2014 half-year report

econocom

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STATEMENT BY THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT

I hereby declare that to the best of my knowledge, the financial statements for the half-year ended 30 June 2014 have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and the undertakings included in the consolidation taken as a whole, and the interim management report appended hereto gives a fair description of the material events that occurred during the first six months of the financial year and their impact on the financial statements and of the major related-party transactions, together with a description of the principal risks and uncertainties for the remaining six months of the financial year.

29 August 2014

Jean-Louis Bouchard
Chairman of Econocom

MANAGEMENT REPORT

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I.

1. GROUP'S POSITION AND HIGHLIGHTS

In the first half of 2014, Econocom Group focused its efforts on integrating Osiatis, implementing a new organisation and carrying out the first steps of the synergies plan.

The Group's business expanded in January 2014 when it acquired a stake in Digital Dimension, a company founded by Georges Croix, which aims to become a major provider of business-to-business, pay-per-use, cloud-based front-office digital solutions.

In addition, in early January 2014 the Group benefited from favourable market conditions when it issued €175 million worth of bonds convertible into cash and/or new shares and/or exchangeable for existing shares ("ORNANE convertible bonds"), thereby consolidating its financial structure and contributing to the financing of its growth strategy.

In terms of business, consolidated revenue remained stable on a like-for-like basis (down 0.3%), thanks to an encouraging second quarter, with organic growth of close to 3%.

1.1. CHANGES IN THE SCOPE OF CONSOLIDATION IN THE FIRST HALF

On 6 January 2014, Econocom jointly invested along with Georges Croix (former CEO of Prosodie) in Digital Dimension, which aims to become a major player specialising in designing and managing innovative cloud-based digital solutions. The Group has invested €11 million in the company and holds 50.1% of the share capital.

Digital Dimension soon launched the first steps of its ambitious development plan by completing its first external growth transaction: in May 2014 it acquired 70% of the share capital of Rayonnance, a company specialising in business-to-business mobile solutions (€14 million revenue in 2013 and over 20% operating profit).

A number of external growth transactions have been completed since 30 June 2014 which strengthen the Group's expertise in high-growth sectors and/or new geographical areas. These are described in detail in note 11 to the consolidated financial statements under "Subsequent events".

1.2. FINANCING OPERATIONS

On 8 January 2014 Econocom Group SA/NV successfully placed ORNANE convertible bonds maturing in January 2019, for a total amount of €175 million.

The bonds carry a fixed coupon of 1.5% per annum, payable annually in arrears on 15 January of each year. These were issued at 100% of the principal amount (i.e. €10.60 per bond) and, unless previously redeemed, converted or repurchased, will be redeemed in cash on 15 January 2019 at the accreted redemption price of 105.26% of the principal amount, corresponding to an effective 40% premium on the share price at the issuance date and a conversion price of €11.16.

Upon exercise of their conversion right, bondholders will receive an amount in cash corresponding to the accrued value and, where appropriate, an amount payable in new and/or existing Econocom shares for the balance (with the option for the Group of delivering only new and/or existing shares).

These bonds will contribute to financing the Group's ambitions as set out in its Mutation 2013-2017 strategic plan, in terms of both external growth and internal investments.

In the first half of 2014, the Group also repurchased over €47 million worth of OCEANE convertible bonds issued in May 2011. The early redemption of the bonds announced by the Group on 12 May 2014 led to the creation of 7,850,228 new shares (compared with 16,000,000 potential shares at the time of their issuance), limiting the final dilution to 6.79%

2. HALF-YEAR RESULTS

2.1. Key figures (unaudited)

(in € millions)	First half 2014	First half 2013 (restated)
Revenue	**972.2**	**792.3**
Technology Management & Financing	*491.2*	*489.6*
Services	*314.0*	*146.8*
Products & Solutions	*167.0*	*155.9*
Recurring operating profit (before amortisation of intangible assets from business combinations)	**30.6**	**25.1**
Recurring operating profit	**29.1**	**24.1**
Operating profit	**23.4**	**21.9**
Profit for the period, excluding non-controlling interests	**16.3**	**12.2**
Cash flows from operating activities	**26.3**	**21.4**
Shareholders' equity	**274.5**	**146.1**
Net cash at bank	**45.3**	**37.1**
Net debt	**(175.6)**	**(82.6)**
Gearing	**64%**	**57%**
Earnings per share (€)		
Basic earnings per share	0.150	0.130
Diluted earnings per share	0.145	0.120

	30 June 2014	30 June 2013
Number of shares	115,572,590	96,691,588
Share price (€)	6.92	5.44
Market capitalisation (in € millions)	800	526

In the first half of 2014, Econocom Group reported consolidated revenue of €972.2 million, up 23% compared with €792.3 million in first-half 2013, as a result of the integration of Osiatis Group and the positive business trend during the second quarter.

Consolidated recurring operating profit* amounted to €30.6 million on 30 June 2014, rising 23% from €25.1 million in the same prior-year period. On a like-for-like basis, recurring operating profit fell 19% due to the reorganisation of the Services business following the integration of Osiatis and the Group's continued investments as part of the "Mutation 2013-2017" strategic plan.

Consolidated operating profit over the first-half stood at €23.4 million, compared with €21.9 million for the same period last year. Non-recurring income and expenses amounted to €5.7 million, over half of which were attributable to the implementation of synergies resulting from the integration of Osiatis.

Net financial expense for the first half of 2014 was impacted by (i) costs incurred for the redemption of the OCEANE convertible bonds issued in 2011 (redeemed and converted during the first half) and interest expenses on the ORNANE convertible bonds issued in January 2014, and (ii) the change in fair value of the underlying derivative. Bond-related costs represented an expense of €6.3 million and the positive change in the derivative underlying the ORNANE convertible bond represented income of €5.2 million, reflecting the drop in the share price at 30 June 2014 compared to the issuance price.

Profit for the first half of 2014 stood at €16.3 million, leading to a 15% rise in net earnings per share.

Equity amounted to €274.5 million, compared with €146.1 million at the end of June 2013 (and €259.9 million at 31 December 2013).

The gearing ratio was 64%, up slightly from 30 June 2013 (57%) due to the acquisition of Osiatis Group and the setting up of an in-house funding company in order to speed up the signing of high-added value contracts.

Net debt amounted to €175.6 million as of 30 June 2014 and was composed of (in € millions):

Gross cash and cash equivalents	135.0
Short-term credit facilities and bank loans	(89.7)
ORNANE convertible bonds	(166.3)
Contracts and receivables refinanced with recourse	(51.3)
Other liabilities	(3.3)

**Before amortisation of the brands and the ECS customer portfolio.*

2.2. Breakdown of key figures by business

Revenue and recurring operating profit* are broken down as follows:

(in € millions)	First half 2014	First half 2013 (restated)	Change
Technology Management & Financing	491	490	0%
Services	314	147	+114%
Products & Solutions	167	156	+7%
Total revenue	**972**	**792**	**+23%**

(in € millions)	First half 2014	First half 2013 (restated)	Change
Technology Management & Financing	17.8	20.0	-11%
Services	10.5	2.6	N/A
Products & Solutions	2.3	2.5	-8%
Total recurring operating profit	**30.6**	**25.1**	**+22%**

In the first half of 2014, revenue for Technology Management & Financing remained stable at €491 million compared with €490 million one year earlier. This performance reflects the healthy business trend which fully offset the negative base effect resulting from some major contracts signed in the Netherlands in the first half of 2013. This business line benefited from the majority of the investments made as part of the “Mutation 2013-2017” strategic plan to develop and promote digital solutions in the four strategic industry sectors identified by the Group, i.e. Retail, Education, Healthcare and Industry. Technology Management & Financing continues to be affected by the highly seasonal nature of the business, with results weighted strongly towards the second half, particularly in terms of profit.

Products & Solutions posted revenue of €167 million, up 7.1%. This strong increase is a testament to the success of its positioning in the connected objects market, particularly in the Education and Retail sectors, and to the first successes of the strategic plan with sales of new high-growth types of equipment.

The Services business focused its efforts on the integration of Osiatis, implementing the new organisation and completing the first steps of the synergies plan. These efforts, combined with a more selective policy for deals, affected revenue, which decreased by 4.6% on a like-for-like basis to €314 million in the first half of 2014. Operating profitability increased considerably on a reported basis thanks to the acquisition of Osiatis, but fell on a like-for-like basis. In addition to the drop in revenue, this lacklustre performance was attributable to the implementation of the new organisation and delays in implementing the synergies resulting from the integration of Osiatis, which are three months behind schedule.

In addition to integrating Osiatis, the Group also launched a major initiative by setting up a joint venture with Georges Croix, Digital Dimension, in the highly profitable business-to-business, cloud-based digital solutions market. This subsidiary has already made two acquisitions: Rayonnance and ASP Serveur.

**Before amortisation of the brands and the ECS customer portfolio.*

2.3. Breakdown of key figures by geographical area

Revenue and recurring operating profit* can be analysed as follows:

(in € millions)	First half 2014	First half 2013 (restated)	Change
France	516	375	+38%
Benelux	155	188	-18%
Southern Europe	178	159	+12%
Northern & Eastern Europe, Americas	123	70	+76%
Total revenue	**972**	**792**	**+23%**

(in € millions)	First half 2014	First half 2013 (restated)	Change
France	10.6	10.2	+4%
Benelux	6.3	6.6	-5%
Southern Europe	11.5	8.8	+31%
Northern & Eastern Europe, Americas	2.2	(0.5)	N/A
Total recurring operating profit	**30.6**	**25.1**	**+22%**

Apart from Benelux, all areas posted growth in both revenue and profit.

Growth in France is a direct result of the strategic acquisition of Osiatis in 2013 and strong momentum in the Products & Solutions business. On a like-for-like basis, revenue and operating profitability in France were down, as a direct result of the reorganisation of the Services business following the integration of Osiatis.

Revenue and operating profitability in Benelux suffered from a negative base effect resulting from the signing of significant Technology Management & Financing contracts in the Netherlands in the first half of 2013.

Southern Europe performed well in the first half in terms of both revenue (up 12%) and recurring operating profit (up 30%), due largely to growth in the Technology Management & Financing business in Italy and Osiatis' operations in Spain.

Northern & Eastern Europe resumed a positive business trend compared with a disappointing first half in 2013, especially in the Technology Management & Financing business in the United Kingdom. In addition, Econocom is expanding outside its traditional markets: the Americas are a new source of growth for the Group, as illustrated by the recent development of the North American and Mexican subsidiaries, which contributed positively to the tune of €13 million for the first half of 2014.

**Before amortisation of the brands and the ECS customer portfolio.*

3. OUTLOOK

The first-half results and the positive business trend mean Econocom can confirm its guidance of full-year revenue in excess of €2 billion and recurring operating profit of €100 million.

4. RISK FACTORS AND DISPUTES

One of the Services division's French subsidiaries underwent a tax inspection regarding the research tax credit *(Crédit d'Impôt Recherche)*, and at the end of June received a proposed tax reassessment from the tax authorities for 2009 and 2010. The proceedings are ongoing and the company, having sought specialist advice, believes it has a strong case to contest the tax authorities' decision. The research tax credit accounted for at least €3 million of consolidated recurring operating profit in 2013.

Since the beginning of 2013, there has been a legal dispute between Asystel, a wholly-owned subsidiary of the Group, and SFR Group over the latter's intention to take over direct management of the key accounts of the SFR Business Team offering, which constitutes a breach of the contract which binds the two parties until 2015. Asystel therefore instigated legal action against SFR to enforce its rights. The trial judges ruled against Asystel, which subsequently appealed against the decision. The proceedings are ongoing before the Paris Court of Appeal.

5. RELATED PARTIES

There has been no major change regarding related parties since the publication of the 2013 annual report.

6. HUMAN RESOURCES

Econocom Group had 8,260 employees as of 30 June 2014, compared with 8,195 as of 31 December 2013.

7. SHARE PRICE AND OWNERSHIP STRUCTURE

The Econocom share price stood at €6.92 on 30 June 2014.

The following changes took place in the ownership structure:

	30 June 2014	**31 Dec. 2013**
Companies controlled by Jean-Louis Bouchard	40.46%	44.12%
Butler Management	6.19%	6.72%
Public shareholders	53.19%	48.44%
Treasury shares	0.16%	0.72%
Total	**100%**	**100%**

In addition, Econocom Group was notified that other than companies controlled by Jean-Louis Bouchard, as of 30 June 2014, two shareholders (Butler Management Ltd [and indirectly WB Finance and Walter Butler] and French company AXA S.A.), had exceeded 5% of the share capital.

CONSOLIDATED FINANCIAL STATEMENTS

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II.

1. CONSOLIDATED INCOME STATEMENT AND EARNINGS PER SHARE

For the six-month periods ended 30 June 2014 and 30 June 2013

(in € thousands)	*Notes*	First half 2014	First half 2013 (restated)
Revenue from continuing operations	*3*	**972,177**	**792,274**
Operating expenses	*3*	**(943,067)**	**(768,178)**
Cost of sales		(638,811)	(591,249)
Personnel costs		(220,052)	(113,572)
External expenses		(79,726)	(55,487)
Depreciation, amortisation and provisions		778	2,065
Taxes (other than income taxes)		(6,294)	(4,379)
Net additions to/(reversals of) impairment of current and non-current assets		556	(2,663)
Other operating income and expenses		362	(1,673)
Financial income/(expense), operating activities		120	(1,220)
Recurring operating profit		**29,110**	**24,096**
Other non-recurring operating income and expenses	*9*	(5,696)	(2,212)
Operating profit		**23,414**	**21,885**
Financial expenses	*8*	(6,281)	(2,501)
Change in fair value of ORNANE convertible bonds	*8*	5,282	
Profit before tax		**22,415**	**19,384**
Income tax		(6,435)	(7,220)
Profit from continuing operations		15,980	12,164
Share of profit/(loss) of associates		(52)	12
Profit for the period including non-controlling interests		**15,928**	**12,176**
Non-controlling interests	*5.3.*	324	2
Profit for the period excluding non-controlling interests		**16,252**	**12,179**
Basic earnings per share - continuing operations	*5.4.*	0.150	0.130
Basic earnings per share - discontinued operations			
Basic earnings per share	*5.4.*	0.150	0.130
Diluted earnings per share - continuing operations	*5.4.*	0.145	0.120
Diluted earnings per share - discontinued operations			
Diluted earnings per share	*5.4.*	0.145	0.120

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month periods ended 30 June 2014 and 30 June 2013

(in € thousands)	First half 2014	First half 2013
Profit for the period including non-controlling interests	**15,928**	**12,176**
Items to be recycled to profit	**1,243**	**(959)**
Exchange differences on translation of foreign operations	1,243	(959)
Items recognised in equity (not to be recycled to profit for the period)		**54**
Taxes relating to other comprehensive income items		54
Income and expenses recognised directly in equity	**1,243**	**(905)**
Total comprehensive income for the period	**17,171**	**11,271**
Attributable to owners of the parent	17,495	11,274
Attributable to non-controlling interests	(324)	(2)

2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 30 June 2014 and 31 December 2013

Assets

(in € thousands)	*Notes*	30 June 2014	**31 Dec. 2013 (restated)**
Non-current assets			
Intangible assets, net		59,918	59,239
Goodwill	*2.2.*	351,508	331,632
Property, plant and equipment, net		24,850	21,746
Financial assets		18,283	18,248
Residual interest in leased assets (non-current portion)		58,017	63,462
Other long-term receivables		2,049	2,045
Deferred tax assets		22,865	23,859
Total non-current assets		**537,490**	**520,232**
Current assets		-	
Inventories	*4.1.*	27,431	20,317
Trade and other receivables	*4.2.*	736,340	712,883
Residual interest in leased assets (current portion)		31,859	27,907
Current tax assets		6,821	7,472
Other current assets		40,156	32,802
Cash and cash equivalents		135,027	150,139
Total current assets		**977,634**	**951,521**
Assets held for sale			
Total assets		**1,515,123**	**1,471,753**

Equity and liabilities

(in € thousands)	*Notes*	30 June 2014	**31 Dec. 2013 (restated)**
Share capital	*5.1.*	21,564	19,874
Additional paid-in capital and reserves		236,667	195,846
Profit for the period		16,252	44,138
Shareholders' equity		**274,483**	**259,858**
Non-controlling interests	*5.3.*	183	112
Total equity		**274,666**	**259,970**
Non-current liabilities			
Long-term financial liabilities	*6*	10,298	16,809
Gross commitment for financial residual value (non-current portion)		37,805	33,472
Convertible bonds (non-current portion)	*6*	163,659	73,924
Non-current provisions		3,911	4,105
Provisions for pensions and other commitments		31,884	30,658
Other non-current liabilities		20,992	5,756
Deferred tax liabilities		11,101	19,313
Total non-current liabilities		**279,650**	**184,037**
Current liabilities			
Short-term financial liabilities	*6*	134,022	95,559
Gross commitment for financial residual value (current portion)		10,906	15,298
Convertible bonds (current portion)	*6*	2,623	3,138
Current provisions		29,128	37,676
Current tax liabilities		13,746	10,278
Trade and other payables	*4.3.*	641,218	687,607
Other current liabilities	*4.3.*	129,165	178,190
Total current liabilities		**960,808**	**1,027,746**
Liabilities related to assets held for sale			
Total equity and liabilities		**1,515,123**	**1,471,753**

3. CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month periods ended 30 June 2014 and 30 June 2013

(in € thousands)	First half 2014	First half 2013 (restated)
Profit for the period including non-controlling interests	**15,928**	**12,176**
Elimination of share of profit/(loss) of associates	52	(12)
Depreciation/amortisation of property, plant and equipment and intangible assets	6,272	4,939
Impairment of financial assets	(140)	
Impairment of trade receivables, inventories and other current assets	1,520	3,045
Losses/(gains) on disposals of property, plant and equipment and intangible assets	121	596
Impact of changes in fair value of ORNANE convertible bond derivative	(5,282)	
Changes in residual interest in leased assets	1,725	(4,063)
Changes in provisions	(7,239)	(6,689)
Income and expenses related to share-based payment	450	568
Cash flows from operating activities after cost of net debt and income tax	**13,407**	**10,561**
Income tax expense	6,435	7,221
Cost of net debt	6,369	3,600
Cash flows from operating activities before cost of net debt and income tax (a)	**26,211**	**21,381**
Change in working capital (b)	**(111,437)**	**(35,208)**
Income tax paid (c)	(9,559)	(5,615)
Net cash used in operating activities (a+b+c=d)	**(94,785)**	**(19,442)**
Acquisition of property, plant and equipment and intangible assets, excluding the Leasing business	(10,283)	(7,904)
Disposal of property, plant and equipment and intangible assets, excluding the Leasing business	460	197
Acquisition/disposal of property, plant and equipment allocated to the Leasing business	(166)	(23)
Acquisition of financial assets	(3,653)	(226)
Disposal of financial assets	3,720	3,231
Acquisition of companies and businesses, net of cash acquired	(37,344)	(3,549)
Net cash used in investing activities (e)	**(47,266)**	**(8,274)**

(in € thousands)	First half 2014	First half 2013 (restated)
Redemption of OCEANE convertible bonds	(47,355)	(1,916)
Issuance of ORNANE convertible bonds	175,000	
Exercise of stock options	8,184	
Acquisitions and disposal of treasury shares	(21,845)	(11,517)
Change in gross commitments on residual financial value	(153)	1,322
Increase in non-current financial liabilities		499
Repayment of non-current financial liabilities	(8,845)	(1,585)
Increase in current financial liabilities	85,781	45,741
Repayment of current financial liabilities	(47,008)	(4,217)
Interest paid	(4,676)	(3,600)
Dividends paid during the period	(12,869)	(9,231)
Net cash from financing activities (f)	**126,214**	**15,495**
Impact of changes in exchange rates on cash and cash equivalents (g)	**726**	**(433)**
Change in cash and cash equivalents (d+e+f+g)	**(15,111)**	**(12,655)**

Cash and cash equivalents as of 1 January	**150,139**	**79,806**
Change in cash and cash equivalents	(15,111)	(12,655)
Cash and cash equivalents as of 30 June	**135,028**	**67,151**

The main movements in the consolidated statement of cash flows are explained in note 6.1.

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as of 30 June 2013 and 30 June 2014

(in € thousands)	Number of shares	Share capital	Additional paid-In capital	Treasury shares	Consolidated reserves and retained earnings	Other comprehensive income	Attributable to owners of the parent	Attributable to non-controlling interests	Total equity
Balance as of 1 January 2013	**96,691,588**	**17,077**	**72,530**	**(9,894)**	**78,672**	**(2,277)**	**156,108**	**192**	**156,300**
Profit for the period					12,179		12,179	(2)	12,176
Other comprehensive income, net of tax						(905)	(905)		(905)
Total comprehensive income for first-half 2013					**12,179**	**(905)**	**11,274**	**(2)**	**11,271**
Recognition of share-based payments					599		599		599
Dividends paid					(9,279)		(9,279)		(9,279)
Acquisitions and sales of treasury shares				(11,537)			(11,537)		(11,537)
Increase in ownership interest in a consolidated entity					(1,039)		(1,039)	(311)	(1,350)
Balance as of 30 June 2013	**96,691,588**	**17,077**	**72,530**	**(21,431)**	**81,132**	**(3,182)**	**146,126**	**(121)**	**146,004**
Balance as of 1 January 2014	**106,517,314**	**19,874**	**174,989**	**(6,062)**	**74,868**	**(3,811)**	**259,858**	**112**	**259,970**
Profit for the period					16,252		16,252	(324)	15,928
Other comprehensive income, net of tax						1,243	1,243		1,243
Total comprehensive income for first-half 2014					**16,252**	**1,243**	**17,495**	**(324)**	**17,171**
Recognition of share-based payments					450		450		450
Conversion and redemption of OCEANE convertible bonds	9,055,276	1,690	29,187				30,877		30,877
Exercise of stock options				26,809	(18,625)		8,184		8,184
Dividends paid					(12,904)		(12,904)		(12,904)
Acquisitions and sales of treasury shares				(22,191)	261		(21,930)		(21,930)
Transactions with an impact on non-controlling interests					(7,548)		(7,548)	395	(7,153)
Balance as of 30 June 2014	**115,572,590**	**21,564**	**204,176**	**(1,444)**	**52,755**	**(2,568)**	**274,483**	**183**	**274,666**

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

1.1. Statement of compliance and basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 – Interim Financial Reporting. They include the minimum content and disclosures defined in IAS 34, and consequently should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2013 as published in the 2013 annual report.

The consolidated financial statements of Econocom Group include the financial statements of Econocom Group SA/NV and its subsidiaries. They are presented in thousands of euros unless otherwise stated.

They were approved for issue by the Board of Directors on 29 August 2014 and have not been subject to a review by the statutory auditors.

1.2. New standards, amendments and interpretations

1.2.1. New standards, amendments and interpretations applicable within the European Union which are mandatorily applicable to, or may be early adopted in, periods beginning on or after 1 July 2013

In preparing its condensed consolidated interim financial statements for the six months ended 30 June 2014, Econocom Group applied the same standards, amendments, interpretations and accounting policies as those used to prepare the consolidated financial statements for the year ended 31 December 2013, together with the new standards, amendments and interpretations applicable to periods beginning on or after 1 January 2014 as described in the following table.

The Group has not early adopted any standards, amendments or interpretations.

1.1.1. New standards, amendments and interpretations applicable in the European Union or which may be early adopted for accounting periods beginning on or after 1 January 2014

Standard/interpretation	Application date EU (1)	Application date Group	Impact on the Group
IFRS 10 – Consolidated Financial Statements and amendment to IAS 27 – Separate Financial Statements. IFRS 10 introduces a new definition of control based on power, exposure and rights to variable returns and the ability to use its power over the investor's returns. It supersedes IAS 27.	1 January 2014	1 January 2014	The analysis of the Group's consolidation methods (and in particular those of Digital Dimension and its subsidiaries) is based on the definition of control as set out in IFRS 10. No impact on the scope of consolidation as of 31 December 2013
IFRS 11 – Joint Arrangements and amendments to IAS 28 These new standards and amendments prescribe two accounting treatments for investments in associates depending on whether the investor controls the net assets (joint ventures) or the assets (joint operations). Joint ventures are accounted for using the equity method and joint operations based on their share in the investee's assets, liabilities, income and expenses.	1 January 2014	1 January 2014	Not applicable as of 30 June 2014
IFRS 12 – Disclosure of Interests in Other Entities This applies to entities with interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.	1 January 2014	1 January 2014	No impact on the financial statements
Amendment to IAS 32 – Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities This standard provides clarifications on the current application of offsetting rules, including the meaning of "legally enforceable right to set off" and "simultaneous realisation and settlement".	1 January 2014	1 January 2014	No impact on the financial statements
Amendment to IAS 36 – Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets	1 January 2014	1 January 2014	No impact on the financial statements
Amendment to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	1 January 2014	No impact on the financial statements

Standard/interpretation	Application date EU (1)	Application date Group	Impact on the Group
IFRIC 21 – Levies IFRIC 21 provides guidance on recognition of levies in the financial statements of the entity that is paying the levy, particularly with respect to the date of recognition of a liability for a tax, other than tax on profit, in accordance with **IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.** The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, in accordance with legislation. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period (even though the generation of revenue in the previous period is necessary to calculate the levy, it does not create the present obligation in the current period). If the entity operates its activity at a specified date, the levy is only ever recognised on the specified date.	17 June 2014 Early adoption permitted	1 January 2015, retrospectively	The main impact expected for the group is with respect to the accounting of the French corporate solidarity contribution *(contribution sociale de solidarité des sociétés)*. This levy, which is currently provided for in the period preceding its due date, currently amounts to around €1.3 million of the Group's net financial position. Application of IFRIC 21 would therefore lead to a decrease of around €1 million in profit before tax in the comparative data for the six months ended 30 June 2014 published in 2015, but will not affect profit in the full-year financial statements. The Group does not plan to change the segment reporting for the interim financial statements due to the application of IFRIC 21.

1.3. Changes in accounting policy

There were no changes in accounting policy during the first half of 2014 other than those required to comply with new or amended IFRSs applicable to financial periods beginning on or after 1 January 2014, and presented in note 1.2.1.

1.4. Changes in opening amounts in the statement of financial position

Changes in presentation and reclassifications are made when they provide information that is reliable and more relevant for readers of the financial statements, and when the changes in question are likely to last, without compromising comparability. When a change in presentation has a significant impact, comparative information must also be reclassified.

In accordance with IFRS 3, the Group has reviewed the allocation of assets and liabilities of Osiatis Group. The adjustment of the initial purchase price allocation gave rise to a non-material increase in the statement of financial position as presented in note 2.2.

Changes to the consolidated statement of financial position

(in € thousands)	31 Dec. 2013 (restated)	31 Dec. 2013 (reported)
Assets		
Goodwill	331,632	331,490
Financial assets	18,248	18,011
Deferred tax assets	23,859	23,636
Liabilities		
Non-current provisions	4,105	3,105
Current provisions	37,676	36,779
Trade and other payables	687,607	688,889

Changes to the statement of financial position at 31 December 2013 are due to the review of Osiatis' opening statement of financial position.

Changes to the consolidated income statement

(in € thousands)	First half 2013 (restated)	First half 2013 (reported)
Personnel costs	(113,572)	(113,759)
Depreciation, amortisation and provisions	2,065	(9)
Taxes (other than income taxes)	(4,379)	(5,936)
Net additions to impairment of current and non-current assets	(2,663)	(589)
Net financial expense	(2,501)	(2,314)
Income tax expense	(7,220)	(5,663)

Reclassifications in profit for the first half of 2013 are of the same nature as those described in the 2013 annual report and concern:

• Reclassification of French business tax on added value (*cotisation sur la valeur ajoutée* – CVAE) as income tax for €1,557,000.

• Reclassification of provisions for risks associated with the Technology Management & Financing business as impairment losses on assets under lease for €2,074,000.

• Reclassification of provisions for retirement benefits as financial expense for €187,000.

1.5. Use of estimates

The preparation of Econocom Group's condensed consolidated interim financial statements requires the use of various estimates and assumptions regarded as realistic or reasonable. Events or circumstances may result in changes to these estimates or assumptions, which could affect the value of the Group's assets, liabilities, equity or profit.

The main accounting policies requiring the use of estimates are:

- impairment of goodwill;
- measurement of residual interest;
- measurement of provisions.

As of the date on which the condensed consolidated interim financial statements were reviewed by the Board of Directors, management believes that as far as possible, these estimates take into account all available information.

1.6. Seasonal trends

Interim net sales and income from operations are highly seasonal due to a high level of activity during the last quarter of the year. In accordance with IFRS accounting principles, interim net sales are recognised based on the same principles as those applied in the full-year financial statements.

2. CHANGES IN THE SCOPE OF CONSOLIDATION

2.1. Additions to the scope of consolidation during the first half of 2014

Creation of Digital Dimension

On 6 January 2014, the Group jointly invested with Georges Croix in Digital Dimension, a company that specialises in innovative cloud-based digital solutions. As of 30 June 2014, the Group holds 50.1% of the share capital of Digital Dimension and the company was fully consolidated in view of the number of voting rights and the shareholders' agreement.

Goodwill of €5 million was recognised in respect of this acquisition, taking into account the share of non-controlling interests in Digital Dimension.

Acquisition of Rayonnance

On 14 May 2014, the Group acquired 70% of Rayonnance, a company specialising in business-to-business mobile solutions, for a provisional amount of €19.3 million, including a contingent portion estimated at €1.1 million, valued based on Rayonnance's profitability outlook for 2014.

(in € millions)

Fair value of identifiable assets and liabilities attributable to owners of the parent	4.4
Goodwill	14.9
Purchase price	**19.3**

2.2. Changes in goodwill

For the purposes of impairment testing, goodwill is allocated to cash generating units (CGUs). As of 30 June 2014, goodwill broke down as follows:

30 June 2014 (in € thousands)	Technology Management & Financing	Products & Solutions	Services	Total
Goodwill as of 1 January 2014	108,686	14,851	207,954	331,490
Adjustments to opening amounts in the statement of financial position			142	142
Acquisitions and incorporations			19,876	19,876
Goodwill as of 30 June 2014	108,686	14,851	227,971	351,508

In the first half of 2014, Digital Dimension and Rayonnance were allocated to the Services business.

Adjustments were made to Osiatis' goodwill (Services) as a result of the review of the opening amounts in the statement of financial position.

3. SEGMENT REPORTING

The Group's business segments break down into three aggregated strategic operating business segments:

• Technology Management & Financing

• Services

• Products & Solutions

Given the cross-functional dimension of mobility, management no longer monitors the Telecom segment individually and has broken its contribution down between "Products & Solutions" and "Services".

The "Other activities" segment includes all other segments for which reporting is not required under IFRS 8.

Data for 2013 have been adjusted for the purposes of comparison with 2014: some of the distribution activities developed in the Services business in 2013 have been reclassified as Products & Solutions. In addition, in accordance with the presentation of the Group's statement of comprehensive income, the CVAE tax has been classified as income tax expense.

Revenue and segment results

Internal transactions include:

• sales of goods and services: the Group ensures that these transactions are performed at arm's length and that no significant internal margins are retained. In most cases, purchased internal goods and services are in turn sold on to end clients. Certain services are sold before they are actually performed. In this case, revenue is deferred and recognised in liabilities under "Other current liabilities";

• cross-charging of overheads and personnel costs;

• cross-charging of financial expenses.

The Group's segment results correspond to "Recurring operating profit from ordinary activities". This segment indicator, used for the application of IFRS 8, is the indicator used by management to monitor the performance of operating activities and allocate resources.

"Recurring operating profit from ordinary activities" corresponds to operating profit before other non-recurring operating income and expenses and the amortisation of non-current intangible assets from major transactions (amortisation of brands and the ECS customer portfolio).

3.1. Reporting by operating business segment

The following table presents the contribution of each operating business segment to the Group's results:

(in € thousands)	Technology Management & Financing	Products & Solutions	Services	Total operating segments	Other activities	Total
First-half 2014						
Revenue						
Revenue from external clients	491,148	166,976	313,995	972,119	58	972,177
Internal operating revenue	2,271	21,017	21,244	44,532		44,532
Total — Revenue from operating segments	**493,419**	**187,993**	**335,239**	**1,016,651**	**58**	**1,016,708**
Recurring operating profit from ordinary activities*	**17,789**	**2,300**	**10,520**	**30,609**		**30,609**
First-half 2013						
Revenue						
Revenue from external clients	489,572	155,865	146,808	792,245	29	792,274
Internal operating revenue	4,159	13,594	16,417	34,170		34,170
Total — Revenue from operating segments	**93,731**	**169,459**	**163,225**	**826,415**	**29**	**826,444**
Recurring operating profit from ordinary activities*	**19,989**	**2,541**	**2,575**	**25,105**	**(40)**	**25,065**

**Before amortisation of the brands and the ECS customer portfolio.*

3.2. Breakdown of revenue by geographical area

Revenue by geographical area (source):

(in € thousands)	First half 2014	First half 2013
France	516,284	375,202
Benelux	155,043	187,978
Southern Europe	177,985	158,834
Northern & Eastern Europe (including Germany, Eastern Europe, the United Kingdom) and the Americas	122,865	70,260
Total	**972,177**	**792,274**

4. CHANGES IN WORKING CAPITAL REQUIREMENTS

4.1. Inventories

	30 June 2014			31 Dec. 2013		
(in € thousands)	Gross	Provision	Net	Gross	Provision	Net
Technology Management & Financing	**7,568**	**(1,855)**	**5,713**	8,188	(1,831)	6,357
Services	26,170	(19,238)	6,932	24,900	(18,143)	6,757
Products & Solutions	15,327	(541)	14,786	7,710	(507)	7,203
Total	**49,065**	**(21,634)**	**27,431**	**40,798**	**(20,481)**	**20,317**

The increase in inventories for Products & Solutions, due to a one-off deal in France, will be offset in the second half of the year.

4.2. Trade and other receivables and other current assets

(in € thousands)	30 June 2014	31 Dec. 2013
Trade receivables	**658,937**	662,922
Other receivables	**77,403**	49,961
Trade and other receivables	**736,340**	**712,883**

Trade receivables

(in € thousands)	30 June 2014	31 Dec. 2013
Trade receivables	**701,860**	705,387
of which refinancing institutions	**91,418**	187,021
of which other receivables	**610,442**	518,366
Impairment losses on doubtful debts	**(42,923)**	(42,465)
Carrying amount	**658,937**	662,922

Refinancing institutions correspond to financial institutions that are subsidiaries of banks. Other receivables correspond to the Group's end clients, mainly companies and public-sector bodies in the eurozone. Impairment losses on doubtful debts include impairment on disputed receivables, impairment of past due receivables and provisions for leasing receivables that are self-financed or refinanced with recourse.

30 June 2014 (in € thousands)	Carrying amount	Receivables not past due	Receivables past due			
			Total	< 60 days	60 < x < 90 days	> 90 days
Refinancing institutions	91,418	73,228	18,190	10,434	28	7,728
Other receivables	610,442	488,077	122,365	59,627	10,285	52,453
Impairment losses on doubtful debts	(42,923)	(12,693)	(30,230)	(200)	(230)	(29,800)
Trade and other receivables, net	**658,937**	**548,612**	**110,325**	**69,861**	**10,823**	**30,381**

4.3. Trade and other payables and other current liabilities

(in € thousands)	30 June 2014	31 Dec. 2013
Trade payables	477,353	494,556
Other payables	163,865	193,051
Trade and other payables	**641,218**	**687,607**

Other payables can be analysed as follows:

(in € thousands)	30 June 2014	31 Dec. 2013
Accrued taxes and personnel costs	150,696	177,398
Customer prepayments	8,871	15,553
Financial instruments – negative fair value	4,160	16
Miscellaneous payables	138	84
Other payables	**163,865**	**193,051**

Other current liabilities can be analysed as follows:

(in € thousands)	30 June 2014	31 Dec. 2013
Deferred income	119,513	133,243
Other liabilities	6,338	41,486
Miscellaneous current liabilities	3,313	3,461
Other current liabilities	**129,164**	**178,190**

5. EQUITY

5.1. Share capital of Econocom Group SA/NV

	Number of shares			Value (in € thousands)		
	Total	Treasury shares	Outstanding	Share capital	Paid-in capital	Treasury shares
As of 31 December 2013	**106,517,314**	**765,504**	**105,751,810**	**19,874**	**174,989**	**(6,062)**
Issuance of new shares						
Purchase of treasury shares		2,715,046	(2,715,046)			(22,191)
Conversion of OCEANE convertible bonds by issuing new shares	9,055,276		9,055,276	1,690	45,850	
Conversion of OCEANE convertible bonds by delivering existing shares		(4)	4			
Redemption and cancellation of OCEANE convertible bonds					(16,663)	
Options exercised		(3,292,000)	3,292,000			26,809
As of 30 June 2014	**115,572,590**	**188,546**	**115,384,044**	**21,564**	**204,176**	**(1,444)**

5.2. Stock option plans

Since 1998, stock options have been granted to some of the Group's employees, managers and corporate officers for an agreed unit price. The characteristics of these plans are detailed below:

Stock option plans	Number of options outstanding at 31 Dec. 2013	Options exercised during the period	Number of options outstanding at 30 June 2014	Rights granted in number of shares (comparable)	Exercise price (in euros)	Average share price at the time of exercise	Expiry date
2010	353,000	(353,000)			2.74	8.10	August 2015
	550,000	(470,000)	80,000	320,000	2.48	7.59	December 2014
2011	30,000		30,000	120,000	3.23		December 2015
	790,000		790,000	3,160,000	3.06		December 2016
2013	1,100,000		1,100,000	1,100,000	5.96		December 2018
Total	**2,823,000**	**(823,000)**	**2,000,000**	**4,700,000**			

5.3. Change in non-controlling interests

(in € thousands)

As of 31 December 2013	**112**
Creation of Digital Dimension	**5,990**
Share of Rayonnance's net assets attributable to non-controlling interests	**1,923**
Reciprocal call and put options for Rayonnance shares held by non-controlling interests	**(7,518)**
Profit attributable to non-controlling interests	**(324)**
As of 30 June 2014	**183**

5.4. Basic and diluted earnings per share

The weighted number of ordinary shares outstanding used to calculate earnings per share at 30 June 2014 is 108,331,999.

The adjusted number of shares used to calculate diluted earnings per share at 30 June 2014 is 112,160,385, and does not include any potential shares from the ORNANE and OCEANE convertible bond issues since these convertible bonds have an accretive impact at 30 June 2014.

6. NET CASH AT BANK AND NET DEBT

Given the seasonal nature of cash flows, the most relevant comparison is with 30 June 2013.

(in € thousands)	30 June 2014	30 June 2013
Cash and cash equivalents	135,027	67,196
Bank borrowings and credit lines	(89,699)	(30,083)
Net cash at bank	**45,328**	**37,113**
Convertible bond debt	166,282	80,146
Liabilities relating to contracts refinanced with recourse	39,893	32,323
Debts from factoring receivables with recourse	11,434	4,205
Other liabilities including finance lease liabilities - real estate	3,294	3,071
Net debt	**175,575**	**82,632**

The change in net debt between 30 June 2014 and 30 June 2013 is mainly attributable to the acquisition of Osiatis and the creation of an in-house funding company.

6.1. Main changes in cash flows

(in € thousands)	First half 2014	First half 2013 (restated)
Net cash used in operating activities	(94,785)	(19,442)
Net cash used in investing activities	(47,266)	(8,274)
Net cash from financing activities	126,214	15,495
Impact of changes in exchange rates on cash and cash equivalents	726	(433)
Change in cash and cash equivalents	**(15,111)**	**(12,655)**
Cash and cash equivalents as of 1 January	**150,139**	**79,806**
Change in cash and cash equivalents	(15,111)	(12,655)
Cash and cash equivalents as of 30 June	**135,028**	**67,151**

Breakdown of net cash used in investing activities

Net cash used in investing activities mainly reflects:

• Net cash outflows on acquisitions for €37.4 million, corresponding to the payment of the balance of the vendor loan for the acquisitions of Osiatis and Rayonnance by Digital Dimension;

• Net cash outflows on capital expenditure for €9.9 million, corresponding to investments in the Group's IT infrastructures and projects.

Breakdown of net cash from financing activities

The increase in cash from financing activities during the first half of 2014 is mainly attributable to the bond issues described below:

ORNANE convertible bonds

(in € thousands)

Initial value of the debt component of the ORNANE convertible bonds	163,310
Initial value of the embedded derivative of the ORNANE convertible bonds	9,441
Issuance costs for the bond	2,249
Net cash from issuance of ORNANE convertible bonds	**175,000**

On 8 January 2014 Econocom Group SA/NV issued ORNANE convertible bonds maturing in 2019, for a total amount of €175 million.

The bonds carry a fixed coupon of 1.5% per annum, payable annually in arrears on 15 January of each year. These were issued at 100% of the principal amount (i.e. €10.60 per bond) and, unless previously redeemed, converted or repurchased, will be redeemed in cash on 15 January 2019 at the accreted redemption price of 105.26% of the principal amount, corresponding to an effective 40% conversion premium on the share price at the issuance date and a conversion price of €11.16.

ORNANE convertible bonds offer investors the benefit of increases in the share price by paying them an overperformance premium equivalent to the difference between the share price on the maturity date and the coupon rate. The number of Econocom shares which should be issued to repay this debt may vary according to the share price and the payment option (i.e. cash and/or shares) chosen by the Group.

This variable is recognised under IFRS via a liability remeasured at fair value on each reporting date and the change in fair value has been reclassified as cash flows from operating activities.

OCEANE convertible bonds

The announcement of the early redemption of the OCEANE convertible bonds led to a wave of conversions into shares. In light of the bonds previously redeemed the net cash outflow can be analysed as follows:

(in € thousands)

Impact of the redemption of OCEANE convertible bonds deducted from debt	(30,910)
Impact of the redemption of OCEANE convertible bonds deducted from equity	(15,536)
Financial expenses on redemption of OCEANE convertible bonds	(1,057)
Net cash outflow from redemption of OCEANE convertible bonds	**(47,503)**

The financial expense for the redemption of OCEANE bonds is calculated as the difference between the fair value of the OCEANE debt component on the redemption date and its carrying amount in the statement of financial position.

The difference between the amount paid to buy back the OCEANE convertible bonds and the fair value of the OCEANE debt component was allocated to the equity component of the OCEANE convertible bonds (i.e. was recognised in equity).

7. FAIR VALUE OF FINANCIAL LIABILITIES

The market value of derivative instruments is measured based on valuations provided by bank counterparties or financial models widely used on financial markets, and on market information available at the reporting date.

(in € thousands)

Statement of financial position headings	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Carrying amount
Current and non-current interest-bearing liabilities	**310,601**		**310,601**
Bank borrowings	78,331		78,331
Convertible bonds	166,282		166,282
Finance lease liabilities	43,277		43,277
Bank overdrafts	696		696
Other borrowings	22,015		22,015
Non-current non interest-bearing liabilities	**2,046**	**18,946**	**20,992**
Gross commitment on residual financial values	**48,711**		**48,711**
Trade payables	**477,353**		**477,353**
Other payables and current liabilities	**166,598**	**6,928**	**173,526**
Total financial liabilities	**1,005,309**	**25,874**	**1,031,183**

Non-current non interest-bearing liabilities estimated at fair value correspond to the portion of acquisition-related debt maturing in more than one year.

Other payables at fair value correspond to the derivative underlying the ORNANE convertible bonds (categorised for measurement purposes as level 2) in the amount of €4.2 million, with the remainder corresponding to acquisition-related debt.

The fair value of the ORNANE convertible bonds was measured based on the observable market value, and amounted to €185.2 million at 30 June 2014.

Based on available information, the carrying amount of the Group’s financial liabilities approximates fair value.

8. NET FINANCIAL EXPENSE

(in € thousands)	First half 2014	First half 2013 (restated)
OCEANE convertible bonds – interest expenses	(1,094)	(2,200)
OCEANE convertible bonds – accelerated amortisation of issuance costs	(822)	
OCEANE convertible bonds – loss on redemption	(1,057)	
ORNANE convertible bonds – interest expenses	(2,973)	
ORNANE convertible bonds – change in fair value of derivative	5,282	
Expenses on non-current liabilities	40	(91)
Changes in actuarial cost of provisions for pension obligations	(387)	(187)
Other financial income and expenses	12	(23)
Net financial expense	**(999)**	**(2,501)**

Non-recurring items consisting of OCEANE convertible bond expenses and changes in the fair value of the ORNANE convertible bond derivative, represent net financial income of €2.3 million.

9. OTHER NON-RECURRING OPERATING INCOME AND EXPENSES

(in € thousands)	First half 2014	First half 2013
Restructuring costs	(4,893)	(2,212)
Acquisition costs	(191)	
Other expenses	(915)	
Total other operating expenses	**(5,999)**	**(2,212)**
Total other operating income	**303**	
Total	**(5,696)**	**(2,212)**

10. RELATED-PARTY TRANSACTIONS

Transactions between the parent company and its subsidiaries, which are related parties, are eliminated on consolidation and are not presented in this note. The transactions with related parties summarised below mainly concern the principal transactions carried out with companies in which the Chairman of Econocom Group's Board of Directors holds a directorship.

Econocom International NV – whose Chairman is Jean-Louis Bouchard – bills fees to Econocom Group SA/NV and its subsidiaries for managing and coordinating the Group. These fees amounted to €1.4 million in the first half of 2014, compared with €2.2 million in 2013.

In June 2014, SCI Dion-Bouton, which owns the building in Puteaux, received €2.2 million in rent in respect of full-year 2014. In 2012, a deposit of €2.1 million was paid to SCI Dion-Bouton for the duration of the lease.

In June 2014, the warranty and refinancing expenses paid to Ecofinance International amounted to €0.3 million compared with €0.2 million in 2013.

Transactions with SCI Maillot Pergolèse, which owns the premises in Clichy, consist of rent for the first half of 2014 amounting to €0.3 million.

11. SUBSEQUENT EVENTS

Since 30 June 2014, Econocom Group has continued its targeted acquisition strategy, and has completed four transactions since May.

After acquiring 70% of the share capital of Rayonnance in May 2014, in July Digital Dimension acquired 80% of ASP Serveur, a leading provider of business-to-business public and private cloud solutions. ASP Serveur owns its own infrastructure and has a new generation eco-efficient data centre. The company posted €3.5 million in revenue, mainly from enterprise accounts in the e-commerce, utilities and public sectors. The remainder of the share capital (20%) is held by ASP Serveur's founder, Sébastien Enderle. He has been appointed Chairman and continues to perform his operational role within the company. Digital Dimension plans to carry out further acquisitions in 2014 and confirms its develop plan to generate revenue of €120 million by 2016.

In addition, in July 2014, Econocom acquired the business assets of Comiris, a French company specialising in collaborative and videoconferencing tools, thereby expanding its fast-growing collaborative tools, Unified Communication, network integration and security division. Founded in 1999, Comiris reported revenue of €13 million in 2013 with enterprises and public-sector companies.

In August 2014, Interadapt, in which Econocom holds a strategic stake, acquired the entire share capital of Brazilian company Syrix (€5.3 million in revenue in 2013), which specialises in application performance management (APM), infrastructure management (IM) and cloud solution capacity management. This acquisition will strengthen the Group's presence in the fast-developing Brazilian IT service market.

These transactions are in line with the "Mutation 2013-2017" strategic plan which was announced in 2013 and which consolidates the Group's positions in high-potential markets and countries.

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