2018 FIRST HALF-YEAR
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

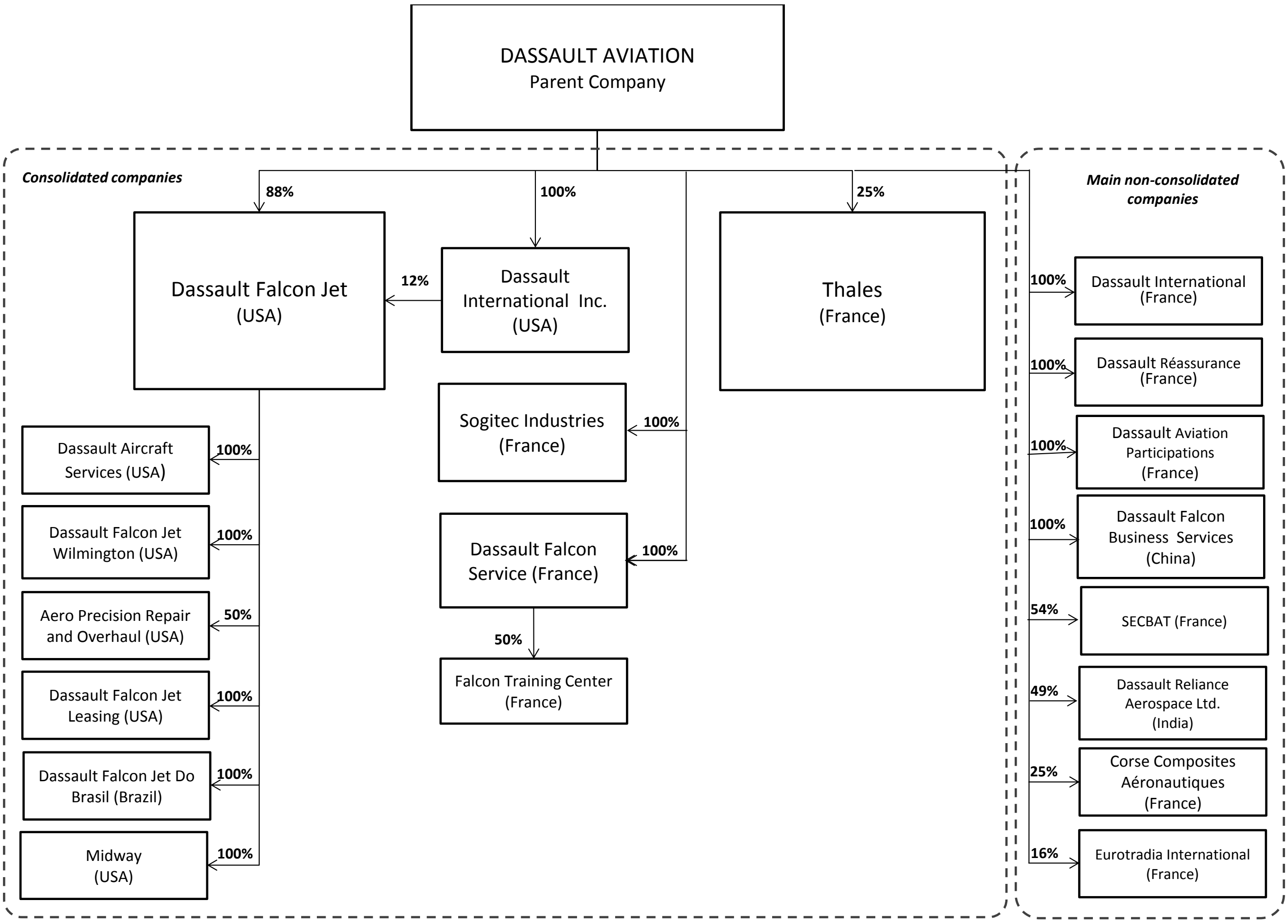
I hereby certify that, to my knowledge, the interim condensed financial statements in this report have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and income or loss of the Dassault Aviation Group, 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 19, 2018

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 the Marcel Dassault Industrial Group. 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 interim condensed consolidated financial statements.

DASSAULT AVIATION Group's business report
for 2018 first half-year

1. KEY FIGURES FOR THE 1ST HALF OF 2018 (1ST HALF 2017 RESTATED PRO FORMA IFRS 15)

	2018 1st half	2017 1st half
Order intake	**€ 2,807 million** **18 Falcon** *(incl. F5X cancellation and 1st F6X orders)* **12 Rafale *(Qatar)***	€ 1,415 million 14 Falcon
<u>Adjusted</u> net sales (*)	**€ 1,709 million** **15 Falcon** **2 Rafale *(France)***	€ 2,068 million 17 Falcon 4 Rafale *(3 Egypt + 1 France)*

	as of June 30, 2018	as of December 31, 2017
Backlog	**€ 20,532 million** **55 Falcon** *(no F5X)* **111 Rafale *(82 Export + 29 France)***	€ 19,460 million 52 Falcon *(incl. 5X not canceled)* 101 Rafale *(70 Export + 31 France)*

	2018 1st half	2017 1st half
<u>Adjusted</u> operating income (*)	**€ 111 million**	€ 121 million
Adjusted operating <u>margin</u> (*)	*6.5% of net sales*	*5.9% of net sales*
Research & Development	**€ 143 million** *8.4% of net sales*	€ 176 million *8.5% of net sales*
<u>Adjusted</u> net income (*)	**€ 186 million**	€ 166 million
<u>Adjusted</u> net income (*)/ share	*€ 22.4 per share*	*€ 20.2 per share*
<u>Adjusted</u> net margin (*)	*10.9% of net sales*	*8.0% of net sales*

	As of June 30, 2018	As of December 31, 2017
Available cash	**€ 5,029 million**	€ 4,121 million

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

<u>Main aggregates under IFRS</u>

Consolidated net sales (*)	*€ 1,720 million*	*€ 2,082 million*
Consolidated operating income (*)	*€ 124 million*	*€ 112 million*
Consolidated net income (*)	*€ 125 million*	*€ 357 million*

(*) See table of reconciliation between the consolidated income statement and the adjusted income statement in appendix.

2. 2018 OUTLOOK

The Group confirms its forecasts published on March 8, 2018, namely the delivery of **40 Falcon** and **12 Rafale** (3 to France and 9 for Export) and 2018 net sales should be close to 2017's.

TRIBUTE TO SERGE DASSAULT

The Board of Directors pays tribute to Serge Dassault, who passed away on May 28 at the age of 93.

Serge Dassault, a graduate of the École Polytechnique and the École Nationale Supérieure de l'Aéronautique, started at the Company's engineering department in 1951 under the direction of Henri Deplante before taking responsibility for flight tests.

In that capacity, he oversaw the development of several aircraft, such as the Super Mystère B2, Mirage III, Etendard and Mirage IV.

After being appointed Military Export Director, he handled the negotiations that led to the purchase of the Mirage III by Switzerland and Australia. He also launched the Mystère 20 sales campaign in the United States.

After his time at Société Electronique Marcel Dassault, which later became Electronique Serge Dassault, he became Chairman and CEO of our Company from the end of 1986 until April 2000.

During that period, under his leadership, our company successfully deployed long-term and large-scale strategies consistent with the long cycles typical of our products.

He was a tenacious and hard worker man with a spirit of conquest.

Aeronautics was his passion.

At last, he anticipated and settled his successorship by appointing Charles Edelstenne, as head of GIMD with the agreement of all of his children.

3. GROUP ACTIVITIES

3.1 Program developments

Falcon programs

Highlights of the first half of 2018 were:

- the order of 18 Falcon including Falcon 5X cancellations and the first Falcon 6X orders, the sale of a 5th Falcon 2000 Maritime Surveillance Aircraft to the Japanese coastguards, and the sale of 1 Falcon 2000LX converted to a testbed airplane to the German Aerospace Research Center (DLR),

- the delivery of 15 Falcon,

- on February 28, 2018, the official launch and start of marketing of the Falcon 6X. The program is unfolding as planned, with the selection of the main partners and the installation of design platforms in Saint-Cloud and Mérignac.
  This new aircraft will have a range of 5,500 NM, unequaled comfort with a cabin width of 2.7 m and a volume of 52.2 m^3. This twinjet will be equipped with Pratt & Whitney PWC 812D engines and will reach a maximum speed of Mach 0.9,

- the completion of flight tests for the certification of the Falcon Eye system operational gains for the Falcon 8X,

- the announcement of the new Falcon Connect service, an integrated solution for communications management and data exchange between aircraft and ground networks. This service will be available on new aircraft and as a retrofit early 2019,

- concerning mission aircraft, the February 28, 2018 decision by the French Government to choose the Epicure mission Falcon to handle Universal Electronic Warfare Capacity (CUGE), and replace, from 2025 on, the two TRANSALL C-160 Gabriel currently in service,

- the ongoing future Falcon specification.

DEFENSE programs

Rafale

Highlights of the RAFALE program in the first half of 2018 were:

- the entry into force of the option for 12 additional Rafale for Qatar following the receipt of the first down payment on March 27, 2018,

- delivery of 2 Rafale to France, bringing the total Rafale delivered to the French Forces to 151 out of the 180 aircraft ordered,

- the delivery of the 9th Naval Rafale retrofitted from the F1 to the F3 standard,

- the ongoing development of the F3-R standard,

- the launching of preliminary studies for the development of the F4 standard,

- continued fulfillment of Rafale contracts for Egypt, Qatar and India,
- training of pilots and implementation of support for Qatar prior to the start of the 1st aircraft deliveries,
- the continuation of promotional and prospecting activities related to Rafale Export.

Mirage 2000

For Mirage 2000, it should be noted that in the 1st half of 2018:

- upgrade works for the French Mirage 2000D continued,
- as well as discussions with the United Arab Emirates Armed Forces following their announcement of their intention to upgrade their Mirage 2000-9 fleet.

MARitime SURveillance and MARitime PATrol aircraft

In addition to the sale of a 5th Falcon 2000 Maritime Surveillance Aircraft to the Japanese coastguards, and the choice by the French Government for the Epicure Falcon mission, the 1st half of 2018 was marked by:

- continued system integration tests and flight tests for renovation of the ATL2 combat system,
- the continuation of development works on Falcon 2000 Maritime Surveillance Aircraft for the Japanese coastguards,
- the continuation of works to add capacity for dropping SAR (Search And Rescue) chains for the French Navy's Falcon 50 SURMAR fleet.

Drones:

For drones, highlights in the first half of 2018 included:

- the notification by the French Defense Procurement Agency (DGA) of a new market for stealth flight studies and tests over the period 2018-2020 for nEUROn, and consequently, the preparation of the demonstrator for the 2018 flight test campaign,
- the end of the feasibility study for the UCAS (Unmanned Combat Air System) demonstration program with our French and British partners following the decision of the British government not to continue that demonstration project,
- continuing construction with our partners Airbus Defense and Space and Leonardo of the MALE RPAS (Medium Altitude Long Endurance Remotely Piloted Aircraft System) drone project with European technologies. The intermediate "System Requirements Review" milestone was achieved on January 29, 2018, and a scale 1 model of the aircraft was unveiled on April 26, 2018 at the ILA show in Berlin. Germany is the leader country and Airbus the industrial leader.
  Finalization of the "Invitation To Tender" by the OCCAR (Organization for Joint Armament Cooperation) is now expected for the second half of 2018,
- further to the common statement in July 2017 between France and Germany (French President and Chancellor of Germany), both countries signed a Letter Of Intent in June 2018 to launch the Future Air Combat System (SCAF) project to create a combat system around a combat aircraft that combines piloted platforms (future-generation fighter aircraft, tankers, Awacs) and drones : France has been

designated as the leading nation. At the same time, Dassault Aviation and Airbus Defense and Space signed an agreement confirming Dassault Aviation's leadership as architect for the combat aircraft (ILA Berlin in April 2018).

We have now to establish the roadmap that shall begin with the studies. Our goal is to obtain the launch of a demonstrator,

- following the initial firm order for the upstream study program "Man Machine Teaming" in 2017 (definition and concept modelling of the Man System relationship in the future combat system) the 1st studies have been implemented during 2018 1st half.

India

Indian needs for combat aircraft are material (Request For Information for 110 aircraft for its Air Force and 57 aircraft for the Navy), the "Make in India" success is a priority.

In this context, the civil and military aeronautical activities of the Dassault Reliance Aerospace Limited Joint Venture (JV DRAL), created in 2017, should enable us to meet our offsets commitments provided for in the contract signed to supply 36 Rafale, to build the foundations to reach our commercial goals with India, and to improve our competitiveness in manufacturing Falcon 2000 parts in India.

JV DRAL industrial operations were launched in April 2018 in the presence of Loïk Segalen, Chief Operating Officer of Dassault Aviation, and Suresh Kakani, Vice Chairman & Managing Director of the supervisory authority for the development of the free zone where JV DRAL is located.

The ramp-up will take place gradually according to a milestoned industrial plan to ensure the performance of JV DRAL at each stage of the transfer.

We have also launched the construction of the initial infrastructure and have begun to recruit and train Indian employees. The first Falcon 2000 subassemblies are expected to come out of production in 2018.

When the Dassault Aviation Executive Committee meeting was held in New Delhi in April 2018, the Directors and Chief Executives of the company went to India to acknowledge the development of JV DRAL and reaffirm Dassault Aviation's commitment to "Make in India".

The GIFAS visit to India led by Eric Trappier, Chairman of GIFAS, also gave a large delegation of French industry leaders the opportunity to go to Nagpur to interact with the JV DRAL management team and promote the development of partnerships between Indian and French Supply Chains. We have also continued to establish a production line in India with the implementation of a local supply chain for pylons, drums, primary parts and engineering.

3.2 Customer support

Civil customer support:

With respect to Falcon customer support, in the first half of 2018, we:

- continued to expand our network with the approval of a new service center in Canada (Toronto),

- marketed new services and technical solutions for the fleet including broadband connectivity (Ka for F900, Ku and 4G for 7X),

- implemented specific support for the FIFA World Cup in Russia and the Olympic Winter Games in Korea,

- organized 8 Maintenance and Operations seminars that brought together more than 750 Falcon operators, representing more than 1,200 people with partners.

Military customer support:

As regards military customer support, we:

- continued supporting Rafale aircraft in service delivered to France and Egypt,

- continued to conduct Major Visits or periodic visits of Mirage 2000 and AlphaJet fleets in Qatar and the Mirage 2000-9 fleet in the United Arab Emirates,

- supported the Mirage 2000 fleet for French and foreign armed forces.

It should be noticed that, in June 2018, the Mirage 2000N was retired from operational service after 30 years in the French forces.

4. ADJUSTED CONSOLIDATED RESULTS OF THE 1ST HALF OF 2018

4.1 Order intake

Order intake in the first half of 2018 was **EUR 2,807 million**, compared with EUR 1,415 million in the 1st half of 2017 (IFRS 15 pro forma). **Export** represented **92%.**

The change in order intake was as follows, in **EUR millions**:

	Defense		Falcon	Total	% Export
	France	Export			
2017 1st half	221	172	1,022	1,415	83%
	28%		72%		
2018 1st half	**231**	**1,354**	**1,222**	**2,807**	**92%**
	56%		**44%**		

The order intake item is entirely composed of firm orders.

Falcon programs

During the 1st half of 2018, 18 Falcon were ordered including Falcon 5X cancellations and 1st Falcon 6X orders, compared to 14 orders over the 1st half of 2017.

Falcon orders represented **EUR 1,222 million** in the 1st half of 2018, compared with EUR 1,022 million in the 1st half of 2017, IFRS 15 pro forma. This rise results from an increase in orders for new aircraft.

Defense programs

Defense orders stood at **EUR 1,585 million** during the first half of 2018, compared to EUR 393 million during the first half of 2017 (IFRS 15 pro forma).

The increase in Defense Export orders, **EUR 1,354 million** during the first half of 2018 compared with EUR 172 million during the first half of 2017 (IFRS 15 pro forma) is mainly due to the entry into force of the 12 Rafale option of Qatar.

4.2 Net sales

Adjusted consolidated net sales for the first half of 2018 were **EUR 1,709 million**, compared to EUR 2,068 million for the first half of 2017 (IFRS 15 pro forma). **Export** represented **80%** in the first half of 2018.

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

	Defense		Falcon	Total	% Export
	France	Export			
2017 1st half	226	693	1,149	2,068	86%
	44%		56%		
2018 1st half	**288**	**234**	**1,187**	**1,709**	**80%**
	31%		**69%**		

Falcon programs

15 Falcon were delivered in the 1st half of 2018, compared to 17 in the 1st half of 2017.

Falcon net sales for the 1st half of 2018 were **EUR 1,187 million**, compared to EUR 1,149 million for the 1st half of 2017 (IFRS 15 pro forma).

Defense programs

2 Rafale were delivered to France in the 1st half of 2018, compared to 3 Rafale to Egypt and 1 Rafale to France in the 1st half of 2017.

Defense net sales for the 1st first half of 2018 were **EUR 522 million**, compared to EUR 919 million for the 1st first half of 2017 (IFRS 15 pro forma).

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The "book to bill" ratio (order intake/net sales) was 1.64 in the first half of 2018.

4.3 Backlog

The consolidated backlog as of June 30, 2018 was **EUR 20 532 million**, compared to EUR 19,460 million as of December 31, 2017 (IFRS 15 pro forma). The increase is mainly due to the entry into force of the 12 Rafale option of Qatar

The Falcon backlog stood at **EUR 2,466 million**, compared to EUR 2,457 million as of December 31, 2017 (IFRS 15 pro forma). In particular, it includes **55 Falcon** with no more Falcon 5X (compared with 52 as of December 31, 2017, including Falcon 5X not canceled).

The French Defense backlog stood at **EUR 2,982 million**, compared to EUR 3,039 million as of December 31, 2017 (IFRS 15 pro forma). It includes in particular **29 Rafale** (compared to 31 as of December 31, 2017).

The Defense Export backlog stood at **EUR 15,084 million**, compared to EUR 13,964 million as of December 31, 2017 (IFRS 15 pro forma). It includes, in particular, **10 Rafale Egypt**, **36 Rafale Qatar** and **36 Rafale India** (compared to 10 Rafale Egypt, 24 Rafale Qatar and 36 Rafale India as of December 31, 2017).

4.4 Results

IFRS 15 impacts – Revenue Recognition

The financial statements for the first half of 2017 were restated in accordance with the application of IFRS 15, which sets out standards for revenue recognition.

The most material impact of applying this standard is the inclusion of a financing component when it is significant, to reflect a "cash sale price" for the service provided. The financing component exists when there is, for a given contract, a significant difference between the moment when cash is received and the moment when the revenue is recognized.

Future revenue and therefore the operating income, from the relevant contracts will be increased by this financing component, offset by a financial expense recognized along the duration of the contract.

The IFRS 15 impacts on adjusted net income for the 1st half of 2017 are as follows:

In € millions	**H1 2017 Adjusted Published**	IFRS 15 impact	**H1 2017 Adjusted Restated**
NET SALES	**2,050**	**18**	**2,068**
OPERATING RESULT	**123**	**-2**	**121**
Operating margin	*6.0%*		*5.9%*
FINANCIAL RESULT	16	-34	-18
THALES and shares in other equity associate	106	-9	97
INCOME TAXES	-46	12	-34
NET RESULT	**199**	**-33**	**166**
Net margin	***9.7%***		***8.0%***

Operating income

Adjusted operating income for the 1st half of 2018 was **EUR 111 million**, compared to EUR 121 million during the 1st half of 2017 (IFRS 15 pro forma).

The operating margin was **6.5%**, compared to 5.9% for the 1st half of 2017 (IFRS 15 pro forma). This increase is mainly explained by the improvement of the 1st half hedging rate at 1,19 €/$ compared to 1,23 €/$.

Financial result

Adjusted financial income for the 1st half of 2018 was **EUR -38 million**, compared to EUR -18 million in the 1st half of 2017 (IFRS 15 pro forma) as a result of the financing component booked related to Rafale contracts.

Net income

Adjusted net income in the 1st half of 2018 was **EUR 186 million**, compared to EUR 166 million in the 1st first half of 2017. The contribution of Thales to the Group's net income was EUR 132 million, compared to EUR 95 million during the 1st half of 2017 (IFRS 15 pro forma).

Adjusted net margin stood at **10.9%** in the 1st half of 2018, compared to 8.0% in the 1st half of 2017 (IFRS 15 pro forma).

5. FINANCIAL STRUCTURE

5.1 Available cash

The Group uses a specific indicator called "Available Cash" defined in appendix.

The Group's **available cash** stood at **EUR 5,029 million** as of June 30, 2018, compared to EUR 4,121 million as of December 31, 2017, up by EUR 908 million mainly due to Rafale Export down payments received partly balanced by the increase of the Rafale export inventories and work-in-progress.

5.2 Balance sheet

Note that the balance sheet impacts of IFRS 9 and 15 restatements are detailed in the appendix of our consolidated financial statements.

Total equity amounted to **EUR 3,819 million** as of June 30, 2018, compared to EUR 3,721 million as of December 31, 2017. This increase is mainly explained by the consolidated IFRS net income over the period.

Borrowings and financial debts amounted to EUR 1,046 million as of June 30, 2018, compared to EUR 1,095 million as of December 31, 2017. They include loans taken out by the Group in 2014 and 2015 for EUR 925 million (EUR 25 million having been paid back during the 1st half 2018) and locked-in employee profit-sharing funds.

Inventories and work-in-progress increased by EUR 334 million and stood at EUR 3,806 million as of June 30, 2018. This increase is notably explained by the increase in Rafale Export work-in-progress.

Advances and progress payments received from customers net of advances and progress payments paid to suppliers were up by EUR 1,204 million as of June 30, 2018, due primarily to progress payments received under the scope of Rafale Export contracts.

Derivative financial instruments had a market value of EUR 70 million at June 30, 2018, compared to EUR 161 million as of December 31, 2017. This increase is connected to changes in the €/$exchange rate between June 30, 2018 and December 31, 2017 (€/$ 1.17 vs. €/$ 1.20).

6. HUMAN RESOURCES

The Group employed 11,397 people as of June 30, 2018, compared to 11,398 as of December 31, 2017.

In addition, the Board of Directors has reviewed the annual report on professional and wage equality, which does not reveal any significant disparities.

7. SHAREHOLDER INFORMATION

In order to allow the Company to act at any time with regard to its own shares, the General Meeting of May 24, 2018 approved the implementation of a new share buyback program. The program authorizes the acquisition of a number of shares representing up to 10% of the Company's capital at a maximum price of EUR 1,700 per share over a period of 18 months beginning on May 24, 2018. This program enters into force on July 19, 2018.

The General Meeting of May 24, 2018 also decided to offer shareholders the opportunity to opt for a payment in shares of all or part of the dividend to which they were eligible for the year ended December 31, 2017.

Due to the option exercised by certain shareholders to receive payment of the dividend in shares, the Chairman and Chief Executive Officer recorded on June 22, 2018 the creation of 36,782 new shares. The capital of the Company has therefore increased from EUR 66,495,368 to EUR 66,789,624. These transactions took effect on June 27, 2018.

Capital structure

The Company's share capital totaled EUR 66,789,624 as of June 30, 2018. It is divided into 8,348,703 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 June 30, 2018, Dassault Aviation shareholders are as follows:

Shareholders	Number of shares	%	Exercisable voting rights	%
GIMD	5,196,076	62.2	10,314,316	76.8
Free-Float	2,289,624	27.4	2,293,195	17.1
Airbus	825,828	9.9	825,828	6.1
Dassault Aviation	37,175	0.5		
TOTAL	8,348,703	**100.0**	**13,433,339**	**100.0**

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

8. RELATED-PARTY TRANSACTIONS

The related parties as of June 30, 2018 are identical to those identified as of December 31, 2017 and the transactions during the period are of the same type.

9. RISK FACTORS AND MANAGEMENT

There has been no major change in the main risks and uncertainties described in the 2017 annual report. Therefore, there is no need to update point 2 of the Board of Directors' management report for fiscal year 2017 published in the 2017 annual financial report but the fulfillment of the scheduled entry into service of the Falcon 6X in 2022, a key condition for the program's success. Supply Chain commitments are in progress (the contract with engine manufacturer was signed in the 1st first half of the year).

10. CONCLUSION

The global economic environment in the first half of 2018 was marked by sharp trade tensions between the United States and China and between the United States and Europe, the United States' withdrawal from the agreement with Iran, conflicts in the Middle East, and instability in Europe, which included Brexit, the volatility of the dollar, and rising oil prices.

Besides, the French Defense Procurement 2019-2025 law was discussed and voted in the 1st half of 2018, the military partnership between France and Germany was reaffirmed and the European Defense Fund was launched by European Union.

The positive trend in the business jet market was confirmed, with a recovery in North America and the Asia Pacific region for new aircraft (despite continued competitive pressure) and a decrease in the pre-owned aircraft available for sale (but still at low prices).

In this context, Dassault Aviation is to face four major challenges: establishment in India, preparation for the Future Air Combat System (SCAF), development of the Falcon 6X, and enhancement of the Company's transformation.

"Make in India" shall be our priority with ambitious goals: obtaining new Rafale orders, gaining competitiveness in business aviation, multiplying high technology projects.

We are also fully engaged in SCAF project, which aims to create a network combat system based on a combat aircraft that combines drones and surveillance devices. We are starting to develop this aircraft, with Airbus, as part of a Franco-German cooperative effort.

The implementation of the Dassault Systèmes 3DEXPERIENCE™ collaborative engineering platform will be one of the solutions for meeting our future challenges, in the frame of our transformation plan "Leading our Future".

We confirm the objectives for 2018 as they appeared in the annual publication in March 2018:

- obtain qualification of the F3-R standard,
- conclude a contract for the Rafale F4 standard,
- sign with France the CUGE order for the Epicure mission Falcon,

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

We also confirm our 2018 guidance : 40 Falcon deliveries, 12 Rafale deliveries (9 Export and 3 France) and 2018 net sales close to 2017's.

The Board of Directors expresses its thanks to all employees for their involvement in meeting the Company's challenges and their rigor, skills and desire to transform the company, so that our programs can maintain their high levels of excellence and quality.

The Board of Directors

APPENDIX

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.

Definition of alternative performance indicators

To reflect the actual economic performance of the Group, and for monitoring and comparability reasons, the Group presented an adjusted income statement, adjusted for the impact of:

- gains and losses resulting from the exercise of hedging instruments which do not qualify for hedge accounting under IFRS standards. This income, presented as financial income in the consolidated income statement, is reclassified as net sales and thus as operating income in the adjusted income statement,
- the 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 and losses on hedging should only impact income as commercial flows occur), with the exception of derivatives allocated to hedge balance-sheet positions whose change in fair value is presented as operating income,
- the amortization of the Thales purchase price allocation (PPA),
- the adjustments made by Thales in its financial reporting.

The Group also presents an "available cash" indicator 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.

We recall that only the interim condensed consolidated financial statements are reviewed by the Statutory Auditors. The adjusted financial data is subject to the verification procedures applicable to all information provided in the half-yearly financial report.

Impact of the adjustments

The impact in the first half of 2018 of the adjustments to income statement aggregates is presented below:

(in EUR thousands)	Consolidated income statement H1 2018	Foreign exchange derivatives		Thales PPA	Adjustments applied by Thales	Adjusted income statement H1 2018
		Foreign exchange gain/loss	Change in fair value			
Net sales	1,720,122	-8,024	-2,898			**1,709,200**
Operating income	124,096	-8,024	-5,020			**111,052**
Financial income/expense	-82,610	8,024	36,702			-37,884
Share in net income of equity associates	93,601			19,775	20,097	133,473
Income tax	-10,406		-10,520			-20,926
Net income	124,681		21,162	19,775	20,097	**185,715**
Group share of net income	*124,665*		*21,162*	*19,775*	*20,097*	*185,699*
Group share of net income per share *(in euros)*	15.1					22.4

The impact in the first half of 2017 of the adjustments to income statement aggregates is presented below:

(in EUR thousands)	Consolidated income statement H1 2017 restated	Foreign exchange derivatives		Thales PPA	Adjustments applied by Thales	Adjusted income statement H1 2017 restated
		Foreign exchange gain/loss	Change in fair value			
Net sales	2,081,633	-13,392				**2,068,241**
Operating income	112,461	-13,392	22,017			**121,086**
Financial income/expense	345,123	13,392	-376,632			-18,117
Share in net income of equity associates	55,523			19,847	21,783	97,153
Income tax	-156,241		121,866			-34,375
Net income	356,866		-232,749	19,847	21,783	**165,747**
Group share of net income	*356,857*		*-232,749*	*19,847*	*21,783*	*165,738*
Group share of net income per share *(in euros)*	43.4					20.2

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2018

ASSETS

(in EUR thousands)	Notes	06/30/2018	01/01/2018 (2)	01/01/2017 (1)
Goodwill		14,366	14,366	14,366
Intangible assets		31,045	30,687	35,159
Property, plant and equipment		483,356	445,310	498,330
Equity associates	3	1,814,711	1,767,287	1,668,811
Available-for-sale securities				3,142,377
Other non-current financial assets	4	190,300	189,134	33,678
Deferred tax assets	14	359,421	323,291	544,082
TOTAL NON-CURRENT ASSETS		**2,893,199**	**2,770,075**	**5,936,803**
Inventories and work-in-progress	5	3,805,717	3,471,434	3,863,741
Contract assets	10	0	0	0
Trade and other receivables		841,368	870,161	665,137
Advances and progress payments to suppliers		3,262,536	2,525,871	1,793,708
Derivative financial instruments	17	97,350	172,818	4,598
Other current financial assets	4, 6	3,004,178	3,154,913	
Cash and cash equivalents	6	3,070,871	2,061,419	1,252,866
TOTAL CURRENT ASSETS		**14,082,020**	**12,256,616**	**7,580,050**
TOTAL ASSETS		**16,975,219**	**15,026,691**	**13,516,853**

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

(2) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.3).

EQUITY AND LIABILITIES

(in EUR thousands)	Notes	06/30/2018	01/01/2018 (2)	01/01/2017 (1)
Capital	7	66,790	66,495	66,006
Consolidated reserves and retained earnings		3,791,974	3,716,931	3,088,996
Currency translation adjustments		-3,893	-24,888	99,122
Treasury shares	7	-36,432	-37,828	-38,759
TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY		**3,818,439**	**3,720,710**	**3,215,365**
Non-controlling interests		509	493	451
TOTAL EQUITY		**3,818,948**	**3,721,203**	**3,215,816**
Long-term borrowings and financial debt	6, 8	938,375	980,265	1,094,504
Deferred tax liabilities		0	0	0
TOTAL NON-CURRENT LIABILITIES		**938,375**	**980,265**	**1,094,504**
Contract liabilities	10	10,027,253	8,126,973	6,562,569
Trade and other payables		683,583	735,754	701,102
Tax and social security liabilities		311,283	237,616	237,102
Short-term borrowings and financial debt	6, 8	108,112	114,910	90,598
Provisions for contingencies and charges	9	1,060,110	1,097,903	1,103,781
Derivative financial instruments	17	27,555	12,067	511,381
TOTAL CURRENT LIABILITIES		**12,217,896**	**10,325,223**	**9,206,533**
TOTAL EQUITY AND LIABILITIES		**16,975,219**	**15,026,691**	**13,516,853**

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

(2) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.3).

INCOME STATEMENT

(in EUR thousands)	Notes	H1 2018	H1 2017 (1)	2017 (1)
NET SALES	11	**1,720,122**	**2,081,633**	**4,901,080**
Other revenue		16,655	20,797	44,038
Change in inventories of work-in-progress		306,793	141,899	-108,296
Purchases consumed		-1,286,950	-1,440,813	-3,062,529
Personnel expenses (2)		-613,467	-617,247	-1,143,040
Taxes and social security contributions		-39,244	-38,752	-68,381
Amortization		-39,935	-43,878	-87,270
Allocations to provisions		-774,353	-697,865	-948,321
Reversals of provisions		831,424	727,192	856,874
Other operating income and expenses		3,051	-20,505	-32,719
CURRENT OPERATING INCOME		**124,096**	**112,461**	**351,436**
Other non-current income and expenses		0	0	-133,501
OPERATING INCOME		**124,096**	**112,461**	**217,935**
Cost of net financial debt		-41,979	-36,900	-72,802
Other financial income and expenses		-40,631	382,023	592,361
NET FINANCIAL INCOME/EXPENSE	13	**-82,610**	**345,123**	**519,559**
Share in net income of equity associates	3	93,601	55,523	143,951
Income tax	14	-10,406	-156,241	-251,363
NET INCOME		**124,681**	**356,866**	**630,082**
Attributable to the owners of the Parent Company		*124,665*	*356,857*	*630,040*
Attributable to non-controlling interests		*16*	*9*	*42*
Basic earnings per share (in EUR)	15	**15.1**	**43.4**	**76.4**
Diluted earnings per share (in EUR)	15	**15.1**	**43.4**	**76.4**

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

(2) personnel expenses include incentive schemes and profit-sharing (EUR 60,611 thousand in H1 2018, EUR 49,509 thousand in H1 2017, and EUR 99,273 thousand for 2017).

STATEMENT OF RECOGNIZED INCOME AND EXPENSE

H1 2018

(in EUR thousands)	Notes	Fully consolidated companies	Equity associates	H1 2018
NET INCOME		**31,080**	**93,601**	**124,681**
Derivative financial instruments (1)	3, 17	-54,487	-20,204	-74,691
Deferred taxes	3, 14	17,164	6,442	23,606
Currency translation adjustments		20,370	625	20,995
Items to be subsequently recycled to P&L		**-16,953**	**-13,137**	**-30,090**
Other non-current financial assets	3, 4	484	98	582
Actuarial adjustments on pension benefit obligations	3, 9	36,334	37,393	73,727
Deferred taxes	3, 14	-8,001	-74	-8,075
Items that will not be recycled to P&L		**28,817**	**37,417**	**66,234**
Income and expense recognized directly through equity		**11,864**	**24,280**	**36,144**
RECOGNIZED INCOME AND EXPENSE		**42,944**	**117,881**	**160,825**
Owners of the Parent Company		*42,928*	*117,881*	*160,809*
Non-controlling interests		*16*		*16*

H1 2017

(in EUR thousands)	Notes	Fully consolidated companies	Equity associates	H1 2017 (2)
NET INCOME		**301,343**	**55,523**	**356,866**
Available-for-sale securities		-165,933	-1,913	-167,846
Derivative financial instruments (1)	3, 17	127,139	65,542	192,681
Deferred taxes	3, 14	17,174	-19,202	-2,028
Currency translation adjustments		-59,967	-14,878	-74,845
Items to be subsequently recycled to P&L		**-81,587**	**29,549**	**-52,038**
Actuarial adjustments on pension benefit obligations	3, 9	-4,871	-29,028	-33,899
Deferred taxes	3, 14	4,802	248	5,050
Items that will not be recycled to P&L		**-69**	**-28,780**	**-28,849**
Income and expense recognized directly through equity		**-81,656**	**769**	**-80,887**
RECOGNIZED INCOME AND EXPENSE		**219,687**	**56,292**	**275,979**
Owners of the Parent Company		*219,678*	*56,292*	*275,970*
Non-controlling interests		*9*		*9*

(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.

(2) restated for the impact of the application of IFRS 15 (see Note 1.3).

2017

(in EUR thousands)	Notes	Fully consolidated companies	Equity associates	**2017 (1)**
NET INCOME		**486,131**	**143,951**	**630,082**
Available-for-sale securities		-287,767	-1,913	-289,680
Derivative financial instruments (2)	3, 17	193,900	94,199	288,099
Deferred taxes	3, 14	38,879	-26,683	12,196
Currency translation adjustments		-94,492	-29,518	-124,010
Items to be subsequently recycled to P&L		**-149,480**	**36,085**	**-113,395**
Actuarial adjustments on pension benefit obligations	3, 9	10,801	14,473	25,274
Deferred taxes	3, 14	-9,520	718	-8,802
Items that will not be recycled to P&L		**1,281**	**15,191**	**16,472**
Income and expense recognized directly through equity		**-148,199**	**51,276**	**-96,923**
RECOGNIZED INCOME AND EXPENSE		**337,932**	**195,227**	**533,159**
Owners of the Parent Company		*337,890*	*195,227*	*533,117*
Non-controlling interests		*42*		*42*

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).
(2) the amounts stated represent the change in the market value over the period for instruments that qualify for hedge accounting. They are not representative of the actual gain/loss 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					
Published as of 12/31/2016	**66,006**	**2,834,810**	**355,732**	**99,122**	**-38,759**	**3,316,911**	**451**	**3,317,362**
IFRS 15 adjustments (1)		-101,546				-101,546		-101,546
Adjusted as of 01/01/2017	**66,006**	**2,733,264**	**355,732**	**99,122**	**-38,759**	**3,215,365**	**451**	**3,215,816**
Capital increase	489	76,249				76,738		76,738
Net income for the period		*630,040*				*630,040*	*42*	*630,082*
Income and expense recorded directly under equity		*16,472*	*10,615*	*-124,010*		*-96,923*		*-96,923*
Recorded income and expense		646,512	10,615	-124,010		533,117	42	533,159
Dividend in shares		*-74,731*				*-74,731*		*-74,731*
Dividend in cash		*-24,636*				*-24,636*		*-24,636*
Dividends paid		-99,367				-99,367		-99,367
Share-based payments		1,115				1,115		1,115
Movements on treasury shares (2)		-931			931	0		0
Other changes (3)		-2,988				-2,988		-2,988
Adjusted as of 12/31/2017	**66,495**	**3,353,854**	**366,347**	**-24,888**	**-37,828**	**3,723,980**	**493**	**3,724,473**
IFRS 9 adjustments (1)		262,691	-265,961			-3,270		-3,270
Adjusted as of 01/01/2018	**66,495**	**3,616,545**	**100,386**	**-24,888**	**-37,828**	**3,720,710**	**493**	**3,721,203**
Capital increase	295	60,937				61,232		61,232
Net income for the period		*124,665*				*124,665*	*16*	*124,681*
Income and expense directly recorded under equity		*66,234*	*-51,085*	*20,995*		*36,144*		*36,144*
Recorded income and expense		190,899	-51,085	20,995		160,809	16	160,825
Dividend in shares		*-59,675*				*-59,675*		*-59,675*
Dividend in cash		*-66,929*				*-66,929*		*-66,929*
Dividends paid		-126,604				-126,604		-126,604
Share-based payments		1,167				1,167		1,167
Movements on treasury shares (2)		-1,396			1,396	0		0
Other changes (3)		1,125				1,125		1,125
As of 06/30/2018	**66,790**	**3,742,673**	**49,301**	**-3,893**	**-36,432**	**3,818,439**	**509**	**3,818,948**

(1) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.3).

(2) see Note 7.

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

(in EUR thousands)	**Capital**	**Consolidated reserves and retained earnings**		**Currency translation adjustments**	**Treasury shares**	**Total attributable to the owners of the Parent Company**	Non-controlling interests	**Total equity**
		Additional paid-in capital, consolidated retained earnings and other reserves	Derivative financial instruments and available-for-sale securities					
Published as of 12/31/2016	**66,006**	**2,834,810**	**355,732**	**99,122**	**-38,759**	**3,316,911**	**451**	**3,317,362**
IFRS 15 adjustments (1)		-101,546				-101,546		-101,546
Adjusted as of 01/01/2017	**66,006**	**2,733,264**	**355,732**	**99,122**	**-38,759**	**3,215,365**	**451**	**3,215,816**
Capital increase	489	76,249				76,738		76,738
Net income for the period		*356,857*				*356,857*	*9*	*356,866*
Income and expense directly recorded under equity		*-28,849*	*22,807*	*-74,845*		*-80,887*		*-80,887*
Recorded income and expense		328,008	22,807	-74,845		275,970	9	275,979
Dividend in shares		*-74,731*				*-74,731*		*-74,731*
Dividend in cash		*-24,636*				*-24,636*		*-24,636*
Dividends paid		-99,367				-99,367		-99,367
Share-based payments		755				755		755
Movements on treasury shares (2)		-931			931	0		0
Other changes (3)		8,516				8,516		8,516
Adjusted as of 06/30/2017	**66,495**	**3,046,494**	**378,539**	**24,277**	**-37,828**	**3,477,977**	**460**	**3,478,437**

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

(2) see Note 7.

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

CASH FLOW STATEMENT

(in EUR thousands)	Notes	H1 2018	H1 2017 (1)	2017 (1)
I - NET CASH FLOWS FROM OPERATING ACTIVITIES				
NET INCOME		124,681	356,866	630,082
Elimination of net income of equity associates, net of dividends received	3	-22,019	11,404	-53,496
Elimination of gains and losses from disposals of non-current assets		155	34	709
Change in the fair value of derivative financial instruments	17	36,469	-376,410	-473,634
Change in the fair value of other current financial assets	4	-2,046	0	0
Income tax (including deferred taxes)	14	10,406	156,241	251,363
Allocation to and reversals of depreciation, amortization and provisions (excluding those relating to working capital)		32,395	38,809	112,964
Other items		1,167	755	1,115
Net cash from operating activities before working capital changes and taxes		**181,208**	**187,699**	**469,103**
Income taxes paid		**-35,277**	**-58,163**	**-110,945**
Change in inventories and work-in-progress (net)	5	-334,283	-169,210	392,307
Change in contract assets	10	0	-3,237	0
Change in advances and progress payments to suppliers		-736,665	-763,547	-732,163
Change in trade and other receivables (net)		27,999	-100,093	-103,033
Change in contract liabilities	10	1,900,280	1,967,394	1,564,404
Change in trade and other payables		-52,171	-74,056	34,652
Change in tax and social security liabilities		73,667	36,297	514
Increase (-) or decrease (+) in working capital requirement		**878,827**	**893,548**	**1,156,681**
Total I		**1,024,758**	**1,023,084**	**1,514,839**
II - NET CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of intangible assets and property, plant & equipment		-92,698	-49,950	-76,087
Increase in non-current financial assets	4	-864	-1,660	-45,828
Disposals of or reductions in non-current assets		22,096	4,218	23,484
Total II		**-71,466**	**-47,392**	**-98,431**
III - NET CASH FLOWS FROM FINANCING ACTIVITIES				
Net change as an acquisition cost of other current financial assets	4	152,781	-192,066	-410,286
Capital increase and share premiums	7	61,232	76,738	76,738
Increase in financial debt	8	69,384	60,601	61,044
Repayment of financial debt	8	-118,072	-92,161	-150,971
Dividends paid during the year		-126,604	-99,367	-99,367
Total III		**38,721**	**-246,255**	**-522,842**
IV - Impact of exchange rate fluctuations and others **Total IV**		17,439	-51,748	-85,013
CHANGE IN NET CASH AND CASH EQUIVALENTS (I+II+III+IV)		**1,009,452**	**677,689**	**808,553**
Opening net cash and cash equivalents	6	2,061,419	1,252,866	1,252,866
Closing net cash and cash equivalents	6	3,070,871	1,930,555	2,061,419

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Accounting principles

1.1 General principles

On July 19, 2018, the Board of Directors closed and authorized the publication of the condensed consolidated financial statements of Dassault Aviation dated June 30, 2018.

Dassault Aviation Group prepares its interim condensed consolidated financial statements in accordance with IAS 34 "Interim Financial Reporting". The consolidated financial statements are in accordance with the IFRS standards, amendments, and interpretations, as adopted by the European Union and applicable at the closing date.

The interim financial statements are prepared in accordance with the accounting rules and methods used to prepare the 2017 consolidated financial statements, and take into account the change in accounting principles mentioned in paragraph 1.2 below. The impacts resulting from the first application of IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" are described in Note 1.3.

Special characteristics of interim consolidated financial statements

Seasonality

In previous years, a recurring seasonality phenomenon has been observed. As a result, the interim results as of June 30, 2018 are not necessarily representative of what might be expected for full-year 2018.

Income tax

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

Provisions for retirement payments

Pension costs for the half-year are calculated on the basis of the actuarial valuations performed at the end of the previous year. If necessary, these valuations are adjusted to take into account curtailments, settlements or other major non-recurring events during the period. Furthermore, amounts recognized in equity and liabilities in respect of defined benefit plans are adjusted, if necessary, in order to reflect material changes impacting the yield of investment-grade corporate bonds issued in the geographic area concerned (the benchmark used to determine the discount rate) and the actual return on plan assets.

1.2 Changes in basis of accounting

Standards, amendments, and interpretations which became mandatory as of January 1, 2018

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

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

The impacts of IFRS 15 and IFRS 9 application on the Group's financial statements are detailed in paragraph 1.3.

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

Standards, amendments, and interpretations for mandatory application after January 1, 2018

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

The impacts of IFRS 16 "Leases", adopted by the European Union and applicable starting January 1, 2019, are under evaluation.

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

- the interpretation IFRIC 23 "Uncertainty over Income Tax Treatment",
- annual improvements to IFRS 2015-2017,
- amendments to IAS 19 "Employee Benefits" entitled "Plan Amendment, Curtailment or Settlement",
- amendments to IAS 28 entitled "Long-term Interests in Associates and Joint Ventures".

The impacts of these texts on the Group's financial statements are currently in the course of evaluation.

1.3 Application of IFRS 15 and IFRS 9

Implementation of IFRS 15

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

More specifically, this standard requires:

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

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

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

Segmentation of contracts into performance obligations

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

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

Determination of transaction price

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

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

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

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

Recognition of revenue over time or at a point in time

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

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

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

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

Completion method

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

Agent/principal

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

Backlog

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

Transition method

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

Implementation of IFRS 9

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

Classification and measurement of financial assets and liabilities

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

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

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

Impairment of receivables

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

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

Hedge accounting

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

Transition method

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

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

H1 2017 consolidated income statement

(in EUR thousands)	**H1 2017 Published**	**Impact from IFRS 15**	**H1 2017 Adjusted**
NET SALES	**2,063,381**	**18,252**	**2,081,633**
Other revenue	20,797		20,797
Change in inventories of work-in-progress	169,667	-27,768	141,899
Purchases consumed	-1,448,857	8,044	-1,440,813
Personnel expenses	-617,247		-617,247
Taxes and social security contributions	-38,752		-38,752
Amortization	-43,878		-43,878
Allocations to provisions	-697,427	-438	-697,865
Reversals of provisions	727,192		727,192
Other operating income and expenses	-20,505		-20,505
CURRENT OPERATING INCOME	**114,371**	**-1,910**	**112,461**
Other non-current income and expenses	0		0
OPERATING INCOME	**114,371**	**-1,910**	**112,461**
Cost of net financial debt	-2,977	-33,923	-36,900
Other financial income and expenses	382,023		382,023
NET FINANCIAL INCOME/EXPENSE	**379,046**	**-33,923**	**345,123**
Share in net income of equity associates	64,504	-8,981	55,523
Income tax	-167,377	11,136	-156,241
NET INCOME	**390,544**	**-33,678**	**356,866**
Attributable to the owners of the Parent Company	*390,535*	*-33,678*	*356,857*
Attributable to non-controlling interests	*9*		*9*
Basic earnings per share (in EUR)	**47.5**		**43.4**
Diluted earnings per share (in EUR)	**47.5**		**43.4**

2017 consolidated income statement

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

Consolidated balance sheet as of January 1, 2017

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

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

Consolidated balance sheet as of January 1, 2018

(in EUR thousands)	12/31/2017 Published	Impact from IFRS 15	Impact from IFRS 9	01/01/2018 Adjusted
Goodwill, intangible assets and property, plant and equipment	490,363			490,363
Equity associates	1,870,677	-100,120	-3,270	1,767,287
Available-for-sale securities	3,305,850		-3,305,850	
Other non-current financial assets	38,197		150,937	189,134
Deferred tax assets	289,237	34,054		323,291
TOTAL NON-CURRENT ASSETS	**5,994,324**	**-66,066**	**-3,158,183**	**2,770,075**
Inventories and work-in-progress	3,670,155	-198,721		3,471,434
Contract assets				0
Trade and other receivables	829,962	40,199		870,161
Advances and progress payments to suppliers	2,525,871			2,525,871
Derivative financial instruments	172,818			172,818
Other current financial assets			3,154,913	3,154,913
Cash and cash equivalents	2,061,419			2,061,419
TOTAL CURRENT ASSETS	**9,260,225**	**-158,522**	**3,154,913**	**12,256,616**
TOTAL ASSETS	**15,254,549**	**-224,588**	**-3,270**	**15,026,691**

Capital	66,495			66,495
Consolidated reserves and retained earnings	3,904,845	-184,644	-3,270	3,716,931
Currency translation adjustments	-26,300	1,412		-24,888
Treasury shares	-37,828			-37,828
TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**3,907,212**	**-183,232**	**-3,270**	**3,720,710**
Non-controlling interests	493			493
TOTAL EQUITY	**3,907,705**	**-183,232**	**-3,270**	**3,721,203**
Long-term borrowings and financial debt	980,265			980,265
TOTAL NON-CURRENT LIABILITIES	**980,265**			**980,265**
Contract liabilities		8,126,973		8,126,973
Trade and other payables	898,388	-162,634		735,754
Tax and social security liabilities	237,616			237,616
Customer advances and progress payments	7,968,995	-7,968,995		
Short-term borrowings and financial debt	114,910			114,910
Provisions for contingencies and charges	1,134,603	-36,700		1,097,903
Derivative financial instruments	12,067			12,067
TOTAL CURRENT LIABILITIES	**10,366,579**	**-41,356**		**10,325,223**
TOTAL EQUITY AND LIABILITIES	**15,254,549**	**-224,588**	**-3,270**	**15,026,691**

Backlog as of December 31, 2017, in EUR thousands

Backlog 12/31/2017 published	**18,818,200**
Financing component	446,068
Price revisions	420,775
Other IFRS 15 adjustments	-224,855
Backlog 12/31/2017 adjusted	**19,460,188**

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 sector. The internal reporting submitted to the Chairman and 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.

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)
		06/30/2018	12/31/2017	
DASSAULT AVIATION (3)	**France**	**Parent company**	**Parent company**	
DASSAULT FALCON JET	**United States**	**100**	**100**	**FC**
- DASSAULT FALCON JET WILMINGTON	United States	100	100	FC
- DASSAULT AIRCRAFT SERVICES	United States	100	100	FC
- DASSAULT FALCON JET LEASING	United States	100	100	FC
- AERO PRECISION	United States	50	50	EM
- MIDWAY	United States	100	100	FC
- DASSAULT FALCON JET DO BRAZIL	Brazil	100	100	FC
DASSAULT FALCON SERVICE	**France**	**100**	**100**	**FC**
- FALCON TRAINING CENTER	France	50	50	EM
SOGITEC INDUSTRIES	**France**	**100**	**100**	**FC**
DASSAULT INTERNATIONAL INC.	**United States**	**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, for which the Group held 24.65% of the capital, 24.72% of the interest rights and 28.42% of the voting rights as of June 30, 2018.

(2) FC: full consolidation, EM: equity method.

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

Note 3 - Equity associates

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

As of June 30, 2018, Dassault Aviation held 24.72% of the interest rights of the Thales Group, compared to 24.77% as of December 31, 2017. Dassault Aviation has significant influence over Thales, especially with regard to the shareholders' agreement between Dassault Aviation and the public sector.

(in EUR thousands)	Equity associates		Share in net income of equity associates		
	06/30/2018	12/31/2017 (1)	H1 2018	H1 2017 (2)	2017 (2)
Thales (3)	1,795,269	1,747,157	91,527	53,497	139,853
Other	19,442	20,130	2,074	2,026	4,098
TOTAL	**1,814,711**	**1,767,287**	**93,601**	**55,523**	**143,951**

(1) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.3).

(2) restated for the impact of the application of IFRS 15 (see Note 1.3).

(3) the value of the securities includes goodwill amounting to EUR 1,101,297 thousand. The Group share in Thales' net income after consolidation restatements is detailed in Note 3.3.

3.2 Change in equity associates

(in EUR thousands)	H1 2018 (1)	2017 (2)
As of January 1	**1,767,287**	**1,668,811**
Share in net income of equity associates	93,601	143,951
Elimination of dividends paid (3)	-71,582	-90,455
Income and expense recognized directly through equity		
- Securities at fair value	98	-1,913
- Derivative financial instruments (4)	-20,204	94,199
- Actuarial adjustments on pensions	37,393	14,473
- Deferred taxes	6,368	-25,965
- Currency translation adjustments	625	-29,518
Share of equity associates in other income and expense recognized directly through equity	24,280	51,276
Other movements (5)	1,125	-3,026
At end of period	**1,814,711**	**1,770,557**

(1) restated as of January 1st, 2018 for the impact of the application of IFRS 9 (see Note 1.3).

(2) restated for the impact of the application of IFRS 15 (see Note 1.3).

(3) in H1 2018, the Group received EUR 68,291 thousand in dividends from Thales for 2017. In 2017, Thales paid the Group EUR 63,038 thousand in dividends for 2016 and EUR 23,639 thousand in interim dividends for 2017.

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

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

3.3 Share in the net income of Thales

The breakdown between the Group share of Thales' published net income and that applied by Dassault Aviation is noted below:

(in EUR thousands)	H1 2018	H1 2017 (1)	2017 (1)
Thales net income (100%)	**457,200**	**299,400**	**679,800**
Thales net income - Dassault Aviation share	**113,020**	**74,281**	**168,386**
Post-tax amortization of the purchase price allocation (2)	-19,775	-19,847	-26,384
Other consolidation restatements	-1,718	-937	-2,149
Dassault Aviation share in net income of Thales	**91,527**	**53,497**	**139,853**

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

(2) amortization of identified assets for which the modes and periods of depreciation are identical to those used for the year ended December 31, 2017.

3.4 Impairment

Based on the market price of Thales shares as of June 30, 2018 (EUR 110.35 per share), Dassault Aviation's investment in Thales is valued at EUR 5,797 million.

In the absence of any objective indication of impairment, the Thales investments were not subject to an impairment test as of June 30, 2018.

Note 4 - Other current and non-current financial assets

(in EUR thousands)	12/31/2017	Acquisition	Disposal	Change in fair value	Other	06/30/2018
Non-listed securities (1)	117,352	0	0	-1,997	-5	115,350
Embraer shares (1)	33,585	0	0	2,481	0	36,066
Other	38,197	864	-177	0	0	38,884
Other non-current financial assets	**189,134**	**864**	**-177**	**484**	**-5**	**190,300**
Other current financial assets (2)	**3,154,913**	**0**	**-152,781**	**2,046**	**0**	**3,004,178**

(1) following the application of IFRS 9, these shares have been measured at fair value against other income and expenses recorded under equity, which cannot be recycled to P&L.
(2) this essentially represents marketable securities. Given their liquidity, the latter could be disposed of in the short-term. In application of IFRS 9, these securities are measured at fair value through profit or loss. The corresponding risk analysis is described in Note 17.

Note 5 - Inventories and work-in-progress

(in EUR thousands)	06/30/2018			12/31/2017 (1)
	Gross	Impairment	Net	Net
Raw materials	189,829	-82,512	107,317	99,063
Work-in-progress	3,160,751	-150,816	3,009,935	2,637,910
Semi-finished and finished goods	1,003,566	-315,101	688,465	734,461
Inventories and work-in-progress	**4,354,146**	**-548,429**	**3,805,717**	**3,471,434**

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

The increase in inventories and work-in-progress is explained primarily by the increase in Rafale Export work-in-progress.

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

Note 6 - Cash

6.1 Net cash

(in EUR thousands)	06/30/2018	12/31/2017
Cash equivalents (1)	2,067,876	1,656,383
Cash at bank and in hand	1,002,995	405,036
Cash and cash equivalents in assets	**3,070,871**	**2,061,419**
Bank overdrafts	0	0
Net cash in the cash flow statement	**3,070,871**	**2,061,419**

(1) primarily time deposits. The corresponding risk analysis is described in Note 17.

6.2 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)	06/30/2018	12/31/2017
Other current financial assets (1)	3,004,178	3,154,913
Cash and cash equivalents	3,070,871	2,061,419
Sub-total	**6,075,049**	**5,216,332**
Borrowings and financial debt (2)	-1,046,487	-1,095,175
Available cash	**5,028,562**	**4,121,157**

(1) see Note 4.

(2) see Note 8.

Note 7 - Equity

7.1 Share capital

The share capital amounted to EUR 66,790 thousand and consisted of 8,348,703 common shares of EUR 8 each as of June 30, 2018. As of December 31, 2017, it amounted to EUR 66,495 thousand and consisted of 8,311,921 common shares.

In H1 2018, 36,782 new shares have been created due to the option offered to shareholders to receive all or part of the 2017 dividend in shares.

The distribution of share capital as of June 30, 2018 is as follows:

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

7.2 Treasury shares

Movements on treasury shares are detailed below:

(in number of shares)	H1 2018	H1 2017	2017
Treasury shares as of January 1	**38,600**	**39,550**	**39,550**
Purchase of treasury shares	0	0	0
Cancellation of treasury shares	0	0	0
Share-based payments (Note 7.3)	-1,425	-950	-950
Closing treasury shares	**37,175**	**38,600**	**38,600**

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

The 37,175 treasury shares held as of June 30, 2018 (EUR 980 per share) were allocated to potential allocations of performance share plans and a potential liquidity contract to ensure the market activity.

7.3 Share-based payments

The Group grants performance shares to corporate officers. The characteristics of these share allocation plans are described in the 2017 annual financial report.

Grant date	Vesting period	Number of shares allocated	Share price on the grant date	Number of shares delivered in 2018	Number of shares canceled (1)	Balance of performance shares as of 06/30/2018
03/07/2017	from 03/07/2017 to 03/06/2018	1,425	EUR 1,080	1,425	0	0
03/07/2018	from 03/07/2018 to 03/06/2019	1,575	EUR 1,405	0	0	1,575

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

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

2017 Plan

An expense of EUR 840 thousand was recognized in 2018 for this plan, which had a fair value of EUR 1,425 thousand (average of EUR 1,000 per share).

2018 Plan

An expense of EUR 327 thousand was recognized in 2018 for this plan, which had a fair value of EUR 2,068 thousand (average of EUR 1,313 per share).

Note 8 - Borrowings and financial debt

(in EUR thousands)	06/30/2018	12/31/2017
Bank borrowings (1)	924,152	948,823
Other financial liabilities (2)	122,335	146,352
Borrowings and financial debt	**1,046,487**	**1,095,175**

(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 the H2 2018, EUR 625 million in 2019 and EUR 250 million in 2020.

(2) other financial liabilities essentially correspond to the locked-in employee profit-sharing funds.

Note 9 - Provisions for contingencies and charges

(in EUR thousands)	12/31/2017 (1)	Increases	Reversals	Other	06/30/2018
Warranties	622,011	43,868	-32,340	1,104	634,643
Services and work to be performed	152,888	41,317	-35,211	1,717	160,711
Retirement payments (2)	300,614	22,937	-41,803	-35,747	246,001
French companies	*224,506*	*15,983*	*-8,600*	*-20,740*	*211,149*
US companies	*76,108*	*6,954*	*-33,203*	*-15,007*	*34,852*
Others	22,390	129	-3,819	55	18,755
Provisions for contingencies and charges	**1,097,903**	**108,251**	**-113,173**	**-32,871**	**1,060,110**

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

(2) the discount rate used to calculate the provision for retirement payments for French companies (determined by reference to the yield for high-quality corporate long-term bonds rated AA) was at 1.70% as of June 30, 2018, compared to 1.50% as of December 31, 2017. The rate used to calculate the provision for retirement payments for U.S. companies was 4.25% on June 30, 2018, compared to 3.85% on December 31, 2017. The actuarial adjustments contributed to the decrease in provisions for retirement payments in the amount of EUR 36,334 thousand.

A 0.50 point decrease in the discount rate would increase the total commitment by EUR 61,769 thousand, while a 0.50 point increase in the discount rate would decrease the total commitment by EUR 55,211 thousand.

Note 10 - Contract assets and liabilities

(in EUR thousands)	06/30/2018	12/31/2017 (1)
Contract assets	0	0
Contract liabilities	10,027,253	8,126,973
Advances and payments received	*9,909,871*	*7,968,995*
Other contract liabilities	*117,382*	*157,978*

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

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

Note 11 - Net sales

(in EUR thousands)	H1 2018	H1 2017 (1)	2017 (1)
France (2)	337,682	279,743	541,877
Export (3)	1,382,440	1,801,890	4,359,203
Net sales	**1,720,122**	**2,081,633**	**4,901,080**

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

(2) mainly the French state, with whom the Group realized more than 10% of its total net sales in H1 2018, as in 2017 and H1 2017.

(3) more than 10% of Group sales were made with the Egyptian government in 2017 and in H1 2017. The net sales from the Rafale Egypt contract are recognized on a gross basis (including the co-contractors' parts).

By activity, net sales are as follows:

(in EUR thousands)	H1 2018	H1 2017 (1)	2017 (1)
Falcon activity	1,197,518	1,162,912	3,025,920
Military activity	522,604	918,721	1,875,160
Net sales	**1,720,122**	**2,081,633**	**4,901,080**

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

Interim data is not representative of annual net sales.

Note 12 - 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)	H1 2018	H1 2017	2017
Research and development costs	-143,302	-176,106	-312,539

Note 13 - Net financial income/expense

(in EUR thousands)	H1 2018	H1 2017 (1)	2017 (1)
Income from cash and cash equivalents	3,164	2,959	6,948
Change in other current financial assets	2,046	0	0
Cost of gross financial debt (1)	-47,189	-39,859	-79,750
Cost of net financial debt (1)	**-41,979**	**-36,900**	**-72,802**
Dividends and other investment income	265	265	1,425
Interest income and gains/losses on disposal of other financial assets (*excluding cash and cash equivalents*) (2)	3,830	168,364	297,330
Foreign exchange gain/loss (3)	-44,726	213,738	293,804
Other	0	-344	-198
Other financial income and expenses	**-40,631**	**382,023**	**592,361**
Net financial income/expense	**-82,610**	**345,123**	**519,559**

(1) restated for the impact of the application of IFRS 15. See Note 1.3. The financial expense recognized for the financing component of long-term Defense contracts was EUR -42,137 thousand as of the H1 of 2018, EUR -33,923 thousand as of the first half of 2017, and EUR -67,846 thousand in 2017.

(2) including proceeds from the sale of marketable securities amounting to EUR 165,432 thousand in H1 2017, and EUR 292,385 thousand in 2017.

(3) foreign exchange gain/loss includes result from exercised hedging instruments which do not qualify for hedge accounting under the terms of IFRS 9 "Financial instruments," change in the market value of foreign exchange hedging instruments which do not qualify for hedge accounting (these amounts are not representative of the actual gain/loss that will be recognized when the hedges are exercised). In 2017, it also included the restructuring costs of the currency hedging portfolio, necessitated by the decline in commercial flows related to the Falcon activity.

Note 14 - Tax position

14.1 Deferred tax sources

(in EUR thousands)	06/30/2018	12/31/2017 (1)
Temporary differences on provisions (profit-sharing, pension, etc.)	268,444	268,074
Other current and non-current financial assets and cash equivalents	-3,981	-3,906
Derivative financial instruments	-19,941	-48,352
Other temporary differences	114,899	107,475
Net deferred taxes (2)	**359,421**	**323,291**
Deferred tax assets	*359,421*	*323,291*
Deferred tax liabilities	*0*	*0*

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

(2) the deferred tax bases are taxed at the rate applicable to the year on which the reversal of the base is expected.

14.2 Reconciliation of theoretical and actual tax charge

(in EUR thousands)	H1 2018	H1 2017 (1)	2017 (1)
Net income	124,681	356,866	630,082
Cancellation of the income tax	10,406	156,241	251,363
Cancellation of the Group share in net income of equity associates	-93,601	-55,523	-143,951
Income before tax and equity associates	41,486	457,584	737,494
Theoretical tax expenses calculated at the current rate (2)	**-14,284**	**-157,546**	**-327,669**
Effect of tax credits (3)	6,781	7,082	19,579
Effect of differences in tax rates	-4,794	-2,195	40,582
Other	1,891	-3,582	16,145
Taxes recognized	**-10,406**	**-156,241**	**-251,363**

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

(2) a rate of 34.43% applies for 2018. In 2017, the tax rate was 34.43% for the first half of the year, compared to 44.43% for the whole year.

(3) research Tax Credit, recognized as other revenue, amounted to EUR 15,450 thousand in H1 2018, compared to EUR 15,942 thousand in H1 2017, and EUR 32,643 thousand for 2017. The Tax Credit for Competitiveness and Employment, which is recognized as a deduction from personnel expenses, represented EUR 4,030 thousand in H1 2018, compared to EUR 4,627 thousand in H1 2017 and EUR 9,545 thousand in 2017.

Note 15 - Earnings per share

Earnings per share	H1 2018	H1 2017 (1)	2017 (1)
Net income attributable to the owners of the Parent Company (in EUR thousands) (2)	124,665	356,857	630,040
Average number of shares outstanding	8,275,055	8,215,216	8,244,507
Diluted average number of shares outstanding	8,275,843	8,215,929	8,245,220
Earnings per share (in EUR)	**15.1**	**43.4**	**76.4**
Diluted earnings per share (in EUR)	**15.1**	**43.4**	**76.4**

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

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

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

Diluted earnings per share 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, increased by performance shares granted.

Note 16 - Financial instruments

The valuation method used in 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.

16.1 Financial instruments (assets)

(in EUR thousands)	**Balance sheet value as of 06/30/2018**			
	Cost or amortized cost (1)	**Fair value**		**Total**
		Impact on net income	**Impact on equity**	
Non-current assets				
Other non-current financial assets	38,884		151,416	190,300
Current assets				
Trade and other receivables	841,368			841,368
Derivative financial instruments		13,608	83,742	97,350
Other current financial assets		3,004,178		3,004,178
Cash equivalents (2)		2,067,876		2,067,876
Financial instruments (assets)	**880,252**	**5,085,662**	**235,158**	**6,201,072**
Level 1 (2)		5,072,054	36,066	
Level 2		13,608	83,742	
Level 3			115,350	

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

(2) including time deposits as of 06/30/2018: EUR 1,854,349 thousand.

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

(in EUR thousands)	Balance sheet value as of 12/31/2017 (1)			
	Cost or amortized cost (2)	Fair value		Total
		Impact on net income	Impact on equity	
Non-current assets				
Other non-current financial assets	38,197		150,937	189,134
Current assets				
Trade and other receivables	870,161			870,161
Derivative financial instruments		33,358	139,460	172,818
Other current financial assets		3,154,913		3,154,913
Cash equivalents (3)		1,656,383		1,656,383
Financial instruments (assets)	**908,358**	**4,844,654**	**290,397**	**6,043,409**
Level 1 (3)		4,811,296	33,585	
Level 2		33,358	139,460	
Level 3			117,352	

(1) restated for the impact of the application of IFRS 15 and IFRS 9 (see Note 1.3).

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

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

16.2 Financial instruments (liabilities)

(in EUR thousands)	Balance sheet value as of 06/30/2018			
	Cost or amortized cost (1)	Fair value		Total
		Impact on net income	Impact on equity	
Non-current liabilities				
Bank borrowings	848,736			848,736
Other financial liabilities (2)	89,639			89,639
Current liabilities				
Bank borrowings	75,416			75,416
Other financial liabilities (2)	32,696			32,696
Trade and other payables	683,583			683,583
Derivative financial instruments		22,353	5,202	27,555
Financial instruments (liabilities)	**1,730,070**	**22,353**	**5,202**	**1,757,625**
Level 1				
Level 2		22,353	5,202	
Level 3				

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

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

At December 31, 2017, the data were as follows:

<table>
<tr><th rowspan="3">(in EUR thousands)</th><th colspan="4">Balance sheet value as of 12/31/2017 (1)</th></tr>
<tr><th rowspan="2">Cost or amortized cost (2)</th><th colspan="2">Fair value</th><th rowspan="2">Total</th></tr>
<tr><th>Impact on net income</th><th>Impact on equity</th></tr>
<tr><td>Non-current liabilities</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Bank borrowings</td><td>873,311</td><td></td><td></td><td>873,311</td></tr>
<tr><td>Other financial debt (3)</td><td>106,954</td><td></td><td></td><td>106,954</td></tr>
<tr><td>Current liabilities</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Bank borrowings</td><td>75,512</td><td></td><td></td><td>75,512</td></tr>
<tr><td>Other financial debt (3)</td><td>39,398</td><td></td><td></td><td>39,398</td></tr>
<tr><td>Trade and other payables</td><td>735,754</td><td></td><td></td><td>735,754</td></tr>
<tr><td>Derivative financial instruments</td><td></td><td>5,634</td><td>6,433</td><td>12,067</td></tr>
<tr><td>Financial instruments (liabilities)</td><td>1,830,929</td><td>5,634</td><td>6,433</td><td>1,842,996</td></tr>
<tr><td>Level 1</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Level 2</td><td></td><td>5,634</td><td>6,433</td><td></td></tr>
<tr><td>Level 3</td><td></td><td></td><td></td><td></td></tr>
</table>

(1) restated for the impact of the application of IFRS 15 (see Note 1.3).

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

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

Note 17 - Financial risk management

17.1 Cash and liquidity risks

17.1.1 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 early repayment clause based on the rating or financial ratios. The features of these loans are described in Note 8.

17.1.2 Cash, cash equivalents and other current financial assets

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

(in EUR thousands)	06/30/2018			
	Historical cost	**Unrealized capital gain**	**Consolidated asset value**	**As %**
Cash at bank, money market investments and time deposits	4,734,709	577	4,735,286	78%
Investments in bonds (1)	321,964	37,927	359,891	6%
Diversified investments (1)	637,036	342,836	979,872	16%
Total	**5,693,709**	**381,340**	**6,075,049**	**100%**

(1) investments in bonds and diversified investments are, in most cases, backed by warranties, 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 investments, whose fair value is valued through profit or loss. The Group is not faced with restrictions with regard to the availability of its cash and its portfolio of investments.

17.2 Credit and counterparty risks

17.2.1 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.

17.2.2 Customer default risk

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

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

The contract interruption risk and, if necessary, the credit risk are also guaranteed with Bpifrance Assurance Export for major military export contracts.

The amount of the Bpifrance Assurance Export guarantees and collateral obtained and not exercised as of June 30, 2018 is comparable to that as of December 31, 2017.

17.3 Other market risks

17.3.1 Market risks

The Group hedges its foreign exchange risk, interest rate risk and the risk of fluctuations in commodity prices by means of derivative financial instruments, the carrying amount of which is presented below:

(in EUR thousands)	06/30/2018		12/31/2017	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange derivatives	97,350	21,693	172,782	4,705
Interest rate derivatives	0	5,862	0	7,362
Commodity derivatives	0	0	36	0
Derivative financial instruments	**97,350**	**27,555**	**172,818**	**12,067**
Net derivative financial instruments	**69,795**		**160,751**	

Foreign exchange derivatives

The Group is exposed to a foreign exchange risk through the Parent Company in relation to its Falcon sales, which are virtually all denominated in US dollars. This risk is partially hedged by using forward 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 as a function of changes over time in expected net cash flows.

The foreign exchange derivative instruments used by the Group do not all qualify for hedge accounting under the terms of IFRS 9 "Financial Instruments". The analysis of the instruments is presented in the table below:

(in EUR thousands)	Market value as of 06/30/2018	Market value as of 12/31/2017
Instruments which qualify for hedge accounting	83,742	139,460
Instruments which do not qualify for hedge accounting	-8,085	28,617
Foreign exchange derivatives	**75,657**	**168,077**

Interest rate derivatives

The Group is exposed to the volatility of interest rates through its loans contracted at a variable rate (see Note 8). The loans were swapped at a fixed rate to limit this risk.

Commodity derivatives

The Group marginally uses derivatives to hedge its exposure to fluctuations in kerosene prices.

17.3.2 Impacts of derivatives on the Group's financial statements

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

(in EUR thousands)	**12/31/2017**	**Impact on equity (1)**	**Impact on net financial income (2)**	**06/30/2018**
Foreign exchange derivatives	168,077	-55,718	-36,702	75,657
Interest rate derivatives	-7,362	1,231	269	-5,862
Commodity derivatives	36	0	-36	0
Net derivative financial instruments	**160,751**	**-54,487**	**-36,469**	**69,795**

(1) recognized directly through equity, share of fully consolidated companies.

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

The change in fair value of hedging instruments is due to the evolution of the closing rate between December 31, 2017 (€/$1.1993) and June 30, 2018 (€/$1.1658) and to the decrease in the covered volume.

17.3.3 Sensitivity test for foreign exchange derivatives

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

Portfolio market value (in EUR thousands)	**06/30/2018**		**12/31/2017**	
Net balance sheet position	75,657		168,077	
Closing US dollar/euro exchange rate	1 € =1.1658 $		1 € = 1.1993 $	
Closing US dollar/euro exchange rate +/- 10 cents	1.2658 €/$	1.0658 €/$	1.2993 €/$	1.0993 €/$
Change in value (1)	+186,244	-220,318	+208,996	-247,822
Impact on net income	*+ 74,382*	*-87,464*	*+98,185*	*-116,850*
Impact on equity	*+111,862*	*-132,854*	*+110,811*	*-130,972*

(1) indicative 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.

Note 18 - Contingent assets and liabilities

At the end of 2017, Dassault Aviation initiated negotiations with Safran Aircraft Engines to obtain compensation for its damages as part of the termination process of the Silvercrest contract leading to the end of the Falcon 5X program.

Note 19 - Related-party transactions

The related parties as of June 30, 2018 are identical to those identified as of December 31, 2017 and the transactions during the period are of the same type.

Note 20 - Subsequent events

No events likely to have a material impact on the financial statements occurred between June 30, 2018 and the date the condensed consolidated financial statements being closed by the Board of Directors.

STATUTORY AUDITORS' REVIEW REPORT ON THE HALF-YEARLY FINANCIAL INFORMATION

To the Shareholders,

In compliance with the assignment entrusted to us by your General Shareholders' Meeting and in accordance with the requirements of article L. 451-1-2-III of the French Monetary and Financial Code (*"Code monétaire et financier"*), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of Dassault Aviation, for the period from January 1st to June 30th, 2018;
- the verification of the information presented in the half-yearly management report.

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

CONCLUSION ON THE FINANCIAL STATEMENTS

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying the conclusion expressed above, we draw your attention on Note « 1.3 Application of IFRS 15 et IFRS 9 » in the appendix to the condensed consolidated financial statements which highlights the change of accounting method relating to the application on January 1, 2018 of IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments".

SPECIFIC VERIFICATION

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Courbevoie and Paris La Défense, July 19th, 2018

The Statutory Auditors

MAZARS	DELOITTE & ASSOCIES
Mathieu Mougard	Jean-François Viat