AEROSTRUCTURES

LATÉCOÈRE

INTERCONNECTION SYSTEMS

FINANCIAL REPORT

2018

Disclaimer

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1.

PRESENTATION OF THE GROUP AND ITS ENVIRONMENT

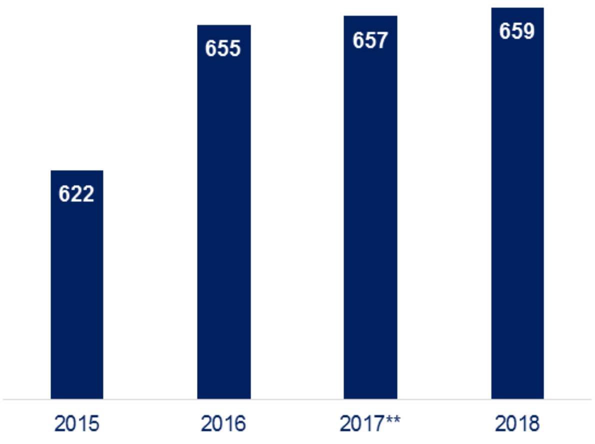
1.1 Key figures

(In €M)	2017 *	2018
Revenue	657,4	659,2
**Recurring EBITDA ** **	**78,4**	**54,5**
Recurring Operating Income	**51,9**	**28,0**
% of Revenue	*7,9%*	*4,2%*
Non-recurring items	-10,0	-23,1
Operating Income	**41,9**	**4,9**
Financial result	8,5	4,9
Net Income	**33,7**	**6,0**
Consolidated net debt	**-19,8**	**24,4**
Shareholders' Equity (Group share)	**294,6**	**262,6**

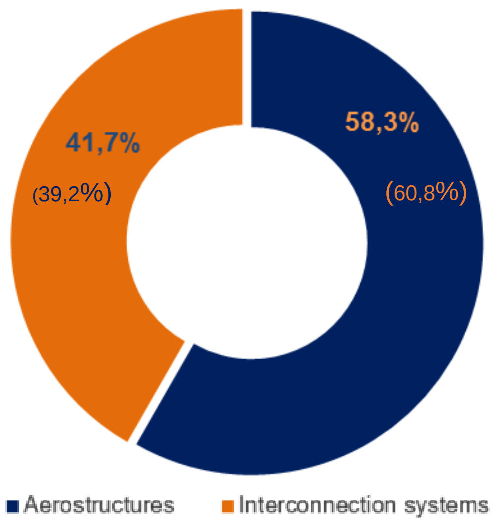
** Restated for the application of IFRS 15, effective as of 1 January 2018*

*** Recurring EBITDA corresponds to recurring operating income before recurring amortization, depreciation and impairment losses. Details of non-recurring items are presented in the Group's accounting principles from consolidation financial statements*

CHANGE IN GROUP REVENUE* (in €M)

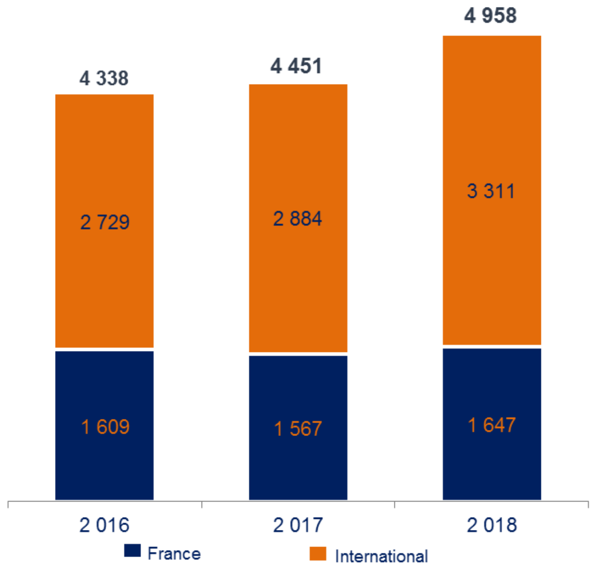


BREAKDOWN OF REVENUE* BY BUSINESS 2018
(for reference 2017 data are given in parentheses)



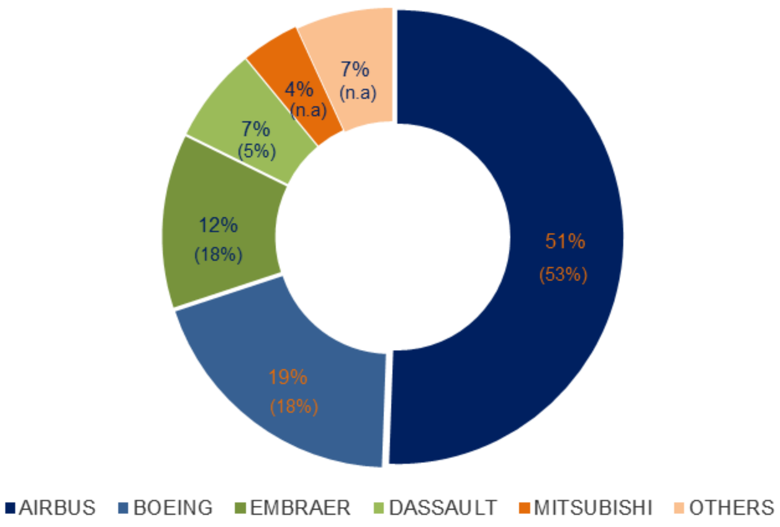
(*) Following the disposal of the activities of Latécoère Services, and in accordance with IFRS 5, 2015 and 2016 revenues have been restated of discontinued operations. The activity Equipment & Systems is from now on reported in the Interconnection Systems segment.
(**) Restated for the application of IFRS 15, effective as of 1 January 2018

CHANGE IN HEADCOUNT REGISTERED TO THE GROUP (end of period workforce)

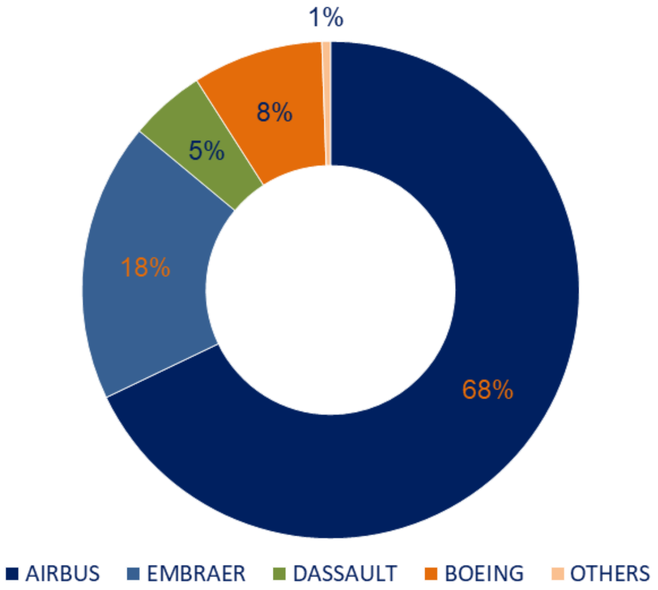


BREAKDOWN OF REVENUE BY CUSTOMER IN 2018

(for reference 2017 data are given in parentheses)



ORDERBOOK BY CUSTOMER AT 12/31/2018



1.2 History of the Group

Founded in 1917 by Pierre Georges Latécoère, the LATECOERE Company is at the origin of the establishment of the aeronautical industry in the Toulouse area, in the south of France. Manufacturer of its own aircraft until the 1950s, LATECOERE offered France 31 world records and one of the greatest human adventures of the century with the creation of the Latécoère airlines where prestigious pilots like Mermoz, Saint-Exupéry or Guillaumet illustrated themselves.

Currently an equipment manufacturer, Latécoère operates in the segments of **Aerostructures (doors and fuselages) and Interconnection Systems (EWIS harnesses, avionics racks, equipment and systems, test benches).**

Major supplier of Airbus, Boeing, Embraer and Dassault Aviation, the Group, with its international network of subsidiaries, partners and sub-contractors, forms a competitive and flexible industrial unit, able to adapt itself to the cycles of the aeronautical industry.

KEY DATES FOR THE GROUP

1917 Creation of the Company by Pierre-Georges Latécoère

1918 600 Salmson aircrafts are coming out of the Montaudran plant in the outskirts of Toulouse

1919 **Creation of Latécoère airlines**

1922 Latécoère airlines become the «Compagnie Générale d'Entreprises Aéronautiques» (CGEA). The aircraft manufacturer business is named « Société Industrielle d'Aviation Latécoère ».

1924 **First serial production of Latécoère aircrafts**

1927 Pierre-Georges Latécoère sells almost all the shares of CGEA to Marcel Bouilloux-Lafont who will create what will be called « Aéropostale ».

1930 **Jean Mermoz carries out the first France - South America air mail link aboard a Laté 28.**

1939 LATECOERE leaves Mautondran and moves to rue de Périole, still in Toulouse.

1947 Latécoère 631 become operational on the Air France Biscarosse - Fort de France line.

1948 Start of work on special machines. The anti-submarine missile launches torpedo Malafon will equip the French Navy until 1997.

1951 Latécoère makes rear parts of the Caravelle.

1955 By the end of the LATE 631 program, Latécoère develops special machines and becomes a supplier to the French aeronautics industry, which begins to structure itself around the Dassault Company (military and business aircraft) and SNCASE (civil aviation) which will later become Sud-Aviation then Aerospatiale. Latécoère operates notably on the Franco-British fighter Jaguar (commissioned in 1973) and the Super Etendard of Dassault (1978).

1989 91% of the employees become shareholders of the Company. Latécoère boarded the Airbus A330 / 340 program and built the upper fuselage.

1997 BEAT, a design office specialized in aeronautical structure and the design and manufacturing of tooling, becomes a 56% owned subsidiary of the LATECOERE Group.

1998 Creation of LATelec (wholly-owned subsidiary of the Group), following the takeover of the wiring activity of Fournié Grospaud. LATelec quickly becomes the center of excellence in the field of the electric racks and in onboard wiring. Latelec is working on avionic racks for the A 330/340 program. Creation of SEA-LATelec in Tunisia, a wholly-owned subsidiary of LATelec.

2000 The Group takes control of 100% of Letov located in Prague, Czech Republic.

2001 The company gains the complete wiring of the Dassault Aviation Facon 7 / 8X and the realization of the rear structure.

2002 Inauguration of the new Pierre-Jean Latécoère assembly site in Gimont, in the department of the Gers, France dedicated to large fuselage sections for Airbus and Embraer.

2003 LATECOERE acquires 25% of the capital of Corse Composites Aéronautique (CCA).

2004 Creation of LATECOERE do Brasil in Jacarei (state of Sao Paulo) which aims to strengthen the Group's presence close to its customer Embraer, in order to assemble and customize aircraft fuselages. LATelec acquires the French assets of Gespac Maroc Novatech, consisting of its Montpellier (le Crès) and Toulouse (Cugnaux) establishments.

2005 Creation of LATelec GmbH in Hamburg, after Airbus Germany had chosen LATelec (a wholly-owned subsidiary of the LATECOERE Group) in order to realize electrical harnesses for the interior layout of the Airbus A380.
LATECOERE acquires the remaining capital of BEAT, which becomes LATecis, a wholly-owned subsidiary of the Group. This operation strengthens the presence services and engineering businesses of LATECOERE.
LATelec acquires S.L.E. (Société Landaise d'Electronique), located in Liposthey, in the Landes, France, as part of the reorganization of its production.

2006 Start of production of composite doors in the Prague site. SEA LATelec Tunisia inaugurates a second plant that doubles its production capacity.

2008 The development of LATelec is concretized by the inauguration of LATelec Services in Colomiers and the opening of a site in Marignane, near Eurocopter.

2010 Pierre Gadonneix elected Chairman of LATECOERE's Supervisory Board. Issue of convertible bonds in an amount of €71.5 million and bonus issue to all existing LATECOERE Company shareholders of Share Warrants (BSA).

2011 Release of the 100th A380 and 1st Nose fairing A350 from the assembly lines.

2012 Start of direct deliveries of A320 doors to Airbus from Letov's Czech site. Latécoère delivers the 1,000th B787 door to Boeing.
Latécoère launches LATvision, a range of external and internal onboard 360° video cameras.

LATelec delivers its first elements of electrical wing harnesses, avionics bays and cockpit panels for the A350 and begins its production activity in Mexico.

2013 Delivery of doors and fuselage sections of the 1000th E-Jet, at the Prague and the LATECOERE Jacarei plant.
Signature of a contract with Airbus for the production of doors of the A320 NEO.
LATECOERE is selected by Embraer for the development and production of all its E-Jet E2 program doors.

2014 Delivery of the first Boeing 787 passenger door produced in Mexico.

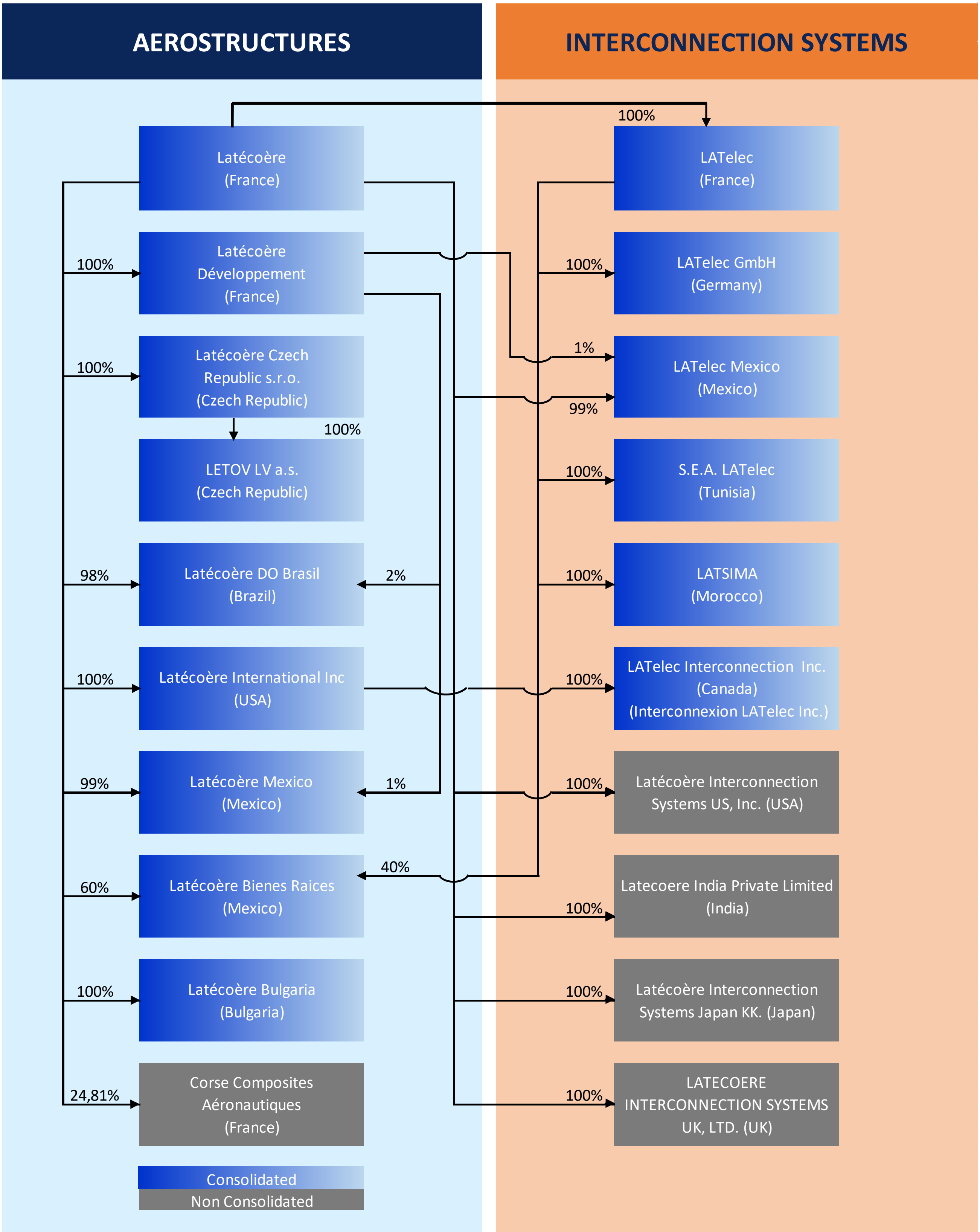
2015 Entrance of Apollo and Monarch to the capital of Latécoère on the occasion of the recapitalization of the group.
Creation of the LATelec subsidiary in Morocco.

2016 As part of its 2020 transformation project, the Latécoère group sells Latécoère Services (LATecis activities) and refocuses on its key activities, Aerostructures (doors and fuselage) and Interconnection Systems (electrical harnesses and avionics furniture.

2017 Latécoère celebrates its 100 years at the Paris Air Show and also in Toulouse in presence of the Patrouille de France.
The company now communicates exclusively on the name Latécoère, a global brand. The company has two branches : Aerostructures (doors and fuselages), Interconnection Systems (ex LATelec).
Delivery of the 5000th Boeing 787 door.
The Interconnection Systems branch signs a contract with Mitsubishi Aircraft for the EWIS development (Electrical Wiring Interconnection System) of its regional jet MRJ 90.

2018 Opening of a 4.0 factory in Toulouse for the production of metal elementary parts.
Opening in Plovdiv, Bulgaria, of an avionics racks and aerostructure subassemblies assembly unit.

1.3 Group consolidated Structure Chart as of December 31, 2018



Percentages correspond to Group companies control percentages. Interest percentages are mentioned in Note 3 to the consolidated financial statements.

1.4 The Group's Businesses

A major player in the aviation industry, LATECOERE Group is present in the areas of Aerostructures and Interconnection Systems through the development, manufacturing and product support activities (repair, spare parts ...).

The LATECOERE Group combines a multi-customer platform, a multi-segment product range, industrial activities and skills ranging from design to industrial realization, giving it a unique positioning in the market.
The main financial data by business are presented in chapter 5 of this document, section 5.7.6, in note 4 "Operational Segments" of the consolidated financial statements page 50 for the year 2018. Data on the LATECOERE Group's revenue are disclosed in note 16 of the consolidated financial statements.

AEROSTRUCTURES

Aerostructures activities are principally carried out by the LATECOERE Company and its subsidiaries LATECOERE do Brasil (Brazil), Latécoère Czech Republic s.r.o. (Czech Republic) and Latécoère Mexico (Mexico).

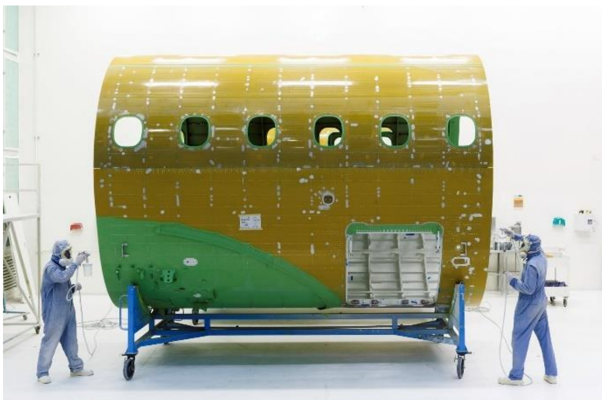
The Aerostructures branch provides design, industrialization and production of aircrafts structural elements:

- **Fuselage elements:** sub-assemblies of the nose (A330, A350, and A380), forward section (Embraer E-Jets), central section (A330) or rear section (Embraer E-Jets, Dassault Falcon 7X and 8X)
- **Doors:** passenger (A320, A380, B787, and Embraer E-Jets E1 and E2, Legacy 450/500) and cargo (A380, B777, Bombardier CRJ 700/900/1000, Embraer E-Jets, Dassault Falcon 7X and 8X)

The LATECOERE Company is among the first six European producers of fuselage elements and is the world's first manufacturer of aircraft doors (source: "Usine Nouvelle", June 2011).

The LATECOERE Company has positioned itself on most of the major aeronautical programs, with the major actors of the sector. For more than 90% of its order book, LATECOERE is a Tier 1 supplier, which consists in being a direct supplier of the manufacturer, associated with development and production of sub-assemblies of an aircraft program as part of a risk sharing. The diversification of the customer portfolio was doubled by a diversification of the various segments of the aeronautical market:

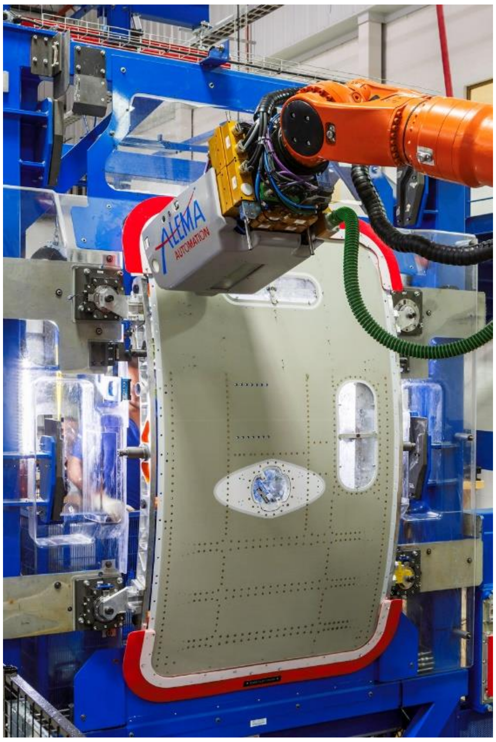
- **Commercial Aircraft** (more than 100 seats): AIRBUS A318/319/320/321; A330/340; A380; A350 and BOEING 777; and B787.
- **Regional Aircraft:** EMBRAER ERJ 170/175/190/195E1, 175/190/195E2 ; BOMBARDIER CRJ 700, 900 and 1000
- **Business Aircraft:** DASSAULT Falcon 7X and Falcon 8X, EMBRAER Legacy 450/500
- **Military Aircraft:** DASSAULT Rafale and AIRBUS A400M.



The Aerostructures market in the United States is dominated by Triumph and Spirit (resulting from the outsourcing of Boeing's aerostructures activities) and in Japan by dedicated subsidiaries of the Kawasaki Mitsubishi, and Fuji Groups, five major players of the industrial consolidation carried out during the last decade.

In Europe approximately fifteen players are present in this market, whose prospects of consolidation are very open; in particular, there are the Premium Aerotec subsidiary of Airbus Group in Germany, GKN in England and three companies in France: one subsidiary of Airbus Group (Stelia), Daher Aerospace and the LATECOERE Group.

This market was marked in 2018 by a high level of aircraft sales and orders. Cumulative AIRBUS and BOEING customers shipments and orders for the year 2018 exceeded 1600 units for each.



The Aerostructures activity is divided between specialized work sites:

- **LATECOERE Toulouse: Group headquarters:** In addition to the Group's management, Toulouse hosts the management team, the design office team and industrial management for the aerostructures business.
- **LATECOERE Toulouse Périole**: Site dedicated to the assembly of fuselage sections for Airbus.
- **LATECOERE Toulouse Montredon:** This site started in 2018 is specialized in the manufacture of metal elementary parts.
- **LATECOERE Gimont (Gers):** located 40 km. from Toulouse, especially dedicated to large-dimensioned structures (fuselage sections).
- **Latécoère Czech Republic s.r.o. :** located in Prague, Czech Republic. It is the Group's center of excellence for the production of door mechanisms, the assembly of aircraft door sub-assemblies and composite elements.
- **LATECOERE do Brasil:** LATECOERE do Brasil is located in Jacarei (Sao Paulo state). This entity assembles and equips all fuselage sections delivered to our customer

Embraer as well as the passengers doors of Legacy aircrafts.

- **LATECOERE Mexico:** This site is located in Hermosillo (Sonora State). It assembles the B787 passenger doors delivered to our customer Boeing.

- **LATECOERE Bulgaria:** This site, starting in 2018, is located in Plodiv and is dedicated to the assembly of metal subassemblies.

INTERCONNECTION SYSTEMS

The Group's Interconnection Systems activities are concentrated in the LATelec Company and its subsidiaries LATelec GmbH in Germany, SEA-LATelec in Tunisia, LATSIMA in Morocco and LATelec Mexico in Mexico. Latelec and its subsidiaries have acquired the trade name LATECOERE Interconnection Systems at the Paris Air Show 2017.

The offer relates to the design, the industrialization and the manufacture, in all the onboard areas of wiring, of electrical racks and bays, as well as of test benches.

LATECOERE Interconnection Systems is today number two worldwide in its area of business. It benefits from its recognized experience for all types of electrical harnesses and for the whole aircraft (EWIS). It is the leader for electrical equipment boxes (internal source, May 2010).

This market enjoys a high outlook for growth linked to the increase in production rates requested by aircraft manufacturers and a trend to greater outsourcing of this activity by aircraft manufacturers.

LATECOERE Interconnection Systems is present on the main aeronautical programs:
- **Commercial Aircraft** (more than 100 seats): AIRBUS A318/319/320/321; A330/340; A380; A350
- **Regional Aircraft:** ATR, MRJ90
- **Business Aircraft:** DASSAULT Falcon 900, 2000 and Falcon 7X, Bombardier Global 7000
- **Military Aircraft:** AIRBUS A400M
- **Engines:** SAM 146 and ETRAS A380
- **Helicopters:** Lynx, Puma, and SuperPuma

LATECOERE Interconnection Systems is equally leader in the areas of space wiring with more than 385 harnesses into orbit.

LATECOERE Interconnection Systems has reached a high level of competitiveness by integrating upstream the needs of its customers and proposing "design to costs" solutions.

Today, the Interconnection Systems business relies for more than 85% on international establishments. The main sites are the following:
- **LATelec in Toulouse:** Toulouse hosts the management and design office team for the onboard wiring business. On these sites are carried out: the running of the industrial processes of the Interconnection Systems business, the support close to Airbus Toulouse and the development of new solutions and products.
- **LATelec in the Greater Southwest of France:** Development and production of special wiring (severe environments in Liposthey, space wiring at Crès).
- **SEA-LATelec in Tunis:** Production of harnesses and electrical cabinets for European customers.
- **LATSIMA in Casablanca:** Production of harnesses and electrical cabinets for European customers.
- **LATelec GmbH in Hamburg:** support of Airbus Germany sites.
- **LATelec Mexico:** This subsidiary based in the dollar zone is primarily dedicated to the production for wiring and constitutes a beachhead for development of American market.
- **Latecoere Interconnection Systems Canada:** This subsidiary was opened to support our activities with Bombardier, Heroux Devtek and Pratt and Witney
- **Latecoere Interconnection Systems Japan:** This subsidiary was opened to support our activities with Mitsubishi

RISK SHARING PARTNER

General Principles

The aeronautical sector has the specificity of a risk-sharing model between the aircraft manufacturers and the manufacturers of components on major programs. Thus, part of the risk is externalized by the aircraft manufacturer to the manufacturer of components, including the ramp-up risk. The consideration for this risk is the duration of this partnership, which is aligned with the lifetime of the aircraft giving the Group visibility over the long term.

The main challenges for subcontractors are:
- the financing of development costs at the start of the program, so-called Non Recurring Costs or "NRC",
- the ability to standardize the production cycle in order to reach the breakeven point of the program and realize productivity gains on the unitary costs (called Recurring Costs or "RC") sufficient to absorb Non Recurring Costs amortized on the number of aircraft.

The standardization of the product cycle may be subject to the following unforeseen events:
- rates too low preventing the decreases related to the experience effects,
- technical problems,
- supplies of suppliers,
- ramp-up requested by the aircraft manufacturers,
- configuration changes during the course of the program,
- price increases requested by suppliers.

In the event of major commercial success of an aircraft, the manufacturer of components directly benefits from the rate effect, the stability of the industrialization and the amortization of non-recurring costs.

Risk-sharing contracts are followed in accounting according to IFRS 15 (see note 2.2 and 2.17 of the consolidated financial statements).

Risk Sharing Partner ("RSP") in the LATECOERE Group

More than half of 2018 revenue realized by the LATECOERE Group in Aerostructures as well as a significant share of the Interconnection Systems branch comes from risk sharing partnership contracts.

DEPTH OF THE ORDER BOOK

For the RSP contracts, the company is the exclusive supplier of the manufactured products. Thus, every order booked by the aircraft manufacturer is directly reflected in the order book of the LATECOERE company (3 years of revenue at year-end 2018), giving it an excellent view of the level of activity over coming years. The duration of partnership contracts -- more than fifteen years -- also allows the installation of suitable industrial means.

VISIBILITY

The Group has strong visibility on its business due to the depth of its order book and the fixing of selling prices as soon as the contracts are signed.

SALES PRICES AND CURRENCIES

Element sales prices are generally fixed from the beginning of the contract and for the most part are expressed in dollars. The Group is implementing an industrial policy to reduce its natural exposure to the resulting currency risk, by increasing the share of its purchasing in dollars from its Euro bases and by developing a globalized network of industrial organizations. The policy is to systematically hedge residual exposure through financial instruments deployed over a sliding period from 12 to 36 months.

MAIN CHALLENGES

The main challenges for the Group are to hold to the originally costed development budget in the contract and the decrease of production costs.

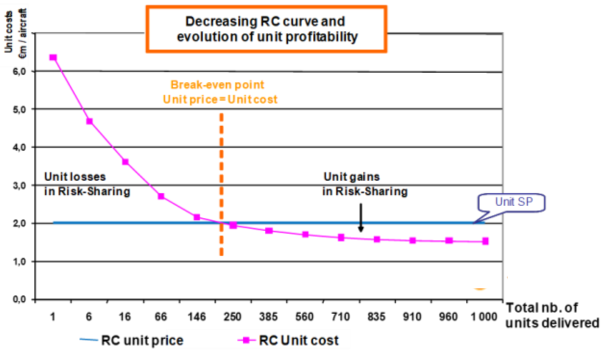
FINANCING

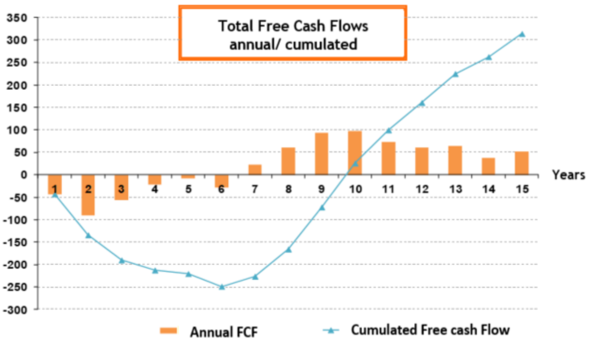
The Group finances the development phases and shares the "program" risk with the customer. This means that if the contractually specified number of aircraft is not reached, the development costs committed by the Group will not be fully recovered. Moreover, this means that if the contractually specified number of aircraft is reached, but with a time lag relative to the initially provided deadlines, the return on investment for the Group will be longer.

This risk is partially reduced to the extent that:

- it is shared because of the diversity of programs in which the Group is committed
- it uses second-level* partners subject to symmetrical constraints,
- financing of these programs is partly provided by refundable advances that will not be in the case of failure.

The graphs below illustrate the business model of RSP contracts and free cash flow generation patterns of associated operations (cash flow from operations after taking into account the amount disbursed on investment):





Elements given for illustrative purposes but not related to current programs.

1.5 Property, plant and equipment

The headquarter of Latécoère Group is based in Toulouse (France). In order to exercise its design and production activities, the Group has various establishments shared out over several sites in thirteen countries. The table below presents the Group's main sites as of December 31, 2018.

Company	Site	Activity	Occupancy*	Headcount as of Dec. 31, 2018
Latécoère S.A.	Toulouse (Périole), France	Head office Design and production site	O	614
Latécoère S.A.	Gimont, France	Production site	O	139
Latécoère S.A.	Toulouse (Montredon), France	Head office Design and production site	FL	107
LATelec S.A.S.	Labège, France	Production site	O and T	470
LATelec S.A.S.	Liposthey, France	Production site	FL	110
LATelec S.A.S.	Le Crès, France	Production site	O	94
LATelec S.A.S.	Colomiers, France	Head office / Production site	T	113
Latécoère Czech Republic s.r.o.	Prague, République Tchèque	Production site	O	788
LATECOERE do BRASIL	Jacarei, Brésil	Production site	O	354
LATECOERE Inc	Seattle, Etats-Unis	Head office / Design site	T	7
LATECOERE Mexico	Hermosillo, Mexique	Head office / Production site	T	190
LATelec Mexico	Hermosillo, Mexique	Production site	T	491
LATelec GmbH	Hambourg, Allemagne	Head office / Production site	T	115
SEA LATelec	Tunis, Tunisie	Head office / Production site	O	899
LATsima	Had Soualem, Maroc	Production site	T	288
LATECOERE Bulgarie	Plovdiv, Bulgarie	Production site	O	146
LATelec Interconnection, Inc.	Laval (Quebec), Canada	Production site	T	33

*O : Owner, T : Tenant, FL : Finance lease

1.6 Research & Innovation

Research & Technology (R&T) covers all technological research activities enabling the Group to innovate and to master know-how and technologies. It is this strategic activity that permits Latécoère to create economic and technical performance differentiators with the dual objective of improving performance levels and the competitiveness of current products, and to prepare for the products and contracts of tomorrow. Applying Agile project management methods, works are driven by the measurement and analysis of value to the Group, to the customer and to the end user.

Latécoère has decided to invest 2% of its revenue in the implementation of its R&T strategy. The Group self-funds and draws on external financing, participating in calls for project proposals initiated by regional, national and European authorities and agencies for collaborative industrial innovation support schemes.

At a later stage, Research & Development (R&D) involves the programme research and development work carried out in areas such as product design, prototype manufacture, product testing and qualification. The Latécoère Group may co-finance investment in the research and development of systems and products in partnership with its customers.

INNOVATION, Research & Technology

Latécoère has a solid technological base acquired from recent Research & Technology programmes run in 2015 and 2016. A notable achievement is the NexGED door, demonstrating the Group's ability to design a door as a sub-system and to explore innovative solutions, particularly those involving devices and mechanics, seals, visualisation and electric activation.

As part of its growth strategy, the Latécoère Group decided to re

double its R&T efforts in 2017, focusing on objectives key to setting itself apart from its competitors :

- in the doors segment, the ASGARD project has made a genuine breakthrough in how aircraft doors are viewed and designed. A dual product / process approach, which creates a paradigm shift in door development, cost structure and aircraft manufacturer relationships. Some technological building blocks are being developed in complementary projects (ISA, DEPACE, ARCHES).

  This program, supported by the DGAC (French Civil Aviation Authority), should enable Latécoère to win the next doors program and to consolidate its position as leading independent on this aerostructures system;

  - in the interconnection systems segment, Latécoère is fully committed to developing avionics and cabin optical data transmission technologies. Several networks and LiFi (Light Fidelity) projects were launched in 2017, also with DGAC support. Similarly, to demonstrate the value of having a wiring infrastructure with greater secondary structure integration, Latécoère has committed to two application projects alongside Airbus Helicopters (wiring and flight deck of the RACER high speed demonstrator, supported by the Clean Sky 2 European research programme) and Stelia Aerospace;
  - Selected by Airbus UK, Latécoère also started its activities in England by creating a subsidiary dedicated to research on the integration of electrical systems within the wings of commercial aircraft. Member of ATI - Aerospace Technology Institute - Latécoère is

supported by Innovate UK, the UK government's innovation support vehicle.

- Latécoère conceived and designed in 2018 several dual programs aiming at standardize electrical infrastructures and optimizing power distribution within the cabin of civil and military aircraft. It is in this context that Latécoère is participating in the IntPOD project alongside the SME Edison Ways. This project is funded by the DGA (Direction Générale de l'Armement) and the DGE (Direction Générale des Entreprises) as part of the RAPID support program.

- in materials and processes, Latécoère has committed to an "out of autoclave composites" roadmap and "additive manufacturing" through projects conducted inside the Jules Verne and et Saint Exupéry technology research institutes (TRI). Paying particular attention to the out of autoclave thermoplastic composites, Latécoère is now a member of GIFAS TP and the Dutch center TPRC dedicated to research on thermoplastic composite materials. Leading a consortium made up of several industrial and specialized research institutes, Latécoère was selected to lead the ELCOCOS research project on injection technologies applied to aircraft gates for the benefit of Airbus Defense & Space, as part of the European program Clean Sky 2.

- Latécoère is continuing its industrial research activities, launched in 2016 in connection with the Civil Aeronautical Research Council (CORAC) "Aeronautical Factory of the Future" (UAF) platform for the implementation of very innovative manufacturing processes. To assist with the move towards digitalising and automating its production facilities, the Group built its new Toulouse-Montredon factory, one of the very first sites to be awarded the "Showcase for Industry of the Future" label by Alliance Industrie du Futur (Alliance for Industry of the Future). This 4.0 industrial machining plant will combine automation and innovative processes supported by the Internet of Things and Cyber-Physical Systems to create a paperless production site.

- With the aim of injecting a real dynamic of innovation and giving all Group employees the opportunity to engage in this process, Latécoère launched in 2018 an internal innovation competition entitled "Latécoère Innovation Awards ". This first edition enabled more than 5% of employees to propose a total of 66 technical or organizational innovations. Two of them were awarded for their contribution to the automation of the production of electrical harnesses (Interconnection Systems branch), and the use of additive manufacturing technologies to increase the productivity of the workshops (Aerostructures branch).

Latécoère also increased its commitment and cooperation with university research centers in 2018.

Thus, the Group signed a charter of cooperation with ISAE Supaéro in Toulouse and started 3 research programs with its students. In the United States, the Group is participating for the first time in the Capstone program at the Washington University State University's "William J. Boeing" research department in Seattle. The students are conducting a research project on electro-active polymers for Latécoère.

RESEARCH AND DEVELOPMENT

In 2018, Latécoère Group pursuied the deployment initiated in 2017 of a structure for its R&D activities with the aim of developing synergies between various engineering teams and to consolidate their operational excellence. Committed to a process of continuing performance improvement, the Technical Divisions for Aerostructures (Toulouse - France, Jacarei - Brazil) and Interconnection Systems (Labège - France, Nagoya - Japan, Hamburg - Germany) apply so-called "lean engineering" methodologies.

Following the certification of the E190-E2 door system in 2017, the Aerostructures technical department supported Embraer when the first aircraft delivered to the airlines in 2018 (Wideroe, Air Astana) came into operational service. The doors development of versions 175 and 195 of the E-JETS E2 family continues towards their certification. At the same time, in a dynamic of operational performance and competitiveness of our customers' major aircraft programs, several redesign-to-cost actions were conducted to optimize the cost of Latécoère products.

As part of the MRJ90 project won in 2017, the Interconnection Systems Technical Department redesigned the EWIS architecture of the aircraft as well as the entire design of the harnesses. Manufactured under this new definition, the new harnesses will be delivered to Mitsubishi Aircraft in the spring of 2019 for the new flight test campaign and in order to obtain the type certificate. The Interconnection Systems technical department is also involved in new EWIS developments, notably with Dassault Aviation for the new Falcon programs and with Kopter for its SH09 multi-role single-engine light helicopter. In 2018, the Interconnection Systems Technical Department also supported the commercial campaigns by designing harnesses under severe conditions for engine and landing gear manufacturers, and by offering design-to-cost solutions to cabin equipment suppliers such as than Safran and Thales.

In 2018, Latécoère Group technical divisions have been primarily focused on the following programmes:

- Aerostructures: qualification and certification of Embraer E-JETS E2 program doors; start of the build-to-print construction of a cargo door of the Boeing KC-46A Pegasus tanker aircraft; draft business jet doors for a North American customer.

- Interconnection Systems: Electrical systems architecture for the programs Mitsubishi Aircraft MRJ90, Airbus Helicopters RACER, Dassault Aviation Falcon and Kopter SH09 helicopter; design-to-cost campaign for the Thales and Safran cabin harnesses, design of the Heroux-Devtek landing gear harnesses for Embraer EMB-550 Legacy 500 executive jet; design of A320 thrust reverser electrical control system (ETRAS) harnesses, digital mock-up digitalization program of A320 program electric harnesses.

INDUSTRIAL PROPERTY PROTECTION

In 2017, the Latécoère Group initiated a proactive patent filing policy to endow the business with a solid and differentiated technology portfolio. Within the same focus on addressing major customer needs, the dual objective pursued by this policy is technological competitiveness and energising the internal spirit of innovation that has always been part of the genetic make-up of Latécoère and its employees.
The number of patent applications filed by the Latécoère Group has increased from just a few in 2015-2016 to 13 in 2017 and 22 in 2018 . The number of ideas and patent filings is now one of the key markers measuring Group performance.

2.

RISKS AND CONTROL

The company proceeded to a review of the risks which could have a significant unfavorable effect on its activity, its financial position or its results (or on its capacity to carry out its objectives) and considers that there are no other significant risks except those presented.

2.1 Risk factors

2.1.1 Operationals risks

« Program » risk

Risk identification	Risk management
The strategic choice of future programs is carried out in a changing technological environment and involves the commitment of large investments, particularly in Research & Development. These investment programs assume that there will be long-term profitability. The profitability of the Group depends upon the commercial success of the programs. The commercial and profitability assumptions accepted by the Group could turn out not to be true and the products which have been the subject of these investments might not achieve the commercial success necessary to make the initial investments profitable.	In order to face up to this risk, the Group has diversified its programs and has obtained refundable advances to finance a part of the development costs on some programs. These advances are only refundable if the program succeeds. Details on these advances may be found in note 13.3 to the consolidated financial statements.

Aircraft manufacturers can have difficulties respecting their program calendars. Delays in the schedule for the realization of new aircraft can cause delivery postponements and thus affect the rate of the realization of the Group's revenue.	For the Group, this risk is shared out because the company uses second-tier "partners" as suppliers, who are subject to the same risks. The refundable advances obtained also make it possible to reduce this risk because reimbursements depend on the deliveries carried out. Moreover, the Group may occasionally open negotiations with its customers, which enables it to reduce this risk. These negotiations support and secure the financing of the relevant programs.

Aircraft Manufacturer Delivery Rate Risk

Risk identification	Risk management
Aircraft order rates show cyclic tendencies related to changes in passenger traffic, to the rate of ageing and renewal of aircraft fleets, to equipment decisions and to the financial health of the airlines companies and also, in a more general way, to changes in global GDP and international business. The Group's activity resulting directly from the production rates of the aircraft manufacturers, variations in production rates impact its level of activity and can affect its financial position. Furthermore, exceptional events (terrorism, pandemics, and air crashes) could have major repercussions on air traffic and, as a consequence, on the aeronautical programs in which the Group participates. In 2016, more than 95% of the Group's consolidated revenue is related to civil aviation.	In order to face up to the risk that aircraft manufacturers reduce production rates, in particular in a period of downturn cycle, the Group develops an industrial policy aiming to ensure a good level of reactivity of its cost structure and in which there is the choice to resort to "partner" suppliers of the second level, subject to the same constraints.

Supplier risk

Risk identification	Risk management
In general, the LATECOERE Group works through partnerships with partners and suppliers. Events likely to affect these partners may affect the Group's business (additional costs, production delays, etc.).	In order to limit this risk the Group takes various actions: • monitoring through regular audits (quality and logistics), • technical and organizational assistance, • assistance in the development of the maturity of suppliers through internal resources or through the SPACE organization of which LATECOERE is an executive member, • the development of double sources for the most critical supplies. • legal monitoring of potential claims of sensitive suppliers. The Group also commits itself to its suppliers, in order to ensure good relations with them and to reasonably control the continuity of supply.

Country risk

Risk identification	Risk management
Due to its presence in more than ten countries, the LATECOERE Group may be exposed to political or social risks.	The Group practices an industrial strategy of double sourcing schemes, once production rates allow it and in connection with its aircraft manufacturer customers, in order to better address country risks.

2.1.2 Legal risks

Product risk

Risk identification	Risk management
The manufacturer guarantees the airworthiness of delivered aircraft. In case of failure, LATECOERE, as a supplier, could be found liable. Similarly, the Group is exposed to the risk of claims related to the alleged non-compliance with certain contractual provisions in its relations with third parties. The analysis of the Group's legal risks does not reveal any risk of significant occurrence and seriousness.	The very strict quality standards (selection of suppliers, internal quality control procedures, etc.) implemented in the ISO 9001/ EN 9100 V2009 system of reference by the companies of the Group, aim to ensure irreproachable reliability of the products delivered. The transition of all sites to EN 9100 V2016 is underway and will be finalized in the first half of 2018. An ISO 14001 certification process has been undertaken; six of the Group's plants have already been certified. Furthermore, the Group has taken out a product liability insurance policy (see section 2.2). In order to cover the risk of contractual claims, the Group has an insurance policy. When such claims arise, they are processed by the legal department to defend the interests of the Group. A tool put in place by the Group also enables it to ensure to its customers a quality follow-up of its products.

Ethics and law breach risk

Risk identification	Risk management
The Group is also exposed to possible non-compliance with regulations. For example, with respect to export controls, the Group is required to comply with laws and regulations of international and national authorities, including the European Union and the United States. The same is true of competition law, the fight against corruption and possible embargo measures against countries in which it operates.	To ensure compliance with international and national regulations, the Group has set up several systems to prevent corruption, tax evasion, cyber-criminality or to protect personal data. With regard to embargoes and sanctions, in particular from the United States, the Group ensured that it took all the necessary and necessary measures to comply with all the regimes applicable to its activities.

There is no other governmental, judicial or arbitration procedure likely to have or had in the last 12 months significant effects on the financial position or profitability of the company and / or the Group. It includes all proceedings that the Company is aware, which is pending or threatening it.

2.1.3 Financial risks

The Group's Finance Department proposes and implements the rules concerning the management of liquidity risks, market risks (raw material, exchange rates, interest rates, equity shares, and liquidity) as well as associated banking counterparty risks. In general, these risks are managed centrally by the parent company Latécoère. Financing, investment, identification and hedging strategies are reviewed monthly by the Group Finance Department.

Raw Material Risk

Risk identification	Risk management
Market purchases constitute only a negligible portion of procurement, and represent the only part of our raw material purchasing subjected to price fluctuations.	Raw material procurement (aluminum, steel and titanium) is covered principally by contracts managed by the aircraft manufacturers (conbids) and by long-term contracts containing clauses that limit the impact of price fluctuations.

Currency risk

Risk identification	Risk management
Through its international exposure and invoicing in US dollars to its French customers, the Group is confronted with foreign currency exposure. The exposure linked to fluctuations in the US dollar is partially hedged through forward sales contracts and option "collars". The dollar rate and the associated foreign exchange rate exposure are part of the estimated future assumptions for the determination of margins on construction contracts. The fluctuations of the parities may affect the operational margin, financial result, shareholders' equity and net debt.	The Group consequently developed a policy of natural hedging by carrying out a part of its purchases in USD. Thus, the Group invoices approximately 85% of its sales in dollars and buys approximately 65% of supplies or subcontracting in dollars. The Group's natural hedging on the USD represents approximately 40%. In order to manage its net residual net exposure, the Group uses financial hedging instruments, such as forward sales but also a combination of options with barriers and accumulators. Optimization actions are also implemented to improve the hedged rate. These actions are always conducted in order to preserve the Group's economic performance. They are based on products that may benefit from a partial improvement in the underlying parities, without jeopardizing the original hedged rate. The underlying instruments of this strategy are mainly accumulators and the combination of optional instruments with or without barrier. The Group has continued its EUR/USD hedging policy. Thus, the Group is hedged for 2019 and 2020 respectively at a price of 1.18 and 1.24 « at worst ». The Group also began its hedging policy for 2021 at an hedged rate of 1.23. The Group also has set up exchange rate hedges to protect against the fluctuations of the Czech crown with respect to the Euro in relation with its LATECOERE Czech Republic s.r.o. subsidiary. Details of these derivative instruments and their impact on the financial statements appear in note 9 to the consolidated financial statements. The impact of dollars hedging transactions recorded in revenues amounts to €4.9 million in 2018 against (€0.5) million in 2017. The Group's exposure to currency risk and the sensitivity analysis are detailed in Note 23.3 to the consolidated financial statements. The characteristics of the financial instruments are described in notes 2.18 and 9 to the consolidated financial statements.

Interest Rate Risk

Risk identification	Risk management
Interest rate risk depends on the Group's debts, financial investments and financial conditions (fixed portion / variable portion)	The Group's exposure to the interest rate risk and the sensitivity analysis are mentioned in Note 23.4 to the consolidated financial statements.

Equity share risk

Risk identification	Risk management
The Group holds essentially LATECOERE shares, the carrying value of which is adjusted according to the closing market prices. The treasury shares are accounted for in deduction of shareholders' equity in the consolidated financial statements. The amount of treasury shares at December 31, 2018 is €79k.	Given the fact that at year end the Latécoère Company only held 29,972 of its own shares, the equity share risk is not significant. Furthermore, the Group does not hold any other significant listed shares and for this reason is not exposed to the risk of the fluctuation of share prices.

Counterparty risk

Risk identification	Risk management
Transactions that potentially generate a counterparty risk for the Group are as follows: • short-term financial investments ; • derivative financial instruments ; • accounts receivables ;	The risk of default of counterparties relating to customers is very limited due to the credit quality of the main customers (Tier 1 aircraft manufacturers) of the Aerostructures and Interconnection Systems divisions. The Group implements derivative financial instruments with the goal of reducing its exposure to foreign currency and interest rate risks. These transactions are contracted by private agreement with tier 1 banks. Cash is invested through risk-free monetary instruments with tier 1 banking establishments. At year-end, the Group had identified no significant credit risk on these assets due but not depreciated.

Liquidity risk

Risk identification	Risk management
The Group looks to ensure that it has broad access to liquidity to meet its commitments and investment needs. To do this, the Group borrows from banks markets, which exposes it to liquidity risk in the event of partial or total closure of these markets. The Group’s business requires it to have access to external sources of financing and the availability of such financing depends on a variety of factors such as market conditions and the macroeconomic environment. A deterioration in the financial markets could lead to an increase in borrowing costs or even restricted access to financing for both Latécoère and for its competitors.	The Group manages its cash flow in a centralized way. The surpluses or the financing needs of its subsidiaries are invested or financed by the parent company on market conditions. The Group's cash flow department manages the current and provisional financing activities of the Group and its capacity to face up to its financial commitments. At the closing, the Group had drawn down the whole of the resources at its disposal including the factoring whose operating principle required the mobilization of all receivables attached to customers assigned without regard to actual cash needs. The details of the Group's financing are presented in note 13.1 and 13.2 of the consolidated financial statements. Group's exposure to liquidity risk is presented in Note 23.2 to the consolidated financial statements. The company has carried out a specific review of its liquidity risk and considers that it is in a position to meet its future deadlines.

2.1.4 Other risks

Continuity of information systems

Risk identification	Risk management
The Group depends on infrastructures and more generally of common information systems to all its activities. It is exposed to the risk of attacks on the security of its industrial infrastructures or its information processing systems. Cybersecurity risks may include compromising the confidentiality, integrity or availability of data and transactions made by information systems (system malfunction, data theft, destruction or loss of data integrity), and can be linked to external threats (denial of services, attempted intrusion, malware) or internal (malicious, data breach). Other types of indirect threats are also to be prevented such as those of social engineering type ("fraud to the President or the treasurer", blackmail, ransomware, etc.). Information, owned by the Group, represents a key issue in terms of industrial property as well as its strategy and its most important assets. The company's data must therefore be sufficiently protected. All of these risks and threats could have an impact on the Group's operations and profitability.	The Information Systems Department (DSI) guarantees the continuity of the array of services tied to the Group's Information Systems (SI). The DSI has among its missions, the maintenance in operational condition and the management of the integrity of the Information Systems.. The maintenance in operational condition is ensured by a group organization structured in transversal competence centers. The integrity of the Information Systems is guaranteed through a mastery of computer risks plan which defines the priorities and associated actions to reduce the exposure to external and internal threats. An Information System master plan (SDSI) enables the alignment of the Information System to the strategy of the Group and on operational requirements while improving the performances and the security of infrastructures. This multi-year plan implements information system solutions to meet business requirements outlined in formally described processes. These solutions are based on a policy of standards and of tested software packages in order to ensure their sustainability over time while benefiting from the latest technical advances or functional improvements. It is updated annually and validated by the Executive Committee (Comex), as a function of changes to the Group's strategy and business lines. A methodology of project management enables the human and financial investments in the master plan to be monitored and guaranteed. Two independent and redundant Data Center provide service continuity by replicating data in real time through a specific connexion. Sites access these Data-Centers through a dual-ad network. A shared backup strategy between business and the IT department ensures data recovery in case of incident or for every need of business. This strategy defines in particular the frequency of backups, storage conditions and rules periods of conservations physical media. To ensure the security of its information system and its infrastructures, the Group has implemented mechanisms in the fight against cybercrime.

2.2 Insurance and risks coverage

The subscription of Group insurance contracts enables a very wide range of risks to be covered in an optimized way, including:

- damage to property or assets of the Group or for property entrusted to it, as well as the operating loss that may result from such damage for a period of 24 months of business,
- the risk of the calling into question of the Group's liability for claims occurring during the performance of services or to guarantee the consequences of product defects including for an aeronautical or space product, in case of an accident,
- the risk of grounding flights.

In addition, local insurance programs are subscribed in countries where the Group is established if it is to cover specific risks or to respond to local insurance regulations.

2.3 Internal control and risks management

This section details the internal control and risks management procedures implemented, in a purely descriptive manner, in accordance with the Reference framework, supplemented by the Application guide, established in 2010 under the auspices of the French financial markets authority (Autorité des marchés financiers – AMF).
The overall approach of the Group's risk management system can be schematized according to the model of the three lines of control.

Indeed, this involves taking into account the responsibilities of governance bodies and distinguishes between three function groups involved in risk management, namely:

- functions that endorse and manage risks;
- functions that monitor risks;
- functions that provide independent insurance.

2.3.1 Definition and reference of internal control and risks management

Definition

Internal control is defined in the Group as a process implemented by management and staff to provide reasonable assurance of control of operations with regard to the following objectives:

- reliability of financial and management information;
- compliance with applicable laws and regulations;
- implementation of instructions and guidelines set by the General Management;
- proper functioning of the Company's internal processes, particularly those contributing to the safeguarding of its assets;
- risk management ;
- realization and optimization of operations.

Reference

Latécoère relies on the reference framework on internal control adapted to VaMPs (« Valeurs Moyennes et Petites » or « Average and Small Values") defined by the French financial markets authority in its recommendation of January 22, 2007 and updated in July 2010, while adapting it to its structure and its situation.

2.3.2 Scope of internal control and risks management

The internal control and risks management system is applied to the entire Group, which is defined as the parent company Latécoère as well as all companies consolidated according to the full consolidation method.

2.3.3 Components of Latécoère Group's internal control and risks management system

Control environment

Latécoère's internal control system is based on an operational organization broken down into several levels: the General Management, the Headquarters Support Departments, the Branch Directors and the operational staff.

The General Management defines the strategic orientations and arbitrates the allocations of resources between the departments.
The Branch Directors exercise control over the performance of the operational staff and ensure a coordination and support role between the Group's entities, notably in terms of resource pooling, allocation of the Research and Development effort and optimization of productions allocation in industrial sites. Each level is directly involved in the implementation of internal control.
In this context, the Group has set up principles and operating rules with appropriate delegation of powers, from the powers of the Chief Executive, thus defining precisely the areas and the level of decision and control that can be taken by each operational manager.
The principles of action and behavior in the Group are set out in the Code of Ethics, which aims to ensure the Group's development in accordance with national and transnational laws and ethics. It attaches particular importance to the respect of fundamental rights: the prohibition of child labor, the work of the disabled, the fight against discrimination and harassment, health and safety at work. It affirms the Group's commitment to sustainable development: respect for the environment and continuous improvement of its protection is a priority for the Group. Finally, it deals with societal aspects and integrity in the conduct of business.

Available on the Group intranet and translated into 6 languages, the Code of Ethics is distributed to all Group employees.
Capitalizing on its Code of Ethics and integrity culture, the Group deploys a compliance process under the auspices of the Legal

Department, which has set up an anti-corruption and anti-competitive practices in-depth program, both specific and adapted to the regulatory constraints and culture of the countries in which Latécoère operates.

This program relies in particular on annual and mandatory training campaigns for all Group Engineers and Managers. In 2018, the entire process was revised to take into account the provisions of the Sapin 2 law. In particular, the Group has drawn up a specific mapping of corruption risks and is currently implementing action plans to reduce these risks. In addition, the stock market Ethics Charter on the prevention of insider trading as well as the process of notification to the persons concerned have been updated following the entry into force of the European Regulation No 596/2014 on market abuse.

Evaluation and process of risk management

The internal control procedures are part of an ongoing perspective of identification, assessment and risks management that could affect the achievement of the objectives estalished by the Group. In particular, the assessment of risk factors helps to define appropriate control activities. This assessment is based on the risk mapping process that identifies, analyzes and monitors the evolution of major risks. Gross risk (inherent risk) is first evaluated. The procedures and controls implemented are identified in order to define a net risk (residual risk).

The major risks are the subject of an in-depth review and an evaluation according to a grid taking into account their potential financial consequences, their probability of occurrence and the associated level of control, in order to define a degree of exposure.
The risk management process is coordinated by the Executive Committee.
The latter notably reviews the risk mapping process and manages the dynamic risk management. This is based on the identification, for each major risk of the cartography, of a "risk owner", whose role is to follow the evolution of the risk based on key indicators reviewed by the Executive Committee. Depending on the evolution of the risk and the associated control system, each risk owner presents an analysis of the level of risk that results in the implementation of action plans when necessary.

The dynamic risk management implemented by the Executive Committee is completed and enriched by risk monitoring carried out by the Legal Department. It is responsible, with the help of the functional networks, for the assessment and management of the risks that concern it as well as for the correct implementation of the regulations of the countries in which the Group operates. It must also ensure that the directives and recommendations defined at Group level are correctly applied within the operating entities. Every month, the mapping risk is updated and analysed, then validated by the Executive Committee, based on a detailed analysis of the major risks and the monitoring carried out by the risk owners.

The main risks identified and their management methods are listed in Section 2.1 of this Chapter, "Risk Factors", pages 15 to 19.

Those are :
- operational risks, which include risks related to aircraft manufacturer rates, supplier and raw material risks;
- legal risks that include in particular, the product risks and the risk in case of breach of ethics and the law;
- financial risks that include raw material risk, currency risk, liquidity risk, interest rate risk, bank counterparty risk and equity share risk.

Control activity

Control activities, conducted at all hierarchical and functional levels, aim to reduce the risks described above. They are mainly based on the application of standards and procedures that help to ensure the implementation of the guidelines issued by General Management and to provide reasonable assurance that major risks are dealt with.

2.3.4 Information and communication

Relevant information, communicated within apprropriate periods, provides all staff with the means to assume their responsibilities and carry out the controls incumbent upon them. Information from the management system is analyzed and communicated monthly to the operational staff.

2.3.5 Procedure relating to the preparation and processing of accounting and financial information for the parent company and consolidated financial statements

The finance department is responsible for financial reporting, in liaison with the executive manegement .

As such, the finance department is mainly in charge of:
- management control and animation of the plan / budget / reporting cycle,
- the accounting production and the establishment of the accounts,
- cash flow management,
- management of currency and interest rate hedging,
- internal control.

Controlling is organized at a double budgetary level by nature / managerial and analytical responsibility and by program / product line.
The management control manages cost accounting by project, and in particular the monitoring and valuation of inventories and work-in-progress. Long-term contracts (construction contracts) are subject to periodic revisions, depending of costs evolutions and the associated industrial scenarios.

The forecasts of the delivery rates of the different aircraft, which determine the workload schedules of the Aerostructures and Interconnection Systems activities and therefore the preparation of the budget and re-forecast during the financial year, are reviewed periodically.

The budget procedures defined transversally at Group level are applied in the French and foreign subsidiaries. The monitoring of budget execution is the subject of monthly (key operational and financial indicators, income statements, cash forecasts) and quarterly reports (balance sheets, income statements,cash flow statement) involving all managers under the control of the executive management.
The largest budget items (personnel expenses, raw material purchases and sub-contracting, investments) are analyzed and monitored monthly. The decisions that may impact these positions, and in particular the evolution of the Group's internal workforce, are subject to the approval of the executive management.

The Company's accounting and administrative procedures have been updated based on the Company's key processes:

- procedures covering the following sub-processes: Plan (Budget Subprocess), Save, Close Accounts, Analyze, Consolidate and Manage Financial Risks (including currency and interest rate risks)
- business instructions explaining for each subprocess the tasks to be performed
- tool guides mainly covering the Group's ERP, consolidation and treasury software, and reporting and analysis tools

Most of this information is available through the Company's intranet and is applicable to major foreign subsidiaries.

In addition to this system, the Group also relies on an IFRS accounting rules manual.

Accounting principles and IFRS restatements are centralized at the level of the parent company.
The consolidated financial statements of the Group are prepared by the financial management of the parent company. This department is responsible for updating the consolidation procedures, the training and the integration of subsidiaries within the scope of consolidation. It is also in charge of information processing, maintenance and development of the consolidation tool for the Group.

5-

FINANCIAL AND ACCOUNTING INFORMATION

5.1 Group's Business in 2018

5.1.1 The Basic Essentials

(Audited – € million)	2017*	H1	H2	2018
Revenue	**657.4**	**320.8**	**338.5**	**659.2**
Reported growth	-	*(8.5%)*	*10.3%*	*0.3%*
Growth at constant exchange rates	-	*(2.9%)*	*9.6%*	*3.1%*
Recurring EBITDA **	**78.4**	**20.9**	**33.7**	**54.5**
*Recurring EBITDA ** Margin on Revenue*	*11.9%*	*6.5%*	*9.9%*	*8.3%*
Recurring Operating Income	**51.9**	**7.1**	**20.9**	**28.0**
Recurring Operating Margin on Revenue	*7.9%*	*2.2%*	*6.2%*	*4.2%*
Non-recurring items	**(10.0)**	**0.8**	**(23.9)**	**(23.1)**
o/w Sale of Toulouse-Périole	-	*9.5*	*(0.3)*	*9.2*
o/w A380 end of program impact	-	-	*(12.6)*	*(12.6)*
Operating Income	**41.9**	**8.0**	**(3.0)**	**4.9**
Net Cost of debt	(8.0)	(1.7)	(2.8)	(4.5)
Other financial income/(expense)	16.4	(3.3)	12.7	9.4
o/w Change in fair value of financial derivative instruments	*31.3*	*(4.4)*	*(1.9)*	*(6.3)*
o/w A380 end of program impact	-	-	*16.7*	*16.7*
Financial result	**8.5**	**(5.0)**	**9.9**	**4.9**
Income tax	(16.6)	(0.2)	(3.6)	(3.8)
Net Income	**33.8**	**2.8**	**3.3**	**6.0**
Operating free cash flow	29.4	(28.3)	(6.9)	(35.2)

* Restated for the application of IFRS 15, effective as of January 1, 2018

** Recurring EBITDA corresponds to recurring operating income before recurring amortization, depreciation and impairment losses. Details of non-recurring items are presented in the Group's accounting principles from consolidation financial statements

Highlights and Financial Summary

In 2018, Latécoère generated revenue of € 659.2 million in 2018, reflecting a growth of 3.1% at constant exchange rates. The positive sales momentum which started in 2017 has continued into 2018 and was recently recognised when Latécoère secured new Build-to-Print contracts with new customers, who are world leaders in their field. Given the level of sustained commercial activity, the Group is confident in its ability to win new markets in 2019.

Latécoère's FY 2018 recurring EBITDA amounted to € 54.5 million, representing an 8.3% margin. The year was marked by the roll-out of Transformation 2020, a less favourable €/$ exchange rate, pricing pressure in certain mature programs and unexpected costs related to the insourcing of primary aerostructure parts following the defection of a major supplier in H1 2018. As expected, the Group's recurring EBITDA recovered in H2 2018. Latécoère's 2018 recurring operating income amounted to € 28.0 million.

Following Airbus' announcement to discontinue A380 production in 2021, a € 12.6 million non-cash loss impacted the Group's 2018 operating income, while a € 16.7 million financial profit related to refundable advances was recognized. Other non-recurring items, mostly linked to the Transformation 2020 plan, accounted for € (10.5) million, net from the € 9.2 million capital gain generated in H1 by the sale of the first tranche of the Toulouse-Périole site.

The Group's cost of debt has been reduced in 2018 because of the refinancing from late 2017. Latécoère's 2018 net financial income totalled € 4.9 million, compared to € 8.5 million in 2017, which benefited from the large re-evaluation of hedge instruments. Therefore, the Group's net income declined to € 6.0 million.

Aerostructures

By division, Aerostructures revenue was stable in 2018 at constant exchange rates, at € 384.1 million ((3.2%) as reported), supported by significant A320 and B787 volumes and increased deliveries of the Falcon 7X / 8X. Throughout the year, these programs offset declines in the pace of the Embraer E1, A330 and A380 programs.

Aerostructures (Audited – € million)	2017*	H1	**H2**	**2018**
Consolidated Revenue	**397.0**	**182.5**	**201.7**	**384.1**
Growth at constant exchange rates	-	*(8.3)%*	*8.3%*	*(0.2)%*
Inter-segment Revenue	17.4	7.1	7.8	14.9
Revenue	**414.4**	**189.6**	**209.5**	**399.1**
Recurring EBITDA**	**39.8**	**2.6**	**16.2**	**18.8**
*Recurring EBITDA** Margin on Revenue*	*9.6%*	*1.4%*	*7.7%*	*4.7%*
Recurring Operating Income	**26.8**	**(3.8)**	**10.4**	**6.6**
Recurring Operating Margin on Revenue	*6.5%*	*(2.0%)*	*5.0%*	*1.6%*

* Restated for the application of IFRS 15, effective as of January 1, 2018

** Recurring EBITDA corresponds to recurring operating income before recurring amortization, depreciation and impairment losses. Details of non-recurring items are presented in the Group's accounting principles from consolidation financial statements

The Aerostructures division's profitability recovered in the second half of 2018. Latécoère's Aerostructures division continues its transformation following the launch of state-of-the-art manufacturing facilities which will contribute to reduce its cost base and provide the industrial means to successfully compete for future platform tenders.

Interconnection Systems

Latécoère's Interconnection Systems division recorded strong growth of +7.9% in 2018 at constant exchange rates and +5.6% in published data. This performance confirms that new projects, such as the Mitsubishi MRJ90 and cabin activity, as well as increased A320 and A350 order volumes, more than offset declines related to the A380 and A330.

Interconnection Systems (Audited – € million)	2017*	H1	**H2**	**2018**
Consolidated Revenue	**260.4**	**138.2**	**136.8**	**275.0**
Growth at constant exchange rates	-	*5.2%*	*11.4%*	*7.9%*
Inter-segment Revenue	2.0	0.9	0.9	1.8
Revenue	**262.4**	**139.1**	**137.7**	**276.8**
Recurring EBITDA**	**38.4**	**18.2**	**17.4**	**35.6**
*Recurring EBITDA ** Margin on Revenue*	*14.6%*	*13.1%*	*12.6%*	*12.9%*
Recurring Operating Income	**24.8**	**10.9**	**10.4**	**21.2**
Recurring Operating Margin on Revenue	*9.4%*	*7.8%*	*7.5%*	*7.7%*

* Restated for the application of IFRS 15, effective as of January 1, 2018

** Recurring EBITDA corresponds to recurring operating income before recurring amortization, depreciation and impairment losses. Details of non-recurring items are presented in the Group's accounting principles from consolidation financial statements

Latécoère's Interconnection Systems 2018 Recurring Operating Income came to € 21.2 million compared to € 24.8 million in 2017. Throughout 2018, the division secured new customers long-term contracts which required additional start-up costs and temporarily impacted the division's margins. The start-up investments related to some of the new contracts are expected to continue in 2019.

Solid Balance Sheet

Transformation 2020

In 2018, Latécoère made significant steps towards the fulfilment of its Transformation 2020 plan by finalising several key milestones in France, India and Bulgaria. So far, Latécoère has invested more than € 85 million in its transformation, which corresponds to c.65% of the Group's initial plans.

Following the inauguration of its digitised, connected and automated 4.0 production plant at Toulouse-Montredon, the Group also received the necessary authorisations to launch the second part of the work in the fourth quarter of 2018. This new phase involves a site expansion of 3,000 square meters to accommodate the surface treatment and painting activities that will start in 2020.

In addition, manufacturing transfers will continue between the Czech and Bulgarian sites. The expansion of the Bulgarian site has been confirmed and will be completed in 2019.

As anticipated, the Group's 2018 operating free cash flow was € (35.2) million mainly due to non-recurring investments of € 41 million, which include the social plan in France (PSE) and the Transformation 2020 capex at the Toulouse-Montredon and Bulgaria sites. The 2018 recurring operating free cash flow amounted to € 5.8 million, mainly affected by the inventory build-up for the growing Interconnection Systems deliveries expected in 2019. Latécoère's operating free cash flow improved in the second half of 2018 to € (6.9) million.

Latécoère's balance sheet remains solid, with net debt representing 9% of equity and less than 50% of the Group's 2018 recurring EBITDA.

5.1.2 Additional Information

Revenue of the Group

The analysis of revenue by branch of business is as follows:

- **Aerostructures (58%) :** Aerostructures revenue was stable in 2018 at constant exchange rates, at € 384.1 million ((3.2%) as reported), supported by significant A320 and B787 volumes and increased deliveries of the Falcon 7X / 8X. Throughout the year, these programs offset declines in the pace of the Embraer E1, A330 and A380 programs.

- **Interconnection Systems (42%) :** Latécoère's Interconnection Systems division recorded strong growth of +7.9% in 2018 at constant exchange rates and +5.6% in published data. Growth in the 4th quarter of 2018 of +8,7% at constant exchange rates confirms that new projects, such as the Mitsubishi MRJ90 and cabin activity, as well as increased A320 and A350 order volumes, more than offset declines related to the A380 and A330.

Corporate Taxes

The Group posted a corporate tax charge of (€3.8) million including current income tax due of (€5.2) million and deferred tax income of + €1.4 million.

Inventories

The increase of industrial inventories during the period for €18 million is mainly due to the gain of new commercial contracts in 2018 of the Interconnexion Systems branch of which the production phase will only really occur in 2019.

Shareholders' Equity

The shareholders' equity Group share at December 31, 2018 was €262.6 million. It may be broken down as follows:

Capital and initial reserves	266,0 M€
Impact of hedging instruments	(9,4) M€
Fiscal year net result, Group share	6,0 M€
Total	**262,6 M€**

5.2 Business of the Parent company in 2018

The financial statements of the company at December 31, 2018 have been prepared in accordance with regulations in force, in compliance with regulation ANC 2014-03. Moreover, the Company applies the recommendations of the accounting plan of the aeronautical and space industry for the accounting treatment of some specific operations.

Business

The LATECOERE Company, the parent company, realized revenue of €469 million in 2018, which represents 58% of the consolidated revenue of the Group after elimination of intercompany invoicing. Operations in US dollars are valued at the spot exchange rate of this currency. Revenue includes exchange rate gains or losses from the hedging instruments.

The 2018 operating expense amounted to (€45.7) million compared with (€25.7) million for 2017. This operating result includes non-current items related to the costs of the creation of the future plant located near Toulouse (Montredon) for (€3.0) million,but also transformation and adaptation costs of the historic site of Toulouse (Périole site) for (€6.6) million.

Financial result was +€ 23.0 million through the combined effect of the cost of debt (€8.8) million, foreign exchange income (+€ 2.4 million),termination of A380 program (+€ 16.6 million), interests income earned on Group current accounts (+€ 2.0 million) and dividend distribution (+€ 10.4 million).

Exceptional result came to +€ 4.9 million, resulting from the impact of the production termination of the A380 for (€ 7.9) million and the gain of € +9.2 million on sales of the first phase of the Toulouse historic site (Périole site).

At December 31, 2018, the workforce consisted of 860 employees.

Net Result, Appropriation and Dividends

The net result is negative at € 14,863,188. It was proposed to allocate the full amount to the "retained profit or loss brought forward" account.

It will be proposed to the general meeting of shareholders not to distribute any dividend with respect to 2018.

The number of shares was 94,744,952 at December 31, 2018, up 350,050 shares compared to December 31, 2017. This increase is due to a capital increase of a total amount of €700,100 reserved to employees.

The company has not paid dividends in the last three years.

The total amount of expenses and charges related to Articles 39-4 of the French General Tax Code amounts to € 64,473.

Inventories of Raw Materials and Works-in-Progress

The balance sheet at the closing of the year shows net inventories of raw materials of €14.3 million (compared to €13.4 million in 2017). Work-in-progress amounts to €163.7 million, compared to €220.3 million at December 31, 2017. This decrease is mainly due to the depreciation of work-in-progress related to the termination of A380 program.

Research & Development Costs

Research & development expenses are recorded in connection with partnership contracts and do not give rise to the filing of patents in order to obtain patent right protection. They reached €9 million and correspond to non-recurring expenses on the programs that are re-invoiced to customers. These expenses, financed by the Company, are included in the works-in-progress. They will be reincorporated in Profit and Loss depending on the stage of completion of the related contracts according to the contractual agreements defining, for each program, the number of aircraft retained by the aircraft manufacturers. The margin on the partnership contracts is recognized based on the stage of completion by consolidating together the costs of these contracts, including the development costs.

The main development programs are committed with respect to customer contracts. Related risks are those described in the program risks. Furthermore, LATECOERE does not receive any research grants for research and development programs.

In a few special cases and in a marginal way, the Company may be led to file patents.

Investments

The acquisitions of new assets amounted to (€11.3) million. They mainly relate to investments in the context of the 2020 Transformation plan for (€ 5.3) million, particularly in connection with the creation of the new factory labeled "Plant of the Future" located on the outskirts of Toulouse (Montredon).

Net Financial Debt

At December 31, 2018, net debt was (€43.5) million increasing by (€45) million. The decrease in net debt is mainly due to investments and costs (including the impact of the social plan) in connection with the 2020 transformation plan.

Refundable Advances

The company obtained refundable advances from DGAC (Direction Générale de l'Aviation Civile) as additional financing of new programs (mainly A350, Embraer E2 and A380); during the fiscal year, repayments were made, depending of contractual conditions and deliveries of relevant products. At the end of 2018, the amount registered in the balance sheet item "conditional advances" is + €16.7 million. This decrease is mainly related to the impact of the termination of A380 program.

Information on payment terms

In application of the provisions of article L 441-6-1 al. 1 of the Commercial Code, the table below summarizes the mandatory information on payment deadlines (outside the group):

	Article D. 441 I.-1 °: Invoices received not settled on the closing date of the financial year whose term has expired					Article D. 441 I.-1 °: Invoices issued but not settled at the end of the financial year whose term has expired				
	1 to 30 days	31 to 60 days	61 to 90 days	91 days or more	Total (1 days and more)	1 to 30 days	31 to 60 days	61 to 90 days	91 days or more	Total (1 days and more)
(A) Slices of late payment										
Number of invoices concerned					279					1471
Total amount of invoices concerned including VAT in K€	550	182	86	195	1 012	602	974	1 315	5 280	8 171
Percentage of the total purchase amount for the fiscal year including VAT	0,1%	0,0%	0,0%	0,0%	0,2%					
Percentage of turnover for the fiscal year including VAT						0,1%	0,2%	0,3%	1,1%	1,7%
(B) Invoices excluded from (A) relating to disputed and unrecorded debts and receivables										
Number of invoices excluded					722	No invoice has been excluded				
Total amount of invoices excluded (VAT exlcuded)	239	202	103	108	652					
(C) Reference payment periods used (contractual or statutory period - Article L. 441-6 or Article L. 443-1 of the French Commercial Code)										
Payment deadlines used to calculate late payments	The Company used contractual deadlines for the calculation of late payments.					The Company used contractual deadlines for the calculation of late payments.				

For information, there is no late payment on the Group's receivalbles and payables.

5.3 Businesses of the Subsidiaries and other affiliates in 2018

Latécoère Czech Republic s.r.o.

LATECOERE Czech Republic s.r.o., wholly-owned subsidiary of the LATECOERE Company, is located in Prague (Czech Republic). It constitutes the Group's center of excellence for the production of mechanical parts and the assembly of door structures and of avionics bays. This Company invoices most of its production to LATECOERE.

The revenue increased by 2%, from CZK 3.21 billion to CZK 3.27 billion, through the effect of the increase of the rate of deliveries of doors of the Boeing B787 and Airbus A320. Net profit is CZK 65.8 million. Investments reached CZK 63 million in 2018.

There were 788 employees at December 31, 2018, diminishing by 26 from December 31, 2017.

Latécoère do BRASIL

This subsidiary is held 98% by LATECOERE and 2% by LATECOERE Développement.

The objective of this entity is to carry out, given its proximity to Embraer, the final assembly and the customizing of ERJ 170/190 aircraft family fuselage sections. Since 2010, all fuselage sections delivered to Embraer have been assembled at this site.

In 2018, LATECOERE do BRASIL revenue amounted to BRL 186.0 million, principally with its parent company and with its customer Embraer. There were 354 employees at December 31, 2018, increasing by 48 from December 31, 2017. Its positive result was BRL 19.9 million. Investments reached BRL 0.7 million in 2018.

Latécoère International Inc

The American subsidiary of the LATECOERE Group which is wholly-owned by LATECOERE is charged with covering the American market in the area of marketing. It also ensures, when necessary, additional services for the North American market in support of the parent company.

Its revenue amounted to €2.7 million in 2018, realized entirely with the parent-company. Its result is at breakeven in 2018.

LATelec

LATelec, a wholly-owned subsidiary of the Latécoère Company, constitutes the Group's center of excellence in interconnection systems. LATelec holds 100% control of its subsidiaries in Germany, in Tunisia and in Morocco. In terms of strategy, it is solidly centered on its core business which is the interconnection of onboard electrical systems in the aeronautical and space sectors.

During the year ended December 31, 2018, the main results were the following:

- Revenue was € 252.3 million;
- The total of operating income is: € 256.6 million;
- The total of operating expenses is: € 248.4 million;
- The operating result comes to: € 8.2 million;
- Operating net income before tax comes to: € 8.3 million.

Given these elements, the result for the year is a net profit of € 5.0 million.

At December 31, 2018, the total of the company's balance sheet is of €157.5 million.

The year 2018 saw production rates drop significantly at Airbus. The only exception is the A320 which continues to progress in quantitative terms. All the other programs are slowing down: the A350 is stabilizing towards the hundred or so aircraft and most other programs show great difficulties: A330 (significant slowdown in production despite the NEO), A400M and A380 (in survival at 0.5 aircraft per month).

In addition, the ATR activity continues its "soft landing". Finally, Dassault Aviation is slowly recovering from the lowest historical level of production on the Falcon range, which was achieved in 2016.

The design & build development activities showed a renewed vigor following the ramp-up of our activities with, in particular, the realization of the EWIS Mitsubishi MRJ90. This activity is expected to continue in 2019.

We are also anticipating new activities, especially for Dassault.

Despite the adversity affecting our historical customers, LATelec's industrial activity has been very sustained, with an accelerating pace over the second half of the year. Thus, the year 2018 was notably marked by:

- The manufacture of the first harnesses of the MRJ90 on the Labège site;
- The set up of a workshop with the development of a Lean chain of single harnesses in Toulouse (Borderouge site) mainly for our customer Thales;
- The ramp-up of Morocco on A350 racks and A320 CCPs;
- New market share in cabin harnesses manufactured in Mexico and Tunisia, especially for our new Safran Cabin and FACC customers.

We are coming to the end of major transfers on our best-cost sites but are preparing to open a new site in India to meet the new needs of our customers Dassault and Thales.

Our aggressive approach to commercial growth initiated in 2016 in adjacent markets (train harnesses, etc.) is bearing fruit with sustained growth of these activities in 2018. The growth of these new markets in 2019 should be very significant.

Information on subsidiaries :

('000 EURO)	SEA-Latelec	Latelec Gmbh	LATsima	LATelec Canada
Revenue	9 989	17 765	4 048	4 805
Net Income	878	885	610	555

5.4 Research & Development Expenses

In 2018, the total of research and development expenses was €11.5 million (2.3% of revenue) compared to €14.9 million in 2017, and are mainly dedicated to Embraer (E2), Airbus (A350) et Boeing (B787) programs.

5.5 Information on trends

The sales momentum which started in 2017 has continued into 2018 and was recently recognised when Latécoère secured new Build-to-Print contracts with new customers, who are world leaders in their field. Given the level of sustained commercial activity, the Group is confident in its ability to win new markets in 2019. In addition, the operational issues created by needing to quickly replace a major supplier were overcome in the 4th quarter of 2018.

Latécoère confirms its outlook. In 2019, the Group is expected to deliver significant organic growth in sales, excluding currency effects, and to carry out significant investments to finalize the Transformation 2020 plan. Due to the start-up costs in the Interconnection Systems division and progress towards the Transformation 2020 plan in the Aerostructures division, the Group will generate a positive recurring operating margin and a negative operating free cash flow after capital expenditures.

5.6 Other information

5.6.1 Investments of the LATECOERE Company

('000 EURO)	Number of shares held	Gross value	Provision	Net value
LATECOERE INTERNATIONAL Inc.	600	541	0	541
LATECOERE Développement	150 003	572	0	572
LATelec	1 900	7 600	0	7 600
LATECOERE Czech Republic s.r.o.	N/A	20 787	0	20 787
LATECOERE Do Brasil	30 339 461	13 425	0	13 425
LATECOERE Aéroservices	15 000	229	-229	0
LATECOERE Bienes Raices	600	0	0	0
Corse Composites Aéronautique	184 139	2 700	0	2 700
LATECOERE Bulgarie	200	100	0	100
LATECOERE Interconnection Systems Japan K.K.	100	38	0	38
LATECOERE Interconnection Systems US, Inc.	1 000	1	0	1
LATECOERE India Private Limited	3 000 000	353	0	353
TOTAL SUBSIDIARIES AND PARTICIPATIONS		**46 346**	**-229**	**46 117**
Treasury shares LATECOERE	29 972	79	0	79
TOTAL SECURITIES	**29 972**	**79**	**0**	**79**

5.6.2 Five Years Record of the LATECOERE Company

('000 EURO)	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018
Capital at year-end:					
Share Capital	23 090 998	186 694 330	188 087 352	188 789 804	189 489 904
Number of issued ordinary shares	11 545 499	93 347 165	94 043 676	94 394 902	94 744 952
Operations and results of the fiscal year:					
Sales excluding VAT	443 975 800	505 289 730	492 963 332	447 778 619	469 077 918
Income before tax, employee profit sharing, depreciation, amortization and provisions	-15 088 139	-12 394 909	-16 427 941	26 123 466	-7 839 681
Income taxes	7 278 717	6 468 716	8 958 023	5 766 383	1 761 193
Employee profit sharing (legal and contractual)	-2 104 270	-1 845 310	-490 756	-1 219 916	1 165 371
Income after tax, employee profit sharing, depreciation, amortization and provisions	-3 838 179	-8 624 943	-39 410 112	32 160 830	-14 863 189
Dividend paid during the year (including withholding tax on securities)	0	0	0	0	0
Earnings per share:					
Earnings after tax and profit sharing, but before depreciation, amortization and provisions	-0,9	-0,1	-0,1	0,3	-0,1
Earnings after tax and profit sharing, depreciation, amortization and provisions	-0,3	-0,1	-0,4	0,3	-0,2
Dividend paid per share (excluding tax credit) in the year	0	0	0	0	0
Personnel :					
Average number of employees	1 128	1 067	988	914	880
Total remuneration	49 090 994	47 020 248	48 108 669	44 289 230	56 432 990
Total social charges and other personnel-related benefits	23 873 112	23 407 020	22 334 173	19 434 026	21 761 644

5.6.3 Subsequent Events

Termination of the A380 program

On February 14, 2019, Airbus announced its decision to cease production of the A380. On this basis, tests were carried out and the Group revised its financial statements as at December 31, 2018.

Creation of an ad hoc committee to support the strategic advancement of the Group and appointment of a Lead Director

On January 18, 2019, the Board of Directors also decided to create an ad hoc committee to support the strategic advancement of the Group and to appoint Claire Dreyfus-Cloarec as Lead Director.

Share buyback program linked to stock allocation plans for employees

On January 18, 2019, Latécoère's Board of Directors made the decision to launch a share buyback program intended to cover the free employee share plan, and the long-term incentive plan for the Group's management team and thus avoid any dilution for shareholders. It will be carried out, subject to market conditions, between February 1st, 2019 and December 31st, 2019. As of March 1st, the Group acquired 524,632 shares at an average price of € 3.18.

Signing of a share purchase agreement regarding the transfer of the stakes held by Apollo, Monarch and CVi Partners to Searchlight Capital

The Company acknowledges the announcement of the signing of an agreement regarding the transfer by affiliates of certain funds managed by affiliates of Apollo Global Management, LLC, by Monarch Master Funding 2 (Luxembourg) S.à. r.l.. and by CVi Partners of their entire stakes in the Company, representing circa. 26% of the share capital of the Company, to certain funds managed by Searchlight Capital Partners, L. P. (Searchlight).

5.7 Consolidated financial statements at December 31, 2018

5.7.1 State of the consolidated financial situation

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated (*)
Intangible assets	91 525	130 581
Tangible assets	100 610	86 819
Other financial assets	3 695	3 415
Deferred tax assets	20 433	967
Financial derivative instruments	3 332	23 993
Other non-current assets	157	147
TOTAL NON-CURRENT ASSETS	**219 752**	**245 922**
Inventories	180 142	162 125
Accounts receivable	193 308	152 861
Tax receivable	19 659	19 378
Financial derivative instruments	5 261	17 002
Other current assets	1 550	1 309
Cash & Cash Equivalents	112 216	141 992
Assets held for sale	0	2 331
TOTAL CURRENT ASSETS	**512 136**	**496 998**
TOTAL ASSETS	**731 889**	**742 920**

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated (*)
Share capital	189 490	188 790
Share premium	215 008	215 008
Treasury stock	1 587	1 632
Other reserves	-140 108	-140 252
Derivatives future cash flow hedges	-9 424	26 591
Group net result	6 013	3 574
EQUITY ATTRIBUTABLE TO PARENT OWNERS	**262 565**	**295 342**
NON-CONTROLLING INTERESTS	0	-777
TOTAL EQUITY	**262 565**	**294 565**
Loans and bank borrowings	55 510	45 060
Refundable Advances	24 332	42 831
Employee benefits	17 495	15 651
Non-current provisions	9 488	9 170
Deferred tax liabilities	30	154
Financial derivative instruments	21 035	26
Other non-current liabilities	4 602	19 721
TOTAL NON-CURRENT LIABILITIES	**132 492**	**132 614**
Loans and bank borrowings (less than 1 year)	81 153	77 126
Refundable Advances	2 575	2 357
Current provisions	3 267	17 089
Accounts payable	180 291	151 937
Income tax liabilities	3 132	2 998
Contracts liabilities	54 137	60 717
Other current liabilities	2 690	3 518
Financial derivative instruments	9 588	0
TOTAL CURRENT LIABILITIES	**336 832**	**315 742**
TOTAL LIABILITIES	**469 323**	**448 356**
TOTAL EQUITY & LIABILITIES	**731 889**	**742 920**

(*) The consolidated financial statement at December 31, 2017 differs from that presented in the 2017 consolidated financial statements published since it has been adjusted to reflect the impacts of retrospectively applying new standard IFRS 15 "Revenue from Contracts with Customers" as of January 1, 2018 with restatement of comparative periods (see notes 2.2 and 2.28).

5.7.2 Consolidated Income Statement

('000 EURO)	Notes	Dec 31, 2018	Dec 31, 2017 restated (*)
Revenue		659 249	657 409
Other operating revenue		2 849	1 281
Change in inventory: work-in-progress & finished goods		246	-5 956
Raw material, Other Purchases & external charges	17	-426 074	-399 588
Personnel expenses		-182 478	-179 972
Taxes		-8 727	-8 684
Amortization		-26 549	-26 551
Net operating provisions charge	18	-3 253	-86
Depreciation of current assets	18	-42	1 822
Other operating income	19	14 017	15 356
Other operating expenses		-1 241	-3 141
RECURRING OPERATING INCOME		**27 997**	**51 890**
Other non-recurring operating income and expenses	20	-23 078	-9 995
OPERATING INCOME		**4 919**	**41 895**
Net Cost of debt		-4 520	-7 997
Foreign Exchange gains/losses realized		389	-7 241
Other financial incomes and expenses realized		-251	-4 755
Realized financial result		**-4 381**	**-19 994**
Change in fair value of financial derivative instruments		-6 349	31 298
Other financial incomes and expenses unrealized		15 622	-2 854
Unrealized financial result		**9 273**	**28 444**
FINANCIAL RESULT	21	**4 892**	**8 451**
Income tax	22	-3 798	-16 578
Net Result for the period from continuing operations		**6 013**	**33 768**
Net Result for the period from discontinued operations		0	0
NET RESULT FOR THE PERIOD		**6 013**	**33 768**
• Of which, Owners of the parent		6 013	33 686
• Of which, Non-controlling interests		0	82
Net Result for the period from continuing operations			
• Of which, Owners of the parent		0	3 492
• Of which, Non-controlling interests		0	82
Net Result for the period from discontinued operations			
• Of which, Owners of the parent		0	0
• Of which, Non-controlling interests		0	0
NET RESULT (Group share) FOR THE PERIOD PER SHARE			
• Earnings per share	10.2	0,06	0,04
• Diluted earnings per share	10.2	0,06	0,04
NET RESULT (Group share) FOR THE PERIOD PER SHARE			
• Earnings per share continuing operations	10.2	0,06	0,04
• Diluted earnings per share continuing operations	10.2	0,06	0,04
NET RESULT (Group share) FOR THE PERIOD PER SHARE			
• Earnings per share discontinued operations	10.2	0,00	0,00
• Diluted earnings per share discontinued operations	10.2	0,00	0,00

(*) The consolidated income statement at December 31, 2017 differs from that presented in the 2017 consolidated financial statements published since it has been adjusted to reflect the impacts of retrospectively applying new standard IFRS 15 "Revenue from Contracts with Customers" as of January 1, 2018 with restatement of comparative periods (see notes 2.2 and 2.28).

5.7.3 State of the overall consolidated net result

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated (*)
NET RESULT FOR THE PERIOD (1)	**6 013**	**33 686**
OTHER COMPREHENSIVE INCOME:		
- Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain or loss for year relating retirements benefits	-1 340	-610
Others	879	1 762
Income tax related to items that will not be reclassified to profit or loss	461	210
- Items that will be reclassified subsequently to profit or loss:		
Translation differences	-2 337	-1 482
Financial instruments (cash flow hedging) : change in fair value and transfer in profit and loss (**)	-57 399	48 366
Other components of comprehensive income	-2 269	0
Income tax related to items that may be reclassified to profit or loss	23 372	-15 857
TOTAL OTHER COMPREHENSIVE INCOME (2):	**-38 633**	**32 389**
Of which attributable to discontinued operations	*0*	*0*
TOTAL COMPREHENSIVE INCOME (1+2)	**-32 620**	**66 075**
Of which, Owners of the parent	-33 397	65 928
Of which, Non-controlling interests	777	148
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE OWNERS OF THE PARENT ARISES FROM:		
- Continuing operations	-33 397	65 928
- Discontinued operations	0	0
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS ARISES FROM:		
- Continuing operations	777	148
- Discontinued operations	0	0

(*) The consolidated statement of comprenhensive income at December 31, 2017 differs from that presented in the 2017 consolidated financial statements published since it has been adjusted to reflect the impacts of retrospectively applying new standard IFRS 15 "Revenue from Contracts with Customers" as of January 1, 2018 with restatement of comparative periods (see notes 2.2 and 2.28).
(**) Of which € 3,9 Million linked to the adoption of IFRS 9

5.7.4 Consolidated Statement of Cash-Flow

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated (*)
Net result for the period	6 013	33 768
Adjustments related to non-cash activities :		
Depreciation and provisions	42 022	19 350
Fair value gains/losses	6 349	-31 298
Net (gains)/losses on disposal of assets	-9 943	117
Expenses and income related to share-based payments	3 934	-358
Other non-cash items	-33 791	112
CASH FLOWS AFTER COST OF DEBT AND INCOME TAXES	**14 583**	**21 691**
Income taxes	3 798	16 578
Net Cost of debt	4 520	7 997
CASH FLOWS BEFORE COST OF DEBT AND INCOME TAXES	**22 900**	**46 266**
Changes in inventories net of provisions	-19 357	-1 440
Changes in client and other receivables net of provisions	-40 177	21 238
Changes in suppliers and other payables	19 345	-3 986
Income tax paid	-5 001	-1 367
CASH FLOWS FROM OPERATING ACTIVITIES	**-22 290**	**60 711**
Purchase of tangible and intangible assets (including changes in payables to fixed asset suppliers)	-30 787	-33 740
Purchase of financial assets	-353	-74
Increase (decrease) in loans and advances made	248	316
Proceeds from sale of tangible and intangible assets	12 987	819
Dividends received	4	4
CASH FLOWS FROM INVESTING ACTIVITIES	**-17 901**	**-32 675**
Capital increase	30	1 405
Purchase or disposal of treasury shares	-45	57
Proceeds from borrowings1	12 674	45 000
Repayments of borrowings2	-1 660	-82 795
Financial interest paid	-4 523	-8 233
Dividends paid	0	0
Flows from refundable advances	547	1 280
Other flows from financing operation	-519	10 320
CASH FLOW FROM FINANCING ACTIVITIES	**6 504**	**-32 967**
Effects of exchange rate changes	-110	-575
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**-33 798**	**-5 506**
Opening cash and cash equivalents position	141 901	147 418
Closing cash and cash equivalents position	108 103	141 901

(*) The consolidated income statement at December 31, 2017 differs from that presented in the 2017 consolidated financial statements published since it has been adjusted to reflect the impacts of retrospectively applying new standard IFRS 15 "Revenue from Contracts with Customers" as of January 1, 2018 with restatement of comparative periods (see notes 2.2 and 2.28).

[1] For 2017 corresponds to a new loan obtained from European Investment Bank at the end of 2017.

[2] For 2017 corresponds to syndicat loan refund.

5.7.5 Variation of Consolidated Shareholders' Equity

('000 EURO)	Share capital	Share Premium	Treasury shares	Reserves and Accumulated Results (*)	Cash flow hedgings - financial instruments	Translation difference	Total shareholders' equity restated (*): Equity attributable to owners of parent	Total shareholders' equity restated (*): Non-controlling interests	Total shareholders' equity restated (*): TOTAL
Dec 31, 2016	**188 087**	**214 408**	**1 575**	**7 562**	**-5 918**	**-5 160**	**400 554**	**-925**	**399 629**
Adoption of IFRS 15				-172 223			-172 223		-172 223
Jan 1, 2017	**188 087**	**214 408**	**1 575**	**-164 661**	**-5 918**	**-5 160**	**228 331**	**-925**	**227 406**
Capital variations	702	599					1 302		1 302
Share-based payments				-358			-358		-358
Transactions on treasury stock			57				57		57
Dividends							0	0	0
Transactions with owners	702	599	57	-358	0	0	1 001	0	1 001
Net result for the period (1)				33 686			33 686	82	33 768
Financial instruments (cash flow hedging): change in fair value and transfer in profit and loss					32 509		32 509		32 509
Financial instruments: Translation differences						-21	-21		-21
Translation differences: change and transfer in profit and loss						-1 527	-1 527	65	-1 461
Other variations (**)				1 361			1 361	1	1 362
Other comprehensive income (2)	0	0	0	1 361	32 509	-1 547	32 323	66	32 389
TOTAL COMPREHENSIVE INCOME (1)+(2)	0	0	0	35 048	32 509	-1 547	66 010	148	66 157
Dec 31, 2017	**188 790**	**215 008**	**1 632**	**-129 971**	**26 591**	**-6 707**	**295 342**	**-777**	**294 565**
Adoption of IFRS 9					-3 968		-3 968		-3 968
Jan 1. 2018	**188 790**	**215 008**	**1 632**	**-129 971**	**22 622**	**-6 707**	**291 373**	**-777**	**290 596**
Capital variations	700	0		0			700		700
Share-based payments				3 934			3 934		3 934
Transactions on treasury stock			-45				-45		-45
Dividends				0			0	0	0
Transactions with owners	700	0	-45	3 934	0	0	4 589	0	4 589
Net result for the period (1)				6 013			6 013	0	6 013
Financial instruments (cash flow hedging): change in fair value and transfer in profit and loss					-34 027		-34 027		-34 027
Financial instruments: translation differences						1	1		1
Translation differences: change and transfer in profit and loss						-2 128	-2 128	-210	-2 338
Other variations				-3 256			-3 256	988	-2 269
Other comprehensive income (2)	0	0	0	-3 256	-34 027	-2 127	-39 410	777	-38 633
									0
TOTAL COMPREHENSIVE INCOME (1)+(2)	0	0	0	2 757	-34 027	-2 127	-33 397	777	-32 620
									0
Dec 31, 2018	**189 490**	**215 008**	**1 587**	**-123 281**	**-11 405**	**-8 834**	**262 565**	**0**	**262 565**

(*) The consolidated statement of changes in equity at December 31, 2016, and December 31, 2017 differs from that presented in the December 31, 2016, and December 31, 2017 consolidated financial statements published since it has been adjusted to reflect the impacts of retrospectively applying new standard IFRS 15 "Revenue from Contracts with Customers" as of January 1, 2018 with restatement of comparative periods (see notes 2.2 and 2.28).

(**) Including € 1.8 million of deferred taxes related to the correction of opening (base and tax rate)

5.7.6 Notes to the consolidated financial statements

INFORMATION RELATIVE TO THE GROUP

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

The consolidated financial statements of the LATECOERE Group for the fiscal year ended on December 31, 2018, include the parent company and its subsidiaries (the whole being designated as "the Group") and its share of results in associates.

The consolidated financial statements of the Group have been established by the Board of Directors on March 5, 2019. They will be submitted to the Annual General Meeting.

NOTE 1 MAIN EVENTS

Transformation 2020 plan

Significant milestones for the Transformation 2020 plan were achieved at the end of 2018:

- The end of construction and the start of production at the Toulouse-Montredon site
- The end of construction and start of production at the Plovdiv site in Bulgaria
- The sale of the first part of the Toulouse-Périole site

Termination of the A380 program

As mentioned in note 2.29, The Company has revised its financial statements following the announcement of the cessation of A380 production.

NOTE 2 ACCOUNTING POLICIES

2.1 Basis of Preparation of the Financial Statements

The 2018 consolidated financial statements have been prepared in compliance with the IFRS as issued by the IASB and adopted by the European Union at December 31, 2018.

The system of reference IFRS includes the IFRS, the IAS (International Accounting Standards) as well as their SIC (Standing Interpretations Committee) and IFRIC (International Financial Reporting Interpretations Committee) interpretations.

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 Standards application, amendments and interpretations for the financial statements

The accounting principles used to prepare the annual consolidated financial statements at December 31, 2018 are the same as those used to prepare the 2017 annual consolidated financial statements, with the exception of new IFRS standards IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” which are required to be applied as from January 1, 2018 (refer to note 2.28).

New IFRS standards, amendments and interpretations effective as of January 1, 2018 :

- IFRS 9 « Financial instruments » ;
- IFRS 15 « Revenue from Contracts with Customers » ;
- Annual Improvements to IFRSs published in December 2016 (2014-2016 cycle – IAS 28 Measuring an associate or JV at FV)
- Amendments to IFRS 2 « Share-based Payments » - Classification and Measurement of Share-based Payment Transactions ;
- IFRIC 22 « Foreign Currency Transactions and Advance Consideration » ;
- Amendments to IAS 40 « Investment Property » - Transfers of Investment Property .

New published IFRS standards, amendments and interpretations early adopted by the Group as of January 1, 2018 :

- None

New published IFRS standards, amendments and interpretations not yet effective or not early adopted by the Group :

- IFRS 16 « Leases » ;
- Amendments to IAS 28 « Investments in Associates and Join Ventures » and to IFRS 10 « Consolidated Financial Statements » - Sale or Contribution of Assets between an investor and its Associate or Joint Venture ;
- Annual improvements of IFRS norms, 2015-2017 cycle
- IFRIC 23 « Uncertainly over Income Tax Treatments ».
- Amendments to IAS 19 « Plan Amendment, Curtailment or Settlement »;
- Revised Conceptual Framework for Financial Reporting, amendments to references to the conceptual framework in IFRS standards

- **First adoption of IFRS 15 and IFRS 9 norms – Accounting standards and impact assessment**

IFRS 15 - Revenue from Contracts with Customers

The Group has chosen to apply IFRS 15 retrospectively. The 2017 opening and closing balance sheets and the 2017 income statement have been restated. The detailed implications of the retrospective application of this standard are explained in Note 2.28.

The Group has carried out a contract type analysis to comply with the new IFRS 15.

As far as "Design & Build" type contracts are concerned, the Group believes that the specific development portion of the contract will not, as a rule, constitute a performance obligation because development cannot be dissociated from series production. Accordingly, development costs are still capitalised.

Also, in the first financial years of a contract starting, IFRS 15 no longer allows recognition on the balance sheet of learning curve-related production costs, which are currently recycled to the income statement according to the decline in those costs actually observed. It will therefore impact on the timing of recognition of the margins achieved on the various contracts. However, the timing of the recognition of revenue earned from series-produced items, currently booked on delivery, will remain unchanged.

Impacts on the presentation of accounts

Development costs (NRC "Non recurrurring cost"), previously presented under "Inventories and work in progress", are now presented as intangible and tangible fixed assets because they are considered as costs of carrying out the production contract.

These costs are amortized using the external milestones method (number of aircraft delivered).

Advance payments (or pre-financing) from customers linked to development costs are now recognized on the balance sheet under "Contract liabilities" and then recycled in sales when the items produced are delivered.

In summary, the implementation of IFRS 15 does not have material impact on the annual revenue levels of the Group in its current configuration for consolidation purposes. There will also be no impact on associated cash flows.

IFRS 9 - Financial Instruments

Regarding IFRS 9, the Group has decided to apply the three phases prospectively. The 2018 opening balance sheet has been restated.

The Group has not identified a significant change in the classification and measurement of financial assets given the nature of its operations.

The Group considers that its existing hedging relationships meeting the qualifying criteria as effective hedges continue to meet IFRS 9 hedge accounting criteria. The detailed analysis of IFRS 9 confirms the economic relationship of collar and forward with knock-in of forward exchange contracts. A standard in progress on macro-hedge relating to the application of IFRS 9 is being prepared by the IASB in order to clarify the eligibility criteria for hedge accounting. The finalized text on macro-hedging (DP/2014/1, "Accounting for dynamic risk management: a portofolio valuation approach to macro hedging") may require a re-examination of the accounting options taken in IFRS 9 for the financial statements prepared at December 31, 2018.

The application of IFRS 9 led to the recognition of a reclassification in OCI in equity (Statements of recognized income and expenses) for an amount of + € 3.9 million.

The main impact on the presentation of accounts is that the recognition of the time value of financial instruments with knock-in barrier, previously recorded in financial income, is now recognized in equity.

IFRS 16 - Leases

IFRS 16 changes lease accounting treatment for lessees. It will replace IAS 17, and the IFRIC 4, SIC 15 and SIC 27 guidance documents. Whereas, according to IAS 17, the accounting treatment of leases is determined by assessing the transfer of risks and rewards associated with ownership of the asset, IFRS 16 imposes a unique method of accounting recognition of lease agreements by lessees, impacting the balance sheet in a similar way to finance leases. It will come take effect on January 1, 2019.

Impacts on the presentation of accounts

The group will be apply IFRS 16 using the "modified retrospective" approach at January 1, 2019. Accordingly, the comparative 2018 data included in the 2019 financial statements will not be restated.

Based on existing leases as of December 31, the Group anticipates a financial debt and a tangible asset related to leases (mainly coming from real estate) of approximately € 17 million at the date of transition.

The Group manages the leases in a dedicated software program which will determine the restatements to be made in light of the new standard.

2.3 Use of estimates and assumptions

The preparation of financial statements requires that the Management makes 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 Group makes assumptions and regularly establishes, on these bases, estimates relating to its various businesses. These estimates have been made from past experience and other factors considered as reasonable in view of the circumstances; they integrate the economic conditions prevailing at the closing and the information available as of the date of preparation of the financial statements. The Management regularly reviews its estimates and assumptions 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 use of estimates and assumptions assumes a special importance principally for :

- developments capitalized costs (note 5) ;
- employee benefits (note 12) ;
- deferred tax assets (note 15) ;
- provision on inventory (note 6) ;
- the recoverable value of intangible and tangible assets as well as their useful life (note 5) ;
- the fair value of financial instruments (note 9).

At December 31, 2018, the estimates and the assumptions retained for the consolidated financial statements were determined based on the elements in the Group's possession at the closing date and, in particular the commercial information (order book and rates) communicated by the various aircraft manufacturers and information from the prospects of the aeronautical market.

2.4 Subsidiaries

Companies controlled directly or indirectly by the LATECOERE Company are fully consolidated.

Control over a company exists when the Group :

- has power over this entity ;
- is exposed to or has rights to variable returns from its involvement with that entity ;
- has the ability to use its power over that entity to affect the amount of those returns.

The full consolidation method consists in integrating all assets, liabilities, income and expenses. The share of assets and income attributable to the minority shareholders is accounted for as minority interests in the consolidated balance sheet and the consolidated statement of income. Subsidiaries are integrated into the consolidation scope from the date when control is obtained.
All transactions between consolidated subsidiaries are eliminated, as are profits generated within the Group (capital gains, profits on inventories, dividends).

2.5 Associated Companies

“Associates" means entities in which the Group exercises significant influence over financial and operational policy without having the exclusive or joint control. Significant influence is assumed to exist when the Group's interest is greater or equal to 20%.
The consolidation method is the equity method, which consists in entering in the balance sheet an amount reflecting the Group's share of the net assets of the associate, increased, if applicable, by the goodwill generated by the original acquisition.

2.6 Removal form the scope of consolidation

The removal of a company from the scope of consolidation is effective as of the date sole or joint control or significant influence is relinquished.

Sales of shares that result in a loss of control are to be recognized in profit or loss and the gain or loss on disposal is to be calculated on the entire ownership interest at the date of the transaction.

2.7 Elimination of Intercompany Transactions

Intercompany transactions between consolidated subsidiaries are fully eliminated, as well as the resulting receivables and payables. The Group's internal income (dividends and income from disposals) is also eliminated from consolidated income.

2.8 Foreign Currency Translation

Foreign currency transactions are converted into euros by applying the exchange rate prevailing at the transaction date. The monetary assets and liabilities appearing in balance sheet at closing date are translated by applying the exchange rate at such date. Foreign currency differences for commercial transactions are recognized in the result.

2.9 Financial Statements of Foreign Subsidiaries

Assets and liabilities of consolidated entities for which the functional currency is different from the euro are converted at the exchange rate at the closing date, with the exception of shareholders' equity, which is accounted for at the historical rate. Income and expenses are converted at the exchange rate in force at the relevant transaction date or, as a practical matter, at the rate which approaches this and which corresponds to the average rate for the period, except for cases of large fluctuations in exchange rates. Exchange rate variations resulting from these conversions are accounted for in consolidated shareholders' equity (translation differences in OCI).

In accordance with IAS 21, the exchange rate differences relating to permanent financing activities part of the net investment in a consolidated subsidiary are recorded in shareholders' equity (under translation differences). At disposal of these investments, the accumulated translation differences recorded in the shareholders' equity will be recognized in income statement.

2.10 Goodwill

Absence of goodwill.

2.11 Other Intangible Fixed Assets

Intangible fixed assets are identifiable non-monetary assets (resulting from a legal right or able to be sold, transferred, rented or exchanged in an isolated manner or with a contract, another asset or liability), without physical substance, held to be used for the production or the furnishing of goods or services, for the rental to third parties or for administrative purposes.

The intangible fixed assets must respond to the following criteria:
- probability of obtaining future economic benefits attributable to this asset ;
- reliable valuation of the cost of the asset

The amortization method used reflects the consumption rate by the Company of the economic benefits of the fixed asset.

The intangible assets held by the Group are principally:
- developments costs ;
- software and other licenses depreciated over four years.

Intangible assets are depreciated over their useful life. The Group holds no intangible assets of indefinite useful life. The intangible fixed assets acquired by the Group are accounted for at their cost reduced by the accumulated depreciation and loss in value. If an indication of loss in value exists, an impairment test is carried out as described in note 2.13. Any loss in value is recognized in operational result, on the line « Other non-recurring operating income and expenses ».

<u>Intangible assets acquired in a business combination</u>

Intangible assets acquired as part of a business combination are recognized at their fair value, separately from goodwill.

<u>Separately acquired intangible assets</u>

Intangible assets acquired separately are initially recognized at cost in accordance with IAS 38.

<u>Research and development costs</u>

Research expenses are accounted for in expenses. Development costs are activated in IFRS and recognized as assets when all the following criteria are met:
- the technical feasibility of completing the intangible fixed asset in order to use or sell it;
- the intention to complete the intangible fixed asset and use or sell it;
- the capacity to use or sell the intangible fixed asset;
- the manner in which the intangible fixed asset will generate probable future economic benefits;
- the availability of technical, financial and other resources in order to complete the development and to use or sell the intangible fixed asset;
- the capacity to measure expenses reliably.

To date, the development expenses incurred by the Group have been committed through « Design & Build » partnership contracts. These expenses therefore follow the treatment detailed in note 2.2.

2.12 Tangible Assets

The tangible fixed assets are accounted for at their directly attributable cost (including purchase price, taxes paid and direct purchase cost), reduced by accumulated depreciation and loss of value.

Subsequent expenses related to tangible fixed assets are accounted for as expenses of the fiscal year in which they are incurred if they maintain the performance level of the asset. They are added to the carrying value of the initial fixed asset if they generate future economic benefits higher than the initial level of performance and if their cost can be measured reliably.

When applicable, the total cost of an asset is broken down between its different constitutive elements (components) if their useful lives are different. Each element of the asset is depreciated over a different time period. The Group has defined families of assets that might be broken down, together with the useful lives of the components thus determined.

As the assets acquired by the Group are not meant to be resold before the end of their economic lives, no residual value has been applied to the different tangible fixed assets.

The amortization method reflects the rate of consumption of the future economic benefits relating to the asset.

If an indication of loss in value exists, an impairment test is carried out as described in note 2.13. Any loss in value is recognized in operating result, on the line "depreciation amortization".

The grants received by the Group to finance industrial fixed assets are accounted for in deduction of the asset's original value.

The amortization periods associated with the groups and sub-groups of assets are as follows:

Group	Amortization period
Construction	15 - 40 years
General facilities	10 -20 years
Technical facilities	6 2/3 – 20 years
Tooling	3 years
Electronic equipment	5 years
Computer hardware	3 – 5 years
Transportation equipment	4 years
Office equipment	6 2/3 years
Furniture	10 years

2.13 Impairment of Assets

The carrying value of the Group's assets (other than inventory and deferred tax assets) is examined at each closing so as to appreciate if any indication of a loss in value exists. If such an indication is identified (reduction in market value or accelerated obsolescence, for example) an impairment test is carried out.

Concerning the intangible assets not yet available for use or for which the useful life is indefinite, and for the goodwill, such impairment test is carried out at a minimum of once a year.

The impairment test consists in comparing the carrying value of the asset or of the relevant group of assets with its recoverable value.

The recoverable value of an asset is the higher of its fair value less costs to sell and its value in use. The value in use is the discounted value of estimated future cash flows expected from the continuing use of the asset and from its disposal at the end of its useful life.

In order to determine the value in use of an asset, the Group uses:
- an estimate of the future cash flows (before income tax and financial cost) based on assumptions that keep the asset in its current condition and represent the best estimate of the economic conditions which will exist during the remaining useful life of the asset;
- the pre-tax discount rate that reflects the current market valuations of the time value of money and of the specific risks of the asset. The discount rate does not reflect the risks that have already been taken into account in the estimate of future cash flows.

Depreciation is recorded if the carrying value of an asset is higher than its recoverable value.

The recoverable value shall be estimated for each asset individually. If that is not possible, IAS 36 states that companies shall determine the recoverable value of the cash-generating unit to which the asset belongs.

Assets are thus allocated to the Cash-Generating Units (the smallest identifiable group of assets the continuous use of which generates cash inflows that are largely independent of cash flows from other assets or groups of assets).

The fixed assets of each Group company are not specific to a business or to a sector but are usable by the whole of the Company (no independence of cash inflows between them). Therefore, the Cash-Generating Units are the different companies of the Group taken individually.

An impairment loss accounted for in a Cash-Generating Unit is first allocated to the reduction in carrying value of any goodwill allocated to this Cash-Generating Unit, then to the reduction in carrying value of the other assets of the Unit, at the pro rata of the carrying value of each asset.

An impairment of goodwill cannot be reversed.

An impairment loss recognized for another asset is reversed if there has been a change in the estimates used in order to determine the recoverable value.
The carrying value of an asset, increased by reason of the reversal of a loss in value, must not be higher than the carrying value that would have been determined net of depreciation, if no loss of value had been accounted for.

2.14 Borrowing costs

Borrowing costs directly attributable to the purchase of tangible and intangible assets requiring at least twelve months of preparation before being put in service are included in the gross value of these assets referred to as "qualifying". The gross value of the Group's inventory fitting the definition of qualifying asset for the purposes of IAS 23 "Borrowing costs" is also adjusted.

When a qualifying asset is financed by a specific loan, the additional cost taken into account in its gross value corresponds to the interests actually accounted for over the period, net of the income received on the funds not yet used. When a qualifying asset is not financed by a specific loan, the borrowing cost capitalized corresponds to the average general debt rate over the period.

2.15 Lease Agreements

Tangible asset leases for which the LATECOERE Group bears almost all the risks and rewards incidental to ownership of the asset leased are considered as finance leases in accordance with IAS 17 and thus are adjusted in the consolidated financial statements. The assets are accounted for at their fair value or the current value of minimum future lease payments if lower. These assets are then amortized on their useful life. If the Company does not have a reasonable certitude of becoming owner of the asset at the end of the contract, these assets are amortized over the shorter of the useful life and the duration of the contract.

A financial debt is recognized with respect to each finance lease agreement.

The lease agreements, in which the lessor does not transfer almost all the risks and rewards incidental to ownership of the asset are classified as operating leases. The payments pursuant to these agreements are accounted for in expenses in the income statement.

2.16 Inventories & Work-in-Progress

Raw materials

The gross value of raw materials and supplies includes the purchase price and associated costs. Raw materials and facilities are depreciated when their realization value is lower than their carrying value. Raw materials inventories are valued according to the weighted average price method.

Work-in-Progress (excluding construction contracts)

The gross value of work-in-progress is measured using the full cost method. Non-production costs (financial costs, marketing costs, unsuccessful proposal cost, administrative costs, etc.) are excluded from this valuation. Work-in-progress are depreciated when their realization value is under their book value.

2.17 Revenue Recognition

Revenue is recognized according to the following criteria :

- for revenue relating "Design & build" contracts, refer to note 2.2;
- for other types of contracts (other than services), revenue is recognized when control of each product is transferred, which is usually upon delivery;
- for service contracts, revenue is recognized on a percentage-of-completion basis (cost-to-cost method) when control is transferred over time, or once the performance obligation has been satisfied if control is transferred at a point in time. The percentage of completion method generally used by the Group is expense-based: revenue is recognized based on costs incurred to date in relation to all the costs expected upon completion.

2.18 Financial Assets and Liabilities

The Group applies IAS 32 and 39 and IFRS 7. These standards define four categories of financial assets and two categories of financial liabilities:

- financial assets and liabilities at fair value through profit and loss: it concerns derivative instruments which do not qualify for hedge accounting as well as cash flow investments designated at fair value through profit and loss;
- financial assets and liabilities available for sale valued at fair value with fair value variations recorded in shareholders' equity (the Group holds no such assets);
- financial assets held to maturity valued at amortized cost: to date, no assets enter in this family;
- loans and credits issued by the Company and valued at amortized cost;
- other financial liabilities valued at amortized cost, following the effective interest rate method.

These financial assets and liabilities are allotted to the balance sheet in current and non-current elements following their expiry date less than or greater than a year.

Derivative instruments

The Group uses financial derivative instruments such as hedging contracts on foreign currency and on interest rates so as to hedge its current positions against foreign exchange exposure and interest rate risk. The hedging instruments are forward sales and purchases for the foreign currency and hedging for interest rates in the form of "collar". The derivative instruments are measured at fair value with fair value variations recognized in the income statement except for hedging instruments hereinafter designated. An independent company measures the fair value of derivative instruments. It takes into account the value of the derivative instrument at closing date ("mark to market"). The derivative instruments are recognized on the transaction date.

The Group realizes a large share of its revenue in US dollars. Given the importance of these flows, a hedging strategy of future flows in this currency was put in place by applying the following principles:

- hedging of part of estimated future cash inflows with some customers;
- taking into account of a probability of realization of these future flows; this permits the appreciation of hedging needs relative to each hedged item for the application of the hedge accounting.

Similarly, a hedging strategy of future flow is also implemented for the following companies :

- LATECOERE Czech Republic s.r.o.,
- The Mexican subsidiaries of the Group,
- LATECOERE Mexico and LATELEC Mexico
- The Brazilian subsidiary of LATECOERE, LATECOERE do Brazil

The derivative instruments subject to hedge accounting have been documented according to IFRS 9.Tests of effectiveness are realized at the implementation of hedging instruments and at each closing. Based on the hedge item, two kinds of hedge exist in the Group:

- the fair value hedge, which hedges the exposure to variation of fair value of an asset accounted for in the balance sheet as a result of the evolution of interest rates or of a currency;
- the cash flow hedge, which hedges the exposure to variations in future cash flows of existing or future assets or liabilities.

For the fair value hedge of existing assets or liabilities, the hedged share of these elements is valued in the balance sheet at its fair value. The variation of this fair value is recorded in the income statement where it is compensated by the symmetric fair value variations of financial hedging instruments, as far as their effectiveness.

The future cash flows hedge which qualifies for hedge accounting is treated in the consolidated financial statements of the Group as follows:

- the effective share of profit or loss on the hedging instruments is directly accounted for in shareholders' equity (net of deferred tax); the inefficient share and the time value of options (non-qualified) are immediately recognized in financial result;
- the profits or losses accounted for in shareholders' equity are reported to the income statement of the period during the course of which the under-lying hedged item is accounted for, such as when the forecasted revenue is realized.

At each closing, every existing hedging instrument is subject to an actualization of its fair value and an updating of the effectiveness test specific to each hedge relationship. If a hedge proves ineffective at the end of the test, the hedge accounting ceases to be applied. Certain financial instruments are not treated as hedging instruments because they do not qualify for hedge accounting under IFRS 9. In such case, the profits or the losses resulting from the fair value variations of these instruments are accounted for in financial result.

Cash and Cash Equivalents

Cash and cash equivalents include cash funds and demand deposits. Bank overdrafts repayable on demand and financing under discounted receivables (not respecting the criteria for derecognition of assets) which forms an integral part of the Group's cash management are a component of cash and cash equivalents for the needs of the statement of cash flows. Short-term investments, very liquid, easily convertible in a known amount of cash and carrying a negligible risk of change in value are considered as the cash equivalents. These investments are valued at fair value.

Borrowings

Financial debts are initially recognized at fair value on which are allocated the transactions costs directly attributable to the issuance of the liabilities. At the closing, financial debts are valued at amortized cost, based on the effective interest rate method. The fair value of financial liabilities valued at amortized cost (fixed rate borrowings, essentially), disclosed in the notes, was determined by an independent organization on the basis of a valuation technique.

Market Value Determination

Financial assets and liabilities at fair value through profit and loss and derivatives qualified as hedging instruments are evaluated and accounted for at their market value at their first accounting date, as well as at subsequent valuation dates.

Market value is determined:
- either based on a price quoted on an active market;
- or based on a valuation technique using:
  - mathematical calculation methods based on recognized financial theories
  - the parameters whose value is determined, in some cases, based on the price of instruments negotiated on active markets, and in others, based on statistical estimates or other quantitative methods.

The distinction between the two valuation methods is applied depending on whether the market on which the instrument is negotiated is active or not.
A market is considered as active and thus liquid for a given instrument if transactions are regularly made on it or if transactions of instruments very similar to those subject to the valuation are carried out on it.

In compliance with IFRS 13, 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" category: financial instruments whose valuation uses valuation techniques based in part or in whole on non-observable parameters; a non-observable parameter being defined as a parameter whose value results from assumptions or correlations which are neither based on observable market transaction prices for the same instrument at the valuation date, nor on observable market data available at the same date.

In the case of an inactive market evidenced, for example, by an increasing scarcity of counterparts, the Group may resort to mathematical models evaluating risks based on assumptions that would normally take market participants, according to a time horizon corresponding to the term of the relevant instruments, in compliance with IFRS 9.

2.19 Accounts Receivable

Trade & other receivables are initially valued at fair value, then at amortized cost reduced by the amount of losses in value. The loss in value is recognized in the income statement.

As part of its short term financing activities, the Group carries out discount receivables operations with certain financial partners. The corresponding financial assets are totally or partially derecognized if the discounted receivables contracts respect the following conditions:
- transfer of the contractual right to receive cash;
- disposal to a financial partner of the risks and rewards relating to the receivable;
- the financial partner bears entirely the risk of non-payment of the receivable for solely financial reasons; the Group remaining guarantor of all of the technical and industrial risks;
- the recovery of the receivable is the responsibility of the financial partner. However, the latter may contractually ask the Group to carry out the receivable collection on its behalf.

Contracts not respecting these criteria do not give rise to derecognition of receivables.

2.20 Accounts Payable

Accounts payables are initially valued at their fair value, then at amortized cost.

2.21 Treasury Shares

Treasury shares, whatever their use, are deducted from shareholders' equity. The income from disposal of treasury shares is recognized directly in shareholders' equity, so that the eventual gain or loss on disposal does not affect the income statement of the fiscal year.

2.22 Provisions

The Group constitutes a provision as soon as:
- there exists a current obligation (legal or implicit) resulting from a past event;
- it is probable that an outflow of resources will be necessary to settle the obligation;
- the amount of this obligation can be estimated reliably.

The amount of the provision is determined on the basis of the best estimate relating to the obligation. The estimate of provisions is analyzed at each closing and if necessary, its amount is updated. The provision is maintained in the financial statements as long as precise information (time period and amount) does not allow its conclusion to be decided. When the effect of the time value of money could be material, the provisions are discounted. The provisions noted by the Group have not been discounted.

2.23 Employee Benefits

The Group recognizes some employee benefits. After analysis of the specific regulations of the countries in which the Group is present, it appears that these provisions concern principally French companies.

Defined Contribution Plans

Contributions to a defined contribution plan are accounted for in expenses when they are incurred.

Retirement Liabilities

The obligations of the Group for retirement benefits consist in retirement severance pay at the time of the employee's retirement departure. In accordance with IAS 19, for defined benefit plans, the retirement liabilities are calculated according to the projected unit credit method. The Group's obligations for French companies' employees are estimated by an independent actuary. The method takes into account, on the basis of actuarial assumptions, the probability of the length of future service of the employee, the level of future remuneration, the life expectancy and employee turnover. The obligation, including social security charges, is discounted and is accounted for on the basis of the years of service of the employees. Actuarial variations resulting from these assumptions have been recognized in non-recyclable OCI in shareholders' equity since 2010.

Long-Service Medals

The LATECOERE Group recognizes a provision on the basis of actuarial assumptions, the future level of remuneration, life expectancy and employee turnover (IAS 19). The Group's obligations under the long-service medals (French companies only) are estimated by an independent actuary.

Share-based payment
The Group recognizes a share-based payment cost related to the allocation of performance share plans to certain of its employees. This cost is valued on the basis of actuarial calculations. The main actuarial assumptions (volatility, return on equity) used by the Group are described in section 10.4 Plan for the grant of performance shares.

2.24 Public Financing

The Group has obtained public financing for the development of some programs.
These financings of the "refundable advances" type bear interest contractually (calculated on the basis of a market interest rate). Consequently, these types of financing are not subject to IAS 20 on public grants, to the extent that the program will likely succeed. At the origin, they are valued for the counterpart of the cash flow received. At each closing, they are valued according to the amortized cost method, calculated with the help of the effective interest rate.
These advances shall be repaid if the program succeeds, and repayments are made as deliveries of each financed product subject to an advance occur.
For certain contracts, after full repayment of the advance the Group continues to pay out a royalty as a function of the program's revenue, the latter being deemed an operating expense.

2.25 Other operating income

The Group recognizes operating grants, research-based tax credit and competitiveness and employment tax credit, in particular, in other operating income.

2.26 Other non-recurring operating income and expenses

Other non-recurring income and expenses are representative of items which are inherently difficult to predict due to their unusual, irregular or non-recurring nature.

Other non-recurring income may include capital gains on disposal of investments or activities and capital gains on disposal of tangible and intangible assets arising from activities disposed of, or facing restructuring plans as well as any income associated to past disposals.

Other non-recurring expenses include capital losses on disposal of investments or activities and capital losses on disposal of tangible and intangible assets relating to activities facing restructuring plans as well as any costs associated to past disposals, restructuring costs, rationalization costs, significant impairment losses on assets, costs incurred to realize business combinations and amortization expense of assets exclusively acquired in the context of business combinations (technology, customer relationship, margin in backlog, margin on inventory), litigation costs that have arisen outside the ordinary course of business and a portion of post-employment and other long-term defined benefit expense (plan amendments, impacts of curtailments and settlements and actuarial gains and losses referring to long-term benefits other than post-employment benefits). Note 20 give the details of other non-current operating income and expenses items for the 2018 financial year.

2.27 Income Tax

The income tax includes the current income tax due and deferred tax. Tax is recognized in income statement, except if it attached to items that are accounted for directly in shareholders' equity. In such case, it is accounted for in shareholders' equity. The tax due is the amount of the estimated tax due for the period, taking into account any tax adjustment of the tax due relating to previous periods.

The deferred tax is determined according to the balance sheet liability method. It is calculated on the temporary differences between the carrying value of assets and liabilities and their tax value, with the exception of the following elements:

- goodwill;
- temporary differences relating to holdings insofar as they are not reversed in a foreseeable future.

Valuation of deferred tax assets and liabilities is based on the Group's estimate of their settlement, using the tax rates that were adopted or quasi-adopted at the closing date. A deferred tax asset is recognized only if the future pre-tax profits on which this tax could be applied are probable. The deferred tax assets are reduced when it is not probable that a sufficient profit will be realized. In accordance with IAS 12, the deferred tax assets and liabilities are not discounted.

2.28 Restatement of comparative periods following the application of IFRS 15 and IFRS 9

Financial consolidated statements on June 30, 2017 and on December 31, 2017, published respectively in September 2017 and April 2018, have been restated of the application impacts of IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments “ norms (see Note 2.2).

2.28.1 Main key indicators

(€ million)	31-Dec-17		
	Reported	IFRS 15 adjust.	Restated
Revenue	652,5	4,9	**657,4**
Adjusted recurring operating income	51,1	[redacted]	[redacted]
Recurring operating income	21,7	30,2	**51,9**
Adjusted operating income	41,1	[redacted]	[redacted]
Operating income	11,7	30,2	**41,9**

2.28.2 Consolidated income statement

The principal items restated in the income statement following the application of IFRS 15 are the following:

- **Revenue:** corresponds to revenue recycling of advances received for development costs upon delivery of produced items
- **Amortization and impairment losses:** corresponds to the amortization of development costs (NRC "Non recurring cost") reclassified as fixed assets
- **Stored production:** mainly corresponds to the cancellation of the change in the *"Non Recurring"* work-in-progress related to the curve and development costs (NRC "Non recurring cost")
- **Impact of changes in trade payables and other payables:** corresponds to the change in the item "Liabilities on contracts" and recognized in sales over the period
- **Other income:** corresponds to capitalized development costs for the period

Income statement as of December 31, 2017

('000 EURO)	Dec. 31, 2017 Published	Restatements IFRS 15	Dec. 31, 2017 Restated
Revenue	652 481	4 929	657 409
Other operating revenue	1 281		1 281
Change in inventory: work-in-progress & finished goods	-37 753	31 796	-5 956
Raw material, Other Purchases & external charges	-399 588		-399 588
Personnel expenses	-179 972		-179 972
Taxes	-8 684		-8 684
Amortization	-14 741	-11 810	-26 551
Net operating provisions charge	-360	274	-86
Depreciation of current assets	3 220	-1 398	1 822
Other operating income	8 953	6 404	15 356
Other operating expenses	-3 141		-3 141
RECURRING OPERATING INCOME	**21 696**	**30 194**	**51 890**
Operating Income / Sales	*3,3%*		*7,9%*
Other non-recurring operating income and expenses	-9 995		-9 995
OPERATING INCOME	**11 701**	**30 194**	**41 895**
Net Cost of debt	-7 997		-7 997
Foreign Exchange gains/losses realized	-7 241		-7 241
Other financial incomes and expenses realized	-4 755		-4 755
Realized financial result	**-19 994**	**0**	**-19 994**
Change in fair value of financial derivative instruments	31 298		31 298
Other financial incomes and expenses unrealized	-2 854		-2 854
Unrealized financial result	**28 444**	**0**	**28 444**
FINANCIAL RESULT	**8 451**	**0**	**8 451**
Result from associates	0		0
Income tax	-16 578		-16 578
Net Result for the period from continuing operations	**3 574**	**30 194**	**33 768**
Net Result for the period from discontinued operations	0	0	0
NET RESULT FOR THE PERIOD	**3 574**	**30 194**	**33 768**
• Of which, Owners of the parent	3 492	30 194	33 686
• Of which, Non-controlling interests	82	0	82

2.28.3 Consolidated statement of financial position

Consolidated statement of financial position at December 31, 2016

('000 EURO)	Dec. 31, 2016 Published	Restatements IFRS 15	Dec. 31, 2016 Restated
Goodwill	0		0
Intangible assets	12 894	125 631	138 525
Tangible assets	76 110		76 110
Investments in equity-accounted companies	0		0
Other financial assets	2 430		2 430
Deferred tax assets	27 516		27 516
Financial derivative instruments	0		0
Other non-current assets	156		156
TOTAL NON-CURRENT ASSETS	**119 107**	**125 631**	**244 737**
Inventories	391 051	-231 525	159 526
Accounts receivable	169 732	1 713	171 445
Tax receivable	22 787		22 787
Financial derivative instruments	449		449
Other current assets	1 808		1 808
Cash & Cash Equivalents	147 444		147 444
Assets held for sale	0		0
TOTAL CURRENT ASSETS	**733 271**	**-229 812**	**503 459**
TOTAL ASSETS	**852 378**	**-104 182**	**748 196**

('000 EURO)	Dec. 31, 2016 Published	Restatements IFRS 15	Dec. 31, 2016 Restated
Share capital	188 087		188 087
Share premium	214 408		214 408
Treasury stock	1 575		1 575
Other reserves	-3 631	-172 223	-175 854
Derivatives future cash flow hedges	-5 918		-5 918
Group net result	6 033		6 033
EQUITY ATTRIBUTABLE TO PARENT OWNERS	**400 554**	**-172 223**	**228 331**
NON-CONTROLLING INTERESTS	-925		-925
TOTAL EQUITY	**399 629**	**-172 223**	**227 406**
Loans and bank borrowings	78 225		78 225
Refundable Advances	42 614		42 614
Employee benefits	13 521		13 521
Non-current provisions	21 876	2 395	24 271
Deferred tax liabilities	527		527
Financial derivative instruments	22 562		22 562
Contract liabilities	0	60 717	60 717
Other non-current liabilities	18 332		18 332
TOTAL NON-CURRENT LIABILITIES	**197 657**	**63 112**	**260 769**
Loans and bank borrowings (less than 1 year)	67 420		67 420
Refundable Advances	1 294		1 294
Current provisions	13 786		13 786
Accounts payable	151 763		151 763
Income tax liabilities	1 006		1 006
Contract liabilities	0	4 929	4 929
Other current liabilities	3 229		3 229
Financial derivative instruments	16 594		16 594
Liabilities held for sale	0		0
TOTAL CURRENT LIABILITIES	**255 092**	**4 929**	**260 020**
TOTAL LIABILITIES	**452 749**	**68 041**	**520 790**
TOTAL EQUITY & LIABILITIES	852 378	-104 182	748 196

The main restated items of the balance sheet following the application of IFRS 15 are the following:

- **Intangible assets**: reclassification of development costs (*NRC "Non recurring cost"*) from "Inventories and work in progress" to "Intangible assets"
- **Stocks and work in progress**:
  - cancellation of WIP "*Non-recurring*" costs on equity relating to the curve for € 173 million
  - reclassification of WIP "*Non-recurring*" items relating to development costs (NRC "Non recurring cost") for € 125.6 million
  - reclassification of WIP *"Non-recurring"* items relating to payments received from customers in respect of development costs under "Contract liabilities" for € 65.6 million
- **Other reserves:** mainly corresponds to the cancellation of WIP "*Non-recurring*" relating to the curve for € -173 million
- **Contract liabilities:** corresponds to payments received from customers relating to development costs

Consolidated statement of financial position at December 31, 2017

('000 EURO)	Dec. 31, 2017 Published	Restatements IFRS 15	Dec. 31, 2017 Restated
Intangible assets	10 357	120 224	130 581
Tangible assets	86 819		86 819
Investments in equity-accounted companies	0		0
Other financial assets	3 415		3 415
Deferred tax assets	967		967
Financial derivative instruments	23 993		23 993
Other non-current assets	147		147
TOTAL NON-CURRENT ASSETS	**125 698**	**120 224**	**245 922**
Inventories	363 253	-201 127	162 125
Accounts receivable	151 148	1 713	152 861
Tax receivable	19 378		19 378
Financial derivative instruments	17 002		17 002
Other current assets	1 309		1 309
Cash & Cash Equivalents	141 992		141 992
Assets held for sale	2 331		2 331
TOTAL CURRENT ASSETS	**696 412**	**-199 414**	**496 998**
TOTAL ASSETS	**822 110**	**-79 190**	**742 920**

('000 EURO)	Dec. 31, 2017 Published	Restatements IFRS 15	Dec. 31, 2017 Restated
Share capital	188 790		188 790
Share premium	215 008		215 008
Treasury stock	1 632		1 632
Other reserves	1 777	-172 223	-170 446
Derivatives future cash flow hedges	26 591		26 591
Group net result	3 574	30 194	33 768
EQUITY ATTRIBUTABLE TO PARENT OWNERS	**437 370**	**-142 028**	**295 342**
NON-CONTROLLING INTERESTS	-777		-777
TOTAL EQUITY	**436 593**	**-142 028**	**294 565**
Loans and bank borrowings	45 060		45 060
Refundable Advances	42 831		42 831
Employee benefits	15 651		15 651
Non-current provisions	7 049	2 121	9 170
Deferred tax liabilities	154		154
Financial derivative instruments	26		26
Contract liabilities	0	52 234	52 234
Other non-current liabilities	19 721		19 721
TOTAL NON-CURRENT LIABILITIES	**130 493**	**54 356**	**184 848**
Loans and bank borrowings (less than 1 year)	77 126		77 126
Refundable Advances	2 357		2 357
Current provisions	17 089		17 089
Accounts payable	151 937		151 937
Income tax liabilities	2 998		2 998
Contract liabilities	0	8 483	8 483
Other current liabilities	3 518		3 518
Financial derivative instruments	0		0
Liabilities held for sale	0		0
TOTAL CURRENT LIABILITIES	**255 025**	**8 483**	**263 507**
TOTAL LIABILITIES	**385 517**	**62 838**	**448 356**
TOTAL EQUITY & LIABILITIES	822 110	-79 190	742 920

The main restated items of the balance sheet following the application of IFRS 15 are the following:

- **Intangible assets**: reclassification of development costs (*NRC "Non recurring cost"*) from "Inventories and work in progress" to "Intangible assets"
- **Stocks and work in progress**:
  - cancellation of WIP "*Non-recurring*" costs on equity relating to the curve for € 144 million
  - reclassification of WIP "*Non-recurring*" items relating to development costs (NRC "Non recurring cost") for € 120.2 million
  - reclassification of WIP "*Non-recurring*" items relating to payments received from customers in respect of development costs under "Contract liabilities" for € 60.7 million
- **Other reserves:** mainly corresponds to the cancellation of WIP "*Non-recurring*" relating to the curve for € -144 million
- **Contract liabilities:** corresponds to payments received from customers relating to development costs

2.28.4 Consolidated cash flow statement

('000 EURO)	Dec. 31, 2017 Published	Restatements IFRS 15	Dec. 31, 2017 Restated
Net result for the period	3 574	30 194	33 768
Adjustments			
Elim. of depreciation and provisions	7 814	11 536	19 350
Cancel. change in fair value	-31 298		-31 298
Elim. of profit / loss on disposal and dilution profit and loss	117		117
Other revenues & exp. without effect on cash flow	112		112
Net expense arising from share-based paiements	-358		-358
Cash flows before cost of debt and taxes	**-20 039**	**41 730**	**21 691**
Elim. of income taxes	16 578		16 578
Elim. of finance costs	7 997		7 997
Cash flows before cost of debt and taxes	**4 536**	**41 730**	**46 266**
Effect of changes in debt issued costs			
Effect of changes in inventories	28 958	-30 398	-1 440
Effect of changes in trade receivables	21 238		21 238
Effect of changes in trade payables	943	-4 929	-3 986
Income tax paid	-1 367		-1 367
Cash flows from (used in) operating activities	**54 307**	**6 404**	**60 711**
Purchase of tangible and intangible assets	-27 337	-6 404	-33 740
Purchase of financial assets	-74		-74
Increase (decrease) in loans and advances made	316		316
Proceeds from sale of tangible and intangible assets	819		819
Dividends received	4		4
Cash flows from (used in) investing activities	**-26 271**	**-6 404**	**-32 675**
Proceeds from issue of shares	1 405		1 405
Disposal (purchase) of treasury shares (net)	57		57
Proceeds from borrowings	45 000		45 000
Repayments of borrowings	-82 795		-82 795
Net financial interest paid	-8 233		-8 233
Change in refundable advances	1 280		1 280
Other flows from (used in) financing activities	10 320		10 320
Cash flows from (used in) financing activities	**-32 967**	**0**	**-32 967**
Effects of exchange rate changes	-575		-575
Effects of change in accounting principles	0		
Increase (decrease) in cash and cash equivalents	**-5 506**	**0**	**-5 506**

The main restated items of the consolidated cash-flow following the application of IFRS 15 are the following:

- **Elimination of depreciation and provisions:** mainly corresponds to the amortization of development costs (NRC "Non recurring cost") reclassified as fixed assets
- • **Impact of change in inventories:** mainly corresponds to the cancellation of the change in the "Non Recurring" work-in-progress relating to curve of development costs (NRC "Non recurring cost")
- • **Impact of changes in trade payables and other payables:** corresponds to the change in the item "Liabilities on contracts" and recognized in sales over the period
- • **Acquisition of property, plant and equipment and intangible assets:** corresponds to capitalized development costs for the period.

2.29 Impact from the termination of the A380 program

On February 14, 2019, Airbus announced its decision to cease production of the A380. The final A380 deliveries are slated for 2021. On this basis, the Group proceeded to assess the impacts resulting from the termination of the A 380 program on its assets and liabilities as of December 31, 2018. The impact is the recognition of an expense totaling € 31.4 million, including a write-down of € 28.9 million for development costs recorded in inventories. These amounts have been recognized as exceptional expenses.

In addition, the Company reassess its liabilities related to the A380 Refundable advance resulting in the recognition of a € 35.5 million income, of which € 18.9 million impacted the exceptional result and € 16.6 million impacted the financial result. Ultimately, the termination of the A380 program impacted the “other non-recurring operating income and expenses” for (€12.6) million and the “other financial income and expenses unrealized” for + € 16.7 million which led to a impact on the net result of + € 4.1 million without cash effect.

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	Voting rights %	Interest %	Consolidation method
Aerostructures segment:				
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%	100%	Full consolidation
LATECOERE Mexico Services	Mexico	100%	100%	Full consolidation
LATECOERE Bulgarie	Bulgaria	100%	100%	Full consolidation
Interconnection Systems segment:				
LATelec	France	100%	100%	Full consolidation
LATelec GmbH	Germany	100%	100%	Full consolidation
SEA LATelec	Tunisia	100%	100%	Full consolidation
LATelec Mexico	Mexico	100%	100%	Full consolidation
LATelec Mexico Services	Mexico	100%	100%	Full consolidation
LATsima	Morocco	100%	100%	Full consolidation
LATelec Interconnection Inc.	Canada	100%	100%	Full consolidation

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.

The business segments defined by the Group are:
- **Aerostructures ;**
- **Interconnection systemes.**

These two segments represent the industrial activities of the Group and call upon the activities of subsidiaries where appropriate. Furthermore, expenses relating to the position of parent company of the LATECOERE Company are maintained in the Aerostructures segment.

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

It should be noted that three customers of the Group each represent more than 10% of total consolidated revenue.

4.1 Measurement of economic performance

4.1.1 Impact of the application of IFRS 15 on measuring economic performance

Until 31 December 2017, the Group reported consolidated IFRS financial statements and, in parallel, published an adjusted income statement which included as main alternative performance indicator the “adjusted recurring operating income” (strictly non-accounting in nature).

The application of IFRS 15, as of 1 January 2018, led the Group to no longer recognize extra production costs or the early phase of the contract (curve) on the balance sheet. As a reminder, these costs were expensed when decrease in production costs were actually observed.

As a consequence, adjusted recurring operating income presented until 31 December 2017 is close to recurring operating income under IFRS 15.

The Group therefore no longer considers it necessary to present adjusted financial statements.

4.1.2 Key indicators by sector

The Group uses the following key indicators:

- **Revenue**
- **Recurring operating income** (recurring EBIT). In order to better reflect the current economic performance, the Group uses a sub-total named "recurring operating income" which excludes from operating income, non-recurring items (income or expenses) which are inherently difficult to predict due to their unusual, irregular or non-recurring nature. Details of non-recurring items are presented in the Group's accounting principles from consolidation financial statements.
- **Recurring EBITDA** corresponds to recurring operating income before recurring amortization, depreciation and impairment losses. Details of non-recurring items are presented in the Group's accounting principles from consolidation financial statements.

Net debt corresponds to loans and bank borrowings (over one year) and loans and bank borrowings (less than one year) which include factoring and bank overdrafts less cash and cash equivalents.

Net debt also includes financial debt from finance lease contracts.

Income statement by operational segments 2018

('000 EURO) December 31, 2018	Aerostructures	Interconnection Systems	Intersegment eliminations	Total
Revenue	399 062	276 827	-16 640	659 249
Inter-segment revenue	-14 863	-1 777	16 640	0
Consolidated revenue	**384 199**	**275 050**	**0**	**659 249**
Recurring EBITDA	18 759	35 602	185	**54 546**
Recurring operating income	**6 499**	**21 231**	**185**	**27 916**
Recurring operating income / revenue	*1,6%*	*7,7%*		*4,2%*
Other non recurring operating income and expenses	**-18 338**	**-4 658**		**-22 997**
Operating income	**-11 839**	**16 573**	**185**	**4 919**
Net investments (excluding disposal result)	**-18 228**	**-9 620**	**0**	**-27 848**

Income statement by operational segments 2017

('000 EURO) December 31, 2017	Aerostructures	Interconnection Systems	Intersegment eliminations	Total (*)
Revenue	414 404	262 358	-19 353	657 409
Inter-segment revenue	-17 382	-1 971	19 353	0
Consolidated revenue	**397 022**	**260 387**	**0**	**657 409**
Recurring EBITDA	39 774	38 390	278	**78 442**
Recurring operating income	**26 830**	**24 783**	**278**	**51 890**
Recurring operating income / revenue	*6,5%*	*9,4%*		*7,9%*
Other non recurring operating income and expenses	**-8 502**	**-1 494**	**0**	**-9 995**
Operating income	**18 329**	**23 289**	**278**	**41 895**
Net investments (excluding disposal result)	**-23 758**	**-8 805**	**0**	**-32 562**

(*) The income statement by operational segments at December 31, 2017 differs from that presented in the December 31, 2017 consolidated financial statements published since it has been adjusted to reflect the impacts of retrospectively applying new standard IFRS 15 "Revenue from Contracts with Customers" as of January 1, 2018 with restatement of comparative periods (see notes 2.2 and 2.28).

Balance sheet by operational segments 2018

('000 EURO) December 31, 2018	Aerostructures	Interconnection Systems	Intersegment eliminations	Total
Intangible fixed assets	29 108	62 417	0	91 525
Tangible fixed assets	83 292	17 318	0	100 610
Other financial assets	10 896	400	-7 600	3 695
TOTAL ASSETS	**123 296**	**80 135**	**-7 600**	**195 831**
Inventories	111 887	68 362	-108	180 142
Trade and other receivables	133 281	64 647	-4 620	193 308
Net debt	4 178	20 269	0	24 447
Accounts payable	131 456	53 299	-4 465	180 291
Contracts liabilities	11 249	42 887	0	54 137
Total Segment Assets	**519 817**	**230 092**	**-18 020**	**731 889**

Balance sheet by operational segments 2017

('000 EURO) Dec 31, 2017	Aerostructures	Interconnection Systems	Intersegment eliminations	Total (*)
Intangible fixed assets	56 093	74 489	0	130 581
Tangible fixed assets	69 970	14 519	0	86 819
Other financial assets	10 601	454	-7 639	3 415
TOTAL ASSETS	**136 663**	**89 461**	**-7 639**	**220 815**
Inventories	116 784	45 634	-293	162 125
Trade and other receivables	100 989	54 225	-2 353	152 861
Net debt	-42 410	22 643	-39	-19 806
Accounts payable	117 046	37 089	-2 199	151 937
Contracts liabilities	11 357	49 361	0	60 717
Total Segment Assets	**551 979**	**215 869**	**-24 928**	**742 920**

(*) The balance sheet statement by operational segments at December 31, 2017 differs from that presented in the December 31, 2017 consolidated financial statements published since it has been adjusted to reflect the impacts of retrospectively applying new standard IFRS 15 "Revenue from Contracts with Customers" as of January 1, 2018 with restatement of comparative periods (see notes 2.2 and 2.28).

NOTE 5 FIXED ASSETS

5.1 Changes in Fixed Assets

Gross value of fixed assets

('000 EUR)	Dec 31, 2017 restated	Currency variations	Other	Acquisitions	Disposals	Dec 31, 2018
Capitalized development costs	185 783	0	0	2 117	0	187 900
Other Intangible Fixed Assets	32 279	-86	150	3 466	-378	35 432
INTANGIBLE ASSETS	**218 062**	**-86**	**150**	**5 583**	**-378**	**223 332**
Land	5 296	-182	1 737	774	-1 638	5 987
Buildings	61 681	-1 408	19 691	6 452	-15 148	71 267
Plants & Equipment	104 254	-1 874	6 708	2 808	-5 980	105 917
Other Fixed Assets	12 473	-228	285	1 618	-952	13 196
Fixed assets in progress	20 744	-25	-19 629	12 795	0	13 885
Advanced payments on fixed assets	461	0	-1 678	1 616	-102	297
Real estate leasing	7 808	0	-7 264	12 660	0	13 204
TANGIBLE ASSETS	**212 718**	**-3 717**	**-150**	**38 722**	**-23 820**	**223 752**

Amortization of fixed assets

('000 EUR)	Dec 31, 2017 restated	Currency variations	Other	Increase	Decrease	Dec 31, 2018
Capitalized development costs (*)	65 559	0	0	40 835	0	106 394
Other Intangible Fixed Assets	21 922	-91	-26	3 984	-376	25 413
AMORTIZATION INTANGIBLE ASSETS	**87 481**	**-91**	**-26**	**44 819**	**-376**	**131 807**
Buildings	33 993	-676	4 252	2 276	-2 996	36 849
Plants & Equipment	77 789	-1 681	48	6 694	-6 521	76 329
Other Fixed Assets	9 753	-228	18	1 168	-1 294	9 417
Real estate leasing	4 365	0	-4 292	475	0	547
AMORTIZATION TANGIBLE ASSETS	**125 899**	**-2 584**	**26**	**10 613**	**-10 812**	**123 142**

(*) Amortization of capitalized development costs includes a loss of value on development costs for A380 program.

Net value of fixed assets

('000 EUR)	Dec 31, 2017 restated	Dec 31, 2018
Capitalized development costs	120 224	81 506
Other Intangible Fixed Assets	10 357	10 019
INTANGIBLE ASSETS	**130 581**	**91 525**
Land	5 296	5 987
Buildings	27 688	34 418
Plants & Equipment	26 455	29 588
Other Fixed Assets	2 720	3 779
Fixed assets in progress	20 744	13 885
Advanced payments on fixed assets	472	297
Real estate leasing	3 444	12 657
TANGIBLE ASSETS	**86 819**	**100 610**

Intangible assets include development costs capitalized since the implementation of IFRS 15 (see Note 2.2 and 2.28) and software and licenses relating to the Group's information systems.

Development costs are based on forecasts made by the Group taking into account the commercial information (order book and rates) provided by the different aircraft manufacturers and information from the aerospace market outlook.

The development costs concern the following programs: A400M (electric racks), F7X (harness, rear fuselage section), Embraer ERJ 170/190 (fuselage section and doors) and A350 (harness).

The main acquisitions of intangible and tangible fixed assets for the 2018 financial year relate to investments under the Transformation plan for € 10.9 million, particularly in connection with the "Vitrine Industrie du Futur" label plant located on the outskirts of Toulouse (Montredon) and the Bulgarian subsidiary.

The Group carried out a lease-back operation of the Montredon plant.

5.2 Finance lease contracts

(000 EUR)	Minimum future payments as of Dec 31, 2018				Present value of minimum future payments as of Dec 31, 2018			
	Less tan 1 year	From 1 to 5 years	Over 5 years	Total	Less tan 1 year	From 1 to 5 years	Over 5 years	Total
LATECOERE	881	4 621	7 320	12 822	727	4 089	6 068	10 884
LATelec	47	0	0	47	45	0	0	45
TOTAL	**928**	**4 621**	**7 320**	**12 869**	**772**	**4 089**	**6 068**	**10 929**

5.3 Impairment test of assets

In accordance with the principle stated in note 2.13, the accounting value of each Cash-Generating Unit (CGU) was the subject of a comparison with the highest amount of the market value and the value in use, defined as equal to the sum of the discounted cash flows calculated from information resulting from the plan at medium long-term.
For all of the CGUs, the discount rate of the cash flows using the weighted average cost of capital is 8.4% at December 31, 2018 (8.5% on December 31, 2017). It is based on a market rate without risk increased by a risk premium. This rate is calculated after tax and is applied to cash flows after tax. A single discount rate was used for all the CGUs insofar as the specific risks of each CGU were taken into account in the forward-looking cash flows.

The terminal value was determined from normalized cash flow to which a perpetuity growth rate of 2% was applied (without any change compared to 2017).

As at December 31, 2018, the tests carried out led to the recognition of an impairment of intangible assets of (€ 28.9) million and a write-down of inventory of (€ 2.5) million in connection with the termination of the A380 program.

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

('000 EUR)	Dec 31, 2018			Dec 31, 2017 restated			Variation		
	Gross	Provision	Net	Gross	Provision	Net	Gross	Provision	Net
Industrial Inventories	195 866	-15 724	180 142	177 366	-15 241	162 125	18 500	-484	18 016

The increase of industrial inventories during the period for €18 million is mainly due to the gain of new commercial contracts in 2018 of the Interconnexion Systems branch of which the production phase will only really occur in 2019.

NOTE 7 FINANCIAL ASSETS

('000 EURO)	Amortised cost	Financial assets at fair value through profit and loss	Hedging instruments	Dec 31, 2018	Fair value
Non current financial assets	3 695			3 695	
Trade receivables and other receivables	193 308			193 308	
Financial instruments		3 283	5 310	8 593	8 593
Cash and cash equivalent	112 216	0		112 216	0
TOTAL FINANCIAL ASSETS	**309 220**	**3 283**	**5 310**	**317 813**	**8 593**

('000 EURO)	Level 1	Level 2	Level 3	Fair value
Financial instruments		8 593		8 593
Cash and cash equivalent	0			0
TOTAL	**0**	**8 593**	**0**	**8 593**

('000 EURO)	Amortised cost	Financial assets at fair value through profit and loss	Hedging instruments	Dec 31, 2017 restated	Fair value
Non current financial assets	3 415			3 415	
Trade receivables and other receivables	152 861			152 861	
Financial instruments		1 613	39 382	40 995	40 995
Cash and cash equivalent	141 666	326		141 992	326
TOTAL FINANCIAL ASSETS	**297 942**	**1 939**	**39 382**	**339 264**	**41 321**

('000 EURO)	Level 1	Level 2	Level 3	Fair value
Financial instruments		40 995		40 995
Cash and cash equivalent	326			326
TOTAL	**326**	**40 995**	**0**	**41 321**

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.

The cash and cash equivalents item includes bank debit balances of €112 million at December 31, 2018 compared to €142 million at December 31, 2017.

NOTE 8 RECEIVABLES

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Advanced payments	6 568	6 856
Trade receivables*	163 518	125 274
Group current account	382	289
Tax receivables	17 276	14 954
Other current receivables	5 564	5 489
TOTAL RECEIVABLES	**193 308**	**152 861**
Prepaid expenses	1 548	1 307
Other current assets	2	2
TOTAL OTHER CURRENT ASSETS	**1 550**	**1 309**

(*) At December 31, 2018, the amount of trade receivables assigned to the factor was €113,7 million. The amount financed by the factor on the basis of the assigned receivables amounted to €108,8 million. At December 31, 2017, the amount of receivables assigned to the factor amounted to €101,9 million. The amount financed by the factor on the basis of the assigned receivables amounted to €86,9 million.
As the Group remains responsible for collection of assigned customer receivables, these receivables continue to appear in assets.

The antecedence of trade receivables breaks down as follows :

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Trade receivables non past due	154 183	114 389
Past due trade receivables < 30 days	797	1 970
Past due trade receivables between 30 and 60 days	1 530	1 862
Past due trade receivables between 60 and 90 days	1 604	1 574
Past due trade receivables between 90 and 180 days	2 181	1 092
Past due trade receivables > 6 months	3 223	4 387
Provision for doubful debt	0	0
TRADE RECEIVABLES	**163 518**	**125 274**

NOTE 9 DERIVATIVE INSTRUMENTS

Through its international exposure and invoicing in US dollars to its French customers, the Group is confronted with foreign currency exposure. The exposure linked to fluctuations in the US dollar is partially hedged through forward sales contracts and option "collars".

The Group consequently developed a policy of natural hedging by carrying out a part of its purchases in USD. Thus, the Group invoices approximately 85% of its sales in dollars and buys approximately 65% of supplies or subcontracting in dollars. The Group's natural hedging on the USD represents approximately 40%.
In order to manage its net residual exposure, the Group uses exchange hedging financial instruments, of the forward sale or option collar hedging nature. Option collar hedging implemented gives the Group the possibility to benefit from an improvement in the EUR/USD rate. New hedging financial instruments (EUR/USD) for a total amount of $250 million were put in place during 2018 to provide hedging up to $105 million until 2019, $ 95 million until 2020 and $80 million until 2021.

The Group has also set up the following exchange rate hedges :

- aiming to protect against the fluctuations of the Czech crown (koruna) with respect to the Euro
- aiming to protect against the fluctuations of the Brazilian real with respect to the USD dollar
- aiming to protect against the fluctuations of the Mexican peso with respect to the USD dollar

The financial instruments impact in the unrealized financial result is (€ 6.3) million.

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

In order to cover its foreign exchange risk, the Group primarily uses currency futures contracts and option collars. The interest rate risk is covered by caps and interest rate swaps.

('000 EURO)	Balance sheet position		Notional*	Maturity		
	Assets	Liabilities		< 1 year	From 1 to 5 years	> 5 years
Derivative instruments not designed as a hedge:						
- Accumulator EUR/USD	0	886	39 301	0	39 301	0
- KO EUR/USD	2 123	0	52 402	0	52 402	0
- Currency option contracts EUR/USD	1 160	11 127	235 808	39 301	196 507	0
Cash flow hedging:						
- Forward currency contracts BRL/USD	860	0	14 446	14 446	0	0
- Forward currency contracts MXN/USD	39	114	10 137	10 137	0	0
- Forward currency contracts CZK/EUR	256	368	60 000	36 000	24 000	0
- Forward currency contracts EUR/USD	0	17 312	493 224	120 089	373 134	0
- Currency option contracts EUR/USD	4 155	816	355 121	329 388	25 733	0
Foreign currency Derivative instruments	**8 593**	**30 623**				**0**
Financial instruments not designed as a hedge	3 283	12 013	327 511	39 301	288 210	0
Cash flow hedging	5 310	18 610	932 928	839 448	93 480	0
TOTAL OF DERIVATIVES INSTRUMENTS	**8 593**	**30 623**				
of which non current derivative instruments	3 332	21 035				
of which current derivative instruments	5 261	9 588				

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

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

Impact of future cash flow hedging

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Equity - Hedging instruments (net of tax) at the opening date	**26 591**	**-5 918**
Equity change for the effective portion	-58 381	48 439
Reclassification in net result of the period (*)	5 731	-40
Translation differences	519	-27
Deferred tax variation	16 117	-15 863
Equity - Hedging instruments (net of tax) at the closing date	**-9 424**	**26 591**

(*) of which € 4.9 million positively impacted the Group's revenue as of December 31, 2018 (versus € -0.5 million as of December 31, 2017)

The change in effective fair value is mainly due to the variation between the opening and closing EUR / USD exchange rate.

Impact of derivative instruments to which hedge accounting is not applied

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Fair value at the opening date	**1 587**	**-29 711**
Impact first application of IFRS 9 on opening date	**-3 968**	
Recorded through income statement before Taxes	-6 349	31 298
Fair value at the closing date	**-8 730**	**1 587**

NOTE 10 SHAREHOLDERS' EQUITY

10.1 Breakdown of capital and earnings per share

	Dec 31, 2018	Dec 31, 2017 restated
Number of shares	94 744 952	94 394 902
Nominal value of each share (in euro)	2,00	2,00
Share Capital	189 489 904	188 789 804

In 2018, a capital increased reserved for employees was carried out for an amount of € 700k relating to tranche 1 of free shares Plan 1.

	Dec 31, 2018	Dec 31, 2017 restated
Averaged issued shares	94 686 450	96 434 506
Averaged treasury shares	28 089	30 226
Weighted average shares (a)	**94 658 362**	**96 404 280**
Dilutive impact performance scheme (b)	1 843 500	1 983 630
Total of shares diluted (a+b)	**96 501 862**	**98 387 910**
Net result - Group Share (in euro)	**6 013 085**	**3 491 954**
Earnings per share (in euro)	0,06	0,04
Diluted earnings per share (in euro)	0,06	0,04
Net result - Group Share (in euro) - continuing operations	**6 013 085**	**3 491 954**
Result impact of Convertible bonds	0,06	0,04
Diluted earnings per share (in euro)	0,06	0,04

10.2 Treasury shares

Number of shares	Dec 31, 2018	Acquisitions	Disposals	Dec 31, 2018	% of ownership
LATECOERE Shares	20 204	1 011 905	1 002 137	29 972	0,03%

('000 EURO)	Dec 31, 2018	Acquisitions	Disposals	Dec 31, 2018	Average purchase price
LATECOERE Shares	71	4 474	4 467	79	2,63

10.3 Plan for the grant of performance shares

Plan 1

Pursuant to the authorization granted by the Extraordinary General Meeting of July 15, 2015, the Board of Directors implemented a plan for the grant of performance shares for the benefit of some members of the Executive Committee. These grants are subject to a condition of presence and conditions of economic and stock performance. The main features of the plan are summarized in the table below :

	09/22/2015 Plan
Assembly date	July 15, 2015
Date of Board of Directors	September 22, 2015
Total number of shares that may be granted	2 333 680
Vesting period	4 installments corresponding to the financial years 2015, 2016, 2017 and 2018
Acquisition time	two years starting from the assignment by the Board of Directors
Compulsory duration of the holding period of shares starting from the definitive acquisition	two years starting frome the date of acquisition
Performance conditions	yes (see detail hereafter)

The performance conditions consist of:

- of a stock performance criterion for a maximum total amount of 1,166,840 shares on the basis of an increase in the price of the share of Latécoère stock compared to a reference price fixed for each fiscal year (reference year) in respect of the years 2015 to 2018,
- of an economic performance criterion for a maximum total amount of 1,166,840 shares as a function of the level of recurring Economic EBITDA recorded for each reference year in respect of the years 2015, 2016, 2017 and 2018.

<u>Information on the fair value of the plan</u>

Fair value	09/22/2015 Plan
Share price at the date of grant	3.4 €
Latécoère share volatility	40%
Risk free rate of return	0.05%
Fair value of the option for the stock performance	1.85 €
Fair value of the option for the EBITDA performance	0.50 €
Fair value of the option	**1.17 €**

The fair value of options, calculated by an external actuary, is determined, at the date of grant, from the Monte Carlo simulation model for the part relating to the stock performance condition and from the Black & Scholes model for the part relating to the economic performance (EBITDA) condition. The fair value of the plan is €2.7 million. The expense is spread out over the vesting period.

<u>Information on the evolution of the plan</u>

	Dec. 31, 2018
Number of shares attributable at the beginning of the period	2 333 680
Shares granted on previous periods	350 050
Shares granted during the period	423 566
Shares acquired by beneficiaries	350 050
Shares canceled	0
Number of shares attributable at the end of the period	**1 210 014**

Plan 2

On January 16, 2018, the Board of Directors decided to extend the existing plan 1 by a new phase of allocation of free-shares in accordance with the authorization granted by the Ordinary and Extraordniary Shareholders' Meeting of June 3, 2016. These are subject to a condition of presence and conditions of economic and stock market performance. The main features of the plan are summarized in the table below:

	01/16/2018 Plan
Assembly date	June 3, 2016
Date of Board of Directors	January 16, 2018
Total number of shares that may be granted	1 829 700
Vesting period	3 installments corresponding to the financial years 2018,2019 and 2020
Acquisition time	two years starting from the assignment by the Board of Directors
Compulsory duration of the holding period of shares starting from the definitive acquisition	two years starting frome the date of acquisition
Performance conditions	yes (see detail hereafter)

The performance conditions consist of :

- of a stock performance criterion for a maximum total amount of 412,533 shares on the basis of an increase in the price of the share of Latécoère stock compared to a reference price fixed for each fiscal year (reference year) in respect of the years 2019 and 2020,
- of an economic performance criterion for a maximum total amount of 708,583 shares based on a level of turnover achieved compared to a revenue target for each reference year in respect of the years 2018, 2019 and 2020
- of an economic performance criterion for a maximum total amount of 708,583 shares based on a level of Operating Free Cash-flow achieved compared to an Operating Free Cash-flow target for each reference year in respect of the years 2018, 2019 and 2020

Information on the fair value of the plan

Fair value	01/16/2018 Plan
Share price at the date of grant	4,82 €
Latécoère share volatility	from 30 to 50% according to the horizon
Risk free rate of return	from - 0,57% to - 0,32% according to the horizon
Fair value of the option for the stock performance 2019	2,15 €
Fair value of the option for the stock performance 2020	1,63 €
Fair value of the option for the revenue and free cash-flow performance	4,81 €

The fair value of options, calculated by an external actuary, is determined, at the date of grant, from the Monte Carlo simulation model for the part relating to the stock performance condition. The fair value of the shares attached to the non-market performance conditions corresponds to the value of the price at the grant date minus the sum of the discounted dividends during the vesting period.

The expense associated with each tranche corresponds to the probabilized fair value taking into account the probability of reaching the condition and the probability of presence of each employee at the acquisition date of the shares.

Information on the evolution of the plan

Au cours de sa réunion du 5 décembre 2018, le Conseil d'administration de Latécoère a décidé de modifier le règlement du plan d'attribution gratuite d'actions adopté le 16 Janvier 2018. Les Conditions d'Attribution sont modifiées pour les Exercices de Référence 2019 et 2020, à l'exception de la Condition de Présence qui demeure inchangée pour toute la durée du Plan.

Hence :

- The revenue condition and the stock exchange performance condition are modified; and
- The Free Cash-Flow condition is deleted and replaced by the EBITDA / revenue condition.

The modification of the plan has no impact on the fair value of the plan.

	Dec. 31, 2018
Number of shares attributable at the beginning of the period	1 829 700
Shares granted on previous periods	0
Shares granted during the period	0
Shares acquired by beneficiaries	0
Shares canceled	0
Number of shares attributable at the end of the period	**1 829 700**

Free share plan for employees

In accordance with the authorization granted by the Ordinary and Extraordiniary Shareholders' Meeting of June 3, 2016, the Board of Directors proceeded on March 5, 2018 to the allocation of free shares for the benefit of Latécoère and Latelec employees and executive directors. The main features are presented in the table below:

	03/05/2018 Plan
Assembly date	June 3, 2016
Date of Board of Directors	March 5, 2018
Total number of shares that may be granted	300 by employees
Vesting period	one year
Acquisition time	one year starting from the assignment by the Board of Directors
Possible first sale date for non-paid shares to the employee savings plan (PEE)	March 6, 2020
Possible first sale date for paid shares to the employee savings plan (PEE)	At the end of a period of 5 years from the payment to the PEE
Performance conditions	no

<u>Information on the fair value of the plan</u>

Juste valeur	Plan du 05/03/2018
Cours d'action à la date d'octroi	4,71 €
Juste valeur de l'action	**4,71 €**

The expense associated corresponds to the probabilized fair value taking into account the probability of reaching the condition and the probability of presence of each employee at the acquisition date of the shares.

<u>Information on the evolution of the plan</u>

The shares will be definitively granted on March 5, 2019.

NOTE 11 CURRENT AND NON-CURRENT PROVISIONS

('000 EURO)	Dec 31, 2017 restated	Increase	Write-backs	Currency variations	Reclassification	Dec 31, 2018
Non-current provisions	3 072	6 595	-97	-58	-23	9 488
Provisions for restructuring (non current)	6 099				-6 099	0
TOTAL non current provisions	**9 170**	**6 595**	**-97**	**-58**	**-6 122**	**9 488**
Current provisions	157	1 144	-145	-25		1 131
Provisions for restructuring (current)	16 932		-20 895		6 099	2 136
TOTAL current provisions	**17 089**	**1 144**	**-21 040**	**-25**	**6 099**	**3 267**

At the end of 2018, the Group and one of its clients have reached an agreement concerning the state of abnormal corrosion occurring on parts developed and produced for the latter. On this basis, the Group has recognized a provision for the 2018 financial year.

NOTE 12 EMPLOYEE BENEFITS

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Retirement bonus	14 827	13 156
Long-service medals	2 668	2 495
TOTAL	**17 495**	**15 651**

12.1 Retirements Benefits

Retirement benefits recognized in the balance sheet at December 31, 2018 concer the French, Tunisian and Bulgarian companies. They have been calculated according to the method described in note 2.23.

The calculation assumptions retained for French companies are the following:

- discount rate of 1.65% (1.40% in 2017) calculated on the basis of rates observed at December 31, 2018 for high quality corporate bonds, the Group using in particular the Iboxx Corp AA 10+ index;
- use of the INSEE 2011-2013 mortality table;
- employee turnover noted by age group and by company;
- age of retirement departure:
  - 63 years progressively 66 according to year of birth for executives & management,
  - 61 years progressively 64 according to birth year for non-executives & management,
- progression of salaries consistent with the average of the last years ;

There exists no deferred past service costs at the year-ends 2018 and 2017. Actuarial variations are recognized in non-reyclable “Other comprehensive income” in shareholder’s equity in accordance with the option offered by IAS 19 "Employee Benefits", to recognize the entirety of actuarial variations in the period in which they are produced, outside of the income statement in the state of the overall consolidated net result. The obligation is noted in the balance sheet as a non-current liability for the amount of the total obligation, as there exist no deferred actuarial variations nor deferred past service costs. The remunerations to employees who would leave in 2019 would be of €148k.
An increase of 0.25 point of discount rate would lead to a decrease of the provision for retirement severance pay of (€502k) . For information, and based on identical actuarial assumptions, the 2019 provision should be (excluding departures) €1,117k.

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Obligations at opening date	**13 156**	**11 810**
Services cost of the period	278	682
Interest cost of the period	187	199
Contributions paid	-134	-145
Actuarial gains or losses (OCI)	1 340	610
Obligations at closing date	**14 827**	**13 156**
Costs of the period:		
Services cost of the period	278	682
Interest cost of the period	187	199
TOTAL	**465**	**881**

12.2 Long-Service medals

Retirement benefits recognized in the balance sheet at December 31, 2018 concer the French companies.They have been calculated according to the method described in note 2.23

The calculation assumptions retained are the following:
- discount rate of 1.35% (1.40% in 2017) calculated on the basis of rates observed at December 31, 2018 for high quality corporate bonds, the Group using in particular the Iboxx Corp AA 10+ index;
- use of the INSEE 2011-2013 mortality table;
- employee turnover noted by age group and by company;
- age of retirement departure:
  - 63 years progressively 66 according to year of birth for executives & management,
  - 61 years progressively 64 according to birth year for non-executives & management,
- progression of salaries consistent with the average of the last years ;

The remunerations to employees who would leave in 2019 would be of €231k.
An increase of 0.25 point of discount rate would lead to a decrease of the provision for long-service medals of (€57k). For information, and based on identical actuarial assumptions, the 2019 provision should be (excluding departures) €226k.

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Obligations at opening date	**2 495**	**1 712**
Services cost of the period	122	777
Interest cost of the period	35	36
Contributions paid	-195	-98
Actuarial gains or losses	211	67
Obligations at closing date	**2 668**	**2 495**
Costs of the period:		
Services cost of the period	122	777
Interest cost of the period	35	36
TOTAL	**157**	**813**

NOTE 13 FINANCIAL LIABILITIES

('000 EURO)	Financial liabilities at fair value through profit and loss	Hedging instruments	Other financiel liabilities	Dec 31, 2018	Fair value
Refundable Advances			26 906	26 906	N/A(*)
Debenture loan			0	0	0
Syndicated loan - Tranche B			45 000	45 000	45 000
Factoring			76 537	76 537	76 537
Finance lease			10 929	10 929	10 929
Unsecured banking facility and other			4 196	4 196	4 196
Other non-current liabilities			4 602	4 602	4 602
Derivated financial instruments	12 013	18 610		30 623	30 623
Accounts payable			180 291	180 291	180 291
TOTAL FINANCIAL LIABILITIES	**12 013**	**18 610**	**348 462**	**379 085**	**352 178**

*The fair value of repayable advances can not be measured reliably due to the uncertainty of the amounts to be repaid and their repayment dates.

('000 EURO)	Level 1	Level 2	Level 3	Fair value
Financial instruments	0	30 623	0	30 623
TOTAL	**0**	**30 623**	**0**	**30 623**

('000 EURO)	Financial liabilities at fair value through profit and loss	Hedging instruments	Other financiel liabilities	Dec 31, 2017 restated	Fair value
Refundable Advances			45 188	45 188	N/A(*)
Syndicated loan - Tranche B			45 000	45 000	45 000
Factoring			77 056	77 056	77 056
Finance lease			105	105	105
Unsecured banking facility and other			26	26	26
Other non-current liabilities			19 721	19 721	19 721
Derivated financial instruments	0	26		26	26
Accounts payable			151 937	151 937	151 937
TOTAL FINANCIAL LIABILITIES	**0**	**26**	**339 031**	**339 058**	**293 870**

(*) The fair value of repayable advances can not be measured reliably due to the uncertainty of the amounts to be repaid and their repayment dates.

('000 EURO)	Level 1	Level 2	Level 3	Fair value
Financial instruments	0	26	0	26
TOTAL	**0**	**26**	**0**	**26**

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

13.1 Loans and bank borrowings

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Bank loans - non current	45 000	45 000
Leasing - non current	10 158	61
Autres dettes financières	352	0
Non-current liabilities	**55 510**	**45 061**
Bank loans - current	0	0
Leasing - current	772	43
Factoring	76 537	77 056
Other short term credit	3 844	26
Current liabilities	**81 153**	**77 125**
TOTAL OF LOAN AND BANK BORROWINGS	**136 663**	**122 186**

Change in loans and bank borrowings are only due to cash flow variations.

Debt reconciliation related to the factor (factoring):

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Receivables sold to the factor	113 662	95 812
Financing obtained from the factor	101 942	86 860
Cash available from the factor	-25 405	-9 804
DEBT - FACTORING	**76 537**	**77 056**

Cash available from the factor corresponds to receivables transferred directly cashed by the factor between the last date of application for financing and the accounts closing date.

The terms and conditions of the existing loans are the following :

('000 EURO)	Currency	Interest rate	Maturity	Dec 31, 2018	
				Notional	Actual
EIB loan	EURO	EUR. + marge	2024	55 000	45 000
Factoring	EURO/USD	EUR./LIB. + marge	2019	100 000	76 537
Finance lease	EURO	EUR. + marge	2033	11 704	10 929
Unsecured banking facility and other	EURO	EUR. + marge	n/a	4 196	4 196
TOTAL OF LOAN AND BANK BORROWINGS				**199 500**	**136 663**

Latécoère obtained a total funding of € 55 million from the EIB to support its development. As of December 31, 2018, the amount drawn was € 45 million.

13.2 Financial ratios ("covenants")

Financial commitment on the loan of the European Investment Bank

The EIB loan includes financial covenants that commit the Group to i) respect a maximum level of leverage ratio (gross debt / Economic EBITDA), ii) respect a minimum level of financial expense coverage ratio (Economic EBITDA / financial expenses), and (iii) respect a minimum level of liquidity ratio (Economic EBIT). They have been fulfilled on the accounts closed as at December 31, 2018.

Financial commitment on the factoring contract

The factoring contract includes financial covenants that commit the Group to i) respect a minimum level of adjusted economic EBIT, calculated quarterly on a rolling 12-month basis and ii) to respect a minimum level of cash, measured monthly.
They have been fulfilled on the accounts closed as at December 31, 2018.

13.3 Refundable advances

Refundable advances for an overall amount of €27 million mainly relate to the A350 programs for €18 million. Advances shall be repaid if the program succeeds, and repayments are linked to the deliveries of each financed product. The repayment conditions have been established in the agreement signed with the lending organization.

NOTE 14 PAYABLES

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Trade payables	119 230	97 360
Employee related liabilities	31 453	32 532
State payables	8 929	8 254
Credit balance on trade receivables and advance payments from customers	6 748	375
Other creditors	13 930	13 416
ACCOUNTS PAYABLE	**180 291**	**151 937**

NOTE 15 TAXES

15.1 Income tax receivable

The amount recorded at December 31, 2018 of €19.7 million corresponds to tax credits for €18.1 million (the research-based tax credit and the competitveness and employment tax credit (CICE)).

15.2 Deferred taxes

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Deferred tax assets	967	27 516
Deferred tax liabilities	-154	-527
DEFERRED TAX AT OPENING	**813**	**26 990**
Deferred tax Income (Expense) recognised in P&L	1 355	-12 249
Deferred tax variation recognised directly in equity	18 235	-13 929
DEFERRED TAX AT CLOSING	**20 403**	**812**
Of which Deferred tax assets	20 433	967
Of which Deferred tax liabilities	-30	-154

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

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Tangible and intangible assets	-3 007	-3 166
Financial instruments	6 422	-13 087
Retirement bonus	4 791	4 124
Other provisions (regulated provision)	-1 962	-2 768
Loan and bank borrowings	1 063	-1 318
Loss carry-forwards	12 924	12 924
Other	171	4 104
NET DEFERRED TAX ASSETS (LIABILITIES)	**20 403**	**812**

The main sources of deferred tax assets were the recognition of the loss carry-forwards from the French tax group in an amount of €12.9 million at December 31, 2018.

NOTE 16 REVENUE

BY BUSINESS

('000 EURO)	Dec 31, 2018		Dec 31, 2017 restated	
	Amount	%	Amount	%
Civil business	641 498	97,3%	634 565	96,5%
Military business	17 751	2,7%	22 844	3,5%
TOTAL	**659 249**	**100,0%**	**657 409**	**100,0%**

BY GEOGRAPHICAL ZONE

('000 EURO)	Dec 31, 2018		Dec 31, 2017 restated	
	Amount	%	Amount	%
France	318 977	48,4%	382 958	58,3%
Export	340 272	51,6%	274 451	41,7%
TOTAL	**659 249**	**100,0%**	**657 409**	**100,0%**

BY GEOGRAPHICAL MARKET (DIRECT EXPORTS)

('000 EURO)	Dec 31, 2018		Dec 31, 2017 restated	
	Amount	%	Amount	%
Europe	397 867	60,4%	386 530	58,8%
America	229 967	34,9%	260 055	39,6%
Asia	30 515	4,6%	9 970	1,5%
Other	900	0,1%	854	0,1%
TOTAL	**659 249**	**100,0%**	**657 409**	**100,0%**

NOTE 17 RAW MATERIALS, OTHER PURCHASES & EXTERNAL CHARGES

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Raw material consumed	-160 619	-103 598
Cost of goods sold	-616	-277
Sub-contracting	-168 946	-223 181
External charges	-95 893	-72 532
RAW MATERIAL, OTHER PURCHASES & EXTERNAL CHARGES	**-426 074**	**-399 588**

NOTE 18 NET OPERATING PROVISIONS CHARGE AND DEPRECIATION OF CURRENT ASSETS

('000 EURO)	Dec 31, 2018			Dec 31, 2017 restated		
	Increase	Write-back	Net	Increase	Write-back	Net
Net operating provisions charge	-5 217	1 963	**-3 253**	-1 516	1 430	**-86**

('000 EURO)	Dec 31, 2018			Dec 31, 2017 restated		
	Increase	Write-back	Net	Increase	Write-back	Net
Receivables	-79	0	**-79**	-172	0	**-172**
Invetories	-1 355	1 392	**37**	-2 401	4 395	**1 994**
Depreciation of current assets	**-1 434**	**1 392**	**-42**	**-2 573**	**4 395**	**1 822**

NOTE 19 OTHER INCOME

The amount of other income includes, in particular, grants for €5.3 million and research-based tax credits and competitiveness and employment tax credits (CICE) for €2.7 million.

NOTE 20 OTHER NON RECURRING INCOME AND EXPENSES

At December 31st, 2018, other non-recurring income and expenses mainly concern:

- net proceeds from the sale of Phase 1 of the Périole site for € 9.2 million
- conversion and adaptation costs for the historic Toulouse site (Périole site) and industrial transfer towards other French sites for (€5.2) million;
- rationalization costs for (€4.5) million;
- industrial transfer costs to the new production site in Bulgaria for (€5.2) million;
- costs related to the creation of the factory of the future located near Toulouse (Montredon) for (€3.6) million;
- termination impact of A380 program for (€12.6) million
- a reversal of provisions relating to the Employment Saving Plan (PSE) for € 1.5 million.

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NOTE 21 DETAIL OF FINANCIAL RESULT

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Interest expense - net	-4 520	-7 997
Foreign Exchange gains/losses realized :	389	-7 241
- derivative instuments EUR/USD	0	-1 406
- other derivative instrument	0	554
- Foreign Exchange gains/loss realized	389	-6 389
Other realized financial expenses / income	-251	-4 755
Realized net financial result	**-4 381**	**-19 994**
Change in fair value of financial instruments :	-6 349	31 298
- Change in fair value of currency derivative instruments EUR/USD	-6 349	28 198
- Change in fair value of other currency derivative instruments	0	327
- Change in fair value of interest rate contract	0	2 774
Valuation of items on balance sheet at the closing date	284	-3 748
Other unrealized financial expenses / income	15 338	894
Unrealized net financial result	**9 273**	**28 444**
FINANCIAL RESULT	**4 892**	**8 451**

Fair value variation of EUR/USD foreign exchange derivative financial instruments comes in essence from an assessment of the time value of options. No hedge ineffectiveness was noted for financial year 2018.

In respect of 2018, the other unrealized fiancial expenses and income include the termination impact of A380 program for + € 16.7 million.

In respect of 2017, the other realized financial expense and income includes primarily the impact of the amortization of the costs of the renegotiation of the debt using the effective interest rate (EIR) method for an amount of (€4.2) million following repayment of the syndicated loan.

NOTE 22 INCOME TAXES

22.1 Tax consolidation agreement

Since fiscal year 2009, the LATECOERE Company has made itself the only taxpayer in France for the corporate tax, for additional contributions based on the corporate tax for the annual flat-rate taxation due in respect of the tax Group which includes the LATECOERE, LATelec, and LATECOERE Développement companies.
Under the tax consolidation agreement, the tax consolidated subsidiaries bear their own tax expense, as they would had there not been tax consolidation, and pay the corresponding sums to the LATECOERE Company, by way of contribution to the payment of taxes of the tax Group.

22.2 Income tax expense

('000 EURO)	Dec 31, 2018	Dec 31, 2017 restated
Current income taxes	-5 153	-4 329
Deferred taxes	1 355	-12 249
TOTAL	**-3 798**	**-16 578**

22.3 Reconciliation between the French corporate income tax and the Group's effective tax rate

('000 EURO)	Dec 31, 2018
Group net result of consolidated companies	**6 013**
- Consolidated tax expense (due and deferred)	-3 798
Pre-tax consolidated result (before Group/minority interests share)	**9 811**
- Result from associates	0
Pre-tax consolidated result (A)	**9 811**
Theoretical tax rate (current rate applicable to parent company) (B)	**34,43%**
Theoretical tax expense (A*B)	**-3 378**
Permanent Differences	2 964
Effect of reduced tax rates	-106
Tax reductions / tax credits *	1 400
Unreported tax losses **	-13 321
Tax losses carried forward	0
Other items	8 643
Sub-total	**-420**
ACTUAL TAX EXPENSE	**-3 798**
EFFECTIVE TAX RATE	**N/A**

* *This amount essentially corresponds to the research-based tax credit and the CICE*
** *The unused tax losses are without carry-forward limit*

NOTE 23 RISK MANAGEMENT

23.1 Counterparty risk

The Group is mainly exposed to credit and counterparty risk relating to customers and derivative financial instruments and short-term financial investments.

The risk of default of counterparties relating to customers is very limited due to the credit quality of the main customers (Tier 1 aircraft manufacturers) of the Aerostructure and Interconnection Systems divisions.

At year-end, the Group had identified no significant credit risk on these assets due but not depreciated.

The Group implements derivative financial instruments with the goal of reducing its exposure to foreign currency and interest rate risks. These transactions are contracted by private agreement with tier 1 banks.

Cash is invested through risk-free monetary instruments with tier 1 banking establishments.

23.2 Liquidity risk

In order to face up to its liquidity risk, the Group uses borrowings, short-term credit lines, authorized overdrafts and discount lines. Undiscounted cash flows presented in the tables below integrate financial interest. The financial interest was calculated on the basis of the 2018 variable rate for the share of variable rate financial liabilities. The financial liabilities by maturity are analyzed as follows:

('000 EURO)	Dec 31, 2018				
	Carrying value	Undiscounted cash flow	Less than 1 year	From 1 to 5 years	Over 5 years
Refundable Advances	26 906	N/A*			
EIB loan	45 000	-48 945	-657	-2 630	-45 657
Factoring	76 537	-76 537	-76 537	0	0
Finance lease	10 929	-10 929	-772	-4 089	-6 068
Other short term credit	4 196	-4 196	-4 196	0	0
Accounts payable	184 893	-184 893	-176 236	-8 657	0
FINANCIAL LIABILITIES (except derivative instr.)	**348 462**	**-325 500**	**-258 398**	**-15 376**	**-51 726**
Derivative instruments (instrinseque value)	18 610	-18 610	-18 610		
TOTAL FINANCIAL LIABILITIES	**367 072**	**-344 110**	**-277 008**	**-15 376**	**-51 726**

*The fair value of repayable advances can not be measured reliably due to the uncertainty of the amounts to be repaid and their repayment dates.

('000 EURO)	Dec 31, 2017 restated				
	Carrying value	Undiscounted cash flow	Less than 1 year	From 1 to 5 years	Over 5 years
Refundable Advances	45 188	N/A*			
EIB loan	45 000	-48 945	-657	-2 630	-45 657
Factoring	77 056	-77 056	-77 056	0	0
Finance lease	105	111	47	64	0
Other short term credit	26	-26	-26	0	0
Accounts payable	171 657	-171 657	-161 578	-10 080	0
FINANCIAL LIABILITIES (except derivative instr.)	**339 031**	**-297 573**	**-239 270**	**-12 645**	**-45 657**
Derivative instruments (instrinseque value)	26	-26	-26		
TOTAL FINANCIAL LIABILITIES	**339 058**	**-297 599**	**-239 297**	**-12 645**	**-45 657**

*The fair value of repayable advances can not be measured reliably due to the uncertainty of the amounts to be repaid and their repayment dates.

Account payables correspond to:

- €181 million trade payables detailed in Note 14 to the consolidated financial statements,
- €4 million to other liabilities.

23.3 Foreign currency exposure

Risque de change dollar

Through its international exposure and invoicing in US dollars to its French customers, the Group is confronted with foreign currency exposure. The exposure linked to fluctuations in US dollars is partially hedged through forward sales contracts and option "collars".

The Group invoices approximately 85% of its sales in dollars and buys approximately 60% of supplies or sub-contracting in dollars. The effect of the dollar exchange risk hedging operations on revenue was +€4.9 million in 2018 compared to (€0.5) million in 2017.

The LATECOERE Group's USD hedging policy limits the impact of currency variations on the individual and consolidated financial statements. It should be noted that this table hereafter only reflects the situation noted at December 31, 2018 and does not reflect all future hedging. The impact of foreign exposure with respect to the profit and loss account is detailed in Note 21.

a) Exposure and Balance Sheet Sensitivity to the Dollar

The Group's foreign currency balance sheet information exposure in dollars is the following :

	Dec 31, 2018		Dec 31, 2017 restated	
	'000 $	'000 €	'000 $	'000 €
Accounts Receivable	143 490	125 318	123 664	103 113
Accounts Payable	-58 165	-50 799	-45 928	-38 296
Other (including advanced payments suppliers and customers)	-80 613	-70 404	-82 631	-68 899
Net debt	25 745	22 485	61 073	50 924
NET EXPOSITION BEFORE HEDGING	**30 457**	**26 600**	**56 178**	**46 842**
Hedging instruments for the receivables on the balance sheet	0	0	0	0
NET EXPOSITION AFTER HEDGING	**30 457**	**26 600**	**56 178**	**46 842**

A sensitivity analysis was carried out, based on the assumption of a 5% change of the dollar in relation to the euro on the basis of the Group's net balance sheet exposure at December 31, 2018. This variation would have resulted in a pre-tax decrease in result of €1.267k at December 31, 2018 compared to a pre-tax decrease in result of €2.231k at December 31, 2017.

b) Sensitivity to Transaction Flows in Dollars

A sensitivity analysis was performed on the flows relating to transactions performed in USD by companies whose functional currency is the Euro net of the impact of exchange rate hedging EUR/USD for the period.

	31-déc.-18		31-déc.-17 retraité (*)	
Hypothèse de variation du cours euro/dollar US	-5%	+5%	-5%	+5%
Cours moyen de la période	**1,181**		**1,129**	
Cours moyen après sensibilité	**1,122**	**1,241**	**1,073**	**1,186**
Résultat opérationnel	1 778	4 408	9 069	-767
Résultat financier	-4 455	0	-3 812	-56
RESULTAT AVANT IMPOT	**-2 677**	**4 408**	**5 257**	**-823**

c) Sensitivity of Dollar Derivative Financial Instruments

A sensitivity analysis was carried out on the basis of a portfolio of derivatives qualified with cash flow hedging and held at year-end. A 5% increase of the dollar in relation to the Euro would result a decrease of pre-tax result of €2.3 million and a decrease of pre-tax shareholders' equity of €40.8 million.

Other foreign currency risks

The Group has set-up exchange rate hedges to protect against the fluctuations of the Czech crown (koruna) with respect to the Euro in relation with its Latécoère Czech Republic s.r.o. subsidiary. These financial instruments are detailed in note 9.

A sensitivity analysis was carried based on the assumption of a 5% increase of the Euros over the Czech crown (koruna) parity. This increase would not have an impact on the pre-tax result and a pre-tax reduction in shareholders' equity of €4.6 million.

The foreign currency exposure on the other currencies is not considered significant in view of the Group's exposure to them.

Conversion Exchange Rate Risk

Conversion exchange rate risk corresponds to the risk of the conversion into Euros of the financial statements of companies whose functional currency is different than the Euro. The main companies of which the functional currency is other than the Euro are Latécoère Czech Republic (EUR/CZK exposure), Latécoère do Brazil (EUR/BRL exposure), SEA-LATelec (EUR/TND exposure), LATsima (EUR/MAD exposure) and the Mexican subsidiaries (EUR/MXN exposure).

A sensitivity test was implemented on subsidiaries whose amounts are significant (Latécoère Czech Republic and Latécoère do Brazil). Thus, a devaluation of 5% of the BRL and CZK currency performances compared to the Euro would result in a decrease in shareholders' equity at December 31, 2018 of (€2.5) million compared to (€2.3) million at December 31, 2017. As a reminder, the amount of the conversion reserve in shareholders' equity amounts to €9.0 million at December 31, 2018 compared to €6.7 million at December 31, 2017.

23.4 Interest rate risk

('000 EURO)		Less than 1 year	From 1 to 5 years	Over 5 years	Dec 31, 2018	Dec 31, 2017 restated
Financial assets	Taux fixe	0	0	0	**0**	0
	Taux variable	112 216	0	0	**112 216**	141 992
Financial liabilities	Taux fixe	-2 622	-11 737	-19 665	**-34 024**	-45 292
	Taux variable	-81 106	-55 510	0	**-136 616**	-122 081
NET EXPOSURE BEFORE HEDGING	Taux fixe	-2 622	-11 737	-19 665	**-34 024**	-45 292
	Taux variable	31 110	-55 510	0	**-24 400**	19 911
Derivative financial instruments	Taux fixe	0	0	0	**0**	0
	Taux variable	0	0	0	**0**	0
NET EXPOSURE AFTER HEDGING	Taux fixe	-2 622	-11 737	-19 665	**-34 024**	-45 292
	Taux variable	31 110	-55 510	0	**-24 400**	19 911

The sensitivity tests implemented were made on a hedging of interest rates net basis of loans at adjustable rates at December, 31 2018. By taking as an assumption a 100 basis point increase in short-term rates, the impact on the Group's pre-tax result would be non-significant.

23.5 Raw material risk

The LATECOERE Group is exposed to raw material risk relating to its purchasing for raw materials, essentially aluminum, steel and titanium. Since 2007, the Group has negotiated contracts with its main suppliers, either independently, or through its customers' programs. These contracts have been concluded for two or three years, include price clauses that either make them constant for the duration of the contract, or cause them to evolve according to an index provided for in advance, on the average lower than the past increases. In some contracts, the raw material is consigned by the customer, which reduces the risk for the Group.

23.6 Equity share risk

The Group holds essentially LATECOERE shares, the carrying value of which is adjusted according to the closing market prices. The treasury shares are accounted for in deduction of shareholders' equity in the consolidated financial statements. The amount of treasury shares at December 31, 2018 is €79k.

Given the fact that at year end the Latécoère Company only held 29,972 of its own shares, the equity share risk is not significant. Furthermore, the Group does not hold any other significant listed shares and for this reason is not exposed to the risk of the fluctuation of share prices.

NOTE 24 AVERAGE HEADCOUNT

	Dec 31, 2018				Dec 31, 2017 restated
	Executives & Management	Administration	Blue-collars	**Total**	**Total**
LATECOERE	335	470	75	880	914
LATECOERE do BRASIL	30	122	190	342	369
LATECOERE Czech Republic s.r.o.	36	267	486	788	795
LATECOERE Mexico	51	0	127	178	133
LATECOERE Inc.	7	1	0	8	6
LATECOERE Bulgaria	7	22	50	78	7
Aerostructures	**465**	**882**	**927**	**2 275**	**2 223**
LATelec	216	242	274	732	652
SEA LATelec	57	120	697	874	865
LATelec GmbH	35	51	25	110	107
LATelec Mexico	75	0	368	443	325
LATsima	23	34	212	269	242
LATelec Interconnection Inc. (Canada)	2	0	17	19	0
Interconnection Systems	**409**	**446**	**1 592**	**2 447**	**2 191**
GROUP	**874**	**1 328**	**2 520**	**4 722**	**4 414**

NOTE 25 FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

25.1 Financial commitments

The amount of the commitments given by the Group at year end was as follows :

('000 EURO)	Dec 31, 2018				Dec 31, 2017 restated
	< To 1year	*From 1 to 5 years*	*> 5 years*	*Total*	*Total*
Trade receivables given as security (1)	76 537	0	0	**76 537**	77 056
Securities, collateral and mortgages (2)	4 869	8 657	0	**13 526**	23 106
TOTAL	**81 406**	**8 657**	**-**	**90 063**	**100 163**

(1) The trade receivables given as security correspond to the receivables financed by the Factor pursuant to the factoring agreement.
(2) The securities, collateral and mortgages are related to Group tax receivables.

25.2 Commitments under operating leases

Within the framework of its operation, the Group is caused to set up operating leases. The amount of the expense for the year was €6.9 million. 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.

25.3 Other commitments

In the course of its ordinary business; the Group has purchasing commitments related to production. These commitments are based primarily on forecasts of the production rates of the aircraft manufacturers and are realized at normal market conditions.

The Group has also, in the course of its ordinary business, given commitments to its customers and to customs for a total amount of €0.6 million.

25.4 Other contingent liabilites

The Group didn't identify any other contingent liabilities.

25.5 Non-consolidated Entities

LATECOERE holds 24.81% of the capital of CORSE COMPOSITE AERONAUTIQUE.
This investment by LATECOERE, along with the other shareholders -- Airbus, Dassault and, allows the Group to reinforce its competencies in the area of composite materials.

The Group exercises no significant influence on the Corse Composites Aéronautique company since April 1, 2013. Therefore, that company was deconsolidated and the financial asset has been classified in other financial assets.

The information below summarizes the main financial indicators of CORSE COMPOSITES AERONAUTIQUE (data at 100%):

- 2018 Revenue: €73.9 million (€67.5 million in 2017)
- 2018 Net Result: €1.7 million (€1.4 million in 2017)

The Group did not provide financial support to the CORSE COMPOSITE AERONAUTIQUE company.

The following newly created companies during the 2017 financial year are not significant individually or as a whole:

- Latécoère Interconnection Systems, Inc (USA)
- Latécoère Interconnection Systems Japan K.K
- Latécoère India Private Limited (Inde)
- Latécoère Interconnection Systems UK, Ltd

NOTE 26 RELATED PARTIES

26.1 Main flows with related parties

Relations during 2018 with non-consolidated entities as determined at December 31, 2018:

	Latecoere Group	CCA
Revenue	0	510
Purchasing	510	0
Trade receivables	0	53
Trade payables	53	0

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

26.2 Director compensation

The Group has defined as Key Managers the individuals holding the following functions:

- members of the Board of Directors of the LATECOERE Company;
- members of the Executive Committee of the LATECOERE Company;
- directors or managers of consolidated subsidiaries.

For all the individuals falling into the above definition, the total of remuneration, benefits acquired or to be acquired represents at December 31, 2018 the amount of €3,721k against €3,573k at December 31, 2017. The amount relating to retirement liabilities and long service medal amounts €229k for 2018 against €151k for 2017.

Remuneration due in 2018 for all of the Members of in Supervisory Board and Board of Directors was €470k. At December 31, 2017, remuneration due for all of the Members of the Supervisory Board was €468k.

26.3 Main relationships between the LATECOERE company and its subsidiaries

The main Group flows concern economic flows relating to the production of sub-assemblies.

The Group is organized around two businesses: “Aerostructures” and “Interconnection Systems”. Every company that is a leader in a business has subsidiaries (in France or abroad) that enable it to respond to its industrial needs. Given the general organization of the Group, the different companies that form part of the scope of consolidation may have industrial and commercial relations between themselves so as to respond to the production needs of each entity. Group transactions being variable, it is not possible a priori to define their annual amounts.

The conditions of payment applicable between the different companies of the Group match those applicable for other suppliers and take into account, as appropriate, occasional needs related to centralized cash flow management.

The LATECOERE Company, the parent company of the Group, centralizes some global management actions with respect to subsidiaries (general management, insurance and risk management, financial management, etc.). Therefore, it invoices its subsidiaries for management fees, integrating the cost relating to these items.

Furthermore, as part of its centralized cash flow management, the LATECOERE Company may grant to its subsidiaries (directly held) advances on current account (short term cash flow) or loans (medium or long term) to enable the financing of real estate and industrial investments. Short-term financings are subject to regulated agreements and carry interest. Loans are subject to specific contracts, which state the object of the financing, the duration as well as the interest rate applied.

In some cases, this method of financing internal to the Group may be set up between a subsidiary of the LATECOERE Company and its indirect subsidiary or subsidiaries, the procedures and conditions remaining identical to those described above. With the exception of companies of the Group and of the Key Manager relationships mentioned above, there exists no significant operation with related parties outside the Group.

Since fiscal year 2009, the LATECOERE Company has made itself the only taxpayer in France for the corporate tax, for additional contributions based on the corporate tax for the annual flat-rate taxation due in respect of the tax Group which includes the LATECOERE, LATelec and LATECOERE Développement companies. LATECOERE Services is no more part of the Group corporate tax since its disposal.

Under the tax consolidation agreement, the tax consolidated subsidiaries bear their own tax expense, as they would had there not been tax consolidation, and pay the corresponding sums to the LATECOERE Company, by way of contribution to the payment of taxes of the tax Group. Since the date of its disposal LATECOERE Services is no more under the tax consolidation agreement.

NOTE 27 STATUTORY AUDITORS' FEES

In application of the ANC's regulation n°2016-09 of December 2, 2016, the following table presents the Group's statutory auditors' fees auditors included in the consolidated income statement for the year, distinguishing between the fees related to the certification of the accounts of those, if any, to other services. The fees mentioned for subsidiaries relate to those which are fully consolidated.

('000 EURO)	KPMG				GRANT THORNTON			
	Amount		%		Amount		%	
	2018	2017	2018	2017	2018	2017	2018	2017
A) Fees for the certification of accounts								
A.1) Latécoère (issuer)	207	199	44%	42%	163	158	94%	84%
A.2) Subsidiaries	189	167	40%	35%	4	4	2%	2%
Sub-total	**396**	**365**	**83%**	**77%**	**167**	**162**	**96%**	**86%**
A) Fees for other services								
A.1) Latécoère (issuer)	61	94	13%	20%	7	26	4%	14%
A.2) Subsidiaries	18	13	4%	3%	0	0	0%	0%
Sub-total	**78**	**108**	**17%**	**23%**	**7**	**26**	**4%**	**14%**
TOTAL	**474**	**473**	**100%**	**100%**	**174**	**188**	**100%**	**100%**

NOTE 28 SUBSEQUENT EVENTS

Termination of the A380 program

On February 14, 2019, Airbus announced the termination of production of the A380 program. The impacts on the financial statements are presented in Note 2.29.

Share buyback program linked to stock allocation plans for employees

On January 18th, 2019, Latécoère's Board of Directors made the decision to launch a share buyback program intended to cover the free employee share plan, and the long-term incentive plan for the Group's management team and thus avoid any dilution for shareholders. It will be carried out, subject to market conditions, between February 1st, 2019 and December 31st, 2019.

Creation of an ad hoc committee to support the strategic advancement of the Group and appointment of a Lead Director

On January 18th, 2019, the Board of Directors also decided to create an ad hoc committee to support the strategic advancement of the Group and to appoint Claire Dreyfus-Cloarec as Lead Director.

5.7.7 Statutory auditors' report on the financial statements

KPMG Audit
224 rue Carmin
CS 17610
31676 Labège Cedex
France

Grant Thornton
Membre de Grant Thornton International
29 rue du Pont
92200 Neuilly-sur-Seine
France

Statutory auditors' report on the financial statement

Year ended December 31, 2018

To the Shareholders of LATÉCOÈRE S.A.

Year ended December 31, 2018

This is a free translation into English of the Statutory Auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This Statutory Auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Latécoère SA for the year ended December 31, 2018.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit and Risk Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of Ethics (Code de déontologie) for statutory auditors.

Emphasis of matter

Without qualifying our opinion, we draw your attention to Note 2.2, "Change in accounting policy" to the consolidated financial statements, which describes the impacts on the financial statements of the first-time application of IFRS 15, "Financial Instruments" and IFRS 9, "Revenue from Contracts with Customers".

Justification of Assessments – Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming ou opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Adoption of IFRS 15 «Revenue from Contracts with Customers»

Identified risk

IFRS 15, mandatory from 1 January 2018, replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue". As stated in Note 2.2 to the consolidated financial statements, this standard amends and clarifies the criteria for recognizing revenue and the completion costs of associated contracts.

The Group has carried out a detailed analysis of the types of contracts in its portfolio in order to determine the revenue recognition method to adopt under this new standard and to assess the impact on its financial statements.

The Group has decided to apply this new standard according to the full retrospective method. The impacts of the retrospective application of the standard on the Group's equity are presented in note 2.28 of the consolidated financial statements. They amounted to € (172.2) million as of January 1, 2017 and € (142.0) million as of January 1, 2018.

The first application of IFRS 15 is a key point of the audit as the analysis of the different types of contracts required a significant amount of judgment when:

• the identification of the contract within the meaning of IFRS 15, which defines the rights and obligations of the parties;

• the identification of distinct performance obligations, including the specific development part of the contracts;

• determination of the rate of recognition of turnover (gradually or at a given moment), particularly for sales of studies.

• determining the method of recording the completion costs of the contract.

Our answer

Our work consisted in:

- assess the conformity of the new accounting rules and methods presented in Note 2.2 to the consolidated financial statements with IFRS 15;
- on a selection of the most significant contracts in terms of contribution to consolidated sales, assess the relevance of the analyzes by typology of contracts conducted by the Group and carry out a critical examination of :
  - criteria used to characterize contracts within the meaning of IFRS 15;
  - distinctives performance obligations identified ;
  - rate of revenue recognition with regard to the technical characteristics of the performance obligations and the contractual clauses that may have an impact on the transfer of control of the goods and services provided for in the contract;
  - method of recognizing completion costs of the contract and notably the rate of amortization of costs capitalized using the external milestones method.
- reconcile the data used in the determination of the impacts of the application of IFRS 15 on the consolidated financial statements with the data used as a basis for accounting and contractual data;
- validate the accounting restatements carried out on the consolidated balance sheets at December 31, 2016 and December 31, 2017, as well as the consolidated income statement for 2017, in light of the Group's analyzes and the accounting rules and methods used;
- assess the appropriateness of the information provided in notes 2.2 and 2.28 of the consolidated financial statements.

Airbus A380 announcement of the termination of the A380 program in the Company's financial statements as at December 31, 2018

Identified risk

On February 14, 2019, Airbus announced its decision to cease production of the A380. The final A380 deliveries are slated for 2021.As indicated in note 2.29 of the consolidated financial statements, the Group proceeded to assess the impacts resulting from the termination of the A 380 program on its assets and liabilities as of December 31, 2018.

The impairment test carried out by the Group on the assets related to the A380 program and described in note 5.3 of the consolidated financial statements led to a recognition of a dereciation of capitalized developments costs of € (28.9) million and a write-down of (€2.5) million recorded in inventories.

The Company has also revalued the fair value its liabilities related to the A380’s refundable advance, based on new delivery assumptions and contractual data. This revaluation led to the recognition of an income of € 35.5 million euros.

The assessment of the impact of the Airbus announcement on the A380's assets and liabilities, which represent significant amounts, is a key point of the audit as it is based on the judgment of the Management.

Our answer

We first assessed the relevance of the Company's decision to adjust its financial statements for the effects of this announcement, considering that it was a subsequent event to the closing date.

In addition, with regard to the asset impairment test related to the A380 program, our work also consisted of:

- evaluate the relevance of the methodology chosen by the company,
- assessed the validity of the assumptions made by the Management,
- check the validity of the data used in the calculations, in particular:

  - by comparing them with the program data which were used as basis for accounting of assets related to the A380 program in accounting;

  - and confronting them to the actual costs observed in previous years for cost prices.
- check the arithmetic accuracy of the calculations made.

Concerning the reevaluation of the Company's financial liabilities related to the A380’s refundable advance, we have particularly:

- assessed the compliance of the accounting rules and methods applied by the company in regards to the standards applied;
- assessed the correctness of the assumptions used in the calculations with respect to the data listed in the refundable advance agreements;
- check the arithmetic accuracy of the calculations made

Lastly, we assessed the relevance of the presentation of these impacts in the financial statements and the information provided in note 2.29 of the consolidated financial statements.

EUR / USD currency hedging and derivative financial instruments

Identified risk

The Group generates a significant portion of its sales and purchases in foreign currencies, mainly in US dollars. In order to hedge its foreign exchange risk, it implements a foreign exchange hedging policy based on the management of a portfolio of derivative financial instruments (forward sales, option tunnels, accumulators, etc.).

As of January 1, 2018, the group applied IFRS 9 "Financial Instruments" to financial assets and liabilities on a prospective basis. As mentioned in Note 2.2 to the consolidated financial statements, the first application of this standard led to a reclassification of 3.9 million euros in opening equity. The recognition of derivative financial instruments depends on whether or not they are designated as hedging instruments if they comply with the hedge accounting criteria established by IFRS 9.

For fair value hedges of existing assets or liabilities, the hedged portion of these items is measured on the balance sheet at fair value. The change in this fair value is recorded in the income statement, where it is offset by symmetrical fair value changes in financial hedging instruments, within the limit of their effectiveness. For future cash flow hedges, the effective portion of the income or loss on the hedging instrument is recognized directly in equity (other comprehensive income) and then reported in the income statement in the period in which the hedged underlying is recognized in the income statement, the ineffective portion is recognized immediately in the financial result. Gains or losses arising from changes in the fair value of financial instruments that are not treated as hedging instruments are recognized in financial income.

On the balance sheet, the portfolio of derivative instruments is valued at fair value in accordance with IFRS 9, an asset of € 8.6 million and a liability of € 30.6 million on the Group's balance sheet as December 31, 2018. Financial instruments that are not treated as hedging instruments generated a financial expense of € -6.3 million and the hedges of future cash flows resulted in a pre-tax impact of € -58, 4 million on equity.

We considered the recognition of financial instruments as a key point of the audit due to the importance of their qualification as a hedging instrument on the Group's result and the judgment required to determine their fair values.

Our answer

We obtained an understanding of the internal control procedures relating to the qualification and measurement of derivative financial instruments.

With the assistance of our specialists, we also have :

- analyzed the subscription agreements for the main new derivative financial instruments for the year ;
- assessed the designation of derivative financial instruments and their accounting translation in the consolidated financial statements;
- reconciled the fair value of the financial instruments estimated by the company's expert with the accounting entries as at 31 December 2018 and verified that there is no significant difference between these valuations and the statements of banking counterparties;
- for a selection of contracts, we made a counter valuation of the fair value of financial instruments.

We have assessed the appropriateness of the information provided in Notes 2.2 and 9 to the consolidated financial statements.

Specific verifications

As required by legal and regulatory provisions and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Board of Directors' management report.

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

We attest that the information pertaining to the Group provided in the management report includes the consolidated non-financial information statement required under Article L.225-102-1 of the French Commercial Code. However, in accordance with Article L.823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in that statement, which will be the subject of a report by an independent third party.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of LATECOERE SA by the General Meeting held on June 3, 2005 for Grant Thornton and, on June 25, 1993, for KPMG SA.
Moreover, the company Fidulor, a member of the Grant Thornton network since 2002, was previously Statutory Auditor of LATECOERE SA since June 10, 1983.
As of December 31, 2018, Grant Thornton was in the 33rd year of its uninterrupted mission and KPMG S.A. in the 25th year since the company's securities were admitted to trading on a regulated market.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit and Risk Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objective and audit approach

Our role is to issue a report on the consolidated financial statements.Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (Code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

Dans le cadre d'un audit réalisé conformément aux normes d'exercice professionnel applicables en France, le commissaire aux comptes exerce son jugement professionnel tout au long de cet audit. En outre :

- identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit and Risk Committee

We submit a report to the Audit and Risk Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit and Risk Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit and Risk Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (Code de commerce) and in the French Code of Ethics (Code de déontologie) for Statutory Auditors. Where appropriate, we discuss with the Audit and Risk Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

The Statutory Auditors,

Labège, 15 april 2019	Neuilly-sur-Seine, 15 april 201915 avril 2019
KPMG Audit	**Grant Thornton**
Departement of KPMG S.A.	***Member of Grant Thornton International***

Eric Junières *Associate*	Michel Dedieu *Associate*	Pascal Leclerc *Associate*

5.8 Parent company financial statements at December 31, 2018

5.8.1 Balance sheet

('000 EURO)	Gross	Amortization	Dec 31, 2018	Dec 31, 2017
Start-up costs	9 011	5 922	3 089	4 891
Goodwill	500	500	0	0
Software	20 761	14 819	5 942	8 459
Intangible fixed assets	**30 272**	**21 241**	**9 031**	**13 350**
Land	417		417	505
Buildings	9 577	5 638	3 939	4 902
Plant, equipment and tooling	35 216	24 750	10 466	10 102
Other tangible fixed assets	1 424	1 215	209	260
Fixed assets in progress	8 849	0	8 849	16 175
Advance payments	189		189	80
Tangible fixed assets	**55 672**	**31 602**	**24 070**	**32 025**
Investments	46 678	561	46 117	45 764
Receivables concerning investments	9 952		9 952	1 933
Other long-term investments	25		25	25
Other financial fixed assets	1 565	0	1 565	134
Financial fixed assets	**58 220**	**561**	**57 660**	**47 857**
Fixed assets	**144 164**	**53 404**	**90 760**	**93 231**
Raw materials	20 607	6 349	14 259	13 423
Work-in-progress	164 736	24 583	140 153	192 233
Intermediate and finished products	27 249	3 722	23 527	28 027
Intermediate and finished products	**212 593**	**34 654**	**177 939**	**233 683**
Advances, payments on account	4 729		4 729	5 184
Trade accounts receivable	30 090	79	30 011	16 797
Other receivables	138 462		138 462	89 496
Cash and bank	97 226		97 226	135 840
Prepayments, unrealized exchange losses	480		480	724
CURRENT ASSETS	**483 579**	**34 733**	**448 847**	**481 723**
Unrealized exchange loss	5 056		5 056	4 011
TOTAL ASSETS	**632 799**	**88 137**	**544 662**	**578 966**

('000 EURO)	Dec 31, 2018	Dec 31, 2017
Share capital	189 490	188 790
Share premium	215 008	215 008
Legal reserve	1 722	1 722
Other reserves	106 796	107 496
Retained earnings	-211 811	-243 972
Income for the year (profit or loss)	-14 863	32 161
Tax based provisions	3 778	5 572
Shareholders' equity	**290 119**	**306 776**
Refundable advances	16 713	34 628
Total equity	**306 832**	**341 404**
Provisions for risks	5 542	4 407
Provisions for expenses	15 333	23 202
Provisions for risks and expenses	**20 874**	**27 610**
Loans and debts from financial institution	53 717	47 390
Trade accounts payable	99 700	90 998
Tax, personnel and social security	20 858	21 888
Due for fixed assets	712	434
Other liabilities	41 931	48 153
Deferred income-unrealized exchange gains	0	0
Total liabilities	**216 919**	**208 861**
Unrealized exchange gains	37	1 091
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**544 662**	**578 966**

5.8.2 Parent company income statement at December 31, 2018

('000 EURO)	Dec 31, 2018	Dec 31, 2017
Production sold (goods)	451 969	435 259
Production sold (services)	17 109	12 520
Net sales	**469 078**	**447 779**
Change in inventory (WIP and finished goods)	-36 885	-27 200
Capitalized production	9 570	11 561
Operating grants	4 131	3 815
Write-back of provisions and amortization, expense transfers	8 443	5 427
Other income	6 717	15 493
Operation income	**461 054**	**456 875**
Purchase of raw materials and other supplies	26 822	30 774
Changes in inventory (raw materials, supplies)	-236	2 866
Other purchases and external expenses	390 166	347 596
Taxes, duties and similar	5 932	5 687
Wages and salaries	40 665	44 289
Social security	19 539	19 434
Depreciation, amortization	8 265	8 807
Provisions on current assets	9 512	7 689
Other operating expenses	6 102	17 212
Operating expenses	**506 769**	**484 354**
NET OPERATING INCOME	**-45 715**	**-27 480**
Financial income from shareholdings	11 584	69 811
Other interest and similar income	20 057	786
Write-back of provision and transfer of expenses	2 433	923
Foreign exchange gains	2 943	3 050
Net income from sales of short-term investments	0	40
Financial income	**37 018**	**74 610**
Financial provision	4 596	2 356
Interest and related expenses	8 756	9 747
Foreign exchange losses	551	8 112
Net loss on sales of short-term investments	79	0
Financial expenses	**13 981**	**20 216**
NET FINANCIAL INCOME	**23 037**	**54 394**
INCOME BEFORE TAX	**-22 678**	**26 915**
Exceptional income from revenue operations	18 864	613
Exceptional income from capital transactions	25 669	50
Write-back of provisions and transfer or expenses	22 218	11 296
Exceptional income	**66 750**	**11 959**
Exceptional expenses from revenue operations	17 380	1 088
Exceptional expenses from capital transactions	15 729	7 715
Exceptional provisions	28 753	2 456
Exceptional expenses	**61 862**	**11 260**
NET EXCEPTIONAL EXPENSES	**4 888**	**700**
Employee profit sharing	1 165	-1 220
Tax on profit	1 761	5 766
TOTAL INCOME	**564 822**	**543 444**
TOTAL EXPENDITURE	**579 686**	**511 283**
NET INCOME	**-14 863**	**32 161**

5.8.3 Parent company statement of cash flows

('000 EURO)	Dec 31, 2018	Dec 31, 2017
Net income	-14 863	32 161
Elim of depreciation and provisions	-17 229	1 201
Cash flow	**-32 092**	**33 362**
Changes in working capital	-8 898	-12 783
Cash flow from operating activities	**-40 990**	**20 579**
Purchase of tangible and intangible assets	-11 323	-16 051
Proceed of sale of tangible and intangible assets	15 696	272
Cash flows from (used in) investing activities	**4 374**	**-15 779**
Increase (decrease) in capital	0	1 302
Proceeds from borrowings [1]	0	45 000
Repayments of borrowings [2]	0	-82 391
Shares in subsidiary companies flow	-353	-39
Flow from refundable advances	-1 316	1 200
Disposal (acquisition) of treasury shares	34	17
Increase (decrease) in loans and advances made from financing activities	-9 044	24 398
Cash flows from (used in) financing activities	**-10 679**	**-10 513**
Increase (decrease) in cash and cash equivalents	**-47 296**	**-5 713**
Opening cash position	135 819	141 532
Closing cash position	88 523	135 819
Cash and cash equivalents	97 226	135 840
Overdraft facilities	-8 703	-22
CASH AND CASH EQUIVALENTS AT YEAR-END	**88 523**	**135 819**

[1] 2017 corresponds to new loan obtained from European Investment Bank at the end of 2017

[2] 2017 corresponds to syndicated loan refund

5.8.4 Notes to the parent company financial statements

These documents are annexed to the balance sheet before apportionment of the fiscal year ending on December 31, 2018 totaling € 544,662 k, and to the income statement of the fiscal year presented in the form of a list, showing total income of € 564,822 k, total expenditure of K€ 579,686, and net income of € (14, 863 k).

The relevant year covers a period of 12 months from January 1, 2018 to December 31, 2018.

The notes and the tables herein, form an integral part of the annual financial statements. The financial statements are presented in €k rounded to the closest thousand euros.

NOTE 1 MAIN EVENTS

Termination of the A380 program

As mentioned in note 2.17, The Company has revised its financial statements following the announcement of the cessation of A380 production.

2020 Transformation Plan

Significant milestones for the Transformation 2020 plan were achieved in the first half of 2018:

- The end of construction and the start of production at the Toulouse-Montredon site
- The end of construction and start of production at the Plovdiv site in Bulgaria
- The sale of the first part of the Toulouse-Périole site

NOTE 2 ACCOUNTING POLICIES

2.1 Presentation of the financial statements

The financial statements of the Company at December 31, 2018 have been prepared in accordance with regulations in force, in compliance with regulation ANC 2014-03. Moreover, the Company applies the recommendations of the accounting plan of the aeronautical and space industry for the accounting treatment of some specific operations.

2.2 Assumptions and estimates

The preparation of financial statements requires that the 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 Company makes assumptions and regularly establishes, on these bases, estimates relating to its various businesses. These estimates have been made from past experience and other factors considered as reasonable in view of the circumstances they integrate the economic conditions prevailing at the closing and the information available as of the date of preparation of the financial statements the Management regularly reviews its estimates and assumptions 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 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 2.6), provisions on inventories, the recoverable value of long-term investments, and employee benefits (note 15.2).

At December 31, 2018, the accounting estimates used in the preparation of the financial statements were performed in a worldwide economic context with a still high degree of volatility with regard to economic prospects.

The estimates and the assumptions retained for the consolidated financial statements were determined based on the elements in the Group's possession at the closing date and, in particular:

- 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.

2.3 Other intangible fixed assets

Composed essentially of computer software, they are measured on the basis of acquisition cost (purchase price and associated costs) or at their production cost (capitalized production). The interest costs on loans specific to capitalized production are not included in the cost of production.

For fixed assets that use reducing balance methods for tax purposes the difference with respect to book depreciation is shown as accelerated fiscal depreciation in regulated provision. Other intangible fixed assets are amortized over their duration of use.

2.4 Tangible fixed assets

The tangible fixed assets are accounted for at their directly attributable cost (including purchase price, taxes paid and direct purchase cost), reduced by accumulated depreciation and loss of value.

Subsequent expenses relating to tangible fixed assets are accounted for as expenses of the fiscal year in which they are incurred if they maintain the performance level of the asset. They are added to the carrying value of the initial fixed asset if they generate future economic benefits higher than the initial level of performance and if their cost can be measured reliably.

When applicable, the total cost of an asset is broken down between its different constitutive elements (components) if their useful lives are different. Each element of the asset is depreciated over a different time period. The LATECOERE Company has defined families of assets that might be broken down, together with the useful lives of the components thus determined.

As the assets acquired by the LATECOERE Company are not meant to be resold before the end of their economic lives, no residual value has been applied to the different tangible fixed assets.

The amortization method reflects the rate of consumption of the future economic benefits relating to the asset.

Any loss in value is recognized in operating result, on the line "depreciation amortization".

The grants received by the LATECOERE Company as assistance to the financing of industrial fixed assets are accounted for in deduction of the original value of the asset.

Furthermore, the LATECOERE Company has not chosen the option of integrating in the cost of fixed asset, the financial costs relating to the specific financing of this asset.

The amortization periods associated with the groups and sub-groups of assets are as follows.

Group	Amortization period
Construction	15 - 40 years
General facilities	10 -20 years
Technical facilities	6 2/3 – 20 years
Tooling	3 years
Electronic equipment	5 years
Computer hardware	3 – 5 years
Transportation equipment	4 years
Office equipment	6 2/3 years
Furniture	10 years

In general, the LATECOERE Company has opted for the use of the straight-line method of depreciation for the whole of its assets. However, according to nature and specificity of the asset, the decreasing-balance method may be applied.

Impairment of assets

The carrying value of the Company's assets is examined at each closing so as to appreciate if any indication of a loss in value exists. If such an indication is identified an impairment test is carried out. The impairment test consists in comparing the carrying value of the asset or of the relevant group of assets with its recoverable value.
The recoverable value of an asset is the higher of its fair value less costs to sell and its value in use. The value in use is the discounted value of estimated future cash flows expected from the continuing use of the asset and from its disposal at the end of its useful life.

In order to determine the value in use of an asset, the LATECOERE Company uses:

- estimates of future cash flows (before income tax and financial cost) based on assumptions that keep the asset in its current condition and represent the best estimate of the economic conditions which will exist during the remaining useful life of the asset,
- the pre-tax discount rate that reflects the current market valuations of the time value of money and of the specific risks of the asset. The discount rate does not reflect the risks that have already been taken into account in the estimate of future cash flows.

Depreciation is recorded if the carrying value of an asset is higher than its recoverable value.

2.5 Shareholdings and other long-term investments

Shareholdings

Shareholdings are initially measured at their price or subscription price. At each year-end, their value in use is determined by taking into account the net equity and potential profitability of each holding.

Other long-term investments

Their gross value includes their purchase price excluding associated costs.

2.6 Inventories and work-in-progress

Raw materials

The gross value of raw materials and supplies includes the purchase price and associated costs. Valuation is made at the weighted average price. Provisions for depreciation are constituted on the raw materials and facilities that have not moved during the year and for which no use is foreseen in the short-term.

Work-in-progress excluding construction contracts

The gross value of work-in-progress is measured using the full cost method excluding non-production costs (financial expenses, marketing costs, estimates without follow-up, administrative costs, etc.). Work-in-progress is depreciated when its realization value is under its book value.

Construction contracts (long-term contracts):

The LATECOERE Company has concluded with some of its customers partnership contracts the characteristics of which are those of construction contracts:

- contract relating to the production of a group of assets closely interrelated or interdependent in terms of design, technology and function;
- which covers several years..

The accounting for these contracts responds to the following criteria:
The principal revenues and costs of construction contracts are:
a. for revenue:

- the initial amount of revenue agreed in the contract;
- the modifications in contract work or the claims to the extent that it is probable that they give rise to revenue and that they can be measured reliably.

b. for costs:
The costs directly related to the contract;

- the costs attributable to the contract activity in general and which can be allocated to the contract;
- all other costs that can specifically be charged to the customer according to the terms of the contract.

The margin is recognized by reference to the stage of completion and calculated in relation to the delivery of elements ("milestones"). Actually the LATECOERE Company invoices on delivery and all the invoicing is due by the customer whatever the outcome of the program

Additional invoicing may also be carried out subsequently (modifications or additional work). A study is undertaken on a case-by-case basis in order to define elements permitting the determination of the stage of completion (milestones).
The estimated margin is calculated on the basis of a forecast including the technical and budgetary elements determined at the inception. This margin is revised periodically based on costs and revenues realized during the period and remaining to come. When the foreign exchange exposure is hedged, the impact of this hedging is integrated in the calculation of the estimated margin.
When the projected margin is negative, it is immediately recorded in income statement.

Construction contracts covering several years, during the first years the Company is brought to note in the balance sheet costs of production, which will subsequently be recycled in income statement according to the decay really observed.

Construction contracts are based on forecasts made by LATECOERE 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.

2.7 Revenue Recognition

Revenue is recognized according to the following criteria:

- for construction contracts, refer to note 2.6;
- for other types of contracts (other than services), revenue is recognized when the main part of risks and rewards are transferred to the buyer, which occurs on delivery;
- for service contracts, revenue is recognized by reference to the stage of completion based on the actual advancement of work on the basis of costs recorded in relation to total estimated costs.

2.8 Receivables

Receivables are valued at their nominal value. The risks of non-recovery are provided for as required at the end of each year.

2.9 Investment securities

They are exclusively made up of securities other than treasury shares. Their gross value includes their purchase price excluding associated costs. When the inventory value is under their gross value, a provision for depreciation is constituted.

2.10 Provisions for risks

Provisions for risks and expenses are established in compliance with regulation CRC 2000-06 on liabilities. Risks known at the date of the closing of the financial statements are subject to a review and a provision is made.

2.11 Tax related provisions

Regulatory provisions that figure in the balance sheet include exclusively accelerated fiscal depreciation. Accelerated fiscal depreciation represents the difference between straight-line depreciation to determine net operating income and the accelerated depreciation authorized by the current tax legislation.

2.12 Recording of foreign currency operations

Foreign currency translation

Transactions in foreign currencies are translated using the exchange rates prevailing at the transaction date.

Assets and liabilities denominated in foreign currencies are translated using the year-end exchange rate.

The differences resulting from the translation of foreign currency receivables and payables at the year-end exchange rate are recognized within unrealized exchange gains or losses in the balance sheet. Provisions are recognized for unrealized foreign exchange losses at year-end to the extent of the unhedged risk.

Exchange gains or losses relating operating items are recorded in Net Operating Income. Exchange gains or losses relating financial items are recorded in financial result.

Currency hedges

Hedge accounting

Fair value of derivatives instruments qualified as « Hedge accounting » are not recognized in balance sheet but recorded in off-balance sheet commitments.

Unrealized exchange gains or losses are not recognized in Income statement. However, exchange gains or losses realized relating derivatives instruments qualified as « Hedge accounting » are recorded in Income statement when the hedged risk itself affects income.

In most cases, the company hedges its invoicing flow in USD. Thus, the result of these hedges is recorded in revenue.

Trading accounting

Fair value of derivatives instruments not qualified as « Hedge accounting » are recognized in balance sheet.

Unrealized exchange gains or losses are recognized in Income statement as provision. Exchange gains or losses realized relating derivatives instruments not qualified as « Hedge accounting » are recorded in financial result.

2.13 Employee long-service medals

In compliance with recommendation n° 2003-R-01 of the "Conseil National de la Comptabilité" (Regulation n° 2000-06 on liabilities), the LATECOERE Company set up a provision for employee long-service awards, calculated in compliance with IAS 19 (using actuarial assumptions, the level of future remuneration, life expectancy and employee turnover rates).

2.14 Recognition of revenue

Revenue is recognized on product delivery or upon the provision of services.

2.15 Taxes

Since fiscal year 2009, the LATECOERE Company has made itself the only taxpayer in France for the corporate tax, for additional contributions based on the corporate tax for the annual flat-rate taxation due in respect of the tax Group which includes the LATECOERE, LATelec, and LATECOERE Développement companies.

Under the tax consolidation agreement, the tax consolidated subsidiaries bear their own tax expense, as they would had there not been tax consolidation, and pay the corresponding sums to the LATECOERE Company, by way of contribution to the payment of taxes of the tax Group.

2.16 Competitiveness and Employment Tax Credit ("CICE")

The Competitiveness and Employment Tax Credit (the "Crédit d'Impôt Compétitivité Emploi" or "CICE") is accounted for by the pace of engagement, it is taken into account progressively based on the commitment of corresponding remuneration expenses.

The entering into accounts of the CICE was conducted in reduction of the corporate tax, through the crediting of a sub-account of a tax credit (account 699).

The amount recognized for the year ended December 31, 2018 was € 942,194 and was the subject of pre-financing.

The CICE was primarily used for the replenishment of working capital.

2.17 Impact from the termination of the A380 program

On February 14, 2019, Airbus announced its decision to cease production of the A380. The final A380 deliveries are slated for 2021. On this basis, the company proceeded to assess the impacts resulting from the termination of the A 380 program on its assets and liabilities as of December 31, 2018.
The impact is the recognition of an expense totaling € 26.7 million, including a write-down of € 24.2 million for development costs recorded in inventories. These amounts have been recognized as exceptional expenses.

In addition, the Company reassess its liabilities related to the A380 Refundable advance resulting in the recognition of a € 35.5 million income, of which € 18.9 million impacted the exceptional result and € 16.6 million impacted the financial result.

Ultimately, the termination of the A380 program impacted the Income statement of +€ 8.7 million (without cash effect) of which (€7.9) million in exceptional result and +16.6 million in financial result.

NOTE 3 FIXED ASSETS

('000 EURO)	Dec 31, 2017	Acquisitions	Transfer	Disposals	Dec 31, 2018
Start-up costs	9 011	**0**	**0**		9 011
Goodwill	500	**0**	**0**		500
Software	20 096	509	237	81	20 761
Intangible fixed assets	**29 607**	**509**	**237**	**81**	**30 272**
Land	505	0	1 641	1 730	417
Buildings constructed on leasehold land	12 890	61	12 246	15 621	9 577
Plant, industrial equipment and tooling	37 666	740	3 292	6 481	35 216
General facilities	0	2	34	0	36
Vehicules	143	0	0	51	92
Office equipment, I.T., furniture	1 405	21	18	148	1 296
Fixed assets in progress	16 540	9 777	-17 468	0	8 849
	80	212		102	189
Tangible fixed assets	**69 228**	**10 813**	**-237**	**24 133**	**55 672**
Investments (Shares in subsidiary companies)	45 993	353		0	46 346
Receivables concerning investments	1 933	9 442		1 423	9 952
Other long-term investments	25				25
Loans, other financial fixed assets	544	7 586		6 233	1 897
Financial fixed assets	**48 496**	**17 381**	**0**	**7 657**	**58 220**
TOTAL GROSS FIXED ASSETS	**147 331**	**28 704**	**0**	**31 870**	**144 164**

NOTE 4 DEPRECIATION

('000 EURO)	Dec 31, 2017	Increase	Decrease	Dec 31, 2018
Start-up costs	4 120	1 802		5 922
Goodwill	500	0		500
Software	11 637	3 261	79	14 819
Intangible fixed assets	**16 257**	**5 063**	**79**	**21 241**
Buildings constructed on leasehold land	7 987	643	2 993	5 637
Plant, industrial equipment and tooling	27 564	2 450	5 264	24 750
General facilities	0	0	0	0
Vehicles	136	3	47	92
Office equipment, I.T., furniture	1 152	105	134	1 123
Tangible fixed assets	**36 839**	**3 202**	**8 439**	**31 602**
TOTAL AMORTIZATION	**53 096**	**8 265**	**8 517**	**52 844**

('000 EURO)	straight-line method	double declining method	Accelerated fiscal depreciation	
			Increase	Decrease
Intangible fixed assets	**5 063**	**0**	**425**	**953**
Buildings constructed on leasehold land	643		35	13
Plant, industrial equipment and tooling	2 450		365	1 341
General facilities	0	0	26	337
Vehicles	3		0	0
Office equipment, I.T., furniture	105		0	0
Tangible fixed assets	**3 202**	**0**	**426**	**1 692**
TOTAL BREAKDOWN OF DEPRECIATION	**8 265**	**0**	**851**	**2 644**

NOTE 5 PROVISIONS

('000 EURO)	Dec 31, 2017	Increase	Decrease	Dec 31, 2018
Accelerated fiscal depreciation	5 572	851	2 644	3 778
Regulated provision	**5 572**	**851**	**2 644**	**3 778**
Foreign exchange losses	4 011	5 056	4 011	5 056
Provisions for taxes	23 598	11 794	19 573	15 819
Total provisions for risks and expenses	**27 610**	**16 849**	**23 585**	**20 874**
	364	0	364	0
Provisions for financial assets	639	0	78	560
Provisions for Inventories and work-in-progress	15 559	25 082	5 987	34 654
Provisions for trade accounts receivable	0	79	0	79
Total provisions on assets	**16 562**	**25 161**	**6 430**	**35 292**
TOTAL PROVISIONS	**49 743**	**42 861**	**32 659**	**59 946**

('000 EURO)	Increase	Decrease
Operating	9 512	8 008
Financial	4 596	2 433
Exceptional	28 753	22 218
TOTAL	**42 861**	**32 659**

As of December 31, 2018, exceptional decrease includes reversal relating to the Social Plan (PSE) for an amount of + €19.6 million, which was used to offset an outflow of €18 million as an operating expense. Exceptional increase includes the impact of the termination of the A380 program for (€26.7) million.

NOTE 6 ANALYSIS OF RECEIVABLES AND OF LIABILITIES

('000 EURO)	Gross Amount	Due within one year	Due after one year
Receivable related to associates	9 952	957	8 995
Loans	332	77	255
Other financial fixed assets	1 590	169	1 421
Doubtful or disputed trade accounts receivable	128	128	
Other trade accounts receivable	29 962	29 962	
Payroll and similar accounts	210	210	
Social security and other similar organizations	0	0	
State and other community bodies	28 574	17 039	11 536
Group and shareholders	69 548	69 548	0
Miscellaneous	40 130	40 130	
Prepayments expenses	480	480	
TOTAL RECEIVABLES	**180 906**	**158 700**	**22 206**
Loans granted during the year	7 600		
Reimbursements obtained during the year	77		

The receivables greater than one year relating to the line "State and other authorities" correspond to tax credits (primarily, the research based tax credit).

('000 EURO)	Gross Amount	Due within one year	Due between one and five years	Due after five years
Refundable Advances	16 713	1 617	7 513	7 583
Loans and financial debt due within 1 year at origin	8 703	8 703	0	
Loans and financial debt due after 1 year at origin	45 014	14	0	45 000
Trade accounts payable	99 700	99 700		
Payroll and similar accounts	7 854	7 854		
Social security and other similar organizations	9 296	9 296		
State : tax on profits	0	0		
State : value added tax	1 136	1 136		
State : other taxes and duties	2 572	2 572		
Due for fixed assets	712	712		
Group current accounts	15 943	15 943		
Other liabilities	25 988	12 812	10 922	2 254
TOTAL LIABILITIES	**233 632**	**160 359**	**18 435**	**54 837**
Loans obtained during the year	0			
Loans reimbursed during the year	0			

NOTE 7 LOANS AND BANK BORROWINGS

('000 EURO)	Currency	Interest rate	Maturity	Dec 31, 2018	
				Nominal value	Carrying value
EIB loan	EURO	EURIBOR + margin	2024	55 000	45 000
TOTAL OF LOAN AND BANK BORROWINGS				55 000	**45 000**

Latécoère obtained a global financing of € 55 million from the European Investment Bank (EIB) to support its development. At December 31, 2018, the carrying value was € 45 million.

Financial commitment on the loan of the European Investment Bank

The EIB loan includes financial covenants that commit the Group to i) respect a maximum level of leverage ratio (gross debt / Economic EBITDA), ii) respect a minimum level of financial expense coverage ratio (Economic EBITDA / financial expenses), and (iii) respect a minimum level of liquidity ratio (Economic EBIT).

At December 31, 2018, these covenants have been respected.

Financial commitment on the factoring contract

The factoring contract includes financial covenants that commit the Group to i) respect a minimum level of adjusted economic EBIT, calculated quarterly on a rolling 12-month basis and ii) to respect a minimum level of cash, measured monthly.

At December 31, 2018, these covenants have been respected.

NOTE 8 REFUNDABLE ADVANCES

Refundable advances are related to the A350 program for €7.1 million, to the A380 program for €2.9 million and to the Embrear programs for €6.7 million. Advances shall be repaid if the program succeeds, and repayments are linked to the deliveries of each financed product. The repayment conditions have been established in the agreement signed with the lending organization.

On February 14, 2019, Airbus announced its decision to cease production of the A380. On this basis, tests have been carried out, and the Company reassessed its liabilities related to the A380 refundable advance resulting in the recognition of €18.8 million. This amount with no cash impact was recognized in exceptional result.

NOTE 9 ACCRUALS AND PREPAYMENTS

('000 EURO)	Dec 31, 2018	Dec 31, 2017
Invoices to be issued	5 109	4 018
Accrued interest receivable, other	74	71
Total income accruals	**5 183**	**4 089**
Accrued interest on loans	14	13
Supplier invoices not yet received	38 265	37 422
Tax, personnel and social security	11 657	12 688
Interest accrued on overdraft	12	22
Other	4 019	18 997
Total expense accruals		**69 141**
Insurance premiums	12	107
Miscellaneous expenses	468	617
Total prepayments (net)	**480**	**724**
Total deferred revenue	**0**	**0**

NOTE 10 SHAREHOLDERS' EQUITY

LATECOERE's shares are listed on EURONEXT Paris, of NYSE EURONEXT, compartment "B". ISIN code: FR0000032278.

The share capital is €189,489,904 and breaks down as follows:

En milliers d'euros	Number	Nominal value
Total shares at beginning of year	94 394 902	2,00
Shares issued during the year	350 050	2,00
Total shares at end of year	94 744 952	2,00

During the fiscal year 2018, a capital increase reserved for employees was made in the amount of €700 thousand.

('000 EURO)	Amount
Shareholders' equity as of 31/12/16	**273 083**
Increase in share capital + premium	1 302
2017 Net income	32 161
Distribution of dividends in 2016	0
Charge in regulated provisions	230
Shareholders' equity as of 31/12/17 (1)	**306 776**
Increase in share capital + premium	0
2018 Net income	-14 863
Distribution of dividends in 2017	0
Charge in regulated provisions	-1 794
Shareholders' equity as of 31/12/18 (1)	**290 119**

(1) Of which unavailable reserves for coverage of treasury shares for an amount of €79k.

Treasury shares

Number of shares	Dec 31, 2018	Acquisitions	Disposals	Dec 31, 2018	% of ownership
LATECOERE Shares	20 204	1 011 905	1 002 137	29 972	0,03%

('000 EURO)	Dec 31, 2018	Acquisitions	Disposals	Dec 31, 2018	Average purchase price
LATECOERE Shares	71	4 474	4 467	79	2,63

Plan 1

Pursuant to the authorization granted by the Extraordinary General Meeting of July 15, 2015, the Board of Directors implemented a plan for the grant of performance shares for the benefit of some members of the Executive Committee. These grants are subject to a condition of presence and conditions of economic and stock performance. The main features of the plan are summarized in the table below:

	09/22/2015 Plan
Assembly date	July 15, 2015
Date of Board of Directors	September 22, 2015
Total number of shares that may be granted	2 333 680
Vesting period	4 installments corresponding to the financial years 2015, 2016, 2017 and 2018
Acquisition time	two years starting from the assignment by the Board of Directors
Compulsory duration of the holding period of shares starting from the definitive acquisition	two years starting frome the date of acquisition
Performance conditions	yes (see detail hereafter)

The performance conditions consist of:

- of a stock performance criterion for a maximum total amount of 1,166,840 shares on the basis of an increase in the price of the share of Latécoère stock compared to a reference price fixed for each fiscal year (reference year) in respect of the years 2015 to 2018,
- of an economic performance criterion for a maximum total amount of 1,166,840 shares as a function of the level of recurring Economic EBITDA recorded for each reference year in respect of the years 2015, 2016, 2017 and 2018.

Information on the fair value of the plan

Fair value	09/22/2015 Plan
Share price at the date of grant	3.4 €
Latécoère share volatility	40%
Risk free rate of return	0.05%
Fair value of the option for the stock performance	1.85 €
Fair value of the option for the EBITDA performance	0.50 €
Fair value of the option	**1.17 €**

The fair value of options, calculated by an external actuary, is determined, at the date of grant, from the Monte Carlo simulation model for the part relating to the stock performance condition and from the Black & Scholes model for the part relating to the economic performance (EBITDA) condition. The fair value of the plan is €2.7 million. The expense is spread out over the vesting period.

Information on the evolution of the plan

	Dec. 31, 2018
Number of shares attributable at the beginning of the period	2 333 680
Shares granted on previous periods	350 050
Shares granted during the period	423 566
Shares acquired by beneficiaries	350 050
Shares canceled	0
Number of shares attributable at the end of the period	**1 210 014**

Plan 2

On January 16, 2018, the Board of Directors decided to extend the existing plan 1 by a new phase of allocation of free-shares in accordance with the authorization granted by the Ordinary and Extraordinary Shareholders’ Meeting of June 3, 2016. These are subject to a condition of presence and conditions of economic and stock market performance. The main features of the plan are summarized in the table below:

	01/16/2018 Plan
Assembly date	June 3, 2016
Date of Board of Directors	January 16, 2018
Total number of shares that may be granted	1 829 700
Vesting period	3 installments corresponding to the financial years 2018,2019 and 2020
Acquisition time	two years starting from the assignment by the Board of Directors
Compulsory duration of the holding period of shares starting from the definitive acquisition	two years starting frome the date of acquisition
Performance conditions	yes (see detail hereafter)

The performance conditions consist of:
- of a stock performance criterion for a maximum total amount of 412,533 shares on the basis of an increase in the price of the share of Latécoère stock compared to a reference price fixed for each fiscal year (reference year) in respect of the years 2019 and 2020,
- of an economic performance criterion for a maximum total amount of 708,583 shares based on a level of turnover achieved compared to a revenue target for each reference year in respect of the years 2018, 2019 and 2020,
- of an economic performance criterion for a maximum total amount of 708,583 shares based on a level of Operating Free Cash-flow achieved compared to an Operating Free Cash-flow target for each reference year in respect of the years 2018, 2019 and 2020.

Information on the fair value of the plan

Fair value	01/16/2018 Plan
Share price at the date of grant	4,82 €
Latécoère share volatility	from 30 to 50% according to the horizon
Risk free rate of return	from - 0,57% to - 0,32% according to the horizon
Fair value of the option for the stock performance 2019	2,15 €
Fair value of the option for the stock performance 2020	1,63 €
Fair value of the option for the revenue and free cash-flow performance	4,81 €

The fair value of options, calculated by an external actuary, is determined, at the date of grant, from the Monte Carlo simulation model for the part relating to the stock performance condition. The fair value of the shares attached to the non-market performance conditions corresponds to the value of the price at the grant date minus the sum of the discounted dividends during the vesting period.

The expense associated with each tranche corresponds to the probabilized fair value taking into account the probability of reaching the condition and the probability of presence of each employee at the acquisition date of the shares.

Information on the evolution of the plan

During its meeting of December 5, 2018, the Board of Directors of Latécoère decided to modify the rules of the plan of allocation of free-shares adopted on January 16, 2018. The conditions of attribution are modified for the reference exercises 2019 and 2020, with the exception of the condition of presence which remains unchanged for the duration of the Plan.

Hence:
- The revenue condition and the stock exchange performance condition are modified; and
- The Free Cash-Flow condition is deleted and replaced by the EBITDA / revenue condition.

The modification of the plan has no impact on the fair value of the plan.

	Dec. 31, 2018
Number of shares attributable at the beginning of the period	1 829 700
Shares granted on previous periods	0
Shares granted during the period	0
Shares acquired by beneficiaries	0
Shares canceled	0
Number of shares attributable at the end of the period	**1 829 700**

Free share plan for employees

In accordance with the authorization granted by the Ordinary and Extraordinary Shareholders' Meeting of June 3, 2016, the Board of Directors proceeded on March 5, 2018 to the allocation of free shares for the benefit of Latécoère and Latelec employees and executive directors. The main features are presented in the table below:

	03/05/2018 Plan
Assembly date	June 3, 2016
Date of Board of Directors	March 5, 2018
Total number of shares that may be granted	300 by employees
Vesting period	one year
Acquisition time	one year starting from the assignment by the Board of Directors
Possible first sale date for non-paid shares to the employee savings plan (PEE)	March 6, 2020
Possible first sale date for paid shares to the employee savings plan (PEE)	At the end of a period of 5 years from the payment to the PEE
Performance conditions	no

Information on the fair value of the plan

Fair value	03/05/2018 Plan
Share price at the date of grant	4,71 €
Fair value of the option	**4,71 €**

The expense associated corresponds to the probabilized fair value taking into account the probability of reaching the condition and the probability of presence of each employee at the acquisition date of the shares.

Information on the evolution of the plan

The shares will be definitively granted on March 5, 2019.

NOTE 11 REVENUE

BY BUSINESS

('000 EURO)	Dec 31, 2018		Dec 31, 2017	
	Amount	%	Amount	%
Civil business	460 408	98%	438 426	98%
Military business	8 670	2%	9 353	2%
TOTAL	**469 078**	**100%**	**447 779**	**100%**

BY GEOGRAPHICAL ZONE

('000 EURO)	Dec 31, 2018		Dec 31, 2017	
	Amount	%	Amount	%
France	145 502	31%	190 070	42%
Export	323 576	69%	257 709	58%
TOTAL	**469 078**	**100%**	**447 779**	**100%**

BY GEOGRAPHICAL MARKET (DIRECT EXPORTS)

('000 EURO)	Dec 31, 2018		Dec 31, 2017	
	Amount	%	Amount	%
Europe	231 765	49%	221 164	49%
America	230 275	50%	221 613	49%
Asia	3 281	1%	4 148	1%
Other	3 757	0%	854	0%
TOTAL	**469 078**	**100%**	**447 779**	**100%**

It should be noted that this breakdown does not show the final destination of products manufactured. Indeed, most sales to our French customers (Airbus France, Dassault, etc.) may end up being exported.

NOTE 12 FINANCIAL INCOME

('000 EURO)	Dec 31, 2018	Dec 31, 2017
Financial income from shareholding	11 584	69 811
Other interest and similar income	20 057	786
Write-back of provision and transfer of expenses	2 433	923
Foreign exchange gains	2 943	3 050
Net income from sales of short-term investments	0	40
TOTAL FINANCIAL INCOME	**37 018**	**74 610**
Financial provision	4 596	2 356
Other interest and similar expenses	8 756	9 747
Foreign exchange losses	551	8 112
Net loss on sales of short-term investments	79	0
TOTAL FINANCIAL EXPENSE	**13 981**	**20 216**
FINANCIAL RESULT	**23 037**	**54 394**

The termination of the A380 program impacts the financial result for €16.6 million, of which €19.2 million in "Other interest and similar income" and (€2.6) million in "Other Interest and similar expenses".

NOTE 13 INCOME TAX

The taxes related to each income are determined by taking into account the tax write-back and deductions practiced and the tax rates applicable to the operations concerned.

('000 EURO)	Gross amount	Tax write-back and deduction	Tax basis	Tax	After tax amount
Income before exceptional items, profit sharing and tax	-40 668		0	0	-40 668
Net exceptional income	22 879		0	0	22 879
Contractual profit sharing	1 165				1 165
Legal profit sharing	0				0
Tax credits	1 329				1 329
Miscellaneous	432				432
NET INCOME BEFORE/AFTER TAX	**-14 863**	**0**	**0**	**0**	**-14 863**

The "Miscellaneous" item includes tax savings relating to the tax consolidation.

NOTE 14 EXCEPTIONNAL NET INCOME

('000 EURO)	Dec 31, 2018	Dec 31, 2017
Accelerated fiscal depreciation	851	1 625
Extraordinary expenses for revenue operations	17 515	8 763
Net book value of fixed asset disposals	15 594	40
Other exceptional expense	27 902	831
TOTAL EXCEPTIONAL EXPENSE	**61 862**	**11 260**
Write-back of accelerated fiscal depreciation	2 644	1 395
Proceed from fixed asset disposals	25 647	49
Revenue operations	18 886	613
Other exceptional income	19 573	9 902
TOTAL EXCEPTIONAL INCOME	**66 750**	**11 959**
TOTAL EXCEPTIONAL RESULT	**4 888**	**700**

Exceptional result of €4.9 million mainly includes:

- €9.2 million gain on the sale of the first tranche of the Toulouse-Périole site;
- Impact from the termination of the A380 program for (€7.9) million.

NOTE 15 FINANCIAL COMMITMENTS

15.1 Real estate leasing

On July 30, 2018, the Group set up a leasing operation with a pool of French banks refinancing the land and building at the Montredon site in Toulouse, where Groupe Latécoère's 4.0 plant was developed for € 12.6 million.

(000 EUR)	Minimum future payments as of Dec 31, 2018				Present value of minimum future payments as of Dec 31, 2018			
	Less tan 1 year	From 1 to 5 years	Over 5 years	**Total**	Less tan 1 year	From 1 to 5 years	Over 5 years	**Total**
LATECOERE (Montredon)	881	3 524	8 344	12 749	727	4 089	6 068	10 884

Lease payment for 2018 amounts to € 404k. Depreciation expense was € 173k if the building had been acquired by the company.

15.2 Retirement Liabilities

Retirement benefits unrecognized in the balance sheet are estimated at December 31, 2018 to be €8,685k, including social charges, compared to €7,985k for the prior fiscal year. The share of the retirement liabilities recognized in balance sheet in the amount of €603k is subsequent to the merger and acquisition of the LATECOERE AEROSTRUCTURE Company.

The retirement benefits are calculated according to recommendation n° 2013-02 of the "Conseil National de la Comptabilité". The Company's obligations with respect to its commitments towards the personnel of the French companies have been estimated by an independent actuary, using the projected credit unit method.

This method takes into account, on the basis of actuarial assumptions, the probability of the length of future service of the employee, the level of future remuneration, life expectancy and employee turnover.

The calculation assumptions retained are the following:

- discount rate of 1.65% (1.40% in 2017) calculated on the basis of rates observed at December 31, 2018 for high quality corporate bonds, the Group using in particular the Iboxx index;
- use of the INSEE 2011-2013 mortality table;
- employee turnover noted by age group and by company;
- age of retirement departure:
  - 63 years progressively 66 according to year of birth for executives & management,
  - 61 years progressively 64 according to birth year for non-executives & management,
- progression of salaries consistent with the average of the last years ;

The obligation is calculated inclusive of social contributions. It is accounted for as the prorata of years of service of the employees.

15.3 Financial commitments on foreign currency contracts and exchange rate hedging

The principal hedging methods are the following:

- Hedged transactions: estimate of the future cash inflows or outflows of each period;
- Hedging techniques: use of forward contracts or collar guaranteeing a worst-case price on the underlying's hedged.

The total amount of hedging contracts (forward contracts and collars) in US$ is $1,225 million at December 31, 2018, compared to $834 million at year-end 2017. These commitments, which are borne legally by the LATECOERE Company, cover all of the €uros/USD foreign exchange risk of the Group.

15.4 Commitments made to Group companies

The parent company (Latécoère) has given a support commitment to its Czech subsidiary (Latécoère Czech Republic) for a period of 12 months.

15.5 Guarantees given in respect of liabilities

Securities given totaled €52.3 million and were primarily constituted of charges and mortgages. Some contracts include covenants and financial commitments described in note 7.

15.6 Other information

The LATECOERE Company (parent company) and the LATelec Company are joint parties to a €100 million factoring agreement for financed work-in-progress, shared between them.

For the LATECOERE Company, at December 31, 2018, the amount of receivables assigned to the factor amounted to €86.3 million. The amount financed by the factor on the basis of the assigned receivables amounted to €76.3 million. At December 31 2017, the amount of receivables assigned to the factor amounted to €68.5 million. The amount financed by the factor on the basis of the assigned receivables amounted to €61.4 million.

In the course of its ordinary business; The LATECOERE Company has purchasing commitments related to production. These commitments are based primarily on forecasts of the production rates of the aircraft manufacturers and are realized at normal market conditions.

The Company has also given commitments to customs for a total amount of €0.6 million.

NOTE 16 INCIDENCE OF TAX MEASURES ON THE RESULT

('000 EURO)	Amount	Impact
Net income of year	-14 863	-14 863
Charge for accelerated fiscal depreciation	851	851
Write-back of accelerated fiscal depreciation	2 644	-2 644
Tax reduction due to charge	293	-293
Tax increase due to write-back	910	910
NET INCOME BEFORE IMPACT OF TAX MEASURES		**-16 039**

NOTE 17 DEFERRED TAX SITUATION

('000 EURO)	Amount	Impact
Accelerated fiscal depreciation	3 778	-1 301
Employee profit sharing	0	0
ORGANIC	766	-276
Provisions for retirement departure	603	-208
Unrealized exchange gains	37	-13
DEFERRED TAX SITUATION	**5 184**	**-1 798**

NOTE 18 AVERAGE HEADCOUNT

	Dec 31, 2018	Dec 31, 2017
Managers	335	327
Employees, Technicians and Supervisors	470	496
Workers	75	92
TOTAL	**880**	**914**

NOTE 19 DIRECTOR COMPENSATION

In 2018, remuneration allocated for members of the Board of Directors and the management (the Company's 10 highest wages) totals €3,190k.

NOTE 20 TABLE OF SUBSIDIARIES AND SHAREHOLDINGS

('000 EURO)	Share capital	Retained earnings	Holding %	Carrying value of holding	Loans and advances outstanding not yet reimbursed	Sales in last financial year	Net income of last financial year	Dividends received during last financial year	Guarantees and securities given by the Company
LATECOERE International Inc. 1000 Brickel av. - suite 641 Miami Florida 33131 USA	524	113	100%	541	0	2 292	5	0	0
LATECOERE Développement 135 rue de Périole 31500 Toulouse France	600	582	100%	572	0	0	36	0	0
LATELEC Z.I. La Bourgade rue Max Planck 31315 Labège France	7 600	69 311	100%	7 600	0	250 289	4 960	875	0
LATECOERE Czech Republic s.r.o. Letov Letecka Vyroba Beranovich, 65 199 02 Praha 9 - Letnany Czech Republic	24 565	8 418	100%	20 787	0	127 489	2 568	0	0
LATECOERE Do Brasil Av Getulio Dorneles Vargas 3,320 12305-010 Jacarei (SP) Brazil	6 972	6 406	98%	13 425	0	43 163	4 624	0	0
Corse Composites Aéronautiques Z.I. Du Vazzio 20090 AJACCIO France	1 707	9 683	25%	2 700	0	73 866	1 704	0	0
LATECOERE Bulgarie 1142 SOFIA arrondissement de Sredets, 21 boulevard Patriarh Evtimly, entrée V, étag.3, appt 52	102	-21	100%	100	8 513	2 547	-1 788	0	0
Latécoère Bienes Raices 1 calle Pierre-Georges Latecoere Colonia La Manga Hermosillo, Sonora 83220	0	-626	100%	0	0	198	-462	0	0
Latécoère Interconnection Systems Japan K.K. 2-65-27 Kusunoki, Yatomi City, Aichi Prefecture	37	0	100%	38	0	0	0	0	0
Latécoère India Private Limited Belgaum Kamataka Inde	353	0	100%	353	0	0	0	0	0

Items of the balance sheet of companies whose functional currency is one other than the Euro were converted at the closing rate and the income statement items at the average rate for the relevant period.

NOTE 21 RELATED PARTIES

('000 EURO)	Amounts concerning :	
	Subsidiaries (over 50% of shares held)	Other shareholdings
Investments (Shares in subsidiary companies)	43 646	2 700
Receivables concerning investments	0	0
Miscellaneous receivables	69 469	0
Trade account receivables	17 878	0
Trade accounts payable	30 231	0
Miscellaneous debts	14 074	0
Operating income	82 621	0
Operating expenses	167 130	0
Financial income	2 051	0
Financial expenses	236	0

NOTE 22 INFORMATION ON RISKS

22.1 Counterparty risk

Because of the nature of the principal counterparts, the Company is not exposed to credit risk in any major way and foresees no default of third parties which could have a significant impact on the Company's financial statements. At year end, the Company had identified no significant credit risk on these assets due but not depreciated.

The Company implements derivative financial instruments with the goal of reducing its exposure to foreign currency and interest rate risks. These transactions are contracted by private agreement with tier 1 banks and for this reason do not present any default risk.

Cash is invested through risk-free monetary instruments with tier 1 banking establishments.

22.2 Foreign currency exposure

Through its international exposure and invoicing in US dollars to its French clients the Company is confronted with foreign currency exposure. The exposure linked to fluctuations in US dollars is partially hedged through forward sales contracts and option "collars". The dollar rate and the associated foreign exchange rate exposure are part of the estimated future assumptions for the determination of margins on construction contracts.

NOTE 23 SUBSEQUENT EVENTS

Termination of the A380 program

On February 14, 2019, Airbus announced the termination of production of the A380 program. The impacts on the financial statements are presented in Note 2.17 to the parent company financial statements.

Share buyback program linked to stock allocation plans for employees

On January 18th, 2019, Latécoère's Board of Directors made the decision to launch a share buyback program intended to cover the free employee share plan, and the long-term incentive plan for the Group's management team and thus avoid any dilution for shareholders. It will be carried out, subject to market conditions, between February 1st, 2019 and December 31st, 2019.

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

5.8.5 Statutory auditors' report on the financial statements

Year ended December 31, 2018

This is a free translation into English of the Statutory Auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This Statutory Auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders of Latécoère SA

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of Latécoère SA for the year ended December 31, 2018.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2018 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit and Risk Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 or in the French Code of Ethics (Code de déontologie) for Statutory Auditors.

Justification of Assessments – Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Airbus A380 announcement of the termination of the A380 program in the Company's financial statements as at December 31, 2018

Identified risk

On February 14, 2019, Airbus announced its decision to cease production of the A380. The final A380 deliveries are slated for 2021. On this basis, the company proceeded to assess the impacts resulting from the termination of the A 380 program on its assets and liabilities as of December 31, 2018.

The impairment test carried out by the Group on the assets related to the A380 program led to the recognition of a write-down of € - 24.2 million for development costs recorded in inventories.

The Company has also revalued its liabilities related to the A380's refundable advance, based on new delivery assumptions and contractual data. This revaluation led to the recognition of an income of € 35.5 million euros.

The assessment of the impact of the Airbus announcement on the A380's assets and liabilities, which represent significant amounts, is a key point of the audit as it is based on the judgment of the Management.

Our answer

We first assessed the relevance of the Company's decision to adjust its financial statements for the effects of this announcement, considering that it was a subsequent event to the closing date.

In addition, with regard to the asset impairment test related to the A380 program, our work also consisted of:

- evaluate the relevance of the methodology chosen by the company,
- assessed the validity of the assumptions made by the Management,
- check the validity of the data used in the calculations, in particular:

  - by comparing them with the program data which were used as basis for accounting of assets related to the A380 program in accounting;

  - and confronting them to the actual costs observed in previous years for cost prices.

- check the arithmetic accuracy of the calculations made.

Concerning the reevaluation of the Company's financial liabilities related to the A380's refundable advance, we have particularly:

- assessed the compliance of the accounting rules and methods applied by the company in regards to the standards applied;
- assessed the correctness of the assumptions used in the calculations with respect to the data listed in the refundable advance agreements;
- check the arithmetic accuracy of the calculations made

Lastly, we assessed the relevance of the presentation of these impacts in the financial statements and the information provided in note 2.17 in the appendix to the annual accounts.

Construction contracts

Identified risk

The company generates a significant share of its revenue through construction contracts of avionics subassemblies whose duration covers several exercises.

The company invoices at the delivery of each subassembly and all the invoicing done is earned regardless of the outcome of the program. As a result, the revenue and the estimated margin are recognized at the stage of completion which is determined for each program in relation to the delivery of the subassemblies ("milestones") as indicated in note 2.6 of the appendix.

The estimated termination margin is calculated for each program on the basis of a forecast including the technical and budgetary elements. This margin is revised periodically according to the costs and products realized over the period and remaining to come. When the forecast margin is negative, it is immediately recognized in the income statement.

In addition, in the context of its construction contracts covering several exercises, the company will, during the first exercises, recognize in the balance sheet production costs or curve work-in-progress which are then recycled in profit or loss.

We considered that the assessment of revenue and forecast margin and the valuation of the curve work-in-progress for programs under construction are key points of the audit due to their sensitivity to the assumptions made by the Management.

Our answer

We have particularly:

- reviewed the company's procedures and controls implemented concerning the revenue determination and estimating forecasted margins by program and tested the operational effectiveness of these controls;
- tested the company's controls regarding the concordance of invoicing with the deliveries made;
- for a selection of the most significant construction contracts in terms of contribution to revenue and operating profit:
  - met with program managers,
  - reconciled the accounting data with program data
  - corroborated the degree of progress retained by examining in particular the technical documentation and the order books of the customers concerned,
  - compared the estimates of the previous periods with the corresponding achievements,
  - compared the cumulative results and the curve work-in-progress recognized as an asset in the balance sheet with the forecasted margin estimates by program,
  - and assessed the reasonableness of future cost estimates.

Lastly, we assessed the appropriateness of the information provided in Note 2.6 in the appendix to the annual accounts.

Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French legal and regulatory provisions.

Information given in the management report and in the other documents provided to shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents provided to shareholders with respect to the financial position and the financial statements.

We attest to the fair presentation and the consistency with the financial statements of the information given with respect to the payment terms referred to in Article D.441-4 of the French Commercial Code.

Report on corporate governance

We attest that the Board of Directors' report on corporate governance sets out the information required by Articles L.225-37-3 and L.225-37-4 of the French Commercial Code.

Concerning the information given in accordance with the requirements of Article L.225-37-3 of the French Commercial Code (Code de commerce) relating to compensation and benefits received by the Directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

With respect to the information relating to items that your Company considered likely to have an impact in the event of a takeover or exchange offer, provided pursuant to Article L.225-37-5 of the French Commercial Code (Code de commerce), we have verified their compliance with the source documents communicated to us. Based on our work, we have no observation to make on this information.

Other information

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the Shareholders and holders of the voting rights has been properly disclosed in the management report.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of LATECOERE SA by the General Meeting held on June 3, 2005 for Grant Thornton and, on June 25, 1993, for KPMG SA. Moreover, the company Fidulor, a member of the Grant Thornton network since 2002, was previously Statutory Auditor of LATECOERE SA since June 10, 1983.

As of December 31, 2018, Grant Thornton was in the 33rd year of its uninterrupted mission and KPMG S.A. in the 25th year since the company's securities were admitted to trading on a regulated market.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit and Risk Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Financial Statements

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (Code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control ;

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control ;

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements ;

- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein ;

- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

We submit a report to the Audit and Risk Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit and Risk Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit and Risk Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (Code de commerce) and in the French Code of Ethics (Code de déontologie) for Statutory Auditors. Where appropriate, we discuss with the Audit and Risk Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

The Statutory Auditors,

Labège, 15 april 2019

KPMG Audit
Departement of KPMG S.A.

Eric Junières
Associate

Michel Dedieu
Associate

Neuilly-sur-Seine, 15 april 2019

Grant Thornton
Member of Grant Thornton International

Pascal Leclerc
Associate

5.9 Statutory Auditors' special report on related-party agreements and commitments

Latécoère S.A.

Annual General Meeting approving the financial statements
closed on December 31, 2018

To the General Meeting of Latécoère,

In our capacity as Statutory Auditors of your company, we hereby present to you our report on related-party agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of article R. 225-31 of the French Commercial Code (Code de commerce), it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is also our responsibility to provide shareholders with the information required by article R. 225-31 of the French Commercial Code in relation to the implementation during the year of agreements and commitments already approved by the Annual General Meeting.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France to such engagements. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

Agreements and commitments submitted for the approval of the annual shareholder meeting

We hereby inform you that we were not advised of any agreements or commitments authorized and entered into by the Board of Directors during the year to be submitted for the approval of the Annual General Meeting in accordance with Article L.225-38 of the French Commercial Code.

Agreements and commitments already approved by the annual shareholder meeting

In accordance with Article R.225-30 of the French Commercial Code, we were informed that the following agreements and commitments, approved by the Annual General Meeting in prior years, which have not been applied during the past financial year.

<u>Compensation due or likely to be due as a result of the termination of the duties of Mrs. Yannick Assouad (Chief Executive Officer)</u>

In the event of the termination of its duties as Chief Executive Officer at the initiative of the Company and the forced departure of the Group, Ms. Yannick Assouad will receive the payment of:

- severance pay equal to eighteen months of gross compensation calculated on the basis of the total gross compensation paid during the financial year preceding its departure, provided that the Company has recorded a consolidated net result, corrected of the change in the fair value of the financial instruments, positive during one of the two financial years preceding the termination of the duties of Chief Executive Officer and the departure of the Group;
- a specific indemnity to balance for the absence of compensation by private insurance in the event of a waiting period, or if the circumstances of the termination of its duties do not allow her to benefit from the guarantee thus subscribed. This compensation will be capped at € 150,000 per year and will be added, where applicable, to the severance pay referred to above.

Neuilly-sur-Seine and Labège, 15 april, 2019

The Statutory Auditors,

Grant Thornton	KPMG Audit	
French member of Grant Thornton International	**Departement of KPMG SA**	
Pascal Leclerc	Michel Dedieu	Éric Junières
Associate	Associate	Associate

6. APPENDIX

Glossary

Growth at constant exchange rate

The Group measures the growth of its revenue exclusive of EUR/USD currency impacts to help understand revenue trends in its business. The impact of exchange rate is offset by applying a constant EUR/USD exchange rate for the concerned periods.

Organic Growth

Organic growth excludes EUR/USD currency impacts (by applying a constant exchange rate for the periods considered) and by applying a constant Group structure. The constant Group structure is obtained by:

- Eliminating revenues of companies acquired during the period,
- Adding to the previous period full-year revenues of companies acquired in the previous period,
- Eliminating revenues of companies sold during the current or comparable periods.

Recurring operating income

In order to better reflect the current economic performance, the Group uses a sub-total named “recurring operating income” which excludes from operating income, non-recurring items (income or expenses) which are inherently difficult to predict due to their unusual, irregular or non-recurring nature. Details of non-recurring items are presented in the Group's accounting principles from consolidation financial statements.

EBITDA

EBITDA corresponds to operating income before depreciation, amortization, and impairment losses.

Recurring EBITDA

Recurring EBITDA corresponds to recurring operating income before recurring amortization, depreciation and impairment losses. Details of non-recurring items are presented in the Group's accounting principles from consolidation financial statements.

Operating free cash flow

Operating free cash flow corresponds to cash-flow from operating activities and from investing activities excluding income tax paid.

Recurring Operating free cash flow

Recurring Operating free cash flow corresponds to operating cash-flow excluding non-recurring items from operating activities and investing activities. Details of non-recurring items are presented in the Group's accounting principles from consolidation financial statements.

Net debt

Net debt corresponds to loans and bank borrowings (over one year) and loans and bank borrowings (less than one year) which include factoring and bank overdrafts less cash and cash equivalents. Net debt also includes financial debt from finance lease contracts.

Backlog

The backlog corresponds to firm orders published by OEMs (Original Equipment Manufacturers) and not yet recognized in revenue.

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