MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis summarizes the significant factors affecting our results of operations and financial condition during the year ended December 31, 2018. The historical information discussed below for the Group is as of and for the year ended December 31, 2018 and is not necessarily representative of the Group's results of operations for any future period or our financial condition at any future date. We have prepared the audited consolidated financial statements for the Group from January 1, 2018 to December 31, 2018 included herein, in accordance with IFRS.

The following discussion includes forward-looking statements based on assumptions about our future business. Our future results could differ materially from those contained in these forward-looking statements. Percentages may be calculated on non-rounded figures and therefore may vary from percentages calculated on rounded figures.

The "Group", "we", "our" and "us", unless otherwise indicated, collectively refer to La Financière ATALIAN S.A.S. and its consolidated subsidiaries.

1. Overview

Overview

We are a leading independent provider of outsourced building services. As at December 31, 2018, we operated in 32 countries, including France, our principal market, serving a diverse range of more than 32,000 customers in the private and public sector. Originally established in 1944 as a provider of cleaning services in France, we began transforming ourselves into a multi-disciplinary provider of outsourced building services in 1999. Our comprehensive multi-service and multi-technical offering covers many market segments for outsourced building services. We provide our services by relying primarily on in-house expertise and resources. With more than 125,000 employees worldwide, we are an important provider of various types of outsourced building services in each of the countries in which we operate.

We have experienced growth in recent years mainly through the acquisition both inside and outside of France of companies with services, expertise and geographical scope that are complementary to our own but also organically. In particular, in France, we significantly expanded our operations through the acquisitions in 2009 of Véolia Propreté Nettoyage et Multiservices (''VPNM''), a cleaning services provider with a significant portfolio of large corporate customers, and Eurogem, a multi-service provider of outsourced building services. Our expansion in France since 2014 included the acquisition of various entities specializing in cleaning services, including Vitsolnet, HEI, Net'Express, Facilicom Services Group France SA (''Facilicom''), a French wholly owned subsidiary of the Dutch Facilicom group, and Clean Residences. Our expansion in France has recently continued, notably with the acquisition in 2018 of Limpa and BBA, two companies specializing in cleaning services. Our acquisitions have allowed us to expand our service offering and expertise to include a broad range of outsourced building services.

We have also used the business model developed in France to significantly grow our presence in international markets outside France, both in response to, and in anticipation of, our clients' needs. Since 2003, we have acquired approximately 300 entities in 32 countries (including France). Since 2015, we acquired companies in the United States, Central and Eastern Europe and Turkey and expanded our operations into Southeast Asia and North and West Africa. In particular, in January 2016, we acquired Temco Service Industries, Inc. (''Temco''), a company providing cleaning and facility management services to clients in Europe and the United States, in order both to expand our European presence and to gain a foothold in the US market. In 2017, we further expanded our presence in the United States with the acquisition of Aetna Building Maintenance Inc. (''Aetna'') and Centaur, two companies offering cleaning services, and

Suburban Integrated Facilities (‘‘Suburban’’), a company specializing in cleaning and technical maintenance services. We also acquired Cleaning Express Pte. Ltd. (‘‘Cleaning Express’’) and a 26% stake in Ramky International (Singapore) Pte. Ltd. (‘‘Ramky’’) in 2017, two companies providing cleaning services in Singapore. Our international expansion has continued in 2018, through the acquisitions of entities in Belgium and Thailand.

On May 9, 2018, we also acquired the entire share capital of Servest Limited, a leading provider of facility management services in the United Kingdom (“Servest UK”). Servest UK provides a full suite of cleaning, building maintenance, catering, security, pest control, compliance and other facilities management services and solutions to over 2,200 public and private sector customers at thousands of clients across the United Kingdom.

2018 has been a transformative year for the Group with the acquisition of Servest UK, the high level of contract renewals in France and the ongoing renewal of the management team. We believe that the breadth of our service offering, together with our geographic footprint, provide us with a solid foundation for our long-term strategy of becoming a leading global provider of outsourced building services.

In 2018, we had total revenue of €2,695.4 million, Recurring EBITDA (see Section 2 “*Financial information—Management financial measures*”) of €184.8 million and profit for the period of €(60.5) million.

2. Financial information

Change in our fiscal year end from August 31 to December 31 starting December 31, 2017

On October 26, 2016, we changed our fiscal year end from August 31 to December 31, starting December 31, 2017, to reflect the Group’s current expansion strategy and to facilitate the integration of acquired businesses. As a result, the comparative fiscal period ended December 31, 2017 comprises a 16-month period.

In an effort to provide a more complete analysis of the results of our business during the twelve month period under review, this analysis discusses a comparison of our results of operations for the twelve months ended December 31, 2018, using our 2018 audited consolidated financial statements with our results of operations for the twelve months ended December 31, 2017, as disclosed in our 2017 audited consolidated financial statements.

Change in the presentation of the income statement

In our 2018 audited consolidated financial statements, the presentation of the income statement has been slightly changed to highlight the recurring elements of the Group’s activities through the inclusion of a “non-recurring operating income and expenses” line item, that the Group considers more relevant for the understanding of the Group’s year-on-year performance.

The line item “non-recurring operating income and expenses” consists of material non-recurring, infrequent and unusual income and expenses, as recommended by the ANC (*Autorité des Normes Comptables*), as described in Section 5 “*Results of Operations for Fiscal Year Ended December 31, 2017 and December 31, 2018*”. “Non-recurring operating income and expenses” amounted to €5.4 million for the twelve months ended December 31, 2017 and to €(36.9) million for the twelve months ended December 31, 2018.

Change in accounting policies affecting the comparability of consolidated financial statements

- **IFRS 16:**

The Group has adopted IFRS 16 as of January 1, 2018 using the modified retrospective method, which requires the Group to recognise the cumulative effect of the initial application of the standard in the 2018 retained earnings opening balance without restating prior periods. However, since the Group elected to measure its right-of-use assets at an amount equal to its lease liabilities there was no impact in the retained earnings of the Group as of January 1, 2018. As of December 31, 2018, lease liabilities amounted to €104.2 million with an impact of the application of IFRS 16 of €68.9 million.

The table below presents the line items that were impacted by the application of IFRS 16, by showing such line items, calculated as if IAS 17 still applied, compared to the statement of income, as published, after application of IFRS 16.

in € million	31/12/2018 Reported	*IFRS 16 impact*	31/12/2018 Excluding IFRS 16
External charges	(127.0)	*35.3*	(162.3)
Recurring EBITDA	**184.8**	***35.3***	**149.5**
Depreciation and amortization	(92.6)	*(32.2)*	(60.4)
Recurring operating profit	**76.9**	***3.0***	**73.9**
Operating profit	**40.0**	***3.0***	**37.0**
Net financial expense	(67.9)	*(5.0)*	(62.9)
Income tax expense	(19.5)	*0.5*	(20.0)
Profit for the period	**(60.5)**	***(1.5)***	**(59.0)**

- **IFRS 15:**

IFRS 15 “Revenue from Contracts with Customers”, is mandatory from January 1, 2018. Its application did not have any significant impact on the Group’s financial statements in 2018, due to the nature of the Group’s business activities.

- **IFRS 9:**

IFRS 9 “Financial Instruments”, is mandatory from January 1, 2018. Its application had a limited impact on the Group’s financial statements in 2018, resulting in an increase in equity of €1.3 million as of January 1, 2018.

Management financial measures

We use Recurring EBITDA to analyse our results of operations. We define Recurring EBITDA as operating profit, as reported in our consolidated financial statements, adjusted to exclude the following line items, each of which is as reported in our consolidated financial statements: depreciation and amortization, net; provisions and impairment losses, net; and non-recurring operating income and expenses.

Recurring EBITDA corresponds to the line item ‘‘Recurring operating profit before depreciation, amortization, provisions and impairment losses’’ in our 2018 audited consolidated financial statements. Recurring EBITDA is not a specifically prescribed line item under IFRS, is not a measure of financial condition, liquidity or profitability and should not be considered as an alternative to the profit for the period determined in accordance with IFRS, cash flows generated by operating activities determined in accordance with IFRS or any other measure prescribed by IFRS. We believe that the inclusion of Recurring EBITDA in this report is useful to investors because it provides investors the same information that we use internally for purposes of assessing our operating performance. Recurring EBITDA has important limitations as an analytical tool and you should not consider it in isolation or as a substitute for analysis of our results of operations. Because not all companies calculate Recurring EBITDA identically, this presentation of Recurring EBITDA may not be comparable to the similarly titled measure of other companies.

3. Overview of reporting segments

In 2018, the consolidation of Servest UK and the Group's reorganization led to a change in internal management reporting and consequently in reportable segments used.

In 2017, we had three reporting segments under IFRS, namely, Cleaning, Facility Management and International.

We now have the three following reporting segments:

- *France*: This segment aggregates the two former segments of "Cleaning" and "Facility Management".
- *Servest*: This is a new segment created following the acquisition of Servest UK in May 2018. This segment is composed of Servest UK and its consolidated subsidiaries.
- *International*: This segment remains unchanged. It comprises all companies outside the France and Servest segments.

In addition, in our audited consolidated financial statements, we present in our segment information an additional item labelled ''Other'' which (i) includes the activities of our holding companies, such as group-level management of finance, legal, accounting, procurement, human resources, fiscal and customer relations matters and (ii) reflects the elimination of intragroup transactions between reporting segments in consolidation. The change in reporting segments led to differences in the elimination of intragroup revenue between the 2017 former segment information and the 2017 comparative information for the present reporting segments.

The revenue for each of our reporting segments for 2018 was as follows:

- *France:* In 2018, our France segment generated €1,294.8 million, or 48.0%, of our revenue (€1,182.7 million, or 58.3%, in 2017). The two business lines that generate our revenue in France are cleaning and facility management:

    - *Cleaning*

    We offer cleaning and associated services, which include periodic cleaning of offices and retail outlets and specialized cleaning services in the health, food-processing, transportation, manufacturing and nuclear industries in France. In 2018, our cleaning business in France generated €885.1 million of revenue (€775.9 million in 2017).

    - *Facility Management*

    Our facility management businesses include multi-technical and multi-service management, safety and security, reception services, painting and landscaping services. We also offer bundled facility management services, while reception services are provided through our cooperation with City One. In year 2018, our facility management business generated €422.4 million of revenue (€419.4 million in 2017).

The elimination of transactions between cleaning and facility management businesses in our of France segment accounted for €12.7 million of revenue in 2018 (€12.6 million in 2017)

- *International:* In 2018, our International segment generated €877.1 million, or 32.5%, of our revenue (€845.7 million, or 41.7%, in 2017). As at December 31, 2018, we operated in 30 countries (outside of

France and the United Kingdom), in Europe, United States, Southeast Asia, Africa, providing cleaning, multi-technical, security and bundled facility management services.

- *Servest:* In 2018, our Servest segment (consolidated starting from May 2018) generated €527.2 million, or 19.6%, of our revenue. Servest UK is a provider of facilities management services based in the United Kingdom operating the following main divisions: cleaning, catering, security, technical services and projects. In addition, Servest UK has two other operating divisions, pest control and compliance, which are less significant in terms of revenue. Aktrion, which was acquired in February 2018 and which provides bespoke manufacturing support services, will be a new business line within this segment.
- *Other*: In addition, the activities of our holding companies and the elimination of transactions between reporting segments amounted to €(3.7) million in 2018 (€0.1 million in 2017).

4. Factors Affecting Our Results of Operations

4.1 Acquisitions and divestments

Overview

In recent years, external growth has contributed significantly to the overall growth of our business. We intend to continue to pursue acquisitions in the future in order to diversify our service offering and customer base as well as to expand our geographic footprint further outside of France. We have recently expanded our business into the United Kingdom, the United States, West and North Africa and Southeast Asia as we believe that these geographic regions generally provide greater prospects for growth and more attractive margins than our domestic market.

Acquisitions

<u>Servest</u>

On May 9, 2018, we acquired the entire share capital of Servest UK. The consideration for the acquisition attributed £83 million of enterprise value to Servest UK's 28.8% equity investment in Bottega Investco SARL ("Getronics") and £457 million of enterprise value to Servest UK's other assets and operations. Servest has been consolidated since May 2018. Following a capital increase by Getronics in July 2018 to which the Group contributed €23.5 million, the Group held a 28.3% stake in Getronics as of December 31, 2018.

Servest UK is a leading provider of facility management services in the United Kingdom with which the Group has had a commercial partnership, through a joint venture, since April 2016. Servest UK had total revenues of €522.6 million in the twelve months ended December 31, 2017 and contributed €527.2 million to our revenue from May 2018 to December 2018, since the company has been consolidated starting from May 2018.

Servest UK is a UK-focused provider of facility management services, including cleaning, contract catering and technical services, and has recently benefited from favourable market dynamics in the UK facility management services market. The acquisition provides the Group with a strategic foothold in the UK market and strengthens the international development of the Group. Getronics is a multi-national provider of technology services (including software platforms, hardware sales, telecommunications solutions and cloud services), providing workplace solutions for facility management specific products in the corporate, healthcare and transport sectors, among others. The investment in Getronics enables the Group to play a leading role in the workplace technology market and provide a seamless facility management and innovative technology offering to its growing client base and comes at a time when workplace management is increasingly focused on digital transformation through the development of smart buildings and the Internet of Things.

In 2018, we also made the following acquisitions in our Servest segment:

- **AKTRION:** In February 2018, Servest UK acquired Aktrion Holdings Limited (the ‘‘Aktrion Group’’), a specialist in the provision of bespoke manufacturing support services. It had an estimated annual revenue of approximately £91 million based on its most recent unaudited full year management accounts pre-acquisition.
- **THERMOTECH:** In May 2018, Servest UK acquired 100% of Thermotech, which operates in the technical services and projects business, which led to the internalisation of services (mainly due to fire protection, heating, ventilation and air conditioning). It had an estimated annual revenue of approximately £18 million based on its most recent unaudited full year management accounts pre-acquisition.
- **UNIQUE CATERING:** In May 2018, Servest UK acquired 100% of Unique Catering, in Catering business. It had an estimated annual revenue of approximately £12 million based on its most recent unaudited full year management accounts pre-acquisition.

<u>France</u>

In 2018, we made the following acquisitions in our France segment:

- **LIMPA NETTOYAGES:** In March 2018, we acquired 100% of Limpa Nettoyages, a company providing cleaning services in France. It had an estimated annual revenue of approximately €50 million based on its most recent unaudited full year management accounts pre-acquisition.
- **BBA:** In June 2018, we acquired 100% of BBA, a company providing cleaning services in France. It had an estimated annual revenue of approximately €41 million based on its most recent unaudited full year management accounts pre-acquisition.
- **NET 38:** In January 2018, we acquired 100% of the capital of NET 38, a company providing cleaning services in France. It had an estimated annual revenue of approximately €3 million based on its most recent unaudited full year management accounts pre-acquisition.
- **TRAVERSIER:** In July 2018, we acquired 100% of the capital of Traversier Nettoyage, a company providing cleaning services in France. It had an estimated annual revenue of approximately €4.5 million based on its most recent unaudited full year management accounts pre-acquisition.
- **CADIOU:** In July 2018, we acquired 100% of the capital of Cadiou, a company providing multi technical services, specialised in electricity services in France. It had an estimated annual revenue of approximately €18 million based on its most recent unaudited full year management accounts pre-acquisition.

<u>International</u>

In 2018, we made the following acquisitions in our International segment:

- **SIBES:** In March 2018, we acquired a 51% interest of Sibes in Belgium, a company providing technical maintenance in Belgium. It had an estimated annual revenue of approximately €4 million based on its most recent unaudited full year management accounts pre-acquisition.
- **GREEN KITCHEN:** In March 2018, we acquired a 51% interest of Green Kitchen in Belgium, a company specialized in catering in Belgium. It had an estimated annual revenue of approximately €3 million based on its most recent unaudited full year management accounts pre-acquisition.
- **SOLAR:** In March 2018, we acquired 100% of Solar Cleaning Services NV in Belgium, a company providing cleaning services in Belgium. It had an estimated annual revenue of approximately €2 million based on its most recent unaudited full year management accounts pre-acquisition.
- **ARM PROTECTION/PS Guards/PSS:** In March, we acquired three companies in Thailand, in security and cleaning services. They had an aggregate estimated annual revenue of approximately €3 million based on their most recent unaudited full year management accounts pre-acquisition.

Disposals

In the twelve months ended December 31, 2018, there were no significant disposals of consolidated companies.

Analysis of the impact of our acquisitions on our results of operations

In order to assist in the analysis of our results of operations during the period under review, we provide in this report certain data relating to the revenue contribution for acquired businesses following their acquisition. We calculate the revenue contribution for acquired businesses as follows:

- the revenue contribution of a business acquired during any given fiscal year is equal to the revenue of such business from the date such business was included in our revenue to the end of such fiscal year; and
- the external growth contribution of an acquired business with respect to the fiscal year immediately following the fiscal year during which such business was acquired, which we also refer to as the "full year impact" of such acquisition, is equal to the difference between (i) the revenue generated by such business from the date it was included in our consolidated revenue to the end of that fiscal year, prorated on a twelve month basis, and (ii) the revenue generated by such business in the full fiscal year following acquisition.

5. Results of Operations for Fiscal Year Ended December 31, 2017 and December 31, 2018

Results of operations

	For the twelve months ended December 31,	
	2017	**2018**
	€ in millions	
Revenue	**2,028.5**	**2,695.4**
Purchases consumed	(443.9)	(618.3)
External charges	(122.3)	(127.0)
Personnel costs	(1,307.1)	(1,749.9)
Taxes other than on income	(29.4)	(32.5)
Other recurring operating income and expenses	5.3	17.1
Recurring EBITDA	**131.1**	**184.8**
Depreciation and amortization	(39.3)	(92.6)
Provisions and impairment losses, net	(16.0)	(15.3)
Recurring operating profit	**75.8**	**76.9**
Non recurring operating income and expenses	5.4	(36.9)
Operating profit	**81.2**	**40.0**
Financial income	0.7	1.5
Finance expenses	(52.8)	(66.7)
Finance costs, net	**(52.1)**	**(65.2)**
Other financial income and expenses	(2.5)	(2.7)
Net financial expense	**(54.6)**	**(67.9)**
Income tax expense	(16.6)	(19.5)
Share of profit (loss) of equity-accounted companies	0.2	(13.1)
Net profit from recurring operations	**10.1**	**(60.5)**
Net profit (loss) from discontinued operations	-	-
Profit for the period	**10.1**	**(60.5)**

Revenue

The following table sets forth the breakdown of our revenue for the periods indicated by reporting segment:

	For the twelve months ended December 31,	
	2017	**2018**
	€ in millions	
Revenue		
France	1,182.7	1,294.8
International	845.7	877.1
Servest	-	527.2
Other (1)	0.1	(3.7)
Total Revenue	**2,028.5**	**2,695.4**

(1) Elimination of holding company activities and intragroup transactions, See Section 2: *"Financial information–* *–Overview of reporting segments"* for further details.

Revenue increased by €666.9 million, or 32.9%, to €2,695.4 million in 2018 as compared to €2,028.5 million in 2017. The increase was mainly attributable to the acquisition of Servest UK, which contributed €527.2 million of our revenue in 2018, as it was consolidated starting from May 2018. This increase also reflected the acquisition in 2018 of Limpa and BBA in France. We also experienced the full year impact of our acquisitions in the United States (Aetna in May 2017 and Suburban Integrated Facilities and Centaur in December 2017). Despite the positive dynamics in Asia and Africa and the relative stability in our cleaning business, this increase was partly offset by negative organic growth of the United States with the loss of contracts at Temco, difficulties encountered in the security business in France and a strong adverse impact of foreign exchange rate movements (€(32.1) million), mainly due to depreciation of the Turkish Lira.

Revenue by segment:

France. France segment revenue increased by €112.1 million, or 9.5%, to €1,294.8 million for the twelve months ended December 31, 2018 as compared to €1,182.7 million for the twelve months ended December 31, 2017. This increase was primarily attributable to external growth, which contributed €121.2 million, mainly in our cleaning business, offset by slightly negative organic growth (-1.1%), primarily in our security and landscaping activities.

Cleaning: Revenue increased by €109.2 million, or 14.1%, to €885.1 million in 2018 as compared to €775.9 million in 2017. This increase is mainly due to the 2018 acquisitions of Limpa and BBA, which contributed to €47.0 million and €27.1 million to our 2018 consolidated revenue, respectively. The cleaning business organic revenue slightly increased over the prior year (+0.3%).

Facility Management: Revenue slightly increased by €3.1 million, or 0.7%, to €422.4 million in 2018 as compared to €419.4 million in 2017. This slight increase is mainly due to the acquisition of Cadiou in 2018 which contributed €9.5 million to our consolidated revenue. This increase was offset by negative organic growth in our security business as the result of certain client losses, as well as the relatively high level of landscaping activity in 2017.

International. International segment revenue increased by €31.9 million, or 3.9%, to €877.6 million in 2018, as compared to €845.7 million in 2017.

This increase was mainly due to the full-year impact of our acquisitions in 2017, including: (i) Suburban, Centaur and Aetna in the United States, which resulted in an increase of €47.5 million in the aggregate in our International segment revenue in 2018 as compared to 2017, and (ii) Axess Solution Globales de Sécurité in Senegal in December 2017 which resulted in an increase of €4.7 million in our

International segment revenue in 2018 as compared to 2017. This increase was also due to 2018 acquisitions: mainly Sibes and Green Kitchen in Belgium, which contributed €3.1 million in the aggregate to our International segment revenue in 2018.

Our International organic revenue slightly increased (organic growth: +0.6%) in 2018, as the result of (i) strong organic growth in Asia (+7.1%), notably Indonesia and Singapore, (ii) dynamic organic growth in Africa (+14.9%), driven by higher sales in Morocco and (iii) a slight positive organic growth in Europe (+0.6%), driven by Croatia and Serbia, though partly offset by the loss of clients and the decision to terminate loss making contracts in the Czech Republic and Poland.

Servest. Servest entities generated €527.2 million of revenue since the acquisition of Servest in May 2018. During the twelve months ended December 31, 2018, Servest experienced (i) strong organic growth of approximately 18%, thanks to new customer wins, notably three new major contracts in Security, as well as growth with the top clients, and (ii) significant external growth, led by the acquisition of Aktrion, in February 2018, and Thermotech and Unique Catering, in May 2018.

Purchases consumed

Purchases consumed increased by €174.4 million, or 39.3%, from €443.9 million in 2017 to €618.3 million in 2018, principally reflecting the increase in our revenue during the period, especially in the Servest segment. As a percentage of revenue, purchases consumed represented 22.9% of our revenue in 2018, as compared to 21.9% of revenue in 2017. This is mainly due to the Servest UK acquisition, as the company has a higher purchases consumed as a percentage of revenue than the rest of the Group, amounting to 32.1% in 2018, since Servest UK has relatively more activity on technical services. When excluding the effect of the acquisition of Servest UK, purchases consumed would represent 20.7%, a decrease as compared to 2017, explained by our 2018 acquisitions of Limpa and BBA, and the full year impact of our 2017 acquisitions of Aetna and Centaur, as these companies have a lower level of purchase costs since they are mainly operating in the cleaning business.

External charges

As reported, external charges increased by €4.7 million, or 3.8%, from €122.3 million in 2017 to €127.0 million in 2018. As a percentage of revenue, external charges (as reported) increased in 2018 compared to 2017 (4.7%), representing 6.0% of our revenue.

Excluding the impact of IFRS 16, external charges increased by €40.0 million, or 32.7%, from €122.3 million in 2017 to €162.3 million in 2018, principally reflecting (i) the effect of the Servest UK acquisition of €19.2 million and (ii) the increase in our revenue during the period.

Personnel costs

Personnel costs increased by €442.8 million, or 33.9%, from €1,307.1 million in 2017 to €1,749.9 million in 2018. The increase in personnel costs is principally attributable to the Servest UK acquisition, which resulted in an increase in personnel costs of €308.7 million, and to other acquisitions in France, Europe and Asia.

Payroll costs increased from 64.5% of consolidated revenue in 2017 to 64.9% of consolidated revenue in 2018. This increase as a percentage of revenue was due to (i) the impact of the CICE (competitiveness and employment tax credit), which amounted to €33.8 million in 2018, as compared to €37.9 million in 2017, as a result of the reduction of the CICE rate from 7% in 2017 to 6% in 2018, with an estimated effect of approximately €5.6 million, and a related timing effect of approximately €2.7 million, (ii) the dilutive effect of the new consolidated acquisitions of Limpa and BBA, before potential synergies, and (iii) the reinforcement of the operational and commercial team in the cleaning business. This increase was offset by the acquisition of Servest UK as the company has relatively a lower level of personnel costs as a percentage of revenue (58.6% in 2018).

Taxes other than on income

Taxes other than on income increased by €3.1 million, or 10.7%, from €29.4 million in 2017 to €32.5 million in 2018. This increase is mainly due to the increase in taxes on salaries following the increase in personnel costs due to 2018 acquisitions.

As a percentage of revenue, taxes other than on income decreased to 1.2% in 2018 as compared to 1.4% in 2017. This decrease was mainly due to the lower ratio of taxes other than income as a percentage of payroll costs of Servest UK and our 2017 acquisitions in the United States, as compared to our other subsidiaries in France.

Other recurring operating income and expenses

Other recurring operating income increased by €11.9 million, or 224.1%, from €5.3 million in 2017 to €17.1 million in 2018. The increase is mainly attributable to the Servest UK acquisition, as it led to an increase in change in inventory of €8.5 million.

This line item for the twelve months ended December 31, 2017 was restated to classify as non-recurring income the one-off effect of the sale of the Atalian and Atalian Global Services brands in certain territories to the Group's shareholder for an amount of €6.2 million, net of restructuring costs of €0.8 million *(See Section 2: "Financial information" for further details about this reclassification).*

Recurring EBITDA

The following table sets forth the breakdown of Recurring EBITDA for the periods indicated by reporting segments:

	For the twelve months ended December 31,	
	2017	**2018**
	€ in millions	
Recurring EBITDA		
France	116.4	121.7
International	41.6	51.8
Servest	-	31.3
Other(1)	(26.9)	(20.0)
Total Recurring EBITDA	**131.1**	**184.8**

(1) Elimination of holding companies activities and intragroup transactions, see Section 2 *"Financial information––Overview of reporting segments"* for further details.

The table below presents the impact of IFRS 16 on EBITDA by segment:

in € million	2018 Reported Recurring EBITDA	*IFRS 16 impact*	2018 Recurring EBITDA excluding IFRS 16
France	121.7	*14.2*	107.5
International	51.8	*13.2*	38.6
Servest	31.3	*1.7*	29.6
Other (1)	(20.0)	*6.2*	(26.2)

As reported, Recurring EBITDA increased by €53.7 million, or 40.9%, to €184.8 million in 2018, as compared to €131.1 million in 2017.

Excluding the impact of IFRS 16, Recurring EBITDA increased by €18.4 million, or 14.0%, to €149.5 million in 2018, as compared to €131.1 million in 2017. Our Recurring EBITDA margin decreased to 5.5% in 2018, as compared to 6.5% in 2017, mainly due to a deterioration of the Recurring EBITDA margin in France, the dilutive effect of the Servest UK acquisition as the company has a lower Recurring EBITDA margin than the rest of the Group and a slight decrease in Recurring EBITDA margin in our International segment.

Recurring EBITDA by segment, excluding the impact of IFRS 16

France. Recurring EBITDA for the France segment decreased by €8.9 million, or 7.6%, to €107.5 million in 2018 as compared to €116.4 million in 2017. The Recurring EBITDA margin of the France segment decreased to 8.3% in 2018, as compared to 9.8% in 2017. The Recurring EBITDA and Recurring EBITDA margin decreases are primarily attributable to the deterioration of Recurring EBITDA of the cleaning and security activities.

> Cleaning: Recurring EBITDA decreased by €4.0 million, or 4.7%, to €80.7 million in 2018 as compared to €84.7 million in 2017. The Recurring EBITDA margin of the cleaning business decreased to 9.1% in 2018, as compared to 10.9% in 2017, explained by (i) the effect of the reduction of the CICE rate from 7% in 2017 to 6% in 2018 and a related negative timing effect, (ii) the dilutive effect of the acquisition of Limpa and BBA pending realisation of potential synergies, (iii) the renewal of contracts with lower margins and (iv) the reinforcement of the operational and commercial team to sustain future organic growth.
>
> Facility Management: Recurring EBITDA decreased by €5.0 million, or 15.8%, to €26.7 million in 2018 as compared to €31.7 million in 2017. The Recurring EBITDA margin of the facility management business decreased to 6.3% in 2018, as compared to 7.6% in 2017. This decrease resulted from the negative organic growth, including the loss of several significant contracts in our security business benefitting from higher Recurring EBITDA margin, and the negative impact of the CICE rate reduction.

International. Recurring EBITDA for the International segment decreased by €3.0 million, or 7.2%, to €38.6 million in 2018, as compared to €41.6 million in 2017.

This decrease was mainly due to (i) losses at the Temco business in the United States, (ii) an adverse forex impact and lower margins in Turkey following the loss of a higher margin contract in 2018, which was renewed in 2019, and (iii) losses of contracts in Belgium and Slovakia. This decrease is partly offset by (i) the full year impact of 2017 acquisitions in the United States, namely Aetna, Suburban and Centaur, (ii) an improvement in Recurring EBITDA in Asia and Africa in a context of strong organic growth and (iii) organic Recurring EBITDA increases in Croatia.

As a result, as a percentage of sales, the Recurring EBITDA margin slightly decreased to 4.4% in 2018, as compared to 4.9% in 2017.

Servest. Servest contributed €31.3 million to our consolidated 2018 Recurring EBITDA, from May 2018 to December 2018. In 2018, Servest delivered external growth, driven by the acquisition of Unique Catering, Thermotech and Aktrion in 2018, and positive organic growth at the Recurring EBITDA level, thanks to the strong performance of the cleaning division within Servest.

As a result, as a percentage of sales, the Recurring EBITDA margin in the Servest segment remained stable at 5.9% for the eight month period ended December 31, 2018 (5.9% for the twelve month period ended December 31, 2017).

Depreciation and amortization

As reported, depreciation and amortization increased by €53.4 million, or 135.9%, from €39.3 million in 2017 to €92.6 million in 2018.

Excluding the impact of IFRS 16, depreciation and amortization increased by €21.1 million, or 53.8%, from €39.3 million in 2017 to €60.4 million in 2018. This is mainly due to an increase in the total amount of tangible assets following the acquisition of Servest UK, which resulted in additional depreciation and amortization of €16.9 million. As a percentage of revenue, depreciation and amortization slightly increased from 1.9% in 2017 to 2.2% in 2018, as a result of the integration of Servest UK, which had a relatively higher level of depreciation and amortization as a percentage of revenue.

Provisions and impairment losses, net

Provision and impairment losses decreased by €0.7 million, or 4.3%, from €16.0 million in 2017 to €15.3 million in 2018.

Recurring operating profit

As reported, recurring operating profit increased by €1.0 million, or 1.4%, from €75.8 million in 2017 to €76.9 million in 2018, for the reasons explained above.

Excluding the impact of IFRS 16, recurring operating profit decreased by €2.0 million, or 2.6%, from €75.8 million in 2017 to €73.9 million in 2018, for the reasons explained above.

Non-recurring operating income and expenses

As described in Section 2 "*Financial information—Management financial measures*", non-recurring operating income and expenses are excluded from the 2018 and 2017 Recurring EBITDA. For the twelve months ended December 31, 2018, these costs amounted to €36.9 million and principally included: (i) restructuring costs of €20.6 million, notably in France for the top management positions of the Group, and restructuring of the Group's UK and US activities, (ii) acquisition costs related to the Servest UK acquisition of €6.5 million and (iii) projects explored in connection with the Group's capital structure totalling €6.4 million in 2018.

For the twelve months ended December 31, 2017, the Group recorded non-recurring operating income of €5.4 million, mainly due to the sale of the Atalian and Atalian Global Services brands in certain territories to the Group's shareholder for €6.2 million, net of restructuring costs of €0.8 million.

Following the internal investigation conducted in 2019 with the assistance of independent forensic accountants in connection with the payment by the Group of certain invoices related to renovation and construction work at the Brussels building owned by the Group's indirect principal shareholder, intra-group capitalized expenses related mainly to the years 2013 and 2014 have been written-off for an amount of €3.5 million. Expenses earmarked for the Group's indirect principal shareholder building renovation, but which were contested, have also been written-off for an amount of €1.2 million.

Operating profit

As reported, operating profit decreased by €41.2 million, or 50.7%, from €81.2 million in 2017 to €40.0 million in 2018, for the reasons explained above.

fExcluding the impact of IFRS 16, operating profit decreased by €44.2 million, or 54.5%, from €81.2 million in 2017 to €37.0 million in 2018, for the reasons explained above.

Net financial expense

Net financial expense increased by €13.4 million, or 24.4%, from €54.6 million in 2017 to €67.9 million in 2018.

Excluding the impact of IFRS 16, net financial expense increased by €8.3 million, or 15.2%, from €54.6 million in 2017 to €62.9 million in 2018.

This increase was principally due to additional interests following the issuance of new bonds to finance the Servest UK acquisition in May 2018 (see Section 6: "*Liquidity and Capital Resources*" for further details*)*. The increase was partially offset by a non-recurring finance expense in 2017 of €19.2 million related to early repayment of the Senior Notes due 2020 and the acceleration of the amortization of issuing costs related to the Senior Notes due 2020.

Income tax expense

Income tax expense increased by €2.8 million, or 17.1%, from €16.6 million in 2017 to €19.5 million in 2018. Income tax expense in 2018 comprised CVAE (*Cotisation sur la valeur ajoutée des entreprises*) of €16.9 million as compared to €13.8 million in 2017, current income tax expense of €4.1 million as compared to €4.2 million in 2017 and deferred tax income of €1.6 million related to tax losses carried forward from our cleaning business (as compared to deferred tax income of €2.0 million in 2017).

Share of profit (loss) of equity-accounted companies

Share of profit (loss) of equity-accounted companies amounted to a loss of €(13.1) million in year 2018, compared to a gain of €0.2 million in year 2017, in the context of the significant acquisition by Getronics of Pomeroy in the United States and subsequent restructuring plan. The loss in 2018 is primarily attributable to Getronics, in which the Group has a 28.3% stake. Following the Servest UK acquisition, the Group and Getronics formed a joint-venture in July 2018 pursuant to which all the ICT and digital activities of the service group are proposed to be combined.

Profit for the period

Profit for the period decreased by €70.7 million from €10.2 million in 2017 to €(60.5) million in 2018, for the reasons stated above.

Excluding the negative impact of €1.5 million of IFRS 16, profit for the period decreased by €69.3 million from €10.2 million in 2017 to €(59.0) million in 2018, for the reasons stated above.

6. Liquidity and Capital Resources

Cash flows

The following table summarizes our consolidated cash flow statements for the periods indicated:

	For the twelve months ended December 31,	
	2017	**2018**
	€ in millions	
Net cash from (used in) operating activities	104.6	84.2
Excluding impact of off-balance sheet factoring of receivables	*119.9*	*45.1*
Net cash used in investing activities	(101.8)	(527.8)
Net cash used in financing activities	52.2	403.0
Exchange gains (losses) on cash and cash equivalents	0.3	0.6
Net increase (decrease) in cash and cash equivalents	55.2	(40.0)

Net cash from (used in) operating activities

	For the twelve months ended December 31,	
	2017	**2018**
	€ in millions	
Profit for continuing operations	10.2	(60.5)
Adjustment for and elimination of non-cash items	34.2	113.9
Elimination of net finance costs	52.1	65.2
Elimination of income tax expense	16.6	21.2
Cash generated from operations before financial expenses and income tax	**113.1**	**139.8**
Decrease/(increase) in inventories	(0.3)	(12.6)
Decrease/(increase) in total receivables	(5.2)	(17.3)
Of which decrease/(increase) in receivables	*10.1*	*(56.4)*
Of which increase/(decrease) in off-balance sheet factoring of receivables	*(15.3)*	*39.1*
Increase/(decrease) in payables	15.8	(2.4)
Change in working capital	**10.3**	**(32.3)**
Change in working capital excluding impact of off-balance sheet factoring of receivables	*25.6*	*(71.4)*
Income tax paid	(18.8)	(23.3)
Cash from discontinued operations generated (used) by operating activities	-	-
Net cash from (used in) operating activities	**104.6**	**84.2**
Net cash from (used in) operating activities excluding impact of off-balance sheet factoring of receivables	*119.9*	*45.1*

As reported, we experienced a cash outflow of €32.3 million in 2018, generated by an increase in net working capital (as compared to an inflow of €10.3 million in 2017 generated by a decrease in net working capital).

When excluding the effect of the factoring of receivables not recorded on our balance sheet, our working capital increased by €71.4 million in 2018, resulting from the combined effect of an increase of €12.6 million in inventories, an increase of €56.4 million in receivables and a decrease of €2.4 million in payables.

This significant increase in working capital is attributable to the combined effect of (i) the one-off adverse timing effect of the change in our fiscal year end from August 31 to December 31, in 2017, regarding payables such as social charges and other taxes, (ii) higher cash collections at year end 2017 and (iii) the effect of the acquisition of Servest UK in the context of strong organic growth, with a structurally positive working capital, and related increases in inventories of €8.7 million.

This decrease was slightly offset by the higher level of payables related to non-recurring items (see Section 2 *"Financial information—Non-recurring operating income and expenses*").

Net cash used in investing activities

	For the twelve months ended	
	2017	**2018**
	€ in millions	
Purchase of fixed assets [1]	(31.7)	(42.7)
Proceeds from sales of fixed assets	4.9	5.0
Purchase of consolidated companies less cash held by subsidiaries acquired or sold	(80.5)	(493.0)
activities	5.5	2.9
Cash from discontinued operations used in investing activities	-	-
Net cash used in investing activities	**(101.8)**	**(527.8)**

(1) Including change in net payables due on fixed assets.

Net cash used in investing activities increased from €101.8 million in 2017 to €527.8 million in 2018.

This increase was mainly due to the acquisition of Servest UK and to a lesser extent the acquisitions in France of Limpa and BBA. Net of cash held by consolidated entities acquired or sold, our acquisitions accounted for €492.9 million.

This increase is also due to the purchase of fixed assets, which accounted for €42.7 million of our net cash used in investing activities in 2018 (1.6% of our consolidated revenue in 2018). This is mainly due to (i) the purchases of uniforms and installation of technical equipment in the ordinary course of business and (ii) the acquisition of Servest UK, which led to €11.1 million of additional purchases of fixed assets, as Servest UK has a higher level of capital expenditures than the rest of the Group.

Net cash used in financing activities

The following table sets out the principal components of our net cash flow used in financing activities for the periods indicated:

	For the twelve months ended	
	2017	**2018**
	€ in millions	
Proceeds from new borrowings	623.4	674.9
Repayments of borrowings	(495.5)	(226.2)
Finance costs, net [(1)]	(53.2)	(63.0)
Dividends	(15.8)	(17.8)
Operations in share capital	-	37.0
Other	(6.7)	(1.8)
Cash from discontinued operations generated by financing activities	-	-
Net cash used in financing activities	**52.2**	**403.0**

(1) Amount net of capitalized interests and other non-cash interest expenses

Net cash used in financing activities amounted to €403.0 million in 2018. Our financing activities in 2018 consisted primarily of:

- €674.9 million of proceeds from new borrowings, notably the issuance of €350 million aggregate principal amount of Senior Notes due 2025 and £225 million aggregate principal amount of Senior Notes due 2025, as well as proceeds from factoring loans in an aggregate principal amount of €89.3 million and drawings under our revolving credit facilities of €30.0 million in 2018;
- €226.2 million of (i) repayments of borrowings, primarily the repayment of Servest UK debt and (ii) repayments of the lease portion used during the period (€40.5 million); and
- €63.0 million of net interest paid on ongoing borrowings.

Net cash used in financing activities amounted to €52.2 million in 2017. Our financing activities in 2017 consisted primarily of:

- €623.4 million of proceeds from new borrowings, notably the issuance of €625 million aggregate principal amount of Senior Notes due 2024;
- €495.5 million of repayments of borrowings, primarily comprising the refinancing of the €400 million Senior Notes due 2020, as well as €22.1 million under our factoring facilities and €13.1 million under leases (solely finance leases pre-IFRS 16); and
- €53.2 million of net interest paid on ongoing borrowings.

Net Debt

	For the twelve months ended December 31,	
	2017	**2018**
Cash and cash equivalents	144.5	105.7
Short-term bank loans and overdrafts	(0.2)	(1.3)
Net cash and cash equivalents	**144.3**	**104.4**
Non-current financial liabilities	(636.2)	(1,201.6)
Current financial liabilities	(14.3)	(144.5)
Lease liabilities [(1)]	(11.4)	(104.2)
Gross debt	**(661.9)**	**(1,450.3)**
Financial instrument (liability)	(1.3)	(2.1)
Debt	**(663.2)**	**(1,452.4)**
Net debt	**(518.9)**	**(1,348.0)**
Derecognised factoring contracts	*(14.6)*	*(53.7)*
Net Debt restated	**(533.5)**	**(1,401.7)**

[(1)] Solely finance leases in accordance with IAS 17 for the twelve months ended December 31,2017 and including lease liabilities under IFRS 16 for the twelve months ended December 31, 2018.

As at December 31, 2018, we had net debt of €1,348.0 million as compared to €518.9 million as at December 31, 2017. We define net debt as the sum of non-current financial liabilities (including lease liabilities following the application of IFRS 16) and short-term bank loans and overdraft and current portion of other financial debt, plus the fair value of financial instruments, less cash and cash equivalents. As at December 31, 2018, net debt would have amounted to €1,279.2 million under the previous guidance in IAS 17 for lease accounting.

The increase in net debt in 2018 is mainly attributable to the financing of the Servest UK acquisition in 2018 by the issuance of new bonds. These new bonds are composed of two high yield bonds: €350 million aggregate principal amount of 5.125% Senior Notes due 2025 and £225 million aggregate principal amount of 6.625% Senior Notes due 2025. To a lesser extent, the increase in the Group’s indebtedness is also due to (i) the first application of IFRS 16, which led to lease liabilities of €104.2 million as of December 31, 2018 (of which €35.4 million would have been finance lease liabilities under IAS 17), as compared to finance lease liabilities of €11.4 million under IAS 17 as of December 31, 2017, and (ii) an increase in factoring loans, which amounted to €105.7 million in 2018, as compared to €8.8 million in 2017.

Several of the Group’s subsidiaries sell their trade receivables on a monthly basis under factoring contracts. Some of these contracts involve the transfer of substantially all the risks and rewards of ownership of the receivables concerned to the factoring companies. Factored receivables for which the Group has not transferred substantially all the risks and rewards of ownership remain recorded on the balance sheet under ‘‘Trade receivables,’’ with the recognition of a corresponding financial liability. We had Net Debt restated (including the liability relating to off-balance sheet factoring) of €1,401.7 million as of December 31, 2018, as compared to €533.5 million as of December 31, 2017.

As of December 31, 2018, we had cash and cash equivalents net of short-term bank loans and overdrafts of €105.7 million, as compared to €144.5 million as of December 31, 2017.

Off-Balance sheet Arrangements

As of December 31, 2018, our off-balance sheet arrangements, as described in Note 15 to the 2018 financial statements, primarily related to collateral securing the Revolving Credit Facility consisting of the pledge of 90.5% of the share capital of Atalian Cleaning SAS and the guarantees of the 2024 and 2025 Notes and Revolving Credit Facility.

The off-balance sheet arrangements also include contractual commitments received under our factoring facilities and Revolving Credit Facility.

7. Contractual Commitments

The following table sets forth the aggregate maturities of our financial debt as of December 31, 2018:

	Payment due by period			
€ in millions	**As of December 31, 2018**	**Due within 1 years**	**Due in 1 to 5 years**	**Due beyond 5 years**
Bond issues, net [(1)]	1,199.3	5.1	(21.3)	1,215.5
Loans and other borrowings from credit institutions	38.6	33.3	4.4	0.9
Liabilities from leases [(2)]	104.2	-	104.2	-
Other loans and financial debts	0.4	0.4	-	-
Profit sharing liabilities	2.1	-	2.1	-
Borrowings under factoring facilities [(3)]	105.7	105.7	-	-
Total	**1,450.3**	**144.5**	**89.4**	**1,216.4**

[(1)] *Represents bond issues net of issuance fees (€33.1 million). See Section 6: "Liquidity and Capital Resources" for further information on bond issues.*

[(2)] *Represents contractual commitments under finance lease contracts.*

[(3)] *Represents liabilities incurred under contracts pursuant to which we sell receivables to factoring companies.*

As of December 31, 2018, our total obligations in respect of pension liabilities amounted to €23.9 million, as compared to €26.6 million as at December 31, 2017.

8. Dividends

In respect of the fiscal year ended December 31, 2017, dividends paid during the 2018 fiscal year to shareholders of the parent company amounted to €17.7 million.

In respect of the fiscal year ended December 31, 2018, €5.1 million in dividends is expected to be paid during the 2019 fiscal year to shareholders of the parent company.

9. Share capital and principal shareholders

At December 31, 2018, the Group's share capital was composed of 116 237 206 fully paid-up shares with a par value of €1 each.

The principal shareholder of the Group is Atalian Holding and Development S.A. ("AHDS") which owns approximately 97% of the Group and which is indirectly wholly-owned by Franck Julien.

10. Other recent developments

On May 29, 2019, the Group announced the appointment of three independent directors to the board of AHDS, the Group's holding company which is ultimately controlled by Franck Julien. The three independent directors are Hélène Ploix, Henri Proglio and Georges Fenech. Hélène Ploix will head a newly set up audit, legal and compliance committee and Henri Proglio will head a newly set up strategy and investment committee. AHDS, represented by Franck Julien, will be chairman of the Group. The Group's Management Board comprised of Franck Julien, as Chief Executive Officer, Rob Legge, as Chief Operating Officer and Jean-Jacques Gauthier, as Chief Financial Officer in charge of all corporate functions, including finance, legal and compliance and human resources.

On April 4, 2019, the Group announced the appointment of Jean-Jacques Gauthier as Group Chief Financial Officer. In addition to his finance responsibilities, Jean-Jacques will also oversee Legal Affairs, Human Resources and other Corporate Services.

In December 2018, Moody's downgraded to B3 from B2 the Senior Notes due 2024 and the Senior Notes due 2025 issued by the Group. Moody's has also changed the outlook on all the ratings to negative from stable, and S&P downgraded the notes from B+ to B (outlook: stable).