ANNUAL FINANCIAL REPORT - YEAR 2017

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Groupe ABC arbitrage

Contents

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.

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Management report

Groupe ABC arbitrage

1. Business review

Key consolidated figures for 2017 are presented below:

In EUR million	Dec. 31, 2017 IFRS	Dec. 31, 2016 IFRS	Change
Advisory revenues	-	-	*na*
Investment Services Fees(1)	16.0	17.5	*-8.6%*
Net gains at fair value through profit or loss	22.5	35.9	*-37.3%*
Net revenues	38.5	53.3	*-27.8%*
Payroll costs	(13.8)	(16.2)	*-14.8%*
Occupancy costs	(1.6)	(1.6)	*0.0%*
Other expense	(5.3)	(5.2)	*1.9%*
Other taxes	(0.1)	(0.2)	*-50.0%*
Total costs	***(20.8)***	***(23.1)***	***-10.0%***
Income before tax	**17.7**	**30.2**	***-41.4%***
Net income attributable to equity holders	**18.3**	**30.5**	***-40.0%***

(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 amount to €38.5 million and net income to €18.3 million at December 31, 2017, down nearly 40% year-on-year.

Return on equity (ROE) in 2017 was 11.50%.

In EUR thousand	Dec. 31, 2017 IFRS	Dec. 31, 2016 IFRS
Equity at January 1, 2017	158,130	141,227
Equity at December 31, 2017*	160,335	169,650
Average equity	**159,233**	**155,438**
Return on equity	**11.50%**	**19.65%**
Gross return on equity	**24.17%**	**34.32%**

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.
**Equity attributable to equity holders, including November 2017 distribution amounts to € 148,867 thousand.*

Continuing the trend observed in the second half of 2016, 2017 presented a combination of adverse market conditions for the Group's businesses, especially during the second semester. Markets were characterized by historically calm activity and by record levels of low volatility. Over the year, intraday volatility averaged under 5% with a record number of days under 4%. 2017 alone represented 98% of the 58 such days identified over the last 35 years. Markets were not responsive to macroeconomic events and the volume of securities transactions continued to decline.

In the first half of 2017, stock markets trading volumes and the M&A activity remained at a reasonable level. By its first half results, the Group demonstrated its ability to adapt to challenging market environment, relying on its R&D investments and the development of low-volatility models. The Group also focused on optimizing "historical" models benefiting from its teams' expertise.

In the second half of 2017, the significant decrease of trading volumes on the stock markets combined with the fall of the M&A activity and the overall market inertia, could only be partially offset by the efforts and progress made for several years.

Teams structure and profile remained 2017 main concern with key recruitments for core business activities and the reshaping of every departments' support functions.

Return on equity (24%), although satisfactory, stands below the Group's expectations and objectives for 2017.

2. Activity and statutory accounts

ABC arbitrage key figures for 2017 are presented below:

In EUR thousand	Dec. 31, 2017 IFRS	Dec. 31, 2016 IFRS	Change
Revenue	617	618	*-0.10%*
Operating income	2,019	5,529	*-63.49%*
Financial income (loss)	(645)	(2,930)	*-77.98%*
Extraordinary income (loss)	(14)	-	*N/A*
Net Income	**1,399**	**2,305**	***-39.33%***

3. Research & Development activity

With Arbitrage Market being extremely competitive, our company constantly focuses on improving its reactivity. To succeed, investments are maintained at highest levels in order to emphasis on optimizing models and algorithms with both quality and efficiency. This is an ongoing concern for the Group as per our numerous R&D projects.

In line with the Group's progression and optimization, the merger of the "Trading" and "Quantitative Research" departments under one single manager, and the enhancement of the Head of Research function, aim to accelerate the reactivity and the development of new projects to face adverse conditions as encountered in 2017.

4. Subsidiaries and holdings

A list of subsidiaries and holdings can be found in note 3.4. to the parent company financial statements[1].

At December 31, 2017, 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.

Following the group's internationalisation, ABC arbitrage structured its organization and resources to strengthen its role as a managing holding company.

The ABCA Opportunities fund designed to partially disconnect from volatility, realized good absolute and relative performances (compared industry standards) in the first half of 2017. In contrast, the second semester showed an almost nil volatility and a M&A activity very deteriorated, preventing the fund to perform in the continuity of the first semester. The ABCA Reversion fund built to benefit from the volatility, demonstrates an absolute performance significantly below our expectations but consistent with the volatility (or the lack of real volatility) in 2017.

ABCA Funds Ireland had total assets of €331 million at December 31, 2017 compared to €294 million at December 31, 2016. 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), as a portfolio management company under Directive 2011/61/ EU, referred to as the AIFM since 22 July 2014, (updated and validated on the 6th December of 2017), is the Group's main investment management company, with expertise in alternative investment funds, discretionary management mandates, investment strategy advice and trading in

[1] Cf. French version on ABC arbitrage website.

financial instruments with qualified investors and professional clients. 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 €3.3 million in 2017.

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. Its result, remains a deficit of €1 million due to investments needed to increase its activity.In line with initial expectations, the asset manager's contribution to the Group is already a positive one, particularly with the increase in the volume of transactions processed compared to 2016.

Quartys Limited, a financial instrument trader, continued to develop its business after significant capital increases. These led to a considerable rise in transaction volumes and a net income of €20.7 million. The decrease in net income compared to 2016 is the direct result of the markets parameters presented above.

Clients’ assets amounted €434 million at December 31, 2017.

ABC arbitrage doesn’t have any secondary establishment in France or abroad.

5. Human resources

The Group employed an average of 86 people in 2017, compared with 85 in 2016.

During 2017, staff costs decreased by nearly 15%. Without compromising the compensation policy (consideration being given to competitive constraints, coupled with a policy of hiring first-rate people), the decline in the Group's earnings has mechanically driven to revise downwards employees' compensation.

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 and step-up 2019 share-based incentive programmes :

Name of the plan	Plan	Acquisition date	Acquisition period	Number of shares	Effective acquisition date for granted shares	Number of shares to be granted	Number of shares definitely granted
01/2014	Ambition 2016	14/05/2014	2	283,333	2016	-	166,928
02/2014	Ambition 2016	14/05/2014	3	283,333	2017	-	183,916
03/2014	Ambition 2016	14/05/2014	4	283,334	2018	248,000	Pending[2]
01/2015	Ambition 2016	12/05/2015	2	300,000	2017	-	290,000
02/2015	Ambition 2016	12/05/2015	3	300,000	2018	274,000	Pending[3]
03/2015	Ambition 2016	12/05/2015	4	300,000	2019	274,000	Pending
01/2016	Ambition 2016	14/06/2016	2	187,000	2018	170,000	Pending[4]
02/2016	Ambition 2016	14/06/2016	3	187,000	2019	170,000	Pending
03/2016	Ambition 2016	14/06/2016	4	187,000	2020	170,000	Pending
APE-3.1/2017	Step-up 2019	16/06/2017	2	68,500	2019	68,500	Pending
APE-3.2/2017	Step-up 2019	16/06/2017	3	68,500	2020	68,500	Pending
APE-3.3/2017	Step-up 2019	16/06/2017	4	68,500	2021	68,500	Pending
Total if applicable	**N/A**	**N/A**	**N/A**	**2,516,500**	**N/A**	**1,511,500**	**640,844**

[2] Based on actual net income for that period and given the continuing presence requirement, 147,714 shares should be definitely granted by the end of the first semester of 2018.

[3] Based on actual net income for that period and given the continuing presence requirement, 187,414 shares should be definitely granted by the end of the first semester of 2018.

[4] Based on actual net income for that period and given the continuing presence requirement, 137,097 shares should be definitely granted by the end of the first semester of 2018.

Stock options subscription programmes :

Name of the plan	Plan	Acquisition date	Acquisition Period	Number of granted options	Exercise period start date	Options expired Date	Exercise adjusted price	Number of options to be granted	Number of unexercised options
03/2010	Horizon 2015	20/09/2010	5	3,000,000	2015	20-Mar-2018	5.5242	-	67,039
04/2016	Ambition 2016	14/06/2016	2	373,000	2018	15-Jun-2022	6.3365	362,000	291,935[5]
05/2016	Ambition 2016	14/06/2016	3	313,000	2019	15-Jun-2022	6.6971	302,000	Pending[6]
06/2016	Ambition 2016	14/06/2016	4	313,000	2020	15-Jun-2022	7.0577	302,000	Pending
SO-1.1/2017	Step-up 2019	16/06/2017	2	563,333	2018	30-Jun-2022	6.3318	563,333	454,301[7]
SO-1.2/2017	Step-up 2019	16/06/2017	3	563,333	2019	30-Jun-2022	6.7065	563,333	Pending
SO-1.3/2017	Step-up 2019	16/06/2017	4	563,334	2020	30-Jun-2022	7.0811	563,334	Pending
SO-2.1/2017	Step-up 2019	16/06/2017	2	276,000	2019	30-Jun-2023	6.7065	276,000	Pending
SO-2.2/2017	Step-up 2019	16/06/2017	3	276,000	2020	30-Jun-2023	7.0811	276,000	Pending
SO-2.3/2017	Step-up 2019	16/06/2017	4	276,000	2021	30-Jun-2023	7.4558	276,000	Pending
Total if applicable	**N/A**	**N/A**	**N/A**	**6,517,000**	**N/A**	**N/A**	**N/A**	**3,484,000**	**813,275**

5 Based on actual net income for that period and given the continuing presence requirement, 291,935 stock options should be definitely granted by the end of the first semester of 2018, and being exercisable.

6 “Pending” means that the stock options aren’t definitely granted and as a consequence not being exercisable.

7 Based on actual net income for that period and given the continuing presence requirement, 454 301 stock options should be definitely granted by the end of the first semester of 2018, and being exercisable.

Stock Appreciation Rights - SAR :

Name of the plan	Plan	Acquisition date	Acquisition Period	Number of granted units	Exercise period start date	Options expired Date	Exercise adjusted price	Number of units to be granted	Maximum number of units to be exercised
07/2016	Ambition 2016	22/09/2016	2	745,870	2018	22-Sep-2022	6.5258	68,200	55,000[8]
08/2016	Ambition 2016	22/09/2016	3	745,870	2019	22-Sep-2022	6.8904	68,200	Pending[9]
09/2016	Ambition 2016	22/09/2016	4	745,870	2020	22-Sep-2022	7.2550	68,200	Pending
SAR-4.1/2017	Step-up 2019	16/06/2017	2	167,000	2019	NA	5.9571	167,000	Pending
SAR-4.2/2017	Step-up 2019	16/06/2017	3	167,000	2020	NA	5.9571	167,000	Pending
SAR-4.3/2017	Step-up 2019	16/06/2017	4	167,000	2021	NA	5.9571	167,000	Pending
Total if applicable	**N/A**	**N/A**	**N/A**	**2,738,610**	**N/A**	**N/A**	**N/A**	**705,600**	**55,000**

For all plans:
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, 58% shares will vest and if net income is €25 million a year over the entire period, 65% shares will vest.

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 €1.186 million, calculated on the basis of the estimated probable number of shares under various plans, was recognised in respect of fiscal year 2017 (compared to €1.801 million at December 31, 2016). The decrease of IFRS 2 expense is related to the re-assessment of quantity expected to be granted given the programme's progression and the realized income.

The loss on share buybacks used amounted to €2.257 million and was deducted from consolidated equity at 31 December 2017 (vs €419 thousand at December 31, 2016) which reduces the consolidated shareholders' equity.

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.

6. Statements of directors' transactions on ABC arbitrage shares.

To ensure transparency and prevent insider trading, restrictions apply to directors while trading ABC arbitrage shares. From the first day of the accounting year until the day after the annual financial report is published, and from July 1st to the day after interim results are published, directors are required not to do any transactions on ABC arbitrage shares.

Directors' transactions involving the Company's securities are subject to report to the Company and to the AMF for their website. The reporting threshold is €20,000 by calendar year. It concerns equities, debt securities, derivative instruments, and financial instruments related to these securities. Reports have to be submitted to the AMF and ABC arbitrage in the 3 working days after the trade date.

[8] Based on actual net income for that period and given the continuing presence requirement, 55 000 SAR should be definitely granted by the end of the first semester of 2018 and become exercisable.

[9] "Pending" means that the SAR aren't definitely granted and as a consequence not being exercisable.

In 2017 directors performed the following trades on the ABC arbitrage securities :

Name	Acquired (in €)	Disposed (in €)	Subscriptions (in €)
Dominique CEOLIN	191,746	-	-
Financière WDD*	489,467	-	-
Aubépar Industries	-	-	-
Jean-François DROUETS	-	-	-
Didier RIBADEAU-DUMAS	-	-	-
Sabine ROUX DE BEZIEUX	-	-	-
Marie-Ange VERDICKT	111,036	-	-
Muriel VIDEMONT DELABORDE		-	-

** Holding 50.01%-owned by Dominique Ceolin*

7. Executive compensation

Information concerning Executive compensation are provided in paragraph "Corporate Governance" hereafter.

8. Corporate governance

Under Sapin II (L.2016-1691 art. 136 of December 9th, 2016), the Board of Directors of companies whose financial securities are admitted to trading on a regulated market must, every year, provide a report on Corporate Governance to the General Meeting.

8.1. 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. The MiddleNext code was updated in September 2016 and can be consulted on www.middlenext.com. It 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 IFA provides to administrators all the information, training and expertise necessary for the performance of their duties and associates all those who wish to contribute to the evolution of professional standards and best governance practices to its activities.

8.2. 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, 2017, the Board of Directors of ABC arbitrage had seven members and one non-voting member.

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

Name	Position	Gender	Age (GM date)	Nationality	Directorships and other offices	Group	Listed company
Dominique CEOLIN	Chief executive officer	M	50	French	Chief Executive Officer of ABCA AM	O	N
					Member of the Board of ABCA AM Asia	O	N
					Chairman of the Board of Financière WDD	N	N
					Administrator of MiddleNext	N	N
AUBEPAR INDUSTRIES SE	Director Xavier CHAUDERLOT is Permanent representative of Aubépar Industries SE	H	54	Belgian	**Aubépar Industries SE:** Member of the board of Aubépar SE (represented by Xavier CHAUDERLOT)	N	N
					Member of the board of Financière du Bailli SA (represented by Xavier CHAUDERLOT)	N	N
					Chairman of the Supervisory Board of Soondy SAS (represented by Xavier CHAUDERLOT)	N	N
					Member of Strategy Committee of Absolute Composite SAS (represented by Xavier CHAUDERLOT)	N	N
					Xavier CHAUDERLOT: Chairman of Aubépar Industries S.E.	N	N
					Director of Aubépar S.E.	N	N
					Director of Quartys Ltd	O	N
Jean-François DROUETS	Director	H	55	French	Chairman of Catella Valuation Advisors	N	N
					Member of the steering committee of Catella France	N	N
Sabine ROUX de BEZIEUX	Director	F	53	French	Managing director of Notus Technologies SAS	N	N
					Member of the Supervisory Board of Banque Transatlantique	N	N
					Member of the Supervisory Board of ANF Immobilier	N	O
					Member of the Supervisory Board of Altur Investissement	N	O
					Member of the Supervisory Board of Tarkett	N	O
Didier RIBADEAU DUMAS	Director	M	71	French	Representative of ABCA on the Board of ABCA AM	O	N
					Member of the Supervisory Board of La Banque Postale, wholly-owned subsidiary of La Poste group	N	N
					Chairman of the accounts committee, risks committee and appointments committee of La Banque Postale	N	N
					Member of the strategy committee and compensation committee of La Banque Postale	N	N
					Member of the Board of BPE, filiale à 100% de La Banque Postale	N	N
					Chairman of the Audit committee and member of the appointments and compensation committee, and member of the strategy committee of Poste Immo, wholly-owned subsidiary of La Poste group	N	N
					Member of the Supervisory Board of Comgest	N	N

Marie-Ange VERDICKT	Director	F	55	French	Member of the Supervisory Board of Wavestone	N	O
					Member of the Supervisory Board of CapHorn Invest	N	N
					Member of the Supervisory Board of Interparfums	N	O
					Member of the Supervisory Board and member of the accounts committee of Bonduelle SCA	N	O
Muriel VIDEMONT DELABORDE	Director	F	48	French	Represents Allianz IARD at the Board of La Rurale	N	N
Jacques CHEVALIER	Non-voting Director	H	N/A	N/A	N/A	N/A	N/A

ABCA : ABC arbitrage ABCA AM : ABC arbitrage Asset Management ABCA Asia : ABC arbitrage Asset Management Asia

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.

Aubépar Industries SE is one of the historical owners and founders of the group and is still one of the main shareholders with 14.4%. Its representative on the Board combines in-depth knowledge of arbitrage operations with an objective view of the business.

The other members qualify as independent directors based on the definition of MiddleNext's corporate governance code.

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.

Muriel VIDEMONT DELABORDE holds an engineering degree from ESPCI ParisTech and an MBA from the University of Toronto. After working for the Boston Consulting Group, where she rose to the position of Principal, in 2009 she became Head of Strategic Projects for the Life & Health Partnership Division at Allianz France, where she was appointed Head of Strategy and Strategic Project Steering in 2011 and has been Vice President Controlling & Financial Steering since 2013.

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 three Board meetings in 2016, 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.

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 43% of Board members. Excluding the founding shareholder directors, women represent 60% of the Board (three in five members). By comparison, the average representation of women on company boards was about 44.5% for SBF120 companies at 16 June 2017 (source: Ethics & Boards).

Independent directors:
The definition of independent director is the same as set out in recommendation 3 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;
- must not have a significant business relationship with the company or its group (client, supplier, competitor, banker, etc), and must not have be in such a situation within the last two years;
- is not a major shareholder of the company and do not have a significant percentage of voting rights;
- 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 six years.

Term of office :
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.9 of the MiddleNext code.

Marie-Ange VERDICKT's terms have been renewed at the Annual General Meeting held to approve 2016 financial statements.

Name	Position	Date of first term	Date last elected to the Board	Term ends
Dominique CEOLIN	Director	October 10, 1997	June 5, 2015	AGM held to approve the 2018 financial statements
	Chairman of the Board	October 10, 1997	June 5, 2015	AGM held to approve the 2018 financial statements
Aubépar Industries SE *Represented by Xavier CHAUDERLOT*	Director	June 1, 2012	May 27, 2016	AGM held to approve the 2019 financial statements
Jean-François DROUETS	Director	April 11, 2006	June 5, 2015	AGM held to approve the 2018 financial statements
Sabine ROUX de BEZIEUX	Director	Mars 10, 2011	June 5, 2015	AGM held to approve the 2018 financial statements
Didier RIBADEAU DUMAS	Director	April 1, 2000	May 27, 2016	AGM held to approve the 2019 financial statements
Marie-Ange VERDICKT	Director	January 24, 2013	June 16, 2017	AGM held to approve the 2020 financial statements
Muriel VIDEMONT DELABORDE	Director	May 26, 2016	May 27, 2016	AGM held to approve the 2019 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 the Compliance officer, Gaëtan FOURNIER, to relate any unusual events or potential conflicts of interest. In 2017, 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 RIBARDEAU DUMAS to meet with Dominique CEOLIN on a regular basis to ensure that principles of segregation of executive and supervisory functions are upheld. In 2017, they met three 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 1 and 2 of MiddleNext's code, particularly in view of Directors' deontology and absence of conflict of interest.

This emphasis has been reinforced in view of the growing interest shown in this matter by investors in funds managed by ABC arbitrage Asset Management. In 2017, 50% of investors in number representing 69% 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 over the past five years. 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, in accordance with recommendation 8 of MiddleNext's code, to allow shareholders to freely decide on the membership of the Board. The list of candidates for election or re-election to the Board has been posted on the Group's website, along with details of their experience and skills.

8.3. 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 which are in line with recommendation N°7 of the MiddleNext code.
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 can be viewed on the company's website.

Board committees:

Recommendation 6 of the MiddleNext Code requires us to report to you on the special committees created by the Board, namely the Audit Committee, the Compensation Committee and the Strategy 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**

As a reminder, the Audit Committee was recast as the Audit Committee by the Board of Directors on January 17, 2017. The Audit Committee is composed of four Directors (Aubépar Industries represented by Xavier Chauderlot, Sabine Roux de Bezieux, Marie-Ange Verdickt and Muriel Vidémont Delaborde) including three Independent Directors within the meaning of MiddlexNet Code, being precised that the other Directors and the Executive Management are allowed to join the meetings.

The Board of Directors of January 17, 2017 appointed Muriel VIDEMONT DELABORDE, independent director, as Chairman of the Audit Committee. The duties and functioning of the audit committee were redefined in accordance with the recommendations of the MiddleNext code by the Board of Directors.
Without prejudice to the Board, the Audit Committee:

- follows the process of preparation of the financial statements;
- follows the efficiency of internal control and risks management systems concerning procedures related to the preparation and processing of accounting and financial information;
- issues a recommendation about the statutory auditors put forward for appointment by shareholders at the General Meeting;

- follows the statutory auditors' duties and, in this regards, enhanced discussions during the period after the revamping of statutory auditors report to the Audit Committee on internal control procedures relating to the financial reporting process;
- ensures that auditors meet independence requirements;
- approves added services other than the certification the financial statements in compliance with the applicable regulations;
- regularly reports to the Board of Directors on its assignments.

The Audit Committee met on March 21, 2017 to review the 2016 financial statements. It was composed of all Committee members. Laetitia HUCHELOUP, corporate secretary and secretary of the board, also attended, and the others Directors who wished to join. The Committee also met on September 19, 2017 to review the 2017 interim financial statements. All the members of the Board (except Jean-François DROUETS and Didier RIBADEAU DUMAS) attended. Gaëtan FOURNIER also attended as the Head of Finance and Internal Control.

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.

During 2017, the Committee met once, on November 9.

☐ Strategy Committee

The Strategy Committee makes recommendations to the Board of Directors on the overall strategic direction of the Company and the Group, the business development strategy and any other important strategic issues examined by the Board. It also examines in detail any major investment, acquisition, divestment or disposal projects submitted for its review and makes recommendations to the Board as to whether the projects should be approved or rejected.

The Strategy Committee is made up of all directors, who may consult external advisors with specialized knowledge of the matter at hand. The Chairman of the Board of Directors and the Chief Executive Officer may be members of the Strategy Committee. The Strategy Committee meets as frequently as necessary to fulfil its remit.

During 2017, the Committee met once, on February 21.

Board meetings:

The Board of Directors, on the basis of the work of the Strategy Committee, 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 2017, the attendance rate at Board meetings was 83%.

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, according to recommendation N°4 of the MiddleNext code in order for the Directors to collect all the information they need to duly perform their work. All directors are encouraged to take part in the discussions, based on full, synthetic and relevant 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 2016 annual and 2017 interim financial statements.

The Board of Directors met 6 times in 2017, thereby complying with recommendation 5 of the MiddleNext Code, on: January 17, March 23, April 20, May 23, September 22, and December 4.

Under the share buyback program authorized by the shareholders at their annual general meeting of June 16, 2017, 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 recommendations 19 of the MiddleNext Code, 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 2017:

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 2017 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 2017;
- 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 16, 2017;
- 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 2016 dividend with reinvestment option;
- Distribution of issue premiums in November 2017;

- Vesting of options to subscribe or buy shares;
- Vesting of performance shares and definition of new performance share plans;
- Definition of the awarding of “Share Appreciation Rights” (SAR);
- Decision to introduce or not an additional employee profit-share for 2017;
- Setting directors’ fees and variable compensation of executive officers;
- Decision to increase the capital of ABC arbitrage Asset Management Asia;
- Decision to renew Marie-Ange VERDICKT term.

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 11.

8.4.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 of Directors has decided to allocate a fixed amount to each kind of meeting. The payment of Directors' fees is based on the actual presence of the representative and takes into account his actual contribution to the work of the board, in accordance with recommendation N°10 of the MiddleNext code.

The Board decided to allocate a fixed sum for each type of meeting, based on attendance as follows (excluding separate fees for and specific technical or preparatory work):

- €500 for each Board meeting attended;
- €1,000 for each Board of Directors meeting attended approving the financial statements;
- €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 2017 by group companies amounted to €38,000 broken down as follows:

Name	Position	Directors' fees (€)		
		2017	2016	2015
Dominique CEOLIN	Chairman of ABCA	2,000	2,000	2,000
Aubépar Industries SE représentée par Xavier CHAUDERLOT	Director of ABCA	2,000	2,000	2,000
Jean-François DROUETS	Director of ABCA	3,000	4,750	7,250
Sabine ROUX de BEZIEUX	Director of ABCA	7,500	6,500	7,250
Didier RIBADEAU DUMAS	Director of ABCA	7,500	11,000	10,750
Marie-Ange VERDICKT	Director of ABCA	7,000	8,000	8,000
Muriel VIDEMONT DELABORDE	Director of ABCA	8,500	4,000	-
Jacques CHEVALIER	Non-voting director of ABCA	500	2,000	1,500

Employment contract and executive office:

As required by recommendation 15 of the MiddleNext Code, the Board of Directors reviewed the practice of combining employment contract with an executive office of Chairman, Chief Executive Officer or Director.

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 and limited benefits and performance stock options/performance shares.

The Board applies the seven principles listed by recommendation 13 of MiddleNext corporate governance 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 18 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% and 3% 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.

The General Meeting, in application of Article L. 225-100 paragraph II of the French Commercial Code, review and approve the fixed, variable and exceptional compensations granted for the financial year just ended and every benefits of any nature to Dominique CEOLIN, Chief Executive Officer.

In application of "Sapin II" regulation, variable and exceptional compensations of the directors are submitted to earlier audit and ex post verification.

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 16 of MiddleNext corporate governance's code).

However, 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 noncompete 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 each quarter (French Pole Emploi certificate, payslip, employer's certificate, affidavit).

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

Pension commitments towards the executive managers :

Following recommendation 17 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.

<u>Executive compensation:</u>

In 2017, the compensation granted in euros to Dominique CEOLIN, Chairman and Chief Executive Officer of the Company, compared to the two previous ones, in respect of his duties as a director or employee of ABC arbitrage companies, excluding directors' fees, breaks down as follows:

In EUR	2017	2016	2015
Gross salary	220,800	220,800	170,400
Vacation pay and statutory bonus adjustments	2,225	2,066	2,249
Company car	-	-	9,400
Incentive plan	19,614	19,308	19,020
Profit-sharing plan	7,574	24,107	23,610
Termination without cause benefit	46,000	77,000	60,500
Gross variable bonuses	183,000	305,000	242,000
Share-based compensation	188,735	71,053	-
Post-employment benefits	-	-	-

8.5 table of Delegation of authority and powers to the Board of Directors

General Meeting Date	Nature of delegation	Modalities and limits	End of delegation	Date, terms and conditions of use by the Board of Directors
16/06/2017	Authorisation to grant stock options or common shares to employees and to Executives of the company or companies of the Group (resolution n°10)	The subscription price or the share purchase price will range between 95% and 140% of the average closing price during the 20th trading session preceding the granting of the plan. The General meeting expressly waive its pre-emptive rights to subscribe for shares issued on the exercise of these stock options, in favour of the beneficiaries of the stock options. The total number of options allocated under this authorisation may not give rights to subscribe for or purchase a number of shares in excess of 11 million of shares.	16/08/2020	Options granted under conditions (2,518,000 used as of June 6, 2017)
27/05/2016	Delegating authority to the Board of Directors to issue ordinary shares and/or any other securities that give access to the share capital with cancellation of shareholders' preferential subscription right, as defined in article L.411-2 II of the French Monetary and Financial code (resolution n°14)	The total amount of capital increases likely to be performed immediately and/or in the future may not exceed 10% of the share capital per year. The Board of Directors will determine the subscription price for the shares, or securities issued.	27/07/2018	Unused
27/05/2016	Possibility for the shareholders, in case of distribution for 2015 and account of the 2016 dividend to receive the dividend in shares (resolution n°4)	The Board of Directors will have the ability to set the price of re-investment which will not be lower than the reference price calculated with the average price over the 20 days' trading prior to the day of the payment decision, decreased by the net amount of the dividend or account of dividend, discounted by 10% and rounded up to the nearest Euro cent	27/07/2018	Delegation used for the final dividend in July, 2016.
16/06/2017	Delegation of authority granted to the Board of Directors to issue ordinary shares and/or any other securities reserved for the participants in group's savings plans with cancellation of shareholders' preferential subscription right to the benefit of those members (resolution n°13)	The Board of Directors will decide all conditions regarding the necessary transactions, in particular the subscription price for the new shares. the total amount of capital increases likely to be performed may not exceed a nominal value of €40 000 without prejudice of any adjustments realized as defined in article L. 228-98 and L. 228-99 of the French Monetary and Financial code.	16/08/2019	Unused
16/06/2017	Delegation of authority granted to the Board of Directors to issue ordinary shares or any securities providing access to capital while maintaining shareholders' preferential subscription rights (resolution n°13)*	The total amount of capital increases likely to be performed immediately and/or in the future may not exceed a nominal value of €250,000 without prejudice of any adjustments realized. Shareholders have a preferential subscription right for securities issued under this delegation.	16/08/2019	Unused
16/06/2017	Authorization to grant existing performance shares or company share to be issued to employees and to Executives of the company or companies of the Group (resolution n°11)	The total number of such bonus shares already granted in preceding authorizations, shall not exceed 10% of the share capital the day of the decision of the Board of Directors. This percentage shall not exceed 30% of the capital when the grant of performance share will benefit all the salaried employees of the company.	16/08/2020	Used in a number of 205,500 shares granted under conditions on 16/06/2017.
16/06/2017	Capital increase by incorporating into the share capital all or part of the reserves, benefits and/or "additional paid-in capital (resolution n°12)	The Board of Directors will determine all the characteristics, take all measures and carry out the useful formalities. The maximum nominal amount of the capital increases that may be carried out shall not exceed €250,000.	16/08/2019	Unused

*****The General Meeting of June 16, 2017 has decided to set the ceiling of nominal of capital increases likely to be performed under the delegations of authority granted to the Board of Directors to €300,000 by the 10, 11, and 13 resolutions voted during that meeting and the one performed under the delegations of authority granted by the 13, and 14 resolutions voted during the general meeting of May 27, 2016.*

8.6 Other information

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.

Dominique CEOLIN, the Company's Chairman and Chief Executive Officer, meets significant shareholders regularly during the year and not just at General Meetings, in order to create the basis for a productive dialog (recommendation 12 of the MiddleNext Code).

Succession plan

In accordance with the MiddleNext Code (recommendation 14), Dominique CEOLIN, Chairman and Chief Executive Officer, presents details of the Company's succession plan to the Board of Directors once a year.

Related-parties' agreement

No related-parties' agreements were signed nor any agreement between a shareholder holding more than 10% of ABC arbitrage share capital and voting rights or a Director and any of its subsidiary.

9. Internal control

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;
- To manage the identified risks.

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.

9.1. 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.

9.2 Internal control players

Control over the operating departments is exercised by the Finance & Internal Control and Market Risks units.

The boards have full power to request disclosure of the information they wish to obtain. Gaetan FOURNIER, Head of Compliance and Internal control (RCCI) and the Chairman and Chief Executive Officer, Dominique CEOLIN can be contacted for risk management and internal control related matters.

- **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 four-member unit is headed by Gaëtan FOURNIER.

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 three-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.

9.3. Risk assessment

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

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").

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 to ensure their solvency.

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 risk

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 Group's 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.

Risks associated with climate change
In light of its business, ABC arbitrage has not identified any material financial risks associated with the effects of climate change.
The Group is nevertheless aware of its responsibilities and endeavors to adopt eco-friendly practices by taking environmental factors into consideration in routine decisions.
The Group's environmental policy is described in the third section of the CSR report.

9.4. Internal control organization

In order to face with the previously identified risks, 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.

9.5. 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.

10. Payment periods

All trade payables outstanding at December 31, 2017 were payable no later than thirty days from the end of the month.

11. Share performance and share buyback programme

At December 31, 2017, issued capital amounted to €928,817.07 divided into 58,051,067 ordinary shares.
Average daily trading volume came to more than 60,935 shares, representing almost €389 thousand a day in value.
ABC arbitrage shares closed the year at €6.28. The par value of the shares is €0.016.

The Company has been authorised by shareholders to carry out a share buyback programme. The number of shares acquired by the Company shouldn't exceed 10% of its share capital under no circumstances. This could be adjusted by capital transactions completed prior to the General Meeting held on June 16, 2017. 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	208,894	6.50	0.36%	219,612	6.51	0.38%
For employee share offers carried out in 2017	-	-	-	-	-	-
For future employee share offers	437,313	6.54	0.75%	-	-	-
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-2016 for employee share-based plans (743,466 shares), 473,916 were allocated to performance share plans and 29,427 were allocated to exercise of stock-options.

12. 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, 2017. There was no significant change in the ownership structure in 2017.

Name	% of capital	% of voting rights
Aubépar Industries	14.41%	15.08%
Financière WDD* et IPA**	12.12%	12.67%
Dominique CEOLIN	4.01%	4.19%
Eximium	5.69%	2.58%
David HOEY	5.21%	5.45%
Autre Management***	3.69%	3.86%

* *Holding company 50.01% owned by Dominique Ceolin*

** *IPA (Investissements et Prestations Administratives) is a company acting in concert with Financière WDD, owning 0.6% of the capital.*

*** *Executive management and independent non-executive directors excluding Dominique Ceolin and David Hoey*

At December 31, 2017, ABC arbitrage held 690,277 treasury shares (1.2% of issued capital).
The free float represented 53.7% 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.

13. Dividend policy

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

In €	2016	2015	2014
Dividend paid	0.45	0.40	0.40

All of these dividends qualified for the 40% tax relief available to individual shareholders resident in France for tax purposes, except for the €0.40985 per share in 2016 and €0.27074 per share in 2015 dividend distributed from additional paid-in capital.

The Annual Shareholders’ Meeting of June 16, 2017 approved a 2016 dividend of €0.25 per share. The dividend is in addition to the €0.20 distribution paid in November 2016. The full distribution for 2016 therefore amount to €0.45 per share.

The ex-dividend date was July 20, 2017, and the dividend was paid on July 24, 2017. The dividend ultimately paid in cash amounted to €14.3 million.

ABC arbitrage distributed € 0.20 per share, solely in cash. The ex-dividend date was November 23, 2017, and the dividend was paid on November 27, 2017. 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 €11.47 million.

14. Earnings allocation

At December 31, 2017, ABC arbitrage’s share capital was represented by 58,051,067 fully paid ordinary shares with a par value of €0.016 each.

Net earnings per ordinary share amounted to €0.32 in 2017. 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 June 15, 2018. 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 November 2017.

If approved by the shareholders, the full distribution for 2017 will therefore amount to €0.40 per share, which represents 127% of Consolidated Net earnings per ordinary share payment, giving a net yield of 6.4% based on the share price at December 31, 2017 (€6.28).

15. Sumptuary expenditures : Article 223 quater of the French General Tax Code

At December 31, 2017, we acknowledge the absence of non-deductible expenses mentioned in article 39-4 of the French General Tax Code.

16. Post-balance sheet events

In light of the groups internationalisation, and in order to strengthen its overall structure, the Board of Directors, at their meeting of January 18th, 2018 appointed Mr David HOEY as Deputy CEO of the Company. Acting for the Company since 1996, David HOEY is furthermore Deputy CEO and Board member of ABC arbitrage Asset Management and Board member of ABC arbitrage Asset Management Asia and ABCA Funds Ireland.

17. Outlook

The group has implemented the Step Up 2019 plan aimed at accelerating the development of new strategies at a stronger pace, to address firmly the market environment which has been shaping up since 2012 with the massive interventions of central banks.

Despite adverse market conditions in 2017, the Group has been able to demonstrate its resilience particularly during the first semester. In the second semester, market parameters were characterized by record levels of nil volatility and a constant decline in security transactions and M&A activities. The second semester's results are in line with these conditions but have been below the Group’s expectations.

As explained for many years, and despite the progress achieved, 2017 results highlight one more time the importance of volatility and its ability to explain of the Group's activity. As of today, ABC arbitrage is not equipped to achieve its ambitions in weak volatility environments such as 2017, in particular the low-level volatility record encountered in the second semester.

This context which which has been settling in since the massive intervention of central banks in 2012 and which worsened in 2017, triggered an essential strategic reflection. All the same, the progress achieved in volatility profiles similar to 2016 and the first half of 2017, demonstrate that the developments in R&D, both realised and still ongoing under the Step Up 2019 plan, are materially contributing to Group performance, generating a ROE exceeding 10%, despite the most historical adverse conditions encountered since 1964.

The start of 2018, especially February, further illustrates that the Group's strategies have the capacity to be very successful in normalized situations. The phase-out of "Quantitative Easing" and the programmed rate hikes during 2018 should provide for a more favorable market environment for the Group’s businesses.

Nevertheless, the Group confirms its investment strategy to counter low volatility situations as encountered since 2012. Even if liquidity injections by the central banks could continue, albeit at a lower pace, these investments should allow us to develop management capacity and improve the recurrence of earnings in most market conditions with main objective being the preparation of the next decade.

The first two months of 2018 saw a promising increase in clients’ assets, to €384 million at March 1, 2018, compared to €434 million at December 31, 2017. After the volatility return, the investors' reaction and the Group's funds performances associated will be a major fact for the Group's strategic visibility during the 2018 first semester.

With all of the above in mind, the Group stands by its Step Up 2019 plan and associated investments, in order to continue its strategic development. ABC arbitrage reinforces its objective of building a combined offer of "attractive performance" and "capital protection" for its clients and shareholders as demonstrated by the last 23 years of significative income.

The Board of Directors
March 22, 2018

ANNUAL FINANCIAL REPORT - Year 2017

Consolidated financial statements

Groupe ABC arbitrage

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.

Balance sheet - assets

In EUR	Note	Dec. 31, 2017 IFRS	Dec. 31, 2016 IFRS
Intangible assets	3.1	118,195	185,600
Property and equipment	3.1	1,267,710	1,434,074
Work in progress	3.1	-	-
Non-current financial assets	3.2	599,351	589,977
Deferred tax assets		669,768	773,365
Total non-current assets		**2,655,024**	**2,983,016**
Financial assets at fair value through profit or loss	3.4	134,378,330	141,490,232
Other accounts receivable	3.6	8,211,539	9,232,206
Current tax assets		751,330	1,524,650
Cash and cash equivalents		7,938,703	10,188,873
Total current assets		**151,279,901**	**162,435,961**
TOTAL ASSETS		**153,934,925**	**165,418,978**

Balance sheet - liabilities

In EUR	Note	Dec. 31, 2017 IFRS	Dec. 31, 2016 IFRS
Paid-up share capital		928,817	928,817
Additional paid-in capital		81,392,453	104,961,078
Retained earnings		48,236,935	21,699,929
Interim dividend		-	-
Net income		18,308,889	30,540,851
Total equity attributable to equity holders	**3.3**	**148,867,094**	**158,130,675**
Minority interests		(180)	(180)
Total equity		**148,866,914**	**158,130,495**
Provisions	3.7	-	50,000
Non-current financial liabilities		-	-
Deferred tax liabilities		-	-
Non-current liabilities		**-**	**50,000**
Financial liabilities at fair value through profit or loss	3.4	15,407	24,931
Other liabilities	3.6	5,052,604	7,213,551
Taxes payable		-	-
Short-term debt		-	-
Current liabilities		**5,068,012**	**7,238,483**
TOTAL EQUITY AND LIABILITIES		**153,934,925**	**165,418,978**

Statement of income

In EUR	Note	Dec. 31, 2017 IFRS	Dec. 31, 2016 IFRS
Net gain/loss on financial instruments at fair value through profit or loss	4.1	22,271,219	35,935,990
Investment services fees	4.2	15,964,172	17,451,268
Other revenue	4.3	311,096	264,778
Administrative expenses	4.4	(6,213,790)	(6,004,165)
Taxes and duties		(710,350)	(848,253)
Payroll costs	4.5	(13,304,463)	(15,766,665)
Depreciation and amortisation expense		(854,822)	(783,261)
OPERATING INCOME		**17,463,063**	**30,249,692**
Provision expense	4.6	250,000	(50,000)
INCOME BEFORE TAX		**17,713,063**	**30,199,692**
Current taxes	4.7	335,900	(39,675)
Deferred taxes		259,926	380,834
NET INCOME		**18,308,889**	**30,540,851**
Attributable to equity holders		18,308,889	30,540,851
Attributable to minority interests		-	-
Number of ordinary shares		*58,051,067*	*58,051,067*
Earnings per ordinary share		*0.32*	*0.53*
Diluted earnings per ordinary share		*0.31*	*0.51*

Statement of comprehensive income

In EUR	Note	Dec. 31, 2017 IFRS	Dec. 31, 2016 IFRS
Net income		18,308,889	30,540,851
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		**18,308,889**	**30,540,851**
Attributable to equity holders		18,308,889	30,540,851
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, 2015	**908**	**125,725**	**(4,406)**	**19,000**	**141,227**	**nm**	**141,227**
Issue of shares	-		-	-	-	-	-
Elimination of treasury shares	-	-	337	-	337	-	337
Share-based payments	-	-	-	1,173	1,173	-	1,173
Appropriation of 2015 net income	21	3,525	-	(7,244)	(3,698)	-	(3,698)
2016 interim dividend	-	(11,449)	-	-	(11,449)	-	(11,449)
Net income for the year	-	-	-	30,541	30,541	-	30,541
At December 31, 2016	**929**	**117,801**	**(4,068)**	**43,469**	**158,131**	**nm**	**158,130**
Issue of shares	-	-	-	-	-	-	-
Elimination of treasury shares	-	-	(265)	-	(265)	-	(265)
BSAA Cancellation	-	(64)	-	-	(64)	-	(64)
Appropriation of 2016 net income	-	2	-	(14,342)	(14,340)	-	(14,340)
2017 interim dividend	-	-	-	(11,468)	(11,468)	-	(11,468)
Share-based payments	-	-	-	(1,435)	(1,435)	-	(1,435)
Net income for the year	-	-	-	18,309	18,309	-	18,309
At December 31, 2017	**929**	**117,739**	**(4,334)**	**34,533**	**148,867**	**nm**	**148,867**

nm: non-material

In EUR thousand	Dec. 31, 2017 IFRS	Dec. 31, 2016 IFRS
Net income	**18 309**	**30,541**
Net allocations to provisions	(300)	(100)
Net allocations to depreciation and amortisation	855	783
Change in deferred taxes	104	(381)
IFRS 2 expenses related to share-based payments	1 186	1,801
Net cash provided by operations before changes in working capital	**20 153**	**32,644**
Changes in working capital	**6 985**	**(20,140)**
Net cash provided by operating activities	**27 139**	**12,504**
Net cash used by investing activities	**(630)**	**(778)**
Net cash provided by capital transactions	(64)	-
Dividends paid	(25 808)	(15,147)
Share-based payments	(2 887)	(291)
Net cash used by financing activities	**(28 758)**	**(15,438)**
Net change in cash and cash equivalents	**(2 250)**	**(3,712)**
Cash and cash equivalents, beginning of period	10 189	13,901
Cash and cash equivalents, end of period	7 939	10,189

1. Accounting principles and policies

The Group's fiscal year runs from January 1 to December 31, 2017. 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, 2017.

The Group has applied the new standards, amendments and interpretations adopted by the European Union that are compulsory as of January 1, 2017. It has elected not to adopt those whose application is optional in 2017.

IFRS 9 – Financial Instruments, which was adopted for use in the European Union on September 22, 2016 and is effective for periods beginning on or after January 1, 2018, extensively modifies the rules applicable to the recognition and measurement of financial assets and liabilities compared with IAS 39. It also introduces a new forward-looking model for recognizing expected credit losses and a new hedge accounting model (except for macro-hedging transactions for which a separate standard is currently being prepared by the IASB).

IFRS 9 maintains but simplifies the mixed measurement model and set up three principal measurement classifications for financial assets :

- the amortized cost;
- fair value through other comprehensive income;
- fair value through profit and loss.

The basis for this classification depends on the entity economic model and financial assets' cash flow characteristics.

This new standard doesn't have any significant impact on the classification and measurement of financial liabilities except the classification of credit risk variation at fair value through comprehensive income.

IFRS 9 also substantially adapts the model for hedge accounting by requiring more information on risk management. Accounting treatment on Hedge accounting is consistent with the risk management framework.

Based on the Group's businesses and on the current classification of financial assets at fair value through profit and loss, the new standard will not have material impact on the financial statements of the Company.

IFRS 15 – Revenue from Contracts with Customers was adopted for use in the European Union on September 22, 2016 and is effective for periods beginning on or after January 1, 2018.
The standard defines the revenue recognition principles applicable to all contracts with customers, except for leases, insurance contracts, financial instruments and guarantees. Under IFRS 15, revenue is recognized according to a five-step process that starts with identifying the contract and ends with recognizing the revenue in the statement of income when the performance obligation has been satisfied:

- Step 1: Identify the contract(s) with the customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations;
- Step 5: Recognize the revenue when (or as) each performance obligation is satisfied.

The Group identified the contracts falling within the scope of this standard. Given the nature of contracts, the new standard will not have material impact on the financial statements of the Company.

IFRS 16 – Leases was published by the IASB on January 13, 2016 and will be effective for periods beginning on or after January 1, 2019 subject to its adoption for use in the European Union.
IFRS 16 requires all leases to be recognized in the lessee's balance sheet, as follows:

- In assets: recognition of a right-of-use asset
- In liabilities: recognition of a lease liability

In the statement of income, depreciation of the leased asset is recognized separately from the portion of the lease payments corresponding to interest.
The effects of applying IFRS 16 to the Group's leases are currently being analyzed. The Group identified all the contracts falling within the scope of this new standard. In order to conclude the analysis, the Group is currently calculating the marginal interest rate as required by the standard for the valuation of assets and liabilities.
The Group has not opted for the early application of IFRS 16 new standard and plans to use the modified-retrospective approach.

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.

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").

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).

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.

As part of the application of IFRS 13 and 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.

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.

Amendments to IFRS 10 and IAS 28, approved by Regulation (EU) no. 2016/1703 of September 22, 2016, 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.

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, 2017 plus the impact of all potentially estimated 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	100.0%	
ABC arbitrage Asset Management Asia	Singapore	100.0%	

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

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	36.95%	
ABCA Reversion Fund	Ireland	4.39%	

Quartys Limited trades in financial instruments.

ABCA Funds Ireland plc was incorporated in Ireland in 2011 and established as an umbrella fund with segregated liability between sub-funds:

- At 31 December 2017, ABCA Opportunities Fund had €183 million of funds under management.
- At 31 December 2017, ABCA Reversion Fund had €206 million of funds under management.

Due to cross-holdings, ABCA Funds Ireland had total assets of €339 million.

3. Notes to the balance sheet

3.1. Intangible assets and property and equipment

Gross value

In EUR thousand	Gross value Dec. 31, 2016	Acquisitions	Retirements /disposals	Gross value Dec. 31, 2017
Concessions and similar rights	662	98	-	760
Equipment, fixtures and fittings	1,286	57	-	1,343
Vehicles	-	-	-	-
Office and computer equipment, furniture	4,612	466	-	5,079
Total gross value	**6,560**	**621**	**-**	**7,181**

Amortisation and depreciation

In EUR thousand	Dec. 31, 2016	Increases	Decreases	Dec. 31, 2017
Concessions and similar rights	(477)	(165)	-	(642)
Equipment, fixtures and fittings	(981)	(144)	-	(1,125)
Vehicles	-	-		-
Office and computer equipment, furniture	(3,483)	(546)	-	(4,029)
Total amortisation and depreciation	**(4,940)**	**(855)**	**-**	**(5,795)**

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 2017, this item included €599 thousand in guaranteed deposits and securities.

3.3. Consolidated equity

3.3.1. Share-based payment – Ambition 2016 and Step-up 2019 incentive program

Performance Share incentive programme :

Name of the plan	Plan	Acquisition date	Acquisition period	Number of shares	Effective acquisition date for granted shares	Number of shares to be granted	Number of shares definitely granted
01/2014	Ambition 2016	14/05/2014	2	283,333	2016	0	166,928
02/2014	Ambition 2016	14/05/2014	3	283,333	2017	0	183,916
03/2014	Ambition 2016	14/05/2014	4	283,334	2018	248,000	Pending[10]
01/2015	Ambition 2016	12/05/2015	2	300,000	2017	0	290,000
02/2015	Ambition 2016	12/05/2015	3	300,000	2018	274,000	Pending[11]
03/2015	Ambition 2016	12/05/2015	4	300,000	2019	274,000	Pending
01/2016	Ambition 2016	14/06/2016	2	187,000	2018	170,000	Pending[12]
02/2016	Ambition 2016	14/06/2016	3	187,000	2019	170,000	Pending
03/2016	Ambition 2016	14/06/2016	4	187,000	2020	170,000	Pending
APE-3.1/2017	Step-up 2019	16/06/2017	2	68,500	2019	68,500	Pending
APE-3.2/2017	Step-up 2019	16/06/2017	3	68,500	2020	68,500	Pending
APE-3.3/2017	Step-up 2019	16/06/2017	4	68,500	2021	68,500	Pending
Total if applicable	**N/A**	**N/A**	**N/A**	**2,516,500**	**N/A**	**1,511,500**	**640,844**

[10] Based on actual net income for that period and given the continuing presence requirement, 147,714 shares should be definitely granted by the end of the first semester of 2018.

[11] Based on actual net income for that period and given the continuing presence requirement, 187,414 shares should be definitely granted by the end of the first semester of 2018.

[12] Based on actual net income for that period and given the continuing presence requirement, 137,097 shares should be definitely granted by the end of the first semester of 2018.

Stock options subscription programme :

Name of the plan	Plan	Acquisition date	Name of the plan	Number of granted options	Exercise period start date	Options expired Date	Exercise adjusted price	Number of options to be granted	Number of unexercised options
03/2010	Horizon 2015	20/09/2010	5	3,000,000	2015	20-Mar-2018	5.5242	0	67,039
04/2016	Ambition 2016	14/06/2016	2	373,000	2018	15-Jun-2022	6.3365	362,000	291,935[13]
05/2016	Ambition 2016	14/06/2016	3	313,000	2019	15-Jun-2022	6.6971	302,000	Pending[14]
06/2016	Ambition 2016	14/06/2016	4	313,000	2020	15-Jun-2022	7.0577	302,000	Pending
SO-1.1/2017	Step-up 2019	16/06/2017	2	563,333	2018	30-Jun-2022	6.3318	563,333	454,301[15]
SO-1.2/2017	Step-up 2019	16/06/2017	3	563,333	2019	30-Jun-2022	6.7065	563,333	Pending
SO-1.3/2017	Step-up 2019	16/06/2017	4	563,334	2020	30-Jun-2022	7.0811	563,334	Pending
SO-2.1/2017	Step-up 2019	16/06/2017	2	276,000	2019	30-Jun-2023	6.7065	276,000	Pending
SO-2.2/2017	Step-up 2019	16/06/2017	3	276,000	2020	30-Jun-2023	7.0811	276,000	Pending
SO-2.3/2017	Step-up 2019	16/06/2017	4	276,000	2021	30-Jun-2023	7.4558	276,000	Pending
Total if applicable	**N/A**	**N/A**	**N/A**	**6,517,000**	**N/A**	**N/A**	**N/A**	**3,484,000**	**813,275**

Stock Appreciation Rights - SAR :

Name of the plan	Plan	Acquisition date	Name of the plan	Number of granted units	Exercise period start date	Options expired Date	Exercise adjusted price	Number of units to be granted	Maximum number of units to be exercised
07/2016	Ambition 2016	22/09/2016	2	745,870	2018	22-Sep-2022	6.5258	68,200	55,000[16]
08/2016	Ambition 2016	22/09/2016	3	745,870	2019	22-Sep-2022	6.8904	68,200	Pending[17]
09/2016	Ambition 2016	22/09/2016	4	745,870	2020	22-Sep-2022	7.2550	68,200	Pending
SAR-4.1/2017	Step-up 2019	16/06/2017	2	167,000	2019	NA	5.9571	167,000	Pending
SAR-4.2/2017	Step-up 2019	16/06/2017	3	167,000	2020	NA	5.9571	167,000	Pending
SAR-4.3/2017	Step-up 2019	16/06/2017	4	167,000	2021	NA	5.9571	167,000	Pending
Total if applicable	**N/A**	**N/A**	**N/A**	**2,738,610**	**N/A**	**N/A**	**N/A**	**705,600**	**55,000**

[13] Based on actual net income for that period and given the continuing presence requirement, 291,935 stock options should be definitely granted by the end of the first semester of 2018, and being exercisable.

[14] "Pending" means that the stock-options aren't definitely granted and as a consequence not being exercisable.

[15] Based on actual net income for that period and given the continuing presence requirement, 454,301 stock options should be definitely granted by the end of the first semester of 2018, and being exercisable.

[16] Based on actual net income for that period and given the continuing presence requirement, 55,000 SAR should be definitely granted by the end of the first semester of 2018 and become exercisable.

[17] "Pending" means that the SAR aren't definitely granted and as a consequence not being exercisable.

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, 58% shares will vest and if net income is €25 million a year over the entire period, 65% shares will vest.

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 €1.186 million, calculated on the basis of the estimated probable number of shares under various plans, was recognised in respect of fiscal year 2017 (compared to €1.801 million at December 31, 2016). The decrease of IFRS 2 expense is related to the re-assessment of quantity expected to be granted given the programme's progression and the realized income.

The loss on share buybacks used amounted to €2.257 million and was deducted from consolidated equity at 31 December 2017 (vs €419 thousand at December 31, 2016) which reduces the consolidated shareholders' equity.

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 are exercisable from June 1, 2015 to June 29, 2018 inclusive.

The Board of Directors meeting of April 20, 2017 has authorized the purchase of 2011 BSAAs on the market and acted the cancellation of all securities bought back. 2011 BSAAs have been listed on the stock exchange since May 3, 2017.

At December 31, 2017, 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 0.274 ABC arbitrage shares with an exercise price of €6.1223.

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. 2016 Distribution dividend

The Annual Shareholders' Meeting of May 27, 2016 approved a 2016 dividend of €0.25 per share.
The dividend is in addition to the €0.20 distribution paid in November 2016. The full distribution for 2016 therefore amount to €0.45 per share.
The ex-dividend date was July 20, 2017, and the dividend was paid on July 24, 2017. Since the distribution was paid for 0.04015 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).

The dividend ultimately paid in cash amounted to €14.3 million.

3.3.4. Distribution of €0.20 per share in November 2017

ABC arbitrage distributed €0.20 per share, solely in cash. The ex-dividend date was November 23, 2017, and the dividend was paid on November 27, 2017. 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 €11.5 million.

3.3.5. Treasury stock

During 2017, ABC arbitrage sold 219,612 of its own shares. At the same time, 208,894 shares were purchased under the market-making agreement with Kepler Cheuvreux.

Of the shares held at December 31, 2016 (743,466 shares), 473,916 were allocated under performance share plans and 29,427 under stock option plans.
At December 31, 2017, ABC arbitrage held 690,277 of its own shares, acquired at a total cost of €4,434 thousand (at December 31, 2016, the company held 766,213 of its own shares, acquired at a total cost of €4,063 thousand).

At December 31, 2017, ABC arbitrage's share capital was represented by 58,051,067 fully paid ordinary shares with a par value of €0.016 each.

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, 2016, financial assets and liabilities measured at fair value through profit or loss were classified (in the fair value hierarchy described in note 1.2, 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	2,316	139,174	-	**141,490**
Financial liabilities at fair value through profit or loss	(25)	-	-	**(25)**

At December 31, 2017, 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	383	133,996	-	**134,378**
Financial liabilities at fair value through profit or loss	(15)	-	-	**(15)**

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 sub-funds. 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 2017.

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

Cash reserves earn interest at variable rates (which may be negative) 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	7,217	(359)
Accrued income/expenses	77	(1,035)
Accrued taxes and payroll costs	917	(3,658)
Total at December 31, 2017	**8,212**	**(5,053)**
Total at December 31, 2016	*9,232*	*(7,214)*

Accrued taxes mainly comprise 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, 2016	**50**
Provisions utilised in 2017	(22)
Provision reversal in 2017	(28)
Charge to provisions in 2017	-
Total provisions at December 31, 2017	**-**

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 €22,271 thousand versus €35,936 thousand in 2016.

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;
- foreign exchange gains and losses;
- the net gains at fair value through profit or loss of Quartys Limited and the ABCA Funds Ireland Plc sub-funds recognised in accordance with IFRS 10; and
- any other transaction related revenues or expenses.

4.2. Investment services fees

Investment services fees amounted to €15,964 thousand at December 31, 2017. At December 31, 2016, they amounted to €17,451 thousand.

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 subletting premises and administrative services amounted to €311 thousand versus €265 thousand during 2016.

4.4. Administrative expenses

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

This item totalled €6,214 thousand in 2017 versus €6,004 thousand in 2016.

4.5. Payroll costs

The average number of employees was 86 in 2017 versus 85 in 2016.
Payroll costs include €9,682 thousand in fixed and performance-related compensation together with statutory and discretionary profit-sharing (€11,718 thousand in 2016), payroll taxes of €3,622 thousand (€4,048 thousand in 2016). Payroll-based taxes amounted to €438 thousand (€470 thousand in 2016).

The *Crédit d'Impôt Compétitivité Emploi* (CICE) tax credit was recognised as a deduction from payroll costs in the amount of €31 thousand for 2017. 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 2017, the following amounts were granted by Group companies to the directors of the parent company:

In EUR	
Directors' fees	267,000
Salary and other benefits	220,800
Gross bonuses	29,413
Share-based compensation	188,735
Post-employment benefits	-

4.6. Provision expense

Provision income amounts to €250 thousand because of a provision reversal at December 31, 2017. At December 31, 2016, they amounted to €50 thousand expense. Provision expense reversal is due to the difficulty to recover 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 -3.36% - can be explained as follows:

Standard French tax rate	**28%**
Impact of permanent differences	(0.55)%
Impact of tax credit	(1.90)%
Impact of the portfolio revenue recognition method	0%
Impact of IFRS10 presentation	(32.78)%
Impact of temporary differences	3.87%
Effective tax rate	**-3.36%**

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.

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, 2017	Financial assets at Dec. 31, 2017	Financial assets at Dec. 31, 2016
Non-derivative financial instruments	419,787	(230,002)	189,785		
Derivatives	860,263	(767,852)	92,410		
Unlisted Derivatives	370,241	(570,575)	(200,334)		
Financial assets at fair value through profit or loss	76,567	-	76,567		
Total long positions	1,650,291	(1,568,429)		**134,378**	**141,490**
Cash and margin accounts	5,452	(195,021)	(189,569)		
Currencies derivatives - Listed	5,345	(92,725)	(87,380)		
Currencies derivatives - Non listed	252,899	-	252,899		

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, 2017	Financial liabilities at Dec. 31, 2017	Financial liabilities at Dec. 31, 2016
Non-derivative financial instruments	-	-	-		
Derivatives	-	-	-		
Unlisted Derivatives	-	-	-		
Total short positions	-	-		**(15)**	**(25)**
Cash and margin accounts	-	(15)	(15)		
Currencies derivatives - Listed	-	-	-		
Currencies derivatives - Non listed	-	-	-		

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, 2017	Financial liabilities at Dec. 31, 2017	Financial liabilities at Dec. 31, 2016
Non-derivative financial instruments	419,787	(230,002)	189,785		
Derivatives	860,263	(767,852)	92,410		
Unlisted Derivatives	370,241	(570,575)	(200,334)		
Financial assets at fair value through profit or loss	76,567	-	76,567		
Total long positions	1,650,291	(1,568,429)		**134,363**	**141,465**
Cash and margin accounts	5,452	(195,036)	(189,585)		
Currencies derivatives - Listed	5,345	(92,725)	(87,380)		
Currencies derivatives - Non listed	252,899	-	252,899		

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	2017	2016
Asia	3%	4%
Euro zone	22%	38%
USA	69%	50%
Other markets	6%	8%
Total	100%	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.

5.1. 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 2017, the aggregate VaR of the Trading Exposures of the Group was €1.3M (vs €4.6M at 31 December 2016). 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 2017, a 2% rise (fall) in the euro against all currencies would, all other things being equal, have increased (decreased) net assets by €44 thousand.

5.2. 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 to ensure their solvency.

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).

5.3. 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, 2017, 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	383	133,996*	-	-	134,378
Other receivables	218	7 682	312	-	8,212
Deferred tax assets	-	-	751	-	751
Cash and cash equivalents	7,939	-	-	-	7,939
Total current assets	**8,539**	**141,678**	**1,063**	**-**	**151,280**
Financial liabilities at fair value through profit or loss	(15)	-	-	-	(15)
Other liabilities	(1,598)	(2,182)	(631)	(642)	(5,053)
Current tax liabilities	-	-	-	-	-
Short-term borrowings	-	-	-	-	-
Total liabilities	**(1,613)**	**(2,182)**	**(631)**	**(642)**	**(5,068)**
Net balance	**6,926**	**139,496**	**432**	**(642)**	**146,212**

**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 sub-funds, 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.*

5.4. Operational risk

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

In 2017, losses due to operational incidents represented 0.6% (vs 0.3% in 2016) 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.

5.5. 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.

✓Brexit

On triggering Article 50, the United Kingdom ("UK") started a 2 year countdown to its official exit from the European Union ("EU"). This exit is officially planned for March 29, 2019. Negotiations are now under pressure especially about the finale bill amount and terms and conditions of the border with Ireland.
At this time, it is still very difficult to identify the fullest extent of consequences, as the measures that will be put in place will result from a protracted negotiations between the UK and the EU and in all likelihood an extended transition period.

The group:

- does not have a permanent establishment or business operations in the UK;
- does not commercialise products in the UK;
- does not deploy personnel to the UK (save for infrequent business travel);
- contracts little services from the UK, yet maintains counterparty relationships it UK Credit Institutions (CI's) for financing services.

This context gives a sense of proportion to the relative degree of uncertainty facing the Company in that UK CI's will continue to desire to commercialise their services and other CI's will seek to seize a competitive edge.

As such it will be worth monitoring, not only how UK CI's adapt their product offering to a post-Brexit environment, but also:

- how non-UK CI's develop their product offerings to seize a competitive edge over UK CI's
- how other jurisdictions adapt their regulatory and financial ecosystem in order to offer an operating environment capable of attracting existing UK CI's.

The transition to a post-Brexit environment will be long and the threats and opportunities unclear until we enter into the final phases. The group will ensure the adequate and progressive implementation of means and measures to analyse the evolving environment, upholding the group’s underlying opportunistic culture and philosophy.

6. Other information

6.1. Related party transactions

There were no material transactions with Aubépar Industries in 2017.

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)		%	
	2017	2016	2017	2016	2017	2016	2017	2016
Audit fees	36,626	28,786	50%	50%	36,626	28,786	50%	50%
Other services provided to fully consolidated subsidiaries *	28,500	28,405	50%	50%	28,500	28,405	50%	50%
Other audit-related work	3,000	3,000	100%	100%	0	0	0%	0%
TOTAL	**68,126**	**60,191**	**51%**	**51%**	**65,126**	**57,191**	**49%**	**49%**

** Excluding ABC arbitrage Asset Management Asia, whose 2017 financial statements were audited by Crowe Horwath First Trust (€7 thousand of fees).*

DELOITTE & ASSOCIES

ERNST & YOUNG et Autres

This is a translation into English of the statutory auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.
This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

ABC arbitrage

Year ended 31/12/2017

Statutory auditors' report on the consolidated financial statements

DELOITTE & ASSOCIES
185, Avenue Charles de Gaulle
92524 Neuilly-sur-Seine
S.A. au capital de € 1.723.040

Commissaire aux Comptes
Membre de la compagnie
régionale de Paris

ERNST & YOUNG et Autres
Tour First
TSA 14444
92037 Paris-La Défense Cedex
S.A.S. à capital variable
438 476 913 R.C.S. Nanterre

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

ABC arbitrage

Year ended 31/12/2017

Statutory auditor's report on the consolidated financial statements

To the Annual general meeting of ABC arbitrage,

Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying consolidated financial statements of ABC arbitrage for the year ended 31/12/2017

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 12/2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Basis for Opinion

Audit Framework

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

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

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 01/01/2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of Ethics (Code de déontologie) for statutory auditors.

Justification of Assessments- Key Audit Matters

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

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

Key audit matter	***Our response***

The ABC arbitrage group develops, implements and proposes market arbitrage strategies.
 	
Financial instruments at fair value through profit or loss managed under these strategies relate to equities or equity derivatives, derivatives such as futures, options, currencies or investment fund units traded in active markets.
 	
Quartys Ltd and the sub-funds of ABCA Funds Ireland Plc hold these instruments.
 	
Within these entities, in the application of IFRS 13 "Fair Value Measurement" and to the extent that the instruments are traded in active markets, ABC arbitrage considers the fair value of a financial instrument as the "Exit price" (mid-price at the time of purchase and sale or "Mid price"). It is determined at the last time of common quotation of the securities in an arbitrage model or with the smallest interval of time possible.
 	
Given the importance of the financial instrument portfolios in ABC arbitrage's consolidated financial statements, we consider that the fair value measurement of these instruments used in the context of arbitrage strategies is a key audit matter.
	Our work consisted, involving in our team members with special expertise in financial instruments and information systems, and with the help of the auditors of Quartys Ltd and ABCA Funds Ireland Plc, to:
	
	- Appreciate the possibility offered by IFRS 13 to use a "Mid price" for the valuation of positions as long as this price corresponds to the effective exit price of the instruments;
	- examine the automated application process that retrieves the prices of the external repositories and calculates the "Mid price";
	- assess the data and assumptions on which the pricing of instruments is based, using the following procedures performed on a sample of instruments in the portfolio:
	    ○ comparison of prices used by the group with price data from external sources (Bloomberg for example) ;
	    ○ in the event of a temporary difference in the quotation between the securities making up the arbitrage model, to carry out specific tests consisting in analyzing the rating differences and assessing the validity of the prices retained by the group.

ABC Arbitrage participations in Quartys Ltd and sub-funds of ABCA Funds Ireland Plc as of December 31, 2017 amounts for € 134,378,000 as detailed in note 3.4 of the consolidated financial statements. *As part of these investments, ABC arbitrage group's exposures on financial instruments and derivatives amounts for € 1,650,291,000 in long positions and € 1,568,429,000 in short positions, as described in note 5 of the financial statements. For more details on the accounting principles, refer to note 1.2 of the notes to the consolidated financial statements.*	

Verification of the Information Pertaining to the Group Presented in the Management Report

As required by law we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of the Board of Directors.

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

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of ABC arbitrage by the annual general meeting held on 23/12/1999 for ERNST & YOUNG et Autres and on 27/05/2009 for DELOITTE & ASSOCIES.

As at 31/12/2017, DELOITTE & ASSOCIES and ERNST & YOUNG et Autres were respectively in their 9th year and 19th year of total uninterrupted engagement.

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

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

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

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.
The consolidated financial statements were approved by the Board of Directors.

Statutory Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

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

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

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.

- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

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

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

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

Neuilly-sur-Seine and Paris-La Défense, 26/04/2018

The Statutory Auditors
French original signed by

DELOITTE & ASSOCIES	ERNST & YOUNG et Autres
Charlotte Vandeputte	François Holzman

ANNUAL FINANCIAL REPORT - YEAR 2017

Corporate Social Responsability Report

Social, environmental and Social responsability

Groupe ABC arbitrage

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 that combines the performance and results of ABC arbitrage.

- 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 (article R225-105-1 of the French Commercial code (Code de commerce) modified the august 19, 2016 by the decree 2016-1138).
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 95% 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 compulsory imposition, 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 (see part 2.e below). 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,technology conferences and also universities 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.

- In today's constantly evolving world, with ambitious and captivating projects, ABC arbitrage wishes to stay aware of others' jobs, passions, adventures. Also to meet other men and women who pilote and live important human adventures : they have in common a kind of personal competition, either through sport or studies. Thinking out of our daily life to discover and share the work, innovations, and the challenge to push oneself to the limits, to view things in a new way, to enrich our own career. These are ABC arbitrage ambitions through these featured projects.

    - Continuously since the school year 2014/2015, funding was provided to the Maison des Talents, an innovative program of equal opportunities led by the Fondation Financière de l'Echiquier to enable deserving women scholarship students (Two girls are sponsored by ABC arbitrage during this school year) to pass the entrance examinations for France's most prestigious universities, or grandes écoles parisiennes.
      Four professionals who went through demanding school curriculum are supporting them as their mentor. They offer moral support and academic assistance (general methodology and knowledge) and give them a first introduction to professional life.
      They advise them to find internships, jobs, by having them benefit from their network and knowledge of the business world.
      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 promoted two french artists this year and brought an artistic touch, both inside and outside the company : after the installation of a mural painting in a meeting-room, ABC arbitrage gave the artists full scope during ten days to perform a live experience inside the office : a mix of sketches representing who we are at ABC arbitrage and freestyle. Art photographs can also be seen in the cafeteria and are renewed every three months.

- 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 Asset Management renewed its memberships in AFG (Association Française de la Gestion Financière). This association represents and defends professionals' interest in portfolio management for third parties. It brings to memberships constant support into legal, fiscal, economical, accountant and technical areas. The AFG is also a mobilizer of ideas for the profession about portfolio management techniques evolutions, research, protection and allocation of savings.

- 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. Subcontracting and suppliers

The use of subcontractors is restricted to the preparation of pay statements, social security filings and facilities management. 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 (International Labour Organization) 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

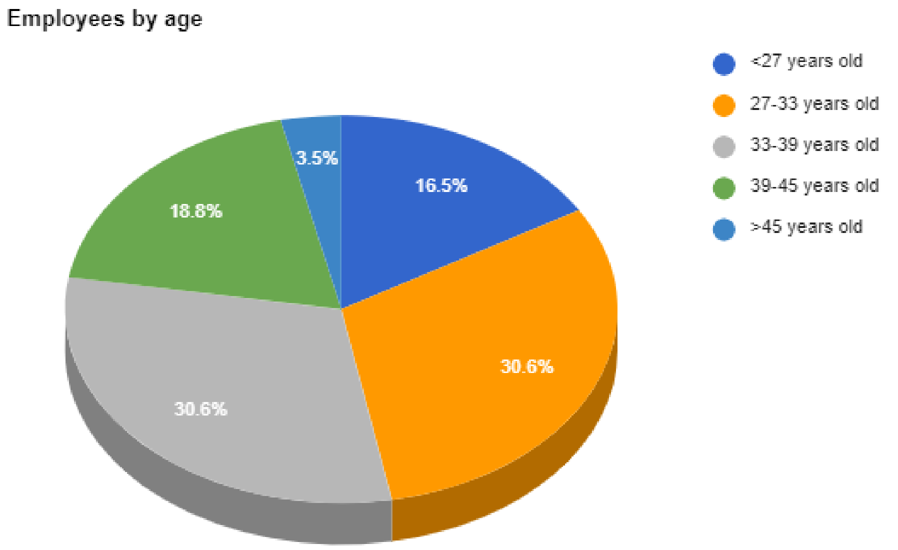
Key employee data are summarised in the table below:

Indicator	Definition/unit of measurement	2017				2016	Change
		ABCA(1)	ABAM(2)	Étranger (3)	TOTAL	TOTAL	100%
Total headcount	Total number of interns, permanent and fixed term employees	3	77	5	**85**	**87**	-2%
Average headcount	Total number of interns,permanent and fixed term employees	3	79	4	**86**	**85**	1%
Permanent employees	Total number of permanent and fixed term employees	3	77	5	**85**	**84**	1%
	Permanent employees as a % of total headcount	100%	100%	100%	**100%**	**97%**	NA
Number of interns at the year-end	Total number of interns at December 31	0	0	0	**0**	**0**	NA
	Interns as a % of total headcount	0	0	0	**0**	**0**	NA
Number of interns during the year	Number of short-term internships	0	1	0	**1**	**1**	0%
	Number of pre-hire internships	0	3	0	**3**	**6**	-50%
	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	100%	100%	100%	**100%**	**100%**	NA
	Other employees as a % of total headcount	0%	0%	0%	**0%**	**0%**	NA
Gender balance	% Women	67%	25%	40%	27%	27%	NA
	% Men	33%	75%	60%	73%	73%	NA
New hires	Number of new permanent hiresI	1	9	1	**11**	**10**	10%
Resignations	Number of resignations during the year	0	3	0	**3**	**5**	-40%
Contractually agreed terminations	Number of contractually agreed terminations during the year	0	7	0	**7**	**5**	40%
Dismissals	Total number of dismissals	0	1	0	**1**	**1**	0%
Other(4)	Other contract terminations	0	0	0	**0**	**1**	-100%
Average age	Average age of permanent employees	38	33	38	**33**	**33**	0%
Average length of service	Number of years	11	7	11	**7**	**7,3**	-4%
Training (5)	Number of hours training provided	0	177	0	**177**	170	4%
Absenteeism (6)	Number of days absenteeism in France (%)	0,19%	1,83%	NC	**1,77%**	**2,48%**	NA

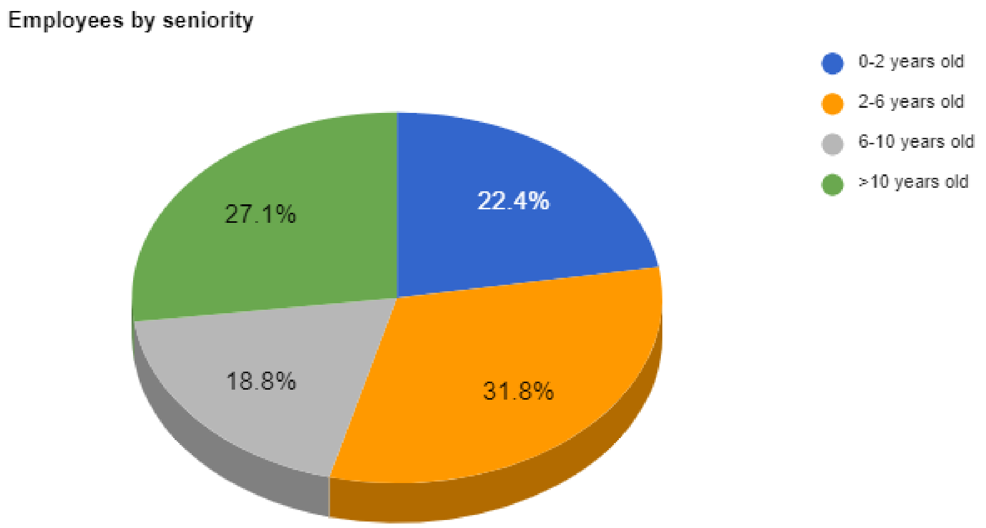
(1) ABCA = ABC arbitrage
(2) ABAM = ABC arbitrage Asset Management
(3) International = Quartys Ltd based in Ireland (one employee) and ABC arbitrage Asset Management Asia Pte Ltd based in Singapore (two employees).
(4) Other contract terminations corresponds to trial period terminations.
(5) Takes into 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

Nine new permanent employees joined the Group in 2017, accounting for 10.6% of the workforce at year-end. They reflected our decision to combine veterans with proven technical or financial experience (four new hires) and recent graduates (five 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.
We count also two employee intercompany movements (2 persons were previously employed by ABC arbitrage Asset Management and now by ABC arbitrage, and a foreign entity of the Group).
Attesting to our forward-looking vision, the average age of our employees is a relatively young 33 (as in 2016) and 78 % are aged 27 to 39.



Average length of service for employees in the Group stands at 7 years (versus 7.3 years in 2016). However, the company has an experienced, loyal management team, with an average 16 years of service. These employees lead younger associates who fall into three categories: 2 to 6 years which represented 31.8% of employees, 6 to 10 years which represented 18.8% of employees, and less than 2 years, which represented 22.4%, 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 2017.

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 and 2016. In 2017, employee benefits decreased by nearly 15%. Without undermining the Group compensation policy (still hiring high-quality employees, and taking into account competitive pressures mentioned above), variable compensation was mechanically revised downwards by the decreasing income.

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 2016, there were four part-time female employees.
The Group employed three employees on fixed-term contracts in 2016, on one hand for a temporary increase of activity and on the other hand for a maternity leave replacement.

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 (45%) 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 25.9% of days lost during the year, for a short-term absenteeism rate of 0.46%.
The rate of unplanned leave, due to illness, stood at 0.57%.
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 for french entity. There was no new agreement signed in 2016.
An employee savings plan is also available to all french employees (95% of employees).

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 2017, 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;
- Training on gestures and good postures at work;
- The provision of fresh fruit and dried fruits.

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. One work accident was declared, but no incidence of occupational illness was reported in 2017.

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 2017 (2 in total).

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. Most importantly, we encourage ambition, provided it benefits the group as a whole.
Meanwhile, the Group ensures the gender equity within the Board of Directors. Besides the historical founders, women represent 60% of the Board of Directors.

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 light 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:

- Energy, which for us mainly means electricity. Electricity consumption for the whole Group fell to 763,156 kWh versus 721,594 kWh in 2016. Despite the increase in 2017, the Group recalls the mechanism settled to reduce the use of electricity and air conditioning when moving to the Centorial in 2010. 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.

- The paper consumption on which the group makes constant efforts. The group's processes are increasingly digitized, which significantly reduces the use of paper impressions. The digitization of our financial reports is part of this dynamic.

- 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	N/A
	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 subcontracting and making corporate social responsibility a consideration in supplier and subcontractor relation	
	Fair business practices	Anti-bribery and corruption measures	§ 1.d
		Measures to protect consumer health and safetys	
	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 + §3of 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 § 2.f 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	

Environ-nmental	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	N/A
		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	N/A
	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	N/A
	Sustainable use of resources	Waste prevention and management: - preventive, recycling, reuse measures and other forms of recovery and disposal of waste; - actions to combat food wastage.	§ 3.b N/A
		Sustainable use of resources: - Water consumption and water supply according to local constraint; - 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 us.	§ 3.c § 3.c § 3.c N/A
	Climate change	Greenhouse gas emissions	N/A
		Adapting to climate change	N/A
	Protecting biodiversity	Processes for integrating environmental issues and, where applicable, environmental assessment or certification policy	N/A

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.

ABC arbitrage

Year ended the 31 12 2017

Independent verifier's report on consolidated social, environmental and societal information presented in the management report

ERNST & YOUNG et Associés

Independent verifier's report on consolidated social, environmental and societal information presented in the management report

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[18], 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 12 2017, presented in 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 procedure (hereafter referred to as the "Criteria"), and of which a summary is included in introduction of the management report.

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. 822-11-3 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 mobilized the skills of four people between January 2018 and March 2018 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 and the reasonable assurance report, in accordance with the international standard ISAE 3000[19].

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[18] Scope available at www.cofrac.fr

[19] ISAE 3000 – *Assurance engagements other than audits or reviews of historical information*

1. Attestation of presence of CSR Information

Nature and scope of the work

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 consolidated 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).*

Conclusion

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 an interview with the person responsible for the preparation of the CSR Information in the different departments, 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[20]:

- At the level of the consolidated entity ABC arbitrage 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[21], 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.

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[20] **Environmental and societal information**: general environmental policy, sustainable use of resources and climate change (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, training policies, number of days of training.

[21] ABC Arbitrage Asset Management, Quartys Ltd and ABC Arbitrage Asset Management Asia.

For the other consolidated 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 22nd of March 2018

Independent Verifier

ERNST & YOUNG et Associés

Partner, Sustainable Development	Partner
Caroline Delerable	Bruno Perrin

www.abc-arbitrage.com