LATÉCOÈRE

FINANCIAL STATEMENTS

2016

1 PRESENTATION OF THE GROUP AND ITS ENVIRONMENT

1.1 Key figures

In order better to allow the monitoring and comparability of its operational and financial performance, the Group submits, in parallel with the consolidated financial statements, an adjusted income statement.

Thus, the Group uses " adjusted recurring operating income " (a non-accounting measure) as its main indicator, which corresponds to the earnings before interest, taxes and depreciation, established for the purposes of the consolidated financial statements in the IFRS system of reference, adjusted:

- for the variation in non-recurring work-in-progress (net of provisions) resulting from the accounting of contracts in accordance with IAS11 (construction contracts); and
- of the impact of exchange rate gains and losses on €/$ hedging instruments recorded in financial result but relating to operational flows.

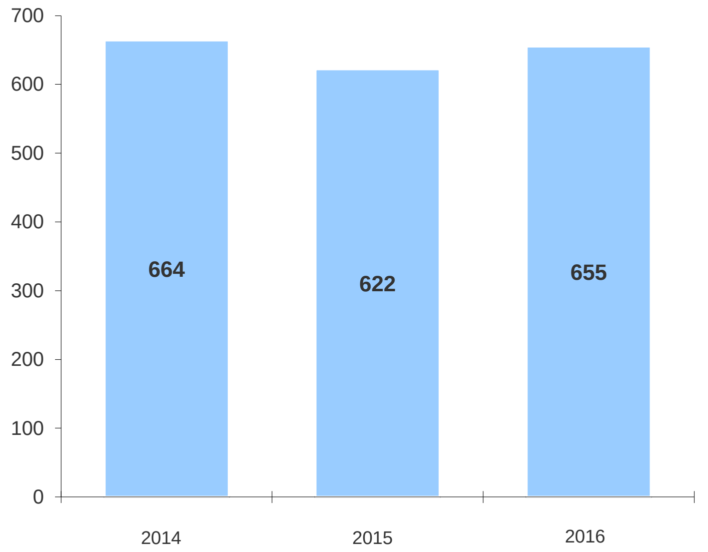
The table allowing comparison between the consolidated income statement and the adjusted income statement is presented in note 4 to chapter 3 – Consolidated financial statements at December 31, 2016 of this document.

Summary Income Statement

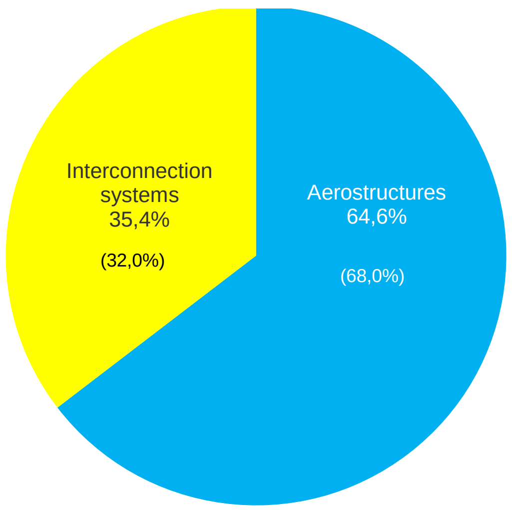
In € million	2016	2015 (1)
Revenue	**655,2**	**622,1**
Adjusted recurring operating income	**47,9**	**18,9**
Net adjusted financial result	**-14,0**	**-16,1**
Adjusted net income (Group share)	**30,2**	**2,4**
Consolidated net debt	**-1,8**	**64,0**
Shareholders' Equity (Group share)	**400,6**	**386,1**

(1) Figures for 2015 have been restated for the sale of Latécoère Services in accordance with IFRS 5

CHANGE IN GROUP REVENUE* (In € m)

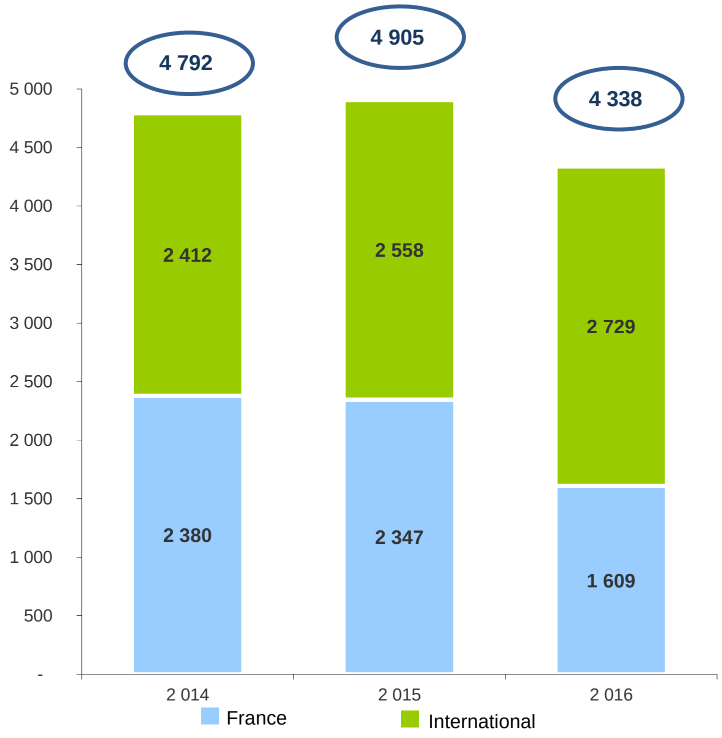


BREAKDOWN OF REVENUE* BY BUSINESS IN 2016
(for reference, 2015 data are given in parentheses)

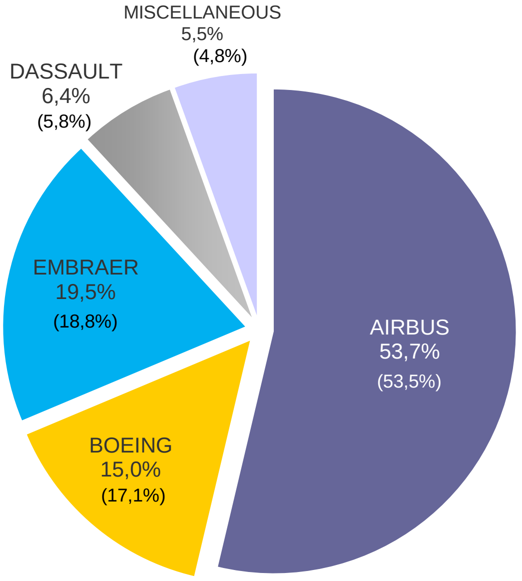


(*)Following the disposal of the activities of Latécoère Services (Aerostructure Services), and in accordance with IFRS 5, 2015 and 2016 revenues have been restated of discontinued operations.

CHANGE IN HEADCOUNT REGISTERED TO THE GROUP

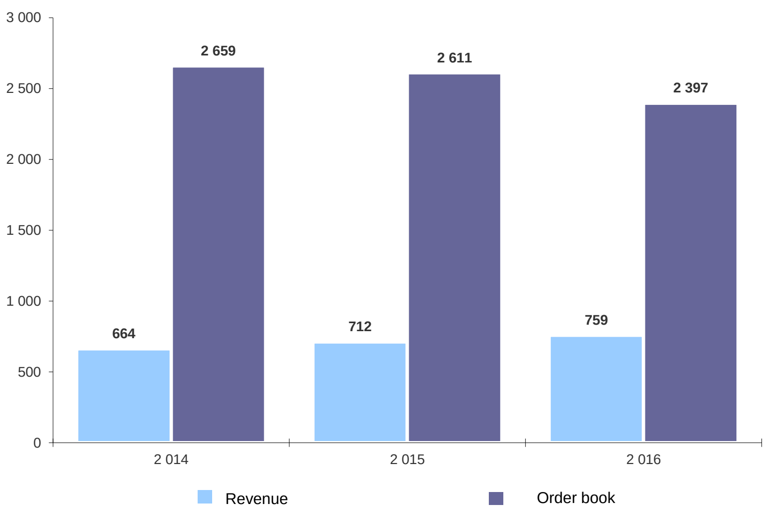


BREAKDOWN OF REVENUE* BY CUSTOMER IN 2016
(for reference, 2015 data are given in parentheses)

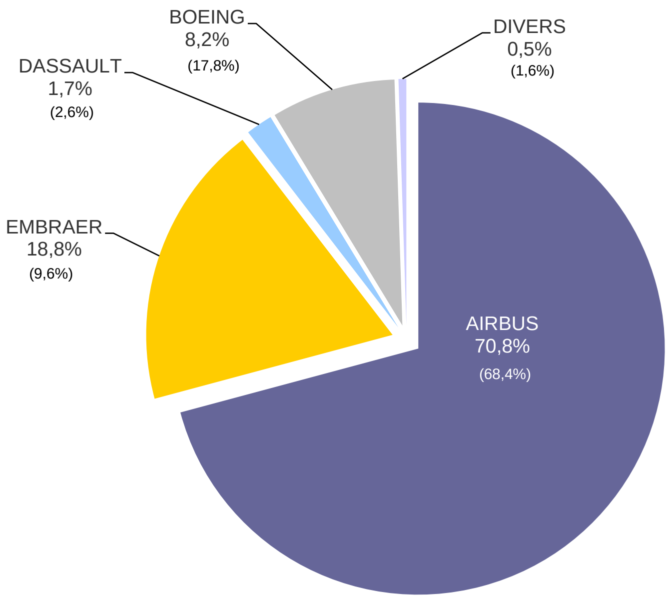


(*)Following the disposal of the activities of Latécoère Services (Aerostructure Services), and in accordance with IFRS 5, 2015 and 2016 revenues have been restated of discontinued operations.

CHANGE IN REVENUE AND ORDER BOOK
(in € m)



ORDER BOOK BY CUSTOMER
AT 12/31/2016
(for reference, 2015 data are given in parentheses)



1.2 Presentation of the LATECOERE Group

1.2.1 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, France region. 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 lines where prestigious pilots like Mermoz, Saint-Exupéry or Guillaumet illustrated themselves.

Rich in experience as an aircraft manufacturer**,** the LATECOERE Group has made itself present today in all aeronautical segments by pursuing a strategy of growth based on partnership in the areas of aerostructures, onboard wiring and systems**.**

A major supplier of Airbus, the Brazilian company Embraer, Dassault Aviation and Boeing, 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 in a globalized world and to offer its customers a comprehensive solution**.**

KEY DATES FOR THE GROUP

1917 Creation of the Company by Pierre-Georges Latécoère

1918 The Montaudran plant on the outskirts of Toulouse and its 800 workers build six aircraft per day.

1920 Regular mail service is established between Toulouse and Casablanca.

1930 Mermoz crosses the South Atlantic on board a Laté 28 hydro. LATECOERE realized its project, the link between France and South America where it arrived the first. LATECOERE sells its lines to Bouilloux Lafond. Aéropostale is born, and will later be succeeded by Air France.

1939 LATECOERE moves to rue de Périole in Toulouse. Inspired by this challenge, Pierre-Georges Latécoère gave wings to his pilots by building aircraft made to fly higher and further. He also contributed with Didier Daurat and Marcel Moine to the creation of a state of mind -- that so particular state of mind that makes men surpass themselves in the name of a common ideal.

1930-1970 The years of diversification. By the end of the LATE 631 program, the French aeronautical industry begins its restructuring around the Dassault Company (military and business aircraft). Civil activities nationalized around the SNCASE, which will later become Sud-Aviation then Aérospatiale.

1989 Launching of the employee buyout: 91% of the employees become shareholders of the Company. LATECOERE opens itself up internationally and becomes the recognized Partner of the major manufacturers.

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. Creation of SEA-LATelec in Tunisia, a wholly-owned subsidiary of LATelec. Successful exit of the employee buyout: The outcome of this operation, which was a success for all the participants, did not bring about any modification in the management and control bodies of the LATECOERE Company.

2000 The Group takes control of 100% of Letov located in Prague, Czech Republic. Creation of BEAT Andalucia in Seville (Spain).

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). LATECOERE joins the original three shareholders of CCA - Airbus France, Dassault Aviation and Snecma - with the same level of rights.

2004 Creation of LATECOERE do Brasil. This wholly-owned subsidiary is located in Sao José dos Campos near Sao Paulo, Brazil. The creation of LATECOERE do Brasil 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 Separation of the two businesses of SIDMI (which were held 30% by LATECOERE and 70% by the Latécoère family): aerostructures assembly and aircraft maintenance. The aerostructures business was integrated into LATECOERE. 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 of LATECOERE's services and engineering businesses close to its customers in France, as well as abroad (Germany, Spain, etc.), by benefitting from the dynamics of the Group.
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 Construction at Letov of a building for the production of aircraft doors made with composites. Inauguration of the LATECOERE do Brasil factory. SEA LATelec Tunisie inaugurates a second factory (5,000 m²), thereby doubling LATelec's production capacity in Tunisia.

2007 LATecis opens a subsidiary in Bucharest, Romania. LATecis also acquired 51% of the capital of the G²METRIC Company (measurement engineering business)

2008 Inauguration of LATelec Services Colomiers. LATECOERE do Brasil: opening of a second building. LATelec opens its tenth site in Marignane, near Eurocopter.

2009 LATecis opens a subsidiary in England

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).
The LATECOERE Group is honored with two 2010 Best Supplier awards from Embraer in the "Aerostructures" and "Technical Support to Operators" categories.
LATecis opens a subsidiary in Canada. G²METRIC opens a subsidiary in Germany.

2011 The LATECOERE Group refinances and syndicates debt over seven years. The 100th A380 lower fuselage and the first A350 nose fairing come off the assembly lines.
LATECOERE won *the Innovation Award* awarded by the JEC in the *Aeronautics* category for its research work on composites, in particular on future doors.

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

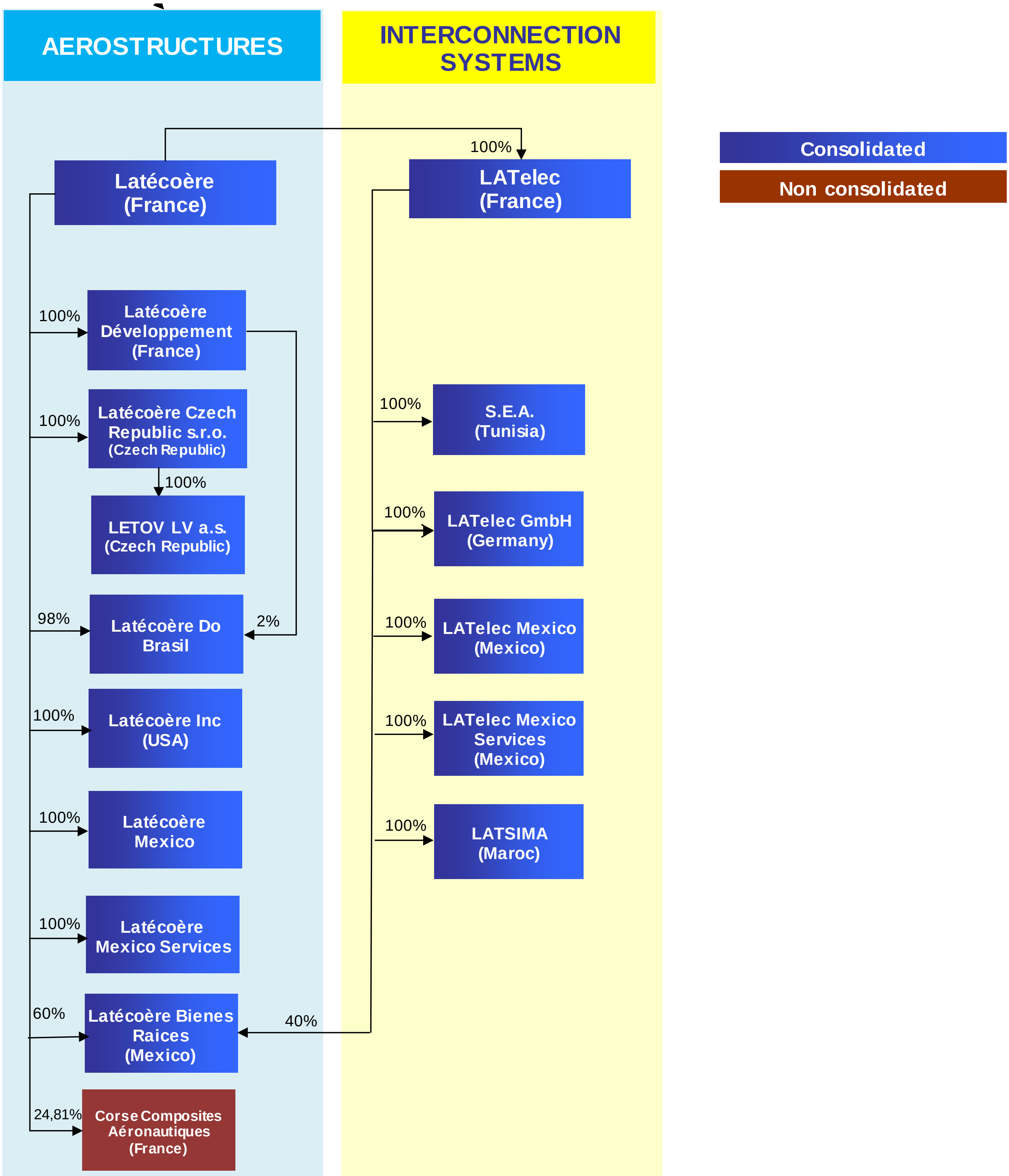
2013 Delivery of doors and fuselage sections of the 1000th E-Jet, on April 5 at the Latécoère Czech Republic plant in Prague and on April 19 at the Latécoère Do Brasil plant in Jacarei. Signature of a contract with Airbus who confirms the Latécoère Group over the program life of the A320 NEO for the production of 4 passenger doors per aircraft. Latécoère was selected by Embraer for the development and production of all its E-Jet E2 program doors.

2014 Inauguration of the new production facility with an area of 8,000 m² in Mexico, common industrial platform for Interconnection Systems and Aerostructures.
Delivery of the first Boeing 787 passenger door produced in Mexico.

2015 The Group successfully recapitalized for a global amount of €280 million through two capital increases following which the Group is owned 37.4% by its creditors including Apollo and Monarch acting together and representing, respectively, 15% and 11.4% of capital. The realization of these transactions helped to improve the financial position of the Group. It now has the means to implement the strategic component of the Boost Plan.
The Latécoère Group through its LATelec subsidiary, implants a subsidiary in Morocco.

2016 The Group announced the launch of its Transformation 2020 plan. In the continuity of its Boost plan successfully deployed since 2014, the Transformation 2020 strategic plan aims to enable the Group to benefit fully from the next cycle of new programs expected between 2020 and 2025, through restored competitiveness and investment capacity. The Latécoère Group sold Latécoère Services to the ADF Group in December 2016. This sale was carried out as part of the implementation of the Transformation 2020 plan and the refocusing of the Group on its key activities, Aerostructures (doors and fuselage) and Interconnection Systems (electrical harnesses and avionics racks).

1.2.2 Group Consolidated Structure Chart as of December 31, 2016



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

Latécoère Services (Aerostructure Services) activities were sold in December 2016.

1.2.3 Simplified Group Organizational Chart

1.3 The Group's Businesses

A major player in the aviation industry, Latécoère 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 paragraph 3 of this document in note 4 "Operational Segments" for the year 2015, and are incorporated by reference as indicated in paragraph 10 of this document for the years 2014 and 2013. Data on the LATECOERE Group's revenue are disclosed in note 16 to the consolidated financial statements.

1.3.1 Aerostructures

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

The offer relates to the design, the industrialization and the manufacture of aircraft structural elements:

- **Fuselage elements**: sub-assemblies of the nose (A330, A350, and A380), forward section (Embraer E-Jets and Legacy 450/500), central section (A330) or rear section (Embraer E-Jets, Dassault Falcon 7X and 8X)
- **Doors**: passenger (A320, A380, B787, and Embraer E-Jets 170/190) 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 second 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 170/175/190/195, 175E2/190E2/195E2 ; 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 2016 by a very high level of aircraft sales and orders (cumulated customer deliveries of Airbus and Boeing aircraft are over 1,400 units and 2016 orders from Airbus and Boeing are of 1399 units).

The Aerostructures activity is divided between specialized work sites:

- **LATECOERE Toulouse: The Company's registered office:** In addition to the Group's management, Toulouse hosts the management and design office team for the aerostructures business. On this site the running of the industrial process, the assembly of fuselage sections, doors and the manufacture of metallic parts are carried out.
- **LATECOERE Gimont (Gers):** A secondary establishment, located 40 km. from Toulouse, especially dedicated to large-dimensioned structures (fuselage sections).
- **Latécoère Czech Republic s.r.o. - République Tchèque:** Wholly-owned subsidiary of LATECOERE, 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.

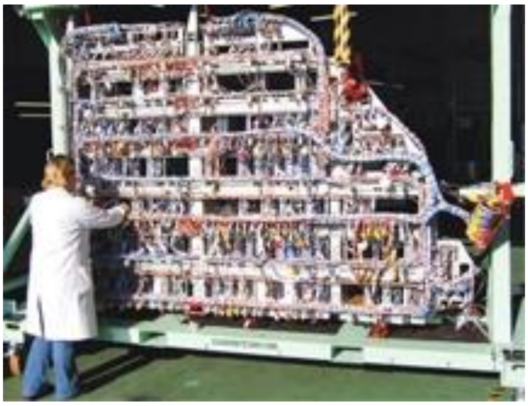
- **LATECOERE do Brasil:** LATECOERE do Brasil is located in Sao José dos Campos near Sao Paulo, Brazil. This entity assembles and equips all fuselage sections delivered to our customer Embraer as well as the passengers doors of Legacy aircrafts.
- **LATECOERE Mexico:** This site is located in Hermosillo (Sonora State). It assembles part of the production of the B787 passenger doors Boeing delivered to our customer Boeing.

1.3.2 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.

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.

LATelec is today number two worldwide in its area of business. It benefits from its recognized experience for all types of electrical harnesses and for all of an 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.

LATelec 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
- **Business Aircraft:** DASSAULT Falcon 900, 2000 and Falcon 7X.
- **Military Aircraft**: AIRBUS A400M
- **Engines**: SAM 146 and ETRAS A380
- **Helicopters:** Lynx, Puma, and SuperPuma

LATelec is equally leader in the areas of space wiring with more than 280 harnesses into orbit.

LATelec has attained a high level of competitiveness by integrating the needs of its customers upstream and proposing "design to costs" solutions".

The Interconnection Systems business is based more than 80% today on the 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 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:** this subsidiary is intended to receive an increasing share of the Interconnection Systems business with an objective of reducing production costs.
- **LATSIMA in Casablanca:** this subsidiary is intended to receive an increasing share of the Interconnection Systems business with an objective of reducing production costs.
- **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.

1.3.3 Risk Sharing Business Model (Risk Sharing Partner, or "RSP")

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 useful life of the aircraft (approximately 30 years) 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 effects of experience,
- 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 IAS 11 (see Note 2.15 to the consolidated financial statements). Invoicing is done on delivery of the products.

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

More than half of 2016 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. So every order booked by the aircraft manufacturer is directly reflected in the order book of the LATECOERE company (4 years of revenue at year-end 2016), 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 development of a globalized network of industrial organizations. The policy is to systematically hedge residual exposure through financial instruments deployed over a sliding period of 12 to 36 months.

Main challenges

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

Financing

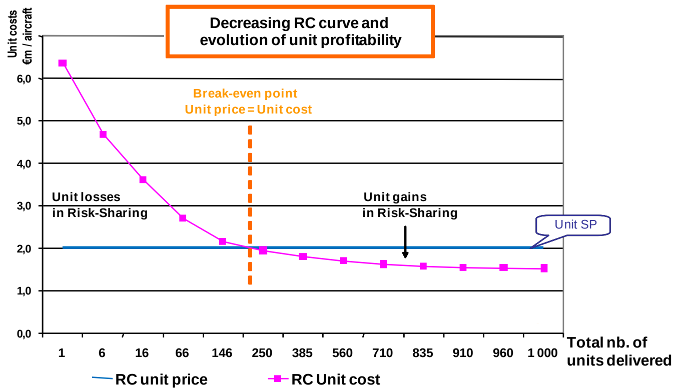
The Group finances the development phases and shares the "program" risk with the customer. This means that if the contractually specified number of aircraft is not reached, the development costs committed by the Group will not be fully recovered. Moreover, this means that if the contractually specified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

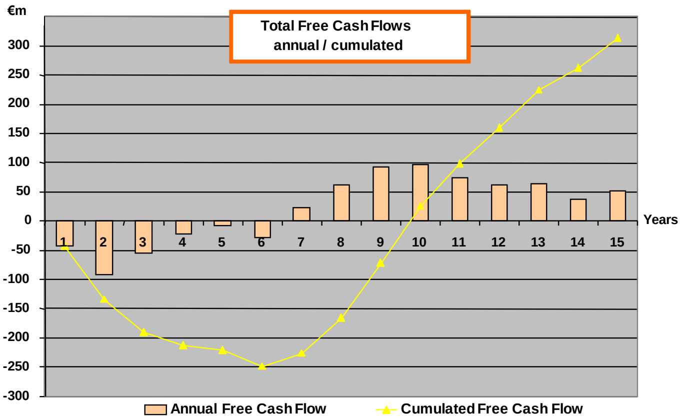
This risk is partially reduced to the extent that:

- 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.

***A second-tier partner is a supplier not dealing directly with the manufacturer but with a Tier 1 supplier whose contract covers a long period with participation in development work.*

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.

1.4 Property, plant and equipment

The registered office of the LATECOERE Group is located in Toulouse, France. In order to exercise its design and production activities, the Group has various establishments shared out over several sites in eight countries. The table below presents the Group's main sites.

Company	Site	Activity	Occupancy*	Headcount as of Dec. 31, 2016
LATECOERE	Toulouse (Périole), France	Head office Design and production site	O	847
LATECOERE	Gimont, France	Production site	FL	97
LATelec	Labège, France	Head office Design and production site	O et T	318
LATelec	Liposthey, France	Production site	FL	109
LATelec	Le Crès, France	Production site	O	89
LATelec	Colomiers, France	Production site	T	113
LATelec	Louey, France	Production site	T	36
LATECOERE Czech Republic s.r.o.	Prague, Czech Republic	Head office / Production site	O	763
LATECOERE do BRASIL	Jacarei, Brazil	Head office / Production site	O	421
LATECOERE Inc	Miami, USA	Head office	O	5
LATECOERE Mexico	Hermosillo, Mexique	Production site	FL	109
LATelec Mexico	Hermosillo, Mexique	Production site	FL	283
LATelec GmbH	Hamburg, Germany	Head office / Design site	T	111
SEA LATelec	Tunis, Tunisia	Head office / Production site	O	870
LATsima	Had Soualem, Marocco	Production site	T	167

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

Furthermore, no major encumbrance exists on the sites presented above.

1.5 Research & Development

Research and Technology cover the whole of the technological research activities, which ensure the Group the control of know-how enabling it to develop its products with reduced risk and cost.

Further downstream, Research & Development corresponds to the expenditures of research and development on the programs. These expenses are then re-invoiced to customers according to the contractual terms as deliveries are made.

Research and Technology

Following the PAMELAT (fuselage elements in combined technology), MAAXIMUS (stitched composite door) and IDEES 5 (avionics cabinets integrating the IMA2 generation) then OFFSET (Optimized Front Fuselage Structure Enhanced Technologies) projects completed in 2015, LATECOERE acquired know-how and technological maturity on these product lines that have enabled it to now attain a strong position of originator of research on CORAC projects.

A Sustained Research Effort

LATECOERE continues its research effort on its fundamentals:

- on the one hand, on the NEXGED program (next generation integrated door) which will be visible at LATECOERE at the end of 2016;
- and on the other hand, consistent with the CORAC (French Strategic Council for Civil Aeronautics Research) roadmap, LATECOERE is preparing for the renewal of the New Short Range families (replacement of A320 and Boeing 737). Partner associated with the aircraft manufacturers, LATECOERE has launched its projects for the DEPACE & ARCHES (Composite demonstrator) to propose the innovations of the future. Furthermore it actively participates at the UAF (Aerospace Factory of the Future) in order to prepare tomorrow's factory to a greater competitiveness.

Major ongoing programs include:

- The **NEXGED** (Next Generation Door) Project for the design of a door of the future system demonstrator meeting the requirements of regulations in force, run by LATECOERE in collaboration with five manufacturers of components, which are members of GIFAS. Launched in 2011 and having a budget of €30 million of which €15 million for the LATECOERE Company. This project will continue into 2016.

- **The "Composite Technology Demonstrator"** ("Démonstrateur composite") Project (Aerostructures elements in composite materials) on which LATECOERE will work on a new concept of landing-gear bay and a door/door surrounding and passenger door enabling production at high production rates**.** This project has a budget of € 15 million distributed from 2014 to 2018.
- **AME (Extended modular avionics)** (new-generation avionics bays for aircraft and helicopters) with a goal of developing under the auspices of the aircraft manufacturers the future cabinet incorporating second-generation integrated avionics in a version with real time critical and open world functions, an evolution of avionics cabinet that now combines a set of blades instead of computers. It is a strategic achievement entirely developed in-house at the LATECOERE Group, combining the Aerostructures and Interconnection Systems divisions under the project management of LATELEC. This concept will enable aircraft manufacturers to install autonomous cabinets closer to needs by limiting the number and the lengths of cable on aircraft. It will offer a reduction in weight and operators' overall acquisition cost of collective interest to manufacturers of components, aircraft manufacturers and operators. The budget is €4 million shared out from 2014 to 2017.
- **UAF -- the French abbreviation for "Aeronautical Factory of the Future"--** the project that involves the sector's manufacturers, has as its strategy to prepare the digitized factories of tomorrow, and deploy innovative technologies and faster means for increased competitiveness. In this context LATÉCOÈRE is actively involved in three projects with respect to additive manufacturing technologies, FSW (friction stir welding process) and robotics. The budget of €3.8 million is distributed over the period from 2016 to 2019.

These programs are financed in part (in general, from 30% to 50%) by grants from the French State (operating grants and the research-based tax credit), and the remainder by self-financing.

Research & Development

Due to its position as a partner of aircraft manufacturers, the Group first incurs development expenses on the programs. These expenses are then re-invoiced to customers according to the contractual terms as deliveries are made. Negotiations may lead the Group to receive advance repayments on an ad hoc basis.

These research and development expenses are recorded in connection with partnership contracts and do not give rise, except in very special cases and in a marginal way, to the filing of patents in order to obtain patent right protection.

These expenses were very high during the last fiscal years as a result of the simultaneousness of several major programs (Embraer ERJ 170 and 190, Airbus A380 and A400M, Dassault Falcon 7X and Boeing 787). Today, research & development efforts are mainly concentrated on the Boeing 787 doors and on the A350 programs, as well as on the new Embraer E-Jet E2 regional aircraft program.

1.6 Degree of dependence on patents or contracts

The Group files industrial patents in very special cases, most developments being performed on behalf of the Group's customers. However, either as part of its R&T, or in connection with the improvement of its manufacturing base, the Group regularly files patents in order to prepare its positioning on future programs. Although the development of its know-how in future technologies or processes, through a participation in R&T programs, remains a goal for the Group, the latter considers itself relatively only slightly dependent on the stakes related to this type of industrial property.

The aeronautical market is dominated by five major manufacturers (AIRBUS, BOEING, EMBRAER, DASSAULT, BOMBARDIER). The LATECOERE Group took great pains to build a multi-customer and multi-segment industrial platform (commercial aircraft, regional and business aircraft) from a base historically centered in Europe. Today, the diversification of its contractors (the LATECOERE Group works with the five abovementioned major players with which it has developed strong and recognized positions) combined with the multiplicity of aeronautical programs on which the Group has positioned itself in each of its business lines, contributes to appreciably reduce its risks of dependence on one manufacturer or one contract.

2 BUSINESSES AND RESULTS

2.1 The Group's Business in 2016

2.1.1 The Basic Essentials

Summary of the key consolidated aggregate figures

In € million	2016	2015 (1)
Revenue	**655,2**	**622,1**
Adjusted recurring operating income	**47,9**	**18,9**
Net adjusted financial result	**-14,0**	**-16,1**
Adjusted net income (Group share)	**30,2**	**2,4**
Consolidated net debt	**-1,8**	**64,0**
Shareholders' Equity (Group share)	**400,6**	**386,1**

(1) Figures for 2015 have been restated for the sale of Latécoère Services in accordance with IFRS 5

5.3% growth in activity

Latécoère revenues stood at €655.2 million on 31 December 2016, up €33 million (+5.3%) on 31 December 2015. The Group benefited from a positive exchange rates effect over the period linked to the unwinding of €/$ currency hedging. At constant exchange rates, growth stood at 0.3%, in line with company's announcement beginning of 2016.

The slowdown in Group revenue is mainly due to the Aerostructures Industrial division, down 4.4% at constant exchange rates. Interconnexion Systems division continued its dynamic growth (+10.1% at constant exchange rates thanks to the A350 program.

At the same time, the projection of the backlog of aircraft manufacturers represents for Latécoère a volume of activity of € 2.4 billion based on a €/US$ exchange rate of 1.35.

Sharp increase in recurring operating income

Latécoère's recurring operating income rose to €47.9 million for 2016 (compared with €18.9 million in 2015 and -€1.0 million in 2014) thanks to the implementation of the Performance component of the Boost plan initiated beginning of 2014. The Group's current operating margin increased by 3.3 points to 7.3% of revenues.

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

- the ongoing transfer by the Interconnexion Systems division of production to "best cost" regions (Morocco and Mexico), in particular for the A330 and A350 programs, which began in 2015;
- the continued reduction in assembly times for the A350 program which is more mature (Interconnexion Systems);
- the decrease in unit costs for the Aerostructures programs subject to "redesign to cost" measures despite a slowdown in production;
- the improvement in €/$ parity on which the Group was able to capitalize thanks to existing hedges.

Including non-recurring operating income of €4.4 million, operating income amounted to €52.3 million. These non-recurring items are essentially linked to:

- a capital gain of €40.6 million on the sale of Latécoère Services at the end of 2016;
- a provision for restructuring booked on 30 June 2016 (€31.3 million) to cover the costs incurred by the restructuring plan (severance payments, outplacement assistance and training, and consulting fees directly linked to the plan). Other costs, such as the internal mobility costs linked to the plan, were not provisioned as they are not eligible under IAS 37 and will be booked in 2017 and 2018;
- various other costs linked to the Transformation 2020 plan.

Financial income for 2016 amounted to -€14.0 million (as against -€16.1 million in 2015). This is primarily due to the full year effect of the financial restructuring carried out in September 2015 (-€9 million in 2016 vs. -€12.5 million in 2015 and -€14.7 million in 2014).

Net income (Group share) amounted to a positive €30.2 million (vs. €3.4 million in 2015). Consolidated non-adjusted net income (Group share) amounted to €6.1 million (vs. +€0.3 million in 2015).

The Group has maintained its €/$ hedging policy. The stronger dollar and improvement in the Group's financial position enabled Latécoère to extend the maturity of its hedges whilst still improving its worst-case scenario rate. Accordingly, the Group is now hedged in 2017 and 2018 based on a worse-case scenario rate of 1.15 for 2017 and 1.16 for 2018. For 2019, the Group's exposure is more than 70% hedged at a worse-case scenario rate of 1.13.

Free cash flow from operations target achieved

In line with the commitments made on the implementation of the Boost plan which targeted a free cash flow from operations of 7% of revenues in 2016, the Group has achieved its objective. Free cash-flow from operations amounted to €48.5 million for the period, namely 7.3% of revenues.

Meeting this target is primarily the result of the Group's measures to improve operational efficiency combined with the sound management of its Working Capital Requirement, notably the downsizing of industrial stocks by more than €35 million over the past three years (at constant exchange rates).

Positive net cash position of €1.8 million

The sale of Latécoère Services also allowed for a €37.4 million reduction in net debt (sales price offset by the positive cash assets held by Latécoère Services and its affiliates).

Free cash flow from operations combined with the sale of Latécoère Services resulted in a positive net cash position of €1.8 million on 31 December 2016 compared to a net debt position of €64.0 million one year earlier.

Net investments in 2016 amounted to €13.8 million and were primarily devoted to manufacturing equipment and IT resources.

Ongoing deployment of the Transformation 2020 plan

In line with the timeframe announced, Latécoère Group has launched most of the defining actions of its Transformation 2020 plan. As well as the negotiation and validation of the agreements tied to the restructuring plan (Plan de Sauvegarde de l'Emploi, PSE) and the implementation of the related voluntary redundancy plan (Plan de Départ Volontaire), Latécoère has undertaken a number of key initiatives in the transformation of its industrial model:

- setting up in Bulgaria (Plovdiv) of a small assembly plant for door sub-components to be completed by the end of 2017;
- acquisition of a site in Montredon on the outskirts of Toulouse for the construction of a 4.0 industrial machining site that will allow for the re-insourcing production for certain elementary parts and increase value added. The construction should be finalized by the end of 2017 with scale-up scheduled for 2018 - 2019;
- transfer of the assembly of the B787 doors to Mexico which should be completed between now and the end of 2017.

As part of these measures, the Group has begun talks with real estate developers regarding the sale of its site on Rue de Périole in the center of Toulouse which is not any more suited to industrial activity. Following the completion of a competitive tender, the Group has selected ICADE to assist with this project and has signed a framework agreement defining the principles of the sale, which will be carried out in phases between 2018 and 2025 in order to adapt to the industrial calendar for Group transfers. The sales remains subject to a certain number of conditions pertaining to this type of operation (official permits, obtaining of waivers, etc.).

As part of this project, the Group's support functions and head office will lease an office building that will be built on part of the site.

At the end of the Transformation 2020 plan, the Group will have a robust and modern industrial footprint with a balanced geographical footprint that will enable it to absorb additional volumes under competitive and optimized conditions.

At the same time, the Group is increasing its R&T capacities in order to offer its clients innovative processes and products that are adapted to their needs.

Sale of Latécoère Services

The Latécoère Group finalized the sale of Latécoère Services to the ADF Group in December 2016. The assets sold represented €101 million of revenue at December 31, 2015 and included 841 employees. This transaction is effective in the consolidated financial statements of the Latécoère Group at December 31, 2016. This sale was carried out as part of the implementation of the Transformation 2020 plan and the refocusing of the Group on its key activities, Aerostructures (doors and fuselage) and Interconnection Systems (electrical harnesses and avionics racks).

The sale resulted in the classification of the assets sold in discontinued operations in accordance with IFRS 5.
When an activity is classified as discontinued operations, the statement of net income and the other elements of the comparative overall result are restated as if activity had met the criteria for discontinued operations as from the start of the comparative period.

2.1.2 Additional Information

Revenue of the Group

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

- **Aerostructure (65%):** Revenue in 2016 was €423 million, down 4.4% at constant exchange rates. This evolution mainly derives from the decrease in production rates of the A330 which was initiated in September 2015 and from the B787 program following Boeing's decision to reduce its inventories buffer now that the program has reached maturity (non-recurring effect on 2017). In addition, Q4 2016 confirmed the beginning of the decrease in A380 production rates.
- **Interconnection Systems (35%):** Revenue was €232.0 million, up +16.6% (+10.1% at constant exchange rates). The division benefited in full from the ramp-up in production of the A350 program on which it is strongly positioned. Such impact will ease gradually over 2017. The decrease in production rates mentioned for the Aerostructure Industry has also an impact on the Interconnexion Systems division, but sustained commercial dynamic led to the awarding of new contracts, including the maintenance of repair and installation (MRO) of all electrical test benches of Airbus in Toulouse.

Income Taxes

The Group posted income tax profit of €2.4 million including current income tax due of €1.5 million and deferred tax income of €3.9 million.

Inventories

Inventories and net work-in-progress decreased in 2016 by €33 million, primarily through the combined effect:

- of a decrease in industrial stocks (raw materials, metallic parts and production work-in-progress) of €4.2 million;
- a decrease of €28.8 million in Non Recurring work-in-progress (the development costs for programs and the curve), essentially for programs followed in construction contracts (IAS 11). Additional information on inventories and work-in-progress is furnished in Note 6 to the consolidated financial statements.

Shareholders' Equity

The shareholders' equity Group share at December 31, 2016 was €400.6 million. It may be broken down as follows:

Capital and initial reserves	€400.4 million
Impact of hedging instruments	- €5.9 million
Fiscal year net result, Group share	€6.0 million
Total	**€400.4 million**

2.2 Business of the Parent company in 2016

The financial statements of the company at December 31, 2016 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 €493 million in 2016, which represents 65% 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, whereas the exchange gains or losses from the exchange rate hedging instruments (forward sales or collars) are noted in the financial result. 2016 operating result was +€5.1 million compared to +€34.9 million in 2015.

Financial result was -€22.2 million through the combined effect of the cost of debt (-€11.7 million),foreign exchange income (-€13.1 million), interests income earned on Group current accounts (+€2.5 million) and dividend distribution (+€0.9 million).

Non-recurring result is -€30.8 million.

At December 31, 2016, the workforce consisted of 944 employees.

Net Result, Appropriation and Dividends

Net result was negative at -€39,410,115. 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 2016. The number of shares was 94,043,676 at December 31, 2016, up 696,511 shares compared to December 31, 2015. This increase is due to a capital increase of €1,393,022 reserved to employees.

Dividends paid out over the last three fiscal years were:

	Revenue eligible for tax deduction		Revenue not eligible for tax deduction	Number of shares
	Dividends	Other distributed revenue		
Fiscal year 2014	0 €			11 545 499
Fiscal year 2015	0 €			93 347 165
Exercice 2016	0 €			94 043 676

The total of expenses and charges related to Articles 39-4 of the French General Tax Code, amounted to €32,952.

Inventories of Raw Materials and Works-in-Progress

The balance sheet at the closing of the year shows net inventories of raw materials of €14.7 million (compared to €23 million in 2015). Work-in-progress amounts to €245.9 million, compared to €265.3 million at December 31, 2015.

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 €18 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 The 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 €4.9 million. It principally concerns machine tools for production and the development of computer tools under the information systems master plan.

Net Financial Debt

At December 31, 2016, net debt was -€59.1 million diminishing by €80 million. The decrease in net debt was allowed by the free cash flow from operations combined with the sale of Latécoère Services.

Refundable Advances

The company obtained refundable advances from DGAC (Direction Générale de l'Aviation Civile) as additional financing of new programs (A380 and A350); during the fiscal year, repayments were made, as a function of contractual conditions and deliveries of relevant products. At the end of 2016, the amount registered in the balance sheet item "conditional advances" is €33.4 million.

Information on the time of payment of suppliers

In application of the terms of Article L. 441-6-1 para.1 of the French Commercial Code ("Code de commerce"), the mandatory information on the times of payment of French suppliers (outside the group) is the following:

At December 31, 2016, the balance of relevant accounts payable debt was €15.5 million with the following breakdown:
- 2,5% of invoices at immediate payment.
- 0.5% of invoices payable within 30 days, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).
- 4,8% of invoices payable within 30 days end of the month, the next 10th, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).
- 6,2% of invoices payable within 45 days, as from the invoice's date issue (or of the receipt of the goods or of the performance of the service, as the case may be).
- 86% of invoices payable within 45 days end of the month, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).

For your information, out of the entire Group's French accounts payable debt at December 31, 2016, none was due.

At December 31, 2015, the balance of relevant accounts payable debt was €11.2 million with the following breakdown:
- 0,6% of invoices at immediate payment.
- 1,3% of invoices payable within 30 days ,as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).
- 3,4% of invoices payable within 30 days end of the month, the next 10th, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).
- 6,8% of invoices payable within 45 days end of the month, as from the invoice's date issue (or of the receipt of the goods or of the performance of the service, as the case may be).
- 88% of invoices payable within 45 days end of the month, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).

For your information, out of the entire Group's French accounts payable debt at December 31, 2015, none was due.

Information on the time of payment of customers

In application of the terms of Article L. 441-6-1 para.1 of the French Commercial Code (Code de commerce), the mandatory information on the times of payment of French customers (outside the group) is the following:

At December 31, 2016, the balance of relevant account receivables was €27.5 million with the following breakdown:
- 62% of invoices payable within 30 days end of the month, the next 10th, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).
- 11% of invoices payable within 30 days end of the month, the next 15th, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).
- 10% of invoices payable within 45 days end of the month, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).
- 15% of invoices payable within 60 days, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).
- 2% of invoices payable within 120 days, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).

At December 31, 2016, this balance included 6% of accounts receivable past due.

At December 31, 2015, the balance of relevant account receivables was €24.8 million with the following breakdown:

- 1% of invoices payable at 30 days net.
- 72% of invoices payable within 30 days end of the month, the next 10th, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).
- 20% of invoices payable within 30 days end of the month, the next 15th, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).
- 0,5% of invoices payable within 45 days net, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).
- 6,5% of invoices payable within 45 days end of the month, as from the invoice's date of issue (or of the receipt of the goods or of the performance of the service, as the case may be).

At December 31, 2015, this balance included 6% of accounts receivable past due.

2.3 Businesses of the Subsidiaries and other affiliates in 2016

2.3.1 Integrated Subsidiaries

LATECOERE 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. It is also the production center of doors in composite materials for the Boeing 787. This Company invoices most of its production to LATECOERE.

The Company's 2016 business was marked by a slower growth with an increase in revenue of 6%, from CZK 2.74 billion to CZK 2.91 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 – 10.3 million. Investments reached CZK 87 million in 2016.

There were 763 employees at December 31, 2016, increasing by 28 from December 31, 2015.

LATECOERE 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 2016, LATECOERE do BRASIL revenue amounted to BRL84.8 million, principally with its parent company and with its customer Embraer. There were 421 employees at December 31, 2016, increasing by 12 from December 31, 2015. Its positive result was BRL5.2 million. Investments reached BRL3.6 million in 2016.

LATECOERE 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 €2.6 million in 2016, realized entirely with the parent-company. Its result is at breakeven in 2016.

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 Marocco. 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, 2016, the main results were the following:

- Revenue was €237.3 million;
- The total of operating income is: €230.3 million;
- The total of operating expenses is: €208.5 million;
- The operating result comes to: €21.8 million;
- Operating net income before tax comes to: €14.8 million.

Given these elements, the result for the year is a net profit of €5.6 million.

At December 31, 2016, the total of the company's balance sheet is of €170.9 million.

Information on Subsidiaries:

('000 EURO)	SEA-Latelec	Latelec Gmbh	LATsima
Revenue	8 935	16 541	830
Net Income	-310	892	1 292

The year 2016 saw high production rates at Airbus.

However, this high level of production hides a strong contrast between growth programs: the A320, the significant increase in the A350 and the programs with the most difficulties: A330 (change in CEO / NEO), A400M and A380 (significant drop in speed). In addition, the ATR business remained large, but only offsetting the historic decline in Dassault Aviation's Falcon range.

The design & build development activities remained relatively stable thanks to the development of the Beluga XL but at a low level.

LATelec's industrial activity was sustained during the year, notably marked by:

- the continuation of the rising in rates of the A350,
- the continuation of industrial transfers to Tunisia (A350 racks, A380, A400M racks), to Mexico (A330 and A350 wings) and the start of the transfers of the cockpit panels and A320 and A350 racks to the Moroccan site.

All these industrial transfers were carried out according to the planned schedules with the expected level of productivity.

In the interests of industrial competitiveness, we decided to close the Tarbes site. The activity was transferred in the last quarter of 2016 to our other French sites. The site will be totally closed as of March 2017.
We have also re-launched an aggressive approach to commercial growth in adjacent markets (train harnesses, etc.) and look forward to the first significant results of this initiative in 2017.

2.4 Research & Development Expenses

In 2016, the total of these research and development expenses was €21.4 million (3.3% of revenue) compared to €35.2 million in 2015.

In 2017, the Research & Development effort will be primarily dedicated to the end of the development of the programs Embraer E2, to aircraft changes and mainly to industrial transfers and improvements on products in line with Transformation 2020 plan.

2.5 Information on Trends

Challenges and outlook

The heightened competition on the civil aviation market will probably lead certain aircraft manufacturers to launch new programs over the next two years for both business and commercial aviation. Latécoère's industrial resources and recognized expertise will be key assets for the Group to position itself on these programs.

Nonetheless, given the length of time involved in the development of new aircraft, the related production for subcontractors will only really take off from 2025.

Accordingly, given the portfolio of existing contracts, revenues for the Aerostructures division is expected to decline in 2017 before stabilizing over the period 2018-2020 (at constant exchange rates and on the basis of the ramp-up forecasts announced to date by the clients).

Given the strong business dynamic in place in the Interconnexion Systems division, revenues should increase in 2017-2020 (at constant exchange rates).

Today, the division's activities are primarily focused on onboard wiring for two clients (Airbus and Dassault). As well as the possibility of diversifying the client portfolio, the potential market is much wider (landing gear, engines, cabins) and our existing industrial and technical platforms can be competitive alternatives to current offerings. Major sales drives are underway in order to penetrate these markets. Lastly, a certain number of aircraft manufacturers and suppliers have an onboard wiring units which will offer additional opportunities in terms of development.

Targets for 2017

Group activity is expected to fall by a slight 6% in 2017 (at constant exchange rates and based on the ramp-up forecasts announced so far by contractors). Given the mix of products for the Aerostructures division, activity should slow over the second half of 2017, which will lead to an uneven balance in performance between the first and second half of the year.

However, the industrial restructuring in place will continue to bear fruit and allow the Group to slightly improve on its recurring operating income.

New investment linked to the Transformation plan (Bulgaria and Montredon), a substantial part of which will be booked to 2017, will reduce the free cash flow from operations. Despite these various factors, Latécoère net cash position is expected to improve slightly.

2.6 Other Information

2.6.1 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	149 998	572	0	572
LATelec	1 900	7 600	0	7 600
LATECOERE Czech Republic s.r.o.	NC	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	923	1 777
SEA LATELEC	10	0	0	0
LATECOERE Bulgarie	200	100	0	100
TOTAL FILIALES ET PARTICIPATIONS		**45 954**	**1 151**	**44 803**
Actions LATECOERE	34 030	128	0	128
TOTAL TITRES DE PLACEMENTS	**34 030**	**128**	**0**	**128**

2.6.2 Five Years Record of the LATECOERE Company

('000 EURO)	Dec 31, 2012	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016
Capital at year-end:					
Share Capital	18 647 508	23 017 186	23 090 998	186 694 330	188 087 352
Number of issued ordinary shares	9 323 754	11 508 593	11 545 499	93 347 165	94 043 676
Operations and results of the fiscal year:					
Sales excluding VAT	445 595 033	395 390 550	443 975 800	505 289 730	492 963 332
Income before tax, employee profit sharing, depreciation, amortization and provisions	-14 825 268	-155 778 927	-15 088 139	-12 394 909	-16 427 941
Income taxes	-5 884 626	-6 464 039	-7 278 717	-6 468 716	-8 958 023
Employee profit sharing (legal and contractual)	25 050	723 781	2 104 270	1 845 310	490 756
Income after tax, employee profit sharing, depreciation, amortization and provisions	-1 074 453	-87 215 045	-3 838 179	-8 624 943	-39 410 112
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	-1,0	-13,0	-0,9	-0,1	-0,1
Earnings after tax and profit sharing, depreciation, amortization and provisions	-0,1	-7,6	-0,3	-0,1	-0,4
Dividend paid per share (excluding tax credit) in the year	0	0	0	0	0
Personnel :					
Average number of employees	1 086	1 109	1 128	1 067	988
Total remuneration	44 159 106	47 911 803	49 090 994	47 020 248	48 108 669
Total social charges and other personnel-related benefits	21 088 034	22 748 574	23 873 112	23 407 020	22 334 173

2.6.3 Subsequent Events

In the wake of its Transformation 2020 plan, the Latecoere SA company signed on February 10, 2017, a framework agreement with a real estate developer for the sale of its Périole site in Toulouse. This sale, subject to several conditions precedent customary in this type of transaction, will be carried out over a period of 7 to 10 years to adapt to the industrial constraints of the Group. In addition, the company has committed to this developer to lease offices that will be built on part of this site to house its support functions.

2.6.4 Publication of Q1 Revenue

Stable Q1 2017 revenues, (+0.8% in reported figures; -3.4% at constant exchange rates)

In € million	Q1		
	2017	2016[1]	Change (%)
Aerostructures	102 095	104 931	-2,7%
Interconnection Systems[2]	70 533	66 347	6,3%
Revenue for the ongoing operations[1]	**172 628**	**171 278**	**0,8%**

1 Following the disposal of Latécoère Services, and in accordance with IFRS 5, revenues for 2016 have been restated to exclude activities that have been sold.
2 Revenues for Systems are now assigned to the Interconnection systems division.

3 CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2016

3.1 State of the consolidated financial situation

('000 EURO)	Notes	Dec 31, 2016	Dec 31, 2015
Goodwill		0	1 300
Other intangible assets	5.1	12 894	4 827
Tangible assets	5.1	76 110	91 565
Other financial assets		2 430	2 441
Deferred tax assets	15.2	27 516	24 430
Financial derivative instruments	9.1	0	232
Other non-current assets		156	116
TOTAL NON-CURRENT ASSETS		**119 107**	**124 910**
Inventories	6.1	391 051	424 068
Accounts receivable	8	169 732	194 566
Tax receivable	15.1	22 787	23 461
Financial derivative instruments	9.1	449	376
Other current assets		1 808	1 881
Cash & Cash Equivalents		147 444	90 370
TOTAL CURRENT ASSETS		**733 271**	**734 723**
TOTAL ASSETS		**852 378**	**859 633**

('000 EURO)	Notes	Dec 31, 2016	Dec 31, 2015
Share capital	10.2	188 087	186 694
Share premium		214 408	213 607
Treasury stock		1 575	1 586
Other reserves		-3 631	-8 832
Derivatives future cash flow hedges		-5 918	-7 245
Group net result		6 033	264
EQUITY ATTRIBUTABLE TO PARENT OWNERS		**400 554**	**386 074**
Non-controlling interests		-925	2 834
TOTAL EQUITY		**399 629**	**388 907**
Loans and bank borrowings	13.1	78 225	92 304
Refundable Advances	13.3	42 614	39 264
Employee benefits	12	13 521	16 784
Non-current provisions	11	21 876	1 050
Deferred tax liabilities	15.2	527	1 292
Financial derivative instruments	9.1	22 562	8 379
Other non-current liabilities		18 332	22 961
TOTAL NON-CURRENT LIABILITIES		**197 657**	**182 036**
Loans and bank borrowings (less than 1 year)	13.1	67 420	62 093
Refundable Advances	13.3	1 294	1 699
Current provisions	11	13 786	0
Accounts payable	14	151 763	180 177
Income tax liabilities		1 006	3 529
Other current liabilities		3 229	16 199
Financial derivative instruments	9.1	16 594	24 994
TOTAL CURRENT LIABILITIES		**255 092**	**288 691**
TOTAL LIABILITIES		**452 749**	**470 726**
TOTAL EQUITY & LIABILITIES		**852 378**	**859 633**

3.2 Consolidated Income Statement

('000 EURO)	Notes	Dec 31, 2016	Dec 31, 2015*
Revenue	16	655 236	622 132
Other operating revenue		291	1 229
Change in inventory: work-in-progress & finished goods		-22 565	-565
Raw material, Other Purchases & external charges	17	-413 953	-391 736
Personnel expenses		-175 724	-181 571
Taxes		-9 136	-12 398
Amortization		-13 555	-10 855
Net operating provisions charge		-650	32
Depreciation of current assets		6 396	1 834
Other operating income	18	9 930	13 651
Other operating expenses		-4 758	-8 759
RECURRING OPERATING INCOME		**31 513**	**32 993**
Operating Income / Sales		*4,81%*	*5,33%*
Other non-recurring operating income and expenses	19	4 428	0
OPERATING INCOME		**35 941**	**32 993**
Net Cost of debt		-8 986	-12 480
Foreign Exchange gains/losses realized		-14 887	-6 753
Other financial incomes and expenses realized		-3 160	-4 185
Realized financial result		**-27 033**	**-23 417**
Change in fair value of financial derivative instruments		-7 951	-6 910
Other financial incomes and expenses unrealized		555	-3 213
Unrealized financial result		**-7 396**	**-10 124**
FINANCIAL RESULT	20	**-34 430**	**-33 541**
Income tax	21	2 430	-57
Net Result for the period from discontinued operations		**3 941**	**-604**
Net Result for the period from discontinued operations		2 381	2 424
NET RESULT FOR THE PERIOD		**6 322**	**1 820**
• Of which, Owners of the parent		6 033	264
• Of which, Non-controlling interests		288	1 556
Net Result for the period from continuing operations			
• Of which, Owners of the parent		4 506	-1 524
• Of which, Non-controlling interests		-565	920
Net Result for the period from discontinued operations			
• Of which, Owners of the parent		1 527	1 788
• Of which, Non-controlling interests		854	636
Weighted average number of shares		**94 941 707**	**36 984 668**
NET RESULT (Group share) FOR THE PERIOD PER SHARE			
• Earnings per share	10.2	0,06	0,01
• Diluted earnings per share	10.2	0,06	0,01
NET RESULT (Group share) FOR THE PERIOD PER SHARE			
• Earnings per share continuing operations	10.2	0,05	-0,04
• Diluted earnings per share continuing operations	10.2	0,05	-0,04
NET RESULT (Group share) FOR THE PERIOD PER SHARE			
• Earnings per share discontinued operations	10.2	0,02	0,05
• Diluted earnings per share discontinued operations	10.2	0,02	0,05

** The data published for the financial year 2015 have been restated in accordance with IFRS 5 (see note 1 "Main events").*

3.3 State of the overall consolidated net result

('000 EURO)	Dec 31, 2016	Dec 31, 2015*
NET RESULT FOR THE PERIOD (1)	**6 322**	**1 820**
OTHER COMPREHENSIVE INCOME:		
- Items that will not be reclassified subsequently to profit or loss:		
Commitments to purchase minority interests	9	17
Actuarial gain or loss for year relating retirements benefits	-1 190	-103
Other	-2 313	87
Income tax related to items that will not be reclassified to profit or loss	410	35
- Items that will be reclassified subsequently to profit or loss:		
Translation differences	3 348	-2 431
Financial instruments (cash flow hedging) : change in fair value and transfer in profit and loss	2 079	1 999
Income tax related to items that may be reclassified to profit or loss	-753	-652
TOTAL OTHER COMPREHENSIVE INCOME (2):	**1 590**	**-1 047**
Of which attributable to discontinued operations	*-36*	*106*
TOTAL COMPREHENSIVE INCOME (1+2)	**7 912**	**773**
Of which, Owners of the parent	11 353	-821
Of which, Non-controlling interests	-3 441	1 594
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE OWNERS OF THE PARENT ARISES FROM:		
- Continuing operations	11 345	-928
- Discontinued operations	8	106
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS ARISES FROM:		
- Continuing operations	-3 397	1 579
- Discontinued operations	-44	15

** The data published for the financial year 2015 have been restated in accordance with IFRS 5 (see note 1 "Main events").*

3.4 Consolidated Statement of Cash-Flow

('000 EURO)	Dec 31, 2016	Dec 31, 2015
Net result for the period	6 322	1 820
Adjustments related to non-cash activities :		
Depreciation and provisions	54 224	16 590
Fair value gains/losses	7 951	7 102
Net (gains)/losses on disposal of assets	-42 657	0
Other non-cash items	464	126
CASH FLOWS AFTER COST OF DEBT AND INCOME TAXES	**26 304**	**25 638**
Income taxes	-1 268	2 278
Interest expenses	9 066	12 560
CASH FLOWS BEFORE COST OF DEBT AND INCOME TAXES	**34 102**	**40 477**
Changes in inventories	33 247	-6 648
Changes in client and other receivables	-18 013	-28 688
Changes in suppliers and other payables	-14 020	-2 701
Income tax paid	-5 389	-4 916
CASH FLOWS FROM OPERATING ACTIVITIES	**29 926**	**-2 477**
*Of which operating flows provided / (used) by discontinued operations**	*-6 303*	*2 925*
Effect of changes in group structure	57 425	0
Purchase of tangible and intangible assets (including changes in payables to fixed asset suppliers)	-16 200	-15 014
Purchase of financial assets	-171	-98
Increase (decrease) in loans and advances made	62	170
Proceeds from sale of tangible and intangible assets	352	30
Dividends received	4	0
CASH FLOWS FROM INVESTING ACTIVITIES	**41 472**	**-14 911**
*Of which investing flows provided / (used) by discontinued operations**	*-1 735*	*-926*
Expenses on increase of capital	2 259	284 115
Purchase or disposal of treasury shares	-11	-39
Proceeds from borrowings	243	100 000
Repayments of borrowings	-16 765	-230 828
Financial interest paid	-9 825	-11 486
Dividends paid	-319	-328
Flows from refundable advances	2 948	1 754
Other flows from financing operation	7 096	-65 867
CASH FLOW FROM FINANCING ACTIVITIES	**-14 375**	**77 321**
*Of which financing flows provided / (used) by discontinued operations**	*-881*	*-568*
Effects of exchange rate changes	50	-308
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**57 074**	**59 625**
Opening cash and cash equivalents position	90 344	30 720
Closing cash and cash equivalents position	147 418	90 344

** correspond exclusively to third-parties flows*

3.5 Variation of Consolidated Shareholders' Equity

('000 EURO)	Share capital	Share Premium	Treasury stock	Reserves and Accumulated Results	Cash flow hedgings - financial instruments	Translation difference	Equity attributable to owners of parent	Non-controlling interests	TOTAL
Dec 31, 2014*	**23 091**	**93 095**	**1 625**	**7 292**	**-8 597**	**-5 939**	**110 566**	**1 568**	**112 133**
Capital variations	163 603	120 512		-8 802			275 314		275 314
Share-based payments				1 055			1 055		1 055
Transactions on treasury stock			-39				-39		-39
Dividends							0	-328	-328
Other variations									
Transactions with owners	**163 603**	**120 512**	**-39**	**-7 747**	**0**	**0**	**276 329**	**-328**	**276 001**
Net result for the period (1)				**264**			**264**	**1 556**	**1 820**
Financial instruments (cash flow hedging): change in fair value and transfer in profit and loss					1 363		1 363		1 363
Financial instruments: Translation differences					-16		-16		-16
Translation differences: change and transfer in profit and loss						-2 468	-2 468	38	-2 431
Other variations				36			36	1	36
Other comprehensive income (2)	**0**	**0**	**0**	**36**	**1 347**	**-2 468**	**-1 086**	**38**	**-1 047**
TOTAL COMPREHENSIVE INCOME (1)+(2)	**0**	**0**	**0**	**300**	**1 347**	**-2 468**	**-821**	**1 594**	**773**
Dec 31, 2015	**186 694**	**213 607**	**1 586**	**-155**	**-7 251**	**-8 408**	**386 073**	**2 834**	**388 907**
Capital variations	1 393	801		0			2 194		2 194
Share-based payments				946			946		946
Transactions on treasury stock			-11				-11		-11
Dividends							0	-319	-319
Other variations									
Transactions with owners	**1 393**	**801**	**-11**	**946**	**0**	**0**	**3 129**	**-319**	**2 810**
Net result for the period (1)				**6 033**			**6 033**	**288**	**6 322**
Financial instruments (cash flow hedging): change in fair value and transfer in profit and loss					1 565		1 565		1 565
Financial instruments: Translation differences					-238		-238		-238
Translation differences: change and transfer in profit and loss						3 287	3 287	61	3 348
Other variations				706			706	-3 790	-3 085
Other comprehensive income (2)	**0**	**0**	**0**	**706**	**1 327**	**3 287**	**5 319**	**-3 730**	**1 590**
TOTAL COMPREHENSIVE INCOME (1)+(2)	**0**	**0**	**0**	**6 739**	**1 327**	**3 287**	**11 353**	**-3 441**	**7 912**
Dec 31, 2016	**188 087**	**214 408**	**1 575**	**7 530**	**-5 924**	**-5 121**	**400 554**	**-926**	**399 629**

*As at 31st of December the column "other variations" has been reclassified on the line "other variations"

3.6 Notes to the consolidated financial statements

GENERAL INFORMATION

BALANCE SHEET DETAIL

INCOME STATEMENT DETAIL

ADDITIONAL INFORMATION

INFORMATION RELATIVE TO THE GROUP

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

The consolidated financial statements of the LATECOERE Group for the fiscal year ended on December 31, 2016, 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 10, 2017. They will be submitted to the Annual General Meeting.

NOTE 1 MAIN EVENTS

Launch of the Transformation 2020 Plan

On June 7, 2016, the Group announced the launch of its Transformation 2020 plan. In the continuity of its Boost plan successfully deployed since 2014, the Transformation 2020 strategic plan aims to enable the Group to benefit fully from the next cycle of new programs expected between 2020 and 2025, through restored competitiveness and investment capacity.

The plan is based on an in-depth change in the industrial structure of the Group, which is an essential condition for its strategic repositioning and development.

It requires an adaptation of the organization as part of a voluntary redundancy plan ("Plan de Départ Volontaire") followed by a restructuring plan ("Plan de Sauvegarde de l'Emploi", or "PSE"), while maintaining the decision-making center of the Group and its high value-added activities, including engineering and research & technology, in the Southwest of France. The plan would lead to the net elimination of 172 posts (168 for the Aerostructure division and 4 for Interconnection Systems).

At December 31, 2016, based on the last known elements at the date of closing of the financial statements, the Group made a provision for restructuring in the amount of €34 million under the restructuring plan. In compliance with IAS 37, this amount includes only the costs incurred by the restructuring plan, in particular, severance payments, outplacement assistance and training, and consulting fees directly linked to the plan. Other costs, such as internal mobility costs linked to the plan, were not provisioned as they are not eligible under IAS 37. Most of the outflows of economic benefits will be expected beginning in 2017.

Sale of Latécoère Services

The Latécoère Group finalized the sale of Latécoère Services to the ADF Group in December 2016. The assets sold represented €101 million of revenue at December 31, 2015 and included 841 employees. This transaction is effective in the consolidated financial statements of the Latécoère Group at December 31, 2016. This sale was carried out as part of the implementation of the Transformation 2020 plan and the refocusing of the Group on its key activities, Aerostructures (doors and fuselage) and Interconnection Systems (electrical harnesses and avionics racks).

The sale resulted in the classification of the assets sold in discontinued operations in accordance with IFRS 5.
When an activity is classified as discontinued operations, the statement of net income and the other elements of the comparative overall result are restated as if activity had met the criteria for discontinued operations as from the start of the comparative period.

New Governance

At the Latécoère SA Board of Directors meeting of July 13, 2016, Yannick Assouad was appointed CEO of Latécoère SA as from November 10, 2016.

Pierre Gadonneix served as Chairman of the Board of Directors and CEO from July 13, 2016 to November 10, 2016. After Yannick Assouad took office on November 10, the Board of Directors decided to revert to the mode of governance with separation of the office of Chairman of the Board of Directors from that of CEO, which Yannick Assouad exercises solely.

NOTE 2 ACCOUNTING POLICIES

2.1 Basis of Preparation of the Financial Statements

The 2016 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, 2016.

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

NEW IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE AS OF JANUARY 1, 2016

- Amendments to IAS 1, "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income and Disclosure Initiative;
- Amendments to IAS 16, "Property, Plant and Equipment" and IAS 38, "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortization;
- Amendments to IAS 19, "Employee Benefits" – Defined Benefit Plans: Employee Contributions;
- Amendments to IFRS 10, "Consolidated Financial Statements"; IFRS 12, "Disclosure of Interests in Other Entities"; and IAS 28, "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception.
- Amendments to IFRS 11, "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations;
- Annual Improvements to IFRSs published in December 2013 (2010-2012 cycle);
- Annual Improvements to IFRSs published in September 2014 (2012-2014 cycle).

These standards, interpretations and amendments effective for reporting periods beginning on January 1, 2016 do not have a material impact on the Group's consolidated financial statements.

NEW PUBLISHED IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS EARLY ADOPTED BY THE GROUP AS OF JANUARY 1, 2016

None.

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

- IFRS 9, "Financial Instruments";
- IFRS 15, "Revenue from Contracts with Customers";
- IFRS 16, "Leases";
- Amendments to IAS 7, "Statement of Cash Flows" – Disclosure Initiative;
- Amendments to IAS 12, "Income Taxes" – Recognition of Deferred Tax Assets for Unrealized Losses;
- Amendments to IAS 28, "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture;
- Amendements to IAS 40 « Investment Property » - Transfer of investment properties ;
- Amendments to IFRS 2, "Share-based Payment" – Classification and Measurement of Share based Payment Transactions;
- Annual Improvements to IFRSs published in December 2016 (2014-2016 cycle);
- IFRIC 22 « Foreing currency transactions and advance consideration ».

Excepted IFRS 9 and IFRS 15 standards which can be applied at January 1st, 2018, these new standards and amendments have not yet been adopted by the European Union and cannot therefore be applied ahead of their effective date even though early adoption is permitted by the texts concerned.

The Group is currently assessing the impacts resulting from the first application of these news standards.

2.3 Use of estimates and assumptions

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 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:

- the estimated margin for construction contracts (note 6);
- employee benefits (note 12);
- deferred tax assets;
- provisions on inventory;
- the recoverable value of intangible and tangible assets as well as their useful life;
- the fair value of financial instruments.

At December 31, 2016, 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.

2.4 Subsidiaries

Companies controlled directly or indirectly by the LATECOERE Company are fully consolidated. Control exists as soon as the parent company holds directly or indirectly the power to direct the financial and operational policy of the subsidiary and to obtain benefits from its activities.
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.

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. Unrealized losses are eliminated like unrealized profits, but only insofar as they do not represent a loss in value.

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 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

Since January 1, 2010

Pursuant to IFRS 3, business combinations made as from 1 January 2010 are valued and recorded according to the principles described below.
Business Combinations are accounted for according to IFRS 3 (Revised). Identifiable assets acquired and liabilities recovered are valued at fair value at the date of acquisition and, when applicable, the interest not giving control in the acquired company is valued either at fair value, or at the share in the net identifiable assets (including adjustments of fair value) of the acquired entity. This option is available on a case-by-case basis for each business combination transaction. The direct costs related to the acquisition (transaction costs) are included in expenses for the period during which they are incurred. Any share previously held in the acquired business, before the taking of control, is revalued at its fair value and the corresponding income or loss is posted in result.
Identifiable assets and liabilities recovered are valued at fair value at the date of acquisition and changes in fair value will be noted in the future in result beyond the appropriation period of one year. Contingent price adjustments of business combinations are valued at fair value at the date of acquisition.
After the date of acquisition, the price adjustment is valued at its fair value at each closing of the financial statements. Beyond the appropriation period, any subsequent change to this fair value will be recorded in result. The purchase price paid by the buyer, which includes a contingent portion, is valued and recognized at its fair value at the date of acquisition, subsequent variations to fair value of the contingent portion present in liabilities, being recognized in accordance with IAS 39, IAS 37 or other applicable IFRS, will be accounted for in

net result, or in Income and expenses accounted for directly in shareholders' equity.

At the date of acquisition, the goodwill determined at the occasion of each business combination may be valued either on the basis of the share of the net acquired assets (including adjustments for fair value), or on the basis of the overall value of the business.

If they are generated by the acquisition of integrated companies or proportionally integrated companies, positive goodwill are posted to balance sheet assets in the item "Goodwill" and negative goodwill (badwill) is immediately recorded in the income statement. On the other hand, goodwill from the acquisition of associates is posted on the line "investments in associates" in accordance with IAS 28.

Goodwill may be corrected within the appropriation period of one year after the date of acquisition in order to take into account the final estimate of the fair value of acquired assets and liabilities. Beyond that period, the adjustments are posted in result.

Goodwill is not amortized but is subject to impairment tests on at least an annual basis and in case of indications of loss in value.

Before January 1, 2010

Goodwill represents the difference between the cost of acquisition and the acquired share of the fair value of identified assets, liabilities and contingent liabilities at the acquisition date.

For acquisitions prior to January 1, 2004, the goodwill is maintained at its deemed cost, which represents the amount accounted for according to the previous standards.

In accordance with IFRS 3 and IAS 36, goodwill is recorded as an intangible asset at its initial value, reduced by accumulated loss in value. They are not amortized but are subject to impairment tests on an annual basis and in case of indications of loss in value. The impairment test is realized in accordance with the principles described in note 2.12.
Negative goodwill (badwill) is recorded in the income statement of the period.

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 fixed assets acquired through a business combination are accounted for according to the same principles.

The intangible assets held by the Group are principally:

- contracts acquired through a business combination, depreciated over the term of the contracts;
- 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 operating result, on the line "depreciation amortization".

Research expenses are accounted for in expenses. Development costs are 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 partnership contracts responding to the characteristics of contracts defined by IAS 11 as construction contracts. These expenses therefore follow the treatment detailed in note 2.16.

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 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 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

As from January 1, 2009, 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.

Construction/Partnership Contracts

The Group has concluded with some of its customers partnership contracts with the characteristics of construction contracts according to IAS 11:

- 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 revenues:

- 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 Group 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.
The estimated margin is calculated on the basis of a forecast including the technical and budgetary elements. 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 Group is brought to note in the balance sheet costs of production (curve), which will subsequently be recycled in income statement according to the decrease really observed.

2.17 Revenue Recognition

Revenue is recognized according to the following criteria:

- for contracts falling within the criteria of IAS 11, refer to note 2.16;
- 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.

2.18 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, the Letov s.r.o. Company, Czech subsidiary of the LATECOERE Company, realized its revenue in Euros while its expenses are in Czech koruna (CZK). The flows hedged are budgeted flows considered as highly likely operating expenses and financial expenses for the Letov s.r.o. Company.

The derivative instruments subject to hedge accounting have been documented according to IAS 39. 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 IAS 39. 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.
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 IAS 39.

2.19 Trade & Other Receivables

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;
- assignment 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 assets.

2.20 Other Liabilities

Other liabilities 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 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, rationalisation costs, significant impairment losses on assets, costs incurred to realize business combinations and amortisation 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).

2.26 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.

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.

At December 21st, 2016, Latécoère Group finalized the sale of Latécoère Services to ADF Group.

Company name	Country	Control %	Interest %	Consolidation method
Aerostructure 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%	0%	Full consolidation
LATECOERE Mexico Services	Mexico	100%	0%	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%	0%	Full consolidation
LATelec Mexico Services	Mexico	100%	0%	Full consolidation
LATsima	Morocco	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.

In accordance with IFRS 5, The activities of Latécoère Services, which are showed in discontinued operations as of June 30, 2016, is no longer presented in the segment information as an operating segment but is presented as “discontinued segment”

It should be noted that three customers of the Group each represent more than 10% of total consolidated revenue. The analysis of revenue by customer is presented in Chapter 1 of this registration document.

Measurement of economic performance

The Group uses **adjusted recurring operating income (adjusted recurring EBIT)** as its main alternative performance indicator. This indicator is intended to present the level of operational performance of the branches of the Group.

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

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

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

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

Adjusted income statement by operational segments

The transition from consolidated accounts to the adjusted accounts is presented on the following page.

('000 EURO) 12.31.2016	Aerostructure Industrial	%	Interconnection Systems	%	Discontinued operations	Intersegment eliminations	Total
Revenue	447 134	68%	237 293	36%		-29 191	655 236
Inter-segment revenue	-23 926	82%	-5 265	18%		29 191	0
Consolidated revenue	**423 208**	**65%**	**232 028**	**35%**		**0**	**655 236**
Adjusted recurring operating income	**25 148**	**52%**	**22 370**	**47%**		**383**	**47 901**
Adjusted recurring operating income / revenue	*5,9%*		*9,6%*				*7,3%*
Ajusted realized financial result	**-11 788**		**-2 798**			**0**	**-14 585**
Ajusted unrealized financial result	**-1 157**		**1 712**			**0**	**555**
Income tax and miscellaneous	**-2 448**		**-7 698**				**-10 146**
Ajusted net result	**24 959**		**2 810**		**2 381**	**383**	**30 533**

En milliers d'euros 31.12.2015*	Aérostructures	%	Systèmes d'interconnexion	%	Secteur non poursuivi	Eliminations inter-secteur	Total
Revenue	442 998	71%	201 865	32%		-22 731	622 132
Inter-segment revenue	-19 928	88%	-2 804	12%		22 731	0
Consolidated revenue	**423 070**	**65%**	**199 062**	**30%**		**0**	**622 132**
Adjusted recurring operating income	**15 189**	**80%**	**3 748**	**20%**		**0**	**18 937**
Adjusted recurring operating income / revenue	*3,6%*		*1,9%*				*3,0%*
Ajusted realized financial result	**-12 368**		**-536**			**0**	**-12 904**
Ajusted unrealized financial result	**-2 384**		**-829**			**0**	**-3 213**
Income tax and miscellaneous	**-877**		**-432**				**-1 309**
Ajusted net result	**-440**		**1 951**		**2 424**	**0**	**3 935**

** The data published for the financial year 2015 have been restated in accordance with IFRS 5 (see note 1 "Main events").*

Balance sheet by operational segments

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

('000 EURO) 12.31.2015	Aerostructure Industrial	%	Interconnection Systems	%	Discontinued operations	Intersegment eliminations	Total
Intangible fixed assets	2 455	51%	397	8%	1 975	0	4 827
Goodwill	0	0%	0	0%	1 300	0	1 300
Tangible fixed assets	71 066	78%	15 020	16%	5 471	8	91 565
Other financial assets	26 944		283		271	-25 056	2 441
TOTAL ASSETS	**100 465**	**100%**	**15 699**	**16%**	**9 017**	**-25 048**	**100 133**
Net investments	11 010	74%	2 975	20%	926	0	14 911
Inventories	324 562	77%	99 430	23%	1 029	-953	424 068
Trade and other receivables	115 782	60%	64 800	33%	51 981	-37 997	194 566
Net debt	37 553	59%	56 098	88%	-4 557	-25 068	64 025
Accounts payable	145 974	81%	36 115	20%	36 085	-37 997	180 177
Total Assets	**680 790**	**79%**	**180 502**	**21%**	**66 569**	**-68 229**	**859 633**

Reconciliation of the consolidated income statement to the adjusted income statement

('000 EURO)	Dec 31, 2016 IFRS data	Work-in-progress "Non recurring cost"	Reclassification of currency €/$ hedge	Faire value for derivative instruments	Dec 31, 2016 Adjusted data
Revenue	655 236				655 236
Other operating revenue	291				291
Change in inventory: work-in-progress & finished goods	-22 565	31 854			9 289
Raw material, Other Purchases & external charges	-413 953				-413 953
Personnel expenses	-175 724				-175 724
Taxes	-9 136				-9 136
Amortization	-13 555				-13 555
Net operating provisions charge	-650				-650
Depreciation of current assets	6 396	-3 018			3 378
Other operating income	9 930				9 930
Other operating expenses	-4 758		-12 448		-17 206
Recurring Operating Income (EBIT)	**31 513**	**28 836**	**-12 448**	**0**	**47 901**
Operating Income / Revenue	*4,8%*				*7,3%*
Other non-recurring operating income and expenses	4 428				4 428
Operating income	**35 941**	**28 836**	**-12 448**	**0**	**52 329**
Net Cost of debt	-8 986				-8 986
Foreign Exchange gains/losses realized	-14 887		12 448		-2 439
Other financial incomes and expenses realized	-3 160				-3 160
Realized financial result	**-27 033**	**0**	**12 448**	**0**	**-14 585**
Change in fair value of financial derivative instruments	-7 951			7 951	0
Other financial incomes and expenses unrealized	555				555
Unrealized financial result	**-7 396**	**0**	**0**	**7 951**	**555**
Financial Result	**-34 430**	**0**	**12 448**	**7 951**	**-14 031**
					0
Result from associates	0				0
Income tax	2 430	-9 928		-2 648	-10 146
Net Result for the period from continuing operations	3 941	18 908	0	5 303	28 152
Net Result for the period from discontinued operations	2 381				2 381
NET RESULT FOR THE PERIOD	**6 322**	**18 908**	**0**	**5 303**	**30 533**
• Of which, Owners of the parent	6 033				30 244
• Of which, Non-controlling interests	288				288

('000 EURO)	Dec 31, 2015* IFRS data	Work-in-progress "Non recurring cost"	Reclassification of currency €/$ hedge	Faire value for derivative instruments	Dec 31, 2015 Adjusted data
Revenue	622 132				622 132
Other operating revenue	1 229				1 229
Change in inventory: w ork-in-progress & finished goods	-565	1 496			930
Raw material, Other Purchases & external charges	-391 736				-391 736
Personnel expenses	-181 571				-181 571
Taxes	-12 398				-12 398
Amortization	-10 855				-10 855
Net operating provisions charge	32				32
Depreciation of current assets	1 834	-5 039			-3 206
Other operating income	13 651				13 651
Other operating expenses	-8 759		-10 513		-19 272
Recurring Operating Income (EBIT)	**32 993**	**-3 544**	**-10 513**	**0**	**18 937**
Operating Income / Revenue	*5,3%*				*3,0%*
Other non-recurring operating income and expenses	0				0
Operating income	**32 993**	-3 544	-10 513	0	18 937
Net Cost of debt	-12 480				-12 480
Foreign Exchange gains/losses realized	-6 753		10 513		3 760
Other financial incomes and expenses realized	-4 185				-4 185
Realized financial result	**-23 417**	**0**	**10 513**	**0**	**-12 904**
Change in fair value of financial derivative instruments	-6 910			6 910	0
Other financial incomes and expenses unrealized	-3 213				-3 213
Unrealized financial result	**-10 124**	**0**	**0**	**6 910**	**-3 213**
Financial Result	**-33 541**	**0**	**10 513**	**6 910**	**-16 118**
					0
Result from associates	0				0
Income tax	-57	1 220		-2 472	-1 309
Net Result for the period from continuing operations	-604	-2 324	0	4 438	1 510
Net Result for the period from discontinued operations	2 424				2 424
NET RESULT FOR THE PERIOD	**1 820**	**-2 324**	**0**	**4 438**	**3 935**
• Of w hich, Ow ners of the parent	264				2 380
• Of w hich, Non-controlling interests	1 556				1 556

** The data published for the financial year 2015 have been restated in accordance with IFRS 5 (see note 1 "Main events").*

NOTE 5 FIXED ASSETS

5.1 Changes in Fixed Assets

Gross value of fixed assets

('000 EUR)	Dec 31, 2015	Currency variations	Change in scope	Reclassement	Acquisitions	Disposals	Dec 31, 2016
INTANGIBLE ASSETS *	**19 740**	**14**	**-4 967**	**12 441**	**2 564**	**-5**	**29 786**
Land	5 576	88	-77	0	0	0	5 587
Buildings**	53 660	983	-4 059	9 315	1 428	-206	61 122
Plants & Equipment	99 915	1 898	-3 624	-400	6 291	-2 535	101 544
Other Fixed Assets**	20 654	94	-2 621	-6 877	1 225	-552	11 924
Fixed assets in progress	17 081	-16	-309	-14 480	4 441	-21	6 698
Advanced payments on fixed assets	0	0	0	0	260	-13	247
Real estate leasing	9 682	0	-1 874	0	0	0	7 808
TANGIBLE ASSETS	**206 568**	**3 048**	**-12 564**	**-12 441**	**13 646**	**-3 327**	**194 929**

* « Fixed assets in progress » reclassified in "Intangible assets" for an amount of € 12,4 million corresponds to Software.
** «Other Fixed Assets » have been partially reclassified on the line « Buildings ».

Amortization of fixed assets

('000 EUR)	Dec 31, 2015	Currency variations	Change in scope	Reclassement	Increase	Decrease	Dec 31, 2016
AMORTIZATION INTANGIBLE ASSETS	**14 913**	**17**	**-2 624**	**0**	**4 593**	**-6**	**16 892**
Buildings	23 648	376	-1 905	6 369	2 327	-90	30 725
Plants & Equipment	72 746	2 121	-2 430	-1 821	6 556	-2 112	75 060
Other Fixed Assets	14 053	94	-1 670	-4 549	1 326	-330	8 925
Real estate leasing	4 556	0	-732	0	285	0	4 108
AMORTIZATION TANGIBLE ASSETS	**115 003**	**2 591**	**-6 737**	**0**	**10 494**	**-2 532**	**118 819**

Net value of fixed assets

('000 EUR)	Dec 31, 2015	Dec 31, 2016
INTANGIBLE ASSETS	**4 827**	**12 894**
Land	5 576	5 587
Buildings	30 012	30 396
Plants & Equipment	27 169	26 484
Other Fixed Assets	6 601	2 999
Fixed assets in progress	17 081	6 698
Advanced payments on fixed assets	0	247
Real estate leasing	5 126	3 700
TANGIBLE ASSETS	**91 565**	**76 110**

The intangible fixed assets include in particular software and licenses relating to the Group's information systems.

The main acquisitions of intangible and tangible fixed assets for the year 2016 are as follows:

- equipment and production tools for €7.6 million mainly for LATECOERE CZECH REPUBLIC LATECOERE, LATSIMA and LATECOERE do Brasil
- development of computer tools in the context of the information system master plan for €1.5 million
- investments on buildings for €1.7 million.

At year-end, there are securities (pledge, mortgage) on tangible fixed assets of the Group amounting to € 3.3 million.

5.2 Finance lease contracts

(000 EUR)	Minimum future payments as of Dec 31, 2016				Present value of minimum future payments as of Dec 31, 2016			
	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	480	0	0	480	472	0	0	472
LATelec	47	111	0	158	42	105	0	147
TOTAL	**527**	**111**	**0**	**638**	**514**	**105**	**0**	**619**

5.3 Impairment test of assets

In accordance with the principle stated in note 2.12, 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 8.5% at December 31, 2016 as at December 31, 2015. 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.

At December 31, 2016, the tests carried out on all of the Group's CGUs did not lead to the recognition of depreciation.
A sensitivity analysis was carried out on all of the Group's CGUs by changing the main assumptions accepted, namely:

- an increase in the discount rate of 50 basis points;
- a decrease in the perpetuity growth rate of 50 basis points;
- a decrease in the operating margin of the terminal value of 50 places basis points

Taken individually, the changes in these main assumptions did not lead to values in use lower than the net book values.

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

6.1 Detail of inventories & work-in-progress

('000 EURO)	Dec 31, 2016			Dec 31, 2015			Variation		
	Gross	Provision	Net	Gross	Provision	Net	Gross	Provision	Net
Industrial Inventories	175 332	-15 594	159 738	182 889	-18 971	163 919	-7 557	3 377	-4 180
Work in progress - Non Recurring Cost	241 261	-9 948	231 313	273 115	-12 966	260 149	-31 854	3 018	-28 836
TOTAL	**416 593**	**-25 542**	**391 051**	**456 004**	**-31 937**	**424 068**	**-39 411**	**6 395**	**-33 016**

Net inventories and work in progress decreased over the year of €33 million mainly due to the combined effect:

- a decrease in industrial stocks (raw materials, individual parts and in-progress) of €4.2 million,
- a decrease of €28.8 million in work in progress "No Recurring" (development costs of programs and the curve for programs followed in construction contracts), taking into account in particular:
  - expenses devoted to programs in development and/or industrialization stages of +€2.3 million (mainly Boeing 787 and Embraer E-Jet E2),
  - the impact of the drop in costs of programs in the maturity phase (A 380, Embraer E1 and F7X0) of -€25.5 million.

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

6.2 Construction Contracts

('000 EURO)	Dec 31, 2016	Dec 31, 2015
Amount due from customers (work in progress)	272	298
Amount due to customers	0	0
Revenue recognized from the origin of the contracts*	3 384	3 031
Expenses incurred since the origin of the contracts*	3 555	3 249
Refundable Advances	44	41

Construction contracts are based on forecasts made by the Group taking into account the commercial information (order book and production rates) released by the different aircraft manufacturers and the information coming from the outlook for the aeronautical market. Future costs are estimated on the basis of the industrial organizations of the Group. Furthermore, the dollar flows (revenue and expenses) representing a significant share of the total flows, the Group founded its projections on a historical analysis of the dollar, assumptions of the future evolution of the dollar in relation to the duration of contracts. This last assumption could be reviewed depending on the outlook for the currency evolution and its impact on the projections.
The main construction contracts relate to the following programs: A380 (lower part of the nose section, doors of upper deck, avionics bays, commercial harnesses), A400M (avionics bay), F7X (harnesses, rear fuselage section), Embraer ERJ 170/190 (fuselage section and doors), and Boeing 787 (passenger doors). Detailed numbers by program (and in particular, the margins of construction contracts) cannot be communicated, for confidentiality reasons.

NOTE 7 FINANCIAL ASSETS

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

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

('000 EURO)	Loans and receivables at amortised cost	Financial assets at fair value through profit and loss	Hedging instruments	Dec 31, 2015	Fair value
Non current financial assets	2 441			2 441	
Trade receivables and other receivables	194 566			194 566	
Financial instruments		54	554	608	608
Cash and cash equivalent	26 053	64 318		90 370	64 318
TOTAL FINANCIAL ASSETS	**223 060**	**64 372**	**554**	**287 985**	**64 925**

ok

('000 EURO)	Level 1	Level 2	Level 3	Fair value
Financial instruments		608		608
Cash and cash equivalent	64 318			64 318
TOTAL	**64 318**	**608**	**0**	**64 925**

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 €147 million at December 31, 2016 compared to €26 million at December 31, 2015 and short-term investments available and without risk of significant change in value of €0.3 million at December 31, 2016 compared to €64.3 million at December 31, 2015.

NOTE 8 RECEIVABLES

('000 EURO)	Dec 31, 2016	Dec 31, 2015
Advanced payments	1 468	820
Trade receivables*	147 742	169 730
Group current account	0	285
Tax receivables	14 932	16 060
Other current receivables	5 591	7 672
TOTAL RECEIVABLES	**169 732**	**194 566**
Prepaid expenses	1 723	1 461
Other current assets	85	421
TOTAL OTHER CURRENT ASSETS	**1 808**	**1 881**

* At December 31, 2016, the amount of trade receivables assigned to the factor was €129.8 million. The amount financed by the factor on the basis of the assigned receivables amounted to €76.8 million. At December 31, 2015, the amount of trade receivables assigned to the factor was €120.9 million. The amount financed by the factor on the basis of the assigned receivables amounted to €72.4 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, 2016	Dec 31, 2015
Trade receivables non past due	129 904	153 988
Past due trade receivables < 30 days	7 219	8 548
Past due trade receivables between 30 and 60 days	4 107	2 139
Past due trade receivables between 60 and 90 days	2 736	2 654
Past due trade receivables between 90 and 180 days	2 865	1 376
Past due trade receivables > 6 months	910	1 126
Provision for doubful debt	0	-100
TRADE RECEIVABLES	**147 742**	**169 730**

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 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 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 $504 million were put in place during 2016 to provide hedging up to $270 million until 2018 and $234 million until 2019.

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 LATECOERE Czech Republic s.r.o. subsidiary, against fluctuations of the Brazilian real with respect to the dollar in relation with LATECOERE do Brasil subsidiary and against fluctuations of the Mexican peso with respect to the dollar in relation with LATECOERE Mexico subsidiary.

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:						
- Forward currency contracts BRL/USD	429	0	**4 554**	4 554	0	0
- Currency option contracts MXN/USD	0	735	**5 692**	5 692	0	0
- Currency option contracts ** and forward currency contracts EUR/USD	0	26 611	**			
- Currency option contracts EUR/CZK **	0	0	**			
Cash flow hedging:						
- Forward currency contracts EUR/USD	0	8 980	**171 710**	110 046	61 664	0
- Forward currency contracts CZK/EUR	20	50	**24 000**	24 000		
- Currency option contracts EUR/USD (intrinsic value) ***	0	7	**704 867**	212 504	492 363	0
- Currency option contracts EUR/CZK (intrinsic value)	0	0	**0**	0	0	0
Foreign currency Derivative instruments	**449**	**36 383**	**910 823**	**356 796**	**554 027**	**0**
Financial instruments not designed as a hedge:						
- Floor****	**0**	**2 774**	**82 285**	0	82 285	0
Interest rate Derivative instruments	**0**	**2 774**	**82 285**	**0**	**82 285**	
Financial instruments not designed as a hedge	429	30 119	86 838	4 554	82 285	0
Cash flow hedgind	20	9 037	900 577	346 550	554 027	0
TOTAL OF DERIVATIVES INSTRUMENTS	**449**	**39 156**	**987 415**	**351 104**	**636 312**	**0**
of which non current derivative instruments	0	22 562				
of which current derivative instruments	449	16 594				

*Notional is converted in euro K by applying the exchange rate at the closing date
** Correspond essentially to time value and digital option
*** To avoid redundancy of information, the total notional amount of currency options EUR / USD (intrinsic value and time value) is mentioned in the line "Currency option contract EUR / USD (intrinsic value)"
**** The floor corresponds to embedded derivative of the new syndicated loan agreement

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

Impact of future cash flow hedging

('000 EURO)	Dec 31, 2016	Dec 31, 2015
Equity - Hedging instruments (net of tax) at the opening date	**-7 250**	**-8 597**
Equity change for the effective portion	-7 405	-42 309
Reclasssified in income when the hedged element affects profit and loss *	9 722	44 324
Translation differences	-238	-16
Deferred tax variation	-753	-652
Equity - Hedging instruments (net of tax) at the closing date	**-5 923**	**-7 250**

* The reclassification in the year's net result has primarily impacted revenue by the amount of - €9.6 million (against - € 44.3 million as of December 31, 2015).

Impact of derivative instruments to which hedge accounting is not applied

('000 EURO)	Dec 31, 2016	Dec 31, 2015
Fair value at the opening date	**-12 766**	**-13 935**
Recorded through income statement before Taxes	-16 925	1 169
Fair value at the closing date	**-29 691**	**-12 766**

NOTE 10 SHAREHOLDERS' EQUITY

10.1 Capital management policy

The LATECOERE Group considers it a principle of good governance to monitor shareholders' equity and debt.

Furthermore, the Group has a policy of purchasing and selling its own shares, with the principal objective of market animation (detailed in note 10.3).

10.2 Breakdown of capital and earnings per share

	Dec 31, 2016	Dec 31, 2015
Number of shares	94 043 676	93 347 165
Nominal value of each share (in euro)	2,00	2,00
Share Capital	188 087 352	186 694 330

During 2016, a capital increase reserved for employees was made in the amount of 1,393,022 euros.

	Dec 31, 2016	Dec 31, 2015*
Averaged issued shares	94 972 521	36 999 245
Averaged treasury shares	30 814	14 577
Weighted average shares (a)	**94 941 707**	**36 984 668**
Dilutive impact performance scheme (b)	1 983 630	2 333 680
Total of shares diluted (a+b)	**96 925 337**	**39 318 348**
Net result - Group Share (in euro)	**6 033 293**	**264 306**
Earnings per share (in euro)	0,06	0,01
Diluted earnings per share (in euro)	0,06	0,01
Net result - Group Share (in euro) - continuing operations	4 506 304	-1 524 058
Result impact of Convertible bonds	0,05	-0,04
Diluted earnings per share (in euro)	0,05	-0,04
Net result - Group Share (in euro) - discontinued operations	**1 526 989**	**1 788 364**
Earnings per share (in euro)	0,02	0,05
Diluted earnings per share (in euro)	0,02	0,05

10.3 Treasury shares

Number of shares	Dec 31, 2015	Acquisitions	Disposals	Dec 31, 2016	% of ownership
LATECOERE Shares	29 432	971 917	967 319	34 030	0,04%
('000 EURO)	**Dec 31, 2015**	**Acquisitions / Provisions**	**Cessions**	**Dec 31, 2016**	**Average purchase price**
LATECOERE Shares	120	3 426	3 418	128	3,76

10.4 Plan for the grant of performance shares

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 certain 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 are made up:

- 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. The amount recorded in expense for 2016 is €0.9 million and a cumulated expense of €1.1 million.

Information on the evolution of the plan

	Dec. 31, 2016
Number of shares attributable at the beginning of the period	2 333 680
Shares granted during the period	350 050
Shares acquired by beneficiaries	0
Shares canceled	0
Number of shares attributable at the end of the period	**1 983 630**

NOTE 11 CURRENT AND NON-CURRENT PROVISIONS

('000 EURO)	Dec 31, 2015	Increase	Write-backs used	Currency variations	Change in scope	Dec 31, 2016
Non-current provisions	1 050	1 099	-50	135	-1 138	1 096
Provisions for restructuring (non current)	0	20 779				20 779
Current provisions	0	297		37		335
Provisions for restructuring (current)	0	13 451				13 451
TOTAL	**1 050**	**35 627**	**-50**	**173**	**-1 138**	**35 662**

NOTE 12 EMPLOYEE BENEFITS

In accordance with IAS19, 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. It should be noted that the potential commitments of the foreign subsidiaries are immaterial.
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 are entirely recognized in income statement for the period.

Employee benefits include the discounted amounts relating:

- to long-service medals, accounted for in the individual financial statements;
- to retirement liabilities.

The table below shows the amounts recognized by the Group at December 31, 2016.

('000 EURO)	Dec 31, 2016	Dec 31, 2015
Retirement bonus	11 810	14 849
Long-service medals	1 712	1 935
TOTAL	**13 521**	**16 784**

12.1 Retirement Benefits

Retirement liabilities accounted for at December 31, 2016 relate to French and Tunisian companies. It is calculated according to the method described in note 2.23 of this document.
The calculation assumptions retained for French companies are the following:

- discount rate of 1.6% (against 2,1% in 2015) calculated on the basis of rates observed at November 30, 2016 for high quality corporate bonds, the Group using in particular the iBoxx index;
- use of the INSEE 2010-2012 mortality table;
- employee turnover noted by age group and by company;
- age of retirement departure: 66 years old;
- progression of salaries consistent with the average of the last years ;

There exists no deferred past service costs at the year-ends 2016 and 2015. Actuarial variations are recognized in shareholder's equity since 2010 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 2017 would be of €49k.

An increase of 0.25 point of discount rate would lead to a decrease of the provision for retirement severance pay of - €518k. For information, and based on identical actuarial assumptions, the 2017 provision should be (excluding departures) €1,027k.

('000 EURO)	Dec 31, 2016	Dec 31, 2015
Obligations at opening date	**14 849**	**13 797**
Services cost of the period	715	977
Interest cost of the periode	272	309
Contributions paid	-375	-147
Actuarial gains or losses (OCI)	1 512	-87
Change in scope	-5 163	0
Obligations at closing date	**11 810**	**14 849**
Costs of the period:		
Obligations at opening date	715	977
Services cost of the period	272	309
TOTAL	**987**	**1 286**

12.2 Long-Service medals

The obligation under long-service medals accounted for December 31, 2016 relate to French companies. It is calculated according to the method described in note 2.23 of this document.

The calculation assumptions retained for French companies are the following:

- discount rate of 1.6% (against 2,1% in 2015) calculated on the basis of rates observed at November 30, 2016 for high quality corporate bonds, the Group using in particular the iBoxx index;
- use of the INSEE 2010-2012 mortality table;
- employee turnover noted by age group and by company;
- age of retirement departure: 66 years old;
- progression of salaries consistent with the average of the last years.

The long-service medal bonus to employees who would leave in 2017 would be of €167k.

An increase of 0.25 point of discount rate would lead to a decrease of the provision for long-service medals of - €75k. For information, and based on identical actuarial assumptions, the 2017 provision should be (excluding departures) €165k.

('000 EURO)	Dec 31, 2016	Dec 31, 2015
Obligations at opening date	**1 935**	**2 042**
Services cost of the period	129	144
Interest cost of the periode	42	45
Contributions paid	-133	-97
Actuarial gains or losses	74	-199
Change in scope	-336	0
Obligations at closing date	**1 712**	**1 935**
Costs of the period:		
Obligations at opening date	129	144
Services cost of the period	42	45
TOTAL	**171**	**189**

NOTE 13 FINANCIAL LIABILITIES

('000 EURO)	Financial liabilities at fair value through profit and loss	Hedging instruments	Other financiel liabilities	Dec 31, 2016	Fair value
Refundable Advances			43 908	43 908	43 908
Syndicated loan - Tranche B			78 125	78 125	78 125
Syndicated loan - Other tranches			0	0	0
Other Bank loans			0	0	-7
Factoring			66 747	66 747	66 747
Finance lease			615	615	606
Unsecured banking facility and other			158	158	158
Other non-current liabilities			18 332	18 332	18 332
Derivated financial instruments	30 119	9 037		39 156	39 156
Accounts payable			151 763	151 763	151 763
TOTAL FINANCIAL LIABILITIES	**30 119**	**9 037**	**359 648**	**398 805**	**398 789**

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

('000 EURO)	Financial liabilities at fair value through profit and loss	Hedging instruments	Other financiel liabilities	Dec 31, 2015	Fair value
Refundable Advances			40 963	40 963	40 963
Syndicated loan - Tranche B			90 967	90 967	90 967
Syndicated loan - Other tranches			0	0	0
Other Bank loans			632	632	625
Factoring			59 247	59 247	59 247
Finance lease			2 024	2 024	2 083
Unsecured banking facility and other			1 526	1 526	1 526
Other non-current liabilities			22 961	22 961	22 961
Derivated financial instruments	12 820	20 553		33 373	33 373
Accounts payable			180 177	180 177	180 177
TOTAL FINANCIAL LIABILITIES	**12 820**	**20 553**	**398 498**	**431 871**	**431 923**

('000 EURO)	Level 1	Level 2	Level 3	Fair value
Financial instruments	0	33 373	0	33 373
TOTAL	**0**	**33 373**	**0**	**33 373**

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, 2016	Dec 31, 2015
Bank loans - non current	78 125	90 967
Leasing - non current	100	1 336
Non-current liabilities	**78 225**	**92 304**
Bank loans - current	0	632
Leasing - current	515	688
Factoring	66 747	59 247
Other short term credit	158	1 526
Current liabilities	**67 420**	**62 093**
TOTAL OF LOAN AND BANK BORROWINGS	**145 645**	**154 396**

Debt reconciliation related to the factor (factoring):

('000 EURO)	Dec 31, 2016	Dec 31, 2015
Receivables sold to the factor	129 792	120 934
Financing obtained from the factor	76 768	72 401
Cash available from the factor	-10 021	-13 155
DEBT - FACTORING	**66 747**	**59 247**

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, 2016	
				Notional	Actual
Syndicated loan - Tranche B	EURO	EURIBOR + margin	2020	82 285	78 125
Factoring	EURO/USD	EURIBOR/LIBOR +	2018	100 000	66 747
Finance lease	EURO	4,7%-7,2%	2020	25 013	615
Unsecured banking facility and other	EURO	EURIBOR + margin	n/a	158	158
TOTAL OF LOAN AND BANK BORROWINGS				**236 055**	**145 645**

13.2 Financial ratios ("covenants")

Financial commitment on the syndicated loan

The syndicated loan includes a covenant committing the Group to respect a minimum current adjusted EBIT whose implementation will only take place from the accounts closed on 31 December 2017.

13.3 Refundable advances

Refundable advances for an overall amount of €43.9 million relate to the A380 programs for €23 million and to the A350 programs for €17.6 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 OTHER LIABILITIES

('000 EURO)	Dec 31, 2016	Dec 31, 2015
Trade payables	93 626	94 917
Employee related liabilities	37 004	47 969
State payables	6 891	13 202
Credit balance on trade receivables and advance payments from customers	1 004	5 737
Other creditors	13 238	18 352
ACCOUNTS PAYABLE	**151 763**	**180 177**

NOTE 15 TAXES

15.1 Income tax receivable

The amount recorded at December 31, 2016 of €22.8 million corresponds to tax credits for €20.8 million (the research-based tax credit and the competitveness and employment tax credit (CICE)).

15.2 Deferred taxes

('000 EURO)	Dec 31, 2016	Dec 31, 2015
Deferred tax assets	24 430	21 235
Deferred tax liabilities	-1 292	-503
DEFERRED TAX AT OPENING	**23 138**	**20 732**
Deferred tax Income (Expense) recognised in P&L	3 947	3 313
Deferred tax variation recognised directly in equity	-94	-908
DEFERRED TAX AT CLOSING	**26 990**	**23 138**
Of which Deferred tax assets	27 516	24 430
Of which Deferred tax liabilities	-527	-1 292

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

('000 EURO)	Dec 31, 2016	Dec 31, 2015
Tangible and intangible assets	-3 287	-3 821
Financial instruments	13 324	11 311
Retirement bonus	3 653	4 925
Other provisions (regulated provision)	-2 762	-3 065
Loan and bank borrowings	-134	-575
Loss carry-forwards	15 200	13 354
Other	996	1 009
NET DEFERRED TAX ASSETS (LIABILITIES)	**26 990**	**23 138**

The main sources of deferred tax assets were the recognition of the loss carry-forwards from the French tax group in an amount of €15.2 million at December 31, 2016.

NOTE 16 REVENUE

BY BUSINESS

('000 EURO)	Dec 31, 2016		Dec 31, 2015*	
	Amount	%	Amount	%
Civil business	633 999	96,8%	604 001	97,1%
Military business	21 237	3,2%	18 131	2,9%
TOTAL	**655 236**	**100,0%**	**622 132**	**100,0%**

BY GEOGRAPHICAL ZONE

('000 EURO)	Dec 31, 2016		Dec 31, 2015*	
	Amount	%	Amount	%
France	329 098	50,2%	316 911	50,9%
Export	326 138	49,8%	305 222	49,1%
TOTAL	**655 236**	**100,0%**	**622 132**	**100,0%**

BY GEOGRAPHICAL MARKET (DIRECT EXPORTS)

('000 EURO)	Dec 31, 2016		Dec 31, 2015*	
	Amount	%	Amount	%
Europe	415 006	63,3%	362 428	58,3%
America	235 887	36,0%	254 752	40,9%
Asia	4 308	0,7%	4 946	0,8%
Other	35	0,0%	7	0,0%
TOTAL	**655 236**	**100,0%**	**622 132**	**100,0%**

BY NATURE

('000 EURO)	Dec 31, 2016		Dec 31, 2015*	
	Amount	%	Amount	%
Revenue - Construction contrats	353 595	54,0%	345 609	55,6%
Revenue - Goods	266 902	40,7%	244 810	39,4%
Revenue - Services	34 739	5,3%	31 713	5,1%
TOTAL	**655 236**	**100,0%**	**622 132**	**100,0%**

** The data published for the financial year 2015 have been restated in accordance with IFRS 5 (see note 1 "Main events").*

NOTE 17 RAW MATERIALS, OTHER PURCHASES & EXTERNAL CHARGES

('000 EURO)	Dec 31, 2016	Dec 31, 2015*
Raw material consumed	-148 311	-149 597
Cost of goods sold	-584	-2 145
Sub-contracting	-197 555	-175 742
External charges	-67 503	-64 251
RAW MATERIAL, OTHER PURCHASES & EXTERNAL CHARGES	**-413 953**	**-391 736**

** The data published for the financial year 2015 have been restated in accordance with IFRS 5 (see note 1 "Main events").*

NOTE 18 OTHER INCOME

The amount of other income includes, in particular, grants for €2.9 million, research-based tax credits and competitiveness and employment tax credits (CICE) for €3.9 million, and own work capitalized for €2.2 million.

NOTE 19 OTHER NON RECURRING INCOME AND EXPENSES

At December 31st, 2016, other non-recurring income and expenses mainly concern:

- a gain on disposal of LATECOERE Services for 40,6 M€ ;
- a provision for restructuring plan provision for a amount of -34M€
- a reversal of provision on retirements benefits of 3 M€

NOTE 20 DETAILS OF FINANCIAL INCOME

('000 EURO)	Dec 31, 2016	Dec 31, 2015*
Interest expense - net	-8 986	-12 480
Foreign Exchange gains/losses realized :	-14 887	-6 753
- derivative instuments EUR/USD	-12 448	-11 531
- other derivative instrument	-76	-2 368
- Foreign Exchange gains/loss realized	-2 363	7 146
Other realized financial expenses / income	-3 160	-4 185
Realized net financial result	**-27 033**	**-23 417**
Change in fair value of financial instruments :	-7 951	-6 910
- Change in fair value of currency derivative instruments EUR/USD	-7 691	-5 977
- Change in fair value of other currency derivative instruments	726	190
- Change in fair value of interest rate contract	-986	-1 123
Valuation of items on balance sheet at the closing date	2 960	-1 094
Other unrealized financial expenses / income	-2 405	-2 120
Unrealized net financial result	**-7 396**	**-10 124**
FINANCIAL RESULT	**-34 430**	**-33 541**

** The data published for the financial year 2015 have been restated in accordance with IFRS 5 (see note 1 "Main events").*

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 2016.

In respect of 2016, 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 -€2.7 million.

In respect of 2016, the other unrealized financial expense and income includes in particular the accrued interest on refundable advances for an amount of -€1.9 million and the cost of financing retirement liabilities for an amount of -€0.3 million.

NOTE 21 INCOME TAXES

21.1 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.

LATECOERE Services was removed from the tax consolidation agreement on the date it was removed from the scope of consolidation.

21.2 Income tax expense

('000 EURO)	Dec 31, 2016	Dec 31, 2015*
Current income taxes	-1 517	-4 564
Deferred taxes	3 947	4 507
TOTAL	**2 430**	**-57**

** The data published for the financial year 2015 have been restated in accordance with IFRS 5 (see note 1 "Main events").*

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

('000 EURO)	December 31, 2016
Group net result of consolidated companies	**3 941**
- Consolidated tax expense (due and deferred)	2 430
Pre-tax consolidated result (before Group/minority interests share)	**1 511**
- Result from associates	0
Pre-tax consolidated result (A)	**1 511**
Theoretical tax rate (current rate applicable to parent company) (B)	**34,43%**
Theoretical tax expense (A*B)	**-520**
Permanent Differences	15 534
Effect of reduced tax rates	-893
Tax reductions / tax credits *	1 358
Unreported tax losses **	-3 065
Tax losses carried forward	1 846
Other items	-11 830
Sub-total	**2 950**
ACTUAL TAX EXPENSE	**2 430**
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*
**** The line « other items » integrates the effect of temporary difference linked to provisions*

NOTE 22 RISK MANAGEMENT

22.1 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.

22.2 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 2015 variable rate for the share of variable rate financial liabilities. The financial liabilities by maturity are analyzed as follows:

('000 EURO)	Dec 31, 2016				
	Carrying value	Undiscounted cash flow	Less than 1 year	From 1 to 5 years	Over 5 years
Refundable Advances	43 908	-86 076	-2 602	-21 246	-62 228
Syndicated loan - Tranche B*	78 125	-78 125	0	-78 125	0
Other bank loans	0	0	0	0	0
Factoring	66 747	-66 747	-66 747	0	0
Finance lease	615	-638	-527	-111	0
Other short term credit	158	-158	-158	0	0
Accounts payable	170 095	-170 095	-165 137	-4 958	0
FINANCIAL LIABILITIES (except derivative instr.)	**359 648**	**-401 839**	**-235 171**	**-104 441**	**-62 228**
Derivative instruments (instrinseque value)	9 037	-9 037	-9 037		
TOTAL FINANCIAL LIABILITIES	**368 686**	**-410 877**	**-244 208**	**-104 441**	**-62 228**

* Does not take into account any repayments relating to the prepayment of the syndicated loan

Account payables correspond to:
- €152 million trade payables detailed in Note 14 to the consolidated financial statements,
- €18 million to other liabilities.

('000 EURO)	Dec 31, 2015				
	Carrying value	Undiscounted cash flow	Less than 1 year	From 1 to 5 years	Over 5 years
Refundable Advances	40 963	-73 715	-3 740	-28 558	-41 417
Syndicated loan - Tranches B	90 967	-90 967	0	0	-90 967
Other bank loans	632	-1 903	-1 550	-353	0
Factoring	59 247	-59 247	-59 247	0	0
Finance lease	2 024	-2 270	-811	-1 240	-219
Other short term credit	1 526	-1 526	-1 526		
Accounts payable	203 138	-203 138	-184 346	-13 191	-5 601
FINANCIAL LIABILITIES (except derivative instr.)	**398 498**	**-432 767**	**-251 220**	**-43 342**	**-138 205**
Derivative instruments (instrinsic value)	21 781	-21 781	21 781		
TOTAL FINANCIAL LIABILITIES	**420 279**	**-454 548**	**-229 439**	**-43 342**	**-138 205**

22.3 Foreign currency exposure

US dollar foreign currency exposure

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 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 Group invoices approximately 85% of its sales in dollars and buys approximately 65% of supplies or sub-contracting in dollars. The effect of the dollar exchange risk hedging operations on revenue was -€9.6 million in 2016 compared to -€44.3 million in 2015.
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, 2016 and does not reflect all future hedging. The impact of foreign exposure with respect to the profit and loss account is detailed in Note 20.

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, 2016		Dec 31, 2015	
	'000 $	'000 €	'000 $	'000 €
Accounts Receivable	126 800	120 292	124 294	114 167
Accounts Payable	-49 935	-47 372	-36 106	-33 164
Other (including advanced payments suppliers and customers)	-60 159	-57 071	-60 902	-55 940
Net debt	49 561	47 017	24 026	22 068
NET EXPOSITION BEFORE HEDGING	**66 266**	**62 865**	**51 312**	**47 131**
Hedging instruments for the receivables on the balance sheet	0	0	0	0
NET EXPOSITION AFTER HEDGING	**66 266**	**62 865**	**51 312**	**47 131**

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, 2016. This variation would have resulted in a pre-tax decrease in result of €2,994k at December 31, 2016 compared to a pre-tax decrease in result of €2,244k at December 31, 2015.

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.-16		31-déc.-15	
Hypothèse de variation du cours euro/dollar US	-5%	+5%	-5%	+5%
Cours moyen de la période	**1,107**		**1,110**	
Cours moyen après sensibilité	**1,051**	**1,162**	**1,054**	**1,165**
Résultat opérationnel	2 306	-2 888	1 818	-1 645
Résultat financier	0	1 591	0	0
RESULTAT AVANT IMPOT	**2 306**	**-1 297**	**1 818**	**-1 645**

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% decrease of the dollar in relation to the Euro would result an increase of pre-tax result of €9.3 million and an increase of pre-tax shareholders' equity of €12.2 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, against fluctuations of the Brazilian real with respect to the dollar in relation with its LdB subsidiary and against fluctuations of the Mexican peso with respect to the dollar in relation with LATECOERE and LATELEC Mexico. These financial instruments are detailed in note 9.

A sensitivity analysis was carried out as follows:

- based on the assumption of a 5% increase of the dollar (USD) over the real (BRL) parity. This increase would have resulted in a pre-tax increase in result of €0.1 million.
- based on the assumption of a 5% increase of the dollar (USD) over the Mexican peso (MXN) parity. This increase would have resulted in a pre-tax increase in result of €0.1 million.
- 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 €1 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, 2016 of -€2.3 million compared to -€2.1 million at December 31, 2015. As a reminder, the amount of the conversion reserve in shareholders' equity amounts to €5.2 million at December 31, 2016 compared to €8.5 million at December 31, 2015.

22.4 Interest rate risk

('000 EURO)		< à 1 an	de 1 à 5 ans	> à 5 ans	**Dec 31, 2016**	**Dec 31, 2015**
Financial assets	Fixed rate	0	0	0	**0**	0
	Adjustable rate	147 444	0	0	**147 444**	90 370
Financial liabilities	Fixed rate	-1 809	-10 840	-31 874	**-44 523**	-41 718
	Adjustable rate	-66 905	-78 125	0	**-145 030**	-151 943
NET EXPOSURE BEFORE HEDGING	Fixed rate	-1 809	-10 840	-31 874	**-44 523**	-41 718
	Adjustable rate	80 539	-78 125	0	**2 414**	-61 572
Derivative financial instruments	Fixed rate	0	0	0	**0**	0
	Adjustable rate	82 285	0	0	**82 285**	97 908
NET EXPOSURE AFTER HEDGING	Fixed rate	-1 809	-10 840	-31 874	**-44 523**	-41 718
	Adjustable rate	162 824	-78 125	0	**84 699**	36 336

The sensitivity tests implemented were made on a hedging of interest rates net basis of loans at adjustable rates at December, 31 2016. 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.

22.5 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.

22.6 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, 2016 is €128k.

Given the fact that at year end the Latécoère Company only held 34,030 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 23 AVERAGE HEADCOUNT

	Dec 31, 2016				Dec 31, 2015*
	Executives & Management	Administration	Blue-collars	**Total**	**Total**
LATECOERE	333	528	127	988	1 067
LATECOERE do BRASIL	45	155	219	419	393
LATECOERE Czech Republic s.r.o.	38	263	456	758	713
LATECOERE Mexico Services	29	0	74	103	81
LATECOERE Inc.	4	1	0	5	5
Aerostructure Industrial	**449**	**947**	**876**	**2 272**	**2 259**
LATelec	159	241	271	671	679
SEA LATelec	39	123	691	853	825
LATelec GmbH	37	43	32	112	102
LATelec Mexico Services	40	0	237	277	287
LATsima	11	6	53	69	0
Interconnection Systems	**286**	**412**	**1 284**	**1 982**	**1 893**
GROUP	**735**	**1 359**	**2 160**	**4 254**	**4 152**

NOTE 24 FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

24.1 Financial commitments

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

('000 EURO)	Dec 31, 2016				Dec 31, 2015
	< To 1year	*From 1 to 5 years*	*> 5 years*	*Total*	*Total*
Trade receivables given as security (1)	66 747	0	0	**66 747**	56 706
Non-recourse discountings	0			0	0
Securities, collateral and mortgages (2)	14 594	165 973	0	**180 567**	204 208
TOTAL	**81 341**	**165 973**	**0**	**247 314**	**260 914**

(1) The trade receivables given as security correspond to the receivables financed by the Factor pursuant to the factoring agreement
(2) These securities relate to asset items recognized to the balance sheet for €21 million, and intangible items not recognized to the balance sheet for €159 million.

24.2 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 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

24.3 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.

24.4 Other contingent liabilities

On 31 December 2016 the Group has not identified any other significant contingent liabilities.

24.5 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 SAFRAN, 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 Aéronautique (data at 100%):

- 2016 Revenue: €55.1 million (€52.7 million in 2015)
- 2016 Net Result: €1 million (€0.7 million in 2015)

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

NOTE 25 RELATED PARTIES

25.1 Main flows with related parties

Relations during 2016 with non-consolidated entities as determined at December 31, 2016:

	Groupe LATECOERE	CCA
Revenue	0	1 251
Purchasing	1 251	0
Trade receivables	0	203
Trade payables	203	0

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

25.2 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, 2015 the amount of €3,285k against €2,641k at December 31, 2015. The amount relating to retirement liabilities and long service medal amounts €231k for 2015 against €248k for 2015.

Remuneration due in 2016 for all of the Members of in Supervisory Board and Board of Directors was €420k. At December 31, 2015, remuneration due for all of the Members of the Supervisory Board was €298k.

25.3 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 26 SUBSEQUENT EVENTS

In the wake of its Transformation 2020 plan, the Latecoere SA company signed on February 10, 2017, a framework agreement with a real estate developer for the sale of its Périole site in Toulouse. This sale, subject to several conditions precedent customary in this type of transaction, will be carried out over a period of 7 to 10 years to adapt to the industrial constraints of the Group. In addition, the company has committed to this developer to lease offices that will be built on part of this site to house its support functions.

4 RISK FACTORS

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.

4.1 Business Risks

4.1.1 Program Risk

Commercial Risk

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.

Program Delay Risk

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.

4.1.2 Aircraft Manufacturer Delivery Rate Risk

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 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.

4.1.3 Product Risk

The manufacturer guarantees the airworthiness of delivered aircraft. In case of failure, LATECOERE, as a supplier, could be found liable. The very strict quality standards (selection of suppliers, internal quality control procedures, etc.) implemented in the ISO 9001/ EN EN 9100 V2009 system of reference by the companies of the Group, aim to ensure irreproachable reliability of the products delivered. An ISO 14001 certification initiative was undertaken; six of the Group's sites have already been certified and the extension to on site is ongoing. Furthermore, the Group has taken out a product liability insurance policy (cf § 5.3.2).

4.1.4 Raw Material Risk

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. Market purchases constitute only a negligible portion of procurement, and represent the only part of our raw material purchasing subjected to price fluctuations.

4.1.5 Legal and Tax Risks

There exists no governmental, legal or arbitral proceeding, including any proceeding of which the

Group has knowledge, which is outstanding or threatened, likely to have or having had during the last twelve months, a significant effect on the Group's financial position or profitability.

4.1.6 Supplier risk

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

4.1.7 Country risk

Due to its presence in more than eight 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

4.2 Financial Risks

4.2.1 Foreign Currency Exposure

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 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.

The Group has maintained its foreign € / USD exchange hedging policy. The strengthening of the dollar and the improvement of the Group's financial situation have made it possible to extend the maturity of the hedges while improving the price "at worst". The Group is now hedged in 2017 and 2018 respectively at a price of 1.15 and 1.16. Over 2019, the Group is hedged at more than 70% at a price at worst at 1.13.

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 LATECOERE Czech Republic s.r.o. subsidiary, against fluctuations of the Brazilian real with respect to the dollar in relation with LATECOERE do Brasil subsidiary and against fluctuations of the Mexican peso with respect to the dollar in relation with LATECOERE Mexico 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 hedging transactions recorded in revenues amounts to - €9.6 million in 2016 against - €44.3 million in 2015.

The Group's exposure to currency risk and the sensitivity analysis are detailed in Note 22.3 to the consolidated financial statements. The characteristics of the financial instruments are described in notes 2.18 and 9 to the consolidated financial statements.

4.2.2 Interest Rate Risk

Almost all net debt is based on short-term floating rates.

The Group's exposure to the interest rate risk and the sensitivity analysis are mentioned in Note 22.4 to the consolidated financial statements.

4.2.3 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, 2016 is €128k.

Given the fact that at year end the Latécoère Company only held 34,030 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.

4.2.4 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

4.2.5 Liquidity risk

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.

In April 2015, the Group changed its financial partner in connection with the financing of its receivables (factoring). The new contract will enable the growth of the Group's activity to be better accompanied during the next few years including the removing of the upper limit on the amount of financing of the assigned receivables.

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.

Group's exposure to liquidity risk is presented in Note 22.2 to the consolidated financial statements.

4.3 Other risks

4.3.1 Continuity of information systems

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 with each other through a local network also redundant. 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.

4.3.2 Insurance

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 18 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.

135 rue de Périole - BP 25211 - 31079 Toulouse cedex 5 - France - Tel : +33 (0)5 61 58 77 00 Fax : +33 (0)5 61 58 97 38 - www.latecoere-group.com

AEROSTRUCTURE   LATÉCOÈRE   INTERCONNECTION SYSTEMS