



2020 first half-year financial report

The English language version of this report is a free translation from the original, which was prepared in French language. All possible care has been taken to ensure that the translation is an accurate presentation of the original. However, in all matters of interpretation, views or opinion expressed in the original language version of the document in French take precedence over the translation.

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June 30, 2020**

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Declaration of the person responsible for the report

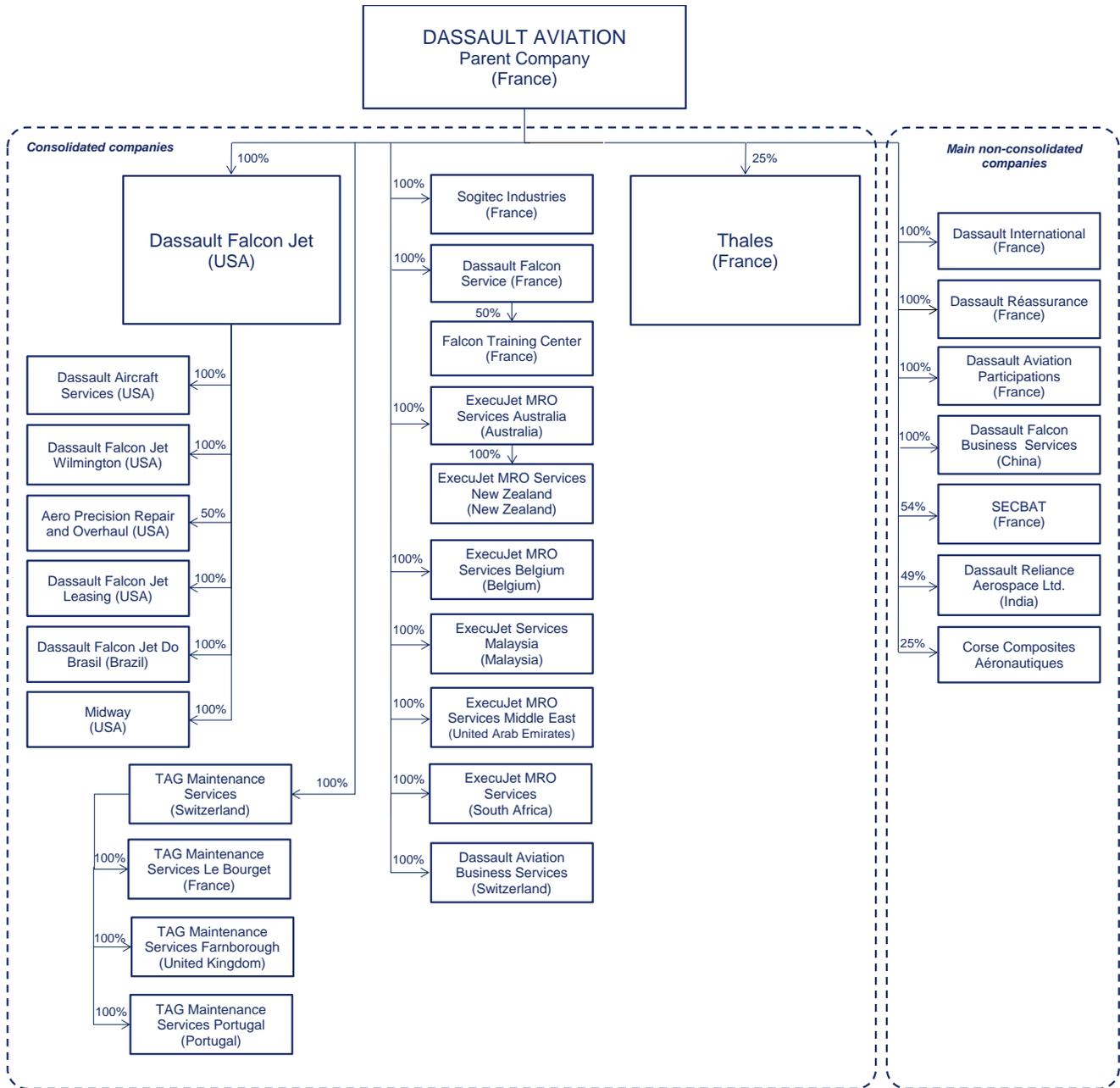
I hereby certify that, to my knowledge, the interim condensed financial statements in this report have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and income or loss of the Dassault Aviation Group, 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 23, 2020

Eric TRAPPIER
Chairman and Chief Executive Officer

Group structure as of June 30, 2020

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



The list of consolidated entities is presented in Note 2, “Scope of consolidation”, of the Appendix to the interim condensed consolidated financial statements.

1. KEY FIGURES FOR THE FIRST HALF OF 2020

| | H1 2020 | H1 2019 |
|---|--|--|
| Order intake | € 984 million 5 Falcon | € 2,900 million 7 Falcon Rafale OCM RAVEL |
| <u>Adjusted</u> net sales ^(*) | € 2,641 million 7 Rafale Export 16 Falcon | € 3,058 million 10 Rafale Export 17 Falcon |
| | as of June 30, 2020 | as of December 31, 2019 |
| Backlog | € 16,193 million 68 Rafale <i>of which</i> 28 Rafale France 40 Rafale Export 42 Falcon | € 17,798 million 75 Rafale <i>of which</i> 28 Rafale France 47 Rafale Export 53 Falcon |
| | H1 2020 | H1 2019 |
| <u>Adjusted</u> operating income ^(*) | € 55 million | € 250 million |
| <u>Adjusted</u> operating margin | 2.1% of net sales | 8.2% of net sales |
| Research & Development | € 262 million 9.9% of net sales | € 258 million 8.4% of net sales |
| <u>Adjusted</u> net income ^(*) | € 87 million | € 286 million |
| <u>Adjusted</u> net margin | 3.3% of net sales | 9.3% of net sales |
| | as of June 30, 2020 | as of December 31, 2019 |
| Available cash | € 3,921 million | € 4,585 million |

Note: Dassault Aviation recognizes Rafale Export contracts in their entirety (including the Thales and Safran parts).

Main aggregates under IFRS in € million (see reconciliation table in appendix)

| | | |
|--|-------|-------|
| ^(*) Consolidated net sales | 2,646 | 3,066 |
| ^(*) Consolidated operating income | 57 | 259 |
| ^(*) Consolidated net income | 32 | 254 |

2. A FIRST HALF MARKED BY COVID-19

2.1 COVID-19: CRISIS MANAGEMENT

2.1.1 Dassault Aviation Parent Company's crisis management

The coronavirus epidemic triggered an unprecedented sanitary and economic crisis that forced Dassault Aviation Parent Company to suspend its production activities on March 18 and its tertiary activities on March 23 for the protection of its employees, with an ongoing dialogue with the employees' representative bodies (Central Economic and Social Committee and Health, Safety and Working Conditions Committee).

We set up multidisciplinary crisis units to carry out the day-to-day supervision of the implementation of emergency measures and the preparation for a gradual resumption of business activity. They have organized:

- specific on-site arrangements for employees unable to work from home,
- keeping home employees with health issues,
- keeping home parents for childcare purposes,
- the implementation of remote working whenever possible (remote working policy to be renegotiated),
- the repatriation of expatriate staff where and when necessary.

On-site activity resumed in successive steps from April 3, with ongoing emergency measures, the implementation of health protocols (preventative measures, maximum occupancy capacity, etc.), continued widespread implementation of remote working (from 500 people 1 or 2 days per week up to 4,700 people 5 days per week), and the implementation of temporary furlough when unavoidable.

The following measures were taken to support those on furlough:

- payment of full salary up to April 2,
- signature of an agreement with staff representative bodies,
 - ✓ payment of 92% of net salary (compared to 84% guaranteed by the French law) from April 3 for employees under temporary furlough,
 - ✓ vacation days for employees under temporary furlough,
 - ✓ neutralization of the effects of the temporary furlough scheme, particularly on the calculation of profit sharing and incentive schemes (fixed and proportional components), as well as in terms of healthcare and pension contributions and provisions,
- implementation of a solidarity fund to enable employees not affected by temporary furlough to donate vacation days in order to reduce the number of partially unpaid non-working days.

On April 3, around 12% of Parent Company's staff had returned on site, then 18% on April 29 and 35% on May 11. From June 8, following phase 2 of the national lockdown lifting, we continued implementing progressive on-site presence of staff, by combining a permanent or intermittent on-site working alternated with remote working, in order to comply with the maximum occupancy capacity for the premises. We have significantly reduced our use of furloughing, keeping it only for specific cases such as for those requiring childcare and those at high health risk.

In addition, despite the numerous challenges spurred by this crisis, we have ensured compliance with our contractual and ethical commitments to our customers and our suppliers (in particular by prioritizing payments to SMEs and ISEs).

Lastly, special efforts were made to maintain connections with our employees by providing them with information on a continuous basis.

On May 15, 2020, Florence Parly, French Minister of Armed Forces, visited our Saint-Cloud site in support of the Defense Industrial Base where she was told about the Group's position and our resumption process roadmap . By tele-conferencing with various sites, we were able to demonstrate to Florence Parly, French Minister of Armed Forces, how we are aligning the continuation of essential tasks with the safety of all our employees.

2.1.2 Subsidiaries' crisis management

Our subsidiaries have also been impacted:

- Dassault Falcon Jet (United States):
 - ✓ Teterboro, NJ: implementation of sanitary measures, remote working, temporary furlough,
 - ✓ Little Rock, AK: no shutdown, but reorganization of production to comply with local rules (sanitary measures) and implementation of temporary furlough,
 - ✓ Wilmington, DE: confirmed Covid cases requiring a 15 days shutdown,
- Dassault Reliance Aerospace Ltd (India): suspension of activities for 1 month in March / April followed by a partial resumption of production (80% of activity but French technical assistants still in France) with implementation of sanitary measures. An enhanced scrutiny is required due to the high level of new cases in big cities (New Delhi, Mumbai, Chennai...),
- Dassault Falcon Service (France): no shutdown, implementation of sanitary measures, use of temporary furlough when unavoidable, reorganization of shifts in workshops,
- Sogitec: implementation of remote working to avoid temporary furlough and 100% of workforce back on site since June 20,
- Tag Maintenance Services, ExecuJet:
 - ✓ Switzerland and South Africa harshly impacted, Asia less affected,
 - ✓ Implementation of sanitary measures, remote working, large use of temporary furlough.

2.2 CONTRIBUTION TO NATIONAL EFFORT IN FRANCE

We also contributed to the national effort in France, particularly in the frame of:

- Operation called "Résilience":
 - ✓ by providing the French Ministry of Armed Forces with 2 Falcons operated by our subsidiary Dassault Falcon Service,
 - ✓ by flying healthcare workers and medical equipment within France and worldwide,
- the operation organized by "Aviation Without Borders" (ASF) for the repatriation and transportation of healthcare personnel or medical equipment on request.

In addition, we have:

- distributed masks to regional health agencies and hospitals in the Paris area,
- produced and distributed 3D-printed visors to hospitals, clinics, dental surgeons and medical centers, and to CAP Sciences Bordeaux, a scientific research center,
- used our company restaurant in Saint-Cloud to provide meals for healthcare workers at the Foch hospital in Suresnes.

2.3 AERONAUTICS SUPPORT PLAN

On June 9, 2020, the French government launched a support plan for the aeronautics industry. In addition to providing support to Air France, this plan includes:

- support for companies in difficulty and the social protection of their employees: loans guaranteed by the French government and evolution of the temporary furlough scheme,
- investment in SMEs and ISEs to support the modernization and transformation of the sector. An investment fund has been created (target: €1 billion) with contributions from Airbus, Safran, Thales and Dassault Aviation, which will contribute for €13 million. A modernization fund including a €300 million “digitalization” component was also launched for SMEs and ISEs,
- investment in the aircraft of the future, particularly with the Civil Aviation Research Council (CORAC): €1.5 billion of public aid over three years focused on R&T dedicated to “decarbonized” future aircraft. Dassault Aviation will take part.

This plan provides decisive support to the French supply chain, which has been severely impacted by the crisis. Dassault Aviation Group is taking an active part in all the working groups that have been set up by the Association of French Aeronautical and Space Industries (GIFAS) in particular to ensure the effective implementation of this plan.

3. 2020 OUTLOOK

On April 1, Dassault Aviation Group decided to suspend its 2020 targets (announced on February 27, 2020).

In an uncertain Covid-19 context, and its economic consequences, on July 23, 2020, Dassault Aviation Group published the following new guidance for 2020:

- delivery of 30 Falcons (vs 40 planned before the Covid-19) and 13 Rafale (equal to the pre-Covid-19 forecast),
- decrease in net sales.

4. GROUP ACTIVITIES

4.1 PROGRAMS DEVELOPMENT

4.1.1 Defense programs

- Rafale

2020 first half was marked by the delivery of 7 Rafale Export (India and Qatar), the continued performance on the existing Rafale contracts with Egypt, Qatar and India, the start of negotiation of an additional batch for France and ongoing prospecting activities for new export contracts despite an expected delay caused by Covid.

Regarding Rafale France, we continued performing works on the F4-standard.

- Future Combat Air System (FCAS)

2020 first half was marked by the award of the initial framework contract (phase 1A), which launches the demonstrator phase for the Future Combat Air System, including the launch of the demonstrator of the New Generation Fighter (NGF), to Dassault Aviation, Airbus, together with their partners MTU Aero Engines, Safran, MBDA and Thales, on February 20. This framework contract covers a period of 18 months being the first step of ambitious technological demonstrator program aiming maiden flight in 2026.

The next major milestone in the program will be the integration of Spain and the involvement of additional suppliers, which will require further government notifications in 2021.

As of today, first works performed in partnership with Airbus Defence and Space on the project of NGF demonstrator have been focused on the aerodynamic design.

- Eurodrone

Final contract negotiations are ongoing between the OCCAR (Organization for Joint Armament Cooperation) and Airbus Defense & Space (lead contractor), Leonardo and Dassault Aviation (main subcontractors).

4.1.2 Mission aircraft

- Multi-mission Falcon

- ✓ launch of development works further to the order placed at the end of 2019 for 2 Falcons 8X “Archange” strategic intelligence aircraft, with an option for a third aircraft,
- ✓ continued work to define the “Albatros” maritime surveillance and intervention aircraft (AVSIMAR) contract, based on the Falcon F2000LXS, further to the announcement by the French Minister of Armed Forces at the Paris Air Show 2019,
- ✓ delivery of the 3rd Falcon 50SurMar out of 4 aircraft ordered by France, retrofitted with hatches for dropping SAR (Search and Rescue) kits,
- ✓ delivery of the Falcon 2000LX to the DLR (German Aerospace Research Center).

- Maritime Patrol Aircraft (PATMAR)

The 3rd upgraded ATL2 was delivered to the French Navy; 4 other aircraft upgrade works will be carried out by Dassault Aviation out of the 18 aircraft to be upgraded, the remainder being carried out by the SIAé (the French naval aircraft maintenance service).

4.1.3 Falcon programs

Travel restrictions due to the Covid-19 epidemic and the serious economic consequences of the health crisis are deeply impacting the business jet market.

During the crisis, we have prioritized:

- continuity of customer support,
- aircraft deliveries,
- Falcon 6X ongoing development.

Aviation activity in the United States went up and business jet flight safety could be an opportunity. Nevertheless orders and deliveries are lagged and tensions rise up on prices. Global economic conditions evolution is to be examined and we have to ensure the Falcon 6X is on time for the crisis recovery.

This semester's highlights are:

- the delivery of 16 Falcons,
- 5 new Falcons orders,
- the nominal progress of the Falcon 6X program for an entry into service in 2022 (maiden flight planned in 2021) despite the impact of the Covid-19 crisis:
 - ✓ assembly of aircraft #1 was completed in Mérignac; it was powered-up for the first time,
 - ✓ ground testing of aircraft #1 has begun,
 - ✓ aircraft #2 and #3 are in the process of being assembled,
 - ✓ nominal development of the PW812D engine:
 - more than 2,000 hours of tests and more than 16,000 hours of tests on the high-pressure system,
 - 2nd batch of flying test bench in progress with aircraft #1 engine,
 - full compliance with the CO2 emissions' regulation and largely above noise performance requirements.
- the Future Falcon
 - ✓ Pursuing the development of the Falcon family. Future Falcon announcement postponed.

4.2 MAKE IN INDIA

Dassault Reliance Aerospace Ltd (DRAL) in Nagpur has also been impacted by the Covid-19 pandemic; activities were stopped for one month followed by a partial resumption.

Nevertheless, we are continuing to ramp up production, particularly the production and assembly of Falcon 2000 and Rafale components (engine brackets). DRAL has been incorporated into our Falcon Production Certifications and has passed its first audit by the airworthiness authorities. We are also continuing to develop an Indian supply chain (primary parts, tools, pylons, tanks, etc.), the engineering center in Pune and the "Dassault Skill Academy" (program of professional training for aeronautical fitters and high level excellence programs between Indian and French academics).

4.3 CUSTOMER SUPPORT

4.3.1 Military customer support

Supporting our military customers remained a priority. To this end, we reorganized our on-site and on-base teams, and maintained continuous logistical liaison.

In addition to the handling of the Covid-19 crisis, first half main events were:

- performance of the RAVEL contract, which continued with the set up, early this year, of our local technical and logistical services teams on site at the Saint-Dizier, Mont-de-Marsan and Landivisiau bases,
- the development of the Dassault Aviation/Dassault Systèmes Big Data platform in the frame of performance of the RAVEL contract,
- continued training for Indian pilots and mechanics at our "Conversion Training Center" in Mérignac,
- continued delivery of support to the first Indian air base at Ambala, which will receive its Rafale aircraft at the end of July 2020.

4.3.2 Falcon customer support

With respect to Falcon customer support, in the first half of 2020, we:

- provided our clients with support throughout the Covid-19 crisis:
 - ✓ through rapid reorganization to ensure continuity of our service quality levels (Command Center, Falcon Response, spare parts, network of service centers);
 - ✓ by maintaining close contact with them through conference calls and e-learning training sessions,
- continued to consolidate our network of service centers with the closing of the acquisition of ExecuJet Dubai in January,
- reconfigured Dassault Falcon Service's maintenance facilities at Le Bourget to increase its Falcon 7X and 8X capacity. The renovated hangar came into service at the beginning of 2020,
- increased our pilot training capacity with the commissioning of a new Falcon 2000LXS/900LX simulator at FlightSafety in Teterboro,
- marketed operational and documentation apps on iPad for our customers.

5. RISKS

The consequences of the crisis in the aircraft business were harsh and will probably have long term effects over the next years:

- uncertainty over demand in the business aviation market,
- uncertainty over a new Rafale Export contrat and an additional batch for France in 2020,
- a significant drop in business among our partners and suppliers in the aerospace sector, resulting in a potential weakening of their financial position (entailing potential risks of continuity, consolidation or restructuring), and therefore for our procurement policy,
- risk of epidemic worsening that might impact our ability to deliver aircraft in second half.

6. FIRST HALF 2020 ADJUSTED CONSOLIDATED RESULTS

6.1 ORDER INTAKE

Order intake for the first half of 2020 was **€984 million**, compared to €2,900 million for the first half of 2019. The **Export** order intake component stood at **80%**.

The change in order intake was as follows, **in € million**:

| | H1 2020 | % | H1 2019 | % |
|---------------------------|------------|------------|--------------|------------|
| Defense | 315 | 32% | 2,273 | 78% |
| <i>Defense Export</i> | 132 | | 180 | |
| <i>Defense France</i> | 183 | | 2,093 | |
| Falcon | 669 | 68% | 627 | 22% |
| Total order intake | 984 | | 2,900 | |
| <i>% Export</i> | 80% | | 27% | |

The order intake item is entirely composed of firm orders.

Defense programs

Defense order intake stood at **€315 million** during the first half of 2020 vs €2,273 million during the first half of 2019.

The **Defense Export** component stood at **€132 million** for the first half of 2020 vs €180 million for the first half of 2019.

The **Defense France** component stood at **€183 million** for the first half of 2020, vs €2,093 million for the first half of 2019, which mainly included notification of the RAVEL contract for the Operational Condition Maintenance of Rafale France over 10 years.

Falcon programs

During the first half of 2020, **5 Falcon orders** were made vs 7 in the first half of 2019.

Falcon order intake represented **€669 million** in the first half of 2020 vs €627 million in the first half of 2019.

6.2 ADJUSTED NET SALES

Adjusted net sales for the first half of 2020 was **€2,641 million** compared to €3,058 million for the first half of 2019. The **export** component of net sales stood at **89%** in the first half of 2020.

The change in net sales was as follows, in **€ million**:

| | H1 2020 | % | H1 2019 | % |
|------------------------|--------------|------------|--------------|------------|
| Defense | 1,581 | 60% | 2,072 | 68% |
| <i>Defense Export</i> | 1,319 | | 1,537 | |
| <i>Defense France</i> | 262 | | 535 | |
| Falcon | 1,060 | 40% | 986 | 32% |
| Total net sales | 2,641 | | 3,058 | |
| <i>% Export</i> | 89% | | 82% | |

Defense programs

7 Rafale Export (India and Qatar) were delivered during the first half of 2020 vs. 10 Rafale Export for the first half of 2019.

Defense net sales for the first half of 2020 amounted **€1,581 million** vs €2,072 million for the first half of 2019.

The **Defense Export component** stood at **€1,319 million** for the first half of 2020 vs €1,537 million for the first half of 2019. This decrease was mainly due to a fall in the number of Rafale aircraft delivered between the two semesters (7 vs 10).

The **Defense France component** stood at **€262 million** for the first half of 2020, vs €535 million for the first half of 2019. During the first half of 2019, the development works on upgrading the combat system for the ATL2 and the first upgraded aircraft had been delivered to the French government and had a positive impact on net sales.

Falcon programs

16 Falcon were delivered in the first half of 2020 vs 17 in the first half of 2019.

Falcon net sales for the first half of 2020 amounted **€1,060 million**, vs €986 million for the first half of 2019. It should be noted that there is a positive scope effect associated with the acquisition of service centers acquired in 2019 and early 2020.

The "book-to-bill ratio" (order intake/net sales) is 0.37 for the first half of 2020.

6.3 Backlog

The consolidated backlog as of June 30, 2020 was **€16,193 million** compared to €17,798 million as of December 31, 2019. It consists of:

- the **Defense Export backlog**, which stood at **€9,538 million** vs €10,725 million as of December 31, 2019. It consists primarily of 40 Rafale Export vs 47 Rafale Export as of December 31, 2019,
- the **Defense France backlog**, which stood at **€4,661 million**, vs €4,740 million as of December 31, 2019. It specifically includes 28 Rafale (same as December 31, 2019) and the RAVEL contract for the Rafale,
- the **Falcon backlog**, which stood at **€1,994 million**, vs €2,333 million as of December 31, 2019. It specifically includes 42 Falcons vs 53 as of December 31, 2019.

6.4 ADJUSTED RESULTS**Operating income**

Adjusted operating income for the first half of 2020 is **€55 million**, compared to €250 million in the first half of 2019.

Operating margin stood at **2.1%** vs 8.2% for the first half of the previous year. This decrease is mainly due to the under-activity due to the Covid-19 crisis (hours furloughed and cost of sanitary measures being recognized as expenses), the weight of self-funded R&D expenses in proportion of net sales (9.9% compared to 8.4% in 2019 first half-year), and lower absorption of fixed costs due to the decrease of sales. SG&A savings and the various governmental aid packages (in France, United States and Switzerland), consisting in alleviating charges and furlough measures, partially offset these negative impacts.

The hedging rate for the first half of 2020 was **\$/€1.18**, same as 2019 first half and full year.

Net financial income

The adjusted financial income for the first half of 2020 was **€ - 19 million** vs. € - 26 million for 2019 first half. This financial loss was due to accounting principle of the long-term military contracts' financing component.

Net income

Adjusted net income for the first half of 2020 came to **€87 million**, compared to €286 million in the first half of 2019. The contribution of Thales to the Group's net income was €58 million, compared to €141 million during the first half of 2019.

Adjusted net margin thus stood at **3.3%** for the first half of 2020, vs 9.3% for the first half of 2019.

7. FINANCIAL STRUCTURE

7.1 AVAILABLE CASH

The Group uses a specific indicator called "Available cash", which reflects the amount of total liquidities available to the Group, net of financial debts. It includes the following balance sheet items: cash and cash equivalents, current financial assets (at market value) and financial debts; it excludes the impact on financial debts of the application of IFRS 16 "Leases".

The Group's available cash stands at **€3,921 million**, lower by €664 million compared to December 31, 2019. This decrease is mainly caused by the raise of working capital (decrease in Export contracts' down payments due to first half deliveries, increase in inventories and work-in-progress), investments being offset by the cash flow generated during the first half year.

7.2 BALANCE SHEET (IFRS data)

Total equity stands at **€4,277 million** as of June 30, 2020, vs. €4,446 million as of December 31, 2019.

Borrowings and financial debts stand at €322 million as of June 30, 2020 vs. €558 million as of December 31, 2019. €250 million of bank borrowings were reimbursed during the 1st semester. Borrowings and financial debts are mainly composed by locked-in employees' profit sharing plan for €131 million and finance lease liabilities booked following the implementation of IFRS16 for €175 million.

Inventories and work-in-progress increased by €191 million and stand at €3,560 million as of June 30, 2020. The increase of the Falcon and Defense France components was partly offset by the decrease of the Defense Export component linked to Rafale Export deliveries.

Down-payments collected on orders net of down-payments paid lower by €293 million as of June 30, 2020 mainly due to Rafale Export deliveries and associated services during the period.

The market value of derivative financial instruments stands at €-134 million as of June 31, 2020 vs. €-71 million as of December 31, 2019. This decrease is partly due to the variation of the US Dollar exchange rate between June 30, 2020 and December 31, 2019 (1.1198 \$/€ vs. 1.1234 \$/€) and the decrease in US Dollar interest rates (decrease of forward points).

8. SHAREHOLDER INFORMATION

The Company's share capital totaled €66,789,624 as of June 30, 2020. It is divided into 8,348,703 shares, each with a par value of €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. Following the increase in its free float, in 2016 Dassault Aviation joined the following stock market indices: Sociétés des Bourses Françaises 120 (SBF 120) and the Morgan Stanley Capital International World (MSCI World).

As of June 30, 2020, Dassault Aviation shareholders are as follows:

| Shareholders | Number of shares | % | Exercisable voting rights ⁽²⁾ | % |
|--------------------------------|------------------|---------------|--|----------------|
| GIMD | 5,196,076 | 62.24% | 10,392,152 | 76.87% |
| Float | 2,291,677 | 27.45% | 2,298,797 | 17.01% |
| Airbus SE | 827,529 | 9.91% | 827,529 | 6.12% |
| Own shares held ⁽¹⁾ | 33,421 | 0.40% | 0 | 0.00% |
| TOTAL | 8,348,703 | 100.0% | 13,518,478 | 100.00% |

⁽¹⁾ own shares held in a "directly registered" account, with no voting rights.

⁽²⁾ in accordance with the "Florange" law and in the absence of provisions contrary to Dassault Aviation's Articles of Association, shares held for more than two years in registered form are entitled to double voting rights.

⁽³⁾ shares underlying bonds redeemable in Dassault Aviation shares issued by Airbus SE as of June 9, 2016.

9. RELATED-PARTY TRANSACTIONS

The related parties in 2020 are identical to those identified as of December 31, 2019 and the transactions during the period are of the same type.

10. CONCLUSION

The Covid-19 epidemic triggered an unprecedented global crisis as to its sanitary and economic consequences, its magnitude, its geographic scope and its duration.

First of all, I would like to thank, from the bottom of my heart, the healthcare workers who took care of all the patients with an admirable devotion, as well as all the employees of the Group for their involvement and the team spirit they made proof of on a daily basis.

We contributed to the national effort in France by providing our Falcons. Dassault Aviation took part in the operation called "Résilience", with the French Ministry of Armed Forces, our Falcons flew healthcare workers and medical equipment within France and worldwide. Besides, in the frame of the operation organized by Aviation Without Borders (ASF), our Falcon repatriated and transported healthcare personnel or medical equipment on request.

During this period, Dassault Aviation Group adapted and reorganized its operations to ensure employee safety, and launched a Business Continuity Plan.

Regarding Dassault Aviation Parent Company, after production activities were suspended on March 18, followed by tertiary activities on March 23, business gradually resumed in successive steps from April 3, in an ongoing dialogue with staff representative bodies (including the Central Economic and Social Committee and the Health, Safety and Working Conditions Committee), in accordance with health and social constraints by focusing on remote working and by deploying temporary furlough measures when this was unavoidable. On June 8, further to the national lockdown lifting, on site presence became the norm, together with remote working to cope with the workspace occupancy rate.

All our subsidiaries adjusted to their local situation with the implementation of sanitary measures, a large use of remote working and temporary furlough when unavoidable. Some sites were temporarily shut down.

As of April 1, the Board of Directors canceled the dividend proposal and we suspended our 2020 guidance.

The Business Continuity Plan prioritized our efforts; we focused on customer support (Armed Forces in priority), on production and delivery of Rafale and Falcons, and on the development of the Falcon 6X. Despite remote working and except for Falcon 6X and Rafale India, programs have been delayed.

Covid-19 crisis results in a decrease of Falcon deliveries which leads to a new forecast for 2020 of 30 Falcons whereas 40 were initially guided. Beyond this lag in net sales, costs associated with unworked hours and sanitary measures have harshly affected the 1st half results and were partially offset by government support, alleviated charges and SG&A reduction at Dassault Aviation Group.

Throughout this crisis, we have supported and assisted our sub-contractors and suppliers. The Aeronautics Support Plan announced by the French government on June 9, drafted in collaboration with GIFAS, structures support to the sector's ecosystem and investment in the future, among which the future "decarbonized" aircraft within the frame of the Civil Aviation Research Council (CORAC).

In terms of activity, in the military domain, we delivered 7 Rafale Export, continued works on the F4-standard for Rafale France, delivered an upgraded ATL2, and continued to support our military customers. The first half also saw the award to Dassault Aviation, Airbus and their partners, of the initial framework contract for the launch of the Future Combat Air System (FCAS) demonstrators, specifically the New Generation Fighter (NGF) demonstrator.

In the civil domain, we continued to support our customers, delivered 16 Falcons, pursued the Falcon 6X program development keeping it in line for a maiden flight in early 2021 and an entry into service in 2022, and continued the development works on the future Falcon.

The effects of the crisis are likely to be long-lasting as numerous economic sectors are impacted. Our Falcon market is directly impacted (the lag in Falcon deliveries and orders leads to a lowering adjustment of Falcon production rates) and a potential new Rafale Export contract is postponed.

In a harsh and uncertain economic environment, our objectives are to:

- sell and deliver Falcons,
- Falcon 6X: comply with our schedule (entry into service in 2022),
- Rafale: negotiate an additional batch for France and pursue export prospection,
- pursue the development of the future Falcon,
- pursue developments in the frame of multi-mission Falcon,
- contribute to CORAC technologies of environmental transition,
- bring forward the FCAS/NGF program and contribute to the MALE program.

This will be performed in the context of:

- high self-financed Research and Development,
- continuity of the Transformation Plan (digital, collaborative engineering platform and sites): rescheduled,
- adjustment of workforce to the planned workload rescheduled in accordance with our backlog.

In an uncertain Covid-19 context and its economic consequences, new Dassault Aviation full year 2020 guidance is the following:

- delivery of 30 Falcons (vs 40 planned before the Covid-19) and 13 Rafale aircraft (equal to the pre-Covid-19 forecast),
- decrease in net sales.

The Board of Directors would like to thank all the personnel for their involvement, efficiency and skills in executing our programs.

APPENDIX

FINANCIAL REPORTING

IFRS 8 “Operating Segments” requires the presentation of information per segment according to internal management criteria.

The entire activity of the Dassault Aviation Group relates to the aerospace domain. The internal reporting made to the Chairman and Chief Executive Officer, 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 Group’s actual economic performance, and for monitoring and comparability reasons, the Group presented an adjusted income statement 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 financial statements, 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 or 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,
- amortization of assets valued as part of the purchase price allocation (business combinations), known as “PPA”,
- adjustments made by Thales in its financial reporting.

The Group also presents the “available cash” indicator which reflects the amount of the Group’s total liquidities, net of financial debt. It covers the following balance sheet items:

- cash and cash equivalents,
- other current financial assets (essentially available-for-sale marketable securities at their market value),
- financial debt, except for lease liabilities recorded following the application of IFRS 16 “Leases”.

Only consolidated financial statements are audited by statutory auditors. Adjusted financial data are subject to the verification procedures applicable to all information provided in the annual report.

IMPACT OF ADJUSTMENTS

The impact of the adjustments of income statement aggregates for the 1st half 2020 is set out below:

| <i>(in EUR thousands)</i> | Consolidated income statement H1 2020 | Foreign exchange derivatives | | PPA | Adjustments applied by Thales | Adjusted income statement H1 2020 |
|--|--|----------------------------------|-------------------------|--------------|-------------------------------------|--|
| | | Foreign exchange gain/loss | Change in fair value | | | |
| Net sales | 2,645,678 | -4,430 | 184 | | | 2,641,432 |
| Operating income | 56,747 | -4,430 | 154 | 2,484 | | 54,955 |
| Net financial income/expense | -37,733 | 4,430 | 14,897 | | | -18,406 |
| Share in net income of equity associates | 17,251 | | | 1,427 | 41,249 | 59,927 |
| Income tax | -4,256 | | -4,404 | -454 | | -9,114 |
| Net income | 32,009 | 0 | 10,647 | 3,457 | 41,249 | 87,362 |
| <i>Group share of net income</i> | <i>32,009</i> | <i>0</i> | <i>10,647</i> | <i>3,457</i> | <i>41,249</i> | <i>87,362</i> |
| Group share of net income per share <i>(in euros)</i> | 3.8 | | | | | 10.5 |

The impact of the adjustments of income statement aggregates for the 1st half 2019 is set out below:

| <i>(in EUR thousands)</i> | Consolidated income statement H1 2019 | Foreign exchange derivatives | | PPA | Adjustments applied by Thales | Adjusted income statement H1 2019 |
|--|--|----------------------------------|-------------------------|---------------|-------------------------------------|--|
| | | Foreign exchange gain/loss | Change in fair value | | | |
| Net sales | 3,065,636 | -7,216 | -555 | | | 3,057,865 |
| Operating income | 258,939 | -7,216 | -1,596 | | | 250,127 |
| Net financial income/expense | -45,322 | 7,216 | 11,744 | | | -26,362 |
| Share in net income of equity associates | 118,194 | | | 20,636 | 4,125 | 142,955 |
| Income tax | -78,106 | | -2,950 | | | -81,056 |
| Net income | 253,705 | 0 | 7,198 | 20,636 | 4,125 | 285,664 |
| <i>Group share of net income</i> | <i>253,667</i> | <i>0</i> | <i>7,198</i> | <i>20,636</i> | <i>4,125</i> | <i>285,626</i> |
| Group share of net income per share <i>(in euros)</i> | 30.5 | | | | | 34.4 |



**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
AS OF JUNE 30, 2020**

Consolidated Financial Statements

ASSETS

| (in EUR thousands) | Notes | 06/30/2020 | 12/31/2019 |
|---|-------|-------------------|-------------------|
| Goodwill | 3 | 65,957 | 77,452 |
| Intangible assets | | 51,099 | 40,931 |
| Property, plant and equipment | | 870,665 | 819,416 |
| Equity associates | 4 | 1,687,927 | 1,841,218 |
| Other non-current financial assets | 5 | 188,395 | 207,730 |
| Deferred tax assets | 15 | 441,538 | 438,261 |
| TOTAL NON-CURRENT ASSETS | | 3,305,581 | 3,425,008 |
| Inventories and work-in-progress | 6 | 3,559,758 | 3,368,351 |
| Contract assets | 11 | 13,641 | 14,788 |
| Trade and other receivables | | 1,390,426 | 1,224,369 |
| Advances and progress payments to suppliers | 11 | 2,077,478 | 2,363,786 |
| Derivative financial instruments | 18 | 761 | 6,815 |
| Other current financial assets | 7 | 1,109,743 | 1,433,071 |
| Cash and cash equivalents | 7 | 2,958,149 | 3,532,883 |
| TOTAL CURRENT ASSETS | | 11,109,956 | 11,944,063 |
| TOTAL ASSETS | | 14,415,537 | 15,369,071 |

EQUITY AND LIABILITIES

| (in EUR thousands) | Notes | 06/30/2020 | 12/31/2019 |
|---|-------|-------------------|-------------------|
| Capital | 8 | 66,790 | 66,790 |
| Consolidated reserves and retained earnings | | 4,217,419 | 4,379,424 |
| Currency translation adjustments | | 26,034 | 34,608 |
| Treasury shares | 8 | -32,753 | -34,888 |
| TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY | | 4,277,490 | 4,445,934 |
| Non-controlling interests | | 0 | 151 |
| TOTAL EQUITY | | 4,277,490 | 4,446,085 |
| Long-term borrowings and financial debt | 7, 9 | 246,046 | 216,176 |
| Deferred tax liabilities | 15 | 5,645 | 3,517 |
| TOTAL NON-CURRENT LIABILITIES | | 251,691 | 219,693 |
| Contract liabilities | 11 | 6,893,841 | 7,375,703 |
| Trade and other payables | | 894,205 | 1,075,599 |
| Tax and social security liabilities | | 362,525 | 291,985 |
| Short-term borrowings and financial debt | 7, 9 | 75,697 | 342,042 |
| Provisions for contingencies and charges | 10 | 1,525,102 | 1,540,323 |
| Derivative financial instruments | 18 | 134,986 | 77,641 |
| TOTAL CURRENT LIABILITIES | | 9,886,356 | 10,703,293 |
| TOTAL EQUITY AND LIABILITIES | | 14,415,537 | 15,369,071 |

INCOME STATEMENT

| (in EUR thousands) | Notes | H1 2020 | H1 2019 | 2019 |
|---|-------|------------------|------------------|------------------|
| NET SALES | 12 | 2,645,678 | 3,065,636 | 7,370,616 |
| Other revenue (1) | | 40,814 | 45,022 | 60,164 |
| Change in work-in-progress | | 9,618 | -58,892 | -311,902 |
| Purchases consumed | | -1,860,934 | -1,972,061 | -4,698,415 |
| Personnel expenses (2) | | -611,995 | -646,591 | -1,302,723 |
| Taxes | | -41,639 | -40,453 | -71,887 |
| Depreciation and amortization | | -77,483 | -66,233 | -142,495 |
| Allocations to provisions | | -702,497 | -647,102 | -811,240 |
| Reversals of provisions | | 657,769 | 579,421 | 703,819 |
| Other operating income and expenses | | -2,584 | 192 | 315 |
| OPERATING INCOME | | 56,747 | 258,939 | 796,252 |
| Cost of net financial debt | | -21,885 | -31,141 | -61,288 |
| Other financial income and expenses | | -15,848 | -14,181 | -34,337 |
| NET FINANCIAL INCOME | 14 | -37,733 | -45,322 | -95,625 |
| Share in net income of equity associates | 4 | 17,251 | 118,194 | 258,673 |
| Income tax | 15 | -4,256 | -78,106 | -246,578 |
| NET INCOME | | 32,009 | 253,705 | 712,722 |
| <i>Attributable to the owners of the Parent Company</i> | | 32,009 | 253,667 | 712,704 |
| <i>Attributable to non-controlling interests</i> | | 0 | 38 | 18 |
| Basic earnings per share (in EUR) | 16 | 3.8 | 30.5 | 85.7 |
| Diluted earnings per share (in EUR) | 16 | 3.8 | 30.5 | 85.7 |

(1) allocations received under the furlough schemes, which are considered grants under IFRS guidelines (IAS 20), amounted to EUR 6,667 thousand over H1 2020 for the Group.

(2) personnel expenses include incentive schemes and profit-sharing (EUR -10,877 thousand in H1 2020, EUR -70,987 thousand in H1 2019, and EUR -155,581 thousand for 2019).

STATEMENT OF RECOGNIZED INCOME AND EXPENSE**H1 2020**

| (in EUR thousands) | Notes | Fully consolidated companies | Equity associates | H1 2020 |
|--|-------|------------------------------|-------------------|-----------------|
| NET INCOME | | 14,758 | 17,251 | 32,009 |
| Derivative financial instruments (1) | 4, 18 | -48,706 | 4,808 | -43,898 |
| Deferred taxes | 4, 15 | 13,856 | -1,928 | 11,928 |
| Currency translation adjustments | | 3,383 | -11,957 | -8,574 |
| Items to be subsequently recycled to P&L | | -31,467 | -9,077 | -40,544 |
| Other non-current financial assets | 4, 5 | -19,895 | -1,976 | -21,871 |
| Actuarial adjustments on pension benefit obligations | 4, 10 | 13,194 | -144,319 | -131,125 |
| Deferred taxes | 4, 15 | 1,543 | 5,681 | 7,224 |
| Items that will not be recycled to P&L | | -5,158 | -140,614 | -145,772 |
| Income and expense directly recognized under equity | | -36,625 | -149,691 | -186,316 |
| RECOGNIZED INCOME AND EXPENSE | | -21,867 | -132,440 | -154,307 |
| <i>Owners of the Parent Company</i> | | -21,867 | -132,440 | -154,307 |
| <i>Non-controlling interests</i> | | 0 | | 0 |

H1 2019

| (in EUR thousands) | Notes | Fully consolidated companies | Equity associates | H1 2019 |
|--|-------|------------------------------|-------------------|-----------------|
| NET INCOME | | 135,511 | 118,194 | 253,705 |
| Derivative financial instruments (1) | 4, 18 | -33,505 | -9,255 | -42,760 |
| Deferred taxes | 4, 15 | 10,148 | 1,805 | 11,953 |
| Currency translation adjustments | | 4,807 | 5,532 | 10,339 |
| Items to be subsequently recycled to P&L | | -18,550 | -1,918 | -20,468 |
| Other non-current financial assets | 4, 5 | 2,729 | -1,606 | 1,123 |
| Actuarial adjustments on pension benefit obligations | 4, 10 | -73,355 | -120,536 | -193,891 |
| Deferred taxes | 4, 15 | 17,714 | 11,016 | 28,730 |
| Items that will not be recycled to P&L | | -52,912 | -111,126 | -164,038 |
| Income and expense directly recognized under equity | | -71,462 | -113,044 | -184,506 |
| RECOGNIZED INCOME AND EXPENSE | | 64,049 | 5,150 | 69,199 |
| <i>Owners of the Parent Company</i> | | 64,011 | 5,150 | 69,161 |
| <i>Non-controlling interests</i> | | 38 | | 38 |

(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.

Consolidated Financial Statements

Year 2019

| (in EUR thousands) | Notes | Fully consolidated companies | Equity associates | 2019 |
|--|-------|------------------------------|-------------------|-----------------|
| NET INCOME | | 454,049 | 258,673 | 712,722 |
| Derivative financial instruments (1) | 4, 18 | -70,654 | -17,271 | -87,925 |
| Deferred taxes | 4, 15 | 21,246 | 6,075 | 27,321 |
| Currency translation adjustments | | 14,944 | 11,347 | 26,291 |
| Items to be subsequently recycled to P&L | | -34,464 | 151 | -34,313 |
| Other non-current financial assets | 4, 5 | -2,840 | -3,062 | -5,902 |
| Actuarial adjustments on pension benefit obligations | 4, 10 | -133,100 | -129,525 | -262,625 |
| Deferred taxes | 4, 15 | 32,701 | 13,999 | 46,700 |
| Items that will not be recycled to P&L | | -103,239 | -118,588 | -221,827 |
| Income and expense directly recognized under equity | | -137,703 | -118,437 | -256,140 |
| RECOGNIZED INCOME AND EXPENSE | | 316,346 | 140,236 | 456,582 |
| <i>Owners of the Parent Company</i> | | <i>316,328</i> | <i>140,236</i> | <i>456,564</i> |
| <i>Non-controlling interests</i> | | <i>18</i> | | <i>18</i> |

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

STATEMENT OF CHANGES IN EQUITY

2019 and H1 2020

| (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 | | | | | |
| As of 01/01/2019 | 66,790 | 4,222,877 | 8,413 | 8,317 | -36,432 | 4,269,965 | 554 | 4,270,519 |
| <i>Net income for the year</i> | | 712,704 | | | | 712,704 | 18 | 712,722 |
| <i>Income and expense directly recognized under equity</i> | | -221,827 | -60,604 | 26,291 | | -256,140 | | -256,140 |
| Recognized income and expense | | 490,877 | -60,604 | 26,291 | | 456,564 | 18 | 456,582 |
| Dividends paid in cash | | -176,238 | | | | -176,238 | | -176,238 |
| Share-based payment | | 2,279 | | | | 2,279 | | 2,279 |
| Movements on treasury shares (1) | | -1,544 | | | 1,544 | 0 | | 0 |
| Other changes (2) | | -106,636 | | | | -106,636 | -421 | -107,057 |
| As of 12/31/2019 | 66,790 | 4,431,615 | -52,191 | 34,608 | -34,888 | 4,445,934 | 151 | 4,446,085 |
| <i>Net income for the year</i> | | 32,009 | | | | 32,009 | 0 | 32,009 |
| <i>Income and expense directly recognized under equity</i> | | -145,772 | -31,970 | -8,574 | | -186,316 | | -186,316 |
| Recognized income and expense | | -113,763 | -31,970 | -8,574 | | -154,307 | 0 | -154,307 |
| Dividends paid in cash (3) | | 0 | | | | 0 | | 0 |
| Share-based payment | | 2,020 | | | | 2,020 | | 2,020 |
| Movements on treasury shares (1) | | -2,135 | | | 2,135 | 0 | | 0 |
| Other changes (2) | | -16,157 | | | | -16,157 | -151 | -16,308 |
| As of 06/30/2020 | 66,790 | 4,301,580 | -84,161 | 26,034 | -32,753 | 4,277,490 | 0 | 4,277,490 |

(1) see Note 8.

(2) for Thales, this mainly represents the change in treasury shares, employee share issues and share-based payments. In 2019, the other changes also included the impact on equity of Thales of the purchase of minority interests after the date of Gemalto's takeover, as Thales chose to determine goodwill according to the partial goodwill method (therefore, the difference between the purchase price of these interests and Thales's share in the net assets acquired had been recorded as a reduction in equity).

(3) due to the health situation, the Annual General Meeting of May 12 approved the Board of Directors' April 1, 2020 proposal not to pay a dividend for 2019 results.

Consolidated Financial Statements

H1 2019

| (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 | | | | | |
| As of 01/01/2019 | 66,790 | 4,222,877 | 8,413 | 8,317 | -36,432 | 4,269,965 | 554 | 4,270,519 |
| <i>Net income for the year</i> | | 253,667 | | | | 253,667 | 38 | 253,705 |
| <i>Income and expense directly recognized under equity</i> | | -164,038 | -30,807 | 10,339 | | -184,506 | | -184,506 |
| Recognized income and expense | | 89,629 | -30,807 | 10,339 | | 69,161 | 38 | 69,199 |
| Dividends paid in cash | | -176,238 | | | | -176,238 | | -176,238 |
| Share-based payment | | 1,645 | | | | 1,645 | | 1,645 |
| Movements on treasury shares | | -1,544 | | | 1,544 | 0 | | 0 |
| Other changes (1) | | -81,349 | | | | -81,349 | | -81,349 |
| As of 06/30/2019 | 66,790 | 4,055,020 | -22,394 | 18,656 | -34,888 | 4,083,184 | 592 | 4,083,776 |

(1) for Thales, this represents in particular the change in treasury shares, employee share issues and share-based payments. In 2019, the other changes also included the impact on equity of Thales of the purchase of minority interests after the date of Gemalto's takeover, as Thales chose to determine goodwill according to the partial goodwill method (therefore, the difference between the purchase price of these interests and Thales's share in the net assets acquired had been recorded as a reduction in equity).

CASH FLOW STATEMENT

| (in EUR thousands) | Notes | H1 2020 | H1 2019 | 2019 |
|--|-----------------|-----------------|-----------------|------------------|
| I – Net cash flows from operating activities | | | | |
| NET INCOME | | 32,009 | 253,705 | 712,722 |
| Elimination of net income of equity associates, net of dividends received | 4 | -12,708 | -31,927 | -140,865 |
| Elimination of gains and losses from disposals of non-current assets | | 2,022 | 3,926 | 415 |
| Change in the fair value of derivative financial instruments | 18 | 14,693 | 11,716 | 14,454 |
| Change in the fair value of other current financial assets | 7 | 2,665 | -1,656 | -1,311 |
| Income tax (including deferred taxes) | 15 | 4,256 | 78,106 | 246,578 |
| Allocations to and reversals of depreciation, amortization and provisions (excluding those related to working capital) | | 75,211 | 122,999 | 210,198 |
| Other items | | 2,020 | 1,645 | 2,279 |
| Net cash from operating activities before working capital changes and taxes | | 120,168 | 438,514 | 1,044,470 |
| Income taxes paid | | 3,856 | -85,068 | -248,008 |
| Change in inventories and work-in-progress (net) | 6 | -188,134 | -79,023 | 40,317 |
| Change in contract assets | 11 | 1,147 | 4,416 | 2,179 |
| Change in advances and progress payments to suppliers | 11 | 286,308 | 271,108 | 919,089 |
| Change in trade and other receivables (net) | | -160,595 | -77,675 | -113,912 |
| Change in contract liabilities | 11 | -484,518 | -625,701 | -1,831,850 |
| Change in trade and other payables | | -183,278 | -26,686 | 144,585 |
| Change in tax and social security liabilities | | 69,260 | 46,825 | -23,103 |
| Increase (-) or decrease (+) in working capital | | -659,810 | -486,736 | -862,695 |
| Total I | | -535,786 | -133,290 | -66,233 |
| II - Net cash flows from investing activities | | | | |
| Purchase of intangible assets and property, plant & equipment | | -96,274 | -72,321 | -216,706 |
| Increase in other non-current financial assets | 5 | -540 | -2,451 | -6,833 |
| Disposals of or reductions in non-current assets | | 11,865 | 4,128 | 3,826 |
| Net cash from acquisitions and disposals of subsidiaries | 2 | -13,257 | -47,348 | -106,201 |
| Total II | | -98,206 | -117,992 | -325,914 |
| III - Net cash flows from financing activities | | | | |
| Net change, as an acquisition cost, of other current financial assets | 7 | 320,663 | 652,038 | 1,780,208 |
| Increase in financial debt | 9 | 116,383 | 102,579 | 107,429 |
| Repayment of financial debt | 9 | -380,187 | -154,690 | -783,408 |
| Dividends paid during the year | | 0 | -176,238 | -176,238 |
| Total III | | 56,859 | 423,689 | 927,991 |
| IV - Impact of exchange rate fluctuations and others | Total IV | 2,399 | 430 | 6,898 |
| Change in net cash and cash equivalents (I+II+III+IV) | | -574,734 | 172,837 | 542,742 |
| Opening net cash and cash equivalents | 7 | 3,532,883 | 2,990,141 | 2,990,141 |
| Closing net cash and cash equivalents | 7 | 2,958,149 | 3,162,978 | 3,532,883 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting principles

- 1.1 General principles
- 1.2 Changes in basis of accounting
- 1.3 Segment reporting

2 Scope of consolidation

- 2.1 Scope as of June 30, 2020
- 2.2 2020 changes in scope

3 Goodwill

4 Equity associates

- 4.1 Group share in net assets and net income of equity associates
- 4.2 Change in equity associates
- 4.3 Share in the net income of Thales
- 4.4 Impairment

5 Other non-current financial assets

6 Inventories and work-in-progress

7 Cash

- 7.1 Net cash
- 7.2 Available cash

8 Equity

- 8.1 Share capital
- 8.2 Treasury shares
- 8.3 Share-based payment

9 Borrowings and financial debt

10 Provisions for contingencies and charges

11 Contract assets and liabilities

12 Net sales

13 Research and development costs

14 Net financial income/expense

15 Tax position

- 15.1 Deferred tax sources
- 15.2 Reconciliation of theoretical and recorded tax charge

16 Earnings per share

17 Financial instruments

- 17.1 Financial instruments (assets)
- 17.2 Financial instruments (liabilities)

18 Financial risk management

- 18.1 Cash and liquidity risks
- 18.2 Credit and counterparty risks
- 18.3 Other market risks

19 Contingent assets and liabilities

20 Related-party transactions

21 Subsequent events

Note 1 - Accounting principles

1.1 General principles

On July 23, 2020, the Board of Directors closed and authorized the publication of the Dassault Aviation condensed consolidated financial statements as of June 30, 2020.

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 2019 consolidated financial statements, and take into account the changes in accounting principles mentioned in paragraph 1.2 below.

Impact of the Covid-19 health crisis

The coronavirus epidemic triggered an unprecedented public health and economic crisis that forced the Group to suspend notably its production activities in France on March 18 and its tertiary activities on March 23 for the protection of its employees. Measures taken to curb the spread of Covid-19, such as travel restrictions, have had an impact on the Group's activities.

In this context, Dassault Aviation Group decided to suspend its 2020 targets and to cancel, upon the proposal of the Board, the dividend distribution.

Additional information on the impacts of the health crisis is provided in the business report.

The Group has adopted a targeted approach to present the main impacts deemed relevant to its financial statements. A description of these impacts is provided below.

Impairment test for goodwill and fixed assets

As a result of the deterioration of the economic environment, the Group conducted impairment tests on goodwill, intangible assets and property, plant and equipment (see Note 3).

The tests were implemented on June 30, 2020 using the same methodology as of December 31, 2019. The cash flows used for each of the Cash Generating Units are based on Management's best estimates, which were updated as of June 30, 2020 to take into account the impacts of the pandemic on the Group's activity. The discount rates have been updated to reflect the current health environment.

The Group did not recognize any impairment as a result of these tests.

Investment in Thales

Since the market value of Thales shares exceeds their carrying amount, they were not tested for impairment as of June 30, 2020 (see Note 4).

Listed investments

The market value of the Group's investment in Embraer was impacted by the volatility of the financial markets observed in the first half of the year, which caused the Group to recognize a loss of EUR 20,244 thousand as other income and expense directly recognized under equity (see Note 5).

Inventories and work-in-progress

The Group carried out a review of its inventories and work-in-progress (including pre-owned aircraft inventories). This review did not cause the Group to recognize any significant impairment as of June 30, 2020. Under-activity costs caused by the health crisis, including hours not worked, were excluded from inventories and work-in-progress valuations.

Other assets

The Group carried out a review of the capitalized development costs and of the recoverability of deferred tax assets recognized in the balance sheet. As a result of this work, the Group did not recognize any material impacts as of June 30, 2020.

Cash

The Group has a solid financial structure (see Note 7). No new financing was subscribed by the Group during H1 2020. Since the investment portfolio consists mainly of monetary investments (see Note 18), changes in fair value did not have a significant impact on the results as of June 30, 2020. The health situation had no impact on the classification of these investments.

Derivative financial instruments

The Group maintained the hedge accounting principles set out in the notes to the consolidated financial statements as of the end of December 2019. The Group reviewed the highly probable nature of the cash flows associated with the financial instruments qualifying for hedge accounting and did not detect anything to undermine this position as of the end of June 2020.

Impairment of financial assets

The Group conducted a review of the impairment of financial assets (mainly trade receivables) in view of the potential effects of the pandemic on the credit risk of its debtors. The Group has not been required to recognize significant credit losses, as military trade receivables consist of government customers and the vast majority of Falcon's sales are made on a cash basis.

Specificities of interim consolidated financial statements

Seasonality

In previous fiscal years, a recurring seasonality phenomenon has been observed. As a result, the interim results as of June 30, 2020 are not necessarily representative of what might be expected for the full-year 2020.

Income taxes

In the context of the first-half year closing, the tax expense (current and deferred) is calculated by applying to the accounting result of the period the estimated annual weighted average tax rate expected on the basis of the rates adopted on June 30, 2020.

Provisions for retirement severance payments

Pension costs for the half-year are calculated on the basis of the actuarial valuations performed at the end of the previous fiscal 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 whose application has become mandatory as of January 1, 2020

Since January 1, 2020, the Group has applied the following standards, amendments, and interpretations:

- amendments to IFRS 3 “Business Combinations”,
- amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”,
- amendments to IFRS 9, IAS 39, and IFRS 7 in connection with the reform of interbank reference rates,
- amendments to the conceptual framework.

These texts have no impact on the Group’s consolidated financial statements.

In addition, the Group’s analysis of the consequences of the IFRS IC decisions of November 26, 2019 on the assessment of lease terms in the context of the application of IFRS 16 was finalized during the first half of the year. The impact on the Group’s financial statements is not material.

Standards, amendments, and interpretations for mandatory application after January 1, 2020

The main text published by the IASB and not yet adopted by the European Union is:

- amendments to IAS 1 “Presentation of Financial Statements”: clarifications regarding the classification of liabilities as current or non-current.

This text was not applied in advance by the Group.

1.3 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

2.1 Scope as of June 30, 2020

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

| Name | Country | % Interest (1) | | Consolidation method (2) |
|--|----------------------|-----------------------|-----------------------|--------------------------|
| | | 06/30/2020 | 12/31/2019 | |
| Dassault Aviation (3) | France | Parent company | Parent company | |
| Dassault Aviation Business Services | Switzerland | 100 | 100 | FC |
| 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 |
| ExecuJet | | | | |
| - ExecuJet MRO Services Australia | Australia | 100 | 100 | FC |
| - ExecuJet MRO Services New Zealand | New Zealand | 100 | 100 | FC |
| - ExecuJet MRO Services Belgium | Belgium | 100 | 100 | FC |
| - ExecuJet Services Malaysia | Malaysia | 100 | 100 | FC |
| - ExecuJet MRO Services | South Africa | 100 | 100 | FC |
| - ExecuJet MRO Services Middle East | United Arab Emirates | 100 | - | FC |
| Sogitec Industries | France | 100 | 100 | FC |
| Tag Maintenance Services | Switzerland | 100 | 100 | FC |
| - Tag Maintenance Services Le Bourget | France | 100 | 100 | FC |
| - Tag Maintenance Services Farnborough | England | 100 | 100 | FC |
| - Tag Maintenance Services Portugal | Portugal | 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 24.62% of the capital, 24.70% of the interest rights and 29.82% of the voting rights as of June 30, 2020.

(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.

2.2 2020 changes in scope

In 2019, the Group has expanded its network of maintenance centers of excellence while increasing its market share in Falcon maintenance through the acquisition of maintenance centers:

- ExecuJet, with locations in Europe, the Middle East, Africa, Asia and Australia,
- TAG Maintenance Services, with locations in France, Portugal, the United Kingdom and Switzerland,
- Dassault Aviation Business Services (formerly RUAG), with locations in Switzerland. The subsidiary's "fixed based operator" activity was also acquired.

The closings for the ExecuJet subsidiaries took place in 2019, with the exception of ExecuJet MRO Services Middle East, for which the closing took place on January 23, 2020.

These companies are fully consolidated. The impacts of these acquisitions on the financial statements are not material.

Note 3 - Goodwill

Goodwill amounted to EUR 65,957 thousand as of June 30, 2020 and to EUR 77,452 thousand as of December 31, 2019:

| (in EUR thousands) | 06/30/2020 | 12/31/2019 |
|-------------------------------------|---------------|---------------|
| Dassault Aviation Business Services | 6,625 | 9,640 |
| Dassault Falcon Jet | 5,887 | 5,887 |
| Dassault Falcon Service | 3,702 | 3,702 |
| ExecuJet | 34,914 | 26,683 |
| Sogitec | 4,777 | 4,777 |
| TAG Maintenance Services | 10,052 | 26,763 |
| Goodwill | 65,957 | 77,452 |

Work on the purchase price allocation of Dassault Aviation Business Services, TAG Maintenance Services, and ExecuJet MRO Services Middle East was finalized in 2020. This work led the Group to recognize intangible assets in the amount of EUR 9,629 thousand (customer relations and brand), revalue tangible assets (buildings) for EUR 18,961 thousand, and recognize deferred tax liabilities for EUR 6,345 thousand.

Since the tests performed under IAS 36 "Impairment of non-current assets" (Note 1, "Impact of the Covid-19 health crisis") did not indicate any impairment, no provision for goodwill impairment was recognized. A 1-point variation in the discount rate and the long-term growth rate does not call into question the absence of a goodwill impairment.

In accordance with IFRS, goodwill relating to Thales, which is accounted for by the equity method, is included in "Equity associates" (see Note 4).

Note 4 - Equity associates

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

As of June 30, 2020, Dassault Aviation held 24.70% of the interest rights of the Thales Group, compared with 24.69% as of December 31, 2019. 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 | | |
|--------------------|-------------------|------------------|--|----------------|----------------|
| | 06/30/2020 | 12/31/2019 | H1 2020 | H1 2019 | 2019 |
| Thales (1) | 1,665,856 | 1,816,825 | 15,118 | 115,799 | 253,314 |
| Other | 22,071 | 24,393 | 2,133 | 2,395 | 5,359 |
| TOTAL | 1,687,927 | 1,841,218 | 17,251 | 118,194 | 258,673 |

(1) the value of the securities includes goodwill amounting to EUR 1,101,297 thousand. The Group share in Thales' net income after consolidation restatements is detailed in Note 4.3.

4.2 Change in equity associates

| (in EUR thousands) | H1 2020 | 2019 |
|---|------------------|------------------|
| As of January 1 | 1,841,218 | 1,924,093 |
| First-time application of IFRS 16 | - | 1,408 |
| Share in net income of equity associates | 17,251 | 258,673 |
| Elimination of dividends paid (1) | -4,543 | -117,808 |
| Income and expense recognized directly through equity | | |
| - Securities at fair value | -1,976 | -3,062 |
| - Derivative financial instruments (2) | 4,808 | -17,271 |
| - Actuarial adjustments on pension benefit obligations | -144,319 | -129,525 |
| - Deferred taxes | 3,753 | 20,074 |
| - Currency translation adjustments | -11,957 | 11,347 |
| Share of equity associates in other income and expense recognized directly through equity | -149,691 | -118,437 |
| Other movements (3) | -16,308 | -106,711 |
| At the end of period | 1,687,927 | 1,841,218 |

(1) Thales did not pay any dividends for 2019 during H1 2020. In 2019, Thales paid the Group EUR 83,000 thousand in dividends for 2018 and EUR 31,519 thousand in interim dividends for 2019.

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

(3) for Thales, this mainly represents the change in treasury shares, employee share issues and share-based payments. In 2019, the other movements also included the impact on Thales' equity of the purchase of minority interests after the date of Gemalto's takeover, as Thales chose to determine goodwill according to the partial goodwill method (therefore, the difference between the purchase price of these interests and Thales' share in the net assets acquired has been recorded as a reduction in equity).

4.3 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 2020 | H1 2019 | 2019 |
|--|---------------|----------------|------------------|
| Thales net income (100%) | 65,100 | 556,900 | 1,121,900 |
| Thales net income - Dassault Aviation share | 16,080 | 137,554 | 276,997 |
| Post-tax amortization of the purchase price allocation (1) | -1,427 | -20,636 | -22,228 |
| Other consolidation restatements | 465 | -1,119 | -1,455 |
| Dassault Aviation share in the net income of Thales | 15,118 | 115,799 | 253,314 |

(1) amortization of identified assets for which the modes and periods of depreciation are identical to those used for the year ended December 31, 2019.

4.4 Impairment

Based on the market price of Thales shares as of June 30, 2020 (EUR 71.88 per share), Dassault Aviation's investment in Thales is valued at EUR 3,776 million.

In the absence of any objective indication of impairment (Note 1, "Impact of the Covid-19 health crisis"), the Thales investments were not subject to an impairment test as of June 30, 2020.

Note 5 - Other non-current financial assets

| (in EUR thousands) | 12/31/2019 | Acquisition/ Increase | Disposal/ Decrease | Change in fair value | Other | 06/30/2020 |
|--|----------------|--------------------------|-----------------------|-------------------------|------------|----------------|
| Non-listed securities (1) | 120,075 | 0 | -21 | 349 | 0 | 120,403 |
| Embraer shares (1) | 29,076 | 0 | 0 | -20,244 | 0 | 8,832 |
| Other financial assets | 58,579 | 540 | -324 | 0 | 365 | 59,160 |
| <i>Receivables from equity investments</i> | <i>20,885</i> | <i>126</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>21,011</i> |
| <i>Advance lease payments</i> | <i>35,801</i> | <i>364</i> | <i>-259</i> | <i>0</i> | <i>365</i> | <i>36,271</i> |
| <i>Housing loans and other</i> | <i>1,893</i> | <i>50</i> | <i>-65</i> | <i>0</i> | <i>0</i> | <i>1,878</i> |
| Other non-current financial assets | 207,730 | 540 | -345 | -19,895 | 365 | 188,395 |

(1) Unlisted investments and listed Embraer shares classified as other non-current financial assets are measured at fair value, with a corresponding entry in other income and expenses recognized under equity, which cannot be recycled in profit or loss.

Note 6 - Inventories and work-in-progress

| (in EUR thousands) | 06/30/2020 | | | 12/31/2019 |
|---|------------------|-----------------|------------------|------------------|
| | Gross | Impairment | Net | Net |
| Raw materials | 226,496 | -93,216 | 133,280 | 115,220 |
| Work-in-progress | 2,543,281 | -14,631 | 2,528,650 | 2,519,099 |
| Semi-finished and finished goods | 1,264,315 | -366,487 | 897,828 | 734,032 |
| Inventories and work-in-progress | 4,034,092 | -474,334 | 3,559,758 | 3,368,351 |

The Covid-19 health crisis had no material impact on the valuation of inventories (Note 1, "Impact of the Covid-19 health crisis").

Note 7 - Cash

7.1 Net cash

| (in EUR thousands) | 06/30/2020 | 12/31/2019 |
|--|------------------|------------------|
| Cash equivalents (1) | 2,120,119 | 2,617,278 |
| Cash at bank and in hand | 838,030 | 915,605 |
| Cash and cash equivalents in assets | 2,958,149 | 3,532,883 |
| Bank overdrafts | 0 | 0 |
| Net cash in the cash flow statement | 2,958,149 | 3,532,883 |

(1) mainly time deposits and cash equivalent marketable securities. The corresponding risk analysis is described in Note 18.

7.2 Available cash

The Group uses an alternative performance indicator, referred to as "Available cash," which reflects the total liquidities available to the Group, net of any financial debt, except for lease liabilities recognized following the application of IFRS 16. It is calculated as follows:

| (in EUR thousands) | 06/30/2020 | 12/31/2019 |
|--|------------------|------------------|
| Other current financial assets (at market value) (1) | 1,109,743 | 1,433,071 |
| Cash and cash equivalents (at market value) | 2,958,149 | 3,532,883 |
| Sub-total | 4,067,892 | 4,965,954 |
| Borrowings and financial debt, excluding lease liabilities (2) | -147,193 | -380,534 |
| Available cash | 3,920,699 | 4,585,420 |

(1) other current financial assets, which include in particular Group cash investments in the form of listed marketable securities, are measured at fair value through profit or loss. Given their liquidity, the latter could be disposed of in the short-term.

(2) see Note 9.

The investment portfolio had no significant impairment losses as of June 30, 2020, just as for December 31, 2019 (see Note 1, "Impact of the Covid-19 health crisis"). The corresponding risk analysis is described in Note 18.

Note 8 - Equity

8.1 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, 2020, just as for December 31, 2019.

The distribution of share capital as of June 30, 2020 is as follows:

| | Shares | % Capital | % Voting rights |
|-------------------------------------|------------------|-------------|-----------------|
| GIMD (1) | 5,196,076 | 62.24% | 76.87% |
| Float | 2,291,677 | 27.45% | 17.01% |
| Airbus | 827,529 | 9.91% | 6.12% |
| Dassault Aviation (treasury shares) | 33,421 | 0.40% | - |
| Total | 8,348,703 | 100% | 100% |

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

8.2 Treasury shares

Movements on treasury shares are detailed below:

| (in number of shares) | H1 2020 | H1 2019 | 2019 |
|-------------------------------------|---------------|---------------|---------------|
| Treasury shares at January 1 | 35,600 | 37,175 | 37,175 |
| Purchase of treasury shares | 0 | 0 | 0 |
| Cancellation of shares | 0 | 0 | 0 |
| Share-based payment (see Note 8.3) | -2,179 | -1,575 | -1,575 |
| Closing treasury shares | 33,421 | 35,600 | 35,600 |

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

The 33,421 treasury shares held as of June 30, 2020 (EUR 980 per share) were allocated to potential allocations of performance share plans and a potential liquidity contract to ensure the market activity.

8.3 Share-based payment

The Group grants performance shares to the Chief Executive Officer and to the Chief Operating Officer. The features of these share plans are described in the 2019 annual financial report.

| Grant date | Vesting period | Number of shares allocated | Share price on the grant date | Number of shares delivered in 2020 | Number of shares canceled (1) | Balance of performance shares as of 06/30/2020 |
|------------|-------------------------------|----------------------------|-------------------------------|------------------------------------|-------------------------------|--|
| 02/27/2019 | from 02/27/2019 to 02/26/2020 | 2,179 | €1,400 | 2,179 | 0 | 0 |
| 02/26/2020 | from 02/26/2020 to 02/25/2021 | 2,250 | €1,076 | 0 | 0 | 2,250 |

(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 senior executives.

2019 Plan

An expense of EUR 1,648 thousand was recognized in 2020 for this plan, which had a fair value of EUR 2,706 thousand (average of EUR 1,242 per share).

2020 Plan

An expense of EUR 372 thousand was recognized in 2020 for this plan, which had a fair value of EUR 2,171 thousand (average of EUR 965 per share). The expense recorded in the first half of the year takes into account the probability of achievement of targets.

Note 9 - Borrowings and financial debt

| (in EUR thousands) | Bank borrowings | Lease liabilities | Other financial liabilities (1) | Borrowings and financial debt |
|--------------------------------|-----------------|-------------------|---------------------------------|-------------------------------|
| As of December 31, 2019 | 267,394 | 177,684 | 113,140 | 558,218 |
| Change in scope | 0 | 2,464 | 0 | 2,464 |
| Increase | 470 | 24,064 | 115,913 | 140,447 |
| Decrease | -251,508 | -30,137 | -98,542 | -380,187 |
| Other | 326 | 475 | 0 | 801 |
| As of June 30, 2020 | 16,682 | 174,550 | 130,511 | 321,743 |

(1) other financial liabilities essentially correspond to the locked-in employee profit-sharing funds. Employee profit-sharing is an "other long-term benefit" and should be measured and discounted in accordance with the principles of IAS 19 (revised). However, given the small historical differences between compensation rates and discount rates, we consider the amortized cost method to be a satisfactory approximation of the debt.

Note 10 - Provisions for contingencies and charges

| (in EUR thousands) | 12/31/2019 | Allocations | Reversals | Other | 06/30/2020 |
|---|------------------|----------------|-----------------|----------------|------------------|
| Warranties (1) | 995,822 | 45,067 | -54,413 | 122 | 986,598 |
| Services provision (1) | 189,899 | 33,515 | -44,905 | 271 | 178,780 |
| Retirement severance payments (2) | 344,277 | 27,867 | -9,326 | -13,175 | 349,643 |
| <i>French companies</i> | 242,195 | 19,076 | -9,081 | -24,115 | 228,075 |
| <i>US companies</i> | 102,082 | 8,791 | -245 | 10,940 | 121,568 |
| Others | 10,325 | 777 | -1,038 | 17 | 10,081 |
| Provisions for contingencies and charges | 1,540,323 | 107,226 | -109,682 | -12,765 | 1,525,102 |

(1) provisions take account of changes in the fleet in operation and delivered contracts.

(2) the discount rate used to calculate the provision for retirement severance payments for French companies (determined by reference to the yield for high-quality corporate long-term bonds rated AA) was at 0.80% as of June 30, 2020, compared with 0.70% as of December 31, 2019. The rate used to calculate the provision for retirement severance payments for U.S. companies was 3.35% on June 30, 2020, compared with 3.45% as of December 31, 2019. The actuarial adjustments contributed to the reduction in provisions for retirement severance payments in the amount of EUR 13,194 thousand.

A 0.50 point decrease in the discount rate would increase the total commitment by EUR 80,875 thousand, while a 0.50 point increase in the discount rate would decrease the total commitment by EUR 71,914 thousand.

Note 11 - Contract assets and liabilities

| (in EUR thousands) | Contract assets | Contract liabilities |
|--|-----------------|----------------------|
| Contract assets/liabilities as of December 31, 2019 | 14,788 | -7,375,703 |
| <i>Advances and progress payments received</i> | -59,012 | -6,862,676 |
| <i>Other contract assets/liabilities</i> | 73,800 | -513,027 |
| Change in customer advances and progress payments | 7,733 | 571,548 |
| Change in other contract assets/liabilities | -8,880 | -89,686 |
| Contract assets/liabilities as of June 30, 2020 | 13,641 | -6,893,841 |
| <i>Advances and progress payments received</i> | -51,279 | -6,291,128 |
| <i>Other contract assets/liabilities</i> | 64,920 | -602,713 |

The decrease in contract liabilities is mainly the result of the reduction in progress payments received under the Rafale Export contracts, following deliveries during the period.

Since Dassault Aviation is in particular principal on the Rafale Egypt, Qatar and India contracts, the advances received include the co-contractors' parts. The progress payments made reflect the transfer of these parts to the co-contractors:

| (in EUR thousands) | 06/30/2020 | 12/31/2019 |
|---|-------------------|-------------------|
| Advances and progress payments received | -6,342,407 | -6,921,688 |
| Supplier advances and progress payments | 2,077,478 | 2,363,786 |
| Advances and progress payments received net of advances and progress payments paid | -4,264,929 | -4,557,902 |

Note 12 - Net sales

Net sales by region breakdown are as follows:

| (in EUR thousands) | H1 2020 | H1 2019 | 2019 |
|--------------------|------------------|------------------|------------------|
| France (1) | 301,073 | 545,574 | 915,312 |
| Export (2) | 2,344,605 | 2,520,062 | 6,455,304 |
| Net sales | 2,645,678 | 3,065,636 | 7,370,616 |

(1) mainly the French government, with whom the Group generated more than 10% of its total net sales in H1 2019, and in 2019 overall.

(2) more than 10% of the Group's net sales was generated with Qatar and India in H1 2020 and in 2019. More than 10% of the Group's net sales was generated with Qatar in H1 2019. The net sales from the Rafale Export contracts are recognized on a gross basis (including the co-contractors' parts).

Net sales by activity are as follows:

| (in EUR thousands) | H1 2020 | H1 2019 | 2019 |
|--------------------|------------------|------------------|------------------|
| Falcon | 1,064,438 | 993,665 | 2,222,473 |
| Defense | 1,581,240 | 2,071,971 | 5,148,143 |
| Net sales | 2,645,678 | 3,065,636 | 7,370,616 |

Interim data is not representative of annual net sales.

Note 13 - Research and development costs

Non-capitalized research and development costs are recognized as an expense for the period in which they are incurred and represent:

| (in EUR thousands) | H1 2020 | H1 2019 | 2019 |
|--------------------------------|----------|----------|----------|
| Research and development costs | -262,237 | -257,895 | -527,287 |

The Group's research and development strategy and initiatives are described in the Business report.

Note 14 - Net financial income/expense

| (in EUR thousands) | H1 2020 | H1 2019 | 2019 |
|--|----------------|----------------|----------------|
| Income from cash and cash equivalents | 2,164 | 5,658 | 12,508 |
| Change in fair value of other current financial assets | -2,665 | 1,656 | 1,311 |
| Cost of gross financial debt (1) | -21,384 | -38,455 | -75,107 |
| Cost of net financial debt | -21,885 | -31,141 | -61,288 |
| Dividends and other investment income | 0 | 15 | 262 |
| Interest income and gains/losses on disposal of other financial assets (excluding cash and cash equivalents) | 3,479 | 4,764 | 8,779 |
| Foreign exchange gain/loss (2) | -19,327 | -18,960 | -43,378 |
| Other financial income and expense | -15,848 | -14,181 | -34,337 |
| Net financial income/expense | -37,733 | -45,322 | -95,625 |

(1) the financial expense recognized for the financing component of long-term Defense contracts was EUR -18,315 thousand in H1 2020, compared with EUR -31,903 thousand in H1 2019, and EUR -62,066 thousand in 2019.

(2) foreign exchange gain/loss for the period includes the change in market value and gain/loss resulting from the exercise of foreign exchange hedging instruments which do not qualify for hedge accounting under IFRS 9 "Financial Instruments". The amounts are not representative of the real gain/loss that will be recognized when the hedges are exercised.

Note 15 - Tax position

15.1 Deferred tax sources

| (in EUR thousands) | 06/30/2020 | 12/31/2019 |
|---|----------------|----------------|
| Temporary differences on provisions (profit-sharing, pension, etc.) | 295,520 | 320,181 |
| Other current and non-current financial assets and cash equivalents | -5,474 | -2,932 |
| Derivative financial instruments | 41,192 | 21,002 |
| Other temporary differences | 104,655 | 96,493 |
| Net deferred taxes | 435,893 | 434,744 |
| <i>Deferred tax assets</i> | <i>441,538</i> | <i>438,261</i> |
| <i>Deferred tax liabilities</i> | <i>-5,645</i> | <i>-3,517</i> |

The Group carried out a review of the recoverability of deferred tax assets recognized in the balance sheet. As a result of this work, the Group did not recognize any material impacts as of June 30, 2020.

15.2 Reconciliation of theoretical and recorded tax charge

| (in EUR thousands) | H1 2020 | H1 2019 | 2019 |
|--|---------------|----------------|-----------------|
| Net income | 32,009 | 253,705 | 712,722 |
| Cancellation of the income tax | 4,256 | 78,106 | 246,578 |
| Cancellation of the Group share in the net income of equity associates | -17,251 | -118,194 | -258,673 |
| Income before tax and equity associates | 19,014 | 213,617 | 700,627 |
| Theoretical tax expenses calculated at the current rate (1) | -6,088 | -68,400 | -241,226 |
| Effect of tax credits (2) | 5,372 | 5,142 | 12,562 |
| Effect of differences in tax rates (3) | -3,918 | -8,503 | -9,268 |
| Other | 378 | -6,345 | -8,646 |
| Taxes recognized | -4,256 | -78,106 | -246,578 |

(1) a rate of 32.02% applies to H1 2020, as well as to H1 2019. In 2019, the tax rate applied was 34.43%.

(2) Research Tax Credit, recognized as other revenue, amounted to EUR 15,500 thousand in H1 2020, compared with EUR 15,350 thousand in H1 2019, and EUR 33,217 thousand for 2019.

(3) includes the impact of the decrease in the corporate tax rate in France.

Note 16 - Earnings per share

| Earnings per share | H1 2020 | H1 2019 | 2019 |
|--|------------|-------------|-------------|
| Net income attributable to the owners of the Parent Company (in EUR thousands) (1) | 32,009 | 253,667 | 712,704 |
| Average number of shares outstanding | 8,314,600 | 8,312,537 | 8,312,823 |
| Diluted average number of shares outstanding | 8,315,725 | 8,313,550 | 8,313,836 |
| Basic earnings per share (in EUR) | 3.8 | 30.5 | 85.7 |
| Diluted earnings per share (in EUR) | 3.8 | 30.5 | 85.7 |

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

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

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

Note 17 - Financial instruments

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

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

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

17.1 Financial instruments (assets)

| (in EUR thousands) | Balance sheet value as of 06/30/2020 | | | |
|---|--------------------------------------|----------------------|------------------|------------------|
| | Cost or amortized cost (1) | Fair value | | Total |
| | | Impact on net income | Impact on equity | |
| Non-current assets | | | | |
| Other non-current financial assets | 59,160 | | 129,235 | 188,395 |
| Current assets | | | | |
| Trade and other receivables | 1,390,426 | | | 1,390,426 |
| Derivative financial instruments | | 0 | 761 | 761 |
| Other current financial assets | | 1,109,743 | | 1,109,743 |
| Cash equivalents (2) | | 2,120,119 | | 2,120,119 |
| Total financial instruments (assets) | 1,449,586 | 3,229,862 | 129,996 | 4,809,444 |
| Level 1 (2) | | 3,229,862 | 8,832 | |
| Level 2 | | 0 | 761 | |
| Level 3 | | 0 | 120,403 | |

(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 June 30, 2020: EUR 1,616,814 thousand.

As of December 31, 2019, the data were as follows:

| (in EUR thousands) | Balance sheet value as of 12/31/2019 | | | |
|---|--------------------------------------|----------------------|------------------|------------------|
| | Cost or amortized cost (1) | Fair value | | Total |
| | | Impact on net income | Impact on equity | |
| Non-current assets | | | | |
| Other non-current financial assets | 58,579 | | 149,151 | 207,730 |
| Current assets | | | | |
| Trade and other receivables | 1,224,369 | | | 1,224,369 |
| Derivative financial instruments | | 5,876 | 939 | 6,815 |
| Other current financial assets | | 1,433,071 | | 1,433,071 |
| Cash equivalents (2) | | 2,617,278 | | 2,617,278 |
| Total financial instruments (assets) | 1,282,948 | 4,056,225 | 150,090 | 5,489,263 |
| Level 1 (2) | | 4,050,349 | 29,076 | |
| Level 2 | | 5,876 | 939 | |
| Level 3 | | 0 | 120,075 | |

(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 December 31, 2019: EUR 1,677,688 thousand.

17.2 Financial instruments (liabilities)

| (in EUR thousands) | Balance sheet value as of 06/30/2020 | | | |
|--|--------------------------------------|----------------------|------------------|------------------|
| | Cost or amortized cost (1) | Fair value | | Total |
| | | Impact on net income | Impact on equity | |
| Non-current liabilities | | | | |
| Lease liabilities | 137,078 | | | 137,078 |
| Other financial liabilities (2) | 108,968 | | | 108,968 |
| Current liabilities | | | | |
| Bank borrowings | 16,682 | | | 16,682 |
| Lease liabilities | 37,472 | | | 37,472 |
| Other financial liabilities (2) | 21,543 | | | 21,543 |
| Trade and other payables | 894,205 | | | 894,205 |
| Derivative financial instruments | | 39,381 | 95,605 | 134,986 |
| Total financial instruments (liabilities) | 1,215,948 | 39,381 | 95,605 | 1,350,934 |
| Level 1 | | 0 | 0 | |
| Level 2 | | 39,381 | 95,605 | |
| Level 3 | | 0 | 0 | |

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

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

As of December 31, 2019, data was as follows:

| (in EUR thousands) | Balance sheet value as of 12/31/2019 | | | |
|--|--------------------------------------|----------------------|------------------|------------------|
| | Cost or amortized cost (1) | Fair value | | Total |
| | | Impact on net income | Impact on equity | |
| Non-current liabilities | | | | |
| Lease liabilities | 122,859 | | | 122,859 |
| Other financial liabilities (2) | 93,317 | | | 93,317 |
| Current liabilities | | | | |
| Bank borrowings | 267,394 | | | 267,394 |
| Lease liabilities | 54,825 | | | 54,825 |
| Other financial liabilities (2) | 19,823 | | | 19,823 |
| Trade and other payables | 1,075,599 | | | 1,075,599 |
| Derivative financial instruments | | 30,564 | 47,077 | 77,641 |
| Total financial instruments (liabilities) | 1,633,817 | 30,564 | 47,077 | 1,711,458 |
| Level 1 | | 0 | 0 | |
| Level 2 | | 30,564 | 47,077 | |
| Level 3 | | 0 | 0 | |

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

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

Note 18 - Financial risk management

18.1 Cash and liquidity risks

18.1.1 Financial debt

The Group has no significant risk in relation to its financial debt. A breakdown of financial debt appears in Note 9.

18.1.2 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) | Market value | As % |
|--|------------------|-------------|
| Cash at bank and in hand, money market investments and time deposits | 3,073,479 | 75% |
| Investments in bonds (1) | 442,314 | 11% |
| Unspecified investments (1) | 552,099 | 14% |
| Total | 4,067,892 | 100% |

(1) investments in bonds subscribed by the Group are investments with a short-term management horizon. Unspecified investments as defined by the AMF classification are invested in short-term bond and money market funds.

An exhaustive analysis of the performance of listed marketable securities is made at each balance sheet date. The investment portfolio does not present, on a line-by-line basis, any objective evidence of significant impairment as of June 30, 2020 (just as for December 31, 2019).

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

Fair value classification:

| (in EUR thousands) | 06/30/2020 | | |
|--|----------------------|------------------|------------------|
| | Impact on net income | Impact on equity | Total |
| Cash at bank and in hand, money market investments and time deposits | 3,073,479 | 0 | 3,073,479 |
| Investments in bonds | 442,314 | 0 | 442,314 |
| Unspecified investments | 552,099 | 0 | 552,099 |
| Total | 4,067,892 | 0 | 4,067,892 |

18.2 Credit and counterparty risks

18.2.1 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.

18.2.2 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 Covid-19 health crisis had no material impact on the impairment losses recorded by the Group (Note 1, "Impact of the Covid-19 health crisis").

The amount of the Bpifrance Assurance Export guarantees and collateral obtained and not exercised as of June 30, 2020 is comparable to that as of December 31, 2019.

Manufacturing risk is also covered by Bpifrance Assurance Export for major military export contracts.

18.3 Other market risks

18.3.1 Market risks

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

| (in EUR thousands) | 06/30/2020 | | 12/31/2019 | |
|---|------------|----------------|--------------|---------------|
| | Assets | Liabilities | Assets | Liabilities |
| Foreign exchange derivatives | 761 | 134,986 | 6,815 | 77,271 |
| Interest rate derivatives | 0 | 0 | 0 | 370 |
| Derivative financial instruments | 761 | 134,986 | 6,815 | 77,641 |
| Net derivative financial instruments | | 134,225 | | 70,826 |

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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.

As a result of the health situation, the Group reviewed the highly probable nature of the cash flows associated with the financial instruments qualifying for hedge accounting and did not detect anything to undermine this position as of the end of June 2020 (see Note 1, "Impact of the Covid-19 health crisis").

The foreign exchange derivative instruments used by the Group are not all eligible 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 06/30/2020 | Market value as of 12/31/2019 |
|---|-------------------------------------|-------------------------------------|
| Instruments which qualify for hedge accounting | -94,844 | -45,972 |
| Instruments which do not qualify for hedge accounting | -39,381 | -24,484 |
| Foreign exchange derivatives | -134,225 | -70,456 |

Counterparty risk on foreign exchange derivatives (CVA/DVA) is calculated using the lump-sum add-on method using historical default probabilities by rating category communicated by the rating agencies. As of June 30, 2020, this counterparty risk is not material.

The fair value of derivative financial instruments by maturity breaks down as follows:

| (in EUR thousands) | Less than one year | More than one year | Total |
|------------------------------|-----------------------|-----------------------|-----------------|
| Foreign exchange derivatives | -84,677 | -49,548 | -134,225 |

Interest rate derivatives

The Group is no longer exposed to the volatility of interest rates through its loans contracted at variable rates, as these were repaid during the H1 (see Note 9).

18.3.2 Impacts of derivatives on the Group's financial statements

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

| (in EUR thousands) | 12/31/2019 | Impact on equity (1) | Impact on net financial income (2) | 06/30/2020 |
|---|----------------|-------------------------|--|-----------------|
| Foreign exchange derivatives | -70,456 | -48,872 | -14,897 | -134,225 |
| Interest rate derivatives | -370 | 166 | 204 | 0 |
| Net derivative financial instruments | -70,826 | -48,706 | -14,693 | -134,225 |

(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 IFRS 9 "Financial Instruments".

The change in fair value of foreign exchange derivatives is mainly due to the change in the closing rate between December 31, 2019 (\$1.1234/€) and June 30, 2020 (\$1.1198/€) and the fall in dollar interest rates (reduction in forward points).

18.3.3 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) | 06/30/2020 | |
|---|------------|------------|
| Net balance sheet position | -134,225 | |
| Closing US dollar/euro exchange rate | \$1.1198/€ | |
| Closing US dollar/euro exchange rate +/- 10 cents | \$1.0198/€ | \$1.2198/€ |
| Change in value (1) | -302,631 | +217,375 |
| <i>Impact on net income</i> | -115,046 | +60,547 |
| <i>Impact on equity</i> | -187,585 | +156,828 |

(1) indicative data calculated based on existing market conditions on the balance sheet dates. The data is not representative of the actual gain/loss to be recognized when the hedges are exercised.

Note 19 - Contingent assets and liabilities

There are no contingent assets or liabilities as of June 30, 2020.

Note 20 - Related-party transactions

The related parties as of June 30, 2020 are identical to those identified as of December 31, 2019 and the transactions during the period are of the same type.

Note 21 - Subsequent events

No events likely to have a material impact on the financial statements occurred between June 30, 2020 and the date of the condensed consolidated financial statements were approved by the Board of Directors.

Auditors' report

Statutory auditors' review report on the half-year financial information

For the period from January 1 to June 30, 2020

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general 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-year consolidated financial statements of DASSAULT AVIATION, the period from January 1 to June 30, 2020;
- the verification of the information contained in the half-year management report.

These condensed half-years consolidated financial statements were prepared under the responsibility of the Board of Directors on July 23, 2020 based on information available at that date and in the evolving context of the Covid-19 crisis and the complexity to assess its impacts and outlook. 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-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - the standard of IFRSs as adopted by the European Union applicable to interim financial information.

Specific verification

We have also verified the information given in the half-year management report dated July 23, 2020 on the condensed half-year consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Paris-La Défense and Neuilly-sur-Seine, July 23, 2020

The Statutory Auditors

MAZARS AUDIT

Mathieu MOUGARD

PRICEWATERHOUSECOOPERS AUDIT

Édouard DEMARCQ

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