ABC arbitrage Group

# ANNUAL FINANCIAL REPORT

# Year 2015

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***Disclaimer***

*This annual report and its constituent parts have been translated from the original French versions.*
*For the purposes of interpretation, the French originals will take precedence over the English translation.*


**Société ABC arbitrage**
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ABC arbitrage Group

# ANNUAL FINANCIAL REPORT

## Management report Year 2015

## 1. Business review

Key consolidated figures for 2015 are presented below:

| In EUR million | Dec. 31, 2015 IFRS | Dec. 31, 2014 IFRS | Change |
|---|---|---|---|
| Advisory revenues | - | - | *na* |
| Investment Services Fees (1) | 13.6 | 4.8 | *na* |
| Net gains at fair value through profit or loss | 34.1 | 24.0 | *na* |
| ***Net revenues*** | ***47.7*** | ***28.8*** | ***na*** |
| Payroll costs | (13.6) | (12.1) | *na* |
| Occupancy costs | (1.8) | (1.7) | *na* |
| Other expense | (5.4) | (4.4) | *na* |
| Other taxes | (0.6) | (0.4) | *na* |
| ***Total costs*** | ***(21.3)*** | ***(18.6)*** | ***na*** |
| **Income before tax** | **26.3** | **27.9** | ***na*** |
| **Net income attributable to equity holders** | **24.2** | **18.8** | ***28,7%*** |

*(1) Investment Services Fees relate to the services that the Group's management companies bill to Quartys Limited and ABCA Funds Ireland Plc.*

IFRS net revenues came to €47.7 million and net income to €24.2 million at December 31, 2015, up nearly 29% year-on-year.

Net revenues and income before tax for 2014 and 2015 are not directly comparable due to the recent consolidation exception introduced by amendments to IFRS 10. ABC arbitrage's investment in Quartys and ABCA Funds Ireland are recognised under “Net gain/loss on financial instruments at fair value through profit or loss”, i.e. net of expenses and tax. This automatically reduces “Net revenues”, as compared with full consolidation, which separates income from expense.

The Group's parent company, ABC arbitrage, and its asset management companies, ABC arbitrage Asset Management and ABC arbitrage Asset Management Asia, are not subject to the IFRS exception and are therefore fully consolidated.

Return on equity (ROE) in 2015 was 17.11%.

| In EUR thousand | Dec. 31, 2015 IFRS | Dec. 31, 2014 IFRS |
|---|---|---|
| Equity at January 1, 2015 | 130,975 | 118,858 |
| Equity at December 31, 2015 | 152,390 | 134,424 |
| **Average equity** | **141,682** | **126,641** |
| **Return on equity** | **17.11%** | **14.87%** |
| **Gross return on equity** | **33.64%** | **na** |

*Return on equity = (net income / average (opening equity + closing equity)) x 100.*
*Gross return on equity = (proprietary trading revenues / average (opening equity + closing equity)) x 100.*
*Equity corresponds to shareholders' equity plus provisions adjusted for deferred taxes. This figure takes account of dividend payments (except for interim dividends) and changes in issued capital, and therefore corresponds to the capital available for investment in the market.*

In the first half of 2015, the Group's business lines continued to suffer from a combination of unfavourable market factors. Massive central bank intervention had a similar effect on financial markets as in the last six half-year periods, causing limited volatility and an artificial reduction in investors' perception of risk.

Average volatility levels, while slightly higher than in the first half of 2014, remained lower than usual. Equity market volumes were significantly higher and merger and acquisition activity was up. However, these indicators were still not back to pre-crisis levels, and opportunities were limited as a result.

The second half of 2015 saw further volume growth. After an episode of extreme turbulence at the end of August, markets regained a volatility level of around 17% on average in the fourth quarter, thereby creating additional growth opportunities for the Group.

ABC arbitrage continued to roll out its Ambition 2016 growth plan during the year. The increase in payroll expenses and other charges reflected the plan's commitment to hiring, research and development and investing in new trading systems.

Work on devising new strategies and adapting existing strategies enabled ABC arbitrage to use its available capital more effectively to expand business while taking better advantage of every market opportunity. As a result, the Group saw a sharp 29% increase in net income.

The increase in earnings was due to higher market volatility in the second half of the year, confirming the importance of this component of our earnings structure. The strong performance also reflected all of the improvements stemming from the Group's new structure and from R&D spend.

## 2. Subsidiaries and holdings

A list of subsidiaries and holdings can be found in note 3.4. to the parent company financial statements.

At December 31, 2015, ABC arbitrage increased its investments in Quartys, a financial instrument trader, and ABC arbitrage Asset Management Asia, an asset manager. Through these investments, ABC arbitrage is furthering its international expansion strategy to take into account the demands of its partner financial institutions as well as competition and regulatory requirements.

ABC arbitrage no longer has any direct exposure on financial markets, except for its investments in the funds held by ABCA Funds Ireland.

ABCA Funds Ireland was restructured in 2015 to focus its business on two funds, namely by broadening and diversifying the investment objectives of the ABCA Opportunities Fund subfund and maintaining the ABCA Reversion Fund subfund. Due to cross-holdings, ABCA Funds Ireland had total assets of €142 million. The Group maintains its aim to develop a range of diversified investment funds and increase the flow of new money.

ABC arbitrage Asset Management, which is authorised by the French securities regulator (*Autorité des Marchés Financiers* – AMF), is the Group's main investment management company, with expertise in alternative investment funds, discretionary management mandates, investment strategy advice and trading in financial instruments. The company's investments continue to support its ongoing drive to develop its expertise in equity derivative products and maximise its ability to adapt to market conditions. ABC arbitrage Asset Management incurred a loss of €2.7 million in 2015.

ABC arbitrage Asset Management Asia Pte Ltd, an asset manager authorised as a Registered Fund Management Company (RFMC) by the Monetary Authority of Singapore (MAS), continued to develop the Group's business in Asian markets. It incurred a further loss, representing €1.1 million, due to unavoidable start-up investments. In line with initial expectations, the asset manager's contribution to the Group is already a positive one.

Quartys Limited, a financial instrument trader, continued to develop its business after significant capital increases (totalling €43 million in 2015). These led to a considerable rise in transaction volumes and a sharp year-on-year rise in net income, which totalled €19.1 million. In line with the strategic objectives set by its parent company, Quartys took the necessary steps to develop its scope of activity and forge relationships with new financial counterparties.

ABCA Global Fund, created at the end of December 2001 and no longer operational, was wound up in the first half of 2015, leaving €0.3 million in liquidation costs.

Lastly, ABC arbitrage used to wholly own a German-based subsidiary, Finanzberatung GmbH, until the latter's voluntary liquidation in 2009. In January 2012, a decision handed down by a German court found that the liquidated subsidiary was owed receivables. Consequently, having both interest and standing, ABC arbitrage requested that the competent German court reopen the subsidiary's liquidation proceedings. This request was granted on November 5, 2012. The company did not conduct any business outside of its action to recover the receivables and to complete the necessary tax and legal procedures, a process that was finalised in 2015. Finanzberatung GmbH was therefore once again liquidated and ceased to exist as a legal entity as of December 31, 2015, generating liquidation proceeds of €0.9 million.

## 3. Human resources

The Group employed an average of 88 people in 2015, compared with 83 in 2014.

It should be noted that the environment of instability and escalating regulatory requirements (CRD 4 and AIFM) triggered a significant increase in fixed salaries in the finance sector. This prompted the Group to gradually review its own compensation policy, leading to an increase in fixed staff costs of about 20% between 2012 and 2014. The revised policy remained in place in 2015; these competitive constraints, coupled with our policy of hiring first-rate people and focusing on performance-related compensation, led to a 13% increase in staff costs in 2015.

With a view to motivating our people over the long term and aligning their interests with those of our shareholders, management has developed various share-based incentive schemes to drive growth by retaining core skills while containing payroll and other fixed costs in a highly competitive environment.

The Group's different schemes are described below:

### *Ambition 2016 share-based incentive programmes*

On May 14, 2014, the Board awarded a maximum of 850,000 performance shares, through three separate plans:
- a maximum of 283,333 performance shares, which will vest according to cumulative consolidated net income for 2014 and 2015;
- a maximum of 283,333 performance shares, which will vest according to cumulative consolidated net income for 2014 to 2016;
- a maximum of 283,334 performance shares, which will vest according to cumulative consolidated net income for 2014 to 2017.

No shares will vest if net income is less than €12 million a year and they will vest progressively thereafter on a linear basis. For example, if net income is €20 million a year over the entire period, 390,000 shares will vest and if net income is €25 million a year over the entire period, 634,000 shares will vest.

On May 12, 2015, the Board awarded a maximum of 900,000 performance shares, through three separate plans:
- a maximum of 300,000 shares, which will vest according to cumulative consolidated net income for 2015 and 2016;
- a maximum of 300,000 performance shares, which will vest according to cumulative consolidated net income for 2015 to 2017;
- a maximum of 300,000 performance shares, which will vest according to cumulative consolidated net income for 2015 to 2018.

No shares will vest if net income is less than €12 million a year and they will vest progressively thereafter on a linear basis. For example, if net income is €20 million a year over the entire period, 413,000 shares will vest and if net income is €25 million a year over the entire period, 671,000 shares will vest.

Since the company's incorporation in 1995, a total of 9,687,214 new shares, representing 17% of the capital, have been granted to employees in respect of equity instruments that have vested.

## 4. Corporate governance

The Board has seven directors, four of whom are independent. A non-voting director (*censeur*) also attends Board meetings regularly. Two of the independent directors are men and two are women.

The percentage of issued capital held by employees under group plans is less than 3% and consequently there are no employee-elected Directors. A member of the Works Council attends Board meetings in a consultative capacity.

The Board also invites other people to attend its meetings in a consultative capacity either on an occasional or a regular basis.

In early February 2016, Theta Participations (formerly ABC participation et gestion) stepped down from its position as director. Several directors are due to retire by rotation at the next shareholders' meeting. We are nominating all of these directors for re-election.

The Board of Directors adopted the MiddleNext Corporate Governance Code for Small Caps and Midcaps on its publication in December 2009. This Code has been approved as a reference code by the Autorité des Marchés Financiers (AMF).

The Chairman's report on corporate governance and internal control provides details of compensation paid to executive officers and sets out the applicable rules or the reasons for any exceptions.

Under Article L. 225-102-1 of the French Commercial Code (*Code de Commerce*), we are required to report on total compensation and benefits paid to directors and executive officers of the listed company during the year.

The following table shows total salary and benefits paid by Group companies to the executive officers in 2015:

| Name | Dominique Ceolin |
|---|---:|
| Position | Chief Executive Officer of ABCA<br>Chief Executive Officer of ABCA AM<br>Member of the Board of ABCA AM Asia |
| Gross salary | 170,400 |
| Adjustment related to paid leave and statutory bonuses | 2,249 |
| Company car | 9,400 |
| Incentive plan | 19,020 |
| Profit-sharing plan | 18,811 |
| Termination without cause benefit in respect of 2014 | 18,825 |
| Gross variable bonuses in respect of 2014 | 100,000 |
| Termination without cause benefit in respect of 2015 | 26,000 |
| Gross variable bonuses in respect of 2015 | 102,000 |

*Figures in euros / ABCA: ABC arbitrage / ABCA AM: ABC arbitrage Asset Management*
*ABCA AM Asia: ABC arbitrage Asset Management Asia*

The following table shows Directors' fees paid by Group companies to directors and executive officers in 2015:

| Name | Position | Directors' fees (€) |
|---|---|---|
| Dominique Ceolin | Chairman of the Board of ABCA | 2,000 |
| Theta Participations*<br>(Jean-Christophe Estève, permanent representative) | Member of the Board of ABCA | 2,000 |
| Aubépar Industries<br>(Xavier Chauderlot, permanent representative) | Member of the Board of ABCA | 2,000 |
| Jean-François Drouets | Member of the Board of ABCA | 7,250 |
| Sabine Roux de Bézieux | Member of the Board of ABCA | 7,250 |
| Didier Ribadeau Dumas | Member of the Board of ABCA | 10,750 |
| Marie-Ange VERDICKT | Member of the Board of ABCA | 8,000 |
| Jacques Chevalier | Censor of the Board of ABCA | 1,500 |

** New company name of ABC participation et gestion - ABCA: ABC arbitrage*

As required by Article L. 225-102-1 of the French Commercial Code, the following table shows all directorships and other offices held by the executive officers of the company.

| Name | Directorships and other offices |
|---|---|
| Dominique Ceolin | Chief Executive Officer of ABCA AM<br>Member of the Board of ABCA AM Asia<br>Chairman of the Board of Financière WDD<br>Administrator of MiddleNext |
| Theta Participations* | **Jean-Christophe Estève:**<br>Executive manager of Theta Participations<br>Manager of Biotope SARL, Aerotope SARL and Biotope Luxembourg SARL<br>Director of Biotope's subsidiaries |
| Aubépar Industries | **Aubépar Industries:**<br>Chairman and Managing Director of Aubépar SE (represented by Xavier Chauderlot)<br>Chairman and Managing Director of Financière du Bailli SA (represented by Xavier Chauderlot)<br>Non-voting director on the Board of Directors of Jet Entrepreneurs SA (represented by Lionel Saby)<br>**Xavier Chauderlot**<br>Chairman and Managing Director of Aubépar Industries S.E.<br>Director of Aubépar S.E.<br>Director of Financière du Bailli SA<br>Director of Quartys Ltd. |
| Jean-François Drouets | Chairman of Catella Valuation Advisors<br>Member of the steering committee of Catella France |
| Sabine Roux de Bézieux | Managing director of Notus Technologies SAS<br>Member of the Supervisory Board of ANF Immobilier<br>Member of the Supervisory Board of Turenne Investissement<br>Member of the strategy committee of Arteum SAS<br>Director of IDLF - Inès de la Fressange - SA |
| Didier Ribadeau Dumas | Representative of ABCA on the Board of ABCA AM<br>Member of the Supervisory Board of La Banque Postale, wholly-owned subsidiary of La Poste group<br>Chairman of the accounts committee, risks committee and appointments committee of La Banque Postale<br>Member of the strategy committee and compensation committee of La Banque Postale<br>Director of BPE, wholly-owned subsidiary of La Banque Postale<br>Director, Chairman of the appointments and compensation committee, and member of the strategy committee of Poste Immo, wholly-owned subsidiary of La Poste group<br>Member of the Supervisory Board of Comgest |
| Marie-Ange VERDICKT | Member of the Supervisory Board of Solucom<br>Member of the Supervisory Board of CapHorn Invest<br>Member of the Board of Interparfums<br>Member of the Supervisory Board of Bonduelle (elected on Dec. 3, 2015) |
| Jacques Chevalier | - |

*ABCA: ABC arbitrage / ABCA AM: ABC arbitrage Asset Management / ABCA AM Asia: ABC arbitrage Asset Management Asia*
** New company name of ABC participation et gestion*

The following table shows a summary of the dealings in ABC arbitrage shares by the Directors and executive officers of the company in 2015.

| Name | Purchases (in EUR) | Sales (in EUR) | Subscriptions (in EUR) |
|---|---|---|---|
| Dominique CEOLIN | - | - | 421,174 |
| Financière WDD* | 4,971,034 | - | 996,695 |
| Theta Participations** | - | 15,480,092 | 1,065,915 |
| Aubépar Industries S.E. and its subsidiaries*** | - | 561,215 | 1,553,984 |
| Jean-François DROUETS | - | - | 1,958 |
| Didier RIBADEAU DUMAS | - | - | 1,223 |
| Sabine ROUX DE BEZIEUX | - | - | 23 |
| Marie-Ange VERDICKT | - | - | 214 |

** Holding company 50.01% owned by Dominique Ceolin*
*** New company name of ABC participation et gestion*
**** Aubépar Industries and its subsidiaries reclassified €4,386.940 worth of ABC arbitrage shares within the Group*

## 5. Payment periods

All trade payables outstanding at December 31, 2015 were payable no later than thirty days from the end of the month.

## 6. Share performance and share buyback programme

At December 31, 2015, issued capital amounted to €907,734.56 divided into 56,733,410 ordinary shares.

Average daily trading volume came to more than 49,201 shares, representing almost €246 thousand a day in value.

ABC arbitrage shares closed the year at €5.13. The par value of the shares is €0.016.

The Company has been authorised by shareholders to carry out a share buyback programme. Under the terms of the authorisation, shares may not be bought back at a price of more than €12 per share and the total amount invested in the programme may not exceed €20,000,000. In addition, the Board of Directors' authorisation is required for share buyback transactions representing over €500,000.

| Reason for the buybacks | Number of shares purchased | Average price in EUR | % capital | Number of shares sold | Average price In EUR | % capital |
|---|---|---|---|---|---|---|
| For market making | 111,960 | 4.98 | 0.20% | 133,559 | 5.03 | 0.24% |
| For employee share offers carried out in 2015 | - | - | - | - | - | - |
| For future employee share offers | - | - | - | - | - | - |
| For cancellation | - | - | - | - | - | - |
| For allocation on exercise of rights to shares | - | - | - | - | - | - |
| For external growth transactions | - | - | - | - | - | - |
| For the payment of stock dividends | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |

Of the shares held at end-2014 for employee share-based plans (906,700 shares), 10,620 were allocated to performance share plans.

## 7. Statutory disclosures

Under Article L. 233-13 of the French Commercial Code, the Board of Directors is required to disclose the names of shareholders whose holdings exceed the statutory disclosure thresholds at December 31, 2015. There was no significant change in the ownership structure in 2015.

| Name | % of capital | % of voting rights |
|---|---|---|
| Aubepar Industries | 14.3 | 14.6 |
| Theta Participations* | 8.6 | 8.7 |
| Financière WDD** | 9.9 | 10.0 |
| Eximium | 6.1 | 6.2 |
| David HOEY | 5.1 | 5.2 |
| Other management*** | 4.9 | 5.0 |
| Dominique CEOLIN | 3.9 | 3.9 |

** New company name of ABC participation et gestion*
*** Holding company 50.01% owned by Dominique Ceolin*
**** Executive management and independent non-executive directors excluding Dominique Ceolin and David Hoey*

At December 31, 2015, ABC arbitrage held 917,860 treasury shares (1.6% of issued capital).
The free float represented 45.6% of issued capital at the year-end.

The operating managers and some of ABC arbitrage's employees signed a shareholders' agreement. The agreement will take effect on July 1, 2014 and will end on July 1, 2018. The purpose of the agreement is to organise transfers of 40% of the ABC arbitrage shares acquired by the parties under the Horizon 2010 share-based incentive scheme, i.e. on the date of signature of the agreement, 3,600,200 ABC arbitrage shares representing 6.89% of the capital and voting rights. In the agreement, the parties state that they are totally free to exercise their rights as shareholders and expressly represent and warrant that they are not acting as members of a concert party with regard to ABC arbitrage.

No corporate mutual fund has been set up to hold shares on behalf of members of an employee share ownership plan.

## 8. Dividend policy

The table below shows dividends paid in respect of the last three fiscal years.

| In EUR | 2014 | 2013 | 2012 |
|---|---|---|---|
| Dividend paid | 0.40 | 0.40 | 0.47 |

All of these dividends qualified for the 40% tax relief available to individual shareholders resident in France for tax purposes, except for the €0.14867 per share dividend distributed from additional paid-in capital in 2013.

The Annual Shareholders’ Meeting of June 5, 2015 approved a 2014 dividend of €0.40 per share. Taking into account the interim dividend of €0.20 per share paid in November 2014, the final dividend will amount to €0.20 per share. The ex-dividend date was July 1, 2015. Shareholders had the option of receiving cash or reinvesting their dividend in shares.

At the end of the option period, 1,554,926 new ordinary shares, ranking *pari passu* with the existing shares, were issued at a price of €4.65 per share, giving an overall reinvestment rate of more than 66%. The dividend ultimately paid in cash amounted to €3.62 million. The total issue proceeds included €24,878.82 in paid-up capital and €7,205,527.08 in additional paid-in capital. The new ordinary shares are fully paid.

ABC arbitrage paid a dividend of €0.20 per share, solely in cash. The ex-dividend date was December 17, 2015, and the dividend was paid on December 21, 2015. Since the distribution was paid from the share premium account, it was treated as a repayment of capital contributions, pursuant to Article 112-1 of the French tax code (*Code général des impôts*). In view of the number of ABC arbitrage shares qualifying for the payment, the total amount came to €11.16 million.

Net earnings per ordinary share amounted to €0.43 in 2015. With a view to maintaining an optimal balance between sources and uses of funds, the Board will recommend a dividend of €0.20 per share at the annual shareholders' meeting on May 27, 2016. The dividend payment procedure and date will be announced at a later date. The dividend is in addition to the €0.20 distribution paid in December 2015.

If approved by the shareholders, the full distribution for 2015 will therefore amount to €0.40 per share, giving a net yield of 7.8% based on the share price at December 31, 2015 (€5.13).

## 9. Post-balance sheet events

As of the date of this report, the Board of Directors is not aware of any material events that may have occurred since the year-end.

## 10. CSR report

Information relating to the company's social, societal and environmental responsibility is included in the CSR report appended to the annual financial report.

## 11. Outlook

The sharp rise in net income in 2015 confirmed the relevance of the Group's "Ambition 2016" plan. ABC arbitrage will finish developing the plan in 2016, during which hiring will remain one of the three main priorities, along with innovation and geographical diversification.

In the first quarter of 2016, the Group's assets under management were encouragingly higher, totalling €294 million at March 1, 2016. The Group maintains its medium-term goal of having €400 million in assets under management, but in the interest of prudence refrains from making a 2016 forecast.

The Group's business lines will benefit from the brisk pace of market activity during the first months of 2016. Business volume in first-quarter 2016, still closely correlated with volatility, is much higher than the average for first-half 2015 and is in line with second-half 2015.

The Board of Directors
March 17, 2016

ABC arbitrage Group

# ANNUAL FINANCIAL REPORT

## Consolidated financial statements – Year 2015

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## Balance sheet - assets

| In EUR | Note | Dec. 31, 2015 IFRS | Dec. 31, 2014 IFRS |
|---|---|---|---|
| Intangible assets | 3.1 | 73,667 | 71,981 |
| Property and equipment | 3.1 | 1,453,049 | 1,740,858 |
| Work in progress | 3.1 | - | - |
| Non-current financial assets | 3.2 | 688,264 | 693,713 |
| Deferred tax assets | | 392,532 | 990,497 |
| **Total non-current assets** | | **2,607,512** | **3,497,048** |
| Financial assets at fair value through profit or loss | 3.4 | 120,954,545 | 598,784,636 |
| Other accounts receivable | 3.6 | 12,992,832 | 12,936,584 |
| Current tax assets | | 2,166,157 | - |
| Cash and cash equivalents | | 13,901,343 | 17,497,456 |
| **Total current assets** | | **150,014,878** | **629,218,676** |
| **TOTAL ASSETS** | | **152,622,389** | **632,715,724** |

## Balance sheet - liabilities

| In EUR | Note | Dec. 31, 2015 IFRS | Dec. 31, 2014 IFRS |
|---|---|---|---|
| Paid-up share capital | | 907,735 | 882,856 |
| Additional paid-in capital | | 112,885,208 | 118,519,547 |
| Retained earnings | | 3,193,864 | 3,458,054 |
| Interim dividend | | - | (10,715,495) |
| Net income | | 24,240,356 | 18,829,737 |
| **Total equity attributable to equity holders** | **3.3** | **141,227,162** | **130,974,699** |
| Minority interests | 2.1 | (180) | (180) |
| **Total equity** | | **141,226,982** | **130,974,519** |
| Provisions | 3.7 | 200,000 | 100,000 |
| Non-current financial liabilities | | - | - |
| Deferred tax liabilities | | - | - |
| **Non-current liabilities** | | **200,000** | **100,000** |
| Financial liabilities at fair value through profit or loss | 3.4 | 5,380,970 | 492,054,847 |
| Other liabilities | 3.6 | 5,814,437 | 6,234,202 |
| Taxes payable | | - | 3,263,634 |
| Short-term debt | | - | 88,522 |
| **Current liabilities** | | **11,195,407** | **501,641,206** |
| **TOTAL EQUITY AND LIABILITIES** | | **152,622,389** | **632,715,724** |

# Statement of income

| In EUR | Note | Dec. 31, 2015 IFRS | Dec. 31, 2014 IFRS |
|---|---|---|---|
| Net gain/loss on financial instruments at fair value through profit or loss | 4.1 | 34,024,062 | 46,325,523 |
| Investment services fees* | 4.2 | 13,570,088 | |
| Other revenue | 4.3 | 250,237 | 129,486 |
| Administrative expenses | 4.4 | (6,650,429) | (5,617,771) |
| Taxes and duties | | (1,092,087) | (917,557) |
| Payroll costs | 4.5 | (13,048,831) | (11,576,387) |
| Depreciation and amortisation expense | | (801,929) | (645,865) |
| **OPERATING INCOME** | | **26,251,110** | **27,697,429** |
| Provision expense | 4.6 | 70,000 | 232,000 |
| **INCOME BEFORE TAX** | | **26,321,110** | **27,929,429** |
| Current taxes | 4.7 | (1,482,790) | (8,403,134) |
| Deferred taxes | | (597,965) | (696,558) |
| **NET INCOME** | | **24,240,356** | **18,829,737** |
| Attributable to equity holders | | 24,240,356 | 18,829,737 |
| Attributable to minority interests | | - | - |
| *Number of ordinary shares* | | *56,733,410* | *55,178,484* |
| *Earnings per ordinary share* | | *0.43* | *0.34* |
| *Diluted earnings per ordinary share* | | *0.43* | *0.34* |

** Investment services fees in 2014 amounted to €5,715 thousand and were shown as net gains on derivative financial instruments measured at fair value through profit or loss.*

# Statement of comprehensive income

| In EUR | Note | Dec. 31, 2015 IFRS | Dec. 31, 2014 IFRS |
|---|---|---|---|
| **Net income** | | 24,240,356 | 18,829,737 |
| Change in foreign exchange | | - | - |
| Remeasurement of available-for-sale assets | | - | - |
| Remeasurement of hedging instruments | | - | - |
| Remeasurement of non-current assets | | - | - |
| Actuarial gains and losses on defined benefit plans | | - | - |
| Share of other comprehensive income on equity-accounted affiliates | | - | - |
| Income tax | | - | - |
| **Total other comprehensive income** | | **-** | **-** |
| **NET INCOME AND OTHER COMPREHENSIVE INCOME** | | 24,240,356 | 18,829,737 |
| Attributable to equity holders | | 24,240,356 | 18,829,737 |
| Attributable to minority interests | | - | - |

| In EUR thousand | Paid-up share capital | Equity instruments and related reserves | Elimination of treasury shares | Retained earnings and net income | Total equity attributable to equity holders | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|
| **At December 31, 2013** | **836** | **105,256** | **(4,897)** | **17,663** | **118,858** | **nm** | **118,857** |
| Issue of shares | - | 4 | - | - | **4** | - | **4** |
| Elimination of treasury shares | - | - | 346 | - | **346** | - | **346** |
| Share-based payments | - | - | - | 418 | **-** | - | **418** |
| Appropriation of 2013 net income | 21 | 6,209 | - | (10,262) | **(4,033)** | - | **(4,033)** |
| 2014 interim dividend | 26 | 7,051 | - | (10,525) | **(3,449)** | - | **(3,449)** |
| Net income for the year | - | - | - | 18,830 | **18,830** | - | **18,830** |
| **At December 31, 2014** | **883** | **118,520** | **(4,551)** | **16,123** | **130,975** | **nm** | **130,975** |
| Issue of shares | - | - | - | - | **-** | - | **-** |
| Elimination of treasury shares | - | - | 145 | - | **145** | - | **145** |
| Share-based payments | - | - | - | 749 | **749** | - | **749** |
| Appropriation of 2014 net income | 25 | 7,206 | - | (10,950) | **(3,720)** | - | **(3,720)** |
| 2015 interim dividend | - | - | - | (11,163) | **(11,163)** | - | **(11,163)** |
| Net income for the year | - | - | - | 24,240 | **24,240** | - | **24,240** |
| **At December 31, 2015** | **908** | **125,725** | **(4,406)** | **19,000** | **141,227** | **nm** | **141,227** |

*nm: non-material*

| In EUR thousand | Dec. 31, 2015 IFRS | Dec. 31, 2014 IFRS |
|---|---|---|
| **Net income** | **24,240** | **18,830** |
| Net allocations to provisions | (70) | (232) |
| Net allocations to depreciation and amortisation | 802 | 646 |
| Change in deferred taxes | 598 | 696 |
| Others | 800 | - |
| **Net cash provided by operations before changes in working capital** | **26,370** | **19,940** |
| Changes in working capital | **(14,680)** | **(11,213)** |
| **Net cash provided by operating activities** | **11,691** | **8,727** |
| Net cash used by investing activities | **(410)** | **(521)** |
| Net cash provided by capital transactions | - | 4 |
| Dividends paid | (14,882) | (7,482) |
| Share-base payments | 95 | 765 |
| **Net cash used by financing activities** | **(14,788)** | **(6,713)** |
| **Net change in cash and cash equivalents** | **3,508** | **1,493** |
| Cash and cash equivalents, beginning of period | 17,409 | 15,916 |
| Cash and cash equivalents, end of period | 13,901 | 17,409 |

# Contents

# 1. Accounting principles and policies

The Group's fiscal year runs from January 1 to December 31, 2015. The consolidated financial statements are presented in euros.

The financial statements have been approved by the Board of Directors and audited by the Group's two Statutory Auditors, Ernst & Young et Autres and Deloitte & Associés.

The ABC arbitrage Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union as of December 31, 2015.

The Group has applied the new standards, amendments and interpretations adopted by the European Union that are compulsory as of January 1, 2015. It has elected not to adopt those whose application is optional in 2015.

The financial statements are presented in euro, which is the functional currency of the Group companies. Where amounts are indicated in thousand euros rounding errors may occur.

Preparation of the financial statements required ABC arbitrage Group to make estimates and assumptions, which could have an impact on the amounts at which assets, liabilities, income and expenses are stated. The estimates, and the assumptions underlying them, have been made on the basis of other factors considered to be reasonable in the circumstances. They thus serve as the basis for the judgement made in determining the carrying amounts of assets and liabilities that could not be determined directly from other sources. The definitive amounts that will be stated in ABC arbitrage Group's future financial statements may be different from the amounts currently estimated. These estimates and assumptions are reviewed on a continuous basis.

The Group takes an industrial approach to its business, focusing on the exclusive design of arbitrage strategies that take advantage of market imbalances in order to help eliminate them and thereby make the market both liquid and efficient.
Its main aim is to deliver annual returns within a well-defined risk framework and to invest in the resources needed for sustainable growth.

In 2015, in line with the objectives set out in the Ambition 2016 plan, ABC arbitrage increased its investments in Quartys, a financial instrument trader, and ABC arbitrage Asset Management Asia, an asset manager.

At December 31, 2015, ABC arbitrage had almost no direct exposure on financial markets, except for its investments in the funds held by ABCA Funds Ireland. Further to the application of IFRS 10, as stipulated in Note 1.8.1 "Consolidation principles", the amounts recorded as total assets, total liabilities, operating income and income before tax for 2014 and 2015 are not directly comparable.

## 1.1. Intangible assets and property and equipment

Intangible assets and property and equipment are carried on the balance sheet at cost. They are calculated on a straight-line basis over their expected useful lives.

The amortisation and depreciation periods generally applied by the Group are as follows:
- Intangible assets: 1 to 2 years
- Information systems equipment: 3 to 5 years
- Fixtures and fittings: 5 to 10 years

Amortisation and depreciation charges are recognised in the income statement under "*Depreciation and amortisation expense*".

## 1.2. Fair value of financial instruments

The Group's trading exposures ("Trading Exposures") include equities or equity derivatives (such as warrants and convertible bonds), derivative products such as futures, options and foreign exchange; and collective investment undertakings, the vast majority of which are traded on active markets, which may or may be not regulated, and are referred to collectively as "Financial Instruments".

An ensemble of related Trading Exposures constitutes an arbitrage model ("Arbitrage Model"). Trading Exposures may alternatively be referred to as Trading Positions ("Trading Positions").

Trading Exposures in Financial Instruments may be held in custody, as a creditor or a debtor to a counterparty or in synthetic format (contracts for differences, swaps).

Trading Exposures in Financial Instruments are held solely for trading purposes. They are classified as held-for-trading and are recognised in the accounts at fair value through profit or loss.

The fair value hierarchy is comprised of the following levels:
- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2);
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Financial assets and liabilities at fair value through profit or loss are initially recognised and measured at their fair value and are remeasured at fair value in subsequent periods. To measure its financial instrument portfolio, an entity must use the same assumptions that market participants would use to price an asset or liability, assuming they are acting in their own economic best interest. Fair value is defined as the price at which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction on the main market (or if there is no main market, on the most advantageous market) on the valuation date (i.e. an exit price), whether that price is directly observable or estimated using valuation techniques. Furthermore, IFRS 13 states that fair value must include all the risk assumptions that market participants would use.

With the incorporation of Quartys, and pursuant to IFRS 13, the Group has refined its inputs. In light of real business conditions for trading financial instruments, the exit price used to measure the financial instrument portfolio is the mid-price between bid and ask, quoted at the time when the financial instruments in the arbitrage transaction were last quoted simultaneously or with the smallest possible interval. If there is no active market for the instrument, fair value is determined using valuation techniques.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In accordance with IAS 32, cash and securities receivable and deliverable are netted off when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The netting off of such balance sheet items results in a fairer presentation of the Company's financial position. It has no impact on the statement of comprehensive income.

The financial assets and liabilities held for trading purposes are recognised on the balance sheet at fair value under *"Financial assets or liabilities at fair value through profit or loss"*. Changes in fair value are recorded in the statement of income for the period as *"Net gains or losses on financial instruments at fair value through profit or loss"*.

The Group derecognises a financial asset or liability when the contractual rights to the cash flows from the financial asset or liability expire, or it transfers the rights to the contractual cash flows of the financial asset or liability in a transaction in which substantially all the risks and rewards of ownership of the financial asset or liability are transferred.

### 1.3. Portfolio revenue

Equity revenue is accounted when realized. Tax credits linked to equity revenue are included in "*Portfolio revenue*".

### 1.4. Dividend income

Dividend income is recognised on the ex-dividend date.

### 1.5. Share-based payment

ABC arbitrage has granted stock options to employees. On exercise of stock options, ABC arbitrage issues new shares or sells to employees shares previously acquired by the Group. Only the gain or loss arising on the sale of these shares is recognised in the financial statements.

IFRS 2 "Share-Based Payment" requires that an expense be recognised equal to the fair value of the services rendered by the employees in return for the equity instruments granted to them.

### 1.6. Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, provided that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

When the risk occurs or the expense is incurred, the provision release does not qualify as income as it does not result in a net increase in equity. It is therefore recognised as a reduction of the expense concerned. If the actual expense is lower than the provision and the balance of the provision is no longer required, the surplus then qualifies as income and is booked under the same line item as the original provision charge.

### 1.7. Corporate income tax

Corporate income tax includes current taxes and adjustments to deferred taxes. Deferred taxes are calculated on all timing differences between the recognition of income and expenses for financial reporting and tax purposes and on consolidation adjustments. Deferred tax assets and liabilities are calculated using the liability method, at the tax rates that are expected to apply when the timing differences reverse. They are not discounted.

The probability of deferred tax assets being recovered is reviewed regularly and may, where necessary, give rise to the derecognition of previously recognised deferred tax assets.

### 1.8. Financial statement presentation

#### 1.8.1 Consolidation principles

The amendment to IFRS 10 “Consolidated Financial Statements”, approved by Regulation (EU) no. 1174/2013 of November 20, 2013 and published in the EU Official Journal on November 21, 2013, gives a definition of what constitutes an “investment entity” and introduces an exception to the consolidation requirements for subsidiaries of entities meeting that definition. Such investments are required to be measured at fair value through profit or loss.

A parent company shall determine whether it is an investment entity. An investment entity is an entity that: (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

In December 2014, the IASB published amendments to IFRS 10 “Consolidated Financial Statements” and to IAS 28 "Investments in Associates and Joint Ventures" in order to clarify some of the principles (applicable from January 1, 2016). These amendments stipulate that only subsidiaries that conduct business related to that of an investment entity parent and that are not investment entities themselves have to be fully consolidated. Accordingly, investment entity subsidiaries must be measured at fair value. The amendments are pending adoption by the European Union and will not affect the Group's financial statements because they are consistent with the accounting treatment it already uses.

Under the standards, ABC arbitrage is considered as an investment entity, meaning that its investments:
1. in Quartys and ABCA Funds Ireland are presented as financial assets at fair value through profit or loss, since both entities are considered as investment entities due to the nature of their business;
2. in ABC arbitrage Asset Management and ABC arbitrage Asset Management Asia, the Group's asset management companies, remain fully consolidated because both companies provide services related to the Group's asset management business without actually qualifying as an investment entity.

#### 1.8.2 Earnings per share

Diluted earnings per share is equal to net income for the year divided by the number of shares outstanding at December 31, 2015 plus the impact of all potentially dilutive instruments.

## 2. Consolidation principles

ABC arbitrage, ABC arbitrage Asset Management and ABC arbitrage Asset Management Asia are fully consolidated.

| Company | Country | % interest | Consolidation method |
|---|---|---|---|
| ABC arbitrage | France | Parent company | Fully consolidated |
| ABC arbitrage Asset Management | France | 100% | |
| ABC arbitrage Asset Management Asia | Singapore | 100% | |

ABC arbitrage Asset Management and ABC arbitrage Asset Management Asia are the Group’s asset management companies.

At December 31, 2014, BC Finanzberatung GmbH and ABCA Global Fund were also included in the scope of consolidation. The two companies conduct no business and were wound up during the year.

In light of the exception to consolidation introduced by IFRS 10 “Consolidated Financial Statements” (see note 1), ABC arbitrage's interest in ABCA Funds Ireland and Quartys Limited is presented under financial assets at fair value through profit or loss.

The percentage interests are as follows:

| Company | Country | % interest | Consolidation method |
|---|---|---|---|
| Quartys Limited | Ireland | 100.0% | Fair value based on net asset value |
| ABCA Opportunities Fund | Ireland | 57.7% | |
| ABCA Reversion Fund | Ireland | 14.3% | |

Quartys Limited trades in financial instruments. In 2015, ABC arbitrage subscribed in full to the company's share issues in an amount of €43 million, increasing the company's capital to €58.1 million at December 31, 2015.

ABCA Funds Ireland was restructured in 2015 to focus its business on two funds, namely by broadening and diversifying the investment objectives of the ABCA Opportunities Fund subfund and maintaining the ABCA Reversion Fund subfund.

At 31 December 2015, ABCA Opportunities Fund had €59 million of funds under management.

At 31 December 2015, ABCA Reversion Fund had €103 million of funds under management.

Due to cross-holdings, ABCA Funds Ireland had total assets of €142 million.

# 3. Notes to the balance sheet

## 3.1. Intangible assets and property and equipment

*Gross value*

| In EUR thousand | Gross value Dec. 31, 2014 | Acquisitions | Retirements /disposals | Gross value Dec. 31, 2015 |
|---|---|---|---|---|
| Concessions and similar rights | 622 | 115 | (319) | 417 |
| Equipment, fixtures and fittings | 1,266 | 10 | - | 1,276 |
| Vehicles | 182 | - | (182) | - |
| Office and computer equipment, furniture | 4,047 | 367 | (424) | 3,991 |
| **Total gross value** | **6,117** | **491** | **(925)** | **5,684** |

*Amortisation and depreciation*

| In EUR thousand | Dec. 31, 2014 | Increases | Decreases | Dec. 31, 2015 |
|---|---|---|---|---|
| Concessions and similar rights | (550) | (112) | 319 | (343) |
| Equipment, fixtures and fittings | (701) | (140) | - | (841) |
| Vehicles | (76) | (36) | 112 | - |
| Office and computer equipment, furniture | (2,977) | (414) | 418 | (2,973) |
| **Total amortisation and depreciation** | **(4,304)** | **(702)** | **849** | **(4,157)** |

Intangible assets are amortised and property and equipment are depreciated over their estimated useful lives. Amortisation and depreciation expense for the year are reported in the income statement under "*Depreciation and amortisation expense*".

## 3.2. Other non-current financial assets

At 31 December 2015, this item included €688 thousand in guaranteed deposits and securities.

## 3.3. Consolidated equity

### 3.3.1. Share-based payment – Ambition 2016 incentive program

On May 14, 2014, the Board awarded a maximum of 850,000 performance shares, through three separate plans:
- a maximum of 283,333 performance shares, which will vest according to cumulative consolidated net income for 2014 and 2015;
- a maximum of 283,333 performance shares, which will vest according to cumulative consolidated net income for 2014 to 2016;
- a maximum of 283,334 performance shares, which will vest according to cumulative consolidated net income for 2014 to 2017.

No shares will vest if net income is less than €12 million a year and they will vest progressively thereafter on a linear basis. For example, if net income is €20 million a year over the entire period, 390,000 shares will vest and if net income is €25 million a year over the entire period, 634,000 shares will vest. The IFRS expense recognised in respect of 2014 was €409 thousand.

The IFRS expense for these performance shares recognised in respect of fiscal year 2015 was €432 thousand.

On May 12, 2015, the Board awarded a maximum of 900,000 performance shares, through three separate plans:
- a maximum of 300,000 shares, which will vest according to cumulative consolidated net income for 2015 and 2016;
- a maximum of 300,000 performance shares, which will vest according to cumulative consolidated net income for 2015 to 2017;
- a maximum of 300,000 performance shares, which will vest according to cumulative consolidated net income for 2015 to 2018.

The IFRS expense for these performance shares recognised in respect of fiscal year 2015 was €368 thousand.

The expense related to these plans is deferred over the vesting period. The corresponding amount recognised in equity is calculated on the basis of the overall plan value determined on the date of grant by the Board of Directors.

In accordance with IFRS 2, an expense of €800 thousand, calculated on the basis of the estimated probable number of shares under the various plans, was recognised in respect of fiscal year 2015 (vs €455 thousand at 31 December 2014).

The after-tax loss on share buybacks used amounted to €34 thousand and was deducted from consolidated equity at 31 December 2015 (vs €37 thousand at 31 December 2014).

### 3.3.2. Issue of warrants to subscribe for new shares or purchase existing shares (BSAA 2011)

A BSAA is a warrant (option) entitling the holder to subscribe for new shares or purchase existing shares of the company in the future at a specified price and on specified terms and conditions. The purchase price per 2011 BSAA was set by the Board of Directors on July 5, 2011 at €0.45, within the price range determined by an independent accountant, and with no discount or employer's contribution. The exercise price is €9.20, corresponding to 128% of the average closing share prices quoted during the 20 trading sessions preceding July 5, 2011, and will be reduced by the amount of any dividend paid after July 12, 2011 with a minimum of €6.30.

In July 2011, ABC arbitrage issued 4,680,000 2011 BSAAs, which were purchased by 39 employees. The proceeds received by the Group at the time of issue amounted to €2.1 million and were accounted for as share premiums.
The 2011 BSAAs will be listed on the stock exchange by September 30, 2016 at the latest and will be exercisable from June 1, 2015 to June 29, 2018 inclusive.

At December 31, 2015, in light of the results for the period 2010-2014 and the adjustments to the exercise ratio resulting from distribution of issue premiums, each 2011 BSAA entitled its holder to 0.246 ABC arbitrage shares with an exercise price of €7.5595.

The 2011 BSAAs are held in the Group employee share ownership plan for a period of five years, except in special circumstances.

### 3.3.3. Contingent capital

ABC arbitrage has entered into a contingent capital agreement in the form of a "PACEO" equity line with Société Générale, pursuant to the resolution passed at the annual shareholders' meeting of May 23, 2014. Société Générale has undertaken to subscribe, at ABC arbitrage's request, to successive capital issues made over the next 36 months, up to a maximum of 4,000,000 shares.

### 3.3.4. Capital increase resulting from reinvestment of dividends

The Annual Shareholders' Meeting of June 5, 2015 approved a 2014 dividend of €0.40 per share. Taking into account the interim dividend of €0.20 per share paid in November 2014, the final dividend will amount to €0.20 per share. The ex-dividend date was 1 July 2015. Shareholders had the option of receiving cash or reinvesting their dividend in shares.

At the end of the option period, 1,554,926 new ordinary shares, ranking *pari passu* with the existing shares, were issued at a price of €4.65 per share, giving an overall reinvestment rate of more than 66%. The dividend ultimately paid in cash amounted to €3.62 million. The total issue proceeds included €24,878.82 in paid-up capital and €7,205,527.08 in additional paid-in capital. The new ordinary shares are fully paid.

ABC arbitrage paid a dividend of €0.20 per share, solely in cash. The ex-dividend date was December 17, 2015, and the dividend was paid on December 21, 2015. Since the distribution was paid from the share premium account, it was treated as a repayment of capital contributions, pursuant to Article 112-1 of the French tax code (*Code general des impôts*). In view of the number of ABC arbitrage shares qualifying for the payment, the total amount came to €11.16 million.

At December 31, 2015, ABC arbitrage's share capital was represented by 56,733,410 fully paid ordinary shares with a par value of €0.016 each.

### 3.3.5. Treasury stock

During 2015, ABC arbitrage sold 133,559 of its own shares. At the same time, 111,960 shares were purchased under the market-making agreement with Kepler Cheuvreux.

At December 31, 2015, ABC arbitrage held 917,860 of its own shares, acquired at a total cost of €4,405 thousand (at December 31, 2014, the company held 950,079 of its own shares, acquired at a total cost of €4,551 thousand).

In accordance with IFRS, treasury stock is deducted from equity.

## 3.4. Financial assets/liabilities at fair value through profit or loss

At December 31, 2014, all financial assets and liabilities measured at fair value through profit or loss were classified as Level 1 in the fair value hierarchy described in note 1.1.

| In EUR thousand | Quoted prices in active markets for identical assets or liabilities (Level 1) | Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (Level 2) | Unobservable inputs for the asset or liability (Level 3) | Total |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 551,699 | 47,086 | 0 | **598,785** |
| Financial liabilities at fair value through profit or loss | (492,055) | 0 | 0 | **(492,055)** |

At December 31, 2015, these instruments were classified as follows:

| In EUR thousand | Quoted prices in active markets for identical assets or liabilities (Level 1) | Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (Level 2) | Unobservable inputs for the asset or liability (Level 3) | Total |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 6,361 | 114,594 | 0 | **120,955** |
| Financial liabilities at fair value through profit or loss | (5,381) | 0 | 0 | **(5,381)** |

Financial assets at fair value through profit or loss classified in Level 2 correspond to the investments in Quartys Limited and the ABCA Funds Ireland Plc subfunds. These investments are not consolidated, but are measured at fair value through profit or loss, in accordance with IFRS 10 (note 1). These items are classified in Level 2 as the value of the units is not directly observable in an active market, but their net assets comprise exposures to Level 1 financial instruments quoted on active markets, whose prices are directly observable.

There were no transfers between the various levels of the hierarchy during 2015.

Details of Financial instruments to be received and delivered are provided in note 5 “Risks factors”.

Cash reserves earn interest at variable rates indexed to benchmark market rates.

## 3.5. Guarantees given

Most financial instruments recorded under *"Financial assets at fair value through profit or loss"* have been given as collateral to the institutions that provide the financing, as specified in note 5.2.

### 3.6. Other receivables and payables

All receivables and payables are due within less than one year.

| In EUR thousand | Other receivables | Other payables |
|---|---|---|
| Trade receivables/payables | 7,043 | (352) |
| Accrued income/expenses | 224 | (472) |
| Accrued taxes and payroll costs | 5,726 | (4,990) |
| **Total at December 31, 2015** | **12,993** | **(5,814)** |
| *Total at December 31, 2014* | *12,937* | *(6,234)* |

Accrued taxes mainly comprise corporate income tax, withholding tax and dividend tax credits.

Accrued taxes correspond mainly to corporate tax, bonuses payable to employees and amounts due to social security organizations.

Trade payables are generally payable within thirty days from the end of the month.

### 3.7. Provisions

| In EUR thousand | |
|---|---|
| **Total provisions at December 31, 2014** | **100** |
| Provisions utilised in 2015 | - |
| Provision reversal in 2015 | 100 |
| Charge to provisions in 2015 | - |
| **Total provisions at December 31, 2015** | **200** |

## 4. Notes to the statement of income

### 4.1. Net gains on financial instruments at fair value through profit or loss

Net gains on financial instruments at fair value through profit or loss amounted to €34,024 thousand versus €46,325 thousand in 2014.

Net gains on financial instruments at fair value through profit or loss include all income, expenses and costs directly related to the trading business, namely:

- dividends and manufactured dividends;
- gains and losses on disposal of financial instruments at fair value through profit or loss;
- changes in fair value of financial instruments held or due;
- interest income and expenses;
- financial instrument securities carrying or lending costs;
- the net gains at fair value through profit or loss of Quartys Limited and the ABCA Funds Ireland Plc subfunds recognised in accordance with IFRS 10;
- any other transaction related revenues or expenses.

### 4.2. Investment services fees

Investment services fees amounted to €13,570 thousand at December 31, 2015. At December 31, 2014, they amounted to €5,715 thousand, shown as net gains on financial instruments at fair value through profit or loss.

Investment services fees relate to the services that the Group's management companies bill to Quartys Limited and ABCA Funds Ireland Plc.

### 4.3. Other revenue

Other revenue comprises revenue from sub-letting premises amounted to €250 thousand versus €129 thousand during 2014.

### 4.4. Administrative expenses

Administrative expenses principally comprise data mining and processing costs, together with administrative and communications costs.

This item totalled €6,650 thousand in 2015 versus €5,618 thousand in 2014.

### 4.5. Payroll costs

The average number of employees was 86 in 2015 versus 83 in 2014.

Payroll costs include €9,356 thousand in fixed and performance-related compensation together with statutory and discretionary profit-sharing (€8,226 thousand in 2014), payroll taxes of €3,692 thousand (€3,350 thousand in 2014). Payroll-based taxes amounted to €368 thousand (€332 thousand in 2014).

The *Crédit d'Impôt Compétitivité Emploi* (CICE) tax credit was recognised as a deduction from payroll costs in the amount of €35 thousand for 2015. This accounting treatment complies with the position published by the *Autorité des Normes Comptables* (ANC), the French accounting standards setter, in its information notice of February 28, 2013 and reflects the ultimate purpose of the legislation, which is to reduce payroll costs.

The Group does not provide any post-employment benefits (supplementary pensions or health insurance). Other long-term benefits are provided under defined contribution plans, which do not give rise to a future liability as the Group's only obligation is to make regular contribution payments.

During 2015, the following amounts were paid by Group companies to the executive officers of the parent company:

| In EUR | |
|---|---|
| Directors' fees | 296,777 |
| Salary and other benefits | 170,400 |
| Gross bonuses | 40,225 |

### 4.6. Provision expense

A net provision reversal of €70 thousand was recognised at December 31, 2015, compared with a net reversal of €232 thousand in 2014. This amount relates to a reversal of provisions set aside in respect of doubtful tax receivables.

### 4.7. Corporate income tax

The difference between the theoretical corporate income tax charge determined by applying the standard French tax rate to pre-tax income and the actual tax charge – corresponding to an effective tax rate of 7.91% - can be explained as follows:

| **Standard French tax rate** | **34.43%** |
|---|---|
| Impact of permanent differences | 0.20% |
| Impact of tax credit | (1.75)% |
| Impact of the portfolio revenue recognition method | (0.03)% |
| Impact of IFRS10 presentation | (24.94)% |
| **Effective tax rate** | **7.91%** |

ABC arbitrage elected for group tax relief with ABC arbitrage Asset Management on January 1, 2004.

The tax group has signed an agreement whereby each member of the group (subsidiary and parent) recognises in its accounts the income tax that would be payable if it was taxed on a stand-alone basis. The charge is therefore calculated on their own taxable profit after deduction of any prior year losses.

Any tax savings made by the tax group through the utilisation of tax losses are retained by the parent company and treated as an immediate gain in the year. The parent company will therefore incur a tax charge in the year in which the subsidiary becomes profitable.

# 5. Risk factors

The Group is exposed to a variety of risks: market risks, credit and counterparty risks, liquidity risks, operational risks and other risks.

ABC arbitrage provides subsidiaries with a general risk-management framework that the subsidiaries' boards of directors adhere to when setting their own policy.

The Group oversees the implementation and effectiveness of the controls carried out in its subsidiaries with the support of the executive managers and the control functions (market risk and internal control).

This is because the Group uses leverage as part of its financing agreements with counterparties, allowing it to take larger exposures than would be possible if it were acting alone.

Trading Exposures to Financial Instruments in isolation present a risk of loss of capital. The maximum loss of capital on long Trading Exposures to equities is limited to the fair value of those positions. The maximum loss of capital on long Trading Exposures to future contracts is limited to the notional contract value of those positions. The maximum loss on short Trading Exposures to futures contracts and equities is theoretically unlimited.

Exposures recorded as financial assets and liabilities at fair value through profit or loss break down as follows:

| In EUR thousands | a. Gross carrying amount (before netting) | b. Gross amounts netted in the balance sheet | c. Net carrying amount [a-b] at Dec. 31, 2015 | Financial assets at Dec. 31, 2015 | Financial assets at Dec. 31, 2014 |
|---|---|---|---|---|---|
| Non-derivative financial instruments | 707,380 | (243,024) | 464,356 | | |
| Derivatives | 3,903 | (11,202) | (7,300) | | |
| Unlisted derivatives | 370,086 | (759,386) | (389,300) | | |
| **Total long positions** | **1,081,369** | **(1,013,612)** | **67,757** | **120,955** | *598,785* |
| Cash and margin accounts | 25,533 | (437,990) | (412,457) | | |
| Cash derivative – unlisted | 16,745 | - | 16,745 | | |
| Cash and cash equivalents | 458,932 | (10,021) | 448,911 | | |

| In EUR thousands | a. Gross carrying amount (before netting) | b. Gross amounts netted in the balance sheet | c. Net carrying amount [a-b] at Dec. 31, 2015 | Financial liabilities at Dec. 31, 2015 | Financial liabilities at Dec. 31, 2014 |
|---|---|---|---|---|---|
| Non-derivative financial instruments | - | - | - | | |
| Derivatives | - | - | - | | |
| Unlisted derivatives | - | - | - | | |
| **Total short positions** | **-** | **-** | **-** | **(5,381)** | *(492,055)* |
| Cash and margin accounts | - | (4,379) | (4,379) | | |
| Cash derivative – unlisted | - | - | - | | |
| Cash and cash equivalents | - | (1,002) | (1,002) | | |

| In EUR thousands | a. Gross carrying amount (before netting) | b. Gross amounts netted in the balance sheet | c. Net carrying amount [a-b] at Dec. 31, 2015 | | |
|---|---|---|---|---|---|
| Non-derivative financial instruments | 707,380 | (243,024) | 464,356 | | |
| Derivatives | 3,903 | (11,202) | (7,300) | | |
| Unlisted derivatives | 370,086 | (759,386) | (389,300) | | |
| **Total short positions** | **1,081,369** | **(1,013,612)** | **67,757** | **115,574** | *106,730* |
| Cash and margin accounts | 25,533 | (442,369) | (416,835) | | |
| Cash derivative – unlisted | 16,745 | - | 16,745 | | |
| Cash and cash equivalents | 458,932 | (11,024) | 447,908 | | |

*a. Long Trading Exposures means that the Group has acquired an interest in the increase in price of a Financial Instrument.*
*b. Short Trading Exposures means that the Group has acquired an interest in the decrease in price of a Financial Instrument.*

The breakdown of the geographical exposures is detailed as followed:

| Fiscal year | 2015 |
|---|---|
| Asia | 6% |
| Euro zone | 43% |
| USA | 44% |
| Other markets | 7% |
| **Total** | **100%** |

This geographic analysis is determined using the absolute value of the exposures at year-end, broken down by financial market, with the latter grouped by geographic area.

### 5.2. Market risks

Market risk is the risk that the fair value or future cash flows of Trading Exposures will fluctuate because of changes in market prices of Financial Instruments and include notably market price risk, interest rate risk and foreign currency risk.

✓ *Market risks*
Equity risk, or price risk, arises mainly due to uncertainty about the future prices of Financial Instruments held. It represents the potential loss that could be incurred by the Group as a result of potential movements in price on its exposures to Financial Instruments.

The risk is never related to an unfavourable movement in market prices, for example a stock market crash, but can arise from an unfavourable event related to one of the above operations. By definition, the risks on arbitrage models are not interdependent. The Group hedges risks by spreading them across the greatest possible number of transactions, financial instrument types and geographic areas.

As at 31 December 2015, the aggregate VaR of the Trading Exposures of the Group was €2.58M. The parameters of calculation are a level of confidence of 99%, a "one year historical" methodology and a holding duration of 1 day.

✓ *Interest rate risk*
Interest rate fluctuations may have a positive or negative influence on the value of Financial Instruments.

In general, the Trading Positions are composed by approximately equal amounts of long Trading Positions and short Trading Positions and the risk is therefore not material. If a specific Trading Position carries a material interest rate risk, this risk is systematically hedged. Consequently, no sensitivity analysis has been disclosed.

✓ *Currency risk*
The Group may hold Trading Positions denominated in currencies other than the Group's functional currency. Exchange rate fluctuations against the functional currency may have a positive or negative influence on their value.

Currency risks are systematically hedged by buying or selling the currency (or an exposition to the currency). The only risk is of a secondary nature – that the profit (or loss) realized in a given currency may vary if it is not converted into the functional currency. The Group regularly converts profits (or losses) into the functional currency and its exposure to currency risk is therefore marginal.

At December 31 2015, a 2% rise (fall) in the euro against all currencies would, all other things being equal, have increased (decreased) net assets by €187 thousand.

### 5.3. Credit and counterparty risk

This is the risk of a counterparty being unable to honor its contractual obligation to settle a transaction with the Group, due to deterioration in its financial position.

The ABC arbitrage Group deals solely with brokers/dealers ("Brokers") and credit institutions and investment companies ("Counterparties"). All of these parties are subject to specific controls by the regulatory authorities in the countries in which they operate.

The Group's trading activity mainly comprises financial instruments which are traded on active (if not regulated) markets which predominantly settle via a Central Clearing Party (CCP). The risk of default by Brokers for each and every market trade is therefore considered to be minimal, as the CCP serves to guarantee settlement, and the securities are not delivered until the Broker has made or received payment.

By unwinding transactions in financial instruments, a counterparty acts as depositary, creditor or debtor, or as counterparty to a synthetic product (CFDs, swaps) for the Group. In general the Group's business requirements permits that very little (if any) of its assets are held in Custody. A significant proportion of the assets of the Group transferred to Counterparties are either pledged as a first security interest or transferred as margin (collectively "Collateral") to support the Trading Positions. The Counterparty may re-use this Collateral for its own account but is required by contract to return the assets or equivalent assets upon first demand if it is no longer needed to support the Trading positions.

The risks related to the use of a Counterparty are:
- interruption or discontinuation of services as the Counterparty has the right to amend or discontinue the services;
- increased costs of maintenance of Trading Positions with the Counterparty;
- failure by the Counterparty to return Collateral used due to market events;
- failure by the Counterparty to return sums due as a result of bankruptcy;
- incorrect valuation of Trading Positions held and Collateral transferred to the Counterparty.

The Group manages this counterparty risk through the use of industry standard master agreements, close monitoring of Counterparty credit ratings and diversification of its relationships to spread risk while weighing up the pricing benefits of concentration on larger-scale relationships.

At year end, the maximum exposure to credit risk is included in the net amounts for financial instruments (note 5).

### 5.4. Liquidity risks

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due, or can only do so on terms that are materially disadvantageous.

The Group’s Trading Exposures consist almost exclusively of highly liquid Financial Instruments quoted on active markets and its obligations mainly comprise the necessity to provide Collateral to support the Group’s Trading Positions. The volume of Trading Positions which the Group may enter into is contractually based on the assets transferred as Collateral.

The Group's actual Trading Positions, taking into account existing agreements with Counterparties, is constantly monitored to ensure that the Group benefits from considerable flexibility in conducting its business as well as substantial liquid reserves. In addition, given the highly liquid nature of the Trading Positions the Group can alleviate the need for Collateral by reducing the volume of Trading Positions.

At December 31, 2015, the liquidity position was as follows:

| In EUR thousand | Less than one month | One to three months | Three to twelve months | More than twelve months | Total |
|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 6,360 | 114,595* | - | - | 120,955 |
| Other receivables | 7,103 | 594 | 5,296 | - | 12,993 |
| Deferred tax assets | - | - | 2,166 | - | 2,166 |
| Cash and cash equivalents | 13,901 | - | - | - | 13,901 |
| **Total current assets** | **27,364** | **115,189** | **7,462** | **-** | **150,015** |
| Financial liabilities at fair value through profit or loss | (5,381) | - | - | - | (5,381) |
| Other liabilities | (2,677) | (2,188) | (949) | - | (5,814) |
| Current tax liabilities | - | - | - | - | - |
| Short-term borrowings | - | - | - | - | - |
| **Total liabilities** | **(8,058)** | **(2,188)** | **(949)** | **-** | **(11,195)** |
| **Net balance** | **19,306** | **113,001** | **6,513** | **-** | **138,819** |

**Financial assets at fair value through profit or loss classified as between one and three months correspond to the investments in Quartys Limited and the ABCA Funds Ireland Plc subfunds, which are shown at fair value in accordance with IFRS 10 (note 1), since ABC arbitrage is unable to recover their value in less than one month. By contrast, the net assets of these companies are mainly composed of exposures to Level 1 financial instruments traded on active markets and convertible into cash in much less than one month.*

### 5.5. Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes, people and systems.

In 2015, losses due to operational incidents represented 4.6% (vs 1.6% in 2014) of revenues.

This risk is managed upstream by ensuring that position taking is guided by written procedures and a rigorous internal control process. However, these procedures and controls cannot provide absolute assurance that operational losses will not occur and due care is taken at all times as this is a structural risk in the arbitrage business.

### 5.6. Other risks

✓*Compliance risk (including legal risk)*
Compliance risk is the risk of failure to identify and/or comply properly with the provisions governing the Group's business activities. Such failure can lead to malfunctions, financial loss or sanctions (legal, disciplinary, administrative, etc). An ongoing monitoring system is in place within the Group's legal and tax department.

✓*Conflict of interest risk*
Conflict of interest risk is the risk of being confronted with situations where the interests of a client or company may conflict with those of another client or with those of a Group company or a Group employee.

To prevent conflict of interest situations, the Group has implemented:
- an internal conflicts of interest policy including guidance to be followed by employees in order to identify, prevent and manage conflicts of interest;
- strict procedures and rules governing the handling of orders and primacy of the client interest. The Group's asset management companies comply strictly with financial market operating rules and are not permitted to do anything that might contravene the principle of fair and equal treatment of orders. More particularly, orders transmitted to the market are pre-allocated and time and date stamped.

Transactions between Group companies are carried out on an arm's length basis.

## 6. Other information

### 6.1. Related party transactions

There were no material transactions with Theta Participations (new company name of ABC participation et gestion) and Aubépar Industries in 2015.

### 6.2. Fees paid to the Statutory Auditors

| | ERNST & YOUNG ET AUTRES | | | | DELOITTE ET ASSOCIES | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount in EUR (excluding VAT) | | % | | Amount in EUR (excluding VAT) | | % | |
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Audit fees | 30,500 | 32,900 | 50% | 50% | 30,500 | 32,900 | 50% | 50% |
| Other services provided to fully consolidated subsidiaries | 29,125 | 30,650 | 50% | 24% | 29,125 | 57,650 | 76% | 76% |
| Other audit-related work | 26,000 | 5,000 | 55% | 100% | 21,000 | - | 45% | 0% |
| **TOTAL** | **85,625** | **68,550** | **52%** | **43%** | **80,625** | **90,550** | **48%** | **57%** |

** Excluding ABC arbitrage Asset Management Asia, whose 2015 financial statements were audited by Crowe Horwath First Trust (€7 thousand of fees).*

To the shareholders,

In compliance with the assignment entrusted to us by the Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2015, on:

- the audit of the accompanying consolidated financial statements of ABC arbitrage;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

## I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis or by selection, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements present fairly the assets and liabilities, financial position and results of the companies included in the consolidated group, in accordance with the International Accounting Standards and International Financial Reporting Standards adopted by the European Union.

## II. Basis of opinion

In accordance with the requirements of Article L.823-9 of the French Commercial Code relating to the justification of our assessments, we draw to your attention the following matters:

- As explained in note 1.2, the Group has determined the market price of financial instruments measured at fair value based on the bid price for assets held and liabilities to be issued and on the ask price for assets to be purchased and liabilities held. We assessed the data and assumptions used to determine these prices, reviewed the Group's calculations and assessed the appropriateness of the related disclosures made in the notes to the financial statements.
- As indicated in notes 1.5 to the consolidated financial statements, the Group has granted employees stock options and shares without consideration, for which an expense has been recognised equal to the fair value of the services rendered by the employees in return for the equity instruments granted to them. Our work consisted in assessing the data and assumptions used to determine this fair value, reviewing the Group's calculations and verifying the appropriateness of the related disclosures made in the notes to the financial statements.

The assessments were made in connection with our audit procedures on the consolidated financial statements, taken as a whole, and contributed to the formulation of our unqualified audit opinion expressed in the first section of this report.

## III. Specific procedures and information

As required by law, we have also performed specific verification of the information concerning the group given in the management report.

We are satisfied that this information is fairly stated and agrees with the consolidated financial statements

Neuilly-sur-Seine & Paris-La Défense, April 28, 2016
The Statutory Auditors

| | |
|---|---|
| ERNST & YOUNG et Autres | DELOITTE & ASSOCIES |
| Olivier DURAND | Charlotte VANDEPUTTE |

ABC arbitrage Group

# ANNUAL FINANCIAL REPORT

# Corporate Social Responsibility Report

Social, environmental and social responsibility

Year 2015

Our social, environmental and societal responsibility involves two main areas:

- Active recruitment management and employee support:
  Our hiring policy focuses on diversity, without any form of discrimination, while the key aspects of our employee support policy are skills development and incentive-based compensation policies.

- Taking environmental and societal considerations into account in our day-to-day decisions:
  We seek to raise employee awareness of environmentally responsible practices and to reduce our direct impact on the environment through the initiatives described below.

However, given the nature of its operations, the ABC arbitrage Group is not concerned by some of the social responsibility issues for which information must be disclosed in compliance with France's Grenelle II Act of 12 July 2010.
In particular, both our environmental footprint and our impact on host communities are limited. As a result, policies dedicated to these aspects have not been deployed and the corresponding indicators have been excluded from the Grenelle II disclosures.
In the summary table presented below, these excluded issues are designated as "not applicable" (N/A), whereas issues for which information is disclosed are referred to the corresponding paragraph in the report.

The scope of reporting is as follows:
- Details and information concerning our social responsibility and environmental performance focus mainly on the actions undertaken by ABC arbitrage and ABC arbitrage Asset Management, two French companies that account for 96% of all employees.
- Employee-related indicators cover the entire workforce, including the operations in Ireland and Singapore

Note that information concerning these issues has been presented on www.abc-arbitrage.com since the company's founding.

Lastly, as a supplement to this CSR report, it is important to read the management report, which discusses the significant events of the year and our strategic vision and outlook

## Contents :

# 1. Societal information

### a. Local, economic and social impact of our business

Since the outset, we have contributed to local development on our own scale, not only as an employer but also through our business activities by bringing liquidity to the markets and contributing to the development of the financial industry.

An arbitrage is a combination of transactions designed to take advantage of imperfections between different financial markets. It ensures that prices are identical in all markets at any given time. It creates smooth flows between the various markets and provides them with liquidity. Through our business, we contribute on our own scale to maintaining useful, efficient markets and compliance with regulations. It enables small retail investors to gain access to the market and acquire financial instruments at their fair value.

However, our contribution to society is not confined to our role in the financial markets. We have always redistributed the value we create to our employees and shareholders and also to the State in the form of income tax, payroll taxes and other taxes.

### b. Relations with people or organisations affected by the company's activity

We aim to fulfill our corporate social responsibility by taking account of the expectations of our stakeholders (mainly shareholders and employees), with whom we foster open, frank dialogue:

- Employees can pass on their requests, suggestions and comments to their managers at any time. Appraisals are held twice yearly to discuss their daily activities and areas for improvement, set targets and plan their career paths. Dialogue also takes place between management and employee representative bodies. An intranet site is available to employees providing useful information about the organisation.
- Regular, high-quality financial reporting keeps investors and shareholders informed of the Group's results and key trends. In addition to the annual shareholders' meeting, regular press releases are issued to keep shareholders informed. Our website (www.abc-arbitrage.com) and email contact address (actionnaires@abc-arbitrage.com) are also available for obtaining any information they may need.

But our role in society and our relations with our stakeholders are not confined to our shareholders and employees. Our community involvement also involves facilitating entry in the workplace, links with educational institutions and membership in professional working groups:

- Employees regularly take part in engineering school forums and technology conferences to promote the Group and its activities, forge relationships with students and identify future talent. Internships are offered to students on a regular basis and provide a reservoir of talent for future recruitment.
- For the 2014 and 2015 school years, funding was provided to the Maison des Talents, an innovative program led by the Fondation Financière de l’Echiquier to enable deserving women scholarship students to pass the entrance examinations for France's most prestigious universities, or *grandes écoles*. We hope that the partnership will make it easier for the new generation to earn scientific degrees, thereby helping to enhance France's performance and reputation for excellence in these fields.
- The Group also participated in the Basis.point initiative, a scheme created by the Irish investment fund industry to improve training and educational opportunities for disadvantaged young people in Ireland.
- ABC arbitrage also call upon the services of non-profit organisations and sheltered workshops that promote social inclusion and entry (or re-entry) in the workplace of disabled adults.
- ABC arbitrage is an active member of MiddleNext and, along with the other midcaps listed on the market, share the belief that we need to tailor corporate governance practices to the needs of different organisational structures, for example based on ownership structure or size, in order to create an informal governance system suited to the company's practices.
- ABC arbitrage is a member of IFA (Institut Français des Administrateurs), which provides corporate directors with all the information, training and expertise they need to carry out their role and brings together all those who wish to help develop professional standards and best governance practices.
- ABC arbitrage takes also part to Croissance Plus, an association of entrepreneurs who promote a sustainable development business model and share their wealth, knowledge and power within the organisation. Croissance Plus works to promote an alternative entrepreneurial model with the aim of creating businesses and jobs and defending the interests of the most dynamic SMEs whose needs are not always taken into consideration by the public authorities.
- Lastly, ABC arbitrage renewed its donation to the Wikimedia Foundation, a non-profit organization dedicated to encouraging the growth and development of free educational content.

### c. Sub-contracting and suppliers

The use of sub-contractors is restricted to the preparation of pay statements, social security filings and franking. Our supplier base is small and offers only a limited selection. Other suppliers are called upon for items that are not directly linked to the group's business activity.As a result, there are no social responsibility or environmental purchasing policies in place.

### d. Fair business practices

ABC arbitrage is listed on a regulated market. Consequently, immediately upon signing an employment contract, employees undertake to comply with all internal control procedures as regards dealing in ABC arbitrage shares and, more generally, the legislation and regulations on preventing insider trading. Similarly, ABC arbitrage Asset Management is a portfolio management company and its business is therefore regulated, subject to authorisation and supervised by the Autorité des Marchés Financiers (AMF). Employees undertake to comply with all of the mandatory rules and regulations governing asset management activities, particularly the primacy of the client's interests and the fight against bribery and money-laundering.
More generally, internal control and risk management procedures have been described in the report of the Chairman of the Board of Directors.
Lastly, ABC arbitrage pledges to uphold human rights, including those covered by the main ILO conventions. Given that we operate in countries where democracy and human rights are promoted and controlled, no particular policy has been devised in this area.

## 2. Social information

Key employee data are summarised in the table below:

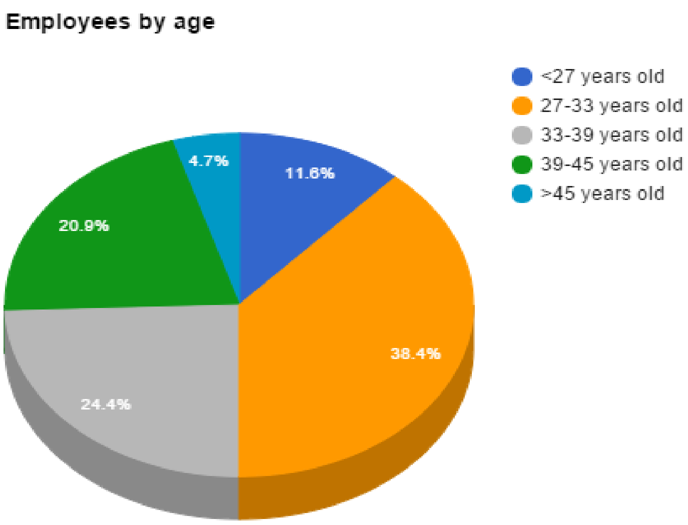
| Indicator | Definition/unit of measurement | 2015 | | | | 2014 | Change |
|---|---|---|---|---|---|---|---|
| | | ABCA(1) | ABAM(2) | Inter-national(3) | TOTAL | TOTAL | 100% |
| **Total headcount** | Total number of interns and permanent employees | 4 | 78 | 4 | **86** | **83** | 4% |
| **Average headcount** | Total number of interns and permanent employees | 5 | 79 | 4 | **88** | **82** | 6% |
| **Permanent employees** | Total number of permanent employees | 4 | 78 | 4 | **86** | **83** | 4% |
| | Permanent employees as a % of total headcount | 100% | 100% | 100% | **100%** | **100%** | NA |
| **Number of interns at the year-end** | Total number of interns at December 31 | 0 | 0 | 0 | **0** | **1** | (100)% |
| | Interns as a % of total headcount | 0% | 0% | 0% | **0%** | **1%** | 0% |
| **Number of interns during the year** | Number of short-term internships | 0 | 3 | 0 | **3** | **3** | 0% |
| | Number of pre-hire internships | 0 | 3 | 0 | **3** | **3** | 0% |
| | Percentage of pre-hire internships converted into permanent employment contracts | NA | 67% | **NA** | **67%** | **100%** | NA |
| **Headcount by category** | Managers as a % of total headcount | 75% | 100% | 100% | **99%** | **99%** | 0% |
| | Other employees as a % of total headcount | 25% | 0% | 0% | **1%** | **1%** | 0% |
| **Gender balance** | % women | 25% | 24% | 50% | 26% | 22% | 18% |
| | % men | 75% | 76% | 50% | 74% | 78% | (5)% |
| **New hires** | Number of new permanent hires | 0 | 13 | **1** | **14** | **17** | (18)% |
| **Resignations** | Number of resignations during the year | 0 | 3 | 0 | **3** | **3** | 0% |
| **Contractually agreed terminations** | Number of contractually agreed terminations during the year | 1 | 4 | **0** | **5** | **7** | (29)% |
| **Dismissals** | Total number of dismissals | 1 | 0 | **0** | **1** | **0** | 100% |
| **Other (4)** | Other contract terminations | 0 | 2 | 0 | **2** | **2** | 0% |
| **Average age** | Average age of permanent employees | 48 | 33 | 36 | **34** | **35** | (3)% |
| **Average length of service** | Number of years | 12 | 6 | 9 | **6,8** | **7,6** | (11)% |
| **Training (5)** | Number of hours training provided | 43 | 146 | 0 | 189 | 294 | (36)% |
| **Absenteeism (6)** | Number of days absenteeism in France (%) | 2.63% | 1.81% | **0** | **1.88%** | **2.04%** | (8)% |

*(1) ABC = ABC arbitrage*
*(2) ABAM = ABC arbitrage Asset Management*
*(3) International = Quartys Ltd based in Ireland (one employee) and ABC arbitrage Asset Management Asia Pte Ltd based in Singapore (two employees).*
*(4) Other contract terminations corresponds to trial period terminations.*
*(5) Takes into account all data concerning employees who received training during the year, including those who were no longer part of the workforce at 31 December. Only training hours carried out with certified bodies are taken into account. Internal training hours (mentioned in section 2 g) are not included.*
*(6) Total number of days' absence (including maternity leave) divided by the total number of theoretical working days.*

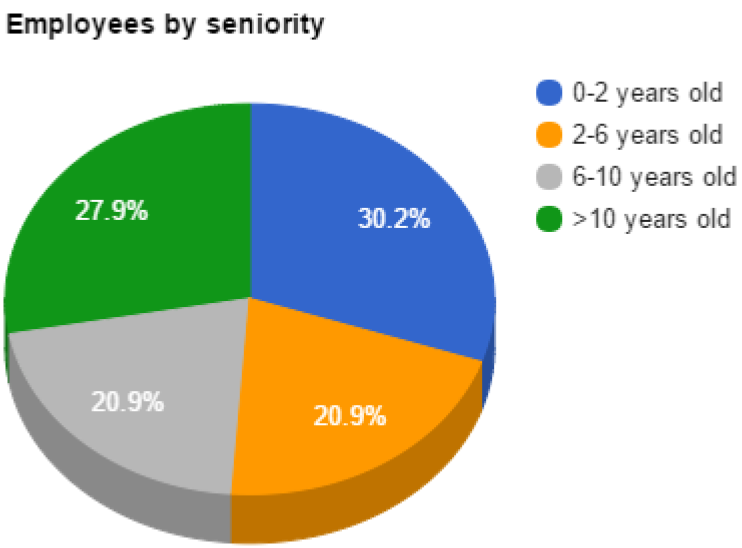
### a. Turnover/length of service

Fourteen new employees joined the Group in 2015, accounting for 15% of the workforce at year-end. They reflected our decision to combine veterans with proven technical or financial experience (five new hires) and recent engineering graduates (three new hires). This hiring policy encourages the emergence of new ideas and innovation, while capitalising on the expertise of our most loyal employees. As described in the management report, this assertive hiring process is an integral part of our growth plan.

Attesting to our forward-looking vision, the average age of our employees is a relatively young 34 (vs 35 in 2014) and 63% are aged 27 to 39.




Average length of service for employees in the Group stands at 6.8 years (versus 7.6 years in 2014, with the aforementioned recruitment directly affecting this average). However, the company has an experienced, loyal management team, with an average 15 years of service. These employees lead younger associates who fall into three categories: 2 to 6 years and 6 to 10 years, each of which represented 21% of employees, and less than 2 years, which represented 30%, as shown in the chart below. This organization offers us the energy and momentum we need to drive growth.




### b. Compensation policy

*All of the regulatory information required under Article L.225-102 of the French Commercial Code is disclosed in the management report for 2015.*

In an unstable and increasingly complex regulatory environment (CRD IV and AiFMD) that has triggered a noticeable increase in base salary costs in the finance industry, ABC arbitrage has had to gradually review its compensation policy, with a resulting increase in fixed costs of around 20% between 2012 and 2014. This strategy continued in 2015. These competitive pressures, coupled with the hiring of high-quality employees and a performance-based bonus policy, drove a 12% increase in employee benefits expense during the year, to €13.6m at December 31, 2015.

With a view to motivating our people over the long term and aligning their interests with those of our shareholders, management has developed various share-based incentive schemes to drive growth by retaining core skills while containing payroll and other fixed costs in a highly competitive environment. We had already embarked on this approach well before the 2008 crisis and the resulting G20 recommendations. Despite the additional cost measures taken by various governments, we are still convinced that they have a role to play and we will continue to use them, albeit to a lesser extent.

All of the information concerning the share-based incentive schemes is presented in the management report.

**c. Working time organisation**

Working time varies according to the job and practices (fixed hours, flexible hours, organisation) differ depending on business needs.
Employees work the hours specified in the collective agreement, which correspond to the legal hours, unless otherwise stipulated in their employment contracts. Where possible, subject to business constraints, employees are granted considerable flexibility in their working hours. They may also opt to work part-time. In 2015, there were two part-time female employees.
The Group hired an employee on a fixed term contract in 2015 to cope with a temporary increase in activity. This was then immediately converted into a permanent contract

**d. Absenteeism**

Absenteeism and the reasons are tracked by the human resources department. The absenteeism indicator is the ratio between the number of days' absence and the total number of days' paid expressed as a percentage. Parental leave accounted for most (31%) of the days lost.
Short-term leave (i.e. less than three days), was taken mainly for illness or family events. These two reasons accounted for 26% of days lost during the year, for a short-term absenteeism rate of 0.49%.
The rate of unplanned leave, due to illness, stood at 1.64%.
These very low percentages attest to the positive workplace environment nurtured across the Group, as well as to the initiatives undertaken to enhance employee well-being.

**e. Employee relations**

Social dialogue is based on a process of consultation between employer and employees (or their representatives). There are three employee representative bodies:

- The Works Council, which plays a business role (company organisation and practices, working conditions, vocational training, apprenticeship, etc.) as well as a social and cultural role. It meets once a month whenever possible.
- Staff representatives, who represent all employees of the company and are responsible for ensuring compliance with all laws, regulations and the collective agreement on social protection, health and safety. They meet once a month whenever possible.
- The Health and Safety Committee, whose role is to contribute to protecting the health and safety of Group employees and improving working conditions. It meets once a quarter.

These bodies are informed and consulted when major decisions are made in order to take employees' interests into consideration. Employees are informed about them and the way they work, particularly upon first joining the company. The information is also available to everyone on the ABC arbitrage electronic documents.

Social dialogue also takes place regularly through twice-yearly meetings held to present the Group's results. Attendance is mandatory and the meetings provide an opportunity for employees to ask management questions about the company's results, future strategy, etc.

The collective agreements applicable to the Group are mainly those related to the incentive and mandatory profit-sharing schemes. An employee savings plan is also open to all employees. A new profit-sharing agreement was signed in June 2015

**f. Health and safety**

Our policy on health in the workplace goes further than simply complying with changes in the regulations. Protecting the health of our people is a key priority for ABC arbitrage.
The Group pays 100% of the basic cost of their top-up health plan. A voluntary flu vaccination campaign is offered each year. In 2015, the occupational risk assessment report was reviewed in association with the occupational physician. This report aims to identify all the risks involved in the jobs carried out within the Group.

We are very attentive to the well-being of our people, which is reflected in various initiatives:

- Maximum flexibility in working hours subject to business constraints;
- Provision of childcare facilities;
- Balancing work and personal life (for example, by not scheduling recurring meetings after 6.00 p.m.);
- A pleasant, ergonomic working area.

In addition to the workplace emergency responders, a number of employees are also trained in basic first aid and some have been appointed and trained as fire officers. Note that no workplace accidents or incidences of occupational illness were reported in 2015.

**g. Training**

Training is a key priority for the ABC arbitrage group. There are two main aspects to our training policy:

- Technological, regulatory and fiscal training:

We organise many training courses enabling employees to keep abreast of regulatory, fiscal and technological developments.

- Core business training :

Our training policy for our core business is based primarily on mentoring and desk research. There is little or no direct training available for the arbitrage business and what is available tends to focus more on directional strategies rather than arbitrage. We therefore believe that mentoring (know-how transfer) is the best way to train our employees. As regards desk research, we encourage our employees to learn by regularly consulting professional and technical blogs and by reading a lot of technical literature.

Attesting to this commitment to training and mentoring, certain interns completing their programme are offered pre-employment assignments, 67% of which were transformed into permanent work contracts in 2015.

### h. Equal opportunity

In its hiring and human resources management process, the ABC arbitrage Group refuses any and all forms of discrimination, in particular as regards nationality, culture, gender or disability. On the contrary, we embrace all our diversity, whether cultural or generational, by hiring and integrating employees from a wide variety of backgrounds.

We endeavour to hire motivated, skilled employees who will integrate effortlessly into the existing team and create an intelligent working relationship between people from a broad variety of backgrounds. As we indicate on our website, there is no typical ABC arbitrage profile, but more a common attitude of openness and balance; for example a belief that mutual support and exacting standards go hand in hand or that independence does not mean exclusion or exclusivity. Most importantly, we encourage ambition, provided it benefits the group as a whole.

## 3. Environmental information

Given the nature of our business, the ABC arbitrage Group does not have any direct or material impact on the environment. As a result, several indicators specified in article 225 of the Grenelle II Act have been excluded from the reporting process.
We are nonetheless aware of our responsibility and we endeavour to respect the environment in the conduct of our business activities, by taking environmental considerations into account in our day-to-day decisions.

### a. General environmental policy

Our environmental policy aims to minimise the direct impacts of our internal activities on the environment through strict management of the natural and energy resources needed in our business.

In our arbitrage business, which is based on statistical and mathematical techniques, we select financial instruments to trade in by entirely neutral methods. Market inefficiencies are the only consideration that affects our decisions and we do not apply any environmental screens in our selection process.

Although the ABC arbitrage Group's environmental footprint is very limited, employee awareness is raised through:

- Regular email reminders about good environmental practices (turning off computer screens and office lights in the evening, only printing documents when strictly necessary, using the various recycling bins, etc.);
- Encouragement to recycle and manage waste as described below.

### b. Pollution and waste management

Various waste management mechanisms are available to employees:

- Recycling points for batteries, coffee capsules and plastic bottle stoppers are provided in the communal areas (coffee area);
- Each office has a paper and cardboard recycling bin;
- Printers (of which the number is very limited, the entire workforce sharing just three printers located in central points) are configured by default to print in duplex and in black and white;
- Used toner cartridges are collected by a waste service provider;
- We attempt to find a useful outlet for our used computer equipment (given away to employees, non-profit organisations, etc.). However, if this equipment cannot be "recycled", we ensure that it is properly destroyed (obtaining a certificate of destruction).

In addition, measures have been taken to prevent and reduce air emissions. For example, we took the considered decision to locate our offices in central Paris as it helps to encourage employees to use public transport for their commute.

Employees are made aware of environmental risks and they are encouraged to group their business meetings together to the extent possible in order to reduce business travel, to take the train rather than fly when distance permits, and to make maximum use of new technologies such as video or audio conferencing.

### c. Sustainable use of resources

Given its activity, the Group's consumption of raw materials is restricted to:

- Paper, an area where continuous efforts are being made. Despite a growing workforce, the number of reams of paper consumed in 2015 significantly decreased to 120 from 300 in 2014. In addition to paper used by employees, the shift to a digital format for the 2014 annual report contributed to the objective of reducing paper consumption.
- Energy, which for us mainly means electricity. Electricity consumption for the whole Group fell to 733,640 kWh versus 739,980 kWh in 2014. This translates into a nearly 1% reduction year-on-year and a decrease of slightly more than 10% over the past two years. When we moved into the Centorial building in early 2010, we introduced a mechanism to reduce our use of electricity and air conditioning. Outside of the programmed time bands (corresponding to our business needs), manual intervention is required to activate one hour of lighting and has to be reset each time. This complies with the legal requirements on the lighting of business premises.
- Lastly, water consumption is minimal, and its cost is included in the property rental. Accordingly, we do not produce detailed data on our water consumption.

| Cat. | Main topic | Sub-topic | ABC link |
|---|---|---|---|
| Societal | Regional, economic and social impact of the company's activity | Impact on employment and regional development | § 1.a |
| | | Impact on neighbouring or local populations | NA |
| | Relations with stakeholders in the company's activity | Dialogue with stakeholders | § 1.b |
| | | Community involvement and philanthropy | § 1.b |
| | Sub-contracting and suppliers | Integration of social and environmental issues in the purchasing policy | § 1.c |
| | | Importance of sub-contracting and making corporate social responsibility a consideration in supplier and sub-contractor relations | |
| | Fair business practices | Anti-bribery and corruption measures | § 1.d |
| | | Measures to protect consumer health and safety | |
| | Human rights | Actions promoting human rights | |
| Social | Employment | Total workforce and breakdown by gender, age and geographic area | § 2. Social information |
| | | New hires and dismissals | § 2.a |
| | | Compensation and compensation trends | § 2.b + §3 of management report |
| | Work organisation | Organisation of working time | § 2.c |
| | | Absenteeism | § 2.d |
| | Employee relations | Organisation of social dialogue, particularly as regards informing, consulting and negotiating with employees | § 2.e |
| | | Report on collective agreements | |
| | Health and safety | Health and safety in the workplace | § 2.f |
| | | Report on health and safety agreements with the trade union organisations and staff representative bodies | |
| | | Workplace accidents, including incidence and severity, and occupational disease | |
| | Training | Training policies | § 2.g |
| | | Total number of training hours | § 2 Social information |
| | Diversity and equal opportunity/equal treatment | Gender equality policy and measures | § 2.h |
| | | Disability employment and inclusion policy and measures | |
| | | Anti-discrimination policy and measures | |
| | Promotion of and compliance with the relevant ILO fundamental conventions | Freedom of association and right to collective bargaining | |
| | | Discrimination (employment and occupation) | |
| | | Abolition of forced labour | |
| | | Abolition of child labour | |

| | | | |
|---|---|---|---|
| Environmental | General environmental policy | Processes for integrating environmental issues and, where applicable, environmental assessment or certification policy | § 3.a |
| | | Actions to train and inform employees about environmental protection | § 3.a |
| | | Resources devoted to environmental risk and pollution prevention | NA |
| | | Amount of financial provisions for environmental risk, provided that this disclosure is not likely to seriously harm the company's position in an ongoing lawsuit | NA |
| | Pollution and waste management | Prevention, mitigation or remedy of environmentally harmful air, water and ground emissions | § 3.b |
| | | Waste prevention, recycling and elimination | § 3.b |
| | | Noise and other forms of pollution specific to an activity | NA |
| | Sustainable use of resources | Water consumption and water supply according to local constraints | § 3.c |
| | | Consumption of raw materials and measures taken to use them more efficiently | |
| | | Energy consumption, measures taken to improve energy efficiency and use of renewable energy | |
| | | Land use | NA |
| | Climate change | Greenhouse gas emissions | NA |
| | | Adapting to climate change | NA |
| | Protecting biodiversity | Processes for integrating environmental issues and, where applicable, environmental assessment or certification policy | NA |

*This is a free translation into English of the original report issued in the French language and it is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

To the shareholders,

In our quality as an independent verifier accredited by the COFRAC (Scope available at www.cofrac.fr) under the number n° 3-1050, and as a member of the network of one of the statutory auditors of the company ABC arbitrage, we present our report on the consolidated social, environmental and societal information established for the year ended on the 31 december 2015, presented in the CSR report, attached to the management report, hereafter referred to as the "CSR Information," pursuant to the provisions of the article L.225-102-1 of the French Commercial code (*Code de commerce*).

**Responsibility of the company**
It is the responsibility of the Board of Directors to establish a management report including CSR Information referred to in the article R. 225-105 of the French Commercial code (*Code de commerce*), in accordance with the protocols used by the company (hereafter referred to as the "Criteria").

**Independence and quality control**
Our independence is defined by regulatory requirements, the Code of Ethics of our profession as well as the provisions in the article L. 822-11 of the French Commercial code (*Code de commerce*). In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

**Responsibility of the independent verifier**
It is our role, based on our work:
- to attest whether the required CSR Information is present in the management report or, in the case of its omission, that an appropriate explanation has been provided, in accordance with the third paragraph of R. 225-105 of the French Commercial code (*Code de commerce*) (Attestation of presence of CSR Information);

- to express a limited assurance conclusion, that the CSR Information, overall, is fairly presented, in all material aspects, in according with the Criteria;

Our verification work was undertaken by a team of four people between March and April 2016 for an estimated duration of three weeks. We conducted the work described below in accordance with the professional standards applicable in France and the Order of 13 May 2013 determining the conditions under which an independent third-party verifier conducts its mission, and in relation to the opinion of fairness, in accordance with the international standard ISAE 3000 (*Assurance engagements other than audits or reviews of historical information).*

**1. Attestation of presence of CSR Information**

We obtained an understanding of the company's CSR issues, based on interviews with the management of relevant departments, a presentation of the company's strategy on sustainable development based on the social and environmental consequences linked to the activities of the company and its societal commitments, as well as, where appropriate, resulting actions or programmes.
We have compared the information presented in the management report with the list as provided for in the Article R. 225-105-1 of the French Commercial code *(Code de commerce).*
In the absence of certain information, we have verified that the explanations were provided in accordance with the provisions in Article R. 225-105-1, paragraph 3, of the French Commercial code *(Code de commerce).*
We verified that the information covers the consolidated perimeter namely the entity and its subsidiaries, as aligned with the meaning of the Article L.233-1 and the entities which it controls, as aligned with the meaning of the Article L.233-3 of the French Commercial code *(Code de commerce)*.
Based on this work, we confirm the presence in the management report of the required CSR information.

**2. Limited assurance on CSR Information**

**Nature and scope of the work**
We undertook two interviews with the people responsible for the preparation of the CSR Information in the department of finance and general secretary, in charge of the data collection process and, if applicable, the people responsible for internal control processes and risk management, in order to:

- Assess the suitability of the Criteria for reporting, in relation to their relevance, completeness, reliability, neutrality, and understandability, taking into consideration, if relevant, industry standards;

- Verify the implementation of the process for the collection, compilation, processing and control for completeness and consistency of the CSR Information and identify the procedures for internal control and risk management related to the preparation of the CSR Information.

We determined the nature and extent of our tests and inspections based on the nature and importance of the CSR Information, in relation to the characteristics of the Company, its social and environmental issues, its strategy in relation to sustainable development and industry best practices.

For the CSR Information which we considered the most important:
*(Environmental and societal information: general environmental policy (organisation, training and information delivered to the employees), energy consumption, territorial impact economic and social, relation with stakeholders (conditions for dialogue, partnership or sponsorship), business ethics (actions undertaken to prevent bribery and corruption*
*Social information: employment (total headcount and breakdown, hiring and terminations, remunerations and their evolution), organisation of working time, absenteeism, training policies, number of days of training, diversity and equality of treatment and opportunities (measures undertaken for gender equality, employment, inclusion of disabled people, anti-discrimination policies and actions))*

 At the level of the consolidated entity and its entities, we consulted documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions, etc.), we implemented analytical procedures on the quantitative information and verified, on a test basis, the calculations and the compilation of the information, and also verified their coherence and consistency with the other information presented in the management report;

 At the level of the representative selection of entities that we selected (ABC arbitrage Asset Management, ABC arbitrage Asset Management Asia and Quartys Ltd), based on their activity, their contribution to the consolidated indicators, their location and a risk analysis, we undertook interviews to verify the correct application of the procedures and undertook detailed tests on the basis of samples, consisting in verifying the calculations made and linking them with supporting documentation.

For the other CSR information, we assessed their consistency in relation to our knowledge of the company.

Finally, we assessed the relevance of the explanations provided, if appropriate, in the partial or total absence of certain information.

We consider that the sample methods and sizes of the samples that we considered by exercising our professional judgment allow us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work. Due to the necessary use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a significant anomaly in the CSR Information cannot be entirely eliminated.

**Conclusion**
Based on our work, we have not identified any significant misstatement that causes us to believe that the CSR Information, taken together, has not been fairly presented, in compliance with the Criteria.

Paris-La Défense, the 19 April 2016
*French original signed by:*

Partner, Sustainable Development
Eric Duvaud

Partner
Bruno Perrin

ABC arbitrage Group

# ANNUAL FINANCIAL REPORT

## Report of the Chairman of the Board Year 2015

Under article L. 225-37.6 of the French Commercial Code, the chairman of any company listed on a regulated market is required to report to the annual general meeting of shareholders on the company's corporate governance system (including board membership, board representation by gender and board practices), and on the internal control and risk management systems implemented by the company and more particularly its procedures for preparing and processing accounting and financial information for the parent company and, if applicable, the consolidated financial statements. In addition, this report describes any limitations set by the Board of Directors on the powers of the Chief Executive Officer.

This report covers both the parent company ABC arbitrage, particularly as regards corporate governance, and the ABC arbitrage group as a whole as regards internal control.

The underlying information was collected by the Corporate Secretary. The report was submitted to the Board for approval on April 7, 2016 and sent to the statutory auditors for their review and report.

## 1. Corporate governance

The underlying rules of the current governance system are based mainly on common sense and aim to strike an appropriate balance between implementing value added processes for improved security and maintaining the simplicity needed by an organization the size of the ABC arbitrage group.

The Board adopted MiddleNext's corporate governance code for small and midcaps as its reference code when it was published in December 2009 (www.middlenext.com). The MiddleNext code is approved by the Autorité des Marchés Financiers (AMF) as a reference code.

ABC arbitrage is an active member of the MiddleNext association. The group shares the association's belief that each company should adapt best governance practices based on its ownership structure, size and legal form, in order for the governance system to be closely aligned with its corporate practices.

ABC arbitrage is a member of IFA – Institut Français des Administrateurs, the French Institute of Directors (www.ifa-asso.com/). The aim of this professional network is to promote the best corporate governance practices in France. IFA is also member of the European Confederation of Directors' Associations (ecoDa), which intends also to disseminate best CG practices across Europe and to lobby their interests before European institutions.

### 1.1. Board membership

The Board of Directors acts as a forum for exchanging the views and ideas of the management team that runs the company on a day-to-day basis, the main shareholders who make strategic choices as the company's owners, and external advisers who provide the benefit of their own experience and an objective, independent opinion.

This broad range of backgrounds and interests is considered to be the best way for the Board to work effectively and make the right decisions for the company and its various stakeholders.

As of December 31, 2015, the Board of Directors of ABC arbitrage had seven members, one non-voting member and a secretary.

The following table lists the other directorships and offices held by the members of the Board:

| Name | Position | Directorships and other offices |
|---|---|---|
| Dominique Ceolin | Chief executive officer | Chief Executive Officer of ABCA AM<br>Member of the Board of ABCA AM Asia<br>Chairman of the Board of Financière WDD<br>Administrator of MiddleNext |
| Aubépar Industries SE | Director<br>Xavier Chauderlot is Permanent representative of Aubépar Industries SE | **Aubépar Industries:**<br>Chairman and Managing Director of Aubépar SE (represented by Xavier Chauderlot)<br>Chairman and Managing Director of Financière du Bailli SA (represented by Xavier Chauderlot)<br>Non-voting director on the Board of Directors of Jet Entrepreneurs SA (represented by Lionel Saby)<br>**Xavier Chauderlot**<br>Chairman and Managing Director of Aubépar Industries S.E.<br>Representative of Aubépar Industries S.E. on the Board of Directors of Aubépar S.E.<br>Representative of Aubépar Industries S.E. on the Board of Directors of Financière du Bailli SA<br>Director of Quartys Ltd |
| Theta Participations (formerly ABC participation et gestion*) | Director<br>Jean-Christophe Estève is Permanent representative of Theta Participations | **Jean-Christophe Estève:**<br>Executive manager of Theta Participations<br>Manager of Biotope SARL, Aerotope SARL and Biotope Luxembourg SARL<br>Director of Biotope's subsidiaries |
| Jean-François Drouets | Director | Chairman of Catella Valuation Advisor<br>Member of the steering committee of Catella France |
| Sabine Roux de Bézieux | Director | Managing director of Notus Technologies SAS<br>Member of the Supervisory Board of ANF Immobilier<br>Member of the Supervisory Board of Turenne Investissement<br>Member of the strategy commitee of Arteum SAS<br>Director of IDLF - Inès de la Fressange - SA |
| Didier Ribadeau Dumas | Director | Representative of ABCA on the Board of ABCA AM<br>Member of the Supervisory Board of La Banque Postale, wholly-owned subsidiary of La Poste group<br>Chairman of the accounts committee, risks committee and appointments committee of La Banque Postale<br>Member of the strategy committee and compensation committee of La Banque Postale<br>Director of BPE, wholly-owned subsidiary of La Banque Postale<br>Director, Chairman of the appointments and compensation committee, and member of the strategy committee of Poste Immo, wholly-owned subsidiary of La Poste group<br>Member of the Supervisory Board of Comgest<br>Member of the Board of La Mondiale till 10/14/2014<br>Director of SGAM Ag2r La Mondiale till 10/14/2014 |
| Marie-Ange VERDICKT | Director | Member of the Supervisory Board of Solucom<br>Member of the Supervisory Board of CapHorn Invest<br>Member of the Board of Interparfum<br>Member of the Supervisory Board of Bonduelle |
| Jacques Chevalier | Non-voting Director | - |
| Laetitia Hucheloup | Secretary of the Board | Corporate Secretary, ABCA AM<br>Head of Compliance and Internal control |

*ABCA: ABC arbitrage / ABCA AM: ABC arbitrage Asset Management / ABCA AM Asia: ABC arbitrage Asset Management Asia*
** In February 2, 2016, Theta Participations (formerly ABC participation et gestion) stepped down from its position as director*

The directors have the experience and expertise required to fulfil their duties.

Dominique Ceolin, Chairman, is a qualified actuary and holds an advanced degree in mathematics and information technology. In 1994, he joined ABN Amro Securities France where he took part in developing the Domestic Arbitrage business. In 1995, he used this experience to help found ABC arbitrage.

Theta Participations (formely known as ABC participation et gestion) and Aubépar Industries SE are the historical owners and founders of the group. They are still two of the main shareholders with 8.9% and 14.3% respectively at December 31, 2015. Their representatives on the Board combine in-depth knowledge of arbitrage operations with an objective view of the business.

The other members qualify as independent directors based on the accepted definition, i.e. they have no relationship of any kind whatsoever with the company, its group or the management of either that is such as to colour their judgments.

Jean-François Drouets is a graduate of HEC business school and has a post-graduate diploma (DESS) in conveyancing law and is a Chartered Surveyor. He is the chairman and founder of Catella Valuation Advisors, a real estate valuation and consulting firm owned by Swedish group Catella. He provides the group with the benefit of his broad business experience.

Sabine Roux de Bezieux is a graduate of ESSEC business school and has a degree in accounting and financial studies (DECF). She started her career in CCF's investment banking division before spending 13 years at Arthur Andersen. Since 2013, she has been Managing Director of Notus Technologies, the family holding company. She is also heavily involved in the philanthropic scene in France.

Didier Ribadeau Dumas, a graduate of ENA, held various positions with the French Ministry of the Economy and Finance from 1971 to 1984 before joining CIC to head the bank's international subsidiary. In 1989, he joined an international strategy and management consulting firm, where he was Senior Vice President till 2006.

Marie-Ange Verdickt is a graduate of the Ecole Supérieure de Commerce in Bordeaux (1984) and a member of the SFAF. After having gained experience as an auditor at Deloitte and as an analyst at Euronext, in 1998 she joined Financière de l'Echiquier, a portfolio management company where she was a mutual fund manager for 15 years. She has also developed Socially Responsible Investment practices during that time.

The Board exercised its right to invite any person of its choice to take part in Board meetings on a consultative basis or as a non-voting member, to provide additional insight. Jacques Chevalier regularly took part in Board meetings, as non-voting member.
Jacques Chevalier is a graduate of the Ecole Normale Supérieure, mathematics professor, qualified actuary and university lecturer. Former university professor, he is employed as a consultant to financial institutions and insurance companies.

Laetitia Hucheloup, a graduate of the ESCEM business school, joined ABC arbitrage in 1999 after spending five years with the Salustro Reydel audit firm. Recruited to manage the Finance/Internal Control Department, she was named Chief Compliance Officer in 2006. On October 1, 2011 she was promoted to the position of Corporate Secretary of ABC arbitrage Asset Management, with responsibility for the Finance/Internal Control, Human Resources and Legal & Tax departments.

A representative of the works council, Cédric Lorans, is invited to all Board meetings. Mr Lorans has been a financial analyst with ABC arbitrage Asset Management since 2000. He is now deputy manager of the Analysis & Research department.

In accordance with the by-laws, each director owns at least one share of the company.

**Gender diversity:**
Women account for 28.5% of Board members. Excluding the founding shareholder directors, women represent 50% of the Board (two in four members).
By comparison, the average representation of women on company boards was about 30.3% for SBF120 companies at 27 January 2016 (source: Ethics & Boards).

**Independent directors:**
The definition of independent director is the same as set out in recommendation 8 of the MiddleNext Code:
- is not and has not been in the past three years an employee or executive officer of the company or a group company;
- is not a customer, supplier or banker that is material for the company or its group, or for which the company or its group represents a significant part of the business;
- is not a major shareholder of the company;
- is not related by close family ties to an executive officer or major shareholder;
- has not been an auditor of the company in the previous three years.

**Term of office**
Five terms were renewed at the Annual General Meeting held to approve the 2014 financial statements. The company Theta Participations stepped down as director of ABC arbitrage on February 2, 2016. In addition, two directors' terms will expire at the Annual General Meeting held to approve the 2015 financial statements. The choice of four-year terms is suited to the specific needs of the company, within the limits laid out by the law and in line with recommendation no.10 of the MiddleNext code.

| Name | Position | Date last elected to the Board | Term ends |
|---|---|---|---|
| **Dominique Ceolin** | Director | June 5, 2015 | AGM held to approve the 2018 financial statements |
| | Chairman of the Board | June 5, 2015 | AGM held to approve the 2018 financial statements |
| Aubépar Industries SE<br>*Represented by Xavier Chauderlot* | Director | June 1, 2012 | AGM held to approve the 2015 financial statements |
| Theta Participations (formerly known as ABC participation et gestion)<br>*Represented by Jean-Christophe Esteve* | Director | June 5, 2015 | Theta Participations stepped down as director of ABC arbitrage on February 2, 2016. |
| Jean-François Drouets | Director | June 5, 2015 | AGM held to approve the 2018 financial statements |
| Sabine Roux de Bézieux | Director | June 5, 2015 | AGM held to approve the 2018 financial statements |
| Didier Ribadeau Dumas | Director | June 1, 2012 | AGM held to approve the 2015 financial statements |
| Marie-Ange Verdickt | Director | May 31, 2014 | AGM held to approve the 2016 financial statements |

*AGM: Annual General Meeting of Shareholders*

**Conflicts of interest and code of conduct**
Dominique Ceolin is the Chairman and Chief Executive Officer of ABC arbitrage. The Board decided to combine the two roles after making sure that the principles of segregation of executive and supervisory functions would be upheld through sufficient counterweight to his powers and that the combined Chairman/Chief Executive role would not therefore pose a threat to the Group.

The Board asked to be informed directly of any unusual events or potential conflicts of interest. In 2015, no such events were brought to the Board's attention by the compliance officer, Chairman or any of the directors.

In addition, the directors asked Didier Ribadeau Dumas to meet with Dominique Ceolin on a regular basis to ensure that principles of segregation of executive and supervisory functions are upheld. In 2015, they met eight times.

The Charter of the Board explicitly requires all members of the Board to assess whether they are faced with a potential, perceived or actual conflict of interest both as soon as they take up their directorship and throughout their entire term of office, and, if they are, to disclose the situation at the next Board meeting. The director concerned must then abstain from voting on any matters involved with or affected by the conflict.

Each year, the Board assesses the independence of its directors and identifies any potential conflict of interest areas. During this assessment, the directors are required to declare in writing that they are not aware of any conflict of interest that has not already been disclosed to the Board.

Compliance with codes of conduct and regulations is a key concern for Board members in accordance with recommendation 7 of MiddleNext's code, particularly in view of the growing interest shown in this matter by investors in ABC arbitrage Asset Management funds. In 2015, 62% of investors in number representing 46% of ABCA Funds Ireland share capital sent a due diligence questionnaire to the asset management company, which included questions about whether there had been any investigations or criminal, civil or administrative proceedings involving the company, an affiliated company or any of their key executives or employees. In the affirmative, the Company would be required to provide a description of the facts and final outcome, and this could severely hamper growth of the asset management business.

**Appointment of directors**
The suitability of potential candidates for election to the Board of Directors is reviewed in a full Board meeting and several meetings are then arranged between the candidate or candidates and the independent directors, without the Chairman being present. Non-voting directors are then appointed by decision of all the members of the Board. At annual general meetings, each director is proposed for election or re-election in a separate resolution, to allow shareholders to freely decide on the membership of the Board.

The Board of Directors plans to recommend that shareholders re-elect all of the directors whose terms are due to expire.

### 1.2. Board practices and procedures

**Directors' Charter:**
On December 7, 2010, the Board drew up a Directors' Charter setting out the Board's key practices and principles. The Charter describes the Board's roles and powers, as well as certain specific rules to be adhered to by directors in addition to the relevant provisions of French law and the company's bylaws. This is a purely internal document and under no circumstances does it take precedence over French company law or any related regulations or the relevant provisions of the company's bylaws.
The Directors' Charter is revised periodically and can be viewed on the company's website.

**Board committees:**
Recommendation 12 of the MiddleNext Code requires us to report to you on the special committees created by the Board, namely the Audit Committee and the Compensation Committee. Members are designated on a case-by-case basis depending on the issues to be addressed. They meet at the request of executive management or any Board member.

**Audit Committee**
The Audit Committee met on March 17, 2015 to review the 2014 financial statements. The Committee members were Dominique Ceolin, ABC participation et gestion represented by Jean-Christophe Esteve, Aubépar Industries SE represented by Xavier Chauderlot, Didier Ribadeau Dumas, Sabine Roux de Bézieux and Marie-Ange Verdickt. Laetitia Hucheloup, corporate secretary and secretary of the board, also attended.
The Committee also met on September 22, 2015 to review the 2015 interim financial statements. All the members of the Board attended. Laetitia Hucheloup also attended.

The Committee's role, ahead of the Board meetings held to approve the financial statements, is to review a report of all significant events during the period and particularly key issues relating to the financial statements, whether raised internally or by the statutory auditors during their audit work.

The following issues were addressed:
- Overview of the Group's operating activities
  - Analysis of results in relation to the market environment
  - Current strategy
  - Analysis of important events concerning the Group's companies
  - Overview and analysis of business risks
  - Changes in the operating structure and relationships with the main counterparties
- Accounting, regulatory and tax changes
- Changes in headcount, compensation policy and monitoring of corporate actions
- Pending litigation
- ABC arbitrage share price
- Distributable income

 **Compensation Committee**
This committee's role is to prepare the Board’s compensation-related decisions and, more generally, to review compensation policy issues. The aim is to diversify and optimize the group's compensation policy in order to attract, motivate and retain its executives and employees and thereby preserve and improve the group's performance.
The Committee met on November 19, 2015. All the members of the Board and Laetitia Hucheloup attended.

**Board meetings**

The Board of Directors defines the overall strategy of the company and the group and oversees its implementation by executive management. More specifically, the Board plays an active role in the strategic development of subsidiaries of the Parent company. Except for those powers expressly vested in the shareholders in general meeting, the Board of Directors considers and decides on all matters related to the company's affairs, subject to compliance with the corporate purpose.

Board meetings are scheduled several months ahead to enable as many directors as possible to attend. Proposed changes to the timetable are first discussed with the directors in order to take into account directors’ prior commitments whenever possible. In 2015, the attendance rate at Board meetings was 89%.

The Board reached a quorum for all of its meetings. After discussions, all decisions were made unanimously.

Board meetings are held at the head office. They may called by any method, but in practice are usually called by e-mail, fax or verbally. Prior to a meeting, directors receive an agenda and any available preparatory information. Directors receive an agenda and any necessary background information before each meeting. All directors are encouraged to take part in the discussions, based on full information, with a focus on the core, mainly strategic, issues.

Minutes of each meeting are drawn up and held in a special register kept at the head office.

As required by article L. 823-17 of the French Commercial Code, the statutory auditors are invited to the meetings held to review the financial statements. They attended the meetings at which the Board reviewed and approved the 2014 annual and 2015 interim financial statements.

The Board of Directors met 10 times in 2015, thereby complying with recommendation 13 of the MiddleNext Code, on: January 23, February 23, March 19, April 16, May 12, June 5, June 16, September 24, October 13, December 8.

Under the share buyback program authorized by the shareholders at their annual general meeting of June 5, 2015, the Chief Executive Officer may not commit the company to amounts in excess of €500,000 without the prior authorization of the Board of Directors. There are no other restrictions on the Chief Executive Officer's powers.

As required by the MiddleNext corporate governance code recommendations, at its various meetings the Board of Directors discusses the key points for attention and focuses on any developments in this area. The Board also discusses the company's equal opportunity and equal pay policies annually.

**Key decisions in 2015**

The Board of Directors reviewed and monitored progress in the company and group's various projects. It also discussed the key points for attention set out in the MiddleNext corporate governance code that are relevant to the ABC arbitrage group.

The Board's main work in 2014 involved:

- Group organisation and development;
- Monitoring of subsidiary business operations;
- Risk management;
- Regulatory developments;
- Review of the annual and interim financial statements;
- Discussion and approval of financial information for earnings announcements;
- Approval of management reports;
- Discussion of the Chairman's report on corporate governance and internal control procedures implemented by the company in 2014;
- Review of related-party agreements.
- Review of the action plan to promote gender equality in the workplace;
- Preparations for the Annual General Meeting on June 5, 2015;
- Approval of the special report on the share and share-equivalent buyback programme;
- Approval of the report on the resolutions to be submitted to the Annual General Meeting;
- Approval of the report on stock options and performance share awards;
- Approval of the delegations of authority and powers granted by the Annual General Meeting to the Board of Directors for share issues;
- Implementation of the share buyback programme, block purchases and monitoring of the buyback account;
- Distribution of the final 2014 dividend with reinvestment option;
- Distribution of issue premiums in December 2015;
- Vesting of options to subscribe or buy shares;
- Vesting of performance shares and definition of new performance share plans;
- Decision to introduce an additional employee profit-share for 2015;
- Setting directors' fees and variable compensation of executive officers;
- Renewal of Dominique Ceolin's term as Chairman and Chief Executive Officer.

**Board assessment:**
The Board also reviews and discusses the Chairman's report, which provides the opportunity to analyse the Board's work and practices each year. The Board considers that this process is equivalent to an assessment of Board practices and the information provided to Board members and therefore complies on this point with the spirit of MiddleNext recommendations 15 and 11.

### 1.3. Directors' fees and executive compensation

In accordance with Article L.225-37 of the French Commercial Code, this report must present "the principles and rules established by the board of directors for determining any and all types of compensation and benefits granted to executive directors."

**Directors' fees**
At the Annual General Meeting of May 31, 2007, the shareholders set the total amount of directors' fees payable to Board members at €60,000 for 2007 and thereafter until a new resolution is passed. The Board is responsible for allocating this sum among its members.

The Board decided to allocate a fixed sum for each type of meeting, based on attendance as follows (excluding separate fees for any specific technical or preparatory work):
- €500 for each Board meeting attended;
- €500 for each shareholders' meeting attended;
- €1,000 for active participation in the shareholders' meeting;
- €1,000 for each audit committee meeting attended;
- €500 for each compensation committee meeting attended;
- €500 for other committee meetings or work sessions attended.

The final fees are set after discussion at a Board meeting as some directors may decide to waive all or part of their fees. For example, the founding directors have decided to limit their directors' fees to €2,000.
Directors' fees paid in 2015 by group companies amounted to €40,750 broken down as follows:

| Name | Position | Directors' fees (€) | |
|---|---|---|---|
| | | 2015 | 2014 |
| Dominique Ceolin | Chairman of ABCA | 2,000 | 2,000 |
| Theta Participations represented by Jean-Christophe Esteve | Director of ABCA | 2,000 | 2,000 |
| Aubépar Industries SE represented by Xavier Chauderlot | Director of ABCA | 2,000 | 2,000 |
| Jean-François Drouets | Director of ABCA | 5,500 | 5,500 |
| Sabine Roux de Bézieux | Director of ABCA | 7,500 | 7,500 |
| Didier Ribadeau Dumas | Director of ABCA | 11,000 | 11,000 |
| Marie-Ange Verdickt | Director of ABCA | 7,250 | 7,250 |
| Jacques Chevalier | Non-voting director of ABCA | 1,000 | 1,000 |

*ABCA: ABC arbitrage*

**Employment contract and executive office**
As required by recommendation 1 of the MiddleNext Code, the Board of Directors reviewed the practice of combining executive office with an employment contract.
The employment contract of the Chairman and Chief Executive Officer was maintained. This is justified by his other technical responsibilities, which in all cases substantially pre-date his executive office, and by the group's principle of equal treatment of employees and executives (profit-sharing, welfare protection, health insurance, etc.).

**Executive compensation**
The Board is involved in drawing up a general compensation policy for the group covering both executives and employees. The compensation package includes a fairly low fixed salary, a performance-related bonus, carefully selected benefits and performance stock options/performance shares.

The Board applies the seven principles listed by recommendation 2 of MiddleNext corporate governance's code for the determination of executive compensation: (i) all components of the compensation package should be examined; (ii) the fixed and performance-based components of the compensation package should be balanced; (iii) compensation should be benchmarked; (iv) compensation policies should be consistent; (v) performance-based compensation should be based on clear rules and objectives; (vi) performance-based compensation should balance the interests of the executive and those of the company and be aligned with market practices; and (vii) full details of executive compensation should be disclosed to shareholders.

The principles governing executive compensation were first established in the early 2000s and remain unchanged today. Compensation is largely dependent on the group's performance as measured by net income, thereby taking account of all expenses borne by the shareholders, including executive compensation. In addition, compensation is also determined as a function of each person's operational responsibilities.

Following recommendation 5 of MiddleNext corporate governance's code, the Board takes due care that the executive managers are not allocated an unreasonable proportion of performance shares and performance stock options, and also ensures that the performance conditions reflect the group's medium and long-term interests.

**Setting compensation levels**
Executive compensation forms part of an overall compensation policy covering all companies and employees throughout the group. It is mainly based on the principle of rewarding performance through bonuses. Executive officers' bonuses of Dominique Ceolin are set by the Board and capped at between 1.25% and 3.25% of consolidated net income.
Bonuses are based on a number of both objective (quantitative) and subjective (qualitative) criteria, including the Group's performance, risk-reward profile, quality of management (staff turnover, etc.) and more generally any initiative designed to consolidate the Group's long-term development. In other words, the actual bonus depends partly on an assessment of the executive officer's quality of work and behaviour within the group.
Bonuses are based on the audited financial statements and are paid in half-yearly instalments by the management of each group company.

**Termination benefits**
The aim of the contracts signed with the executive officers is to enable a complete or partial change of management to take place without threatening the company's stability. The Board of Directors is careful to ensure that any divergence of opinion with an executive officer will not prevent it from reorganizing the company's management on a basis determined beforehand when both parties shared the same view of the company's interests and their relationship was harmonious.
Executive officers are not entitled to termination benefits (recommendation 3 of MiddleNext corporate governance's code).

As of 2008, the Board decided to add a further bonus equal to 0.25% of consolidated net income for executive officers. Paying a percentage of each year's income to executive officers in the form of a bonus means that the officers are directly rewarded for their contribution to results and their long-term commitment.

This special bonus is designed to compensate the executive officer in advance for any future loss of office and, in part, for his non-compete clause. In exchange, the executive officer expressly agrees not to claim any benefit upon termination, whatever the cause, except where blatantly unjustified.

**Non-compete clause**
The purpose of a non-compete clause is to protect the legitimate interests of companies in the ABC arbitrage group and, therefore, to ensure the continued existence of its employees' jobs and the company's business activities.

Dominique Ceolin (the executive manager) is executive officer of several ABC arbitrage group companies, which give him access to expertise, confidential and strategic information and business partners in the arbitrage and alternative investment business. Should he leave the group for any reason, he may not become involved either personally or through an intermediary in developing or conducting any arbitrage or alternative investment activity or service for its own account or on behalf of third parties that might compete with those activities and services already conducted by an ABC arbitrage group company on the date of the departure.

The executive manager has also undertaken not to use the processes, methods and confidential information obtained during the performance of its duties to the detriment of any ABC arbitrage group company.

This non-compete clause will apply for a period of eighteen months after the departure from the ABC arbitrage group and covers all financial markets in which the group exploits arbitrage strategies on the date of the departure, including but not limited to Europe and North America. It also covers all portfolios and clients that the executive managers may manage now or in the future.

In exchange, upon the departure from the group the executive manager will be irrevocably entitled to receive compensation in an amount equal to 40% of its average annual gross performance-related bonuses for the last 36 months in office, capped at a gross total of €150,000. This compensation will be in addition to the special bonus received during its term of office as referred to above.

It will be payable monthly in arrears over a period of eighteen months, provided that the company receives some form of evidence that executive office has complied with his non-compete undertaking (French Pole Emploi certificate, payslip, employer's certificate, affidavit) seven calendar days before each quarter end.

Other employees in the ABC arbitrage group are also subject to a similar non-compete clause.

Pension commitments towards the executive managers

Following recommendation 4 of MiddleNext corporate governance's code, the executive manager is not covered by any company-funded defined contribution or defined benefit pension plans and the Board of Directors has clearly stated that it is opposed to any such benefits being provided.

**Executive compensation**

In 2015, the compensation paid in euros to Dominique Ceolin, Chairman and Chief Executive Officer of the Company, in respect of his duties as a corporate officer or employee of ABC arbitrage companies, excluding directors' fees, breaks down as follows:

| | Dominique Ceolin |
|---|---|
| Position | Chief Executive Officer, ABCA<br>Chief Executive Officer, ABCA AM |
| Gross salary | 170,400 |
| Vacation pay and statutory bonus adjustments | 2,249 |
| Company car | 9,400 |
| Incentive plan | 19,020 |
| Profit-sharing plan | 18,811 |
| Termination without cause benefit in respect of 2014 | 18,825 |
| Gross variable bonuses in respect of 2014 | 100,000 |
| Termination without cause benefit in respect of 2015 | 26,000 |
| Gross variable bonuses in respect of 2015 | 102,000 |

*Figures in Euros / ABCA: ABC arbitrage / ABCA AM: ABC arbitrage Asset Management*

## 1.4. Other information

**Dealings in ABC arbitrage shares**

For purposes of transparency and prevention of insider trading, directors and executives are not permitted to deal in ABC arbitrage shares for a period starting on January 1 or July 1 until the date of publication of the annual or interim financial statements, unless they have previously given an investment firm a management mandate or set up a regular share trading program. Executives and directors are required to report their share dealings to the company and on the websites of the French Autorité des Marchés Financiers and ABC arbitrage.

**Attendance at general meetings of shareholders**

All shareholders are entitled to attend general meetings on the basis set out by law and the regulations, regardless of the number of shares held.

In accordance with article L.225-106 of the French Commercial Code, shareholders who are unable to attend the general meeting in person may:

- Give proxy to any legal entity or natural person of their choice including to the chairman of the general meeting; or
- Sign and return the proxy form to the company without naming the proxy; or
- Vote by post.

The proxy documents provided for in articles R.225-81 and R.225-83 of the French Commercial Code (including the annual financial statements and a presentation of the proposed resolutions) can be obtained by writing to the company's head office in accordance with the applicable laws and regulations.

The documents to be presented during the meeting (as referred to in article R.225-73-1 of the French Commercial Code) are posted on the company's website (http://www.abc-arbitrage.com at the latest on the 21st day preceding the meeting.

Shareholders may submit written questions to the Board of Directors. To be taken into account, the questions should be sent no later than the fourth day preceding the meeting, in accordance with the applicable laws and regulations.

Shareholders who fulfil the relevant legal and regulatory requirements may ask for resolutions or items to be added to the agenda of the meeting. To be taken into account, any such requests should be sent no later than the twenty-fifth day preceding the meeting, in accordance with the applicable laws and regulations.

## 2. Internal control and risk management

This report covers all companies forming part of the ABC arbitrage group.

The purpose of the internal control system implemented by the various group companies is to:

- Ensure that management decisions, business operations and staff behaviour comply with the guidelines set by the company's corporate governance structures, the applicable laws and regulations, and the company's own values, standards and rules.
- Prevent and control risks arising from the company's business operations and the risk of error or fraud.
- Ensure that the accounting, financial and management information provided to the company's corporate governance structures gives a true and fair view of the company's operations and financial position.

More generally, the internal control system aims to provide shareholders and investors with reasonable assurance that the strategic objectives set by the Board in agreement with the shareholders will be met with an adequate level of security, control over risks and processes, and compliance with all applicable standards. Like any control system, it cannot provide absolute assurance that these risks will be totally eliminated.

### 2.1. Regulations

The ABC arbitrage group's internal control system is based on the following regulations and standards:

- The regulations and standards applicable to French companies whose shares are traded on a regulated market, in particular the general regulations and internal control guidelines published by the AMF;
- The regulations and standards applicable to French asset management companies, in particular the AMF's general regulations, the Code of Ethics issued by Association Française de Gestion (AFG) and the AIF Rulebook for alternative investment funds.

### 2.2. Internal control players

Control over the operating departments is exercised by the Finance & Internal Control and Market Risks units. The Board of Directors of ABC arbitrage or ABC arbitrage Asset Management may ask for sight of any information they wish. The Board members to contact on questions relating to risk management are Laetitia Hucheloup, head of the Finance and Internal Control department in charge of Compliance and Internal Control, and the Chairman and Chief Executive Officer, Dominique Ceolin.

▶ ***Finance & Internal Control***

Finance & Internal Control reports directly to executive management and to the Board of Directors of the asset management company for specific questions. The three-member unit is headed by Laetitia Hucheloup.

It is responsible for drafting and updating documentation describing the resources required to ensure that internal controls are implemented on an efficient, effective and consistent basis. It also organizes and takes part in recurring and periodical controls.

Through regular meetings with each department, Finance & Internal Control checks that procedures describing the department's tasks in the operating process have been issued and are implemented. Given the size of the company, the reports and recommendations for improvement issued by Finance & Internal Control are discussed during informal meetings with the heads of the relevant departments and the management of group companies.

Finance & Internal Control is also responsible for financial control within the group. At each reporting date, it reviews and approves the manual or automatic accounting entries made by the operating departments.

Checks are performed through:
- Examinations of accounting vouchers, on a comprehensive or test basis;
- Analytical reviews.

Its conclusions are set out in formal interim and annual reports that are reviewed by the statutory auditors.

▶ ***Market Risks***

The four-member Market Risks unit reports directly to executive management, which in turn reports to the Board of Directors.

The unit is responsible for enforcing strict compliance with the group’s investment rules. If this means unwinding all or part of a position, Market Risks has the power to call a meeting of the investment committee, which will define the action plan and timetable.

The unit performs day-to-day second-level controls, with the operating departments scheduling and performing first-level controls. It ensures that positions are effectively hedged, that trading limits are adhered to, that the trading strategies devised by the market operators are reasonable in light of market intelligence and that potential loss calculations are accurate.

Daily control reports are sent directly to the operating teams and the Board of the asset management company, without going through the department head. A meeting between Market Risks and the heads of the operating departments is scheduled at least once every six weeks.

▶ ***Compliance Officer***
The Compliance Officer is responsible for making sure that all industry codes of conduct and practice are strictly observed. These rules are designed to guarantee the quality and integrity of the service offering and to promote its development. In liaison with all people and departments involved, the Compliance Officer makes sure that the rules are implemented and performs controls.

### 2.3. Risk assessment

The nature and extent of risks to which the Group is exposed through its dealings in financial instruments are described below.

▶ **Risks assessment**

The Group's trading exposures ("Trading Exposures") include equities or equity derivatives (such as warrants and convertible bonds), derivative products such as futures, options and foreign exchange; and collective investment undertakings, the vast majority of which are traded on active markets, which may or may be not regulated, and are referred to collectively as "Financial Instruments". An ensemble of related Trading Exposures constitutes an arbitrage model ("Arbitrage Model"). Trading Exposures may alternatively be referred to as Trading Positions ("Trading Positions").

An Arbitrage Model is designed to take advantage of an unjustified price differential between two financial instruments. The Group qualifies as "unjustified" only those differentials that can be objectively measured by a mathematical or statistical process, without a guarantee of long-term convergence.

Trading Exposures in Financial Instruments may be held in custody, as a creditor or a debtor to a counterparty or in synthetic format (contracts for differences, swaps).

The Group is exposed to a variety of risks: market risks, credit and counterparty risks, liquidity risks, operational risks and other risks.

ABC arbitrage provides subsidiaries with a general risk-management framework that the subsidiaries' boards of directors adhere to when setting their own policy.
The Group oversees the implementation and effectiveness of the controls carried out in its subsidiaries with the support of the executive managers and the control functions (market risk and internal control).

This is because the Group uses leverage as part of its financing agreements with counterparties, allowing it to take larger exposures than would be possible if it were acting alone.

Trading Exposures to Financial Instruments in isolation present a risk of loss of capital. The maximum loss of capital on long Trading Exposures to equities is limited to the fair value of those positions. The maximum loss of capital on long Trading Exposures to future contracts is limited to the notional contract value of those positions. The maximum loss on short Trading Exposures to futures contracts and equities is theoretically unlimited.

**Market risks**
Market risk is the risk that the fair value or future cash flows of Trading Exposures will fluctuate because of changes in market prices of Financial Instruments and include notably market price risk, interest rate risk and foreign currency risk.

Equity risk
Equity risk, or price risk, arises mainly due to uncertainty about the future prices of Financial Instruments held. It represents the potential loss that could be incurred by the Group as a result of potential movements in price on its exposures to Financial Instruments.

The risk is never related to an unfavourable movement in market prices, for example a stock market crash, but can arise from an unfavourable event related to one of the above operations. By definition, the risks on arbitrage models are not interdependent. The Group hedges risks by spreading them across the greatest possible number of transactions, financial instrument types and geographic areas

Interest rate risk
Interest rate fluctuations may have a positive or negative influence on the value of Financial Instruments.

In general, the Trading Positions are composed by approximately equal amounts of long Trading Positions and short Trading Positions and the risk is therefore not material. If a specific Trading Position carries a material interest rate risk, this risk is systematically hedged. Consequently, no sensitivity analysis has been disclosed.

Currency risk
The Group may hold Trading Positions denominated in currencies other than the Group's functional currency. Exchange rate fluctuations against the functional currency may have a positive or negative influence on their value.

Currency risks are systematically hedged by buying or selling the currency (or an exposition to the currency). The only risk is of a secondary nature – that the profit (or loss) realized in a given currency may vary if it is not converted into the functional currency. The Group regularly converts profits (or losses) into the functional currency and its exposure to currency risk is therefore marginal.

**Credit and counterparty risk**
This is the risk of a counterparty being unable to honor its contractual obligation to settle a transaction with the Group, due to deterioration in its financial position.

The ABC arbitrage Group deals solely with brokers/dealers (“Brokers”) and credit institutions and investment companies (“Counterparties”). All of these parties are subject to specific controls by the regulatory authorities in the countries in which they operate.

The Group’s trading activity mainly comprises financial instruments which are traded on active (if not regulated) markets which predominantly settle via a Central Clearing Party (CCP). The risk of default by Brokers for each and every market trade is therefore considered to be minimal, as the CCP serves to guarantee settlement, and the securities are not delivered until the Broker has made or received payment.

By unwinding transactions in financial instruments, a counterparty acts as depositary, creditor or debtor, or as counterparty to a synthetic product (CFDs, swaps) for the Group. In general the Group’s business requirements permits that very little (if any) of its assets are held in Custody. A significant proportion of the assets of the Group transferred to Counterparties are either pledged as a first security interest or transferred as margin (collectively “Collateral”) to support the Trading Positions. The Counterparty may re-use this Collateral for its own account but is required by contract to return the assets or equivalent assets upon first demand if it is no longer needed to support the Trading positions.

The risks related to the use of a Counterparty are:
- interruption or discontinuation of services as the Counterparty has the right to amend or discontinue the services;
- increased costs of maintenance of Trading Positions with the Counterparty;
- failure by the Counterparty to return Collateral used due to market events;
- failure by the Counterparty to return sums due as a result of bankruptcy;
- incorrect valuation of Trading Positions held and Collateral transferred to the Counterparty.

The Group manages this counterparty risk through the use of industry standard master agreements, close monitoring of Counterparty credit ratings and diversification of its relationships to spread risk while weighing up the pricing benefits of concentration on larger-scale relationships.

**Liquidity risks**
Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due, or can only do so on terms that are materially disadvantageous.

The Group’s Trading Exposures consist almost exclusively of highly liquid Financial Instruments quoted on active markets and its obligations mainly comprise the necessity to provide Collateral to support the Group’s Trading Positions. The volume of Trading Positions which the Group may enter into is contractually based on the assets transferred as Collateral.

The Group's actual Trading Positions, taking into account existing agreements with Counterparties, is constantly monitored to ensure that the Group benefits from considerable flexibility in conducting its business as well as substantial liquid reserves. In addition, given the highly liquid nature of the Trading Positions the Group can alleviate the need for Collateral by reducing the volume of Trading Positions.

**Operational risk**
Operational risk is the risk of loss due to inadequate or failed internal processes, people and systems.

This risk is managed upstream by ensuring that position taking is guided by written procedures and a rigorous internal control process. However, these procedures and controls cannot provide absolute assurance that operational losses will not occur and due care is taken at all times as this is a structural risk in the arbitrage business.

**Other risks**
Compliance risk (including legal risk)
Compliance risk is the risk of failure to identify and/or comply properly with the provisions governing the Group's business activities. Such failure can lead to malfunctions, financial loss or sanctions (legal, disciplinary, administrative, etc). An ongoing monitoring system is in place within the Group's legal and tax department.

Conflict of interest risk
Conflict of interest risk is the risk of being confronted with situations where the interests of a client or company may conflict with those of another client or with those of a Group company or a Group employee.

To prevent conflict of interest situations, the Group has implemented:
- an internal conflicts of interest policy including guidance to be followed by employees in order to identify, prevent and manage conflicts of interest;
- strict procedures and rules governing the handling of orders and primacy of the client interest. The Group's asset management companies comply strictly with financial market operating rules and are not permitted to do anything that might contravene the principle of fair and equal treatment of orders. More particularly, orders transmitted to the market are pre-allocated and time and date stamped.

**2.4. Internal control organization**

The ABC arbitrage group's internal control system is based on:
- Clear, easily accessible staff and line organization charts
The charts provide an overall description of the group’s structure and ensure proper segregation of tasks.

- Procedures describing the investment processes
Procedures are drafted by employees in different departments describing data flows, as well as the required documents, decisions, entries and controls. These procedures reflect the expertise of the asset management company in its core business.

- Investment rules
Investment rules are defined by management in association with Market Risks for all new arbitrage types. These rules ensure that everyone involved follows the same guidelines with regard to trading limits, maximum potential losses, leverage, etc.

Regular controls are performed to ensure that limits exist, are regularly reviewed and are strictly adhered to.

- Bespoke information system
The information system is the cornerstone of the organization structure. Adapted to the specific requirements of the business, it is used to perform a large number of programmed controls and to produce daily management reports. A number of blocks can also be set in the system to limit operational errors in the work processes. The information system was developed and is maintained in-house by the asset management company's IT team.

- Permanent audit trail
The entire production and operations chain is recorded and archived in the company's system to provide a full audit trail of all transactions.

- Accountability of operations staff
Operating staff are responsible for first-level risk management and control to ensure that they are aware of and observe control and compliance rules as regards risk limits and existing standards.

- Segregation of execution and control tasks
Preventing the risk of collusion or accidental error depends on segregating the main line functions. Transaction authorization, processing, recording and accounting functions are therefore clearly divided between the various operating departments. Where a particular function cannot be fully segregated due to the group's small size, controls are reported directly to the Board or executive management and decisions are taken on a consensus basis.

- Restricted delegated authorities
Only the Chief Executive Officer has the power to represent ABC arbitrage. There is a general delegation of authority in his absence and a special delegation of authority from the Chief Executive Officer to a head of department on a needs only basis.

- Codes of conduct
It is assumed that all employees may possess sensitive information or may be faced with a conflict of interest. The code of conduct is specifically designed to reduce the risk of such information being used or the conflict of interest arising.

The code of conduct includes specific rules concerning:
- Use of confidential, inside or sensitive information;
- Blackout periods for dealing in the company shares, imposed by ABC arbitrage's management throughout the life of the company to avoid any arguments or the exercise of personal judgement on share dealing during sensitive periods (e.g. before the results are published).

The group always makes sure that it has sufficient available cash to cope with very difficult market conditions. It has never experienced any financing or credit difficulties.

The group is based in premises that meet its trading room needs and encourage a seamless information flow.

### 2.5. Preparation of financial and accounting information

ABC arbitrage prepares separate and consolidated financial statements each year. They are drawn up by Finance & Internal Control, reviewed by the Audit Committee and approved by the Board of Directors. The ABC arbitrage group also publishes interim consolidated financial statements. The statutory auditors have always issued unqualified opinions on the financial statements of the company and the group.

Led by Finance & Internal Control, the accounting control organization is designed to ensure that ABC arbitrage's information system and associated databases comply with the regulations and, in particular, provide a continuous audit trail.

#### ▶ Matching and freezing entries

A unique internally-developed "Transactions" module allows information about the type and specific features of each arbitrage transaction (direction, type and description of security traded, trade date, value date, quantity, price, fees and commissions, Broker's symbol, deposit account, etc.) to be stored at two levels.

The first level is used by market operators to input their transactions. The second level is used by post-market financial operators to validate the transactions based on the confirmation notes received from counterparties.

This module is a dynamic interface between front and back-office teams that also guarantees full segregation between the input and control tasks carried out by the two units.

For all information flows giving rise to an accounting entry, security mechanisms have been developed that prevent any possibility of editing or deleting an entry once it has been validated.

The security mechanisms apply to transaction data entered by the market operators, which cannot be edited once they have been validated by the financial operators (i.e. they match the confirmation notes received from the Brokers).

Similarly, settlement and delivery information and the associated accounting entries cannot be edited, once confirmed and matched against the counterparty's confirmation notes.

All provisional entries are fixed after accounting validation as of a "freeze date".

Lastly, central ledgers are entered monthly in an accounting application approved by the tax authorities and used for the annual closing procedure no later than the end of the following period. The closing procedure is applied to all movements booked in the accounts.

Entries related to non-operating activities are input directly in the accounting application.

**▶ Creating and editing an account profile**

Only two designated people are authorized to edit (or create) account profiles, one a user and the other an IT team member. They ensure that the account details (number, label, etc.) are accurate and reliable.

**▶ Accounting input templates**

For automatic accounting entries, debit and credit input templates are pre-completed. The financial operator's validation of the transaction type and designated counterparty generates an accounting flow. These flows cannot be edited downstream because this type of transaction cannot be input manually. Flows are therefore automatically subject to the various desk checks performed by the various operating departments.

For manual entries, which may only be recorded for certain specific transaction types, there are also pre-set debit and credit input templates to guide the operator and limit the available options.

In addition, Finance & Internal Control reviews the accounting treatment of any proposed new or complex transaction and, if necessary, has it validated by the statutory auditors ahead of their audit work.

**▶ Limitation of menu lists**

All application screens offer the operators pre-set menu lists. These lists are restrictive and help speed up data input, avoid many material errors and prevent data inconsistency. The menu lists are updated dynamically for all users once approved by two managers.

The main data menu lists concern currencies, securities, choice of accounts proposed depending on the counterparty (clients, brokers, Prime Brokers, etc.) and accounts having an impact on P&L depending on transaction type.

**▶ Second level controls performed by Finance & Internal Control**

Daily recurring controls are performed by the middle and back offices to check that transactions generated by the management systems have been properly uploaded to the accounting systems.

As mentioned earlier, Finance & Internal Control is responsible for performing second-level controls. This involves validating on a test basis entries booked manually or automatically in the information system by the operating department. Performed at each accounting close prior to the statutory auditors' audit procedures, the control procedures include reconciliations to external vouchers and consistency tests.

The unit reports formally on its control activity and makes sure that the financial statements accurately reflect the accounting entries.

The current internal control system is designed to support the group's harmonious, profitable growth. It therefore focuses on preventing and controlling risks arising from business activities and, in particular, ensuring that accounting records and the financial statements are reliable and give the shareholders a true and fair view of the company and group. Management will continue its efforts to improve and upgrade the internal control system whilst bearing in mind that the system cannot provide absolute assurance and that the utmost care must always be taken in this area.

Paris, April 7, 2016

Dominique Ceolin
Chairman of the Board of Directors

To the Shareholders,

In our capacity as Statutory Auditors to ABC arbitrage and in accordance with the requirements of article L. 225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2015.

The Chairman of the Board of Directors is required to draw up and submit to the Board for approval a report that i) describes the internal control and risk management procedures set up within the company and ii) discloses the other information required under article L. 225-37 of the French Commercial Code, notably regarding the system of corporate governance.

Our responsibility is to:

- Report to shareholders our comments on the information contained in the Chairman's report concerning the internal control and risk management procedures related to the preparation and processing of accounting and financial information; and
- Provide a statement confirming that the Chairman's report includes the other information required under article L. 225-37 of the French Commercial Code, although we are not responsible for verifying the accuracy of said information.

We performed our procedures in accordance with professional guidelines applicable in France.

**Information on internal control and risk management procedures related to the preparation and processing of accounting and financial information**

Professional guidelines require us to perform procedures to assess the fairness of the information set out in the Chairman's report concerning the internal control and risk management procedures related to the preparation and processing of accounting and financial information.

These procedures included:

- Examining the internal control and risk management procedures related to the preparation and processing of accounting and financial information underlying the information presented in the Chairman's report, as well as existing documentation.
- Acquiring an understanding of the work performed in order to prepare this information and existing documentation.
- Determining whether any major internal control weaknesses concerning the preparation and processing of accounting and financial information that we may have identified as part of our audit are appropriately disclosed in the Chairman's report.

Based on our procedures, we have no matters to report concerning the information provided on the Company's internal control and risk management procedures related to the preparation and processing of accounting and financial information, as contained in the report of the Chairman of the Board of Directors prepared in accordance with article L.225-37 of the French Commercial Code.

**Other information**

We confirm that the report of the Chairman of the Board of Directors also contains the other information required by article L. 225-37 of the French Commercial Code

Neuilly-sur-Seine, April 28, 2016

The Statutory Auditors

| | |
|---|---|
| Deloitte & Associés | Ernst & Young et Autres |
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