ses imagotag

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A word from the CEO

Thierry GADOU
Chairman & CEO,
SES-imagotag

The first half performance was very successful both commercially, with strong growth in revenues and orders, and operationally and financially, with an improvement in all indicators compared to 2021.
Our top-line growth confirms once again that physical retailers across the globe are increasingly adopting tools for the digitization of their physical stores. We are proud of our leadership in providing the state-of-the-art solutions and technology that our customers prefer and we are equally gratified by the expanding geographic footprint of our products and services.
Growth was strong and balanced in both Europe and the rest of the world, with the US, leading the way among the countries with the strongest growth. The market penetration of value-added solutions continued its strong momentum during the first half of the year.
Headwinds in the form of global supply chain issues were expected to have an impact on our results this year. I am pleased to report that we are managing well within the current complex operating context.
The ongoing implementation of our Vusion-23 strategic plan further improved our business model, our resilience and profitability despite competitive pressures on component costs in combination with the rising dollar.
Our strong EBITDA performance, despite this difficult context, is the result of the increasing deployment of our value-added solutions coupled with the control of our production costs and operating expenses. As always, we are grateful to our clients for their preference, and to our employees for their commitment and hard work.
We are confident in our ability to meet our guidance for the year (40% growth), and increased profitability.
We are on target to reach the objectives outlined in our VUSION 23 strategic plan.

Half Year result

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Pursuant to European Regulation on international accounting standards, the consolidated financial statements of the SES-imagotag Group for the period ended June 30th, 2022 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable on this date as approved by the European Union, as of the closing date of these financial statements.

€m	1st Half 2022	1st Half 2021	changes
Revenues	**285.9**	**202.8**	**41%**
Variable Cost Margin	**61.1**	**42.3**	**44%**
% rev.	*21%*	*21%*	*+0,6pt*
Operating expenses	(35.7)	(27.2)	31%
% rev.	*-12%*	*-13%*	*-1pts*
EBITDA	**25.3**	**15.0**	**68%**
% rev.	*9%*	*7%*	*+2pts*
Depreciation and Amortization	(13.0)	(11.3)	15%
Current EBIT	**12.3**	**3.7**	**233%**
% rev.	*4%*	*2%*	*+2pts*
Non-recurring / non-cash items	(3.9)	(1.3)	203%
EBIT	**8.4**	**2.4**	**249%**
% rev.	*3%*	*1%*	*+2pts*
Financial Income / (expense)	(1.1)	(0.9)	22%
Tax	(2.4)	(0.5)	381%
Net Income / (loss)	4.9	1.0	380%
% rev.	*2%*	*1%*	*+1pt*

1.1 Comments on Financial Results for the period ending June 30, 2022

Revenues

Revenues in €m	1st Half 2022	1st Half 2021	changes
EUROPE & MEA	221.3	157.1	41%
America & Asia	64.6	45.7	41%
Group total revenues	**285.9**	**202.8**	**41%**

H1 2022 Sales growth of +41%

In the first half of 2022, sales reached a record-breaking €285.9m, a +41.0% increase compared to the same period last year, thus reconfirming the very dynamic top-line growth reported in Q1 2022. Sales for the second quarter of the year increased by +39.6% to €165.7m.

On a 12-month rolling basis, sales grew by +35.0% to €505.9m, with Europe and RoW contributing equally to this growth rate.

Order entries in H1 2022 increased +24.5% to €385.0m, compared to €309.3m last year, driven by strong momentum in North America and Germany.

Europe

Sales in Europe during the first half of the year totaled €221.3m, a growth rate of +40.8%, fueled by very strong activity in Germany as well as dynamic sales growth in France and southern Europe.

On a 12-month rolling basis, sales in Europe increased by +34.9%.

Rest of World (RoW)

H1 2022 sales in RoW increased to €64.0m, a growth rate of +40.0% versus the previous year, with Q2 top-line growth of +45.3% underscoring an accelerating trend. This growth was accounted for primarily by North America, which is the company's fastest growing region, with recently-signed contracts such as the one with Mattress Firm, a leading bedding company with 2,300 stores across the U.S.

On a 12-month rolling basis H1 2022 in RoW increased by +34.9%.

Software, Services and Non-ESL Solutions (VAS)

Sales of SES-imagotag's software, services and non-ESL solutions (abbreviated as VAS) continued their very dynamic growth trajectory during the first half of the year. The VAS top-line grew +65% to €45m and accounted for 15.8% of total H1 2022 sales, an increase of +2.5 points compared to the 13.3% share of revenue at mid-year 2021.

EBITDA

The variable cost margin (VCM) grew to €61.1m in the first half of 2022, compared to €42.3m in H1 2021, for an increase of 44% and a margin rate of 21.4% of sales revenue in H1 2022 versus 20.8% in H1 2021. This +0.6 point gain was achieved in spite of the inflationary pressures and unfavorable foreign exchange trends during the reporting period.

The variable cost margin rate increase was driven mainly by the following factors:

a. A more favorable mix of VAS versus ESLs (+2.5 percentage points, as explained above);

b. Price increases for the company's products in order to partially offset the higher cost of electronic components;

c. An unfavorable trend in the USD/EUR exchange rate, which had a negative 3-point impact on MCV in H1 2022 as compared to H1 2021.

Within this context, the improvement in the MCV margin rate is particularly noteworthy.

Operating expenses decreased from 13% of sales in the first half of 2021 to 12% in H1 2022, underscoring the company's progress toward its operating expense target of 10% of sales revenue, to be reached in 2023, as outlined in the VUSION-23 strategic plan.

Most of the increase in operating expense is accounted for by payroll expenses, which increased by 31% in the first half of 2022 versus the year ago period.

The Group's EBITDA grew to €25.3m for the first half of 2022, compared to €15.0m in H1 2021. The EBITDA margin expanded to 8.9% of sales revenue in the first half of 2022, versus 7.4% of sales in H1 2021. This EBITDA improvement -- both in absolute value and as a percentage of sales -- was driven by the improvement in the variable cost margin rate and the absorption of operating expenses, which increased in a disciplined manner, within the context strong sales growth.

Depreciation and Amortization expense increased by 15% between H1 2021 and H1 2022, from -€11.3m to -€15m, reflecting the significant levels of investment made in R&D and innovation during the period (V:Cloud, V:Ads, V:Captana, V:IoT, new generations of technology and shelf labels), industrial projects, digitalization process projects (Salesforce, Microsoft), and performance improvement (SAP project).

Non-recurring and non-cash items totaled -€3.9m in the first half of 2022, encompassing the amortization of goodwill allocated to the technology gained in the acquisition of Imagotag, equivalent to -€0.4m, and the cost (with no cash impact) of the performance-based share plans for the Group's employees (IFRS 2) totaling -€3.5m.

Net finance expense/income

A net financial loss of -€1.1m was recorded in the first half of 2022, compared to a net financial loss of -€0.9 in H1 2021, made up primarily of:

a. -€1.1m attributable to interest expense;

b. +€0.1m attributable to net foreign exchange impact;

c. -€0.1m due to the impact of IFRS standard 16.

The Group's pre-tax income totaled +€7.3m in H1 2022, compared to +€1.5m in the year ago period. The tax charge for the first half of 2022 was -€2.4m, versus a charge of -€0.5m for the first six months of 2021.

Taxes

The Group's pre-tax result for this half year is positive and should be positive for the whole year: a prorata tax amount for the first 6 months has consequently been calculated at Group level. The corresponding expense for the first half of 2022 amounts to -€2.4 million, versus -€0.5 million for the first 6 months of 2021.

Net income

Net income in the first half of 2022 was positive and totaled €4.9m, of which -€0.1m is attributable to minority shareholders, versus net profit of €1m in H1 2021.

1.2 Investments

En M€	1st Half 2022	1st Half 2021
IT and R&D capitalized expenses	12.8	10.2
Industrial	1.4	1.3
Hardware as a service	0.5	2.3
Others	1.1	0.5
Total CAPEX	**15.8**	**14.3**

During the first half of 2022, the Group's investment expenditure totaled €15.8m, compared to €14.3m in H1 2021, for an increase of 10%.

Capitalized R&D expense remains the company's largest area of investment. These investments are essential to maintaining the Group's global leadership position and competitiveness, and for developing the products and services that will ensure profitable growth going forward.

Investments in information technology enable the digitization of business processes and SES-imagotag's ability to become a totally cloud-based enterprise, thus ensuring ongoing optimization in productivity and service quality for the company's clients.

In total, capitalized R&D and IT expenses increased by 25% between the first half of 2021 and the first half of 2022. Most of this increase is attributable to R&D expense, while the capitalized IT expense remained stable between the two reporting periods.

During the first half of 2022, the Group did not sign any new "ESL as a service" contracts. Only contracts signed before 2022, and for which the execution has taken place in 2022, had a slight impact on the investment expense in of H1 2022.

1.3 Comments on Cash and Debt for the period ending June 30, 2022

Net financial debt (excluding the impact of IFRS 16) was -€5.4m at June 30, 2022 compared to net cash of €8.3m at December 31, 2021, for a net use of cash of €13.7m during the first six months of 2022. In light of the strong growth delivered during the period, this level of cash use is considered moderate and fuels the ongoing growth of EBITDA, disciplined investment expense and working capital, which at June 30, 2022, are equivalent to less than 10% of annualized sales revenue.

Cash Flow statement

€ m	**H1 2022**	**H1 2021**	**FY 2021**
EBITDA before IFRS16 impact	24.2	13.9	30.0
capital expenditures	(15.8)	(14.4)	(30.0)
Change in WCR	(22.1)	(9.1)	(3.2)
Operational Cash-flow	***(13.7)***	***(9.6)***	***(3.2)***
Net finance income (expense) before IFRS 16 impact	(0.8)	(0.8)	0.2
Taxe	(0.3)	(0.1)	(1.1)
Other	2.9	1.2	4.8
Cash-flow	***(12.0)***	***(9.3)***	***0.7***
Financial investments	(1.7)		(0.5)
Capital increase / cash from capital installment in JV		4.1	4.3
Change in Net Debt	**(13.7)**	**(5.2)**	**4.5**
Net cash and cash equivalent	**(5.4)**	**(1.2)**	**8.3**
Cash and cash equivalent	75.7	80.5	89.8
Net debt (before IFRS16 impact)	(81.1)	(81.7)	(81.5)
Net debt (after IFRS16 impact)	*(88.4)*	*(89.0)*	*(88.7)*

1.4 Major KPIs

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

EBITDA is not a standard criterion, with a unique and generally accepted definition: it cannot be considered as a substitute for operating result, net result, cash flows from operating activities nor a liquidity measure. Other companies could use a different EBITDA breakdown as shown in the table below.

The Group considers EBITDA to be a performance indicator that presents operating income before depreciation and amortization of fixed assets, restated for some items during the period that affect comparability with previous reporting periods. It also represents a good approximation of the cash flow generated by operating activities before taking into account investments and changes in working capital. Consequently, restatements include significant non-recurring items or items that will never lead to a cash disbursement

The Variable Cost Margin consists in deducting the cost of goods sold as well as installations costs and transportation costs, from the total revenue.

Bridge between operating result and EBITDA is as follows:

€ m	H1 2022	H1 2021
Operating profit (loss)	**8.4**	**2.4**
- Depreciation and amortization of acquired technology	(0.5)	(0,5)
- Share-based payments (IFRS 2)	(3.4)	(0.8)
= Profit (loss) from continuing operations (current EBIT)	**12.3**	**3.7**
- Depreciation and amortization expense of property, plant and equipment and intangible assets	(13.0)	(11.3)
= EBITDA	**25.3**	**15.0**

Net debt/net cash:

These indicators define, respectively, the Group's net financial debt or net cash position, calculated based on the following consolidated balance sheet items: (-) Loans (-) Current and non-current lease liabilities (IFRS16) (+) Cash and cash equivalents.

If the result is negative, the level of Loans exceeds the level of Cash and Cash equivalents, and is therefore considered net debt or net financial debt. If, however, the result is positive, then the level of Loans is lower than the level of Cash and Cash equivalents and is considered Net Cash.

Change in Working Capital

Change in working capital is calculated based on the following items from the consolidated balance sheet: (+) Receivables (gross value, before depreciation) (+) inventory and works-in-progress (gross value, before depreciation) (-) supplier payables and related accounts (+) other current debt (-) other non-current liabilities (-) other debt and adjustment accounts

1.5 Post closing event

Changes to the JV in China and new strategic and equity partnership with BOE YiYun

On July 22, 2022, the company's Board of directors approved the transfer of the 51% share that SES-imagotag holds in its joint venture in China in exchange for 9.5% of BOE-YiYun, a Chinese tech sector company. BOE-YiYun, whose largest shareholder is BOE, specializes in digital solutions for the culture, education and retail sectors. The company was recently spun off from BOE, with several top-tier Chinese investors taking shareholding positions in BOE-Yiyun. The CEO of BOE-YiYun is George Yao, a non-executive director representing BOE on SES-imagotag's Board, and the main architect of the 2017 strategic and equity partnership between SES-imagotag and BOE.

BOE-Yiyun is a fast-growing company that is expected to seek a stock-market listing in coming years. At the conclusion of this operation, the SES-imagotag/BOE JV will be integrated into BOE-YiYun in order to accelerate the company's growth in the retail sector. SES-imagotag will thus become a significant shareholder and strategic partner of BOE-YiYun, a rapidly expanding company that possesses all of the attributes required for success in the Chinese market.

This operation is subject to a number of regulatory obligations in China, and is expected to be finalized by the end of Q3 2022, with the following expected main impacts to the consolidated financial statements:

- An accretive effect on the Group's consolidated EBITDA and EBITDA margin;
- A decrease of approximately €20m in consolidated cash (transferred with the JV).

This operation will not affect previously communicated guidance for 2022 and 2023.

1.6 Outlook

Amidst a complex geopolitical context and ongoing stress on global supply chains, the Group remains confident in its ability to deliver 2022 global top-line growth above +40% for annual sales on the order of €600m, and in its continued profitability increase trajectory – in spite of inflationary pressure – via the ongoing execution of its business model and its strong value-added proposition.

Risk factors and uncertainties

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2.1 Risk factors and uncertainties

Before purchasing Company shares, investors are invited to examine all of the information contained in this annual report, including the risk factors described below. These risks are, at the registration date of this annual report, those which the Company believes could have a material adverse effect on the Group and its business, financial position, results, outlook and share price, and which are important for making investment decisions. However, we draw investors' attention to the fact that the list of risks presented below is not exhaustive and that other risks may or may not exist that are unknown or whose occurrence is not considered as likely have a material adverse effect on the Group and its business, financial position, results or outlook at the registration date of the this annual report.

The Audit Committee assesses the risks that may have consequences for the Group's business, as well as the appropriateness of the procedures implemented. The Audit Committee's findings and conclusions are presented to the Board of Directors, which approves the main risk factors included in this report.

In accordance with the provisions of Article 16 of Regulation (EU) 2017/1129 of the European Parliament and of the Council, this chapter presents the main risks that may, as of the date of this report, affect the Group's business, financial position, reputation, results or prospects, These risks have been identified in the context of the Group's risk mapping, which assesses their criticality, i.e., their severity and probability of occurrence, after taking into account the action plans in place (described in the "Risk Management" section for each risk factor). Within each of the risk categories mentioned above, the risk factors that the Company considers, at the date of this report, to be the most significant (indicated by an asterisk *), particularly in terms of their criticality, are mentioned first.

TYPE OF RISKS IDENTIFIED	
Strategic	
	Economic conditions*
	Geopolitics*
	Climate change
	The Group's development
	Competitive environment
	Technological changes
	Acquisitions
	Supplier shareholder
Operational	
	Supplier dependency, industrial partners/EMSs, and the supply and cost of components*
	Safety and security, cybersecurity and data privacy*
	Defective products and services*
	Human resources*
	Customer dependency
	Life cycle/Obsolescence
	Management
	Corruption/Ethics
	Health risk
Legal and compliance	
	Intellectual property
	Regulations
	Taxation
	Ongoing litigation and investigations
Financial	
	Exchange rate*
	Liquidity
	Interest rate
	Counterparty

*Within each of the risk categories mentioned above, the risk factors that the Company considers, at the date of this report, to be the most significant (indicated by an asterisk *), particularly in terms of their criticality, are mentioned first.*

2.1.1 Risks associated with the Group strategy

2.1.1.1 Risks associated with economic conditions and their developments*

Changes in demand for products offered by the Group are generally linked to changes in macroeconomic conditions, in particular changes in gross domestic product in the countries where the Group markets its products and services: recessions and deflation can dampen demand.

In addition, the introduction or increase of customs barriers and other trade restrictions by some countries, such as the measures announced in the spring of 2018 by the United States government, could cause a slowdown in world trade. This could adversely affect the growth of the global economy and, consequently, the Group's business.

Moreover, insofar as almost all of the Group's products are assembled by External Manufacturing Services (EMS's) located in China, the increase in customs barriers could lead to a contraction in exports of the Group's products to the United States.

In addition, during periods of economic recession, some of the Group's customers may experience financial difficulties that could lead to payment delays or even arrears.

The Covid-19 pandemic significantly affected the global economy in 2020 and 2021, and the Russian invasion of Ukraine in early 2022, accentuated the slowdown of the global economy. Global growth is expected to fall from 5.7% in 2021 to 2.9% in 2022, significantly lower than the 4.1% forecast last January according to the World Bank (press release of 7 June 2022). This pace of growth is expected to continue until 2023-2024, in a context marked by the war in Ukraine, which is severely disrupting activity, investment and trade in the short term, by the slowdown in the catch-up effects of demand and by the gradual lifting of fiscal and monetary support measures. Due to the combined damage of the pandemic and the war, the level of per capita income in developing countries this year will be almost 5% below the pre-COVID trend.

If the current economic environment were to deteriorate, this could have a material adverse effect on the Group and its business, financial position, results and outlook.

Global economic risk management: the Group constantly monitors global economic conditions (economic growth, inflation, exchange rates, borrowing rates, customs barriers, etc.).

The Group pays attention to the balance of its worldwide shareholders base, in line with its commercial footprint;

The Group benefits from a global and diversified portfolio of countries and geographical regions to optimize its overall growth, reduce its regional dependence and improve its risk profile.

This strategy proved its relevance during the health crisis: as some regions remained very dynamic and others were severely affected by the crisis, the Group managed to maintain strong overall growth (the Group's revenue growth reached 46% in 2021).

Management of the risk of trade restrictions (customs barriers or specific taxes, etc.): the Group has a global network of specialist correspondents (lawyers and tax specialists) who help it understand regulatory changes likely to have an impact on the Group's business.

In the specific case of customs duties applied in the United States on products manufactured in China, the Group has developed and keeps on developing a multiple-supply-chain locations, both in Asia and the Americas.

2.1.1.2 Risks associated with geopolitics events*

Significant geopolitics events such as the invasion of Ukraine in February 2022, may trigger safety issues, economic turmoil as well as organizational malfunctioning. Depending on the location of the geopolitics events, criticality may vary for the Group, nevertheless, the concerns may involve: our own employees health and safety, sourcing risks, logistics routes or logistic capacities availability, cyber risks, customer credit issues, and potential stalled situation in market development for several regional areas.

Regarding the specific situation in Ukraine, the Group has not planned for a significant business development in this area and revenues (both past and budgeted) account for less than 2% of our activity. Nevertheless, a few long-time partners are sitting in the area and credit issues have arisen.

Regarding Cyber risks please refer to paragraph 3.1.2.1.

Regarding Customer dependency please refer to paragraph 2.1.2.5.

Organizational malfunctioning is the key issue as logistic routes are currently impacted by these events: trucks delivering Europe from Asia usually cross Ukraine and Russia to enter Poland.

Management of risks regarding the situation in Ukraine: the Group has organized: Re-routing by sea whenever possible; Mitigation plans with freight suppliers through re-routing through the Baltic States monitored shipments avoiding several trucks in the same convoy; Cooperation with our insurance broker to make sure (limited) coverage is still on.

2.1.1.3 Risks related to the Climate Change

Climate-related risks and opportunities have been put into a time line for the group with a deadline set for 2030:

In the short term, all SES-imagotag stakeholders expect measures to be taken to tackle climate change. Not responding to these expectations constitutes a risk factor that could affect the group’s reputation. However, addressing these issues in an appropriate fashion can generate opportunities:

a. There is high demand from customers for technologies enabling them to innovate more sustainably and SES-imagotag’s digital solutions is fostering the development of a sustainable retail;
b. The employer brand for companies demonstrating a voluntary and ambitious approach to combating climate change is elevated;
c. While investors tracking publications and indicators will place the group in their ESG oriented businesses portfolio.

In the medium term, as we transition towards a more sustainable economy, one major challenge relates to potential new regulations enforcing a global or regional carbon pricing system which would have direct financial consequences on all companies.

Then in the long term, if the global ecological transition does not happen apace, rising temperatures and water scarcity could have a direct impact on our supply chain as well as the energy supply for our data centers;

If the group were unable to manage these risks and adapt to changes in environmental regulations, this might adversely affect its activity.

Climate change risk management:

To meet stakeholder expectations, the group will step up year on year its commitments to reducing its carbon footprint and driving digital transformation for a more sustainable and more responsible retail,

The group has pledged the following commitments:

a. To foster a Positive Retail by increasingly converting physical stores into efficient digital assets (monitoring low stocks, avoiding food wastes, promoting local supply-chain) by promoting a low carbon e-commerce thanks to the leverage of the physical stores network, hence avoiding picking platforms construction, by enabling fast, productive and effective updates to make sure the information shown to customers is always accurate and compliant.
b. To promote the eco-design of the hardware to lower the number of required components, to streamline the IT infrastructure, to prolong its useful life and thereby lower the carbon emissions scopes 1, 2 and 3 of the group’s activity;
c. To encourage our customers to collect used labels to give them a second life and promote a circular economy.

Communications: the group has commissioned numerous evaluations of its CSR action plan to communicate the external assessment determined by specialized rating agencies to stakeholders while continuously making efforts to improve using these benchmarks and comparisons to gauge the effectiveness of the group’s climate change strategy.

A specific communication, dedicated to the group's social, societal and environmental responsibility, is also developed on the group's website.

To comply with new climate change regulations, the group is carefully tracking regulatory changes to anticipate not only their implementation but also any potential consequences, such as disruption to the supply chain, which could then lead to increased costs or supply interruptions.

The group has consequently introduced a systematic audit of most of its suppliers via the ECOVADIS Sustainable Procurement program whose aims include ensuring compliance with international environmental standards (water management, chemical products handling, etc.).

What's more, the group plans to be ISO 14001 certified (environmental management systems) in 2022.

One of the major risks identified is the new carbon tax added to equipment assembled in Asia when it enters Europe. The group's mitigation measures consisted of carrying out its first carbon assessment in 2022 (scopes 1, 2 and 3) as a basis for its carbon reduction plan.

Furthermore, as part of this approach, the group looked into, in relation to its scope 3 carbon footprint, on the potential benefits of the solutions it sells, which help customers with their own sustainable development requirements above all by avoiding carbon emissions.

To respond to the risk of more frequent and extreme natural disasters and phenomena, given that our employees are for the most part located in areas not subjected to extreme natural disasters and so their safety is not at great risk, the measures envisaged are mostly geared towards operational continuity, both in terms of services provided by our Cloud platform and the production of hardware (IoT devices).

a. Strategies to continue the activity of our Cloud platforms have been implemented with the support of our subcontractors and partners, allowing us to provide these services from different sites. The group aims to be ISO 27001 (information security management) certified in 2022.

b. Suppliers of components and electronic labels also have their own supply chains and could potentially encounter similar problems. In 2021, SES-imagotag mitigated this risk through its supply chain audit program conducted in partnership with ECOVADIS, its active multi-sourcing policy and the opening of a third label assembly site on the American continent.

2.1.1.4 Risks related with the Group development strategy

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

- increase revenue of the traditional electronic labelling solutions business, both in mature markets and on international markets currently adopting the solutions marketed by the Group;
- increase revenue from value-added services;
- increase revenue from the development of new verticals and new markets excluding food distribution;
- control the Group's operating and development expenses during periods of very strong business growth;
- develop the benefits and synergies expected from its various partnerships.

If the Group is unable to achieve these business development targets, this could have a material adverse effect on the Group, its business, financial position, results and outlook.

Risk management related to the Group's development strategy: limiting the risk consists in:

- a close performance monitoring: the Finance Department produces monthly performance analyses and periodic forecasts, and regularly informs the Board of Directors of performance, possible deviations from the budget trajectory and corrective measures implemented by management;
- significant R&D investments and intellectual property portfolio;
- investment in talented and skilled human resources.

2.1.1.5 Risks related to the competitive environment

The Group faces intense competition from international players, mainly from Asia, seeking to acquire market share through price wars, a fairly standard phenomenon in the technology sector.

If the Group does not have sufficient financial resources or the necessary skills, particularly in a context of technological change, to preserve the differentiation and added value of its products, the Group's business and financial results could be materially and adversely affected.

These competitive pressures weighing heavily on equipment sale prices could erode the Group's sales and profitability and undermine its outlook.

In addition, an effort to consolidate the various players in the market in which the Group operates, in particular its customers in the retail sector or upstream the value chain among industrial assembly manufacturers or component suppliers, could modify the competitive landscape of the electronic labeling industry and drive down prices, costs and margins.

Competitive risk management: the Group applies a strategy to prevent these risks based on several priorities:

- active and global competitive intelligence. Ongoing efforts to improve industrial competitiveness and reduce costs, in particular based on strong purchasing expertise and a leadership strategy regarding market share maximizing economies of scale;
- focus on targeted markets where our differentiation strategy through services can play out favorably and where we aim at a significant market leadership and market share;
- significant investments in R&D and innovation (see next section) that aim to establish strong differentiation and add value, reinforced by an active policy in terms of filing and defending our intellectual property;
- a differentiation of our offer through services;
- lastly, the Group is developing close ties, particularly in terms of capital, with key players in the value chain (BOE technology, E Ink group..), in order to deepen its cooperation and converge its interests with these key players.

2.1.1.6 Risks related to technological developments

Certain technological innovations introduced by competitors or new entrants could make it possible to meet the expectations of the Group's customers in a more efficient or cost-effective manner, and thus weaken the Group's financial and business position.

Technology risk management: the Company conducts an active global technology watch in areas related to its business (digital display technologies, radio protocols, connected objects, computer vision, artificial intelligence, etc.). It invests significant amounts in R&D and intellectual property. It makes acquisitions of patents or companies with missing and important technologies (Imagotag, Findbox, PDI, and MarketHub) and establishes technological partnerships with technological companies in order to benefit from a strong ecosystem (Microsoft, SAP, Qualcomm, BOE, E Ink, etc.).

Regarding risks related to Intellectual property, please refer to section 2.1.3.1.

2.1.1.7 Risks related to acquisitions

As part of its development policy, the Group has carried out growth transactions (notably through acquisitions). The Group recently finalized the acquisition of Market Hub, a start up specialized in data intelligence, located in Ireland. Although the Group examines and appraises any investment project under a very strict due diligence procedure, the assumptions underlying the profitability of these investments may be proven false or the consolidation of the acquired companies could fail. Indeed, the consolidation of acquisitions, especially if they are significant in size, may require the implementation of a complex, long and expensive process. It may also involve a number of risks, such as having to bear costs and expenses to deal with unforeseen events, the fact that management diverts its attention from day-to-day operations, and increased engagement of management teams due to the increase in the volume and scope of business following the acquisition.

In addition, the Group cannot guarantee that an acquisition will generate the potential synergies expected, the expected cost savings, an increase in results and cash flow, improved operational efficiency and more generally the benefits that the Group can expect. If the Group fails to effectively consolidate a new acquisition, this could have a detrimental effect on its business, financial position, results, development and outlook.

Risk management: the Group has proven an impressive track record in extracting value from its past acquisitions, an ability to achieve the proper integration of technology, sales and above all, human capital, by building up loyalty through:

- the entrepreneurial culture, as the Group has implemented synergies while maintaining sufficient autonomy;
- financial incentives linked to the achievement of objectives, as the Group also strives to ensure the loyalty of the management teams of the acquired companies.

2.1.1.8 Risks related to relations with shareholder partners

The Group's shareholders include companies that are also suppliers and technological or industrial partners. BOE, its main supplier and industrial partner, is also the Group's majority shareholder. As such, BOE exercises decisive influence over the Company in that it alone has control over the Board of Directors and a sufficient number of voting rights to adopt all the resolutions submitted to the Ordinary General Meeting of the Company's shareholders. It is possible that the interests and objectives of BOE do not always converge with those of the Company or those of its other shareholders.

Lastly, the BOE group and the companies it controls may acquire companies that compete directly with the Group's companies or that have business relations with the Group.

Risk management: when the partners are also shareholders, governance takes the form of an audit and review of regulated and current agreements between interested parties, in order to preserve the competitiveness of business and industrial agreements in relation to economic market conditions. Moreover, members of the Board representing shareholder partners do not take part into these agreements review. In addition, the Group applies a competitive intelligence and multiple-sourcing policy to protect its interests.

2.1.2 Operational and technical Risks

2.1.2.1 Risks related to dependency with regard to suppliers, industrial partners/EMSs, and the supply and cost of components and screens*

The Group has outsourced all of its equipment production (electronic labels) to leading industrial partners specializing in the assembly of electronic products ("external manufacturing services" or EMS), including BOE, its main shareholder. In the event of an increase in demand or if the Group needs to replace an existing EMS, it cannot be certain of the existence or availability of additional production capacity on acceptable terms. In addition, the use of new production units may lead the Group to suffer production delays and incur additional costs due to the time it will have had to spend training new EMSs on the Group's methods, products, and control, quality, work, environmental footprint, health and safety standards. In addition, production by one or more EMSs could be interrupted or delayed, temporarily or permanently, due to economic, social or technical issues, such as the insolvency of an EMS, the failure of production sites or an interruption in the production process due to social movements beyond the control of the Group or due to health crises, such as the Coronavirus pandemic. Any delay or interruption in the production of the Group's products could have a material adverse effect on its business, results, financial position or its ability to achieve its objectives.

Supplier dependency risk management: the first-tier subcontractors with whom the Group organizes its production of electronic equipment have several factories located in different regions in Asia and, pretty soon in the Americas: switching production capacity locations remains a possibility, within the framework of a business continuity plan.

In addition, in order to secure production capacity that meets the Group's ambitions, an exclusivity agreement was signed in 2019 with the BOE group's Chongqing plant. The five-year volume projections indicate that the Company will not use the entire production capacity currently installed by the plant. In order to ensure the exclusivity of the production capacity of Chongqing BOE Smart Electronics System Co., Ltd, the Company decided to enter into an exclusivity agreement whose value was estimated by comparing the assumed capacity utilization rate of production capacities at a utilization rate of 100%.

The Group also relies on a good supply of electronic components and screens in order to carry out industrial scheduling with these EMSs. The failure of one or more component or screen suppliers, including as a result of social movements, unexpected stock-outs, quality defects, export restrictions or sanctions, health crises, and more generally, any disruption in supply, in particular due to tensions on the supply of electronic components, as a result of the strong growth in the electronic goods sector in general, could affect the Group's production capacities or incur additional costs that have a detrimental impact on its business, results, financial position or outlook.

Any substantial increase in the cost of components, due in particular to a contraction in supply or a concentration of the Group's suppliers, could have a material adverse effect on the Group's business, financial position, results and outlook if the latter is not able to pass it on to its customers within a reasonable period of time.

Risk management related to the supply of components: as the risk of a shortage of electronic components or screens is a clearly identified risk in the electronics industry, the Group is particularly vigilant in monitoring its industrial forecasts, and ensures at regular intervals during "Pipe Reviews" that they are consistent by cross-referencing them with business forecasts, the objective of which is to prevent any risk of a shortage of components.

Risk management related to supply disruption: in order to better anticipate risks of supply disruptions due to shortages, supplier failures or natural risks, a multiple-supply policy for components is systematically applied when possible, and in some cases safety inventories are set aside for critical components.

In addition, supply also depends on smooth and timely supply chain and logistic flows. The failure or delay of a service provider or any tension within the supply chain, due to social movements, shortages in the availability of resources or means of transport, particularly container ships, strikes, export restrictions, a health crisis or transit crisis, could result in the Group being unable to deliver to its industrial subcontractors or to its customers and lead to additional costs or even the cancellation of orders that could adversely affect its business, results, financial position or outlook.

Management of the risk of logistic disruption: supply chain and logistic flows from Asia, constituting our upstream supply chain, present several possible means of transportation between air, sea and land transportation (the Silk Road). These multiple means of transportation would make it possible, if necessary, to use one or another means of transportation, given that their respective economic and environmental effects vary significantly.

2.1.2.2 Risks related to safety and security, cybersecurity and data privacy*

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

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

Despite the procedures put in place by the Group, it cannot guarantee hedging against these technological and IT risks and could encounter difficulties in the normal course of business in the event one of this risks occurs. If necessary, this could have a detrimental impact on the Group's business, results, financial position and its ability to achieve its objectives.

Management of the risk related to information system security: as part of its transformation towards the distribution of digital solutions, the Group has implemented a series of measures to protect its various solutions. This encompasses, but is not limited to, the use of firewalls, identity managers (MFA), and systems. The Information Systems Department is responsible for securing the networks and systems, on the one hand, and the applications necessary for the continuity of the Group's business, on the other, and regularly performs intrusion tests and backs up data. In addition, the Group has implemented measures to guarantee the security of its information systems, adapted to the risks identified and aligned with the requirements of ISO 27001. In conjunction with its internal control and security policy, these organizational, functional, technical and legal security measures are subject to annual checks.

Data security risk management: the Information Systems and Research and Development Departments are responsible for data security. To this end, strict rules and procedures for defining and allocating access to various data ensure they remain private. In addition, the use of leading Cloud hosting solutions ensures a high level of availability. Lastly, all of the Company's critical and non-critical data are regularly backed up on various devices to ensure their integrity. All employees and IT and R&D stakeholders are made aware of the development rules and best practices to ensure that solutions comply with the “Privacy by Design” and “Security by Design” rules.

Last, the physical security of the Group’s facilities (offices and warehouses) is guaranteed by private access entrances reserved for badge holders and by filtering visitors, which involves checking them at facility entrances. The safety of our storage facilities is subject to annual safety questionnaires (particularly regarding fire hazards).

2.1.2.3 Risks related to defective products and services*

The Group may occasionally be confronted with a manufacturing or operating defect or an assembly of defective components in any of the Group’s products and systems. If necessary, this could lead to liability claims of varying importance that could damage the Group’s reputation and have significant financial consequences. In this context, the Group has been, may or may be required to carry out recall campaigns or to adapt or replace the equipment in question.

These complaints may harm the reputation and quality image of the products concerned and thus damage the image and reputation of the Group. In addition, the costs and financial consequences associated with these claims are likely to have a material adverse effect on the Group’s business, results, financial position and ability to achieve its objectives.

Risk management: upstream from the production of any new product reference, the Group’s R&D and Industrial Purchasing Departments write precise technical design descriptions, then the Group’s Quality Department takes over in post-production in order to monitor customer comments, benefiting from the first batch deliveries of these new product references.

2.1.2.4 Risks related to human resources*

SES-imagotag is a growing and diversifying Group, offering new ways of using display solutions, managing stores and using available data on prices and products. The Group’s VUSION strategic plan for 2023 aims to make the Group a leader in omnichannel electronic signage solutions. In this regard and in the context of a competitive and evolving technological industry, attracting, developing and retaining the necessary skills is a key issue.

The Group must also be able to respond to a series of qualitative and quantitative challenges in terms of talent management services:

- strengthen its pool of skills, particularly technical (and especially in the field of software engineering) needed to support growth and enable the delivery of new value-added services on a global scale;
- identify, attract, train, retain and motivate qualified personnel;
- build leadership capabilities at all levels to support its continued growth and transformation;
- on-board new employees effectively, particularly in the context of acquisitions.

This involves anticipating and planning the acquisition and development of the skills that will drive the Group’s future success, as there is a risk of not having them in time to support the strategy. If the Group fails to meet these human resource challenges, a key factor for its development, this could have a material adverse effect on its business, financial position, results or outlook.

Risk management: a number of programs and initiatives have been implemented to prevent this risk and cover the following aspects:

- a people review to precisely define the needs for new skills with regard to the current pool of skills;
- the development of an employer brand and the strengthening of its strike force in terms of recruitment (with, for example, increased use of social media);
- an e-learning platform;
- retention and recognition of performance in the form of long-term Group compensation plans or specific compensation plans in the event of acquisitions.

The Group has forged several partnerships with universities and schools in France and Austria in order to maintain a pool of young talent, in particular within divisions requiring technological skills.

In addition, the human scale of the Company promotes exchanges and the organization of social events. Permanent bonds are forged within the Company’s social network, promoting internal communication and working groups. Much emphasis is placed on training, the indicators and statistics of which are largely developed in our Non-Financial Performance Report. Talent retention is supplemented by regular and close monitoring of the objectives of each employee and managerial evaluations, at a rate of two per year. Lastly, the Chairman and CEO regularly explains and comments on the Group’s strategy during regular video-conferences.

Several long-term compensation plans have been approved in recent years in order to retain key talent. When excluding the Chinese JV employees from the scope, about 30% of our personnel do benefit from this long term incentive.

2.1.2.5 Risks related to customer dependency

Although the Group's revenue is distributed among a large number of customers, some of them account for a substantial portion of its revenue. For the year ended December 31, 2021, the Group's top ten customers accounted for nearly 43% of the Group's consolidated revenue and the Group's largest customer accounted for around 14% of the Group's consolidated revenue. The loss or contraction of the business of one or more of these customers, a concentration of players in the sector in which they operate or the default of one of these customers, could reduce revenue by the same amount, which could have a material adverse effect on the Group's business, financial situation, results or outlook.

Management of the risk related to customers dependency: to limit this risk, the Group seeks to maintain a diversified portfolio of customers and to have a large installed equipment base, enabling to regularly generate a portion of its revenue from the renewal and maintenance of electronic labels carried out by its customers.

2.1.2.6 Risks related to obsolescence and inventory impairment

The Group amasses large inventories for its most traditional product references, due to long supply cycles (production and transportation), in order to ensure acceptable delivery times to its customers.

The risks to which these large inventories are exposed lie both in a potential production forecast error, taken in advance of sales forecasts, which could lead to unnecessary over-stocking, and also lie in the acceleration of technology innovations that could lead to an inventory of product references that have become obsolete. This would result in a substantial depreciation of the value of our inventories (please refer to paragraph 4.1.5 in the accounting rules chapter included in the notes to the financial statements).

Risk management: inventory turnover rates are regularly analyzed through permanent inventories monitored in our IT systems as during biannual physical inventories. Slow turnovers lead to sales and marketing stock push campaigns, or of industrial rework campaigns. For product references that cannot be covered by these targeted campaigns, the Finance Department records provisions for the impairment of inventory with low turnover, as described in the notes to the financial statements of this report (please refer to note 4 of the notes to the financial statements).

2.1.2.7 Risks related to management teams

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

Risk management: since 2012, the Group has been pursuing a policy to retain management teams through free share plans (which have provided good stability for the management team). In addition, the development of a succession plan is being considered, under the aegis of the Nomination and Remuneration Committee.

2.1.2.8 Risks related to corruption and ethics

In the course of its business, the Group may be exposed to risks related to corruption, particularly in some of the emerging countries in which it operates. The Group ensures that all of its employees act in accordance with applicable laws (among them the Sapin II regulation in France) and regulations and the values of integrity and respect for internal and external standards that form the basis of its culture.

However, it cannot guarantee that its employees, suppliers, subcontractors or other business partners will comply with the strict requirements to which it is subject or the regulations in force.

Any behavior that contradicts these values or regulations, despite the Group's efforts, could seriously engage the Group's liability and have repercussions on its reputation, which could have a material adverse effect on its business, financial position, results or outlook.

Risk management: a code of business ethics and conduct is in place. It includes and formalizes rules regarding behavior expected across the Group from all employees, suppliers and subcontractors, and our network of partner-distributors. This document is an important tool for maintaining the quality of the control environment within the Group. It is available on the e-learning platform for our employees, as well as on our website (ESG dedicated menu). The Code of Ethics is signed once every year by each employee.

2.1.2.9 Health Risks

The Group suffered the consequences of the Covid-19 pandemic during 2020. The risks inherent to such a health crisis encompass a slowdown in consumption (risks detailed in 2.1.1) and a disruption of the Group's business, either due to its subcontracting chain (detailed in section 2.2.4) or due to malfunctions in its internal organization.

Risk management: in terms of internal organization, the group has demonstrated the robustness of its digital organization and its communication tools: periods of lockdown were managed smoothly and without malfunctions since remote working and inter-team communication were already supported through an internal social network and collaborative platforms. This was attributable to the existing configuration of the Company's information systems, which ensured business continuity, regardless of whether or not the support functions are physically at our facilities.

Remote working was therefore implemented smoothly from a systems and equipment perspective, with a focus on new managerial practices (prevention of risks related to isolation, risks related to hyper-connectivity, management of autonomy, on-boarding of new employees, and monitoring operations and maintaining group bonds). Lastly, there were regular communications on the prevention of musculoskeletal conditions and equipment was lent to employees (screens, ergonomic chairs, etc.).

2.1.3 Legal and compliance related risks

2.1.3.1 Risks related to intellectual property

The risk that the Group faces in terms of intellectual property is the risk of suffered or active counterfeiting.

Counterfeiting infringements may be committed by third parties against products, copyrights or patented industrial processes. These actions are likely to have an immediate effect on the Group's revenue and results and may harm the reputation and, where applicable, the quality of the products concerned.

The Group could be unintentionally guilty of counterfeiting, particularly when it comes to the risk related to the period during which patent applications are not made public. Patent applications filed by third parties and known only at the time of their publication could affect ongoing developments or even products recently launched on the market given increasingly short development time frames. This situation would force the Group to modify the product by increasing the project's research and development costs, or to negotiate rights to use the patented item. In either case, the project margin would be affected. The Group may also be subject to claims from patent trolls, particularly in the United States and Russia and in the field of new technologies. The occurrence of counterfeiting, of which the Group is the victim or which is attributable to it, could have a substantial adverse effect on its reputation, business, financial position, results and outlook.

From a financial perspective, in view of the risk analysis carried out at the registration date of this annual report and in accordance with applicable accounting standards, no provision has been recognized in the consolidated financial statements at December 31, 2021.

Risk management: the Group ensures compliance with the rights of third parties by systematically carrying out prior art searches for patents and trademarks, and monitors its intellectual property portfolio with the assistance of external consultants. The Group has filed 537 patents corresponding to 114 patent families as of 30 June 2022.

2.1.3.2 Risks related to compliance with regulations (particularly regarding subcontractors' labor practices and environmental regulations)

The Group's business is subject to various regulations, particularly in terms of compliance and compatibility of the products it sells with the regulations applicable to them, as well as industrial, safety, health, and environmental standards.

The environmental risks related to the Group's business are mainly due to increasingly restrictive environmental laws and regulations.

Provisions for the removal and treatment of end-of-life electrical and electronic equipment are increasingly restrictive and their application is subject to increasingly rigorous and frequent controls, particularly in the context of Directive 2012/19/EU of the European Parliament and of the Council of July 4, 2012 on waste from electrical and electronic equipment ("WEEE").

Quite recently, Law no. 2020-105 of February 10, 2020 on the fight against waste and the circular economy aims, in particular, to combat the planned obsolescence using a repairability indicator. The manufacturer will be encouraged to design more repairable products and to provide information about the availability of spare parts.

Despite the procedures put in place by the Group and despite the fact that the risks of harming the environment are not limited to the scope of the Group's business, it is not able to guarantee hedging against the environmental risk and could encounter difficulties in performing its activities in the event one of them occurs. In this scenario, it could have an adverse effect on the Group's business, results, financial position and its ability to achieve its objectives.

More generally, in the event of non-compliance with applicable laws and regulations, the Group could be ordered to pay fines, and the authorities could go as far as prohibiting the products marketed in question from being sold. These standards are complex and subject to change and, although the Group pays particular attention to compliance with current regulations, it cannot rule out any risk of non-compliance.

In addition, the Group could incur significant costs in order to comply with regulatory changes and cannot guarantee that it will always be able to adapt its activities and its organization to these changes within the necessary time frame. Furthermore, changes in the application and/or interpretation of existing standards by the authorities and/or courts are also likely to occur at any time.

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

Management of risks related to regulations (particularly regarding subcontractors' labor practices): the Group ensures compliance with the safety standards inherent to its equipment (in particular CE marking, marking for substances of concern, as part of the REACH regulation for our lithium batteries, OHSAS standards). All of these standards are monitored by the Group's Quality Department.

For its direct supply of strategic components, the Group relies on a global ecosystem of leading players in their respective fields of expertise (special electronic chips, customized TFT/LCD screens and e-Paper, etc.). Most of these players pay particular attention to social and environmental responsibility initiatives. The Group chose to sign industrial partnerships with leading subcontractors, particularly in Asia, all of which adhere to the principles of the United Nations Global Compact or meet the necessary certifications for an excellent level of labor and environmental practices, as well as with a demonstrated requirement for safe working conditions for their employees.

Risks related to electrical and electronic waste treatment methods. In order to limit the risks of uncontrolled pollution, the Group implements and offers collection and recycling programs for end-of-life products to its customers in Europe, in accordance with the WEEE directive, and in many other countries outside the European Union. In countries where regulations require it, the quantities of products put on the market, collected and recycled are periodically declared to the national registers of producers.

The Group also informs users of these provisions with a specific marking on the products and provides recyclers with dismantling instructions. In order to be part of a circular economy approach, the Group committed in 2014 to implementing an action plan to ensure the complete recyclability and reuse of its equipment.

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

2.1.3.3 Risks related to taxation and its developments

The Group is subject to complex and changing tax legislation in the various countries in which it operates. Due to its international activity, it is subject to transfer pricing rules, which can be particularly complex and are subject to different interpretations. Changes in tax legislation could have a material adverse effect on its tax position, its effective tax rate or the amount of taxes and other mandatory deductions to which it is subject, as well as its reporting obligations. In addition, the tax regulations of the various countries in which the Group operates may be subject to a wide variety of interpretations. Therefore, the Group cannot guarantee that the relevant tax authorities will agree with its interpretation of the applicable legislation. In addition, tax laws and regulations or other mandatory deductions may be amended and the interpretation and application made by the relevant jurisdictions or authorities may change, in particular in the context of joint initiatives taken in the past internationally or in Europe (the OECD, G20, European Union).

In particular, the current incorporation into French tax legislation:

i. the principles established by the OECD on tax base erosion and profit shifting (BEPS);

ii. the multilateral convention for the implementation of measures relating to tax treaties to prevent BEPS dated June 7, 2017;

iii. the rules provided for by the Council Directive of July 12, 2016 establishing rules against tax evasion practices directly affecting the functioning of the internal market (the Anti-Tax Avoidance Directive, or ATAD); and

iv. provisions provided for in the proposed directive aimed at establishing a common consolidated corporate tax base (CCCTB) could increase the tax burden on the Group.

A challenge to the Group's tax situation by the relevant authorities could lead the Group to pay additional taxes, potentially significant adjustments and fines, or an increase in the costs of its products or services for the purpose of collecting these taxes, which may result in the Group paying additional taxes, which could in turn have a material adverse effect on its business, results, financial position and outlook.

Risk management: the Group monitors regulations with the help of external consultants.

2.1.3.4 Risks related to ongoing litigation and investigations

In the normal course of business, the Group may find itself implicated in a certain number of administrative and legal proceedings for which it may be held liable on different legal bases.

Tax litigation

In previous years, Group companies have been subject to tax audits and sometimes proposed adjustments. The financial consequences of these tax reassessments are recognized by means of provisions for amounts notified and accepted or considered as presenting a probable outflow of resources and that can be reliably determined.

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

Business and employment-related litigation

Litigation is regularly reviewed by the Group's Legal Department and is covered by provisions when the Group considers that it is probable that an outflow of resources will be necessary to cover the risk incurred and that this amount may need to be estimated reliably. Reversals that are not applicable mainly result from the resolution of these disputes, for which the Group was successful or for which the actual amount of the loss was lower than its estimated amount.

As of June 30, 2022, the Group has set aside provisions for business and employee-related disputes, as described in **Note 19** to the consolidated financial statements included in this report. As of the date of this annual report, the Group is not aware of any other governmental, legal or arbitration proceedings. (including any proceedings of which the Group is aware, which are ongoing, or in which the Group is threatened) that could have or have had a material effect on the Company or Group's financial position or profitability.

Insurance coverage litigation

Two fires occurred in our German subsidiary's storage facilities. It turned out that the damaged site (Ettenheim) was not covered because, on the proposal of our insurance broker, the coverage chosen to cover the damage to Group property was a Master coverage policy in difference in conditions and difference in limits (DIC/ DIL), in addition to local policies for each of the entities. However, no analysis of the proper combination of local policies with the Master policy was carried out by the broker or the insurer, which would have made it possible to identify the insufficient combination between the local and overall coverage.

A summons against the broker is in progress, as the Group believes that their duty to advise was not fulfilled. The replacement value of the assets destroyed amounts to €1.4 million.

At the date of this annual report, the Group is not aware of any other governmental, legal or arbitration proceedings (including any proceedings of which the Group is aware, which are pending or which the Group is threatened with) which may have or have had a material effect on the financial position or profitability of the Company or the Group.

2.1.4 Financial risk

2.1.4.1 Risks related to exchange rate*

The Group is highly exposed to fluctuations in the euro/US dollar exchange rate, as a large part of its sales are denominated in euros, and a vast majority of its component and production costs are denominated in US dollars. As a result, upward movements in the US dollar automatically increase the cost of sales in euros. Such changes could have a material adverse effect on the Group's business, results, financial position or outlook (Please refer to Consolidated Accounts Note 25 for further details).

Risk management: in addition to currency hedging policies, several measures have been put in place to reduce this exposure in the coming years, notably:

- price adjustment clauses in customer contracts in euros;
- development of sales denominated in USD.

In order to anticipate and manage cash flow changes, forecasts are prepared on a regular basis and a cash centralization system in euros and US dollars has been set up for the main European subsidiaries.

2.1.4.2 Liquidity risk

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

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

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

With regard to financial liabilities, the bulk of the Group's indebtedness consists of two bonds totaling a nominal amount of €40 million and €10 million respectively maturing in 2023 and 2025, bearing interest at a fixed rate of 3.5% for the €40 million tranche and at a rate of 4.5% for the €10 million tranche, which may be increased according to the debt ratios observed. The bonds provide that the latter would become payable if the consolidated debt ratio, meaning the ratio between net financial debt and the gross operating surplus, decreased to below 3.5.

At June 30, 2022, the Group complied with the consolidated debt ratio, which is the ratio of net financial debt to EBITDA of less than 3.5. The impact of the recognition of the lease liability, following the application of IFRS 16 on January 1, 2019, is excluded from the definition of financial debt, for the purpose of calculating the financial ratios.

See also **Notes 11 and 21** to the Group's consolidated financial statements.

Risk management: the Group regularly explains its strategy to financial investors as well as the resources necessary for its implementation, in order to be able to call on private placements or to carry out capital increases (public offering) and thus have financial resources.

2.1.4.3 Risks related to interest rates

At the date of this annual report, the bulk of the Group's debt consisted of borrowings bearing interest at a 3.5% fixed rate. As a result, the Group's exposure to interest rate fluctuations is limited at the date of this annual report.

2.1.4.4. Credit and/or counterparty risk

Credit and/or counterparty risk is the risk that a party to a contract entered into with the Group will default on its contractual obligations, which would result in a financial loss for the Group.

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

Risk management: the Group has set up a customer collection service with a virtually global scope. This department carries out the solvency studies prior to any transaction with customers and/or suppliers and focuses on necessary knowledge regarding the financial health of our customers.

2.2 Insurance program and internal control

2.2.1 Insurance policy

The Group implements a policy aimed at obtaining external insurance coverage to cover the risks to which the Company and its employees are exposed, which can be insured at reasonable rates. The Group believes that the nature of the risks covered and the guarantees offered by this insurance are in line with the practice adopted in its sector.

The Group's insurance program includes the following insurance policies:

- civil liability;
- cybercrime;
- fraud;
- damage to property;
- goods transported;
- civil liability of corporate officers.

2.2.2 Internal control and Risk management policy

Risk management is intended to provide reasonable assurance regarding:

a. compliance with laws and regulations;
b. the performance and optimization of operations;
c. the reliability of financial information.

The Company refers to the AMF reference framework published by the AMF in 2010. In general terms, one of the objectives of the internal control system is to prevent and control the risks resulting from the Group's activity and the risks of error or fraud, particularly in accounting.

This general objective is achieved thanks to the work of the Finance Department, the audit firms and the Audit Committee.

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

The Audit Committee ensures that the financial statements are audited, in accordance with the rules, and established independently. In particular, it ensures that currency, liquidity and debt risks are properly anticipated. The Audit Committee is kept informed of matters relating to risk management. The risk assessment and treatment approach is the subject of a specific annual discussion with the members of the Committee and the Statutory Auditors, during which the mapping of major risks, as well as the associated action plans are reviewed.

The Nomination and Remuneration Committee determines the compensation policy allocated or attributable to the Chairman.

The Board of Directors meets several times a year in order to study management's proposals in terms of debt, hedging of foreign exchange risks, and any acquisitions. The budget forecasts are also presented as well as their successive revisions during the year.

Management (trade, finance and supply chain) meets weekly to analyze the portfolio of business opportunities, the likelihood of completion and the potential timing of these achievements in order to ensure the adequate supply of finished products and solutions required by the market. In addition, a weekly review of major contracts takes place in order to preserve the profitability of the latter, the sale price to be proposed according to the costs to be incurred by the Company. These managerial meetings therefore ensure that business volumes and profitability are properly anticipated.

In this context, the Industrial Purchasing Department, which is responsible for purchasing components and raw materials necessary for the manufacture of products, as well as negotiating industrial assembly subcontracting, plays an important role in the internal control system given the financial flows involved:

- centralized management of purchases, in order to manage strict management rules (calls for tenders, purchase requests, approvals, etc.);
- supplier management, in particular through performance indicators, supplier reviews and audits on operational aspects (quality, supply chain, etc.) but also on ethical, social and environmental responsibility and compliance aspects in line with the Group's ESG objectives.

The Finance Department manages the accounting and financial internal control and aims to ensure:

- the compliance of the published accounting and financial information with the applicable rules;
- the reliability of the published financial statements and of the other information communicated to the market;
- the preservation of assets;
- the prevention and detection of fraud and accounting and financial irregularities, to the extent possible.

Reporting and analysis: each month, in order to ensure effective Group management, Management Control consolidates all the information from a single, centralized management tool to prepare dashboards for the Group's Executive Committee and management. These dashboards include appropriate analyses of significant discrepancies and trends.

The Group's Finance Department is responsible for the Accounting and Management Shared Service Centers (SSCs) and managing them. This organization, which is centralized in France, helps to improve the Group's level of internal control through the sharing of best practices and the standardization of procedures, as well as the positive effect of the SSCs' work on the segregation of duties.

Delegations of authority are established within the Group in order to define the scope of responsibilities, according to the skills, resources and proximity to the operations necessary for decision-making. Thresholds and rules are established and defined for each manager and included in the delegations of authority to enable efficient and fluid decision-making while addressing the Group's challenges and risks.

This is how:

- contractual commitments are subject to managerial delegations;
- the expenditure commitment policy, based on a purchase order process authorized for certain buyer profiles only, including levels of commitments and delegations, is applied within our information systems;
- in addition, the bank accounts of all subsidiaries are grouped together in a single telematic portal enabling the Group's Finance Department to control cash flows, which alone validates payment campaigns.

The Finance Department thus ensures direct internal control over the quality of the financial statements, the Group's profitability and the use of available cash.

In addition to the expense procedures, the management of financial resources is subject to a monthly analysis in order to ensure:

- the Group's liquidity;
- hedging of foreign exchange risks;
- monitoring of relationships with banks;
- managing the customer risk hedging strategy.

Lastly, the Group's Legal Department is responsible for ensuring compliance with the regulatory and legal framework imposed on it in the various countries, protecting the Group's assets (particularly its intellectual property) and its business as a whole, and defending its interests. Its main responsibilities are as follows:

- legal assistance for transactions, on all types of regulations, drafting and updating of standard contracts (purchase of goods and services, conditions of sale, promotional operations, etc.), management of the law firms consulted, management of pre-litigation disputes and litigation;
- protection of intellectual property rights in collaboration with the R&D Departments for patents and marketing for trademarks (legal watch);

- coordination of the Group's insurance program, allowing for the alignment of the insurance program with the Group's activities;
- participation in the Group's acquisition strategy;
- tax and customs aspects are monitored and procedures are drafted and reviewed by the Legal and Tax Departments: justification of the tax schemes chosen, customs classifications, etc.;
- aspects relating to environmental regulations are dealt with in close collaboration with the operational departments responsible for the eco-design of products, packaging and used equipment recovery processes.

The Company's strategy is to have majority control over its subsidiaries. The Company ensures that the meetings of the Board of Directors are held and participates in the management bodies of its subsidiaries. Each subsidiary sends monthly management reports to the Company, which decides to take appropriate action, if necessary.

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Consolidated financial statements as of June 30, 2022 (IFRS standards)

SES-imagotag SA is a listed company, on Eurolist Euronext Paris (Comp. B, ISIN code FR 0010282822). The consolidated financial statements of the SES-imagotag Group (hereinafter “the Group”) at June 30, 2022 cover a 6-month period. The Board of Directors approved these financial statements on September 19, 2022.

3.1 Consolidated Balance Sheet

Assets

In €'000	Notes	06/30/2022 (6 months)	12/31/2021 (12 months)	06/30/2021 (6 months)
Intangible assets	1	130,508	125,085	119,743
Tangible assets	2	19,654	20,383	19,399
Right of use	2	11,622	13,535	15,705
Financial assets	3	1,477	1,392	1,299
Deferred taxes assets	22	16,621	17,388	17,425
NON-CURRENT ASSETS		**179,883**	**177,784**	**173,571**
Inventories and Work In Progress	4	166,578	137,504	108,354
Trade Receivables	5	138,581	120,234	108,256
Current Taxes	6	3,302	3,420	3,487
Other current receivables	6	18,178	16,451	13,798
Cash and cash equivalents	7	75,664	89,759	80,541
CURRENT ASSETS		**402,303**	**367,368**	**314,436**
TOTAL ASSETS		**582,186**	**545,152**	**488,006**

Liabilities and shareholders’ equity

In €'000	Notes	06/30/2022 (6 months)	12/31/2021 (12 months)	06/30/2021 (6 months)
Capital	8	31,522	31,522	31,517
Consolidated Reserves		157,082	148,747	140,392
Profit (Loss) - Group Share		4,894	2,109	1,019
SHAREHOLDERS' EQUITY		**193,498**	**182,378**	**172,929**
Non-current Provisions	10	2,930	1,412	1,251
Deferred tax liabilities	22	7,485	6,680	6,218
Long Term loans	11	81,054	81,460	81,614
Non-current rental debt	11	5,837	5,958	6,091
Other non-current liabilities	12	3,319	4,879	3,803
NON-CURRENT LIABILITIES		**100,624**	**100,389**	**98,978**
Trade Payables	13	168,859	156,446	97,392
Recurring lease debt	11	1,524	1,243	1,263
Other debts and accrual accounts	14	117,682	104,695	117,443
CURRENT LIABILITIES		**288,064**	**262,384**	**216,099**
TOTAL EQUITY & LIABILITIES		**582,186**	**545,152**	**488,006**

3.2 Consolidated Income Statement

Income statement

In €'000	Notes	06/30/2022	12/31/2021	06/30/2021
SALES	**15**	**285,865**	**422,868**	**202,794**
Purchases consumed	**16**	-220,398	-319,101	-155,288
External expenses	**17**	-18,925	-32,102	-14,496
Payroll costs	**18**	-23,525	-36,350	-17,204
Taxes and duties		-1,086	-1,643	-588
Allowances for depreciation and amortization	**1&2**	-13,473	-23,528	-11,792
Net allowances for provisions	**19**	-6,445	-9,480	-3,452
Release on impairment	**19**	6,386	4,566	2,435
Other operating income	**20**		16	13
Other operating expenses	**20**	-14	-32	-21
OPERATING PROFIT (LOSS)		**8,386**	**5,214**	**2,402**
Other financial income	**21**	41,508	19,637	9,555
Other financial expenses	**21**	-42,449	-20,489	-10,280
Interests on leasing fees	**21**	-132	-262	-155
FINANCIAL PROFIT (LOSS)		**-1,073**	**-1,114**	**-880**
Tax expenses	**22**	-2,419	-1,991	-503
NET INCOME		**4,894**	**2,109**	**1,019**
Including minority interests		-146	-725	-300

Earnings per share

Earnings per share	06/30/2022	12/31/2021	06/30/2021
Profit (Loss) (€'000)	5,039	2,834	1,320
Number of shares at closing	15,761,008	15,802,297	15,758,516
Stocks options			3,000
Bonus shares			
Earnings per share			
- before dilution	0.32	0.18	0.08
- after dilution	0.32	0.18	0.08

3.3 Net income and comprehensive income

In €'000	06/30/2022	06/30/2021
NET INCOME	**4,894**	**1,019**
Translation adjustments		
Cash flow hedge	2,490	1,431
Revaluation differences		
Actuarial gains and losses		
COMPREHENSIVE INCOME	**7,384**	**2,450**
- parent company's share	7,529	2,750
- minority interests' share	-146	-300

3.4 Changes in consolidated shareholder's equity

K€	Capital	Reserves	Result	Group Share	Minority interests	Share-holders' Equity
Equity at 31/12/2020	**31,516**	**141,693**	**-6,878**	**166,331**	**-1,414**	**164,916**
Allocation of 2020 result		-6,878	6,878	0		0
Capital increase	6	2,280		2,286		2,286
Treasury shares		48		48		48
2021 Profit (loss)			2,834	2,834	-725	2,109
Financial instruments		7,050		7,050		7,050
Reserves for non controlling interests and other changes		5,969		5,969		5,969
Equity at 31/12/21	**31,522**	**150,162**	**2,834**	**184,518**	**-2,139**	**182,379**
Allocation of 2021 result		2,109	-2,109	0		0
Capital increase				0		0
Treasury shares		17		17		17
30/06/22 profit (loss)			5,039	5,039	-146	4,893
Financial instruments		2,490		2,490		2,490
Reserves for non controlling interests and other changes		3,719		3,719		3,719
Equity at 30/06/2022	**31,522**	**158,497**	**5,764**	**195,784**	**-2,285**	**193,498**

3.5 Consolidated statement of cash flows

In €'000	06/30/2022	12/31/2021	06/30/2021
+/-Consolidated net income (including minority interests)	**4,894**	**2,109**	**1,019**
+/- Net allowances for amortization/depreciation and provisions (excluding those relating to current assets)	15,578	28,346	12,645
-/+ Other calculated income and expenses	2,398	2,132	643
-/+ Gains and losses on disposals (from exchange difference in ifrs p&l and financial instrument profit or loss)	169	1,015	189
Cash flow after cost of net financial debt and tax	23,038	33,602	14,496
+/- tax expense (including deferred taxes)	2,072	985	380
= CASH FLOW AFTER COST OF NET FINANCIAL DEBT AND TAXES	**25,109**	**34,587**	**14,877**
- Taxes paid			
+/- Change in WCR related to operations	-21,556	-2,829	-8,965
= NET CASH FLOW GENERATED FROM OPERATIONS	**3,553**	**31,758**	**5,912**
- Disbursements related to acquisitions of tangible and intangible fixed assets	-15,789	-29,920	-14,336
+ Proceeds from disposals of tangible and intangible fixed assets		0	30
- Disbursements related to Right of Use	-873	-4,905	-4,255
+ Proceeds from disposals of Right of Use	59	110	41
- Disbursements related to the acquisition of long-term investments	-88	-106	-52
+ Proceeds from disposals of long-term investments	2	15	14
+/- Impact of changes in scope	-1,700	4,326	4,123
+ Investment subsidies received		0	-91
= NET CASH FLOW FROM INVESTING ACTIVITIES	**-18,389**	**-30,480**	**-14,524**
+ Amounts received from shareholders during capital increases			
+ Loan issues	65	124	62
+ Loan issues IFRS 16	934	4,632	3,927
+ Loan repayments	-471	-3,423	-3,207
+ Loan repayments IFRS16	-775	-1,627	-770
- Dividend distribution			
-/+ Treasury share buybacks and resales	17	48	-162
= NET CASH FLOW FROM FINANCING ACTIVITIES	**-230**	**-246**	**-149**
+/- Impact of changes in foreign currency exchange rates	973	122	699
= CHANGE IN CASH FLOW	**-14,093**	**1,154**	**-8,063**
OPENING CASH POSITION	**89,759**	**88,605**	**88,605**
CLOSING CASH POSITION	**75,664**	**89,759**	**80,541**

Notes to the Half Year Consolidated Financial Statements

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4.1 Accounting rules and methods

The consolidated financial statements of SES-imagotag Group at June 30, 2022 were approved by the Board of Directors on September 19, 2022.

4.1.1 Basis of preparation of the consolidated financial statements

4.1.1.1 Consolidated financial statements

Consolidated financial statements for the H1 2022 are prepared in accordance with international accounting standards applicable by the European Union on June 30, 2022.

THe half year financial statements are prepared in accordance with the international standard IAS34 related to Interim Financial Reporting.

The half year financial statements are prepared in accordance with the same accounting principles as for the 2021 annual statements, exception being the potential new mandatory provisions applicable as of January 1st 2022.

The presentation currency of the consolidated financial statements is the euro. All values are rounded to the nearest thousand (€000) unless otherwise indicated.

The financial statements are prepared on a historical cost basis with the exception of a certain number of asset and liability accounts, which have been measured at fair value.

The consolidated financial statements include the financial statements of the subsidiaries listed section 4.6 (consolidation scope).

The financial statements of the subsidiaries are prepared for the same reference fiscal year as the year used for the parent company, on the basis of homogeneous accounting methods.

The companies of Group closed their annual financial statements at June 30. All intra-group balances, intra-group transactions as well as unrealized profit (losses), expenses and income included in the carrying amount of assets from internal transactions are eliminated in full.

The separate financial statements of each of the Group's companies are prepared in accordance with the accounting principles and regulations in force in their respective countries. They are restated to comply with the Group's consolidation principles.

New mandatory provisions applicable as of January 1, 2022 and applied for the first time by the SES-imagotag Group:

None

New mandatory provisions applicable from January 1, 2022 and concerning the Group did not have a significant impact on the consolidated financial statements. They concern:

- IFRS 3 amendment, IAS 16 and IAS 37 and continuous improvements 2018-2020.

New published IFRS standards, interpretations and amendments that are not yet applicable or that have not been applied by the Group in advance:

The standards, amendments to standards and interpretations adopted by the IASB or the International Financial Reporting Standard Interpretations Committee (IFRSIC) as well as by the European Union on June, 30, 2022, but not mandatory on June 30, 2022, did not result in early application.

4.1.1.2 Business combinations

Business combinations are dealt with in the context of the revised IFRS 3, which assesses the notion of "takeover" within the context of security acquisition transactions. Depending on the case, the impacts are recognized in profit or loss, or in equity.

As part of a business combination, the fair value of the consideration transferred is allocated to the identifiable assets acquired and the liabilities assumed. The latter are measured at fair value on the acquisition date.

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

In this context, goodwill represents the residual excess of the consideration transferred over the acquirer's interest in the fair value of identifiable assets and liabilities and contingent liabilities that can be reliably measured at the acquisition date.

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

Subsequently, goodwill is measured annually, at its cost, less any impairment losses representing decreases in value determined as indicated in the paragraph below entitled "Intangible Assets," in accordance with IAS 36. In the event of a decrease in value, the Group's impairment loss is determined as follows: depreciation is recognized in the income statement as operating profit or loss.

With regard to puts on non-controlling interests issued after the first application of IFRS 3R and IAS 27R, the Group recognizes subsequent changes in debt in equity (transactions between the controlling shareholder and non-controlling interests, which relate to equity securities of capital but have no impact on control).

4.1.1.3 Estimates and judgments

The financial statements have been prepared according to the historical cost principle, with the exception of financial instruments which are recognized according to the fair value principle. The preparation of the financial statements requires, in accordance with the conceptual framework of IFRS, to make estimates and use assumptions that affect the amounts appearing in these financial statements.

The significant estimates made by SES-imagotag for the preparation of the financial statements mainly relate to:

- The fair value measurement of assets, liabilities and contingent liabilities obtained during an acquisition (IFRS 3 "Business combinations");
- The valuations used for impairment tests on assets, in particular the recoverable amount of goodwill;
- The fair value measurement of financial instruments;
- Valuation of the recoverable amount of receivables and inventories;
- Estimates of liabilities, in particular for litigation and uncertain tax positions;
- The assumptions used to recognize deferred tax assets;
- Put obligations;
- Rights-of-use and lease obligations resulting from leases;
- The fair value of equity instruments;
- The share-based payment expense.

Due to the uncertainties inherent in any valuation process, SES-imagotag revises its estimates on the basis of regularly updated information. It is possible that the future results of the operations concerned may differ from these estimates.

4.1.2 Intangible fixed assets (IAS 38)

Intangible assets include:

- Development costs;
- Patents;
- Software;
- An ERP'S;
- Goodwill;
- Customer database;
- Technologies.

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

Amortization is calculated on a straight-line basis according to the estimated useful life of the assets, on the following basis:

	Amortization period
Technologies	**15 years**
Development expenses	**5 years**
Patents	**10 years**
ERP	**6 to 10 years**
Customer base	**15 years**
Software	**2 to 5 years**

No residual value is used to determine the basis for amortization.

Impairment test

In accordance with IAS 36, goodwill is tested for impairment annually and other amortizable intangible assets are tested when there is evidence of impairment. The existence of this evidence is examined at each annual and interim reporting date.

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

The impairment test consists of comparing the net carrying amount of the asset with its recoverable amount, determined as the higher of its fair value less costs to sell and its value-in-use.

Fair value less disposal costs is preferred in the rare cases where a recent transaction on the assets concerned makes the information available and reliable. In most cases, the value-in-use is estimated by using cash flow projections based on existing operating forecasts for a period of ten years, including growth and profitability rates that are considered reasonable. The assumptions made are those of sustained market growth, driven by a current low penetration of ESL solutions and growing strongly under the effect of equipment from major global retailers as currently observed. In this context, the growth rate is high, above 20% per year until 2027, the rate of operating expenses decreases and the gross margin increases thanks to the development of higher margin recurring services.

The main assumptions used are:

- The ten-year projection made by management: the electronic labeling market is not yet mature at the global level and is growing strongly, hence a forecast of more than five years, more in line with the outlook for this market;
- The long-term growth rate of 3% reflects the growth rates of a technological market that is still dynamic at this time;
- A discount rate of 11% applied to cash flows.
- The recoverable amount resulting from the impairment test is higher than the carrying amount of the assets.

The sensitivity of the result to variations of plus or minus one point in the assumptions used does not affect the results of the goodwill impairment test.
An impairment loss is recognized in the event of a loss of value. Impairment losses may be reversed when conditions have changed, except for goodwill. With the exception of goodwill, impairment losses affect the amortization schedule prospectively since they are charged against the amortizable base.

Development expenses

SES-imagotag's development expenses are recorded as expenses for the period during which they are incurred, with the exception of development expenses for projects that meet the following criteria:

- The product or process is clearly identified and the costs are reliably individualized;
- The technical feasibility of the product is demonstrated;
- The product or process will be marketed or used internally and will generate probable future economic benefits;
- There is a potential market for the product or its internal utility has been demonstrated;
- The resources required to complete the project are available.

Development costs that do not meet the above criteria are recognized as expenses in the year in which they are incurred. Capitalized development costs are amortized on a straight-line basis over their useful life between 5 and 10 years.

Patents

Concerning the assessment of patents, the Group used the acquisition cost method in the event there is no active market.

4.1.3 Tangible fixed assets (IAS 16)

Property, plant and equipment are recorded at their acquisition cost.

Depreciation is calculated using the straight-line method, over the following useful lives:

	Depreciation period
Industrial tool and equipment	**3 to 5 years**
Fixtures and fittings	**5 to 10 years**
Furniture, office supplies, IT and hardware	**1 to 10 years**

No residual value is used to determine the depreciable base.

Depreciation periods are reviewed annually at the end of each accounting period. Any change in duration is treated as a change in estimate applied prospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and gives rise to the recognition of additional impairment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes indicate that the carrying amount may not be recoverable.

If there is any such indication and if the carrying amounts exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the higher of the selling price net of disposal costs and the value-in-use. To measure value-in-use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments, time value, money and the risks specific to the asset.

4.1.4 Leases (IFRS 16)

IFRS 16 "Leases", whose application was mandatory as of January 1, 2019, replaces IAS 17 "Leases" and related interpretations. When entering into a lease with fixed payments, this standard requires the recognition of a liability in the statement of financial position corresponding to the discounted future payments, in exchange for rights-of-use to the asset depreciated over the term of the contract.

The Group applied the so-called "modified retrospective" transition method by which a liability is recognized at the transition date equal to only the discounted residual rents, in exchange for a right-of-use amount adjusted for the amount of rents paid in advance or recorded as accrued expenses, and the costs of refurbishment.

In line with the various simplification approaches provided for by the standard, the Group has excluded leases with a residual term of less than twelve months.

Leases include offices and warehouses, production lines and industrial equipment, vehicles and IT equipment.

The term of the contract generally used to calculate the liability is that of the contract initially negotiated, without taking into account early termination or extension options, except in specific cases. The discount rate is determined for each contract by reference to the incremental borrowing rate, for the residual term of the contract.

4.1.5 Inventories (IAS 2)

Inventories are valued, in accordance with IAS 2, at the lower of cost and net realizable value.

The valuation of finished products comprises the following items:

- Cost price of components valued at the weighted average unit cost;
- Cost of the assembly service by the subcontractor;
- Additional costs mainly consisting of storage costs for components;
- Label transit costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When the net realizable value is lower than the value of the inventory, a provision for impairment is recognized according to the following method:

The depreciation of inventories is determined according to the category of the product and the related rotation rules as described below:

For each category, the rule consists of:

1. Calculating the rotation of the products concerned. This gives the number of days since an article within a reference was last consumed;
2. Only products that have not been rotated for more than six months may be subject to a provision for impairment.

   A. New products not refurbished :

   - 50% of the gross value for assets that have not been rotated for more than 6 months;
   - 80% of the gross value for assets that have not been rotated for more than 12 months;
   - 100% of the gross value for assets that have not been rotated for more than 18 months;
   - 100% of the gross value for assets that have never been rotated.

   Among these, the following items are excluded from the calculation of the provision, namely:

   - Products for which there is a firm order or a 90% chance of a business opportunity that would cover at least 50% of the inventory quantities.
   - Products subject to refurbishing or reworking in order to sell the products in question.
   - Innovative products for future product ranges.

B. Refurbished or refurbishable goods
   - Depreciation of 50% of the value of these goods in the inventory exceeding 18 months past or future consumption if the product has yet been rotating over the last 12 months
   - Depreciation of 100% of the value of these goods in the inventory exceeding 18 months past or future consumption if the product has not been rotating over the last 12 months
   - Depreciation of 100% of the value of these goods that have never been rotated.

4.1.6 Financial assets, receivables and other current assets (IFRS 9)

Financial assets, receivables and other current assets are recognized at their gross amount, less provisions for impairment of amounts estimated to be unrecoverable.

For trade receivables including contract assets, the Group has assessed the losses actually incurred in recent years on its customer portfolio and concluded that the new IFRS 9 impairment model as of January 1, 2019 has no material effect on the Group's financial statements compared to the IAS 39 model.

Concerning the provision for impairment of trade receivables, only receivables overdue by more than 90 days and a reason for litigation from the customer are analyzed on a case-by-case basis, according to the following criteria:

- In the absence of an identified risk, no provision is made for any reason related to a request for additional documentation;
- Projects allowing for the equipment to be recovered are provisioned net at 33%;
- Receivables assigned to litigation are provisioned according to the historical recovery ratio (50%);
- Receivables deemed irrecoverable are fully provisioned (100%).

4.1.7 Financial instruments (IFRS 9)

IFRS 9 sets out the requirements for the recognition and measurement of financial assets and liabilities, as well as certain contracts for the purchase or sale of non-financial assets. This standard replaces IAS 39 "Financial Instruments: Recognition and Measurement".

All derivative instruments are valued in the statement of financial position at their fair value, in accordance with IFRS 9.

Derivative financial instruments consist of forward foreign exchange contracts.

The management of financial risks by the SES-imagotag Group (interest rate risk, foreign exchange risk, counterparty risk and liquidity) is described in Note 29 to this document as well as in Chapter 2.1.4 of the Risk Factors and Uncertainties section.

Derivative financial instruments are contracted by the SES-imagotag Group as part of its foreign exchange risk management policy. The recognition of financial instruments as hedging instruments then depends on whether or not they are eligible for hedge accounting.

The Group has implemented a factoring contract that ensures the legal transfer of rights to assigned receivables to the extent that the assignment is made in accordance with the provisions of Art. 1346 - 1 of the Civil Code and Articles L. 313-23 to L. 313-34 of the Monetary and Financial Code. The contract also provides for the substantial transfer of the credit risk and late payment associated with these same claims taking into account the collateral approvals granted by the factoring company covering both the risk of non-payment (from the due date) as well as the risk of insolvency of the debtor, thus limiting the factoring company's right of recourse to the Group in the event of non-payment. In addition, the dilution risk, retained by the Group, was analysed in the light of the actual level of non-values on the basis of historical data on the scope of the receivables assigned. The terms of the remuneration are fixed and not revisable after the transfer of the invoices. Thus, the result of these various analyses (transfer of contractual rights to receive cash flows and substantial transfer of risks and benefits) made it possible to conclude on the deconsolidating nature of the contract.

4.1.8 Forward purchases

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

Forward exchange contracts used by the SES-imagotag Group may be qualified as cash flow hedges. A cash flow hedge is used to protect against changes in the value of cash flows denominated in foreign currencies. Derivatives are measured at their fair value upon initial recognition. Subsequently, at each reporting date, the fair value of the derivatives is re-estimated. The fair value of forward foreign exchange contracts is determined by reference to what the Group would receive (or pay) to unwind the current contracts at the reporting date.

Hedge accounting is applicable if, and only if, the following conditions are met:

- The hedging relationship is composed solely of items eligible for hedge accounting;
- A hedging relationship is clearly identified, formalized and documented from the date it is set up;
- The hedging relationship complies with the following effectiveness criteria:
  - There is an economic relationship between the hedged item and the hedge,
  - There is no preponderance of credit risk in the change in fair value of the hedging item and the hedged item,
  - The hedging ratio of the hedging relationship is equal to the ratio between the amount of the hedged item that is actually hedged by the entity and the amount of the hedging instrument that the entity actually uses to hedge that amount of the hedged item.

Changes in the value of the effective portion of cash flow hedges are recognized in other comprehensive income in a specific revaluation reserve account. The ineffective portion of hedging derivatives is recognized in the income statement.

The deferral/discount component is excluded from the hedging relationship, and changes in value are recognized in profit or loss under “Other finance income and expenses”.

4.1.9 Cash and cash equivalents

Cash and cash equivalents include:

- Financial investments, which are highly liquid and have a very limited risk of changes in value;
- Bank accounts;
- Cash accounts.

Marketable securities (SICAV money market funds) are recognized at fair value at the reporting date (fair value level 1).

Term deposit accounts are recognized at amortized cost.

4.1.10 Treasury shares (IAS 32)

According to IAS 32 “Financial Instruments,” if an entity repurchases its own equity instruments, they must be deducted from equity. No gain or loss should be recognized in profit or loss on the purchase, sale, issue or cancellation of the entity’s equity instruments.

Such treasury shares may be acquired and held by the entity or by other members of the consolidated group.

The consideration paid or received must be recognized directly in equity.

4.1.11 Provisions (IAS 37)

In accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, the Group recognizes a provision when, at the reporting date, it has an obligation (legal or constructive) vis-à-vis a third party resulting from a past event whose settlement is likely to result in an outflow of resources representing economic benefits for the Group, and when the amount of the loss or liability can be reliably measured.

In the event that this loss or liability is neither probable nor reliably measurable, but remains possible, the Group recognizes a contingent liability in its commitments.

Provisions are intended, in particular, to cover the probable costs that may be incurred due to ongoing lawsuits or litigation, the operative event of which existed at the reporting date.

4.1.12 Stock options and allocation of bonus shares (IFRS 2)

IFRS 2 “Share-Based Payment” provides for the recording of an expense in return for services obtained under share subscription plans (and similar) granted to employees.

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

Changes in values subsequent to the grant dates have no impact on the initial valuation of the options; the number of options taken into account to value the plans is adjusted at each closing date to take into account the presence of the beneficiaries and the achievement of internal performance conditions for the purposes of vesting periods.The valued benefit is equivalent to compensation paid to the beneficiaries, which is therefore recognized in employee benefits expense on a straight-line basis over the vesting period, with a corresponding adjustment in shareholders’ equity.

Stock option subscription plans were valued by reference to the fair value of the instruments granted.

The fair value of the bonus shares granted corresponds to the value of the share on the day of the grant less the assumption of a dividend distribution during the vesting period.

The overall plan expense corresponds to the estimated fair value multiplied by the number of shares granted over the vesting periods envisaged in the plan, multiplied by the probability of achieving the performance objectives.

4.1.13 Employee benefits (revised IAS 19)

Retirement benefits

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

The calculation is made in accordance with the revised version of IAS 19, using the projected unit credit method.

Under this method, entitlements are allocated to periods of service according to the plan’s vesting formula, taking into account a linearization effect when the rate of entitlement is not uniform over the course of the subsequent periods of service.

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

The expense for the fiscal year corresponding to the change in the cost of services rendered is recognized in employee benefits expenses; the cost of discounting is recognized in finance expenses.

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

4.1.14 Deferred taxes (IAS 12)

Deferred taxes result from temporary differences between the carrying amount and tax value of assets and liabilities in the statement of financial position. In accordance with IAS 12 "Income Taxes", they are accounted for using the liability method, based on the future tax rates adopted at reporting date on June 30, 2022.

The Group recognizes a deferred tax asset for tax losses and unused tax credits carried forward, to the extent that it is probable that future taxable profits will be available against which these unused tax losses and tax credits can be offset, taking into account the carry-forward periods and applicable tax rates in each country.

4.1.15 Research tax credit (IAS 20)

The research tax credit is a tax incentive similar to a subsidy. It therefore falls within the scope of IAS 20. According to this standard, the research tax credit must be allocated according to whether research expenditure is recognized as an asset (recognition as intangible assets according to IAS 38) or in profit or loss.

For the share of capitalized R&D costs, the recognition in the income statement of the research tax credit generated is deferred over time over the amortization period of the underlying capitalized R&D costs. For the share of research expenses recognized as expenses, the research tax credit is recognized immediately in the income statement. The Group has opted to recognize the entire research tax credit as a deduction from expenses recognized in the income statement, under other external expenses.

4.1.16 Translation of foreign currency items

The consolidated financial statements at June 30, 2022 were prepared in euros, which is the parent company's functional currency.

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

Recognition of foreign currency transactions in the financial statements of consolidated companies

Foreign currency transactions recognized in the income statement are translated at the exchange rate prevailing on the transaction date, with the exception of transactions for which the Company has hedges (USD).

These are recognized at the hedging rate. Monetary items expressed in foreign currencies, recognized in the statement of financial position, are translated at the exchange rate prevailing at the reporting date, with the exception of debts denominated in USD which are translated at the hedge rate. The resulting exchange differences are recorded in the income statement.

Conversion of foreign subsidiaries' financial statements.

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

- Assets and liabilities are translated into euros at the exchange rate prevailing on the closing date;
- Income and expenses are translated at the average exchange rate for the period as long as this is not affected by significant changes in exchange rates;
- The resulting translation differences are recognized directly in equity.

4.1.17 Earnings per share

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

Net earnings per share is obtained by dividing net profit or loss by the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated by using the conversion into ordinary shares of dilutive instruments outstanding at the reporting date.

4.1.18 Revenue from contracts with customers (IFRS 15)

Revenue is recognized and presented in accordance with IFRS 15 “Revenue from Contracts with Customers”.

The Group’s revenue can be broken down into revenue from goods and services.

The revenue generating event varies according to the nature of the sale:

- When the Group is in charge of installing the label systems, revenue is recognized when the system becomes operational. At the reporting date, installations invoiced but not completed give rise to the recognition of deferred income; installations completed but not invoiced give rise to the recognition of an invoice to be prepared;
- When the Group only delivers the labels, revenue is recognized on the basis of the international commercial terms;
- Training services are invoiced and recognized when the service is provided, independently of the delivery of the labels;
- Transport costs are invoiced simultaneously with the invoicing of the labels, and the related revenue is recognized in the same way as the main service (delivery of the labels);
- Annual flat-rate discounts granted to customers are deducted from revenue;
- Maintenance contracts are billed in advance for periods of three to six months. Deferred income is recognized to cancel the revenue related to the following fiscal year on a pro rata basis;
- In certain cases, the Group may be required to perform research and development engineering services.The related revenue is recognized when the service is completed and the performance obligation is met.
- Costs corresponding to specific developments incurred in connection with the acquisition of new customer contracts are recognized as expenses in the year in which they are incurred, except for those meeting the following criteria:

  – These are incremental costs specific to obtaining certain new contracts,

  – These costs are essential to meeting the needs expressed by the customer.

At the end of each fiscal year, the costs incurred for contracts not obtained are recognized as expenses. Costs incurred for contracts obtained are capitalized and amortized on a straight-line basis over the term of the contracts.

Principal or Agent

The Group has conducted an analysis of the nature of its relationships with its customers in order to determine whether it is acting as a principal or as an agent in the performance of the contract or part of the contract when the Group sells equipment, software or services. In the current framework, the Group uses the concepts of risks and rewards as its main criteria to determine whether it is acting as a principal or an agent, and in particular contractual liability vis-à-vis the customer, liability for credit risk, contractual liability vis-à-vis suppliers and the added value provided to the services or products of suppliers.

Under IFRS 15, the Group is considered to be acting as principal since it controls the goods or services before transferring them to its customer.

4.1.19 Operating segments (IFRS 8)

The SES-imagotag Group has only one operating segment corresponding to a homogeneous activity of installing and maintaining electronic shelf labels.

Operating results are reviewed at Group level. The objective is to make decisions about the allocation of resources and the evaluation of performance. Isolated information at the lower level is not available, given the overall management of the activities, technologies and regions.

4.2 Highlights of the period

Performance in the first half of the year was very satisfactory. This was true commercially, with strong growth in sales and order entries, as well as operationally and financially, with an improvement in all indicators as compared to 2020. This performance is achieved in spite of procurement shortages in the semi conductors industry: the group anticipates a similar supply chain situation during H2 and beginning of year 2022.

4.3 Subsequent events

Changes to the JV in China and new strategic and equity partnership with BOE YiYun

On July 22, 2022, the company's Board of directors approved the transfer of the 51% share that SES-imagotag holds in its joint venture in China in exchange for 9.5% of BOE-YiYun, a Chinese tech sector company. BOE-YiYun, whose largest shareholder is BOE, specializes in digital solutions for the culture, education and retail sectors. The company was recently spun off from BOE, with several top-tier Chinese investors taking shareholding positions in BOE-Yiyun. The CEO of BOE-YiYun is George Yao, a non-executive director representing BOE on SES-imagotag's Board, and the main architect of the 2017 strategic and equity partnership between SES-imagotag and BOE.

BOE-Yiyun is a fast-growing company that is expected to seek a stock-market listing in coming years.

At the conclusion of this operation, the SES-imagotag/BOE JV will be integrated into BOE-YiYun in order to accelerate the company's growth in the retail sector. SES-imagotag will thus become a significant shareholder and strategic partner of BOE-YiYun, a rapidly expanding company that possesses all of the attributes required for success in the Chinese market.

This operation is subject to a number of regulatory obligations in China, and is expected to be finalized by the end of Q3 2022, with the following expected main impacts to the consolidated financial statements:

- An accretive effect on the Group's consolidated EBITDA and EBITDA margin;
- A decrease of approximately €20m in consolidated cash (transferred with the JV).

This operation will not affect previously communicated guidance for 2022 and 2023.

4.4 Notes to the Balance Sheet

Note 1 - Intangible Fixed Assets

Gross Fixed Assets in €'000	Opening	Increase	Transfers between line items	Decrease	Closing
Goodwill	51,274	—	—	—	51,274
Research and development	58,194	—	12,310	—	70,504
Concessions, patents & similar rights	55,884	75	6,783	—	62,742
Intangible fixed assets in progress	29,043	12,774	-19,094	-62	22,661
TOTAL	**194,395**	**12,849**	**—**	**-62**	**207,182**

As of June 30, 2022, the amount of goodwill breaks down as follows:

- SES-ESL merger: € 12.6 million;
- Acquisition of SES-Imagotag GmbH: € 13.4 million;
- Acquisition Pervasive Displays Inc (PDi): € 18.3 million;
- Acquisition Findbox (now Captana GmbH): € 6.7 million;
- Market Hub acquisition: € 0.3 million.

Research and development costs represent the cost of research and innovation expenses incurred by the group and which have made it possible to improve and diversify our product offering.

The transfers between lines during the financial year corresponds to:

- the capitalization of research and development costs incurred in the context of the ongoing development of the Jeegy Cloud software and new references in the Vusion range, and the Captana program;
- the capitalization of part of the development projects for the group's information systems and IT infrastructure.

Intangible assets in progress correspond to expenses incurred in connection with marketable research and development projects, the development of the Group's IT infrastructure, and costs incurred for the filing of patents which had not yet been granted by June 30, 2022.

The increase in assets under construction during the period is explained by the following elements:

- research and development expenditures of € 9,054K;
- development and restructuring of the Group's IT infrastructure and software for € 3,795K.

Amortization in €'000	Opening	Allowance	Transfers between line items	Write-back	Closing
Research and development	47,119	4,997	—		52,116
Concessions, patents & similar rights	22,190	2,367	—		24,557
TOTAL	**69,310**	**7,364**	**—**	**—**	**76,673**

Note 2 - Tangible Fixed Assets

Gross Fixed Assets in €'000	Opening	Increase	Transfers between line items	Decrease	Closing
Buildings and improvements	3,032	45	9	—	3,086
Machinery, equipment, and tools	21,905	1,361	20	—	23,286
Other tangible fixed assets	22,326	1,533	-29	-1	23,830
TOTAL	**47,263**	**2,940**	**—**	**-1**	**50,202**

Amortization in €'000	Opening	Allowance	Transfers between line items	Write-back	Closing
Buildings and improvements	1,821	177			1,998
Machinery, equipment, and tools	15,745	1,417			17,162
Other tangible fixed assets	9,313	2,077		-5	11,386
TOTAL	**26,880**	**3,672**	**—**	**-5**	**30,547**

Right of use

Gross Fixed Assets in €'000	Opening	Increase	Transfers between line items	Decrease	Closing
Buildings and improvements	8,672	633	—	-160	9,144
Production line and industrial equipment	14,727		—		14,727
Vehicles and other tangible fixed assets	1,359	241	—	-378	1,222
TOTAL	**24,759**	**873**	**—**	**-538**	**25,093**

The increase in Right of Use over the period is mainly due to:

- the new lease concluded for SES-imagotag Pdi Digital in Fernitz in Austria;
- the renewal of premises in various subsidiaries, mainly Canada, Taiwan, China, Ireland, Mexico, Australia ;
- the renewal of the car fleet mainly in France and in the subsidiaries.

The decrease in user rights is explained by:

- the termination of the leases of the Canadian, Taiwanese, Spanish, Mexican, Chinese and Irish subsidiaries for a usage value of € 160K. All these leases were renewed during the year;
- the termination of vehicle leases for € 378K.

Amortization in €'000	Opening	Allowance	Transfers between line items	Write-back	Closing
Buildings and improvements	2,466	857	—	-152	3,171
Production line and industrial equipment	8,182	1,636	—		9,818
Vehicles and other tangible fixed assets	576	232	—	-326	482
TOTAL	**11,224**	**2,726**	**—**	**-479**	**13,471**

Note 3 - Financial Assets

Financial assets in €'000	Opening	Increase	Decrease	Closing
Non-consolidated investments	39[1]			39
Deposits and guarantees	828	58	-2	884
Other loans	526	30		556
Other	1			1
TOTAL	**1,392**	**88**	**-2**	**1,477**

Note 4 - Inventories

Inventories in € '000	06/30/2022	12/31/2021	06/30/2021
Inventory of raw material	25,006	21,292	17,521
Inventory of finished products	133,928	112,217	82,702
Inventory of goods purchased for resale	16,060	13,579	13,921
Impairment of inventory	-8,417	-9,584	-5,790
TOTAL	**166,578**	**137,504**	**108,354**

Note 5 - Trade receivables

Trade receivables in € '000	06/30/2022	12/31/2021	06/30/2021
Gross trade receivables	139,675	120,700	108,928
Provision for Impairment	-1,095	-465	-672
TOTAL	**138,581**	**120,234**	**108,256**

Trade receivables increase is triggered by the revenue increase.

Under the current deconsolidating factoring contract for the French entity, the total amount of deconsolidated trade receivables is €7.6 million, of which €4.1 million has already been repaid. The amount of assigned receivables not repaid at June 30, 2022 is therefore €3.5 million.

Provision for impairment is detailed as follow :

Amount in € '000	Gross value	Provision
Receivables overdue less than 90 days	29	-14
Receivables overdue between 91 days and 180 days	563	-71
Receivables overdue between 181 days and 360 days	766	-482
Receivables overdue more than 361 days	682	-528
TOTAL	**2,040**	**-1,095**

[1] shareholding rights of the Japanese subsidiary which activity started during Q1 2022.

Note 6 - Other current receivables and other current taxes

Current tax receivables amounted to € 3,302K as of June 30, 2022. They mainly correspond to research tax credit and CICE receivables recognized from 2018 to H1 2022 in France and in Austria.

The other current receivables are broken down below :

Other current receivables in € '000	06/30/2022	12/31/2021	06/30/2021
Tax receivables	5,473	4,424	6,943
Social Security receivables	46	48	56
Suppliers- advance and prepayments	799	842	1,779
Suppliers- credit note	2,842	5,353	2,988
Financial Instruments	5,543	3,221	0
Other receivables	762	214	445
Prepaid expenses	2,714	2,348	1,586
TOTAL	**18,178**	**16,451**	**13,798**

Tax receivables, excluding current taxes, mainly correspond to VAT receivables on purchases

Credit notes receivable from our main suppliers of finished product and component assembly were recognized for an amount of € 2,773K as of June 30, 2022.

The amount recorded as financial instruments corresponds to the fair value of the instruments subscribed but not used at June 30, 2022.

Prepaid expenses relate to the company's current operating expenses invoiced but relating to a later period, and mainly the second half of 2022.

Note 7 - Cash and cash equivalents

Cash and cash equivalents in € '000	06/30/2022	12/31/2021	06/30/2021
Securities	32	16	30
Cash	75,632	89,743	80,511
TOTAL	**75,664**	**89,759**	**80,541**

Note 8 - Capital

Number of shares variation	Number	Nominal value in €	Share capital in €
Number of shares beginning of the period	15,761,008	2	31,522,016
Increase	0	2	0
Number of shares at the end of the period	**15,761,008**	**2**	**31,522,016**

As of June 30, 2022, the company held a total of 1,889 treasury shares, all relating to the liquidity contract entered during the year 2021. Treasury shares are restated as a deduction from equity in accordance with IAS 32.

Note 9 - Other Equity Instruments

Stock options and allocation of bonus shares.

Allocation of stock options

At its meeting of June 29, 2020, the Board of Directors approved the principle of a free share plan, the effect of which is to grant 470,000 shares to be issued subject to performance conditions and conditions of continued presence.

The definitive acquisition of the shares is subject to a condition of presence of the beneficiary and planned as follows:

- In 2022: Delivery of Tranche 1 Shares in 2022 if the performance conditions are met (Target 2020);
- In 2023: Delivery of Tranche 2 shares in 2023 if the performance conditions are met (Target 2021);
- In 2024: Delivery of Tranche 3 shares in 2024 if the performance conditions are met (Target 2022);
- In 2025: Delivery of Tranche 4 shares in 2025 if the performance conditions are met (Target 2023).

For free shares delivered during the years 2022 to 2025 (Target 2020 to Target 2023), the free shares will not be subject to any retention period from the date of delivery of the shares (given the 2-year period between grant and vesting).

Note 10 - Non-current provisions

Non-current provisions in € '000	Opening	Allowance	Release of allowance	Reclassification	Closing
Provisions for RMA’s	249	947	-217		978
Provisions for leased assets refurbishment	870				870
Provision for retirement benefits	0	16		773	789
Other provisions for risks	293				293
TOTAL	**1,412**	**962**	**-217**	**773**	**2,930**

The provision of retirement benefits for € 789K is mainly a reclassification of the amount booked by the end of December 2021 in the other debts for an amount of € 773K.

Provisions for the repair of leased assets relate to leases under IFRS 16. The counterparty is recognized in property, plant and equipment, as an increase in the right of use.

Note 11 - Long-term loans

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

Long Term Loans in € '000	Opening	Increase	Decrease	Closing
Bond debt	49,587	64		49,651
Other long-term loans from credit institutions	31,874		-471	31,403
Recurring and non-recurring leasing related debt	7,201	934	-775	7,360
TOTAL	**88,662**	**998**	**-1,246**	**88,414**

In June 2021, the company opted to repay the state-guaranteed loans (PGE) over a period of 2 years, starting on August 2022. The terms of other outstanding loans remain unchanged.

The increase in rental debts corresponds to the signing of new commercial leases for € 693K and new vehicles rental contracts for € 241K.

Long Term Loans in € '000	06/30/2022	Less than 1 year	1 year to 5 year	More than 5 years
Bond & loans from credit institutions	81,054	14,760	66,293	0
Bank				
Recurring and non-recurring leasing related debt	7,360	1,524	5,837	0
TOTAL	**88,414**	**16,284**	**72,129**	**0**

Note 12 - Other non-current liabilities

Other non-current liabilities in € '000	06/30/2022	12/31/2021	06/30/2021
Other debt – Price supplement	483	2,181	2,333
Research tax credit	2,835	2,696	1,470
Other operating grants	0	1	0
TOTAL	**3,319**	**4,879**	**3,803**

Market Hub: The remain amount of the fair value of the put debt on the 40% minority tranche as part of the acquisition of Market Hub for € 1,700K has been paid in february 2022.

Note 13 - Trade payables

Trade payables in € '000	06/30/2022	12/31/2021	06/30/2021
Trade payables	132,454	81,447	62,863
Suppliers - accrued expenses	36,405	75,000	34,530
TOTAL	**168,859**	**156,446**	**97,392**

Note 14 - Other debts and accrual accounts

Other debts and accrual accounts in € '000	06/30/2022	12/31/2021	06/30/2021
Customers - prepayments	83,296	86,463	92,030
Customers - accrued income	705	502	569
Social security and tax liabilities, pension commitments	25,696	16,106	12,356
Financial instruments	0	0	1,572
Deferred income and other debts	7,985	1,624	10,916
TOTAL	**117,682**	**104,694**	**117,443**

Deferred revenue corresponds to sales made mainly during the first semester but for which the contractual obligations had not been fully met by 30 June 2022. The revenue from these sales will be recognized in H2 2022.

The provision of retirement benefits amounts to € 789K vs € 773K at 31/12/21. This amount is now reclassified from other debts to other accruals. (please read note 10 as well).

Note 15 - Sales

Sales for the period break down as follows by geographical zone:

Sales in € '000	06/30/2022		06/30/2021	
Europe & EMA	221.3	77 %	157.2	78 %
France	32.6		27.0	
EMEA	188.7		130.2	
Americas & Asia	64.6	23 %	45.6	22 %
TOTAL	**285.9**		**202.8**	

Sales in € '000	30/06/2022		30/06/2021	
Electronic labels	240.8	84 %	175.9	87 %
Software, services and non-electronic labels solutions	45.1	16 %	26.9	13 %
TOTAL	**285.9**		**202.8**	

Note 16 - Purchases consumed

The amount of purchased consumed is composed of the following:

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

Note 17 - External expenses

External expenses in € '000	06/30/2022	12/31/2021	06/30/2021
Subcontracted variable expenses	-6,461	-13,163	-6,296
Outsourced personnel and recruitment expenses	-2,307	-4,256	-1,920
Travel expenses	-2,259	-2,951	-1,183
Marketing	-3,427	-2,089	-1,008
Consulting Fees	-2,269	-3,670	-1,773
IT & Telecom expenses	-2,419	-4,092	-1,932
Other	218	-1,881	-384
TOTAL	**-18,925**	**-32,102**	**-14,496**

Note 18 - Payroll costs

Payroll costs in € '000	06/30/2022	12/31/2021	06/30/2021
Payroll costs	-20,043	-32,855	-16,353
Free share (IFRS2)	-3,452	-3,455	-836
Pension commitments	-30	-40	-15
TOTAL	**-23,525**	**-36,350**	**-17,204**

Note 19 - Net allowance for provisions

Net allowance for provisions in € '000	30/06/2022	31/12/2021	30/06/2021
Warranty for provisions	-752	-234	-162
Other provisions for contingencies and charges		-293	-205
Provisions on inventory value	1,318	-4,302	-388
Provision for trade receivables	-626	-85	-261
Variation	**-59**	**-4,914**	**-1,017**
Change in provisions for contingencies and charges	-6,445	-9,480	-3,452
Release in provisions for contingencies and charges	6,386	4,566	2,435
TOTAL	**-59**	**-4,914**	**-1,017**

Note 20 - Other operating income and expenses

The other operating income and expense are non-significant as at June 30, 2022.

Note 21 – Other financial income and expenses

Financial result in € '000	06/30/2022	12/31/2021	06/30/2021
Financial instruments	115		62
Foreign exchange gains	41,190	19,105	9,617
Other financial income	202	531	261
Reversal accrual for risk			-384
Other financial income	**41,508**	**19,637**	**9,555**
Financial instruments		-426	
Bank interest expenses	-1,151	-2,115	-1,016
Leasing related interest expenses	-132	-262	-155
Foreign exchange losses	-40,896	-17,259	-9,307
Other financial expenses	-402	-685	-406
Provision for risks		-4	448
Other financial expenses	**-42,581**	**-20,751**	**-10,435**
TOTAL	**-1,073**	**-1,114**	**-880**

Note 22 – Income tax and deferred tax

Income tax has been accounted for, based on the best estimate of the expected annual rate.

in € '000	06/30/2022	12/31/2021	06/30/2021
TOTAL	**-2,419**	**-1,991**	**-503**

The tax charge has been taken into account for the period on the basis of the best estimate of the expected average annual rate.

Income tax and deferred tax in € '000	06/30/2022	12/31/2021	06/30/2021
TOTAL Deferred Tax Assets	**16,621**	**17,388**	**17,425**
TOTAL Deferred Tax Liabilities	**7,485**	**6,680**	**6,031**

Differed tax assets are mainly due to the French entity for a total € 15 255.

Note 23 - Net income - Earnings per share

Net profit for the year amounted to € 5,039K out of minority interest's share

Effect of potential dilution on the capital:

Earnings per share	06/30/2022	12/31/2021	06/30/2021
Profit (Loss) (K€)	5,039	2,834	1,320
Number of shares at closing	15,761,008	15,802,297	15,758,516
Stocks options			3,000
Bonus shares			
Earnings per share			
– before dilution	0.32	0.18	0.08
– after dilution	0.32	0.18	0.08

4.5 Other notes

Note 24 - Off balance sheet commitments

Commitments made:

- Comfort letter to Bank Austria bank of SES-imagotag GmbH): €4,600k for the entire term of the loan;
- Comfort letter in favor of SES-imagotag GmbH, a wholly-owned subsidiary of the company;
- Comfort letter in favor of SES-imagotag Netherlands B.V., a wholly owned subsidiary of the Company;
- Guarantee payment of rent €182k (CIC);
- Pledge of interest-bearing bank account (CIC);
- Regarding the bonds, the Company undertakes to maintain a consolidated Net Debt to last 12-month Ebitda ratio below 3.5x. This covenant is calculated every half year.

Note 25 - Degree of exposure to market risk

The Company is mainly exposed to currency fluctuations on its purchases made in dollars.

Degree of exposure to market risk in $ '000	**As of June 2022**
Hedging portfolio as of December 2021	121,000
New contract H1 2022 hedging for 2022	
New contract H1 2022 hedging for 2023	
Released on H1 2022	66,000
Hedging portfolio as of June 2022	**55,000**

Note 26 - Research and development expenditure

Over financial half-year 2022, € 9,054K in research and development expenditure were capitalized on the balance sheet as fixed asset in progress.

Note 27 - Transactions with related parties

The related parties identified by the Group a

- group shareholders owning more than 10% of the share capital;
- members of the Board of Directors.

As of June 30, 2022, the amount of transactions completed with the Group's majority shareholder BOE Smart Retail (Hong Kong) Co, Ltd are:

- $ 170.3M purchases to Chongqing BOE Smart Electronic System Co Ltd (Master Service Agreement);
- $ 30.4M in component sales with Chongqing BOE Smart Electronic System Co.Ltd.

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

The gross compensation paid to the Chairman and Chief Executive Officer for the past period amounts to € 180K in respect of their H1 2022 fixed compensation.

A contract under the Social Guarantee of Chief Executive Officers (GSC) was signed during 2012 to the benefit of the Chairman and Chief Executive Officer. The annual subscription for the year 2022 is € 20K.

This contract includes the basic plan and a supplemental plan, providing compensation coverage over a 12-month period (former plan).

The compensation of the Chairman and CEO is detailed as follows:

Executive compensation in €	06/30/2022	06/30/2021
Short term benefits	180,000	160,000
Post-employment benefits	0	0
Other long-term benefits	0	0
End of contract indemnities	0	0
Share-based payment	0	0

Note 29 - Credit, liquidity, and cash flow risks

The Company does not hold risky investments.

4.6 Consolidation scope

Company Name	Head office	Consolidation Method	% controlled 06/30/2022	% controlled 06/30/2022	% controlled 12/31/2021
SES-imagotag S.A.	France	(Parent)	(Parent)	(Parent)	(Parent)
SES-imagotag Pte Ltd	Singapore	IG	100	100	100
SES-imagotag Mexico srl. de cv	Mexico	IG	99	99	99
SES-imagotag Italia Srl.	Italy	IG	100	100	100
SES-imagotag Gmbh	Austria	IG	100	100	100
Solutions Digitales SES-imagotag Ltée	Canada	IG	100	100	100
Market Hub Technologies Ltd	Ireland	IG	100	100	60
SES-imagotag INC.	United States	IG	100	100	100
SES-imagotag Netherlands BV	Netherlands	IG	100	100	100
SES-imagotag Denmark Aps.	Denmark	IG	100	100	100
SES-imagotag Iberia S.L	Spain	IG	100	100	100
Captana GmbH	Germany	IG	100	100	100
Pervasive Displays Inc	Taiwan	IG	100	100	100
BOE Digital Technology CO Ltd.	China	IG	51	51	51
SES-imagotag Pdi Digital	Austria	IG	70	70	70
SES-imagotag Australia Pty Ltd	Australia	IG	100	100	100
Non consolidated company (non significant activity in H1 2022)					
SES-imagotag Japan K.K.	Japan		100	100	100
SES-imagotag RDC d.o.o.	Croatia		100	100	N/A

Statutory Auditors Report

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

For the period from January 1 to June 30, 2022

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders of SES-imagotag S.A.,

In compliance with the assignment entrusted to us by your Shareholders' Meeting and in accordance with the requirements of article L. 451-1-2-III of the French Monetary and Financial Code ("*code monétaire et financier*"), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of SES-imagotag, for the period from January 1 to June 30, 2022
- the verification of the information presented in the half-yearly management report.

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

Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Paris La Défense, September 30, 2022

The Statutory Auditors

French original signed by

KPMG Audit Division of KPMG SA	Deloitte & Associés
Gregoire MENOU	Julien RAZUNGLES

Certificate of the person responsible for the report

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

Mr. Thierry Gadou
Chairman & CEO

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