FIRST SEMESTER FINANCIAL REPORT 30-06-2019

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ABC arbitrage Group

ABC arbitrage ■ Contents

Disclaimer

This first semester 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.

1. Business review

Key consolidated figures for the first half of 2019 are presented below:

In EUR million	30/06/2019 IFRS	30/06/2018 IFRS	Change	31/12/2018 IFRS
Advisory revenues	-	-	*na*	-
Investment Services Fees*	6.6	7.0	*-5.4%*	16.8
Net gains at fair value through profit or loss	11.2	11.6	*-3.7%*	23.3
Net revenues	***17.8***	**18.6**	***-4.4%***	***40.1***
Payroll costs	(5.9)	(6.1)	*-4.0%*	(13.1)
Occupancy costs	(0.7)	(0.9)	*-17.5%*	(1.6)
Other expense	(2.8)	(3.1)	*-11.3%*	(5.8)
Other taxes	(0.0)	(0.1)	*-91.7%*	(0.2)
Total costs	***(9.3)***	**(10.2)**	***-8.2%***	***(20.8)***
Income before tax	**8.4**	**8.4**	***0.3%***	**19.3**
Net income attributable to equity holders	**8.5**	**8.5**	***-0.2%***	**19.7**

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

In accordance with IFRS standards, consolidated net revenue at 30 June 2019 came to €17.8 million and consolidated net income amounted to €8.5 million.
Due to the adoption of IFRS 15 on January 1, 2018, management fees do not include non-crystallized performance fees - i. e. neither invoiced nor received - at June 30. As a result, €0.9 million was not included in revenues for the first half of 2019.

Net return (ROE) reached 5.6% for the first half of 2019 alone, representing an annualized ROE of more than 11%.

In line with the fourth quarter of 2018, January and February 2019 presented parameters that enabled the Group to maintain a satisfactory level of activity. Corporate Action activity remains as weak as ever and temporarily limits part of our revenue sources, locally unbalancing the group's business model. The first half of 2019 is characterized by the European Central Bank's announced intentions to continue and even intensify the negative interest rate and Quantitative Easing ("QE") programs. The FED has also announced a plan to support the economy by lowering interest rates, which is generally unfavorable to the Group's historical strategies.

The correlation of results to volatility remains significant even if volatility remained relatively low over the first half of the year for the Group's models to take full advantage of it. Indeed, the beginning of 2019 is marked by a continuous fall of the VIX to 12 following the peak at the end of 2018 and a short-term spike during May 2019. The M&A environment remains at average levels with a particularly low rate of announcements over the first 4 months of the year.

The implicit support of Central Banks for directional activities, particularly unlisted activities, requires the Group to engage in permanent strategic re-evaluation. The recruitment process has also become more competitive regarding the profiles targeted by ABC arbitrage.

Quartys Limited, a financial instruments trading company, generally performed well in this unfavorable environment, and recorded a net income of €11 million for the first half of the year, compared with €11.8 million for the first half of 2018.

ABCA Funds Ireland Plc, an Alternative Investment Fund, had €291 million in assets on 1 September 2019 compared with €302 million on 31 December 2018. After 2018 that confirmed the Group's expertise by winning the prize for the best quantitative fund at the 2018 Eurohedge Awards, the performance in S1 2019 is currently below the ambitions set by the Group.

The subsidiary ABC arbitrage Asset Management Asia continues to grow in line with the expectations and objectives set by the group.

2. Dividend Policy

On the proposal of the Board of Directors, the General Meeting of 14 June 2019 approved two payments (one to be made before October 31, 2019, the other before December 31, 2019) of €0.10 per share each, to be deducted, in order of priority, from “retained earnings” account, the "other reserves" account and the "share premium" account. This decision was taken on the basis that this will not in any way restrain the group's development needs.

Taking into account the shares comprising the share capital existing on the date of the Board of Directors' meeting called to approve the half-year financial statements, these payments would each represent a maximum aggregate amount of €5,851,205. As the retained earnings and other reserves accounts are equal to 0, these two distributions will be realized from the share premium account, which would therefore be reduced initially to an amount of €53,325,694 and then to €47,474,489 during the second payment. These payments, which are only offered in cash, will have, as a result of the deduction from the share premium account, the nature of a repayment of contributions within the meaning of Article 112 1° of the General Tax Code.

The schedule for the first payment is as follows:

- date of detachment: Tuesday, October 8, 2019,
- payment: Thursday, October 10, 2019.

The schedule for the second payment is as follows:

- date of detachment: Tuesday, December 10, 2019,
- payment: Thursday, December 12, 2019.

The sum of these two amounts is identical to the payment made at the end of the year for many years. Identified as a high-yield security, distributions during 2019 will represent a return of more than 7% based on the share price on 31/12/2018.

3. Outlook

In 2017, the implementation of Step Up 2019 program, a logical continuation of the previous programs, defined objectives that were expected to partially compensate, during 2018, the market conditions the Group has been facing for some years. The situations in February, March and the fourth quarter of 2018 demonstrate the Group's ability to perform in a context of "lively” markets, and the 2018 performance of the funds commercialized by the Group is significantly above the average for the sector. Nevertheless, Central Banks have not yet eased their pressure and even seem determined to intensify it for 2019 and 2020. There is therefore a risk of temporary difficulties in AUM growth and/or new pricing pressures on our activities. The first semester of 2019 has confirmed this fact. The group therefore considers its ROE above an annualized 10% as correct.

In this context, ABC arbitrage will continue its deliberations to acknowledge the record duration of this atypical paradigm of Central Banks and build the priority objectives of the next strategic program to be presented in the first quarter of 2020. The two main objectives for 2019 remain on one hand the stimulation of significant results on existing strategies to ensure a ROE significantly above 10% and on the other hand the saturation of AUM capacity. A classic situation in the Group's most recent financial years, the average rate of activity in Q3 is lower than the average for the first semester of 2019. The development of the Group's european shareholder base is also at the center of the Board's concerns. ABC arbitrage wishes to maintain its dividend policy while accelerating its developments in the current context of low volatility.

ABC arbitrage	Consolidated financial statements[1]

Balance sheet - assets

In EUR	Note	June 30, 2019 IFRS	Dec. 31, 2018 IFRS
Intangible assets	**3.1**	130,024	187,715
Right-of-use assets - IFRS 16	**1. / 3.1**	2,268,625	-
Property and equipment	**3.1**	1,136,843	973,386
Work in progress	**3.1**	-	-
Non-current financial assets	**3.2**	619,873	602,663
Deferred tax assets		143,368	389,208
Total non-current assets		**4,298,733**	**2,152,972**
Financial assets at fair value through profit or loss	**3.4**	131,172,315	133,901,357
Other accounts receivable	**3.6**	6,798,462	8,689,613
Current tax assets		200,000	281,085
Cash and cash equivalents		19,861,782	6,958,096
Total current assets		**158,032,560**	**149,830,150**
TOTAL ASSETS		**162,331,293**	**151,983,122**

Balance sheet - liabilities

In EUR	Note	June 30, 2019 IFRS	Dec. 31, 2018 IFRS
Paid-up share capital		936,193	936,193
Additional paid-in capital		59,122,297	59,472,407
Retained earnings		72,693,666	66,203,520
Interim dividend		-	-
Net income		8,470,187	19,678,922
Total equity attributable to equity holders	**3.3**	**141,222,343**	**146,291,042**
Minority interests		(180)	(180)
Total equity		**141,222,163**	**146,290,862**
Provisions	**3.7**	50,000	50,000
Lease liability - IFRS 16	**1.**	2,273,267	-
Non-current financial liabilities		-	-
Deferred tax liabilities		-	-
Non-current liabilities		**2,323,267**	**50,000**
Financial liabilities at fair value through profit or loss	**3.4**	191,671	192,376
Other liabilities	**3.6**	18,594,192	5,449,884
Taxes payable		-	-
Current liabilities		**18,785,863**	**5,642,260**
TOTAL EQUITY AND LIABILITIES		**162,331,293**	**151,983,122**

[1] As described in Note 1 - Accounting principles and methods, the impacts of IFRS 16 have not been restated for 2018, as the standard has been applied using the simplified retrospective method.

Statement of income

In EUR	Note	June 30, 2019 IFRS	June 30, 2018 IFRS
Net gain/loss on financial instruments at fair value through profit or loss	4.1	11,066,659	11,284,845
Investments service fees	4.2	6,627,142	7,003,751
Other revenues	4.3	170,224	128,653
Administrative expenses	4.4	(2,763,349)	(3,537,285)
Taxes and duties		(312,278)	(378,027)
Interests - IFRS 16		(14,020)	-
Payroll costs	4.5	(5,623,518)	(5,947,734)
Depreciation and amortisation expense		(292,189)	(435,951)
Depreciation and amortisation expense - IFRS 16		(453,725)	-
OPERATING INCOME		**8,404,947**	**8,118,253**
Provision expense	4.6	35,000	300,000
INCOME BEFORE TAX		**8,439,947**	**8,418,253**
Current taxes	4.7	-	(2)
Deferred taxes		30,240	68,880
NET INCOME		**8,470,187**	**8,487,130**
Attributable to equity holders		8,470,187	8,487,130
Attributable to minority interests		-	-
Number of ordinary shares		*58,512,053*	*58,051,067*
Earnings per ordinary share		*0.14*	*0.15*
Résultat net dilué par action ordinaire		*0.14*	*0.14*

Statement of comprehensive income

In EUR	Note	June 30, 2019 IFRS	June 30, 2018 IFRS
Net income		8,470,187	8,487,130
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		8,470,187	8,487,130
Attributable to equity holders		8,470,187	8,487,130
Attributable to minority interests		-	-

ABC arbitrage ■ Statement of changes in equity

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, 2017	**929**	**117,739**	**(4,334)**	**34,533**	**148,867**	**nm**	**148,867**
Issue of shares	7	(7)	-	-	-	-	**-**
Elimination of treasury shares	-	-	929	-	929	-	**929**
BSAA Cancellation	-	(37)	-	-	(37)	-	**(37)**
2017 interim dividend	-	-	-	(11,682)	(11,682)	-	**(11,682)**
2018 interim dividend	-	-	-	(11,592)	(11,592)	-	**(11,592)**
Share-based payments	-	-	-	128	128	-	**128**
Net income for the year 2018	-	-	-	19,679	19,679	-	**19,679**
At December 31, 2018	**936**	**117,695**	**(3,405)**	**31,065**	**146,291**	**nm**	**146,291**
Issue of shares	-	-	-	-	-	-	**-**
Elimination of treasury shares	-	-	1,833	-	1 833	-	**1,833**
BSAA Cancellation	-	-	-	-	-	-	**-**
2018 interim dividend	-	1	-	(13,458)	(13,458)	-	**(13,458)**
2019 interim dividend	-	-	-	-	-	-	**-**
Share-based payments	-	-	-	(1,914)	(1,914)	-	**(1,914)**
Net income for the year 2019	-	-	-	8,470	8,470	-	**8,470**
At June 30, 2019	**936**	**117,696**	**(1,572)**	**24,162**	**141,222**	**nm**	**141,222**

nm: non-material

In EUR thousand	June 30, 2019 IFRS	Dec. 31, 2018 IFRS
Net income	**8,470**	**19,679**
Net allocations to provisions	(35)	(150)
Net allocations to depreciation and amortisation	292	914
Change in deferred taxes	246	281
Depreciation and amortisation expense - IFRS 16	454	-
Share-based payments - IFRS 2	108	563
Net cash provided by operations before changes in working capital	**9,535**	**21,287**
Changes in working capital	**17,880**	**1,243**
Net cash provided by operating activities	**27,415**	**22,530**
Net cash used by investing activities	**(3,138)**	**(693)**
Leases - IFRS 16	2,273	-
Net cash provided by capital transactions	-	(37)
Dividends paid	(13,458)	(23,275)
Share-based payments	(189)	493
Net cash used by financing activities	**(11,374)**	**(22,818)**
Net change in cash and cash equivalents	**12 904**	**(981)**
Cash and cash equivalents, beginning of period	6,958	7,939
Cash and cash equivalents, end of period	19,862	6,958

1. Accounting principles and policies

The condensed half-year consolidated financial statements of the ABC arbitrage Group for the six-month period ended 30 June 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union as at 30 June 2019. In particular, the Group's half-year consolidated financial statements have been prepared and are presented in accordance with the provisions of IAS 34 "Interim Financial Reporting".

In accordance with the above-mentioned provision, only a selection of explanatory notes are included in these condensed financial statements. These condensed half-year consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2019.

The Group has applied the new standards, amendments and interpretations adopted by the European Union that are compulsory as of January 1, 2019.

IFRS 16 - Leases was adopted on 9 November 2017 by the European Union and is effective for periods beginning on or after January 1, 2019.

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 and
- In liabilities: recognition of a lease liability

Therefore, in the statement of income, a depreciation of the leased asset must be recognized separately from the portion of the lease payments corresponding to interest.

The Group has adopted the modified-retrospective approach as at 1 January 2019 and has restated all its eligible leases, but without restating the comparative periods. The income statement and balance sheet have been modified accordingly (amortization of the rights of use of recognized assets and interest expenses relating to rental debts, debts related to rental activities). These rental assets correspond to the premises occupied.
Leases with a term of less than one year and service contracts are not subject to restatements.

As a reminder, as specified in paragraph 6.2 of the consolidated financial statements as at 31 December 2018, ABC arbitrage has entered into a commercial lease as a tenant. This one took effect on 1 January 2016 for a period of 6 years. For the 2018 financial year, the annual rent amounted to 969,000 euros.

The discount rate used to value the rental debt in the first half of 2019 is 1.03%.

The impact of the application of this standard on 1 January 2019 is reflected in an increase in the Group's debt of €2.3 million and an increase in fixed assets by the same amount in the first half of 2019.

The IFRIC 23 interpretation on uncertainty regarding tax treatments was published by the IFRS Foundation on June 7, 2017 and applies as from January 1, 2019. This interpretation (which is part of International Financial Reporting Standards - IFRS) clarifies how income tax is recognised and measured when there is uncertainty about the tax treatment to be applied.

It is necessary to determine whether it is likely that the tax treatment chosen will be accepted by the competent authorities, on the basis that they will monitor the treatment in question and will have all relevant information at their disposal. If the probability of acceptance of the tax treatment is less than 50%, this uncertainty must be reflected in the amount of tax assets and liabilities, based on a method that reflects the best estimate of the realisation of the uncertainty.

This interpretation has no impact on the Group's shareholders' equity at January 1st 2019 and has not led to a change in the presentation of income tax provisions in the balance sheet since that date.

In addition, and as a reminder, in accordance with IFRS 15 - Revenue Recognition, effective for periods beginning on or after January 1, 2018 - performance fees cannot be recognised in the half-year financial statements. Indeed, these performance fees, as long as they are not crystallized, are subject to various factors such as market volatility which do not allow to conclude that it is highly probable that a cancellation of this product could not exist. For information, revenues not taken into consideration amounted to €0.9 million for the first half of 2019.

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.

As the Group's activities are not seasonal or cyclical in nature, the results for the first half of the year are not affected in this way.

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 of financial statements as at 31 december 2018), 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	58,13%	
ABCA Reversion Fund	Ireland	4,82%	

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 30 June 2019, ABCA Opportunities Fund had €104 million of funds under management.
- At 30 June 2019, ABCA Reversion Fund had €229 million of funds under management.

Due to cross-holdings, ABCA Funds Ireland had total assets of €304 million.

3. Notes to the balance sheet

3.1. Intangible assets and property and equipment

Gross value

In EUR thousand	Gross Value Dec. 31, 2018	Acquisitions	Retirements/dis posals	Gross Value June 30, 2019
Concessions and similar rights	563	16	-	578
Right-of-use assets - IFRS 16	-	2,722	-	2,722
Equipment, fixtures and fittings	1,410	3	-	1,413
Vehicules	-	-	-	-
Office and computer equipment, furniture	4,759	379	-	5,138
Total Gross Value	**6,731**	**3,120**	-	**9,852**

Amortisation and depreciation

In EUR thousand	31/12/2018	Increases	Decreases	30/06/2019
Concessions and similar rights	(375)	(73)	-	(448)
Right-of-use assets - IFRS 16	-	(454)	-	(454)
Equipment, fixtures and fittings	(1,294)	(17)	-	(1,312)
Vehicules	-	-	-	-
Office and computer equipment, furniture	(3,901)	(202)	-	(4,103)
Total	**(5,570)**	**(746)**	**-**	**(6,316)**

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*".

The application, as at 1 January 2019, of IFRS 16 using the simplified retrospective method results in the recognition in the balance sheet of user rights attached to leases entered into by the Group. As at 30 June 2019, these consist of the occupied premises. The counterpart of these rights of use is recorded as long-term and short-term financial debt (see Note 5.5).

3.2. Other non-current financial assets

At 30 June 2019, this item included €620 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 allocated at the beginning of the plan	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	0	141,468
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	0	186,168
03/2015	Ambition 2016	12/05/2015	4	300,000	2019	0	153,780
01/2016	Ambition 2016	14/06/2016	2	187,000	2018	0	133,466
02/2016	Ambition 2016	14/06/2016	3	187,000	2019	0	95,841
03/2016	Ambition 2016	14/06/2016	4	187,000	2020	158,273	Pending
APE-3.1/2017	Step-up 2019	16/06/2017	2	68,500	2019	0	23,701
APE-3.2/2017	Step-up 2019	16/06/2017	3	68,500	2020	52,500	Pending
APE-3.3/2017	Step-up 2019	16/06/2017	4	68,500	2021	52,500	Pending
APE-3.1/2018	Step-up 2019	15/06/2018	2	10,000	2020	10,000	Pending
APE-3.2/2018	Step-up 2019	15/06/2018	3	10,000	2021	10,000	Pending
APE-3.2/2018	Step-up 2019	15/06/2018	4	10,000	2022	10,000	Pending
APE-3.1/2019	Step-up 2019	14/06/2019	2	30,000	2021	30,000	Pending
APE-3.2/2019	Step-up 2019	14/06/2019	3	30,000	2022	30,000	Pending
APE-3.3/2019	Step-up 2019	14/06/2019	4	30,000	2023	30,000	Pending
Total if applicable	**N/A**	**N/A**	**N/A**	**2,636,500**	**N/A**	**383,273**	**1,375,268**

Stock options subscription programme :

Name of the plan	Plan	Acquisition Date	Acquisition period	Number of shares allocated	Exercise period start date	Options expired Date	Exercise adjusted price	Number of options to be granted	Number of unexercised options
04/2016	Ambition 2016	14/06/2016	2	373,000	2018	15-June-2022	5.9685	0	326,950
05/2016	Ambition 2016	14/06/2016	3	313,000	2019	15-June-2022	6.3094	0	200,844
06/2016	Ambition 2016	14/06/2016	4	313,000	2020	15-June-2022	6.6504	283,311	Pending
SO-1.1/2017	Step-up 2019	16/06/2017	2	563,333	2018	30-June-2022	5.9641	0	509,888
SO-1.2/2017	Step-up 2019	16/06/2017	3	563,333	2019	30-June-2022	6.3183	0	383,187
SO-1.3/2017	Step-up 2019	16/06/2017	4	563,334	2020	30-June-2022	6.6725	563,334	Pending
SO-2.1/2017	Step-up 2019	16/06/2017	2	276,000	2019	30-June-2023	6.3183	0	135,027
SO-2.2/2017	Step-up 2019	16/06/2017	3	276,000	2020	30-June-2023	6.6725	263,266	Pending
SO-2.3/2017	Step-up 2019	16/06/2017	4	276,000	2021	30-June-2023	7.0268	262,318	Pending
SO-1.1/2018	Step-up 2019	15/06/2018	2	155,000	2020	30-June-2024	6.7849	150,000	Pending
SO-1.2/2018	Step-up 2019	15/06/2018	3	155,000	2021	30-June-2025	7.1631	150,000	Pending
SO-1.3/2018	Step-up 2019	15/06/2018	4	155,000	2022	30-June-2026	7.5413	150,000	Pending
Total if applicable	**N/A**	**N/A**	**N/A**	**3,982,000**	**N/A**	**N/A**	**N/A**	**1,822,229**	**1,555,896**

Stock Appreciation Rights - SAR :

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
07/2016	Ambition 2016	22/09/2016	2	745,870	2018	22-sept.-2022	6.1475	0	63,430
08/2016	Ambition 2016	22/09/2016	3	745,870	2019	22-sept.-2022	6.4922	0	47,668
09/2016	Ambition 2016	22/09/2016	4	745,870	2020	22-sept.-2022	6.8370	68,200	Pending
SAR-4.1/2017	Step-up 2019	16/06/2017	2	167,000	2019	NA	5.6098	0	0
SAR-4.2/2017	Step-up 2019	16/06/2017	3	167,000	2020	NA	5.6098	159,000	Pending
SAR-4.3/2017	Step-up 2019	16/06/2017	4	167,000	2021	NA	5.6098	159,000	Pending
Total if applicable	**N/A**	**N/A**	**N/A**	**2,738,610**	**N/A**	**N/A**	**N/A**	**386,200**	**111,098**

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, 51% shares will vest and if net income is €25 million a year over the entire period, 66% shares will vest.

The expense related to the plans granted is spread 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 €109 thousand, calculated on the basis of the estimated probable number of shares in the various programs mentioned above, was therefore recognised in the first half of 2019 (compared with €536 thousand in 2018 and €250 thousand in the first half of 2018). This expense is related both to the initiation of new programs and to the progress of existing programs and the results achieved.

The loss realized on share buybacks used during the first half of 2019 amounted to €1,847 thousand (compared with €376 thousand in 2018 and €355 thousand in the first half of 2018).

3.3.2. Dividends distribution

The Annual Shareholders' Meeting of June 14, 2019 approved a 2018 final dividend of €0.23 per share.
The dividend is in addition to the €0.20 distribution paid in November 2018. The full distribution for 2018 therefore amounts to €0.43 per share.
The detachment of €0.23 per share, solely in cash, as decided by the Board of Directors, took place on 9 July 2019, with a payment date of 11 July 2019. The final operation is treated as a distribution for €0.22602, deducted from the distributable income and a repayment of capital contributions for €0.00398, pursuant to article 112.1° of the French general tax code (*Code général des impôts*)

The dividend ultimately paid in cash amounted to €13.4 million.

At June 30, 2019, ABC arbitrage's share capital was represented by 58,512,053 fully paid ordinary shares with a par value of €0.016 each.

3.3.3. Treasury stock

During the first half of 2019, ABC arbitrage sold 83,641 shares under the market-making agreement with Kepler Cheuvreux, at an average price of €6.36. At the same time, 77,630 have been repurchased.

Of the stock of treasury shares held at 31 December 2018 (493,064 shares), a part (282,328 shares) was allocated to serve capital gains (mainly free share acquisitions, as well as acquisitions of performance units). This stock had been acquired for an average unit price of €6.51.
At June 30, 2019, ABC arbitrage held 252,251 of its own shares, acquired at a total cost of €1,572 thousand (at December 31, 2018, the company held 540,590 of its own shares, acquired at a total cost of €3,405 thousand).

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

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

At 30 June 2019, the allocation of financial instruments held as assets or liabilities of the Group measured at fair value through the fair value hierarchy as described in Note 1.2 to the financial statements at 31 December 2018 is as follows:

In EUR thousand	Quoted prices in active markets for identical assets or liabilities (Level 1)	Inputs other than quoted prices level 1 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	237	130,935	-	**131,172**
Financial liabilities at fair value through profit or loss	(192)	-	-	**(192)**

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 (see Note 1 to the financial statements as at 31 December 2018). 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 the first semester 2019.

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 to the financial statements as at 31 December 2018.

3.6. Other receivables and payments

The terms of receivables and payables are presented in Note 5.3 Liquidity risk below.

In EUR thousand	Other receivables	Other payables
Trade receivables / payables	5,876	(421)
Accrued income / expenses	0	(14,200)
Accrued taxes and payroll costs	922	(3,973)
Total at June 30, 2019	**6,798**	**(18,594)**
Total at December 31, 2018	*8,690*	*(5,450)*

Accrued expenses comprise €13.7 million of dividends following the decision of the Annual General Meeting of 14 June 2019.

Tax receivables mainly comprise corporate income tax, withholding tax and dividend tax credits.

Accrued taxes correspond mainly to 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, 2018	(50)
Provisions used in 2019	0
Provision reversal in 2019	0
Charge to provisions in 2019	0
Total provisions at June 30, 2019	(50)

ABC arbitrage and ABC arbitrage Asset Management, members of the same tax group, are subject to accounting verification by the “direction générale des finances publiques” (*the French Tax Administration*) in respect of the years 2014 to 2016, and 2015 to 2017. At this point of the verification, the French Tax Administration evaluates that the 2015’s accruals of ABC arbitrage Asset Management (composed of variable compensation, and social contributions related to it) due to the employees for year 2015 and paid the year after, should have been recorded in 2016 and not in 2015.
The provision established in 2018 only takes into account the overdue interests (due to timing mismatch created) related to this reassessment proposal (€50 thousand) formally contested by the group.

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 €11,066 thousand at June 30, 2019 versus €11,285 thousand at June 30, 2018.

Net gains on financial instruments at fair value through profit or loss include all incomes, 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 to revenues or expenses.

4.2. Investment services fees

Investment services fees amounted to €6,627 thousand at June 30, 2019. At June 30, 2018, they amounted to €7,004 thousand.
Investment services fees relate to the services invoiced by the Group's management companies to Quartys Limited and ABCA Funds Ireland Plc. As specified in Note 1. Accounting principles and methods, following the application of IFRS 15 as from 1 January 2018, performance fees cannot be recognised in the half-year financial statements.

4.3. Other revenue

Other revenue comprises revenue from subletting premises and administrative services amounted to €170 thousand versus €129 thousand at June 30, 2018.

4.4. Administrative expenses

Administrative expenses principally comprise data mining and processing costs, together with administrative and communications costs.
This item amounted €2,763 thousand at June 30, 2019 versus €3,536 thousand at June 30, 2018.

4.5. Payroll costs

The Group's average number of employees decreased slightly to 80 in the first half of 2019.

Fixed and variable salaries, as well as profit-sharing and incentive schemes, amounted to €4,063 thousand (compared to €4,321 thousand at 30 June 2018), social security contributions decreased to €1,559 thousand (compared to €1,627 thousand at 30 June 2018).
Payroll-based taxes rose to €190 thousand (€183 thousand at 30 June 2018).

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.

4.6. Provision expense

Provision income amounts to €35 thousand at June 30, 2019 compared with an income of €300 thousand during the first half of 2018. Variation of provision expense is mainly due to a provision reversal to recover tax receivables.

4.7. Corporate income tax

In line with the two previous financial years, and taking into account the exception to the consolidation principle established by IFRS 10 "Consolidated financial statements", the income tax expense of companies whose consolidation method is the "net asset value at fair value" no longer appears on a specific line but is directly included in the item "Net gains on financial instruments measured at fair value through profit and loss".

5. Risk factors

The Group is exposed to the same risks as those described in the notes to the consolidated financial statements for the year ended 31 December 2018.

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 June 30, 2019	Financial assets at June 30, 2019	Financial assets at Dec. 31, 2018
Non-derivative financial instruments	602,384	(286,736)	315,648		
Derivatives	14,522	(23,225)	(8,703)		
Unlisted Derivatives	271,656	(576,305)	(304,650)		
Financial assets at fair value through profit or loss	70,172	-	70,172		
Total long positions	**958,734**	**(886,267)**		**131,172**	**133,901**
Cash and margin accounts	68,501	(261,169)	(192,667)		
Currencies derivatives - Listed	15,527	(1,483)	14,043		
Currencies derivatives - Non listed	237,443	(115)	237,329		

In EUR thousands	a. Gross carrying amount (before netting)	b. Gross amounts netted in the balance sheet	c. Net carrying amount [a-b] at June 30, 2019	Financial liabilities at June 30, 2019	Financial liabilities at Dec. 31, 2018
Non-derivative financial instruments	-	-	-		
Derivatives	-	-	-		
Unlisted Derivatives	-	-	-		
Total short positions	**-**	**-**		**(192)**	**(192)**
Cash and margin accounts	-	(192)	(192)		
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 June 30, 2019	Financial assets & liabilities at June 30, 2019	Financial assets & liabilities at Dec. 31, 2018
Non-derivative financial instruments	602,384	(286,736)	315,648		
Derivatives	14,522	(23,225)	(8,703)		
Unlisted Derivatives	271,656	(576,305)	(304,650)		
Financial assets at fair value through profit or loss	70,172	-	70,172		
Total	**958,734**	**(886,267)**		**130,981**	**133,709**
Cash and margin accounts	68,501	(261,360)	(192,859)		
Currencies derivatives - Listed	15,527	(1,483)	14,043		
Currencies derivatives - Non listed	237,443	(115)	237,329		

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

The breakdown of the geographical exposures is detailed as follows:

Fiscal year	30/06/2019	31/12/2018	30/6/2018
Asia	**5%**	**5%**	**5%**
Europe	**44%**	**45%**	**42%**
USA	**43%**	**40%**	**44%**
Other markets	**8%**	**10%**	**9%**
Total	**100%**	**100%**	**100%**

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

5.1. Market risks

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 30 June 2019, the aggregate VaR of the Trading Exposures of the Group was €2.5M. The parameters of calculation are a level of confidence of 99%, a “one year historical” methodology and a holding duration of 1 day.

At June 30, 2019, a 2% rise (fall) in the euro against all currencies would, all other things being equal, have increased (decreased) net assets by €625 thousand.

5.2. Credit and counterparty risk

The Group manages this counterparty risk through the use of industry standard master agreements (netting and collateral agreements), by closely monitoring counterparties' credit ratings on a daily basis and a diversification of its banking relationships to spread risk while weighing up the pricing benefits of concentration on larger-scale relationships.

The maximum exposure to credit risk is included in the net amounts for financial instruments (note 5).

5.3. Liquidity risks

The Group's actual Trading Positions, taking into account existing agreements with Counterparties, are 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 June 30, 2019, the liquidity position is 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*	237	130,935	-	-	131,172
Other receivables	361	5,857	581	-	60,798
Deferred tax assets	-	-	200	-	200
Cash and cash equivalents	19,862	-	-	-	19,862
Total current assets	**20,460**	**136,792**	**781**	**-**	**158,033**
Financial liabilities at fair value through profit or loss	(192)	-	-	-	(192)
Other liabilities	(15,565)	(1,757)	(875)	(396)	(18,594)
Current tax liabilities	-	-	-	-	-
Short-term borrowings	-	-	-	-	-
Total liabilities	**(15,757)**	**(1,757)**	**(875)**	**(396)**	**(18,786)**
Net balance	**4,703**	**135,034**	**(95)**	**(396)**	**139,247**

**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, 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

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.

At June 30, 2019, losses due to operational incidents represented 0.26% of revenues (versus 1.09% at 30 June 2018).

ABC arbitrage

Statutory Auditor’s report on consolidated financial statements Year ended June 30, 2019

DELOITTE & ASSOCIES

ERNST & YOUNG et Autres

This is a translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group’s half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

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Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

ABC arbitrage

Period from January 1 to June 30, 2019

Statutory auditors' review report on the half-yearly financial statements

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings and in accordance with the requirements of Article L. 451-1-2 III of the French Monetary and Financial Code (Code monétaire et financier), we hereby report to you on:

the review of the accompanying condensed half-year consolidated financial statements of ABC Arbitrage, for the period from January 1 to June 30, 2019;

the verification of the information presented in the half-year management report.

These condensed half-year consolidated financial statements are your Board of Directors' responsibility. Our role is to express a conclusion on these financial statements based on our review.

- **Conclusion on the financial statements**

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to question the compliance of the accompanying condensed half-yearly consolidated financial statements with IAS 34 – IFRS standard, as adopted in the European Union regarding the interim financial information.

Without challenging our conclusion above, we draw your attention to the note 1."Principes et méthodes comptables" of the half-year consolidated financial statements, regarding the implementation since January 1st 2019 of the IFRS 16 standard regarding leasing contracts.

- **Specific verification**

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review.

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

Paris-La Défense, September 27, 2019

The Statutory Auditors

French original signed by

DELOITTE & ASSOCIES	ERNST & YOUNG et Autres
Pascal Colin	François Holzman

ABC arbitrage

Statement by the person responsible for the First-Half Financial Report 2019

I hereby certify that, to the best of my knowledge, the condensed consolidated financial statements for the past six months have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, financial position and results of ABC arbitrage Group, and that the half-yearly activity report presents a true and fair view of the information referred to in Article 222-6 of the General Regulations of the Autorité des Marchés Financiers.

Dominique CEOLIN
President - Chief Executive Officer