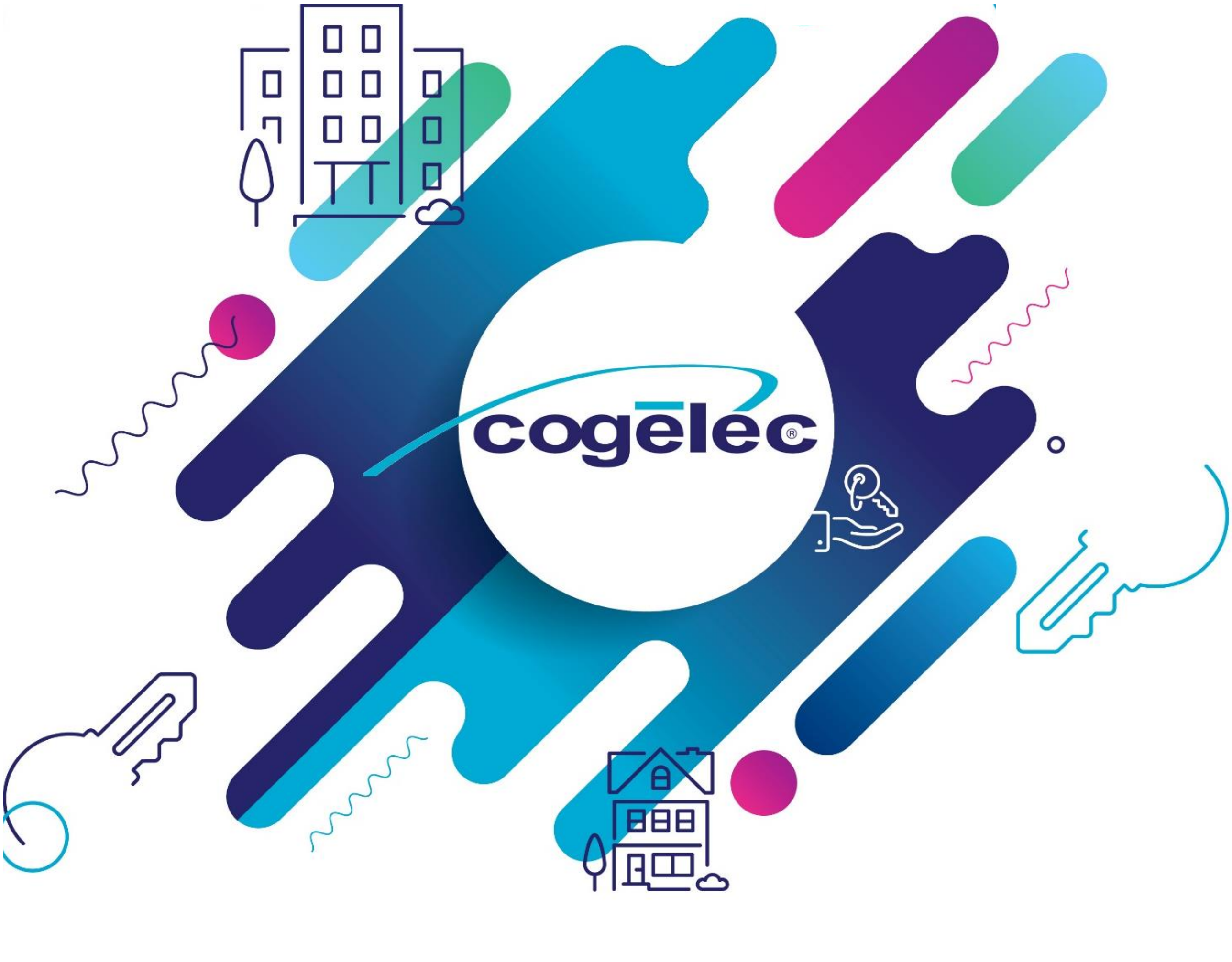
24 April 2019

ANNUAL FINANCIAL REPORT

COGELEC GROUP

2018



CONTENTS

COGELEC

FRENCH MANUFACTURER OF WIRELESS ACCESS CONTROL AND DOOR ENTRY SYSTEMS SINCE 2000

INNOVATIVE SOLUTIONS ADAPTED TO MULTI-RESIDENTIAL HOUSING | FRENCH LEADER IN ACCESS CONTROL AND WIRELESS INTERCOM SOLUTIONS | COGELEC OFFERS ITS PRODUCTS IN 12 COUNTRIES ACROSS EUROPE

Cogelec distributes its solutions through three brands

TRADEMARK

Hexact · Intratone · kibolt

KEY FIGURES

2 million key fobs sold per year

186 employees

30 million turnover 34M$

49 patents egistered

DNA "Create to Innovate"

COGELEC THE ONLY 100% FRENCH MANUFACTURER

- End customer oriented
- Leader in customer leader in customer privilaged and close relationship
- High quality service

- New product or service launched every two months
- Innovation from technological and commercial point of view
- More than 40 patents > INPI AWARD in 2010 for our dynamic innovation

DELIVERY

under 48 hours > free of charge

1. Management report

1.1 SIGNIFICANT EVENTS

2018 was a very important year for the Group's development

In June, the Company's shares were admitted to trading on the Paris Euronext regulated stock exchange. The success of the initial public offer enabled the Company to raise €20.9m in June 2018.

In February and then in October, the Company opened in turn two subsidiaries, one in London and the other in Amsterdam so as to expand into the European market.

At 31 December 2018, the Company employed 208 people directly, with the majority in France (169), 23 in Germany, 1 in the Netherlands and in Belgium and 15 in the United Kingdom.

These companies were created to facilitate the marketing of INTRATONE products globally. They are currently in the launch phase and generated €3.1m in losses in financial year 2018, broken down as follows:

- INTRATONE GMBH: -€1.9m
- INTRATONE UK: -€1.0m
- INTRATONE BV: -€0.2m

The Company recognised revenues up 9.6% on 2017, with €33.6m compared with €30.6m the previous year.

On 1 May 2018, the Company leased approximately 400 m2 of office space in Nantes, France to accommodate a part of its design office there which should enable it to more easily retain its teams and attract new talent.

1.2 INFORMATION ON THE GROUP

1.2.1 2018 OPERATIONAL REPORT

1.2.1.1 SALES

Annual revenue in 2018 was in line with the Company's expectations and forecasts and is broken down as follows:

Revenue in €m	2018	2017	% change
1st quarter	7.6	7.1	+7%
2nd quarter	8.1	7.3	+10.7%
3rd quarter	7.7	6.7	+13.9%
4th quarter	10.2	9.5	+7.7%
TOTAL 12 months	33.6	30.6	+9.6%

This growth is mainly due to the development of the INTRATONE range. Sales of the HEXACT trademark have remained stable, in line with the Company's forecasts.

1.2.1.2 HUMAN RESOURCES

Over the 2018 financial year, there was a significant increase in the number of employees which reached 208 by the end of 2018.

This represented an increase of 69 people mainly in relation to the roll-out of the subsidiaries (35 people) and the reinforcement of the design department (13 people).

1.2.2 CONSOLIDATED REVENUE

At the close of the 2018 financial year, the Group's revenue stood at €33.6m, a 10% increase on 2017.
Revenue consists of the sale of products and services.
This growth was primarily due to the development of the INTRATONE equipment range accounting for €2,400k and subscriptions for €600k.

In thousands of euros	31/12/2018	31/12/2017
Sales of equipment	25,578	23,262
Sales of services	7,992	7,365
TOTAL	33,570	30,628

Revenue is primarily generated in France, even though the Company is starting to develop its export activities, which account for 8% of it, as in the previous financial year.

In thousands of euros	31/12/2018	31/12/2017
France	31,029	28,171
Export	2,541	2,457
TOTAL	33,570	30,628

1.2.3 KEY INDICATORS

1.2.3.1 GROSS MARGIN

In thousands of euros	31/12/2018	31/12/2017
Revenue	33,570	30,628
Other operating income	4	4
Cost of consumable materials	-13,898	-12,566
Change in work in progress and finished product inventories	1,016	1,154
GROSS MARGIN	20,692	19,220
As % of revenue	61.6%	62.8%

The 2017 column shows the data after the correction detailed below:

For the 2017 financial year, consumed purchases were underestimated for an amount of €1,608k. However, personnel expenses and external expenses were overestimated for the respective amounts of €1,046k and €562k.

The 2017 gross margin was therefore overestimated by €1,608k. Restated for this correction, the 2017 gross margin was therefore €19,220k and the gross margin rate was 62.8%.

This correction has no impact on any other accounting aggregate pursuant to 2017, and notably on operating income, EBITDA and net income.

1.2.3.2 EBITDA

In thousands of euros	31/12/2018	31/12/2017
Operating income	297	4,857
Allocations to depreciation and amortisation	1,787	1,632
Asset impairments net of reversals	1,121	384
EBITDA (1)	3,205	6,873
As % of revenue	9.5%	22.4%

[1] EBITDA: EBITDA is defined by COGELEC as operating income/loss before depreciation, amortisation and impairment, net of reversals.

1.2.4 CONSOLIDATED INCOME STATEMENT

At 31 December 2018, the Group's operating income was €715k (2.13% of revenue) compared with €5m the previous year (16.35% of revenue). This reduction is due, notably, to:

– an increase in personnel expenses of -€2.235m; and
– an increase in external expenses to the amount of -€2,535m (increase in advertising expenses mainly);

As such, there were net losses of -€1.064m in 2018 compared with a profit of €2.905m in 2017. Earnings per share stood at -€0.1319 compared with €8.1621 in 2017.

In thousands of euros	31/12/2018	31/12/2017
Revenue	33,570	30,628
% change revenue	9.61%	16.85%
Recurring operating income	715	5,007
Recurring operating margin	2.13%	16.35%
Operating income	297	4,857
Income taxes	-1,111	-1,630
Consolidated net income	-1,064	2,905

1.2.5 FINANCIAL STRUCTURE

The total balance sheet stood at €53.453m at 31 December 2018, an increase of 41.77% compared with 31 December 2017.

1.2.5.1 SIMPLIFIED BALANCE SHEET AT 31 DECEMBER 2018

ASSETS in millions of euros	31/12/2018	31/2017
Fixed assets and deferred tax assets	17,256	15,088
Inventories	8,349	6,964
Accounting	8,978	8,342
Other receivables	2,512	1,639
Cash and cash equivalents	16,358	5,671
TOTAL ASSETS	53,453	37,704

LIABILITIES in millions of euros	31/12/2018	31/2017
Equity	19,490	3,529
Non-current liabilities	23,487	21,931
Current liabilities	10,476	12,244
TOTAL LIABILITIES	53,453	37,704

1.2.5.2 FIXED ASSETS AND INVESTMENTS

The Group invested more than €871k in compared to 2017.

Intangible assets accounted for 54% of investments, i.e. €1.86m. These corresponded to the costs of developing new products and technologies and investment in I.T. solutions.

Main investments in €k	31/12/2018	31/12/2017
Intangible assets	**1,886**	**1,886**
Of which development costs	301	414
Of which intangible assets in progress	1,390	1,269
Of which other intangible assets	195	203
Property, plant and equipment	**1 610**	**739**
Of which real estate complex		
Of which assets under construction	599	317
Of which technical installations, equipment and tooling	410	265
Of which other PP&E	600	157
Total investments	3,496	2,625

1.2.5.3 SHAREHOLDERS' EQUITY

The Group's equity stood at €19.490m at 31 December 2018, compared with €3.529m at 31 December 2017, an increase of €15.961m.

1.2.6 NET FINANCIAL DEBT

At 31 December 2018, gearing (the net debt-to-equity ratio) stood at -43 % compared with 160 % at 31 December 2017.

(Amount in €k)	31/12/2018	31/12/2017
Long-term portion of financial debt	5,950	7,950
Short-term portion of financial debt	2,001	3,362
Borrowings at less than one year and creditor banks	5	5
Total gross debts	7,956	11,317
Cash and cash equivalents	16,358	5,671
TOTAL NET DEBT	-8,821	5,646

1.2.7 CASH FLOWS

In €m	2018	2017
Opening cash	5,666	5,575
Cash and cash equivalents at end of period	16,353	5,666
Change in cash and cash equivalents	10,701	91

1.3 INFORMATION ON THE COMPANY

1.3.1 COGELEC REVENUE

COGELEC's revenue was up 11.39%, i.e. €33.74m at 31 December 2018, compared to €30.29m at 31 December 2017.

1.3.2 INCOME

At 31 December 2018, operating income stood at €2.40m, down 39.59% compared with the previous financial year.

1.3.3 RESEARCH AND DEVELOPMENT ACTIVITIES

1.3.3.1 INFORMATION ON RESEARCH AND DEVELOPMENT

In line with its strategy, the Company continues to invest in innovation, improving its products and developing new products. The development teams are divided into two research bureaus and account for 15% of the group's workforce (32 people out of 208). The main R&D axes are technical innovation, the development of new products, services and concepts, and the evolution of existing ranges.

1.3.3.2 NEW PRODUCTS

At COGELEC, the purpose of innovation is to offer new technical solutions and new related services to provide users with substantial improvements.

In 2018 the year was marked by the launch of the new control panel with digital display. An innovative, aesthetic and timeless product aimed at the market of small co-owned properties.

1.3.3.3 INFORMATION ON PATENTS AND LICENCES

The Company has a range of patents protecting innovations developed by its various research bureaus.

At the end of the 2018 financial year, the Company owned 41 patent families, 24 trademarks and 18 models. During the 2018 financial year, the Company filed one patent and two trademarks.

No patent is individually of strategic importance for the group. Therefore, this has not resulted in any noteworthy dependency.

1.3.4 NON TAX-DEDUCTIBLE EXPENSES

The non tax-deductible expenses pursuant to the provisions of Article 223 of the French General Tax Code are:

- non-deductible vehicle leases in the amount of €105 069 and the corresponding tax of €0;
- the tax on company cars in the amount of €23 864 and the corresponding tax of €0 ;
- the share of attendance fees that are not tax deductible in the amount of €0.

1.3.5 INFORMATION ON SUPPLIER AND CLIENT PAYMENT TIMES

Invoices received and issued and outstanding at 31 December 2018 break down as follows:

	Outstanding invoices received at 31 December 2018 and which are overdue						Outstanding invoices issued at 31 December 2018 and which are overdue					
In days	0	1 to 30	31 to 60	61 to 90	91 and over	Total (1 and over)	0	1 to 30	31 to 60	61 to 90	91 and over	Total (1 and over)
Late payment brackets												
Number of invoices	14					43	604					8,095
Invoice amounts (including taxes in €k)	173					7	1,677					970
% of total amount of purchases in the financial year (including taxes)	0.53%	0.05%	-0.1%	0.001%	-0.01%	0.02%						
% of revenue for the financial year (including taxes)							3.19%	0.71%	0.61%	0.07%	0.45%	1.84%
Invoices excluded relating to liabilities and receivables that are disputed or not recognised												
Number of invoices excluded	0						157					
Total amount of invoices excluded (including taxes in €k)	€0						272					
Reference payment terms used (contractual or legal - Article L441-6 or Article L443-1 of the French Commercial Code)												
Payment terms used to calculate late payments	Contractual terms: 30 days from the end of the month Legal terms: 60 days from the invoice issue date						Contractual terms: Receipt of invoices and 45 days from the end of the month Legal terms: 30 days following the date on which the service was delivered					

1.4 STOCK-MARKET INFORMATION

1.4.1 MARKET OF COGELEC SHARES

COGELEC shares are listed on the Euronext Paris regulated stock exchange, compartment C. The number of outstanding shares stood at 8,898,048 at 31 December 2018.

1.4.2 CHANGE IN SHARE PRICE IN 2018

At 31 December 2018 the share price stood at €6.47.

Months	Highest share price	Lowest share price	Most recent share price
June 2018	12.98	12.00	12.33
July 2018	12.2	11.28	11.80
August 2018	12.2	11.58	11.58
September 2018	11.89	10.40	10.45
October 2018	10.40	8.57	8.65
November 2018	8.65	7.40	8.09
December 2018	8.09	6.43	6.47

1.4.3 REDEEMED SHARES

1.4.3.1 SUMMARY OF SHARES BOUGHT AND SOLD IN THE 2018 FINANCIAL YEAR

In the 2018 financial year, the Company bought and resold COGELEC shares as part of a liquidity contract and a share buyback agreement with Louis Capital Markets UK LLP. The breakdown of these purchases and sales is shown below:

	Number of shares	Share value
Shareholding at 31/12/2018	37,205	€316,165
Shares purchased in the 2018 financial year	49,757	€460,104
Shares sold in the 2018 financial year	12,552	€104,742

These shares were purchased as part of a share buyback scheme, in accordance with the authorisation given by the General Meeting of 23 April 2018.

In the 2018 financial year, the Company did not allocate, cancel or reallocate any shares.

1.4.3.2 DIVIDENDS PER SHARE

In order to comply with provisions of Article 243 bis of the French General Tax Code, the amounts of the dividends distributed in the previous three financial years are detailed below:

Financial year	Number of shares	Net dividends per share
2015	355,922	€4.214
2016	355,922	€4.214
2017	355,922	€5.619

1.5 SUBSIDIARIES AND EQUITY INVESTMENTS

The Company owns 100% of the share capital and voting rights in the company INTRATONE GMBH based in Dusseldorf. In 2018, INTRATONE GMBH underwent significant expansion. Its workforce increased from 0 at the end of 2017 to 23 people at 31 December 2018. This subsidiary has no equity investment the Company or in any other company. At 31 December 2018, the share capital of INTRATONE GMBH stood at €25k.

A second subsidiary, INTRATONE Ltd, was created in London in February 2018. INTRATONE Ltd is wholly owned by the Company. In 2018, this company underwent significant expansion. Its workforce increased from 0 in 2017 to 15 people at 31 December 2018. This subsidiary has no equity investment in COGELEC SA or in any other company. At 31 December 2018, INTRATONE Ltd's share capital was £100.

A third subsidiary, INTRATONE BV, was created in Amsterdam in October 2018. INTRATONE Bv is wholly owned by the Company. In 2018 this company conducted no operational activities. This subsidiary has no equity investment in the Company or in any other company. At 31 December 2018, INTRATONE Ltd's share capital was €10k and it had a workforce of one person.

Included below is a summary of the subsidiaries' operations over the period:

Companies	Consolidation method	Revenue excluding tax in €k	Income for the financial year in €k
INTRATONE GMBH	FC	147	-1,857
INTRATONE UK	FC	325	-1,008
INTRATONE BV	FC	-	-256

There is no cross-investment within the Group

1.6 BRANCHES

The Company has no branches.

1.7 EVENTS SUBSEQUENT TO THE REPORTING PERIOD AND OUTLOOK

1.7.1 EVENTS SUBSEQUENT TO THE REPORTING PERIOD

None

1.7.2 OUTLOOK

COGELEC'S objective is to achieve revenue growth that is higher than market trends by expanding its geographical presence, extending its product ranges and reinforcing its innovation.

On the basis of these factors, the Group has set itself the target of achieving a revenue of €90m in 2021.

In line with the growth plan presented during its IPO, 2019 should benefit from a number of drivers:

- installed base growth exceeding one million homes fitted at the start of the year;
- international expansion with an increased sales force, and
- the launch of the Kibolt trademark on the access control (locks) market and a new unique product: a universal key and system allowing the dynamic management of access rights.

1.8 RISK MANAGEMENT

1.8.1 RISK MAPPING

At the time of its initial public offering in June 2018, the Company laid down its operational risks.

The risks identified at the time the initial public offering prospectus was drafted, are set out in section 4 of the Base Document, registered with the AMF on 14 May 2018 under No. I.18- 040.

The main risk categories are as follows:

- risks associated with the market in which the Company operates;
- risks associated with the manufacturing process and dependency on third parties;
- risks associated with the organisational structure of the Company;
- legal risks;
- industrial and environmental risks;
- financial risks;
- market risks.

Since the review carried out at the time of the initial public offering, the Company has also drawn on the work carried out by its Statutory Auditors and on their recommendations discussed by the Audit Committee and Board of Directors.

1.8.2 DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES FACED BY THE GROUP

The Group carried out a review of risks which may have a significantly adverse affect on its operations, its financial position or its income (or on its ability to meet its objectives) and considers that there are no other significant risks. The main risks are presented below in addition to the exchange rate and liquidity risks described in section "3. CONSOLIDATED FINANCIAL STATEMENTS_ NOTE 3.6.4 EXPOSURE TO FINANCIAL RISKS".

All of the risks identified and included in the Base Document registered with the AMF on 14 May 2018 under number I. 18-040 are still current as of the date of this report.

1.8.2.1 RISKS ASSOCIATED WITH THE COMPANY'S OPERATIONS AND MARKET

RISKS ASSOCIATED WITH COMPETITOR INNOVATIONS

Competitors' innovation may impact the Company's future growth indeed, the Company cannot guarantee that competitors will not successfully develop less expensive or more innovative products or technology than those currently on the market or being developed by the Company.

Furthermore, products developed by the Company's competitors may be put on the market before its own products. It is also possible that competitors' products will be more successful than products currently sold or being developed by the Company.

More generally, it is highly likely that the vast majority of market players will soon begin using methods similar to those developed by the Company. Even though the time required to develop and market competing technology may be long, and although the product offered may not possess the same technical and technological properties as those offered by the Company, now or in the future, it cannot be guaranteed that the Company's products will become or will remain the industry standard.

RISKS RELATING TO TECHNOLOGICAL BREAKTHROUGHS

Innovative technology currently under development, potentially more efficient, safer and/or less expensive, or other techniques not yet known, may be marketed in the near future.

In order to prepare for these technological changes, the Company has a team responsible for monitoring technological advances, and stays abreast of the latest research and progress in its areas of activity.

Nevertheless, it is possible that the Company may not accurately assess technological, IT and commercial opportunities that these new technologies may offer, and runs the risk of falling behind the competition. Although the Company has made major efforts to refine its existing technologies, it cannot guarantee that it will maintain its technological lead over the long term, which may curtail the Company's growth or slow the adoption of its products.

REPUTATIONAL RISK

The Company's reputation mainly relates to the presentation of its products and services, as well as its strategies for building customer loyalty and conquering new markets. The Company's success over the next few years will therefore largely depend on its reputation and reliability in relation to the quality of its products and services. This reputation has already enabled the Company to consolidate its market share and has significantly contributed to its growth.

The Company may find itself in a weakened position if a negative experience of one or more customers is shared online or via other communication methods, a phenomenon which is extremely difficult to control. However, the Company has a six-person team dedicated to monitoring quality and after-sales service. This team boasts technical skills that they can share in several languages, in or to assist the Company's customers on a daily basis and thus limits any negative experiences.

The Company's business, financial position, earnings, growth and outlook in the medium and long term may be significantly impacted by the negative perception customers may have of its products and services.

1.8.2.2 RISKS ASSOCIATED WITH THE MANUFACTURING PROCESS AND DEPENDENCY ON THIRD PARTIES

RISKS ASSOCIATED WITH DEPENDENCY ON TELEPHONE OPERATORS

Given the nature of its operations, the Company is dependent on its relationship with telephone operators and contracts entered into with them (contracts are currently in place with Orange, SFR and Bouygues Télécom).

Due to its dependence on these operators, the Company has identified the following risks, which could have a significant adverse effect on the Company, its business, financial position, earnings, growth and outlook:

- the loss of the telecommunications operator's license, by one or more operators;
- the loss of one or more frequencies by one or more operators;
- the unavailability of a network or several networks at the same time;
- the degradation of existing networks and/or the quality of services relating to these networks;
- the termination of a contract entered into with the Company by an operator or by several operators at the same time;
- the significant increase in pricing conditions negotiated with one or more operators.

In order to reduce the impact of these risks, the Company has chosen to enter into agreements with several operators, rather than just one. The Company can therefore replace an operator with another, depending on the specific needs of its projects.

Furthermore, the risk relating to a possible increase in pricing conditions negotiated with one or more operators is limited, given that the Company is able to pass these price increases on to end clients.

Please note that data SIM cards (which account for 55% of all active SIM cards) are not subject to price rises. In the event of price rises, the Company may pass such rises on to end customers with SIM-only voice contracts (which account for 20% of all active SIM cards) and no increases may be passed on to customers with prepaid voice-only SIM cards (which account for 25% of all active SIM cards) as end customers have already paid for the services provided over the entire contract term.

Price changes are set out in the Company's general terms of sale which allow price rises to be passed on as long as there is a period of one month between the customer being notified and the increase being applied. Under the 2017 general terms of sale, price rises are not capped (the previous general terms of sale provided for a 12% cap on any price rises).

RISKS RELATING TO DEPENDENCE ON SUBCONTRACTORS

As part of its cost control policy, the Company outsources the manufacturing of circuit boards used in its products. All circuit board manufacturing is outsourced to two companies located as close to the Company as possible, in the Pays de la Loire region of France, in order to favour responsive and fluid exchanges. A third subcontractor will soon be selected, to support mass production of the new range of KIBOLT products. The Company assembles products itself at its own facilities, integrating hardware and embedded programs, and carries out final tests of its products in real situations.

It should be noted that the Company provides its subcontractors with all the components required to manufacture subcontracted products, thereby taking on the resultant raw materials risk. The two current subcontractors are interchangeable and can offer additional production capacities, which will also be the case of the third subcontractor yet to be selected.

Furthermore, the Company subcontracts the entirety of its electronic badge manufacturing to another company.

The Company ensures that its subcontractors have the necessary equipment and staff to support its development, and/or diversify its supply sources. Despite these measures, the Company may be faced with delivery times that are longer than the initial schedule. Such a backlog could result in a delay in generating revenue from the products concerned.

The Company has not put any specific contractual provisions in place with its subcontractors (such as volume commitments).

The Company is currently preparing to double its number of subcontractors, in order to limit risks inherent to production and to secure additional production capacities, which may be used in full or in part, depending on the rate of its future growth. Future subcontractors shall aim to produce products that are common to all the ranges offered by the Company. The Company does not rule out the future use of foreign subcontractors.

Risks of a breakdown in contractual relations may delay delivery of the Company's products, and may therefore have an significant adverse impact on the Company, its business, financial position, earnings, growth and outlook. However, it should be noted that, as of the date of the financial report, this situation had not yet arisen.

Furthermore, the Company has set up a storage policy that enables it to maintain consistent deliveries over a half-year (around 6-7 months), giving it the time to reorganise in the event of default by one of its subcontractors or a contractual breach.

RISKS RELATING TO DEPENDENCE ON SUPPLIERS

In manufacturing its products, the Company relies on a large number of components delivered by various suppliers, most of which are interchangeable. The Company's main procurement markets are Europe and Asia (resulting in a currency risk, described in section 3. CONSOLIDATED FINANCIAL STATEMENTS_ NOTE 3.6.4 EXPOSURE TO FINANCIAL RISKS)

If one of its main suppliers were to modify its quantities or payment and/or delivery conditions, this could affect the Company's ability to deliver its products to its customers on time and in sufficient quantities, impact its sales and harm its business relationships. It is worth noting, however, that the Company has not lost any contracts with any of its suppliers over the last 10 years.

Although the Company considers the quality of its suppliers highly important, the use of suppliers presents a certain number of risks, such as supply disruption, inadequate component quality, product origin and non-compliance with applicable regulations and intellectual property rights by third parties. The use of suppliers can therefore give rise to financial risks, as well as risks relating to the Company's reputation, in the event that these suppliers do not comply with applicable regulations, specifically with regard to product safety.

The crystallisation of any of these risks may have a significant adverse effect on the Company, its business, financial position, earnings, growth and outlook.

Furthermore, the Company has set up a safety stock policy (6-7 months of inventories), enabling it to limit any impacts and giving it time to restock via other means.

1.8.2.3 RISKS RELATING TO THE COMPANY'S ORGANISATION

RISKS RELATING TO DEPENDENCY ON KEY PEOPLE

The Company's success depends in large part on the actions and efforts made by the founding partners, specifically Roger Leclerc, Chairman and Chief Executive Officer, and Patrice Guyet, Chief Operating Officer. The loss of these people could impact the Company's ability to achieve its objectives and roll out its strategy. The Company has taken out a specific insurance policy to cover the risk of death, or complete and irreversible loss of these two key persons.

The Company is in competition with other companies to recruit and retain highly-qualified scientists, technicians and managers.

The Company's strategy therefore involves fostering loyalty amongst its executive managers and other key employees, in particular by implementing systems focused on staff motivation and loyalty, in the form of performance-based variable compensation and the granting of share subscription options or bonus shares, and its ability to continue to attract, motivate and retain highly-qualified personnel. It is worth noting that Company intends, after the admission of its shares for trading on the Euronext Paris regulated market, and in the short term, to implement a share subscription option and bonus share allotment plan in favour of its employees.

The Company's inability to attract and retain key personnel may prevent it from achieving its objectives and, as a result, may have a significant adverse impact on its business, earnings, financial position, growth and outlook.

RISKS ASSOCIATED WITH MANAGING INFORMATION SYSTEMS

The Company's in-house IT system, as well as the services it deploys on behalf of its customers, are constantly exposed to risks of IT and industrial piracy, computer virus attacks or software bugs, which may disrupt the proper functioning of its systems and software and harm the Company's reputation.

The Company has implemented measures to ensure the reliability and security of its IT systems (such as daily backing up of its servers and redundant end user databases set up in real time between remote sites and the Company's head office) both for internal IT resources (engineering and design, sales, marketing, production and accounting departments), and external IT resources (customer management websites such as HLM offices, co-owners committees, distributors, fitters) in order to ensure business continuity in the event that any of the aforementioned risks materialise.

A regular security audit plan in cooperation with a specialised firm was put in place at the end of 2018. Its purpose will be the verification of internal security regulations and internal and external vulnerability testing. Furthermore, regular security audits have already been carried out in cooperation with this specialised firm, well-established within its sector.

In light of its rapid growth, the Company recently signed a lease for new premises in Nantes. It also intends to make use of these new offices to strengthen its Business Continuity Plan (BCP) plan: backed by a reputable trademark (NUTANIX), the Company plans to implement redundant systems between the Mortagne-sur-Sèvre (head office) and Nantes (relocated premises). In the event of a serious incident at head office, the BCP will ensure the resumption of the IT system in half a day at the Nantes site (excluding end client PCs). In the event that the optic fibre link to head office is broken, the Nantes fibre optic system and shared ADSL lines will enable the Company to continue operating.

However, the company cannot guarantee that any of these measures will not fail, which could have a significant adverse effect on the Company, its business, financial position, earnings, growth or outlook.

The Company's IT networks may be the subject of complex and targeted attacks. The techniques used to hack, interrupt, sabotage or degrade the quality of IT systems are constantly evolving, and it is often impossible to identify them before an attack is launched. The Company may not be able to protect itself against such hacking techniques, or to implement a fast, appropriate and effective response.

If, in the future, the Company is not able to handle any of these risks relating to the management of IT systems, its business, earnings, financial position, growth and outlook may be affected.

RISKS ASSOCIATED WITH ORGANIC GROWTH AND EXTERNAL GROWTH

The Company's headcount and business are growing fast. As it grows, the Company must efficiently integrate, support and motivate a large number of new employees, while maintaining its corporate culture. In particular, the Company intends to continue developing its business activities, and will therefore need to hire additional staff and increase its operating capacities, which could require considerable involvement on the part of its internal resources.

In order to attract the most talented people, the Company has had to and will continue to offer competitive wages. Furthermore, the Company may not be successful in hiring new employees fast enough to cover demand.

If the Company does not manage to efficiently manage its recruitment needs and the integration of its new employees, it efficiency, ability to achieve its forecasts, employee morale, productivity and retention may be affected, which could have a significant adverse impact on the Company's business, outlook, financial position, earnings and growth.

To achieve the rapid growth expected, the Company is fully aware that it will have to hire and successfully integrate new employees, and is making the necessary structural preparations.

In the future, the Company's strategy may be based, in part, on external growth, particularly through the acquisition of businesses or assets, equity investments or new alliances, with the aim of acquiring new business skills. However, the Company may not be able to identify suitable targets or perform operations at the most opportune time, and/or under satisfactory conditions. Furthermore, the Company may not be able to complete planned development or external growth operations in line with its investment criteria, which could significantly interfere with the roll out of its strategy.

External growth carries risks, notably the following: the business plan scenarios on which valuations are based may not be realised, in particular in relation to synergies, expected savings and relevant market trends; the Company may not manage to integrate the companies acquired, their technologies, their product ranges and their employees; the Company may not be in a position to retain certain key employees or clients from the acquired companies; the Company may increase its debt levels in order to finance its acquisitions; and the Company may be liable to make acquisitions at an inappropriate time for the market in question. The expected benefits of future or completed acquisitions may not materialise in the timeframe and to the degree expected, and may therefore have a significant adverse impact on the Company, its business, financial position, earnings, growth and outlook.

RISKS ASSOCIATED WITH INTERNATIONAL DEVELOPMENT

International expansion is an important element in the Company's growth strategy. Aiming to develop its leadership across Europe, the Company, which offers solutions in 10 European countries, created its first foreign subsidiaries in Germany (Düsseldorf), the United Kingdom (London region) and the Netherlands (Amsterdam).

In order to give itself the best chance of success, the Company has already hired several multilingual employees as well as people with extensive experience in exports/international business. In addition, it has created two back-office assistant positions dedicated to supporting subsidiaries.

The international scope of the Company's operations is a complex component that increases the inherent risks relating to its business. The Company's international operations require a lot of attention from its executive managers, as well as significant financial resources. Some of the numerous risks associated with international expansion:

- compliance with legal and regulatory requirements, taxation or commercial laws;
- the possibility of unexpected changes in the legal, political or economic framework in countries in which the Company provides or sells its products;
- the difficulty in finding, hiring and retaining talented and skilled employees in foreign countries;

- the need to adapt its product offerings to the local market, to adapt to local practices and different cultural standards, and the need to stay competitive vis-à-vis competitors that may have a better understanding of the local market;
- different labour regulations from one country to another;
- the limitations of the Company to reinvest the profits from its operations in one country to finance capital requirements of operations in other countries;
- exchange rate fluctuation against the Euro for the Company's operations outside the Euro Zone);
- increase in costs relating to the Company's presence abroad;
- changing regulations in a country or region relating to data security, and unauthorised access and use of business and personal data;
- limited or unfavourable intellectual property protections in certain countries.

If the Company fails to generate a profit from its international growth strategy, to adequately manage the risks relating to its international operations, the materialisation of any of these risks could have a significant adverse effect on the Company, its business, financial position, earnings, growth and outlook.

1.8.2.4 LEGAL RISKS

RISKS RELATING TO INTELLECTUAL PROPERTY

The Company currently holds 41 patent families, 24 trademarks and 18 models. It has also obtained several VIGIK trademark operating licences for products it designs, manufactures and markets. The Company's success depends on its ability to obtain, retain and protect its patents, trademarks, drawings and models, as well as its other intellectual property or related rights (such as trade secrets and know-how). It is therefore possible that:

- the Company may not be successful in developing patentable inventions;
- the Company may not be granted patents or trademarks for which applications have been or will be filed;
- the Company may not manage to secure or renew the licenses required for its operations (e.g. VIGIK trademark licence, the non-renewal of which could result in the Company no longer being able to market VIGIK equipment under its trademark, specifically HEXACT);
- the validity of the Company's patents or trademarks, or those licensed to it by third parties, may be challenged;
- the Company's patents may not afford it sufficiently broad protections to block its competitors;
- the Company may not be able to guarantee that the scope of protection granted by its patents, trademarks and intellectual property rights is and will remain adequate to protect itself against competition and the patents, trademarks and intellectual property rights of third parties covering similar devices;
- the Company may not be able to guarantee that its employees will not claim rights or payment of additional compensation or fair price in consideration for inventions that they helped create;
- the patents and other intellectual property rights that it holds or for which it has been granted licences may be challenged by third parties.

The Company takes pro-active steps to protect its intellectual property rights, and is assisted by two law firms specialising in this area; one focusing on patents, and the other on trademarks, models and logos.

Furthermore, as part of its development projects, the Company cannot be certain that the confidentiality of its un-patentable technology or trade secrets will be guaranteed by the protections in place, and that in the event of a breach, that satisfactory measures can be taken. In these cases, the Company requires stakeholders to sign non-disclosure agreements (specifically as part of partnership agreements). Indeed, unpatented and/or unpatentable technology, processes, know-how and proprietary data are considered trade secrets that the Company attempts to protect in part using such non-disclosure agreements, where applicable.

Furthermore, the Company ensures that any partnership or research agreements that it signs enable it to apply the results, for a fee (wherever possible), whenever it effectively participated in the creation of the invention. However, protections for these elements are only limited, and may not prevent unlawful use of the Company's technology by third parties.

In addition, the Company's competitors could infringe its patents or other intellectual property rights, or bypass them entirely through innovations in design. In order to prevent infringement, the Company may take costly actions, requiring the involvement of its teams. The Company may not be able to prevent the unlawful use of its intellectual property rights, given the difficulties in controlling unauthorised use.

The occurrence of any of these events with regard to the Company's intellectual property rights could have a significant adverse impact on the Company's business, outlook, financial position, earnings and growth.

As of the date of publication of this annual financial report, the Company is involved in a single dispute, deemed not to be of significance for the Company: On 21 September 2016, EOZ brought patent infringement proceedings against the Company (in relation to the manufacture of a type of keyboard). The financial risk is minimal and the keypad in question is no longer manufactured by the Company (the disputed keypad was only sold by the Company in 2015 and 2016). This dispute was the subject of a provision at 31 December 2018 for an amount of €125k, which correlates to management's best estimate of the risk to date.

Given that patent applications are generally only published eighteen months after the filing date or, where relevant, the priority date or, under certain circumstances, only at the date the patents are issued, the Company cannot guarantee that third parties were not the first to invent products or processes and/or to file patent applications for inventions identical to those of the Company, or for products and processes used by the Company. The same is true for other intellectual property rights.

The Company may therefore be forced to obtain licences from third parties to use their patents, or to cease certain activities or to seek substitute technologies if obtaining these licences proves impossible or uneconomical.

However, in order to mitigate such risks, the Company begins all of its R&D projects by assessing current technologies, in particular by reviewing existing patents that may relate to the project and in order to ensure that, if it succeeds in overcoming the technological obstacles identified, the Company will be free to make use of its innovation. Next, after having obtained approval for the patents filed, the Company begins marketing its new products and services.

RISKS ASSOCIATED WITH MANAGING THE CONFIDENTIALITY OF PERSONAL DATA

With regard to the essential issues that data owned by the Company represents, both in terms of technological innovation or in terms of its business strategy or most important assets, reasonable assurance must be provided regarding the level of protection afforded to these information assets (data, knowledge and know-how in particular). The Company cannot guarantee that it will be able to prevent all security system breaches (internal or external), or any misappropriation or fraudulent use of confidential data.

The Company uses ERP solutions (CEGID PMI), and customer subscriptions are managed using the ATHENEO software application published by MISMO on servers hosted at the Company's head office. The applications function under a client/server model. The Company is either supported directly by the application's publisher (MISMO), or by an integrating provider (ONE LIFE for CEGID PMI).

The Company has also introduced measures to ensure the reliability and security of its IT systems, such as:

- for internal IT resources:
    - computer servers are installed in dedicated computer rooms, under secure access control. These computer rooms are protected with alarms and smoke systems,
    - the two computer rooms are located diagonally opposite one another at the Company's head office and are linked by a buried fibre optic cable,
    - each server has a dedicated purpose (mechanical, electronic, email, CAPM, etc.) meaning that such tasks are independent of one another (in the event of an attack, only the targeted server would be affected, with no contamination of other servers),
    - a recovery plan covers the last thirty days with the last full back-up saved outside the Company premises.
- for external I.T. resources: customer management websites (such as social housing organisation (HLM) offices, management companies, distributors, installers, etc.):
    - servers are leased from the leading Cloud platform with a Guaranteed 3-hour Recovery Time clause,
    - servers are backed up on a daily basis on remote NAS,
    - a database redundancy system operates in real time between remote sites and Cogelec's registered office.

In addition, premises opened in Nantes in May 2018 will enable a Disaster Recovery Plan to be put in place. Backed by a reputable brand (NUTANIX), the Company plans to implement redundant systems between the Mortagne-sur-Sèvre (head office) and Nantes (relocated premises). In the event of a serious incident at one of the two sites, the BCP will ensure the restoration of the IT system in half a day (excluding end customer PCs). In the event that the optic fibre link to Mortagne sur Sèvre is broken, the Nantes fibre optic system and shared ADSL lines will enable the Company to continue operating.

A regular security audit plan in cooperation with a specialised firm has been put in place and covers, in particular, the verification of internal security regulations and internal and external vulnerability testing. This plan has been operational since the end of 2018. The service provider with which the Company works is a preferred partner when it comes to IT security and is approved by ANSSI (*Agence Nationale de la Sécurité des Systèmes d'Information*).

Audit outcomes will be analysed and improvement plans prepared and implemented.

Because the quality and security of its IT department is a priority, the Company regularly reinforces its IT department. The Company has a "networks and infrastructure" administrator in charge of overseeing IT security and ensuring the day-to-day operation of such infrastructure. IT department teams are also given training on a regular basis (security, database management, etc.) according to the needs identified by the Company (improving or updating skills).

In the course of its operations, the Company has access to the personal data of clients whose privacy is protected by particularly strict legislation in Europe, notably the General Data Protection Regulation (GDPR) applicable from 25 May 2018. On this basis, the Company has set up a programme to make its products and services GDPR-compliant. Issues around effective compliance are important as maximum penalties are particularly high: in the event of infringement, the organisation at fault faces fines of up to €20 million or 4% of global annual revenue for the previous financial year (whichever amount is highest). The Company's reputation may also be tarnished in the event of a dispute.

Furthermore, the systems sold by the Company, used on a daily basis, process customer data. The Company must therefore ensure that it keeps this data confidential. To achieve this, the Company is assisted by CIL (*Correspondant Informatique et Libertés*) or the DPO (Data Protection Officer), an assignment entrusted to a lawyer at Le Nouveau Monde. Please note that all customer personal data is encrypted by the Company.

Furthermore, partnership agreements entered into by the Company generally include non-disclosure and confidential data protection clauses.

If any of the events described above were to occur, the resulting damage, loss or delays may have a significant adverse impact on the Company's business, operating profit, financial position and outlook.

1.8.2.5 FINANCIAL RISKS

RISK RELATED TO FINANCING

The Company's annual cash requirements have, until now, been ensured by mechanisms such as capital increase, public innovation grants, (BPI repayable advance), the French Research Tax Credit and Innovation Tax Credit, and bank loans.

In the future, the Company will continue to have substantial financing requirements for the development and marketing of its products. The Company may find itself unable to self-finance its growth, forcing it to seek alternative sources of financing, such as leveraged bank loans, the issuance of financial instruments classified as financial liabilities, or the issuance of new shares.

The Company's ability to raise additional funds depends on financial, economic and market conditions, as well as other factors over which it has little to no control. In addition, the Company cannot guarantee that additional funds will be made available when needed and, where relevant, that said funds will be made available under acceptable conditions.

If the required funds are not available, the Company may be forced to curb the development of new products, or delay or abandon expansion into new markets.

Furthermore, given that the Company raises capital via the issuance of new shares or other financial instruments that may give future access to the Company's capital, its shareholders' interests could be diluted.

FINANCIAL RISKS ASSOCIATED WITH THE EFFECTS OF CLIMATE CHANGE

I view of its operations, the Company has not identified any risks associated with climate change.

1.8.3 INSURANCE AND RISK HEDGING

The Company implemented a hedging policy for its main insurable risks, with guarantee amounts that it deems consistent with the nature of its business.

The costs incurred by the Company for all of its insurance policies were €106k for the years ending 31 December 2018 and 2017.

The Company's main policies with insurance companies are as follows:

Type of insurance	Main guarantees
Goods transport	Supply procurement
	Sales
	Own account
Buildings	Material damage to insured property
	Loss of rent and/or loss of use/financial loss
	Expenses and losses (including expert fees, excavation costs, security fees)
	Liability
Car fleet	Company fleet
	One-off assignments using private vehicles
Multi-risk	Fire and related risks
	Theft
	Glass breakage
	Machinery breakdown
	Operating losses
Professional civil liability	Damage before, during and after delivery
	Defence
	Legal action
Global secure	Employee roadside assistance
Key personnel	Guarantee Death-Total and Permanent Disability Accident/Illness Guarantee Total Permanent Disability
Civil liability	Corporate officers Directors

A detailed summary of policies is set out under section 4.8 of the Company's Base Document, which is available on the Company's website.

1.9 PROCEDURES FOR INTERNAL CONTROL AND RISK MANAGEMENT RELATIVE TO THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION

1.9.1 INTERNAL CONTROL OBJECTIVES

The internal control system implemented by the companies in the group is intended to ensure:

- compliance with laws and regulations;
- the implementation of instructions and policies set by General Management;
- the smooth running of processes, particularly those relating to safeguarding assets;
- the reliability of financial information; and
- in general terms, the system supports operational management and efficacy and the efficient use of resources.

As with any control system, this cannot provide an absolute guarantee that all risks are under control. Its main aim is to reduce the likelihood of them occurring and their potential impact by taking appropriate measures.

1.9.2 PREPARATION OF FINANCIAL INFORMATION

1.9.2.1 REPORTING PLANNING, STEERING AND PROCESS

The budgeting and monthly monitoring procedures are as follows:

- at the end of the year, a detailed budget is prepared for the following financial year by the management. This budget is subsequently presented to the Board of Directors;
- a monthly meeting of the Management Committee aims to monitor and measure discrepancies with the budget and determine any corrective measures.

1.9.2.2 PROCEDURES TO APPROVE THE FINANCIAL STATEMENTS

The Group produces a monthly statement of certain key indicators and full half-yearly consolidated financial statements. These are produced by the chartered accountancy firm that has worked with the Company since it was established.

A chartered accountant to prepare the consolidation package under IFRS standards The financial statements are then checked by the Statutory Auditors and approved by the Board of Directors.

1.9.2.3 APPLICABLE STANDARDS

In general terms, all of the Company's accounting options are determined by the management, discussed with General Management and the Statutory Auditors then presented to the Audit Committee. The Group's consolidated financial statements are prepared in accordance with IFRS standards.

The Company's financial statements are prepared in accordance with French regulations.

1.10 ELEMENTS OF THE MANAGEMENT REPORT PRESENT IN OTHER PARTS OF THE ANNUAL FINANCIAL REPORT

The elements of the management report are included in full in the various sections of this document:

- Exchange rate and currency risk hedging strategy, and risk factors – section 3.6.4 of the chapter on the consolidated financial statements;
- Information on corporate governance - chapter on the corporate governance report;
- Table of profit/loss over the last 5 financial years – section 4.4 of the chapter on the Company's annual financial statements;
- Information on equity, shareholders and treasury share transactions - section 2.4 of the chapter on the corporate governance report;
- Employee shareholdings on the last day of the financial year - section 2.4.11 of the chapter on the corporate governance report;
- Redeemed shares – section 2.4.10.5 of the chapter on the corporate governance report.

2. REPORT ON CORPORATE GOVERNANCE

2.1 CORPORATE GOVERNANCE

In accordance with the provisions of article L. 225-37 of the French Commercial Code, and supplementing the management report, the present report from the Board of Directors is intended to report to shareholders:

- the composition, functioning and powers of the Board;
- the conditions for the preparation and organisation of the work of the Board;
- the compensation of corporate officers;
- agreements concluded between a manager or a significant shareholder and a subsidiary;
- Pprocedures for the participation of shareholders in the General Meeting.

Since June 2018, the Company has referred to the MiddleNext Corporate Governance Code. The code can be consulted on the website www.middlenext.com.

The Company complies with the recommendations of the MiddleNext Code. Also, in accordance with recommendation R19, the Board of Directors has taken note of the elements presented in the section "warning factors", which are essential provisions of the code, and declares having reviewed them when preparing the present report.

All of the recommendations of the code were studied and the Company complies with them or has provided detailed explanations.

For the financial year ending on 31 December 2018, in addition to the information shown in the present report, the status of the application of the recommendations of the reference code is as follows:

MiddleNext code recommendations	Compliant	Expects to be compliant	Considered be not be applicable
R1: Board members' code of ethics	X		
R2: Conflicts of interest	X		
R3: Composition of the Board – Independent members on the Board	X		
R4: Information for Board members	X		
R5: Organisation of Board and committee meetings	X		
R6: Formation of committees	X		
R7: Introduction of the Board's internal rules and procedures	X		
R8: Selection of individual directors	x		
R9: Duration of Board members' terms of office	X		
R10: Directors' compensation	X		
R11: Introduction of an assessment of the Board's work	X (1)		
R12: "Shareholder" relations	X		
R13: Definition and transparency of compensation for executive directors	X		
R14: Preparation of succession plans for "managers"		X (2)	
R15: Concurrent employment contracts and corporate offices	X		
R16: Severance pay	X		
R17: Supplementary pension schemes	X		
R18: Stock options and bonus share awards	X (3)		
R19 : Review of things to look out for	X		

(1) The Board evaluated its effectiveness over the 2018 financial year at a meeting on 18 April 2019. In addition, the Company is considering setting up a self-assessment questionnaire on the functioning of the Board, its committees, and on the preparation of its work.

(2) The Board of Directors has not yet addressed the question of the succession of the incumbent manager. The question of the sustainability of the Company was discussed at the Board meeting of 18 April 2019 and will be monitored annually.

(3) No allocation has been made to date.

2.1.1 THE BOARD OF DIRECTORS

2.1.1.1 COMPOSITION OF THE BOARD OF DIRECTORS

Since 23 April 2018, the Board of Directors has been composed of five members as follows:

First name, Last name, Function	Member Independent	Date of 1st appointment	Expiry of term of office	Audit committee	Appointments and compensation committee	Experience and expertise provided
Roger LECLERC Chairman	No	23 April 2018	2021	No	No	Chairman and Chief Executive Officer since the creation of the Company Research and development
Lydie DELEBARRE	Yes	23 April 2018	2020	Chairman	No	Member of the Management Committee Finance, Audit and risk management Company restructuring Merger-acquisition
Patrick FRUNEAU	No	23 April 2018	2019	Member	No	Technical Expertise Research and development
Cécile VACHER	Yes	23 April 2018	2021	No	Chairman	Company manager Company strategy Corporate Social Responsibility International development
Patrice Guyet	No	23 April 2018	2020	No	Member	Manager Production and Finance

Table on the composition of the Board of Directors and the Committees in accordance with recommendation R3 of the MiddleNext Code

The maximum period of terms of office is 3 years. Certain directors were appointed for shorter periods to enable terms of office to be staggered in accordance with recommendation R9 of the MiddleNext code.

LIST OF TERMS OF OFFICE AND FUNCTIONS EXERCISED AT 31 DECEMBER 2018 BY EACH MEMBER OF THE BOARD OF DIRECTORS

name	Company	Function / Term of office
Roger Leclerc	COGELEC SA	Chairman of the Board of Directors and Chairman and Chief Executive Officer
	INTRATONE GMBH	Chairman
	INTRATONE UK	Chairman
	INTRATONE BV	Chairman
	SRC	Chairman of HRC, Chairman of SRC
	HRC	Chairman
	SCI La Crume	Manager
Lydie DELEBARRE	COGELEC SA	Director
Patrick FRUNEAU	COGELEC SA	Director
Cécile VACHER	Cabinet VERTUEL	Co-managing Partner
	COGELEC SA	Director
Patrice Guyet	COGELEC SA	Director of operations
	SC PRONOIA	Manager

REPRESENTATION OF MEN AND WOMEN WITHIN THE BOARD OF DIRECTORS

The Board has two women and three men, thus respecting the legal provisions of law n° 2011-103 dated 27 January 2011, on the balanced representation of women and men within boards of directors and supervisory boards and on professional equality, pursuant to which the boards of directors of companies listed on regulated markets must achieve a proportion of one of the genders of at least 40%.

INDEPENDENCE OF DIRECTORS

Ms Lydie DELEBARRE and Ms Cécile VACHER are, in accordance with recommendation R3, independent members of the Board. They fulfil the five criteria for independence within the meaning of the MiddleNext Corporate Governance Code.

ABSENCE OF SENTENCING FOR FRAUD

To the best of the Company's knowledge and on the day of preparing this report:

- no sentence for fraud has been pronounced over the last five years against one of the members of the Board of Directors;
- no incrimination and/or official public sanction has been pronounced against one of the members of the Board of Directors of the Company by the statutory or regulatory authorities (including designated professional organisations);
- no director has been prevented, by a court, from acting in the capacity of member of an administrative, management or supervisory body or from intervening in the management or conduct of the business of an issuer.

ABSENCE OF POTENTIAL CONFLICTS OF INTEREST

As far as the company is aware, there is no potential conflict-of-interest between the duties, with regard to COGELEC, of the members of the administrative bodies and the General Management and their private interests.

2.1.1.2 MISSION OF THE BOARD

The duties of the Board of Directors comply with article L. 225-35 of the French Commercial Code.

The Board of Directors:

- appoints and dismisses the Chairman and the Chief Executive Officer. Sets the amount of their compensation and the extent and duration of the powers of the directors;
- appoints the members of the specialised committees that are attached to it;
- examines and validates the policies concerning the business of the Company and oversees their implementation, handles all questions related to the proper operation of the Company and settles the affairs concerning it through its deliberations;
- carries out any checks and verifications that it deems necessary;
- studies and validates the plans put in place to cope with the main risks of the Company, and the plans for internal control, regularly monitors the activity and performance of the Company and makes sure that there is transparency in communicating information;
- establishes and checks the limits on the powers of the executive directors.

2.1.1.3 FUNCTIONING OF THE BOARD

In accordance with recommendation R7 of the MiddleNext Code, the Board of Directors has established internal regulations for which the latest update was approved on 23 April 2018. The internal regulations can be consulted on the Company's website.

In accordance with recommendation R1, each member of the Board is made aware of the responsibilities and obligations incumbent upon them, notably at the time of their appointment, by being presented with the internal regulations reiterating all rights and duties of members of the Board, its functioning procedures and the ethical rules that they must apply.

DUTIES OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

The Chair of the Board of Directors organises and directs the work of the Board of Directors and reports on said work to the General Meeting. The Chair ensures that the Company's bodies are operating smoothly and, in particular, that directors are in a position to fulfil their duties

FREQUENCY OF MEETINGS

The Board meets as often as the interests of the company require it or the legislation imposes it, and at least once per quarter. During the elapsed financial year, it met seven times. The average rate of participation at these meetings was 94%. The meetings of the Board are held, upon invitation from the Chairman, at the head office. Also, and in accordance with recommendation R5 of the MiddleNext Code, the members of the Board hold regular and informal discussions outside the meetings.

During the 2018 financial year, the Board examined and approved the half-yearly and annual financial statements and its development policy. Also, the question of the succession of managers is a point that will be regularly put on the agenda in order to consider solutions to be put in place in case of accident or sudden unavailability.

CONVENING DIRECTORS

The directors are convened by ordinary letter (and informed in advance by telephone). An agenda is attached to the notice of meeting and a working document is sent by email prior to the meeting.

INFORMING DIRECTORS

In accordance with recommendation R4 of the MiddleNext Code, and pursuant to the conditions specified in the internal regulations, the members of the Board receive, prior to meetings, the documents necessary to their duties in sufficient time, and operational updates are regularly sent to them.

MINUTES OF MEETINGS

The minutes of meetings of the Board of Directors are prepared following each meeting and they are approved at the following Board meeting.

2.1.2 THE COMMITTEES OF THE BOARD OF DIRECTORS

The Board has established internal specialised committees intended to improve its functioning and to contribute effectively to the preparation of its decisions:

2.1.2.1 APPOINTMENTS AND COMPENSATION COMMITTEE

This committee has a duty to review and propose recommendations on the compensation of corporate officers, managers and executive managers concerning their principles and procedures, and makes sure that compensation is coherent with the performance of the Group.

Another duty of the Committee is to propose to the Board of Directors the appointment and renewal of members of the Board of Directors. The Members of the Appointments and Compensation Committee were Ms Cécile VACHER, Chair, and Patrice GUYET.

The committee follows recommendation R13 of the MiddleNext Code on the compensation of executive directors.

The Committee met 3 times during 2018, with an attendance rate of 100%.

2.1.2.2 AUDIT COMMITTEE

The Audit Committee provides its assistance to the Board in its duties relative to examination of the financial statements and the control of accounting and financial information as well as for matters relative to risk management and internal control.

The Committee's duties include:

- monitoring the process of preparing financial information;
- monitoring the effectiveness of the internal control and risk management systems;
- monitoring the statutory control carried out by the Statutory Auditors, verifying their independence, and issuing a recommendation on the designation of candidacies to the General Meeting of shareholders.

The members of this Committee at 31 December 2018 were Lydie DELEBARRE, Chair and Patrick FRUNEAU. The chairmanship of the Audit Committee is assigned to an independent member, in accordance with recommendation R6 of the MiddleNext Code. The Audit Committee met once during 2018, with a rate of attendance of 100%.

2.1.3 THE GROUP'S GENERAL MANAGEMENT

The General Management provides its skills to the Board of Directors in preparing and monitoring the strategy validated in Board meetings. It does everything possible to ensure the due management of the company and the implementation of the budget validated by the Board of Directors.

2.1.3.1 THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the meeting of the Board of Directors of 23 April 2018, it was decided to combine the functions of Chairman and Chief Executive Officer.

The Chairman and Chief Executive Officer has the broadest powers to act in all circumstances in the name of the Company. He/she exercises these powers within the limit of the corporate purpose subject to those that the French Commercial Code expressly assigns to meetings of shareholders and to the Board of Directors.

The Chief Executive Officer represents the Company in its dealings with third parties.

Also, the internal regulations list various operations for which the Chairman and Chief Executive Officer must obtain prior authorisation from the Board as follows:

- acquisition or disposal of the Company's direct, or indirect, interests in any existing or future companies, involvement in the formation of any companies, groups and bodies, subscription for any share issues, equity interests or bonds, where the Company's financial exposure in respect of the transaction in question exceeds five million euro (€5,000,000);
- grant of any transfers or exchanges involving assets, stocks or securities (apart from any current account transfer from the Company to its subsidiaries), for an amount in excess of five million euro (€5,000,000);
- in the event of dispute, the approval of any treaties, agreements and settlements, for an amount in excess of one million euro (€1,000,000);
- transactions for the acquisition or disposal of property where the amount in question exceeds three million euro (€3,000,000);
- grant or receipt by the Company of any loans, borrowings, credit or advances, or authorisation of Company subsidiaries to this end, for an amount in excess of five million euro (€5,000,000);
- acquisition or disposal, by any means, of any receivables worth more than one million euro (€1,000,000);
- grant of any guarantees, deposits and sureties for an amount in excess of one million euro (€1,000,000).

2.1.3.2 THE EXECUTIVE COMMITTEE

The Executive Committee must first and foremost implement the company's vision and strategy. It is of course the forum where decisions, guided by this vision, are made to optimize the management and growth of the company. It allows both to deal with important topics requiring management decisions, strategic communications topics, the opportunity to upload and download structuring information, but also a meeting to summarize the key figures of the divisions and projects.

It is currently composed of four members:

- Lise GASCHET, International Development Manager;
- Patrice GUYET, Director of Operations;
- Mr Roger LECLERC, Chief Executive OfficerValérie MORIO, Head of Marketing & Communication;
- Stéphane VAPILLON, Administrative and Financial Director.

Developments within the executive committee

Patrice GUYET acts as interim Chief Financial Officer, replacing Stéphane VAPILLON who left at the end of December 2018, until the arrival of his successor, planned in May 2019. The future Chief Financial Officer will sit on the Executive Committee.

2.2 INFORMATION ON COMPENSATION

2.2.1 COMPENSATION OF MEMBERS OF THE BOARD OF DIRECTORS

In accordance with article L. 225-102-1 of the French Commercial Code, the Company brings to your attention the following information relative to corporate officers.

2.2.1.1 COMPENSATION POLICY FOR 2018 APPROVED BY THE BOARD AT ITS MEETING OF 23 APRIL 2018

The compensation policy for members of the Board of Directors is based on the allocation of attendance fees, the overall package of which is validated by the General Meeting and distributed between its members at the discretion of the Board according to the following principles in accordance with recommendation R10 of the MiddleNext Code:

- only directors with the status of independent director or holding a salaried position within the Company or its subsidiaries, will be allocated attendance fees (given that attendance fees will not be paid to directors who are direct or indirect shareholders of SRC S.A.S.);
- attendance fee amounts will be determined in consideration of rates of attendance at Board of Directors' and committee meetings;
- directors who are members of the Board's committees (and, in particular, the chairs of said committees) will receive a bigger share than other directors.

Each member of the Board of Directors is entitled to the reimbursement of travel expenses incurred during the exercise of his/her functions.

There are no particular commitments to directors in terms of pension, severance pay or under non-compete clauses. There is no stock option plan.

2.2.1.2 COMPENSATION ASSIGNED IN RESPECT OF THE 2018 FINANCIAL YEAR

The amounts received are mentioned in the following table. Under the 12th resolution of the general meeting of shareholders of 23 April 2018, Company shareholders set the amount of attendance fees to be shared between the members of the Board of Directors and/or of ad hoc committees for the financial year ending on 31 December 2018, at €20,000.

At its meeting of 18 April 2019, the Board of Directors decided to allocate attendance fees as follows:

Members of the Board		Amounts paid in 2018
Lydie DELEBARRE	Attendance fees	€11,000
Cécile VACHER	Attendance fees	€9,000
TOTAL		€20,000

2.2.2 COMPENSATION OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

2.2.2.1 COMPENSATION POLICY

The Board of Directors, at its meeting of 18 April 2019, set the principles and criteria for establishing the items composing the annual compensation of the Chairman and Chief Executive Officer as follows. This compensation policy will be put to the vote at the Annual General Meeting of 24 June 2019.

FIXED COMPENSATION

The fixed compensation of the Chairman and Chief Executive Officer is set at €300,000 gross.

The fixed part is determined taking into account the level of responsibility, experience in a management role and market practices.

Variable compensation

The fixed compensation will only be supplemented with variable compensation if the annual EBITDA made by the Company is at least equal to €10,000,000.

If this performance condition is met, the Chief Executive Officer's variable pay will be calculated as follows:

- 2.5% of the fraction of annual EBITDA made by the Company less than or equal to €10m, and
- 1.25% of the fraction of annual EBITDA made by the Company greater than €10m.

The term "EBITDA " means earnings before interest, taxes, depreciation, and amortisation. It refers to net operating income/loss before depreciation, amortisation and impairment, net of reversals. It shows profit generated by operations independent of the terms of its financing, tax constraints and the upgrading of operating equipment.

Please note that the EBITDA to be taken into consideration when calculating the aforementioned variable compensation is that arising from the Company's (IFRS-compliant) consolidated financial statements.

The payment of the variable share of compensation due pursuant to the 2019 financial year will depend upon the approval by an Ordinary General Meeting of the items of compensation of the Chairman and Chief Executive Officer under the conditions specified by Article L. 225-100 of the French Commercial Code.

Exceptional compensation

The Chairman and Chief Executive Officer may not claim the payment of exceptional compensation.

Attendance fees

The Chairman and Chief Executive Officer may claim the payment of attendance fees pursuant to his appointment as director if he fulfils the following conditions:

- is an independent director; or
- exercises a salaried function within the Company or its subsidiaries; and
- is not a direct or indirect shareholder of the company SRC S.A.S.

It should be noted that the current Chairman and Chief Executive Officer does not fulfil these conditions and therefore cannot be paid attendance fees.

Stock options and bonus shares

As an executive corporate officer of the Company, the Chairman and Chief Executive Officer may be awarded bonus shares of the Company or stock options under profit-sharing plans implemented for the benefit of all or some of the employees and managers of the Group.

Compensation, indemnities or benefits due pursuant to taking up the function

None

Benefits in kind

None

Any other item of compensation pursuant to the role exercised in the Company

None

Compensation or contractual benefits within the Group

The Chairman and Chief Executive Officer has not concluded any agreement with the Company pursuant to his appointment.

Exclusively for informational purposes, the Board of Directors reiterates that, on 23 April 2018, the Company and HRC SAS (of which Roger LECLERC is the Chairman and majority shareholder) concluded a service provision agreement, which does not specify the provision of any services related to the functions of manager (the services are exclusively technical and commercial).

This agreement is described in the Statutory Auditors' special report on regulated agreements and commitments presented in section 5 of this report.

Severance pay – supplementary pension plans

None

2.2.2.2 COMPENSATION PAID OR ALLOCATED TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER IN RESPECT OF THE 2018 FINANCIAL YEAR

	At 31 December 2018	At 31 December 2017*
In thousands of euros	Amounts due	Amounts paid
Fixed compensation	€200k	€0
Variable compensation	€0**	€0

*In the 2017 financial year, the Company was set up in the form of a simplified public limited company (French SAS) and was chaired by the company HRC SAS.
**The performance condition for the payment of the variable portion has not been met.

Compensation due for 2018 relates to the period from 23 April to 31 December 2018 since Roger LECLERC was appointed Chief Executive Officer of the Company on 23 April 2018.

The remuneration due pursuant to 2018 relates to a financial year of 8 months.

2.3 OTHER ELEMENTS OF THE REPORT ON CORPORATE GOVERNANCE

2.3.1 AGREEMENTS CONCLUDED BETWEEN MANAGERS OR SIGNIFICANT SHAREHOLDERS AND THE SUBSIDIARIES OF THE COMPANY

In accordance with Article L. 225-37 of the French Commercial Code, no agreement between a manager or significant shareholder and a subsidiary of the Company was concluded during the 2018 financial year.

2.3.2 REGULATED AGREEMENTS

2.3.2.1 SERVICE AGREEMENT WITH HRC SAS

On 23 April 2018, the Company signed a service agreement with HRC SAS (of which Roger LECLERC is the Chairman and majority shareholder). The purpose of this agreement was the provision of technical and commercial services by HRC SAS for the Company.

This agreement gives rise to the payment by the Company of compensation which breaks down as follows:

- a fixed amount of €377,340 excluding tax for technical services and €317,760 for commercial services
- a variable amount attached to the provision of commercial services, for which the maximum amount may not be greater than the fixed amount previously determined and calculated as follows:
    - 2.5% of the fraction of annual EBITDA made by the Company less than or equal to €10m,
    - 1.25% of the fraction of annual EBITDA made by the Company greater than €10m.

HRC SAS also bills the Company, upon submission of supporting evidence, for expenses incurred (outside France) in providing the services.

This agreement is mentioned in the Statutory Auditors' special report on regulated agreements and commitments is presented in chapter 5 of this report.

2.3.3 GENERAL MEETINGS

General Meetings are convened under the conditions set by law and the regulations. They are held at the registered office or at any other location according to the instructions in the notice of meeting.

The right to attend General Meetings is subject to registration of the shares in the share account in accordance with the terms and deadlines provided for by the regulations.

The meetings are held and deliberate in accordance with the law and regulations.

Furthermore, the managers are available to shareholders who wish to discuss or obtain information outside General Meetings in accordance with recommendation R12 of the MiddleNext Code.

2.3.4 AGREEMENTS ENTERED INTO BY THE COMPANY AND AMENDED IN THE EVENT OF A CHANGE OF CONTROL.

The Company signed a partnership and "machine to machine" services contract with Société Française du Radiotéléphone (SFR) on 18 October 2011, subsequently amended by several additional clauses.

The purpose of this contract was to provide the Group with SIM cards and related services, to equip the products sold by the Group, in exchange for a fee paid by the Company in accordance with the tariff set by the contract. The contract covered over 50 geographical regions, as well as France.

The contract was signed for an initial period expiring on 31 December 2012. Since then, it has been automatically renewed every 12 months and will continue to be renewed unless it is terminated by one or other of the parties. The contract also provides for several cases where cancellation may be initiated by SFR (e.g.: improper use of SIM cards, termination or revocation of SFR authorisations for the establishment and operation of services, compulsory liquidation, low rate of achievement of targets by the Company, change of control of the Company or stake in the Company taken by a competitor of SFR).

2.4 INFORMATION CONCERNING THE SHARE CAPITAL

2.4.1 SHARE CAPITAL

At 31 December 2018, the share capital stood at €4,004,121.60, comprised of 8,898,048 shares with a par value of €0.45, all of the same category and fully paid-up.

	01/01/2017	31/12/2018
Number of shares	355,922	8 ,898,048
Of which singe voting right shares	355,922	3,550,963
Of which shares with double voting rights		5,347,085
Par value (€)	€1.50	€0.45
Share capital (€)	**533,883**	**4,004,122**

2.4.2 CHANGES IN SHARE CAPITAL

During financial year 2018, the Company made the following capital transactions:

- on 23 April 2018, increase in the registered capital by €2,669,415 by incorporation of an amount deducted from the items "issue premiums" for €2,263,863 and "other reserves" for €405,552. The capital increase was carried out by increasing the par value of existing shares from €1.50 to €9. The share capital was thus divided into 355,922 shares of €9 each;
- on 23 April 2018, reduction in par value from €0.45 to €9 per share. The amount of share capital remained unchanged: accordingly, 1 old share with a par value of €9 was exchanged for 20 new shares with a par value of €0.45. This resulted in the creation of 7,118,440 new shares and the cancellation of 355,922 old shares;
- on 15 june 2018, as a result of the admission to trading of the Company's shares on the Paris Euronext regulated market, capital increase in the amount of €800,823.60, through the issue of 1,779,608 new shares with a par value of €0.45 each.

Since this date, the share capital of the Company has not been changed.

2.4.3 STRUCTURE OF THE CAPITAL AND VOTING RIGHTS AT 31 DECEMBER 2018

At 31 December 2018				
Breakdown of capital and voting rights	Number of shares	% of capital	Number of voting rights	% of voting rights
SAS SRC(1)	5,347,065	60.09%	10,685,877	75.07%
PUBLIC	3,550,963	39.91%	3,550,963	24.93%
SAS HRC(2)	20	0.00%	40	0.00%
TOTAL	8,898,048	100%	14,236,880	100%

(1) French simplified public limited company with share capital of €7,804,776, with its registered office at 370 rue de Maunit, 85290 Mortagne-sur-Sèvre, listed in the La Roche-sur-Yon Trade and Companies' Register under number 802 817 585.
(2) A French simplified public limited company with share capital of €5,050,618, with its registered office at Chambrette, 85130 Les Landes-Genusson, listed in the La Roche-sur-Yon Trade and Companies' Register under number 451 628 309. HRC's majority shareholder is Roger LECLERC (94.63%).

2.4.4 HOLDING AND CONTROL

The Company is currently controlled by SRC. The Company has not put any special measures in place with a view to ensuring that this control is not exercised in an abusive manner. However, in accordance with the third recommendation of the MiddleNext code, at least two of the Board members are independent directors (Lydie Delebarre and Cécile Vacher).

The application of other recommendations of the MiddleNext code and, in particular, the composition of Board of Directors' committees, ensures that minority shareholders' interests are protected.

2.4.5 MANAGER TRANSACTIONS

In accordance with article L. 621-18-2 of the French Monetary and Financial Code and article 19 of regulation EU n° 596/2014 dated 16 April 2014 on market abuses, it is specified that no transaction was carried out by the managers of Company, or a related person, on COGELEC's shares, during the 2018 financial year.

2.4.6 SHAREHOLDERS' AGREEMENT

A shareholders' agreement was concluded on 25 May 2018 between the six shareholders of the company SRC. The main provisions of this agreement are described in section 3.4.3 of the AMF Securities Note dated 28 May 2018 under number n°18-203.

2.4.7 COLLECTIVE UNDERTAKINGS

A collective undertaking to retain shares was signed by the partners of SRC on 13 June 2018.

2.4.8 EQUITY INVESTMENT THRESHOLDS

Any natural or legal person acting alone, or in concert, that acquires ownership of a number of shares or voting rights in excess of one or more of the thresholds set by the law must comply with mandatory disclosure obligations within the deadline stated. The same information is also given when the capital interest or voting rights fall below legal thresholds.

If declarations are not made in accordance with the requirements listed above, shares in excess of the fraction that should have been declared lose their voting rights in accordance with the provisions of the French Commercial Code.

2.4.9 DELEGATIONS AND AUTHORISATIONS IN MATTERS OF CHANGES TO THE CAPITAL

In accordance with the provisions of article L 225-37-4, paragraph 3 of the French Commercial Code, the table below summarises the delegations valid at 31 December 2018 in respect of of capital increases and the uses made of these delegations during the financial year ending on 31 December 2018.

The General Meeting of 23 April 2018 gave certain delegations to the Board of Directors authorising it to increase the capital of the Company, with the option to sub-delegate under the conditions specified by the law.

Subject	Date of General Meeting	Term of the delegation	Ceiling/Limit	Use made of these delegations
Authorisation to be given to the Board of Directors to trade in the Company's shares, subject to the admission to trading and the initial flotation of the Company's shares on the Euronext Paris regulated market (the "Float")	23 April 2018	18 months	€5,000,000 10% of the share capital	Delegation used to repurchase 37,205 shares
Delegation of authority granted to the Board of Directors under the provisions of article L. 225-129-2 of the French Commercial Code for the purposes of deciding to issue ordinary shares by means of a public offering of securities, as part of the Float	23 April 2018	26 months	€1,000,000	Delegations partly used under the Company'sIPO
Authorisation given to the Board of Directors for the purposes of increasing the number of ordinary shares issued as part of the Float, in accordance with the provisions of article L. 225-135-1 of the French Commercial Code	23 April 2018	27 months	15% of the initial issue amount	None

Delegation of powers to the Board of Directors for the purpose of issuing, with maintenance of preferential subscription rights, shares and/or securities giving access to new Company shares, subject to the Float going ahead	23 April 2018	26 months	€2,300,000 *	None
Delegation of powers to be granted to the Board of Directors for the purposes of issues, with removal of preferential subscription rights, shares and/or securities giving access to new Company shares, in accordance with article L. 225-136 of the French Commercial Code, in particular, under a public offering, subject to the Float going ahead	23 April 2018	26 months	€2,300,000 *	None
Authorisation to be given to the Board of Directors for the purposes of implementing one of the offers referred to in article L. 411-2 II of the French Monetary and Financial Code to implement the 20th resolution, in accordance with article L. 225-136 of the French Commercial Code, subject to the Float going ahead	23 April 2018	26 months	20% of share capital per year	None
Authorisation to be given to the Board of Directors for the purposes of waiving the terms set by the 20th resolution in order to set the share issue price within the limit of an immediate capital increase representing less than 10% of the share capital per year, in accordance with article L. 225-136 of the French Commercial Code, subject to the Float going ahead	23 April 2018	26 months	- *	None
Delegation of powers to be granted to the Board of Directors with a view to issuing shares and/or securities giving access to new shares, with removal of preferential subscription rights for one category of persons, subject to the Float going ahead**	23 April 2018	18 months	€2,300,000 *	None
Authorisation to be given to the Board of Directors for the purposes of increasing, in accordance with article L. 225-135-1 of the commercial code, the number of securities to be issued with maintenance or removal of preferential subscription rights, subject to the Float going ahead	23 April 2018	26 months		None
Delegation of powers to be granted to the Board of Directors for the purposes of issuing shares and/or securities giving access to new Company shares, reserved for employees who are members of the company savings scheme, with removal of their preferential subscription rights, in accordance with article L. 225-138-1 of the French Commercial Code, subject to the Float going ahead	23 April 2018	26 months	1% of the share capital *	None
Delegation of powers to be granted to the Board of Directors for the purposes of increasing the share capital by issuing shares in the event of a public exchange offer (OPE) initiated by the Company, subject to the Float going ahead	23 April 2018	26 months	Capital increases likely to be implemented under this authorisation may lead to the Company doubling its share capital	None
Delegation of powers to be granted to the Board of Directors for the purposes of increasing the share capital by issuing shares in exchange for contributions in kind of up to 10% of the share capital, apart from in the event of a public exchange offer, subject to the Float going ahead	23 April 2018	26 months	10% of the share capital	None
Delegation of powers to be granted to the Board of Directors for the purposes of issuing securities giving access to new Company shares, with no preferential subscription rights, as part of an exchange of financial securities, subject to the Float going ahead	23 April 2018	18 months	Future capital increases likely to be implemented under this authorisation may lead to the Company doubling its share capital	None
Authorisation to be given to the Board of Directors for the purposes of awarding bonus shares to eligible employees or corporate officers of the Company or its associates, subject to the Float going ahead	23 April 2018	38 months	10% of the share capital	None
Authorisation to be given to the Board of Directors for the purposes of granting stock options to eligible employees or corporate officers of the Company or its associates, subject to the Float going ahead	23 April 2018	38 months	10% of the share capital	None
Delegation of powers to be granted to the Board of Directors for the purposes of increasing the share capital through the incorporation of reserves, premiums, profits or other in accordance with article L. 225-130 of the French Commercial Code, subject to the Float going ahead	23 April 2018	26 months	Capital increases may be conducted on one or more occasions and in the proportions, and at the times, to be decided by the Board of Directors	None

Authorisation to be given to the Board of Directors for the purposes of reducing the share capital by cancelling shares, subject to the Float going ahead	23 April 2018	24 months	10% of the share capital per 24-month period	None

*the maximum nominal amount of immediate or future capital increases likely to be completed counts towards the overall cap on cash issue authorisations of €2,300,000 (26th resolution of the General Meeting of 23 April 2018).

**definition of categories of person: (i) investment firms or French or foreign collective savings funds, investing on a habitual basis, or having invested in the last 36 months, over €5 million in small and mid caps conducting their business within the security and/or new technologies sectors, or (ii) French or foreign companies or groups operating within these sectors, or (iii) French or foreign companies or groups having set up a joint venture with the Company as part of its business operations.

2.4.10 ELEMENTS LIKELY TO HAVE AN IMPACT IN CASE OF A PUBLIC OFFER OR EXCHANGE OFFER

In accordance with the provisions of article L225-37-5 of the French Commercial Code, please take note the following elements:

2.4.10.1 STATUTORY RESTRICTIONS AND AGREEMENTS RELATIVE TO TRANSFERS OF SHARES

No statutory clause restricts the free transfer of shares, which may be registered or bearer, at the choice of the shareholder.

2.4.10.2 SIGNIFICANT EQUITY INVESTMENTS IN OTHER COMPANIES

None.

2.4.10.3 THRESHOLDS CROSSED

By letter dated 1 April 2019, Sycomore Asset Management declared that it had crossed above the 5% threshold of the Company's share capital.

2.4.10.4 VOTING RIGHTS

A double voting right has been assigned since 23 April 2018 to all fully paid-up shares that have been registered for at least two years in the name of the same shareholder.

2.4.10.5 POWERS OF THE BOARD IN MATTERS OF SHARE BUYBACKS

The General Meeting of 23 April 2018 authorised the Board, for a period of eighteen months from the date of the said meeting, in accordance with legal provisions, to buy back the shares of the company in order to:

- add liquidity to the market for the Company's shares, under a liquidity contract in accordance with a code of ethics recognised by the French financial markets authority (AMF) and concluded with an investment service provider in accordance with market practices acceptable to the AMF;
- implement any purchase option plan in the shares of the Company according to the provisions of articles L. 225-177 et seq. of the French Commercial Code;
- assign bonus shares under the provisions of articles L. 225- 197-1 et seq of the French Commercial Code;
- assign shares to employees to allow them to benefit from the expansion of the company and implement any company savings plan under the conditions specified by the law, notably articles L. 3332-1 et seq of the French Employment Code;
- retain shares to be subsequently presented as payment or in exchange under external growth transactions;
- grant shares during the exercise of rights attached to securities giving access to capital;
- cancel all or part of the shares thus purchased in order to reduce the capital, subject to valid authorisation from an Extraordinary General Meeting;
- and, more generally, perform any transaction authorised now or in future by the law or any market practice that may be accepted by the AMF, it being understood that the company will make a statement informing its shareholders of this.

The maximum number of shares that may be bought back by the Company may not exceed 10% of the share capital on the date of these purchases.

The maximum price for the Company to buy its own shares may not exceed €35.25 per share, and the overall amount assigned to this programme may not be greater than €5,000,000.

The Company commissioned Louis Capital Markets UK LLP to implement a liquidity agreement, from 16 July 2018, in accordance with the Code of Ethics drawn up by the *Association française des marchés financiers* (AMAFI) on 8 March 2011 and approved by the French Financial Markets Authority (AMF) on 21 March 2011.

The Company also entered into a share redemption agreement with Louis Capital Markets UK LLP on 30 October 2018

In accordance with the authorization granted by the General Meeting on 23 April 2018, The Company carried out a share buyback programme, and during the 2018 financial year, bought back 37,205 treasury shares, for an amount totalling €316k, as follows:

	Number of shares	Share value
Shareholding at 31/12/2018	37,205	€316,165
Shares purchased in the 2018 financial year	49,757	€460,104
Shares sold in the 2018 financial year	12,552	€104,742

The treasury shares acquired were deducted from consolidated shareholders' equity. No profit or loss resulting from the purchase, sale or cancellation of the shares affects the income statement.

2.4.11 STATEMENT OF EMPLOYEE SHAREHOLDINGS IN THE EQUITY CAPITAL ON THE LAST DAY OF THE ELAPSED FINANCIAL YEAR

The Company has set up a company savings plan.

Now that the Company has passed the 50-employee threshold, mandatory employee profit-sharing is calculated on the basis of the profit/loss for the financial year.

3. GROUP CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

3.1 CONSOLIDATED BALANCE SHEET

3.1.1 ASSETS

In thousands of euros	Notes	31/12/2018	31/12/2017
Intangible assets	3.6.5.1	7,387	6,598
Property, plant and equipment	3.6.5.2	6,104	5,262
Other financial assets	3.6.5.3	255	142
Other non-current assets	3.6.5.4	3,510	3,019
Non-current tax assets	3.6.5.5		66
TOTAL NON-CURRENT ASSETS		17,256	15,088
Inventories and work in progress	3.6.5.6	8,349	6,964
Trade and other receivables	3.6.5.7	8,978	8,342
Other current assets	3.6.5.7	1,725	1,639
Current tax assets	3.6.8.1	787	
Cash and cash equivalents	3.6.5.8	16,358	5,671
TOTAL CURRENT ASSETS		36,198	22,616
TOTAL ASSETS		53,453	37,704

3.1.2 LIABILITIES

In thousands of euros	Notes	31/12/2018	31/12/2017
Share capital	3.6.5.9 and 3.5	4,004	534
Share premium	3.5	18,551	2,264
Other comprehensive income	3.5	4	-15
Consolidated reserves, group share	3.5	-2,005	-2,159
Consolidated reserves, group share	3.5	-1,064	2,905
Equity, group share	**3.5**	**19,490**	**3,529**
Consolidated reserves - Minority interests	3.5		
Consolidated income - Minority interests	3.5		
Shareholders' equity - minority interests	**3.5**		
TOTAL EQUITY		19,490	3,529
Borrowings and financial liabilities	3.6.5.10	5,950	7,950
Provisions for pension obligations	3.6.5.12	396	366
Other long-term provisions	3.6.5.13	871	399
Other non-current liabilities	3.6.5.15	16,214	13,216
Non-current tax liabilities	3.6.5.5	57	
TOTAL NON-CURRENT LIABILITIES		23,487	21,931
Borrowings and financial liabilities	3.6.5.10	2,006	3,367
Trade payables and related accounts	3.6.5.15	2,952	3,494
Other current liabilities	3.6.5.15	5,517	5,064
Current tax liabilities	3.6.8.1		320
TOTAL CURRENT LIABILITIES		10,476	12,244
TOTAL LIABILITIES		53,453	37,704

3.2 CONSOLIDATED INCOME STATEMENT

In thousands of euros	Notes	31/12/2018	31/12/2017
REVENUE	3.6.6.1	33,570	30,628
Other operating income		4	4
Cost of consumable materials	3.6.6.2	-13,898	-12,566
Personnel expenses	3.6.6.3	-10,011	-7,776
External charges	3.6.6.4	-6,844	-4,309
Taxes and charges		-429	-398
Allocation to/reversal of depreciation and amortisation	3.6.5.1 and 3.6.5.2	-1,787	-1,632
Allocation to/reversal of provisions and impairments		-1,121	-384
Change in work in progress and finished product inventories		1,016	1,154
Other current operating income and expenses	3.6.6.5	215	286
CURRENT OPERATING INCOME		715	5,007
Other operating income and expenses	3.6.6.6	-418	-150
OPERATING PROFIT	3.6.2.25	297	4,857
Income from cash and cash equivalents		7	9
Cost of gross financial debt		-303	-333
Cost of net financial debt	3.6.2.25 and 3.6.6.7	-295	-324
Other financial income and expenses	3.6.6.7	45	2
Tax expenses	3.6.8.1	-1,111	-1,630
NET INCOME FROM CONTINUING OPERATIONS		-1,064	2,905
Profit or loss from discontinued operations			
Tax expense related to discontinued operations			
Net profit or loss from discontinued operations			
CONSOLIDATED NET INCOME		-1,064	2,905
Group share		-1,064	2,905
Attributable to minority interests			
BASIC EARNINGS PER SHARE	3.6.2.26	-0.1319	8.1621
DILUTED EARNINGS PER SHARE	3.6.2.26	-0.1319	8.1621

3.3 COMPREHENSIVE INCOME

In thousands of euros	31/12/2018	31/12/2017
Profit/loss for the period	-1,064	2,905
Items that may be reclassified subsequently to profit or loss		
Exchange rate differences		
Revaluation of available-for-sale assets		
Tax on items recognised directly in equity		
Items that may not be reclassified subsequently to profit or loss		
Tax on items recognised directly in equity	-6	-1
Actuarial gains or losses	25	-1
Income and expenses recognised directly in equity		
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	18	-2
TOTAL PROFIT OR LOSS FOR THE PERIOD	-1,046	2,904
Group share	-1,046	2904
Attributable to minority interests		

3.4 CONSOLIDATED CASH FLOW TABLE

In thousands of euros	Notes	31/12/2018	31/12/2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit or loss from continuing operations	3.2	-1,064	2,905
Net allocation to amortisation, depreciation and provisions	3.6.5.1-2-3-7-12-13	2,323	1,866
Grant reversals	3.6.6.5	-245	-240
Share of prepaid income recognised in profit and loss	3.6.5.15	-1,633	-1,361
Gains or losses on disposals	3.6.7.1	75	108
Exchange rate differences on reciprocities		14	
Cash flow after cost of net financial debt and tax		-530	3,279
Cost of net financial debt	3.6.6.7	295	324
Tax expense (including deferred taxes)	3.6.7.2	883	1404
Cash flow before cost of net financial debt and tax		648	5008
Taxes paid	3.6.7.3	-1,873	-1,409
Change in operating working capital:			
-Other non-current assets	3.6.5.4	-491	-837
- Inventories	3.6.5.6	-1,385	-2,218
-Trade receivables	3.6.7.4	-638	-1,104
- Other current assets (excluding loans and guarantees)	3.6.7.5	-91	-110
-Other non-current assets	3.6.7.6	2,999	3,555
-Trade payables	3.6.7.7	-635	533
-Other current liabilities	3.6.7.8	2,332	2,417
TOTAL		2,091	2,236
Net cash flow from operating activities		866	5,835
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of fixed assets	3.6.7.9	-3,400	-2,728
Disposals of fixed assets	3.6.6.6	3	73
Change in loans and advances granted	3.6.7.10	-118	55
Impact of CEVAM disposal	3.6.7.11		64
Impact of increase in % interest in INTRATONE	3.6.7.12		-673
Net cash flow from investing activities		-3,515	-3,209
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to shareholders of the parent company	3.5	-2,000	-1,500
Dividends paid to minority interests	3.5		-166
Capital increase in cash	3.5	19,352	
Treasury shares	3.5	-345	
New borrowings	3.6.7.13		1,621
Repayment of borrowings	3.6.5.10	-3,362	-2,166
Cost of net financial debt	3.6.6.7	-295	-324
Net cash flow from financing activities		13,350	-2,535
CHANGE IN CASH AND CASH EQUIVALENTS		10,701	91
Opening cash		5,666	5,575
Cash and cash equivalents at end of period	3.6.5.8	16,353	5,666
Change in exchange rate differences		14	
Change in cash and cash equivalents	4.8	10,701	91

3.5 TABLE OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Additional paid-in capital	Other comprehensive income	Reserves	Profit or loss for the period	Total equity	Minority interests [translator's note: segmentation error to be corrected]	Group equity
At 31 December 2016	534	2,264	-13	-1,515	2,199	3,468	188	3,280
Changes:								
Allocation of prior year retained earnings				2,199	-2,199			
Dividends paid to affiliates of the parent company				-1,500		-1,500		-1,500
Dividends paid to minority shareholders of subsidiaries				-166		-166	-166	
Additional acquisition INTRATONE				-1,178		-1,178	-22	-1,155
Actuarial gains or losses			-1			-1		-1
Consolidated profit or loss					2,905	2,905		2,905
At 31 December 2017	534	2,264	-15	-2,159	2,905	3,529	0	3,529
Changes:								
Allocation of prior year retained earnings				2,905	-2,905			
Dividends paid to affiliates of the parent company				-2,000		-2,000		-2,000
Capital increase charged against other reserves	406			-406				
Capital increase charged against issue premiums	2,264	-2,264						
Dividends paid to minority shareholders of subsidiaries								
Capital increase following IPO	801	20,110				20,910		20,910
Allocation of IPO expenses net of income tax		-1,558				-1,558		-1,558
Treasury shares				-345		-345		-345
Actuarial gains or losses			18			18		18
Consolidated profit or loss					-1,064	-1,064		-1,064
At 31 December 2018	4,004	18,551	4	-2,005	-1,064	14,490	0	19,490

The issue premium of €2,264k stems from a capital increase as result of the repayment of convertible bonds (ORA) in shares. This premium was incorporated in the share capital on 23 April 2018.

The capital increase of 13 June 2018 related to the company's initial public offering generated a new issue premium of €20,110k, against which were charged the IPO expenses net of corporation tax for €1,558k.

3.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The information below constitutes the notes to the IFRS financial statements and forms an integral part of the financial statements submitted for the financial years ended on 31 December 2018 and 31 December 2017. Each of these financial years was twelve months long and covered the period from 1 January to 31 December.

In all financial statements and notes, amounts are shown in thousands of euro (€k), unless otherwise indicated, and differences of ± €1,000 are due to rounding.

The consolidated financial statements of the Cogelec Group were validated by the Board of Directors at its meeting of 18 April 2019 and will be voted on by the General Meeting of Shareholders of 24 June 2019.

3.6.1 PRESENTATION OF THE GROUP AND SIGNIFICANT EVENTS

3.6.1.1 GENERAL INFORMATION

The Company is a limited liability company (French SA) with a Board of Directors. IFRS financial statements comprise the parent company, COGELEC, and its subsidiaries.

Registered office: 370 rue Maunit, Mortagne-sur-Sèvre (85290), France.
Listed in the Trade and Companies Register as number: 433 034 782 (La Roche sur Yon).

COGELEC is a French manufacturer of intercom systems and access control solutions for residential apartment buildings and single-family dwellings. The company's organisation enables it to provide customers with the best global offering, and develop new products by investing in research and development.

COGELEC and its subsidiaries are hereinafter referred to as the “Company” or the “Group”.

3.6.1.2 INITIAL PUBLIC OFFERING ON THE EURONEXT PARIS MARKET

During the 1st half of 2018, the Company's shares were admitted to trading on the Euronext regulated market in Paris. The success of this initial public offer enabled the Company to raise €20.9m in June 2018.

3.6.1.3 INTERNATIONAL DEVELOPMENT

The Group is currently in an international growth phase. After creating its subsidiary INTRATONE GMBH in Germany at the end of December 2017, the Company created a subsidiary, INTRATONE UK, in the United Kingdom in February 2018 and another subsidiary, INTRATONE BV, in the Netherlands at the end of October 2018. These companies were created to facilitate the marketing of INTRATONE products globally. They are currently in the launch phase and generated €3.1m in losses in fiscal year 2018, broken down as follows:

- INTRATONE GMBH : -€1.9m;
- INTRATONE UK : -€1.0m;
- INTRATONE BV : -€0.2m.

3.6.2 ACCOUNTING PRINCIPLES, EVALUATION METHODS AND CONSOLIDATION PROCEDURES

3.6.2.1 DECLARATION OF COMPLIANCE

The Company has prepared its financial statements, which were adopted by the Board of Directors on 18 April 2019, in accordance with the standards and interpretations published by the International Accounting Standards Board (IASB), as adopted by the European Union at the reporting date. These financial statements are presented with comparative information.

These standards, available on the website of the European Commission, include international accounting standards (IAS and IFRS) (http://ec.europa.eu/internal_market/accounting/ias_fr.html), and the interpretations of the Standing Interpretations Committee (SIC) and the International Financial Interpretations Committee (IFRIC).

General principles, accounting methods and options adopted by the Group are described below.

3.6.2.2 BASIS FOR THE PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

The Group's IFRS financial statements are prepared according to the historical cost principle, with the exception of certain categories of assets and liabilities in accordance with the provisions laid down by IFRS standards: personnel benefits valued according to the projected credit unit method, borrowing and financial debts valued according to the amortised cost method (see note 3.6.9.3).

3.6.2.3 GOING CONCERN BASIS

The Board of Directors chose the going concern basis given that the cash and cash equivalents available at 31 December 2018 are expected to cover its projected cash flow requirements for the next 12 months.

3.6.2.4 ACCOUNTING METHODS

The accounting principles applied are identical to those used for the preparation of the IFRS annual financial statements for the year ended 31 December 2017. The exceptions are the following new standards, amendments and interpretations adopted by the European Union, which the Company is required to apply with effect from 1 January 2018. However, the Group applied the IFRS 15 standard in advance, from 1 January 2017.

Concerning the application of IFRS 16 (applicable from 1 January 2019), studies are in progress to identify the impact of this standard relative to leases. IFRS 16 changes the way in which leases are recognised by lessees. It will replace the standard and the IAS 17, IFRIC 4, SIC 15 and SIC 27 interpretations. While according to the provisions of IAS 17, the accounting treatment of leases is determined according to the assessment of the transfer of risks and benefits related to the ownership of the asset, the IFRS 16 standard imposes a unique mode of recognition of contracts by the lessees affecting the balance sheet similarly to finance leases.

The distinction between operating leases and finance leases is maintained in the accounts of lessors.

<u>Standards, amendments and interpretations applicable for financial years beginning on or after 1 January 2018:</u>

The accounting principles applied are identical to those used for the preparation of the IFRS annual consolidated financial statements for the year ended 31 December 2017, except for IFRS 9 – Financial Instruments, applicable for annual periods beginning on or after 1 January 2018. The IFRS 15 standard was adopted early.

The list of changes that occurred is as follows:

- IFRS 9 "Financial instruments";
- IFRS 15 "Revenue from contracts with customers";
- annual improvements to IFRS, 2014-2016 cycle;
- amendments to IFRS 2 "Share-based payments" – Clarifications on the classification and valuation of share-based payments;
- IFRIC 22 "Foreign currency transactions and advance consideration";
- Amendments to IAS 40 "Investment property" – Transfer of investment property.

The IFRS 9 standard concerns the classification, measurement and derecognition of financial assets and financial liabilities. It introduces new rules for hedge accounting and a new impairment model for financial assets.

Classification of financial assets: IFRS 9 defines a new approach to the classification and measurement of financial assets. It identifies three categories of financial assets: those measured at amortised cost, those measured at fair value through other comprehensive income, and those measured at fair value through profit or loss. The new classification provisions have no significant impact on how the Group accounts for its trade receivables, loans and equity instruments.

Impairment of financial assets: the new standard introduces a forward-looking model based on expected losses which should apply to financial assets from their initial recognition, whereas IAS 39 required a provision to be recognised only if a loss had been incurred (if the recoverable amount was less than the carrying amount). Given the very low level of historical payment defaults, the impact of this provision is not deemed significant.

Hedge accounting: the provisions on hedge accounting have no significant impact on the Group’s accounting policies.

<u>New standards, interpretations and amendments to IFRS standards published and applied in advance by the Group from 1 January 2018:</u>

None

<u>New standards, interpretations and amendments to IFRS standards published but not yet applicable or not applied in advance by the Group:</u>

- IFRS 16 "Leases";
- amendments to IAS 28 "Investments in associates and joint ventures" and IFRS 10 "Consolidated financial statements" – Sales or contribution of assets made between the group and entities accounted for by the equity method;
- annual improvements to IFRS, 2015-2017 cycle;
- IFRIC 23 "Uncertainty over income tax treatments";
- amendments to IAS 19 "Plan Amendment, Curtailment or Settlement";
- revision of the conceptual framework for financial information, amendment of the references of the conceptual framework in IFRS standards.

The Group is currently assessing the impact of the initial application of these new texts. It does not anticipate any significant impact on its financial statements at this stage, with the exception of IFRS 16.

3.6.2.5 ERROR CORRECTION

For the 2017 financial year, consumed purchases were underestimated for an amount of €1,608k. However, personnel expenses and external expenses were overestimated for the respective amounts of €1,046k and €562k.

The 2017 gross margin was therefore overestimated by €1,608k. Restated for this correction, the 2017 gross margin was therefore €19,220k and the gross margin rate was 62.8%.

This correction has no impact on any other accounting aggregate pursuant to 2017, and notably on operating income, EBITDA and net income.

The 2017 comparative data is restated for the impact related to this error correction. The tables below present these different impacts.

Aggregate income statement

	31/12/2017		
	Before correction	After correction	Impact
REVENUE	30,628	30,628	0
Other operating income	4	4	0
Cost of consumable materials	-10,958	-12,566	1,608
Personnel expenses	-8,821	-7,776	1,046
External charges	-4,870	-4,309	562
Taxes and charges	-398	-398	0
Allocation to/reversal of depreciation and amortisation	-1,632	-1,632	0
Allocation to/reversal of provisions and impairments	-384	-384	0
Change in work in progress and finished product inventories	1,154	1,154	0
Other current operating income and expenses	286	286	0
CURRENT OPERATING INCOME	5,007	5,007	0
OPERATING PROFIT	4,857	4,857	0
NET INCOME FROM CONTINUING OPERATIONS	2,905	2,905	0
CONSOLIDATED NET INCOME	2,905	2,905	0
BASIC EARNINGS PER SHARE	8.1621	8.1621	0
DILUTED EARNINGS PER SHARE	8.1621	8.1621	0

Gross margin

	31/12/2017		
	Before correction	After correction	Impact
REVENUE	30,628	30,628	0
Other operating income	4	4	0
Cost of consumable materials	-10,958	-12,566	1,608
Change in work in progress and finished product inventories	1,154	1,154	0
GROSS MARGIN	20,827	19,220	1,608
As % of revenue	68%	62.8%	5.25

3.6.2.6 CONSOLIDATION METHODS

The Group applies IFRS 10, "Consolidated financial statements", IFRS 11, "Joint arrangements" and IFRS 12, "Disclosures of interests in other entities".

IFRS 10, which deals with the recognition of consolidated financial statements, presents a single consolidation model which identifies control as the criterion to be met in order for any entity to be consolidated.

An investor controls an investee if it has power over said investee, if the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are entities controlled by the Company.

3.6.2.7 USE OF JUDGEMENTS AND ESTIMATES AFFECTING ASSETS AND LIABILITIES

The Company's management regularly reviews its estimates and judgements on the basis of past experience and various other factors deemed reasonable in the circumstances. These form the basis for its estimates of the carrying amount of income and expenses and assets and liabilities. These estimates affect income and expense amounts and asset and liability values. It is possible that the actual amounts may subsequently prove to be different from the estimates used.

The main items requiring estimates on the reporting date based on assumptions about future changes and for which there is a significant risk of material change in the value as recognised on the balance sheet at the reporting date, are:

- the valuation of development-related intangible assets (notes 3.6.2.28 and 3.6.5.1);
- the valuation of inventories (notes 3.6.2.12 and 3.6.5.6);
- the valuation of provisions for retirement commitments (notes 3.6.2.16 and 3.6.5.13);
- provisions for charges (notes 3.6.2.17 and 3.6.5.14);
- research tax credit (notes3.6.2.20).

3.6.2.8 BREAKDOWN OF CURRENT/NON-CURRENT ASSETS AND LIABILITIES

In accordance with IAS 1, the Company presents its assets and liabilities by distinguishing between current and non-current items:

- assets and liabilities constituting the working capital requirement falling within the normal operating cycle of the activity in question are classed as current;
- fixed assets are classed as non-current, apart from financial assets which are broken down into current and non-current;
- provisions recognised under liabilities falling within the normal operating cycle of the activity in question, and the portion due in less than one year, are classed as current assets. Provisions not fulfilling these criteria are classed as non-current liabilities;
- financial debts falling due within 12 months of the financial year-end are classed as current. Conversely, the portion of financial debt maturing in more than 12 months is classed as a non-current liability.
- Deferred taxes are shown, in full, in non-current assets and liabilities.

3.6.2.9 INTANGIBLE ASSETS

Intangible assets are primarily development costs and assets in progress. Assets in progress comprise expenses for projects that are not yet capitalised.

Development costs are primarily costs incurred to develop the products that result in one or several patents.

Development costs are fixed insofar as the six criteria defined by IAS 38 are respected:

- technical and commercial feasibility,
- intention to complete it and use it or sell it,
- ability to use it or sell it,
- probable economic benefits,
- availability of resources to complete the development and to use it or sell it,
- ability to reliably measure different project-related expenses.

Capitalised development costs are direct project-related costs, measured by monitoring costs per project. The portion of the research tax credit relating to capitalised projects is restated under prepaid income.

Application of IAS 23, Borrowing costs, did not result in interest being included in development costs.

The Company analyses compliance with capitalisation criteria on a regular basis. These costs continue to be recognised as assets, as long as the company retains most of the project-related benefits and risks, particularly when the Company retains intellectual ownership and has granted a temporary right to use and/or exploit the results of development phases.

Ongoing development projects are tested for impairment using the procedures defined in note 3.6.2.28.

Capitalised expenses are amortised on a straight-line basis over the period of use expected by the company, over a five-year period.

Intangible assets also include the cost of winning contracts. In accordance with IFRS 15, these contract-related costs, including services provided over several financial years, are capitalised and amortised over the term of each contract.

Lastly, intangible assets include software and licences, amortised over 1 to 3 years.

3.6.2.10 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment largely correspond to land and buildings, general fixtures and fittings, equipment and tooling, transport, office and IT equipment, and furniture. In accordance with IAS 16, they are measured at cost and amortised over their estimated useful life upon acquisition and reviewed on an annual basis.

Depreciation is calculated according to the straight-line method over the following estimated usage periods:

Items	Period of depreciation
Buildings: major work	35 years
Cladding	20 years
General installations	15 years
Fittings	10 years

General fixtures and fittings	2 to 10 years
Equipment and tools	1 to 10 years
Transport equipment	2 to 5 years
Office equipment	3 to 5 years
IT equipment	3 to 5 years
Furniture	3 to 10 years

Where they exist, amortisation schedules and residual values are reviewed on an annual basis.

3.6.2.11 MONITORING THE VALUE OF NON-CURRENT ASSETS (EXCLUDING FINANCIAL ASSETS)

The value of non-current assets (intangible and tangible assets) is reviewed on a yearly basis, or more frequently if internal, or external, events or circumstances, indicate that an impairment is likely to have occurred.

The recoverable amount of an asset is the fair value or the value in use, whichever is highest.

The value in use of assets to which independent cash flows can be attached is determined according to the following principles:

- cash flows are taken from five-year profit and loss forecasts prepared by the group's management, combined with the calculation of a terminal value (discounting future cash flows to infinity).
- the current discounting rate is determined on the basis of the weighted average cost of capital.

To determine the value in present use, intangible and tangible assets, to which independent cash flows cannot be directly linked, are grouped together in the Cash Generating Unit (CGU) to which they belong. The recoverable value of the cash generating unit is determined by the discounted cash flow method according to the same principles as those detailed above.

The recoverable value of said Cash Generating Unit, calculated in accordance with the above, is then compared with the contributory value of its fixed assets to the consolidated balance sheet.

Impairments are recognised when the book value of an asset would appear to be considerably higher than its recoverable value.

3.6.2.12 INVENTORIES

Inventories are recognised at cost or at their net realisable value, if lower. The net realisable value is the estimated selling price under normal trading conditions, less selling costs.

The cost of inventories includes the purchase price, customs duties and other taxes, but not taxes that can subsequently be recovered by the entity from the tax authorities, as well as transport, handling and other costs directly attributable to the production cost of raw materials, merchandise, works in progress and finished products. Trade discounts and rebates, cash discounts and other similar items are deducted to determine acquisition costs.

The products manufactured are valued at their production cost which includes all materials, direct and indirect production costs and amortisation of assets used in the production. The cost of under-capacity is not included in the cost of inventories. Interest is not included in the measurement of inventories. Inventories are valued using the first in, first out, method.

Inventory write downs amounting to the difference between the gross value determined using the methods shown above and the daily rate or the realisable value less proportional selling costs, are recognised when said gross value is higher than the other term listed.

3.6.2.13 TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

Trade and other receivables are valued at their nominal value, less impairment, where applicable.

The impairment is recognised in profit or loss. Impairment exists when there is an objective indicator of the Group's inability to recover all, or part, of its receivable.

The Company's Management regularly reviews and measures the recoverable value of trade receivables. Where the recoverable value is less than the net book value, an impairment or a loss on a bad debt is recognised in profit or loss. This credit risk assessment is based on past debt recovery experience and payment defaults, the length of time by which receivable is overdue, as well as the payment terms granted.

Liabilities include liabilities linked to equipment leasing contracts to customers.

All receivables due in more than one year are shown in other non-current assets.

3.6.2.14 FINANCIAL ASSETS AND LIABILITIES

Financial assets

Financial assets include loans, bank shares, guarantee deposits, equity securities.

The Group applies IAS 32, IFRS 9 and IFRS 7. The IFRS 9 standard currently defines two categories of financial assets:

- financial assets at fair value for which variations are recognised either in the income statement if they are held in the short term, or in equity if they correspond to a long-term investment;
- financial assets recognised at amortised cost, such as loans and receivables.

In any case, the Company values financial assets at cost, less any impairment.

Financial liabilities

All interest-bearing loans and liabilities are initially recognised at the fair value of the amount received, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are valued at amortised cost, using the effective interest method.

Borrowings are classed as current liabilities, unless that group has an unconditional right to defer settlement of the debt to at least 12 months after the reporting date, in which case, these borrowings are classed as non-current liabilities. The portion of borrowings and financial liabilities due in less than one year is shown in current liabilities.

3.6.2.15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are made up of bank accounts and highly liquid short-term investment accounts (term deposits) easily convertible into a known amount of cash, the value of which is only exposed to minor fluctuation risks.

Statements of cash flow are shown using the indirect method in accordance with IAS 7. Tax expenses are shown as an overall total in operational cash flows. Financial interest paid is recognised in financing flows. Dividends paid are classed as financing flows.

3.6.2.16 EMPLOYEE BENEFITS

Employee benefits are recognised under IAS 19. The Company's obligations in terms of pension, supplementary pension and severance pay commitments are those laid down by legislation applicable in France. Pension and supplementary pension commitments are completely covered by payments to bodies that discharge the employer of any further obligation; the body in question being responsible for paying employees the amounts that they are due. These are, in particular, French state pension schemes.

As the foreign companies have only just been created, there are no employee benefits at this stage.

Post-employment benefits

Severance payments are made to employees as soon as they retire, according to their length of service and salary at retirement age. These benefits are covered by a defined-benefits scheme. As a result, the method used to measure the Company's commitments in terms of pension commitments is the retroactive projected unit credit method.

It represents the probable current value of the rights acquired, measured in consideration of increases in salaries until retirement age and departure and survival probabilities.

The past commitment formula can be broken down into four main terms as follows:

The main assumptions used for this estimate are as follows:

ACTUARIAL ASSUMPTIONS	31/12/2018	31/12/2017
Reference discounting rate	IBOXX corporate AA + 10 years	
Age at retirement	65 years	65 years
Discounting rate	1.57%	1.31%
Mortality table	INSEE 2010-2012	INSEE 2010-2012
Rate of salary revaluation	4% degressive	4% degressive
Turnover rate	2.47%	2.44%

Actuarial gains and losses in other comprehensive income.

Other post-employment benefits

These benefits are primarily based on a defined-contribution scheme (general scheme). Under this scheme, the Company's only obligation is to pay contributions; the charge corresponding to the contributions paid is recognised in net income for the financial year.

Other long-term benefits

The Company has set up a company savings plan. Short-term benefits include the profit-sharing agreement in accordance with the legal formula calculated on the basis of taxable income. Long-service awards are negligible. Where applicable, provisions are made for severance pay. No other long-term benefits are granted within the Group.

3.6.2.17 PROVISIONS AND CONTINGENT LIABILITIES

In accordance with IAS 37, a provision is set up when an obligation to a third party is certain, or likely, to cause an outflow of resources without at least an equivalent inflow. The provision is maintained for as long as the timing and amount of the outflow of resources cannot be accurately determined. The amount of provision is the best possible estimate of the outflow of resources required to discharge the obligation.

A possible liability is based on a potential obligation arising from past events, the existence of which will only be confirmed by the occurrence (or non-occurrence) of one, or more, uncertain future events which are not totally within the control of the undertaking. A possible liability is also a current obligation arising from past events but not recognised because, on the one hand, it is not likely that an outflow of resources embodying economic benefits will be necessary to discharge the obligation and, on the other, the amount of the obligation cannot be measured with sufficient reliability.

In accordance with IAS 37, the Company has had to set up a provision for "After-sales Service". Provision has been made for the cost of the after-sales service based on the length of the product warranty, i.e. 3 years. The rates used for the calculation were set on the basis of the costs observed over the last 3 years and were reported as a percentage of revenue for the year in which the products in respect of which the after-sales service costs were incurred, were sold. The costs incurred include the cost of labour and spare parts.

3.6.2.18 DEFERRED TAX

Deferred taxes are recognised according to the liability method in respect of temporary differences between the tax basis of assets and liabilities and their corresponding accounting basis in the consolidated financial statements.

The carrying amount of the deferred tax assets is reviewed as of each reporting date and is reduced to the extent where it is not likely that a sufficient taxable profit will be available to permit the use of this benefit for all or a portion of these deferred tax assets. Deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes likely that a future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured using the tax rate that has been enacted or substantively enacted at the reporting date, on a permanent basis, and the application of which is expected for the financial year in which the asset will be realised or the liability settled for each tax regulation. The tax rates used are as follows:

	31/12/2018	31/12/2017
France	25.825%	28.924%
Germany	31.225%	NA
Rate United Kingdom	17.000%	NA
Rate Netherlands	19.000%	NA

Taxes relating to items recognised directly in shareholders' equity are recognised in shareholders' equity and not in profit or loss.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available, against which temporary differences can be charged.

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are only offset where they relate to the same tax authority and the same rate.

They are offset in the Group's balance sheet and evidenced by supporting tax documentation (see note 3.6.8.1.).

In the income statement, the corporate income tax credit (Crédit d'Impôt Compétitivité Emploi - CICE) is deducted from staff costs and the corporate value added tax (Cotisation sur la Valeur Ajoutée des Entreprises - CVAE) is included in tax expenses.

3.6.2.19 RECOGNITION OF INCOME

Income from ordinary activities is recognised when the Group fulfils a service obligation by transferring goods or services promised to a client. An asset is transferred when the client takes control of the asset.

Income from Company activities is the fair value of the consideration received, or receivable, for goods and services sold in the usual course of the company's activities. This income is shown before value added tax, returns, discounts and rebates and deductions for intragroup sales.

Maintenance services cover periods of more than 12 months. These services are recognised as they are provided, in a linear fashion, over time, as costs are incurred over this period.

Equipment sales are recognised on the date of delivery. This is deemed to be the date on which the client approves the characteristics of the goods delivered. A receivable is recognised when the goods have been delivered, i.e. when the consideration is unconditional, only the passage of time sufficing to render the consideration payable.

There are three types of contracts:

1. Equipment sales immediately in profit/loss

For these types of contracts, each delivery is considered as a separate service obligation recognised on the delivery date.

The contracts to which it is subject are:

- contracts for the sale of equipment to distributors;
- sales of equipment associated with Prepaid services which are subject to a specific invoice at the time of installation. This equipment comprises the station, the door controller and the data transmission module;
- revenues associated with finance agreements for "packages" (see details in point 3 below).

2. Service contracts.

Service provisions are recognised according to the percentage of completion method, on a straight-line basis, over the contract term, since the costs incurred do not change from one year to the next, in accordance with IFRS 15.

The contracts to which it is subject here are:

- subscription agreements for standard products, for which only the service provisions are material;
- the subscription portion of contracts for prepaid services.

3. Contracts for packages.

The contracts to which it is subject here are subscriptions for Premium services.

Packages cover the lease of equipment (stations, etc.) and the provision of maintenance services. Leased equipment is treated as a finance lease in accordance with IAS 17 (discounted lease payments covering the fair value of the leased goods). Products are recognised on the delivery date for amounts corresponding to the discounted value of future payments.

Service provisions relating to these product offers are recognised in the same way as for service contracts, as described in point 2 (reviews recognised on a straight-line basis over the contract term, consistent with the costs borne).

Revenue is explained in note 3.6.6.1

Contract assets are transferred to trade receivables when entitlement to payment becomes unconditional. Contract liabilities related to advance payments received from Group customers, for which revenue is recognised when maintenance services are provided.

The asset and liability items are explained in notes 3.6.5.4, 3.6.5.7 and 3.6.5.15.

Two types of revenue will be recognised over the next few years:

- service contracts to be invoiced and collected on portfolio contracts (Standard and Premium);
- revenue already invoiced and collected on prepaid service contracts in the portfolio (currently under prepaid income).

Types of contracts	Details	Notes	TOTAL	2019	2020	2021	2022	2023	Beyond
Standard and Premium contracts	Revenue still to be invoiced for service contracts	3.6.2.19	6,369	2,251	1,623	933	337	307	918
Prepaid offer contracts	Deferred income	3.6.9.2	16,355	1,580	1,485	1,465	1,451	1,427	8,946
Total			**22,724**	**3,831**	**3 108**	**2,398**	**1,789**	**1,734**	**9,864**

The following assumptions were made when compiling this table:

- ✓ Premium: 5 and 10 years,
- ✓ Prepaid: 15 years.

The Company incurs costs, in the form of commissions, in order to win contracts. Equipment sales-related commissions are recognised immediately as expenses and service provision-related commissions are classed as intangible assets.

	31/12/2018	31/12/2017
Gross value	559	489
Depreciation and Amortisation	-125	-66
Net values	**434**	**423**

Commission is amortised over a 5 or 10-year period, in line with the terms of the contract to which it relates. These assets are not depreciated.

3.6.2.20 SUBSIDIES

Government grants are subsidies taking the form of transfers of resources to an entity, in exchange for the fact that said entity is compliant, or will be compliant, with certain conditions relating to its operating activities. Under IAS 20, asset-related grants are government subsidies whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets.

Government grants are recognised in profit or loss on a systematic basis for periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Asset-related grants are shown in the balance sheet as deferred income and amortised over the same period as the asset being subsidised.

The company receives a repayable interest-free advance for the financing of R&D project costs for a new product. The difference between the value of the advance, discounted at market rate, and the cash amount received from the public body constitutes a grant, within the meaning of IAS 20. This difference is recognised as a grant over time, in line with repayments, given that the corresponding costs are capitalised. The financial cost of repayable advances, calculated at the market rate, is recognised as a financial expense.

The Company also receives research tax credit and innovation tax credit. These sums are recognised as grants in the results at the same pace as the amortisation of the development expenses for each project.

Grants are recognised as deferred income.

3.6.2.21 LEASES

Under IAS 17, a lease is an agreement under which the lessor transfers to the lessee, for a fixed period, the right to use an asset in exchange for payment or a series of payments. IAS 17 distinguishes between finance leases, which transfer substantially all the risks and rewards incident to ownership of the assets leased, and operating leases.

<u>Lessee</u>

Finance leases are recognised as assets in exchange for a debt at the commencement of the lease at the fair value of the goods leased. Each lease payment is broken down into the financial charge and the amortisation of the balance of the debt so as to produce a constant periodic interest rate on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases are amortised over the useful life of the asset. On 31 December 2018, the Company was bound by finance lease contracts: the property complex, vehicles and forklift trucks. The entry costs and amortisation periods are explained in note 2.3.22

Leases under which a significant part of the risks and rewards inherent to the ownership is retained by the lessor are classed as operating leases. Payments under operating leases (net of any incentives received from the lessor) are recognised as an expense in the income statement on a linear basis over the term of the lease. When an operating lease is terminated before the end of the lease period, exit penalties are recognised as charges for the period when the contract is terminated.

According to IFRS 16, the usage rights and the debt to be recognised in the balance sheet stood at €1,656k for the Group.

<u>Lessor</u>

Assets held under finance leases are shown as receivables amounting to the net investment in the lease.

Financial income is recognised on the basis of a constant periodic rate of return on the lessor's net investment in the finance lease.

For the lessor, the IFRS 16 standard, like IAS 17, distinguishes operating leases from finance leases. The leases developed by the group do not include a financial component. The application of the IFRS 16 standard should not generate any significant impact for the Group, as a lessor.

3.6.2.22 NET FINANCIAL DEBT

Long-term borrowings comprise i) loans taken out with credit institutions and ii) loans recorded as a contra-entry against property used as part of finance leases recognised under assets. These long-term borrowings are recorded under non-current liabilities for the portion exceeding one year, and are measured at amortised cost at the balance sheet date using the effective interest rate method, with amortisation of issuance costs, when these costs are material. All of these borrowings are at fixed rates as at the balance sheet date.

Short-term borrowings include the current portion of long-term debt, as well as bank loans and overdrafts and other short-term bank liabilities.

Net financial debt comprises the borrowings defined below, less cash and cash equivalents.

The cost of net debt includes interest on loans, other financial liabilities, and income on loans and receivables relating to equity interests.

3.6.2.23 METHOD OF CONVERTING OPERATIONS AND TRANSACTIONS INTO FOREIGN CURRENCIES

Conversion of financial statements denominated in foreign currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("Functional currency"). Consolidated financial statements are presented in euros which is the Company's reporting currency.

Conversion of transactions to foreign currencies

According to IAS 21, the monetary elements of entities consolidated in foreign currencies are converted using closing prices. The non-monetary elements are valued at historical cost, using the exchange rate in force on the date at which the transaction was initially recognised. Income and expenditure are converted at the average exchange rate of the financial year reported. The exchange rate differences resulting from this treatment are recognised in net profit/loss.

3.6.2.24 SEGMENT REPORTING

The chief operating decision maker only monitors performance at Group level; application of IFRS 8 resulted in the Company only reporting on a single operating segment.

3.6.2.25 SHAREHOLDERS' EQUITY

Shareholders' equity comprises parent company share capital, issue premium, reserves and profit or loss. Reserves and consolidated income are the Company's share of accumulated consolidated income, less dividends.

The treasury shares held are charged to deductions from consolidated shareholders' equity; no expense or income resulting from the cancellation affects the income statement.

Minority interests are defined as the portion of a subsidiary's profit or loss or net assets not directly owned by the Company, i.e. indirectly owned via another subsidiary controlled by the Company.

3.6.2.26 PRESENTATION OF THE INCOME STATEMENT

The Group presents its income statement using the by nature method.

Procurement and subcontracting costs

Procurement and subcontracting costs mainly comprise:

- purchases of components, and other products required to produce the goods sold;
- third party services for the manufacture, assembly and testing of the goods sold;
- customs duties, transport costs and other taxes directly attributable to such purchases.

Gross margin

The gross margin is an indicator defined by the Company as revenue plus other operating income, less the cost of goods sold, corrected for inventoried production.

In this regard, the gross margin ratio at 31/12/2017 was corrected for capitalised production for an amount of €1,608k. In consideration, this amount led to a reduction of staff costs items of €1,046k and of external expense items of €562k. This analysis has an impact on the gross margin, which goes from 68.0%, according to the initial calculation adopted, to 62.8%. The indicator is presented in note 3.6.8.5.

EBITDA

EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortisation) is an indicator defined by the Company as operating income before amortisation and depreciation and impairment, net of reversals. The indicator is presented in note 3.6.8.5.

Operating income

Net operating income includes all income and expenses directly relating to the Group's activities, whether recurring income and expenses (recurring operating income) or resulting from extraordinary decisions or one-off transactions (non-recurring operating income). The indicator is presented in note 3.2.

Cost of net financial debt

All income and expense arising from the net financial debt for the period (see note 3.6.6.7), represents the cost of the Company's overall financing, excluding the cost of equity.

3.6.2.27 METHODS FOR CALCULATING NET EARNINGS PER SHARE

Net earnings per share are calculated by dividing the net income available to shareholders by the weighted average number of shares outstanding over the course of the financial year.

Diluted earnings per share are calculated by dividing the net income available to shareholders by the weighted average number of ordinary shares outstanding over the course of the financial year, adjusted for the impact of the conversion of dilutive instruments into ordinary shares. The Company does not have any dilutive instruments.

During the 2018 financial year, the weighted average number of ordinary shares changed as follows:

	Number of ordinary shares	Term	Weighted average number of ordinary shares
On 01/01/2018	7,118,440	163	3,178,920
On 13/06/2018	8,898,048	202	4,924,399
	Total	365	8,103,319
		Treasury shares	- 37,205
			8,066,114

3.6.2.28 ASSET IMPAIRMENT

Impairment of non-financial assets

Impairment tests are carried out on finite-life tangible and intangible fixed assets as soon as an impairment appears. These tests consist of comparing the assets' net book value with their recoverable value which is their market value less disposal costs or their value in use estimated according to the discounted cash flow (DCF) method, whichever is highest.

Cash flows are discounted over a maximum of 5 years and the discounting rate is the weighted average cost of capital of the entity in question.

The weighted average cost of capital used for 2018 and 2017 was estimated at 11.5%.

Intangible fixed assets which are not yet ready to be brought into service are subject to impairment testing at least once a year and any time that there is an indication that the asset may have depreciated.

For intangible assets for which the period of use is determined, impairment tests are carried out at least once a year on a set date and between two dates if there is an indication of impairment.

Impairment tests, carried out in accordance with the methodology described above, showed that no impairment was necessary. The sensitivity analysis of key assumptions (growth rate, EBITDA, discounting rate) involved in the determination of the value in use showed that a variation of +/-10% would have no impact on the findings of the impairment tests carried out (no impairment would need to be recorded).

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is an objective indicator of the impairment of a financial asset or a group of financial assets.

3.6.3 INFORMATION RELATIVE TO THE SCOPE OF CONSOLIDATION IN 2018

3.6.3.1 CONSOLIDATING COMPANY

COGELEC	85290 Mortagne-sur-Sèvre

3.6.3.2 CONSOLIDATED COMPANIES

Entities	Registered office	Methods of consolidation	% control	% interest
INTRATONE GMBH	Düsseldorf, Germany	FC	100%	100%
INTRATONE UK	London, United Kingdom	FC	100%	100%
INTRATONE BV	Amsterdam, Netherlands	FC	100%	100%

3.6.3.3 CHANGE IN SCOPE

On 12 February 2018, COGELEC subscribed to 100% of the capital of INTRATONE UK LTD, a company incorporated in England, for £100.

On 29 October 2018, COGELEC subscribed to 100% of the capital of INTRATONE BV, a company incorporated in the Netherlands, for €10k.

3.6.4 EXPOSURE TO FINANCIAL RISKS

The Company may be exposed to different kinds of financial risk, market risk, credit risk and liquidity risk. Where applicable, the Company takes simple measures, commensurate with its size, to minimise the potential unfavourable effects of such risks on financial performance. The Company's policy is not to subscribe for financial instruments for speculation purposes.

3.6.4.1 INTEREST RATE RISK

As at 31 December 2018, the Company's borrowings were not subject to risk of volatility of interest rates, given that such borrowings are at fixed rates.

3.6.4.2 LIQUIDITY RISK

The Group's cash and cash equivalents amounted to €16,353k at 31 December 2018.

Available cash is mainly held in bank accounts and highly liquid short-term investment accounts (term deposits) and easily convertible at a maturity of less than 3 months into a known amount of cash, the value of which is only exposed to minor fluctuation risks.

The Company is not exposed to liquidity risk resulting from the application of any bank loan early repayment clauses (covenants).

The Company completed an in-depth assessment of its liquidity risk, and believes it is able to meet its future maturities over the next 12 months.

A significant liquidity-related risk would be that the subscribers in question could simultaneously request the termination of their pre-paid subscription contracts and demand repayment of amounts received in advance by the Company (PCA). The Company considers the probability of this risk occurring to be low.

3.6.4.3 CURRENCY RISK

The Group's strategy is to favour the euro as its currency when signing contracts.

The Group is exposed to currency risks in relation to its procurement of components in Asia (purchases made in dollars). These purchases in foreign currencies stood at $5.2m in 2018, against $4.7m in 2017.

The group has not, as yet, made any arrangements to safeguard its business against exchange rate fluctuations. For the time being, these are all spot dollar purchases.

3.6.4.4 CREDIT RISK

Credit risk is the risk of financial loss for the Group if a client or a counterparty to a financial instrument fails to fulfil its contractual obligations.

The group is not exposed to any significant credit risk, such risk being primarily concentrated on trade receivables. The net carrying amount of receivables recognised reflects the fair value of net cash flows receivable estimated by Management, in accordance with reporting date information.

With regard to trade receivables, the Company performs regular internal assessments of customer credit risk and the financial position of its customers. Please note that the trade receivables line item includes a large number of invoices of small amounts issued to numerous third parties. This breakdown has the effect of mitigating this risk.

3.6.4.5 MARKET RISK

Financial risks related to markets (risks concerning treasury shares) are monitored by an external service provider. For details of the transactions of the 2018 financial year, see section 1.4.3.1 of this Annual Financial Report.

3.6.5 NOTES TO THE CONSOLIDATED BALANCE SHEET

3.6.5.1 INTANGIBLE ASSETS

The following tables illustrate the changes that occurred during the financial year:

GROSS VALUE OF INTANGIBLE ASSETS (Amounts in €k)	Development expenses	Other intangible assets	Intangible assets in progress	TOTAL
Statement of financial position at 31 December 2017	8,368	1,001	4,235	13,604
Acquisition	301	195	1,390	1,886
Disposals			-69	-69
Transfers between items	987		-992	-6
Statement of financial position at 31 December 2018	9,655	1,195	4,564	15,415

DEPRECIATION AND AMORTISATION	Development expenses	Other intangible assets	Intangible assets in progress	TOTAL
Statement of financial position at 31 December 2017	6,514	492		7,005
Allocations	900	122		1022
Statement of financial position at 31 December 2018	7,413	614		8,027

NET CARRYING AMOUNT	Development expenses	Other intangible assets	Intangible assets in progress	TOTAL
at 31 December 2017	1,854	509	4,235	6,598
at 31 December 2018	2,242	581	4,564	7,387

The useful lives used to amortise identifiable intangible assets are the following:

- software: 1 to 3 years;
- research and development costs: 5 years

At 31 December 2018, in view of the integrated electronic cylinder (Kibolt) not having been placed in service, the capitalised costs are shown under intangible assets in progress for an amount of €3,962k, against €3,187k at 31 December 2017, representing 54% of the item "Intangible assets" and 87% of the item "Intangible assets in progress". The date of entry into service is scheduled for the beginning of May 2019.

Intangible assets in progress, capitalised over the financial year for €987k, mainly correspond to projects for the 4G block and push-button panel which entered into service in 2018.

3.6.5.2 PROPERTY, PLANT AND EQUIPMENT

The table below shows the changes over the two periods presented:

GROSS VALUE OF PROPERTY, PLANT AND EQUIPMENT (Amounts in €k)	Land	Buildings	Technical facilities, equipment and tools	Other property, plant and equipment	Property, plant and equipment in progress	TOTAL
Statement of financial position at 31 December 2017	213	3,449	2,595	934	730	7921
Acquisition			410	600	599	1,610
Disposal / Scrapping				-46		-46
Transfers between items			325		-320	6
Change in scope						
Statement of financial position at 31 December 2018*	213	3,449	3,331	1,489	1,009	9,491

** €3,866k for finance-leased capital assets (of which land and buildings account for €3,662k)*

DEPRECIATION AND AMORTISATION (Amounts in €k)	Land	Buildings	Technical facilities, equipment and tools	Other property, plant and equipment	Property, plant and equipment in progress	TOTAL
Statement of financial position at 31 December 2017		407	1,747	504		2,659
Allocations		175	396	194		765
Reversals				-37		-37
Transfers between items						
Change in scope						
Statement of financial position at 31 December 2018*		582	2,143	662		3,387

** €740k for finance-leased capital assets (of which land and buildings account for €582k)*

NET CARRYING AMOUNT	Land	Buildings	Technical facilities, equipment and tools	Other property, plant and equipment	Property, plant and equipment in progress	TOTAL
at 31 December 2017	213	3,041	848	429	730	5,262
at 31 December 2018*	213	2,867	1,188	827	1,009	6,104

** €3,126k for finance-leased capital assets (of which land and buildings account for €3,079k)*

3.6.5.3 OTHER FINANCIAL ASSETS

In thousands of euros	31/12/2018	31/12/2017
Other investment securities (1)	16	17
Loans (2)	38	
Loan impairment (2)	-38	
Deposits and guarantees (3)	238	126
TOTAL	**255**	**142**

(1) Bank shares
(2) DIAMO loan (in other current assets at 31/12/2017 for €38k, impaired for €28k)
(3) Deposits and guarantees correspond to amounts paid on BPI loans and rental guarantees.

3.6.5.4 OTHER NON-CURRENT ASSETS

In thousands of euros	31/12/2018	31/12/2017
Trade receivables > 1 year	2,809	2,297
Impairment of trade receivables	-390	-163
Prepaid expenses > 1 year	1,091	885
TOTAL	**3,510**	**3,019**

In application of IFRS 9, the Company has opted for the simplification measure applicable to trade receivables without financial components making it possible to maintain provisioning procedures identical to those practised in 2017.

The increase in provisions for trade receivables relates to the receivership or judicial liquidation of several customers during the financial year. The corresponding receivables are fully written down.

3.6.5.4.1 DETAILS OF TRADE RECEIVABLES NET OF IMPAIRMENTS

In thousands of euros	31/12/2018	31/12/2017
Doubtful debt	467	195
Impairment of doubtful debts	-390	-163
Trade receivables on leases	2,342	2,101
TOTAL	**2,419**	**2,134**

Doubtful debts are fully written down.

3.6.5.4.2 Prepaid expenses

Prepaid expenses represent the SIM cards purchased as part of the blanket offering contract (note 3.6.2.19). The purchases are spread over the term of the commitment, i.e. the subscription plan.

3.6.5.5 DEFERRED TAXES

	31/12/2018		31/12/2017	
	Basis	Tax	Basis	Tax
Temporary differences				
Employee profit-sharing			390	113
TVS			25	7
C3S	30	8	23	7
Tax losses	413	107		
Restatements				
Pension commitments	396	102	366	106
Internal margins	92	24	143	41
Business introducer fees	145	37	141	41
Impairment of treasury shares	-57	-15		
Leases	-898	-232	-580	-168
Finance Leases	-341	-88	-278	-80
Derogatory depreciation				
TOTAL	-221	-57	229	66

The tax analysis is found in note 3.5.8.1.

Non-activated losses are as follows:

Company	31/12/2018
IT GMBH	1,857
IT UK	972
IT BV	240
Total	3,069

Pursuant to IAS 12, the tax planning as at 31 December 2018, with the due dates of the deferred tax assets and their recoverability is shown below:

In thousands of euros	Portion due in less than one year	Portion at more than 1 year, and less than 2 years	Portion at more than 2 years, and less than 3 years	Portion at more than 3 years, and less than 4 years	Portion at more than 4 years, and less than 5 years	Portion due in more than 5 years	TOTAL
National organisation of commerce and industry	8						8
Losses	107						107
Finance Leases	23	31	32	35	38	-247	-88
Leases	-57	-59	-59	-43	-13	-1	-232
Internal margins	11	8	4	0	0	0	24
Business introducer fees	6	6	6	5	4	10	37
Pension commitments						102	102
Impairment of treasury shares	-15						-15
TOTAL	83	-14	-18	-2	29	-135	-57

3.6.5.6 INVENTORIES

3.6.5.6.1 CHANGES IN INVENTORIES AND WORK IN PROGRESS

In thousands of euros	31/12/2018	31/12/2017
Raw materials and other supplies	4,080	3,389
Work in progress	3,163	2,242
Intermediate and finished products	1,650	1,556
Goods	0	6
Provisions for impairment	-545	-229
TOTAL	8,349	6,964

3.6.5.6.2 CHANGES IN PROVISIONS FOR IMPAIRMENT

In thousands of euros	31/12/2018	31/12/2017
Value at start of period	229	184
Increase	393	229
Decrease	-77	-185
Value at end of period	545	229

Raw materials and other supplies consist of components.

Work in progress consists of sub-assemblies (e.g. circuit boards, etc.) intended to be incorporated into equipment under contract or sold.

Finished products include equipment (e.g. panels, remote controls, modules, etc.) which are sold separately or bundled together in a contract package (equipment and services).

3.6.5.7 TRADE RECEIVABLES AND OTHER RECEIVABLES

3.6.5.7.1 RECEIVABLES

(Amounts in €k)	31/12/2018	31/12/2017
Gross trade receivables	8,979	8,368
Provisions for impairment	-1	-26
TOTAL	8,978	8,342

3.6.5.7.2 DETAILS OF TRADE RECEIVABLES NET OF IMPAIRMENTS

(Amounts in €k)	31/12/2018	31/12/2017
Ordinary trade receivables	7,997	7,591
Impairment of ordinary trade receivables	-1	-26
Trade receivables under rental agreements	982	777
TOTAL	8,978	8,342

3.6.5.7.3 OTHER CURRENT ASSETS

(Amounts in €k)	31/12/2018	31/12/2017
Loans	2	41
Loan impairment		-28
Deposits and guarantees	37	30
Advances and down payments paid	149	61
Social receivables	56	18
Tax receivables	764	746
Other trade receivables	450	608
Prepaid expenses	268	162
TOTAL	1,725	1,639

Trade receivables and other receivables are valued at their nominal value minus the provisions calculated according to the actual collection potential.

The maturities of receivables are shown in note 3.6.9.2.
Loans break down as follows:

(Amounts in €k)	31/12/2018	31/12/2017
Diamo loan		38
Loans to staff	2	4
TOTAL	2	41

3.6.5.7.4 Trade receivables

Other receivables break down as follows:

(Amounts in €k)	31/12/2018	31/12/2017
Receivables related to the CIR and the CII	413	419
Advance payments to suppliers and outstanding receivables	29	33
Expenses to be charged back to IT GMBH		156
Miscellaneous receivables	7	
TOTAL	450	608

Current assets include amounts obtained each year for the CIR and CII. The 2017 amount was reimbursed by the State, while that of 2018 remains to be collected over 2019.

3.6.5.7.5 Schedule of trade receivables

Trade receivables by due date are broken down as follows:

			Past due		
ASSETS (in €k)	Balance sheet value	Not due	< 90 d	> 90 d < 6 months	> 6 months
Trade receivables (non-current assets)	2,419	2,342			77
Trade receivables (current assets)	8,978	6,760	2,092	54	72
TOTAL	11,397	9,101	2,092	54	150

3.6.5.8 CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS (Amount in €k)	31/12/2018	31/12/2017
Term deposits	8,501	2,669
Cash assets	7,858	3,002
Total cash and cash equivalents at end of period	16,358	5,671
Bank overdrafts	-5	-5
Total net cash and cash equivalents at end of period	16,353	5,666

Cash includes cash assets and term deposits. Term deposits are classified as cash equivalents when they meet the definition of cash provided by IAS 7. Consequently, term deposits in the Company's name that bear negligible risk and have short-term liquidity maturities are classified as cash equivalents. Term deposits may be terminated at any time.

3.6.5.9 CAPITAL

At 31 December 2018, the share capital stood at €4,004,121.60, comprised of 8,898,048 shares with a par value of €0.45, all of the same category and fully paid-up.

In thousands of euros	01/01/2018	31/12/2018
Number of shares	355,922	8,898,048
Of which ordinary shares	355,922	3,550,963
Of which shares with double voting rights		5,347,085
Par value (€)	1.5	0.45
Share capital (€)	533,883	4,004,122

3.6.5.10 FINANCIAL LIABILITIES

3.6.5.10.1 NON-CURRENT AND CURRENT BORROWINGS AND FINANCIAL DEBTS

In thousands of euros	31/12/2018	31/12/2017
Bank borrowings	3,477	4,871
OSEO loans	30	90
OSEO Innovation repayable grant		253
Lease payables	2,442	2,736
Other financial liabilities		
Non-current borrowings and financial liabilities	5,950	7,950
Bank borrowings	1 394	1,472
OSEO loans	60	120
Accrued interest (not yet due)		2
OSEO Innovation repayable grant	253	278
Bank overdrafts	5	5
Lease payables	294	297
Other financial liabilities		1,193
Current loans and financial liabilities	2,006	3,367
TOTAL	7,956	11,317

At 31 December 2017, miscellaneous financial debts represent, for an amount of €1,178k, the HRC current account following the buyout of the INTRATONE TELECOM minority interests, prior to its merger with the Company. This current account was repaid on 16 February 2018.

3.6.5.10.2 VARIATIONS IN CURRENT AND NON-CURRENT BORROWINGS AND FINANCIAL LIABILITIES

Gross value	Bank borrowings	OSEO loans	Accrued interest (not yet due)	OSEO Innovation repayable grant	Bank overdrafts	Lease payables	Other financial liabilities	TOTAL
At 31 December 2017	6,343	210	2	530	5	3,033	1,193	11,317
New								0
Repayments	-1,472	-120	-2	-278		-297	-1,193	-3,362
Changes during the period								0
At 31 December 2018	4,871	90	0	253	5	2,736	0	7,956

3.6.5.10.3 REMAINING TERM OF THE BORROWINGS AT 31 DECEMBER 2018

In thousands of euros	Portion due in less than one year	Portion at more than 1 years, and less than 2 years	Portion at more than 2 years, and less than 3 years	Portion at more than 3 years, and less than 4 years	Portion at more than 4 years, and less than 5 years	Portion due in more than 5 years	TOTAL
Bank borrowings	1 394	1 332	1 068	552	364	161	4,871
OSEO loans	60	30					90
Accrued interest (not yet due)							
OSEO Innovation repayable grant	253						253
Bank overdrafts	5						5
Lease payables	294	306	302	312	321	1,201	2,736
Other financial liabilities							
TOTAL Borrowings and financial liabilities	2,006	1,669	1,371	863	685	1,362	7,956
Trade payables	2,952						2,952
Tax and social liabilities	2,500						2,500
Other liabilities	1,060						1,060
Prepaid income	1,957	1,863	1,803	1,743	1,707	9,098	18,171
Total Other liabilities	8,470	1,863	1,803	1,743	1,707	9,098	24,684
TOTAL	10,476	3,532	3,174	2 606	2,392	10,460	32,640

The repayable OSEO innovation aid (BPI) represents aid for innovation granted to the Company in the context of the development of its new product, the integrated electronic cylinder (project Kibolt). The funding, which totalled €1,300K, was granted in 2010. The final repayment date is 30 September 2019. This repayable advance does not accrue any interest.

In accordance with IFRS 9, the debt was recognised at its fair value, meaning with a discount, so as to bring its interest rate back from zero to that of a debt entered into under normal market conditions. The resulting benefit was treated like a grant according to the provisions of IAS 20, and is recognised under deferred income (other current liabilities and other non-current liabilities depending on maturity).

The balance was €253k at 31 December 2017. Notwithstanding the technical or commercial failure or partial technical or commercial success of the programme, the Company guaranteed to BPI France Financement the payment of a lump sum of €350k, which at 31 December 2018 was entirely paid.

3.6.5.11 ANALYSIS OF NET FINANCIAL DEBT

3.6.5.11.1 CHANGES IN COST OF NET FINANCIAL DEBT

(Amount in €k)	31/12/2018	31/12/2017
Long-term portion of financial debt	5,950	7,950
Short-term portion of financial debt	2,001	3,362
Borrowings at less than one year and creditor banks	5	5
Total gross debts	**7,956**	**11,317**
Cash and cash equivalents	16,358	5,671
TOTAL NET DEBT	**-8,403**	**5,646**

Details regarding gross debt are provided in note 3.6.5.10.

3.6.5.11.2 FINANCING OF WCR

Short-term borrowings and creditor banks finance the Group's Working Capital Requirements (WCR):

	31/12/2018		31/12/2017	
	Jobs	Human	Jobs	Human
Inventories	8,349		6,964	
Net trade receivables	11,397		10,476	
Net trade payables		2,952		3,494
Social and tax receivables and payables		950		2,226
Other receivables & payables		17,274		13,826
WCR		**1,430**		**2,106**
Financing of WCR	**1,430**		**2,106**	
Working capital	-14,923		-3,560	
Cash	16,358		5,671	
Current bank facilities	-5		-5	

In 2017 and 2018, the Company generated working capital amounting to, respectively, €1.4m and €2.1m, primarily due to the weight of prepaid amounts.

In 2018, with a working capital requirement of €15m, cash stood at €16.4m.

3.6.5.12 PROVISIONS FOR RETIREMENT COMMITMENTS

CHANGES IN THE COMMITMENTS

In thousands of euros	Retirement commitments
At 31 December 2017	366
Allocations	55
Reversals	
Change in scope	
Actuarial gains and losses	-25
At 31 December 2018	396

3.6.5.13 OTHER PROVISIONS

In thousands of euros	ASS provision	Tax provision	Provisions for disputes	TOTAL
At 31 December 2017	281	118		399
Allocations	273	11	265	548
Reversals	0	-77		-77
Change in scope	0	0	0	0
At 31 December 2018	554	52	265	871

Following a tax audit, a tax provision was recognised to cover the amount of the adjustment for the 2014 and 2015 financial years. The provision was readjusted at 31 December 2018 according to the payments made for €77k offset by supplementary calls sent by the tax authorities for €11k.

The provision for disputes concerns employment tribunal and commercial disputes.

3.6.5.14 CONTINGENT ASSETS AND LIABILITIES

No contingent assets or liabilities were recognised by the Company.

3.6.5.15 TRADE PAYABLES AND OTHER DEBTS

The breakdown of trade payables and other debts by type is shown below:

3.6.5.15.1 TRADE PAYABLES

TRADE PAYABLES (Amounts in €k)	31/12/2018	31/12/2017
Trade payables	2,727	3,363
Fixed asset liabilities	226	131
Total trade payables and related accounts	**2,952**	**3,494**

3.6.5.15.2 OTHER NON-CURRENT LIABILITIES

(Amounts in €k)	31/12/2018	31/12/2017
Tax and social security liabilities		
Advances and prepayments received		
Other liabilities		
Prepaid income (1)	16,214	13,216
TOTAL	**16,214**	**13,216**
(1) of which		
Liabilities on prepaid contracts	14,774	11,811
CIR and CII	1,378	1,292
BPI – subsidy on interest-free advance		47
Investment grants	62	65
	16,214	13,216

For the settlement of prepaid income, see note 3.6.9.2.

3.6.5.15.3 OTHER CURRENT LIABILITIES

(Amounts in €k)	31/12/2018	31/12/2017
Tax and social security liabilities	2,500	2,737
Advances and prepayments received		
Other liabilities	1,060	823
Prepaid income	1,957	1,504
TOTAL	**5,517**	**5,064**
Of which liabilities on contracts for prepaid amounts	1,580	1,261
Of which reversal of prepaid contract liabilities	1 633	1,361
Of which new prepaid contract liabilities	1,953	1,530

3.6.6 NOTES TO THE INCOME STATEMENT

3.6.6.1 REVENUE

Revenue consists of the sale of products and services.

It is valued at the fair value of the expected returns, net of any potential discounts and rebates and excluding VAT and other taxes.

In thousands of euros	31/12/2018	31/12/2017
Sales of equipment	25,578	23,262
Sales of services	7,992	7,365
TOTAL	33,570	30,628

Revenue is up by 10% at €33,570k compared to €30,628k last year.

This growth was primarily due to the development of the INTRATONE equipment range accounting for €2,400k and subscriptions for €600k.

Equipment sales include both sales to distributors (equipment only) and "sales" of equipment components (stations, etc.) under package contracts.

These sales correspond to service obligations recognised at the specific time of delivery of the equipment in question.

Service provisions include maintenance and secure access management services, including provision of a SIM card, giving access to access control management services (access to web applications developed internally and supplied to building managers, training of said building managers, telephone support, maintenance of such applications etc.).

Such service provisions constitute multi-annual service obligations recognised according to the percentage of completion method, in line with the costs incurred, in accordance with IFRS 15. Given the structure and the pace at which funds are committed to expenses incurred in order to provide the services (expenses unchanged from one year to the next), the percentage of completion method used corresponds to the transaction price prorated over the contract term). Furthermore, since the transaction is not subject to any variation, the degree of uncertainty regarding the total revenue amount and, therefore, the percentage of completion on the closing date, is nil.

In thousands of euros	31/12/2018	31/12/2017
France	31,029	28,171
Export	2,541	2,457
TOTAL	33,570	30,628

The Group's consolidated revenue is primarily achieved in France, even if the Company is increasingly developing its export activities. Export revenue was 8%, unchanged compared with the previous financial year.

3.6.6.2 PURCHASES CONSUMED

In thousands of euros	31/12/2018	31/12/2017
Raw materials purchased	-12,255	-11,527
Change in raw materials inventory	685	1,108
Goods purchases		-77
Change in goods inventory		1
SIM card purchases	-1,955	-1,701
Purchases not held in inventory*	-543	-435
Carriage inwards	-38	-38
Capitalised production	209	103
TOTAL	-13,898	-12,566

*Purchases not held in inventory mainly comprise prototypes and small tooling for the design department as well as fuel. The 2017 column corresponds to data after error correction.

3.6.6.3 PERSONNEL EXPENSES

In thousands of euros	2018	2017
Wages and salaries	-7,879	-5,817
Change in provisions for paid leave	-96	-127
Additional paid-in capital	-19	-15
Bonuses and other benefits	-167	-90
Social security contributions	-3,045	-2,382
Employee profit-sharing		-390
Subsidies and reclassification of employee benefits expense	122	
Capitalised production	1,072	1,046
Total	-10,011	-7,776

Until 30 April 2018, the Chairman of the company was H.R.C. SAS, of which Roger LECLERC is a shareholder at 94.6%, and which concluded a services agreement with the Company. These expenses are not included in staff costs but are included in external expenses. The amounts stipulated by this agreement are indicated in note 6.2.

Since 1 May 2018, the Chairman and Chief Executive Officer of the company has been directly compensated for his directorship by the Company.

Social contributions include the Tax credit for competitiveness and employment (CICE). In France, the Group benefits from the CICE, calculated on the basis of a portion of the compensation paid to the employees of French companies. This tax credit is paid by the French government, regardless of the situation of the entity in respect of corporation taxes: it is reimbursed by the State if the entity does not pay corporation tax.

The 2017 column corresponds to data after error correction.

Group AVERAGE workforce

	2018	2017
Managers	42	35
Supervisors and technicians	1	-
Employees	112	82
Operators	27	21
Apprentices	1	1
TOTAL	182	139
Of which employees made available	10	9

3.6.6.4 EXTERNAL EXPENSES

	31/12/2018	31/12/2017
Remuneration of intermediaries and professional fees	-1,968	-1,460
Advertising expenses	-1,388	-627
Travel and entertainment expenses	-801	-501
Leases	-675	-424
Freight out	-342	-285
Temporary staff	-363	-295
Other items	-1,308	-717
TOTAL	-6,844	-4,309

The professional fees are mainly composed services performed by HRC SAS (until 30 April 2018) and accounting, legal and consulting fees (notably for patent studies).

Advertising expenses are composed of expenses for fairs and exhibitions, media advertisements and marketing/communication.

The leases item is composed of operating leases for offices, vehicles and IT equipment.

The change in other items is explained notably by an increase in contributions of €331k (increase in recruitment fees in accordance with the evolution of the workforce: hiring engineers, designers, sales staff, financial director etc).

The 2017 column corresponds to data after error correction.

3.6.6.5. OTHER CURRENT OPERATING INCOME AND EXPENSES

In thousands of euros	31/12/2018	31/12/2017
Share of investment grant restated in profit or loss (1)	245	240
Other income	35	70
Other expenses	-66	-24
TOTAL	**215**	**286**
(1) of which		
Reversal of CIR and CII grants	165	179
Reversal of subsidised interest-free advance	77	57
Reversal of grant for property finance lease	3	3
	245	**240**

3.6.6.6 DETAILS OF OTHER OPERATING INCOME AND EXPENSES

In thousands of euros	31/12/2018	31/12/2017
Proceeds from sale of fixed assets	3	73
Carrying amount of assets sold	-22	-216
Reversals of exceptional provisions (1)	77	
Other non-current expenses (1)	-86	-7
IPO expenses not charged against the share premium (marketing expenses & prospectus, travel expenses) –	-390	
TOTAL	**-418**	**-150**

(1) Reversal of tax provision corresponding to the VAT tax surcharge, for which the expense is shown in "other non-current expenses" for the same amount.

3.6.6.7 FINANCIAL PROFIT/LOSS

3.6.6.7.1 COST OF NET FINANCIAL DEBT

In thousands of euros	31/12/2018	31/12/2017
Income from term deposits	7	9
Income from cash and cash equivalents	**7**	**9**
Interest on borrowings	-119	-138
Interest on leases	-88	-97
Interest on OSEO Innovation repayable grant	-77	-57
Bank interest	-19	-26
HRC current account interest	0	-16
Interest on commercial debt	0	
Cost of gross financial debt	**-303**	**-333**
Cost of net financial debt	**-295**	**-324**

The cost of the Group's net financial debt includes interest on borrowings and other financial liabilities, and investment income.

3.6.6.7.2 Other financial income and expenses

In thousands of euros	31/12/2018	31/12/2017
Foreign exchange gains	13	3
Income from trade receivables	63	53
Income from other loans	0	1
Other financial income	1	4
Impairment reversals	0	
Other financial income	77	60
Foreign exchange losses	-22	-30
Securities impairment	0	
Loan impairment	-10	-28
Other financial expenses	-32	-58
Cost of net financial debt	45	2

Income from trade receivables corresponds to the financing portion of payments received under rental agreements.

3.6.7 NOTES ON THE CASH FLOW STATEMENT

The following options are used:

- the interest and dividends paid are classified as financing cash flows because they represent the costs incurred for obtaining financial resources or returns on investments;
- the impacts of increases in interest rates and disposals are classified as cash flows used by investing activities.

Changes in cash flows from operations reflect changes in the Group's activities.

The working capital requirement related to the activity generated net working capital over the 2017 and 2018 financial years, notably due to advance invoicing on prepaid amounts, which are recognised as contract liabilities when invoices have not been paid. Changes in liabilities on contracts for prepaid amounts are shown under the following items:

- "Other non-current liabilities" for €2,963k in 2018 and €3,425k in 2017;
- "Other current liabilities" for €1,953k in 2018, and €1,530 in 2017.

The notes below provide details regarding certain elements of the cash flow table:

3.6.7.1 CAPITAL GAIN OR LOSS ON DISPOSALS

In thousands of euros	31/12/2018	31/12/2017
Disposal price	-3	-73
Corrected disposal price	-3	-73
Net carrying amount	22	216
The net carrying amount of capital assets in progress settled as external expenses	56	-35
Corrected net carrying amount	79	181
Capital gain or loss on disposal	75	108

3.6.7.2 TAX EXPENSE

Corporate income tax breaks down as follows:

In thousands of euros	31/12/2018	31/12/2017
Tax payable	730	1,176
Deferred taxes	146	190
Deferred taxes	7	39
TAX EXPENSE (INCLUDING DEFERRED TAX)	883	1,404

3.6.7.3 TAX PAID

In thousands of euros	31/12/2018	31/12/2017
Tax owed at the beginning of the period	-320	-553
Tax owed expense	-730	-1,176
Tax owed at end of period	-787	320
Cancellation of corporation tax savings generated by IPO expenses offset against shareholders' equity	-36	
TAXES PAID	-1,873	-1,409

3.6.7.4 CHANGE IN TRADE RECEIVABLES IN WORKING CAPITAL REQUIREMENT

In thousands of euros	31/12/2018	31/12/2017
Change in trade receivables	-636	-1,104
Impact of exchange rate differences	-2	
TOTAL	-638	-1,104

3.6.7.5 CHANGE IN OTHER CURRENT ASSETS IN WCR

In thousands of euros	31/12/2018	31/12/2017
Change in other current assets (excluding loans and guarantees)	-91	-110
Impact of foreign exchange differences	-1	
TOTAL	-91	-110

3.6.7.6 CHANGE IN OTHER NON-CURRENT LIABILITIES IN WCR

In thousands of euros	31/12/2018	31/12/2017
Change in other non-current liabilities	2,998	3,555
Impact of exchange rate differences	1	
TOTAL	2,999	3,555

3.6.7.7 CHANGE IN TRADE PAYABLES

In thousands of euros	31/12/2018	31/12/2017
Change in trade payables	-636	533
Impact of exchange rate differences	9	
- impact of exchange rate differences on reciprocities	-8	
TOTAL	-635	533

3.6.7.8 OTHER CURRENT ASSETS

In thousands of euros	31/12/2018	31/12/2017
Grant reversals	245	240
Share of prepaid income recognised in profit and loss	1,633	1,361
Changes in other current liabilities	454	816
Other current liabilities	**2,332**	**2,417**

3.6.7.9 ACQUISITIONS OF FIXED ASSETS

In thousands of euros	31/12/2018	31/12/2017
Acquisitions of fixed assets	-3,495	-2,625
- New finance leases		27
Changes in liabilities on assets	95	-803
Changes in liabilities on assets related to the buyout of INTRATONE minority interests		673
Acquisitions of fixed assets	**-3,400**	**-2,728**

3.6.7.10 CHANGE IN LOANS AND ADVANCES GRANTED

In thousands of euros	31/12/2018	31/12/2017
Other financial assets at beginning of period	142	186
Other financial assets at end of period	-255	-142
Change in loans and advances on non-current assets	-113	44
Impairment adjustments	-38	
Net book value of guarantee deposits and sureties	-1	
Change in loans and advances granted on non-current assets	-151	44
Other current assets at beginning of period (property, financial)	43	147
Other current assets at end of the period (long-term financial assets)	-39	-43
Changes in current assets	5	104
Impairment adjustments	28	-28
Receipt of proceeds from CEVAM vendor loan		-64
Net book value on financial assets	33	12
Change in loans and advances granted on current assets	**-118**	**55**

3.6.7.11 IMPACT OF CEVAM DISPOSAL

Proceeds of CEVAM sale price of €64k in 2017.

3.6.7.12 IMPACT OF % INCREASE IN INTRATONE STAKE

Disbursement for buyback of 10% of INTRATONE minority interests at €673k in 2017.

3.6.7.13 DEBT ISSUES

(Amounts in thousands of euros)	2018	2017
New borrowings		2,826
- New finance leases		-27
- Liability for the 15% buyout of INTRATONE minority interests in 2017		-1,178
Impact of exchange rate differences	7	
Impact of exchange rate differences on reciprocities	-7	
New borrowings		**1,621**

3.6.8 ADDITIONAL INFORMATION

3.6.8.1 TAXES

3.6.8.1.1 BALANCE SHEET ASSETS

(Amounts in thousands of euros)	31/12/2018	31/12/2017
NON-CURRENT ASSETS		
Deferred taxes		66
CURRENT ASSETS		
Net current tax receivable (1)	787	
TOTAL ASSETS	787	66

(1) Tax receivable from the company financial statements, excluding the CIR and CII

3.6.8.1.2 BALANCE SHEET LIABILITIES

(Amounts in thousands of euros)	31/12/2018	31/12/2017
NON-CURRENT LIABILITIES		
Deferred taxes	57	
Current tax liability		
CURRENT LIABILITIES		
Current tax liability*		320
TOTAL ASSETS	57	320

*Tax liability from the company financial statements, excluding the CIR and CII.

3.6.8.1.3 TAX LIABILITY

(Amounts in thousands of euros)	Current		Non-current	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Net current tax receivable	787			
Net tax liability owed		320		

3.6.8.1.4 ANALYSIS OF TAX EXPENSE

In thousands of euros	31/12/2018	31/12/2017
Accounting income before tax	47	4,535
Theoretical tax expense	12	1,312
Impact of permanently non-tax-deductible expenses net of income that is definitively non-taxable	73	66
Impact of tax credits	-99	-110
Impact of non-activated losses for the financial year	789	
Impact of differences in tax rates	166	203
Impact of company value added contribution (CVAE)	169	160
Effective tax expense	1,111	1,630

The Group's tax expense in 2018 was €1,111k against €1,630k in 2017.

IAS 12 recommends the use of the latest tax rate in effect for the calculation of deferred taxes. The tax rate will change over time until 2022. The group adopted the rate of 25% increased by the contribution of 3.3%.

3.6.8.2 RELATED PARTY TRANSACTIONS

The related parties identified at 31 December 2018 and 31 December 2017 were the following:

- SCI La Crume, of which Roger LECLERC is Manager. SCI La Crume re-invoiced to the Company's the rent payments according to the terms of a sublease agreement which ended on 31 March 2017.
- HRC SAS, Chair of the Company until 23 April 2018, of which Roger Leclerc is Chairman and majority shareholder;
- SRC SAS, the Chairman of which is the company HRC SAS, of which Roger Leclerc is the Chairman and majority shareholder.

HRC re-invoices services to COGELEC in the following areas: general policy, investment, sales, marketing, and financial policy, project management and offer creation.

At 31 December 2017, the balance sheet included a liability to HRC SAS. totaling €1,178k as a result of the buyout of the INTRATONE TELECOM minority interests by the Company, which was repaid on 16 February 2018.

COGELEC distributed €2k of dividends to the company S.R.C. over the 2018 financial year and €1,500k over 2017.

The impact of relations with related parties on the various items of the balance sheet and income statement was the following:

LIABILITIES (Amounts in thousands of euros)	31/12/2018	31/12/2017
Borrowings and financial liabilities	3	1,193
Trade payables and related accounts	72	124
Total current liabilities	**75**	**1,317**
TOTAL LIABILITIES	**75**	**1,317**

(Amounts in thousands of euros)	31/12/2018	31/12/2017
External charges	-893	-1,116
Taxes and charges		
OPERATING PROFIT	**-893**	**-1,116**

(Amounts in thousands of euros)	31/12/2018	31/12/2017
Cost of gross financial debt	-3	-16
CONSOLIDATED NET INCOME	**-896**	**-1,132**

3.6.8.3 COMPENSATION OF THE MAIN MANAGERS

The Group has defined and limited the definition of "main managers" to executive directors, namely the Company's main manager.

The Chairman is remunerated by H.R.C. until April 30, 2018, which invoiced services to the Company under a services agreement concluded with COGELEC.

Since 1 May 2018, Roger LECLERC is the Chairman and Chief Executive Officer of the Company.

The compensation paid to the main managers can be broken down in the following manner (in €k):

In thousands of euros	31/12/2018	31/12/2017
Provision of HRC services	893	1096
Wages and salaries	200	
Effective tax expense	**1,093**	**1,096**

The manager does not receive:

- short-term benefits;
- post-employment benefits;
- other long-term benefits;
- end of employment contract payments;
- share-based payments.

3.6.8.4 FEES OF THE STATUTORY AUDITORS AND THE MEMBERS OF THEIR NETWORKS

in thousands of euros	ARC				Deloitte				ALDER SHINE LLP				Total Amount	
	Amount		Distribution		Amount		Distribution		Amount		Distribution			
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Audit														
Statutory audit, certification of individual and consolidated financial statements														
COGELEC	50	13	50%	50%	50	13	50%	50%					100	26
Fully consolidated subsidiaries									7	0	100%		7	0
Services other than the certification of the financial statements														
COGELEC														
Fully consolidated subsidiaries														
Total Audit	50	13	100%	100%	50	13	100%	100%	7		100%		107	26

Deloitte & Associés was appointed co-Statutory Auditor by the General Meeting of Shareholders of 4 January 2018.

3.6.8.5 OPERATIONAL PERFORMANCE INDICATORS

3.6.8.5.1 GROSS MARGIN

In thousands of euros	31/12/2018	31/12/2017
Revenue	33,570	30,628
Other operating income	4	4
Cost of consumable materials	-13,418	-12,566
Change in work in progress and finished product inventories	1,016	1,154
GROSS MARGIN	20,692	19,220
As % of revenue	61.6%	62.8%

Purchases consumed are detailed in point 3.6.6.2. The 2017 column corresponds to data after error correction.

3.6.8.5.2 EBITDA

In thousands of euros	31/12/2018	31/12/2017
Operating income	297	4,857
Allocations to depreciation and amortisation	1,787	1,632
Asset impairments net of reversals	1,121	384
EBITDA (1)	3,205	6,873
As % of revenue	9.5%	22.4%

[1] EBITDA: EBITDA is defined by COGELEC as operating income/loss before depreciation, amortisation and impairment, net of reversals.

3.6.8.6 EVENTS AFTER THE 2018 REPORTING PERIOD

None

3.6.9 RISKS ON FINANCIAL INSTRUMENTS

3.6.9.1 ANALYSIS OF COVENANTS

The Company was not subject to any covenants under the terms of its financing for the 2017, 2018 and 2018 financial years.

3.6.9.2 SCHEDULE OF FINANCIAL ASSETS AND LIABILITIES

2018

ASSETS (in €k)	Balance sheet value	- 1 year	At 2 years	At 3 years	At 4 years	At 5 years	+ 5 years
Other financial assets	**255**						
Long term investments (EPS portions)	16						16
BPI guarantees held	140		15			50	75
Security deposit on property lease	21						21
Security deposit on IT UK premises	55			55			
Security deposit on IT GMBH premises	22					22	
Other non-current assets	**3,510**						
Trade receivables	77						77
Trade receivables under rental agreements	2,342		898	729	453	181	81
Prepaid expenses	1,091		167	167	167	160	430
NON-CURRENT FINANCIAL ASSETS	3,765	0	1,080	952	621	413	700
Inventories and work in progress	**8,349**	8,349					
Trade and other receivables	**8,978**						
Trade receivables	7,996	7,996					
Trade receivables under rental agreements	982	982					
Other current assets	**1,725**						
Loans to staff	2	2					
BPI guarantees held	15	15					
Security deposit on IT GMBH premises	5	5					
Security deposit on IT UK premises	17	17					
Advances and down payments paid	149	149					
Social receivables	56	56					
Tax receivables	764	764					
Other trade receivables	450	450					
Prepaid expenses	268	268					
Cash and cash equivalents	**16,358**	16,358					
CURRENT FINANCIAL ASSETS	35,411	35,411					
TOTAL FINANCIAL ASSETS	39,176	35,411	1,080	952	621	413	700

LIABILITIES (in €k)	Balance sheet value	- 1 year	At 2 years	At 3 years	At 4 years	At 5 years	+ 5 years
Borrowings and financial liabilities	**5,950**						
Bank borrowings	3,477		1,332	1,068	552	364	161
OSEO loans	30		30				
Finance lease payables	2,442		306	302	312	321	1,201
Other non-current liabilities	**16,214**						
Prepaid income on prepaid contracts	14,774		1,485	1,465	1,451	1,427	8,946
CIR and CII	1,378		375	335	288	277	103
OSEO – investment grants	62		11	11	11	11	19
NON-CURRENT FINANCIAL LIABILITIES	22,164		3,539	3,181	2,613	2,399	10,431
Borrowings and financial liabilities	**2,006**						
Bank borrowings	1,394	1,394					
OSEO loans	60	60					
OSEO Innovation repayable grant	253	253					
Bank overdrafts	5	5					
Lease payables	294	294					
Trade payables	**2,952**	2,952					
Other non-current liabilities	**5,517**						
Tax and social security liabilities	2,500	2,500					
Other liabilities	1,060	1,060					
Prepaid income	1,957	1,957					
CURRENT FINANCIAL LIABILITIES	10,476	10,476					
TOTAL FINANCIAL LIABILITIES	32,640	10,476	3,539	3,181	2,613	2,399	10,431

2017

ASSETS (in €k)	Balance sheet value	- 1 year	At 2 years	At 3 years	At 4 years	At 5 years	+ 5 years
Other financial assets	**142**						
Long term investments (EPS portions)	17						
BPI guarantees held	126						
Other non-current assets	**3,019**						
Trade receivables	33						
Trade receivables under rental agreements	2,101		719	630	456	175	121
Prepaid expenses	885		127	127	127	127	378
NON-CURRENT FINANCIAL ASSETS	3,161	0	846	757	583	302	674
Inventories and work in progress	**6,964**	6,964					
Trade and other receivables	**8,342**						
Trade receivables	7,565	7,565					
Trade receivables under rental agreements	777	777					
Other current assets	**1,639**						
Loans to staff	4	4					
Diamo loan	10	10					
BPI guarantees held	30	30					
Advances and down payments paid	61	61					
Social receivables	18	18					
Tax receivables	746	746					
Other trade receivables	608	608					
Prepaid expenses	162	162					
Cash and cash equivalents	**5,671**	5,671					
CURRENT FINANCIAL ASSETS	22,616	22,616					
TOTAL FINANCIAL ASSETS	25,777	22,616	846	757	583	302	674

LIABILITIES (in €k)	Balance sheet value	- 1 year	At 2 years	At 3 years	At 4 years	At 5 years	+ 5 years
Borrowings and financial liabilities	**7,950**						
Bank borrowings	4,871		1,394	1,332	1,068	552	525
OSEO loans	90		60	30			
OSEO Innovation repayable grant	253		253				
Finance lease payables	2,736		294	306	302	312	1,522
Other non-current liabilities	**13,216**						
Prepaid income on prepaid contracts	11,811		1,136	1,126	1,113	1,104	7,332
CIR and CII	1,292		330	303	252	207	200
BPI – investment grants	47		47				
OSEO – investment grants	65		11	11	11	11	23
NON-CURRENT FINANCIAL LIABILITIES	21,166	0	3,525	3,108	2,747	2,185	9,601
Borrowings and financial liabilities	**3,367**						
Bank borrowings	1,472	1,472					
OSEO loans	120	120					
Accrued interest (not yet due)	2	2					
OSEO Innovation repayable grant	278	278					
Bank overdrafts	5	5					
Lease payables	297	297					
Other financial liabilities	1,193	1,193					
Trade payables	**3,494**	3,494					
Other non-current liabilities	**5,064**						
Tax and social security liabilities	2,737	2,737					
Other liabilities	823	823					
Prepaid income	1,504	1,504					
CURRENT FINANCIAL LIABILITIES	11,924	11,924					
TOTAL FINANCIAL LIABILITIES	33,090	11,924	3,525	3,108	2,747	2,185	9,601

3.6.9.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Group's assets and liabilities are measured in the following manner for each year according to the valuation categories defined by IFRS 9:

In €k	31/12/2018	Value - statement of financial position according to IFRS 9		
Balance sheet headings	Value – Statement of financial position	Fair value through profit or loss	Fair value through equity	Amortised cost
Non-current financial assets	255		255	
Trade and related receivables	11,397			11,397
Other receivables	2,816			2,816
Cash and cash equivalents	16,358	16,358		
Total headings pertaining to an asset item	**30,826**	**16,358**	**255**	**14,213**
Current financial debts	2,006			2,006
Non-current financial debts	5,950			5,950
Trade payables and related accounts	2,952			2,952
Other liabilities	21,731			21,731
Total headings pertaining to a liability item	**32,640**			**32,640**

In €k	31/12/2017	Value - statement of financial position according to IFRS 9		
Balance sheet headings	Value – Statement of financial position	Fair value through profit or loss	Fair value through equity	Amortised cost
Non-current financial assets	142		142	
Trade and related receivables	8,375		8,375	
Other receivables	2,524		2,524	
Cash and cash equivalents	5,671	5,671		
Total headings pertaining to an asset item	**16,712**	**5,671**	**11,041**	
Current financial debts	3,367			3,367
Non-current financial debts	7,950			7,950
Trade payables and related accounts	3,494			3,494
Other liabilities	18,279			18,279
Total headings pertaining to a liability item	**33,090**			**33,090**

3.6.9.4 OFF-BALANCE-SHEET COMMITMENTS

Off-balance-sheet commitments at 31 December 2017

In thousands of euros	TOTAL	2018	2019	2020	2021	2022	2023	2024	Beyond
COMMITMENTS GIVEN									
Collateral	1,131	260	279	280	277	35			
Loan obtained but not yet received	244	244							
Supply commitment (1)	10,400	3,839	2,304	1,660	968	386	335	334	575
Operating leases	463	254	145	58	6	1			
Interest on borrowings	377	119	92	69	47	30	16	4	
Interest on finance lease	470	88	79	71	62	53	43	34	41
TOTAL COMMITMENTS GIVEN	13,085	4,804	2,899	2,137	1,359	505	394	372	616
COMMITMENTS RECEIVED									
Authorised overdrafts	1950	1950							
Diamo debt waiver with recovery clause in the event of return to financial health	50				50				
Loan obtained but not yet received	244	244							
Purchase commitment (1)	10,400	3,839	2,304	1,660	968	386	335	334	575
Operating leases	463	254	145	58	6	1			
Interest on borrowings	377	119	92	69	47	30	16	4	
Interest on finance lease	470	88	79	71	62	53	43	34	41
TOTAL COMMITMENTS RECEIVED	13,954	6,494	2,620	1,857	1,132	470	394	372	616

(1) Commitments under leases

Off-balance-sheet commitments at 31 December 2018

In thousands of euros	TOTAL	2019	2020	2021	2022	2023	Beyond
COMMITMENTS GIVEN							
Collateral	871	279	280	277	35		
Fixed asset orders	132	132					
Supply commitment (1)	6,369	2,251	1,623	933	337	307	918
Operating leases	427	226	144	52	4	1	
Property leases	1,229	227	249	209	157	108	279
Interest on borrowings	258	92	69	47	30	16	4
Interest on finance lease	382	79	71	62	53	43	74
TOTAL COMMITMENTS GIVEN	9,668	3,286	2,435	1,580	616	475	1,275
COMMITMENTS RECEIVED							
Authorised overdrafts	1,700	1,700					
Diamo debt waiver with recovery clause in the event of return to financial health	50						
Fixed asset orders	376	376					
Purchase commitment (1)	6,369	2,251	1,623	933	337	307	918
Operating leases	427	226	144	52	4	1	0
Property leases	1,229	227	249	209	157	108	279
Interest on borrowings	258	92	69	47	30	16	4
Interest on finance lease	382	79	71	62	53	43	74
TOTAL COMMITMENTS RECEIVED	10,791	4,952	2,154	1,303	581	475	1,325

(1) Commitments on leases

The Company had an overdraft balance of €5k at 31 December 2018 and 31 December 2018.

The loans granted by OSEO BDPME for an overall amount of €3.1m at 31 December 2018, as at 31 December 2017, benefit from cash collateral in the amount of €155k.

4. 2018 ANNUAL FINANCIAL STATEMENTS OF THE COMPANY AT 31 DECEMBER 2018

4.1 INCOME STATEMENT

In thousands of euros	31/12/2018	31/12/2017
Operating income		
Sales of goods		102
Production sold (goods)	24,065	22,078
Production sold (services)	9,676	8,110
Net revenue	**33,741**	**30,290**
Of which for export and intra-community delivery	3,153	2,448
Inventoried production	1,039	1,003
Capitalised production	2,697	2,448
Operating subsidies	23	36
Reversals of provisions (&amort), transfer of expenses	262	313
Other income	35	70
Total operating income (I)	37,798	34,160
Operating expenses (2)		
Goods purchases		77
Change in inventory		-1
Purchases of raw materials and other supplies	12,295	11,527
Changes in inventory	-685	-1,108
Other purchases and external expenses (a)	9,495	7,619
Taxes and similar payments	647	623
Wages and salaries	7,288	6,049
Social security contributions	2,882	2,382
Provisions for amortisation & depreciation and impairment		
- On capital assets: provisions for amortisation & depreciation	2,242	2,041
- On capital assets: provisions for impairment		
- On current assets: provisions for impairment	620	394
- For risks and expenses: provisions	548	555
Other expenses	62	24
Total operating expenses (II)	35,395	30,182
OPERATING PROFIT/LOSS (I-II)	2,403	3,978
Share of operating profit/loss		
Profit assigned or loss transferred (III)		
Loss borne or profit transferred (IV)		
Financial income		
From equity investments (3)	3	
From other securities and capitalised asset receivables		1
Other interest and similar income (3)	8	12
Reversals of provisions and impairment and transfers of expenses		
Positive exchange rate differences	1	1
Net income on disposals of investment securities		
Total financial income (V)	11	14
Financial expenses		
Provisions for amortisation & depreciation and impairment.	67	28
Interest and similar expenses (4)	137	179
Negative exchange rate differences		30
Net expenses on the sale of securities		
Total financial expenses (V)	204	237
FINANCIAL PROFIT/LOSS (V-IV)	-193	-222
CURRENT INCOME before tax	2,210	3,756

In Euros	31/12/2018	31/12/2017
Exceptional income		
On management transactions		0
On capital transactions	7	55
Reversals of provisions and impairment and transfer of expenses	77	10
Total exceptional income (VII)	83	65
Exceptional expenses		
On management transactions	82	7
On capital transactions	103	173
Provisions for amortisation & depreciation and impairment		
Total exceptional expenses (VIII)	185	180
EXCEPTIONAL PROFIT/LOSS (VII-VIII)	-101	-115
Employee profit-sharing (IX)	0	390
Income tax (X)	306	757
Total income (I+III+V+VII)	37,892	34,239
Total expenses (II+IV+VI+VIII+IX+X)	36,090	31,745
PROFIT OR LOSS	1,802	2,495
(a) Including:		
- Movable property leases	17	65
- Real estate leases	363	363
(1) Of which income relating to previous financial years		
(2) Of which expenses relating to previous financial years		
(3) Of which income concerning associated entities	3	
(4) Of which interest concerning associated entities		16

4.2 BALANCE SHEET AT 31 DECEMBER 2018

4.2.1 ASSETS

	31 December 2018			31 December 2017
In thousands of euros	Gross value	Amortisation & depreciation Impairment	Net values	Net values
CAPITALISED ASSETS				
Intangible assets				
Start-up expenses				
Research and development expenses	9,655	7,413	2,242	1,854
Concessions, patents, licences, software, rights and related items	622	486	136	86
Goodwill (1)	1,927		1,927	1,927
Other intangible assets	4,564		4,564	4,235
Advances and prepayments on intangible assets				
Property, plant and equipment				
Land				
Buildings				
Technical installations, industrial equipment and tools	8,791	5,088	3,702	3,282
Other property, plant and equipment	1,072	475	597	335
Property, plant and equipment in progress	788		788	664
Advances and prepayments	222		222	66
Long-term financial assets (2)				
Equity investments (equity method)				
Other equity investments	35		35	25
Receivables attached to equity investments	2,197		2,197	10
Other long term investments	16		16	17
Loans	40	38	2	13
Other long-term financial assets	492	57	434	156
TOTAL CAPITALISED ASSETS	30,422	13,558	16,865	12,670
CURRENT ASSETS				
Inventories and work in progress				
Raw materials and other supplies	4,080	249	3,831	3,364
Work in progress (goods and services)	3,163	75	3,088	2,192
Intermediate and finished products	1,523	220	1,302	1,251
Goods				6
Advances and prepayments made on orders	149		149	61
Receivables (3)				
Trade and related receivables	9,596	390	9,206	7,598
Other receivables	1,694		6,694	1,052
Capital subscribed and called, not paid				
Miscellaneous				
Investment securities	8,501		8,501	2,669
Cash and cash equivalents	7,630		7,630	2,967
Prepaid expenses (3)	1,938		1,938	1,657
TOTAL CURRENT ASSETS	38,274	935	37,339	22,817
Debt issue expenses to be spread				
Bond redemption premiums				
Positive exchange rate differences				
OVERALL TOTAL	68,696	14,493	54,203	35,486
(1) Of which leasehold				
(2) Of which at less than one year (gross)			333	81
(3) Of which at more than one year (gross)			2,045	1,570

4.2.2 LIABILITIES

In thousands of euros	31 December 2018	31 December 2017
EQUITY		
Share	4,004	534
Issue, merger, contribution and other premiums	18,581	2,264
Revaluation difference		
Legal reserve	53	53
Statutory or contractual reserves		
Regulatory reserves	6	6
Other reserves	1,372	1,283
Carried forward	1	1
RESULT OF THE FINANCIAL YEAR (profit or loss)	1,802	2,495
Investment grants	65	69
Regulated provisions		
TOTAL EQUITY	**25,958**	**6,703**
OTHER EQUITY		
Income from issues of equity securities		
Conditional advances	300	655
TOTAL OTHER EQUITY	300	655
PROVISIONS FOR RISKS AND EXPENSES		
Provisions for risks	819	281
Provisions for expenses	170	274
TOTAL PROVISIONS FOR RISKS AND EXPENSES	989	555
DEBTS (1)		
Convertible bonds		
Other bonds		
Loans and debts with credit institutions (2)	4,967	6,560
Miscellaneous loans and financial debts (3)		1,193
Advances and prepayments received on orders in progress		
Trade payables and related accounts	2,575	3,463
Tax and social liabilities	2,189	2,737
Debts on capital assets and related accounts	136	31
Other liabilities	815	516
Prepaid income (1)	16,274	13,072
TOTAL DEBTS	26,957	27,571
Negative exchange rate differences		2
OVERALL TOTAL	54,203	35,486
(1) Of which at more than one year (a)	18,581	16,772
(1) Of which at less than one year (a)	8,749	10,799
(2) Of which bank loans and overdrafts and bank credit balances	5	5
(3) Of which participatory loans		
(a) Excluding advances and prepayments received on orders in progress		

4.3 NOTES TO THE COMPANY FINANCIAL STATEMENTS

The information below constitutes the notes to the annual financial statements forming an integral part of the summary financial statements presented for the financial year ended on 31 December 2018. Each of these financial years has a duration of twelve months covering the period from 1 January to 31 December. The summary financial statements as presented were approved by Board of Directors of the Company at its meeting of 18 April 2019 and will be submitted for approval at the General Meeting of Shareholders on 25 June 2019.

The financial data is presented in thousands of euros. The values are rounded to the nearest thousand except where it is otherwise specified. Generally, the values presented in the financial statements and the notes to the financial statements are rounded to the closest unit. Consequently, the sum of the rounded amounts may show differences that are not significant in relation to the reported total.

4.3.1 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The 2018 financial year was marked by the listing of Company shares on the Euronext Paris regulated market, which gave rise to the events described below:

- on 23 April 2018, the Company was converted into a public limited company (French SA);
- on 23 April 2018, capital increase of €2.7m by direct incorporation into the capital of the "issue premium" item and a portion of "other reserves";
- on 23 April 2018, increase in par value of shares to €9, then reduction to €0.45;
- on 18 June 2018, capital increase of €800k through the creation of 1,779,608 new ordinary shares, giving rise to an issue premium of €18.6m as part of an initial public offering;
- allocation of IPO expenses net of corporation tax offset against the issue premium for €1,455k.

In the months of June and July 2018, disposal by SRC SAS of 1,771,355 shares in COGELEC on the Euronext Paris market.

Following all these transactions, SRC SAS has the majority shareholding in the Company, in the amount of 60.09%.

In addition to the subsidiary in Germany, the Company also created two new subsidiaries:

- in London in February 2018; and
- in Amsterdam at the end of October 2018.

The Company holds 100% of their capital.

The Company invoiced management fees to its three subsidiaries amounting to €713k ex-tax, and advanced a total of €2.2m in funding.

Since 1 May 2018, the Company is renting approximately 400 m2 of office space in Nantes, France to accommodate a part of its design office there which should enable it to more easily retain its teams and attract new talent.

4.3.2 ACCOUNTING METHODS AND PRINCIPLES

The annual financial statements for the year ending 31/12/2018 were prepared in accordance with Accounting Standards Authority rule No. 2014-03 dated 5 June 2014, updated with various additional rules as of the date on which said financial statements were drawn up.

The accounting conventions below were applied in accordance with the principle of prudence, pursuant to the basic rules:

- going concern;
- consistent accounting methods from one financial year to another;
- independence of financial years;

and pursuant to the general rules for the preparation and presentation of annual financial statements.

The basic method used to value the items recognised in the financial statements is the historical cost method.

The main methods and principles used are the following:

4.3.2.1 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible assets are valued at their acquisition cost for assets acquired in return for payment, at their production cost for assets produced by the company, and at their market value for assets acquired freely and by exchange.

The cost of a capital asset consists of its purchase price, including customs duties and non-recoverable taxes, after deductions of discounts, commercial rebates and payment discounts and all costs directly attributable and disbursed to put the asset in place and in an operational condition according to its planned use. Transfer fees, professional fees, commissions and legal expenses related to the acquisition are included in this acquisition cost. All costs which do not form part of the acquisition price of the capital asset and which cannot be directly attached to the costs made necessary to put the asset in place and in an operational condition according to planned use are recognised as expenses.

The cost of a capital asset produced by the company for itself is determined by using the same principles as for an acquired capital asset. This production cost includes the purchase price of the materials consumed and the costs attributable to preparations for the planned use, after deducting discounts, rebates and payment discounts. Interest on loans specific to the production of capital assets is not included in the cost of production of these capital assets.

Development costs are measured at cost and amortised over their estimated useful life. Development costs are primarily costs incurred to develop the products that result in one or several patents.

Development costs are fixed insofar as the six criteria are respected:

- technical and commercial feasibility;
- intention to complete it and use it or sell it;
- ability to use it or sell it;
- probable economic benefits;
- availability of resources to complete the development and to use it or sell it;
- ability to reliably measure different project-related expenses.

Capitalised development costs are direct project-related costs, measured by monitoring costs per project.

The Company analyses compliance with capitalisation criteria on a regular basis. These costs continue to be recognised as assets, as long as the Company retains most of the project-related benefits and risks, particularly when the Company retains intellectual ownership and has granted a temporary right to use and/or exploit the results of development phases.

Ongoing development projects are tested for impairment.

Capitalised expenses are amortised on a straight-line basis over the period of use expected by the Company, over a five-year period. Project improvements are depreciated/amortised over an initial depreciation/amortisation period – the period already depreciated/amortised (minimum 1 year). The equipment made available to customers under contracts is capitalised and depreciated over the period of the contract. The equipment is valued at the cost price.

4.3.2.2 IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment tests are carried out on finite-life tangible and intangible fixed assets as soon as an impairment appears. These tests consist of comparing the assets' net book value with their recoverable value which is their market value less disposal costs or their value in use estimated according to the discounted cash flow (DCF) method, whichever is highest.

Cash flows are discounted over a maximum of 5 years and the discounting rate is the weighted average cost of capital of the entity in question. The weighted average cost of capital used for 2018 is 11.5%.

Intangible fixed assets which are not yet ready to be brought into service are subject to impairment testing at least once a year and any time that there is an indication that the asset may have depreciated.

For intangible assets for which the period of use is undetermined, impairment tests are carried out at least once a year on a set date and between two dates if there is an indication of impairment.

Impairment tests, carried out in accordance with the methodology described above, showed that no impairment was necessary. The sensitivity analysis of key assumptions (growth rate, EBITDA, discounting rate) involved in the determination of the value in use showed that a variation of +/-10% would have no impact on the findings of the impairment tests carried out (no impairment would need to be recorded).

4.3.2.3 DEPRECIATION AND AMORTISATION

Depreciation and amortisation is calculated on a straight-line basis according to the planned service life.

Items	Period of depreciation/amortisation
Concessions, software and patents:	1 to 5 years
Technical installations:	1 to 10 years
Industrial equipment and tools:	1 to 10 years (including panels and GSM blocks from 5 to 10 years)
General installations, miscellaneous fixtures and fittings	2 to 10 years
Transport equipment:	2 to 5 years
Office equipment	3 to 5 years
IT equipment	3 years
Furniture	3 to 10 years

The depreciation/amortisation period adopted by simplification is the usage period for assets that could not be broken down initially. At the reporting date, in view of the internal and external information at its disposal, the Company assessed the existence of notable impairment indicators.

4.3.2.4 GOODWILL

As part of the first application of ANC regulation n°2015-06, the Company considers that the use of its goodwill is not limited over time. An impairment test is performed by comparing the net carrying amount of goodwill with its market value or in-use value. The market value is determined according to criteria for economic profitability that are customary in the profession. A provision for impairment is recognised where applicable.

4.3.2.5 EQUITY SECURITIES

Equity securities are valued at their acquisition cost excluding ancillary expenses. The inventory value of the securities corresponds to the going-concern value for the company. It is determined on the basis of the net assets of the subsidiary, its profitability and future prospects. When the inventory value is less than the acquisition cost, an impairment is recognised for the amount of the difference.

4.3.2.6 INVENTORY

The cost of inventories includes the purchase price, customs duties and other taxes, but not taxes that can subsequently be recovered by the entity from the tax authorities, as well as transport, handling and other costs directly attributable to the production cost of raw materials, merchandise, works in progress and finished products. Trade discounts and rebates, cash discounts and other similar items are deducted to determine acquisition costs.

The products manufactured are valued at their production cost which includes all materials, direct and indirect production costs and amortisation of assets used in the production. The cost of under-capacity is not included in the cost of inventories. Interest is not included in the measurement of inventories. Inventories are valued using the first in, first out, method.

Inventory write downs amounting to the difference between the gross value determined using the methods shown above and the daily rate or the realisable value less proportional selling costs, are recognised when said gross value is higher than the other term listed.

4.3.2.7 RECEIVABLES

Receivables are valued at their nominal value. An impairment is recognised when the inventory value is less than the carrying amount.

4.3.2.8 PROVISIONS

Any current obligation resulting from a past event affecting the company with regard to a third-party, which is able to be estimated with sufficient reliability and covers identified risks, is subject to the recognition of a provision.

4.3.2.9 DEBT ISSUE EXPENSES

Debt issue expenses are immediately recognised as expenses for the financial year.

4.3.2.10 EXCEPTIONAL INCOME AND EXPENSES

Exceptional income and expenses include items which are not related to the Company's normal business

4.3.2.11 Transactions in foreign currency

When assets are acquired in foreign currencies, the conversion rate used is the exchange rate on the date of entry or, where applicable, that of the hedge if it was taken before the transaction. Expenses disbursed for setting up hedges are also included in the acquisition cost. Debts, receivables and liquid assets in foreign currencies are shown on the balance sheet at their equivalent value at end-of-period rates. The difference that results from discounting debts and receivables in foreign currency to current value at the latest rates is recognised in the balance sheet as an exchange-rate difference.

Unrealised foreign exchange losses which are not offset are subject to a provision for risks, fully in line with regulatory procedures.

4.3.2.12 RETIREMENT COMMITMENTS

The company's commitments concerning retirement benefits are calculated according to the projected credit unit method, with end-of-career salaries taking into account the provisions of the Collective Agreement, life expectancy and presence in the company, as well as financial discounting.

The actuarial assumptions used are the following:

– discount rate: 1.57%;
– rate of salary growth: 4% declining;
– retirement age: 65 years;
– table of mortality rates: INSEE 2010-2012.

4.3.2.13 TAX CREDIT FOR COMPETITIVENESS AND EMPLOYMENT

The tax credit for competitiveness and employment (CICE) corresponding to eligible compensation for the 2018 calendar year was recognised for an amount of €208k. In accordance with the recommendation of the French accounting standards authority, the corresponding income was credited to account 649 – Personnel expenses – CICE.

The CICE income recognised in respect of the financial year is deducted from operating expenses and offset against the corporation tax due in respect of said financial year.

4.3.3 NOTES TO THE BALANCE SHEET

4.3.3.1 CAPITALISED ASSETS

4.3.3.1.1 TABLE OF FIXED ASSETS

	At the start of the financial year	Increase	Decrease	At the end of the financial year
Start-up and development expenses	8,368	1,288		9,655
Goodwill	1,927			1,927
Other intangible asset items	4,746	1,501	1,061	5,187
Intangible assets	**15,042**	**2,789**	**1,061**	**16,769**
Land				
Buildings on own land				
Buildings on third party land				
General installations, fixtures and fittings				
Technical installations, equipment and tools	7,189	1,602		8,791
General installations, miscellaneous fixtures and fittings	235	62		297
Transport equipment	1	25		25
Office IT equipment and furniture	474	276		750
Recoverable packaging and miscellaneous				
Property, plant and equipment in progress	664	449	325	788
Advances and prepayments	66	204	48	222
Property, plant and equipment	**8,629**	**2,617**	**374**	**10,872**
Equity investments (equity method)				
Other equity investments	35	2,198		2,233
Other long term investments	17			16
Loans and other long-term financial assets	197	339	5	532
Long-term financial assets	**249**	**2,537**	**5**	**2,781**
CAPITALISED ASSETS	**23,919**	**7,943**	**1,440**	**30,422**

As part of the initial application of regulation n°2015-06 of 23 November 2015, amending regulation n°2014-03 of the accounting standards authority in relation to the General Accounting Plan, the technical loss from the merger recorded on the balance sheet as goodwill, has been allocated to underlying assets from which there are reliable and significant gains according to the information available on the date of the opening balance sheet. Since the technical loss is only from subscription contracts signed by INTRATONE TELECOM, it is therefore recorded in full as a Company asset in the goodwill sub-account.

Cash flows are analysed as follows:

	Intangible assets	Property, plant and equipment	Long-term financial assets	TOTAL
Breakdown of increases				
Transfers between items	987	379		1,366
Current asset transfers				
Acquisitions	1,802	2,238	2,537	6,577
Contributions				
Creations				
Revaluations				
Increases in the financial year	2,789	2,617	2,537	7,943
Breakdown of decreases				
Transfers between items	992	373		1,366
Transfers to current assets				
Disposals	69		5	74
Demergers				
Decommissioning				
Decreases in the financial year	1,061	374	5	1,440

4.3.3.1.2 Intangible Assets

Other intangible asset items, for an overall amount of €5,187k, take into account projects in progress for €4,564k at 31/12/2018.

The amount of intangible asset acquisitions stands at €2,789k, mainly including:

– capitalisation of development costs for €1,287k;
– recognition of projects in progress for €1,501k.

	Gross Amount
Use of projects	9,655
Research expenses	9,655

The amount of acquisitions of property, plant and equipment stands at €2,617k, mainly including:

- equipment and tools for €1,602k, including capitalised production of equipment related to Standard and Premium contracts for €1,013k;
- property, plant and equipment in progress (mainly related to the Kibolt project) + €449k;
- IT equipment and furniture + €276k;
- advances and prepayments on equipment + €204k.

4.3.3.1.3 Long-Term Financial Assets

The amount of financial acquisitions stands at €2,536k, mainly including:

– advances of funds to subsidiaries for €2,187k;
– acquisition of treasury shares for €316k.

4.3.3.1.4 Depreciation and amortisation of fixed assets

	At the start of the financial year	Increase	Decrease	At the end of the financial year
Start-up and development expenses	6,514	900		7,413
Goodwill				
Other intangible asset items	425	61		486
Intangible assets	**6,939**	**961**		**7,899**
Land				
Buildings on own land				
Buildings on third party land				
General installations, fixtures and fittings				
Technical installations, equipment and tools	3,907	1,181		5,088
General installations, miscellaneous fixtures and fittings	55	27		82
Transport equipment		2		2
Office IT equipment and furniture	320	71		391
Recoverable packaging and miscellaneous				
Property, plant and equipment	**4,282**	**1,281**		**5,563**
CAPITALISED ASSETS	**11,221**	**2,242**		**13,463**

4.3.3.2 CURRENT ASSETS

4.3.3.2.1 Statement of receivables

Total receivables at the end of the 2018 financial year stand at €15,957k and the detailed classification per maturity is as follows:

	Gross amount	Maturities at - 1 year	Maturities at + 1 year
Capitalised asset receivables			
Receivables attached to equity investments	2,197		2,197
Loans	40	2	38
Other	492	331	161
Current asset receivables			
Trade and other receivables	9,596	9,129	467
Other	1,694	1,694	
Capital subscribed - called, not paid			
Prepaid expenses	1,938	360	1,578
TOTAL	15,957	11,515	4,441
Loans granted during the financial year	2		
Loans recovered during the financial year	4		

Receivables at more than one year of a total amount of €4,441k breakdown as follows:

- advances to subsidiaries + €2,197k;
- CCA for €1,578k (including CCA on PREMIUM commissions for €487k and SIM cards for €1,091k);
- doubtful debts for €467k;
- deposits and guarantees for €161k;
- Diamo loan for €38k.

4.3.3.2.2 Deferred Income

In thousands of euros	31/12/2017	31/12/2018
Customer invoices pending	41	0
Miscel. receivables and deferred income	0	6
Suppliers & advances receivable	17	5
Personnel deferred income	5	2
Deferred accrued interest	2	3
Total	65	15

4.3.3.2.3 Asset Impairment

in thousands of euros	Impairment start of financial year	Provisions for financial year	Reversals for financial year	Impairment end of financial year
Long-term financial assets	28	67		95
Inventories and work in progress	229	393	77	545
Receivables and marketable securities	188	227	25	390
Derogatory depreciation				
Total	445	687	102	1,030
Operational		620	102	
Financial		67		
Compensation				

4.3.3.3 SHAREHOLDERS' EQUITY

4.3.3.3.1 Composition Of Share Capital

Share capital of €4,004,121.60 comprised of 8,898,048 shares with a par value of €0.45.

STRUCTURE OF THE SHARE CAPITAL	Number	Par value
Securities making up the share capital at the start of the financial year	355,922	1.5
Securities issued during the financial year	8,542,126	0.45
Securities repaid during the financial year		
Securities making up the share capital at the end of the financial year	8,898,048	0.45

The 8,898,048 shares are comprised of:

- 3,550,963 bearer shares with single voting rights (of which 37,205 treasury shares held by the Company); and
- 5,347,085 registered shares including 20 shares with single voting rights and 5,347,065 shares with double voting rights.

Treasury shares are recorded in account 277.

Due to the loss of value on these treasury shares, an impairment of €57,218 was recognised at 31/12/2018 (historical value compared to the average value over the months preceding the end of the period).

4.3.3.3.2 Appropriation Of Earnings

Decided by the General Meeting of Shareholders of 20 February 2018.

	Amount
Carried forward from the previous financial year	1
Profit/loss for the previous financial year	2,495
Deductions from reserves	
Total sources	2,495
Allocations to reserves	495
Distributions	2,000
Other distributions	
Carried forward	1
Total allocations	2,495

The 2018 financial year was marked by the initial public offering of the Company on the Paris Euronext regulated market.

The changes in the share capital during the financial year were as follows:

- on 23 April 2018, capital increase by allocation of the issue premium for €2,264k;
- on 23 April 2018, capital increase charged against other reserves for €406k; and
- on 15 June 2018, capital increase under the IPO (1,779,608 new shares with a par value of €0.45) for €801k.

The share capital went from €534k at 31/12/2017 to €4,004k at 31/12/2018.

The issue premium account increased by €2,264k to €18,654k following the following transactions:

- on 23 April 2018, capital increase by allocation of the issue premium for - €2,264k;
- on 15 June 2018, new issue premium under the IPO + €20,110k;
- on 15 June 2018, allocation of expenses to the issue premium in connection with the IPO - €2,182k;
- on 15 June 2018, recognition of corporation tax against expenses in connection with the IPO (33%) + €728k.

4.3.3.3.3 Statement Of Changes In Equity

in thousands of euros	Balance at 31/12/2017	Appropriation of earnings	Increase	Decrease	Balance at 31/12/2018
Share	534		3,470		4,004
Share premium	2,264		16,390		18,581
Legal reserve	53				53
General reserves	1,283	495		406	1,372
Regulatory reserves	6				6
Carried forward	1				1
Profit or loss for the period	2,495	2,495	1,802		1,802
Dividends		2,000			
Investment grants	69			3	65
Total Equity	6,703		22,075	409	25,958

4.3.3.4 STATEMENT OF PROVISIONS RECOGNISED IN THE BALANCE SHEET

In thousands of euros	31/12/2017	Allocations	Reversals used	Reversals not used	31/12/2018
PROVISIONS FOR RISKS AND EXPENSES					
Disputes		265			265
Guarantees given to customers*	281	273			554
Tax provision	118	11	77		52
Other provisions and expenses	156		38		118
TOTAL	555	548	115		989
OVERALL TOTAL	555				
Operating provisions and reversals		548	38		
Financial provisions and reversals					
Exceptional provisions and reversals			77		

*Provision for after-sales service on equipment of the Intratone Telecom range for an overall amount of €554k. Provision has been made for the cost of the after-sales service based on the length of the product warranty, i.e. 3 years. The rates used for the calculation were set on the basis of the costs observed over the last 3 years and were reported as a percentage of revenue for the year in which the products in respect of which the after-sales service costs were incurred, were sold.

The provision of the equipment in exchange for after-sales service items led, over the financial year, to the recognition of a provision for an expense related to the neutralisation of the margin on income advanced and pending return in the amount of €118k.

Following a tax inspection in 2017, adjustment of the provision for VAT and corporation tax surcharges on debt write-offs considered as being of a financial and not commercial nature, due to payment of part of the tax adjustment over 2018 in the amount of €76k. Hence the €76k reversal.

4.3.3.5 DEBT

4.3.3.5.1 Statement Of Liabilities

Total debts at the end of the financial year amounted to €26,957k and the classification by maturity breaks down as follows:

In thousands of euros	31/12/2017	31/12/2018	Breakdown		
			- 1 year	1 to 5 years	More than 5 years
Convertible bonds (*)					
Other bonds (*)					
Loans (*) and debts with credit institutions of which:					
- at 1 year maximum at origin	5	5	5		
- at more than 1 year at origin	7	4,961	1,454	3,347	161
Miscellaneous loans and financial debts (*) (**)	1,193				
Trade payables and related accounts	3,463	2,575	2,575		
Tax and social liabilities	2,737	2,189	2,189		
Debts on capital assets and related accounts	31	136	136		
Other debts (**)	516	815	815		
Prepaid income	13,072	16,274	1,573	5,802	8,899
Total	27,571	26,957	8,749	9,149	9,060
(*) Loans subscribed during the financial year	1,606				
(*) Loans repaid during the financial year	1,472	1,592			
(**) Of which to shareholders					

4.3.3.5.2 Expenses To Be Paid

in thousands of euros	31/12/2017	31/12/2018
Supplier invoices to be received	1,227	1,379
Suppliers, capital assets invoices to be received		102
Interest accrued on loans	2	0
Accrued interest to be paid	5	5
Personnel expenses to be paid	1,069	805
Social security charges to be paid	515	516
Statement of expenses to be paid	114	61
Trade payables & advances to be made	489	669
Total	3,422	3536

4.3.3.6 ACCRUALS

Prepaid income and expenses

in thousands of euros	Expenses		Products	
	31/12/2017	31/12/2018	31/12/2017	31/12/2018
Operating expenses / income	1,657	1938	13,072	16,274
Financial expenses / income				
Exceptional expenses / income				
TOTAL				

Prepaid expenses, €1,938k, mainly concern:

- SIM cards for €1,258k;
- PREMIUM commissions for €579k;
- real estate lease for €60k;
- maintenance for €28k.

Prepaid income corresponds to the advance invoicing of prepayments.

The prepaid income is established according to the following method:

- the invoicing is spread over the duration of the contract guarantee or over 15 years for prepaid contracts;
- this prepaid income is reduced by the amount of commercial costs estimated by the Company on repayments (representing an impact of €1,808k at 31/12/2018), to cover these expenses.

Future expenses, associated directly with pre-invoiced contracts, are estimated at 32% of prepaid income, representing €5.2m (SIM cards + depreciation of modules).

4.3.4 NOTES TO THE INCOME STATEMENT

4.3.4.1 REVENUE

4.3.4.1.1 Breakdown By Business Segment

Amounts in thousands of euros	31/12/2018
Revenue Intratone range	19,809
Sales of Intratone subscriptions	9,120
Revenue Hexact range	4,255
Provision of services	552
Ports	4
Residual income	1
TOTAL	33,741

4.3.4.1.2 Recognition Of Income

Income from ordinary activities is recognised when the Company fulfils a service obligation by transferring goods or services promised to a client. An asset is transferred when the client takes control of the asset.

4.3.4.1.3 Capitalised Production

- Of which capitalised production on projects: €1,683k
- Of which capitalised production on equipment related to subscription contracts: €1,013k

4.3.4.2 OPERATING AND FINANCIAL EXPENSES AND INCOME

Statutory auditors fees

Fees for the certification of the financial statements: €100,000. These fees are split between the principal Statutory Auditors as follows:

- ARC: €50k;
- DELOITTE: €50k.

4.3.4.3 NET INCOME

4.3.4.3.1 Financial Income

Financial income Amounts in thousands of euros	31/12/2018	31/12/2017
Financial income from equity investments	3	0
Income from other securities and receivables from capitalised assets		1
Other interest and similar income	8	12
Reversals of provisions and transfers of expenses		
Positive exchange rate differences	1	1
Net income on disposal of investment securities		
TOTAL	11	14

4.3.4.3.2 Financial Expenses

Financial expenses Amounts in thousands of euros	31/12/2018	31/12/2017
Financial amortisation and depreciation and provisions	67	28
Interest and similar expenses	137	179
Negative exchange rate differences	0	30
Expenses on disposals of investment securities		
TOTAL	204	237
Financial profit/loss	-193	-222

Financial allocations, amounting to €67k, correspond:

- to the supplement to the provision on the DIAMO loan for €10k;
- to the provision for impairment of COGELEC treasury shares for €57k.
-

4.3.4.4 EXCEPTIONAL INCOME AND EXPENSES

4.3.4.4.1 Exceptional Income

Exceptional income Amounts in thousands of euros	31/12/2018	31/12/2017
Forfeitures and penalties received on purchases and sales	0	0
Income from the sale of asset items	3	52
Investment subsidies recognised in profit/loss	3	3
Derogatory depreciation	0	10
Reversals of provisions for risks and ex expenses	77	0
TOTAL	83	65

4.3.4.4.2 Exceptional Expenses

Exceptional expenses Amounts in thousands of euros	31/12/2018	31/12/2017
Penalties, fiscal and penal fines	6	1
Other exceptional expenses on management transactions	0	6
Carrying amount of asset items sold	63	173
Tax surcharges	76	
Other expenses	39	
TOTAL	185	180

Exceptional expenses of €185k mainly include:

- the payment of VAT surcharge following tax inspection of 2017 for +€76k;
- the loss on sale of treasury shares for €39k; and
- the project abandonment for €63k.

Exceptional income of €83k, taking into account:

- the reversal of the provision related to the tax inspection for €76k;
- the spreading over 12 years of the subsidy received when financing the new building for €4k; and
- the sale of a vehicle and repayment of a deposit for €3k.

4.3.4.5 INCOME AND INCOME TAX

4.3.4.5.1 Breakdown Of Income Tax

In thousands of euros	31/12/2018	31/12/2017
Basis for calculating tax		
Normal Rate - 33 1/3%		722
Normal Rate – 28%		
Reduced Rate – 15%		
Long term capital gains - 15%		
Licences – 15%		
Rental contribution - 2.5%		
Tax credit		
Tax credit for corporate sponsorship	1	
Employment and competitiveness	208	200
Research and innovation credit	413	419
Apprenticeship credit	1	1

The corporation tax liability of €722k relates mainly to the IPO costs, the net corporation tax amount of which was deducted from the issue premium, but which are tax-deductible

4.3.4.5.2 Impact Of Exceptional Tax Assessments

In thousands of euros	31/12/2017	31/12/2017
Profit/loss for financial year after tax	1,802	2,495
+ Income tax	98	556
+ Tax supplement related to distribution		
- Receivables on income tax		
Pre-tax profit/loss	1,901	3,051
Change in regulated provisions		
Provision for investments		
Provision for price increases		
Derogatory depreciation		-10
Tax provisions		
Other regulated provisions		
Profit/loss excluding exceptional tax assessments (before tax)	1,901	3,041

4.3.4.5.3 TAX BREAKDOWN

In thousands of euros	31/12/2017			31/12/2018		
	Pre-tax profit/loss	Corresponding tax	Profit/loss after tax	Pre-tax profit/loss	Corresponding tax	Profit/loss after tax
+ Current profit/loss	3,555	661	2,894	2,002	260	1,742
+ Exceptional profit/loss	-115	-38	-77	-101	-32	-70
- Employee profit-sharing	390	67	322		130	-130
Accounting profit/loss	3,051	556	2,495	1,901	98	1,802

The €98k tax corresponds to:

The corporation tax expense calculated at 31/12/2018 for €722k (corporation tax charge on IPO expenses for €727k – reimbursement of corporation tax as part of the tax inspection €5k)

- research tax credit: €333k;
- innovation tax credit: €80k;
- tax reduction for corporate sponsorship: €1k;
- apprenticeship tax credit: €1k;
- CICE: €208k.

It should be noted that the "corresponding tax" column must take into account tax credits, notably including the CICE.

4.3.4.5.4 Increases And Reductions Of The Future Tax expense

The unrealised tax position, given a rate of corporation tax of 28% up to €500k and 33 1/3% beyond this, shows a future credit of €124k. This amount does not include a possible payment of the social security contribution on earnings.

Amounts in thousands of euros	31/12/2018
Increases of the future tax debt	
Related to other items	
A. Total bases combining to increase the future debt	
Reductions of the future debt	
Related to provisions and non-deductible expenses to be paid for the financial year	30
Related to other items	
B. Total bases combining to reduce the future debt	30
C. Losses carried forward	413
D. Long-term capital losses	
Estimate of the amount of the future receivable	124

Provisions for non-deductible expenses to be paid of €30k:

- Organic provision of €30k.

4.3.4.6 WORKFORCE

Salaried personnel	31/12/2018	31/12/2017
Managers	40	35
Supervisors and technicians	-	-
Employees	98	82
Operators	17	21
TOTAL	155	139

4.3.4.7 OTHER INFORMATION

4.3.4.7.1 List of relevant transactions

Transactions with related parties:

- Technical and marketing services with HRC for an amount of €756k.

4.3.4.7.2 Information on the directors

Remuneration allocated to members of the management

This information is not mentioned because it would indirectly lead to individual remuneration.

4.3.4.7.3 Financial Commitments

Committments given

Amounts in thousands of euros	31/12/2018	31/12/2017
Discounted notes not yet at maturity		
On loans of €300k (CE), €300k (SG), €300k (BNP), subscribed by INTRATONE– balance remaining due at 31/12/2017		110
Sureties and deposits		110
Pension commitments		
Commitments for movable property leases	22	41
Commitments for real estate leases	3,082	3,445
Interest on borrowings	258	377
Guarantee withholding	155	155
Pledging of business assets as guarantee for loans subscribed from BNP for €500k, from CE for €300k and from SG for two loans of €400k, and for which the total amount remaining due at 31/12/2018	871	1,131
Loan obtained not yet drawn from SG		244
Revenue on contracts remaining to be invoiced	9,692	13,279
Fixed asset orders		
Other commitments given	11,352	15,186
Total	14,457	18,781
Of which concerning commitments with collateral	871	1,131

The guarantee withholdings of €155k correspond to cash collateral related to the loans granted by OSEO BDPME for an overall amount of €3.1m.
COGELEC supported its subsidiaries in the amount of their negative net worth.

Commitments received

Amounts in thousands of euros	31/12/2018	31/12/2017
Ceilings for authorised overdrafts	1,800	1,950
Sureties and deposits		
Diamo debt waiver with recovery clause in the event of return to financial health	50	50
Interest on borrowings	258	377
Guarantee withholding	155	155
Commitments for real estate and movable property leases	3,105	3,462
Loan obtained but not yet received		244
Revenue on contracts remaining to be invoiced	9,692	13,279
Fixed asset orders	376	
Other commitments received	13,636	17,567
Total	**15,435**	**19,517**

4.3.4.7.4 Leasing

Amounts in thousands of euros	Land	Buildings	Tooling equipment	Other	Total
Original value		3,662		73	3,735
Cumulative over previous financial years		407		33	441
Provisions for the financial year		174		18	193
Depreciation and Amortisation		581		52	633
Cumulative over previous financial years		953		37	990
Financial year		363		17	380
Payments made		1,316		54	1,370
At one year or more		363		9	372
At more than one year and no more than five years		1,450			1,450
At more than five years		1,269			1,269
Payments remaining to be paid		3,082		9	3,092
At one year or more				13	13
At more than one year and no more than five years					
At more than five years					
Residual value				13	13
Amount paid during the financial year		363		17	380

Financing of new building by a real estate lease over a period of 12 years.

Following the amendment signed in October 2016, the lease table includes definitive data, namely:

- cost of acquisition of land: €216k;
- majors works: €1,335k, depreciated over 35 years;
- cladding: €586k, depreciated over 20 years;
- general installations: €1,386k, depreciated over 15 years;
- fittings: €139k, depreciated over 10 years,

representing a total investment of €3,662k.

4.3.4.7.5 Retirement Commitments

Pension commitments, supplementary retirement and associated severance pay: €396 k

4.3.4.7.6 Tax Credit Competitiveness And Employment

The "CICE" competitiveness tax credit (article 244 quarter C of the French General Tax Code) that the Company benefited from in respect of the financial year was fully used for improving the competitiveness of the Company.

4.3.4.7.7 Events After The Reporting Period

None

4.3.4.7.6 Table Of Subsidiaries And Equity Investments

name	Country of registration	Address	% holding	Shareholders' equity at 31/12/2018	Revenue at 31/12/2018	Profit/loss at 31/12/2018
INTRATONE GMBH	GERMANY	Niederkasseler lohweg 191 40547 Düsseldorf	100%	€25k	€147k	-€1,857k
INTRATONE UK LTD	United Kingdom	Building 3 566 Chiswick High Road W4 5YA London	100%	£ 100	€325k	-€1,008k
INTRATONE BV	The Netherlands	Kuiperbergweg 40 1101 AG Amsterdam	100%	-€10k	-	-€256k

4.4 TABLE OF PROFIT/LOSS OVER THE LAST 5 YEARS

In thousands of euros	2014	2015	2016	2017	2018
1. Financial position at the end of the financial year					
a) Share capital	534	534	534	534	4,004
b) Number of shares	5,355,922	5,355,922	5,355,922	5,355,922	8,898,048
c) Number of bonds convertible to shares	-	-	-	-	-
2. Total profit/loss for actual operations					
a) Pre-tax revenue	16,800	19,496	24,822	30,290	33,741
b) Profit before tax, amortisation and provisions and profit-sharing	3,316	1,772	3,415	6,529	5,480
c) Income tax	313	-324	564	1,176	306
d) Employee profit-sharing	194	-	202	390	0
e) Profit after tax, amortisation, provisions and profit-sharing	1,581	559	1,945	2,495	1,802
f) Amount of profit distributed	995	1,502	1,500	1,500	2,000
3. Income from operations reduced to a single share					
a) Profit after tax and profit-sharing, but before depreciation, amortisation and provisions	€6.55	€4.03€	€8.21	€14.52	€2.49
b) Profit after tax, depreciation, amortisation, provisions and profit-sharing	€4.44	€1.57	€5.46	€7.01	€0.88
c) Dividend paid to each share	€3.41	€4.22	€4.214	€4.214	€5.619
4. Personnel					
a) Number of employees (average)	81	93	105	130	155
b) Amount of total payroll	3,340	4,124	4,850	6,049	7,288
c) Amount paid for welfare benefits (social security, social works, etc.)	1,430	1,780	1,977	2,382	2,882

5. STATUTORY AUDITORS' REPORTS

5.1 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Cogelec Shareholders' Meeting,

OPINION

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying consolidated financial statements of Cogelec for the year ended December 31, 2018.

In our opinion, the consolidated financial statements give a true and fair view of the results of operations of the Group for the year then ended and of its financial position and of its assets and liabilities as of December 31, 2018 in accordance with International Financial Reporting Standards as adopted by the European Union

The audit opinion expressed above is consistent with our report to the Audit Committee.

BASIS FOR OPINION

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 or in the French Code of ethics (*Code de déontologie*) for statutory auditors.

OBSERVATION

Without qualifying the above opinion, we draw your attention to the point set out in Note 6.5.5 to the consolidated financial statements on the correction of the presentation error within operating expenses in 2017, and its impact on the gross margin.

JUSTIFICATION OF ASSESSMENTS - KEY AUDIT MATTERS

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring your attention to the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period, as well as our responses to those risks.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed above. We do not express an opinion on any components of the consolidated financial statements taken individually.

Valuation and impairment of developed intangible assets

(See Notes 6.5.9, 6.7.1 and 6.8.1 to the consolidated financial statements)

KEY AUDIT MATTER

As of December 31, 2018, developed intangible assets represented a net amount of €6.8 million (including all intangible assets in the course of development) on the Group's consolidated balance sheet.

As described in Notes 6.5.9, 6.7.1 and 6.8.1 to the consolidated financial statements, developed intangible assets are recognized by the Group when the capitalization criteria defined by IAS 38 are strictly met and it is probable that the developed project will generate future economic benefits.

Developed intangible assets are amortized over the useful life expected by the Group, for a period of five years as from the commercial launch.

Amortized and unamortized developed intangible assets are subject to an impairment test annually and when an indication of impairment is identified.

The Group recognizes an impairment loss when the recoverable amount of a development project is lower than the net carrying amount of the corresponding capitalized costs.

We considered the determination of projects giving rise to the recognition of internally generated intangible assets to be a key audit matter due to the materiality of these intangible assets in the Group's consolidated balance sheet and the significant judgment exercised by management during their initial capitalization and the performance of impairment tests, where applicable.

RESPONSE AS PART OF OUR AUDIT

As part of the audit of the consolidated financial statements, our work mainly consisted in:

– Familiarizing ourselves with the procedure covering the determination of projects giving rise to the recognition of internally generated intangible assets;
– Comparing the amounts recorded in the accounts with the data extracted from the systems designed to monitor time charged to development projects / with the invoices of external service providers charged to development projects;
– Analyzing and testing, on a sampling basis, the main projects and amounts included in intangible assets internally generated over the period;
– Analyzing, by interviewing those persons in charge of development, the technical feasibility of projects in progress;
– Analyzing, by interviewing management, the expected strategic changes concerning projects in progress;
– Assessing, on a sampling basis, the data and assumptions used by the Group with regard to impairment tests for developed intangible assets (particularly sales forecasts, discount rates and long-term growth rates);
– Reviewing the analyses carried out by management on the sensitivity of value in use to changes in the main assumptions adopted;
– Assessing the appropriateness of the disclosures in the notes on these capitalized costs.

Recognition of revenue relating to subscription contracts and comprehensive offers
(See Notes 6.5.19 and 6.9.1 to the consolidated financial statements)

KEY AUDIT MATTER

In addition to equipment sales, the Group's revenue comprises services (subscription contracts) and comprehensive offers.

- Subscription contracts are either fully paid upon subscription for the term of the contract or paid in installments over the term of the contract. They are recognized in P&L on a straight-line basis over the term of the contract via the recognition of contract liabilities.
- Comprehensive offers encompass equipment leasing (connector boards, etc.) and services (subscription, maintenance). For these contracts:
  - The leased equipment is treated as a finance lease in accordance with IAS 17 (discounted payments covering the fair value of the leased asset). An income is recorded on the delivery date for an amount corresponding to the present value of the future payments.
  - The services relating to these offers are recognized on a straight-line basis over the term of the contract.

We considered the recognition of revenue to be a key audit matter due to the significant volume of transactions and the substantial amount of deferred revenue at the closing.

RESPONSE AS PART OF OUR AUDIT

We first obtained a description of the process relating to the recognition of the various revenue flows, from contract conclusion to invoicing and the receipt of payments. We analyzed the procedures implemented by the Group and tested the key controls identified.

We also hired information system specialists to assess the general IT controls relating to revenue recognition.

Our procedures also focused on:

- The completion of analytical procedures, by reconciling our own estimates of revenue and contract liabilities with the amounts recognized and the performance of substantive tests on a sampling basis, by reconciling the amounts recorded with the signed contracts;
- The verification of the note to the consolidated financial statements to check that it provided appropriate disclosure, particularly concerning the maturity of the contract liabilities.

SPECIFIC VERIFICATIONS

As required by French law, we have also verified in accordance with professional standards applicable in France the information concerning the Group presented in the Board of Directors' management report.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Appointment of the statutory auditors
Atlantique Révision Conseil (ARC) were appointed as statutory auditors of Cogelec by the Shareholders' Meeting held on March 17, 2015 while Deloitte & Associés were appointed on January 4, 2018.

As of December 31, 2018, Atlantique Révision Conseil (ARC), and Deloitte & Associés were in the 4th and 1st year of total uninterrupted engagement, which both represent the 1st year since the Company was admitted to trading on a regulated market.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease its operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements have been approved by the Board of Directors.

STATUTORY AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OBJECTIVE AND AUDIT APPROACH

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified by Article L.823-10-1 of the French Commercial Code, the scope of our statutory audit does not include assurance on the future viability of the Company or the quality with which Company's management has conducted or will conduct the affairs of the entity.

As part of an audit in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit. He also:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- Concludes on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If he concludes that a material uncertainty exists, he draws attention in his audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, we modify our opinion.
- Evaluates the overall presentation of the financial statements and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities included in the consolidation scope to express an opinion on the consolidated financial statements. He is responsible for the

direction, supervision and performance of the audit of the consolidated financial statements as well as for the audit opinion.

REPORT TO THE AUDIT COMMITTEE

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as significant audit findings. We also bring to its attention any significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) no. 537/2014, confirming our independence pursuant to the rules applicable in France as defined in particular by Articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of ethics for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

In Rennes and La Roche sur Yon, April 24, 2019

The Statutory Auditors

Atlantique Révision Conseil – A. R. C. -	Deloitte & Associés
Sébastien Caillaud *Partner*	Guillaume Radigue *Partner*

5.2 STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

To the Cogelec Shareholders' Meeting,

OPINION

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying financial statements of Cogelec for the year ended December 31, 2018.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2018 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

BASIS FOR OPINION

Audit framework
We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

Independence
We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 or in the French Code of ethics (*Code de déontologie*) for statutory auditors.

JUSTIFICATION OF ASSESSMENTS - KEY AUDIT MATTERS

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring your attention to the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period, as well as our responses to those risks.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed above. We do not express an opinion on any components of the financial statements taken individually.

Valuation and impairment of developed intangible assets

KEY AUDIT MATTER

As of December 31, 2018, developed intangible assets represented a net amount of €6.8 million (including all intangible assets in the course of development) on the Company's balance sheet.

As described in the "Accounting policies" note to the financial statements, development costs incurred by the Company are capitalized when the capitalization criteria defined by IAS 38 are strictly met and it is probable that the developed project will generate future economic benefits.

Capitalized costs are amortized on a straight-line basis over the useful life expected by the Company, for a period of five years as from the commercial launch.

Amortized and unamortized developed intangible assets are subject to an impairment test annually and when an indication of impairment is identified.

The Company recognizes an impairment loss when the recoverable amount of a development project is lower than the net carrying amount of the corresponding capitalized costs.

We considered the capitalization and valuation of development costs in the balance sheet to be a key audit matter due to the materiality of these intangible assets in the Company's balance sheet and the significant judgment exercised by management during their initial capitalization and the performance of impairment tests, where applicable.

RESPONSE AS PART OF OUR AUDIT

As part of the audit of the financial statements, our work mainly consisted in:

- Familiarizing ourselves with the procedure covering the capitalization of development expenses,
- Verifying the reliability of the costs capitalized over the period for each project,
- Analyzing, by interviewing those persons in charge of development, the technical feasibility of projects in progress,
- Analyzing, by interviewing management, the expected strategic changes concerning projects in progress,
- Assessing the data and assumptions used by the Company with regard to impairment tests for capitalized developed costs (particularly sales forecasts, discount rates and long-term growth rates),
- Reviewing the analyses carried out by management on the sensitivity of value in use to changes in the main assumptions adopted,
- Assessing the appropriateness of the disclosure in the "Property, plant and equipment and intangible assets" note to the financial statements.

Recognition of revenue

KEY AUDIT MATTER

In addition to equipment sales, the Company's revenue comprises services (subscription contracts).

Subscription contracts are either fully paid upon subscription for the term of the contract or paid in installments over the term of the contract. They are recognized in P&L on a straight-line basis over the term of the contract via the recognition of contract liabilities.

We considered the recognition of revenue to be a key audit matter due to the significant volume of transactions and the substantial amount of deferred revenue at the closing.

RESPONSE AS PART OF OUR AUDIT

We first obtained a description of the process relating to the recognition of the various revenue flows, from contract conclusion to invoicing and the receipt of payments. We analyzed the procedures implemented by the Company and tested the key controls identified.

We also hired information system specialists to assess the general IT controls relating to revenue recognition.

Our procedures also focused on:

- The completion of analytical procedures, by reconciling our own estimates of revenue and contract liabilities with the amounts recognized and the performance of substantive tests on a sampling basis, by reconciling the amounts recorded with the signed contracts;
- The verification of the note to the parent company financial statements to check that it provided appropriate disclosure, particularly concerning the maturity of deferred income.

SPECIFIC VERIFICATIONS

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information given in the management report and in the other documents addressed to shareholders with respect to the financial position and the financial statements.

We have no comments to make on the fair presentation and consistency with the financial statements of the information given in the Board of Directors' management report and in the documents addressed to shareholders with respect to the financial position and the financial statements.

We attest the fair presentation and the consistency with the financial statements of the information relating to payment terms, mentioned in Article D.441-4 of the French Commercial Code.

Report on corporate governance

We attest that the Board of Directors' report on corporate governance contains the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code.

Concerning the information presented in accordance with the requirements of Article L.225-37-3 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

Other disclosures

Pursuant to the law, we have verified that the management report contains the appropriate disclosures as to the identity of the shareholders and holders of the voting rights.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Appointment of the Statutory Auditors

Atlantique Révision Conseil (ARC) were appointed as statutory auditors of Cogelec by the Shareholders' Meeting held on March 17, 2015, while Deloitte & Associés were appointed on January 4, 2018.

As of December 31, 2018, Atlantique Révision Conseil (ARC), and Deloitte & Associés were in the 4th and 1st year of total uninterrupted engagement, which both represent the 1st year since the Company was admitted to trading on a regulated market.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease its operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements have been approved by the Board of Directors.

STATUTORY AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified by Article L.823-10-1 of the French Commercial Code, the scope of our statutory audit does not include assurance on the future viability of the Company or the quality with which Company's management has conducted or will conduct the affairs of the entity.

As part of an audit in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit. He also:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;
- Concludes on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the financial statements and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as significant audit findings. We also bring to its attention any significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) no. 537/2014, confirming our independence pursuant to the rules applicable in France as defined in particular by Articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of ethics for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

In Rennes and La Roche sur Yon, April 24, 2019

The Statutory Auditors

Atlantique Révision Conseil – A. R. C. -	Deloitte & Associés
Sébastien Caillaud *Partner*	Guillaume Radigue *Partner*

5.3 SPECIAL STATUTORY AUDITORS' REPORT ON RELATED-PARTY AGREEMENTS

To the **Cogelec** Shareholders' Meeting,

In our capacity as statutory auditors of your Company, we hereby report to you on regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, as well as the reasons justifying that such commitments and agreements are in the Company's interest, without expressing an opinion on their usefulness and appropriateness or identifying such other agreements, if any. It is your responsibility, pursuant to Article R. 225-31 of the French Commercial Code (Code de commerce), to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in Article R. 225-31 of the French Commercial Code relating to the implementation during the past year of agreements and commitments previously approved by the Shareholders' Meeting, if any.

We performed the procedures that we considered necessary with regard to the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) applicable to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

AGREEMENTS AND COMMITMENTS SUBMITTED FOR APPROVAL TO THE SHAREHOLDERS' MEETING

Agreements and commitments authorized and concluded during the year

Pursuant to Article R.225-40 of the French Commercial Code, we have been informed that the following agreements and commitments were previously authorized by your Board of Directors.

WITH SAS H.R.C. :

Person involved: Roger LECLERC, Chairman and CEO of your Company, and Chairman of SAS H.R.C.

Service agreement covering general policy, investments, sales and marketing policy and financial policy

On September 20, 2011, your Company entered into a service agreement with SAS H.R.C covering the following areas: general policy, investments, sales and marketing policy and financial policy. This 1-year agreement was tacitly renewed.

This agreement provides for fee invoicing based on a fixed annual sum of €600,000, excluding tax, and a variable sum of 2.47% of the portion of pre-tax revenue generated annually by your Company and exceeding €10,000,000, excluding the prepaid telecommunications component.

In an amendment dated May 28, 2014, the fixed annual lump sum was increased to €707,000, excluding tax.

In a second amendment dated May 31, 2017, following the merger-absorption of INTRATONE TELECOM by your Company, the following changes were added to the September 20, 2011 agreement:

- Extension of services to project management and creation of offers and discontinued production of the Q3 report by the service provider;
- Breakdown of the time spent by the service provider in carrying out services on behalf of your Company;
- Modification of the compensation into a fixed portion of €993,000, excluding tax, and a variable portion set at 1% of the portion of pre-tax revenue generated annually by your Company amounting to between €20,000,000 and €50,000,000 and 0.50% of the portion of pre-tax revenue generated annually by your Company and exceeding €50,000,000.

This agreement was terminated on April 23, 2018, with effect as of April 30, 2018.

Amount expensed during the year in respect of this agreement: €369,811, excluding tax.

Technical and commercial service agreement

On April 23, 2018, your Company entered into an agreement with SAS H.R.C providing for technical and commercial services as from May 1, 2018.

This agreement stipulates a fixed annual compensation of €695,100, excluding tax, that breaks down into technical services for €377,340, excluding tax, and commercial services for €317,760, excluding tax, and a variable compensation related to the performance of commercial services, calculated as follows:

- 2.5% of the portion of annual EBITDA generated by your Company that is lower than or equal to €10,000,000, excluding tax;
- 1.25% of the portion of annual EBITDA generated by your Company exceeding €10,000,000, excluding tax.

The Board of Directors justified the conclusion of this agreement due to the technical and commercial expertise provided by SAS H.R.C.

The agreement was concluded for one year following its signature, i.e. until April 23, 2019, and will be extended by tacit renewal.

This agreement was authorized by your Board of Directors at its meetings on April 23, 2018 and April 18, 2019.

In an amendment dated May 11, 2018, authorized by the Board of Directors on the same date, the variable portion was capped at a maximum amount of €695,100, excluding tax.

Amount expensed during the year in respect of this agreement: €523,400, excluding tax.

Agreements and commitments previously approved by the Shareholders' Meeting

We hereby inform you that we have not been advised of any agreement or commitment previously approved by the Shareholders' Meeting which continued in effect during the year.

Executed in La Roche sur Yon and Nantes,

April 24, 2019

The Statutory Auditors

ATLANTIQUE REVISION CONSEIL	DELOITTE & ASSOCIES
- A.R.C. -	
Sébastien CAILLAUD	Guillaume RADIGUE

6.OTHER INFORMATION

6.1 INFORMATION CONCERNING THE COMPANY

6.1.1 IDENTITY

CORPORATE NAME
COGELEC SA

COMPANY CREATION DATE
10/2000

NATIONALITY
French

LEGAL FORM
French public limited company (société anonyme) with a Board of Directors

REGISTERED OFFICE
370 Rue de Maunit
85290 Mortagne-sur-Sèvre
Telephone: +33 (0)2 51 65 05 79
Fax: +33 (0)2 51 61 45 83

Email address: investors@cogelec.fr
Website: www.cogelec.fr

COMPANIES AND TRADES REGISTER
433 034 782 RCS La Roche-sur-Yon

APE CODE
2630Z (Manufacture of communication equipment)

TERM
The duration of the Company is ninety-nine years from its registration with the companies and trades register, except in the case of early dissolution or extension.

CORPORATE PURPOSE
The Company's purpose in France and in all countries, directly or indirectly, is:

- the design and manufacture of communications and telecommunications equipment,

- rental of telecommunications equipment and provision of related subscriptions and services,

- the Company's involvement, by any means, in any transactions that may relate to its corporate purpose through the formation of new companies, subscriptions or purchases of securities or rights, mergers or other,

- the performance of any commercial, civil, financial, moveable or immovable property transactions that may be directly, or indirectly, related to the above, or likely to foster the development or growth of company business.

FINANCIAL YEAR
From 1 January to 31 December.

CAPITAL AND CHARACTERISTICS
At 31 December 2018:
The capital is €4,004,121.60

It is divided into 8,898,048 shares with a par value of €0.45 each, all of the same category, subscribed and paid up.

INITIAL PUBLIC OFFER
18 June 2018

MARKET CODES
- ISIN: FR0013335742
- Reuters: COGEC.PA
- Bloomberg: COGEC:FP
- Mnemonic code: COGEC

EURONEXT PARIS
Regulated market, compartment C

STATUTORY DISTRIBUTION OF PROFIT
The distributable profit is shared among all shareholders in proportion to the number of shares belonging to each one of them.

PERSON RESPONSIBLE FOR THE INFORMATION
Mr Christophe De LYLLE
ACTIFIN
Tel: 01.56.88.11.11

The documents and information relative to the Company are available to shareholders and the public at the registered office and on the Group's website (investors section): www.cogelec.fr/

6.1.2 BOARD OF DIRECTORS

CHAIRMAN OF THE BOARD OF DIRECTORS – CHIEF EXECUTIVE OFFICER
Mr Roger LECLERC

MEMBERS OF THE BOARD
Lydie DELEBARRE, Patrick FRUNEAU, Patrice GUYET, Roger LECLERC, Cécile VACHER.

6.1.3 STATUTORY AUDITORS

REGULAR STATUTORY AUDITORS

Atlantique Révision Conseil (ARC), member of the Institute of Statutory Auditors at the Poitiers Court of Appeal, Building B, 52 Rue Jacques Yves Cousteau, 85000, La Roche-sur-Yon, France
Represented by Sébastien Caillaud.
Date of appointment: 17/03/2015
Term of office: the predecessor's remaining term of office
Date of expiration of term of office: at the General Meeting called to approve the financial statements for the year ended 31 December 2018.

Deloitte & Associés, member of the Institute of Statutory Auditors at the Versailles Court of Appeal, 185C avenue Charles de Gaulle 92200 Neuilly,
Represented by Guillaume Radigue.
Date of appointment: 16/01/2018
Term of office: 6 years
Date of expiration of term of office: at the General Meeting called to approve the financial statements for the year ending 31 December 2023.

ALTERNATE STATUTORY AUDITOR

Jean-Paul Caquineau, member of the Institute of Statutory Auditors at the Poitiers Court of Appeal, Bâtiment b, 52, rue Jacques Yves Cousteau, 85000 La Roche-sur-Yon.
Alternate to Atlantique Révision Conseil.
Date of appointment: 17/03/2015
Term of office: the predecessor's remaining term of office
Date of expiration of term of office: at the General Meeting called to approve the financial statements for the year ended 31 December 2018.

6.1.4 MAJOR CONTRACTS

Apart from the contracts described below, the Company has not signed any material contracts other than those signed in the course of its ordinary business.

6.1.4.1 CONTRACTS SIGNED WITH TELEPHONE OPERATORS

CONTRACT SIGNED WITH ORANGE FRANCE

The Company signed a framework agreement for the supply of "machine to machine" business radiotelephony with Orange France on 24 June 2010 (this contract being the continuation of a previous contract between the parties from 2006 to 2010), which was then amended by several additional clauses.

The purpose of this contract was to provide the Group with SIM cards and related services, to equip the products sold by the Group, in exchange for a fee paid by the Company in accordance with the tariff set by the contract. The contract covered the 28 countries of the European Union and over 50 targeted geographical regions, as well as France.

The initial contract was signed for a 60-month term. Provision was made for 12-monthly renewals, unless terminated by one or other of the parties. Additional clauses signed at a later date amended the term of said contract. The latest contract, signed on 24 November 2017, renewed the initial agreement for another 60 months.

The contract provides that one or other of the parties may automatically cancel the framework agreement should the other party fail to meet one of its obligations. It also provides that contractual relations shall automatically be cancelled in the event of discontinuation of one of the parties' operations or if one of the parties is subject to a court-ordered insolvency procedure (*procédure collective*) under which the framework contract would not be continued or resumed.

CONTRACT SIGNED WITH SFR

The Company signed a partnership and "machine to machine" services contract with Société Française du Radiotéléphone (SFR) on 18 October 2011, subsequently amended by several additional clauses.

The purpose of this contract was to provide the Group with SIM cards and related services, to equip the products sold by the Group, in exchange for a fee paid by the Company in accordance with the tariff set by the contract. The contract covered over 50 geographical regions, as well as France.

The contract was signed for an initial period expiring on 31 December 2012. Since then, it has been automatically renewed every 12 months and will continue to be renewed unless it is terminated by one or other of the parties. The contract also provides for several cases where cancellation may be initiated by SFR (e.g.: improper use of SIM cards, termination or revocation of SFR authorisations for the establishment and operation of services, compulsory liquidation, low rate of achievement of targets by Cogelec, change of control of Cogelec or stake in Cogelec taken by a competitor of SFR).

CONTRACT SIGNED WITH BOUYGUES TELECOM

The Company signed a "communicating objects" integrator service contract with Bouygues Telecom on 21 November 2016.

The purpose of this contract was to define the terms of the supply, by the operator, Bouygues Telecom, to the Company, of the "communicating objects" service in France and, where applicable, in other countries (36 countries covered as well as France), which the Company may use to market its "machine to machine" applications to its end customers. The "communicating objects" service, which consists of supplying SIM cards and routing data and voice calls, was provided in exchange for a fee paid by the Company in accordance with the tariff set by the contract.

The contract was signed for an initial 24-month term. Unless formal notification of cancellation is given by one of the parties at least 3 months prior to the expiry of the initial term, the contract is expected to be automatically renewed for an unlimited period. Any one of the parties can terminate the contract at any time, subject to giving 3 months prior notice.

In the event of one of the parties failing to meet its essential obligations, the other party shall be entitled to cancel the contract 15 days after a formal notification to comply remains unheeded. The contract also provides for several cases where cancellation may be initiated by Bouygues Telecom, at any time, and without any prior notice (e.g. second unsuccessful demand for payment, improper or fraudulent use of the service, amendment or suspension of GSM roaming agreements with foreign operators).

Any formal notification of cancellation or termination would not affect the validity of orders placed before that date.

6.1.4.2 Contracts for use of the VIGIK trademark

The Company signed several trademark licence agreements with La Poste/SRTP Vigik between 2003 and 2006. Each of these contracts related to the use of the trademark for a specific product. In exchange, the Company declares trademark use and pays royalties for said use which are calculated on the basis of sales made on an annual basis at agreed unit prices.

Apart from a contract signed for the same licence term as that of VIGIK's product compliance, these contracts were signed for terms that are renewable, on an indefinite basis, for additional 2-year periods.

The aforementioned contracts relate to non-exclusive licences.

6.2 STATEMENT OF THE PERSON RESPONSIBLE FOR THE ANNUAL FINANCIAL REPORT

6.2.1 PERSON RESPONSIBLE FOR THE ANNUAL FINANCIAL REPORT

Mr Roger LELCERC, Chairman and Chief Executive Officer, COGELEC.

6.2.2 STATEMENT OF THE PERSON RESPONSIBLE

I hereby certify, having taken all reasonable measures to this effect, that the information contained in this Annual Financial Report is, to the best of my knowledge, consistent with the facts and contains no omissions that would alter its import.

I hereby certify that, to the best of my knowledge, the financial statements are prepared in accordance with the applicable accounting standards and give a true image of the assets, financial position and results of the Company and all companies within the scope of consolidation and that the management report included in this Annual Financial Report gives a true picture of the evolution of the business, the results and the financial position of the Company and all companies within the scope of consolidation, and provides a description of the main risks and uncertainties with which they are confronted.

Mortagne-sur-Sèvre, 24 April 2019

The Chairman and Chief Executive Officer

Roger Leclerc