CONSOLIDATED FINANCIAL STATEMENTS Year ended Dec. 31, 2013

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Group ABC arbitrage

Disclaimer

This annual report and its constituent parts have been translated from the original French versions.
For the purposes of interpretation, the French originals will take precedence over the English translation.

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1. Business review

IFRS net revenues came to €28.8 million for 2013 and net income to €10.1 million. These figures include a negative fair value adjustment to the securities portfolio required under IAS 39, which reduced net revenues by €8.9 million. This adjustment will be absorbed when the relevant arbitrage transactions are unwound.

Excluding the fair value adjustment, net revenues were down only 12% in 2013, a good performance given the prevailing market conditions.

Key consolidated figures for 2013 are presented below:

In EUR million	Dec. 31, 2013 IFRS	Dec. 31, 2012 IFRS	Change
Advisory revenues	-	-	-
Third party management revenues [1]	4.8	6.2	*(22)%*
Proprietary trading revenues [2]	24.0	46.8	*(49)%*
Net revenues	**28.8**	**53.0**	***(46%)***
Payroll costs	(9.1)	(10.4)	*(13)%*
Occupancy costs	(1.7)	(1.5)	*11%*
Other expense	(3.7)	(4.4)	*(15)%*
Other taxes	(0.0)	(0.8)	*(98)%*
Income before tax	**14.3**	**35.9**	***(60)%***
Net income attributable to equity holders	**10.1**	**24.3**	***(59)%***

(1) Third party management revenues correspond to management and performance fees billed by ABC arbitrage Asset Management to external investors in fully consolidated funds, which are eliminated in consolidation.

(2) Net gains on derivative financial instruments measured at fair value through profit or loss (€53.3 million) - net provisions (€0.3 million) - third party management revenues (€6.2 million).

Gross return on equity (proprietary trading revenues as a percentage of average equity) stood at 17.98% in 2013. This compares with a 17.99% gain for the CAC 40 and an average return of 9.73% for the DJCS Hedge Fund Index, the benchmark in alternative investment. However, some difference is to be expected as the index naturally reflects a much broader range of strategies and larger overall positions.

In EUR thousand	Dec. 31, 2013 IFRS
Equity at January 1, 2013 under IFRS	138,081
Equity at December 31, 2013	129,090
Average equity	**133,586**
Return on equity	**7.53%**
Gross return on equity	**17.98%**
CAC 40 index	*17.99%*
DJCS Hedge Fund Index	*9.73%*

Return on equity = (net income / average (opening equity + closing equity)) x 100.
Gross return on equity = (proprietary trading revenues / average (opening equity + closing equity)) x 100.
Equity corresponds to shareholders' equity plus provisions adjusted for deferred taxes. This figure takes account of dividend payments (except for interim dividends) and changes in issued capital, and therefore corresponds to the capital available for investment in the market.

In 2013, there was a further deterioration in the market parameters that have an influence on our business levels: very low volatility in the financial markets, weak trading in all the financial instruments we deal in, and very few primary issues or M&A transactions. As a result, the Group's equity was not fully employed in its arbitrage activities.

Massive intervention by the central banks, particularly the Fed and the ECB, had a structural impact on the financial markets, which stopped the nascent volatility in its tracks, deprived liquidity providers of a useful role, artificially weakened investors' understanding of financial market risks and made transactions more complex to evaluate.

Lastly, regulatory and fiscal pressure remained strong during the year. This required us to adjust continuously in order to meet the new requirements and attempt to offset the resulting significant opportunity losses.

Our business remained resilient despite the challenging environment, thanks to our strict management discipline and continuous optimisation of our operational efficiency. The first and final quarters, and particularly the end of December, were very subdued. However, activity levels in the second half, while not entirely making up for the adverse market factors, nonetheless proved that we have made progress in adjusting to the new market paradigm.

With our large portfolio of arbitrage transactions, we were able to spread risks and results across the various strategies and take advantage of each favourable window of opportunity. For example, when volatility showed some timid signs of recovery for a couple of weeks in June, we were able to demonstrate clearly our ability to produce good results in active markets.

We remain true to our performance-related compensation policy and payroll costs moved in line with activity levels, falling by 13% on a stable headcount of 78 people. Other costs fell by 15% as a result of strict cost discipline and optimisation.

As a result of the far-reaching change in market behaviour that has confronted us for many months now, we are having to make investments that will lead to a structural increase in costs.

In 2013, we laid the foundations for a new growth plan, Ambition 2016, which aims to deliver an aggregate €90 million of net income over the period 2014 to 2016. There are four main pillars to the plan:

Staff
Our people are our best asset. We have initiated an ambitious recruitment programme and aim to hire some ten new people, mainly quantitative researchers and IT developers, either junior or more experienced people with a solid financial or technical background, to bolster the creativity and vitality of our existing teams and challenge old habits.

Geographic expansion
Market conditions have a crucial effect on the arbitrage strategies in which we invest our capital. Recent structural trends in the market (lower volumes, falling volatility, general decorrelation) are putting pressure on exploitable margins, while at the same time increasing the risk profile of our arbitrage transactions. We will therefore have to expand internationally to support our continued development, given the requirements of our financial partners and the competitive and regulatory constraints facing us.
It was to this end that in December 2013 we set up a company called Quartys, based in Ireland like our investment funds. We are also planning to set up in Singapore during 2014, to improve our operational efficiency in the Asian markets.

Innovation
Since the outset, our success has been predicated on innovation. We continue to invest in innovation to develop our expertise in equity derivative products and currencies and to maximise our ability to adapt to market conditions.

Asset management
We maintain our aim to develop the asset management business to provide an additional significant source of revenue from high-capacity strategies and to benefit from economies of scale and operational optimisation. We plan to develop a range of diversified investment funds and we are seeking to quickly rebuild our assets under management to more than €400 million.

2. Third party asset management

Revenue generated by the asset management business rose significantly, with €4.8 million of management and performance fees billed to external investors versus €6.2 million in 2012, a decrease of 22%.

ABCA Opportunities Fund exploits M&A arbitrage opportunities. At 31 December, it had €48 million of funds under management.

ABCA Reversion Fund exploits statistical arbitrage opportunities in the futures and ETF markets. At 31 December, it had €147 million of funds under management.

ABCA FX Fund exploits statistical arbitrage opportunities in the forex markets. At 31 December, it had €24 million of funds under management.

ABCA Inference Fund exploits futures strategies. At 31 December, it had €56 million of funds under management.

ABCA Multi Fund is a diversified fund that invests in other funds managed by the Group.

These funds are managed by ABC arbitrage Asset Management, a portfolio manager, and are housed within ABCA Funds Ireland plc.

Assets under management fell sharply in 2013, to €348 million at the year end (versus €525 million in 2012), including €229 million from external investors (versus €387 million in 2012), and did not produce the expected returns.

The lack of volatility and trading volumes, coupled with quantitative easing policies, also prompted some investors to turn to other types of investment. Outflows continued during the first quarter of 2014. At 1 March 2014, assets under management stood at €253 million including €134 million from external investors.

3. Subsidiaries and holdings

A list of subsidiaries and holdings can be found in note 3.3. to the parent company financial statements.

ABC arbitrage Asset Management, an authorised investment management company, incurred a loss of €6,240 thousand in 2013. This company is responsible for the Group's operating activities in the financial markets and will continue to develop its non-group business in order to reach breakeven.

ABCA Funds Ireland plc, an Irish non-UCITS, made a loss of €1,732 thousand in 2013 to be allocated between ABC arbitrage and the external investors.

ABCA Global Fund had no business activity during the year other than prudent management of its own cash.

Quartys was set up in December 2013 and had no business activity during the year.

In 2012, the liquidation of BC Finanzberatung GmbH was re-opened and the liquidators were able to recover a €690 thousand receivable net of tax. The subsidiary had no business activity in 2013 other than completing the associated legal and fiscal formalities.

4. Social, environmental and societal responsibility

As an arbitrage company, we are not directly concerned by the Grenelle II extra-financial information disclosure requirements. For example, the Group's environmental footprint is very limited given our business activity. We therefore have no specific policy in this respect. Furthermore, we have published information about these issues on our website (www.abc-arbitrage.com) ever since the company was first founded. In the table below, the disclosures that are not applicable are marked N/A and for those that are applicable, a reference to the corresponding paragraph is given.

	Main topic	Sub-topic	ABC link
Employee-related	Employment	Total workforce and breakdown by gender, age and geographic area	§ 4.2 Employee data
		New hires and dismissals	§ 4.2 Employee data
		Compensation and compensation trends	§ 4.2.b
	Work organisation	Organisation of working time	§ 4.2.c
		Absenteeism	§ 4.2.d
	Employee relations	Organisation of social dialogue, particularly as regards informing, consulting and negotiating with employees	§ 4.2.e
		Report on collective agreements	
	Health and safety	Health and safety in the workplace	§ 4.2.f
		Report on health and safety agreements with the trade union organisations and staff representative bodies	
		Workplace accidents, including incidence and severity, and occupational disease	
	Training	Training policies	§ 4.2.g
		Total number of training hours	§ 4.2 Employee data
	Diversity and equal opportunity/equal treatment	Gender equality policy and measures	§ 4.2.h
		Disability employment and inclusion policy and measures	
		Anti-discrimination policy and measures	
	Promotion of and compliance with the relevant ILO fundamental conventions	Freedom of association and right to collective bargaining	
		Discrimination (employment and occupation)	
		Abolition of forced labour	
		Abolition of child labour	
Environmental	General environmental policy	Processes for integrating environmental issues and, where applicable, environmental assessment or certification policy	§ 4.3.a
		Actions to train and inform employees about environmental protection	N/A
		Resources devoted to environmental risk and pollution prevention	N/A
		Amount of financial provisions for environmental risk, provided that this disclosure is not likely to seriously harm the company's position in an ongoing lawsuit	N/A
	Pollution and waste management	Prevention, mitigation or remedy of environmentally harmful air, water and ground emissions	§ 4.3.b
		Waste prevention, recycling and elimination	§ 4.3.b
		Noise and other forms of pollution specific to an activity	N/A
	Sustainable use of resources	Water consumption and water supply according to local constraints	§ 4.3.c
		Consumption of raw materials and measures taken to use them more efficiently	
		Energy consumption, measures taken to improve energy efficiency and use of renewable energy	
		Land use	N/A
	Climate change	Greenhouse gas emissions	N/A
		Adapting to climate change	N/A
	Protecting biodiversity	Measures taken to preserve biodiversity	N/A
Social	Regional, economic and social impact of the company's activity	Impact on employment and regional development	§ 4.1.a
		Impact on neighbouring or local populations	N/A
	Relations with stakeholders in the company's activity	Dialogue with stakeholders	N/A
		Community involvement and philanthropy	§ 4.1.b
	Sub-contracting and suppliers	Integration of social and environmental issues in the purchasing policy	§ 4.1.c
		Importance of sub-contracting and making corporate social responsibility a consideration in supplier and sub-contractor relations	
	Fair business practices	Anti-bribery and corruption measures	§ 4.1.d
		Measures to protect consumer health and safety	
	Human rights	Actions promoting human rights	

Our social, environmental and societal responsibility involves two main areas:

- Active recruitment management and employee support:

Our hiring policy focuses on diversity, without any form of discrimination, while the key aspects of our employee support policy are skills development and incentive-based compensation policies.

- Taking environmental and societal considerations into account in our day-to-day decisions:

We seek to raise employee awareness of environmentally responsible practices and to reduce our direct impact on the environment through the initiatives described below.

4.1. Societal information

a) Local, economic and social impact of our business

Since the outset, we have contributed to local development on our own scale, not only as an employer but also through our business activities by bringing liquidity to the markets and contributing to the development of the financial industry.

An arbitrage is a combination of transactions designed to take advantage of imperfections between different financial markets. It ensures that prices are identical in all markets at any given time. It creates smooth flows between the various markets and provides them with liquidity. Through our business, we contribute on our own scale to maintaining useful, efficient markets and compliance with regulations. It enables small retail investors to gain access to the market and acquire financial instruments at their fair value.

However, our contribution to society is not confined to our role in the financial markets. We have always redistributed the value we create to our employees and shareholders and also to the State in the form of income tax, payroll taxes and other taxes.

b) Relations with people or organisations affected by the company's activity:

We aim to fulfill our corporate social responsibility by taking account of the expectations of our stakeholders (mainly shareholders and employees), with whom we foster open, frank dialogue:

- Employees can pass on their requests, suggestions and comments to their managers at any time. Appraisals are held twice yearly to discuss their daily activities and areas for improvement, set targets and plan their career paths. Dialogue also takes place between management and employee representative bodies. An intranet site is available to employees providing useful information about the organisation.
- Regular, high-quality financial reporting keeps investors and shareholders informed of the Group's results and key trends. In addition to the annual shareholders' meeting (the last one was held on May 31, 2013), regular press releases are issued to keep shareholders informed. Our website (www.abc-arbitrage.com) and email contact address (actionnaires@abc-arbitrage.com) are also available for obtaining any information they may need.

But our role in society and our relations with our stakeholders are not confined to our shareholders and employees. Our community involvement also involves facilitating entry in the workplace, links with educational institutions and membership in professional working groups:

- Employees regularly attend school job fairs to promote the company, forge relationships with students and identify future talent. Internships are offered to students on a regular basis and provide a reservoir of talent for future recruitment. The rate of conversion from internship to permanent employment (for interns reaching the end of their education) is close to 100%.
- We also call upon the services of non-profit organisations and sheltered workshops that promote social inclusion and entry (or re-entry) in the workplace of disabled adults.
- We are an active member of MiddleNext and, along with the other midcaps listed on the market, share the belief that we need to tailor corporate governance practices to the needs of different organisational structures, for example based on ownership structure or size, in order to create an informal governance system suited to the company's practices.
- We are also a member of Croissance Plus, an association of entrepreneurs who promote a sustainable development business model and share their wealth, knowledge and power within the organisation. Croissance Plus works to promote an alternative entrepreneurial model with the aim of creating businesses and jobs and defending the interests of the most dynamic SMEs whose needs are not always taken into consideration by the public authorities.

c) Sub-contracting and suppliers

We do not use sub-contractors. We have a limited number and a limited choice of suppliers. Accordingly, we have not implemented a specific social and environmental purchasing policy.

d) Fair business practices

ABC arbitrage is listed on a regulated market. Consequently, immediately upon signing an employment contract, employees undertake to comply with all internal control procedures as regards dealing in ABC arbitrage shares and, more generally, the legislation and regulations on preventing insider trading. Similarly, ABC arbitrage Asset Management is a portfolio management company and its business is therefore regulated, subject to authorisation and supervised by the Autorité des Marchés Financiers (AMF). Employees undertake to comply with all the mandatory professional rules governing the asset management business and, in particular, primacy of the client interest.

Internal risk control and management procedures are described in the Chairman's report.

More generally, ABC arbitrage operates in countries that respect democratic principles and human rights. We have not therefore needed to develop any specific prevention policies.

4.2. Social information

Key employee data are summarised in the table below:

Indicator	Definition/unit of measurement	2013			2012	Change
		ABCA(1)	ABAM(2)	TOTAL	TOTAL	100%
Total headcount	Total number of interns and permanent employees	6	72	**78**	78	0%
Average headcount	Total number of interns and permanent employees	6	71	**77**	77	0%
Permanent employees	Total number of permanent employees	6	72	**78**	78	0%
	Permanent employees as a % of total headcount	100%	100%	**100%**	100%	0%
Number of interns at the year-end	Total number of interns at 31 December	-	1	**1**	-	N/A
	Interns as a % of total headcount	0%	1%	**1%**	0%	N/A
Number of interns during the year	Number of short-term internships	-	6	**6**	3	(40)%
	Number of pre-hire internships	-	0	**0**	2	(100)%
	Percentage of pre-hire internships converted into permanent employment contracts	-	-	**-**	100%	N/A
Headcount by category	Managers as a % of total headcount	83%	100%	**99%**	97%	1%
	Other employees as a % of total headcount	17%	0%	**1%**	3%	(50)%
Headcount by gender	Number of women	3	17	**20**	21	(5)%
	Number of men	3	55	**58**	57	2%
Gender balance	% women	50%	24%	26%	27%	(5)%
	% men	50%	76%	74%	73%	2%
New hires	Number of new permanent hires	-	7	**7**	8	(13)%
Resignations	Number of resignations during the year	-	2	**2**	2	0%
Contractually agreed terminations	Number of contractually agreed terminations during the year	-	4	**4**	4	0%
Dismissals	Total number of dismissals	-	-	**-**	-	N/A
Average age	Average age of permanent employees	45 years	34 years	**35 years**	34 years	N/A
Average length of service	Number of years	12 years	8 years	**8 years**	7 years	N/A
Training (3)	Number of hours training provided	27	441	468	382	23%
Absenteeism (4)	Number of days absenteeism in France (%)	5.69%	1.76%	**2.10%**	2.17%	(3)%

(1) ABCA = ABC arbitrage
(2) ABAM = ABC arbitrage Asset Management
(3) Includes all training provided during the year including for employees no longer with the company at the year-end. The figures only include training hours provided by approved organisations. Internal training hours (referred to in section 4.2.g) are not included.
(4) Total days absence (including maternity leave) divided by the total number of days paid.

a) Turnover/length of service

In 2013, the Group hired 7 new people, representing 9% of total headcount. Our policy was to hire a mix of experienced technical or financial experts and junior analysts, as we believe this encourages new thinking and innovation while capitalising on the expertise and experience of our longer-serving people. We also continued to evolve our organisation structure with the aim of aligning it with our new plans, strengthening inter- and intra-departmental synergies and enabling senior management to focus on decision-making and strategic issues. We therefore appointed a new generation of department heads and deputies with recognised technical and managerial skills and in-depth knowledge of our environment and the issues facing us.

b) Compensation policy:

This section also includes the regulatory disclosures required by article L.225-102 of the French Commercial Code.
At a time of instability and increasingly strict regulation, ABC arbitrage is faced with the challenge of continuing to link compensation directly to performance while nevertheless keeping pace with changes in its industry. With the recent sharp rise in market salaries for finance professionals, we are gradually reviewing our compensation structures. Combined with the hiring programme, these salary uplifts led to an increase in fixed costs of approximately 5% in 2013, with a further 10% to 15% increase expected in 2014. With a view to motivating our people over the long term and aligning their interests with those of our shareholders, management has developed various share-based incentive schemes to drive growth by retaining core skills while containing payroll and other fixed costs in a highly competitive environment. We had already embarked on this approach well before the 2008 crisis and the resulting G20 recommendations. However, measures taken by various governments have made these schemes extremely costly to maintain if we are to provide our employees with an attractive after-tax benefit. Despite the additional cost, we are still convinced that they have a role to play and we will continue to use them, albeit to a lesser extent.

The Group's different schemes are described below:

Horizon 2010 Programme

In 2006, a share-based incentive programme was set up for executive officers and employees as part of the Horizon 2010 project. The programme set ambitious five-year earnings targets and vesting criteria based on the Group's financial performance over the period. These Horizon 2010 targets were met a year ahead of schedule, with aggregate net income of nearly €107 million generated in the period 2006-2009.

No options were exercised in 2013. At 31 December 2013, a total of 370,298 stock options granted in 2008 were still outstanding. They are exercisable at a price of €4.71 on an adjusted basis of 1.03018 shares per option due to the distribution of additional paid-in capital made in December 2013.

Horizon 2015 Programme

Over the four years of the Horizon 2010 programme, shareholders received aggregate dividends of €2.26 per share and the share price increased threefold. Given the success of this incentive programme, which benefits all shareholders, at the Annual Shareholders' Meeting of May 2010 we recommended setting up a new programme for 2010-2015 to motivate and incentivise our teams, who are the key drivers of performance. In 2010, after discussions with operating managers, the Board of Directors set up the Horizon 2015 share-based incentive plan, which vests progressively over a 5-year period based on cumulative net income, with a minimum target of €100 million and a maximum target of €300 million for the plan to vest in full.

Concerning the Horizon 2015 share grant and stock option plan, the Group did not make any decisions or enter into any commitments with plan beneficiaries in relation to the purchase by one of the Group's companies of shares or stock options awarded to said beneficiaries under this plan.

Four years have now passed since the programme began and it is clear that conditions in the financial markets have largely jeopardised achievement of the *Horizon 2015* targets*.*

Horizon 2015 stock options

Three million performance stock options were granted to 59 grantees on September 20, 2010, representing the equivalent of 5.90% of the Company's capital at December 31, 2010. The options are subject to vesting conditions based on the Group's cumulative consolidated net income for the period 2010-2014. None of the options will vest if cumulative income is equal to or less than €100 million and all the options will vest if cumulative income totals €300 million or more. Between these two limits, a steadily increasing proportion of options will vest, without any threshold effect. For example, if cumulative net income is €200 million, 2 million options will vest.

The number of options that have vested will be determined at the closing of the first accounts at which cumulative consolidated net income represents €250 million or more, and in any event no later than the closing of 2014 accounts.

At 31 December 2013, a total of 2,660,469 stock options would have vested if the performance conditions had been met in full. Based on actual results for 2010-2013 and assuming that 2014 income will correspond to the average for those three years, the number of stock options that may vest is about 450,000.

The exercise price will be €7.1625, i.e. €9 euros less all interim or final dividends paid since 20 September 2010, capped at €6.48, and any legally required adjustments. The distribution of additional paid-in capital made in December 2013 led to an adjustment of the exercise ratio to 1.03018 shares per option.

Horizon 2015 performance share grants

- 250,000 performance shares were granted to 64 grantees on September 20, 2010, vesting at the end of 2012 if cumulative consolidated net income for the three years 2010-2012 was at least €120 million. Based on actual net income for that period and given the continuing presence requirement, only 135,240 actually vested on March 21, 2013.

- 44,800 performance shares were granted to 4 grantees (non directors), on February 14, 2012, vesting at the end of 2013 according to cumulative consolidated net income for the two years 2012-2012. Based on actual net income for that period and given the continuing presence requirement, only 10,662 actually should vest in 2014.

- 60,000 performance shares were granted to 6 grantees (non directors) on March 21, 2013, vesting rateably at the end of 2014 according to cumulative consolidated net income for the two years 2013-2014.

Horizon 2015 - Share offer made to employees

In 2013, ABC arbitrage offered to sell shares to employees. A total of 85,998 shares were purchased on December 31, 2013 by 40 employees (corresponding to 53% of eligible employees).

The shares, which did not have rights to the €0.20 distribution in December 2013, were all acquired by the Company under the buyback program. As a result, the offer did not have any dilutive impact. As these shares are held in an employee share ownership plan, they are subject to a 5-year lock-up period.

The shares were sold at a price of €4.04, representing a discount of 20% to the average of the prices quoted over the twenty trading days preceding November 19, 2013, the date when the decision was made to launch the offer. The Group did not make any matching payment.

Issue of warrants to subscribe for new shares or purchase existing shares (2011 BSAA)

A BSAA is a warrant (option) entitling the holder to subscribe for new shares or purchase existing shares of the company in the future at a specified price and on specified terms and conditions. The purchase price per 2011 BSAA was set by the Board of Directors on July 5, 2011 at €0.45, within the price range determined by an independent evaluation, and with no discount or employer's contribution. The exercise price is €9.20, corresponding to 128% of the average closing share prices quoted during the 20 trading sessions preceding July 5, 2011, and will be reduced by the amount of any dividend paid after July 12, 2011 with a minimum of €6.30 (Nb: following the distribution of additional paid-in capital in December 2013, the BSAA exercise ratio was adjusted to 1.03018.).

In accordance with the commitments given to shareholders, the exercise ratio of each 2011 BSAA will range from 0.1 to 2 shares depending on cumulative consolidated net income for the period 2010 to 2014 inclusive. For example:
- if cumulative consolidated net income over that period is equal to €150 million, one 2011 BSAA will entitle the holder to 0.5 of an ABC arbitrage share;
- if cumulative consolidated net income over that period is equal to €250 million, one 2011 BSAA will entitle the holder to 1.5 ABC arbitrage shares;
- if cumulative consolidated net income over that period is equal to or more than €300 million, one 2011 BSAA will entitle the holder to 2 ABC arbitrage shares.

In July 2011, ABC arbitrage issued 4,680,000 2011 BSAAs, which were purchased by 39 employees. The proceeds received by the Group at the time of issue amounted to €2.1 million and were accounted for as share premiums.

The 2011 BSAAs will be listed on the stock exchange by September 30, 2016 at the latest and will be exercisable from June 1, 2015 to June 29, 2018 inclusive.

The 2011 BSAAs will be held in the Group employee share ownership plan for a period of five years, except in special circumstances.

Since the Company was founded in 1995, a total of 9,687,214 shares (representing 19% of the capital) have been issued to employees under share-based plans.

c) Working time organisation

Working time varies according to the job and practices (fixed hours, flexible hours, organisation) differ depending on business needs.
Employees work the hours specified in the collective agreement, which correspond to the legal hours, unless otherwise stipulated in their employment contracts. Where possible, subject to business constraints, employees are granted considerable flexibility in their working hours. They may also opt to work part-time. In 2013, there was two part-time female employee.
The Group had no employees on fixed-term contract during 2013.

d) Absenteeism

Absenteeism and the reasons are tracked by the human resources department. The absenteeism indicator is the ratio between the number of days' absence and the total number of days' paid expressed as a percentage. Absenteeism is mainly due to sickness and maternity leave.

e) Employee relations

Social dialogue is based on a process of consultation between employer and employees (or their representatives). There are three employee representative bodies:

- The Works Council, which plays a business role (company organisation and practices, working conditions, vocational training, apprenticeship, etc.) as well as a social and cultural role.
- Staff representatives, who represent all employees of the company and are responsible for ensuring compliance with all laws, regulations and the collective agreement on social protection, health and safety.
- The Health and Safety Committee, whose role is to contribute to protecting the health and safety of Group employees and improving working conditions.

These bodies are regularly informed and consulted when major decisions are made in order to take employees' interests into consideration. Employees are informed about them and the way they work, particularly upon first joining the company. The information is also available to everyone on the ABC arbitrage intranet site.

Social dialogue also takes place regularly through twice-yearly meetings held to present the Group's results. Attendance is mandatory and the meetings provide an opportunity for employees to ask management questions about the company's results, future strategy, etc.

The collective agreements applicable to the Group are mainly those related to the incentive and mandatory profit-sharing schemes. An employee savings plan is also open to all employees.

f) Health and safety

Our policy on health in the workplace goes further than simply complying with changes in the regulations. Protecting the health of our people is a key priority for ABC arbitrage.

The Group pays 100% of the basic cost of their top-up health plan. A voluntary flu vaccination campaign is offered each year. In 2012, the occupational risk assessment report was reviewed in association with the occupational physician. This report aims to identify all the risks involved in the jobs carried out within the Group.

We are very attentive to the well-being of our people, which is reflected in various initiatives:

- Maximum flexibility in working hours subject to business constraints;
- Provision of childcare facilities;
- Balancing work and personal life (for example, through childcare solutions);
- A pleasant, ergonomic working area;

In addition to the workplace emergency responders, a number of employees are also trained in basic first aid and some have been appointed and trained as fire officers.

No accident has occurred on the Group's premises.

g) Training

Training is a key priority for the ABC arbitrage group. There are two main aspects to our training policy:

- Technological, regulatory and fiscal training:

We organise many training courses enabling employees to keep abreast of regulatory, fiscal and technological developments. The number of training hours increased by 23% over the year, mainly due to employee training in the new information systems tools.

- Core business training:

Our training policy for our core business is based primarily on mentoring and desk research. There is little or no direct training available for the arbitrage business and what is available tends to focus more on directional strategies rather than arbitrage. We therefore believe that mentoring (know-how transfer) is the best way to train our employees. As regards desk research, we encourage our employees to learn by regularly consulting professional and technical blogs and by reading a lot of technical literature.

h) Equal opportunity

In terms of recruitment, we practice a policy of diversity, notably in terms of nationality, age and gender. Diversity is an inherent part of the everyday working lives and experience of our people.
We endeavour to hire motivated, skilled employees who will integrate effortlessly into the existing team and create an intelligent working relationship between people from a broad variety of backgrounds. As we indicate on our website, there is no typical ABC arbitrage profile, but more a common attitude of openness and balance; for example a belief that mutual support and exacting standards go hand in hand or that independence does not mean exclusion or exclusivity. Most importantly, we encourage ambition, provided it benefits the group as a whole.

4.3 Environmental information

Given our business activities, the ABC arbitrage Group is not concerned by the information to be disclosed under article 225 of the Grenelle II Act, and particularly the "environmental" and "societal" sections.
We are nonetheless aware of our responsibility and we endeavour to respect the environment in the conduct of our business activities, by taking environmental considerations into account in our day-to-day decisions.

a) General environmental policy

Our environmental policy aims to minimise the direct impacts of our internal activities on the environment through strict management of the natural and energy resources needed in our business.

In our arbitrage business, which is based on statistical and mathematical techniques, we select financial instruments to trade in by entirely neutral methods. Market inefficiencies are the only consideration that affects our decisions and we do not apply any environmental screens in our selection process.

Although the ABC arbitrage Group's environmental footprint is very limited, employee awareness is raised through:

- Regular email reminders about good environmental practices (turning off computer screens and office lights in the evening, only printing documents when strictly necessary, using the various recycling bins, etc.);
- Encouragement to recycle and manage waste as described below.

b) Pollution and waste management

Various waste management mechanisms are available to employees:

- Recycling points for batteries, coffee capsules and plastic bottle stoppers are provided in the communal areas (coffee area);
- Each office has a paper and cardboard recycling bin;
- Used toner cartridges are collected by a waste service provider;
- We attempt to find a useful outlet for our used computer equipment (given away to employees, non-profit organisations, etc.). However, if this equipment cannot be "recycled", we ensure that it is properly destroyed (obtaining a certificate of destruction).

In addition, measures have been taken to prevent and reduce air emissions. For example, we took the considered decision to locate our offices in central Paris as it helps to encourage employees to use public transport for their commute.

Employees are made aware of environmental risks and they are encouraged to group their business meetings together to the extent possible in order to reduce business travel, to take the train rather than fly when distance permits, and to make maximum use of new technologies such as video or audio conferencing.

No specific provisions are set aside for environmental liabilities given the nature of the company and its environmental policy.

c) Sustainable use of resources

Given its activity, the Group's consumption of raw materials is restricted to:

- Paper, an area where continuous efforts are being made. Only 300 reams of paper were purchased in 2013, compared with 350 in 2012.

- Energy, which for us mainly means electricity. Electricity consumption for the whole Group fell by 2.91% in 2013 to 820,248 kWh versus 844,839 kWh in 2012. When we moved into the Centorial building in early 2010, we introduced a mechanism to reduce our use of electricity and air conditioning. Outside of the programmed time bands (corresponding to our business needs), manual intervention is required to activate one hour of lighting and has to be reset each time. This complies with the legal requirements on the lighting of business premises.

5. Corporate governance

The appointment of Marie-Ange Verdickt as a director of ABC arbitrage was ratified at the shareholders' meeting on 31 May 2013.

The Board therefore has seven directors, four of whom are independent. A non-voting director (*censeur*) also attends Board meetings regularly. Two of the independent directors are men and two are women.

The Board also invites other people to attend its meetings in a consultative capacity either on an occasional or a regular basis.

The percentage of issued capital held by employees under group plans is less than 3% and consequently there are no employee-elected Directors. A member of the Works Council attends Board meetings in a consultative capacity.

The Board of Directors adopted the MiddleNext Corporate Governance Code for Small Caps and Midcaps on its publication in December 2009. This Code has been approved as a reference code by the Autorité des Marchés Financiers (AMF).

The Chairman's report on corporate governance and internal control provides details of compensation paid to executive officers and sets out the applicable rules or the reasons for any exceptions.

Under article L. 225-102-1 of the *Code de Commerce*, we are required to report on total compensation and benefits paid to directors and executive officers of the listed company during the year.

The following table shows total salary and benefits paid by Group companies to the executive officers in 2013:

Name	Dominique Ceolin
Position	Chief Executive Officer of ABCA Chief Executive Officer of ABCA AM
Gross salary	170,400
Adjustment related to paid leave and statutory bonuses	2,305
Company car	9,600
Incentive plan	18,516
Profit-sharing plan	23,494
Termination without cause benefit in respect of 2012	28,500
Gross variable bonuses in respect of 2012	243,000
Termination without cause benefit in respect of 2013	7,800
Gross variable bonuses in respect of 2013	40,000

Figures in euros / ABCA: ABC arbitrage / ABCA AM: ABC arbitrage Asset Management

The following table shows Directors' fees paid by Group companies to directors and executive officers in 2013:

Name	Position	Directors' fees (€)
Dominique Ceolin	Chairman of the Board of ABCA	2,000
ABC participation et gestion (Jean-Christophe Estève, permanent representative)	Member of the Board of ABCA	2,000
Aubépar Industries (Xavier Chauderlot, permanent representative)	Member of the Board of ABCA	2,000
Jean-François Drouets	Member of the Board of ABCA	4,750
Sabine Roux de Bézieux	Member of the Board of ABCA	8,500
Didier Ribadeau Dumas	Member of the Board of ABCA	11,500
Marie-Ange VERDICKT	Member of the Board of ABCA	8,500
Jacques Chevalier	Censor of the Board of ABCA	1,500

ABCA: ABC arbitrage

The following table shows a summary of the dealings in ABC arbitrage shares by the Directors and executive officers of the company in 2013.

Name	Purchases (in EUR)	Sales (in EUR)	Subscriptions (in EUR)
Dominique CEOLIN	-	239,500	-
Financière WDD*	1,507,633	-	-
ABC participation et gestion	-	1,541,618	-
Aubépar Industries S.E. and its subsidiaries	-	-	-
Jean-François DROUETS	-	-	-
Didier RIBADEAU DUMAS	-	329,176	-
Sabine ROUX DE BEZIEUX	-	-	-
Marie-Ange VERDICKT	4,640	-	-

** Holding company 50.01% owned by Dominique Ceolin*

As required by article L. 225-102-1 of the *Code de Commerce*, the following table shows all directorships and other offices held by the executive officers of the company.

Name	Directorships and other offices
Dominique Ceolin	Chief Executive Officer of ABCA Chief Executive Officer of ABCA AM Chairman of the Board of Financière WDD
Xavier Chauderlot	Chairman and Managing Director of Aubépar Industries S.E. Representative of Aubépar Industries S.E. on the Board of Directors of Aubépar S.E. Representative of Aubépar Industries S.E. on the Board of Directors of Financière du Bailli SA
Jean-François Drouets	Chairman of Catella Valuation Advisors
Jean-Christophe Esteve	Executive manager of, ABC participation et gestion Permanent representative of ABC participation et gestion Manager of Biotope SARL Manager of Aerotope SARL Managing director of Biotope Luxembourg SARL Director of Biotope’s subsidiaries
Sabine Roux de Bézieux	Member of the Supervisory Board of ANF Immobilier Member of the Board of Arteum Managing director of Financom Director of IDLF (Inès de la Fressange)
Didier Ribadeau Dumas	Representative of ABCA at the Board of ABCA AM Member of the Supervisory Board of La Banque Postale Member of the Board of La Mondiale Director of SGAM Ag2r La Mondiale
Marie-Ange VERDICKT	Member of the Supervisory Board of Solucom Member of the Supervisory Board of CapHorn Invest
Jacques Chevalier	-

ABCA: ABC arbitrage / ABCA AM: ABC arbitrage Asset Management

6. Payment periods

All trade payables outstanding at December 31, 2013 were payable no later than thirty days, end of month.

7. Share performance and share buyback programme

At December 31, 2013, issued capital amounted to €836,255.84 divided into 52,265,990 ordinary shares.

Average daily trading volume came to more than 50,085 shares, representing almost €249 thousand a day in value.

ABC arbitrage shares closed the year at €4.72. The par value of the shares is €0.016.

The Company has been authorised by shareholders to carry out a share buyback programme. Under the terms of the authorisation, shares may not be bought back at a price of more than €12 per share and the total amount invested in the programme may not exceed €15,000,000. In addition, the Board of Directors' authorisation is required for share buyback transactions representing over €500,000.

Reason for the buybacks	Number of shares purchased	Average price in EUR	% capital	Number of shares sold	Average price In EUR	% capital
For market making	100,522	4.90	0.19%	89,197	4.93	0.17%
For employee share offers carried out in 2013	129,754	5.25	0.25%	-	-	-
For future employee share offers	976,246	4.79	1.87%	-	-	-
For cancellation	-	-	-	-	-	-
For allocation on exercise of rights to shares	-	-	-	-	-	-
For external growth transactions	-	-	-	-	-	-
For the payment of stock dividends	-	-	-	-	-	-
Other	-	-	-	-	-	-

Of the shares held at December 31, 2013 for employee share-based plans (91,484 shares) and those acquired in 2013 for the same purpose (129,754 shares over the 1,106,000 shares purchased), 135,240 were allocated under performance share plans and 85,998 were sold to employees under the share offer.

The Group believes that its accretion policy is effective and continued to buy back shares on the market during the year. No treasury shares were reallocated to a different purpose during 2013.

8. Statutory disclosures

Under article L 233-13 of the *Code de Commerce*, the Board of Directors is required to disclose the names of shareholders whose holdings exceed the statutory disclosure thresholds at December 31, 2013. There was no significant change in the ownership structure in 2013.

Name	% of capital	% of voting rights
ABC participation et gestion	16.2	16.5
Aubepar Industries SE and its subsidiaries	13.9	14.2
Dominique CEOLIN	3.8	3.8
Financière WDD*	5.8	5.9
David HOEY	5.1	5.2

** Holding company 50.01% owned by Dominique Ceolin*

At December 31, 2013, ABC arbitrage held 1,021,246 treasury shares.

The free float represented 47.4% of issued capital at the year-end (the balance is held by management and members of the Board).

The operating managers and some of ABC arbitrage's employees signed a shareholders' agreement on 16 December 2013 that was published by the AMF on 8 January 2014 (Decision and Disclosure no. 214C0044). The agreement will take effect on 1 July 2014 upon expiry of the previous agreement dated 31 May 2010, and will end on 1 July 2018. The purpose of the agreement is to organise transfers of 40% of the ABC arbitrage shares acquired by the parties under the Horizon 2010 share-based incentive scheme, i.e. on the date of signature of the agreement, 3,600,200 ABC arbitrage shares representing 6.89% of the capital and voting rights. In the agreement, the parties state that they are totally free to exercise their rights as shareholders and expressly represent and warrant that they are not acting as members of a concert party with regard to ABC arbitrage.

No corporate mutual fund has been set up to hold shares on behalf of members of an employee share ownership plan.

9. Dividend policy

The table below shows dividends paid in respect of the last three fiscal years. All of these dividends qualified for the 40% tax relief available to individual shareholders resident in France for tax purposes.

In EUR	2012	2011	2010
Dividend paid	0.47	0.55	0.55

At its meeting of 12 September 2013, the Board of Directors set the dates for the €0.20 dividend payment approved at the annual shareholders' meeting on 31 May 2013. 25.7% of the dividend was deducted from retained earnings and other reserves and 74.3% from additional paid-in capital.

Net earnings per ordinary share amounted to €0.19 in 2013. With a view to maintaining an optimal balance between sources and uses of funds, the Board will recommend a dividend of €0.20 per share at the annual shareholders' meeting on 23 May 2014. Shareholders will be given the option of reinvesting all or part of their dividend in ABC arbitrage shares. The dividend payment procedure and date will be announced at a later date. The dividend is in addition to the €0.20 distribution paid in December 2013.

If approved by the shareholders, the full distribution for 2013 will therefore amount to €0.40 per share, giving a net yield of 8.47% based on the share price at December 31, 2013 (€4.72).

10. Post-balance sheet events

As of the date of this report, the Board of Directors is not aware of any material events that may have occurred since the year-end.

11. Outlook

Activity levels in the first quarter of 2014 are significantly up compared with the year-earlier period, driven by our optimisation work, which led to improved margins on a comparable basis, coupled with ramp-up of new strategies and a short-lived recovery in volatility in late January to early February.

We expect to see an increase in fixed costs stemming from three factors:

- adjustment to employee compensation levels prompted by regulatory and fiscal developments, as well as competition from other countries and our current hiring programme;
- an increase in trade venue access fees;
- implementation of the Ambition 2016 growth plan, which aims to deliver €90 million in cumulative net income over the period from 2014 to 2016.

There are four main pillars to Ambition 2016: people, geographic development, innovation and third party asset management. The aim is to build new business momentum by optimising our operating model, driving improved efficiency at all levels and leveraging our technological innovation capabilities, our people and our organisation. Ambition 2016 will help us meet today's challenges in order to secure tomorrow's performance. While not completely freeing us from the economic environment, improvement in these areas will enable us to remain profitable and capitalise fully on future opportunities.

The Group intends to consolidate its position as a leading player in alternative investment, recognised for its high-quality performance, with a strong focus on profitable growth and value creation.

The Board of Directors
March 13, 2014

Balance sheet - assets

In EUR	Note	Dec. 31, 2013 IFRS	Dec. 31, 2012 IFRS
Intangible assets	3.1	60,248	82,387
Property and equipment	3.1	1,904,527	2,270,095
Work in progress	3.1	-	-
Current financial assets	3.2	666,974	657,560
Deferred tax assets		1,687,054	73,333
Total non-current assets		**4,318,803**	**3,083,375**
Financial assets at fair value through profit or loss	3.4	854,116,420	1,103,869,028
Other accounts receivable	3.6	4,728,419	6,543,434
Current tax assets		-	-
Cash and cash equivalents		125,965,148	66,527,465
Total current assets		**984,809,987**	**1,176,939,927**
TOTAL ASSETS		**989,128,790**	**1,180,023,301**

Application of IFRS 10 in the 2013 consolidated financial statements would have had the effect of reducing current assets by €232,082,906 and total assets would therefore have amounted to €757,045,884.

Balance sheet - liabilities

In EUR	Note	Dec. 31, 2013 IFRS	Dec. 31, 2012 IFRS
Paid-up share capital		836,256	835,311
Additional paid-in capital		105,256,131	112,538,672
Retained earnings		2,711,852	10,830,342
Interim dividend		-	(10,432,669)
Net income		10,053,417	24,309,689
Total equity attributable to equity holders	**3.3**	**118,857,656**	**138,081,345**
Minority interests	2.1	(180)	(180)
Total equity		**118,857,476**	**138,081,165**
Provisions	3.7	300,000	100,000
Non-current financial liabilities		-	-
Deferred tax liabilities		-	1,295,362
Non-current liabilities		**300,000**	**1,395,362**
Financial liabilities at fair value through profit or loss	3.4	861,055,004	1,033,140,716
Other liabilities	3.6	5,793,781	7,185,133
Taxes payable		3,014,389	165,339
Short-term debt		108,139	55,586
Current liabilities		**869,971,314**	**1,040,546,774**
TOTAL EQUITY AND LIABILITIES		**989,128,790**	**1,180,023,301**

Application of IFRS 10 in the 2013 consolidated financial statements would have had the effect of reducing current liabilities by €232,082,906 and total equity and liabilities would therefore have amounted to €757,045,884.

Statement of income

In EUR	Note	Dec. 31, 2013 IFRS	Dec. 31, 2012 IFRS
Net gain/loss on financial instruments at fair value through profit or loss	4.1	28,658,838	53,332,052
Other revenue	4.2	91,474	175,260
Administrative expenses	4.3	(4,867,958)	(5,325,803)
Taxes and duties		(468,288)	(1,321,058)
Payroll costs	4.4	(8,504,504)	(9,793,982)
Depreciation and amortisation expense		(829,875)	(880,322)
OPERATING INCOME		**14,079,687**	**36,186,146**
Provision expense	4.5	188,000	(275,875)
INCOME BEFORE TAX		**14,267,687**	**35,910,271**
Current taxes	4.6	(7,123,353)	(7,826,282)
Deferred taxes		2,909,083	(3,774,301)
NET INCOME		**10,053,417**	**24,309,689**
Attributable to equity holders		10,053,417	24,309,689
Attributable to minority interests		-	-
Number of ordinary shares		*52,265,990*	*52,206,912*
Earnings per ordinary share		*0.19*	*0.47*
Diluted earnings per ordinary share		*0.19*	*0.46*

Statement of comprehensive income

In EUR	Note	Dec. 31, 2013 IFRS	Dec. 31, 2012 IFRS
Net income		10,053,417	24,309,689
Change in foreign exchange		-	-
Remeasurement of available-for-sale assets		-	-
Remeasurement of hedging instruments		-	-
Remeasurement of non-current assets		-	-
Actuarial gains and losses on defined benefit plans		-	-
Share of other comprehensive income on equity-accounted affiliates		-	-
Income tax		-	-
Total other comprehensive income		**-**	**-**
NET INCOME AND OTHER COMPREHENSIVE INCOME		10,053,417	24,309,689
Attributable to equity holders		10,053,417	24,309,689
Attributable to minority interests		-	-

In EUR thousand	Paid-up share capital	Equity instruments and related reserves	Elimination of treasury shares	Retained earnings and net income	Total equity attributable to equity holders	Minority interests	Total equity
At December 31, 2011	**833**	**111,644**	**(1,293)**	**31,238**	**142,423**	**nm**	**142,423**
Issue of shares	-	-	-	-	**-**	-	**-**
Elimination of treasury shares	-	-	534	-	**534**	-	**534**
Share-based payments	-	-	-	(1,593)	**(1,593)**	-	**(1,593)**
Appropriation of net income 2011	1	603	-	(18,073)	**(17,468)**	-	**(17,468)**
2012 interim dividend	1	291	-	(10,416)	**(10,124)**	-	**(10,124)**
Net income for the year	-	-	-	24,310	**24,310**	-	**24,310**
At December 31, 2012	**835**	**112,539**	**(760)**	**25,466**	**138,082**	**nm**	**138,082**
Issue of shares	-	-	-	-	**-**	-	**-**
Elimination of treasury shares	-	-	(4,138)	-	**(4,138)**	-	**(4,138)**
Share-based payments	-	-	-	(1,165)	**(1,165)**	-	**(1,165)**
Appropriation of net income 2011	1	324	-	(14,067)	**(13,742)**	-	**(13,742)**
2012 interim dividend	-	(7,607)	-	(2,626)	**(10,233)**	-	**(10,233)**
Net income for the year	-	-	-	10,053)	**10,053**	-	**10,053**
At December 31, 2013	**836**	**105,256**	**(4,898)**	**17,663**	**118,858**	**ns**	**118,858**

nm: non-material

In EUR thousand	Dec. 31, 2013 IFRS	Dec. 31, 2012 IFRS
Net income	**10,053**	**24,310**
Net allocations to provisions	12	376
Net allocations to depreciation and amortisation	630	780
Change in deferred taxes	(2,909)	3,774
Others	0	220
Net cash provided by operations before changes in working capital	**7,786**	**29,460**
Changes in working capital	**81,128**	**50,567**
Net cash provided by operating activities	**88,914**	**80,027**
Net cash used by investing activities	**(252)**	**(341)**
Net cash provided by capital transactions	-	-
Dividends paid	(23,974)	(27,592)
Share-base payments	(5,303)	(1,280)
Net cash used by financing activities	**(29,277)**	**(28,872)**
Net change in cash and cash equivalents	**59,385**	**50,815**
Cash and cash equivalents, beginning of period	66,472	15,657
Cash and cash equivalents, end of period	125,857	66,472

1. Accounting principles and policies

The ABC arbitrage Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union as of December 31, 2013.

The Group has applied the new standards, amendments and interpretations adopted by the European Union that are compulsory as of January 1, 2013. It has elected not to adopt those whose application is optional in 2013.

The Group's fiscal year runs from January 1 to December 31, 2013. The consolidated financial statements are presented in euros.

The financial statements have been approved by the Board of Directors and audited by the Group's two Statutory Auditors, Ernst & Young et Autres and Deloitte & Associés.

IFRS 13, adopted by the European Union in regulation (EU) no 1255/2012 of 11 December 2012, and IAS 19R, adopted by the European Union in regulation (EU) no. 475/2012 of 5 June 2012, which are applicable for financial periods beginning on or after 1 January 2013, had no material impact on the consolidated financial statements.
The ABC arbitrage Group is particularly affected by the amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities. These amendments, which are applicable for financial periods beginning on or after 1 January 2014, were adopted by the European Union in regulation (EU) no. 1174/2013 of 20 November 2013 and published in the Official Journal of the European Union on 21 November 2013. They will be applied by the Group as from 1 January 2014. Under IFRS 10 – investment entities, the Group's investment funds will no longer be consolidated, but will be recognised as financial assets at fair value through profit or loss and measured at their net asset value. Application of IFRS 10 to the 2013 consolidated financial statements would have had no impact on net income and consolidated equity. The impact on current assets and liabilities is shown in the footnotes to the balance sheet under assets and liabilities.

Preparation of the financial statements required ABC arbitrage Group to make estimates and assumptions, which could have an impact on the amounts at which assets, liabilities, income and expenses are stated. The estimates, and the assumptions underlying them, have been made on the basis of past experience and of other factors considered to be reasonable in the circumstances. They thus serve as the basis for the judgement made in determining the carrying amounts of assets and liabilities that could not be determined directly from other sources. The definitive amounts that will be stated in ABC arbitrage Group's future financial statements may be different from the amounts currently estimated. These estimates and assumptions are reviewed on a continuous basis.

In view of the highly specific nature of its business, the ABC arbitrage Group is probably one of the only independent firms engaged solely in arbitrage trading within a non-banking financial statement presentation.

The Group conducts two types of arbitrage strategies:

➢ **Arbitrages without market risks (*Self-liquidating arbitrage strategies)***
These are transactions that do not generate any directional risk or any event risk. Positions are fully hedged and are governed by legally binding documentation that guarantees convergence on a fixed date. Exposure is limited to operational risks, such as hedging errors, calculation errors or custodian default.
Examples include the purchase of a convertible bond and the simultaneous short sale of a quantity of shares corresponding to the number of shares to be obtained on conversion of the bonds.

➢ **Arbitrages with market risks (*Suspensive clause arbitrage strategies*)**
Unlike the case of self-liquidating arbitrage strategies, the legally binding documentation governing suspensive clause arbitrage strategies does not guarantee convergence. The various risks involved are systematically identified and hedged using appropriate instruments.
A typical example of such a deal is a securities exchange offer. The arbitrage consists in the purchase of the offeree company's shares combined with the simultaneous sale of the offeror's shares. The quantities bought and sold reflect exactly the terms of the exchange offering. A suspensive clause can be that the offeror need not proceed with its offer if less than half the offeree company's shares are presented for exchange.

1.1. Fair value of financial instruments

The Group does not take any speculative directional positions on financial markets. Arbitrage transactions are designed to take advantage of an unjustified price differential between two financial instruments that may converge at a given parity and within a given timeframe. The Group qualifies as "unjustified" only those differentials that can be objectively measured by a mathematical or statistical process.
One of the instruments is qualified as the underlying, corresponding generally to the short position. The underlying may, for example, be the shares linked to convertible bonds or the shares of a predator.
The other instrument is qualified as the derivative, corresponding generally to the long position. The derivative may, for example, be the convertible bonds linked to shares or the shares of a takeover target.

The vast majority of the Group's arbitrage positions concern equities or equity derivatives, such as warrants, put warrants and convertible bonds. The securities are recorded in the balance sheet at cost, net of brokerage fees. The Group also trades in swaps for which the underlyings are assets listed on regulated markets. Financial instruments are held solely for trading purposes, and are recognised in the accounts at fair value through profit or loss.

To facilitate the determination of fair value, the IASB has adopted the US Financial Accounting Standards Board's fair value hierarchy set out in SFAS 157. The fair value hierarchy is comprised of the following levels:
• quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
• inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2);
• inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Financial assets at fair value through profit or loss are initially recognised and measured at their fair value and are remeasured at fair value in subsequent periods. Fair value is defined as the price at which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction on the valuation date. The price used is therefore the bid price for an asset held or a liability to be issued and the ask price for an asset to be purchased or a liability held. The fair value of a financial instrument is the quoted price when the instrument is quoted in an active market. If there is no active market for the instrument, fair value is determined using valuation techniques.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In view of the highly specific nature of the arbitrage business, the Group has refined its inputs. For financial instruments that are the predominant element of an arbitrage without market risks, the bid or ask price is the price quoted at the time when the financial instruments comprising the arbitrage were last simultaneously quoted. For financial instruments that are the predominant element of an arbitrage with market risks, the bid or ask price is the price quoted at the close of the financial instrument's main market. These refined inputs, which better reflect the economic substance of the arbitrage business and are the result of past experience, led to a €1,402 thousand reduction in the net fair value adjustment.

Cash and securities receivable and deliverable are netted off for each market counterparty, provided that they represent amounts that are connected, fungible, certain, liquid and payable. The netting off of such balance sheet items results in a fairer presentation of the Group's financial position. It has no impact on the income statement.

The financial assets and liabilities held for trading purposes are recognised on the balance sheet at fair value under *"Financial assets or liabilities at fair value through profit or loss"*. Changes in fair value are recorded in the statement of income for the period as *"Net gains or losses on financial instruments at fair value through profit or loss"*.

"Net gains or losses on financial instruments at fair value through profit or loss" correspond to revenues from proprietary trading activities discussed in the Group's management report, except for provisions. It includes all expenses and costs directly related to the trading business, including:

- ⇨ dividends;
- ⇨ gains and losses on disposal of financial assets at fair value through profit or loss;
- ⇨ changes in fair value of instruments held or due;
- ⇨ securities carrying or lending costs;
- ⇨ exchange gains and losses.

1.2. Share-based payment

ABC arbitrage has granted stock options to employees. On exercise of stock options, ABC arbitrage issues new shares or sells to employees shares previously acquired by the Group. Only the gain or loss arising on the sale of these shares is recognised in the financial statements.

IFRS 2 *"Share-Based Payment"* requires that an expense be recognised equal to the fair value of the services rendered by the employees in return for the equity instruments granted to them.

1.3. Portfolio revenue

Equity revenue is accounted when realized. Tax credits linked to equity revenue are included in "*Portfolio revenue*".

1.4. Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, provided that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

When the risk occurs or the expense is incurred, the provision release does not qualify as income as it does not result in a net increase in equity. It is therefore recognised as a reduction of the expense concerned. If the actual expense is lower than the provision and the balance of the provision is no longer required, the surplus then qualifies as income and is booked under the same line item as the original provision charge.

1.5. Corporate income tax

Corporate income tax includes current taxes and adjustments to deferred taxes. Deferred taxes are calculated on all timing differences between the recognition of income and expenses for financial reporting and tax purposes and on consolidation adjustments. Deferred tax assets and liabilities are calculated using the liability method, at the tax rates that are expected to apply when the timing differences reverse. They are not discounted.
The probability of deferred tax assets being recovered is reviewed regularly and may, where necessary, give rise to the derecognition of previously recognised deferred tax assets.

1.6. Earnings per share

Diluted earnings per share is equal to net income for the year divided by the number of shares outstanding at December 31, 2013 plus the impact of all potentially dilutive instruments.

2. Consolidation principles

2.1. Change in scope of consolidation

ABCA Opportunities Fund exploits M&A arbitrage opportunities. At 31 December, it had €48 million of funds under management.

ABCA Reversion Fund exploits statistical arbitrage opportunities in the futures and ETF markets. At 31 December, it had €147 million of funds under management.

ABCA Continuum Fund exploits statistical arbitrage opportunities in the equity markets. At 31 December, this fund has no activity.

ABCA FX Fund exploits statistical arbitrage opportunities in the forex markets. At 31 December, it had €24 million of funds under management.

ABCA Inference Fund exploits futures strategies. At 31 December, it had €56 million of funds under management.

ABCA Multi Fund is a diversified fund that invests in other funds managed by the group.

These funds are managed by ABC arbitrage Asset Management, a portfolio manager, and are housed within ABCA Funds Ireland plc.

ABC arbitrage previously owned 100% of a German subsidiary called BC Finanzberatung GmbH, which it decided to place in voluntary liquidation.
In January 2012, a German court found that the liquidated subsidiary was entitled to make a claim as a creditor. Accordingly, in its capacity as interested party and having the right to take action, ABC arbitrage asked the competent German court to re-open the liquidation procedure and its request was granted on 5 November. The subsidiary had no business activities in 2012 other than its action to recover the receivable. In 2013, it had no business activity other than completing the associated legal and tax formalities.

In December 2013, ABC arbitrage purchased 10,000 €10 euro par value shares issued by Quartys Ltd, representing 100% of its share capital at 31 December 2013. Quartys had no business activity in 2013.

2.2. List of consolidated companies

All Group companies are fully consolidated.

Before adjustment for the interest held via ABCA Multi Fund, the Group's percentage interests were as follows:

Company	Country	% interest
ABC arbitrage	France	Parent company
ABC arbitrage Asset Management	France	100%
ABCA Global Fund	France	100%
BC Finanzberatung GmbH	Germany	100%
Quartys	Ireland	100%
ABCA Opportunities Fund	Ireland	22.7%
ABCA Reversion Fund	Ireland	5.3%
ABCA Continuum Fund	Ireland	0.0%
ABCA Fx Fund	Ireland	0.2%
ABCA Inference Fund	Ireland	0.4%
ABCA Multi Fund	Ireland	16.9%

After adjustment for the interest held via ABCA Multi Fund, the Group's percentage interests were as follows:

Company	Country	% interest
ABC arbitrage	France	Parent company
ABC arbitrage Asset Management	France	100%
ABCA Global Fund	France	100%
BC Finanzberatung GmbH	Germany	100%
Quartys	Ireland	100%
ABCA Opportunities Fund	Ireland	31.2%
ABCA Reversion Fund	Ireland	11.7%
ABCA Continuum Fund	Ireland	0.0%
ABCA Fx Fund	Ireland	16.4%
ABCA Inference Fund	Ireland	17.1%

3. Notes to the balance sheet

3.1. Property and equipment

Gross value

In EUR thousand	Gross value Dec. 31, 2012	Acquisitions	Retirements /disposals	Gross value Dec. 31, 2013
Concessions and similar rights	465	63	-	528
Equipment, fixtures and fittings	1,326	-	-	1,326
Vehicles	156	-	(74)	82
Office and computer equipment, furniture	3,566	182	-	3,748
Work in progress	-	-	-	-
Total gross value	**5,513**	**245**	**(74)**	**5,684**

Amortisation and depreciation

In EUR thousand	Dec. 31, 2012	Increases	Decreases	Dec. 31, 2013
Concessions and similar rights	(382)	(85)	-	(467)
Equipment, fixtures and fittings	(479)	(141)	-	(620)
Vehicles	(81)	(31)	71	(41)
Office and computer equipment, furniture	(2,218)	(373)	-	(2,591)
Total amortisation and depreciation	**(3,160)**	**(630)**	**71**	**(3,719)**

Intangible assets are amortised and property and equipment are depreciated over their estimated useful lives. Amortisation and depreciation expense for the year are reported in the income statement under "*Depreciation and amortisation expense*".

3.2. Other non-current financial assets

At December 31, 2013 and 2012, this item comprised security deposits paid.

3.3. Consolidated equity

Share-based payment – Horizon 2015 incentive programme

At its meeting on September 20, 2010, the Board of Directors decided to grant:

- 3,000,000 performance stock options to 59 grantees.
  The number of vested options will be determined in March 2015 based on cumulative consolidated net income for the five years from 2010 to 2014.
  At 31 December 2013, a total of 2,660,469 stock options would have vested if the performance conditions had been met in full. Based on actual results for 2010-2013 and assuming that 2014 income will correspond to the average for those three years, the number of stock options that would vest is about 450,000.
  The exercise price will be €7.1625, i.e. €9 euros less all interim or final dividends paid since 20 September 2010, capped at €6.48, and any legally required adjustments. The distribution of additional paid-in capital made in December 2013 led to an adjustment of the exercise ratio to 1.03018 shares per option.

- 500,000 performance shares vesting at the end of 2011 if cumulative consolidated net income for the two years 2010-2011 was at least €80 million. Based on actual net income for that period and given the continuing presence requirement, only 338,100 shares actually vested on September 20, 2012.

- 250,000 performance shares to 64 grantees, vesting at the end of 2012 if cumulative consolidated net income for the three years 2010-2012 was at least €120 million. Based on actual net income for that period and given the continuing presence requirement, only 135,240 actually vested on March 21, 2013.

- On February 14, 2012, 44,800 performance shares were granted to 4 grantees, vesting at the end of 2013 according to cumulative consolidated net income for the two years 2012-2012. Based on actual net income for that period and given the continuing presence requirement, only 10,662 actually should vest.

- On March 21, 2013, 60,000 performance shares to 6 grantees, vesting rateably at the end of 2014 according to cumulative consolidated net income for the two years 2013-2014.

The expense is deferred over the vesting period and a corresponding amount recorded in equity based on the overall value of the plan as determined on the date of award by the Board of Directors.

No expense was recognised in respect of 2013 (vs. €200 thousand in 2012).

The after-tax loss on share buybacks used during 2013 amounted to €593 thousand (vs. €1,813 thousand in 2012) and was deducted from consolidated equity.

Issue of warrants to subscribe for new shares or purchase existing shares (2011 BSAA)

In July 2011, ABC arbitrage issued 4,680,000 2011 BSAAs, which were purchased by 39 employees.

A BSAA is a warrant (option) entitling the holder to subscribe for new shares or purchase existing shares of the company in the future at a specified price and on specified terms and conditions. The purchase price per 2011 BSAA was set by the Board of Directors on July 5, 2011 at €0.45, within the price range determined by an independent accountant, and with no discount or employer's contribution. The exercise price is €9.20, corresponding to 128% of the average closing share prices quoted during the 20 trading sessions preceding July 5, 2011, and will be reduced by the amount of any dividend paid after July 12, 2011 with a minimum of €6.30.

In accordance with the commitments made to shareholders, the exercise ratio of each 2011 BSAA will range from 0.1 to 2 shares depending on cumulative consolidated net income for the period 2010 to 2014 inclusive. For example:
- if cumulative consolidated net income over that period is equal to €150 million, one 2011 BSAA will entitle the holder to 0.5 of an ABC arbitrage share;
- if cumulative consolidated net income over that period is equal to €250 million, one 2011 BSAA will entitle the holder to 1.5 ABC arbitrage shares;
- if cumulative consolidated net income over that period is equal to or more than €300 million, one 2011 BSAA will entitle the holder to 2 ABC arbitrage shares.

The 2011 BSAAs will be listed on the stock exchange by September 30, 2016 at the latest and will be exercisable from June 1, 2015 to June 29, 2018 inclusive.

The 2011 BSAAs will be held in the Group employee share ownership plan for a period of five years, except in special circumstances.

The proceeds received by the Group at the time of issue amounted to €2.1 million and were accounted for as share premiums.

Capital increase resulting from reinvestment of dividends

The Annual Shareholders' Meeting of May 31, 2013 decided to pay a final dividend for 2012 in a net amount of €0.27 per share. Shareholders had the option of receiving cash or reinvesting their dividend in shares.

At the end of the option period, 59,078 new ordinary shares, ranking *pari passu* with the existing shares, were issued at a price of €5.50 per share. The dividend ultimately paid in cash amounted to €13.74 million.

The total issue proceeds included €945.25 credited to paid-up capital and €323,984 credited to additional paid-in capital. The new ordinary shares are fully paid.

At the end of 2013, ABC arbitrage Group paid €0.20 per share. The ex-dividend date was 9 December 2013 and payment was made on 12 December 2013. Of the total dividend per share, €0.05133 was distributed from retained earnings and other reserves and €0.14867 from additional paid-in capital. Based on the number of ABC arbitrage shares eligible for the dividend, the total payout was €10.23 million.

At December 31, 2013, the parent company's share capital was represented by 52,265,990 ordinary shares with a par value of €0.016 each, all fully paid.

Treasury stock

During 2013, ABC arbitrage sold 89,197 of its own shares. At the same time, 100,522 shares were purchased under the market-making agreement with Kepler Cheuvreux.

The Group believes that its accretion policy is effective and continued to buy back shares on the market during the year. At December 31, 2013, ABC arbitrage held 1,021,246 of its own shares, acquired at a total cost of €4,898 thousand (at December 31, 2012, the company hold 125,159 of its own shares, acquired at a total cost of €760 thousand).

In accordance with IFRS, treasury stock is deducted from equity.

3.4. Financial assets/liabilities at fair value through profit or loss

At December 31, 2012, all financial assets and liabilities measured at fair value through profit or loss were classified as Level 1 in the fair value hierarchy described in note 1.1.

In EUR thousand	Quoted prices in active markets for identical assets or liabilities (Level 1)	Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (Level 2)	Unobservable inputs for the asset or liability (Level 3)	Total
Financial assets at fair value through profit or loss	1,103,869	-	-	**1,103,869**
Financial liabilities at fair value through profit or loss	(1,030,186)	(2,955)	-	**(1,033,141)**

At December 31, 2013, these instruments were classified as follows:

In EUR thousand	Quoted prices in active markets for identical assets or liabilities (Level 1)	Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (Level 2)	Unobservable inputs for the asset or liability (Level 3)	Total
Financial assets at fair value through profit or loss	854,116	-	-	**854,116**
Financial liabilities at fair value through profit or loss	(858,172)	(2,883)	-	**(861,055)**

The only instruments classified in Level 2 are cash forwards that are used to hedge fund units purchased in US dollars and are not therefore used as part of the Group's arbitrage business.

Fair value of financial assets and liabilities is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The basis for determining the fair value of financial instruments is the quoted price in an active market. If the instrument is not traded on an active market, fair value is determined using valuation techniques.

There were no transfers between the various levels of the hierarchy during 2013.

Details of "*Financial assets*" and "*Financial abilities*" are as follows:

In EUR thousands	a. Carrying amount (before netting)	b. Netted amounts	c. Carrying amounts after netting [a-b]	Financial assets at 31/12/13	Financial assets at 31/12/12
Non-derivative financial instruments	800,102	(9,004)	791,098		
Derivatives	404,344	(422,050)	(17,706)		
Commitments	240,054	(239,679)	375	**854,116**	*1,103,869*
Total long positions	**1,444,500**				
Cash and cash equivalents	221,237	(140,887)	80,350		

In EUR thousands	a. Carrying amount (before netting)	b. Netted amounts	c. Carrying amounts after netting [a-b]	Financial liabilities at 31/12/13	Financial liabilities at 31/12/12
Non-derivative financial instruments	(712,823)	9,004	(703,819)		
Derivatives	(422,050)	422,050	0		
Commitments	(261,004)	239,679	(21,325)	**(861,055)**	*(1,033,141)*
Total short positions	**(1,395,877)**				
Cash and cash equivalents	(276,798)	140,887	(135,911)		

Details of securities to be received and delivered are provided in note 5.1. Risks.
Cash reserves earn interest at variable rates indexed to benchmark market rates.

3.5. Guarantees given

Most financial instruments recorded under *"Financial assets at fair value through profit or loss"* have been given as collateral to the institutions that provide the financing.

3.6. Other receivables and payables

All receivables and payables are due within less than one year.

In EUR thousand	Other receivables	Other payables
Trade receivables/payables	142	(1,098)
Accrued income/expenses	846	(1,000)
Accrued taxes and payroll costs	3,740	(3,696)
Total at December 31, 2013	**4,728**	**(5,794)**
Total at December 31, 2012	*6,543*	*(7,185)*

Accrued taxes mainly comprise corporate income tax, withholding tax and dividend tax credits.

Accrued taxes correspond mainly to corporate tax, bonuses payable to employees and amounts due to social security organizations.

Trade payables are mostly payable at thirty days, end of month.

3.7. Provisions

In EUR thousand	
Total provisions at December 31, 2012	**100**
Provisions utilised in 2013	-
Provision reversal in 2013	-
Charge to provisions in 2013	200
Total provisions at December 31, 2013	**300**

4. Notes to the statement of income

4.1. Net gains on financial instruments at fair value through profit or loss

In view of the highly specific nature of its business, the ABC arbitrage Group is probably one of the only independent firms engaged solely in arbitrage trading.

Net gains on financial instruments at fair value through profit or loss amounted to €28,659 thousand versus €53,332 thousand in 2012.

This item includes all expenses and costs directly related to the trading business.

4.2. Other revenue

Other revenue comprises revenue from sub-letting premises amounted to €91 thousand versus €175 thousand during 2012.

4.3. Administrative expenses

Administrative expenses principally comprise data mining and processing costs, together with administrative and communications costs.

This item totalled €4,868 thousand in 2013 versus €5,326 thousand in 2012.

4.4. Payroll costs

The average number of employees was 78 in 2013 versus 77 in 2012.

Payroll costs include €6,085 thousand in fixed and performance-related compensation together with statutory and discretionary profit-sharing (€7,110 thousand in 2012), payroll taxes of €2,420 thousand (€2,464 thousand in 2012). Payroll-based taxes amounted to €321 thousand (€443 thousand in 2012).

The new *Crédit d'Impôt Compétitivité Emploi* (CICE) tax credit was recognised as a deduction from payroll costs in the amount of €33 thousand for 2013. This accounting treatment complies with the position published by the *Autorité des Normes Comptables* (ANC), the French accounting standards setter, in its information notice of 28 February 2013 and reflects the ultimate purpose of the legislation, which is to reduce payroll costs.

The Group does not provide any post-employment benefits (supplementary pensions or health insurance). Other long-term benefits are provided under defined contribution plans, which do not give rise to a future liability as the Group's only obligation is to make regular contribution payments.

During 2013, the following amounts were paid by Group companies to the executive officers of the parent company:

In EUR	
Directors' fees	360,050
Salary and other benefits	170,400
Gross bonuses	53,915

4.5. Provision expense

Provision expense at December 31, 2013 represented income of €188 thousand versus loss of €276 in 2012. Provision expense mainly concerns tax receivables that are difficult to recover.

4.6. Corporate income tax

The difference between the theoretical corporate income tax charge determined by applying the standard French tax rate to pre-tax income and the actual tax charge – corresponding to an effective tax rate of 29.54% - can be explained as follows:

Standard French tax rate	**34.43%**
Impact of differences in foreign tax rates	(0.71)%
Impact of tax credit	(4.03)%
Impact of the revenue recognition method	(0.16)%
Effective tax rate	**29.54%**

ABC arbitrage elected for group tax relief with ABC arbitrage Asset Management on January 1, 2004.

The tax group has signed an agreement whereby each member of the group (subsidiary and parent) recognises in its accounts the income tax that would be payable if it was taxed on a stand-alone basis. The charge is therefore calculated on their own taxable profit after deduction of any prior year losses.

Any tax savings made by the tax group through the utilisation of tax losses are retained by the parent company and treated as an immediate gain in the year. The parent company will therefore incur a tax charge in the year in which the subsidiary becomes profitable.

5. Other information

5.1. Risks

Market risks

✓ Equities risks

The Group never takes any directional arbitrage positions on the financial markets. The only risks incurred are on suspensive clause arbitrage strategies.

The risk is never related to an unfavourable movement in market prices, for example a stock market crash, but can arise from an unfavourable event related to one of the above operations. By definition, risks associated with "suspensive clause arbitrage strategies" are never related amongst the different arbitrage positions and can therefore be spread. In order to mutualise risks, the Group enters into as many transactions as possible all over the world.

The following table summarizes the positions taken on markets at December 31, 2013:

Type of arbitrage (in EUR thousand)	**Total long positions**	**Total short positions**
Borrowed securities not yet sold or symmetrical exposure	159,167	(159,167)
Arbitrage without market risks	1,136,652	(1,145,712)
Arbitrage with market risks	148,681	(90,998)
Total for arbitrage transactions	**1,444,500**	**(1,395,877)**

- The first line corresponds to expositions to assets and liabilities that are strictly identical. They are not netted off because they concern different counterparties. The only risk on these positions is a counterparty risk;
- The arbitrage transactions shown on the second line are defined in the "Arbitrage strategies without market risks" note (1);
- The arbitrage transactions shown on the third line are defined in the "Arbitrage strategies with market risks" note (1).

The process of market risk taking on trading activities is governed by:
- decision-making rules;
- exposure limits;
- delegated authorities.

The risk management process is overseen by the *"Market Risks Department"*, which monitors the following on a day-to-day basis:
- existence of effective, controlled position hedges;
- compliance with trading limits;
- appropriateness of trading strategies used by the traders in light of market conditions;
- accuracy of potential loss calculations.

The *"Market Risks Department"* has the power and the duty to ensure that these rules are strictly applied. If a position has to be partially or fully unwound as a result, the Management Committee sets out an action plan and timetable.

✓ *Interest rate risk*
Overall interest rate risk is constantly monitored. For most arbitrage transactions, the amount of the long position is the same as the amount of the short position and the risk is therefore not material. If a specific arbitrage transaction carries a material interest rate risk, this risk is systematically hedged.

✓ *Currency risk*
The Group may hold assets and financial instruments denominated in currencies other than the portfolio's reference currency. Exchange rate fluctuations against the reference currency may have a positive or negative influence on their value.

Currency risks are systematically hedged by borrowing or investing cash surpluses in the appropriate currency. The only risk is of a secondary nature – the profit realized in a given currency may vary if it is not converted into euros. The Group regularly converts profits into euros and its exposure to currency risk is therefore marginal.

Currency hedging is managed on a day-to-day basis by the traders for exposure generated by trading activities and by the *"Financial Operations Department"* for exposure generated by all other securities transactions.
The overall hedging position is verified daily by the *"Market Risks Department".*

At December 31, 2013, a 2% rise (fall) in the euro against all currencies would, all other things being equal, have reduced (increased) net assets by €163 thousand.

Credit and counterparty risk

This is the risk of a counterparty being unable to honour its contractual obligation to make a cash payment or to deliver a certain quantity of securities to the Group, due to a deterioration in its financial position.

The ABC arbitrage Group deals solely with credit institutions and investment companies. All of these counterparties are subject to specific controls by the authorities in the countries in which they operate, to ensure that they are able to honour their commitments.

The Group's portfolio mainly comprises listed equities. All transactions are settled against payment. The risk of default by brokers is therefore considered to be minimal, as the securities are not delivered until the broker has made or received payment. The transaction is cancelled if one of the parties does not fulfil its obligations.

The Group uses a prime broker to finance its business. A proportion of the assets deposited with the prime broker are pledged as collateral. The prime broker may use this collateral for its own account but is required by law to return the assets or equivalent assets upon first demand.

The risks related to the use of a prime broker are:
- interruption or discontinuation of financing as the prime broker has the right to amend or discontinue the financing agreement;
- failure by the prime broker to return the assets used due to market events;
- failure by the prime broker to return sums due as a result of bankruptcy;
- incorrect valuation of liabilities and/or assets pledged as collateral.

The Group manages this counterparty risk through the use of standard master agreements (clearing and collateral agreements), close monitoring of counterparty credit ratings and diversification of its banking relationships to spread risk while weighing up the pricing benefits of larger-scale volumes.

Liquidity risk

This is the risk that the Group will be unable to convert its assets into cash sufficiently quickly to meet demands for repayment received from creditors.

The assets of the ABC arbitrage Group consist almost exclusively of highly liquid securities quoted on organized markets and its liabilities mainly comprise debts towards banks or investment companies that are secured by the securities held as assets. Authorized financing volumes are contractually based on the assets lodged as collateral.

The Group's actual liquidity position, taking into account existing financing agreements and guarantees given to partner banks, is constantly monitored to ensure that the Group benefits from considerable flexibility in conducting its business as well as substantial cash reserves.

At December 31, 2013, the liquidity position was as follows:

In EUR thousand	Less than one month	One to three months	Three to twelve months	More than twelve months	Total
Financial assets at fair value through profit or loss	854,116	-	-	-	854,116
Other receivables	430	1,046	3,253	-	4,728
Deferred tax assets	-	-	-	-	-
Cash and cash equivalents	125,965	-	-	-	125,965
Total current assets	**980,512**	**1,046**	**3,253**	**-**	**984,810**
Financial liabilities at fair value through profit or loss	(632,470)	(228,585)	-	-	(861,055)
Other liabilities	(2,330)	(2,808)	(561)	(96)	(5,794)
Current tax liabilities	-	-	(3,014)	-	(3,014)
Short-term borrowings	(108)	-	-	-	(108)
Total liabilities	**(634,908)**	**(231,393)**	**(3,575)**	**(96)**	**(869,971)**
Net balance	**345,604**	**(230,347)**	**(323)**	**(96)**	**114,839**

Operational risk

In 2013, losses due to operational incidents represented less than 2% of net gains on financial assets and liabilities at fair value through profit or loss.

Arbitrage activities are governed by written procedures backed up by rigorous internal controls. However, these procedures and controls cannot provide absolute assurance that operational losses will not occur and due care is taken at all times as this is a structural risk in the arbitrage business.

5.2. Consequences of financial crisis

The Group has never had any exposure to the subprime mortgage market nor to any directly correlated derivatives.

The main risks in this type of market environment are:
- a rise in the failure rate of arbitrages with market risks;
- drying up of deals in the financial markets (mergers & acquisitions, issuance of various products);
- delays in completing deals, which could lead to carrying costs in excess of the expected profits.

5.3. Segment information

Revenues by business segment

Note: In the following tables, positions correspond to long positions valued at the convergence price, adjusted for the value of any payments to be made or received to close out the transaction.

Breakdown of arbitrage transactions by type of risk

	Average number of arbitrage transactions		Average positions (value)	
Year	**2013**	2012	**2013**	2012
Arbitrages without market risks	**55%**	51%	**88%**	88%
Arbitrages with market risks	**45%**	49%	**12%**	12%
Total	**100%**	100%	**100%**	100%

Breakdown of arbitrage transactions by geographic area

	Average number of arbitrage transactions	
Year	**2013**	**2012**
Euro zone (excluding France)	**10%**	13%
France	**2%**	2%
USA	**64%**	58%
Other markets	**24%**	27%
Total	**100%**	**100%**

Breakdown of arbitrage transactions by geographic area and type of risk

1er half 2013	Arbitrages without market risks	Arbitrages with market risks	Total
Euro zone (excluding France)	3%	1%	**4%**
France	8%	0%	**8%**
USA	59%	7%	**66%**
Other markets	18%	4%	**22%**
Total	**88%**	**12%**	**100%**

2nd half 2013	Arbitrages without market risks	Arbitrages with market risks	Total
Euro zone (excluding France)	3%	1%	**4%**
France	5%	0%	**5%**
USA	63%	7%	**70%**
Other markets	17%	4%	**21%**
Total	**88%**	**12%**	**100%**

5.4. Related party transactions

There were no material transactions with ABC participation et gestion and Aubépar Industries in 2013.

5.5. Fees paid to the Statutory Auditors

	ERNST & YOUNG ET AUTRES				DELOITTE ET ASSOCIES			
	Amount in EUR (excluding VAT)		%		Amount in EUR (excluding VAT)		%	
	2013	2012	2013	2012	2013	2012	2013	2012
Audit fees	32,150	31,500	50%	50%	32,150	31,500	50%	50%
Other services provided to fully consolidated subsidiaries	30,650	76,500	32%	72%	66,650	30,000	68%	28%
Other audit-related work	6,000	25,766	38%	100%	10,000	-	62%	-
TOTAL	**68,800**	**133,766**	**39%**	**68%**	**108,800**	**61,500**	**61%**	**32%**

To the shareholders,

In compliance with the assignment entrusted to us by the Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2013, on:

- the audit of the accompanying consolidated financial statements of ABC arbitrage;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis or by selection, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements present fairly the assets and liabilities, financial position and results of the companies included in the consolidated group, in accordance with the International Accounting Standards and International Financial Reporting Standards adopted by the European Union.

II. Basis of opinion

In accordance with the requirements of Article L.823-9 of the French Commercial Code relating to the justification of our assessments, we draw to your attention the following matters:

- As explained in note 1.1, the Group has determined the market price of financial instruments measured at fair value based on the bid price for assets held and liabilities to be issued and on the ask price for assets to be purchased and liabilities held. At 31 December 2013, the Group refined its estimate in order to use market prices that are closer to the actual prices obtained in arbitrage transactions. We assessed the data and assumptions used to determine these prices, reviewed the Group's calculations and assessed the appropriateness of the related disclosures made in the notes to the financial statements.
- As indicated in notes 1.2 and 3.3 to the consolidated financial statements, the Group has granted employees stock options and shares without consideration, for which an expense has been recognised equal to the fair value of the services rendered by the employees in return for the equity instruments granted to them. Our work consisted in assessing the data and assumptions used to determine this fair value, reviewing the Group's calculations and verifying the appropriateness of the related disclosures made in the notes to the financial statements.

The assessments were made in connection with our audit procedures on the consolidated financial statements, taken as a whole, and contributed to the formulation of our unqualified audit opinion expressed in the first section of this report.

III. Specific procedures and information

As required by law, we have also performed specific verification of the information concerning the group given in the management report.

We are satisfied that this information is fairly stated and agrees with the consolidated financial statements

Neuilly-sur-Seine & Paris-La Défense, April 25, 2014

The Statutory Auditors

ERNST & YOUNG et Autres	DELOITTE & ASSOCIES
Olivier DURAND	Jean-Marc MICKELER