Connect Group NV
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PRESS RELEASE
Regulated information

24 August 2015

Financial Report for the 1st half of 2015

Sales of EUR 56.9 million vs. EUR 64.8 million in H1 2014.

EBITDA of KEUR -494 compared with KEUR 1.984 in H1 2014.

Operating loss before goodwill impairment of KEUR 1.837 vs. operating profit of KEUR 517 in H1 2014.

After conducting an impairment analysis, the Board of Directors decided to write off goodwill totalling 4,548 KEUR. This impairment has no effect on cash flow.

Net loss of KEUR 7,017 compared with KEUR 13 net profit in H1 2014.

The Board is investigating the possibility of a capital increase to bring further stability to the company and ensure its future.

Order book of EUR 87 million at end-H1 2015 (EUR 82.8 million at end-2014).

Connect Group NV (Euronext Brussels: CONN) announces 1st half-year 2015 sales of EUR 56.9 million. Sales for the comparable period of 2014 were EUR 64.8 million. The first-half figures represent a stabilisation of sales, as sales for the 2nd half of 2014 amounted to EUR 56.2 million

The gross margin was 6.4 percent, against 11.7 percent in 2014. General and administrative expenses (4.5 percent of sales) and selling expenses (4.0 percent of sales) decreased by 0.6 and 1.3 percentage points respectively. This decrease was the result of job cuts and the streamlining of staff structures.

Other operating income included a reversal of a provision for bad debts in 2014 and a capital gain on the sale of several machines in 2015.

The operating result before the goodwill impairment was a loss of KEUR 1,837 in the first 6 months of the year, against a first-half profit of KEUR 517 in 2014).

Taking into account the plans for the group's future, the Board conducted an impairment test. Based on the results thereof, the Board took the decision to write off the goodwill initially stemming from the acquisition of the Connect Group as part of the IPTE Group. The goodwill was originally amortized over a period of 10 years, but, following a change in the IFRS rules, became part of the annual impairment test on the basis of which no further write-downs were necessary.

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In the context of the Connect Group's changed plan for the future, the changed customer base and products, the Board deemed that this acquired goodwill was no longer relevant for the Group's future. It therefore took the decision to write it off *in toto*. This write-off has no effect on the company's cash flow.
Also in the context of the plan for the future, the Board is investigating the possibility of a capital increase to bring further stability to the company and ensure its future.

Net financial expenses amounted to KEUR 629 (KEUR 502 in 2014). This increase is the result of exchange losses (mainly on the dollar) and increased financing costs (a higher interest rate on account of the EBITDA / debt ratio. The increase in both financial income and financial expenses is due to the development of the dollar in the first half of the year.

The net loss for the first 6 months of 2015 is the result of three important factors:

- H1 sales (EUR 56.9 million) were 10% lower than forecast;
- Due to changes in the product mix (more assembly operations with lower added value), the material margin was 2.5 percentage points lower than forecast (budgeted material margin: 36 percent; actual material margin: 33.5 percent);
- The restructuring decided at the end of 2014 was started in the first half of 2015. Due to a number of different factors, the decisions taken at the end of 2014 are being implemented later than originally planned. As a result, wage costs for the first 6 months of 2015 were significantly higher than forecast.

The order book developed positively, amounting to EUR 87 million at the end of the 1st half of 2015, against EUR 82.8 million at the end of 2014. The order book contains formal commitments from customers, but may be subject to adjustments in numbers and timeframes. For this reason it cannot be used as a financial indicator of future results.

Capital investment in the first half of the year amounted to EUR 1.4 million and involved the finishing of the new building in Ypres and the purchase of several new production machines to replace old ones.

The increase in trade receivables is due to the high level of invoicing in June 2015. They contain no known increased collection risk. Provisions decreased by EUR 1.9 million due to a partial payment of the restructuring charge decided and announced in December 2014.

The increase in long-term debt is the result of debt restructuring, with EUR 6 million of short-term debts being converted into a long-term loan repayable over 3 years beginning in 2017. Short-term financial debt remained the same, with the EUR 6 million reduction through the conversion to a long-term loan offset by the increased use of the factoring line (EUR 3 million) and the short-term credit line (EUR 3 million).

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The risk assessment can be found in the annual report and is available on the Internet (www.connectgroup.com).

The most significant risks for the company are:

- Production is completely dependent on the availability of all components at the moment that production starts up. If component availability slows down, sales too will be delayed.
- Currency risk:
  - ✓ The group buys a portion of its components in dollars/yen, the exchange rate risk on which is only partially covered in the selling price.
  - ✓ Production takes place partly in Romania and the Czech Republic: large fluctuations of these currencies against the Euro can impact costs.
  - ✓ Since foreign currency needs cannot be accurately timed, the group does not cover its foreign currency positions.
- The group has a credit agreement with its bankers that includes a minimum solvency ratio covenant, equity and cash flow. Customer insolvency can have a major impact on the results.
- Risk of order postponements, leading to a temporary under-coverage of costs incurred.

Significant events in first half 2015

At the beginning of April 2015, the Connect Group Board of Directors announced the departure of CEO Luc Switten. Supported by the board of directors, the current management should ensure continuity, with COO Flor Peersman being appointed as CEO.

In April 2015, all activities of the Poperinge plant (a rented property) were transferred to the Ypres plant (owned by the Group). This move is expected to cut fixed costs by more than KEUR 300 a year. Its impact should become visible in the 2nd half of 2015.

A major part of the restructuring measures decided at the end of 2014 were carried out in the first half of 2015. The remaining part should be completed by the end of the year. Further restructuring measures were decided and carried out in various plants with the aim of aligning costs with the current level of sales.

In the context of this plan for the future, the Board of Directors is investigating the possibility of a capital increase to bring further stability to the company and ensure its future.

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Connect Group: Half year results 2015

These condensed interim consolidated financial statements together with the notes for the half year ending 30 June 2015 are not audited.

Condensed consolidated income statement on 30 June 2015 and 30 June 2014

(in 000 Eur)	H1 2015	%	H1 2014	%
Sales	**56,907**	**100.0**	**64,806**	**100.0**
Cost of sales	-53,251	-93.6	-57,230	-88.3
Gross profit	3,656	6.4	7,576	11.7
Research and development expenses	-701	-1.2	-651	-1.0
General and administrative expenses	-2,563	-4.5	-3,311	-5.1
Selling expenses	-2,296	-4.0	-3,435	-5.3
Other operating income	77	0.1	354	0.5
Other operating expenses	-10	0.0	-16	0.0
Operating result before goodwill impairment	**-1,837**	**-3.2**	**517**	**0.8**
Goodwill impairment	-4,549	8.0	-	0,0
Operating result after goodwill impairment	**-6,386**	**-11.2**	**517**	**0.8**
Financial income	159	0.3	57	0.0
Financial charges	-788	-1.4	-559	-0.8
Profit / (loss) before taxes	-7,015	-12.3	15	0.0
Income taxes	-2	0.0	-2	-
Net profit / (loss)	**-7,017**	**-12.3**	**13**	**0.0**
Attributable to				
Equity holders of the parent	-7,017	-12.3	13	0.0
Minority interest			-	-
Earnings per share				
Basic earnings / (loss) per share	-0.7		0.0	
Diluted earnings / (loss) per share	-0.7		0.0	

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Condensed consolidated statement of comprehensive income

(in ooo Eur)	**H1 2015**	**H1 2014**
Profit / (loss)	**-7,017**	**13**
Total comprehensive income	**-7,017**	**13**
Total comprehensive income attributable to:		
Equity holders of the parent	-7,017	13
Minority interest	-	-

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Condensed consolidated balance sheet at 30 June 2015 and 31 December 2014

(in 000 Eur)	30 June 2015	31 December 2014
Assets		
Current assets:		
Cash and cash equivalents	139	209
Trade receivables	22,500	17,191
Other receivables	1,025	1,147
Inventories	31,356	31,617
Other current assets	193	2
Other current assets	**55,213**	**50,166**
Non-current:		
Other receivables	394	394
Deferred tax assets	1,500	1,500
Property, plant and equipment	10,637	10,478
Intangible assets	398	443
Goodwill	-	4,549
Total non-current assets	**12,929**	**17,364**
TOTAL ASSETS	**68,142**	**67,530**
Liabilities and equity		
Current liabilities:		
Bank loans and overdrafts	17,809	17,668
Current portion of long-term debt	938	2,740
Trade payables	18,071	14,282
Accrued expenses, payroll and related taxes and deferred income	7,135	5,587
Provisions	2,213	4,117
Other current liabilities	950	747
Total current liabilities	**47,116**	**45,141**
Non-current liabilities:		
Long-term debt less current portion	6,395	741
Total non-current liabilities	**6,395**	**741**
Equity attributable to equity holders of the parent	**14,631**	**21,648**
TOTAL LIABILITIES AND EQUITY	**68,142**	**67,530**

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Condensed consolidated statement of changes in equity

(in 000 Eur)	Number of shares out-standing	Capital	Legal reserve	Share premium	Profit /(loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
31/12/2013	**10,290,024**	**638**	**43**	**42,091**	**-16,545**	**67**	**26,294**
Net result of the year					13		13
Other comprehensive income						-	-
30/06/2014	**10,290,024**	**638**	**43**	**42,091**	**-16,532**	**67**	**26,307**

(in 000 Eur)	Number of shares out-standing	Capital	Legal reserve	Share premium	Profit /(loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
31/12/2014	**10,290,024**	**638**	**43**	**42,091**	**-21,191**	**67**	**21,648**
Net result of the year					-7,017		-7,017
Other comprehensive income						-	-
30/06/2015	**10,290,024**	**638**	**43**	**42,091**	**-28,208**	**67**	**14,632**

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Condensed consolidated cash flow statement for the period from 1 January 2015 to 30 June 2015 and 1 January 2014 to 30 June 2014

(in 000 Eur)	H1 2015	H1 2014
Operating profit / (loss) before goodwill impairment	**-1,837**	**517**
Goodwill impairment	-4,549	-
Operating profit / (loss) after goodwill impairment	**-6,386**	**517**
Adjustments for:		
Allowance for doubtful receivables and obsolete stock	22	-
Depreciation and amortization	1,343	1,464
Depreciation goodwill	4,549	-
Provisions	-52	-133
Reversal of the restructuring provision	1,852	-
Cash flow before changes in working capital	**-2,376**	**1,848**
Inventories	239	-984
Trade receivables	-5,309	-3,901
Trade payables	3,789	13
Accrued expenses, payroll and related taxes and deferred income	1,548	878
Other current assets	-70	-69
Other payables	203	147
Cash flow from operating activities	**-1,976**	**-2,068**
Income taxes	-2	-2
Exchange differences	-191	-90
Interest / Financial charges	-453	-426
Other	-	-
Net cash from/(used in) operating activities	**-2,622**	**-2,586**
Cash flow from investing activities		
Investments in intangible assets	-51	-161
Purchases of property, plant and equipment	-1,405	-2,197
Cash flows resulting from acquisition Halin	-	-
Interests received	14	14
Cash flows from (used in) investing activities	**-1,442**	**-2,344**
Cash flows from financing activities		
Proceeds/(repayments) from long-term debts	5,655	-269
Proceeds/(repayments) from current portion of long-term debt	-1,802	199
Proceeds/(repayments) from bank loans and overdrafts	141	5,041
Net cash provided by financing activities	**3,994**	**4,971**
Increase/(decrease) in cash and cash equivalents	**-70**	**41**
Cash and cash equivalents at the beginning of the period	209	263
Cash and cash equivalents at the end of the period	139	304

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Notes to the condensed interim financial statements

Information about the company

Connect Group

Connect Group is a leading certified supplier of technology, production systems, printed circuit boards and cable assembly services for the professional industry. Connect Group develops products to User Requirement Specifications from the concept stage onwards with optimal production, price and quality results.
Connect Group's references include Alstom, ASML, Atlas Copco, Atos, Faiveley, Transics, Nedap, Fabricom en Atos. The company currently employs around 1,500 people in various facilities in Europe. The company's shares are traded on NYSE Euronext Brussels: CONN (www.euronext.com).

Update financial calendar

Announcement annual results 2015	18 February 2016

Investor Relations

Hugo Ciroux	CFO

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Conformity declaration

These condensed interim consolidated financial statements together with the notes for the half year ending 30 June 2015 have not been audited.

The condensed interim consolidated financial statements for the six months ended 30 June 2015 comprise the financial statements of the company and its subsidiaries (hereinafter referred to collectively as the "Group").

The condensed interim consolidated financial statements were prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. These statements do not contain all information necessary for a full financial statement and therefore should be read in conjunction with the consolidated annual financial statements for the period ended 31 December 2014, as published in the 2014 Annual Report to Shareholders.

These condensed interim consolidated financial statements were approved for publication by the Board of Directors on 19 August 2015.

Seasonality

Seasonality is limited (during the annual holiday period (July-August) there is reduced delivery).

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Changes in accounting policies and presentation rules

Compared to the consolidated annual report as of December 31, 2014 the following new Standards and Interpretations now apply. Their adoption had no effect on the Group's financial position and its results:

- Improvements to IFRS (2011-2013) (applicable for annual periods beginning on or after 1 January 2015)
- IFRIC 21 *Levies* (applicable for annual periods beginning on or after 17 June 2014)

In the unaudited interim consolidated financial statements, the same accounting principles have been followed as in the audited year-end consolidated financial statements at 31st December 2014.

The new standards and interpretations had no significant impact on the Group's unaudited interim consolidated financial statements. The Group did not opt to implement new standards or changes at an earlier date.

Segment reporting

The group consists solely of the contract manufacturing activity, with no further segmentation.

Related party transactions

In the context of the agreements reached with the Group's bankers at the end of 2014, Huub Baren BVBA and Quaeroq SA, two key Connect Group shareholders, have each given a subordinated loan amounting to EUR 400,000. The loan is subordinated to a long-term EUR 5.2 million loan agreed with the banks and repayable over three years. Through providing this subordinated loan, these key shareholders have clearly shown their commitment to the Group.

Significant events after the balance sheet date

No significant events have occurred after the balance sheet date.

Declaration of the responsible persons

The undersigned declare that:
- The condensed financial statements, drawn up in accordance with applicable accounting standards, give a true view of the assets, the financial situation and the results of the issuing company and of those companies included in the consolidation;
- the interim report gives a fair overview of important events and major transactions with related parties having occurred in the first six months of the financial year and their impact on the condensed financial statements, together with a description of the principal risks and uncertainties for the remaining months of the financial year.

Hugo Ciroux, CFO
Flor Peersman , CEO