Connect Group NV
Industriestraat 4
1910 Kampenhout-Belgium
Tel: +32 (0) 16 60 61 71
Fax: +32 (0) 16 60 78 82

Press release

Regulated information

19 March 2015 – Embargo till 6 pm

Connect Group reports annual results 2014

ANNUAL RESULTS :
Sales of EUR 121 million compared with EUR 125 million in 2013.

Slight improvement in operating result from a profit of EUR 671K in 2013 to a profit before restructuring costs of EUR 840K in 2014.

Net loss of EUR 4.646K compared with a profit of EUR 82K in 2013. The loss in 2014 consisted of restructuring costs amounting to EUR 4,476K. Without these restructuring costs, the loss in 2014 would have amounted to only EUR 170K.

The order book at the end of financial year 2014 amounted to EUR 82.8 million (EUR 84 million at the end of 2013).

(in 000 EUR)	2014	2013
Sales	120,984	124,988
Operating result continuing before restructuring costs	840	671
Restructuring costs	-4,476	-
Operating result continuing after restructuring costs	-3,636	671
Profit / (loss) of the group excluding restructuring costs	-170	82
Profit / (loss) of the group	-4,646	82

RESULTS 2ND HALF:
Sales of EUR 56.1 million compared with EUR 61.9 million in 2013.
Net result of a loss of EUR 4,659K compared with a profit of EUR 242K in 2013. Without the booked restructuring costs, the net result for the second half of the year would have been a loss of EUR 402K.

Management discussion and analysis of the results

Luc Switten (CEO) **:**

At the closing of the financial year 2013, we were positive about the upcoming year 2014. We felt that 2014 could be a good year for Connect Group for the following reasons:

Connect Group NV
Industriestraat 4
1910 Kampenhout-Belgium
Tel: +32 (0) 16 60 61 71
Fax: +32 (0) 16 60 78 82

- The group's overheads have been reduced to ensure positive results, even with lower sales levels.
- We had won several new customers to end the year with a strong order book of over EUR 84 million. Despite market/customer fickleness with regard to delivery dates, we believed that we could return to growth in 2014.
- The introduction of our TiaS® (Technology is a Service) programme into the market had been very positively received by our customers. Customers are keen to obtain more technology from us. We see a strong demand for this service and have already logged a number of successes with certain customers that strengthen customer loyalty. We also observe that new customers view this service as an additional argument to order from us.
- Our additional focus on a number of target markets like Railway was producing clear results. Long-term agreements with a number of customers have secured revenue streams for several years out.

Despite the general economic slowdown, the first half of 2014 was in line with expectations. Compared to 2013, sales increased slightly (see table 'Evolution sales figures') and the results were positive. Both the order book as well as order intake remained at a high level and gave no cause for concern.

Evolution sales figures

H1 2013	H2 2013	H1 2014	H2 2014
63.0 million	61.9 million	64.7 million	56.1 million

Order intake during the first six months of 2014 was positive and the order book grew to EUR 88.8 million. Hence, the first half of 2014 was completely in line with the expectations at the end of 2013.

As a result of the general economic downturn and the less positive evolution of some customers, the order intake during the entire second half of the year remained below expectations and the orderbook decreased to EUR 82.8 mio at yearend.
This slowdown in order intake had an immediate impact on the sales in the second half of the year and the profitability of the company, as a result of which it became necessary to take more stringent measures in the 4th quarter of 2014. In addition to previous restructurings in 2014, the Group took the decision to carry out a major restructuring at its plant in Poperinge. In recent years, this plant has evolved from a purely subcontracting company producing mainly standard products to a more project-driven technology company focussing on prototype activities. This evolution is the result of a number of factors:

- The historically largest customer of the Poperinge plant has relocated his production;
- The overall economic situation in Western Europe has changed. High wage costs have meant that mass production has been shifted to Eastern Europe, with the focus in Western Europe now being put on technological competence. Our plant in Poperinge thus needs to develop into a technology company focusing on the production of prototypes and specialising in certain sectors;
- As a result of the high-wage structure existing in Belgium and Western Europe and in an effort to maintain competitiveness, Connect Group has been forced to relocate all mass production to its Eastern Europe production plants in Oradea (Romania) and Kladno (Czech Republic);

Connect Group NV
Industriestraat 4
1910 Kampenhout-Belgium
Tel: +32 (0) 16 60 61 71
Fax: +32 (0) 16 60 78 82

- New potential customers want to fully benefit from the Eastern European plants, demanding that all mass production automatically takes place there.

As a result of the restructuring at the Poperinge plant, the number of personnel in this plant will decrease by 58 employees. In addition, as part of the restructuring, all activities in the leased plant at Poperinge will be discontinued and transferred to the factory in Ieper in the period April – June 2015. This move will generate further savings (in terms of rent, heating costs, etc.) from the second half of 2015.

In addition to the restructuring at Poperinge, the Group also took the decision at the beginning of 2015 to carry out a limited personnel reduction at the facility in the Netherlands. The argument for the restructuring in the Netherlands is similar to that cited above for the Poperinge plant.

Both restructuring exercises, along with the natural staff turnover and the already implemented restructuring in 2014 at our Western European facilities in the past year, will lead to a permanent annual decrease of more than EUR 3 million in our total personnel costs in Western Europe. This is an important and essential element for returning to a positive Group result in 2015.

In summary, we can say that 2014 did not deliver the expected results. The speed at which our markets evolve makes it necessary for us to react at the same speed and obliges us to take painful measures. This is what we had to do at the end of 2014, with a significantly negative impact on the results of 2014 but the belief that we will emerge stronger in 2015 and in the subsequent years as a result of these measures. Our market position with our customers has improved overall, our skills have increased and our cost structure has been significantly adjusted based on the ever-changing market. We look forward to 2015 and hope that our customers perform strongly so that we too can reap the benefits of all the efforts made.

Annual figures

Connect Group NV (Euronext Brussels: CONN) reports **annual sales** of EUR 121 million compared with EUR 125 million in 2013 (down 3.2 %). The sales decline completely took place in the 2nd half of 2014. During the first half of the year, there was a slight increase from EUR 63 million to EUR 64.7 million (an increase of 2.7 percent). In the second half of the year, sales decreased from EUR 61.9 million to EUR 56.1 million (a decrease of 9.4 percent).

The **gross margin** on sales decreased from 11.9 percent to 11.6 percent, as a result of underfunding caused by the decrease in sales in the second half of the year. The costs for research and development, sales and administration, amounting to EUR 14 million, remained almost unchanged compared with 2013.

Other operating income included an income of EUR 712K for a customer receivable that had been fully written off in the past and which was eventually recovered via the court in 2014.

The **operating result** increased from a profit of EUR 671K in 2013 to a profit of EUR 840K before all the restructuring costs already taken in 2014.

The Board of Directors conducts an annual impairment analysis for the entire Group and decided that no impairment booking was required for either 2014 or 2013.

Connect Group NV
Industriestraat 4
1910 Kampenhout-Belgium
Tel: +32 (0) 16 60 61 71
Fax: +32 (0) 16 60 78 82

The net financial result deteriorated by EUR 404K in total; EUR 117K as a consequence of higher financing costs and by EUR 287K as a consequence of foreign exchange losses. The company makes only limited use of foreign currency hedging contracts.

Hence, the **net result** of the Group decreased from a profit of EUR 82K to a loss of EUR 4,646K.

The order book year at the end of 2014 amounted to EUR 82.8 million (EUR 84 million at the end of 2013).

Balance Sheet

Trade receivables decreased from EUR 18.6 million at end-2013 to EUR 17.2 million owing to decreasing sales in the 4th quarter 2014.

Inventories reduced slightly from EUR 33 million at end-2013 to EUR 31.6 million at end-2014.

In 2014, EUR 3.8 million of new investments (both replacement and technology investments) were undertaken. The most important investments of the year included a new EUR 1.2 million production line at the plant in Poperinge, the renovation of the office building in Ieper amounting to EUR 700K and investments in various software packages amounting to EUR 500K. With annual depreciations of EUR 2.9 million, **tangible and intangible fixed assets** increased from EUR 10 million at the end of 2013 to EUR 10.9 million at the end of 2014.

The total bank financing capacity of the Group remained unchanged in 2014. The Group uses factoring for its customer receivables. It has a short-term credit line of EUR 12 million and a short-term outstanding amount of 1.5 million relating to a long-term loan. **Total financial debt** increased from EUR 17.9 million at the end of 2013 to EUR 21.1 million at the end of 2014.

Trade payables decreased from EUR 18.7 million at the end of 2013 to EUR 14.2 million at the end of 2014, as a result of lower purchases at the end of the year.

The group received a waiver from its banks before the year-end for failing to meet the required ratios at the end of 2014. The waivers received include a clause whereby the banks will re-assess the ratios after six months (June 2015). Due to the application of IAS 1, requiring a one year suspension period for the compliance with the covenants and the fact that there is no assurance the company will be able to meet the required ratio’s after six months, a long-term debt of EUR 644K was booked as a short-term financial debt, though the repayment schedule for this debt remains a long-term schedule.

Connect Group NV
Industriestraat 4
1910 Kampenhout-Belgium
Tel: +32 (0) 16 60 61 71
Fax: +32 (0) 16 60 78 82

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

The most significant risks for the company are:

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

Outlook for 2015

The current economic climate makes it difficult to establish clear expectations for 2015. Connect Group is positive about its position with its current and new customers and expects the first results of a more efficient organisation, but as a subcontractor, Connect Group remains largely dependent on the general evolution of its customers.

Significant events in 2014

In December 2014, the Board of Directors notified the Works Council of the Connect Group of its intention to restructure its plant in Poperinge. This restructuring consist of a collective dismissal of 11 white-collar and 47 blue-collar employees.

Connect Group NV
Industriestraat 4
1910 Kampenhout-Belgium
Tel: +32 (0) 16 60 61 71
Fax: +32 (0) 16 60 78 82

CONNECT GROUP
INTEGRATED SUBCONTRACTORS

Connect Group annual results 2014

The statutory auditor has confirmed that the audit procedures, which have been substantially completed, have not revealed any significant corrections which would have to be made to the accounting information contained in this press release. Barring changes in circumstances in the intervening period, the statutory auditor intends to certify the financial statements without qualification.

However, in an explanatory paragraph the statutory auditor draws readers' attention to the fact that the annual financial statements have been prepared on the assumption that the company will continue its operations and that this assumption is only valid to the extent that the group can achieve its business plan and is able to count on sufficient financial support from its majority shareholders and/or bankers. The statutory auditor further draws attention to the major sensitivity of the assumptions underlying the business plan used to check the recoverable amount of goodwill, intangible and tangible non-current assets.

Condensed consolidated income statement for the 12 months to 31 December 2014 and 31 December 2013

(in 000 EUR)	H 2 2014	%	H 2 2013	%	Year 2014	%	Year 2013	%
Sales	**56,178**	**100.0**	**61,927**	**100.0**	**120,984**	**100.0**	**124,988**	**100.0**
Cost of sales	-49,957	-88.9	-54,243	-87.6	-106,969	-88.4	-110,058	-88.1
Gross profit	6,221	11.1	7,684	12.4	14,015	11.6	14,930	11.9
Research and development expenses	-581	-1.0	-618	-1.0	-1,232	-1.0	-1,257	-1.0
General and administrative expenses	-2,990	-5.3	-3,078	-5.0	-6,301	-5.2	-6,296	-5.0
Selling expenses	-3,072	-5.5	-3,234	-5.2	-6,507	-5.4	-6,569	-5.3
Other income	528	0.9	14	0.1	1,002	0.8	166	0.1
Other expenses	-2	0	-228	-0.4	-137	-0.1	-302	-0.2
Operating result before restructuring	**104**	**0.2**	**541**	**0.9**	**840**	**0.7**	**671**	**0.5**
Restructuring 2014	-4,257	-7.6	-	-	-4,476	-3.7	-	-
Operating result after restructuring	**-4,153**	**-7.4**	**-**	**-**	**-3,636**	**-3.0**	**671**	**0.5**
Financial income	169	0.3	189	0.3	226	0.2	313	0.3
Financial charges	-652	-1.2	-480	-0.8	-1,211	-1.0	-894	-0.7
Profit / (loss from operations)	-4,636	-8.3	250	0.4	-4,621	-3.8	90	0.1
Income taxes	-23	0	-8	0	-25	0	-8	0
Profit / (loss)	**-4,659**	**-8.3**	**242**	**0.4**	**-4,646**	**-3.8**	**82**	**0.1**
Attributable to								
Equityholders of the parent	-4,659		242		-4,646		82	
Minorities	-		-		-		-	
Earnings per share								
Basic earnings / (loss) per share	-0.45		0.02		-0.45		0.01	
Diluted earnings / (loss) per share	-0.45		0.02		-0.45		0.01	

Connect Group NV
Industriestraat 4
1910 Kampenhout-Belgium
Tel: +32 (0) 16 60 61 71
Fax: +32 (0) 16 60 78 82

Condensed consolidated statement of comprehensive income

(in 000 EUR)	2014	2013
Profit/Loss	**-4,646**	**82**
Other comprehensive income		
Elements not subsequently reclassified to profit/loss	-	-
Elements that can be subsequently reclassified to profit/loss	**-**	**-**
Exchange difference on translating foreign operations	-	-
Total comprehensive income	**-4,646**	**82**
Total comprehensive income attributable to:		
Equity holders of the parent	-4,646	82
Minority interest	-	-

Connect Group NV
Industriestraat 4
1910 Kampenhout-Belgium
Tel: +32 (0) 16 60 61 71
Fax: +32 (0) 16 60 78 82

Condensed consolidated balance sheet at 31 December 2014 and 31 December 2013

(in 000 EUR)	31 December 2014	31 December 2013
Assets		
Current assets:		
Cash and cash equivalents	209	263
Trade receivables	17,191	18,577
Other receivables	1,147	865
Inventories	31,617	32,964
Other current assets	2	1
Other current assets	**50,166**	**52,670**
Non-current:		
Other receivables from sale of discontinued activity	394	800
Deferred tax assets	1,500	1,500
Property, plant and equipment	10,478	9,429
Intangible assets	443	595
Goodwill	4,549	4,549
Total non-current assets	**17,364**	**16,873**
TOTAL ASSETS	**67,530**	**69,543**
Liabilities and equity		
Current liabilities:		
Bank loans and overdrafts	17,668	13,101
Current portion of long-term debt	2,740	2,245
Trade payables	14,282	18,662
Accrued expenses, payroll and related taxes and deferred income	5,587	5,840
Provisions	4,117	304
Other current liabilities	747	522
Total current liabilities	**45,141**	**40,674**
Non-current liabilities:		
Long-term debt less current portion	741	2,575
Total non-current liabilities	**741**	**2,575**
Equity attributable to equity holders of the parent	**21,648**	**26,294**
TOTAL LIABILITIES AND EQUITY	**67,530**	**69,543**

Connect Group NV
Industriestraat 4
1910 Kampenhout-Belgium
Tel: +32 (0) 16 60 61 71
Fax: +32 (0) 16 60 78 82

Condensed consolidated statement of changes in equity

(in 000 EUR)	Number of shares out-standing	Capital	Legal reserve	Share premium	Profit/ (loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
31/12/2012	**10,290,024**	**638**	**43**	**42,091**	**-16,627**	**67**	**26,213**
Net result					82		82
Other comprehensive income							
31/12/2013	**10,290,024**	**638**	**43**	**42,091**	**-16,545**	**67**	**26,294**

(in 000 EUR)	Number of outstanding shares	Capital	Legal reserve	Share premium	Profit/ (loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
31/12/2013	**10,290,024**	**638**	**43**	**42,091**	**-16,545**	**67**	**26,294**
Net result					-4,646		-4,646
Other comprehensive income							
31/12/2014	**10,290,024**	**638**	**43**	**42,091**	**-21,191**	**67**	**21,648**

Connect Group NV
Industriestraat 4
1910 Kampenhout-Belgium
Tel: +32 (0) 16 60 61 71
Fax: +32 (0) 16 60 78 82

Condensed consolidated cash flow table for the year ended 31 December 2014 and 31 December 2013

(in 000 EUR)	2014	2013
Operating result before restructuring	**840**	**671**
Restructuring 2014	-4,476	-
Operating result after restructuring	**-3,636**	**671**
Adjustments for:		-
Gain-/loss on sale of property, plant and equipment	-	-
Allowance for doubtful receivables and obsolete stock	-904	371
Depreciation and amortization	2,948	2,895
Provisions	3,813	-24
Operating profit before changes in working capital	**2,221**	**3,913**
Inventories	1,476	460
Trade receivables	2,160	-62
Trade payables	-4,380	2,452
Accrued expenses, payroll and related taxes and deferred income	-253	-794
Other current assets	124	-661
Other payables	225	-382
Cash flow from operating activities	**1,573**	**4,926**
Taxes	-25	-8
Exchange differences	-293	54
Financial charges	-205	-194
Interests	-692	-562
Other	1	-
Net cash from/(used in) operating activities	**359**	**4,216**
Cash flow from investing activities continued operations		
Investments in intangible assets	-343	-202
Investments in property, plant and equipment	-3,502	-1,940
Interest received	205	121
Cash flows from (used in) investing activities	**-3,640**	**-2,021**
Cash flows from financing activities		
Proceeds/(repayments) from long-term debts	-1,190	-2,903
Proceeds/(repayments) from current portion of long-term debt	-149	-19
Proceeds/(repayments) from bank loans and overdrafts	4,566	-100
Net cash provided by financing activities	**3,227**	**-3,022**
Increase/(decrease) in cash and cash equivalents	**-54**	**-826**
Cash and cash equivalents at the beginning of the period	262	1,089
Cash and cash equivalents at the end of the period	208	263

Connect Group NV
Industriestraat 4
1910 Kampenhout-Belgium
Tel: +32 (0) 16 60 61 71
Fax: +32 (0) 16 60 78 82

Notes to the condensed financial statements

Information about the company

Connect Group

Connect Group is a leading certified supplier of technology, production systems, printed circuit boards and cable assembly services for the professional industry. Connect Group develops products to User Requirement Specifications from the concept stage onwards with optimal production, price and quality results.

Connect Group's references include Alstom, ASML, Atlas Copco, Atos, Barco and Philips. The company currently employs around 1,600 people in various facilities in Europe. The company's shares are traded on NYSE Euronext Brussels: CONN (www.euronext.com).

Update financial calendar

Annual General Meeting 2015	28 April 2015
Interim Statement Q1 results 2015	14 May 2015
Announcement 1st half-year results of 2015	27 August 2015
Interim Statement Q3 results 2015	12 November 2015

Investor Relations

Luc Switten	CEO
Hugo Ciroux	CFO

Connect Group
Industriestraat 4
1910 Kampenhout
Tel: +32 (0)16 61 87 78
www.connectgroup.com
ir@connectgroup.com