LATÉCOÈRE

Half-year report

2017

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1 HALF-YEAR REPORT

The consolidated financial statements of the Group have been approved by the Board of Directors on September 14, 2017.

Main events

- **Sharp increase in adjusted recurring operating income to €33.1 million**
- **Positive free cash flow from operations**
- **Ongoing deployment of the Transformation 2020 plan**
- **Strong sales momentum**

Adjusted income statement

All of the figures are expressed in adjusted data[1] unless otherwise indicated. Definitions for restatements and the table of reconciliation between the consolidated income statement and the adjusted income statement for the first half of 2017 are given in note 4 of condensed consolidated financial statements. Comparisons are based on the figures reported for financial year 2016 concerning continuing operations.

In € million	June 30, 2017	June 30, 2016(1)
Revenue	**348,8**	**342,5**
Recurring operating income adjusted	**33,1**	**24,4**
	9,5%	7,1%
Non-recurring operating income adjusted	-1,3	-31,3
Operating income adjusted	**31,8**	**-6,9**
Cost of net financial debt	-3,8	-4,0
Other financial income and expenses	-7,5	-4,8
Financial income adjusted	**-11,3**	**-8,8**
Net income adjusted	**11,4**	**-19,4**

(1) Figures for 2016 have been restated for the sale of Latécoère Services in accordance with IFRS 5.

[1] In order to better monitor and compare its operating and financial performance, the Group presents income statement adjusted of:
- *the change in non-recurring work-in-progress (net of provisions) resulting from the recognition of contracts in accordance with IAS11 (construction contracts); and*
- *the impact of foreign exchange gains and losses on hedging instruments € / $ recorded in financial income or expense but relating to operating cash flows.*

1.8% growth in activity (-1.2% at constant exchange rates)

Latécoère revenues stood at €348.8 million on 30 June 2017, up 1.8% in reported figures on the same period in 2016. The Group benefited from a positive currency effect linked to EUR/USD hedges. At constant exchange rates, Latécoère's revenues decreased by 1.2% in the first half of 2017, which is consistent with forecasts given beginning of the year.

The decrease in Aerostructures division revenues (2.7% at constant exchange rates) primarily reflects the slowdown in production for the Airbus A380 and the Falcon 7X/8X.

The Interconnection Systems division enjoyed an upturn in activity of 1.3% at constant exchange rates. The effects of the most recent acceleration of the A350 program were partially offset by lower volumes for the A380 and F7X/8X.

The projection of the backlog of aircraft manufacturers represents for Latécoère a volume of activity of € 2.3 billion (based on a EUR/USD exchange rate of 1.35), close to four years of revenues for the company.

Improvement in operating performance

Bolstered by the implementation of the Transformation 2020 plan, adjusted recurring operating income for the period increased sharply to €33.1 million compared with €24.4 million for the first six months of 2016. The Group's current operating margin increased 2.4 points to 9.5% of revenues.

Both divisions contributed to this positive performance, the primary drivers of which were:

- the successful transfer of production to "best cost" regions (Morocco, Tunisia and Mexico);
- the ongoing improvement in productivity for mature programs;
- the improvement in EUR/USD parity on which the Group was able to capitalize thanks to existing hedges.

With non-recurring expenses limited to €1.3 million, adjusted operating income came in at €31.8 million. Expenses essentially include the costs linked to the start to operations at the new factories in Montredon on the outskirts of Toulouse and Plovdiv in Bulgaria.

Adjusted financial income amounted to a negative €11.3 million, impacted by the unfavorable currency effect on the revaluation of balance sheet assets and liabilities.

Adjusted net income (Group share) amounted to a positive €11.4 million (vs. a negative €19.4 million on 30 June 2016).

Under IFRS, net income (Group share) amounted to €21.1 million (vs. a negative €17.5 million on 30 June 2016).

The Group maintained its EUR/USD currency hedging policy. Despite the recent weakening of the dollar, the Group is covered for rates as low as around 1.16 until the end of 2019.

Positive free cash flow from operations

Net of the Group's commitments in non-recurring expenses (€12.1 million), which primarily include outgoings linked to the Group's job protection plan (*Plan de Sauvegarde de l'Emploi*) and investments linked to the new factories, Latécoère's free cash flow from operations amounted to €13.6 million on 30 June 2017. As a result, recurring free cash flow from operations amounted to €25.7 million for the period, namely 7.4% of revenues.

The generation of free cash flow and deleveraging of Group debt resulted in a positive net cash position of €9.3 million on 30 June 2017.

Transformation 2020 plan update

Latécoère's Transformation 2020 plan is on schedule. Many key milestones linked to the transformation of the Group industrial model were met during the first half of 2017:

- 95% of job cuts in France were achieved through Latécoère's voluntary redundancy program or internal transfers;
- construction work began at the Plovdiv site in Bulgaria;

- the first stone was laid in July for the Group's new factory in Toulouse where production is scheduled to begin in early 2018. The new factory has also been recognized by French association, the Alliance Industrie du Futur (AIF), as a showcase factory for the industry of the future (*Vitrine Industrie du Futur*);
- the transfer of the assembly of B787 doors to Mexico is underway and will be completed before the end of 2017.

The disposal of the site on Rue de Périole in the center of Toulouse is also on track, and the official permits and waivers authorizing the completion of the operation in several stages between 2018 and 2025 have been obtained.

At the end of the Transformation 2020 plan, the Group will have the competitive and modern industrial capabilities needed to absorb additional volumes under optimized conditions.

Sales momentum and outlook

Latécoère's Interconnection Systems division's strong sales momentum continued in the first half of 2017.

New development began on a few contracts: EWIS systems for the MRJ90, landing gear wiring for Héroux-Devtek Inc., cabin systems and engine harnesses. Prototypes were delivered and series production began on various programs.

More recently, new contracts were signed with Boeing (B777 and B777X video surveillance system), Airbus Helicopters (cockpit panels) and Airbus Defense & Space (satellite harnesses).
These new markets are a clear reflection of the Group's ambition and the competitiveness of its industrial and technical platforms. At constant exchange rates, they will set the division firmly on track to growth in 2018-2020.

To secure its positioning on new development programs, Latécoère's Aerostructures division is optimizing its industrial resources and strengthening its ties with its principal contractors. Focused on the optimal execution of its order book, the Aerostructures teams have been researching a certain number of opportunities in "Build to Print" that will ensure a stable level of activity in the coming years.

At the same time, the Group is increasing its R&T capabilities and reinforcing its technological collaboration with its clients and suppliers to offer more innovative products and processes that meet market needs.

Targets for 2017

Latécoère confirm its 2017 roadmap: despite slightly lower revenues at constant exchange rates, the Group expects to see an improvement in adjusted recurring operating income and positive free cash flow.

Subsequent events

No significant events occurred after the closing.

Principal risks and uncertainties for the remaining six months of 2017

The principal risks and uncertainties for the remaining six months of 2017 relate to:

- the group's ability to meet the planned timetable of the Transformation 2020 plan and to implement the transfer of production;
- the respect of the rates announced by the aircraft manufacturers;
- change in the EUR/USD exchange rate.

Transactions with Related Parties

The transactions with related parties continued during H1 2017 on the basis of the same agreements as those applied at December 31, 2016.

Accounting Standards, Principles and Methods

The condensed consolidated financial statements at June 30, 2017 are established in compliance with IAS 34 "interim financial reporting".

The Group has chosen not to apply by anticipation the standards and interpretations that will enter into force after June 30, 2017. The accounting rules and methods applied to the condensed consolidated financial statements at June 30, 2017 are identical to those applied in the consolidated financial statements at December 31, 2016 with the exception of standards, amendments and interpretations which are required to be applied as from January 1, 2017.

The financial statements are presented '000 EURO rounded to the closest thousand euros.

They are prepared on the basis of historical cost, with the exception of the following assets and liabilities which are valued at fair value: derivative financial instruments, financial instruments held for trading, financial instruments and liabilities designated at fair value through profit and loss.

NEW IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE AS OF JANUARY 1, 2017

The following two amendments are still in the process of adoption by the European Union:
- Amendments to IAS 7, “Statement of Cash Flows” – Disclosure Initiative;
- Amendments to IAS 12, “Income Taxes” – Recognition of Deferred Tax Assets for Unrealized Losses.

NEW PUBLISHED IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS EARLY ADOPTED BY THE GROUP AS OF JANUARY 1, 2017

None.

NEW PUBLISHED IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE OR NOT EARLY ADOPTED BY THE GROUP

- IFRS 9, “Financial Instruments”;
- IFRS 15, “Revenue from Contracts with Customers”;
- IFRS 16, “Leases”;
- IFRS 17, “Insurance Contracts”;
- Amendments to IAS 28, “Investments in Associates and Joint Ventures”, and IFRS 10, Consolidated Financial Statements” - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture;
- Amendments to IAS 40, “Investment Property” – Transfers of Investment Property;
- Amendments to IFRS 2, “Share-based Payment” – Classification and Measurement of Share based Payment Transactions;
- Annual Improvements to IFRSs published in December 2016 (2014-2016 cycle);
- IFRIC 22, “Foreign Currency Transactions and Advance Consideration”;
- IFRIC 23, Uncertainty over Income Tax Treatments

With the exception of IFRS 9 and IFRS 15, which are effective for financial periods beginning on or after January 1, 2018, these new standards and amendements have not yet been adopted by the European Union and cannot therefore be applied ahead on their effective date even though early adoption is permitted by the texts concerned.

Impact estimate of new standards

IFRS 9 on the recognition and measurement of financial instruments, applicable to financial years beginning on or after 1 January 2018, has not been applied in advance. Nevertheless, the Group is currently analyzing the accounting treatment of financial instruments and will be finalized in the second half of 2017.

Regarding the application of IFRS 15, the Group is currently analyzing its accounting methods with regard to the future application of IFRS 15. This analysis focuses on the typology of contracts within the Group.

Indeed, for “multiple elements” contracts which include development work, sales of goods and sales services (in particular "Design & Build" contracts), performance obligations should be identified within each contract. The turnover of each performance obligation will be recognized based on the transfer of control.

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 years 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 should not be changed.

At this stage, the Group expects a negative impact on its consolidated shareholders' equity at January 1, 2017 of approximately € 170 million before taking into account the associated deferred taxes. This impact includes estimates to date and may change as part of the finalization of the contract analysis and the ongoing calculation of contractual impacts.

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 is not expected to 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.

2 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2017

2.1 Consolidated Statement of financial position

('000 EURO)	Notes	June 30, 2017	Dec 31, 2016
Other intangible assets	5	12 420	12 894
Tangible assets	5	77 651	76 110
Other financial assets		3 095	2 430
Deferred tax assets	15.2	11 510	27 516
Financial derivative instruments	9.1	12 975	0
Other non-current assets		153	156
TOTAL NON-CURRENT ASSETS		**117 805**	**119 107**
Inventories	6.1	379 975	391 051
Accounts receivable	8	174 290	169 732
Tax receivable	15.1	18 565	22 787
Financial derivative instruments	9.1	6 642	449
Other current assets		2 500	1 808
Cash & Cash Equivalents		146 982	147 444
TOTAL CURRENT ASSETS		**728 954**	**733 271**
TOTAL ASSETS		**846 758**	**852 378**

('000 EURO)	Notes	June 30, 2017	Dec 31, 2016
Share capital	10.2	188 399	188 087
Share premium		214 515	214 408
Treasury stock		1 528	1 575
Other reserves		3 086	-3 631
Derivatives future cash flow hedges		9 713	-5 918
Group net result		20 831	6 033
EQUITY ATTRIBUTABLE TO PARENT OWNERS		**438 072**	**400 554**
Non-controlling interests		-740	-925
TOTAL EQUITY		**437 332**	**399 629**
Loans and bank borrowings	13.2	74 797	78 225
Refundable Advances		42 372	42 614
Employee benefits	12	13 990	13 521
Non-current provisions	11	12 579	21 876
Deferred tax liabilities	15.2	1 209	527
Financial derivative instruments	9.1	2 044	22 562
Other non-current liabilities		19 690	18 332
TOTAL NON-CURRENT LIABILITIES		**166 681**	**197 657**
Loans and bank borrowings (less than 1 year)	13.2	62 888	67 420
Refundable Advances		1 038	1 294
Current provisions	11	17 459	13 786
Accounts payable	14	156 599	151 763
Income tax liabilities		3 565	1 006
Other current liabilities		1 141	3 229
Financial derivative instruments	9.1	55	16 594
TOTAL CURRENT LIABILITIES		**242 745**	**255 092**
TOTAL LIABILITIES		**409 426**	**452 749**
TOTAL EQUITY & LIABILITIES		**846 758**	**852 378**

2.2 Consolidated Income Statement

('000 EURO)	Notes	June 30, 2017	June 30, 2016
Revenue	16	348 788	342 528
Other operating revenue		233	102
Change in inventory: work-in-progress & finished goods		-17 352	-4 694
Raw material, Other Purchases & external charges	17	-211 113	-217 449
Personnel expenses		-98 330	-91 231
Taxes		-4 960	-5 645
Amortization		-7 088	-6 677
Net operating provisions charge		-10	443
Depreciation of current assets		727	-235
Other operating income	18	5 607	5 903
Other operating expenses		-728	-2 171
RECURRING OPERATING INCOME		**15 773**	**20 874**
Operating Income / Sales		*4,52%*	*6,09%*
Other non-recurring operating income and expenses	19	-1 330	-31 332
OPERATING INCOME		**14 443**	**-10 457**
Net Cost of debt		-3 843	-4 039
Foreign Exchange gains/losses realized		-4 586	-9 394
Other financial incomes and expenses realized		-1 211	-2 202
Realized financial result		**-9 640**	**-15 635**
Change in fair value of financial derivative instruments		32 996	11 142
Other financial incomes and expenses unrealized		-3 076	647
Unrealized financial result		**29 920**	**11 788**
FINANCIAL RESULT	20	**20 280**	**-3 846**
Income tax	21	-13 659	-4 133
Net Result for the period from continuing operations		**21 064**	**-18 437**
Net Result for the period from discontinued operations		0	911
NET RESULT FOR THE PERIOD		**21 064**	**-17 526**
• Of which, Owners of the parent		20 831	-17 712
• Of which, Non-controlling interests		233	186
Net Result for the period from continuing operations			
• Of which, Owners of the parent		20 831	-18 217
• Of which, Non-controlling interests		233	-220
Net Result for the period from discontinued operations			
• Of which, Owners of the parent		0	505
• Of which, Non-controlling interests		0	406
Weighted average number of shares		**94 166 559**	**93 718 574**
NET RESULT (Group share) FOR THE PERIOD PER SHARE			
• Earnings per share	10.2	0,22	-0,19
• Diluted earnings per share	10.2	0,22	-0,18
NET RESULT (Group share) FOR THE PERIOD PER SHARE			
• Earnings per share continuing operations	10.2	0,22	-0,20
• Diluted earnings per share continuing operations	10.2	0,22	-0,19
NET RESULT (Group share) FOR THE PERIOD PER SHARE			
• Earnings per share discontinued operations	10.2	0,00	0,01
• Diluted earnings per share discontinued operations	10.2	0,00	0,01

2.3 Consolidated Statement of comprehensive income

('000 EURO)	June 30, 2017	June 30, 2016
NET RESULT FOR THE PERIOD (1)	**21 064**	**-17 526**
OTHER COMPREHENSIVE INCOME:		
- Items that will not be reclassified subsequently to profit or loss:		
Commitments to purchase minority interests	0	119
Actuarial gain or loss for year relating retirements benefits	0	0
Other	1 816	1 277
Income tax related to items that will not be reclassified to profit or loss	0	0
- Items that will be reclassified subsequently to profit or loss:		
Translation differences	-1 444	2 373
Financial instruments (cash flow hedging) : change in fair value and transfer in profit and loss	23 182	7 660
Income tax related to items that may be reclassified to profit or loss	-7 550	-2 697
TOTAL OTHER COMPREHENSIVE INCOME (2):	**16 004**	**8 732**
Of which attributable to discontinued operations	*0*	*101*
TOTAL COMPREHENSIVE INCOME (1+2)	**37 069**	**-8 794**
Of which, Owners of the parent	36 884	-8 990
Of which, Non-controlling interests	185	194
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE OWNERS OF THE PARENT ARISES FROM:	37 069	**-8 990**
- Continuing operations	36 884	-9 125
- Discontinued operations	0	135
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS ARISES FROM:	**185**	**194**
- Continuing operations	185	228
- Discontinued operations	0	-34

2.4 Consolidated Statement of Cash-Flows

('000 EURO)	June 30, 2017	June 30, 2016*
Consolidated net result	21 064	-17 526
Adjustments		
Elim. of depreciation and provisions	2 066	41 214
Cancel. change in fair value	-32 996	-11 082
Elim. of profit / loss on disposal and dilution profit and loss	882	78
Elim. of dividend income	-3	-3
Other revenues & exp. without effect on cash flow	1 278	1 871
Net expense arising from share-based paiements	263	473
Cash flows before cost of debt and taxes	**-7 446**	**15 025**
Elim. of income taxes	13 659	4 974
Elim. of finance costs	3 843	4 075
Cash flows before cost of debt and taxes	**10 055**	**24 074**
Effect of changes in inventories	11 951	6 944
Effect of changes in trade receivables	-844	-16 141
Effect of changes in trade payables	2 735	6 955
Income tax paid	-667	-3 838
Cash flows from (used in) operating activities	**23 230**	**17 994**
*Of which operating flows provided / (used) by discontinued operations***	*0*	*-3 824*
Purchase of tangible and intangible assets	-9 647	-8 368
Purchase of financial assets	-35	-20
Increase (decrease) in loans and advances made	-621	-129
Proceeds from sale of tangible and intangible assets	49	9
Dividends received	3	3
Cash flows from (used in) investing activities	**-10 251**	**-8 505**
*Of which investing flows provided / (used) by discontinued operations***	*0*	*-1 708*
Proceeds from issue of shares	418	2 286
Disposal (purchase) of treasury shares (net)	-46	3
Proceeds from borrowings	0	295
Repayments of borrowings	-4 838	-788
Net financial interest paid	-4 120	-2 400
Dividends paid to minority interests	0	-319
Change in refundable advances	-497	1 395
Other flows from (used in) financing activities	-4 168	7 874
Cash flows from (used in) financing activities	**-13 251**	**8 346**
*Of which financing flows provided / (used) by discontinued operations***	*0*	*-765*
Effects of exchange rate changes	-198	124
Increase (decrease) in cash and cash equivalents	**-471**	**17 959**

** June 30, 2016 includes discontinued operations*
*** corresponds exclusively to third-parties flows*

2.5 Consolidated Statement of changes in Equity

En milliers d'euros	Capital émis	Réserves liées au capital	Titres auto-détenus	Réserves et résultats consolidés	Instruments dérivés de couvertures de flux de trésorerie futurs	Ecarts de conversion	**Capital émis et réserves attribuables aux propriétaires de la société mère**	Participations ne donnant pas le contrôle	**TOTAL**
Dec 31, 2015	**186 694**	**213 607**	**1 586**	**-155**	**-7 251**	**-8 408**	**386 074**	**2 834**	**388 907**
Capital variations	1 393	801					2 194		2 194
Share-based payments							0		0
Transactions on treasury stock			3				3		3
Dividends				0			0	-319	-319
Transactions with owners	**1 393**	**801**	**3**	**0**	**0**	**0**	**2 197**	**-319**	**1 879**
Net result for the period (1)				**-17 712**			**-17 712**	**186**	**-17 526**
Financial instruments (cash flow hedging): change in fair value and transfer in profit and loss					4 962		4 962		4 962
Financial instruments: Translation differences					-1		-1		-1
Translation differences: change and transfer in profit and loss						2 368	2 368	5	2 373
Other variations				1 393			1 393	3	1 396
Other comprehensive income (2)	**0**	**0**	**0**	**1 393**	**4 961**	**2 368**	**8 722**	**8**	**8 731**
TOTAL COMPREHENSIVE INCOME (1)+(2)	**0**	**0**	**0**	**-16 319**	**4 961**	**2 368**	**-8 990**	**194**	**-8 795**
June 30, 2016	**188 087**	**214 408**	**1 589**	**-16 474**	**-2 289**	**-6 040**	**379 281**	**2 710**	**381 990**
Dec 31, 2016	**188 087**	**214 408**	**1 575**	**7 562**	**-5 918**	**-5 160**	**400 554**	**-925**	**399 629**
Capital variations	311	107		0			418		418
Share-based payments				263			263		263
Transactions on treasury stock			-46				-46		-46
Dividends							0	0	0
Transactions with owners	**311**	**107**	**-46**	**263**	**0**	**0**	**634**	**0**	**634**
Net result for the period (1)				**20 831**			**20 831**	**233**	**21 064**
Financial instruments (cash flow hedging): change in fair value and transfer in profit and loss					15 632		15 632		15 632
Financial instruments: Translation differences					-22		-22		-22
Translation differences: change and transfer in profit and loss						-1 373	-1 373	-48	-1 422
Autres variations[1]				1 816			1 816	0	1 816
Other comprehensive income (2)	**0**	**0**	**0**	**1 816**	**15 610**	**-1 373**	**16 053**	**-48**	**16 004**
TOTAL COMPREHENSIVE INCOME (1)+(2)	**0**	**0**	**0**	**22 647**	**15 610**	**-1 373**	**36 884**	**185**	**37 069**
June 30, 2017	**188 398**	**214 514**	**1 527**	**30 471**	**9 690**	**-6 534**	**438 072**	**-740**	**437 332**

[1] Of which € 1,8 Million of deferred tax linked to an error correction on opening (basis and rate).

2.6 Notes to the Condensed Consolidated Financial Statements

GENERAL INFORMATION

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INFORMATION RELATIVE TO THE GROUP

LATECOERE is a French corporation ("société anonyme") headquartered in Toulouse, France.

The consolidated financial statements of the Latécoère Group for the half year ended on June 30, 2017, include the parent company and its subsidiaries (the whole being designated as "the Group") and the Group's share in associates.

The consolidated financial statements of the Group have been approved by the Board of Directors on September 14th, 2017.

NOTE 1 MAIN EVENTS

The 2020 Transformation plan, launched in June 2016, continues its deployment as planned.

On social aspects, it was achieved by the closure of the Tarbes site and the finalization of the restructuring plan ("Plan de Sauvegarde de l'Emploi", or "PSE") of Latecoere SA, which was concluded with 95% of the workforce reductions taking place via voluntary departures or internal reclassifications.

From an industrial point of view, construction work on the two new plants planned for the Transformation plan began in Toulouse and Bulgaria.

NOTE 2 ACCOUNTING POLICIES

2.1 Basis of Preparation of the Financial Statements

The condensed consolidated financial statements at June 30, 2017 are established in compliance with IAS 34 "interim financial reporting". For condensed accounts, they do not include all the information required by IFRS and should be read in conjunction with the Group's financial statements for the year ended December 31, 2016.

The Group has chosen not to apply by anticipation the standards and interpretations that will enter into force after June 30, 2017. The accounting rules and methods applied to the condensed consolidated financial statements at June 30, 2017 are identical to those applied in the consolidated financial statements at December 31, 2016 with the exception of standards, amendments and interpretations which are required to be applied as from January 1, 2017.

The financial statements are presented '000 EURO rounded to the closest thousand euros.

They are prepared on the basis of historical cost, with the exception of the following assets and liabilities which are valued at fair value: derivative financial instruments, financial instruments held for trading, financial instruments and liabilities designated at fair value through profit and loss.

2.2 Application of applicable standards, amendments and interpretations for the financial statements

NEW IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE AS OF JANUARY 1, 2017

The following two amendments are still in the process of adoption by the European Union:

- Amendments to IAS 7, “Statement of Cash Flows” – Disclosure Initiative;
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- Amendments to IAS 28, “Investments in Associates and Joint Ventures”, and IFRS 10, Consolidated Financial Statements” - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture;
- Amendments to IAS 40, “Investment Property” – Transfers of Investment Property;
- Amendments to IFRS 2, “Share-based Payment” – Classification and Measurement of Share based Payment Transactions;
- Annual Improvements to IFRSs published in December 2016 (2014-2016 cycle);
- IFRIC 22, “Foreign Currency Transactions and Advance Consideration”;
- IFRIC 23, Uncertainty over Income Tax Treatments

With the exception of IFRS 9 and IFRS 15, which are effective for financial periods beginning on or after January 1, 2018, these new standards and amendements have not yet been adopted by the European Union and cannot therefore be applied ahead on their effective date even though early adoption is permitted by the texts concerned.

Impact estimate of new standards

IFRS 9 on the recognition and measurement of financial instruments, applicable to financial years beginning on or after 1 January 2018, has not been applied in advance. Nevertheless, the Group is currently analyzing the accounting treatment of financial instruments and will be finalized in the second half of 2017.

Regarding the application of IFRS 15, the Group is currently analyzing its accounting methods with regard to the future application of IFRS 15. This analysis focuses on the typology of contracts within the Group.

Indeed, for "multiple elements" contracts which include development work, sales of goods and sales services (in particular "Design & Build" contracts), performance obligations should be identified within each contract. The turnover of each performance obligation will be recognized based on the transfer of control.

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 years 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 should not be changed.

At this stage, the Group expects a negative impact on its consolidated shareholders' equity at January 1, 2017 of approximately € 170 million before taking into account the associated deferred taxes. This impact includes estimates to date and may change as part of the finalization of the contract analysis and the ongoing calculation of contractual impacts.

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 is not expected to 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.

2.3 Use of estimates and assumptions

The preparation of financial statements requires that the Group Management make estimates and assumptions which have an impact on the application of accounting methods as well as on amounts of assets and liabilities, income and expenses. The estimates and the underlying assumptions have been made from past experience and other factors considered as reasonable in view of the circumstances. They serve thus as the basis for the exercise of judgment necessary for the determination of the carrying value of assets and liabilities that cannot be obtained directly from other sources. Actual values may differ from estimated values.

The Group Management reviews its estimates and appreciations regularly on the basis of its past experience as well as other factors deemed reasonable, which constitutes the grounds for its appreciations of the carrying value of assets and liabilities. The impact of changes in accounting estimates is recognized during the period of the change if it affects only that period or during the course of the period of the change and subsequent periods if these are also affected by the change.

The judgments made by the Group Management having a significant impact on financial statements and estimates having an important risk of variations during the period, concern mainly the estimated margin on construction contracts (Note 6).

The estimate of the variation of employee benefits has been extrapolated on the basis of the information at December 31, 2016.

At June 30, 2017, the estimates and the assumptions retained for the condensed consolidated financial statements were determined based on the elements in the Group's possession at the closing date mainly concerning :

- commercial information (order book and rates) communicated by the various aircraft manufacturers and information from the prospects of the aeronautical market,
- the outlook for the dollar in the long term.

NOTE 3 CONSOLIDATION SCOPE

As the Group has, directly or indirectly, exclusive control in all Group companies subsidiaries are consolidated by full consolidation. All the companies forming part of the consolidation scope close their financial statements on December 31.

Company name	Country	Control %	Interest %	Consolidation method
Aerostructures:				
LATECOERE	France		**Parent company**	
LATECOERE do BRASIL	Brazil	100%	100%	Full consolidation
LATECOERE CZECH REPUBLIC s.r.o	Czech Republic	100%	100%	Full consolidation
LETOV LV a.s.	Czech Republic	100%	100%	Full consolidation
LATECOERE INC.	USA	100%	100%	Full consolidation
LATECOERE DEVELOPPEMENT	France	100%	100%	Full consolidation
LATECOERE BIENES RAICES	Mexico	100%	100%	Full consolidation
LATECOERE Mexico	Mexico	100%	0%	Full consolidation
LATECOERE Mexico Services	Mexico	100%	0%	Full consolidation
Interconnection Systems:				
LATelec	France	100%	100%	Full consolidation
LATelec GmbH	Germany	100%	100%	Full consolidation
SEA LATelec	Tunisia	100%	100%	Full consolidation
LATelec Mexico	Mexico	100%	0%	Full consolidation
LATelec Mexico Services	Mexico	100%	0%	Full consolidation
LATsima	Morocco	100%	100%	Full consolidation

For information, there has been no change in scope during the period.

NOTE 4 OPERATIONAL SEGMENTS

The sectors or segments presented by the Group are distinct components of the Group which are committed in the supply of goods or dependent services (business segments), and that are exposed to risks and to a profitability different from those of other segments.

In accordance with IFRS 8, the information presented by segment is based on the Group's internal reporting, examined regularly by Group Management.

The accounting methods used by the Group for the establishment of the information presented by operational segment in accordance with IFRS 8 are identical to those used by the Group for the establishment of its consolidated financial statements under IFRS standards.

Measurement of economic performance

The Group uses **Adjusted Recurring Operating Income (Adjusted Recurring EBIT)** as its main alternative performance indicator. This indicator is intended to present the level of operational performance of the branches of the Group.

Consequently, since July 1, 2015, the Group has decided to integrate into **Adjusted Operating Income (Adjusted EBIT)** the whole of exchange gains and losses made on euro/dollar hedging and this with the goal of reflecting in Adjusted EBIT the real economic substance of the euro/dollar exchange rate hedging strategy.

The Adjusted Recurring Operating Income (Adjusted Recurring EBIT) represents at the consolidated accounts level the operating result (EBIT) of the Group adjusted for the change of non-recurring work-in-progress net of provisions, integrating all of the gains and losses realized on the euro/dollar hedging.

For similar reasons and to enable its monitoring and comparison by the reader, the Group presents **an Adjusted Net Result**. It corresponds to the net result, adjusted for the variation of non-recurring work-in-progress net of provisions and for the fair value variation of foreign exchange and interest rate derivative instruments (accounted for in unrealized gains and losses) net of corresponding tax effects

Finally, for the Group the **Net Debt** corresponds to current and non-current loans and bank borrowings and cash and cash equivalents.

Adjusted Income Statement by operational segments

('000 EURO) 06.30.2017	Aerostructures	%	Interconnection Systems	%	Discontinued operations	Intersegment eliminations	Total
Revenue	222 641	64%	138 194	40%		-12 048	348 788
Inter-segment revenue	-10 861	90%	-1 187	10%		12 048	0
Consolidated revenue	**211 780**	**61%**	**137 008**	**39%**		**0**	**348 788**
Adjusted recurring operating income	**18 383**	**56%**	**14 587**	**44%**		**149**	**33 119**
Adjusted recurring operating income / revenue	*8,7%*		*10,6%*				*9,5%*
	-1 282		-48				**-1 330**
Ajusted realized financial result	**-8 086**		**-149**			**0**	**-8 234**
Ajusted unrealized financial result	**-2 322**		**-754**			**0**	**-3 076**
Income tax and miscellaneous	**-5 037**		**-3 993**				**-9 030**
Ajusted net result	**1 656**		**9 643**		**0**	**149**	**11 448**

('000 EURO) 06.30.2016	Aerostructures [1]	%	Interconnection Systems [1]	%	Discontinued operations	Intersegment eliminations	Total
Revenue	224 691	68%	134 260	37%		-16 424	342 528
Inter-segment revenue	-13 962	85%	-2 462	15%		16 424	0
Consolidated revenue	**210 729**	**64%**	**131 799**	**36%**		**0**	**342 528**
Adjusted recurring operating income	**13 093**	**53%**	**11 035**	**47%**		**302**	**24 430**
Adjusted recurring operating income / revenue	*6,2%*		*8,4%*				*7,1%*
	-27 500		-3 832				-31 331
Ajusted realized financial result	**-8 460**	**-35%**	**-998**	**-4%**		**0**	**-9 458**
Ajusted unrealized financial result	**356**	**1%**	**291**	**1%**		**0**	**646**
Income tax and miscellaneous	**-187**		**-3 461**				**-3 648**
Ajusted net result	**-22 698**		**3 036**		**950**	**302**	**-18 409**

[1] Since 2017, the Equipment & Systems business has been transferred to the Interconnection Systems segment. This activity, previously attached to the Aerostructures division, was therefore linked to the Interconnection Systems branch as of 30 June 2016 in order to establish comparative data.

Balance sheet by operational segments

('000 EURO) 06.30.2017	Aerostructures	%	Interconnection Systems	%	Intersegment eliminations	Total
Intangible fixed assets	10 409	84%	2 011	16%	0	12 420
Tangible fixed assets	63 556	82%	14 096	18%	0	77 651
Other financial assets	35 564		194		-32 662	3 095
TOTAL ASSETS	**109 528**	**118%**	**16 301**	**17%**	**-32 662**	**93 167**
Net investments	-935	83%	-185	17%	0	-1 121
Inventories	295 360	78%	85 037	22%	-422	379 975
Trade and other receivables	123 238	71%	54 112	31%	-3 061	174 290
Net debt	-34 302	369%	50 067	-539%	-25 062	-9 297
Accounts payable	114 190	73%	45 318	29%	-2 909	156 599
Total Assets	**718 142**	**85%**	**206 228**	**24%**	**-77 611**	**846 758**

('000 EURO) 12.31.2016	Aerostructures	%	Interconnection Systems	%	Intersegment eliminations	Total
Intangible fixed assets	10 702	83%	2 192	17%	0	12 894
Goodwill	0	0%	0	0%	0	0
Tangible fixed assets	61 521	81%	14 589	19%	0	76 110
Other financial assets	34 841		253		-32 664	2 430
TOTAL ASSETS	**107 065**	**117%**	**17 034**	**19%**	**-32 664**	**91 434**
Net investments	9 701	70%	4 125	30%	0	13 826
Inventories	301 714	77%	89 907	23%	-570	391 051
Trade and other receivables	119 391	70%	54 337	32%	-3 996	169 732
Net debt	-32 858	1827%	56 123	-3120%	-25 064	-1 799
Accounts payable	117 123	77%	38 481	25%	-3 841	151 763
Total Assets	**722 123**	**85%**	**206 173**	**24%**	**-75 918**	**852 378**

The elimination of inter-segments from "Other financial assets" and from net debt corresponds primarily to loans of subsidiaries related to the arrangement of the syndicated loan at the Latécoère Company level.

Reconciliation of the consolidated income statement to the adjusted income statement

('000 EURO)	June 30, 2017 IFRS data	Work-in-progress "Non recurring cost"	Reclassification of currency €/$ hedge	Faire value for derivative instruments	June 30, 2017 Adjusted data
Revenue	348 788				348 788
Other operating revenue	233				233
Change in inventory: work-in-progress & finished goods	-17 352	18 646			1 294
Raw material, Other Purchases & external charges	-211 113				-211 113
Personnel expenses	-98 330				-98 330
Taxes	-4 960				-4 960
Amortization	-7 088				-7 088
Net operating provisions charge	-10				-10
Depreciation of current assets	727	105			832
Other operating income	5 607				5 607
Other operating expenses	-728		-1 406		-2 134
Recurring Operating Income (EBIT)	**15 773**	**18 751**	**-1 406**	**0**	**33 119**
Operating Income / Revenue	*4,5%*				*9,5%*
Other non-recurring operating income and expenses	-1 330				-1 330
Operating income	**14 443**	**18 751**	**-1 406**	**0**	**31 788**
Financial Result	**20 280**	**0**	**1 406**	**-32 996**	**-11 310**
					0
Result from associates	0				0
Income tax	-13 659	-6 456		11 084	-9 030
Net Result for the period from continuing operations	21 064	12 295	0	-21 912	11 448
Net Result for the period from discontinued operations	0				0
NET RESULT FOR THE PERIOD	**21 064**	**12 295**	**0**	**-21 912**	**11 448**
• Of which, Owners of the parent	20 831	12 295	0	-21 912	11 215
• Of which, Non-controlling interests	233	0	0	0	233

('000 EURO)	June 30, 2016 IFRS data	Work-in-progress "Non recurring cost"	Reclassification of currency €/$ hedge	Faire value for derivative instruments	June 30, 2016 Adjusted data
Revenue	342 528				342 528
Other operating revenue	102				102
Change in inventory: work-in-progress & finished goods	-4 694	10 225			5 530
Raw material, Other Purchases & external charges	-217 449				-217 449
Personnel expenses	-91 231				-91 231
Taxes	-5 645				-5 645
Amortization	-6 677				-6 677
Net operating provisions charge	443				443
Depreciation of current assets	-235	-491			-726
Other operating income	5 903				5 903
Other operating expenses	-2 171		-6 177		-8 348
Recurring Operating Income (EBIT)	**20 874**	**9 733**	**-6 177**	**0**	**24 430**
Operating Income / Revenue	*6,1%*				*7,1%*
Other non-recurring operating income and expenses	-31 332				-31 332
Operating income	**-10 457**	9 733	-6 177	0	-6 901
Financial Result	**-3 846**	**0**	**6 177**	**-11 142**	**-8 811**
					0
Result from associates	0				0
Income tax	-4 133	-3 351		3 837	-3 648
Net Result for the period from continuing operations	-18 437	6 382	0	-7 305	-19 360
Net Result for the period from discontinued operations	911			39	950
NET RESULT FOR THE PERIOD	**-17 526**	**6 382**	**0**	**-7 266**	**-18 409**
• Of which, Owners of the parent	-17 712	6 382	0	-7 266	-18 594
• Of which, Non-controlling interests	186	0	0	0	186

NOTE 5 FIXED ASSETS

Gross value of fixed assets

('000 EUR)	Dec 31, 2016	Currency variations	Reclassement	Acquisitions	Disposals	June 30, 2017
INTANGIBLE ASSETS	**29 786**	**-8**	**1 279**	**360**	**-92**	**31 325**
Land	5 587	-145	0	0	-19	5 423
Buildings	61 122	-675	793	224	-849	60 615
Plants & Equipment	101 544	-438	586	1 569	-89	103 171
Other Fixed Assets	11 924	-147	116	557	-451	11 998
Fixed assets in progress	6 698	63	-2 243	5 590	0	10 108
Advanced payments on fixed assets	247	9	-530	1 076	-214	587
Real estate leasing	7 808	0	0	0	0	7 808
TANGIBLE ASSETS	**194 929**	**-1 333**	**-1 279**	**9 016**	**-1 622**	**199 712**

Amortization of fixed assets

('000 EUR)	Dec 31, 2016	Currency variations	Reclassement	Increase	Decrease	June 30, 2017
AMORTIZATION INTANGIBLE ASSETS	**16 892**	**-15**	**0**	**2 119**	**-92**	**18 905**
Buildings	30 725	-317	0	1 012	-260	31 160
Plants & Equipment	75 060	-492	0	2 898	-1 084	76 382
Other Fixed Assets	8 925	-227	0	1 776	-345	10 130
Real estate leasing	4 108	0	0	281	0	4 389
AMORTIZATION TANGIBLE ASSETS	**118 819**	**-1 036**	**0**	**5 968**	**-1 689**	**122 060**

Net value of fixed assets

('000 EUR)	Dec 31, 2016	June 30, 2017
INTANGIBLE ASSETS	**12 894**	**12 420**
Land	5 587	5 423
Buildings	30 396	29 455
Plants & Equipment	26 484	26 790
Other Fixed Assets	2 999	1 869
Fixed assets in progress	6 698	10 108
Advanced payments on fixed assets	247	587
Real estate leasing	3 700	3 419
TANGIBLE ASSETS	**76 110**	**77 651**

NOTE 6 INVENTORIES AND WORK-IN-PROGRESS AND CONSTRUCTION CONTRACTS

6.1 Detail of Inventories and Work-in-Progress

('000 EURO)	June 30, 2017			Dec 31, 2016			Variation		
	Gross	Provision	Net	Gross	Provision	Net	Gross	Provision	Net
Industrial Inventories	183 773	-16 359	167 414	175 332	-15 594	159 738	8 441	-766	7 675
Work in progress - Non Recurring Cost	222 615	-10 053	212 562	241 261	-9 948	231 313	-18 646	-105	-18 751
TOTAL	**406 388**	**-26 412**	**379 975**	**416 593**	**-25 542**	**391 051**	**-10 205**	**-870**	**-11 076**

Industrial inventories include raw materials, parts and work-in-progress. Non-recurring work-in-progress is made up of the development costs of programs (NRC work-in-progress), and the curve recognized in accordance with IAS 11 (Construction Contracts).

6.2 Construction Contracts

('000 EURO)	June 30, 2017	Dec 31, 2016
Amount due from customers (work in progress)	250	272
Amount due to customers	0	0
Revenue recognized from the origin of the contracts	3 565	3 384
Expenses incurred since the origin of the contracts	3 711	3 555
Refundable Advances	43	44

Construction contracts are based on forecasts made by the Group taking into account the commercial information (order book and production rates) released by the different aircraft manufacturers and the information coming from the outlook for the aeronautical market. Future costs are estimated on the basis of the industrial organizations of the Group. Furthermore, the dollar flows (revenue and expenses) representing a significant share of the total flows, the Group founded its projections on a historical analysis of the dollar, assumptions of the future evolution of the dollar in relation to the duration of contracts. This last assumption could be reviewed depending on the outlook for the currency evolution and its impact on the projections.

The main construction contracts relate to the following programs: A380 (lower part of the nose section, doors of upper deck, electrical racks, commercial harnesses), A400M (electrical rack), F7X (harnesses, rear fuselage section), Embraer ERJ 170/190 (fuselage section and doors), and Boeing 787 (passenger doors). Detailed numbers by program (and in particular, the margins of construction contracts) cannot be communicated, for confidentiality reasons.

NOTE 7 FINANCIAL ASSETS

Fair value of financial assets

The fair value of financial assets recorded at amortized cost is close to the carrying amount.

The Group distinguishes three categories of financial instruments according to the consequences that their characteristics have on their valuation method and bases itself on this classification in order to disclose some of the information required by IFRS 7:

- Level One "Market Price" category: financial instruments quoted on an active market;
- Level Two "Model with observable parameters" category: financial instruments whose valuation uses valuation techniques based on observable parameters;
- Level Three "Model with non-observable parameters".

('000 EURO)	Loans and receivables at amortized cost	Financial assets at fair value through profit and loss	Hedging instruments	June 30, 2017	Fair value
Non current financial assets	3 095			3 095	
Trade receivables and other receivables	174 290			174 290	
Financial instruments		5 382	14 235	19 618	19 618
Cash and cash equivalent	146 645	337		146 982	337
TOTAL FINANCIAL ASSETS	**324 029**	**5 719**	**14 235**	**343 984**	**19 955**

('000 EURO)	Level 1	Level 2	Level 3	Fair value
Financial instruments		19 618		19 618
Cash and cash equivalent	337			337
TOTAL	**337**	**19 618**	**0**	**19 955**

('000 EURO)	Loans and receivables at amortized cost	Financial assets at fair value through profit and loss	Hedging instruments	Dec 31, 2016	Fair value
Non current financial assets	2 430			2 430	
Trade receivables and other receivables	169 732			169 732	
Financial instruments		429	20	449	449
Cash and cash equivalent	147 137	307		147 444	307
TOTAL FINANCIAL ASSETS	**319 299**	**735**	**20**	**320 055**	**755**

('000 EURO)	Level 1	Level 2	Level 3	Fair value
Financial instruments		449		449
Cash and cash equivalent	307			307
TOTAL	**307**	**449**	**0**	**755**

The fair value of a trade receivable is treated as its balance sheet value, given the very short payment periods. The same is true for other receivables.

NOTE 8 RECEIVABLES AND OTHER CURRENT ASSETS

('000 EURO)	June 30, 2017	Dec 31, 2016
Advanced payments	1 472	1 468
Trade receivables*	154 911	147 742
Tax receivables	12 187	14 932
Other current receivables	5 720	5 591
TOTAL RECEIVABLES	**174 290**	**169 732**
Prepaid expenses	2 415	1 723
Other current assets	84	85
TOTAL OTHER CURRENT ASSETS	**2 500**	**1 808**

* At June 30, 2017, the amount of trade receivables assigned to the factor was €116 million. The amount financed by the factor on the basis of the assigned receivables amounted to €69.4 million. At December 31, 2016, the amount of receivables assigned to the factor amounted to €129.8 million. The amount financed by the factor on the basis of the assigned receivables amounted to €76.8 million.
As the Group remains responsible for collection of assigned customer receivables, these receivables continue to appear in assets.

NOTE 9 DERIVATIVE INSTRUMENTS

New hedging financial instruments were put in place during H1 2017 as follows:

- Hedging financial instruments EUR/USD for 30 MUSD to hedge 2019 exhibition,
- Hedging financial instruments EUR/CZK for 24 MEUR to hedge 2018 exhibition.

9.1 Information on the value of derivative instruments and on their covered notional contract value

('000 EURO)	Balance sheet position		Notional*	Maturity		
	Assets	Liabilities		< 1 year	From 1 to 5 years	> 5 years
	Valeur au bilan		Notionnel*	Échéances		
	Actif	Passif		< à 1 an	de 1 à 5 ans	> à 5 ans
Derivative instruments not designed as a hedge:						
- Forward currency contracts BRL/USD	224	0	**2 103**	2 103	0	0
- Currency option contracts MXN/USD	0	55	**3 067**	3 067	0	0
- Currency option contracts ** and forward currency contracts EUR	5 158	0	**			
- Currency option contracts EUR/CZK **	0	0	**			
Cash flow hedging:						
- Forward currency contracts EUR/USD	2 327	0	**74 483**	74 483	0	0
- Forward currency contracts CZK/EUR	451	0	**16 000**	16 000		
- Currency option contracts EUR/USD (intrinsic value) ***	11 458	0	**603 750**	267 263	336 488	0
- Currency option contracts EUR/CZK (intrinsic value)	0	0	**0**	0	0	0
Foreign currency Derivative instruments	**19 618**	**55**	**699 403**	**362 916**	**336 488**	**0**
Financial instruments not designed as a hedge:						
- Floor****	**0**	**2 044**	**77 785**	0	77 785	0
Interest rate Derivative instruments	**0**	**2 044**	**77 785**	**0**	**77 785**	
Financial instruments not designed as a hedge	5 382	2 099	79 888	2 103	77 785	0
Cash flow hedgind	14 235	0	694 233	357 746	336 488	0
TOTAL OF DERIVATIVES INSTRUMENTS	**19 618**	**2 099**	**774 121**	**359 849**	**414 272**	**0**
of which non current derivative instruments	12 975	2 044				
of which current derivative instruments	6 642	55				

*Notional is converted in euro K by applying the exchange rate at the closing date

** Correspond essentially to time value and digital option

*** To avoid redundancy of information, the total notional amount of currency options EUR / USD (intrinsic value and time value) is mentioned in the line "Currency option contract EUR / USD (intrinsic value)"

**** The floor corresponds to embedded derivative of the new syndicated loan agreement

9.2 Information on the impact of derivative instruments on income and shareholders' equity

Impact of future cash flow hedging

('000 EURO)	June 30, 2017	Dec 31, 2016
Equity - Hedging instruments (net of tax) at the opening date	**-5 919**	**-7 250**
Equity change for the effective portion	19 844	-7 405
Reclasssified in income when the hedged element affects profit and loss	3 338	9 722
Translation differences	-22	-238
Deferred tax variation	-7 550	-749
Equity - Hedging instruments (net of tax) at the closing date	**9 690**	**-5 919**

Impact of derivative instruments to which hedge accounting is not applied

('000 EURO)	June 30, 2017	Dec 31, 2016
Fair value at the opening date	**-29 691**	**-12 766**
Recorded through income statement before Taxes	32 974	-16 925
Fair value at the closing date	**3 284**	**-29 691**

NOTE 10 SHAREHOLDERS' EQUITY

10.1 Breakdown of Capital

	June 30, 2017	Dec 31, 2016
Number of shares	94 199 252	94 043 676
Nominal value of each share (in euro)	2,00	2,00
Share Capital	188 398 504	188 087 352

During the 1st half of 2017, a capital increase reserved for employees was made in the amount of €311 thousand.

	June 30, 2017	June 30, 2016
Averaged issued shares	94 199 252	93 750 289
Averaged treasury shares	32 693	31 715
Weighted average shares (a)	**94 166 559**	**93 718 574**
Dilutive impact performance scheme (b)	1 692 460	2 333 680
Total of shares diluted (a+b)	**95 859 019**	**96 052 254**
Net result - Group Share (in euro)	**21 064 441**	**-17 525 903**
Earnings per share (in euro)	0,22	-0,19
Diluted earnings per share (in euro)	0,22	-0,18
Net result - Group Share (in euro) - continuing operations	21 064 441	-18 436 989
Result impact of Convertible bonds	0,22	-0,20
Diluted earnings per share (in euro)	0,22	-0,19
Net result - Group Share (in euro) - discontinued operations	0	911 086
Earnings per share (in euro)	0,00	0,01
Diluted earnings per share (in euro)	0,00	0,01

All shares were fully paid.

10.2 Treasury Shares

Number of shares	Dec 31, 2016	Acquisitions	Disposals	June 30, 2017	% of ownership
LATECOERE Shares	34 030	591 025	584 599	40 456	0,04%

('000 EURO)	Dec 31, 2016	Acquisitions / Provisions	Cessions	June 30, 2017	Average purchase price
LATECOERE Shares	129	2 437	2 391	176	4,34

NOTE 11 NON-CURRENT PROVISIONS

('000 EURO)	June 30, 2017	Dec 31, 2016
Non-current provisions	1 047	1 096
Provisions for restructuring (non current)	11 532	20 779
Current provisions	306	335
Provisions for restructuring (current)	17 154	13 451
TOTAL	**30 038**	**35 662**

NOTE 12 EMPLOYEE BENEFITS

('000 EURO)	June 30, 2017	Dec 31, 2016
Retirement bonus	12 280	14 849
Long-service medals	1 711	1 935
TOTAL	**13 990**	**16 784**

The pension obligations and commitments for long-service medals recognized at 30 June 2017 were evaluated based on parameters used in a calculation at December 31, 2016.

NOTE 13 FINANCIAL LIABILITIES

13.1 Detail of Financial liabilities

('000 EURO)	Financial liabilities at fair value through profit and loss	Hedging instruments	Other financiel liabilities	June 30, 2017	Fair value
Refundable Advances			43 411	43 411	43 411
Syndicated loan - Tranche B			74 713	74 713	74 713
Factoring			62 579	62 579	62 579
Finance lease			284	284	284
Unsecured banking facility and other			108	108	108
Other non-current liabilities			19 690	19 690	19 690
Derivated financial instruments	2 099	0		2 099	2 099
Accounts payable			156 599	156 599	156 599
TOTAL FINANCIAL LIABILITIES	**2 099**	**0**	**357 384**	**359 483**	**359 483**

('000 EURO)	Level 1	Level 2	Level 3	Fair value
Financial instruments	0	2 099	0	2 099
TOTAL	**0**	**2 099**	**0**	**2 099**

('000 EURO)	Financial liabilities at fair value through profit and loss	Hedging instruments	Other financiel liabilities	Dec 31, 2016	Fair value
Refundable Advances			43 908	43 908	43 908
Syndicated loan - Tranche B			78 125	78 125	78 125
Factoring			66 747	66 747	66 747
Finance lease			615	615	606
Unsecured banking facility and other			158	158	158
Other non-current liabilities			18 332	18 332	18 332
Derivated financial instruments	30 119	9 037		39 156	39 156
Accounts payable			151 763	151 763	151 763
TOTAL FINANCIAL LIABILITIES	**30 119**	**9 037**	**359 648**	**398 805**	**398 789**

('000 EURO)	Level 1	Level 2	Level 3	Fair value
Financial instruments	0	39 156	0	39 156
TOTAL	**0**	**39 156**	**0**	**39 156**

The fair value of accounts payable is treated as its balance sheet value, given the very short payment periods. The same is true for other payables. Loans and bank borrowings are accounted for at amortized cost, calculated used the effective interest rate ("TIE").

The financial liabilities which balance sheet value differs from fair value are fixed rate loans and bank borrowings, which are not subject to hedging.

13.2 Loans and Bank borrowings

('000 EURO)	June 30, 2017	Dec 31, 2016
Bank loans - non current	74 713	78 125
Leasing - non current	84	100
Autres dettes financières non courantes	0	0
Non-current liabilities	**74 797**	**78 225**
Bank loans - current	0	0
Leasing - current	201	515
Factoring	62 579	66 747
Other short term credit	108	158
Current liabilities	**62 888**	**67 420**
TOTAL OF LOAN AND BANK BORROWINGS	**137 685**	**145 645**

Debt reconciliation related to the factor (factoring):

('000 EURO)	June 30, 2017	Dec 31, 2016
Receivables sold to the factor	115 988	129 792
Financing obtained from the factor	69 426	76 768
Cash available from the factor	-6 847	-10 021
DEBT - FACTORING	**62 579**	**66 747**

('000 EURO)	Currency	Interest rate	Maturity	June 30, 2017	
				Notional	Actual
Syndicated loan - Tranche B	EURO	EURIBOR + margin	2020	74 713	74 713
Factoring	EURO/USD	EURIBOR/LIBOR + margin	2018	100 000	62 579
Finance lease	EURO	4,7%-7,2%	2020	25 013	284
Unsecured banking facility and other	EURO	EURIBOR + margin	n/a	108	108
TOTAL OF LOAN AND BANK BORROWINGS				**228 434**	**137 685**

13.3 Financial ratios (“covenants”)

Financial commitment on the syndicated loan

The syndicated loan includes a covenant committing the Group to respect a minimul EBIT whose implementation will only take place from the accounts closed on the December 2017.

NOTE 14 PAYABLES AND OTHER LIABILITIES

('000 EURO)	June 30, 2017	Dec 31, 2016
Trade payables	103 821	93 626
Employee related liabilities	37 545	37 004
State payables	7 308	6 891
Credit balance on trade receivables and advance payments from customers	962	1 004
Other creditors	6 964	13 238
ACCOUNTS PAYABLE	**156 599**	**151 763**

NOTE 15 TAXES

15.1 Income Tax Receivable

The amount recorded at June 30, 2017 for €18.6 million corresponds to tax credits for €16 million (primarily, the research-based tax credit and the competitveness and employment tax credit (CICE)).

15.2 Deferred Taxes

('000 EURO)	June 30, 2017	Dec 31, 2016
Deferred tax assets	27 516	24 430
Deferred tax liabilities	-527	-1 292
DEFERRED TAX AT OPENING	**26 990**	**23 138**
Deferred tax Income (Expense) recognised in P&L	-10 867	3 947
Deferred tax variation recognised directly in equity	-5 822	-94
DEFERRED TAX AT CLOSING	**10 301**	**26 990**
Of which Deferred tax assets	11 510	27 516
Of which Deferred tax liabilities	-1 209	-527

The analysis of the net deferred tax assets by nature is as follows:

('000 EURO)	June 30, 2017	Dec 31, 2016
Tangible and intangible assets	-2 777	-3 287
Financial instruments	-5 641	13 324
Retirement bonus	3 262	3 653
Other provisions (regulated provision)	-2 343	-2 762
Loan and bank borrowings	2 386	-134
Loss carry-forwards	14 238	15 200
Other	1 176	996
NET DEFERRED TAX ASSETS (LIABILITIES)	**10 301**	**26 990**

The main sources of deferred tax assets were the recognition of the loss carry-forwards from the French tax group in an amount of €14.2 million at June 30, 2017. The Group's tax losses come from the French tax group and may be carried forward without limit in time. In order to assess its ability to reclaim these assets, the Group takes into account estimates of the future tax results of the tax consolidation scope over a period generally of five years.

NOTE 16 RAW MATERIALS, OTHER PURCHASES & EXTERNALCHARGES

('000 EURO)	June 30, 2017	June 30, 2016
Achats consommés et sous-traitance	-174 263	-180 830
Marchandises consommées	-149	-402
Charges externes	-36 700	-36 217
RAW MATERIAL, OTHER PURCHASES & EXTERNAL CHARGES	**-211 113**	**-217 449**

NOTE 17 OTHER INCOME

At June 30, 2017, the other income includes in particular tax credit (research-based tax credits and CICE- *crédit d'impôt pour la compétitivité et l'emploi*) for €1.7 million, and own work capitalized for €2.3 million.

NOTE 18 OTHER NON RECURRING INCOME AND EXPENSE

The Group presented as non-recurring income and expenses:

- elements of which the non-recurring makes unlikely their future occurrence;
- items that are not within the scope of current operations of the business.

As at June 30, 2017, other non-recurring income and expenses were related to the deployment of the 2020 transformation plan and mainly related to costs incurred in the transfer of production and development of new industrial sites in Toulouse and Bulgaria.

NOTE 19 DETAILS OF FINANCIAL INCOME

('000 EURO)	June 30, 2017	June 30, 2016
Interest expense - net	-3 842	-4 039
Foreign Exchange gains/losses realized :	-4 585	-9 833
- derivative instuments EUR/USD	-1 406	-6 177
- other derivative instrument	256	-95
- Foreign Exchange gains/loss realized	-3 435	-3 560
Other realized financial expenses / income	-1 213	-1 764
Realized net financial result	**-9 640**	**-15 635**
Change in fair value of financial instruments :	32 996	11 142
- Change in fair value of currency derivative instruments EUR/USD	31 770	11 860
- Change in fair value of other currency derivative instruments	497	889
- Change in fair value of interest rate contract	730	-1 606
Valuation of items on balance sheet at the closing date	-2 769	1 217
Other unrealized financial expenses / income	-307	-571
Unrealized net financial result	**29 920**	**11 789**
FINANCIAL RESULT	**20 280**	**-3 846**

NOTE 20 INCOME TAXES

('000 EURO)	June 30, 2017	June 30, 2016
Current income taxes	-2 792	-2 395
Deferred taxes	-10 867	-1 738
TOTAL	**-13 659**	**-4 133**

NOTE 21 RISK MANAGEMENT

The Group's exposure to the principal risks did not significantly change during H1 2017. These risks are described in Note 21 to the consolidated financial statements of the 2016 Registration Document.

NOTE 22 FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

22.1 Financial Commitments

The Group's financial commitments and contingent liabilities did not change significantly during H1 2017.

22.2 Commitments under Operating Leases

Within the framework of its operation, the Group is caused to set up operating leases. The main contracts are the following:
- leasing of vehicles;
- leasing of computer and office equipment (general and technical office data processing equipment, photocopiers, fax machines, etc.);
- real estate leasing;
- other leasing (as needed).

All these contracts do not include any specific clause that could have an impact on the method of renewal or of termination of these contracts.

22.3 Other Contingent Liabilities

At 30 June 2017, the Group has not identified any other significant contingent liabilities.

NOTE 23 RELATED PARTIES

Transactions with related parties are done on a market-price basis.

Relations between the Latécoère Group and related parties during H1 2017 remained comparable to those for 2016. No significant transaction which was extraordinary, either by its nature or its amount, occurred during H1 2017.

3 STATEMENT BY THE PERSON RESPONSIBLE FOR THE REPORT

"I hereby declare that, to the best of my knowledge, the condensed financial statements for the first-half 2017 have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the company and of the consolidated entities; and that the half-year report set forth in chapter 1 of this report, includes a fair review of the important events which occurred during the first six months of the year, their impact on the financial statements for the half year, the principal transactions between related parties together with a description of the principal risks and uncertainties for the remaining six months of the year."

Toulouse, September 14, 2017

Yannick Assouad
Chief Executive Officer

4 STATUTORY AUDITORS' REPORT ON THE 2016 CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS

From the period from January 1 to June 30, 2017

To the Shareholders,

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

- the review of the accompanying condensed half-yearly consolidated financial statements of Latécoère S.A., for the period from January 1 to June 30, 2017.
- the verification of the information presented in the half-yearly management report.

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

I. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

II. Specific verification

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

Labège, on the 15 September 2017

Michel Dedieu
Partner

Neuilly-sur-Seine, on the 15 September 2017

Pascal Leclerc
Partner

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AEROSTRUCTURE LATÉCOÈRE INTERCONNECTION SYSTEMS