

Serge Ferrari



Lumsa University – Rome - Italy

2018 Half-year financial report



Half-year Financial Report January 1 - June 30, 2018

(Article L 451-1-2 III of the French Monetary and Financial Code
Article 222-4 et seq. of the AMF General Regulation)

SergeFerrari Group
Limited liability company with capital of €4,919,703.60
Headquarters: ZI de La Tour du Pin – 38110 Saint Jean de Soudain, France
382 870 277 Vienne Commercial Register

This financial report relates to the six months ended June 30, 2018 and was prepared in accordance with the provisions of Article L. 451-1-2 III of the French Monetary and Financial Code and Articles 222-4 et seq. of the French Financial Markets Authority (“AMF”) General Regulation.

It was disclosed and made available in line with the provisions of Article 221-3 of the AMF General Regulation and may be viewed at www.sergeferraribourse.com

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STATEMENT BY THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT

I hereby certify that, to the best of my knowledge, the condensed consolidated financial statements for the six months ended June 30, 2018 have been prepared in accordance with applicable accounting principles and present a fair view of the assets and liabilities, financial position and earnings of the Company and all of the companies included in the consolidation scope. I also certify that the half-year activity report presents a fair view of the main events occurring during the first six months of 2018, the impact thereof on the financial statements and the main related party transactions, as well as a description of the main risks and main uncertainties for the remaining six months of fiscal 2018.

Saint Jean de Soudain
September 11, 2018

Sébastien Ferrari
Chairman and CEO

HALF-YEAR ACTIVITY REPORTRevenues**Revenue breakdown by region**

(€'000)	Q2 2018	Q2 2017	Ch. at current rates	Ch. at constan t rates	H1 2018	H1 2017	Ch. at current rates	Ch. at constan t rates
Europe	41,202	36,753	+12.1 %	+13.0%	77,445	68,974	+12.3 %	+13.1%
Americas	5,051	5,171	-2.3%	+5.6%	8,498	9,272	-8.3%	+1.1%
Asia - Africa - Pacific	6,651	6,250	+6.4%	+10.0%	10,702	10,721	-0.2%	+3.3%
Total revenues	52,904	48,174	9.8%	11.8%	96,648	88,967*	+8.6%	+10.7%

* 2017 revenues were adjusted with an increase of €63,000 during the preparation of the 2017 half-year financial statements.

The Group finalized the introduction of its new sales organizational structure for each region during H1 2018 and adjusted its reporting and performance monitoring process accordingly. The purchased business activities (Giofex, Milton, Ferramat and Plastitex), together with the Group's other business activities, which are almost exclusively conducted in Europe, have also been broken down according to the new geographical regions.

As forecast, Group sales for the first half of 2018 were significantly affected by the unfavorable trend in exchange rates against the euro, primarily for the amounts invoiced by the Group denominated in US dollars and Swiss francs, but also by subsidiaries that began operating on their local market in India and China during 2017. The overall impact of exchange rate movements was a reduction of €1.8 million or 2.1% in H1 2018 revenues.

Changes in the consolidation scope (consolidation of Plastitex) accounted for 6.9% of the 8.6% increase in revenues at current exchange rates.

Serge Ferrari materials were on show during the World Cup in Russia: the Rostov Arena hosted four group matches and a Round of 16 match. The roof of this stadium was built by one of the Group's Turkish customers using a Flexlight Xtrem TX 30 membrane, which is highly resistant and particularly suited to the region's climate (ability to withstand large amounts of snow and high winds). In addition to its aesthetic qualities, the membrane was chosen for its extreme durability (over 30 years), resistance to dirt, thanks to the cross-linked PVDF coating, and GOST (fire standard required for large projects in Russia) certification.

Earnings

First half 2018 operating income amounted to €4,817,000, up from €3,961,000 in the same period in 2017.

Net debt and cash and cash equivalents

At June 30, 2018, net debt amounted to €7 million compared to net cash and cash equivalents of €12.8 million as of December 31, 2017.

The change in net cash and cash equivalents is primarily due to:

- An increase in working capital resulting from the seasonality of the Group's composite material business;
- Capital expenditure in relation to the Group's industrial equipment upgrading, in accordance with its long-standing policy;
- The payment of earnouts related to acquisitions made by the Group since October 1, 2016

Post balance sheet events

On July 16, 2018, Taxyloop sold its shares in Vinyloop Ferrara SpA to Inovyn Italia for €1.

No post balance sheet events that could have a material impact on the Group financial statements have been identified.

Outlook

Thanks to the current favorable market, propped up by new international infrastructure programs, measures to promote the energy efficiency of buildings and the increasing appreciation for outdoor activities, the Group is pursuing the roll-out of its policy based on innovation, global footprint and operating excellence. The addition of Jean-Yves Stephan (Chief Operating Officer) and Philippe Espiard (CEO-Research & Development) to the Group's Executive Committee during the first half of 2018 have enabled us to complete the management team in order to address the challenges facing the Group.

During the second half of 2018, the Group will focus on increasing the efficiency of its industrial units in order to improve its operating margins. It is aiming to increase EBIT before non-recurring items in 2018. Serge Ferrari is confirming its goal of combining organic growth with acquisitions as part of its SF 2020 Plan.

Description of main risks and uncertainties

The Company's market risks

There has been no change in the Company's market risks as described in the Registration Document registered on March 12, 2018.

Operational risks

There have been no changes to the Company's risks in relation to operations, marketing, production facilities, working capital management, the seasonal nature of the business, inventory impairment, IT systems, legal affairs, finances, insurance and risk management, exchange rates, the Company's structure or court and arbitration proceedings, as described in the Registration Document.

Related party transactions

Principal transactions with related parties are described in Note 31 to the half-year condensed consolidated financial statements.

There have been no changes to the related party transactions described in the last annual report that could have had a material impact on the issuer's financial position or earnings for the first half of the current fiscal year.

First half 2018 condensed consolidated financial statements

The Group consolidated financial statements for the six months ended June 30, 2018 were prepared by the Board of Directors on September 11, 2018.

CONSOLIDATED INCOME STATEMENT

€'000	Note	H1 2018	H1 2017
Revenues	23	96,648	89,030
Purchases		(40,715)	(39,876)
Change in inventories		4,953	8,121
External expenses	24	(22,779)	(21,393)
Personnel expenses	25	(27,509)	(25,987)
Miscellaneous taxes	31	(1,417)	(1,491)
Depreciation, amortization and impairment	26	(3,546)	(3,083)
Net provisions for impairment	27	(929)	(1,712)
Other recurring income and expenses	28	111	350
EBIT		4,817	3,960
Other operating income and expenses		-	-
Operating income		4,817	3,961
Income from cash and cash equivalents	29	70	148
Gross cost of debt	29	(290)	(321)
Net cost of debt		(220)	(172)
Other financial income and expenses	29	(301)	(266)
Income before tax		4,297	3,522
Income tax	30	(1,338)	(523)
Income after tax		2,959	2,999
Share of earnings of equity affiliates		(575)	(467)
Income/(loss) from operations held for sale or discontinued operations		(1,468)	-
Total net income		915	2,532
Group share		903	2,548
Non-controlling interests		12	(16)
		-	-
Earnings per share (€)		0.07	0.21
Diluted earnings per share (€)		0.07	0.21

STATEMENT OF COMPREHENSIVE INCOME

€'000	H1 2018	H1 2017
Total consolidated net income	915	2,532
Other comprehensive income		
Actuarial gains/(losses) on pension liabilities	238	303
Income tax	(36)	(107)
Subtotal - comprehensive income/(loss) not transferable to earnings	201	196
Currency translation differences	106	(543)
Subtotal - comprehensive income/(loss) transferable to earnings	106	(543)
Total other comprehensive income/(loss) after tax	307	(347)
Total comprehensive income	1,222	2,185
Group share	1,203	2,211
Non-controlling interests	19	(26)

CONSOLIDATED BALANCE SHEET

Assets - €'000	Note	30/06/2018	31/12/2017
Goodwill	7	10,538	10,826
Intangible assets	8	12,386	11,827
Property, plant and equipment	9	24,480	26,000
Investments in equity affiliates	1	0	296
Other financial assets	10	1,868	2,009
Deferred tax assets	11	4,029	3,629
Other non-current assets		17	0
Total non-current assets		53,318	54,588
Inventories and WIP	12	53,767	49,669
Trade receivables	13	46,061	34,661
Tax receivables	14	1,719	3,248
Other current assets	15	8,919	5,091
Cash and cash equivalents	16	19,852	35,805
Total current assets		130,318	128,474
Non-current assets and group of assets held for sale	1	-	-
Total assets		183,636	183,062

Liabilities and equity - €'000	Note	30/06/2018	31/12/2017
Capital stock	17	4,920	4,920
Additional paid-in capital	17	41,724	41,724
Consolidated reserves and other reserves	17	41,636	43,127
Net income for the period	17	903	2,780
Total equity, Group share		89,183	92,551
Non-controlling interests		(295)	(296)
Total minority interests		(295)	(296)
Total equity		88,888	92,255
Borrowings and debt	18	15,951	16,079
Provisions for pensions and similar commitments	19	8,283	8,254
Deferred tax liabilities	11	961	972
Other non-current liabilities	20	9,037	11,373
Total non-current liabilities		34,232	36,678
Borrowings and bank overdrafts (due in less than 1 yr)	18	10,952	6,831
Current provisions	21	1,108	1,038
Trade payables		29,175	28,177
Tax payables	14	580	392
Other current liabilities	22	18,700	17,691
Total current liabilities		60,516	54,129
Total liabilities		94,748	90,807
Total liabilities and equity		183,636	183,062

* 'Non-current assets and group of assets held for sale' totaled €1 as of June 30, 2018.

CONSOLIDATED STATEMENT OF CASH FLOWS

€'000	H1 2018	H1 2017
Total consolidated net income	915	2,532
Consolidated net income from continuing activities	915	2,532
Elimination of earnings of equity associates	575	467
Elim. of non-cash impacts of operations held for sale or discontinued operations	1,468	0
Depreciation, amortization and impairment (Note 26)	3,546	3,083
Provisions (Note 27)	929	1,712
Pension provisions	193	248
Share-based remuneration	(4)	(6)
Other non-cash income and expenses	204	(165)
Free cash flow after net cost of debt	7,827	7,870
Net cost of debt (Note 29)	220	172
Free cash flow before net cost of debt	8,046	8,042
Change in operating working capital	(17,689)	(14,471)
<i>of which Change in trade receivables</i>	(11,587)	(8,721)
<i>of which Change in inventories</i>	(4,925)	(5,281)
<i>of which Change in trade payables</i>	998	476
<i>of which Change in other receivables</i>	(1,615)	(3,425)
<i>of which Change in other payables</i>	(560)	2,481
Net cash flows from operating activities	(9,643)	(6,429)
Acquisition of PP&E and intangible assets (Notes 8 and 9)*	(2,704)	(3,597)
Acquisition of subsidiaries net of cash acquired	-	(979)
Change in financial assets	31	
Capital increase of equity affiliates	(2,448)	(740)
Loss on disposal of PP&E and intangible assets (Notes 8 and 9)	52	25
Dividends received	3	6
Net cash flows from investing activities	(5,066)	(5,286)
New borrowings (Note 18)	1,710	0
Borrowing costs (Note 18)	39	39
Borrowings repaid (Note 18)	(331)	(785)
Net interest paid (Note 29)	(220)	(172)
Dividends paid	(949)	(1,469)
Factoring (Note 18)	2,403	4,541
Other cash flows from financing activities	(159)	169
Purchase of treasury shares	(3,996)	(20)
Net cash flows from financing activities	(1,503)	2,303
Impact of changes in foreign exchange rates	(25)	(237)
Change in cash and cash equivalents	(16,237)	(9,649)
Opening cash and cash equivalents (Note 16)	35,805	48,834
Bank overdrafts at start of period (Note 18)	-	(12)
Net cash at start of period	35,805	48,822
Closing cash and cash equivalents (Note 16)	19,852	39,174
Bank overdrafts at end of period (Note 18)	(285)	(1)
Net cash at end of period	19,567	39,173
Change in cash and cash equivalents	(16,238)	(9,649)

* 'Acquisition of PP&E and intangible assets' is shown before deduction of the research tax credit. The impact of the research tax credit is now presented under 'Change in other receivables' under 'Net cash flows from operating activities'.

NOTES TO THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The notes form an integral part of the condensed consolidated financial statements for the six months ended June 30, 2018.

SergeFerrari Group SA is a limited liability company under French law, registered on June 10, 1992, whose main subsidiary Serge Ferrari SAS was founded in 1973 with an activity related to the design, manufacture and distribution of flexible composite materials. The Company's headquarters are located at Zone Industrielle de la Tour du Pin, 38110 Saint Jean de Soudain (France). SergeFerrari Group SA and its subsidiaries employed 827 people at June 30, 2018 compared to 753 at June 30, 2017.

NOTE 1 – First half 2018 highlights

On March 22, 2018, Serge Ferrari Group purchased 379,000 of its own shares on the market as part of the share buyback program approved by the April 20, 2017 General Meeting. As of June 30, 2018, the total amount of treasury shares held amounted to €4,973,000.

The Vinyloop Ferrara SpA General Meeting met on June 20, 2018 in Ferrara (Italy). The meeting approved the shutdown of operations and liquidation of Vinyloop Ferrara SpA. Serge Ferrari Group duly noted the decision of Inovyn Italia, 60% majority shareholder in Vinyloop Ferrara SpA, to discontinue all recycling operations at the Ferrara facility. An agreement was reached between Vinyloop Ferrara SpA's shareholders whereby Taxyloop's entire equity interest in Vinyloop Ferrara SpA was transferred, on July 16, 2018, to Inovyn Italia and Inovyn Italia assumed all of the consequences of the decisions to shut down the facility and liquidate Vinyloop Ferrara SpA. Vinyloop Ferrara SpA was included in the Serge Ferrari Group financial statements for the year ended December 31, 2017 using the equity method. As of June 30, 2018, Vinyloop shares are presented under 'Non-current assets and group of assets held for sale' on the balance sheet at their transfer price, in accordance with IFRS 5 - Non-current assets held for sale and discontinued operations. The financial impact of Vinyloop Ferrara SpA's operations from January 1, 2018 to the date of the decision to transfer its shares to Inovyn Italia is presented under 'Share of earnings of equity affiliates' on the income statement.

Serge Ferrari AG renewed a CHF 2 million line of credit maturing on December 31, 2018.

NOTE 2 – Post balance sheet events

On July 16, 2018, Taxyloop sold its shares in Vinyloop Ferrara SpA to Inovyn Italia for €1.

NOTE 3 – Valuation and consolidation principles

The consolidated half-year financial statements are presented in thousands of euros unless otherwise stated.

The consolidated financial statements have been prepared pursuant to:

- IFRS (International Financial Reporting Standards) as adopted by the European Union. IFRS can be viewed on the following website: <https://www.efrag.org/Endorsement>
- IFRS as published by the IASB and adopted by the EU.

The consolidated financial statements were prepared in accordance with the general principles of IFRS: fair presentation, going concern, accrual basis of accounting, consistency of presentation and materiality.

The consolidated half-year financial statements have been prepared pursuant to IAS 34 "Interim Financial Reporting". In accordance with IAS 34, the notes to the consolidated half-year financial statements are presented in condensed form. Only material transactions and adjustments to comply with specific interim financial reporting principles have been disclosed in the notes. The half-year financial statements should be read in conjunction with the Group financial statements for the year ended December 31, 2017, which form part of the Registration Document registered with the French

Financial Markets Authority (AMF) on March 12, 2018 and can be consulted (in French) on the Group website <http://www.sergeferraribourse.com/informations-financieres/documents-financiers.html>

SergeFerrari Group SA is the consolidating company.

In accordance with IFRS 10 (consolidated financial statements), companies in which the Group directly or indirectly holds the majority of voting rights at the General Meeting on the Board of Directors or equivalent governing body, giving it the power to direct those companies' operational and financial policies, are generally deemed to be controlled and are fully consolidated.

Equity interests in companies over which the Group exercises significant control (associates) are measured using the equity method. With the exception of Vinyloop, SergeFerrari Group does not exercise significant or joint control of any other company.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated.

The financial statements of consolidated companies were all closed as of December 31, with the exception of Serge Ferrari India Private Ltd, whose fiscal year ends on March 31. For Group consolidation purposes, interim statements are prepared in accordance with the reporting period.

The consolidation scope is presented in Note 4.

Changes in accounting principles

The guidelines to which the Group refers may be found on the EFRAG (European Financial Reporting and Advisory Group) website. <https://www.efrag.org/Endorsement>

The Group has applied the following standards, amendments and interpretations since January 1, 2018:

- IFRS 15 "Revenue from contracts with customers" as well as the clarifications to this standard,
- IFRS 9 "Financial Instruments",
- IFRS annual improvements, 2014-2016 cycle,
- IFRIC 22 "Foreign currency transactions and advance consideration",
- Amendment to IFRS 2 "Classification and measurement of share-based payments".

IFRS 15 "Revenue from contracts with customers" replaces IAS 11 "Construction contracts" and IAS 18 "Revenue". The Group was not affected by IAS 11. The Group assessed the criteria for recognizing revenue defined by IFRS 15. Group revenues are almost entirely generated by the sale of flexible composite materials, accessories and production scrap. As presented in Note 2.20 to the consolidated financial statements presented in the 2017 Registration Document, the Group recognizes its revenues once the significant risks and rewards of ownership of the goods sold have been transferred to the buyer. The Group's historical accounting treatment was confirmed by the analysis of the recognition criteria enabling the Group to determine whether the transfer of control over the goods and services to the customer is gradual.

Revenues are recognized net of goods returns and net of benefits and discounts granted to customers. Accordingly, the first-time application of IFRS 15 "Revenue from contracts with customers" had no impact on the presentation of the income statement.

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial instruments: recognition and measurement". It sets out the accounting rules applicable to financial instruments in three main areas:

- The classification and measurement of financial assets and liabilities

The main impact of this standard for the Group concerns the classification and measurement of financial assets classified as of December 31, 2017 as securities available for sale, pursuant to IAS 39. These assets are classified as other non-current financial assets under unlisted equity securities. Changes in fair value and gains or losses on disposals will be recognized under "Other income and expenses", posted directly to shareholders' equity, with no impact on net income. Only dividends continue to be recognized through profit or loss. Unlisted equity securities amounted to €656,000 as of June 30, 2018.

- Impairment of receivables

The switch from a trade receivables impairment measurement method using actual losses to an expected losses method had no material impact on the Group financial statements, given that:

- the Group protects part of its receivables through credit insurance
- the annual impact of losses on receivables on the Group income statement (net of provisions and reversals) is immaterial at Group level.

- Hedge accounting

As far as the Group is concerned, the conditions for applying hedge accounting and eligibility criteria for hedging instruments prescribed by IFRS 9 remain similar to the provisions of IAS 39. With regard to hedge accounting, therefore, the first-time application of IFRS 9 had no impact on the Group financial statements.

Principal accounting standards, amendments and interpretations published by the IASB and not mandatory within the European Union as of January 1, 2018:

The impact of IFRS 16 "Leases", which is due to come into force on January 1, 2019, on the Group's financial statements is currently being assessed. The Group decided not to apply the standard early as of January 1, 2018.

Principal accounting standards, amendments and interpretations published but not yet adopted by the European Union:

- IFRIC 23 "Uncertainty over income tax treatments",
- IFRS annual improvements, 2015-2017 cycle,
- Amendments to IAS 19 "Employee benefits" regarding plan amendment, curtailment or settlement,
- Amendments to IAS 28 "Investments in associates and joint ventures".

The foregoing standards, interpretations and amendments are not expected to have a material impact on the Group financial statements upon first-time application.

Significant estimates

Principles applying to estimates and judgments are described under Note 2.6 to the financial statements for the year ended December 31, 2016. In some cases, such principles have been adapted to comply with the specific features of interim reporting.

Specific interim reporting accounting principles

- Income tax

The tax charge is computed separately for each company. The Group has not identified any material differences that would modify the effective tax rate calculated on a full-year basis compared with the effective rate calculated on June 30, 2018.

- CICE

The French CICE tax credit for employment and competitiveness is accounted for as a deduction from personnel expenses.

- Post retirement benefits

Pursuant to IAS 34, provisions for pensions and similar commitments have not been calculated on a detailed basis as required for annual financial statements. Changes to net pension liabilities as of June 30, 2018 have been estimated as follows:

- Interest expense and the cost of services provided have been estimated based on the budget;
- Discount rates have been updated on the basis of information available as of June 30, 2018; the Group has taken into account the impact of interest rate fluctuations on the valuation of the liability as of June 30, 2018, on the basis of sensitivity tests performed during the preparation of the 2017 full-year financial statements;
- The other actuarial assumptions (e.g. pay rises, staff turnover) are updated when the full-year financial statements are prepared. No changes that could have a material impact on the valuation of these assumptions were identified as of June 30, 2018;
- No adjustments were made to the fair value of plan assets (long-term investments) as of June 30, 2018. No changes that could have a material impact on the fair value of plan assets were identified as of June 30, 2018.

The statement of changes in the total net pension liability is given under Note 19.

- Impairment tests

Procedures for performing impairment tests are described in Note 2.11 "Asset impairment" to the 2017 financial statements, as presented in the Registration Document.

Impairment tests are only performed for half-year financial statements in respect of material assets where there is an indication of loss of value in the current or prior year. No evidence of impairment was identified during the preparation of the financial statements for the period ending June 30, 2018.

NOTE 4 – Consolidation scope

Companies	Activity	Headquarters	Percentage control			2018 consolidation method
			2018	2017	2016	
Serge Ferrari Group	Holding	La Tour-du-Pin (France)	100%	100%	100%	Parent company
Serge Ferrari SAS	Production and distribution	La Tour-du-Pin (France)	100%	100%	100%	Full consolidation
Serge Ferrari North America	Distribution	Pompano Beach (USA)	100%	100%	100%	Full consolidation
Serge Ferrari Asia Pacific	Distribution	Hong Kong (HK)	100%	100%	100%	Full consolidation
Serge Ferrari Japan	Distribution	Kamakura (Japan)	83%	83%	83%	Full consolidation
Ferrari Latino America	None	Santiago (Chile)	100%	100%	100%	Full consolidation
Serge Ferrari Brasil	Distribution	Sao Paulo (Brazil)	100%	100%	100%	Full consolidation
Ci2M SAS	Equipment manufacture	La Tour-du-Pin (France)	100%	100%	100%	Full consolidation
Serge Ferrari AG	Production and distribution	Eglisau (Switzerland)	100%	100%	100%	Full consolidation
Serge Ferrari Tersuisse (formerly Ferfil Multifils)	Production	Emmenbrücke (Switzerland)	100%	100%	100%	Full consolidation
Serge Ferrari Tersuisse	Production	Emmenbrücke (Switzerland)	-	-	100%	Merged in 2017
Texyloop SAS	Recycling	La Tour-du-Pin (France)	100%	100%	100%	Full consolidation
Vinyloop	Recycling	Ferrara (Italy)	40%	40%	40%	Not consolidated as of June 30, 2018 (see Note 1)
Serge Ferrari India Limited	Distribution	Delhi (India)	100%	100%	100%	Full consolidation
Serge Ferrari Shanghai	Distribution	Shanghai (China)	100%	100%	100%	Full consolidation
Serge Ferrari GmbH	Distribution	Berlin (Germany)	100%	100%	-	Full consolidation
Serge Ferrari Tekstil	Distribution	Istanbul (Turkey)	100%	100%	100%	Full consolidation
Ferramat Tekstil	Distribution	Istanbul (Turkey)	100%	100%	100%	Full consolidation
Giofex Group Srl	Holding	Milan (Italy)	51%	51%	51%	Full consolidation
Giofex France	Distribution	Issoudun (France)	51%	51%	51%	Full consolidation
Giofex UK	Distribution	Dartford (United Kingdom)	51%	51%	51%	Full consolidation
Milton Ltd	Holding	Leicester (United Kingdom)	-	-	-	Merged in 2017
DA Trading Ltd	Holding	Leicester (United Kingdom)	-	-	-	Merged in 2017
Milton Leicester Ltd	Distribution	Leicester (United Kingdom)	-	-	-	Merged in 2017
Giofex GmbH	Distribution	Chemnitz (Germany)	51%	51%	51%	Full consolidation
Giofex Slovaquie	Distribution	Bratislava (Slovakia)	51%	51%	51%	Full consolidation
Giofex SP ZOO	Distribution	Warsaw (Poland)	51%	51%	-	Full consolidation
Giofex Bulgarie	Distribution	Plovdiv (Bulgaria)	51%	51%	51%	Full consolidation

SIBAC (18% owned) and MTB Group (5% owned) are excluded from the consolidation scope due to the absence of significant influence over these entities. The Group holds a 35% stake in VR Développement and does not take part in strategic decision-making regarding the company's operations. The company is therefore not included in the 2018 half-year consolidated financial statements.

NOTE 5 – Conversion of foreign currency financial statements

Foreign currency exchange rates applied are as follows:

	€1 equal to	Average exchange rate	
		H1 2018	H1 2017
Bulgarian lev	BGN	1.96	1.96
Brazilian real	BRL	4.14	3.60
Swiss franc	CHF	1.17	1.11
Chilean peso	CLP	740.11	728.69
Yuan	CNY	7.71	7.62
Euro	EUR	1.00	1.00
Pound sterling	GBP	0.88	0.88
Kuna	HRK	7.42	7.54
Indian rupee	INR	79.51	73.50
Yen	JPY	131.61	126.65
Zloty	PLN	4.22	4.26
Romanian leu	ROL	4.65	4.57
Turkish lira	TRY	4.96	4.21
US dollar	USD	1.21	1.13

	€1 equal to	Closing rate	
		June 30, 2018	Dec 31, 2017
Bulgarian lev	BGN	1.96	1.96
Brazilian real	BRL	4.49	3.97
Swiss franc	CHF	1.16	1.17
Chilean peso	CLP	758.82	736.36
Yuan	CNY	7.72	7.80
Euro	EUR	1.00	1.00
Pound sterling	GBP	0.89	0.89
Kuna	HRK	7.39	7.44
Indian rupee	INR	79.81	76.61
Yen	JPY	129.04	135.01
Zloty	PLN	4.37	4.18
Romanian leu	ROL	4.66	4.66
Turkish lira	TRY	5.34	4.55
US dollar	USD	1.17	1.20

NOTE 6 – Revenue breakdown and seasonal effects

In the past, the Group has generated over 50% of its annual revenues in the first half, mainly due to the Architecture business, which has higher sales in the first half than in the second half. Group first half 2018 results should not be taken as an indication of second half results, given that fixed costs in the second half are often a higher proportion of earnings on sales.

NOTE 7 – Goodwill

Goodwill - €000	June 30, 2018	Dec 31, 2017
Flexible composite materials	10,538	10,826

The valuation tests conducted on each cash generating unit (CGU) as of December 31, 2017, based on discounted cash flows (DCF), do not show evidence of a need to write down these assets. As of June 30, 2018, the Group identified no evidence of impairment calling for an early valuation test.

Final allocation of the purchase price for Ferrateks, purchased by Ferramat Tekstil sanayi ve Ticaret anonim sirketi, was completed as of June 30, 2018. Goodwill calculated upon first-time consolidation was not revalued at June 30, 2018.

Final allocation of the purchase price paid by Giofex UK for the entire capital stock of Milton Ltd, which held, via DA Trading, all of the assets of operating company Milton Leicester Ltd, was completed as of June 30, 2018. Goodwill calculated upon first-time consolidation was not revalued at June 30, 2018.

The purchase price allocation for Plastitex Spa and Istratextum was still provisional as of June 30, 2018. Goodwill arising from first-time consolidation was adjusted by €133,000 as of June 30, 2018 in accordance with the updating of earnout liability. The breakdown of earnout liabilities is presented under Note 20 "Other non-current liabilities" and Note 22 "Other current liabilities".

Other changes impacting goodwill of the flexible composite materials CGU result from fluctuations in currencies in which goodwill was recognized during the purchase price allocation procedure.

NOTE 8 – Intangible assets

€'000	Dec 31, 2017	Acq.	Disposals	Amortization for the period	Changes in exchange rates	Reclassification	June 30, 2018
Research & development costs	10,978	820	(9)	-	30	-	11,823
Concessions, patents & similar rights	446	-	-	-	-	24	469
Intangible assets in progress	1,126	286	-	-	(0)	(297)	1,115
Trademark, customers	1,825	-	-	-	(16)	-	1,792
Other intangible assets	10,535	269	(0)	-	29	299	11,136
Total intangible assets	24,909	1,375	(9)	-	43	26	26,335
R&D costs amortization/impairment	(4,745)	-	-	(342)	(15)	-	(5,103)
Concessions, patents & similar rights amortization/impairment	(111)	-	-	(31)	-	-	(142)
Customers amortization/impairment	(64)	-	-	(78)	0	-	(142)
Other intangible assets amortization/impairment	(8,157)	-	-	(391)	(21)	-	(8,571)
Total intangible assets amortization/impairment	(13,081)	-	-	(841)	(35)	-	(13,958)
Total net book value	11,827	1,375	(9)	(841)	8	26	12,386

Acquisitions of other intangible assets are presented net of the €208,000 research tax credit recorded at June 30, 2018.

NOTE 9 – Property, plant and equipment

€'000	Dec 31, 2017	Acq.	Disposals	Depreciation for the period	Changes in exchange rates	Reclassification	June 30, 2018
Land	1,745	-	-	-	20	-	1,767
Buildings	39,361	28	(1)	-	215	188	39,791
Plant and equipment	117,905	590	(300)	-	696	1,821	120,711
Other PP&E	7,588	69	(18)	-	55	(7)	7,687
PP&E in progress	3,386	435	-	-	4	(2,046)	1,779
Total property, plant and equipment	169,984	1,121	(319)	-	990	(45)	171,732
Building depreciation/impairment	(30,381)	-	1	(787)	(154)	-	(31,323)
Plant and equipment depreciation/impairment	(106,255)	-	274	(1,691)	(655)	-	(108,332)
Other PP&E depreciation/impairment	(7,352)	-	-	(230)	(52)	27	(7,594)
Total PP&E depreciation/impairment	(143,983)	-	276	(2,704)	(860)	27	(147,252)
Total net book value	26,000	1,121	(43)	(2,704)	125	(18)	24,480

NOTE 10 – Other financial assets

€'000	June 30, 2018	Dec 31, 2017
Unlisted securities	657	656
Other loans and receivables	1,212	1,354
Total other financial assets	1,868	2,009

NOTE 11 – Deferred tax assets and liabilities

Deferred taxes are shown on the balance sheet separately from current tax assets and liabilities and are classified as non-current items.

€'000	June 30, 2018	Dec 31, 2017
Deferred tax assets related to employee benefits	1,281	1,253
Tax losses carried forward	1,176	636
Elimination of intercompany gains and losses	477	485
Research tax credit	629	694
Change in fair value of interest rate and currency hedges	(18)	8
Other temporarily non-deductible items	(376)	(184)
Non tax-allowable provisions	(30)	(150)
Debt issuance costs	(71)	(85)
Total net deferred tax	3,068	2,657

NOTE 12 – Inventories

€'000	June 30, 2018			Dec 31, 2017		
	Gross	Provisions	Net	Gross	Provisions	Net
Raw materials, supplies and other	11,173	(1,286)	9,887	10,223	(1,120)	9,103
Work in progress	291	0	291	186	-	186
Finished goods and components	37,236	(4,423)	32,813	34,138	(3,751)	30,386
Goods for resale	10,953	(177)	10,776	10,173	(179)	9,994
Total inventories	59,653	(5,885)	53,767	54,720	(5,051)	49,669

NOTE 13 – Trade receivables

€'000	June 30, 2018	Dec 31, 2017
Trade receivables and payments on account	36,146	29,187
Receivables sold to the factoring company	13,272	8,645
Trade receivables	49,418	37,832
Imp. Trade receivables	(3,356)	(3,171)
Net trade receivables	46,061	34,661

NOTE 14 – Tax receivables and payables

€'000	June 30, 2018	Dec 31, 2017
Tax receivables	1,719	3,248
Tax payables	580	392

NOTE 15 – Other current assets

€'000	June 30, 2018	Dec 31, 2017
Current accounts - assets	205	150
Tax receivables excl. income tax	1,908	2,701
Staff and related receivables	256	150
Supplier receivable balances	282	348
Other receivables	829	355
Prepaid expenses	4,870	1,063
Loans receivable, guarantees and other receivables	14	14
Advances and payments on account to suppliers	154	108
Receivables against suppliers (rebates, discounts, refunds and other credits)	344	201
Current asset derivatives	57	-
Total other current assets	8,919	5,091

All other current assets have maturities of less than a year.

Tax receivables excluding corporate income tax mainly include customs duties and VAT receivables.

The change in current accounts is presented in 'Other cash flows from financing activities' in the cash flow statement.

The change in prepaid expenses reflects real estate rental amounts invoiced at the beginning of the year by various lessors and spread over the reporting period.

NOTE 16 – Cash and cash equivalents

€'000	June 30, 2018	Dec 31, 2017
Marketable securities	190	160
Cash and cash equivalents	19,662	35,645
Total cash and cash equivalents	19,852	35,805

As of June 30, 2018, term deposits amounted to €10 million.

NOTE 17 – Capital stock

The capital stock of SergeFerrari Group as of June 30, 2018 comprised 12,299,259 shares with a par value of €0.40 each.

In accordance with economic conditions and changing requirements, the Group may opt to make changes to its capital stock, for example by issuing new shares or by purchasing and canceling existing shares.

As of June 30, 2018, the Group held 466,396 treasury shares. These shares are eliminated via an offsetting entry under equity; the value of treasury shares held and deducted from equity as of June 30, 2018 totaled €4,973,000. 4,380 shares were allocated to the bonus share plan and 55,812 shares to a liquidity contract covering the SergeFerrari Group share. Gains or losses made under the liquidity contract are removed from the income statement and posted to shareholders' equity. These impacts are recorded under the 'Treasury shares' column in the statement of changes in shareholders' equity.

The SergeFerrari Group Board of Directors has implemented a bonus share allotment plan in favor of certain Group executives and employees, which was approved by the shareholders' General Meeting of April 25, 2016 and is subject to presence and performance conditions. In this respect, a charge of €57,000 was recorded in the 2018 half-year financial statements, excluding employer contributions. The main features of the plan were as follows as of June 30, 2018:

Plan	Date of meeting	Total number of shares initially granted	Subject to condition of 2 year's service	Fair value* of the plan as of June 30, 2018 - €'000
SF 2020	June 15 and Sept 15, 2016	109,000	109,000	530

* The plan's fair value excludes the cost of employer contributions.

As of June 30, 2018, 39,600 shares were distributed to beneficiaries of plans for which the vesting period expired on June 15, 2018.

NOTE 18 – Borrowings and debt

June 30, 2018	Current	Non-current	Total	Due in less than 1 yr	Due in 1 to 5 yrs	Due in > 5 yrs
Bank loans	2,295	16,113	18,408	2,295	16,113	-
Acquisition costs	(78)	(161)	(239)	(78)	(161)	-
Bank overdrafts	284	-	284	284	-	-
Factoring	8,450	-	8,450	8,450	-	-
Total borrowings and debt	10,952	15,952	26,904	10,952	15,952	-
Cash and cash equivalents	(19,852)	-	(19,852)	(19,852)	-	-
Net (cash)/debt	(8,900)	15,952	7,052	(8,900)	15,952	-

Dec 31, 2017	Current	Non-current	Total	Due in less than 1 yr	Due in 1 to 5 yrs	Due in > 5 yrs
Bank loans	861	16,278	17,139	861	16,278	-
Acquisition costs	(78)	(200)	(277)	(78)	(200)	-
Bank overdrafts	-	-	-	-	-	-
Factoring	6,047	-	6,047	6,047	-	-
Total borrowings and debt	6,831	16,079	22,909	6,831	16,079	-
Cash and cash equivalents	(35,805)	-	(35,805)	(35,805)	-	-
Net (cash)/debt	(28,974)	16,079	(12,896)	(28,974)	16,079	-

NOTE 19 – Provisions for pensions and similar commitments

The change in the discount rate on post-employment benefits for French companies (1.2% at December 31, 2017 and 1.45% at June 30, 2018) resulted in a €63,000 reduction in the value of the liability.

Regarding the pension liabilities of the Group's Swiss companies, a 0.9% discount rate (based on the yield of Swiss blue-chip corporate bonds in the industrial sector), was applied at June 30, 2018. This discount rate was 0.7 % at December 31, 2017. The impact on these liabilities is a €168,000 reduction.

Given that pension plan assets mainly consist of real estate investments, as of June 30, 2018 no changes were made to their fair value (apart from the discounting effect) at December 31, 2017.

	Switzerland				Total
	Retirement compensation - France	Pension plan	Long service awards	Retirement compensation - Italy	
Dec 31, 2016	874	7,909	514	-	9,297
Cost of past services	231	1,075	(6)		1,301
Interest expense	11	31	2		44
Actuarial gains/(losses)	186	(2,032)	-		(1,846)
Benefits paid	(37)	(933)	(47)	(95)	(1,112)
Exchange differences	-	(557)	(40)		(597)
Other changes	-	-	-	1,165	1,165
Dec 31, 2017	1,266	5,492	424	1,070	8,254
Cost of past services	140	532	(9)		663
Interest expense	8	20			27
Actuarial gains/(losses)	(63)	(168)			(231)
Benefits paid		(437)		(60)	(497)
Exchange differences		63	5		67
June 30, 2018	1,350	5,503	420	1,011	8,283

NOTE 20 - Other non-current liabilities

€'000	June 30, 2018	Dec 31, 2017
Commitment to buy back shares from minority shareholders	8,689	8,689
Liabilities on future performance of companies acquired (earnout)	267	2,109
Other	81	575
Total other non-current liabilities	9,037	11,373

NOTE 21 – Provisions

€'000	Dec 31, 2017	Increases	Reversals		June 30, 2018
			Used	Not used	
Current provisions	1,049	117	(50)	-	1,108
Provisions for employee & admin. disputes	693	42	(50)		178
Provisions for guarantees	191	75	-		266
Provisions for commercial disputes	165	3	(3)		165

NOTE 22 – Other current liabilities

€'000	June 30, 2018	Dec 31, 2017
Current accounts - liabilities	87	192
Tax and social security payables	11,246	10,503
Customers - Advances and down payments received	531	846
Customers - Credits, rebates, discounts & refunds	801	1,266
Other payables	1,913	1,483
Liabilities on future performance of companies acquired (earnout)	4,122	3,401
Total other current liabilities	18,700	17,691

NOTE 23 - Information relating to business areas

First half 2018 revenues came to €96.6 million, up 10.7% over first half 2017.

NOTE 24 – External expenses

€'000	H1 2018	H1 2017
Bank charges	(237)	(227)
Maintenance and repairs	(1,892)	(1,892)
Leasing and rental costs	(3,677)	(3,368)
Transport	(3,900)	(3,948)
Fees and advertising expenses	(6,945)	(6,024)
Other external expenses	(6,128)	(5,934)
Total other external expenses	(22,779)	(21,393)

NOTE 25 - Personnel expenses and senior management remuneration

€'000	H1 2018	H1 2017
Staff pay	(20,482)	(19,396)
Social security charges	(5,468)	(4,980)
Pension commitments	(603)	(707)
Other personnel expenses	(956)	(904)
Total personnel expenses	(27,509)	(25,987)

Personnel expenses cover both permanent and fixed-term contracts.

In accordance with the ANC information notice of February 28, 2013, the proceeds from the Tax Credit for Competitiveness and Employment (CICE) have been recognized as a reduction in personnel expense in the amount of €276,000 for H1 2018 compared to €323,000 for H1 2017.

	H1 2018	H1 2017
TOTAL	827	753
Commercial	224	234
Production / Logistics	487	430
Support Functions - R&D	116	89

Senior management remuneration:

€'000	H1 2018	H1 2017
Ferrari Participations (for services provided)	492	677
Corporate office	85	99
Benefits in kind	5	3
Total senior management remuneration	582	779

Ferrari Participations (for services provided)

SergeFerrari Group is managed by Sébastien Ferrari (Chairman and Chief Executive Officer), Romain Ferrari (Chief Operating Officer), Philippe Brun (Chief Financial Officer) and Hervé Trelu (Senior Vice President Sales & Marketing).

The amounts shown relate solely to the compensation paid in respect of the operational positions held by Sébastien Ferrari, Romain Ferrari, Philippe Brun and Hervé Trelu.

The total invoiced amount under the management fees agreement, which amounted to €1,925,000 in H1 2018 and €1,631,000 in H1 2017, is presented in the table in Note 32 "Related party transactions" and is recorded under 'Other external expenses'.

Corporate office

All compensation received in respect of Group corporate offices held by Sébastien Ferrari, Romain Ferrari, Philippe Brun and Hervé Trelu.

Benefits in kind

Benefits in kind relating to the provision of company vehicles.

Share-based remuneration

As of December 31, 2017 the fair value of shares granted to executives amounted to €362,000. The commitment to grant bonus shares to corporate officers under Plan 1 is now void: the bonus shares vested to the corporate officers as of June 15, 2018. No new bonus share plans had been set up by the time these financial statements were prepared.

NOTE 26 - Depreciation, amortization and impairment

€'000	H1 2018	H1 2017
Intangible assets	(841)	(597)
Property, plant and equipment	(2,704)	(2,486)
Total depreciation, amortization and impairment	(3,546)	(3,083)

NOTE 27 - Provision expenses

€'000	H1 2018	H1 2017
Operating provisions	(125)	(654)
Receivables provisions	(142)	(413)
Provisions for inventories - WIP and finished goods	(4,721)	(3,349)
WIP and finished goods reversals	3,906	2,498
Reversals of receivables provisions	90	111
Reversals of operating provisions	62	96
Net impairment and provisions	(929)	(1,712)

NOTE 28 - Other recurring income and expenses

€'000	H1 2018	H1 2017
Operating grants	-	35
Gains/(losses) on disposal of assets	(43)	-
Other	154	315
Other recurring income and expenses	111	350

NOTE 29 – Financial income and expenses

	H1 2018	H1 2017
Net cost of debt	(220)	(172)
Income from cash and cash equivalents	70	148
Interest expense	(290)	(321)
Other financial income and expenses	(301)	(266)
Net currency gains/(losses)	(221)	(595)
- USD	11	(619)
- CHF	(42)	60
- TRY	(227)	0
- Other	37	(36)
Change in value of derivative financial instruments	75	73
- USD and CHF exchange rate	65	55
- Interest rate	10	18
Financial expenses on employee benefits	(27)	(21)
Dividends from non-consolidated entities	3	6
Other	(130)	270
Net financial expense	(520)	(439)

NOTE 30 – Tax charge

€'000	H1 2018	H1 2017
Deferred tax	383	427
Current tax	(1,721)	(950)
Total income tax	(1,338)	(523)

The notional tax expense is calculated using the tax rate on French companies of 34.43% for fiscal years 2017 and 2018. This charge is reconciled with the recognized tax expense as follows:

€'000	H1 2018	H1 2017
Net income	915	2,532
Offset:		
=> Share of earnings of equity affiliates	(575)	(467)
=> Income/(loss) from operations held for sale or discontinued operations	(1,468)	-
=> Tax charge	1,338	523
Income before tax	4,297	3,522
French statutory tax rate	34.43%	34.43%
Notional tax charge	1,479	1,213
Reconciliation		
=> Tax credits	(164)	(330)
=> Tax rate differences - France/other countries	(35)	(225)
=> Permanent differences	54	56
=> Other	4	(190)
Actual tax charge	1,338	523
Effective tax rate	31.1%	14.9%

NOTE 31 – Miscellaneous taxes

€'000	H1 2018	H1 2017
Other miscellaneous taxes	(1,091)	(912)
Miscellaneous payroll taxes	(326)	(579)
Total miscellaneous taxes	(1,417)	(1,491)

Miscellaneous payroll taxes include the ongoing training contribution, the 1% housing contribution, apprentice tax and disability tax levied in France. All other miscellaneous taxes are included under 'Other miscellaneous taxes'.

The Company recorded CVAE business value added tax amounting to €442,000 for H1 2018 and €413,000 for H1 2017.

NOTE 32 – Related party transactions

€'000	H1 2018			H1 2017		
	Ferrari Participations	Real estate companies	Vinyloop	Ferrari Participations	Real estate companies	Vinyloop
Operating payables	2374	2,067	-	1,335	1,582	-
Operating receivables	2149	1,849	-	1,764	1,249	-
Current accounts	0	-	-	62	-	-
Purchases of goods and services	1,925	1,675	-	1,631	1,501	197
Sales of goods and services	71	52	-	78	71	-
Interest income	0	-	3	5	-	3

Income recognized corresponds to services rendered under the services agreement whereby Serge Ferrari SAS provides administrative services (assistance in accounting, human resources management and IT services) to other Group entities and companies related to the Group.

There are no material transactions between SCEA Malherbe and SergeFerrari Group.

Expenses correspond to:

- Ferrari Participations: re-invoicing under the agreement described in Note 25 "Executive compensation".
- Real estate companies: rent paid to real estate companies directly or indirectly controlled by the same Ferrari family group, for industrial sites in France and Switzerland.

These agreements were entered into on arm's length terms.

NOTE 33 – Off-balance sheet commitments

There was no material change in off-balance sheet commitments during first half 2018 in relation to the commitments presented in the 2017 Registration Document.

STATUTORY AUDITORS' REPORT ON THE FIRST HALF 2018 FINANCIAL REPORT

To the Shareholders,

Pursuant to our engagement by your shareholders' General Meeting and in application of Article L. 451-1-2 III of the French Monetary and Financial Code, we have:

- performed a limited review of the SergeFerrari Group condensed consolidated financial statements covering the period from January 1 to June 30, 2018, as attached hereto;
- verified the information given in the half-year activity report.

The half-year condensed consolidated financial statements have been prepared under the responsibility of the Board of Directors. Our responsibility is to express our opinion on these financial statements on the basis of our limited review.

I - Opinion on the financial statements

We have conducted our limited review in accordance with professional standards applicable in France.

A limited review consists primarily of making inquiries of management responsible for accounting and financial matters and applying analytical procedures. The work is of limited scope compared to the work required for an audit performed in accordance with auditing standards applicable in France. Accordingly, the assurance under a limited review that the financial statements, taken as a whole, are free from material misstatement, is moderate and less than that provided by an audit.

On the basis of our limited review, we did not identify any material misstatements that may suggest that the interim financial information in the half-year condensed consolidated financial statements does not comply with IAS 34 - Interim Financial Reporting, as adopted by the European Union.

Without qualifying the foregoing conclusion, we hereby draw your attention to Note 3 entitled "Valuation and consolidation principles" to the half-year condensed consolidated financial statements, which presents the impacts of changes in accounting methods relating to the first-time application of IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments" as from January 1, 2018.

II – Specific testing

We have also verified the information provided in the half-year activity report commenting on the half-year condensed consolidated financial statements on which we performed our limited review.

We have no comments on the report's fairness and its consistency with the half-year condensed consolidated financial statements.

Lyon and Villeurbanne, September 11, 2018

The Statutory Auditors

**CABINET MARTINE
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