

# Fiscal 2004

## Director's Reports and Financial Statements



**DASSAULT**  
A V I A T I O N

# CONTENTS

Board of Directors / Management Committee .....	page	1
Directors' Report .....	page	3
Chairman's Report .....	page	29
Consolidated financial statements.....	page	35
Company financial statements .....	page	53
Resolutions .....	page	76

## BOARD OF DIRECTORS

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### Honorary Chairman

Serge Dassault

### Chairman and Chief Executive Officer

Charles Edelstenne

### Directors

Philippe Camus

Olivier Dassault

Serge Dassault

Charles Edelstenne

Jean-Paul Gut

Philippe Hustache

Denis Kessler

Yves Michot

Bruno Revellin-Falcoz

Pierre-Henri Ricaud

## MANAGEMENT COMMITTEE

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### Chairman

Charles Edelstenne

Chairman and Chief Executive Officer

Bruno Revellin-Falcoz

Vice Chairman

Christian Decaix

Executive Vice-President, Operations

Alain Bonny

Senior Vice-President, Military Customer Support

Bruno Cotté

Executive Vice-President, International

Lionel de la Sayette

Senior Vice-President, Research, Design and Engineering

Jean-Marc Grillet

Senior Vice-President, Industrial Operations

Jacques Miannay

Senior Vice-President, Total Quality

Jacques Pellas

Senior Vice-President, Information System Division

Guy Piras

Senior Vice-President, Procurement

Loïk Segalen

Vice-President, Economic and Financial Affairs

Olivier Villa

Senior Vice-President, Civil Aircraft

Claude Defawe

Vice-President, National and Cooperative Military Sales

## GOVERNMENT COMMISSIONER

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Thierry Perrin - French Armed Forces General Inspector

## STATUTORY AUDITORS

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Mazars & Guérard S.A., represented by Mrs. Manuela Baudoin-Revert, partner

Deloitte & Associés S.A., represented by Mr. Philippe Mouraret, partner



Ladies and Gentlemen,

**GROUP**

*Before submitting the financial statements for the year ended December 31, 2004 for your approval of the proposed appropriation of net income for the year, we would like to take this opportunity to present the activities of Dassault Aviation Group and its parent company, Dassault Aviation, during the last year, their future prospects and other information required by law.*

## CONSOLIDATED KEY FIGURES:

### ORDER BOOK:

The global economic situation improved on the whole in 2004. We recorded orders for 69 Falcons compared to 40 in 2003. Note that these sales accelerated in the second half of 2004 with 41 Falcons ordered compared to 28 in the first half of 2004.

At the end of 2004, we received notification from the French government of an order for 59 additional Rafale aircraft (12 for the French Navy and 47 for the French Air Force), bringing the number of Rafale aircraft ordered to 120 out of an expected total of 294.

Considering these items, our 2004 **orders** amounted to **EUR 4.02 billion**, up 66% compared to 2003.

In 2004, 54% of our orders were for Falcon aircraft.

Orders booked by Group companies over the last five years are as follows in **EUR millions**:

Fiscal year	Defense		Falcon	Total	% Export
	France	Export			
2000	412	1,128	2,587	<b>4,127</b>	88%
2001	1,216	191	2,447	<b>3,854</b>	65%
2002	679	122	2,719	<b>3,520</b>	79%
2003	878	153	1,385	<b>2,416</b>	62%
<b>2004</b>	<b>1,730</b>	<b>123</b>	<b>2,166</b>	<b>4,019</b>	<b>53%</b>

### SALES:

**Consolidated net sales** amounted to **EUR 3.46 billion** in 2004, a 5% increase on 2003.

In 2004, Falcon products represented 61% of consolidated net sales.

# Director's Report

Consolidated sales trends over the last five years are as follows in **EUR millions**:

Fiscal year	Defense		Falcon	Total	% Export
	France	Export			
2000	864	147	2,474	<b>3,485</b>	73%
2001	653	164	2,653	<b>3,470</b>	77%
2002	1,053	158	2,226	<b>3,437</b>	66%
2003	545	1,061	1,692	<b>3,298</b>	82%
<b>2004</b>	<b>505</b>	<b>838</b>	<b>2,116</b>	<b>3,459</b>	<b>83%</b>

## OPERATING INCOME

**Consolidated operating income** for the year ended December 31, 2004 totaled **EUR 464 million**, up 15% compared to 2003. Operating profitability stood at 13.4%.

## NET INCOME:

The Group reported **consolidated net income** (before minority interests) of **EUR 308 million**, up 5% on fiscal 2003. Net profitability stood at 8.9%.

## FINANCIAL STRUCTURE:

**Consolidated net cash and cash equivalents** as of December 31, 2004 totaled **EUR 2.65 billion**.

The Group has no bank indebtedness. The significant financial debt shown in the consolidated balance sheet correspond to the employee profit-sharing funds frozen in a current account and Falcon repayable advances.

## GROUP ACTIVITIES:

### PROGRAM DEVELOPMENTS

#### ● *Falcon programs:*

Falcon executive jet highlights in 2004 included:

- sustained commercial activity in Europe and North America,
- an improvement in the used aircraft market which resulted in a substantial reduction in the Group's inventories,

- US and European certifications of the Falcon 2000EX EASy and its entry into operational service,
- the launch at EBACE of the Falcon 900DX designed to replace the Falcon 900C,
- the construction and commissioning of two new paint hangars in Little Rock and Wilmington, and a hangar at Teterboro airport to house the Dassault Falcon Jet demonstrators and flight department.

#### ● *Defense programs:*

Rafale highlights in 2004 included:

- the French government's order for a new batch of 59 Rafale (12 for the French Navy and 47 for the French Air Force), bringing the number of Rafale ordered to 120,
- notification of a contract for the treatment of any obsolescence in the main electronic equipment,
- the decision by the French government to halt the production of the twin-seater French Navy Rafale and the termination of the contract for this version's development and commercialization,
- the commissioning of the Rafale in the French Navy on June 25, 2004, following the Agapanthe campaign on board the Charles de Gaulle aircraft carrier in the Indian Ocean, where the Rafale demonstrated excellent availability,
- the delivery of the first three twin-seater Rafale to the French Air Force,
- notification by the French government of the development of the K3 standard for the Rafale.

Other aviation program activities included:

- ongoing delivery of Mirage 2000-9 to the United Arab Emirates,
- the delivery of the first Mirage 2000 H/TH to India,

- the signing with EADS of an historic agreement:
  - \* with regard to fighter aircraft:
    - . Dassault Aviation is the prime contractor of the UCAV technological demonstrator (Neuron),
    - . with involvement of EADS,
  - \* with regard to reconnaissance aircraft:
    - . EADS is the prime contractor of the Euro-male demonstrator,
    - . Dassault Aviation is developing the flight segment and the systems architecture,
- the proposal to the French General Delegation for Armament to develop the Neuron Unmanned Combat Aircraft Vehicle (UCAV) demonstrator program. This program, under the project management of Dassault Aviation, includes five other European partners; SAAB (Sweden), ALenia (Italy), EADS CASA (Spain), HAI (Greece) and RUAG (Switzerland),
- halt in the development of the high/low speed tactical drone and the dissolution of the joint venture with Sagem, Dassault Sagem Tactical UAV (DSTU). These decisions are the direct result of the disappearance within the Military Programming Law of the Multi-Load Multi-Mission tactical drone program,
- the supply of pyrotechnic equipment for Ariane-5 rocket launcher systems and our proposals to supply VEGA launcher separation systems.

## CUSTOMER SUPPORT AND SERVICES:

In 2004, we:

- confirmed our progress in terms of Falcon customer support and services, particularly in the spare parts distribution sector,
- received notification of the Operational Conditions Maintenance (OCM) and repair contract for all commissioned aircraft (excluding Rafale aircraft) in France,
- received notification of the contract for the commissioning of the Standard F2 Rafale for the French Air Force and the Rafale OCM and repair contract,

- organized the first Mirage 2000 Users' Conference uniting all customers.

## SUBSIDIARY ACTIVITIES

- **DASSAULT FALCON JET (USA):** This company markets Falcon jets and is responsible for their fitting-out. The company is headquartered in Teterboro, New Jersey, while industrial activities are located in Little Rock, Arkansas.

Its subsidiaries are:

- Dassault Falcon Jet - Wilmington (wholly-owned subsidiary), an aviation maintenance and service company, located in Wilmington (Delaware),
- Dassault Aircraft Services (wholly-owned subsidiary), responsible for promoting aviation maintenance and service sales in the United States, also located in Wilmington (Delaware),
- APRO (50/50 joint venture with Messier Services Inc.), responsible for the repair and maintenance of Falcon and ATR landing gear and flight controls. The company's facility is located in Deerfield Beach, Florida.
- **DASSAULT FALCON SERVICE (France),** based at Le Bourget airport, contributed to Falcon support activities in the following two areas:
  - maintenance and fitting-out of Falcon aircraft: DFS, a service station dedicated to Falcon aircraft, maintains around 250 aircraft every year, representing nearly 400 inspections,
  - leasing and management of Falcon aircraft as part of passenger public transport activities. This division also has a welcome department for passing aircraft (FBO) and offers its expertise in the operational use of Falcon aircraft.

DFS received notification for the avionics modernization of 6 French Navy Falcons to ensure their compliance with the requirements of the International Civil Aviation Organization (ICAO). It also received notification for the operational condition maintenance of the 6 aforementioned aircraft for 6 years.

# Director's Report

- **DASSAULT PROCUREMENT SERVICES (USA)** is the central purchasing hub in the USA for Falcon aviation equipment.
- **MIDWAY (USA)** ensures the overhaul and repair of civil aviation equipment for French OEMs, suppliers of Falcons or other aircraft.
- **SOGITEC INDUSTRIES (France)** operates in the simulation and documentation sectors.

Key events in fiscal 2004 included:

- the successful renovation of the French Air Force Fighter Training Center, which has become the most significant and modern training center in France (all French Air Force fighter aircraft are simulated there),
- the deployment and implementation of the industrial structure grouping Dassault Aviation and its partners for the documentation of the Falcon 7X.

## AFFILIATES

- **CORSE COMPOSITES AÉRONAUTIQUES (France)**, specialized in the production of aviation parts from composite materials, in particular for its corporate stockholders (EADS Airbus, Latecoere, Snecma and Dassault Aviation) continued to diversify its activities in 2004. Latecoere became stockholder in 2004 following an increase in reserved common stock. The Dassault Group's share of common stock fell from 33% to 25%.
- **EMBRAER (Brazil)**, a major player in the aviation industry, enabled the Group to strengthen its presence in South America, and particularly in Brazil. We primarily developed our activities with this Company around the future Brazilian project for the acquisition of FX fighter aircraft.

## NEW INDUSTRIAL REVOLUTION:

For the Falcon 7X program, Dassault Aviation launched a new industrial revolution extending beyond the boundaries of the aviation industry, by making the digital company and the Product Lifecycle Management (PLM) a reality.

Dassault Aviation firstly assembled a "physical plateau" of all its partner companies. This resulted in a general definition incorporating all aspects of the aircraft, from design to production and maintenance (PLM), in a shared digital model, enabling all partners to consider all stages of the product's life even before the first aircraft component was defined in detail.

Each manufacturer then returned to his company to continue the detailed design work by exchanging and sharing digital models remotely, using a dedicated communications network. The "physical plateau" thus became a "virtual plateau" with a single database. At all times, the partners had real time access to the latest aircraft developments relevant to their industry, while strictly protecting each other's know-how. The modifications made by one partner were immediately taken into consideration by the other partners.

This program should provide Dassault Aviation with a significant competitive advantage.

## RESEARCH AND DEVELOPMENT:

Research and development work represents all our preparatory activities for the future.

The majority of these activities are internally financed and are part of multi-annual transversal programs.

The following programs, initiated in previous years, were pursued in 2004:

- control of executive aircraft external noise by modeling its generation and propagation,
- design of a composite wing for executive aircraft prior to a demonstration as part of a European project,
- development of a design platform combining analysis tools (aerodynamics, airframe, stealthiness, etc.) in a multi-partner context,
- modular embedded architecture analyses and related preliminary work.

Three new issues were covered in 2004:

- pre-studies of specifications and architecture for future Falcons,



- new draft multidisciplinary design methodology called MultiDisciplinary Optimization (MDO),
- analysis of concepts for a future combat aerodynamic system.

The French General Delegation for Armament notified the Group of two Upstream Research Programs:

- Aerodynamics and Flight Quality,
- Infrared and Electromagnetic Modeling.

In 2004, the Group finalized the DPAC Research and Technology support program, covering aerodynamics, airframes, and the control of noise disturbances and aviation systems.

In connection with the 6<sup>th</sup> Research/Development Framework Program, the Group will be responsible for coordinating two integrated projects beginning in 2005:

- a High Speed Aircraft project regarding the feasibility of a small supersonic aircraft satisfying environmental constraints,
- one of the two phases in the ALCAS project for the demonstration of airframe components for a future wholly composite aircraft.

#### **NEW PRODUCTION TECHNIQUES:**

The development efforts of the past several years on metallic and composite airframes were fully rewarded with the production of the FALCON 7X.

The manufacture of the first airframes confirmed the pertinence of the technological choices made and the priority given to the digital environment for the production processes.

The metallic process implemented in Seclin combines high-speed machining and heat-forming techniques. It was set up to deliver the wing panels adapted to the new generation robotized assembly cells installed in Martignas. The pressing quality obtained simplifies the assembly process compared to previous wing systems.

The control and completeness of components ensured by digital modeling also considerably simpli-

fied fuselage assembly and fitting operations (Mecano assembly).

The robotization expertise acquired for forward tines by Argenteuil was developed with the production of the Falcon 7X and extended to the central fuselage and section joints by Biarritz.

The RTM (Resin Transfer Molding) composite process set up to manufacture fin boxes in Biarritz confirms the cyclical performances expected from this technology. The quality achieved demonstrates the expertise acquired by Biarritz in this field with the support of the Exploratory Development Center in Argenteuil.

It represents a solid foundation for developments concerning the future Falcon composite airframes built in connection with the French and European partnership agreements coordinated by Dassault Aviation. This research is backed by the General Directorate of Civil Aviation and the European Community Research and Development Framework Program.

#### **PRODUCTION FACILITIES:**

The modernization and adaptation of Dassault Aviation production facilities was represented in 2004, in particular, by:

- the commissioning of high-performance industrial facilities:
  - spark machining cell in Argonay,
  - machine for trimming and boring stretched skins in Argenteuil,
  - surface finishing machine for Falcon 7X wing roots in Biarritz,
  - enlarged Falcon run-up area for the Falcon 7X in Mérignac,
- the ordering of new facilities:
  - palletized machining cell for complex parts in Argonay,
  - second robotized assembly cell for Falcon 7X wings in Martignas,
  - third high-speed machining cell in Seclin for milling and boring "frame" type parts,
  - machine for stretching thick skins in Argenteuil.

In addition, the reconstruction of a building in the heart of Saint-Cloud was completed and a hangar

# Director's Report

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for Falcon 7X flight tests in Istres should be commissioned in the first half of 2005.

## ETHICS:

The Group Ethics Charter aims to unite employees around a set of professional and ethical values. It sets a code of conduct covering day-to-day activities with customers, partners and suppliers.

This Charter also includes the principles behind the UN "Global Compact" initiative, adopted by the Company.

## TOTAL QUALITY:

The Group pursued its Total Quality policy defined on the basis of four major strategies:

- prioritize customer satisfaction,
- be one step ahead of our competitors in terms of cost and quality,
- promote human development,
- respect the environment.

The last two strategies reflect our commitment to support fundamental values, in accordance with the UN Global Compact initiative.

In addition, we successfully completed the ISO 9001 renewal procedure.

## HUMAN RESOURCES:

Dassault Aviation Group employed 12,040 people as of December 31, 2004.

## TRANSITION TO IFRS:

Like all European listed companies, Dassault Aviation must apply the new IFRS accounting standards to its consolidated financial statements as from fiscal 2005.

Subsequent to the work performed in 2003 and 2004 as described in previous directors' reports, we have finalized the calculation of the impacts of these standards, adapted our information system and trained the relevant teams.

These new standards will be taken into account in accordance with the prudence principle applied by Dassault Aviation in order to prepare its financial statements.

## 2004 PRO FORMA FINANCIAL STATEMENTS

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The application of these standards to the 2004 pro forma financial statements resulted in the following impacts, audited by the Group's statutory auditors:

- Shareholders' equity increased by EUR 65.5 million (+3.4%) at the beginning of 2004 and by EUR 69.6 million at the end of the period (+3.3%).
- the 2004 net income increased by EUR 4.2 million (+1.4%).

These impacts arise from the three following standards:

- IFRS 3 and its repercussions on goodwill amortization,
- IAS 16 concerning property, plant and equipment,
- IAS 38 concerning research and development expenditure.

The detailed 2004 IFRS pro forma financial statements will be communicated upon publication of the 2005 half-yearly financial statements.

## 2005 OPENING EQUITY

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Dassault Aviation will apply IAS 39 regarding financial instruments as from fiscal 2005. This standard will have a very significant impact on 2005 opening equity which will increase by EUR 862.2 million (+39.7%), compared to that in the pro forma financial statements for the year ended December 31, 2004.

## DETAILED IMPACTS ON THE 2004 PRO FORMA FINANCIAL STATEMENTS

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- ***IFRS 3 - repercussions on goodwill amortization***

Under French GAAP, Dassault Aviation amortizes the goodwill of its subsidiaries in its consolidated financial statements.

The application of IFRS 3 eliminates goodwill amortization. In addition, the tests performed in respect of IAS 36 did not indicate any impairment loss.

Hence, the impact on the 2004 pro forma pre-tax net income is positive and amounts to EUR 2.9 million.

Dassault Aviation has decided not to retrospectively restate goodwill. The 2004 opening net worth is not therefore adjusted.

- **IAS 16 - Property, plant and equipment**

Under IAS 16, Dassault Aviation has chosen the historical cost option for first-time adoption.

Depreciation is calculated using the straight-line method, and less residual value in particular cases.

Under French GAAP, the depreciation period of property, plant and equipment is based on the contractual terms of use. Under IFRS, it is based on the estimated period of use for each year.

The impact of IAS 16 on opening equity is EUR 56.3 million before taxes.

The differences compared to French GAAP mainly concern:

- buildings,
- machinery and equipment, for which the average depreciation period varies from 6 years 2/3 to 10 years,
- capitalized aircraft, for which the depreciation charges decrease mainly due to the recognition of a residual value.

- **IAS 38 - Research and development expenditure**

Research expenditure continues to be expensed.

Development expenditure is now capitalized subject to satisfying all the conditions set by IAS 38.

The following were thus recognized in assets:

- the expenses recorded 6 months after maiden flights for internally financed aircraft programs. The first expenses capitalized correspond to those recorded in 1996,
- for EASy, the costs recorded 15 months after the maiden flight.

Capitalized development expenditure is amortized based on an assessment of units to be produced.

Intangible assets increased by EUR 43.2 million in the 2004 opening balance sheet.

- **2004 pro forma financial statements**

**2004 opening equity, in EUR millions**

	01/01/2004
French GAAP equity	1,903.1
IAS 16	56.3
IAS 38	43.2
Total before taxes	99.5
Taxes	- 34.0
<b>Net impact as % of equity (French GAAP)</b>	<b>65.5 3.4%</b>
IFRS equity	1,968.6

**2004 net income, in EUR millions**

	2004
French GAAP net income	308.4
IAS 16	- 0.1
IAS 38	1.3
IFRS 3	2.9
Total before taxes	4.1
Taxes <sup>(1)</sup>	0.1
<b>Net impact as % of net income (French GAAP)</b>	<b>4.2 1.4%</b>
Net income (IFRS)	312.6

<sup>(1)</sup> the impact is positive due to the fall in the tax rate between 2004 and 2005 taken into account in the deferred tax calculation.

**Closing equity, in EUR millions**

	12/31/2004
French GAAP equity	2,104.8
IAS 16	<sup>(1)</sup> 56.1
IAS 38	44.5
IFRS 3	2.9
Total before taxes	103.5
Taxes	- 33.9
<b>Net impact as as % of French equity</b>	<b>69.6 3.3%</b>
IFRS equity	2,174.4

<sup>(1)</sup> of which 2004 foreign exchange loss: - 0.1

**IMPACT AS OF JANUARY 1, 2005**

Under IAS 39, the Group will recognize in the 2005 opening balance sheet the fair value of:

- foreign exchange hedging transactions,
- marketable securities.

# Director's Report

This information is shown in the notes to the French GAAP financial statements under off-balance sheet items for 2004.

Dassault Aviation has decided to apply the cash flow hedge accounting principle.

## 2005 opening equity, in EUR millions

IFRS equity as of 12/31/2004	2,174.4
IAS 39 including:	
foreign exchange hedging	708.4
marketable securities	616.1
Total before taxes	1,324.5
Taxes	- 462.3
<b>Net impact</b>	<b>862.2</b>
<b>% of IFRS equity as of 12/31/2004</b>	<b>39.7%</b>
IFRS equity as of 01/01/2005	3,036.6

It should be noted that the fair value of foreign exchange hedging transactions is calculated at the closing US dollar price, i.e. \$/€1.36 as of 12/31/2004.

## FINANCIAL REPORTING

Dassault Aviation will present its detailed 2004 IFRS pro forma financial statements upon publication of its consolidated financial statements for the first half of 2005.

Dassault Aviation has chosen the aviation industry, without geographical distinction, as the sector of activity for segment reporting under IFRS.

Dassault Aviation considers that its military and civil products have comparable characteristics in terms of:

- design, development, manufacturing and maintenance,
  - sales and distribution,
  - pricing policy resulting in similar economic performances,
- and that their market does not present any particular geographical features.

## DASSAULT AVIATION, PARENT COMPANY

### ACTIVITIES:

The activities of the parent company, Dassault Aviation, in particular as regards program developments, research and development and production, are presented together with the activities of the Group.

### KEY FIGURES:

#### ORDER BOOK:

**Total orders** booked by the parent company in 2004 amounted to **EUR 3.36 billion**, representing a 60% increase on fiscal 2003.

Orders booked over the last five years are as follows, **in EUR millions**:

Fiscal year	Defense		Falcon	Total
	France	Export		
2000	406	1,109	2,106	<b>3,621</b>
2001	1,212	189	2,100	<b>3,501</b>
2002	672	102	1,924	<b>2,698</b>
2003	878	139	1,084	<b>2,101</b>
<b>2004</b>	<b>1,727</b>	<b>103</b>	<b>1,530</b>	<b>3,360</b>

#### SALES:

**Net sales for fiscal 2004** totaled **EUR 2.81 billion**, remaining stable compared to fiscal 2003.

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

Fiscal year	Defense		Falcon	Total
	France	Export		
2000	856	145	1,689	<b>2,690</b>
2001	646	161	1,864	<b>2,671</b>
2002	1,035	153	1,573	<b>2,761</b>
2003	541	1,061	1,199	<b>2,801</b>
<b>2004</b>	<b>495</b>	<b>837</b>	<b>1,478</b>	<b>2,810</b>



**NET INCOME:**

**Net income for the year** is **EUR 227 million**, down 3% on fiscal 2003.

Company employees will receive a total of EUR 75 million under the profit-sharing scheme and EUR 14 million under the incentive scheme.

This represents 24.5% of salaries paid in 2004, compared to a legal minimum of 6.3%.

**DIVIDENDS (APPROPRIATION OF NET INCOME):**

Subject to your approval of the 2004 financial statements, we propose that the net income for the year of  
 EUR 226,639,674.05  
 plus retained earnings of EUR 1,207,805,513.61  
 giving a total of EUR 1,434,445,187.66  
 be appropriated as follows:

- \* **dividend distribution of EUR 77,969,406.90**
- \* with the remaining balance to retained earnings EUR 1,356,475,780.76

If you accept this proposal, a **dividend per share of EUR 7.70** will be distributed in respect of fiscal 2004.

Considering the amendment regarding the tax regime of dividend distributions set forth in the 2004 French Finance Law, applicable as of January 1, 2005, the above dividend distribution will no longer confer entitlement to a tax credit but individuals will be eligible for a 50% tax allowance.

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

	In Euros		
	2001	2002	2003
Dividend/share	6.50	8.30	7.70
Tax credit/share	3.25 (1) 0.975 (2)	4.15 (1) 0.83 (3)	3.85 (1) 0.77 (3)
Total (in millions)	66	84	78

- (1) individuals and corporate entities entitled to a tax credit of 50%
- (2) corporate entities entitled to a tax credit of 15%
- (3) corporate entities entitled to a tax credit of 10%

**TAX CONSOLIDATION:**

The Company elected for tax consolidation with effect from January 1, 1999, forming a tax group

with those French subsidiaries in which it holds an interest of over 95%. A tax consolidation agreement was signed with each of these subsidiaries and was renewed at the end of 2003 for a period of five years.

**PURCHASES AND SUBCONTRACTING:**

In fiscal 2004, Dassault Aviation purchases totaled EUR 1.36 billion, representing around 48% of sales.

Purchases break down into three categories: equipment and support (3/5), semi-products, accessories, industrial subcontracting and special process subcontracting (1/5), general purchases, including training and intellectual services (1/5).

Considering the nature of the Company's activities, Defense market suppliers are primarily located in France, whereas civil aviation suppliers are divided between Europe and North America, particularly with regard to equipment.

**EMPLOYEE MATTERS:****RECRUITMENT:**

The Company had a total of 8,754 employees as of December 31, 2004.

Total employees as of 12/31/2003	Departures	Recruitment	Total employees as of 12/31/2004
8,798	367	323	8,754

Employee numbers as of December 31, 2004 include 578 individuals not in active service under the CASA early retirement program.

The 323 new recruits in 2004 were equally represented by three populations: laborers, technicians and employees, engineers and executives.

91% of work contracts are permanent. 28% of new recruits were under the age of 26.

Measures implemented as part of our "School Relations" policy and our Dassault Careers web site remain the most effective methods of increasing our choice of applicants adapted to our requirements.



# Director's Report

As of December 31, 2004, the number of employees under fixed term contracts was 28, or 0.32% of total employees. The average number of temporary employees was 174, or 1.99% of total employees.

## EMPLOYMENT AND INTEGRATION OF HANDICAPPED EMPLOYEES:

2004 marked the second year of implementation for the Group's corporate agreement relating to the employment and integration of the handicapped.

Whereas the first year involved structuring the project and creating the internal and external networks in order to attain the pursued objectives, the focus in the second year was placed on total Group employee awareness.

In addition, redeployed employees were trained in job retention methods. This training was furthered by the organization of positions and functional equipment for employees.

As of December 31, 2004, the number of "entitlement units" (one or more handicapped persons) under the 1987 Law was 1,127.5, or 13% of total employees.

Sub-contracting to sheltered workshops created 34 "entitlement units".

## ORGANIZATION OF WORKING HOURS AND REMUNERATION:

As of December 31, 2004, 4,200 employees received a fixed salary with no reference to working hours or with reference to an annual number of working days.

The average effective working week of employees paid on an hourly basis was 34.50 hours.

The number of part-time employees totaled 249 or 2.84% of total employees as of December 31, 2004, 15 of which worked 50%.

The average rate of absenteeism was 2.91% of days worked.

The annual report on professional equality between men and women did not reveal any significant differences. A joint commission analyzed this annual report and proposed guidelines for the implementation

of the national interprofessional agreement of March 1, 2004.

The minimum annual Company salary was EUR 18,800.

The average annual growth in current salaries was 4.04%.

Current gross annual salaries in euros are as follows:

	1st decile	1st quartile	median	3rd quartile	9th decile
2004	24,988	30,300	36,352	50,175	70,331

Average profit-sharing and incentive scheme amounts received by entitled employees were EUR 8,830 and EUR 1,635 respectively.

In addition, EUR 30,057,383 was paid to the Works Councils in respect of employee activities (5% of total payroll) or for various employee-related expenses: transport, accommodation, catering, etc.

## EMPLOYEE RELATIONS:

Consultation and negotiation with labor unions continued.

In 2004, in addition to the annual agreement on wages and the organization of working time, the following were signed:

- two agreements on employee savings: renewal of the incentive agreement for fiscal years 2004, 2005 and 2006 and the agreement for the early release of employee profit-sharing funds,
- two amendments to the death, disability and related benefits agreement for both executives and non-executives,
- an agreement offering the possibility of obtaining a desktop software license for home use at preferential rates.

In addition, numerous work groups enabled labor and management to discuss or improve their understanding of problems prior to negotiation, particularly regarding the changes in social security and health insurance regimes.



## DEVELOPMENT OF HUMAN RESOURCES AND TRAINING:

The Company, always anxious to permanently develop the skills of its employees and satisfy individual and collective aspirations, continued to implement its progressive measures in 2004 such as:

- the employee skills management project involving a company skills database,
- professional mobility, the essential tool to satisfy the Company's resource requirements and meet employee expectations. Hence, 75 persons moved to different sites this year. The Company also takes great care in maintaining, even strengthening, its number of experts in advanced disciplines,
- the transfer of operating know-how through the Dassault Skills Conservatory, the activity of which significantly increased in 2004,
- the improvement of managerial practices and the development of high-quality close communications,
- the implementation of professional training geared towards employee operating requirements, and representing a financial expense equivalent to 3.47% of total payroll for 174,539 hours of training.

In 2004, 613 interns on scholarships were received in all Company departments.

A total of EUR 2,041,421 was paid in apprenticeship tax.

Employee communications and information were considerably improved, particularly through the development of the Deltanet tool, which provides each employee with up-to-date information on the organization of daily activity within the Company.

## HEALTH AND SAFETY CONDITIONS:

2004 was the year of preparation for the 2005 smoking prevention campaign, in particular, by testing withdrawal techniques.

During 2004, 162 accidents resulted in work stoppages, corresponding to a frequency rate <sup>(1)</sup> of 13.36 and a severity rate <sup>(2)</sup> of 0.38.

In addition, 5 cases of occupational sickness were recognized by the social security during the year.

(1)  $\frac{\text{Nber of work-related accidents with stoppage}}{\text{Number of hours worked}} \times 1,000,000$

(2)  $\frac{\text{Nber of days lost due to temporary disability}}{\text{Number of hours worked}} \times 1,000$

## ENVIRONMENT:

### CONTEXT

All Dassault Aviation industrial sites have implemented an ISO 14001 environmental management system designed, in particular, to strengthen and systematize our actions with regard to:

- the identification and quantification of impacts of our industrial activities on the environment,
- the verification of administrative and regulatory compliance at our sites,
- the definition and implementation of improvement plans in order to reduce our impacts and lack of compliance.

These measures are for the most part treated at each site level, but they must occasionally be consolidated at Company level, e.g. when our production or test processes have to be developed.

Finally, it bears mentioning that our Falcon aircraft have been certified and are thus in accordance with current international regulations that set a certain number of environmental performance limits (noise level, engine waste pollution).

ENVIRONMENTAL	POLICY/MAIN	ACHIEVEMENTS
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In 2004, we pursued our environmental policy mainly geared towards the implementation of an environmental management system at both site and Company levels.

Our main achievements in 2004 were as follows:

- ISO 14001 certification of Argenteuil, Biarritz and Poitiers, which, together with the certifications of Argonay, Istres, Martignas and Mérignac in 2003, represent 95% of production and test facilities,

# Director's Report

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- updating of the prefectorial decrees authorizing operations in Argonay and Seclin,

- implementation of the initial elements for an environmental management system (EMS), particularly a management report of our environmental performances and directives intended to strengthen the guarantee of administrative and regulatory compliance at our sites,

- environmental assessment of the certified Falcon service stations in order to extend the analysis of the impacts of our activities beyond the production and testing phases.

For example, by replacing high-impact processes, the Argenteuil and Biarritz sites were able to exceed the volatile organic compound (VOC) reduction target set by the French Ministry of Ecology and Sustainable Development (-25% between 2000 and 2004 for sites discharging more than 30t of VOC per year).

## INTERNAL ORGANIZATION OF THE COMPANY WITH REGARD TO THE ENVIRONMENT

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- ***The Dassault Aviation Environmental Management System (EMS)***

Dassault Aviation production facilities are governed by legislation covering Environmental Protection Classified Installations and, as such, are organized to control the environmental impact of their installations and industrial processes. This control was reinforced by the implementation of the Company's environmental management system that is designed to:

- provide the sites with directives imposing minimal practices concerning the main ISO 14001 issues (regulatory review, risk analysis, etc.),
- communicate to all sites the sound practices identified during certification audits,
- define the environmental information exchanges between the sites and the Company's relevant departments.

The EMS developed at our sites is incorporated as far as possible into our quality management system, in order to make use of existing organ-

izational and management strategies, and, particularly, the principle of ongoing improvement.

- ***Dassault Aviation subsidiaries***

In accordance with the Dassault Aviation environmental policy, the Little Rock site of our US subsidiary Dassault Falcon Jet was ISO 14001 certified. It presents an annual assessment and objectives to Total Quality Executive Management.

## ENVIRONMENTAL PERFORMANCE

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- ***Data reliability***

In accordance with the ISO 14001 certification, all equipment providing essential readings or monitoring the impacts of the sites on the environment were gradually identified in order to prepare a maintenance and calibration plan.

All measurements and analyzes are performed in accordance with prevailing standards.

In 2004, the following were set up:

- a base for the collection of data from the sites,
- a repository of documents specifying the process to update this data and the related performance indicators.

These tools are designed to improve the environmental data collection and consolidation process.

- ***Dassault Aviation production sites***

The ISO 14001 certification projects offered the opportunity to implement systems for the periodic analysis of the level of administrative and regulatory compliance of each site.

Global data relating to resource consumption and the main emissions and disturbances over the last four years at least is appended to this report. A comparison of performances between the production sites is not systematically relevant due to significant differences in the processes used and the specific activities of each site.





The main hazards at the production sites were identified and are subject to measure reinforcement programs to reduce risks and improve the management of emergency situations.

The fire prevention policy, implemented for more than ten years in conjunction with our insurers, was extended since 2002 to cover environmental issues.

- **Falcons**

Dassault Aviation monitors technological and regulatory developments, in particular, by participating in the work of:

- the EC Directorate General for Energy and Transport (DGTREN),
- the International Civil Aviation Organization (ICAO),

in order to take into account the corresponding constraints from the aircraft design phase.

Falcon aircraft maintenance is performed by certified service stations which, following an investigation in 2004, appear to take into consideration environmental impacts in a overall satisfactory manner. An adapted guide was prepared to assist and develop this network in environmental management issues.

## ENVIRONMENTAL COSTS

- **Costs incurred to prevent the Company's activity from affecting the environment**

Environmental measures taken by Dassault Aviation in 2004 represented 6.6% of general and industrial capital expenditure.

Risk, impact and regulatory compliance studies amounting to around EUR 0.7 million were performed.

- **Provisions and financial guarantees**

Dassault Aviation has not had cause to recognize environmental provisions and is not legally obliged to provide financial guarantees.

In addition to its General Operations Civil Liability insurance policy (EUR 1.5 million for environ-

mental damage risks), the Company has taken out environmental multi-risk cover in the amount of EUR 7.6 million.

- **Damage caused to the environment**

No court has ever ordered Dassault Aviation to pay compensation or to take specific measures to repair damage caused to the environment.

However, as a seller of land, the Company has been required to provide guarantees to buyers with regard to clean-up activities, even though it did not cause the pollution.

## PRIORITIES AND LINES FOR DEVELOPMENT

Dassault Aviation priority measures for 2005 are as follows:

- improve waste management,
- reinforce waste control (aqueous and atmospheric),
- ensure periodic monitoring by sites of their administrative and regulatory compliance levels,
- complete the ISO 14001 certification of all production sites.

## COMMON STOCK AND STOCK OWNERSHIP:

The common stock of the Company of EUR 81,007,176 is made up of 10,125,897 shares, each with a par value of EUR 8.

The principal Dassault Aviation stockholders as of December 31, 2004 are as follows:

Stockholders	Number of shares	% interest and voting rights
GIMD (1)	5,084,270	50.21%
EADS France	4,679,844	46.22%
Private investors	361,783	3.57%
<b>TOTAL</b>	<b>10,125,897</b>	<b>100.00%</b>

(1) GIMD (GROUPE INDUSTRIEL MARCEL DASSAULT): direct and indirect interest.

GIMD and EADS France are not linked by a stockholders agreement and the Company does not hold any treasury stock.



# Director's Report

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As of December 31, 2004, 7,400 shares (0.07% of the common stock) were held by a corporate investment fund, whose members consist of current and former Company employees.

## INVESTMENT IN EMBRAER:

Considering the fall in the stock market price of Embraer shares, the Company set aside an impairment provision in 2004 in the amount of EUR 3.5 million.

## EXECUTIVE MANAGEMENT:

The Combined Annual and Extraordinary General Meeting of April 25, 2002 brought the bylaws of the Company into compliance with the New Economic Regulations Law of May 15, 2001. The Board of Directors, which met after this meeting, decided that the Chairman of the Board of Directors, Mr. Charles Edelstenne, would be responsible for the Company's Executive Management.

## OTHER OFFICES HELD AND DUTIES PERFORMED BY DASSAULT AVIATION EXECUTIVE OFFICERS DURING FISCAL 2004:

### HONORARY CHAIRMAN AND DIRECTOR:

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#### **Serge Dassault**

*Term of office beginning and end: 2003 AGM – 2009 AGM*

*Number of Dassault Aviation shares held: 25*

#### **Other corporate offices and duties:**

- Chairman and Chief Executive Officer:
  - . Groupe Industriel Marcel Dassault SA
  - . Socpresse SA
- Chairman of the Board of Directors:
  - . Société du Figaro SA
- Director:
  - . Thales SA
  - . Dassault Développement SA
  - . Société de véhicules électriques SAS

- . Dassault Falcon Jet Corporation (USA)
- . Dassault International Inc. (USA)
- . ERBE (Belgium)

- Chairman:
  - . Rond-Point Immobilier SAS
- Chairman of the Supervisory Board:
  - . Figaro Holding SA
- General Manager:
  - . Château Dassault SARL
  - . Immobilière Argenteuil Le Parc SARL
  - . Société Immobilière du Rond-Point des Champs-Élysées SARL
  - . Société Civile Immobilière de Maison Rouge
  - . Rond-Point Investissements SARL
  - . Le Défi de l'Essonne SARL

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER:

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#### **Charles Edelstenne**

*Term of office beginning and end: 2003 AGM – 2009 AGM*

*Number of Dassault Aviation shares held: 25*

#### **Other corporate offices and duties:**

- Chairman of the Board of Directors:
  - . Dassault Systèmes SA
- Director:
  - . Groupe Industriel Marcel Dassault SA
  - . Thales Systèmes Aéroportés SA
  - . Sogitec Industries SA
  - . European Aerosystems LTD (GB)
  - . Société Anonyme Belge de Constructions Aéronautiques (Belgium)
  - . Dassault Réassurance SA (Luxembourg)
- Chairman:
  - . Dassault Falcon Jet Corporation (USA)
- President:
  - . Dassault International Inc. (USA)
- General Manager:
  - . Société Civile ARIE
  - . Société Civile NILI



## DIRECTORS:

**Philippe Camus**

*Term of office beginning and end: 2004 AGM – 2010 AGM*

*Number of Dassault Aviation shares held: 25*

**Other corporate offices and duties:**

- Chief Executive Officer:
  - . EADS N.V. (Netherlands)
  - . EADS Participations B.V. (Netherlands)
- Chairman:
  - . EADS France SAS
- Vice-Chairman and Deputy Chief Executive Officer:
  - . ARJIL Commandité-ARCO SA
- Permanent representative of ARJIL Commandité-ARCO, general partner, Managing Director of Lagardère SCA
- Director:
  - . EADS NV (Netherlands)
  - . EADS France SAS
  - . Editions Amaury SA
  - . Hachette Filipacchi Médias SA
  - . La Provence SA
  - . Nice Matin SA
- Member of the Executive Committee:
  - . EADS NV (Netherlands)
- Member of the Remunerations Board:
  - . Airbus SAS
- Member of the Shareholders' Committee:
  - . Airbus SAS
- Permanent Representative of Lagardère SCA on the Board of Directors of:
  - . Hachette SA
- Permanent Representative of Hachette SA on the Board of Directors of:
  - . Hachette Distribution Services SA
- Permanent Representative of Lagardère Active on the Board of Directors of:
  - . Lagardère Active Broadcast SA (Monaco)

**Olivier Dassault**

*Term of office beginning and end: 2003 AGM – 2009 AGM*

*Number of Dassault Aviation shares held: 25*

**Other corporate offices and duties:**

- Chairman:
  - . Dassault Communications SAS
- Vice-Chairman:
  - . Publiprint SA
- Director:
  - . Groupe Industriel Marcel Dassault SA
  - . Socpresse SA
  - . Société du Figaro SA
- Chairman of the Supervisory Board:
  - . Groupe Valmonde SA
  - . Journal des Finances SA
- Member of the Supervisory Board:
  - . Rubis SA

**Jean-Paul Gut**

*Term of office beginning and end: 2004 AGM – 2010 AGM*

*Number of Dassault Aviation shares held: 25*

**Other corporate offices and duties:**

- Chairman:
  - . EADS International (GIE)
- Director:
  - . ARJIL Commandité-ARCO SA
  - . EADS CASA SA (Spain)
  - . EADS North America, Inc (USA)
- Permanent Representative of MBDA France on the Board of Directors of:
  - . Eurotradia International SA
- Member of the Supervisory Board:
  - . Eurocopter SAS



# Director's Report

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## **Philippe Hustache**

*Term of office beginning and end: 2003 AGM – 2009 AGM*

*Number of Dassault Aviation shares held: 50*

### **Other corporate offices and duties:**

- Adviser to the Chairman:
  - . Rond-Point Immobilier SAS (France)
- Director:
  - . Groupe Industriel Marcel Dassault SA
  - . Socpresse SA
  - . Société du Figaro SA
  - . Groupe Express/Expansion SA
  - . Compagnie Nationale à Portefeuille SA (Belgium)
- Managing Director:
  - . Dassault Belgique Aviation SA (Belgium)
- Member of the Supervisory Board:
  - . Banque Robeco SA
  - . Groupe Valmonde SA
  - . Journal des Finances SA
- Permanent Representative of GIMD on the Board of Directors of:
  - . Dassault Développement SA
  - . Artcurial SA

## **Denis Kessler**

*Term of office beginning and end: 2003 AGM – 2009 AGM*

*Number of Dassault Aviation shares held: 25*

### **Other corporate offices and duties:**

- Chairman and Chief Executive Officer:
  - . SCOR SA
- Chairman of the Board of Directors:
  - . SCOR VIE SA
- Director:
  - . BNP Paribas SA
  - . Bollore Investissement SA
  - . Cogedim SAS
  - . AMVESCAP Plc (GB)
  - . DEXIA SA (Belgium)
  - . SCOR Canada Reinsurance Company (Canada)

- Censor:
  - . FDC SA
  - . Gimar Finance SCA
- Chairman:
  - . SCOR Life US Re Insurance (USA)
  - . SCOR Reinsurance Company (USA)
  - . SCOR US Corporation (USA)
  - . Commercial Risk Partners Ltd. (Bermuda)
  - . Commercial Risk Reinsurance Company Ltd. (USA)
  - . General Security National Insurance Company (USA)
  - . General Security Indemnity of Arizona (USA)
  - . Investors Insurance Corporation (USA)
  - . Investors Marketing Group Inc. (USA)
  - . SCOR Life Insurance Company (USA)
  - . SCOR Italia Riassicurazioni S.p.a. (Italy)
- Permanent representative of Fergascor on the Board of Directors of:
  - . Communication & Participation SA
- Member of the Supervisory Board:
  - . SCOR Deutschland (Germany)

## **Yves Michot**

*Term of office beginning and end: 2004 AGM – 2010 AGM*

*Number of Dassault Aviation shares held: 27*

### **Other corporate offices and duties:**

- Chairman and Chief Executive Officer:
  - . Défense Conseil International (DCI) SA
- Chairman
  - . DCI/Services & Assistance SAS
  - . ARCADIA SAS
- Director:
  - . DCN SA
  - . CNES
- Permanent representative of DCI on the Board of Directors of:
  - . Brienne Conseil & Finance SA
  - . Financière de Brienne SA
- Member of the Supervisory Board:
  - . Bayard Presse SA
  - . Armaris SA



**Bruno Revellin-Falcoz**

*Term of office beginning and end: 2002 AGM – 2008 AGM*

*Number of Dassault Aviation shares held: 37*

**Other corporate offices and duties:**

- Chairman:
  - . European Aerosystems LTD (GB)
- Chairman:
  - . Dassault Sagem Tactical UAV SAS (France)
- Director:
  - . Dassault Falcon Jet Corporation (USA)
  - . Snecma SA (until April 20, 2004)
  - . Société Anonyme Belge de Constructions Aéronautiques (Belgium)
- Director – General Manager:
  - . Rafale International (GIE)
- Chairman of the AGM:
  - . Dassault Thales Avionique Modulaire (GIE)

**Pierre-Henri Ricaud**

*Term of office beginning and end: 2004 AGM – 2010 AGM*

*Number of Dassault Aviation shares held: 25*

**Other corporate offices and duties:**

- Director:
  - . EADS France SAS
  - . Sogerma Services SA
  - . MBDA BV (Netherlands)
  - . MBDA Holdings SAS
  - . EADS SPACE BV (Netherlands)

**EXECUTIVE OFFICER COMPENSATION IN FISCAL 2004:****COMPENSATION TO THE HONORARY CHAIRMAN AND DIRECTOR:**

- In respect of GIMD, which controls Dassault Aviation:  
Mr. Serge Dassault received a gross annual compensation of EUR 98,000 in respect of his duties as Chairman and Chief Executive Officer of GIMD.  
He had the use of a company car.

In addition, he received directors' fees of EUR 16,000.

- In respect of Dassault Aviation:  
Mr. Serge Dassault, Director, received:
  - Directors' fees of EUR 22,000 and
  - annual compensation of EUR 9,148 for advisory services.
 He has the use of a chauffeur when performing these advisory services.  
Expenses incurred by him when carrying out such activities and in the interests of the Company were also reimbursed.
- In respect of French and foreign companies controlled by Dassault Aviation as defined by Article L 233-16 of the French Commercial Code (i.e. companies included in the scope of consolidation):  
Mr. Serge Dassault received gross directors' fees of USD 28,571 for his activities on the Dassault Falcon Jet Board.

**COMPENSATION TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER:**

- In respect of GIMD, which controls Dassault Aviation:  
Mr. Charles Edelstenne received directors' fees of EUR 16,000.
- In respect of Dassault Aviation:  
Mr. Charles Edelstenne received gross annual compensation of EUR 560,000 in fiscal 2004 in respect of his duties as Chairman and Chief Executive Officer.  
He has the use of a chauffeur-driven company car and all expenses incurred in the course of his duties are reimbursed on an actual-cost basis.  
In addition, he received directors' fees of EUR 44,000 (double the standard amount).
- In respect of French and foreign companies controlled by Dassault Aviation:  
Mr. Charles Edelstenne received gross directors' fees of USD 28,571 for his activities on the Dassault Falcon Jet Board.



# Director's Report

## COMPENSATION TO THE VICE-CHAIRMAN AND DEPUTY CHIEF EXECUTIVE OFFICER:

- In respect of Dassault Aviation:  
Mr. Bruno Revellin-Falcoz, employee Director, received gross annual compensation of EUR 907,700 and is entitled to employee profit-sharing of EUR 21,888 and incentive payments of EUR 5,076.  
He has the use of a chauffeur-driven company car and all expenses incurred in the course of his duties are reimbursed on an actual-cost basis.  
In addition, he received directors' fees of EUR 22,000.
- In respect of French and foreign companies controlled by Dassault Aviation:  
Mr. Bruno Revellin-Falcoz received gross directors' fees of USD 28,571 for his activities on the Dassault Falcon Jet Board.

## COMPENSATION PAID TO OTHER DIRECTORS:

- In respect of GIMD, which controls Dassault Aviation:  
Messrs. Olivier Dassault and Philippe Hustache each received directors' fees of EUR 16,000.
- In respect of Dassault Aviation:  
Messrs. Philippe Camus, Olivier Dassault, Jean-Paul Gut, Philippe Hustache, Denis Kessler and Yves Michot each received directors' fees of EUR 22,000 and Messrs. Marwan Lahoud and Pierre-Henri Ricaud received directors' fees of EUR 3,587 and EUR 14,787 respectively.
- In respect of French and foreign companies controlled by Dassault Aviation:  
the eight above directors did not receive any compensation, directors' fees or benefits in kind.

## OUTLOOK FOR THE FUTURE:

Parent company sales in fiscal 2005 are expected to be around EUR 2.9 billion.

## PROPOSED RESOLUTIONS:

The ordinary resolutions presented to you for adoption concern:

- the approval of the parent company financial statements,
- the approval of the consolidated financial statements,
- the approval of agreements detailed in the Auditors Report on related-party transactions,
- the discharge of Directors from any liability arising from their management of the Company,
- the appropriation of net income,
- the noting of the absorption of Deloitte Touche Tohmatsu, the principal statutory auditor, by Deloitte Touche Tohmatsu-Audit, which adopted the company name "Deloitte & Associés",
- the transfer of the sum of EUR 73 million recorded in the special long-term capital gains reserve to an ordinary reserve account.

Regarding this transfer, the amended French Finance Law for 2004 stipulated that:

- long-term capital gains realized as from January 1, 2004 are no longer to be recorded in the aforementioned special reserve,
- the sums recorded in this reserve shall be transferred to an ordinary reserve account prior to December 31, 2005 within the limit of EUR 200 million, in consideration of a 2.5% exceptional tax (less an allowance of EUR 500,000) in full discharge of any additional tax.

As the capital gains were recorded in the special reserve on the approval of the stockholders, the transfer, albeit it mandatory, shall be subject to a decision by the stockholders.



**CONCLUSION:**

The notification at the end of 2004 of the order by the French government of 59 F3 standard Rafale aircraft will provide the Company with greater visibility over its production rates.

The Neuron program financial arrangement, which now involves five European countries together with France, will go a long way to maintaining technical expertise and strengthening industrial cooperation in Europe.

The economic turnaround, especially in the United States, has helped develop Falcon sales and Dassault will be able to adapt its product range even further to market requirements with the launch of the Falcon 900 DX.

The Falcon 7X program is going according to schedule. To successfully complete this program, the Company has become a digital entity through its use of Product Life Cycle Management tools. Thanks to PLM, both production machinery and assembly times have been reduced in half, and the initial aircraft will no longer be prototypes but actual production aircraft. The Company is thus the pioneer of a technological revolution that will extend worldwide throughout the aviation industry.

Our flexibility strategy is still the key to survival in the increasingly volatile and competitive market.

The impact of the fall in the dollar against the euro on Dassault's performances was limited due to its foreign exchange hedges.

But without change, together with the rise in the price of commodities, this situation could endanger our competitiveness and reduce our profitability.

Our primary objectives for 2005 are to:

- continue to cut costs to counteract the decline in the US dollar,
- increase our executive aircraft market share and successfully carry out the maiden flights of the Falcon 7X and 900DX,
- successfully launch the Rafale abroad,
- unite the European partners who will contribute to the development of the Neuron program.

The Board would like to take this opportunity to thank all our employees for the efficiency and skill they have demonstrated in helping us carry through our projects.

*The Board of Directors*

## Director's Report

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### ***ENVIRONMENTAL PERFORMANCE***



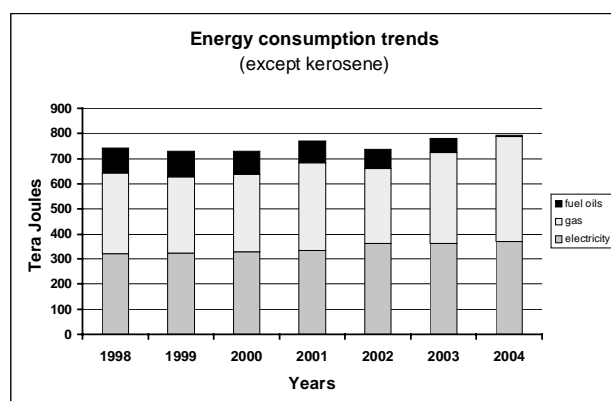
# Notes to the Director's Report

## RESOURCE CONSUMPTION:

### ENERGY

The energy used by Dassault Aviation at its different sites is 52% gas, 47% electricity and 1% liquid fuel (fuel-oil, diesel).

The corresponding energy consumption trends are presented in the chart below:



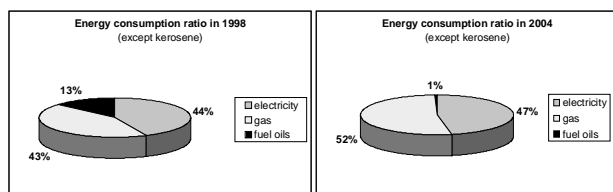
Despite the substantial production increase in 2001/2002, the overall energy consumption has remained stable since 1998 thanks to the energy saving schemes implemented by the sites.

Gas provides most of the energy required for certain processes (surface treatment and paint workshops) and to heat the premises.

Electricity is used for the lighting in the sites and the air conditioning of premises, in addition to certain processes (thermal treatments, composite manufacturing, etc.).

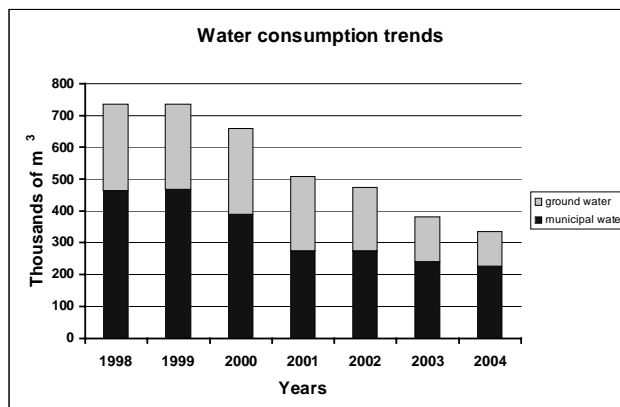
Fuel-oil storage capacities are particularly reserved for operating the emergency electrical generators.

It should also be noted that since 1998 we have sharply reduced fuel-oil consumption by using energy sources that cause less air pollution.



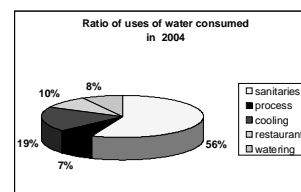
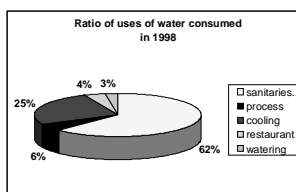
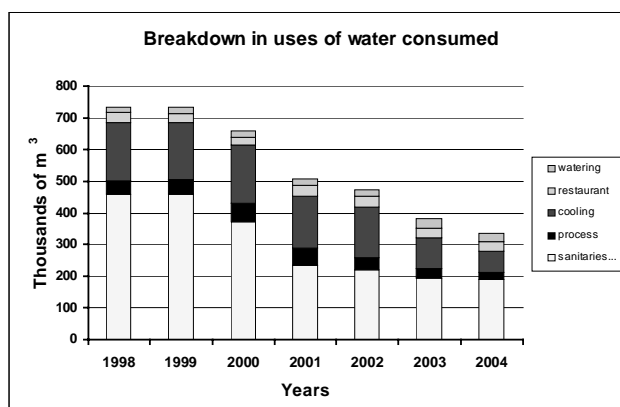
### WATER

The water used at the production sites comes from public supply networks and/or is pumped from the ground.



The above chart shows a steady decline in water consumption since 1998. However, the reduced consumption has not had any repercussions on the cost of water, which remains at approximately EUR 300,000 per year further to price increases.

The following pie charts show a change in the uses of water since 1998, particularly through the reduction in the use of water for cooling and domestic supply, due to a more controlled consumption (installation of closed circuits where technically possible).



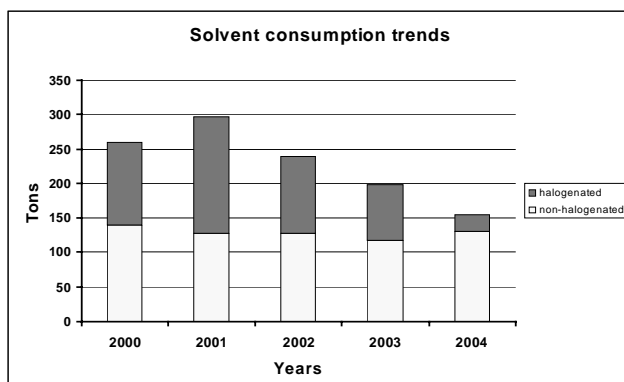
Industrial process water is used mainly for surface treatments (baths and rinsing), painting (water wash) and mechanical machining (preparation of lubricants).

The slight increase in Watering corresponds to greater environmental integration measures at the sites.

## RAW MATERIALS AND OTHER PRODUCTS

Aircraft are mainly manufactured using aluminum, which is a recyclable material, composite materials and paints. Consumables such as acids (surface treatment baths) and, particularly, halogenated or non-halogenated solvents are also used.

The chart hereafter shows the trends in the overall consumption of solvents on Dassault Aviation sites.



Despite the one-off increase following the rise in production loads in 2001, the consumption of solvents has declined. In particular, the annual tonnage of halogenated solvents has dropped by more than 75% since 1998 due to the use of other substances such as water-based detergents.

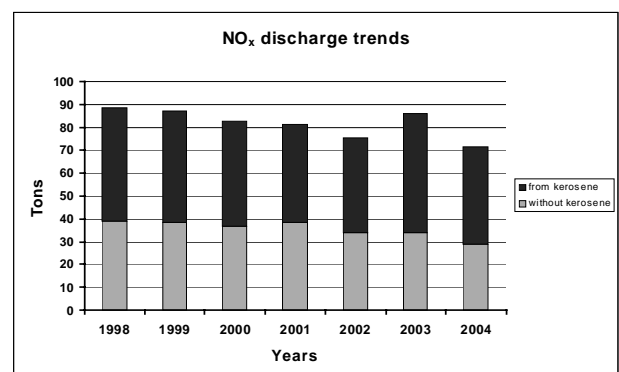
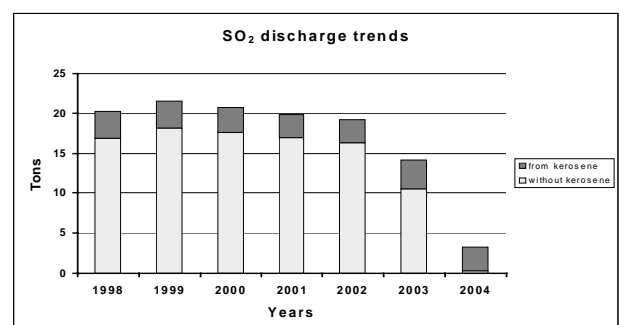
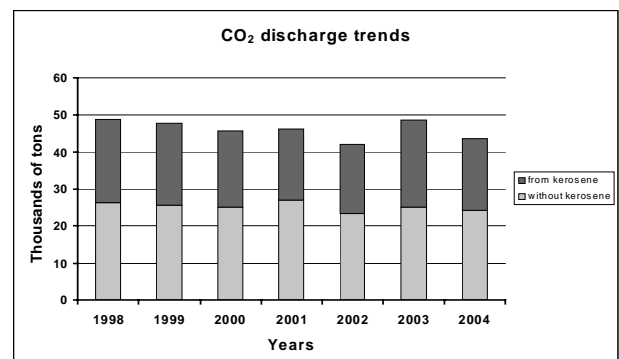
This led to a very significant reduction in the emission of volatile organic compounds.

## DISCHARGES INTO THE NATURAL ENVIRONMENT:

### ATMOSPHERIC DISCHARGES

The atmospheric discharges from the Dassault Aviation sites mainly stem from traditional combustion installations (boilers and emergency generators). Certain discharges relate to aircraft testing (flight tests, etc.), the duration of which is optimized for environmental purposes.

Our activities mainly generate carbon dioxide (CO<sub>2</sub>), sulfur dioxide (SO<sub>2</sub>) and nitrogen oxide (NO<sub>x</sub>) waste. The following charts show the trends in their emissions since 1998.



The increasing use of "clean" energies has resulted in a reduction in nitrogen oxide discharges and, in particular, the virtual elimination of sulfur dioxide discharges, excluding those relating to air activity.

Dassault Aviation is concerned by the national allocation plan for CO<sub>2</sub> emissions that will come into effect on January 1, 2005, particularly for the Mérignac and Argenteuil sites.

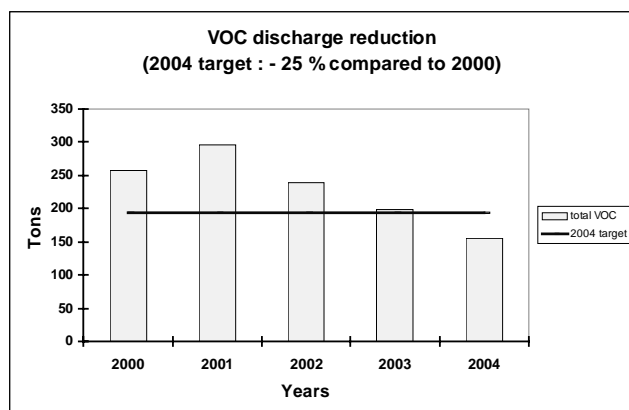
Dassault Aviation sites also discharge volatile organic compounds (VOC) used in surface treatments, degreasing and painting through either channelled or

# Notes to the Director's Report

diffused emissions. VOC emission trends are similar to the aforementioned solvent consumption trends, representing another positive factor for the environment.

The most heavily affected Argenteuil and Biarritz sites have reduced their VOC discharges by more than 50% between 2000 and 2004. The reduction target set by the French Ministry of Ecology and Sustainable Development for sites discharging more than 30 tons per year is 25% for this period.

The chart below shows that the Company has reduced its VOC discharges overall by more than 25%.

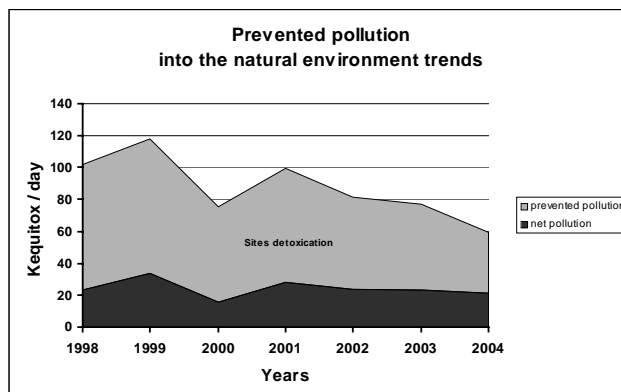


## AQUEOUS DISCHARGES

The principal wastewater discharges by Dassault Aviation are the result of surface treatment activities.

To prevent the discharge of toxic metals into the natural environment and ensure compliance with regulations, the relevant production sites are equipped with detoxification facilities.

The efficiency of these facilities can be shown using the basis for charges imposed by French water authorities since we have reduced discharges into the environment by 70 k Équitox<sup>(\*)</sup> per day, as the chart below illustrates. This gain also represents an annual saving of around EUR 125,000 on pollution charges.



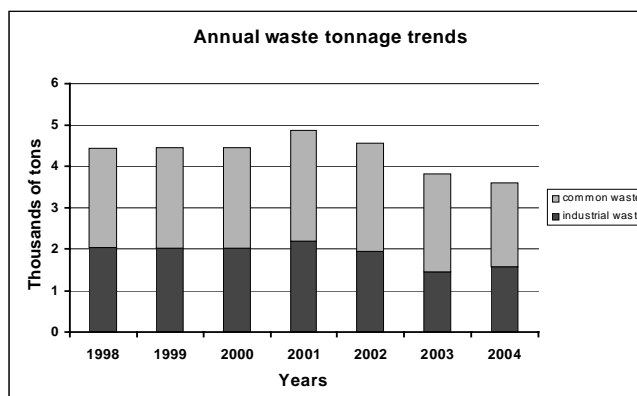
(\*) Équitox: unit of taxation for toxic pollution according to the basis used by French water authorities.

In addition, the installation of the “zero waste” workshop since 2002 at the Argonay site has led to the elimination of discharges of cadmium and other elements that have a significant impact on the environment as defined by the decree of April 30, 2002.

## WASTE

The waste generated by the Dassault Aviation plants breaks down into two major categories: non-hazardous industrial waste (paper, cardboard, wood, scrap iron, etc.) and hazardous industrial waste (oils, metal hydroxide sludge, solvents, soiled packaging, etc.).

Overall waste production trends are presented in the chart below:



Waste is stored in suitable containers placed in sealed waste installations, in order to limit the risk of leachate penetration in the soil, pending elimination or recovery via authorized channels.

#### OTHER DISTURBANCES:

No major complaints have ever been received by the Dassault Aviation sites from neighboring communities.

#### NOISE AND VIBRATIONS

Noisy units are placed as much as possible inside buildings, and any equipment likely to create vibrations is installed on concrete mounds equipped with anti-vibration blocks.

Noise level measurements did not reveal any significant noise disturbances.

The management of flights and ground tests, with respect to implementation conditions and from a quantitative point of view, minimizes the noise impact on the surrounding area.

#### TRAFFIC

Logistics is an important aspect of Dassault Aviation industrial activities covering 8 production sites and their subcontractors and suppliers.

Industrial rationalization measures in recent years took into account the economic and environmental optimization of transport between sites.

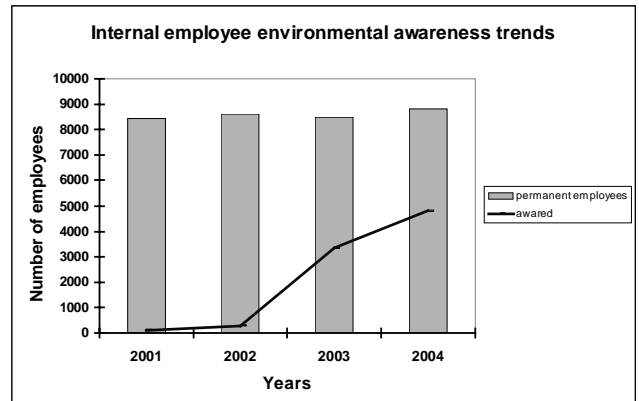
The transport of chemical products and hazardous industrial waste represents a small proportion of heavy vehicle traffic at the production sites.

#### ODORS

The Dassault Aviation production sites do not create any olfactory disturbances for the neighboring communities.

#### EMPLOYEE AWARENESS:

The number of employees who have been made aware of environmental concerns has substantially increased in 2003 and 2004, both at Dassault Aviation and in external companies.



This increase is due to the gradual implementation of environmental management systems on our sites.



*Ladies and Gentlemen,*

The terms and conditions governing the preparation and organization of the Board's work during fiscal 2004 and the internal control procedures set up by the Company are presented below.

## **ORGANIZATION AND FUNCTIONING OF THE BOARD OF DIRECTORS:**

The Board of Directors has 10 members, including one employee, with the experience and expertise required to hold office.

To ensure the attendance of Directors at Board meetings, the Board meetings schedule is determined at the meeting held to approve the half-yearly financial statements in the previous year.

Prior to each Board meeting, the Chairman verifies that the relevant documents are addressed to each Director in sufficient time.

Following the decision of the Board of Directors' meeting of April 25, 2002, the functions of the Company's Chief Executive Officer are exercised by the Chairman of the Board of Directors.

The powers of the Chairman and Chief Executive Officer are not restricted by the Company's bylaws or the Board of Directors.

The Board of Directors meets at least twice a year. It met twice during fiscal 2004, on February 18 and September 15. The average attendance rate was 75%.

The Board of Directors supervised the implementation of the Company's activity strategy and controlled its general operations. In particular, the Board of Directors:

- analyzed order levels, the order book and sales,
- examined the internally-financed technology budget and the capital expenditure budget,
- analyzed the current and forecasted workload compared to company potential, the progress of the civil and military programs and the implementation of the labor policy.

In addition, the Board of Directors:

- approved the fiscal 2003 company and consolidated financial statements, called the Annual General Meeting of Stockholders on April 28, 2004 and drew up the financial statements for the half-year ended June 30, 2004,
- prepared forecast management documents in February 2004 and revised the forecast income statement in September 2004,
- renewed the annual authorization conferred on the Chairman and Chief Executive Officer to grant guarantees and deposits,
- approved the contents of financial press releases.



# Chairman's Report

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## INTERNAL CONTROL PROCEDURES:

### INTERNAL CONTROL OBJECTIVES:

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The Company's internal control procedures are intended to:

- ensure that operations and management acts as well as staff conduct fall within the framework defined by Executive Management, applicable laws and regulations, and the Company's internal values, code of conduct and rules,
- verify that the information provided and communications addressed to the Board of Directors, and the Stockholders' General Meetings are reliable and give a true and fair view of the Company's activity.

One of the main purposes of the internal control system is to anticipate and control risks resulting from the Company's activity and risks of error or fraud, particularly with respect to finance and accounting. However, as with any control system, it cannot provide absolute assurance that these have been totally removed.

### GENERAL INTERNAL CONTROL ORGANIZATION AND ENVIRONMENT:

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#### ● **Internal control reference documents:**

The Company's internal control is based on the following reference documents:

- the Ethics Charter, which defines our values and code of conduct,
- the Quality Manual, which describes the Company processes,
- the Organization Manual, which describes the assignments and organization of each department,

- and more particularly, for financial or accounting activities, the economic and financial data management process defined in the Quality Manual.

#### ● **Internal control bodies:**

The main internal control bodies in Dassault Aviation are as follows:

##### - Management Committee:

The Management Committee comprises the persons in charge of the Company's various departments (see first page of the directors' reports and financial statements). It covers all aspects of the Company's operations and function and meets on a weekly basis.

Each Committee member is responsible for the internal control of his department.

The actions and recommendations decided by the Committee are assigned to one or more of its members, and a manager is designated to ensure coordination. At each meeting, the Committee secretary monitors the progress of these actions until their effective completion.

##### - Total Quality Management Department based on the Quality Management System (QMS):

The QMS is coordinated by the Total Quality Management Department and relies on the plants' Quality-Control managers and the Quality Representatives of the functional departments.

The system uses a structured documentary database, comprising process descriptions, and quality procedures and instructions.

The QMS is monitored through a program of internal audits, quality assessments and management reviews.





- Program Departments based on Program Management

Program Management is coordinated by the Program Director, who reports to the Chairman and Chief Executive Officer. He relies on the Program Managers of the functional departments.

- The Economic and Financial Affairs Department based on Management Control:

Management control with respect to both "structure" and "programs", is primarily responsible for the budgetary process.

It is comprised of a network of management controllers in all Company departments, and coordinated by the Economic and Financial Affairs Department. This department organizes quarterly budgetary reviews, particularly for the purpose of reporting to the Chairman and Chief Executive Officer.

● **Control of subsidiaries:**

The Dassault Aviation strategy is, but for a few exceptions, to exercise majority control over its subsidiaries (see Notes to the Parent Company Financial Statements).

The Company maintains an effective presence in the Board of Directors and management bodies of its subsidiaries.

The Company is also represented on the Executive Committee of Dassault Falcon Jet, the Group's principal subsidiary.

Periodic management reports are prepared by each subsidiary for the parent company, which decides on the appropriate measures to be taken.

● **External control factors:**

The Company operates in a particular external control environment on account of its French government markets and aviation activity:

- the calculation of cost factors (hourly rate, procurement and non-operating expenses) and the costs of activities relating to France government markets are controlled by the French General Delegation for Armament,
- product monitoring, in the military aviation activity, is performed by the French General Delegation for Armament,
- in the civil aviation activity, the Company holds design, production and maintenance agreements, which are continually monitored by the General Directorate of Civil Aviation.

On a voluntary basis, the Company:

- is ISO 9001 - 2000 certified and its Quality Management System is audited each year by an external organization (BVQI),
- has pursued its strategy to obtain ISO 14001 certification of its plants. As of 12/31/2004, the following sites were certified: Argenteuil, Argonay, Biarritz, Istres, Martignas, Mérignac and Poitiers.

INTERNAL CONTROL PROCEDURES FOR FINANCIAL AND ACCOUNTING PURPOSES:

● **Organization of the financial and accounting function:**

This function described in the Quality Manual is managed by the Economic and Financial Affairs Department for both the parent company and Group consolidation.



# Chairman's Report

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This function is also responsible for:

- the validation and control of the Company's centralized financial and accounting information system, implemented by the Information Systems Management Department.
- the updating of the consolidation software used by the parent company, its subsidiaries or subsidiary sub-groups.

- **General references:**

The financial statements are prepared in accordance with:

- accounting standards applicable to French groups and companies:
  - . the decree of June 22, 1999 approving French Accounting Standards Committee Regulations 99-03 and 99-02 of April 29, 1999,
  - . subsequent notices and recommendations of the French National Accounting Board (CNC).
- operating and control procedures described in the economic and financial data management process, completed by the specific procedures for the approval of the parent company and Group consolidated half-yearly and annual financial statements.

These procedures and the IT applications used by the finance and accounting department are regularly audited by the statutory auditors.

- **Financial and accounting information process:**

Within the Economic and Financial Affairs Department, the department responsible for the coordination of accounting and tax matters centralizes accounting data and produces the parent company and Group financial statements.

The department distributes a schedule with the tasks and controls to be performed at each period-end to the relevant persons in the parent company and subsidiaries. This schedule indicates the start date for the statutory auditors' certification procedures at approximately four weeks prior to the Board meeting to be held to approve the financial statements.

At the same time, the Vice-President, Economic and Financial Affairs, sets up a committee to review the financial reports and statements. The review committee is independent of the teams involved in the preparation of the reports and statements.

## TRANSITION TO IFRS:

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Since 2003, the Economic and Financial Affairs Department has been working to determine the impacts of the IFRS applicable to the Company, adapt the information system and train the relevant teams.

The Director's Report provides quantitative information on the impacts of the change in accounting standards.

In addition, the IFRS implementation plan is being carried out according to the defined schedule and will enable the Company to present its financial information under IFRS as from 2005.



#### 2004 ACTIONS:

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Pursuant to the action plan defined in last year's Chairman's report, the Economic and Financial Affairs Department and the Total Quality Management Department have formalized internal control procedures for all relevant persons, based on risk mapping performed in 2003. The relevant persons have identified and completed the existing procedures. The mapping has therefore been reviewed.

In addition, the Economic and Financial Affairs Department and the Total Quality Management Department presented the adopted strategy to BVQI as part of the aforementioned audit.

#### 2005 ACTION PLAN:

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I have entrusted the Economic and Financial Affairs Department and the Total Quality Management Department with the task of conducting audits in 2005 in order to verify the correct application of the internal control procedures.

*Chairman of the Board of Directors*





**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

*in thousands of euro*

# Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEET as of December 31,

(IN THOUSANDS OF EURO)

<i>ASSETS</i>	2004	2003
GOODWILL (NET)	11,494	14,366
OTHER INTANGIBLE ASSETS (NET)	6,408	3,532
PROPERTY, PLANT AND EQUIPMENT		
At cost or revaluation	947,771	985,751
Less: Accumulated depreciation	(636,112)	(645,544)
	311,659	340,207
LONG-TERM INVESTMENTS	152,766	142,252
EQUITY AFFILIATES	4,194	4,464
<b>TOTAL NON-CURRENT ASSETS</b>	<b>486,521</b>	<b>504,821</b>
INVENTORIES	2,675,954	3,082,962
ADVANCES AND PROGRESS PAYMENTS TO SUPPLIERS	95,394	87,425
ACCOUNTS RECEIVABLE - TRADE (NET)	382,779	285,880
OTHER RECEIVABLES (NET), PREPAYMENTS AND ACCRUED INCOME	499,549	511,866
MARKETABLE SECURITIES (NET)	2,125,669	1,734,308
CASH AT BANK AND IN HAND	137,900	80,590
<b>TOTAL CURRENT ASSETS</b>	<b>5,917,245</b>	<b>5,783,031</b>
<b>TOTAL ASSETS</b>	<b>6,403,766</b>	<b>6,287,852</b>

## CONSOLIDATED BALANCE SHEET as of December 31,

(IN THOUSANDS OF EURO)

<i>LIABILITIES AND STOCKHOLDERS' EQUITY</i>	2004	2003
COMMON STOCK	81,007	81,007
ADDITIONAL PAID-IN CAPITAL	19,579	19,579
RESERVES	1,695,696	1,507,620
ATTRIBUTABLE NET INCOME FOR THE YEAR	308,432	294,724
ATTRIBUTABLE STOCKHOLDERS' EQUITY (BEFORE APPROPRIATION)	2,104,714	1,902,930
Minority interests	80	146
TOTAL STOCKHOLDERS' EQUITY	2,104,794	1,903,076
PROVISIONS FOR CONTINGENCIES AND LOSSES	487,537	509,027
BORROWINGS (1)	227,636	234,335
CUSTOMER ADVANCES AND PROGRESS PAYMENTS ON WORK-IN-PROGRESS	2,749,525	2,818,967
ACCOUNTS PAYABLE – TRADE (NET)	487,664	523,698
OTHER LIABILITIES, ACCRUALS AND DEFERRED INCOME	346,610	298,749
TOTAL LIABILITIES	3,811,435	3,875,749
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	6,403,766	6,287,852

(1) Including bank balances in credit of:

0

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# Consolidated Financial Statements

## *CONSOLIDATED INCOME STATEMENT for the years ended December 31,*

(IN THOUSANDS OF EURO)

	2004	2003
NET SALES	3,459,106	3,298,480
CHANGE IN WORK-IN-PROGRESS AND FINISHED GOODS INVENTORY	(395,392)	(22,255)
OTHER REVENUES	523,232	446,379
<b>OPERATING REVENUES</b>	<b>3,586,946</b>	<b>3,722,604</b>
EXTERNAL PURCHASES	(1,646,062)	(1,833,473)
PAYROLL AND RELATED CHARGES (1)	(862,787)	(854,184)
OTHER OPERATING EXPENSES	(375)	(551)
TAX AND SOCIAL SECURITY CONTRIBUTIONS	(49,768)	(51,524)
DEPRECIATION AND AMORTIZATION	(60,305)	(66,309)
NET CHARGE TO PROVISIONS AND OTHER WRITE-DOWNS	(503,546)	(511,471)
<b>OPERATING EXPENSES</b>	<b>(3,122,843)</b>	<b>(3,317,512)</b>
<b>NET OPERATING INCOME</b>	<b>464,103</b>	<b>405,092</b>
NET FINANCIAL INCOME/(EXPENSE)	1,857	34,071
<b>INCOME FROM ORDINARY ACTIVITIES BEFORE TAX</b>	<b>465,960</b>	<b>439,163</b>
NET NON-RECURRING ITEMS	725	(1,970)
CORPORATE INCOME TAX	(155,433)	(139,657)
<b>NET INCOME OF FULLY CONSOLIDATED COMPANIES</b>	<b>311,252</b>	<b>297,536</b>
NET INCOME OF EQUITY AFFILIATES	59	62
AMORTIZATION OF GOODWILL	(2,872)	(2,872)
<b>CONSOLIDATED NET INCOME BEFORE MINORITY INTERESTS</b>	<b>308,439</b>	<b>294,726</b>
Minority interests	7	2
<b>Attributable consolidated net income for the year</b>	<b>308,432</b>	<b>294,724</b>
 (1) Including employee profit-sharing and incentive payments of:	 (90,798)	 (86,258)
 <b>Earnings per share (in euro)</b>	 <b>30.5</b>	 <b>29.1</b>



## **CONSOLIDATED CASH FLOW STATEMENT** *for the years ended December 31,*

(IN THOUSANDS OF EURO)

	2004	2003
Net income for the year	308,439	294,726
Elimination of net income of equity affiliates, net of dividends received	(59)	(62)
Elimination of net income from the sale of non-current assets	(112)	6,820
Deferred tax	29,287	44,927
Net charge to depreciation, amortization and provisions	47,891	117,510
<b>NET CASH FROM OPERATING ACTIVITIES BEFORE WORKING CAPITAL CHANGES</b>	<b>385,446</b>	<b>463,921</b>
CHANGES IN WORKING CAPITAL	234,708	(358,285)
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>620,154</b>	<b>105,636</b>
Purchases of intangible assets and property, plant and equipment	(88,987)	(96,610)
Purchases of investments	(1,087)	(1,616)
Disposals of non-current assets, deposit reversals	51,385	11,159
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(38,689)</b>	<b>(87,067)</b>
Long-term borrowings secured	82,668	99,492
Repayments of long-term borrowings	(89,359)	(67,160)
Dividends paid	(77,969)	(84,045)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(84,660)</b>	<b>(51,713)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>496,805</b>	<b>(33,144)</b>
<b>OPENING CASH AND CASH EQUIVALENTS AS OF JANUARY 1 (1)</b>	<b>1,814,954</b>	<b>1,934,264</b>
Net increase/(decrease) in cash and cash equivalents	496,805	(33,144)
Exchange rate fluctuations	(48,190)	(86,166)
<b>CLOSING CASH AND CASH EQUIVALENTS AS OF DECEMBER 31, (1)</b>	<b>2,263,569</b>	<b>1,814,954</b>

(1) Cash and cash equivalents comprises the following balance sheet headings:

[Cash at bank and in hand] + [marketable securities at cost] – [bank facilities and bank balances in credit]

# Consolidated Financial Statements

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2003**

(The following Notes to the consolidated financial statements are presented for the English-language reader. They are an extract from the full French text of the financial statements which has been certified by the auditors.)

### **1. COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION AS OF DECEMBER 31, 2004**

	2004		2003	
	% control	% interest	% control	% interest
<b>FULLY CONSOLIDATED COMPANIES</b>				
Dassault Aviation	(parent company)	(parent company)	(parent company)	(parent company)
Dassault Falcon Jet	100	100	100	100
Dassault Falcon Services	100	100	100	100
Dassault Procurement Services	100	100	100	100
Sogitec Industries	100	100	100	100
<b>EQUITY AFFILIATES</b>				
Dassault International Inc. (USA)	100	100	100	100

## 2. ACCOUNTING POLICIES

### A GENERAL PRINCIPLES

The consolidated financial statements have been prepared in accordance with French Accounting Standards Committee Regulation 99-02 regarding consolidated financial statements approved by the decree of June 22, 1999 and subsequent notices and recommendations of the French National Accounting Board (CNC).

Consolidation adjustments have been made to subsidiary financial statements, where material, in order to achieve consistent presentation of the consolidated financial statements.

Employee profit-sharing and incentive payments are now included in payroll costs in accordance with the Income Statement presentation rules detailed in Regulation 99-02.

The consolidated financial statements have been prepared in euro.

### B CONSOLIDATION POLICIES

#### B1 Companies included in the consolidation and consolidation methods

Companies over which Dassault Aviation exercises exclusive control, directly or indirectly, and which are considered material are fully consolidated.

At the end of 2004, Dassault International was deconsolidated, considering its insignificant activity.

Companies over which Dassault Aviation exercises significant influence, directly or indirectly, and which are considered material are accounted for under the equity method.

Companies are included in the scope of consolidation when the following conditions are satisfied:

- total Company assets and liabilities exceed 2% of the equivalent Group totals,
- total revenue exceeds 2% of the equivalent Group total,
- Company stockholders' equity exceeds 3% of Group stockholders' equity.

Companies not satisfying these conditions but considered of strategic importance to the Group may be included in the scope of consolidation.

All material inter-company transactions and unrealized internal profits and losses included in non-current assets and inventories of consolidated companies are eliminated.

#### B2 Basis of consolidation

All the companies included in the consolidation have a December 31 accounting reference date.

#### B3 Translation of the financial statements of foreign companies

The financial statements of foreign companies are translated as follows:

- . Balance sheet items are translated in euro at the year-end rate;
- . Income statement items are translated at the average rate for the year;

Translation differences are taken directly to reserves and do not impact income.

#### B4 Consolidation goodwill

Consolidation goodwill is amortized over 10 years.

### C VALUATION METHODS

#### C1 Intangible assets

Intangible assets are amortized using the straight-line method over the following periods:

- . Software, patents, licenses and similar assets ..... 5 to 20 years
- . Purchased goodwill ..... 5 years

#### C2 Property, plant and equipment

Property, plant and equipment are valued at cost, and depreciated using the straight-line method. Depreciation periods depend on the type of property, plant and equipment:

- . buildings ..... 20 years
- . fixtures and fittings ..... 10 years
- . plant, equipment and machinery ... 6 years 8 months to 10 years
- . other ..... 3 to 10 years

#### C3 Capital leases

When the Group holds property, plant or equipment under a capital lease, the value of the asset is capitalized and depreciated using the appropriate method of depreciation and useful life, as described above. The corresponding liability is recorded in the balance sheet.

# Consolidated Financial Statements

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## **C4**    Long-term investments

Non-consolidated equity investments are recorded at the lower of cost or current value as determined by the Company.

## **C5**    Revenue recognition

Income from the sale of goods is recognized upon transfer of ownership to the purchaser.

With regard to services, work progress is assessed according to the agreed-upon contractual phases. Income is recognized using the percentage completion method provided that it can be reliably measured.

Losses to completion are recognized as soon as they are known.

## **C6**    Inventories and work-in-progress

### **D1 Inventories**

Inventories are valued at weighted average unit cost.

A provision is recorded for inventories of semi-finished materials and products which are unlikely to be used.

A provision is recorded if the value of finished products is greater than their market value.

### **D2 Work-in-progress**

Work-in-progress is valued at production cost, excluding interest expense, and cannot exceed its realizable value.

## **C7**    Research and development costs

As research and development expenses are internally financed, they are charged to income as incurred. The Company's research and development strategy and means of improvement are described in the Directors' report.

## **C8**    Receivables

Receivables denominated in euro are stated at nominal value. Receivables denominated in foreign currencies are recorded using the methods described in note C10 below.

A provision is recorded when the recoverable value is less than the book value.

## **C9**    Provisions for contingencies and losses

### **Retirement severance payments and related benefits:**

Retirement severance payment commitments and related benefits are provided in full. Provisions cover all employees and are estimated based on vested rights and a projection of current salaries, after taking into account mortality rates, employee turnover, and a discounting assumption.

Actuarial gains or losses are fully recorded in income in the period during which they were recognized.

### **Other provisions for contingencies and losses:**

Other provisions for contingencies and losses are determined either based on an estimate of identified contingencies and losses or on a statistical basis.

## **C10**   Foreign exchange and interest rate hedging transactions

Dassault Aviation manages its foreign exchange risk (essentially parent company exposure to the US dollar and Falcon sales) by partially hedging its sales as soon as such sales become firm or are considered highly probable.

Premiums paid or received on the purchase or sale of put options are recognized in the income statement on maturity of the option, with the exception of those relating to "zero premium" hedging strategies, which are recognized immediately in the income statement to avoid the creation of temporary timing differences.

## **C11**   Translation of foreign currency items

Income statement items denominated in foreign currencies are translated into euro at the exchange rate prevailing at the date of payment or receipt, with the exception of flows covered by global hedging arrangements which are recorded at the hedge rate for the period.

Receivables and payables outstanding at the year-end are translated into euro at the closing rate of exchange.

Differences arising on the retranslation of opening balances at closing rates of exchange are taken to the Income Statement.

Translation gains and losses arising on cash at bank and in hand, as of December 31, are taken to translation differences in the Income Statement for French companies.

### C12 Deferred taxes

Timing differences between the recording of certain income and expense items for accounting and tax purposes result in the recording of deferred taxes in the consolidated financial statements. The liability method is used. Deferred taxation also arises on certain consolidation adjustments and eliminations.

In the interest of prudence, deferred tax assets are recorded, by company, to the extent they are expected to crystallize in the near future (maximum of three years), in accordance with a defined reversal schedule.

Provision is made for any taxes due on the distribution of proposed dividends by the subsidiaries.

The retained earnings of subsidiaries and affiliates, after distribution of dividends, are regarded as long-term investments and therefore no provision for tax is made.

# Consolidated Financial Statements

All figures in the tables below are expressed in thousands of euro, unless stated otherwise.

## 3. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT

	As of Dec. 31, 2003	Other movements	Additions, Deposits paid	Disposals, Deposit reversals	As of Dec. 31, 2004
GOODWILL	60,450	(12,556) (2)	0	0	47,894
<b>INTANGIBLE ASSETS</b>					
Software, patents, licenses, and similar assets	70,099	3,949	2,003	6,258	69,793
	70,099	3,949	2,003	6,258	69,793
<b>PROPERTY, PLANT AND EQUIPMENT</b>					
Land	19,681	48	411	82	20,058
Buildings	242,312	4,429	20,003	10,918	255,826
Capital leases	3,150	0	0	0	3,150
Plant, machinery and equipment (1)	533,038	(55,979)	30,361	40,854	466,566
Other property, plant and equipment (1)	187,570	40,593	36,209	62,201	202,171
	985,751	(10,909)	86,984	114,055	947,771

(1) Aircraft in the amount of EUR 56,502 thousand previously recognized under "machinery and equipment" was reclassified under "Other property, plant and equipment" to ensure consistency.

(2) Deconsolidation of DI France.

## 4. DEPRECIATION AND AMORTIZATION

	As of Dec. 31, 2003	Other movements	Charge	Release	As of Dec. 31, 2004
GOODWILL	46,084	(12, 556) (2)	2,872	0	36,400
<b>INTANGIBLE ASSETS</b>					
Software, patents, licenses and similar assets	66,567	(212)	3,285	6,255	63,385
	66,567	(212)	3,285	6,255	63,385
<b>PROPERTY, PLANT AND EQUIPMENT</b>					
Land	2,826	32	430	82	3,206
Buildings	123,279	(1,017)	13,058	10,495	124,825
Capital leases	1,918	0	158	0	2,076
Plant, machinery and equipment (1)	425,240	(28,503)	32,263	36,010	392,990
Other property, plant and equipment (1)	92,281	26,757	11,111	17,134	113,015
	645,544	(2,731)	57,020	63,721	636,112

(1) Depreciation in the amount of EUR 27,352 thousand, corresponding to aircraft previously recognized under "machinery and equipment" was reclassified under "Other property, plant and equipment" to ensure consistency.

(2) Deconsolidation of DI France.

## 5. LONG-TERM INVESTMENTS

	As of Dec. 31, 2003	Other movements (3)	Additions	Divestments	As of Dec. 31, 2004
Long-term investments					
Non-consolidated investments (1)	110,976	14,102	0	146	124,932
Other investment securities	4,383	(236)	0	53	4,094
Other long-term investments (2)	27,212	(11)	1,087	733	27,555
	142,571	13,855	1,087	932	156,581

(1) including Embraer in the amount of EUR 75,575 thousand

(2) maturing in more than one year: EUR 27,534 thousand as of December 31, 2004 (EUR 27,212 thousand as of December 31, 2003)

(3) including the securities of DI France, deconsolidated in 2004, in the amount of EUR 14,748 thousand

## 6. OTHER RECEIVABLES (NET), PREPAYMENTS AND ACCRUED INCOME

	As of Dec. 31, 2004	As of Dec. 31, 2003
Other receivables	202,387	245,348
Deferred tax assets	70,674	101,788
Prepayments and accrued income	226,488	164,730
<b>TOTAL</b>	<b>499,549</b>	<b>511,866</b>

	As of Dec. 31, 2004			As of Dec. 31, 2003		
	Total	Maturing within		Total	Maturing within	
		1 year	More than 1 year		1 year	More than 1 year
Accounts receivable – trade (net)	569,730	416,370	153,360	475,653	317,537	158,116
Other receivables	202,387	202,387	0	245,348	245,348	0
Deferred tax assets	70,674	70,674	0	101,788	101,788	0
Prepayments	226,488	226,488	0	164,730	164,730	0
Other receivable (net), prepayment and accrued income	499,549	499,549	0	511,866	511,866	0
<b>TOTAL</b>	<b>1,069,279</b>	<b>915,919</b>	<b>153,360</b>	<b>987,519</b>	<b>829,403</b>	<b>158,116</b>

# Consolidated Financial Statements

## 7. MOVEMENTS IN ATTRIBUTABLE STOCKHOLDERS' EQUITY

	Common stock	Additional paid-in capital	Reserves					Net income for the year	Total Stockholders' Equity
			Consolidated reserves	Translation reserves	Revaluation reserves	Misc.	Total reserves		
As of December 31, 2002	81,007	19,579	1,359,961	(10,385)	0	0	1,349,576	312,347	1,762,509
<b>Movements in 2003</b>									
Dividend distribution								(84,045)	(84,045)
Appropriation of net income			228,302				228,302	(228,302)	
Translation differences				(70,258)			(70,258)		(70,258)
Net income for the year								294,724	294,724
Other movements									
As of December 31, 2003	81,007	19,579	1,588,263	(80,643)	0	0	1,507,620	294,724	1,902,930
<b>Movements in 2004</b>									
Dividend distribution								(77,969)	(77,969)
Appropriation of net income			216,755				216,755	(216,755)	
Translation differences				(28,679)			(28,679)		(28,679)
Net income for the year								308,432	308,432
Other movements									
As of December 31, 2004	81,007	19,579	1,805,018	(109,322)	0	0	1,695,696	308,432	2,104,714



**8. PROVISIONS FOR CONTINGENCIES AND LOSSES**

	Opening Balance	Other (transl. diffs., change in Group structure, etc.)	Increase-Charge	Decrease – Releases	Closing Balance
Retirement severance payments and long service medals	152,035	46	33,387	29,022	156,446
Warranties	199,841	(2,568)	31,106	35,946	192,433
Services and work to be performed	78,834	(1,664)	57,713	60,466	74,417
Other (incl. CASA parent company early retirement program)	49,457	(401)	8,815	18,491	39,380
Deferred taxes	28,860	(1,944)	0	2,055	24,861
<b>TOTAL I</b>	<b>509,027</b>	<b>(6,531)</b>	<b>131,021</b>	<b>145,980</b>	<b>487,537</b>

**- Provision for retirement severance payments and long service medals:****- French companies:**

Retirement severance payment and long service medal commitments are calculated for all employees using the projected unit credit method and provided in full. Employment projections are weighted using French Insurance Code mortality rates and the Dassault Aviation employee turnover rate (this may vary according to age). The cost of retirement, pro rata to the employee's length of service at the period-end in relation to his total career expectancy in the Company, can therefore be estimated. This cost is calculated by taking into account the average wage increase assumption of 3.5% per annum (for retired employees) and a discounting rate of 4.75% per annum.

**- US companies:**

In the US, employee retirement commitments and related benefits are financed externally. Commitments not covered by the funding are provided in the financial statements. The actuarial calculation rules are comparable to those used for French companies with a discounting rate of 6.25% and an average wage increase of 4%.

**- Provisions for warranties:** warranty provisions have been updated to reflect the fleet in service and contracts delivered.

**- CASA early retirement program and other:** this item mainly includes the parent company's future expenses to finance the period of inactivity of the employees involved in the CASA early retirement program (signed in 2002), up to retirement age.

# Consolidated Financial Statements

## 9. BORROWINGS AND RELATED LIABILITIES

	As of Dec. 31, 2004	Due within 1 year or less	1 to 5 years	More than 5 years
<b>BORROWINGS</b>				
Credit institutions (1)	160	43	59	58
Capital leases	233	155	78	0
Other borrowings	227,243	37,390	189,853	0
<b>TOTAL</b>	<b>227,636</b>	<b>37,588</b>	<b>189,990</b>	<b>58</b>

	As of Dec. 31, 2003	Due within 1 year or less	1 to 5 years	More than 5 years
<b>BORROWINGS</b>				
Credit institutions (1)	168	26	84	58
Capital leases	388	155	233	0
Other borrowings	223,779	48,505	185,274	0
<b>TOTAL</b>	<b>234,335</b>	<b>48,686</b>	<b>185,591</b>	<b>58</b>

(1) No short-term banking facilities as of December 31, 2004 and 2003

## 10. OTHER LIABILITIES, ACCRUALS AND DEFERRED INCOME

	As of Dec. 31, 2004	As of Dec. 31, 2003
Tax and social security liabilities	238,142	188,754
Other miscellaneous liabilities	95,774	90,507
Accruals and deferred income	12,694	19,488
<b>TOTAL</b>	<b>346,610</b>	<b>298,749</b>

	As of December 31, 2004			As of December 31, 2003		
	Total	Maturing within		Total	Maturing within	
		1 year	More than 1 year		1 year	More than 1 year
Accounts payable – trade (net)	487,664	487,664	0	523,698	523,698	0
Tax and social security liabilities	238,142	236,202	1,940	188,754	188,754	0
Other miscellaneous liabilities	95,774	95,774	0	90,507	90,507	0
Accruals and deferred income	12,694	12,694	0	19,488	19,488	0
Other liabilities, accruals and deferred income	346,610	344,670	1,940	298,749	822,447	0
<b>TOTAL</b>	<b>834,274</b>	<b>832,334</b>	<b>1,940</b>	<b>822,447</b>	<b>822,447</b>	<b>0</b>

## 11. SALES ANALYSIS

### A/ BY CLASS OF PRODUCTS

	Year ended December 31,	
	2004	2003
Defense	1,343,051	1,606,577
Falcon	2,116,055	1,691,903
<b>TOTAL</b>	<b>3,459,106</b>	<b>3,298,480</b>

### B/ BY GEOGRAPHICAL AREA

	Year ended December 31,	
	2004	2003
France	577,188	606,595
Export	2,881,918	2,691,885
<b>TOTAL</b>	<b>3,459,106</b>	<b>3,298,480</b>

## 12. MARKETABLE SECURITIES

	As of December 31, 2004		As of December 31, 2003	
	Balance sheet value	Closing market price	Balance sheet value	Closing market price
Marketable securities	2,125,669	2,741,729	1,734,308	2,309,946

In accordance with accounting rules, unrealized capital gains on marketable securities are not recognized until effective realization.

# Consolidated Financial Statements

## 13. FINANCIAL COMMITMENTS

Commitments given	As of Dec. 31, 2004	As of Dec. 31, 2003
Guarantees and deposits	9,997	14,073
<b>TOTAL</b>	<b>9,997</b>	<b>14,073</b>

Bilateral commitments in respect of:	As of Dec. 31, 2004	As of Dec. 31, 2003
Future billings to customers	9,721,040	9,160,128
Future payments to sub-contractors or suppliers	1,583,641	1,606,882
Fixed assets	20,475	28,220
<b>TOTAL</b>	<b>11,325,156</b>	<b>10,795,230</b>

Secured debts	As of Dec. 31, 2004	As of Dec. 31, 2003
Customer advances and progress payments (secured by bank guarantees)	1,186,231	1,474,128
<b>TOTAL</b>	<b>1,186,231</b>	<b>1,474,128</b>

## FINANCIAL INSTRUMENTS: PORTFOLIO FAIR VALUES

Market values represent the euro-equivalent, translated at closing rates of exchange, of amounts payable or receivable in the event of liquidation of the entire portfolio. They do not reflect actual results realizable on transaction maturity, as they do not take account of future price fluctuations. **The portfolio valuation is, therefore, provided for information purposes only.**

In valuing the portfolio valuation, the assumed hedging rate did not generate any losses on commercial transactions hedged.

Unrealized fair value	In USD'000	In EUR'000
As of December 31, 2003		
- Forex options	449,609	355,985
- Futures	465,689	368,717
<b>TOTAL</b>	<b>915,298</b>	<b>724,702</b>
As of December 31, 2004		
- Forex options	14,132	10,375
- Futures	950,810	698,047
<b>TOTAL</b>	<b>964,942</b>	<b>708,422</b>

# 14. TAX POSITION

	Year ended December 31,	
	2004	2003
TAXES ON INCOME		
Current tax charge	(126,146)	(94,730)
Deferred taxes	(29,287)	(44,927)
<b>TOTAL</b>	<b>(155,433)</b>	<b>(139,657)</b>
RECONCILIATION OF THE THEORETICAL TAX CHARGE AND THE TAX CHARGE PER THE FINANCIAL STATEMENTS		
Tax charge calculated at the year-end standard tax rate (35.43%)	164,326	153,880
Effect of foreign tax rates and deferred tax	2,786	1,778
Movements in income and expense items not liable to tax or tax-allowable and amortization of goodwill	(11,679)	(16,001)
Tax charge per the financial statements	155,433	139,657
Tax losses carried forward		
Net deferred tax assets not recognized	38,403	36,163

# 15. AVERAGE NUMBER OF EMPLOYEES

	As of Dec. 31, 2004	As of Dec. 31, 2003
Engineers and executive grades	5,321	5,201
Supervisory and technical grades	3,001	3,124
Administrative employees	1,393	1,407
Production employees	2,328	2,322
<b>TOTAL</b>	<b>12,043</b>	<b>12,054</b>

# 16. EXECUTIVE OFFICER COMPENSATION

Compensation received by executive officers in respect of their duties in 2004 totaled EUR 1,742,186 for the parent company and USD 85,713 for subsidiaries. A breakdown of this compensation is presented in the Directors' Report.

# 17. ENVIRONMENTAL INFORMATION

The Dassault Aviation Group recognized environmental investments in the amount of EUR 2,778 thousand and expenditure of around EUR 1,220 thousand in 2004 relating to risk, impact and regulatory compliance analyses.

The Group did not need to recognize any environmental liabilities.

## AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended December 31, 2004**

In accordance with our appointment as auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Dassault Aviation for the year ended December 31, 2004.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

### OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

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We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the Group as of December 31, 2004 and the results of its operations for the year then ended in accordance with accounting principles generally accepted in France.

Mazars & Guérard

Manuela Baudoin-Revert

### JUSTIFICATION OF ASSESSMENTS

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Pursuant to the provisions of Article L.225-235 of the French Commercial Code governing the justification of our assessments, we draw your attention to the following:

The Company records profits from long-term contracts using the percentage of completion method.

In accordance with professional standards applicable to accounting estimates, and based on the information made available to date, we assessed the data and assumptions prepared by management, on which the estimated profits on completion of these contracts and any subsequent changes were based. We reviewed the calculations performed and compared the accounting estimates of previous years with the corresponding results.

These assessments were performed as part of our audit approach for the consolidated financial statements taken as a whole and contributed to the expression of the unqualified opinion in the first part of this report.

### SPECIFIC PROCEDURES AND DISCLOSURES

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We have also performed the procedures required by law on the Group financial information given in the Directors' Report, in accordance with professional standards applicable in France. We have no comment to make as to the fair presentation of this information or its consistency with the consolidated financial statements.

La Défense and Neuilly, February 18, 2005

The Auditors

Deloitte & Associés

Philippe Mouraret

*This is a free translation into English of the statutory auditors' reports issued in the French language and is provided solely for the convenience of English speaking readers. The statutory auditors' report includes for the information of the reader, as required under French law in any auditor's report, whether qualified or not, explanatory paragraphs separate from and presented below the audit opinion discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. Such report, together with the statutory auditors' report addressing financial reporting in management's report on internal control, should be read in conjunction and construed in accordance with French law and French auditing professional standards.*



**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

*in thousands of euro*

# Financial Statements

## **BALANCE SHEET as of December 31,**

<b>ASSETS</b> (in thousands of euro)	<b>2004</b>	<b>2003</b>
<b>NON-CURRENT ASSETS</b>		
INTANGIBLE ASSETS (NET)	3,222	2,280
PROPERTY, PLANT AND EQUIPMENT		
At cost or revaluation	823,230	842,250
Less: Accumulated depreciation	(576,591)	(582,345)
	246,639	259,905
INVESTMENTS		
At cost	265,252	265,054
Less: provisions	(3,521)	(3)
	261,731	265,051
<b>TOTAL NON-CURRENT ASSETS</b>	<b>511,592</b>	<b>527,236</b>
<b>CURRENT ASSETS</b>		
INVENTORIES	2,310,200	2,666,651
ADVANCES AND PROGRESS PAYMENTS TO SUPPLIERS	203,633	150,253
ACCOUNTS RECEIVABLE	539,793	329,476
OTHER RECEIVABLES, PREPAYMENTS AND ACCRUED INCOME	396,176	364,402
MARKETABLE SECURITIES	1,607,712	1,483,973
CASH AT BANK AND IN HAND	119,974	68,990
<b>TOTAL CURRENT ASSETS</b>	<b>5,177,488</b>	<b>5,063,745</b>
<b>TOTAL ASSETS</b>	<b>5,689,080</b>	<b>5,590,981</b>



**BALANCE SHEET as of December 31,**

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> (in thousands of euro)	<b>2004</b>	<b>2003</b>
COMMON STOCK	81,007	81,007
ADDITIONAL PAID-IN CAPITAL	19,579	19,579
RESERVES	1,291,543	1,137,981
NET INCOME FOR THE YEAR	226,640	233,348
TAX-DRIVEN PROVISIONS	166,682	143,986
<b>STOCKHOLDERS' EQUITY</b>	<b>1,785,451</b>	<b>1,615,901</b>
<b>PROVISIONS FOR CONTINGENCIES AND LOSSES</b>	<b>401,218</b>	<b>417,938</b>
BORROWINGS (1)	226,002	231,710
CUSTOMER ADVANCES AND PROGRESS PAYMENTS ON WORK-IN-PROGRESS	2,539,233	2,595,917
ACCOUNTS PAYABLE – TRADE	437,003	458,325
OTHER LIABILITIES, ACCRUALS AND DEFERRED INCOME	300,173	271,190
<b>TOTAL LIABILITIES</b>	<b>3,502,411</b>	<b>3,557,142</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>5,689,080</b>	<b>5,590,981</b>

(1) Including bank balances in credit of:

0

0

# Financial Statements

## INCOME STATEMENT

for the years ended December 31,

(in thousands of euro)	2004	2003
NET SALES	2,810,343	2,801,410
CHANGE IN WORK-IN-PROGRESS AND FINISHED GOODS INVENTORY	(365,209)	(127,223)
OTHER REVENUE	384,702	318,613
<b>OPERATING REVENUES</b>	<b>2,829,836</b>	<b>2,992,800</b>
EXTERNAL PURCHASES	(1,078,008)	(1,247,381)
PAYROLL AND RELATED CHARGES	(573,716)	(569,326)
OTHER OPERATING EXPENSES	(282,510)	(289,009)
TAXES AND SOCIAL SECURITY CONTRIBUTIONS	(44,164)	(46,479)
DEPRECIATION AND AMORTIZATION	(47,102)	(51,807)
NET CHARGES TO PROVISIONS AND OTHER WRITE-DOWNS	(363,456)	(394,154)
<b>OPERATING EXPENSES</b>	<b>(2,388,956)</b>	<b>(2,598,156)</b>
<b>NET OPERATING INCOME BEFORE FINANCIAL ITEMS</b>	<b>440,880</b>	<b>394,644</b>
NET FINANCIAL INCOME/(EXPENSE)	(3,074)	28,728
<b>INCOME FROM ORDINARY ACTIVITIES BEFORE TAX</b>	<b>437,806</b>	<b>423,372</b>
NON-RECURRING ITEMS	(19,909)	(31,007)
EMPLOYEE PROFIT-SHARING	(89,547)	(84,971)
CORPORATE INCOME TAX	(101,710)	(74,046)
<b>NET INCOME FOR THE YEAR</b>	<b>226,640</b>	<b>233,348</b>

**CASH FLOW STATEMENT**  
**for the years ended December 31,**

(in thousands of euro)	2004	2003
Net income for the year	226,640	233,348
Elimination of net income from the sale of non-current assets	(253)	6,783
Net charge to depreciation, amortization and provisions	47,382	138,283
<b>NET CASH FROM OPERATING ACTIVITIES BEFORE WORKING CAPITAL CHANGES</b>	<b>273,769</b>	<b>378,414</b>
Changes in working capital	21,172	(323,659)
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>294,941</b>	<b>54,755</b>
Purchases of intangible assets and property, plant and equipment	(61,903)	(71,840)
Disposals of and deposit reversals for intangible assets and property, plant and equipment	27,265	3,048
Purchases of investments	(987)	(1,033)
Disposals of or reductions in investments	900	445
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(34,725)</b>	<b>(69,380)</b>
Decrease in equity items	(1,816)	0
Increase in borrowings	81,575	97,944
Borrowing repayments	(87,283)	(66,432)
Dividends paid	(77,969)	(84,045)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(85,493)</b>	<b>(52,533)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>174,723</b>	<b>(67,158)</b>
Opening cash and cash equivalents as of January 1, (1)	1,552,963	1,620,121
Net increase (decrease) in cash and cash equivalents	174,723	(67,158)
Closing cash and cash equivalents as of December 31, (1)	1,727,686	1,552,963

(1) Cash and cash equivalents comprises the following balance sheet headings:  
[Cash at bank and in hand]+ [marketable securities at cost] – [bank facilities and bank balances in credit]

# Financial Statements

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**DASSAULT AVIATION**

**9, ROND-POINT DES CHAMPS-ELYSEES-MARCEL DASSAULT- 75008 PARIS**

**LIMITED LIABILITY COMPANY WITH A COMMON STOCK OF EUR 81,007,176**

**Registered with the Paris Trade Registry under the number 712 042 456**

**INSEE No.: 270.92.076.0011**

**SIRET No.: 712 042 456 00111**

## **NOTES TO THE FINANCIAL STATEMENTS**

(The following Notes to the financial statements are presented for the English-language reader. They are an extract from the full French text of the financial statements which has been certified by the auditors.)

Notes to the Balance Sheet before appropriation of earnings for the year ended **December 31, 2004**, showing total assets of **EUR 5,689,080 thousand** and to the Income Statement, showing total revenues of **EUR 2,894,007 thousand** and net income of **EUR 226,640 thousand**.

The financial statements have been prepared for a 12-month period extending from **January 1, 2004** to **December 31, 2004**.

The notes and tables presented below (nos. 1 to 26) represent an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
*for the year ended December 31, 2004*

**1. ACCOUNTING POLICIES**

The individual financial statements have been prepared in accordance with French Accounting Standards Committee Regulation 99-03 approved by the decree of June 22, 1999 and subsequent notices and recommendations of the French National Accounting Board (CNC).

The methods used for the presentation of the individual financial statements are comparable year-on-year.

The following fundamental accounting concepts have been applied:

- prudence,
- going concern,
- consistency, and
- accruals.

The individual financial statements have been prepared on a historical cost basis.

**The principal accounting policies adopted are outlined below:**

**A) INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT**

Assets are valued at acquisition cost (purchase price plus incidental expenses, excluding asset acquisition costs) or at production cost, except in the case of assets acquired prior to December 31, 1976, which have been revalued.

Depreciation and amortization are calculated using the straight-line method over the useful lives of the assets:

- Software, patents, licenses and similar assets 15 to 20 years
- Buildings 20 years
- Fixtures and fittings 10 years
- Technical installations, machinery and tools: 6 years 8 months to 10 years
- Other property, plant and equipment 3 to 10 years

**B) EQUITY INVESTMENTS, OTHER INVESTMENTS AND MARKETABLE SECURITIES**

The gross value of such assets is their purchase price excluding incidental costs, except in the case of assets subject to the 1976 legal revaluation. A provision for impairment is recorded where the market value of such assets (determined by the Company) is lower than their gross value.

**C) REVENUE RECOGNITION**

Income from the sale of goods is recognized upon transfer of ownership to the purchaser.

With regard to services, work progress is assessed according to the agreed-upon contractual phases. Income is recognized using the percentage completion method provided that it can be reliably measured.

Losses to completion are recognized as soon as they are known.

**D) INVENTORIES AND WORK-IN-PROGRESS****D1 Inventories**

Inventories are valued at weighted average unit cost. A provision is recorded for inventories of semi-finished materials and products which are unlikely to be used. A provision is recorded if the value of finished products is greater than their market value.

**D2 Work-in-progress**

Work-in-progress is valued at production cost, excluding interest expense, and cannot exceed its realizable value.

**E) RECEIVABLES**

Receivables are stated at nominal value. A provision is recorded when the recoverable value is less than the book value.

# Financial Statements

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## F) TAX-DRIVEN PROVISIONS

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These include:

- Provisions for investments,
- Provisions for price increases,
- Provisions for medium-term export credit risk,
- Accelerated depreciation.

## G) PROVISIONS FOR CONTINGENCIES AND LOSSES

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Retirement severance payment commitments are provided in full. Provisions cover all employees and are estimated based on vested rights and a projection of current salaries, after taking into account mortality rates, employee turnover, and a discounting assumption. Long service medal costs are also provided.

Actuarial gains or losses are fully recorded in income in the period during which they were recognized.

Other provisions for contingencies and losses are determined either based on an estimate of identified contingencies and losses or on a statistical basis.

## G) CURRENCY HEDGING TRANSACTIONS

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Dassault Aviation manages its foreign exchange risk (essentially US dollar exposure and Falcon sales) by partially hedging its sales as soon as such sales become firm or are considered highly probable.

Premiums paid or received on the purchase or sale of put options are recognized in the income statement on maturity of the option, with the exception of those relating to “zero premium” hedging strategies, which are recognized immediately in the income statement to avoid the creation of temporary timing differences.

## H) TRANSACTIONS DENOMINATED IN FOREIGN CURRENCIES

---

Income statement items denominated in foreign currencies are translated into euro at the exchange rate prevailing at the date of payment or receipt, with the exception of flows covered by hedging arrangements which are recorded at the hedge rate for the year.

Receivables and payables outstanding at the year-end are translated into euro at the closing rate of exchange. Differences arising on the translation of opening balances at closing rates of exchange are taken to balance sheet suspense accounts as follows:

1. Unrealized translation losses to assets,
2. Unrealized translation gains to liabilities.

A provision is recorded in respect of unrealized losses.

Translation gains and losses arising on cash at bank and in hand, as of December 31, are taken to translation differences in the income statement.

## I) UNREALIZED CAPITAL GAINS ON MARKETABLE SECURITIES

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Unrealized capital gains on marketable securities are not recognized in the income statement until effectively realized.

Under Article 8 of the French Commercial Code, the corporate income tax charge recorded in the financial statements relates solely to reported income. As such, the tax charge relating to unrealized gains on marketable securities is recorded within prepayments until recognition of the capital gains within financial income.

This method, which constitutes a departure from the general principle of full recognition of deferred tax, has been adopted to provide a fairer presentation of the results of the Company.

### J) TAX CONSOLIDATION

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With effect from January 1, 1999, Dassault Aviation, 9 Rond-Point des Champs-Élysées Marcel Dassault 75008 Paris, formed a tax consolidation group pursuant to Article 223A et seq. of the French General Tax Code.

This tax consolidation arrangement was extended until fiscal year 2008.

By agreement, this tax consolidation election does not impact on member company net income, as tax charges are borne by the tax group companies as if no such election had been made.

# Financial Statements

All figures in the tables below are expressed in thousands of euro, unless stated otherwise.

## 2. INTANGIBLE ASSETS

These comprise concessions, patents, licenses, trademarks, processes and rights, including software.

## 3. PROPERTY, PLANT AND EQUIPMENT

At cost or revaluation	As of Dec. 31, 2003	Additions, Deposits paid	Transfers	Disposals, Deposit reversals	As of Dec. 31, 2004	Original value before revaluation
Land	23,166	411	48	82	23,543	19,758
Buildings	200,212	7,291	2,079	11,301	198,281	187,700
Plant, machinery and equipment (1)	496,019	27,889	(56,153)	37,501	430,254	428,689
Other PP&E (1)	97,409	4,694	56,765	7,701	151,167	150,818
Payments on account	25,444	19,976	(3,629)	21,806	19,985	
<b>TOTAL</b>	<b>842,250</b>	<b>60,261</b>	<b>(890)</b>	<b>78,391</b>	<b>823,230</b>	<b>786,965</b>

(1) Aircraft in the amount of EUR 56,502 thousand previously recognized under "machinery and equipment" was reclassified under "Other property, plant and equipment" to ensure consistency.

Accumulated depreciation	As of Dec. 31, 2003	Transfers	Charge for the year	Disposals	As of Dec. 31, 2004
Land	2,826	32	430	82	3,206
Buildings	109,993	398	10,191	10,930	109,652
Plant, machinery and equipment (1)	397,665	(27,782)	28,614	32,658	365,839
Other PP&E (1)	71,861	27,352	6,280	7,599	97,894
<b>TOTAL</b>	<b>582,345</b>	<b>0</b>	<b>45,515</b>	<b>51,269</b>	<b>576,591</b>

(1) Depreciation in the amount of EUR 27,352 thousand, corresponding to aircraft previously recognized under "machinery and equipment", was reclassified under "Other property, plant and equipment" to ensure consistency.



**4. INVESTMENTS IN SUBSIDIARIES AND AFFILIATES**
**A Detailed information on subsidiaries and affiliates**

(with an investment value of greater than 1% of the Company's common stock)

Company or group of companies	Common stock	Reserves	% of common stock held	Book value of investment		Outstanding loans and advances granted by the Company	Guarantees given by the Company	Revenue of the most recent fiscal year	Net income of the most recent fiscal year	Dividends received by the Company during the fiscal year
				Gross value	Impairment provisions					
Dassault Falcon Jet Teterboro N.J. 07608 U.S.A Ordinary shares	2,975	252,266	87.47%	3,068	0	0	9,997	1,333,056	38,407	0
Preferred shares	7,342		69.88%	4,699	0	0				
Sogitec Industries 4 Rue Monge 92158 Suresnes	4,578	17,362	99.65%	25,305	0	0	0	55,838	1,029	0
Dassault International (USA) Inc 205 Robin Road – Suite 300 Paramus N.J. 07652 U.S.A	3,708	22,376	100.00%	3,727	0	0	0	618	61	0
Dassault Falcon Service Aéroport Du Bourget 95500 Bonneuil en France	3,680	49,215	99.99%	59,453	0	0	0	143,650	2,582	0
Dassault Procurement Services Inc 205 Robin Road - Suite 300 Paramus N.J. 07652 U.S.A	73	18,455	100.00%	28,965	0	0	0	167,500	894	0

# Financial Statements

## B. Summary information on other subsidiaries and affiliates

Company or group of companies	% of common stock held	Gross book value of investment	Impairment provisions	Outstanding loans and advances granted by the Company	Dividends
<b>French companies</b>					
Dassault Assurances Courtage	99.78%	457	0	0	0
Dassault Aero Service	100.00%	106	0	0	0
Dassault- Reassurance	99.99%	10,132	0	0	0
Dassault Sagem Tactical U A V	50,00%	150	0	0	0
Eurotradia International	16.20%	3,099	0	0	357
Secbat	35.85%	11	0	0	0
Corse Composites Aeronautiques	24.81%	996	0	0	0
		<b>14,951</b>	<b>0</b>	<b>0</b>	<b>357</b>
<b>Foreign companies</b>					
Embraer (Brazil)	5.66%	75,575	3,521	0	2,654

## C. Information on affiliates

	As of December 31, 2004	
	Associated undertakings	Other investments
Investments	155,374	79,717
Loans	0	0
Advances and progress payments to suppliers	129,753	0
Accounts receivable – trade	230,716	0
Accounts receivable – other	0	0
Customer advances and progress payments on WIP	95,475	0
Accounts payable – trade	78,850	0
Other liabilities	0	0

## 5. INVENTORIES

	As of December 31, 2004			December 31,	December 31,
	Gross	Provisions	Net	2003 Net	2003 Pro forma Net
Raw materials and supplies	114,584	11,995	102,589	113,220	113,220
Work-in-progress (goods and services)	1,902,409	13,800	1,888,609	2,259,094	2,233,699
Finished and semi-finished goods	407,868	88,866	319,002	294,337	319,732
<b>TOTAL INVENTORIES</b>	<b>2,424,861</b>	<b>114,661</b>	<b>2,310,200</b>	<b>2,666,651</b>	<b>2,666,651</b>

In 2004, some semi-components, unassigned products and aircraft being completed have been reclassified in order to comply with the Group's accounting rules.

There was no capitalized interest included in inventories as of December 31, 2004.

## 6. MARKETABLE SECURITIES

The market value of these securities was EUR 2,223,459 thousand as of December 31, 2004 (EUR 2,057,911 thousand as of December 31, 2003).

## 7. OTHER RECEIVABLES, PREPAYMENTS AND ACCRUED INCOME

	As of December 31,	
	2004	2003
Other receivables	161,413	192,492
Prepaid expenses	223,688	162,778
Accrued income	11,075	9,132
<b>TOTAL</b>	<b>396,176</b>	<b>364,402</b>

## 8. COMMON STOCK

The common stock as of December 31, 2004 was made up of 10,125,897 shares of EUR 8 par value each.

## 9. REVALUATION RESERVE

	As of December 31,	
	2004	2003
Land	3,784	3,784
Investments	521	521
<b>TOTAL</b>	<b>4,305</b>	<b>4,305</b>

## 10. TAX-DRIVEN PROVISIONS

	As of December 31,	
	2004	2003
Investments	98,695	86,511
Price increases	52,709	49,087
Accelerated tax depreciation	13,770	8,212
Medium-term export credit	1,491	0
Capital gains rolled over	17	176
<b>TOTAL</b>	<b>166,682</b>	<b>143,986</b>

# Financial Statements

## 11. STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Prior to appropriation Dec. 31, 2004	After appropriation Dec. 31, 2004
Closing stockholders' equity as of December 31, 2003 before appropriation of earnings	1,382,553	1,382,553
Earnings prior to appropriation	233,348	
Appropriation of earnings to stockholders' equity as decided by the Annual General Meeting		155,378
Opening stockholders' equity as of January 1, 2004	1,615,901	1,537,931
Movements during the fiscal year:		
Movements in tax-driven provisions and asset subsidies		22,696
Other movements		(1,816)
Closing stockholders' equity as of December 31, 2004 before appropriation of earnings		1,558,811
Total movements in stockholders' equity during the fiscal year		20,880

## 12. PROVISIONS FOR CONTINGENCIES AND LOSSES

	Op. Balance	Other movements	Increase – Charge for the year	Releases during the year	Cl. Balance
Retirement severance payments, long service medals	142,000	0	25,900	17,100	150,800
CASA early retirement program and other	42,256	0	0	14,795	27,461
Warranties	161,060	0	23,485	26,818	157,727
Services and work to be performed	63,490	0	23,331	32,666	54,155
Foreign exchange losses	9,132	0	11,075	9,132	11,075
<b>TOTAL</b>	<b>417,938</b>	<b>0</b>	<b>83,791</b>	<b>100,511</b>	<b>401,218</b>

- **Provision for retirement severance payments and long service medals:** Retirement severance payment and long service medal commitments are calculated for all employees using the projected unit credit method. Outstanding commitments are provided in full.

Employment projections are weighted using French Insurance Code mortality rates and the Dassault Aviation employee turnover rate (this may vary according to age). The cost of retirement, pro rata to the employee's length of service at the period-end in relation to his total career expectancy, is retained. This cost is calculated by taking into account the average wage increase assumption of 3.5% per annum (for retired employees) and a discounting rate of 4.75% per annum.

- **Provisions for warranties:** warranty provisions are updated to reflect the fleet in service and contracts delivered.

- **CASA early retirement program and other:** this item mainly includes the financing of the period of inactivity of the employees involved in the CASA early retirement program (signed in 2002), up to retirement age.

**13. BORROWINGS**

Maturity of borrowings as of December 31, 2004 was as follows:

	Total	Credit institutions	Other
Within 1 year	36,654	19	36,635
Between 1 and 5 years	189,290	59	189,231
After 5 years	58	58	0
<b>TOTAL</b>	<b>226,002</b>	<b>136</b>	<b>225,866</b>

**14. OTHER LIABILITIES, ACCRUALS AND DEFERRED INCOME**

	Year ended December 31,	
	2004	2003
Tax and employee-related liabilities	197,489	159,053
Amounts payable in respect of PP&E and related accounts	8,391	24,631
Other miscellaneous liabilities	94,293	90,506
<b>TOTAL</b>	<b>300,173</b>	<b>271,190</b>

**15. SALES ANALYSIS**

	Year ended December 31,	
	2004	2003
<b>a) Analysis by class of goods or services</b>		
- Finished goods	2,423,906	2,229,364
- Services	386,437	572,046
<b>TOTAL</b>	<b>2,810,343</b>	<b>2,801,410</b>
<b>b) Analysis by geographical area</b>		
- France	527,878	576,113
- Export	2,282,465	2,225,297
<b>TOTAL</b>	<b>2,810,343</b>	<b>2,801,410</b>

**16. RESEARCH AND DEVELOPMENT EXPENSES**

As research and development expenses are internally financed, they are charged to income as incurred. The Company's research and development strategy and means of improvement are described in the Directors' report.

**17. DIRECTORS' COMPENSATION**

Compensation received by executive officers in respect of their duties in 2004 totaled EUR 1,742,186. A breakdown is presented in the Directors' Report.

# Financial Statements

## 18. NET FINANCIAL INCOME/(EXPENSE)

Year ended December 31,			
	2004	2003	
Investment income	3,014		1,656
Income from other long-term loans and assets	164		46
Other interest and similar income	4,515		3,100
Provision write-backs			
- Foreign exchange losses	9,132	7,997	
- Equity investments (1)	2	20,770	
	9,134		28,767
Net proceeds from the sale of marketable securities	5,054		15,565
Total	21,881		49,134
Amortization and provisions			
- Foreign exchange losses	(11,075)	(9,132)	
- Equity investments (2)	(3,520)	0	
	(14,595)		(9,132)
Interest and similar expenses	(10,360)		(11,274)
Net losses on the sale of marketable securities	0		0
Total	(24,955)		(20,406)
NET FINANCIAL INCOME/(EXPENSE)	(3,074)		28,728

(1) Including in 2003 the write-back of the provision for Embraer securities for EUR 20,711

(2) Including in 2004 the provision for Embraer securities for EUR 3,520

## 19. ANALYSIS OF CORPORATE INCOME TAX RELATING TO INCOME FROM ORDINARY ACTIVITIES AND NON-RECURRING INCOME

Year ended December 31, 2004	Income before tax	Corporate income tax
Income from ordinary activities	437,806	149,886
Non-recurring items (including profit-sharing and incentive schemes)	(109,456)	(48,176)
TOTAL	328,350	101,710

**20. ANALYSIS OF INCOME BEFORE TAX AND TAX-DRIVEN PROVISIONS**

	Year ended December 31,	
	2004	2003
Net income for the year	226,640	233,348
Corporate income tax	101,710	74,046
Income before tax	328,350	307,394
Movements in tax-driven provisions	10,512	15,147
- Accelerated tax depreciation	5,558	2,967
- Provision for price increases (stock relief)	3,622	12,180
- Provision for capital gains rolled over	(159)	0
- Provision for medium-term export credit	1,491	0
Income before tax-driven provisions and tax	338,862	322,541

**21. DEFERRED TAX**

	As of December 31,	
	2004	2003
• Tax-driven provisions		
- Provisions for price increases	52,709	49,087
- Medium-term export credit	1,491	0
- Accelerated tax depreciation	13,770	8,212
Taxable base	67,970	57,299
Contingent deferred tax liability	23,742	20,301
• Items not deductible in current year		
- Employee profit-sharing	75,547	70,971
- Retirement indemnities	150,800	142,000
- Other partly non-deductible items (clients, inventories, warranties and other)	92,223	113,801
Taxable base	318,570	326,772
Contingent deferred tax asset	111,277	115,775
Long-term capital losses	3,349	0

**22. AVERAGE NUMBER OF EMPLOYEES**

	Employed by the Company	Seconded to the Company
Management and executive grades	4,402	
Supervisory and technical grades	2,743	
Administrative employees	729	23
Production employees	926	151
TOTAL as of December 31, 2004	8,800	174
TOTAL as of December 31, 2003	8,857	59

# Financial Statements

## 23. SECURED DEBTS

	As of December 31,	
	2004	2003
Customer advances and progress payments (secured by bank guarantees)	1,186,231	1,474,128
<b>TOTAL</b>	<b>1,186,231</b>	<b>1,474,128</b>

## 24. OTHER COMMITMENTS

	As of December 31,	
	2004	2003
<ul style="list-style-type: none"> <li>Guarantees given in respect of <ul style="list-style-type: none"> <li>Subsidiaries</li> <li>Equity investments</li> <li>Other</li> </ul> </li> </ul>	9,997 0 0	14,073 0 0
<b>TOTAL</b>	<b>9,997</b>	<b>14,073</b>
<ul style="list-style-type: none"> <li>Bilateral commitments in respect of <ul style="list-style-type: none"> <li>Future billings to customers</li> <li>Future payments to sub-contractors or suppliers</li> <li>Fixed assets</li> </ul> </li> </ul>	9,021,379 1,342,279 20,475	8,471,523 1,397,496 28,220
<b>TOTAL</b>	<b>10,384,133</b>	<b>9,897,239</b>

## 25. FINANCIAL INSTRUMENTS: US DOLLAR FOREIGN EXCHANGE TRANSACTION PORTFOLIO

Market values represent the euro-equivalent, translated at closing rates of exchange, of amounts payable or receivable in the event of liquidation of the entire portfolio. They do not reflect actual results realizable on transaction maturity, as they do not take account of future price fluctuations. **The portfolio valuation is, therefore, provided for information purposes only.**

In valuing the portfolio, the assumed hedging rate did not generate any losses on commercial transactions hedged.

Mark-to-market valuation of the Forex portfolio	In USD'000	In EUR'000
<b>As of December 31, 2003</b>		
- Forex options	449,609	355,985
- Futures	465,689	368,717
<b>TOTAL</b>	<b>915,298</b>	<b>724,702</b>
<b>As of December 31, 2004</b>		
- Forex options	14,132	10,375
- Futures	950,810	698,047
<b>TOTAL</b>	<b>964,942</b>	<b>708,422</b>

## 26. ENVIRONMENTAL INFORMATION

Dassault Aviation recognized environmental investments in the amount of EUR 2,770 thousand and expenditure of around EUR 700 thousand in 2004 relating to risk, impact and regulatory compliance analyses. The Group did not need to recognize any environmental liabilities.



## Five-year financial summary

	2004	2003	2002	2001	2000
<b>1. Financial position at year-end</b>					
a. Common stock	81,007	81,007	81,007	81,007	81,007
b. Number of shares outstanding	10,125,897	10,125,897	10,125,897	10,125,897	10,125,897
<b>2. Summary of operating results</b>					
a. Net sales	2,810,343	2,801,410	2,760,715	2,671,357	2,690,458
b. Income before income tax, depreciation, amortization and provisions	375,732	445,677	606,487	520,232	381,286
c. Corporate income tax	101,710	74,046	156,613	174,360	135,207
d. Income after income tax, depreciation, amortization and provisions	226,640	233,348	250,358	195,043	186,768
e. Dividends paid	77,969	77,969	84,045	65,818	62,781
<b>3. Per share data (in euro)</b>					
a. Income after income tax but before depreciation, amortization and provisions	27.1	36.7	44.4	34.2	24.3
b. Income after income tax, depreciation, amortization and provisions	22.4	23	24.7	19.3	18.4
c. Dividends paid	7.7	7.7	8.3	6.5	6.2
<b>4. Personnel</b>					
a. Avg. number of employees during the year	8,800	8,857	8,816	8,473	8,560
b. Total payroll charges excluding taxes	385,616	382,500	369,221	361,494	366,774
c. Total payroll taxes and social security charges	188,100	186,826	182,458	175,964	182,472
<b>5. Employee profit-sharing</b>	<b>75,547</b>	<b>70,971</b>	<b>89,981</b>	<b>65,014</b>	<b>62,256</b>
<b>6. Incentive payments</b>	<b>14,000</b>	<b>14,000</b>	<b>14,000</b>	<b>14,000</b>	<b>13,720</b>

# Financial Statements

## Investment portfolio as of December 31, 2004

	Number of shares	Gross value	Impairment provisions	Net value
<b>SECURITIES HELD FOR SALE</b>				
Medium-term notes		0	0	0
Short- and medium-term government and savings bonds		10,976	0	10,976
Mutual funds		1,051,940	0	1,051,940
Cash management mutual funds (SICAV) and other		544,796	0	544,796
<b>TOTAL I</b>		<b>1,607,712</b>	<b>0</b>	<b>1,607,712</b>
<b>EQUITY INVESTMENTS</b>				
<b>Aerospace sector</b>				
Corse Composites Aeronautiques	184,139	996	0	996
Dassault Aero Service	5,000	106	0	106
Dassault Falcon Service	229,990	59,453	0	59,453
Dassault International	10,960	19,236	0	19,236
Dassault International (USA) Inc.	5,050	3,727	0	3,727
Dassault Falcon Jet – Ordinary shares	88,612	3,068	0	3,068
Dassault Falcon Jet – Preferred shares	69,877	4,699	0	4,699
Dassault Procurement Services	1,000	28,965	0	28,965
EMBRAER – Ordinary shares	13,744,186	75,575	3,520	72,055
EMBRAER – Preferred shares	1,953,132	0		
Eurotradia International	21,625	3,099	0	3,099
SECBAT	717	11	0	11
SOGITEC Industries	12,467	25,305	0	25,305
Dassault Sagem Tactical U A V	15,000	150	0	150
Other		112	0	112
<b>Other sectors</b>				
Dassault Assurances Courtage	9,983	457	0	457
Dassault – Reassurance	261,469	10,132	0	10,132
<b>TOTAL II</b>		<b>235,091</b>	<b>3,520</b>	<b>231,571</b>
<b>OTHER INVESTMENTS</b>				
Various 1% construction companies		9	1	8
SOFEMA	4,998	161	0	161
SOFRESA	6,000	3,924	0	3,924
<b>TOTAL III</b>		<b>4,094</b>	<b>1</b>	<b>4,093</b>
<b>GRAND TOTAL ( I+II+III)</b>		<b>1,846,897</b>	<b>3,521</b>	<b>1,843,376</b>

**AUDITORS' REPORT ON THE  
FINANCIAL STATEMENTS****Year ended December 31, 2004**

In accordance with our appointment as auditors at your Annual General Meeting, we hereby report to you for the year ended December 31, 2004 on:

- the audit of the accompanying financial statements of Dassault Aviation,
- the justification of assessments,
- the specific procedures and disclosures required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

**OPINION ON THE FINANCIAL STATEMENTS**

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position and the assets and liabilities of the Company as of December 31, 2004 and the results of its operations for the year then ended in accordance with French accounting regulations.

The Auditors

Mazars & Guérard

Manuela Baudoin-Revert

**JUSTIFICATION OF ASSESSMENTS**

Pursuant to the provisions of Article L.225-235 of the French Commercial Code governing the justification of our assessments, we draw your attention to the following:

The Company records profits from long-term contracts using the percentage of completion method.

In accordance with professional standards applicable to accounting estimates, and based on the information made available to date, we assessed the data and assumptions prepared by management, on which the estimated profits on completion of these contracts and any subsequent changes were based. We reviewed the calculations performed and compared the accounting estimates of previous years with the corresponding results.

These assessments were performed as part of our audit approach for the financial statements taken as a whole and contributed to the expression of the unqualified opinion in the first part of this report.

**SPECIFIC PROCEDURES AND DISCLOSURES**

We have also performed the other procedures required by law, in accordance with professional standards applicable in France.

We have no comment to make as to the fair presentation and consistency with the financial statements of the information given in the Directors' Report and in the documents addressed to stockholders with respect to the financial position and the financial statements.

Pursuant to the law, we have verified that the Directors' Report contains the appropriate disclosures as to the identity of and percentage interests and votes held by stockholders.

La Défense and Neuilly, February 18, 2005

Deloitte & Associés

Philippe Mouraret

*This is a free translation into English of the statutory auditors' reports issued in the French language and is provided solely for the convenience of English speaking readers. The statutory auditors' report includes for the information of the reader, as required under French law in any auditors' report, whether qualified or not, explanatory paragraphs separate from and presented below the audit opinion discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the company financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. Such report, together with the statutory auditors' report addressing financial reporting in management's report on internal control, should be read in conjunction and construed in accordance with French law and French auditing professional standards.*

# Financial Statements

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## **AUDITORS' REPORT ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS CONCERNING THE INTERNAL CONTROL PROCEDURES FOR THE PREPARATION AND TREATMENT OF FINANCIAL AND ACCOUNTING INFORMATION**

**Year ended December 31, 2004**

In our capacity as auditors of Dassault Aviation, and in accordance with the last paragraph of Article L.225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your company in accordance with Article L.225-37 of the French Commercial Code for the year ended December 31, 2004.

In his report, the Chairman reports on the conditions and organization of the Board's procedures and the internal control procedures implemented by the company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the

preparation and treatment of financial and accounting information.

We conducted our procedures in accordance with the professional guidelines applicable in France. Those guidelines require that we assess the fairness of the information set forth in the Chairman's report concerning the internal control procedures for the preparation and treatment of financial and accounting information. Specifically, these procedures consist in:

- taking due note of the objectives and the general organization of internal control, and the internal control procedures for the preparation and treatment of financial and accounting information presented in the Chairman's report;
- taking due note of the work underlying the information set forth in the report.

On the basis of our procedures, we have no comment to make on the information concerning the internal control procedures for the preparation and treatment of financial and accounting information, set forth in the report of the Chairman of the Board, prepared in accordance with Article L.225-37 of the French Commercial Code.

La Défense and Neuilly, February 18, 2005

The Auditors

Mazars & Guérard

Deloitte & Associés

Manuela Baudoin-Revert

Philippe Mouraret

*(This is a free translation of the original French text for information purposes only.)*

**AUDITORS' REPORT ON RELATED PARTY TRANSACTIONS****Year ended December 31, 2004**

In accordance with our appointment as auditors of your Company, we hereby report on related party transactions.

The terms of our engagement do not require us to identify such transactions, if any, but to communicate to you, based on information provided to us, the principal terms and conditions of those transactions brought to our attention, without expressing an opinion on their usefulness and appropriateness. It is your responsibility, pursuant to Article 92 of the decree of March 23, 1967, to assess the interest involved in respect of the conclusion of these transactions for the purpose of approving them.

**Transactions authorized during the fiscal year**

We hereby inform you that no transaction entered into during the year to which Article L.225-38 of the French Commercial Code would be applicable has been brought to our attention.

**Transactions approved in previous years with continuing effect**

In addition, pursuant to the decree of March 23, 1967, we have been advised that the following transactions entered into and approved in previous years have had continuing effect during the year.

WITH GROUPE INDUSTRIEL MARCEL DASSAULT (GIMD) AND TWO OF ITS REAL-ESTATE SUBSIDIARIES:

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Dassault Aviation continued to lease a number of premises, plots of land and industrial facilities from GIMD and two of its real-estate subsidiaries under

commercial leases drawn up in accordance with applicable law.

Rent paid to the aforementioned companies during fiscal 2004 totaled EUR 25,727,234,32, excluding VAT.

WITH DASSAULT FALCON JET:

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At the request of Dassault Falcon Jet, Dassault Aviation undertook to refund amounts paid on account by Dassault Falcon Jet customers, should Dassault Falcon Jet fail to meet its contractual obligations. These guarantees remain in force until delivery of the aircraft ordered.

As of December 31, 2004, the guarantees amounted to USD 13,617,000.

WITH AN INSURANCE FIRM FOR THE BENEFIT OF GROUP DIRECTORS AND EXECUTIVE OFFICERS:

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A Directors and Executive Officers Civil Liability insurance policy was taken out with an insurance firm. This policy covers all directors and executive officers of the Company and its subsidiaries up to an annual guaranteed limit of EUR 20,000,000, for an annual premium in 2004 of EUR 56,151.24 (including issue costs and insurance taxes).

We conducted our procedures in accordance with professional standards applicable in France. Those standards require that we agree the information provided to us with the relevant source documents.

La Défense and Neuilly, February 18, 2005

The Auditors

Mazars & Guérard

Deloitte & Associés

Manuela Baudoin-Revert

Philippe Mouraret

*This is a free translation of the original text in French for information purposes only.  
It should be understood that the agreements reported on are only those provided by the Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.*

## **ANNUAL GENERAL MEETING OF APRIL 20, 2005/DRAFT RESOLUTIONS**

### FIRST RESOLUTION

Stockholders, having taken due note of the Directors' Report, the Chairman's report governed by paragraph 6 of Article L 225-37 of the French Commercial Code, the Auditors' Report and their report governed by paragraph 5 of Article L 225-235 of the French Commercial Code, hereby approve, in full and without reservation, the financial statements for the year ended December 31, 2004 as presented and showing a net income of EUR 226,639,674.05, together with all transactions presented therein or summarized in these reports.

### SECOND RESOLUTION

Stockholders, having taken due note that the report on Group activities is included in the Directors' Report and having read the Auditors' Report on the consolidated financial statements, hereby approve, in full and without reservation, the consolidated financial statements for the year ended December 31, 2004 as presented and showing consolidated net income before minority interests of EUR 308,439,000 (including net income after minority interests of EUR 308,432,000), together with all transactions presented therein or summarized in these reports.

### THIRD RESOLUTION

Stockholders, having taken due note of the Auditors' Report on related party transactions, governed by Articles L 225-38 et seq. of the French Commercial Code, hereby approve the transactions presented in this report.

### FOURTH RESOLUTION

Stockholders hereby discharge Directors, fully and finally, from any liability arising from their management of the Company during the year ended December 31, 2004.

### FIFTH RESOLUTION

Stockholders, pursuant to the provisions relating to long-term capital gains in the amended French Finance Law for 2004, hereby decide to transfer the sums recorded in the special long-term capital gains reserve amounting to EUR 73,148,008.38 to an "ordinary reserve" account.

Stockholders, having taken due note that:

- a 2.5% exceptional tax, or EUR 1,816,200.21, in full discharge of any additional tax, is due and was recognized as of December 31, 2004 by debiting the retained earnings account, thus reducing the credit balance to EUR 1,205,989,313.40,
- pursuant to the amended French Finance Law for 2004, the aforementioned 2.5% tax must be deducted from the ordinary reserve account,

hereby decide to debit the ordinary reserve account by crediting to retained earnings the aforementioned sum of EUR 1,816,200.21, thus bringing the retained earnings credit balance to EUR 1,207,805,513.61.

### SIXTH RESOLUTION

Stockholders, in accordance with the proposal of the Board of Directors, hereby decide that the net income for the year of EUR 226,639,674.05 plus retained earnings of EUR 1,207,805,513.61

giving a total of EUR 1,434,445,187.66

be appropriated as follows:

- \* dividend distribution of EUR 77,969,406.90
- \* with the remaining balance to retained earnings EUR 1,356,475,780.76

As a result of the above appropriation, a dividend per share of EUR 7.70, conferring entitlement to a 50% tax allowance for individuals, shall be distributed.

The dividend shall fall due for payment in euro on May 2, 2005, to be paid directly for registered shares, and via authorized intermediaries for administrated or bearer shares.

Net dividends per share distributed in respect of the last three years and the corresponding tax credits are as follows:

<b>Fiscal year</b>	<b>Net dividend (in EUR)</b>	<b>Tax credit (in EUR)</b>	
2001	6.50	3.25	(1)
		0.975	(2)
2002	8.30	4.15	(1)
		0.83	(3)
2003	7.70	3.85	(1)
		0.77	(3)

- (1) individuals and corporate entities entitled to a tax credit of 50%
- (2) corporate entities entitled to a tax credit of 15%
- (3) corporate entities entitled to a tax credit of 10%

#### SEVENTH RESOLUTION

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Stockholder hereby take due note of the absorption of Deloitte Touche Tohmatsu by Deloitte Touche Tohmatsu – Audit , and hereby acknowledge that the principal statutory auditor mandate assigned to Deloitte Touche Tohmatsu shall be retained by Deloitte Touche Tohmatsu – Audit, whose new company name is "Deloitte & Associés".

#### EIGHTH RESOLUTION

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Stockholders, hereby confer full powers on the bearer of copies of or extracts from the minutes of this meeting in order to comply with all legal, publication or other formalities and, in particular, to register the Company's new principal statutory auditor, Deloitte & Associés, with the Trade and Companies Register.



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