Connect Group NV
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Regulated information

13 February 2014 – Embargo till 6 pm

Press release

Connect Group reports annual results 2013

ANNUAL RESULTS :

Sales of EUR 125 million compared with EUR 142 million in 2012.
Profit of kEUR 81 on continuing operations compared with kEUR 168 in 2012 (net of impairment charges).
The total order book at end-2013 of EUR 84 million (EUR 77 million at end-2012).
Total financial debt improved from EUR 19.9 million at end-2012 to EUR 17.7 million at end-2013.

Fall in operating result from continuing operations (before goodwill impairment) from kEUR 1,458 in 2012 to kEUR 671 in 2013.

The net result of 2012 had been positively influenced by, on the one hand, the one-off income of kEUR 4,500 from discontinued operations with the final settlement of the sale of the Automation activity in late 2009 and, on the other hand, by a goodwill impairment of kEUR 1,633.

(in 000 EUR)	2012	2013
Sales	141,638	124,988
Operating result continuing operations before goodwill impairment	1,458	671
Profit / (loss) continuing operations before goodwill impairment	168	81
Goodwill impairment	-1,633	0
Income discontinued operations	4,500	0
Profit / (loss) of the group	3,034	81

RESULTS 2ND HALF:

Sales of EUR 61.9 million compared with EUR 61.7 million in 2012.
Profit of kEUR 243 compared to a loss of kEUR 1,705 in 2012 (on comparable basis).

Operating result of kEUR 541 compared to kEUR -1,289 (before goodwill impairment) in H2 2012.
The net result of H2 2012 had been significantly influenced by the goodwill impairment of kEUR 1,633, giving a net operating result from continuing operations in H2 of kEUR -2,922 and by the one-off income from discontinued operations of kEUR 4,500 with the final settlement of the sale of the Automation activity in late 2009.

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Management discussion and analysis of the results

Luc Switten (CEO) **:** After the sharp economic downturn in the 2nd half of 2012, the market stagnated during 2013. We see this clearly in the evolution of our sales figures of the past two years:

H1 2012	H2 2012	H1 2013	H2 2013
79.9 million	61.7 million	63.0 million	61.9 million

After the sharp fall in H2 2012, sales volumes in 2013 stabilized at the level of H2 2012. A key task for Connect Group in 2013 was to restore the group's profitability in the light of this decline. Our success in this becomes clear when we analyse the Group's operating results on a comparable basis.

H1 2012	H2 2012	H1 2013	H2 2013
+2,746 k	-1,288 k	+130 k	+541 k

On comparable sales, we have succeeded during the last three reporting periods in turning a loss of k EUR 1,288 into a profit of EUR 541 k.

We believe that 2014 can produce a further improvement for several reasons:

- The group's overheads have been reduced so as to produce positive results from sales of EUR 125 million upwards.
- We have won several new customers to end the year with a strong order book of over EUR 84 million. Despite market/customer fickleness with regard to delivery dates, we believe that we can return to growth in 2014.
- The introduction of our TiaS® (Technology is a Service) programme into the market has been very positively received by our customers. Customers are keen to obtain more technology from us. We see a strong demand for this service and have already logged a number of successes with certain customers that strengthen customer loyalty. We also observe that new customers view this service as an additional argument to order from us.
- Our focus on specific target markets like Railway and Healthcare is producing clear results. Long-term agreements with a number of customers in these sectors have secured revenue streams for several years out. This is new for our company. In the past we had at best annual contracts and orders. Today we have contracts running over several years. For the sake of clarity, the order book figure contains only the portion of the contracts to be delivered within the next 12 months.
- Following the marked improvement in 2012, the balance sheet again strengthened in 2013. Inventories and accounts receivable were under control and financial liabilities have decreased from over EUR 31 million at end-2011 and 19.9 million at end-2012 to 17.7 million at end-2013.

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Annual figures

Connect Group NV (Euronext Brussels: CONN) reports **annual sales** of EUR 125 million compared with EUR 142 million in 2012 (down 11.8 %). The sales decline took place in the 2nd half of 2012, after which sales remained stable in 2013 at the same lower level.

Gross margin on sales increased from 11.5 % to 11.9 %, reflecting the product mix. With the acquisition of the Halin group in late 2011, R&D and sales and administration costs rose sharply in 2012. After integrating of these departments into Connect Group, these costs decreased overall by EUR 1.2 million in 2013, back to the 2011 level.

In 2012, a client made kEUR 550 of part payments on a receivable that had been fully written down in 2011. In 2013 we reversed a further kEUR 162 of this write-back. On the other hand, the group had to set up a provision of kEUR 456 for a client that has filed for bankruptcy. Netted out, this resulted in a loss of EUR 294 k, recorded under "other operating expenses". When comparing operating results it should therefore be noted that the 2012 operating result includes income of kEUR 550 in the form of recovery on customer receivables from the past and the 2013 figure a loss of kEUR 294 from the writing off of accounts receivable.

The **operating result** from continuing operations before goodwill impairment reduced from a profit of kEUR 1,458 in 2012 to a profit of kEUR 671 in 2013. Leaving out of account the recovery on accounts receivable in 2012 and the write-off in 2013, operating profit rose from kEUR 908 in 2012 to kEUR 965 in 2013.

The Board conducts an annual impairment analysis for the entire group. In 2012 it decided to write off goodwill of kEUR 1,633 against profit and loss. In 2013 it was decided that no further impairment losses needed to be recorded.

In December 2012, a settlement was concluded with the purchasers of the Automation activity related to their contractual obligation to pay to Connect Group 50 percent of the adjusted profit of the acquired business for the period 2010-2012. As a result of this settlement, the buyer paid to Connect Group at 28 December 2012, EUR 4.5 million as final settlement for this contractual obligation and 2 million as payment for the outstanding debt to Connect Group. The EUR 4.5 million was recorded in 2012 as income from the discontinued Automation activity.

The net financial result improved by kEUR 480 as a result of lower interest rates and a lower average borrowings and by kEUR 228 as a result of foreign exchange gains instead of losses in 2013. The company makes only limited use of foreign currency hedging contracts.

In this way profit from continuing operations (before goodwill impairment) for 2013 was kEUR 81 compared with a profit of kEUR 168 in 2012 (on a comparable basis).
In this way the group's **net result** fell from a profit of kEUR 3,034 to a profit of kEUR 81.

The total order book at end-2013 amounted to EUR 84 million (EUR 77 million at end-2012).

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Balance Sheet

Trade receivables remained virtually unchanged at EUR 18.6 million at end-2013 owing to comparable sales in Q4 2012 and Q4 2013.

Inventories reduced slightly from EUR 33.5 million to 32.9 million.

In 2013, EUR 2.1 million of new investments (both replacement and technology investments) were undertaken. With annual depreciation of EUR 2.9 million, this produced a decrease in **property, plant & equipment and intangible fixed assets** from EUR 10.8 million at end-2012 to EUR 10.0 million at end-2012.

The group's total bank financing capacity in 2013 remained unchanged. The group uses factoring for its receivables. It also has a EUR 10 million short-term credit line and a EUR 10 million long-term (5 years) loan, repayable in an amount of EUR 2 million per year - with EUR 3 million outstanding at the end of 2013). **Total financial debt** decreased from EUR 20.9 million at end-2012 to 17.9 million at end-2013 out of free cash flow.

Trade payables rose from EUR 16.2 million to 18.7 million.

The group has received a waiver from its banks for failing to meet the required EBITDA/debt ratio at the end of 2013.

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

The most significant risks for the company are:

- The production is completeley 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, of which the exchange rate risk 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 can only cover its foreign currency positions to a limited extent.
- The group has a credit agreement with its bankers that includes a minimum solvency ratio, equity and cash flow covenants. Customer insolvency can have a major impact on the results.
- Risk of order postponements, leading to a temporary under-coverage of costs incurred.

Outlook for 2014

The current economic climate makes it difficult to establish clear expectations for 2014. As a subcontractor, Connect Group is very much dependent on the general evolution of its customers. However, Connect Group is strongly positive about its position with its customers and its ability to acquire new customers.

Significant events in 2013

There were no significant events in 2013.

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Connect Group annual results 2013

The statutory auditor has confirmed that its auditing work, which is fundamentally completed, has not revealed the need for any significant corrections to the accounting information contained in the press release in respect of the consolidated financial statements for the year ending on 31 December 2013.

Condensed consolidated income statement for the 12 months to 31 December 2013 and 31 December 2012

(in 000 EUR)	H 2 2013	%	H 2 2012	%	Year 2013	%	Year 2012	%
Continuing operations								
Sales	**61,927**	**100.0**	**61,720**	**100.0**	**124,988**	**100.0**	**141,638**	**100.0**
Cost of sales	-54,243	-87.6	-56,122	-90.9	-110,058	-88.1	-125,421	-88.5
Gross profit	7,684	12.4	5,598	9.1	14,930	11.9	16,217	11.5
Research and development expenses	-618	-1.0	-656	-1.1	-1,257	-1.0	-1,358	-1.0
General and administrative expenses	-3,078	-5.0	-3,294	-5.3	-6,296	-5.0	-6,821	-4.8
Selling expenses	-3,234	-5.2	-3,508	-5.7	-6,569	-5.3	-7,209	-5.1
Other income	14	0.1	602	1.0	166	0.1	686	0.5
Other expenses	-228	-0.4	-31	-0.1	-302	-0.2	-57	0.0
Operating result from continuing operations before goodwill impairment	541	0.9	-1,289	-2.0	671	0.5	1,458	1.0
Goodwill impairment	-	-	-1,633	-2.6	-	-	-1,633	-1.2
Operating result continuing operations	**541**	**0.9**	**-2,922**	**-4.7**	**671**	**0.5**	**-175**	**-0.1**
Operating result discontinued operations	**-**	**-**	**4,500**	**7.3**	**-**	**-**	**4,500**	**3.2**
Financial income	189	0.3	137	0.2	313	0.3	234	0.2
Financial charges	-480	-0.8	-553	-0.9	-895	-0.7	-1,525	-1.1
Profit / (loss from operations)	250	0.4	1,162	1.9	89	0.1	3,034	2.1
Income taxes	-8	0	0	0.0	-8	0	0	0.0
Profit / (loss) continuing operations	**242**	**0.4**	**-3,338**	**-5.4**	**81**	**0.1**	**-1,466**	**-1.0**
Profit / (loss) discontinued operations	**-**		**4,500**	**7.3**	**-**		**4,500**	**3.2**
Profit / (loss)	**242**	**0.4**	**1,162**	**1.9**	**81**	**0.1**	**3,034**	**2.1**
Attributable to								
Equityholders of the parent	242		1,162		81		3,034	
Minorities	-		-		-		-	
Earnings per share								
Basic earnings / (loss) per share continuing operations	0.02		-0.30		0.01		-0.14	
Diluted earnings / (loss) per share continuing operations	0.02		-0.30		0.01		-0.14	
Basic earnings / (loss) per share continuing plus discontinued operations	0.02		0.11		0.01		0.29	
Diluted earnings / (loss) per share continuing plus discontinued operations	0.02		0.11		0.01		0.29	

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Condensed consolidated statement of comprehensive income

(in 000 EUR)	2013	2012
Profit/Loss	**81**	**3,034**
Other comprehensive income		
Elements not subsequently reclassified to profit/loss	-	-
Elements that can be subsequently reclassified to profit/loss	**-**	**-21**
Exchange difference on translating foreign operations	-	-21
Total comprehensive income	**81**	**3,013**
Total comprehensive income attributable to:		
Equity holders of the parent	81	3,013
Minority interest	-	-

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Condensed consolidated balance sheet at 31 December 2013 and 31 December 2012

(in 000 EUR)	31 December 2013	31 December 2012
Assets		
Current assets:		
Cash and cash equivalents	263	1,089
Trade receivables	18,577	18,785
Other receivables	865	906
Inventories	32,964	33,525
Other current assets	1	100
Other current assets	**52,670**	**54,405**
Non-current:		
Other receivables from sale of discontinued activity	800	-
Deferred tax assets	1,500	1,500
Property, plant and equipment	9,429	9,868
Intangible assets	595	909
Goodwill	4,549	4,549
Total non-current assets	**16,873**	**16,826**
TOTAL ASSETS	**69,543**	**71,231**
Liabilities and equity		
Current liabilities:		
Bank loans and overdrafts	13,101	13,201
Current portion of long-term debt	2,245	2,264
Trade payables	18,662	16,210
Accrued expenses, payroll and related taxes and deferred income	5,840	6,634
Provisions	304	327
Other current liabilities	522	904
Total current liabilities	**40,674**	**39,540**
Non-current liabilities:		
Long-term debt less current portion	2,575	5,478
Total non-current liabilities	**2,575**	**5,478**
Equity attributable to equity holders of the parent	**26,294**	**26,213**
TOTAL LIABILITIES AND EQUITY	**69,543**	**71,231**

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Condensed consolidated statement of changes in equity

(in 000 EUR)	Number of outstanding shares	Capital	Legal reserve	Share premium	Profit/ (loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
31/12/2011	**10,290,024**	**638**	**43**	**42,091**	**-19,661**	**88**	**23,199**
Net result					3,034		3,034
Other comprehensive income						-21	-21
31/12/2012	**10,290,024**	**638**	**43**	**42,091**	**-16,627**	**67**	**26,213**

(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
31/12/2012	**10.290.024**	**638**	**43**	**42.091**	**-16.627**	**67**	**26.213**
Net result					82		82
Other comprehensive income							
31/12/2013	**10.290.024**	**638**	**43**	**42.091**	**-16.545**	**67**	**26.294**

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Condensed consolidated cash flow table for the year ended 31 December 2013 and 31 December 2012

(in 000 EUR)	2013	2012
Profit/(loss)	**671**	**-175**
Adjustments for:		
Gain-/loss on sale of property, plant and equipment	-	-38
Goodwill impairment	-	1,633
Allowance for doubtful receivables and obsolete stock	371	-13
Depreciation and amortization	2,895	3,526
Provisions	-24	117
Operating profit before changes in working capital	**3,913**	**5,050**
Inventories	460	3,773
Trade receivables	-62	10,394
Trade payables	2,452	-6,090
Accrued expenses, payroll and related taxes and deferred income	-794	-237
Other current assets	-661	-61
Other payables	-382	118
Cash flow from operating activities	**4,926**	**12,946**
Exchange differences	54	-177
Interests	-8	-
Financial charges and interests	-756	-1,184
Other	-	-21
Net cash from/(used in) operating activities continuing operations	**4,216**	**11,564**
Net cash from/(used in) operating activities discontinued operations	**-**	**6,500**
Cash flow from investing activities continued operations		
Investments in intangible assets	-202	-19
Investments in property, plant and equipment	-1,940	-2,471
Interest received	121	71
Acquisition Halin group	-	-373
Cash flows from (used in) investing activities continuing operations	**-2,021**	**-2,792**
Cash flows from financing activities		
Proceeds/(repayments) from long-term debts	-2,903	-1,792
Proceeds/(repayments) from current portion of long-term debt	-19	-288
Proceeds/(repayments) from bank loans and overdrafts	-100	-12,844
Net cash provided by financing activities	**-3,022**	**-14,924**
Increase/(decrease) in cash and cash equivalents	**-826**	**346**
Cash and cash equivalents at the beginning of the period	1,089	743
Cash and cash equivalents at the end of the period	263	1,089

Notes to the condensed 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, Barco and Philips. The company currently employs around 1,600 people in various facilities in Europe. The company's shares are traded on NYSE Euronext Brussels: CONN (www.euronext.com).

Update financial calendar

Annual General Meeting 2014	29 April 2014
Interim Statement Q1 results 2014	8 May 2014
Announcement 1st half-year results of 2014	28 August 2014
Interim Statement Q3 results 2014	13 November 2014

Investor Relations

Luc Switten	CEO
Hugo Ciroux	CFO

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Declaration of conformity

The condensed consolidated financial statements for the year ended 31 December 2013 comprise the financial statements of the company and its subsidiaries (hereinafter referred to collectively as the "Group").

These condensed consolidated financial statements were approved for publication by the Board of Directors on 10 February 2014.

Seasonality

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

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Changes in accounting policies and presentation rules

The accounting policies adopted in preparing the condensed consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the period ended 31 December 2013.

Compared with the consolidated financial statements at 31 December 2012, the following new Standards and Interpretations now apply. These changes do not impact the Group's financial position and results:

- IFRS 13 *Fair Value Measurement* (applicable for annual periods beginning on or after 1 January 2013)
- Improvements to IFRS (2009-2011) (normally applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 1 *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income* (applicable for annual periods beginning on or after 1 July 2012)
- Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 19 *Employee Benefits* (applicable for annual periods beginning on or after 1 January 2013)
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (applicable for annual periods beginning on or after 1 January 2013)

Segment reporting

Following the divesture of the Automation activity, the group now consists solely of the contract manufacturing activity, with no further segmentation.

Related party transactions

There are no substantial changes in the related party transactions.