LATÉCOÈRE

Press release

Toulouse, 6 March 2018

# 2017 RESULTS

- **Adjusted recurring operating income up 6.7%**
- **Materially positive recurring free cash flow from operations of €63.9m**
- **Ongoing roll-out of Transformation 2020**
- **Sustained new business**
- **2018 and 2019 outlook**

## INCOME STATEMENT IN ADJUSTED DATA

All of the figures in this press release are expressed in adjusted data unless otherwise indicated. Definitions for restatements and the table of reconciliation between the 2017 consolidated income statement and the 2017 adjusted income statement are given at the end of this press release. Comparisons are based on the figures reported for financial year 2016 for the ongoing activities.

| *In € million* | *2016* | *2017* |
|---|---|---|
| Revenues | 655.2 | 652.5 |
| Adjusted recurring operating income | 47.9 | 51.1 |
| *as % of revenue* | *7.3%* | *7.8%* |
| Non-recurring operating income and expenses | 4.4 | -10.0 |
| Adjusted operating income | 52.3 | 41.1 |
| Cost of net financial debt | -9.0 | -8.0 |
| Other financial income and expenses | -5.0 | -13.4 |
| Adjusted financial income | -14.0 | -21.4 |
| Adjusted net income | 30.5 | 3.0 |
| IFRS net income | 6.3 | 3.6 |

*Figures for 2016 have been restated for the sale of Latécoère Services in accordance with IFRS 5.*
*2017 financial statements approved by the Board of Directors at its meeting of 5 March 2017 - The IFRS audit procedures have been completed and the certification report is in the process of being issued.*

## Stable revenues

Latécoère Group 2017 revenues came in at €652.5 million, stable compared to 2016 revenues (-0.4% as reported figures and -0.1% at constant exchange rates).

Aerostructures 2017 revenues, down 3% (-2.6% at constant exchange rates), were boosted by large A320 and Boeing 787 volumes. The dip in revenues primarily arose from a slowdown in the A380, Embraer E1 and Falcon 7X/8X programs.

Meanwhile, Interconnection Systems 2017 revenues continued to grow (up 3.9% as reported and 4.1% at constant exchange rates). While Interconnection Systems was buoyed by increased deliveries for the A350 program and new projects, this was partially offset by lower volumes for the A380, 7X/8X and ATR regional jets.

The projection of the backlog of aircraft manufacturers represents for Latécoère a volume of activity of €2.2 billion (based on a €/$ 1.35 exchange rate), close to 4 years' revenues.

## Adjusted recurring operating income up 6.7%

2017 adjusted recurring operating income amounted to €51.1 million, up 6.7% from €47.9 million in 2016, boosted by the roll-out of Transformation 2020. As a result, the recurring operating margin came in at 7.8% of revenues, up 0.5 points.

The above earnings were principally driven by the following factors:

- Successful manufacturing transfers to best-cost regions (i.e. Morocco, Tunisia and Mexico),
- Ongoing productivity improvements on mature programs,
- Additional volumes from dynamic new business in Interconnection Systems.

Non-recurring expenses arising from Transformation 2020, including manufacturing plant transfer, amounted to €10 million, thereby reducing adjusted operating income to €41.1 million.

Adjusted net financial expense amounted to €21.4 million, impacted by adverse movements on exchange rates used to revalue balance sheet items.

Adjusted net income amounted to €3 million (compared to 2016 net income of €30.5 million that was boosted by a non-recurring gain on sale of Latécoère Services).

Under IFRS, net income came in at €3.6 million (2016: €6.3 million).

Despite the recent decrease of the US dollar, the Group continued to hedge the €/$ exchange rate and is hedged until year-end 2019 at a worst rate of approximately 1.16, and for 50% of 2020 exposure at around 1.22.

## Materially positive recurring free cash flow from operations

2017 free cash flow from operations amounted to €29.4 million and complied with commitments made. Net non-recurring expenses amounted to €34.5 million and primarily comprised outflows for the social plan (Plan de Sauvegarde de l'Emploi), expenditure on new manufacturing plants in Toulouse-Montredon and Bulgaria, and plant transfer costs. Consequently, recurring free cash flow from operations came to €63.9 million or 9.8% of revenues.

The free cash flow generated means the Group is free of debt and at 31 December 2017 posted net cash of €19.8 million compared to €1.8 million a year before.

## Roll-out of Transformation 2020

The Group is pursuing its Transformation 2020 planned steps and confirms they will result in lower costs.

With regard to manufacturing, early 2018 the first parts were produced in the Toulouse-Montredon "Plant of the Future" and the new Bulgarian manufacturing plant is due to start production in March 2018.

In addition to manufacturing plant transfers, the Group has also launched procurement streamlining and redesign-to-cost projects. Total cost reductions arising from Transformation 2020 are expected to exceed €30 million per year by 2020.

## Sustained new business and outlook

When Transformation 2020 is completed, the Group will have competitive state-of-the-art manufacturing facilities which will put it in an ideal position to pitch for new platforms currently under development.

In the short term, buoyed by sustained new business, Latécoère Group is confident that it can gain market share with new customers in 2018.

Further, the Group is building on its R&T capacity incorporating implementation of new programs and partnerships to develop new products and processes, in the domain of doors and structures and of the application of fiber optics to interconnection and cabin systems.

## 2018 and 2019 guidance

Based on latest forecasts from aircraft manufacturers and boosted by new business development that was initiated in 2017, 2018 Group revenues at constant exchange rates are expected to trend up.

2018 will primarily be devoted to pursuing Transformation 2020 and starting production at the new manufacturing plants. Gradually ramping up production until year-end will temporarily dampen 2018 Group operating earnings, mainly due to non-recurring items.

Free cash flow from operations will pay for a new capital expenditure phase, which will prepare the Group for the future without harming its strong balance sheet.

From 2019, the Group targets ongoing revenue growth with higher earnings and cash flow than in 2017.

Pierre Gadonneix, Chairman of the Latécoère Board of Directors, said: "*Our strong 2017 earnings, following on from good 2016 earnings, demonstrate that we have successfully turned the business around. As the second century of our history dawns, the name Latécoère again conjures up a strong firm, involved in the meeting big aerospace industry trends to come.*"

Yannick Assouad, Group Chief Executive Officer, said: *"We have achieved all our 2017 targets thanks to the fast roll-out of Transformation 2020. We remain focused on implementing our Transformation 2020 plan, which will yield high profitability on an ongoing basis. Sales efforts are starting to pay off, as demonstrated by the significant successes of our Interconnection Systems branch. This trend will continue and will be our second short-term priority. In the medium term, the aerospace industry will consolidate and Latécoère will be well placed to play an active part."*

## Next release: Q1 2018 revenues - April 24, 2018 after market close

### About Latécoère

*Latécoère is a tier 1 partner to major international aircraft manufacturers (Airbus, Embraer, Dassault, Boeing and Bombardier), in all segments of the aeronautical market (commercial, regional, corporate and military aircraft), specializing in two fields:*

- *Aerostructures Industrial (61% of total revenue): fuselage sections and doors.*
- *Interconnection Systems (39% of total revenue): onboard wiring, electrical harnesses and avionics bays.*

*At 31 December 2017, Latécoère employed 4,451 people in 10 different countries.*

*Latécoère, a French corporation (Société Anonyme) with capital of €188,789,804 divided into 94,394,902 shares with a par value of €2 per share, is listed on Euronext Paris - Compartment B. ISIN codes: FR0000032278 - Reuters: LAEP.PA - Bloomberg: LAT.FP*


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## Reconciliation between the consolidated income statement and the adjusted consolidated income statement

| *('000 EURO)* | Dec 31, 2017<br>IFRS data | Work-in-progress "Non recurring cost" | Reclassification of currency €/$ hedge | Faire value for derivative instruments | Dec 31, 2017<br>Adjusted data |
|---|---|---|---|---|---|
| **Revenue** | **652 481** | | | | **652 481** |
| **Recurring Operating Income (EBIT)** | **21 696** | **30 822** | **-1 406** | | **51 112** |
| *Operating Income / Revenue* | *3,3%* | | | | *7,8%* |
| Other non-recurring operating income and expenses | -9 995 | | | | -9 995 |
| **Operating income** | **11 701** | 30 822 | -1 406 | 0 | **41 116** |
| Net Cost of debt | -7 997 | | | | -7 997 |
| other financial result | 16 448 | 0 | 1 406 | -31 298 | -13 444 |
| **Financial Result** | **8 451** | **0** | **1 406** | **-31 298** | **-21 442** |
| Income tax | -16 578 | -10 612 | 0 | 10 548 | -16 641 |
| **Net Result for the period from continuing operations** | **3 574** | **20 210** | **0** | **-20 750** | **3 033** |
| Net Result for the period from discontinued operations | 0 | 0 | 0 | 0 | 0 |
| **NET RESULT FOR THE PERIOD** | **3 574** | **20 210** | **0** | **-20 750** | **3 033** |
| • Of which, Owners of the parent | 3 492 | 20 210 | 0 | -20 750 | 2 951 |
| • Of which, Non-controlling interests | 82 | | | | 82 |

| *('000 EURO)* | Dec 31, 2016<br>IFRS data | Work-in-progress "Non recurring cost" | Reclassification of currency €/$ hedge | Faire value for derivative instruments | Dec 31, 2016<br>Adjusted data |
|---|---|---|---|---|---|
| **Revenue** | **655 236** | | | | **655 236** |
| **Change in inventory: work-in-progress & finished goods** | **31 513** | **28 836** | **-12 448** | | **47 901** |
| *Raw material, Other Purchases & external charges* | *4,8%* | | | | *7,3%* |
| Taxes | 4 428 | | | | 4 428 |
| **Amortization** | **35 941** | 28 836 | -12 448 | 0 | **52 329** |
| Net Cost of debt | -8 986 | | | | -8 986 |
| other financial result | -25 444 | 0 | 12 448 | 7 951 | -5 044 |
| **Change in fair value of financial derivative instruments** | **-34 430** | **0** | **12 448** | **7 951** | **-14 031** |
| Income tax | 2 430 | -9 928 | 0 | -2 648 | -10 146 |
| **Net Result for the period from continuing operations** | **3 941** | **18 908** | **0** | **5 303** | **28 152** |
| Net Result for the period from discontinued operations | 2 381 | 0 | 0 | 0 | 2 381 |
| **NET RESULT FOR THE PERIOD** | **6 322** | **18 908** | **0** | **5 303** | **30 533** |
| • Of which, Owners of the parent | 6 033 | 18 908 | 0 | 5 303 | 30 245 |
| • Of which, Non-controlling interests | 288 | | | | 288 |

Restatements between consolidated and adjusted income statements derive from:

- changes in Non-Recurring work in progress (nets of reserves) pursuant to the application of IAS11 (construction contracts);
- the impact of gains and losses on €/$ hedging instruments recognized under financial expenses in accordance with IFRS even though related to operations;
- changes in mark to market of foreign exchange interest rate hedging instruments (recorded under the unrealized financial result caption); and
- corresponding tax impacts of such restatements (standard tax rate).

**IFRS 15 application:**

- The Group has analyzed its typologies of contracts regarding the application of IFRS 15.

- At this stage of analysis concerning "Design & Build" type contracts, the Group believes that the part of the contract relating to specific development will not generally constitute a specific performance obligation since development is inseparable from serial production. As a result, these development costs will continue to be capitalized.

- Moreover, the future standard will no longer allow to record on the first financial year's production costs (curve) on the balance sheet which are currently recycled to profit or loss in line with the actually observed decrease in costs. It will therefore alter the pattern of which margin is recognized on the different contracts. On the other hand, the pattern of recognition of the revenue on serial production currently recorded on delivery remains the same.

- At this stage, the Group expects a negative impact on its consolidated shareholders' equity at January 1, 2017 of approximately € 185 million (of which € 173 million relating to the curve) before taking into account the associated deferred taxes. At this stage, the estimated impact may evolve as the impact assessment calculations are finalized.

- The Group intends to apply this new standard with effect from January 1, 2018 based on the "full retrospective approach". Accordingly, opening equity at January 1, 2017 will be restated for the impacts of the first-time application of the new standard, and comparative data for 2017 presented in the 2018 consolidated financial statements will also be restated.

In summary, the implementation of IFRS 15 will not have a significant impact on the Group's annual revenue based on its current scope. In addition, there will be no impact on the related cash flows.