

## HALF-YEARLY RESULTS OF DASSAULT AVIATION GROUP

	H1 2016	H1 2015
<b>Order intake</b>	<b>EUR 1,378 million</b>  22 FALCON 11 FALCON 5X cancellations	EUR 4,331 million  25 FALCON 20 FALCON NetJets cancellations 24 RAFALE Egypt
<b>Net sales</b>	<b>EUR 1,662 million</b>  15 FALCON 4 RAFALE France 3 RAFALE Egypt	EUR 1,675 million  18 FALCON 1 RAFALE France

	As at June 30, 2016	As at December 31, 2015
<b>Backlog</b>	<b>EUR 13,931 million</b>  87 FALCON 34 RAFALE France 42 RAFALE Export	EUR 14,175 million  91 FALCON 38 RAFALE France 45 RAFALE Export

	H1 2016	H1 2015
<b>Adjusted Net Income</b> <sup>(*)</sup>	<b>EUR 185 million</b> EUR 21.4 per share	EUR 179 million EUR 20.1 per share
<b>Adjusted net margin</b> <sup>(*)</sup>	<b>11.1% of net sales</b>	10.7% of net sales

<sup>(\*)</sup> See table of reconciliation between consolidated income and adjusted income in the appendix.

N.B.: DASSAULT AVIATION recognizes the RAFALE Export contracts in their entirety (i.e. including the THALES and SNECMA parts), whereas for France, only the DASSAULT AVIATION part is recognized.

**Saint-Cloud, July 21, 2016** - The Board of Directors, chaired today by Mr. Éric Trappier, closed the financial statements for the first half of 2016. The Statutory Auditors performed a limited review of these consolidated financial statements and have expressed an unqualified opinion.

Highlights of the first half of 2016 mainly included:

## **ORDER INTAKE**

Consolidated order intake in the first half of 2016 amounted to **EUR 1,378 million**, compared to EUR 4,331 million in the first half of 2015, which was marked by the Egyptian order for 24 RAFALE.

**Exports accounted for 64%** compared to 95% in the first half of 2015.

### FALCON programs

FALCON consolidated order intake amounted to **EUR 778 million**, compared to EUR 610 million in the first half of 2015.

In the first half of 2016, we recorded, in particular, **22 FALCON orders and 11 FALCON 5X cancellations**, as a result of delays on the SilverCrest engine by SAFRAN AIRCRAFT ENGINES. Order intake in the first half of 2015 totaled 25 FALCON, and 20 FALCON NetJets were canceled.

### DEFENSE programs

DEFENSE order intake totaled **EUR 600 million** in the first half of 2016, compared to EUR 3,721 million in the first half of 2015.

The decrease in DEFENSE Export order intake (**EUR 146 million** in the first half of 2016, compared to EUR 3,524 million in the first half of 2015) was mainly due to the Egyptian order for 24 RAFALE in the first half of 2015.

The increase in DEFENSE France order intake (**EUR 454 million** in the first half of 2016, compared to EUR 197 million in the first half of 2015) was primarily due to the contract for the MIRAGE 2000D upgrade.

## **NET SALES**

Consolidated net sales in the first half of 2016 were **EUR 1,662 million**, compared to EUR 1,675 million in the first half of 2015. Exports accounted for **81%** of net sales.

### FALCON programs

FALCON net sales in the first half of 2016 totaled **EUR 853 million**, compared to EUR 919 million in the first half of 2015.

**15 new aircraft** were delivered in the first half of 2016, compared to 18 in the first half of 2015.

FALCON net sales accounted for 51% of consolidated net sales in the first half of 2016.

## DEFENSE programs

DEFENSE net sales totaled **EUR 809 million**, compared to EUR 756 million in the first half of 2015 (which included the delivery of the Indian MIRAGE 2000 modernization works).

**4 RAFALE** were delivered to France and **3 RAFALE** to Egypt in the first half of 2016, compared to 1 RAFALE to France in the first half of 2015.

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The "book to bill" ratio (order intake / net sales) was 0.83.

## **BACKLOG**

The consolidated backlog at June 30, 2016 was **EUR 13,931 million**, compared to EUR 14,175 million at December 31, 2015, including:

- **87 FALCON** (91 at end-2015),
- **34 RAFALE** France (38 at end-2015),
- **42 RAFALE** Export (45 at end-2015).

## **OPERATING INCOME**

Consolidated operating income in the first half of 2016 was **EUR 125 million**, compared to EUR 144 million in the first half of 2015.

The operating margin was **7.5%**, compared to 8.6% in the first half of 2015.

The decrease was due to:

- competitive pressure on FALCON sales prices, which intensified between the two half-years,
- the adverse impact of the conversion into EUR of USD items in the balance sheet in the first half of 2016 (USD/EUR 1.11 at June 30, 2016, compared to USD/EUR 1.09 at December 31, 2015) whereas it was favorable in the first half of 2015 (USD/EUR 1.12 at June 30, 2015, compared to USD/EUR 1.21 at December 31, 2014). The change in this conversion impacts the income statement, without being indicative of the financial performance over the period,
- partially offset by the decrease in the weighting of self-financed R&D.

## ADJUSTED FINANCIAL INCOME

Adjusted financial income in the first half of 2016 was **EUR 17 million**, comparable to that in the first half of 2015 (EUR 16 million).

## THALES CONTRIBUTION

The contribution of THALES adjusted net income, before amortization of the Purchase Price Allocation, was **EUR 89 million** in the first half of 2016, compared to EUR 72 million in the first half of 2015.

## ADJUSTED NET INCOME

Adjusted net income in the first half of 2016 was **EUR 185 million**, compared to EUR 179 million in the first half of 2015. The adjusted net margin was **11.1%** in the first half of 2016, compared to 10.7% in the first half of 2015.

*N.B.: IFRS net income in the first half of 2016 was EUR 238 million, compared to EUR -132 million in the first half of 2015. For the record, the loss in the first half of 2015 was wholly due to the change in the market value of foreign exchange instruments which did not qualify for hedge accounting: EUR +69 million in the first half of 2016, compared to EUR -280 million in the first half of 2015. These instruments are used to hedge commercial flows; DASSAULT AVIATION neutralizes this change, as it considers that gains or losses on hedging should impact income at the same time as the commercial flows occur.*

## BALANCE SHEET

Total equity amounted to **EUR 3,254 million** at June 30, 2016, compared to EUR 3,771 million at December 31, 2015, a reduction of EUR 517 million.

This decrease was mainly due to the buyback of 502,282 treasury shares for EUR 477 million (for the record, at June 30, 2016, the Group held 912,253 treasury shares, recognized as a deduction from equity for EUR 879 million).

Borrowings and financial debts amounted to **EUR 1,192 million** at June 30, 2016, compared to EUR 1,210 million at December 31, 2015. They include:

- the bank borrowings subscribed in 2014 and 2015 for a total of EUR 1,000 million. It should be noted that the Company did not subscribe any new bank loan for the purpose of share buybacks in the first half of 2016,
- locked-in employee profit-sharing funds.

At June 30, 2016, inventories and work-in-progress increased by EUR 546 million. They thus amounted to **EUR 3,974 million** at June 30, 2016, compared to EUR 3,428 million at December 31, 2015. This increase was due to the rise in FALCON work-in-progress, as a result of the level of deliveries during the half-year.

Advances and progress payments received on orders net of advances and progress payments paid rose EUR 660 million at June 30, 2016 mainly due to RAFALE Export downpayments.

Derivative financial instruments had a market value of EUR -380 million at June 30, 2016 compared to EUR -506 million at December 31, 2015. The resulting positive change of EUR +126 million was mainly due to the trend in the USD/EUR exchange rate at June 30, 2016 (USD/EUR 1.11 compared to USD/EUR 1.09 at December 31, 2015).

## CASH

The Group uses a specific indicator, referred to as "Available cash", which reflects the total liquidity available to the Group, net of any financial debts. It covers the following balance sheet items:

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

Consolidated Available Cash amounted to **EUR 2,432 million** at June 30, 2016 compared to EUR 2,885 million at December 31, 2015, down EUR 453 million.

This decrease was mainly explained by:

- the treasury share buyback totaling EUR 477 million,
- the increase in inventories and work-in-progress of EUR 546 million,

partially offset by:

- the EUR 660 million increase in advances and progress payments received on orders net of advances and progress payments paid.

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

## SHAREHOLDERS

As part of the plan by AIRBUS GROUP to sell its stake in the capital of DASSAULT AVIATION, on June 10, 2016 AIRBUS GROUP:

- sold 1,327,466 DASSAULT AVIATION shares through a private placement, at a price of EUR 950 per share to institutional investors (825,184 shares, representing 9.05% of the capital) and to DASSAULT AVIATION (502,282 shares, representing 5.51% of the capital),
- issued bonds exchangeable into 825,184 DASSAULT AVIATION shares, representing 9.05% of the capital.

Following this transaction and in the event of the exchange in full of the bonds or the exercise of its share redemption option, AIRBUS GROUP will no longer hold any shares or voting rights in DASSAULT AVIATION.

The meeting of the Board of Directors on June 3, 2016 decided to allocate these 502,282 shares to the objective of cancellation, subject to their acquisition. As a result of the cancellations carried out since December 22, 2014, these shares and the 369,471 shares previously allocated to cancellation cannot be canceled before December 23, 2016.

Shareholders	Number of shares	%	Voting rights exercisable	%
GIMD	5,118,240	56.1	10,236,480	73.2
Free-float	2,266,861	24.9	2,270,395	16.2
DASSAULT AVIATION	912,253	10.0	-	-
AIRBUS GROUP SAS	825,184	9.0	1,485,331	10.6
<b>TOTAL</b>	<b>9,122,538</b>	<b>100.0</b>	<b>13,992,206</b>	<b>100.0</b>

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

## GROUP ACTIVITIES

Highlights of the first half of 2016 included:

### FALCON programs

- the delivery of 15 FALCON,
- the order intake of 22 FALCON,
- the announcement by SAFRAN AIRCRAFT ENGINES of its rescheduling in the development of the SilverCrest engine, leading to the definition of a new schedule for the FALCON 5X program, with initial customer deliveries postponed from end-2017 to early-2020,
- 11 FALCON 5X order cancellations due to SAFRAN AIRCRAFT ENGINES' delay on the SilverCrest engine,
- a FALCON 8X intensive flight campaign, across 46 destinations, to demonstrate the aircraft's reliability and technical performance as well as its ability to operate in difficult environments, its comfort and connectivity,
- the first displays of the completed FALCON 8X at the Shanghai and Geneva air shows,
- the certification of the FALCON 8X by the EASA and the FAA in line with the schedule announced when the program was launched in May 2014,
- the sale of a 3<sup>rd</sup> FALCON 2000LXS Maritime Surveillance Aircraft to the Japanese Coastguards.

## DEFENSE programs

- the delivery of 4 RAFALE to France, bringing total RAFALE delivered to 146 out of 180 ordered,
- the delivery of 3 RAFALE to Egypt, bringing the number of aircraft delivered to 6, assistance for the client with support for its aircraft and the delivery of support and training tools,
- the delivery of the 6<sup>th</sup> Marine RAFALE, retrofitted from the F1 standard to the F3 standard,
- the ongoing work on the development of the F3-R standard, with in particular the 3<sup>rd</sup> guided firing of the METEOR missile,
- the manufacturing approval (RAP) issued by the DGA (Direction Générale de l'Armement, the French Defense Procurement Agency). This approval recognizes the Company's ability to manufacture and fly the RAFALE export aircraft. This activity was previously done under the direct supervision of the DGA,
- the ongoing negotiations with the Indian authorities regarding the order of 36 RAFALE, following the inter-governmental agreement between France and India signed on January 25, 2016,
- the continuation of promotional and prospecting activities in other countries.

## As regards the other programs:

- the notification of the MIRAGE 2000D upgrade contract by the DGA,
- the continuation of upgrade work on the ATLANTIQUE 2 combat system,
- in India, ongoing support for HAL (Hindustan Aeronautics Ltd.) with the development of the final standard for the Indian MIRAGE 2000 as well as the works under its responsibility.

## Regarding the UCAS (Unmanned Combat Air System) combat drones:

- the DGA's launch of a new test flight campaign to demonstrate the nEUROn's stealth. This campaign includes in particular flight tests at sea with the Charles de Gaulle aircraft carrier and new stealth measures in Solange, the DGA's anechoic chamber,
- the continuation, for the French and UK governments, under the Lancaster House treaty, of the feasibility phase designed to prepare a demonstration program for the unmanned combat aircraft component of a Future Combat Air System (FCAS). This phase, lasting 24 months, brings DASSAULT AVIATION and BAE SYSTEMS together as leaders of an industrial organization that also includes SAFRAN, ROLLS-ROYCE, THALES and LEONARDO-FINMECCANICA,
- the announcement, at the UK-France summit in Amiens on March 3, 2016, of the will of both France and the UK to launch a new phase in 2017 with the "scale 1" development of an operational demonstrator of the UCAS (Unmanned Combat Air System).

With respect to the MALE (Medium Altitude Long Endurance) program, of note is the negotiation of the contract for a definition phase of a European program with OCCAR (Organization for Joint Armament Cooperation), in liaison with the French, German, Italian and Spanish defense ministries. This contract was negotiated in partnership with AIRBUS DEFENCE AND SPACE and LEONARDO-FINMECCANICA.

With respect to the SPACE programs, the first half of 2016 saw the implementation of a digital pyrotechnics system demonstrator. It demonstrated the first integration of complete equipment and their operation in initiation mode.

## Customer support:

With respect to FALCON after-sales, in the first half of 2016, we:

- continued to expand our FALCON customer support network, with the approval of 2 new service centers in Finland and in France,
- intensified our customer relationship efforts by organizing 9 "Maintenance and Operations" seminars,
- developed and tested a system and a method for training mechanics in a 3D virtual reality environment.

With respect to military after-sales, we:

- continued supporting French forces, in particular with their commitments as part of foreign operations,
- were notified of a two-year In-Service Support contract for ATLANTIQUE 2 and a one-year extension to the French MIRAGE CARE In-Service Support contract,
- continued providing assistance to MIRAGE 2000 in export markets,
- began the MIRAGE 2000 Qatar major inspections at the client's facility,
- launched ALPHAJET Qatar major inspections.

## **OUTLOOK FOR 2016**

In March 2016, the Group planned to deliver 9 RAFALE (6 France and 3 Egypt) and 60 FALCON.

Our 2016 delivery forecast for 9 RAFALE (6 France and 3 Egypt) remains unchanged. Due to the current weakness of the business jet market, we are reducing our forecast for 2016 deliveries from 60 to 50 FALCON.

2016 net sales should be below the 2015 level, due, in particular, to the impact of the Indian MIRAGE 2000 modernization program in 2015.



## CONCLUSION

As in 2015, the first half of 2016 saw an unstable geopolitical and economic environment. Emerging market countries continue to face economic difficulties; the United States, in election season, has still not seen sustained lasting growth; by voting to leave the European Union, the UK has created instability throughout Europe, which hardly emerges from crisis.

Against this background, business aviation is facing weak demand and the second hand market remains challenging. We are dealing with intense competition from our competitors as they continue to put pressure on prices. Our FALCON sales are disappointing and the number of deliveries is a direct consequence of this situation. We are compelled to reduce our forecast for 2016 deliveries from 60 to 50 FALCON.

In the military sector, the foundations have been laid for the future in order to assure and prepare the future of combat aviation and retain essential industrial skills.

DASSAULT AVIATION has once again shown, in this half-year, its unique ability to be a major dual player in business aviation and military aviation:

- certification of the FALCON 8X by EASA and FAA. The development of the FALCON 8X proceeded in line with expectations and we are proud to be on track with the original schedule and delighted with the performance of the aircraft. The first deliveries are scheduled for Q4 2016,
- the flight demonstration, at the meeting organized by the French Air Force in Istres, last June, of the European demonstrator nEUROn combat drone. It is the first time in the history of global aviation that a ground-controlled stealth aircraft has been publicly demonstrated. After take-off, the nEUROn was joined by a RAFALE and a FALCON 8X, thereby flying in formation as part of the centenary celebrations of our Group, which has designed, manufactured and supported civil and military aircraft since 1916.

This technological excellence is required to respond to a challenging economic environment. It must go hand-in-hand with flexibility and responsiveness. Thus, in the first half-year, we responded to competitive pressures in particular by:

- moving all our FALCON completion activity to our specialized facility in Little Rock - Arkansas,
- demonstrating our ability to rapidly and significantly adapt our self-financed Research and Development work in response to the freezing of the FALCON 5X program.

Our strategy is built around:

- selling the RAFALE to India and pursuing opportunities with our other prospects,
- selling the whole FALCON range because, apart from the competitiveness issue, we believe in the business aviation market,
- continuing to develop the FALCON 5X and, despite the challenging environment, prepare the launch of a new FALCON program,

- getting France to clarify its position (drafting of the 2020 - 2025 Military Planning Law) on the future of the RAFALE and drones,
- being at the cutting edge of technology including suborbital flight expertise and stay at the forefront of pyrotechnics.

In order to execute this strategy, we are currently considering a progressive transformation plan in the following fields:

- corporate culture, quality and organization,
- digital tools, processes and innovation,
- program management,
- rationalization of our industrial tools, specialization per location depending on strategic sectors.

We have already taken measures to this effect like gathering our FALCON completion activity (previously made partially in Mérignac and Little-Rock) in our specialized facility in Little-Rock (USD zone advantage), gathering our machining activities in Seclin, ...

2016 marks this Company's centenary. Proud of this heritage, and aware of the responsibility this places on us, we are more confident than ever in our ability to innovate and provide clients with products designed to meet their specific needs.

All the information relating to the publication of our results can be found on our website [www.dassault-aviation.com](http://www.dassault-aviation.com).

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## Appendix: table of reconciliation between consolidated income and adjusted income

The impact **in the first half of 2016** of the adjustments to Income Statement aggregates is presented below:

(in EUR thousands)	H1 2016 Consolidated data	THALES PPA amortization <sup>(1)</sup>	THALES adjustments	Derivative exchange instruments <sup>(2)</sup>	H1 2016 Adjusted data
Net sales	1,662,352				1,662,352
Operating income	125,278				125,278
Net financial income / expense	122,632			-105,407	17,225
Share in net income of equity associates	75,498	19,927	-4,185		91,240
Income tax	-85,054			36,292	-48,762
Net income	238,354	19,927	-4,185	-69,115	<b>184,981</b>

The impact **in the first half of 2015** of the adjustments to Income Statement aggregates is presented below:

(in EUR thousands)	H1 2015 Consolidated data	THALES PPA amortization <sup>(1)</sup>	THALES adjustments	Derivative exchange instruments <sup>(2)</sup>	H1 2015 Adjusted data
Net sales	1,675,329				1,675,329
Operating income	143,820				143,820
Net financial income / expense	-410,300			426,723	16,423
Share in net income of equity associates	42,103	20,183	11,883		74,169
Income tax	91,952			-146,921	-54,969
Net income	-132,425	20,183	11,883	279,802	<b>179,443</b>

<sup>(1)</sup> neutralization of the amortization of the THALES purchase price allocation (PPA), net of income tax.

<sup>(2)</sup> neutralization of the changes in fair value, net of income tax, of foreign exchange hedging instruments which do not qualify for hedge accounting under the terms of IAS 39 "Financial Instruments".