ses imagotag

Half-Year Report

2019

Summary

1.1 2019 Half-Year Result

Pursuant to European Regulation on international accounting standards, the consolidated financial statements of the SES-imagotag Group for the period ended June 30th, 2019 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable on this date as approved by the European Union, as of the closing date of these financial statements.

1.2 Major KPIs

One of the group major criteria to manage performance measurement is EBITDA.

EBITDA is not a standard criteria, with a unique and generally accepted definition: it cannot be considered as a substitute for operating result, net result, cash flows from operating activities nor a liquidity measure. Other companies could use a different definition for EBITDA. Please find here under a bridge between operating income and EBITDA:

	As of,	
	June 30, 2019(*)	**June 30, 2018**
Operating Income (EBIT) *reported*	**(3,9)**	**(6,5)**
- Goodwill amortization	(0,4)	(0,4)
- Equity / debt / M&A related fees	(0,3)	(0,5)
- Restructuring expenses	(0,1)	(0,6)
= Current EBIT	**(3,1)**	**(5,0)**
- Fixed & Intangible Asset Depreciation Expense	(6,2)	(5,1)
= EBITDA *reported*	**3,1**	**0,1**

(*) financial statements as of June 30th 2019, include IFRS 16 impacts

1.3 Comments on Financial Results

Sales and Order Entries

SES-imagotag recorded the best half-year in its history with sales of €121 m, up +50% year-on-year compared to the first half of 2018, and + 13% compared with Second Half of 2018. Growth was strong both in France (+ 27.9%) and internationally (+ 59.8%).

On a 12-month rolling basis, sales also reached a record level of €229 m (+ 65%).

Half-year order intake came in at €123 m, down -10.6% from the record levels of H1 2018. This is the company's second best half-year ever in terms of orders booked, and, in contrast to the performance in 2018, the orders are spread over a large number of accounts and geographies, contributing to a solid and balanced foundation for future growth.

Year-on-year, order intake amounted to €237 m, maintaining the high level achieved in the same period last year and remaining at a level consistent with our growth objectives.

International Development

In China, following the announcement dated May 17th, 2019, of the JV project with BOE and JD Digits, work continued during the summer and resulted in the establishment of a legal entity, a 51% subsidiary of SES-imagotag, and the setting up of a strong team of nearly 50 people covering commercial, operational, R & D and support functions. The number of customers is growing and work has started on the development of high value-added IoT retail solutions tailored to the specific needs of the Chinese market, which is characterised by rapid change and a high level of of innovation.

In Asia, activity in Japan is also developing thanks to the strategic partnership with Panasonic, as well as in Oceania.

In North America, the technological advance of the VUSION platform and the important technological partnerships that have been in place since 2018 facilitated the strengthening of cooperation with a growing number of major US accounts. Some deployments have already started at the end of the half or are in the start-up phase.

These development efforts in Asia and the Americas are beginning to pay off in line with the Group's business plan, with sales outside Europe expected to be close to 20% of total sales in the second half, and more than 25% in 2020.

€m	H1 2019			H1 2018
	After IFRS 16 impact	*IFRS16 impact*	*Before IFRS 16 impact*	
Sales	**121.4**		**121.4**	**81.1**
Variable cost margin	**25.6**		**25.6**	**21.1**
% of revenues	*21.1%*		*21.1%*	*26.0%*
Opex	*(22.5)*	*1.1*	*(23.6)*	*(21.0)*
EBITDA	**3.1**		**2.0**	**0.1**
% of revenues	*2.6%*		*1.7%*	*0.1%*
Depreciation and amortization	*(6.2)*	*(1.1)*	*(5.1)*	*(5.1)*
Other non recurring or non cash items	*(0.8)*		*(0.8)*	*(1.5)*
Operating Result	**(3.9)**		**(3.9)**	**(6.5)**
% of revenues	*-3.2%*		*-3.3%*	*-8.0%*
Financial result (loss)	*(1.0)*	*(0.2)*	*(0.8)*	*(0.0)*
Tax	*(0.0)*		*(0.0)*	*1.9*
Net Result/ (Loss)	**(4.9)**		**(4.8)**	**(4.7)**
% of revenues	*-4.0%*		*-3.9%*	*-5.8%*

Variable Cost Margin impacted by the rise of the dollar

In the First Half of 2019, the Variable Cost Margin increased by €4.5 m euros driven by the growth in activity of +50% compared to the First Half of 2018.

Despite that increase in absolute terms, the ratio of the Variable Cost Margin to Revenues was down by 4.9 points from 26% in the First Half of 2018 to 21.1% in the First Half of 2019. This decrease is explained by:

- The rise in the dollar against the euro, which accounted for nearly 3 points in the drop in the margin rate.
- The smaller share of higher margin service revenues in the overall mix. While recurring revenue from high-margin services is increasing both in value and as a percentage of total revenue, H1 2019 includes a lower amount of installations revenues.
- In total, excluding currency effects, the drop in the margin rate was -1.9 points.

Ratio of operating expenses down because of improvement in operational leverage

Current operating expenses on a like-for-like basis, i.e before taking into account the impact of the new IFRS 16 Standard, increased from € 21 m to € 23.6 m between the First Half of 2018 and the First Half of 2019, i.e. an increase in value of 12% (€2.6M). The increase is entirely accounted for by the increase in personnel costs while other expenses have remained stable between the two periods.

The growth in staff costs is mainly due to an increase in staffing of the Project Management and Sales functions and has been driven by need to support the international expansion of the company, which is accelerating (international sales up + 86% in H1), and to serve the North American market where the Group has been engaged for several months in several intensive pilot phases with major US retailers.

The Operating Expense Ratio improved substantially, from 25.9% of revenue in H1 2018 to 19.4% in H1 2019, an improvement of 6.5 points. As the Group has stated in the past, EBITDA margin growth should partly come from the better absorption of operating expenses by higher revenues (operating leverage). This is the case in the First Half of 2019.

In total, taking into account the combined effects of the improvement in the current expense ratio, the deterioration in the margin rate mainly due to currency effects, as well as the impact of the inclusion of €1.1 m of IFRS 16 impact, EBITDA was €3.1 m or 2.6% of sales, compared with €0.1 m in H1 2018.

There was a loss of €-3.9 m at Operating level against a loss of €-6.5 m, an improvement of + €2.6 m.

Net income was comparable to the previous year, a loss of 4.9 M euros. It was mainly impacted in the First Half of 2019 by:

- Absence of any further expected tax losses in 2019 that could have been resulted in allowances against deferred taxes as was the case in prior years;
- Absence of positive gains on foreign exchange transactions compared with prior years where gains on such transactions had a positive effect on the financial result.

1.4 Comments on Cash and Debt for the period ending June 30, 2019

Strong improvement in Operating Cash Flow

As a result of the improvement in EBITDA and Net Working Capital (NWC), in the First Half of 2019, Operating Cash Flow was positive (+ €5 m), a clear improvement on H1 2018 (- €24.3 m). This good performance, in the context of strong top-line growth, was a result of better management of the customer cycle and stock levels.

The increase in Capex by nearly €1.5m between the H1 2018 and H1 2019 is largely a result of the increase in new R & D projects and the capitalized cost of new staff hires. The Financial Investments correspond to the earn-outs paid on the acquisitions of PDi and Findbox.

At end-June 2019, and before IFRS 16 impact, Net Cash amounted to €18.9 m compared to €-17.4 m at the end of December 2018, representing a net consumption of €1.5 m during the half-year.

in €M ***(before IFRS16 impact)***	***H1 2019***	***H1 2018***	**FY 2018**
EBITDA	*2.0*	*0.1*	6.5
Capex	*(7.4)*	*(5.9)*	(13.3)
WCR Variation	*10.3*	*(18.5)*	(17.4)
Operating Cash-flow	***5.0***	***(24.3)***	***(24.2)***
Financial Investments	*(3.9)*	*(2.5)*	(3.3)
Financial Result	*(0.8)*	*1.5*	(1.5)
Capital increase	*0.1*	*26,0*	26.0
Others	*(1.8)*	*(1.0)*	(1.0)
Change in Net Debt *before IFRS 16*	**(1.5)**		
Cash/ Net Debt	**(18.9)**		**(17.4)**
Cash available	25.9		29.5
Debt (before IFRS 16 impact)	(44.8)		(46.9)
Debt (after IFRS 16 impact)	*(52.1)*		
Change in net Cash (Debt) before IFRS16	***(1.5)***		

1.5 Post closing event

New bond issue

On July 22 2019, as part of a private placement with institutional investors, SES-imagotag carried out a new bond issue of €10m, bearing interest at 4.55% per year and maturing in 2025. The interest rate is likely to be revised and decreased according to the consolidated lever value. Nominal value of a bond is €10K. Moreover, the agreement makes the way for a potential second €10 m bond issue in a 12 months time-frame, same conditions would apply.

The net proceeds from issuing bonds will be allocated to financing the group's overall needs.

Joint Venture in China

In China, following the announcement dated May 17th, 2019, of the JV project with BOE and JD Digits, work continued during the summer and resulted in the establishment of a legal entity, a 51% subsidiary of SES-imagotag, and the setting up of a strong team of nearly 50 people covering commercial, operational, R & D and support functions.

1.6 Outlook

SES-imagotag expects revenue growth of around + 30% for the 2019 financial year and anticipates an acceleration of growth in 2020 to reach a turnover of around € 400m, thanks in particular to the take-off of the activity outside Europe, which should represent a quarter of total Sales in line with the VUSION Plan 22.

2.1 Risk factors and uncertainties

2.1.1 Risks associated with economic conditions and their developments

Changes in demand for products offered by the Group are generally linked to changes in macroeconomic conditions, in particular changes in gross domestic product in the countries where the Group markets its products and services. In general, periods of recession or deflation are likely to have a negative impact on consumer demand and spending. As of the filing date of this registration document, growth in the European Union remains limited and the International Monetary Fund's forecasts for the coming year are cautious (1.3% in the European Union for 2019 and 3.2% worldwide (source: IMF, World Economic Outlook, July 2019).

Moreover, the introduction or increase of customs barriers and other trade restrictions by certain countries, such as the measures announced by the United States government in the spring of 2018, could trigger a slowdown in world trade, which could have a negative impact on the growth of the world economy, and thus have an adverse effect on the Group's business. Moreover, to the extent that a significant portion of the Group's products are assembled by ESMs located in China, the increase in customs barriers referred to, above, is liable to affect the Group's exports of these products to the United States, even though they represent, at the date of this registration document, a minor part of the Group's business. To limit its impact, the Group intends to have products intended for export to the United States assembled by an EMS located in Vietnam.

In addition, during periods of economic recession, some of the Group's customers may experience financial hardship that may result in late payments or even unpaid bills.

If the current economic situation were to deteriorate, this could have a significant negative impact on the Group, its business, financial position, results and outlook.

2.1.2 Competition risks

The Group faces fierce competition from various players.

The Group faces internationalization by players from emerging countries, particularly new Asian entrants, seeking to acquire market share rapidly, and the entry of major businesses that previously specialized in the production of electronic goods and wish to penetrate the digital signage value chain (see paragraph 1.6 "Markets and competitive position" of this registration document).

The competition the Group faces requires it to make continuous efforts, including financial, to ensure the continuation of its external growth policy, to acquire new technologies to accelerate the development of its growth strategy and to drive the necessary technological developments. These efforts may in particular require significant investments in new technologies and new products.

The group has activated €5 207K R&D expenses booked as intangible asset in progress, during H1 2019.

Despite these research and development efforts by the Group, competitive intensity on the market has increased in recent years, with a strong pressure on prices, due in particular to the increasing size of Requests for offers (they can now exceed €200 million, whereas until recently they were systematically under €100 million). In that context, players that offer fewer technological products than the Group but that are more financially competitive may in some cases prove to be better positioned than the Group.

In addition, new players seeking to enter the market with very low-cost offers may be a source of increased competition for the Group.

Therefore, despite these efforts, if the Group did not have sufficient financial resources or the necessary skills, particularly in a context of technological change, to preserve the quality and added value of its products, or if the Group's customers did not appreciate the quality and added value of its products, especially if compared to those of its competitors, or if these products did not meet their expectations, the Group's business and financial results could be significantly affected.

Such competitive pressures could result in a decline of demand for the products supplied by the Group, and force it to reduce its sales prices or make major investments, particularly in innovation and research and development, in order to maintain the level of product quality and performance expected by its customers, which could have a significant negative impact on its business, financial position, results or outlook.

In addition, a consolidation by the by the various market players in which the Group operates, in particular its customers in the mass retail sector, whether international, national, regional or local, could change the competitive landscape of the electronic labelling industry and lead to price pressure, loss of market share, a decrease in the Group's sales and/or a decline in its profitability, which could have a significant negative impact on its business, financial position, results or outlook.

2.1.3 Risks associated with changes in technologies and industry standards

The Group must maintain the ability of its organization to evolve rapidly, in order to adapt to technological developments and customer demand. The Group might not invest in products and services adapted to the demand at competitive prices and might not be able to adapt its products and services, costs and organization in a timely manner, or it might encounter difficulties in carrying out certain critical projects. The occurrence of one or more of these risks may have a material adverse effect on the Group's business, financial position, results or outlook.

2.2 Risks associated with the activities of the Group

2.2.1 Risks associated with the development strategy of the Group

The Group's financial performance and the success of its strategy will depend on several factors, in particular its ability to:

- grow sales of the traditional electronic labelling solutions business, both in mature markets and on international markets where solutions offered by the Group are currently being adopted;
- grow sales of services, in particular through the development of rental contracts for solutions offered by the Group and the marketing of the product range of these value-added services;
- grow sales associated with the development of new verticals and new non-food markets;
- control the Group's operating and development costs during periods of very strong commercial growth;
- increase benefits and synergies expected from its various partnerships (see paragraph 2.2.5 below);
- enter into distribution agreements with distributors based locally in the United States in order to continue its development in this market.

If the Group is not able to achieve these business development objectives, this could have a material adverse effect on the Group, its business, financial position, results or outlook.

In addition, the Group's business, results and financial position or out- look could be significantly affected:

- if the Group did not achieve all or part of the objectives set in terms of commercial growth and industrial cost savings;
- if market prices for electronic la- bels were to fall significantly and continuously;
- if the growth of the demand for the Group's solutions were to slow significantly due in particular to an unfavorable economic trend that could result in a significant drop in consumption (some customers and prospects have to regularly abandon or postpone their SES-imagotag solution equipment projects due to limited investment budgets).

2.2.2 Risks associated with doing business in different countries

The Group does business in over 50 countries around the world, with the intention to continue growing its operations in China, Russia, the Middle East and in the countries of Southeast Asia.

The primary risks associated with doing business internationally are:

- the local economic and political situation;
- exchange rate fluctuations;
- restrictions on capital repatriation;
- unexpected changes in the regulatory environment;
- the various tax systems, especially regulations on the determination of transfer prices, withholding taxes on remittances and other transfers made by holding companies and subsidiaries;
- import restrictions;
- customs duties, inspections of exported products and services and other trade barriers.

The Group may not be able to protect itself or hedge against these risks and may encounter difficulties in carrying out its activities in these countries, which could have a material adverse effect on the Group's business, financial position, results or outlook.

2.2.3 Risks associated with the dependence on suppliers and the supply and cost of components

The Group outsourced all of the production of its hardware (electronic labels) to top-tier industrial partners that specialize in electronic product assembly (external manufacturing services, or EMS), including in particular BOE, its main shareholder. In the event of an increase in demand or if the Group needs to replace an existing EMS, it may not be certain that additional production capacity exists or is available on acceptable terms. In addition, the use of new production units may result in production delays and additional costs for the Group due to the time it will have taken to train new EMSs in the Group's methods, products, and standards regarding quality control, work, environmental footprint, health and safety. Moreover, production at one or more EMSs could be interrupted or delayed, temporarily or permanently, due to economic, social or technical problems, in particular the insolvency of an EMS, the failure of production sites or an interruption of the production process due to social movements beyond the Group's control (see also paragraph 2.2.4 below "Risks related to production delays in the new VUSION product range"). Any delay or interruption in the production of the Group's products could have a material adverse effect on its business, results, financial position or ability to achieve its objectives.

The Group also depends on the proper supply of electronic components in order to carry out industrial scheduling with these EMSs. The failure of one or more component suppliers, including as a result of social unrest, unexpected stockouts, quality defects, export restrictions or sanctions and, more generally, any disruption in supply, in particular due to pressure on the supply of electronic components as a result of the strong growth experienced by the electronic goods sector in general, could alter the Group's production capacities or lead to additional costs that could have an adverse impact on its business, results, financial position or outlook.

Finally, most of the contracts concluded by the Group with its customers do not provide for an automatic price adjustment mechanism in the event of an increase in the cost of components. In the absence of any contractual price adjustment mechanism, the Group then seeks to renegotiate its selling prices with its customers when placing orders or renewing contracts in order to pass on, in whole or in part, the increase in component costs, with the result that there is a more or less long-time lag. Any significant upward change in component costs, due in particular to supply constraints or a concentration of the Group's suppliers, could therefore, if the Group were not able to pass it on to its customers within a reasonable period of time, have a material adverse effect on the Group's business, financial position, results and outlook.

2.2.4 Risks related to production delays in the new VUSION product range

Part of the production of the Group's new VUSION range is subcontracted to the new industrial partner and majority shareholder of the Group, BOE, at the BOE industrial site located in Chongqing. As a result of delays in the commissioning of the production lines at this site, the Group delayed deliveries of its new VUSION range to its customers du- ring the first half of 2018, resulting in a significant drop in its revenue compared to the first half of 2017. The Chongqing industrial site is now operational, and the Group has also outsourced part of the production of the VUSION range to a second player to be able to meet pro duction needs from 2019 onwards. However, it cannot be ruled out that the Group may once again encounter difficulties in supplying products in the VUSION range due to production difficulties encountered by the above-mentioned subcontractors. This could delay deliveries to its customers, resulting in a decrease in the Group's revenue, which could have a significant negative impact on its business, results, financial position and ability to achieve its objectives.

2.2.5 Risks associated with partnerships

As part of its activities, the Group has entered into a number of strategic partnerships, particularly in China with BOE Smart Retail (Hong Kong) Co. Limited, a shareholder holding 74,39% in the Company as of 12.31.18, Yuen-Yu Investment Co. Ltd, (renamed after the name Yuanhan Materials Inc in 2019) a subsidiary of the E-Ink Holdings Inc. Group, a shareholder holding 5.98% as of 12.31.18.

In taking certain decisions, the Group may be required to seek the agreement of its partners, whose interests may not be aligned with its own.

In addition, if one of the Group's partners encountered financial difficulties, modified its strategy or wished to terminate these strategic partnerships, or, more generally, in the event of a disagreement on the terms of the partnership, this could have a material adverse effect on its business, its financial position, results and outlook.

2.2.6 Acquisition risks

As part of its development policy, the Group has carried out external growth operations (in particular through acquisitions of businesses or companies). Although the Group examines and appraises all investment projects following a very strict procedure, it cannot guarantee that the assumptions underlying the profitability of investment projects will materialize or that it will successfully integrate acquired or merged companies. Indeed, the integration of acquisitions, particularly if they are of a significant size, may require a complex, time-consuming and costly process and involve a number of risks, including bearing the costs and expenses to deal with unforeseen events, management's distraction from day-to-day operations, increased mobilization of management teams due to the increase in business volume and scope as a result of the acquisition. Furthermore, the Group cannot guarantee that an acquisition will generate the expected synergies, the expected cost savings, an increase in earnings and cash flow, improved operational efficiency and, more generally, any benefits that the Group would expect. If the Group fails to effectively integrate a new acquisition, it may have an adverse effect on its business, financial position, results, development and outlook.

2.2.7 Risks associated with dependence on customers

While the Group's revenue is broadly distributed among a large number of customers, some of them account for a significant share of its total sales. For the twelve months ending 31 December 2018, the Group's ten largest customers accounted for nearly 54% of the Group's consolidated revenue, and the Group's largest customer accounted for approximately 9% of the Group's consolidated revenue. The loss of or reduction in business activity from one or more of these customers, a concentration of the players in the industry in which they operate or the failure of one of these customers could cause the Group's revenue to decrease proportionally, which may have a material adverse effect on the Group's business, financial position, results or outlook.

2.2.8 Risks associated with defective products

The Group may occasionally be confronted with a manufacturing defect, a malfunction or an assembly of defective components in any of the Group's products and systems, which could lead to liability claims of varying importance that could damage the Group's reputation and have significant financial consequences. In this context, the Group has seen, or may or will see a recall of some of its products, or may have to adapt or replace the relevant equipment.

Such complaints can damage the reputation and quality image of the products involved and therefore damage the image and reputation of the Group. In addition, the costs and financial consequences associated with these claims are likely to have a material adverse impact on the Group's business, results, financial position and ability to achieve its objectives.

2.2.9 Risks associated with technologies and data security

The Group can be a victim of computer attacks (viruses, denial of service, etc.), technical failures resulting in the unavailability of computer tools, or data theft. The occurrence of any of these events could have a negative impact on the business and performance of the Group.

The introduction of new technologies (Cloud Computing), the development of industrial control systems and the development of new uses, including social networks, expose the Group to new threats. Computer attacks and attempts to gain unauthorized access are increasingly targeted and carried out by true specialists who can target the Company as well as its private or public customers and partners. More generally, systems' failures could lead to loss or leakage of information, delays or additional costs that could harm the Group's strategy or image.

Despite the procedures put in place by the Group, it cannot guarantee coverage of these technological and IT risks and could encounter difficulties in carrying out its activities in the event of the occurrence of one of them, which could have an adverse impact on the Group's business, results, financial position and ability to achieve its objectives.

2.2.10 Risks associated with corruption and ethics

In the course of its activities, the Group may face risks associated with corruption, particularly in some of the emerging countries in which it operates. The Group ensures that all its employees act in compliance with applicable laws and regulations and the values of integrity and respect for internal and external standards that form the basis of its culture.

However, it cannot guarantee that its employees, suppliers, subcontractors or other business partners will comply with the strict requirements it imposes or with the regulations in effect. Any behavior that contradicts these values or regulations, despite the Group's efforts, could seriously engage the Group's liability and have repercussions on its reputation, which could have a significant negative impact on its business, financial position, results or outlook.

2.2.11 Risks of new financing needs in euros and in foreign currencies

The Group cannot guarantee the availability of adequate financing at the appropriate time, which could have an adverse impact on its development capacities and thus have a material adverse effect on its business, financial position, results or outlook.

2.3 Risks associated with the Company

2.3.1. Risks associated with relations with the majority shareholder

BOE Smart Retail (Hong Kong) Co. Limited (a company ultimately controlled by BOE Technology Group Co, Ltd., a company incorporated under Chinese law) (“BOE”), in its capacity as majority shareholder holding 74.36%, as of 06.30.19, of the share capital and voting rights that can be exercised at the Company’s General Shareholders’ Meeting, exercises a significant influence on the Company in that it alone possesses a sufficient number of voting rights to adopt all resolutions submitted to the Company’s Ordinary General Shareholders’ Meeting (such as resolutions pertaining to the appointment and removal of directors, distribution of dividends and the approval of the financial statements) and to the Company’s Extraordinary General Shareholders’ meeting (such as resolutions pertaining to a merger, partial contribution of capital, capital increase or any other amendment to the Articles of Association). In addition, 5 of the 9 members of the Board of Directors (excluding employee representatives) are appointed by BOE. Although this holding will decrease due to the capital increase announced by the Company, BOE will retain control over decisions of the Company’s General Shareholders’ Meeting after the increase.

It is possible that BOE’s interests and objectives are not always aligned with those of the Company or its other shareholders.

Lastly, the BOE group or companies it controls are likely to acquire companies carrying on activities that are in direct competition with those of the Group or that maintain business relations with the Group.

2.3.2 Risks associated with human resources

SES-imagotag is a growing and diversifying Group, offering new ways for using display solutions, store management and the use of available price and product data. The Group’s strategic plan for 2022, aims to make the Group a leader in omnichannel electronic display solutions. To this end, and against the backdrop of a competitive and evolving technology industry, it is critical to attract, develop and retain the necessary skills.

The Group must therefore position itself to respond to a series of qualitative and quantitative challenges in terms of talent management:

> reinforce its pool of the skills – especially technical (including in software engineering) – it needs to sustain growth and enable it to deliver an array of new, value-added services at a global scale;
> identify, attract, train, retain and motivate qualified personnel;
> strengthen leadership capabilities at all levels to support its growth and ongoing transformation;
> effectively on-board new employees, especially in the case of acquisitions.

For the Group, it is a matter of looking ahead and planning for the acquisition and development of the skills it will need for future success, with the risk being not to have them at the right time to drive its strategy. If the Group does not meet these human resources challenges, a key factor in its development, this could have a significant adverse effect on its business, financial position, results or outlook.

2.3.3 Risks associated with major projects and comparability of results

Although a part of the Group's revenue is generated by recurring activities, such as maintenance operations or the renewal of existing customer equipment, the Group may also supply its products for the needs of major customer projects, such as the provision of electronic labels for the entire network of a customer's stores. These major customer projects may thus result in peaks in activity, causing a significant increase in revenue over a financial year, which would not be repeated in subsequent financial years, and may then imply significant variations in the Group's consolidated revenue, either upward or downward. Consequently, comparisons of the Group's results from one period to another are not necessarily representative of the trend of the Group's future results. In addition, these major projects may be delayed or, in some cases, not be completed, which can have a material adverse effect on the Group's business, results, financial position and outlook.

2.3.4 Risks associated with management teams

The Group's success depends to some extent on the continuity and skills of its management team, which is formed around Mr. Thierry Gadou. In the event of an accident or the departure of one or more of these managers or other key personnel, their replacement could prove difficult and could affect the Group's operational performance. More generally, there is strong competition for senior management, and the number of qualified candidates is limited. The Group may not be able to retain some of its executives or key personnel, or in the future not be able to attract and retain experienced executives and key employees. In addition, if the Group's managers or other key employees join a competitor or create a competing business, the Group could lose some of its know-how, and the risk of losing customers could increase. These circumstances could have a material adverse effect on the Group's business, financial position, results and outlook.

2.4 Market risk

2.4.1 Liquidity risk

Liquidity risk is the risk of not having the necessary funds to meet one's commitments when they are due. It concerns, on the one hand, the risk that assets cannot be sold quickly under satisfactory conditions if necessary, and, on the other hand, the risk of early repayment of liabilities or non-access to credit under satisfactory conditions.

With regard to financial assets, all of the Group's marketable securities consist of term accounts.

With regard to financial liabilities, most of the Group's debt (apart from IFRS 16 impact) consists of a bond issue with a total nominal amount of €40 million, maturing in 2023, bearing interest at a fixed rate of 3.5% per annum. The bond issue provides that it will become due if the consolidated leverage ratio, which refers to the ratio between net financial debt and gross operating result, becomes less than 3.5.

See also note 11 of the Notes to the consolidated financial statements of the Group.

2.4.2 Risks associated with the interest rate

At the date of this report, most of the Group's debt consists of

- One €40m bond issues, with a maturity date in 2023 and bearing interest at a fixed rate (3.5% per annum)
- One €10m bond issue, signed in July 2019, with a maturity date in 2025 and bearing interest at a fixed rate (4.55% per annum) – that interest rate may be adjusted according to the debt ratio lever. That same agreement plans for a potential second €10m tranche, under the same conditions.

The Group's exposure to interest rate fluctuations is therefore limited.

2.4.3 Risks associated with the exchange rate

The Group is highly exposed to fluctuations in the EUR/USD exchange rate, with a large proportion of its sales denominated in euros and a majority (approximately 80%) of its component and production costs denominated in US dollars. Consequently, upward variations in the US dollar automatically result in an increase in the cost of sales in euros. Such changes could have a material adverse effect on the Group's business, results, financial position or outlook.

2.4.4 Credit and counterparty risk

Credit and/or counterparty risk is the risk that a party to a contract with the Group will default on its contractual obligations resulting in a financial loss to the Group.

Financial assets that could expose the Group to credit and/or counterparty risks are mainly receivables from its customers (in particular in the event of non-payment or failure to meet payment deadlines) and financial investments. The occurrence of one or more of these risks may have a material adverse effect on the Group's business, financial position, results or outlook.

2.5 Legal and compliance risks

2.5.1 Risks associated with litigation and ongoing investigations

the normal course of doing business, the Group may be involved in a number of administrative or judicial proceedings for which it may be held liable on different grounds.

Tax litigation

During previous financial years, Group companies were subject to tax audits, and sometimes to proposed corrections. The financial consequences of these tax charges are recognized by way of provisions for amounts notified and accepted or considered likely to result in an outflow of resources and which can be reliably determined.

The Group periodically reviews the estimate of this risk in the light of changes in controls and disputes and considers that no ongoing controls will have a significant impact on its financial position or liquidity.

Commercial and labor disputes

Disputes are regularly reviewed by the Group's Legal Department and are covered by provisions when the Group considers that it is probable that an outflow of resources will be required to cover the risk incurred and that a reliable estimate of this amount can be made. Inapplicable reversals stem mainly from the resolution of these disputes, for which the Group has been successful or for which the actual amount of the loss has been lower than its estimated amount.

As at 30 June 2019, the Group set aside provisions for commercial and labor disputes, as described in note 10 to the Group's consolidated financial statements.

As of the date of this report, the Group is not aware of any other governmental, legal or arbitration proceedings (including any proceedings of which the Group is aware, which are ongoing or of which the Group is threatened) that may have or have had, during the last twelve months, material effects on the financial position or profitability of the Company or the Group.

2.5.2 Risks associated with compliance with regulations, particularly environmental regulations and their developments

The Group's activities are subject to various regulations, in particular with regard to the compliance and compatibility of the products it sells with their own regulations, as well as industrial, safety, health and environmental standards. The environmental risks associated with the Group's business are mainly due to increasingly stringent environmental laws and regulations.

The provisions on the removal and treatment of end-of-life electrical and electronic equipment are increasingly stringent and their application is subject to ever more rigorous and frequent controls, particularly in the context of the European Parliament's Directive 2012/19/EU and of the Council of 4 July 2012 on waste electrical and electronic equipment ("WEEE").

Despite the procedures implemented by the Group and the fact that the environmental risks are not limited to the Group's business, it cannot guarantee environmental risk coverage and could encounter difficulties in carrying out its activities in the event of the occurrence of any of them, which could have an adverse impact on the Group's business, results, financial position and ability to achieve its objectives.

More generally, in the event of non-compliance with the laws and regulations applicable to it, the Group could be fined, and the authorities could even prohibit the placing of marketed products on the market. These standards are complex and subject to change and, although the Group pays particular attention to compliance with applicable regulations, it cannot exclude any risk of non-compliance. The Group could also incur significant costs in order to comply with regulatory changes and cannot guarantee that it will always be able to adapt its activities and organization to these changes within the necessary time limits. In addition, changes in the application and/or interpretation of existing standards by administrations and/or courts are also likely to occur at any time.

The Group's inability to comply with and adapt its activities to new national, European and international regulations, recommendations and standards could have a material ad- verse effect on its business, results, financial position and outlook.

2.5.3 Risks associated with taxation and its developments

The Group is subject to complex and evolving tax legislation in the various countries in which it operates. In particular, because of its international activity, it is subject to transfer pricing rules, which can be particularly complex and subject to divergent interpretations. Changes in tax legislation could have a material adverse effect on its tax position, its effective tax rate or the amount of taxes and other levies to which it is subject, as well as on its reporting obligations. In addition, the tax regulations of the various countries in which the Group operates are subject to very different interpretations. The Group is therefore not in a position to guarantee that the tax authorities involved will agree with its interpretation of the applicable legislation. Furthermore, tax laws and regulations or other compulsory levies may be changed and their interpretation and application by the jurisdictions or administrations involved may change, in particular in the context of joint initiatives taken at international or Community level (OECD, G20, European Union). Specifically, the ongoing incorporation into French tax legislation of

(i) the principles set out by the OECD on base erosion and profit shifting ("BEPS"),

(ii) the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS of 7 June 2017,

(iii) the rules provided in the Council Directive (EU) of 12 July 2016 establishing rules against tax avoidance practices that directly affect the functioning of the internal market ("ATAD") and

(iv) the provisions provided for in the proposal for a directive to establish a common consolidated corporate tax base ("CCCTB") could increase the corporate income tax burden on the Group. A challenge to the Group's tax position by the relevant authorities could result in the Group paying additional taxes, potentially significant reassessments and fines or increasing the costs of its products or services for the purpose of collecting such taxes, which could have a material adverse effect on its business, results, financial position and outlook.

2.5.4 Risks associated with intellectual property

The intellectual property risk to which the Group is exposed is the risk of counterfeiting, whether suffered or active.

Infringement may be committed by third parties against patented products or industrial processes. These actions are likely to have an immediate impact on the Group's sales and earnings and may damage its reputation and, where applicable, the quality image of the products concerned.

Infringement could also be an involuntary act of the Group, particularly given the risk associated with the length of time during which patent applications are not made public. Patent applications filed by third parties and known only at the time of their publication could affect ongoing developments or even products recently launched on the market due to the continuous shortening of development times. This situation would force the Group to modify the product and thus increase the research and development costs of the project, or to negotiate rights to use the patented element. In either case, the margin of the project would be affected. The Group may also be subject to claims from patent trolls, particularly in the United States and Russia and in the field of new technologies.

The occurrence of an act of counterfeiting of which the Group is a victim or which is attributable to it could have a significant negative impact on its reputation, business, financial position, results and outlook.

From a financial perspective, based on the risk analysis carried out at the filing date of this registration document and in accordance with applicable accounting standards, no provision has been recorded in the consolidated financial statements as at 30 June 2019.

2.5.5 Risks associated with changes in IFRS accounting standards

The Group's consolidated financial statements are prepared and presented in accordance with IFRS (International Financial Reporting Standards) international accounting standards. Any change in these accounting standards could have a material impact on the presentation of the Group's results and financial position. Some IFRS standards have recently been revised by the International Accounting Standards Board ("IASB").

IFRS 16 standard "lease agreements" has been implemented for the first time as of January 1st 2019, (replacing IAS 17 standard): impacts on this first Half 2019 are described in paragraph II.1.1. in the Appendixes to the financial statements enclosed in this report.

Other than these new standards, the IASB may adopt new changes or supplements to IFRS in the future, which the Group must then adopt, and which could have a significant impact on the presentation of its results and financial position.

2.6 Insurance and risk management

2.6.1 Insurance policy

The Group implements a policy aimed at obtaining external insurance coverage to cover the risks of the company and its employees that can be insured at reasonable rates. It considers that the nature of the risks covered, and the guarantees offered by these insurances are in line with the practice adopted in its business sector.

The Group's insurance program includes the following insurances:

- General and product liability;
- Cyber risk;
- Property Damages
- Business Interruption;
- Cargo policy;
- Civil liability for the company's officers.

2.6.2 Risk management policy

The company, regarding risk management policy, is referring to the AMF framework dedicated to the small and medium sized listed companies (VaMP's) published in 2008.

This global objective is met through the financial dept. reporting and processes, the auditing companies audit missions as well as the audit committee meetings.

Among the aims can be found the proper independence of directors and a convenient CEO remuneration, consistent with the company's strategy: those are carefully looked at during the remuneration and appointment committee meetings, taking place generally speaking, twice a year, to appraise the CEO performance and come up with his variable remuneration.

In general terms, one of the objectives of the internal control system is to prevent and control risks resulting from the Group's activity and the risk of errors or fraud, particularly in accounting areas.

For example, internal action plans and policies implemented to manage the risks identified by the Group include:

> Risks associated with economic conditions and their development. In order to limit the negative impact of adverse economic conditions on its activities, the Group is implementing a growth strategy aimed at benefiting from the trend towards the increasing digitalization of stores, by offering its customers the most innovative products at high quality standards, while offering a wide range of services aimed at reducing the total cost of ownership of equipment for its customers.

> Risk of not achieving the planned objectives. To limit this risk, the Finance Department prepares monthly performance analyses and periodic forecasts, and regularly informs the Board of Directors of performance and possible deviations.

> Risks associated with doing business in different countries. To limit this risk, the Group is vigilant regarding export incoterms and payment terms, particularly in African countries, the Middle East, Southeast Asia and Eastern Europe. The Group further manages this risk by geographically diversifying its activities in developed as well as in emerging markets, thus blending exposure to potential risks in a given country.

> Risks associated with dependence on suppliers and component procurement. The Group currently works with some of the world's leading subcontractors of electronic sub-assemblies, which account for the vast majority of production at sites around the world. If necessary, this global system makes it possible to switch production from one EMS to another in the event of the failure of one of them. As the risk of a shortage of electronic components is a clearly identified risk in the electronics industry, the Group is particularly vigilant in monitoring its industrial forecasts, and regularly ensures their consistency during "Pipe Reviews" by reconciling them with commercial forecasts, thus preventing any risk of component shortages. In order to best anticipate the risks of supply disruptions due to shortages, supplier failures or natural hazards, a multi-sourcing policy for components is systematically applied whenever possible, and in some cases safety stocks are built up for critical components. In addition, some strategic suppliers are required to have two production sites for sensitive components.

> Risks related to production delays in the new VUSION product range. In 2018, the Group signed a subcontracting contract with a second player in order to limit the risk of production delays from 2019, with volumes to be treated equally between BOE and this second subcontractor.

> Risks associated with dependence on customers. To limit this risk, the Group seeks to maintain a diversified portfolio of customers and to have a significant basis of equipment installed with its existing customers, thus making it possible to derive part of its revenue from the renewal and maintenance of electronic labels carried out by its customers, characterized by recurring revenues.

> Risks associated with technologies and data security. The IT Department is responsible for securing networks and systems, on the one hand, and the applications necessary for the continuity of the Group's business, on the other hand, and regularly performs intrusion tests or backups. In addition, the Group implements security measures for its information systems adapted to the identified risks. Together with the internal control and safety policy, these organizational, functional, technical and legal security measures are subject to annual controls.

> Risks associated with corruption and ethics. An employee awareness and training program dedicated to ethical/anti-corruption themes was developed by the Group during the last quarter of 2017 on its e-learning platform.

> Risks associated with the transformation of the Group in terms of human resources. A number of programs and initiatives are being implemented to prevent this risk, including the following dimensions:

- a "people review", to precisely define the needs for new skills in relation to the current pool of skills;
- the development of an employer brand and the strengthening of its strike force in terms of recruitment (with, for example, increased use of social networks);
- the training of all employees, with investments in an e-learning platform in particular; employee engagement through appropriate internal communication, and the development of internal communication and information and knowledge sharing tools; this platform was put online in September 2016 and has 6 programs and144 modules offered in English and in French. All programs were built by internal employees who are experts on the subject, assisted by the Human Resources Department, which supervised the entire project. The six training programs are focused on the integration of new employees, the product programs – Software and Hardware, the commercial phase, as well as on the techniques dedicated to High Frequency and Low Frequency Installation;
- loyalty and recognition of performance, in the form of long- term Group compensation plans or specific plans in the event of acquisitions, among other things.

The Group thus has a proactive and multifaceted approach in order to position itself to have the necessary talents and skills for its future success, although there is still uncertainty about the level of impact of the actions taken to secure the necessary resources for its development in due time or under favorable conditions.

> risk associated with exchange rates. Several actions are being implemented parallel to currency hedging policies in order to reduce this exposure in the coming years, notably:
  - development of sales in the dollar area (international expansion plan, cash pooling in US dollars).
  - regular forecasts are drafted and a cash-pooling system for euros and US dollars;

- risks associated with global warming and compliance with environmental regulations:

Risks associated with production methods

For its direct supply of strategic components, the Group relies on an ecosystem of world-class companies that are leaders in their respective specialties (special electronic chips, custom TFT-LCD or e-paper, etc.), most of which dedicate particular attention to social and environmental responsibility initiatives. Two of the five largest suppliers for the Group have signed the United Nations Global Compact.

Four of the seven most important suppliers for the Group are ISO 14001 certified, and two are OHSAS 18001 certified.

Risks associated with electrical and electronic waste treatment methods

In order to limit the risks of uncontrolled pollution, the Group ensures that collection and recycling programs for end- of-life products are set up and offered to its customers in Europe, in accordance with the WEEE directive, and in other countries outside the European Union. In countries where regulations require this, the quantities of products placed on the market, collected and recycled are periodically reported to the national registers of producers.

The Group also informs users of these provisions through specific product markings and provides dismantling instructions to recyclers.

- Recycling of batteries in our labels Electronic labels manufactured and sold by the Group require batteries in order to operate.

The enforcement of Article R. 543-130 of the French Environment Code requires producers of industrial batteries and accumulators to organize the free collection of the items producers have sold on the French market after their use.

In Europe, the Group has chosen:

- co-organization COREPILE to collect and recycle all its spent batteries in France;
- in Austria, the collection and recycling activities are entrusted to Elektro Recycling Austria, a subsidiary of the Altstoff Recycling Austria AG group, which has specialized in electronic waste recycling since 2005;
- in Italy, the recycling is entrusted to the CONAI organization.

Recycling of labels and hardware equipment

In order to be part of a circular economy approach, the Group has been committed since 2014 to implementing an action plan to ensure the complete recyclability and reuse of its equipment.

To this end, the Group sought the services of the ecological organization Ecologic, which collects obsolete or damaged labels, modems and routers from each customer and transports them directly to a recycling center of ANOVO, one of the leading players in the sustainable management of electronic product life cycles.

Each year, this company brings new life to more than 20 million products throughout the world.

The organization then sorts the components of the used equipment, makes cosmetic repairs or sends off those components that are to return to the production chain.

All products delivered by the Group comply with international directives related to the use and transport of hazardous substances in electrical and electronic equipment (Directive 2011/65/EU of the European Parliament and of the Council of 8 June 2011 on the restriction of the use of certain hazardous substances in electrical and electronic equipment).

> Risks associated with intellectual property

The Company ensures that the rights of third parties are respected by carrying out prior art searches and monitoring its portfolio when necessary. It monitors, together with specialist counsels, any claims and litigation actions that would result from these actions.

This general objective is achieved through the work of the finance department, audit firms and the accounts committee.

2.6.3 Internal audit

The key players in the Company's internal audits are:

- The Executive Committee this Committee meets quarterly to draw up the strategic guidelines, to report on global competition, as well as to define the R&D road map. This Committee therefore analyses the risks inherent in the business sector and related to the level of competition, both in terms of price and technology.

- The Audit Committee ensures that the account statements are audited in accordance with the rules and free of interference; in particular, it ensures that adequate provisions are being made for foreign exchange, liquidity and debt risks.

- The Compensation Committee determines the remuneration policy implemented or to be implemented for the Chairman.

- The Board of Directors meets several times a year to review management's proposals concerning debt, currency hedges and any acquisitions. The budget forecasts are also presented to it, as well as their successive revisions during the year.

- Management (sales, finance, supply chain) meets weekly to analyze the portfolio of sales opportunities, their feasibility and the forecast scheduling for these opportunities to ensure that the supply of finished products and solutions matches the level of market demand. There is also a weekly review of significant contracts to maintain the profitability of these contracts and proposed selling prices based on the production costs incurred by the Company. These management meetings are therefore instrumental in correctly anticipating business volumes and profitability levels.

- The Finance and Legal Division ensures, based on budget and debt forecasts, the anticipation of cash flows in euros and foreign currencies, compliance with key management indicators as per monthly reporting under IFRS standards. It provides direct internal quality control of the accounts, the Group's profitability and the use of available cash.

The Company's strategy is to hold a majority stake in its subsidiaries. The Company ensures that Board of Directors' meetings take place, and it is active in the management bodies of its subsidiaries. Each of its subsidiaries give monthly management reports to the Company, which then determines the appropriate action to be taken. Newly acquired companies undergo an integration process that is based partly on points of attention identified during due diligence and partly on standard processes (IT audit, delegation of authority, chart of accounts mapping with the Group chart, etc.).

In addition, the bank accounts of all subsidiaries are currently being consolidated in a single telematics gateway, which enables the Group's Finance Department to manage cash flow.

A Code of Ethics and Business Conduct was implemented in 2017; it sets out and formalizes the rules of conduct expected within the Group of all employees, suppliers and subcontractors. This support is an important tool for maintaining the quality of the control environment within the Group and is easily accessible on the e-learning platform for our employees.

Delegations of power are implemented for subsidiary directors.

Financial report

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Consolidated financial statements as of June 30th 2019 (IFRS Standards)

SES-imagotag, a company with a Board of Directors, is listed on Euronext Paris Eurolist (Compartment C, ISIN code FR 0010282822).

The consolidated financial statements of the SES- imagotag Group (hereinafter "the Group") at June 30th 2019 cover a 6-month period and show a balance sheet total of €302,479 k and a consolidated net income of - €4,962 k. The Board of Directors approved these financial statements on September 18, 2019.

I. Balance sheet

I.1 Assets

€ '000	Notes	30/06/2019	31/12/2018	30/06/2018
		6 months	12 months	6 months
Intangible assets	1	96 452	94 405	94 718
Tangible assets	2	13 563	13 849	12 419
Right of use asset	2	7556		
Financial assets	3	1 001	891	847
Deferred taxes assets	22	9 635	9 571	8 671
Non Current Assets		**128 208**	**118 716**	**116 655**
Inventories and Work In Progress	4	68 078	81 881	64 451
Trade Receivables	5	65 224	72 254	52 568
Current Taxes	6	2 881	2 727	3 531
Other current receivables	6	12 158	10 844	9 943
Cash and cash equivalents	7	25 929	29 578	35 730
Current Assets		**174 270**	**197 285**	**166 223**
Total Assets		**302 479**	**316 001**	**282 878**

Liabilities and shareholders' equity

€ '000	Notes	30/06/2019	31/12/2018	30/06/2018
		6 months	12 months	6 months
Capital	**8**	29 017	29 007	28 828
Consolidated Reserves		118 880	124 867	128 951
Profit (Loss) - Group Share		-4 962	-5 900	-4 689
Shareholders' Equity		**142 936**	**147 975**	**153 090**
Non current Provisions	**10**	1 837	1 492	1 301
Deferred tax liabilities	**22**	3 739	3 782	3 680
Long Term loans	**11**	44 811	46 948	48 993
Lease liability (non recurring)	**11**	5 317		
Other non current liabilities	**12**	4 991	9 149	9 456
Non Current Liabilities		**60 695**	**61 371**	**63 430**
Trade Payables	**13**	71 965	83 715	46 682
Lease liability (recurring)	**11**	2 029		
Other debts and accrual accounts	**14**	24 854	22 941	19 676
Current Liabilities		**98 847**	**106 656**	**66 358**
Total Equity and Liabilities		**302 479**	**316 001**	**282 878**

I.2 Income statement

€ '000	Notes	30/06/2019	31/12/2018	30/06/2018
		6 months	12 months	6 months
Sales	**15**	**121 362**	**187 855**	**81 181**
Purchases consumed	**16**	-90 349	-133 955	-56 690
Subcontracted costs	**17**	-14 541	-25 064	-12 995
Payroll costs	**18**	-12 980	-23 745	-11 035
Taxes and duties		-445	-1 424	-786
Allowances for depreciation and amortization		-6 676	-11 802	-5 503
Net allowances for provisions	**19**	-1 066	-2 943	-685
Release of allowances for provisions	**19**	734	1 433	0
Other operating income	**20**	0	1 941	0
Other operating expenses	**20**	**0**	**-764**	**-9**
Operating Profit (Loss)		**-3 962**	**-8 468**	**-6 521**
Other financial income	**21**	4 576	5 555	3 797
Other financial expenses	**21**	-5 554	-5 716	-3 826
Financial Profit (Loss)		**-978**	**-161**	**-30**
Tax expenses	**22**	-23	2 729	1 862
Net Result		**-4 962**	**-5 900**	**-4 689**

Net income – Earnings per share

Earnings per share	**30/06/2019**	**31/12/2018**	**30/06/2018**
Profit (Loss) (K€)	-4 962	-5 900	-4 689
Number of shares at closing	14 507 156	13 961 761	14 413 837
Stocks options	30 700	36 000	54 000
Bonus shares	-	-	71 500
Earnings per share			
- Before dilution	-0,34	-0,42	-0,33
- After dilution	-0,34	-0,42	-0,33

I.3 Gains and losses directly accounted for in Equity

€ '000	*30/06/2019*	*31/12/2018*
Net Result	**-4 962**	**-5 900**
Translation adjustments		
Cash flow hedge		-65
Revaluation difference		
Actuarial gains and losses		22
Comprehensive Income	**-4 962**	**-5 942**
- Parent company's share	-4 962	-5 942
- Minority Interests' share		

I.4 Changes in consolidated shareholders' equity

€ '000	Capital	Other Equity Instruments	Reserves	Profit (Loss)
Shareholders' Equity as of 12/31/2017	**26 768**	**123 208**	**-21 069**	**128 908**
Appropriation of 2017 Profit (Loss)		-21 069	21 069	0
Capital Increase	2 238	24 419		26 657
Change in scope (acquisition)		-1 620		-1 620
Self owned Shares		119		119
2018 Profit (Loss)			-5 900	-5 900
Financial Instruments		-65		-65
Other Changes		-124		-124
Shareholders' Equity as of 12/31/2018	**29 007**	**124 868**	**-5 900**	**147 975**
Appropriation of 2018 Profit (Loss)		-5 900	5 900	0
Capital Increase	11	43		54
Treasury Shares		-35		-35
2019 Profit (Loss)			-4 962	-4 962
Financial Instruments		0		0
Other Changes		-96		-96
Shareholders' Equity as of 06/30/2019	**29 017**	**118 880**	**-4 962**	**142 936**

I.5 Consolidated statement of cash flows

€ '000	30/06/2019	31/12/2018	30/06/2018
CONSOLIDATED NET INCOME (INCLUDING MINORITY INTERESTS)	**-4 962**	**-5 900**	**-4 689**
+/- Net allowances for amortization/depreciation and provisions (excluding those relating to current assets)	6 287	12 583	6 642
+/- Calculated expenses and income related to stock options and similar instruments			
-/+ Other calculated income and expenses	-207	-1 014	1 046
-/+ Gains and losses on disposals (from exchange difference in ifrs p&l and financial instrument profit or loss)		-65	-1 045
Cash flow after cost of net financial debt and tax	**1 118**	**5 604**	**1 955**
+/- Tax expense (including deferred taxes)	23	-2 729	-1 862
= Cash flow after cost of net financial debt and taxes	**1 141**	**2 876**	**93**
- Taxes paid		390	390
+/- Change in wcr related to operations	10 097	-17 399	-18 597
= Net cash flow generated from operations	**11 238**	**-14 134**	**-18 115**
- Disbursements related to acquisitions of tangible and intangible fixed assets *(1)*	-10 614	-13 132	-5 759
+ Proceeds from disposals of tangible and intangible fixed assets			
- Disbursements related to the acquisition of long-term investments	-115	-99	-51
+ Proceeds from disposals of long-term investments	6	25	22
+/- Impact of changes in scope	-3 860	-3 332	-2 500
+ Investment subsidies received	-111	-78	-75
= Net cash flow from investing activities	**-14 694**	**-16 616**	**-8 363**
+ Amounts received from shareholders during capital increases	54	26 705	26 537
+ Loan issues *(1)*	2 840		
+ Loan repayments *(1)*	-3 052	-4 920	-2 877
- Dividend distribution			
-/+ Treasury share buybacks and resales	-35	119	-83
= Net cash flow from financing activities	**-194**	**21 904**	**23 576**
+/- Impact of changes in foreign currency exchange rates		-53	154
= Change in cash flow	**-3 650**	**-8 899**	**-2 747**
Opening cash position	**29 578**	**38 478**	**38 478**
Closing cash position	**25 929**	**29 578**	**35 730**

(1) Including impact of IFRS 16 first application on January 2019

- Acquisitions of tangible and intangible fixed assets for 3.1M €
- Loan issues for 2.8M €
- Loan repayments for 0.9M €

II. Notes to the consolidated financial statements

II.1 Accounting rules and methods

II.1.1 Basis for the preparation of the consolidated financial statements

II. 1.1.1. Consolidated financial statements – Basis of preparation

Pursuant to European Regulation 1606/2002 of July 19, 2002 on international accounting standards, the consolidated financial statements of the SES-imagotag Group for the period ended June 30th, 2019 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable on this date as approved by the European Union, as of the closing date of these financial statements.

Those statements have been set up according to IAS 34 standard "half year financial information". The accounting standards to prepare this half year report are the same ones as for the 2018 annual report, except norms, norms amendments and rulings which implementation is compulsory as of January 1st, 2019.

The euro is the presentation currency of the consolidated financial statements. Unless otherwise indicated, all amounts are rounded to the nearest thousand (€000).

The financial statements are prepared according to the historical cost principle with the exception of a number of assets and liability accounts that have been measured at fair value.

The consolidated financial statements include the financial statements of the subsidiaries listed in § II.6. The financial statements of the subsidiaries are prepared over the same reference period as those of the parent company, based on the same accounting methods.

The Companies included in the consolidation scope have closed their half year financial statements on June 30. All intra-group balances, intra-group transactions, and unrealized income, expenses, and gains that are included in the book value of assets from internal transactions are fully eliminated.

The financial statements of each of the Group's Companies are prepared in accordance with the accounting principles and regulations in force in their respective countries. They are subject to restatements in order to comply with the consolidation principles in force in the Group.

New mandatory implementing regulations as of January 1, 2019 are applied for the first time by the SES-imagotag group:

IFRS 16 The Group has been applying IFRS 16 for leases since January 1, 2019. When entering into a fixed lease agreement, this standard requires that a liability be recorded on the balance sheet corresponding to discounted future payments in exchange for rights to use the assets depreciated over the life of the contract. The Group applied the so-called "modified retrospective" transition method, which provides for the accounting of a liability on the transition date equal to the only discounted residual rents, in return for an adjusted use right of the amount of rents paid pre-registered or registered expenses payable, and rehabilitation costs. The standard provided for various simplification measures during the transition, including those that excluded contracts with a residual duration of less than twelve months. The term of the contract generally chosen for the calculation of liabilities is that of the contract initially negotiated, without taking into account the options of early termination or extension, except in special cases. The discount rate is determined for each contract by reference to the marginal borrowing rate, for the residual term of the contract as of January 1, 2019. The new standard does not, as of transition, affect the accounting treatment of leases in which the Group acts as a lessor, as IFRS16 does not modify existing treatments under IAS17. Impacts on financial statements As of January 1, 2019, IFRS16 has led to the recognition of a rent debt of 5,420K euros. This debt mainly relates to office and warehouse rentals, and to a lesser extent, to cars used by employees. The reconciliation between the off-balance sheet liabilities under the single leases presented in the financial statements as of December 31, 2018 and the estimated rental debt as of January 1, 2019 is as follows:

		Montant en K€
Lease commitments as a buyer at 31/12/2018		3 966
Differences in the durations selected for termination options		1 820
Other		29
= Undiscounted rental debt estimated under IFRS 16 to 31/12/2018		5 816
Discounting effect	-	395
= Estimated discounted rental debt under IFRS 16 to 01/01/2019		5 420

The following table describes IFRS 16 impacts on the opening balance:

'000		Impact of the change in standards (IFRS16)
Asset – Right of use		5 584
Total Asset impact		**5 584**
Non recurring allowances (provision)		520
Lease liability (recurring)		3 834
Lease liability (non recurring)		1 586
Accounts payables	-	357
Total Liability impact		**5 584**

The impact of the application of IFRS 16 on the period's net income is 172K euros and is broken down as follows:

In '000	30/06/2019
Decrease in external expenses	1 069
Impact on operating income	**1 069**
Amortization of right to use	-1 086
Interest expense on rental debt	-155
Impact on net income	**-172**

Other standards or interpretations:

The following mandatory texts as of January 1, 2019, have no significant impact on the Group's consolidated accounts:

Interpretation IFRIC 23 "Uncertainty about tax treatment";

The Amendment to IFRS 9 "Financial Instruments" entitled "Early Repayment Clause for Negative Compensation"

Amendment to IAS 28 "Participation in Associated Companies" entitled "Long-Term Interests in Associated Companies and Joint Ventures"

Amendment to IAS 19 "Staff Benefits” entitled "Modification, Reduction or Liquidation of a Defined Benefit Pension Plan" Annual IFRS Improvements - Cycle 2015 / 2017

New standards, interpretations and amendments to IFRS standards published but not yet applicable or not pre-applied by the Group Standards,

amendments and interpretations adopted by the IASB or IFRSIC (International Financial Reporting Standard Interpretations Committee) as well as by the European Union as of 30 June 2019, but of non-binding application as of 30 June 2019, did not result in early implementation.

II 1.1.2 Business combinations

Business combinations are dealt with under revised IFRS 3, which assesses, in particular, the notion of “takeover” in the application to securities acquisition transactions; depending on the circumstance, the impacts are taken into account in income or in equity.

In a business combination, the fair value of the transferred consideration is allocated to the acquired identifiable assets and liabilities. They are measured at fair value as of the acquisition date.

Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability in a normal transaction between market participants on the valuation date.

In this context, goodwill represents the residual surplus of the transferred consideration over the share of the acquiring company’s interest in the fair value of the identifiable assets, liabilities, and contingent liabilities that can be reliably measured at the acquisition date.

The allocation period is limited to the period required to identify and measure the assets and liabilities of the acquired company, the non-controlling interests, the price paid, and the fair value of the share previously acquired, without exceeding 12 months.

Subsequently, goodwill is assessed annually, at its cost, less any impairments that are representative of the value losses determined as outlined in the following paragraph entitled "intangible assets" in accordance with the standard IAS 36. In the event of a decrease in value, the impairment is recorded as an operating income statement. Regarding minority interest put issued after the first application of IFRS 3R and IAS 27R, the group accounts for subsequent changes in equity debt (transactions between the controlling shareholder and interest capital securities but do not affect control).

II 1.1.3 Estimates and judgments

The financial statements have been prepared using the historical cost basis, except for financial instruments, which are recognized in accordance with the fair value basis. As per the IFRS conceptual framework, the preparation of financial statements requires making estimates and assumptions that affect the amounts appearing on these financial statements. The significant estimates made by SES-imagotag for the preparation of the financial statements mainly relate to:

- The fair value measurement of assets, liabilities, and contingent liabilities acquired during a business acquisition (IFRS 3 - Business Combinations)
- The valuations used to test impairment losses, in particular the recoverable amount of goodwill
- The fair value measurement of financial instruments
- The valuation of provisions for contingencies and charges
- The measurement of the recoverable value of receivables and inventories.

Due to the uncertainties inherent in any assessment process, SES-imagotag revises its estimates based on regularly updated information. It is possible that the future results of the transactions concerned will differ from these estimates.

II. 1.2 Intangible fixed assets (IAS 38)

Intangible fixed assets include:

- Development costs
- Patents
- Software
- An ERP
- Goodwills
- Technologies.

Intangible fixed assets acquired separately are recorded at their acquisition cost and are amortized.

Amortization is calculated on a straight-line basis over the estimated useful life of the fixed assets, on the following bases:

	Amortization period
Technologies	15 years
R&D expenses	5 to 10 years
Patents	10 years
ERP	10 years
Software	2 to 5 years

No residual value was used to determine the basis of amortization.

Depreciation test

In accordance with IAS 36, goodwill is tested for impairment annually, and other amortizable intangible fixed assets are tested when there is evidence of a loss of value. This evidence is examined at each annual and interim closing.

Given the global management of SES-imagotag's activities from a technological and geographical point of view, it is impossible to al- locate assets and cash generation to clearly identified subgroups within the group. Goodwill has been monitored on the basis of a single cash-generating unit since 31 December 2016.

The impairment test consists of comparing the net carrying amount of the asset with its recoverable amount, determined as the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is preferred in the rare cases where a recent transaction on the assets concerned makes the information available and reliable. Value in use is estimated using cash flow projections based on existing operating forecasts, including reasonable growth and profitability rates over 10 years. The main assumptions used are:

> The 10-year projection made by management: the electronic labelling market is not yet mature at a global level and is growing strongly, hence a forecast of more than 5 years, more in line with the prospects of this market;
> The long-term growth rate of 5% reflects the growth rates of a still dynamic technology market at that time;
> A discount rate of 11% applied to cash flows.

The recoverable amount resulting from the impairment test is higher than the carrying amount of the assets.

The sensitivity of the result to changes in the assumptions used by more or less one point does not affect the results of the goodwill impairment test.

An impairment loss is recognized in the event of an impairment loss. Impairment losses can be reversed when conditions have changed, except for goodwill. With the exception of goodwill, impairment losses prospectively modify the depreciation plan since they are charged to the depreciable base.

Development costs

SES-imagotag’s development costs are recognized in the period in which they are incurred, with the exception of project development costs that meet the following criteria:

> The product or process is clearly identified, and the costs are individualized on a reliable basis
> The technical feasibility of the product has been demonstrated
> The product or process will be marketed or used internally
> There is a potential market for the product, or its internal usefulness has been demonstrated
> The necessary resources are available to complete the project

R&D expenses which do not fulfill criteria above are booked as an expense – activated expenses are amortized on a straight-line basis over their useful lives (5 to 10 years).

Patents

Concerning the valuation of patents, in the absence of an active market, the Group used the acquisition cost method.

II. 1.3 Tangible fixed assets (IAS 16)

Tangible fixed assets are recorded at their acquisition cost.

Depreciation is calculated on a straight-line basis over the following duration of use:

	Amortization Period
Tooling	3 to 5 years
Installation & improvement	5 to 10 years
Furniture, office equipment and computers	3 to 10 years

No residual value was used to determine the basis of depreciation.

The depreciation periods are annually reviewed at each accounting close. Any change in duration is treated as a prospective estimate change in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates, and Errors” and results in the recognition of additional impairment.

The book values of tangible fixed assets are reviewed for impairment when events or changes indicate that the book value may not be recoverable. If there is any such index and if the book values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

The recoverable amount of tangible fixed assets is the higher value between the sale price net of disposal costs and the value in use. In assessing value in use, estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments, the time value of money, and asset-specific risks.

II. 1.4 Leases (IFRS 16)

IFRS 16 "Lease Contract" will be required to apply as of January 1, 2019 and replaces the IAS17 "Rental Contracts" and interpretations standard. When entering into a fixed lease agreement, this standard requires that a liability be recorded on the balance sheet corresponding to discounted future payments, in exchange for rights to use the assets depreciated over the life of the contract;

II. 1.5 Inventories (IAS 2)

Inventories are measured in accordance with IAS 2 at the lowest of the cost and the net realizable value.

The valuation of finished products consists of the following:

- Cost price of components valued at the weighted average cost per unit
- Cost of assembly by the subcontractor
- Additional costs essentially consisting of component storage costs
- Transit costs for labels.

Net realizable value is the estimated selling price in the normal course of business less the estimated costs for completion and the estimated costs necessary to complete the sale.

If the net realizable value is less than the value of the inventory, a provision for impairment is recorded (see details in Note 4).

II. 1.6 Receivables and other current assets (IFRS 9)

Receivables and other current assets are recorded at their gross amount, less the provisions for impairment of estimated non-recoverable amounts.

FRS 9 Financial Instruments issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

The impairment of receivables and other current assets is based on an individual analysis of the risks of non-recovery: the Group has been though a close historical analysis on non-recovered amounts and the outcome is that the new IAS 39 replacement by IFRS 9 standard has no significant impact on the group financial statements.

II. 1.7 Derivatives (IFRS 9)

All derivatives are valued on the balance sheet at fair value in accordance with IFRS 9

Derivatives consist of currency forwards.

The management of financial risks by the SES-imagotag group (interest rate risk, currency risk, counterparty risk, and liquidity risk) is described in Note 29 of this document.

Derivatives are contracted by the SES-imagotag group under its currency risk management policy. The recording of financial instruments as hedging instruments depends on whether they qualify for hedge accounting.

II. 1.8 Forward purchases

The SES-imagotag group has opted for cash flow hedge accounting for its forward purchases.

Forward exchange contracts used by the SES-imagotag group may be classified as hedges of future cash flows. Hedging future cash flows protects against changes in the value of cash flows denominated in foreign currencies.

Derivatives are measured at fair value upon initial recognition. Thereafter, the fair value of derivatives is re-estimated at each closing date.

The fair value of foreign currency forwards is determined by referring to what the Group would receive (or pay) to settle the outstanding contracts as of the closing date.

Efficiency tests of cash flow hedges are carried out at each closing to ensure that the hedge is highly effective.

Changes in the value of the effective portion of cash flow hedge derivatives are recognized in equity in a specific revaluation reserve account.

The discount/premium component is excluded from the hedging relationship, and changes in value are recognized on the income statement under “Other financial income and expenses.”

II. 1.9 Cash and cash equivalents

Cash and cash equivalents include:

- Financial investments that are highly liquid and present a very limited risk of change in value
- Bank accounts
- Cash accounts.

Investment securities (money market funds) are recognized at fair value at the closing date (Level 1 fair value).

Term deposits are recorded at amortized cost.

II.1.10 Treasury shares (IAS 32)

According to IAS 32 "Financial Instruments," if an entity purchases its own equity instruments, they must be deducted from shareholders' equity. No profit or loss should be recognized in income at the time of purchase, sale, issue, or cancellation of the entity's equity instruments.

Such treasury shares may be acquired and held by the entity or by other members of the consolidated Group. The consideration paid or received must be recognized directly in shareholders' equity.

II.1.11 Provisions (IAS 37)

In accordance with IAS 37 "Provisions, Contingent Liabilities, and Contingent Assets," the Group recognizes a provision when, as of the closing date of the period, it has an obligation (legal or implicit) towards a third party due to a past event whose settlement is likely to result in an outflow of resources for the Group representing economic benefits, and when the amount of the loss or liability can reliably be measured.

Should such a loss or liability be unlikely, or cannot reliably be measured, but is still possible, the Group must report a contingent liability in its commitments.

Provisions are intended in particular to cover the probable costs that litigation or on-going litigation could incur, the cause of which predated the closing date.

II.1.12 Stock options and granting of bonus shares (IFRS 2)

IFRS 2 "Share-based Payment" provides for the recording of an expense in consideration for services obtained under share purchase plans (and similar plans) granted to employees.

The Group has set up stock option, bonus share, or share purchase plans and has issued subscription warrants to some employees. The Board of Directors, which grants the options, sets the option or purchase prices.

Changes in values subsequent to the grant dates have no impact on the initial valuation of the options; the number of options taken into account to value the plans is adjusted at each accounting close to factor in the presence of beneficiaries and the fulfillment of internal performance conditions at the end of the rights vesting periods.

The valued benefit is equivalent to compensation for the beneficiaries, which is therefore recognized as payroll costs, on a straight-line basis over the vesting period, in consideration of a corresponding adjustment in shareholders' equity.

The stock option plans have been valued by referring to the fair value of the granted instruments.

The fair value of the allocated bonus shares corresponds to the value of the share on the date of the grant minus the dividend distribution assumption during the vesting period. The total cost of the plan corresponds to the estimated fair value multiplied by the number of shares allocated over the vesting periods in the plan, multiplied by the probability of achieving the performance objectives.

II.1.13 Employee benefits (IAS 19 revised)

End-of-career benefits

The provision for employee benefits relates exclusively to retirement benefits that are legally owed to employees in France.

The calculation is done in accordance with IAS 19 (revised) based on the projected unit credit method. Under this method, benefit entitlements are allocated to service periods based on the plan's vesting formula, taking into account a linearization effect when the rate of vesting is not uniform during subsequent service periods.

The amount of the future payments corresponding to the benefits granted to employees is measured on the basis of assumptions of salary trends, the retirement age, and the mortality and then reduced to their present value on the basis of interest rates on long-term bonds of first-class issuers.

The expense for the period corresponding to the change in the cost of services rendered is recognized as payroll costs, and the discounting cost is recognized as a financial expense.

In addition, actuarial gains and losses arising from experience-related adjustments and changes in actuarial assumptions are now recognized in “Other income and expense recognized directly in equity.”

II.1.14 Deferred taxes (IAS 12)

Deferred taxes arise from temporary differences between the book and tax values of assets and liabilities on the balance sheet. In accordance with IAS 12 “Income Taxes,” they are recognized according to the liability method, based on future tax rates adopted at the end of the financial year.

II.1.15 Research tax credit (IAS 20)

The research tax credit is a tax incentive similar to a subsidy. It therefore falls within the scope of IAS 20. According to this standard, an allocation of the research tax credit should be made according to whether the research expenditure is recognized as an asset (recording in intangible fixed assets in accordance with IAS 38) or in profit and loss.

The Group capitalizes its development costs in accordance with IAS.

The tax credit must therefore be deferred over time over the amortization period of the research and development expenses that generated this tax credit.

For R&D expenses directly booked as expenses in the P&L, the corresponding tax credit is immediately recognized.

Please note the group has opted for a net presentation in the P&L tax credit being deducted from R&D expenses in the “other external expenses” account.

II.1.16 Conversion of items in foreign currencies

The consolidated financial statements at June 30, 2019 were prepared in euros, which is the parent company’s functional currency.

Each Group entity determines its own functional currency, and the items included in the financial statements of each entity are measured using that functional currency.

Recognition of foreign currency transactions in the consolidated companies’ accounts

Foreign currency transactions recognized on the income statement are translated at the exchange rate prevailing on the transaction date, except for transactions for which the Company has hedges (USD), which are recorded at the hedging rate. Monetary items expressed in foreign currencies recorded on the balance sheet are translated at the exchange rate prevailing as of the date of the accounting close, with the exception of debts denominated in USD, which are converted at the hedging rate. The resulting exchange rate differences are recorded on the in- come statement

Conversion of accounts of foreign subsidiaries

The financial statements of Group companies whose functional currency is different from that of the parent company are translated into euros:

- Assets and liabilities are translated into euros at the exchange rate prevailing as of the date of the accounting close
- Income and expenses are translated at the average exchange rate for the period as long as said exchange rate is not affected by significant price changes
- the resulting translation differences are recognized directly in equity.

II.1.17 Earnings per share

The Group reports basic earnings per share and diluted earnings per share.

Earnings per share are calculated by dividing net income by the weighted average number of shares outstanding during the financial year. Net diluted earnings per share are calculated using the conversion of dilutive instruments outstanding as of the closing date into common shares.

II.1.18 Revenue (IFRS 15)

Sales are recognized and presented in accordance with IFRS 15 “Revenue from contract with customers”.”

The revenue-generating event varies depending on the type of sale:

- When the Group is in charge of installing label systems, revenue is recognized when the system be- comes operational. At the closing of the accounts, for installations invoiced but not yet completed, deferred income is recognized, and for installations completed but not yet invoiced, accrued income is recognized
- When the Group only delivers labels, revenue is recognized when the goods are taken over by the carrier or the freight forwarder (in the case of FOB sales), when customers receive the goods in case of DAP incoterm.
- Training is invoiced separately, when the service is performed;
- Freight costs are invoiced to gather with the hardware delivery and revenue recognition is performed according to that “principal” source of revenue
- Annual lump-sum rebates granted to customers are recorded as a reduction of sales.
- Maintenance contracts are invoiced in advance for periods from four to six months. Deferred income is recognized to prorate sales related to the following period.
- In some cases, consulting or R&D services can be charged to customers: revenue is recognized when the service is performed and the performance indicator, if any, is reached.

Principal or Agent

The Group has performed a transaction analysis vis-à-vis its customers to determine if the Group is acting as a principal or as an agent when reselling equipment, softwares or services to the final customer.

In the current scope, the Group has analyzed risks and liabilities compared to benefits from the transaction: legal liabilities, credit risk, as well as added value brought by the group to suppliers services or products have been carefully analyzed.

Under IFR 15, the conclusion is the Group is acting as a principal as the Group is in charge of Products and services before transferring them to the final customers.

II.1.19 Operating segments (IFRS 8)

The SES-imagotag group has only one operating segment corresponding to a homogeneous activity of installation and maintenance of electronic shelf labels.

Operating results are reviewed at the group level to make decisions about resources to be allocated and performance evaluation. Isolated information at the lower level is not available, given the global management of activities, technologies and geographical areas.

II.2 Highlights of the period

None

II.3 Post-closing events

New bond issue

On July 22 2019, as part of a private placement with institutional investors, SES-imagotag carried out a new bond issue of €10m, bearing interest at 4.55% per year and maturing in 2025.

The interest rate is likely to be revised and decreased according to the consolidated lever value.

Nominal value of a bond is €10K.

Moreover, the agreement makes the way for a potential second €10m bond issue in a 12 months' time frame, same conditions would apply.

The net proceeds from issuing bonds will be allocated to financing the group's overall needs.

Joint Venture in China

In China, following the announcement dated May 17th, 2019, of the JV project with BOE and JD Digits, work continued during the summer and resulted in the establishment of a legal entity, a 51% subsidiary of SES-imagotag, and the setting up of a strong team of nearly 50 people covering commercial, operational, R & D and support functions.

II.4 Notes to the financial statements

Notes to the balance sheet – Assets and Equity & Liabilities

Note 1– Intangible fixed assets

Gross Fixed Assets in €'000	Opening	Increase	Transfers between line items	Decrease	Closing
Goodwill	51 274				51 274
Research and development	33 863	139	5 207		39 208
Concessions, patents & similar rights	37 563	153	-		37 717
Intangible assets in progress	13 730	5 449	-5 207		13 972
TOTAL	**136 430**	**5 741**	**-**	**-**	**142 171**

As of June 30, 2019, the amount of goodwill is broken down as follows:

- SES-ESL merger: €12.6 M
- Acquisition of Imagotag: €13.4 M
- Acquisition of PDi: €18.3 M
- Acquisition of Findbox: €6.7 M
- Acquisition of Market Hub: €0.3 M.

Research and development expenses represent the cost of the research and innovation expenditures incurred by the Group that allowed our product offering to be improved and diversified. Transfer between items deals with Jeegy Cloud project expenses' activation as well as launching of new Vusion and E - tag ESL's range.

Intangible fixed assets in progress correspond to expenditures incurred for research and development projects, development of the ERP, as well as expenses incurred for the filing of patents not yet issued as of the close of the period.

The increase over the period of €5,449 K breaks down as follows:

> Research and development expenditure for €3,532 K
> ERP development expenditure for €1,463 K
> Patent expenditures for €262 K.

Amortization in €'000	Opening	Allowance	Transfers between line items	Closing
Research and development	30 705	2 422		33 127
Concessions, patents & similar rights	11 320	1 272		12 592
TOTAL	**42 025**	**3 694**	**0**	**45 719**

Note 2– Tangible fixed assets

Gross Fixed Assets in €'000	Opening	IFRS 16 impact on opening	Increase	Increase in the right of use	Transfers between line items	Decrease	Closing
Buildings and improvements	2 177	4 951	6	2 575	146	0	9 855
Machinery and equipment	19 975		467		216	0	20 659
Other tangible assets	3 677	633	1 345	484	-362	0	5 776
TOTAL	**25 829**	**5 584**	**1 817**	**3 059**	**0**	**0**	**36 289**

The increase in tangible assets over the period was mainly due to:

> The rental of new offices within the Austrian subsidiary, representing a right of use of €2,397K;
> The rental of new computer equipment with a right to use of 386K euros;
> The purchase of tools and industrial equipment installed on the new production lines for a sum of €972K (including €412K of outstanding capital) and furniture and computer equipment for a sum of €369K.

Amortization in €'000	Opening	Allowance	Allowance relating to right of use	Write back	Closing
Buildings and improvements	849	274	813	0	1 936
Machinery and equipment	9 495	1639	0	0	11 134
Other tangible assets	1 636	190	273	0	2 099
TOTAL	**11 981**	**3 189**	**1 086**	**0**	**15 169**

Note 3 – Financial Assets

In €'000	Opening	Increase	Decrease	Closing
Deposits and guarantees	512	91	-6	597
Other loans	380	24	0	404
Other	0	0	0	0
TOTAL	**891**	**115**	**-6**	**1 001**

Note 4 – Inventories

In € '000	6/30/2019	12/31/2018	6/30/18
Inventory of raw material	12 855	21 062	22 491
Inventory of finished goods	32 386	45 290	33 079
inventory of goods for resale	26 249	18 753	11 105
Impairment for inventory	-3 412	-3 224	-2 224
TOTAL	**68 078**	**81 881**	**64 451**

Inventory level decreased between 12/31/18 and 6/30/19 as planned, significant deliveries made during Q1 2019 had led to end-of-year procurement in 2018.

Inventory impairment is based on the following rule:

- Category A: items whose turnover is less than 6 months=>no impairment
- Category B: items with a turnover rate of between 6 months and 12 months => 50% impairment
- Category C:
  - After 12 months without movements within the Group, 80% impairment
  - After 18 months without movements within the Group, these items are transferred to a “Scrap” inventory, resulting in 100% impairment.

In addition to the above impairment rule, a reference-by-reference analysis was conducted to refine the provision on the basis of initiated action plans and sales prospects.

Note 5 – Trade receivables

In € '000	6/30/2019	12/31/2018	6/30/2018
Gross trade receivables	63 922	71 954	52 616
Provision for Impairment	-368	-233	-311
Accrued Income	1 670	533	262
TOTAL	**65 224**	**72 254**	**52 568**

Under the factoring contract, the amount of assigned trade receivables is €14.1m, of which €0.4m has already been repaid. The amount of assigned receivables not yet repaid at June 30, 2019 is €13.7 m.

Impairment of trade receivables is as follows:

any receivable exceeding 90 days late payment is analyzed on a case- by-case basis:

> a 33% provision is established for cases of equipment recovery;

> a provision is established for receivables in litigation according to the historical recovery success ratio (50%);

> a 100% provision is established for accounts receivable deemed non-recoverable

Note 6 – Other current receivables

In € '000	6/30/2019	12/31/2018	6/30/18
Tax receivables	7 810	7 452	5 716
Social Security receivables	69	70	67
Suppliers' advance and prepayments	1 678	647	75
Financial Instruments	0	603	2 382
Other receivables	1 039	1 367	708
Prepaid expenses	1 562	705	995
TOTAL	**12 158**	**10 844**	**9 943**

Tax receivables are mostly dealing with VAT amounts receivables.

Suppliers advance and prepayments are mostly related to R&D consulting

Financial instruments: in accordance with its currency risk hedging policy, the Company makes forward currency purchases. The portion of these hedges not settled, depending on whether there is a potential gain or loss, results in a booking entry on the financial instruments account.

As for June 30, 2019, hedging forward contracts were all settled.

Note 7 – Cash and cash equivalents

In € '000	6/30/2019	12/31/2018	6/30/18
Short term investments	45	31	30
Cash at bank	25 884	29 548	35 700
TOTAL	**25 929**	**29 578**	**35 730**

Note 8 – Capital

Movement of shares as of June 2019	Number	Nominal value	Share capital
Opening - number of shares	14 503 337	2	29 006 674
Shares issued	5 300	2	10 600
Closing - number of shares	**14 508 637**	**2**	**29 017 274**

This number of shares making up the capital reflects:

- All exercised stock options until June 30th, 2019
- All performance shares granted after recognition of the fulfillment of the alternative conditions for the free shares plans dated December 16, 2015 and March 11th, 2016, by the Board of Directors on February 21, 2017

At June 30, 2019, the Company held a total of 7,815 treasury shares, all of which relate to the cash contract renewed during financial year 2014.

Treasury shares have been restated minus the shareholders' equity in accordance with IAS 32.

Note 9 – Other Equity

Stock options and allocation of bonus shares

Allocation of stock options:

As of June 30, 2019, five stock-option allocation plans were therefore in progress:

Within the framework of the authorization granted by the EGM on March 1, 2012:

- The 2012 Plan (1st wave) dated August 31, 2012, expiring on August 31, 2019
- The 2012 Plan (2nd wave) dated December 18, 2012, expiring on December 18, 2019
- The 2013 Plan dated May 28, 2013, expiring on May 28, 2020
- The 2014 Plan (1st wave) dated April 3, 2014, expiring on April 3, 2021.

Within the framework of the authorization granted by the EGM on May 21, 2014:

- The 2014 Plan (2nd wave) dated October 23, 2014, expiring on October 23, 2021.

The table below shows the information relating to stock options in effect as of June 30, 2019:

Current Stock Options Plans as of June 2019	Number of Options notified	Number of options outstanding
04/15/2010	14,000	0
09/15/2010	8,500	0
10/21/2011	58,500	0
08/31/2012	315,800	25 100
12/18/2012	19,000	2 000
06/30/2013	65,200	0
04/03/2014	43,000	0
10/23/2014	33,150	3 600
	557,150	30 700

As of June 30, 2019, the number of stock options in force, which can be used to subscribe for a total number of 30,700 shares, represents 0.2% of the share capital and voting rights of SES-imagotag after dilution.

Note 10 – Non-current provisions

In € '000	Opening	IFRS 16 impact on opening	Allowance	Write back (not used)	Closing
Provisions for RMA's	568			-486	82
Allowance for good repair of leased assets		520	219		739
Other Provisions for contingencies and charges	924		92		1 016
TOTAL	**1 492**	**520**	**311**	**-486**	**1 837**

Non-current provisions mainly include labor court disputes and a litigation with a supplier for €619K: the company is running a legal action against this supplier and is claiming for damages which claimed amount is superior to the allowance booked for.

Note 11 – Long-term loans and lease liabilities

Loans are recognized at the amortized cost using the effective interest rate method

In € '000	12/31/2018	IFRS 16 impact on opening	+	-	06/30/2019
Bond Debts	39 776		21		39 797
Other Long term loans	7 172			-2 159	5 014
Lease liabilities (recurring and non recurring)		5 420	2 840	-914	7 346
TOTAL	**46 498**	**5 420**	**2 861**	**-3 073**	**52 157**

The Company has committed to maintaining a consolidated leverage ratio, representing the relationship between net financial debt and EBITDA, below 3.5; as of June 30th 2019, the Group is compliant with this ratio. IFRS 16 impact (leasing liability) is excluded from the debt definition when calculating that leverage ratio.

Note 12 – Other non-current liabilities

In € '000	6/30/2019	12/31/18	6/30/2018
Other debt - acquisition earn outs	3 360	7 211	7 282
Research tax credit	1 565	1 676	1 679
Other operating grants	66	262	495
TOTAL	**4 991**	**9 149**	**9 456**

Variation on other non-current liabilities are broken down in the below table:

Earn outs and put on minority interests	06/30/2019	12/31/2018	Variation
Put on minority interests Findbox	620	2 620	-2000
Put on minority interests market Hub	2 000	2 000	
Earn out PDi	740	2 591	-1851
Total	**3 360**	**7 211**	-3851

- Findbox (SES-imagotag Deutschland GmbH): EUR 2,000k paid in H1 2019 for the put on the 33% acquisition of SES-imagotag Deutschland GmbH, which was the subject of a firm and definitive agreement on the amount in August 2017; in addition, an addendum was signed in January 2019 on the terms of payment: outstanding amounts will be paid in 2020 and 2021 for €120K and €500K.
- PDi: €1,851K paid in H1 2019 for the earn out on the acquisition of PDi, which was the subject of a firm and final agreement in September 2018.

Note 13 – Trade payables

In € '000	6/30/2019	12/31/2018	6/30/18
Trade payables	52 637	72 707	39 141
Suppliers - accrued expenses	19 327	11 008	7 541
TOTAL	**71 965**	**83 715**	**46 682**

Note 14 – Other debts and accrual accounts

In € '000	6/30/2019	12/31/2018	30/06/2018
Customers - prepayments	4 517	3 381	3 157
Customers – credit notes	911	1 858	2 583
Social security and tax liabilities, pension commitments	13 537	15 231	10 941
Accrued income and other liabilities	5 888	2 472	2 996
TOTAL	**24 854**	**22 941**	**19 676**

Increase in accrued income is mostly due to a partial delivery of ESL's to a long term customer for a €2,820 K revenue amount – final deliveries will occur in H2 2019

NOTES TO THE INCOME STATEMENT

Note 15 – Sales

Sales for the period broken down by geographical zone:

Sales in €m	06/30/2019		06/30/2018	
Mainland France	33,2	27%	26,2	32%
Export	88,2	73%	55,0	68%
TOTAL	**121,4**	**100%**	**81,2**	**100%**

Sales can be broken down into: €112.8 m for goods and € 8.9 m for services.

Note 16 – Purchases consumed

The amount of purchases consumed is composed of the following:

- Consumption of purchases of raw materials and merchandise
- Consumption of inventories of finished products
- Transportation and incidental expenses relating to these purchases.

Note 17 – External expenses

In € '000	6/30/2019	12/31/2018	30/06/2018
Variable external expenses	-5 382	-7 517	-3 429
External payroll & recruitment costs	-1 308	-2 505	-1 188
Travel expenses	-2 767	-4 645	-2 194
Marketing	-1 820	-2 124	-1 659
Fees	-1 681	-3 685	-1 882
IT & Telecom	-1 229	-1 669	-870
Other	-353	-2 919	-1 775
Total	**-14 541**	**-25 064**	**-12 995**

Note 18 – Payroll costs

In € '000	6/30/2019	12/31/2018	6/30/2018
Payroll costs	-14 660	-27 335	-12 554
Pension commitments	-83	1	-30
Capitalized fixed assets expenses Development costs	1 764	3 589	1 549
TOTAL	**-12 980**	**-23 745**	**-11 035**

Note 19 – Net allowance for provisions

‘000	**Opening**	**Increase**	**Decreasese**	**Closing**
Warranty	568		-486	82
Other provision for contingencies	924	92		1 016
Provisions for refurbishment of leased property	520	219		739
Provisions on inventories	3 224	831	-644	3 411
Provisions on accounts receivables	233	234	-100	367
Total	**5 468**	**1 377**	**-1 229**	**5 615**
Including right of use		**219**		
Recurring				
Change in provisions for contingencies and charges		1 066	-734	
Other			-496	
Financial				
Financial expenses		92		
Total		**1 158**	**-1 229**	

Note 20 - Details of other operating income and expenses

None

Note 21 – Other financial income and expenses

in € ‘000	**06/30/19**	**12/31/18**	**06/30/18**
FINANCIAL INSTRUMENTS	123	2 794	1 766
EXCHANGE GAINS	4 258	2 631	1 955
Other financial income	196	129	
Total other financial income	**4 576**	**5 555**	**3 721**
FINANCIAL INSTRUMENTS		-969	
BANK INTEREST EXPENSES	-874	-1 757	-884
EXCHANGE LOSSES	-4 244	-2 661	-2 428
Other financial expenses	-343	-329	-438
Provision for risks	-92	0	
Total other financial expenses	**-5 554**	**-5 716**	**-3 751**
TOTAL	**-978**	**-162**	**-30**

As of June 30, 2019, the share of the financial result of the hedging instruments generates a profit of 123K euros compared to a net income of 1,766K euros at June 30, 2018. This was mainly due to the low volume of futures contracts consumed in the first half of the year, at $19 million compared to $44 million in the first half of 2018.

Note 22 – Income tax and deferred taxes

The deferred tax amount has been based on the best estimate for the expected average income tax rate over the period.

In € '000	6/30/2019	12/31/2018	6/30/2018
Deferred taxes	97	3 093	1 948
Tax Liabilities	-120	-365	-86
Total	**-23**	**2 728**	**1 862**

In € '000	
Average Rate applicable for the Group	28,00%
Net Income	-4 962
Theoretical tax	1 383
Tax reported	-23
Difference	-1 406
Impacts:	
Permanent difference	893
Other - tax rate difference	-2 299
Total	**-1 406**

In € '000	6/30/2019	12/31/2018	6/30/2018
Tax losses carry forward	8 269	8 296	7 952
Temporary differences	1 366	1 274	719
Financial Instruments			
TOTAL deferred tax activated (1)	**9 635**	**9 571**	**8 671**
Amortization of technologies	2 342	2 342	2 439
Activated R&D expenses	1 238	1 238	1 094
Temporary differences	159	33	131
Financial Instruments	-	169	15
TOTAL deferred tax in liability	**3 739**	**3 782**	**3 680**

Deferred tax assets relating to tax loss carry-forwards mainly concern all group entities except SES-imagotag Deutschland GmbH.

The deferred tax liabilities relating to the technologies identified following the goodwill allocation work broken down as follows:

- Pervasive Displays Inc: €1,027 K
- Findbox (SES-imagotag Deutschland GmbH): €517 K
- SES-imagotag GmbH: €798 K

Note 23 – Net income – Earnings per share

Net result of the period is €-4,962 K

Potential dilution on the share capital:

Instruments	Number	Dilution impact
Stock Options	30 700	0,2%
Total	30 700	**0,2%**

Earnings per share	6/30/2019	12/31/2018	6/30/2018
Profit (Loss) (K€)	-4 962	-5 900	-4 689
Number of shares at closing	14 507 156	13 961 761	14 413 837
Stocks options	30 700	36 000	54 000
Bonus shares	-	-	71 500
Earnings per share			
- Before dilution	-0,34	-0,42	-0,33
- After dilution	-0,34	-0,42	-0,33

II.5 Other information

Note 24 – Off-balance sheet commitments

Commitments made:

- Comfort letter to Bank Austria (SES-imagotag GmbH’s bank): €4,600 K throughout the term of the loan
- Letter of Comfort to SES-imagotag Deutschland GmbH (insolvency illiquidity overindebtedness risk)
- Rental payment guarantee of €182 K (CIC)
- Rent payment guarantee of €45 K (BNP).
- Interest-bearing collateral account (CIC)
- Export market guarantee for €2,007K (CIC)

The Company has committed to maintaining a consolidated leverage ratio, representing the relationship between net financial debt and EBITDA, below 3.5; (IFRS 16 impact excluded)

Note 25 – Degree of exposure to market risk

In financial terms, the Company is mainly exposed to currency fluctuations on its purchases made in dollars (approximately 80% of the volumes). In 2017, the Company made forward currency purchases to limit its currency risk over 2018.

In €'000	**30/06/2019**
Hedging portfolio @ 31.12.18	19 000
Settled over H1 2019	19 000
Forward purchase maturing in 2019	**0**

Note 26 – Research and development expenditure

Over the H1 2019 period, €3,859 K in research and development expenditure was capitalized on the balance sheet, including €3,720 K in fixed assets in progress.

Note 27 – Transactions with related parties

The related parties identified by the Group are:

- Group shareholders owning more than 10% of the share capital
- Members of the Board of Directors.

As of June 30, 2019, the amount of transactions completed with the Group's majority shareholder BOE, was €48.7 m.

Note 28 – Compensation paid to the C.E.O and retirement plan (GSC)

The gross compensation paid to the Chairman and Chief Executive Officer for the past period amounts to EUR 301K in respect of his 2019 fixed compensation and 2018 bonus. A contract under the Social Guarantee of Chief Executive Officers (GSC) was signed during 2012 to the benefit of the Chairman and Chief Executive Officer. The annual subscription for the year 2019 amounts to EUR 19k. This contract includes the basic plan and a supplemental plan, providing compensation coverage over a 12-month period (former plan).

En €	30/06/2019	30/06/2018
Short term benefits	301 600	243 152
Post employement benefits		
Other long term benefits		
End of contract compensation		
Share-based payments		

Note 29 – Credit liquidity, cash flow risks and Liquidity risks

Liquidity risks

To manage the liquidity risk that may arise from the collectability of financial liabilities, whether at their contractual due date or early, the Group implements a cautious financing policy based in particular on the investment of its excess available cash in risk-free financial investments.

All short-term investments consist of term deposits.

Credit risks

The financial assets that could potentially expose the Group to credit or counterparty risk mainly correspond to:

> Trade receivables: customer acceptance procedures and related credit risk analyses are fully incorporated into the overall risk assessment process implemented by the Group. This risk is controlled on a daily basis through the collection and recovery processes. In addition, the large number of individual customers minimizes the risk of concentration of credit relating to trade receivables

> Financial investments: the Group's policy is to spread out its investments over short-term monetary instruments, generally for less than one month, in keeping with rules of diversification and counterparty quality. The book value of financial assets recognized on the financial statements, which is presented net of impairment losses, represents the Group's maximum exposure to credit risk.

The Group does not hold any significant financial assets that are outstanding and not impaired.

II.6 Consolidation scope

All the companies closed their accounts as of December 31.

COMPANY NAME	HQ	METHOD	% CONTROLLED 06/30/19	% HELD 06/30/19	% HELD 12/31/2018
SES-imagotag S.A.	Nanterre (France)	(Parent)	(Parent)	(Parent)	(Parent)
SES-imagotag Pte Ltd	Singapore	FC	100	100	100
SES-imagotag Mexico srl. de cv	Mexico	FC	99	99	99
SES-imagotag Italia Srl.	Italy	FC	100	100	100
SES-imagotag Gmbh	Austria	FC	100	100	100
Solutions Digitales SES-imagotag Ltd	Canada	FC	100	100	100
Market Hub Technologies Ltd[1]	Ireland	FC	60	60	28
SES-imagotag Inc [1]	United States	FC	100	100	100
SES-imagotag Netherlands BV	Netherlands	FC	100	100	0
SES-imagotag DAnmark Aps.	Denmark	FC	100	100	0
SES-imagotag Deutschland GmbH	Germany	FC	100	100	67
Pervasive Displays Inc	Taiwan	FC	100	100	0

-CONSOLIDATED COMPANY BECAUSE THE ACTIVITY WAS NOT SIGNIFICANT OVER THE PERIOD

SES-imagotag Hong Kong Ltc	Hong Kong		100	100	

SES-imagotag

Société Anonyme

55 place Nelson Mandela

92000 Nanterre

This is a free 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.

SES-imagotag S.A.

Registered office: 55, Place Nelson Mandela - 92000 Nanterre

Share capital: €.29 053 874

Statutory Auditors' Review Report on the Half-yearly Financial Information

For the period from January 1 to June 30, 2019

To the Shareholders,

In compliance with the assignment entrusted to us by your Shareholders' Meeting 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-yearly consolidated financial statements of SES-imagotag S.A., for the period from January 1 to June 30, 2019,
- the verification of the information presented in the half-yearly management report.

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

I. 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 believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying our conclusion, we draw your attention to the notes “II.1.1.1 Consolidated financial statements – Basis of preparation”, “II.1.4 Leases (IFRS 16)”, “Note 2 – Tangible fixed assets” and “Note 11 – Long-term loans and lease liabilities” to the condensed half-year consolidated financial statements that describe the impacts arising from the first-time adoption of IFRS 16 “Leases” from January 1, 2019.

II. 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 condensed half-yearly consolidated financial statements.

Paris La Défense, on the September 30, 2019

Grégoire Menou
Partner

Julien Razungles
Partner

Certificate from the person responsible for the Annual Report

I hereby certify that, to the best of my knowledge, the consolidated financial statements for this half year, have been drawn up in accordance with the applicable accounting standards and provide a true and fair view of the assets and liabilities, the financial position and the profits of the company and all companies included in the scope of consolidation, and that the Activity Report provides a true and fair view of the major events having occurred during the first six months of the financial year, their impact and the main transactions between related parties, as well as a description of the main risks and uncertainties to which the Group is exposed for the six months to come for that same financial year.

Mr. Thierry Gadou

Chairman & CEO

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