last year, the French Minister of Defense restated the strategic role of combat aircraft for the sovereignty of France.

He emphasized the impact on the capacity of the French army, as well as the implication for jobs and strategic skills in France.

In terms of RAFALE, exports will guarantee the long-term sustainability of the program whose credibility is underpinned by its French foundations, and which includes the ongoing development of the F3-R standard.

We are extremely active in India and are endeavoring, with our French and Indian partners, to finalize a contract for 126 RAFALE jets as soon as possible.

We remain highly committed to other potential projects.

In terms of drones, the nEUROn is continuing its successful flight testing.

Moreover, DASSAULT AVIATION and BAE SYSTEMS are extremely pleased with the launch, by the French and British governments, of the feasibility phase to jointly prepare a potential demonstration program for a Future Combat Air System (FCAS), under the scope of the Lancaster House Treaty.

In the area of MALE 2020 (Medium-Altitude Long-Endurance) surveillance drones, together with AIRBUS DEFENCE & SPACE and ALENIA we have put forward a proposal for a joint European MALE program and have delivered tenders, with a sharing of tasks, to the German, Italian and French governments.

Consequently, we must continue to work hard to sell and deliver RAFALE and FALCON aircraft, maintaining high quality and productivity levels while pursuing innovation.

*The Board of Directors*

## *Appendix*: Reconciliation of consolidated income with adjusted income

**The impact in the 2014 first half-year** of the change in fair value of hedging instruments adjustments, the THALES PPA amortization, and THALES adjustments (for its share) on income statement is detailed below:

| (EUR thousands) | 2014 1st half-year Consolidated data | THALES PPA amortization (1) | THALES adjustments | Change in fair value of derivative exchange instruments (2) | 2014 1st half-year Adjusted data |
|---|---|---|---|---|---|
| Financial income / expense | 93,750 | | | - 77,235 | 16,515 |
| Share of income of equity affiliates | 85,409 | 23,843 | - 48,492 | | 60,760 |
| Income tax | - 72,137 | | | 26,592 | - 45,545 |
| Net income | 220,230 | 23,843 | - 48,492 | -50,643 | **144,938** |

**The impact in the 2013 first half-year** of the change in fair value of hedging instruments adjustments, the THALES PPA amortization, and THALES adjustments (for its share) on income statement is detailed below:

| (EUR thousands) | 2013 1st half-year Consolidated data | THALES PPA amortization (1) | THALES adjustments | Change in fair value of derivative exchange instruments (2) | 2013 1st half-year Adjusted data |
|---|---|---|---|---|---|
| Financial income / expense | - 799 | | | 2,797 | 1,998 |
| Share of income of equity affiliates | 14,329 | 28,269 | 9,814 | | 52,412 |
| Income tax | - 66,311 | | | - 963 | - 67,274 |
| Net income | 134,699 | 28,269 | 9,814 | 1,834 | **174,616** |

(1) neutralization of THALES Purchase Price Allocation (PPA) amortization, net of income tax.
(2) neutralization of the change in fair value, net of income tax, of derivative exchange instruments which do not qualify for hedge accounting under the specific rules of IAS 39 «Financial Instruments».

Readers are reminded that only the consolidated financial statements are reviewed by the Group's statutory auditors. Adjusted financial data are subject to the verification procedures applicable to all of the information provided in this press release.

DASSAULT
AVIATION

# INTERIM CONDENSED CONSOLIDATED STATEMENTS

# AS AT JUNE 30, 2014

## ASSETS

| (in EUR thousands) | Notes | 06.30.2014 | 12.31.2013 (1) | 01.01.2013 (1) |
|---|---|---|---|---|
| Goodwill | | 14,366 | 14,366 | 14,366 |
| Intangible assets | | 29,336 | 29,241 | 38,612 |
| Tangible assets | | 376,504 | 384,231 | 405,563 |
| Equity affiliates (1) | 3 | 1,688,742 | 1,659,608 | 1,630,817 |
| Available-for-sale securities | 3, 5, 12 | 2,943,677 | 3,126,501 | 3,262,814 |
| Other financial assets | | 33,871 | 34,682 | 34,359 |
| Deferred tax assets | 3 | 175,506 | 192,132 | 197,896 |
| **TOTAL NON-CURRENT ASSETS** | | **5,262,002** | **5,440,761** | **5,584,427** |
| Inventories and work-in-progress | 3 | 3,083,086 | 2,686,520 | 2,916,905 |
| Trade and other receivables | 3 | 560,537 | 550,732 | 489,955 |
| Advances and progress payments to suppliers | | 69,519 | 78,839 | 184,868 |
| Derivative Financial instruments | 12 | 362,723 | 311,558 | 247,894 |
| Cash and cash equivalents | 5, 12 | 740,087 | 983,230 | 950,416 |
| **TOTAL CURRENT ASSETS** | | **4,815,952** | **4,610,879** | **4,790,038** |
| **TOTAL ASSETS** | | **10,077,954** | **10,051,640** | **10,374,465** |

## LIABILITIES AND EQUITY

| (in EUR thousands) | Notes | 06.30.2014 | 12.31.2013 (1) | 01.01.2013 (1) |
|---|---|---|---|---|
| Share capital | | 81,007 | 81,007 | 81,007 |
| Reserves and consolidated retained earnings (1) | | 5,190,887 | 5,124,047 | 4,697,423 |
| Foreign exchange differences | | -94,014 | -109,874 | -48,107 |
| **TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY** | | **5,177,880** | **5,095,180** | **4,730,323** |
| Non-controlling interests | | 350 | 339 | 308 |
| **TOTAL EQUITY** | | **5,178,230** | **5,095,519** | **4,730,631** |
| Long-term loans and financial debts | 4, 5 | 201,231 | 205,288 | 263,539 |
| Deferred tax liabilities | | 0 | 0 | 0 |
| **TOTAL NON-CURRENT LIABILITIES** | | **201,231** | **205,288** | **263,539** |
| Trade and other payables | | 724,192 | 825,912 | 768,168 |
| Tax and employee-related liabilities | | 241,881 | 262,102 | 242,492 |
| Customer advances and progress payments on work-in-progress | | 2,226,804 | 2,293,925 | 3,043,088 |
| Short-term loans and financial debts | 4, 5 | 194,428 | 62,896 | 58,240 |
| Current provisions | 4 | 1,311,188 | 1,305,998 | 1,268,307 |
| **TOTAL CURRENT LIABILITIES** | | **4,698,493** | **4,750,833** | **5,380,295** |
| **TOTAL LIABILITIES** | | **10,077,954** | **10,051,640** | **10,374,465** |

(1) restated from the impact of the combined application of IFRS 11 and IAS 28R requirements. See accounting principles, Note 1.3.

## INCOME STATEMENT

| (in EUR thousands) | Notes | 2014 H1 | 2013 H1 | 2013 |
|---|---|---|---|---|
| **NET SALES** | 6 | **1,514,255** | **1,826,453** | **4,592,966** |
| Other revenue | | 21,744 | 20,047 | 39,473 |
| Changes in inventories of finished goods and work-in-progress | | 251,113 | 257,507 | -147,041 |
| External purchases | | -1,077,219 | -1,230,378 | -2,622,730 |
| Payroll and related charges (1) | | -544,609 | -579,205 | -1,079,246 |
| Taxes and social security contributions | | -31,047 | -29,480 | -64,550 |
| Depreciation and amortization | | -32,495 | -34,768 | -75,847 |
| Charges to provisions | | -640,396 | -654,973 | -997,672 |
| Reversals of provisions | | 640,455 | 612,553 | 859,781 |
| Other operating income and expenses | | 11,407 | -276 | -6,635 |
| **OPERATING INCOME** | 7 | **113,208** | **187,480** | **498,499** |
| Income from cash and cash equivalents | | 3,853 | 4,717 | 8,510 |
| Cost of gross financial debt | | -3,365 | -4,467 | -6,988 |
| Financial income and expenses | | 93,262 | -1,049 | 86,043 |
| **NET FINANCIAL INCOME/EXPENSE** | 8 | **93,750** | **-799** | **87,565** |
| Share in net income of equity affiliates | 3 | 85,409 | 14,329 | 77,945 |
| Income tax | 9 | -72,137 | -66,311 | -204,557 |
| **NET INCOME** | | **220,230** | **134,699** | **459,452** |
| *Attributable to the owners of the Parent Company* | | *220,219* | *134,687* | *459,421* |
| *Attributable to non-controlling interests* | | *11* | *12* | *31* |
| **Basic earnings per share (in EUR)** | 10 | **21.7** | **13.3** | **45.4** |
| **Diluted earnings per share (in EUR)** | 10 | **21.7** | **13.3** | **45.4** |

(1) Payroll and related charges include incentives schemes and profit-sharing (EUR 42,545 thousand over H1 2014, EUR 65,990 thousand over H1 2013 and EUR 111,777 thousand for 2013 as a whole).

## STATEMENT OF RECOGNIZED INCOME AND EXPENSE

| (in EUR thousands) | Notes | 2014 H1 | 2013 H1 | 2013 |
|---|---|---|---|---|
| **NET INCOME (1)** | | **220,230** | **134,699** | **459,452** |
| Changes in the fair value of financial instruments: | | | | |
| ✓ Available-for-sale financial assets | 3 | 4,517 | 16,756 | 4,503 |
| ✓ Hedging instruments (1) | 3, 12 | -26,070 | -50,725 | -8,964 |
| Corresponding deferred taxes | 3, 9 | 7,413 | 14,154 | 2,239 |
| Foreign exchange differences | | 5,618 | 4,716 | -25,638 |
| Equity affiliates items to be recycled to income, net | 3 | 1,572 | -17,344 | -24,159 |
| **Items to be recycled to income** | | **-6,950** | **-32,443** | **-52,019** |
| Actuarial adjustments on defined benefit obligations | 4 | -32,198 | 10,353 | 39,325 |
| Corresponding deferred taxes | 3, 9 | 5,114 | -2,028 | -9,982 |
| Equity affiliates items not to be recycled to income, net | 3 | -28,630 | 19,438 | -8,325 |
| **Items not to be recycled to income** | | **-55,714** | **27,763** | **21,018** |
| **INCOME AND EXPENSE RECOGNIZED DIRECTLY THROUGH EQUITY** | | **-62,664** | **-4,680** | **-31,001** |
| **RECOGNIZED INCOME AND EXPENSE** | | **157,566** | **130,019** | **428,451** |
| *Attributable to the owners of the Parent Company* | | *157,555* | *130,007* | *428,420* |
| *Attributable to non-controlling interests* | | *11* | *12* | *31* |

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

## STATEMENT OF CHANGES IN EQUITY

Changes in equity are detailed in the table below, where:

- The heading "share capital" represents the share capital of the parent company, DASSAULT AVIATION.
- The heading "Additional paid-in capital, consolidated retained earnings and other reserves" includes capital reserves (additional paid-in capital), legal reserves, the net income for the year and the net actuarial adjustments on defined benefit obligations,
- The heading "Hedging instruments and available-for-sale securities" covers post-tax changes in the fair value of available-for-sale financial assets and hedging instruments which qualify for hedge accounting.
- The heading "Foreign exchange differences" records the exchange differences arising from the translation of the financial statements of subsidiaries outside the euro zone.

| (in EUR thousands) | Share capital | Reserves and consolidated retained earnings | | Foreign exchange differences | Total attributable to the owners of the parent company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| | | Additional paid-in capital (1), consolidated retained earnings and other reserves | Hedging instruments and available-for-sale securities | | | | |
| **As published at Jan 1, 2013** | **81,007** | **3,940,806** | **773,495** | **-48,107** | **4,747,201** | **308** | **4,747,509** |
| Restatements | | -16,878 | | | -16,878 | | -16,878 |
| **As restated at Jan 1, 2013 (2)** | **81,007** | **3,923,928** | **773,495** | **-48,107** | **4,730,323** | **308** | **4,730,631** |
| *Net income for the period* | | *134,687* | | | *134,687* | *12* | *134,699* |
| *Income and expense recognized directly through equity* | | *27,763* | *-22,109* | *-10,334* | *-4,680* | | *-4,680* |
| Recognized income and expenses | | 162,450 | -22,109 | -10,334 | 130,007 | 12 | 130,019 |
| Dividends paid | | -94,171 | | | -94,171 | | -94,171 |
| Other movements (3) | | 8,695 | | | 8,695 | | 8,695 |
| **As restated at June 30, 2013 (2)** | **81,007** | **4,000,902** | **751,386** | **-58,441** | **4,774,854** | **320** | **4,775,174** |
| **As published at Jan 1, 2014** | **81,007** | **4,357,374** | **783,243** | **-109,874** | **5,111,750** | **339** | **5,112,089** |
| Restatements | | -16,570 | | | -16,570 | | -16,570 |
| **As restated at Jan 1, 2014 (2)** | **81,007** | **4,340,804** | **783,243** | **-109,874** | **5,095,180** | **339** | **5,095,519** |
| *Net income for the period* | | *220,219* | | | *220,219* | *11* | *220,230* |
| *Income and expense recognized directly through equity* | | *-55,714* | *-22,810* | *15,860* | *-62,664* | | *-62,664* |
| Recognized income and expenses | | 164,505 | -22,810 | 15,860 | 157,555 | 11 | 157,566 |
| Dividends paid | | -90,120 | | | -90,120 | | -90,120 |
| Other movements (3) | | 15,265 | | | 15,265 | | 15,265 |
| **As of June 30, 2014** | **81,007** | **4,430,454** | **760,433** | **-94,014** | **5,177,880** | **350** | **5,178,230** |

(1) additional paid-in capital: EUR 19,579 thousand.

(2) restated from the impact of the combined application of IFRS 11 and IAS 28R requirements. See accounting principles, Note 1.3.

(3) This largely consists of changes in treasury shares, employee share issues and THALES share-based payments.

## CASH FLOW STATEMENT

| (in EUR thousands) | Notes | 2014 H1 | 2013 H1 | 2013 |
|---|---|---|---|---|
| **I - NET CASH FROM OPERATING ACTIVITIES** | | | | |
| NET INCOME | | 220,230 | 134,699 | 459,452 |
| Elimination of net income of equity affiliates, net of dividends received | 3 | -40,757 | 18,766 | -30,667 |
| Elimination of gains and losses from disposals of non-current assets | | -9,706 | -176 | 591 |
| Changes in the fair value of hedging instruments | 12 | -77,235 | 2,797 | -72,628 |
| Income tax (including deferred taxes) | 9 | 72,137 | 66,311 | 204,557 |
| Net charges to and reversals of depreciation, amortization and provisions (excluding those relating to working capital) | | 4,915 | 53,068 | 155,741 |
| Other items | | -170 | 0 | 0 |
| **Net cash from operating activities before working capital changes and taxes** | | **169,414** | **275,465** | **717,046** |
| **Income taxes paid** | | **-42,907** | **-83,777** | **-208,989** |
| Change in inventories and work-in-progress (net) | 3 | -396,566 | -237,606 | 230,385 |
| Change in advances and progress payments to suppliers | | 9,320 | -4,428 | 106,029 |
| Change in trade and other receivables (net) | 3 | -9,805 | -89,843 | -60,777 |
| Change in customer advances and progress payments on work-in-progress | | -67,121 | 16,600 | -749,163 |
| Change in trade and other payables | | -101,720 | 32,790 | 57,744 |
| Change in tax and employee-related liabilities | | -20,221 | 12,958 | 19,610 |
| Consolidation reclassifications and restatements | | 547 | -1,432 | -402 |
| **Increase (-) or decrease (+) in working capital** | | **-585,566** | **-270,961** | **-396,574** |
| **Total I** | | **-459,059** | **-79,273** | **111,483** |
| **II - NET CASH FROM INVESTING ACTIVITIES** | | | | |
| Purchases of tangible and intangible assets | | -35,356 | -29,805 | -63,507 |
| Purchases of financial assets | | -357 | -954 | -2,264 |
| Disposals of or reductions in fixed assets | | 22,256 | 12,515 | 14,015 |
| Net cash from acquisitions and sales of subsidiaries | | 0 | 0 | 0 |
| **Total II** | | **-13,457** | **-18,244** | **-51,756** |
| **III - NET CASH FLOW USED IN FINANCING ACTIVITIES** | | | | |
| Net change in available-for-sale marketable securities (at historical cost) | 3 | 189,203 | 176,983 | 139,481 |
| Capital increase | | 0 | 0 | 0 |
| Change in equity items | 4 | 0 | 0 | 0 |
| Increase in loans and financial debts | 4 | 88,517 | 96,723 | 99,840 |
| Decrease in loans and financial debts | | -110,896 | -106,556 | -153,435 |
| Dividends paid during the year | | -90,120 | -94,171 | -94,171 |
| **Total III** | | **76,704** | **72,979** | **-8,285** |
| IV - Foreign exchange rate fluctuations **Total IV** | | 2,815 | 4,237 | -18,628 |
| **CHANGE IN NET CASH AND CASH EQUIVALENTS (I+II+III+IV)** | | **-392,997** | **-20,301** | **32,814** |
| **Opening net cash and cash equivalents** | 5 | **983,230** | **950,416** | **950,416** |
| **Closing net cash and cash equivalents** | 5 | **590,233** | **930,115** | **983,230** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS


## GENERAL

**1 Accounting principles**
- 1.1 General principles
- 1.2 Changes in basis of accounting
- 1.3 Application of IFRS 11 and IAS 28R
- 1.4 Segment reporting

**2 Scope of consolidation**

## BALANCE SHEET

**3 Asset items**
- 3.1 Equity affiliates
- 3.2 Available-for-sale securities
- 3.3 Deferred tax assets
- 3.4 Inventories and work-in-progress
- 3.5 Trade and other receivables

**4 Liability items**
- 4.1 Loans and financial debts
- 4.2 Current provisions

**5 Available cash and cash equivalents**

## INCOME STATEMENT

**6 Net sales**

**7 Operating income**

**8 Net financial income/expense**

**9 Income tax**

**10 Earnings per share**

## ADDITIONAL INFORMATION

**11 Financial instruments**
- 11.1 Financial instruments (assets)
- 11.2 Financial instruments (liabilities)

**12 Financial risk management**
- 12.1 Cash and liquidity risks
- 12.2 Credit and counterparty risks
- 12.3 Foreign exchange risks
- 12.4 Other market risks

**13 Related-party transactions**

**14 Subsequent events**

# Note 1 - Accounting principles

## 1.1 General principles

On July 24, 2014, the Board of Directors approved and authorized the publication of the consolidated financial statements of DASSAULT AVIATION as of June 30, 2014.

The DASSAULT AVIATION group prepares its condensed consolidated interim financial statements in accordance with IAS 34 "Interim Financial Reporting" and the IFRS (International Financial Reporting Standards) as adopted by the European Union at June 30, 2014.

The interim financial statements are prepared according to the accounting policies used when preparing the 2013 consolidated financial statements and take into account the changes in the accounting standards outlined below.

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

## 1.2 Changes in basis of accounting

### Standards, amendments and interpretations for mandatory application as of January 1, 2014

On January 1, 2014, the Group applied the following standards, amendments and interpretations:

- IFRS 10 standard: "Consolidated financial statements",
- IFRS 11 standard: "Partnerships",
- IFRS 12 standard: "Disclosure of interests in other entities",
- revised IFRS 27 standard: "Individual financial statements",
- revised IAS 28 standard: "Investment in associates and joint ventures",
- the amendment to IAS 32 on offsetting financial assets and financial liabilities,
- the amendment to IAS 36 on recoverable amount disclosures for non-financial assets,
- the amendment to IAS 39 on novations of derivatives.

The effects of IFRS 11 and IAS 28R on the Group's financial statements are outlined in paragraph 1.3.

The other standards, amendments and interpretations applicable to fiscal years beginning on or after January 1, 2014 have no significant effect on the consolidated financial statements of the Group.

### Standards, amendments and interpretations for mandatory application after January 1, 2014

The interpretation of IFRIC 21 on levies, adopted by the European Union and mandatory for all financial years beginning on or after June 17, 2014 is not applied in advance by the Group.

The standards, amendments or interpretations published by the IASB and not yet adopted by the European Union have not been applied in advance by the Group for the preparation of its consolidated financial statements when this possibility was available.

These texts mainly concern:
- IFRS 9 "Financial instruments",
- IFRS 15 "Revenue from Contracts with Customers"
- the amendment to IAS 16 and IAS 38 on acceptable methods of depreciation and amortization,
- amendments to IAS 19 on employee contributions to defined benefit plans,
- annual improvements to IFRS 2010-2012 and IFRS 2011-2013,

The effects of these texts on the financial situation of the Group are currently being assessed.

## 1.3 Application of IFRS 11 and IAS 28R

The application of these standards had no material impact on the Group with the exception of that resulting from the consolidation of THALES according to the equity method.

The impact on the DASSAULT AVIATION Group balance sheet is given below.

Impact on the Group balance sheet at January 1, 2013:

| (in EUR thousands) | 01.01.2013 Restated | 01.01.2013 Published | Difference |
|---|---|---|---|
| Equity affiliates | 1,630,817 | 1,647,695 | -16,878 |
| Reserves and consolidated retained earnings | 4,697,423 | 4,714,301 | -16,878 |
| Total Balance sheet | 10,374,465 | 10,391,343 | -16,878 |

Impact on the Group balance sheet at December 31, 2013:

| (in EUR thousands) | 12.31.2013 Restated | 12.31.2013 Published | Difference |
|---|---|---|---|
| Equity affiliates | 1,659,608 | 1,676,178 | -16,570 |
| Reserves and consolidated retained earnings | 5,124,047 | 5,140,617 | -16,570 |
| Total Balance sheet | 10,051,640 | 10,068,210 | -16,570 |

The application of these standards had no impact on the results for H1 2013 or 2013 as a whole.

## 1.4 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 field. The internal reporting made to the Chairman-CEO and the Chief Operating Officer, as used for the strategy and decision-making, presents no performance analysis (in the IFRS 8 sense) at a level beneath this field.

## Note 2 - Scope of consolidation

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

| Name | Country | % interest (1) | | Consolidation method (2) |
|---|---|---|---|---|
| | | 06.30.2014 | 12.31.2013 | |
| **DASSAULT AVIATION (3)** | **France** | **Parent company** | **Parent company** | |
| **DASSAULT FALCON JET** | **USA** | **100** | **100** | **FC** |
| - DASSAULT FALCON JET WILMINGTON | USA | 100 | 100 | |
| - DASSAULT AIRCRAFT SERVICES | USA | 100 | 100 | |
| - DASSAULT FALCON JET LEASING | USA | 100 | 100 | |
| - AERO PRECISION | USA | 50 | 50 | |
| - MIDWAY | USA | 25 | 25 | |
| - DASSAULT FALCON JET DO BRAZIL | Brazil | 100 | 100 | |
| - DASSAULT FALCON BUSINESS SERVICES | China | 100 | 100 | |
| **DASSAULT FALCON SERVICE** | **France** | **100** | **100** | **FC** |
| - FALCON TRAINING CENTER | France | 50 | 50 | |
| **DASSAULT PROCUREMENT SERVICES** | **USA** | **100** | **100** | **FC** |
| - MIDWAY | USA | 75 | 75 | |
| **SOGITEC INDUSTRIES** | **France** | **100** | **100** | **FC** |
| **DASSAULT INTERNATIONAL INC.** | **USA** | **100** | **100** | **MEQ** |
| **THALES** | **France** | **26** | **26** | **MEQ** |

(1) The equity interest percentages are identical to the percentages of effective control for all Group companies except for THALES, for which the Group holds a 25.30% equity interest, 25.63% of the interest entitlements and 29.16% of the voting rights as of June 30, 2014.

(2) FC: fully consolidated, MEQ: equity method

(3) Identity of the parent company: Société Anonyme (French limited liability company) with share capital of EUR 81,007,176, listed and registered in France, Paris Trade and Companies Register No. 712 042 456 - 9, Rond-Point des Champs-Élysées-Marcel Dassault - 75008 PARIS.

# Note 3 - Asset items

## 3.1 Equity affiliates

### 3.1.1 Group share of net assets and net income of equity affiliates

| (in EUR thousands) | % equity interest at year end (1) | | Net assets at year end (2) | | Net income (2) | | |
|---|---|---|---|---|---|---|---|
| | 06.30.2014 | 12.31.2013 | 06.30.2014 | 12.31.2013 (3) | 2014 H1 | 2013 H1 | 2013 |
| DASSAULT INTERNATIONAL INC. | 100 | 100 | 4,944 | 4,873 | 23 | 30 | 50 |
| THALES (4) | 25.63 | 25.85 | 1,683,798 | 1,654,735 | 85,386 | 14,299 | 77,895 |
| **TOTAL** | | | **1,688,742** | **1,659,608** | **85,409** | **14,329** | **77,945** |

(1) % interest entitlements.

(2) Group share after consolidation adjustments.

(3) restated from the impact of the combined application of IFRS 11 and IAS 28R requirements. See accounting principles, Note 1.3.

(4) The share value includes goodwill amounting to EUR 1,101,297 thousand. The Group share of the THALES income after consolidation adjustments is detailed in Note 3.1.3.

### 3.1.2 Change of investments in equity affiliates

| (in EUR thousands) | 2014 H1 | 2013 (1) |
|---|---|---|
| **As of January 1** | **1,659,608** | **1,630,817** |
| Group share of net income (after consolidation adjustments) | 85,409 | 77,945 |
| Elimination of dividends paid by THALES (2) | -44,652 | -47,278 |
| Income and expense recognized directly through equity: | | |
| - Net change in fair value measurement of available-for-sale financial assets | 108 | -13 |
| - Net change in fair value measurement of hedging instruments (3) | -13,648 | 18,611 |
| - Actuarial adjustments on defined benefit obligations | -40,624 | -5,481 |
| - Corresponding deferred taxes | 16,864 | -9,472 |
| - Foreign exchange differences | 10,242 | -36,129 |
| Share of income and expense recognized directly through equity relating to equity affiliates | -27,058 | -32,484 |
| Other movements (4) | 15,435 | 30,608 |
| **At period end** | **1,688,742** | **1,659,608** |

(1) restated from the impact of the combined application of IFRS 11 and IAS 28R requirements. See accounting principles, Note 1.3.

(2) in H1 2014, the Group received EUR 44,652 thousand of THALES dividends in respect of 2013. In 2013, the Group received EUR 33,095 thousand for 2012 and EUR 14,183 thousand in interim dividends for 2013.

(3) The totals stated correspond to the change in the portfolio's market value for the period. They are not representative of the actual gain/loss when the hedges are exercised.

(4) This largely consists of changes in treasury shares, employee share issues and THALES share-based payments.

### 3.1.3 THALES Share of net income of equity affiliates by DASSAULT AVIATION

The breakdown between the Group share of THALES' attributable net gain/loss and that applied by DASSAULT AVIATION is given in the table below:

| (in EUR thousands) | 2014 H1 | 2013 H1 | 2013 |
|---|---|---|---|
| **THALES net income (100%)** | **446,600** | **189,500** | **573,400** |
| **THALES net income - DASSAULT AVIATION share** | **114,464** | **49,460** | **148,224** |
| Post-tax amortization of the purchase price allocation (1) | -23,843 | -28,269 | -57,333 |
| Other consolidation adjustments | -5,235 | -6,892 | -12,996 |
| **Value applied by DASSAULT AVIATION** | **85,386** | **14,299** | **77,895** |

(1) depreciation of identified assets for which the modes and periods of depreciation are identical to those used for the year ended December 31, 2013.

### 3.1.4 Impairment test

Based on the market price of THALES shares on June 30, 2014 of EUR 44.18 per share, DASSAULT AVIATION's investment in THALES is valued at EUR 2,321 million.

In the absence of any objective indication of impairment, the THALES investments were not subject to an impairment test on June 30, 2014.

## 3.2 Available-for-sale securities

Available-for-sale securities are recognized at their fair value. They comprise in particular short-term Group investments in the form of marketable securities. It should be noted that other marketable securities are classified under "cash equivalents" (see Note 5). The analysis of risks relating to all the Group's available-for-sale securities is presented in Note 12 of the Appendix.

| (in EUR thousands) | 12.31.2013 | Acquisitions | Disposals | Fair value variation | Other | 06.30.2014 |
|---|---|---|---|---|---|---|
| Marketable securities (listed) (1)(2) | 2,993,179 | 0 | -189,203 | -1,751 | 0 | 2,802,225 |
| Non-listed securities | 94,637 | 164 | 0 | 58 | 1,698 | 96,557 |
| Shares (EMBRAER) | 38,685 | 0 | 0 | 6,210 | 0 | 44,895 |
| **Available-for-sale securities** | **3,126,501** | **164** | **-189,203** | **4,517** | **1,698** | **2,943,677** |

(1) The amount of EUR -189,203 thousand corresponds to the net change in available-for-sale marketable securities (at cost).

(2) The variation of EUR -1,751 thousand corresponds to the increase in fair value of the listed marketable securities amounting to EUR 8,600 thousand offset by a loss on sale amounting to EUR -10,351 thousand (included in the net financial income).

An exhaustive analysis of the performance of available-for-sale securities is carried out at each period-end. The investment portfolio does not present, line-by-line, any objective indication of impairment as of June 30, 2014 (as was also the case at December 31, 2013).

## 3.3 Deferred tax assets

| (in EUR thousands) | 06.30.2014 | 12.31.2013 |
|---|---|---|
| Temporary differences on provisions (profit-sharing, retirement, etc.) | 248,790 | 242,545 |
| Available-for-sale securities and cash equivalents | -13,539 | -11,129 |
| Hedging instruments | -124,885 | -107,269 |
| Other temporary differences | 65,140 | 67,985 |
| **Net deferred tax (1)** | **175,506** | **192,132** |
| *Deferred tax assets* | *175,506* | *192,132* |
| *Deferred tax liabilities* | *0* | *0* |

(1) The deferred tax bases for which a reversal is expected with certainty in 2014 and 2015 have been subject to tax at 38.00%. The other bases are subject to tax at 34.43%.

## 3.4 Inventories and work-in-progress

| (in EUR thousands) | 06.30.2014 | | | 12.31.2013 |
|---|---|---|---|---|
| | Gross | Provision | Net | Net |
| Raw materials | 205,591 | -79,243 | 126,348 | 108,540 |
| Work-in-progress | 2,307,657 | -33,507 | 2,274,150 | 2,046,123 |
| Semi-finished and finished goods | 1,044,335 | -361,747 | 682,588 | 531,857 |
| **TOTAL** | **3,557,583** | **-474,497** | **3,083,086** | **2,686,520** |

## 3.5 Trade and other receivables

| (in EUR thousands) | 06.30.2014 | | | 12.31.2013 |
|---|---|---|---|---|
| | Gross | Provision | Net | Net |
| Trade receivables | 468,097 | -82,435 | 385,662 | 406,727 |
| Corporate income tax receivables | 55,899 | 0 | 55,899 | 54,333 |
| Other receivables | 97,920 | 0 | 97,920 | 76,870 |
| Prepayments and accrued income | 21,056 | 0 | 21,056 | 12,802 |
| **TOTAL** | **642,972** | **-82,435** | **560,537** | **550,732** |

The percentage of outstanding receivables not written-down at the year-end is subject to regular individual monitoring.

# Note 4 - Liability items

## 4.1 Loans and financial debts

Loans and financial debts are broken down as follows:

| (in EUR thousands) | 06.30.2014 | 12.31.2013 |
|---|---|---|
| Long-term loans and financial debts | 201,231 | 205,288 |
| Short-term loans and financial debts | 194,428 | 62,896 |
| **Total** | **395,659** | **268,184** |

Loans and financial debts at June 30, 2014 and at December 31, 2013 specifically include locked-in employee profit-sharing funds.

## 4.2 Current provisions

| (in EUR thousands) | 12.31.2013 | Provisions | Reversals | Other | 06.30.2014 |
|---|---|---|---|---|---|
| Warranties | 731,996 | 29,276 | -51,178 | 350 | 710,444 |
| Services and work to be performed | 188,386 | 34,847 | -53,717 | 419 | 169,935 |
| Retirement severance payments (1) | 381,565 | 18,903 | -6,799 | 32,230 | 425,899 |
| *French companies* | *380,684* | *14,613* | *-6,601* | *29,184* | *417,880* |
| *U.S. companies* | *881* | *4,290* | *-198* | *3,046* | *8,019* |
| Miscellaneous | 4,051 | 1,347 | -496 | 8 | 4,910 |
| **Operating – current** | **1,305,998** | **84,373** | **-112,190** | **33,007** | **1,311,188** |
| **Financial** | **0** | **0** | **0** | **0** | **0** |
| **TOTAL** | **1,305,998** | **84,373** | **-112,190** | **33,007** | **1,311,188** |

(1) The discount rate used to calculate the provision for retirement severance payments for French companies (determined by reference to the yield for first-ranking corporate long-term bonds [rated AA]) stands at 1.90% at June 30, 2014, compared to 2.50% at December 31, 2013. The rate used to calculate the provision for retirement severance payments for U.S. companies is 5.10%, as it was on December 31, 2013. The actuarial adjustments contribute to the increase in provisions for retirement severance payments for EUR 32,198 thousand.

## Note 5 - Available cash and cash equivalents

The Group has defined a specific indicator, "Available cash", which reflects the Group's total liquidities minus borrowings. It is calculated as follows:

| (in EUR thousands) | 06.30.2014 | 12.31.2013 |
|---|---|---|
| Available-for-sale marketable securities (market value) (1) | 2,802,225 | 2,993,179 |
| Cash and cash equivalents (market value) | 740,087 | 983,230 |
| **Sub-total** | **3,542,312** | **3,976,409** |
| Loans and financial debts (2) | -395,659 | -268,184 |
| **Available cash and cash equivalents** | **3,146,653** | **3,708,225** |

(1) See Note 3.2.

(2) See Note 4.1.

## Note 6 - Net sales

| (in EUR thousands) | 2014 H1 | 2013 H1 |
|---|---|---|
| First quarter | 585,968 | 662,379 |
| Second quarter | 928,287 | 1,164,074 |
| **TOTAL** | **1,514,255** | **1,826,453** |

Interim data is not representative of annual net sales.

| (in EUR thousands) | 2014 H1 | 2013 H1 |
|---|---|---|
| France (1) | 369,043 | 471,575 |
| Export | 1,145,212 | 1,354,878 |
| **TOTAL** | **1,514,255** | **1,826,453** |

(1) principally the French government.

## Note 7 - Operating income

Operating income for the first half of 2014 is EUR 113,208 thousand compared to EUR 187,480 thousand for H1 2013. The operating margin stood at 7.5% compared to 10.3% for H1 2013.

The continuation of a high self-funded Research and Development level combined with the decrease of the net sales and a less favorable currency hedging (1.27$/€ vs. 1.24$/€) explains, for the most part, the deterioration of the operating margin.

Group Research and Development costs recognized as expenses during H1 2014 stand at EUR 213,266 thousand, compared with EUR 236,862 thousand in H1 2013.

## Note 8 - Net financial income/(expense)

| (in EUR thousands) | 2014 H1 | 2013 H1 | 2013 |
|---|---|---|---|
| Interest generated by cash and cash equivalents | 3,770 | 4,650 | 8,387 |
| Disposal gains and change in fair value of cash equivalents | 83 | 67 | 123 |
| **Income from cash and cash equivalents** | **3,853** | **4,717** | **8,510** |
| Interest charges on financing operations | -3,365 | -4,467 | -6,988 |
| **Cost of gross financial debt** | **-3,365** | **-4,467** | **-6,988** |
| **COST OF NET FINANCIAL DEBT** | **488** | **250** | **1,522** |
| Dividends and other investment income | 1,873 | -239 | 1,003 |
| Interest income and gains/losses on disposal of other financial assets (excluding cash and cash equivalents) | 12,561 | 1,987 | 14,424 |
| Foreign exchange gain/loss (1) | 78,828 | -2,797 | 72,801 |
| Other financial expenses | 0 | 0 | -2,185 |
| **Financial income and expenses** | **93,262** | **-1,049** | **86,043** |
| **NET FINANCIAL INCOME** | **93,750** | **-799** | **87,565** |

(1) The stated totals correspond mainly to the variation in the value of hedging instruments which do not qualify for hedge accounting under the terms of IAS 39 "Financial instruments". They are not representative of the actual gain/loss when the hedges are exercised.

## Note 9 - Income taxes

| (in EUR thousands) | 2014 H1 | 2013 H1 | 2013 |
|---|---|---|---|
| Net income | 220,230 | 134,699 | 459,452 |
| Cancellation of the tax charge | 72,137 | 66,311 | 204,557 |
| Cancellation of the Group share of net income of equity affiliates | -85,409 | -14,329 | -77,945 |
| Income before tax | 206,958 | 186,681 | 586,064 |
| **Theoretical tax expenses calculated at the current rate (1)** | **-78,644** | **-67,392** | **-222,704** |
| Effect of tax credits (2) | 8,223 | 6,879 | 14,800 |
| Differences in tax rate | 2,894 | -752 | 3,425 |
| Other | -4,610 | -5,046 | -78 |
| **Effective Tax Expense** | **-72,137** | **-66,311** | **-204,557** |

(1) Following the 2014 Finance Act, a rate of 38.00% applies for 2014, as it did in 2013, to the Parent Company of the Group. The rate was 36.10% over H1 2013.

(2) Research based tax credit, recognized as other revenue, stand at EUR 17,277 thousand over H1 2014, compared to EUR 16,140 thousand over H1 2013, and EUR 33,398 thousand for 2013 as a whole. Tax credits for competitiveness and employment, recognized as Payroll and related charges, stand at EUR 4,119 thousand for H1 2014, compared to EUR 2,500 thousand over H1 2013, and EUR 5,549 thousand for 2013 as a whole.

## Note 10 - Earnings per share

| **Basic earnings per share** | 2014 H1 | 2013 H1 | 2013 |
|---|---|---|---|
| Net income attributable to shareholders (in EUR thousands) (1) | 220,219 | 134,687 | 459,421 |
| Weighted average number of outstanding ordinary shares | 10,125,897 | 10,125,897 | 10,125,897 |
| Basic earnings per share (in EUR) | 21.7 | 13.3 | 45.4 |

(1) Net income is fully attributable to income from continuing operations (no discontinued operations).

Basic earnings per share are calculated by dividing net income attributable to shareholders by the weighted average number of ordinary shares outstanding during the year. As the Group does not hold any treasury shares and does not have any share option plans, diluted earnings per share is identical to basic earnings per share.

## Note 11 - Financial instruments

The valuation mode 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 evaluation of the financial assets and liabilities:

- Level 1: quoted prices in active markets,
- Level 2: valuation techniques based on observable market data,
- Level 3: valuation techniques based on non-observable market data on a market.

### 11.1 Financial instruments (assets)

| (in EUR thousands) | Balance sheet value as of June 30, 2014 | | | |
|---|---|---|---|---|
| | Cost or cost less repayments (1) | Fair value | | Total |
| | | Impact on net income | Impact on equity | |
| **Non-current assets** | | | | |
| Listed investments | | | 44,895 | 44,895 |
| Non-listed investments | | | 96,557 | 96,557 |
| Available-for-sale marketable securities | | | 2,802,225 | 2,802,225 |
| Other financial assets | 33,871 | | | 33,871 |
| **Current assets** | | | | |
| Trade and other receivables | 560,537 | | | 560,537 |
| Derivative Financial instruments | | 218,467 | 144,256 | 362,723 |
| Cash equivalents | | 686,813 | | 686,813 |
| **Total financial instruments (assets)** | **594,408** | **905,280** | **3,087,933** | **4,587,621** |
| Level 1 (2) | | 686,813 | 2,847,120 | |
| Level 2 | | 218,467 | 144,256 | |
| Level 3 | | | 96,557 | |

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

(2) including time deposits as of June 30, 2014: EUR 472,867 thousand.

## 11.2 Financial instruments (liabilities)

| (in EUR thousands) | Balance sheet value as of June 30, 2014 | | | |
|---|---|---|---|---|
| | Cost or cost less repayments (1) | Fair value | | Total |
| | | Impact on net income | Impact on equity | |
| **Non-current liabilities** | | | | |
| Bank loans | 71 | | | 71 |
| Other loans and financial debts (2) | 201,160 | | | 201,160 |
| **Current liabilities** | | | | |
| Bank loans | 20 | | | 20 |
| Other loans and financial debts (2) | 44,554 | | | 44,554 |
| Trade and other payables | 724,192 | | | 724,192 |
| **Total financial instruments (liabilities)** | **969,997** | | | **969,997** |

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

(2) specifically include locked-in employee profit-sharing funds. Employee profit-sharing corresponds to "other long-term benefits", and should be evaluated and discounted according to the principles of the revised IAS 19 standard. 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 12 - Financial risk management

## 12.1 Cash and liquidity risks

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

| (in EUR thousands) | 06.30.2014 | | | |
|---|---|---|---|---|
| | Historical cost | Capital gain | Consolidated value | In % |
| Cash at bank and in hand, money market investments, demand deposits | 1,751,490 | 336,960 | 2,088,450 | 59% |
| Investments in bonds (1) | 229,005 | 155,399 | 384,404 | 11% |
| Diversified investments (1) | 580,229 | 489,229 | 1,069,458 | 30% |
| **Total** | **2,560,724** | **981,588** | **3,542,312** | **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 of its marketable securities portfolio.

## 12.2 Credit and counterparty risks

The Group spreads its investments and performs its cash and foreign exchange transactions with recognized financial institutions. The Group had no investment or account with financial institutions that went bankrupt in 2013 or 2014.

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.

Guarantees are also underwritten with export insurance firms for the manufacturing risk relating to major military export contracts.

The amounts of export insurance guarantees and collateral obtained and not exercised at June 30, 2014 is comparable to that at December 31, 2013.

## 12.3 Foreign exchange risks

### 12.3.1 Hedging portfolio

The Group is exposed to a foreign exchange risk through the parent company with regard to FALCON sales that are virtually all denominated in US dollars. This risk is partially hedged by using forward exchange contracts and foreign exchange options.

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

The foreign exchange derivatives used by the Group do not all qualify for hedge accounting under the terms of IAS 39 "Financial instruments". The breakdown of instruments is given in the table below:

| (in EUR thousands) | Market value as of June 30, 2014 | Market value as of Dec 31, 2013 |
|---|---|---|
| Instruments which qualify for hedge accounting | 144,256 | 170,326 |
| Instruments which do not qualify for hedge accounting | 218,467 | 141,232 |
| **Derivative financial instruments** | **362,723** | **311,558** |

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

| (in EUR thousands) | 12.31.2013 | Impact on equity (1) | Impact on net financial income (2) | 06.30.2014 |
|---|---|---|---|---|
| Derivative financial instruments | **311,558** | -26,070 | 77,235 | **362,723** |

(1) posted as income and expense recognized directly through equity, 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".

### 12.3.2 EMBRAER shares

The Group is exposed to a foreign exchange risk through its investment in EMBRAER, denominated in Brazilian reals. On June 30, 2014, the EMBRAER shares were valued at EUR 44,895 thousand (see Note 3.2). A 10% upward or downward variation of the exchange rate would have no significant impact on the Group's financial statements.

## 12.4 Other market risks

The Group is exposed to a pricing risk relating to price fluctuations of EMBRAER shares. A 10% upward or downward variation of the share price would have no significant impact on the Group's financial statements.

# Note 13 - Related-party transactions

Related parties at June 30, 2014 are identical to those identified at December 31, 2013 and the transactions during the period are also of the same type.

# Note 14 - Subsequent events

No events likely to have a material impact on the financial statements occurred between June 30, 2014 and the date of the financial statements being approved by the Board of Directors.

## STATUTORY AUDITORS' REPORT ON THE H1 2014 HALF-YEARLY FINANCIAL REPORT

Dear shareholders,

In accordance with the task we were appointed at your Annual General Meeting and as per Article L. 451-1-2 III of the French Monetary and Financial Code, we have:

- carried out a limited audit of Dassault Aviation's condensed consolidated half-yearly financial statements for the period from January 1 to 30 June, 2014, as attached to this report;

- checked the information provided in the half-yearly activity report.

These condensed consolidated half-yearly financial statements were prepared under the responsibility of the Board of Directors. Our role is to express an opinion on these financial statements, based on our limited audit.

### OPINION ON THE FINANCIAL STATEMENTS

We conducted our limited audit in accordance with the professional standards applicable in France. A limited audit essentially involves discussions with the members of the management responsible for accounting and finance as well as the implementation of analytical procedures. This task is less extensive than that required for a full audit carried out in accordance with the professional standards applicable in France. As such, an assurance that no significant anomalies were found in the financial statements taken as a whole during the limited audit is a moderate assurance and is less significant than an assurance obtained as part of a full audit.

Based on our limited audit, we did not find any significant anomalies that give cause to question the conformity of the condensed consolidated half-yearly financial statements with IAS 34 on interim financial reporting, part of the IFRS as adopted by the European Union.

Without calling into question the opinion expressed above, we draw your attention to Note 1.3 "Application of IFRS 11 and revised IAS 28" in the notes to the condensed consolidated half-yearly financial reports, which highlights the change of accounting method relative to the application on January 1, 2014 of IFRS 11 "Joint Arrangements" and amended IAS 28 "Investments in Associates and Joint Ventures".

### SPECIFIC CHECKS

We also checked the information provided in the half-yearly activity report commenting on the condensed consolidated half-yearly annual financial statements on which we conducted our limited audit. We have no comment to make regarding the fair presentation of this information or its consistency with the condensed consolidated half-yearly financial statements.

Courbevoie and Neuilly-sur-Seine, July 24, 2014

The Statutory Auditors

| | |
|---|---|
| Mazars | Deloitte & Associés |
| Manuela Baudoin-Revert | Jean-François Viat |