



2019 CONSOLIDATED
ANNUAL ACCOUNTS



SOMMAIRE

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MESSAGE FROM THE CHAIRMAN



2019 was a great year for Ekinops, with significant growth worldwide and new areas of development.

The Group's financial indicators are green, proving our excellent financial health with record profitability and an even stronger balance sheet. The Group welcomed a new R&D teams in Brazil, thus continuing the investments required to maintain growth over the coming years focusing on major operators. The acquisition of Optical Transport Network (OTN) switching technology should allow the Group to target increasingly larger optical networks and step up growth in this sector.

The Ekinops teams has established a number of large-scale technological and commercial partnerships. One of the Group's key strategic priorities is to provide operators with truly open and inter-operable solutions. We have announced partnerships with major global companies such as Dell, VMware, Drei (Three) and T-Mobile.

Another of the Group's main strategic priorities is continuing to strengthen its position on the network virtualization market in order to expand the software portion of sales over the long term. We are particularly proud of having been honored by the Metro Ethernet Forum (MEF) in 2019 for our virtualized offer, and of our more recent selection by Orange Business Services as a partner for their new Universal Customer Premises Equipment (uCPE) solution in order to accelerate the transformation of Edge networks. This recognition is undeniable proof of the quantum leap forward we have taken in the quality of our innovation in this field.

Ekinops supports operators' transformation initiatives to help them develop their service offering to customers demanding greater flexibility, performance and security. In 2019, the Group continued to expand its customer base and greatly enhanced its international growth, especially in North America and in the Asia-Pacific region.

For Ekinops, 2020 will be an important year of transition towards faster, more efficient and more virtualized networks driven by:

- the launch of a comprehensive optical solution using the new OTN technology;
- the sale of products with speeds of 10Gb/s;
- the release of Software-Defined Wide Area Network (SD-WAN) products;
- continued major technological and business partnerships.

I cannot conclude without mentioning the challenges we brought by to the COVID-19 pandemic. Ekinops has taken the necessary precautions to protect its employees, slow the spread of the virus and minimize the impact on its business. Currently, it is difficult for us to quantify the impact on business in 2020 but I am determined to remain optimistic. Our teams are well-knit and highly motivated. Moreover, providing solutions for improving connectivity is at the heart of our business. Lastly, Ekinops is a strong group in both financial and operational terms, which is an important factor for staying resilient amid the current environment.

We are therefore reaffirming our ambition to build a solid and high-performing company paying special attention to the needs and expectations of our customers, employees and shareholders.

Didier Brédy

Chairman and CEO, Ekinops

**2019 ANNUAL RESULTS:
REVENUE +11% - EBITDA +43%
RECORD EBITDA MARGIN OF 16.0%**

PRESS RELEASE

PARIS, February 26, 2020 - EKINOPS (Euronext Paris - FR0011466069 - EKI), a leading supplier of telecommunications solutions for telecom operators, has published its financial statements for the year ended December 31, 2019 as approved by the Board of Directors on February 25, 2020. The audit of the consolidated financial statements has been completed and the certification report will be issued after specific checks.

€m - IFRS - Audit procedures completed	2018 ²	2019	Change in %
Revenue	84.2	93.5	+11%
Gross margin	47.1	49.9	+6%
<i>% of revenue</i>	<i>55.9%</i>	<i>53.4%</i>	
Operating expenses	45.8	45.3	-1%
EBITDA¹	10.4	15.0	+43%
<i>% of revenue</i>	<i>12.4%</i>	<i>16.0%</i>	
Current operating income	1.3	4.6	+255%
Other operating income/(expenses)	(2.0)	(2.6)	
Operating income/(loss)	(0.7)	2.0	
Net income/(loss)	(0.7)	1.6	n.a.

(1) EBITDA (Earnings before interest, taxes, depreciation and amortization) corresponds to current operating income restated for (i) amortization, depreciation, provisions and write-offs, and (ii) income and expenses relating to share-based payments.

(2) 2018 data has been restated due to revaluation of the earn-out portion payment payable in shares in respect of the OneAccess acquisition. This resulted in a €1.4 million reduction in the earn-out liability as of December 31, 2018 and impacted 'Other operating income and expenses' (net expense of €2.0 million versus €3.4 million as reported in 2018).

Ekinops posted consolidated full-year 2019 revenue of €93.5 million following sustained year-on-year growth of 11.0% (9.7% at constant exchange rates), including 15.0% growth (13.3% at constant exchange rates) in the second half. These results are in line with the Group's long-term target of maintaining double-digit organic growth.

This buoyant growth largely came from strong demand for optical transport products, with the proven success of the 200G and 400G ranges. A success further illustrated by the win of several key accounts in the USA which contributed strongly to the impressive 56% growth rate recorded in the region. The revenue outside of France grew significantly in 2019 at 28.5%.

Last year, the Group made further strategic progress in virtualization, with several leading operators and service providers adopting Ekinops products: OneOS6, OneAccess' VNFs (Virtual Network Functions) and OVP (Open Virtual Platform). Ekinops' leading position in virtualization was confirmed by the MEF Award in the 'Virtualization' category obtained in November 2019 and, more recently, by Orange Business Services' choice of Ekinops as a partner for its universal customer premises equipment solution (uCPE) to step up the transformation of edge networks.

Gross margin rate of 53.4% at the upper end of the target range

Gross margin amounted to €49.9 million, up 6%. The gross margin rate came to 53.4%, at the upper end of the Group's long-term target range (50-55%), after an exceptional margin of 55.9% in 2018.

The slight year-on-year decrease is due to three factors: **(i)** a strong performance in 2018 driven by one-off service sales to a major client, **(ii)** strategic business development initiatives with two major Top 10 clients (one Asia-Pacific key account and a major European operator) leading to respective revenue growth of 48% and 82% with these two clients in 2019, and **(iii)** a less favorable product mix coupled with price increases affecting some electronic components.

43% EBITDA growth, record full-year EBITDA margin of 16.0%

2019 EBITDA came to €15.0 million, up 43% from 2018 driven by tight management of the cost structure. Accordingly, operating expenses fell 1% versus 2018, with reductions seen in R&D (down 3%) and sales and marketing expenditure (down 5%).

The main reasons for the leveling of operating expenses were: **(i)** the full-year impact of the reorganization and optimization measures implemented in 2018 following the OneAccess acquisition, **(ii)** reduced hiring requirements after the intake of 25 R&D engineers based in Campinas (Brazil) following the July acquisition of OTN technology, and **(iii)** a €1.3 million increase in 2019 grants for innovation and research tax credit versus 2018.

Furthermore, application of IFRS 16 increased 2019 EBITDA by €1.9 million.

2019 EBITDA margin came to 16.0% (14.0% excluding IFRS 16 impact) versus 12.4% in 2018.

After net depreciation, amortization and provisions (€8.6 million) and non-cash expenses relating to share-based payments (€1.8 million), current operating income amounted to €4.6 million (4.9% of revenue) compared to €1.3 million last year (up 255%).

Other operating income and expenses amounted to a net expense of €2.6 million (vs €2.0 million in 2018), mainly consisting of fees and charges relating to acquisitions. Operating income amounted to €2.0 million (vs a €0.7 million loss in 2018).

Net income came to €1.6 million, compared to a €0.7 million loss in 2018.

€14.0 million net cash¹ as of December 31, 2019

During 2019 Ekinops generated operating cash flow of €10.5 million.

Cash flow from investing activities amounted to €16.1 million comprising €3.9 million capex (non-current assets and R&D capitalization) and a €12.3 million outflow representing the acquisition of OTN technology in July 2019 and payment of the last earn-out installment in respect of the OneAccess acquisition.

Cash flow from financing activities amounted to a €13.1 million inflow, which includes a net €7.3 million capital increase through private placement carried out in June 2019 to finance the OTN acquisition and new bank borrowings totaling €7.9 million net of repayments.

The overall change in cash and cash equivalents was a €7.5 million increase in 2019.

ASSETS - €m IFRS			EQUITY & LIABILITIES - €m IFRS		
	12/31 2018	12/31 2019		12/31 2018	12/31 2019
Non-current assets	71.1	83.9	Shareholders' equity	74.4	86.5
o/w goodwill	27.5	28.6	Financial liabilities	10.9	18.6
o/w intangible assets	30.4	34.4	o/w factoring	5.0	6.7
o/w right-of-use assets	-	6.2	o/w conditional advances/interest free loans	2.1	1.5
Current assets	37.8	38.9	R&D tax credit pre-financing	4.8	5.4
o/w inventories	11.2	10.5	Trade payables	14.0	13.8
o/w trade receivables	20.7	21.4	Lease liabilities	-	6.5
Cash & cash equivalents	25.1	32.6	Other liabilities	30.0	24.6
TOTAL	134.1	155.4	TOTAL	134.1	155.4

Outlook

After the growth achieved in 2018, 2019 results fully reflect the successful merger with OneAccess and the high value-added generated.

Over the coming months, the Group plans to stay focused on high value-added applications such as SD-WAN (Software-Defined Wide Area Network), uCPEs, OneOS6, VNFs, services, 1G/10G routers, OTN and SDN software.

Recent achievements in virtualization (MEF Award, Orange Business Services) confirm the merits of the Group's innovator positioning in this sector and ambition to establish itself as a leading supplier of new-generation virtualization solutions to operators.

(1) Net cash = cash and cash equivalents – borrowings (excluding bank debt relating to CIR pre-financing and IFRS 16 lease liabilities)

2020 financial targets

As the year 2020 gets underway, Ekinops is confirming its goal of delivering double-digit annual organic growth over the long term, as achieved in 2018 (14% pro forma growth) and 2019 (11%).

The Group's upselling strategy driven by increasing sales of software solutions over the coming years strengthens its confidence in achieving its gross margin target of 50-55%, above the industry average.

Lastly, in terms of operating performance the Group is confirming its target of keeping the increase in expenses down to €2-4 million (excluding depreciation and amortization charges and non-recurring expenditure) versus 2019, in view of the full-year consolidation of the new OTN business and the hiring required to support growth.

Potential impact of coronavirus epidemic on Ekinops' business

Along with the publication of its 2019 annual results, Ekinops wishes to inform the market of the possible impact of the coronavirus epidemic and production line shutdowns in China on its business.

So far, the epidemic has not had a major impact on the Group's business.

It is reminded that the Group's equipment is manufactured entirely in Europe at assembly plants located in France, Belgium and Hungary.

However, supply issues affecting some components manufactured in China could cause delays in equipment deliveries to clients. Meanwhile, the Group is looking into alternative supply solutions for some categories of components and parts.

The Group will keep its shareholders and the market informed of any related material developments affecting its business.

Financial reporting calendar

Date	Release
Wednesday, April 8, 2020	Q1 2020 revenue (unaudited)
Thursday, May 28, 2020	General Meeting
Thursday, July 9, 2020	Q2 2020 revenue (unaudited)
Tuesday, July 28, 2020	H1 2020 results (limited review)
Monday, October 12, 2020	Q3 2020 revenue (unaudited)
Tuesday, January 12, 2021	FY 2020 revenue (unaudited)

All press releases are published after Euronext Paris market close.

1. STATEMENT ON CONSOLIDATED FINANCIAL POSITION

(In thousands of euros)	Notes	December 31, 2019	December 31, 2018 ¹
Goodwill	4.1	28 565	27 523
Intangible assets	4.2	34 436	30 363
Tangible assets	4.3	2 582	2 593
Non-current financial assets	4.5	1 084	1 177
Rights of use	4.6	6 164	
Other non-current assets	4.5	8 739	7 519
Deferred tax assets	5.7	2 293	1 953
Total non-current assets		83 863	71 128
Inventories	4.7	10 497	11 232
Trade receivables and related accounts	4.8	21 364	20 687
Other current assets	4.9	7 057	5 912
Cash and cash equivalents	4.10	32 588	25 115
Total current assets		71 506	62 946
TOTAL ASSETS		155 369	134 074
Issued capital	4.11	12 064	10 765
Share premiums		109 435	103 163
Consolidated reserves – Group share		(36 255)	(37 812)
Translation reserves		(390)	317
Profit (loss) for the period – Group share		1 623	(674)
Shareholders' equity (Group share)		86 477	75 759
Total shareholders' equity		86 477	75 759
Non-current financial debt	4.12	11 485	6 708
Non-current lease liabilities	4.6	4 907	
Non-current provisions	4.14	765	1 224
Commitments to personnel	4.15	3 144	2 496
Other non-current liabilities	4.17	489	112
Deferred tax liabilities	5.7	5 072	5 597
Total non-current liabilities		25 862	16 137
Current financial debt	4.12	12 524	9 059
Current lease liabilities	4.6	1 571	
Current provisions	4.14	1 253	1 163
Debts on acquisition of current securities	4.16	756	4 830
Derivative instrument liabilities	4.18	42	26
Trade payables and related accounts	4.18	13 831	13 958
Current tax payable	4.18	680	797
Other current liabilities	4.18	12 374	12 344
Total current liabilities		43 031	42 177
TOTAL LIABILITIES		155 369	134 074

The accompanying notes are an integral part of the condensed consolidated annual financial statements.

¹: The financial statements for the 2018 financial year were impacted by the retrospective adjustment of the valuation of the earnout relating to the acquisition of the OneAccess Group. The column "December 31, 2018" incorporates this impact, which is detailed in Note 4.16 of this report.

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In thousands of euros)	Notes	December 31, 2019	December 31, 2018 ¹
Revenue	5.1	93 477	84 222
Cost of sales	3.3.2.1	(43 594)	(37 134)
Gross margin		49 883	47 088
Research and development costs	5.2	(18 618)	(19 216)
Marketing and sales costs	5.2	(18 470)	(19 538)
General and administrative expenses	5.2	(8 237)	(7 049)
Current operating profit (loss)		4 558	1 285
Other operating income and expenses	5.5	(2 572)	(2 030)
Operating profit (loss)		1 986	(745)
Net borrowing cost	5.6	(442)	(209)
Other financial income and expenses	5.6	60	95
Pre-tax profit (loss)		1 604	(859)
Tax expense	5.7	19	178
Net income for the period		1 623	(680)
Portion attributable to Ekinops SA shareholders:	5.8	1 623	(674)
Portion attributable to non-controlling interests:		-	(6)
Basic earnings per share (€/share):	5.8	0,07	(0,03)
Diluted earnings per share (€/share):		0,07	(0,03)
EBITDA	11	14 954	10 448

OTHER COMPREHENSIVE INCOME

(In thousands of euros)	December 31, 2019	December 31, 2018 ¹
Net income for the period	1 623	(680)
Other recyclable components of comprehensive income:	(709)	(20)
Currency translation adjustments, net of taxes	(709)	(20)
Currency translation adjustments	(709)	(20)
Tax effect	-	-
Other non-recyclable components of comprehensive income:	(552)	189
Actuarial gains and losses, net of taxes	(536)	196
Actuarial gains (losses) on commitments to personnel	(536)	196
Tax effect	-	-
Financial instruments, net of taxes	(16)	(7)
Change in fair value of hedging financial instruments	(16)	(7)
Tax effect	-	-
Total other comprehensive income	(1 261)	169
Comprehensive income	362	(511)
Portion attributable to Ekinops SA shareholders:	362	(505)
Portion attributable to non-controlling interests:	-	(6)

The accompanying notes are an integral part of the condensed consolidated annual financial statements.

¹: The financial statements for the 2018 financial year were impacted by the retrospective adjustment of the valuation of the earnout relating to the acquisition of the OneAccess Group. The column "December 31, 2018" incorporates this impact, which is detailed in Note 4.16 of this report.

3. CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(In thousands of euros)	Number of shares	Capital	Share premium	Reserves and retained earnings	Translation reserves	Shareholders' equity, Group share	Non-controlling interests	Total shareholders' equity
At January 1, 2018	21 242 747	10 621	103 936	(39 073)	338	75 822	471	76 293
Net income for the period	-	-	-	(674)	-	(674)	(6)	(680)
Other comprehensive income	-	-	-	189	(20)	169	-	169
Comprehensive income	-	-	-	(485)	(20)	(505)	(6)	(511)
Treasury shares	-	-	-	1	-	1	-	1
Share-based payments	-	-	-	443	-	443	-	443
Final vesting of bonus shares awarded on May 19, 2016	286 414	143	(755)	612	-	-	-	-
Purchase of non-controlling interests	-	-	-	15	-	15	(465)	(450)
Other	-	-	(18)	1	-	(17)	-	(17)
At December 31, 2018 ¹	21 529 161	10 765	103 163	(38 486)	318	75 759	-	75 759
At January 1, 2019	21 529 161	10 765	103 163	(38 486)	318	75 759	-	75 759
Net income for the period	-	-	-	1 623	-	1 623	-	1 623
Other comprehensive income	-	-	-	(552)	(709)	(1 261)	-	(1 261)
Comprehensive income	-	-	-	1 071	(709)	362	-	362
Impact of first-time adoption of IFRS 16 (net of corporate tax)	-	-	-	(278)	-	(278)	-	(278)
Treasury shares	-	-	-	1	-	1	-	1
Share-based payments	-	-	-	1 800	-	1 800	-	1 800
Capital increase	2 598 516	1 299	6 272	(237)	-	7 334	-	7 334
Other - OneAccess earnout payable in shares ¹	-	-	-	1 499	-	1 499	-	1 499
At Tuesday, December 31, 2019	24 127 677	12 064	109 435	(34 630)	(391)	86 477	-	86 477

* The movement for the financial year ended December 31, 2019, shown on the "Other" line corresponds to the component of the OneAccess earnout settled by issue of Ekinops securities. The accompanying notes are an integral part of the condensed consolidated annual financial statements.

¹: The financial statements for the 2018 financial year were impacted by the retrospective adjustment of the valuation of the earnout relating to the acquisition of the OneAccess Group. The column "December 31, 2018" incorporates this impact, which is detailed in Note 4.16 of this report.

4. CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands of euros)	Notes	December 31, 2019	December 31, 2018 ¹
Net income for the period		1 623	(680)
Elimination of amortization (excluding rights of use), depreciation, and provisions	5.4	6 701	8 940
Elimination of amortization of rights of use (IFRS 16)	4.6.1	1 686	
Elimination of share-based payment expenses	4.11.2	1 800	443
Elimination of deferred taxes	5.7	(813)	(888)
Elimination of other items without cash flow impact		38	50
Cash flow after taxes and net borrowing costs		11 035	7 865
Elimination of change in earnout fair value	4.16	157	1 530
Elimination of tax expense (income)	5.7	795	710
Neutralization of financial interest related to rent liabilities	4.6	194	
Neutralization of borrowing costs disbursed	5.6	210	159
Cash flow before taxes and net borrowing costs		12 391	10 264
Impact of change in working capital requirements	4.19	(1 886)	69
Taxes paid		(861)	(314)
Cash flows from operating activities		9 644	10 019
Acquisitions of tangible and intangible assets	4.4	(3 933)	(2 861)
Disposal of tangible and intangible assets		-	18
Acquisition of securities	4.16	(12 249)	(369)
Change in loans, advances, and security deposits	4.5	96	178
Cash flows from investing activities		(16 086)	(3 034)
Change in share capital and share premiums	3	7 334	(18)
Trading in treasury shares		1	1
Issue of new loans	4.11	11 714	3 348
Loan repayments	4.11	(4 392)	(3 621)
Financial interest paid		(212)	(158)
Repayment of rent liabilities	4.6	(1 682)	-
Financial interest related to rent liabilities	4.6	(194)	-
Change in factoring debt	4.11	1 729	(2 469)
Change in other financial debt	4.11	(311)	(208)
Cash flows from financing activities		13 987	(3 125)
Impact of foreign exchange rate fluctuations		(72)	(61)
Net increase (decrease) in cash and cash equivalents		7 473	3 799
Opening cash and cash equivalents:		25 115	21 316
Closing cash and cash equivalents:		32 588	25 115

The accompanying notes are an integral part of the condensed consolidated annual financial statements.

¹: The financial statements for the 2018 financial year were impacted by the retrospective adjustment of the valuation of the earnout relating to the acquisition of the OneAccess Group. The column "December 31, 2018" incorporates this impact, which is detailed in Note 4.16 of this report.

5. NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

NOTE 1 – General presentation

Ekinops is a leading supplier of open, interoperable telecommunications solutions for service providers (telecommunications operators and companies) around the world.

The highly programmable and scalable solutions offered by Ekinops enable the fast, flexible deployment of new services for high-capacity and high-speed optical transport as well as enterprise services, particularly through network virtualization. The portfolio of solutions consists of two sets of fully complementary products:

- the “Ekinops 360” platform to meet the needs of metropolitan, regional, and long-distance networks based on a simple, highly integrated architecture for network layer 1 (transport);
- “OneAccess” solutions to offer a wide range of physical and virtualized deployment options for layers 2 and 3 (access and routers).

As service providers embrace SDN (Software Defined Networking) and NFV (Network Functions Virtualization) deployment models, the Ekinops solutions allow them to migrate transparently to open, virtualized architectures.

Thanks to its global organization, Ekinops operates on four continents.

Ekinops SA is listed for trading on compartment C of the Euronext Paris market (ISIN code: FR0011466069, symbol: EKI).

On February 25, 2020, the Board of Directors approved and authorized the publication of the consolidated annual financial statements of Ekinops SA covering the twelve-month period ending December 31, 2019.

The consolidated financial statements are presented in thousands of euros, and all values are rounded to the nearest thousand unless otherwise stated.

NOTE 2 – Significant events

The Group’s revenue grew significantly in the 2019 financial year from €84.2 million in 2018 to €93.5 million.

This dynamic growth resulted in particular from a sustained demand for optical transport products, with the confirmed success of the 200G range and a very good market reception for the new 400G equipment launched last year.

At the same time, the Group has made further strategic advances in virtualization, with several leading operators or service providers adopting Ekinops products (OneOS6, VNF - Virtual Network Function - and OVP - Open Virtual Platform).

In July 2019, the Group finalized the acquisition of the OTN-Switch platform (Optical Transport Network) developed by Padtec, a Brazil-based manufacturer of optical network equipment, for €11 million.

Lastly, in July 2019, the Group completed a capital increase by private placement in the amount of €7.5 million.

NOTE 3 – Accounting methods and principles

3.1 – General principles

The consolidated financial statements are presented in thousands of euros, and all values are rounded to the nearest thousand unless otherwise stated.

3.2 – Financial reporting framework

The main accounting methods applied when preparing the consolidated financial statements are described below. Unless otherwise indicated, these methods were applied consistently to all of the periods presented.

Pursuant to Regulation 1126/2008 of the European Council adopted on November 3, 2008, the Ekinops group's consolidated financial statements at December 31, 2019, were prepared in accordance with international accounting standards as approved by the European Union as of December 31, 2019, and mandatory as of that date.

International accounting standards include IFRS (International Financial Reporting Standards), IAS (International Accounting Standards), and their interpretations issued by IFRIC (International Financial Reporting Interpretations Committee) and SIC (Standing Interpretations Committee).

All of the texts adopted by the European Union are available on the European Commission website:

http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm

Standards, amendments, and interpretations adopted by the European Union and mandatory for financial years beginning after January 1, 2019, and not applied early by the Group

□ **IFRS 16 – Leases**

IFRS 16 – “Leases” became mandatory on January 1, 2019. This new standard replaces existing standards regarding leases, in particular IAS 17 – “Leases,” IFRIC 4 – “Determining Whether an Arrangement Contains a Lease,” SIC-15 – “Operating Leases – Incentives,” and SIC-27 – “Evaluating the Substance of Transactions in the Legal Form of a Lease.”

IFRS 16 requires lessees to recognize for all their leases an asset representing the right to use the underlying asset and a liability for the obligation to pay the associated rents.

As of the effective date of the lease, the right of use is measured according to the cost model, including, as of the effective date of the lease, the initial amount of the liability, the initial direct costs incurred in entering into the lease, and an estimate of the costs of dismantling or restoring the leased asset according to the terms of the lease. The right-of-use asset is depreciated on a straight-line basis over the term of the lease or the useful life of the leased asset if there is reasonable assurance that ownership will be transferred.

As of this date, this lease liability is measured at amortized cost using the effective interest rate (EIR) model and corresponds to the effective date of the lease at the present value of future payments over the term of the lease (fixed rents, variable rents based on a rate or index, residual value guarantees, call option strike price if reasonably certain, termination or non-renewal penalties). The lease term is defined lease by lease and corresponds to the non-cancelable period of the commitment taking into account the optional periods reasonably certain to be exercised.

Subsequently, the debt and the right to use the underlying asset must be reassessed to take into account the following situations:

- revision of the lease term
- any change related to the assessment of the reasonably certain (or not) nature of the exercise of an option,
- reassessment of residual value guarantees,
- revision of the rates or indices on which rents are based,
- rent adjustments

The Group applies the following simplification measures provided for in the standard:

- Exclusion of short-term leases that do not include an option to purchase,
- Exclusion of leases on low-value assets,

Rents related to these leases are then directly recognized as operating expenses.

The Group has mainly leases for buildings (production center, offices) previously classified as operating leases under IAS 17 and for which a right of use is now recognized under IFRS 16.

Transitional arrangements

The Group has opted for the simplified retrospective method, which consists of recognizing the cumulative impact of the first-time adoption of IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated and is therefore presented, as before, according to the principles of IAS 17 and its interpretations.

In connection with the transition, the main simplification measures adopted by the Group are as follows:

- Exclusion of leases for low-value underlying assets (less than EUR 5,000),
- Exclusion of leases with a term of 12 months or less and including options to purchase,
- Use of the initial lease term to determine the discount rate as of the transition date.

As of the transition date, the Group has opted to determine the value of the right of use for an amount equal to the value that the asset would have had if IFRS 16 had been adopted as of the effective date of the lease.

The discount rates applied at the transition date are based on the Group's marginal borrowing rate plus a spread to take into account the economic environments specific to certain countries. These rates were determined on the basis of the original lease terms.

The weighted average marginal debt ratio was 2.3% as of January 1, 2019.

Impacts on the annual financial statements

For the purposes of the transition to IFRS 16, the Group has recognized right-of-use assets and additional rent liabilities on the balance sheet and has recognized the difference in retained earnings. The effects of the transition are summarized below.

Amounts in thousands of euros	January 1, 2019
"Rights of use" assets	6 993
Deferred tax assets	38
Rent liabilities	(7 309)
Impact in retained earnings	(278)

Operating lease obligations, December 31, 2018 (reported)	3 899
Other real estate commitments identified - Ekinops Belgium	2 238
Other equipment commitments identified - Vehicles	929
Other commitments identified	835
Exemptions for leases with a term of 1 year or less	(64)
Exemptions for leases on an asset with a low individual value	(19)
Gross rent obligations at January 1, 2019	7 818
Effect of discounting	(509)
Rental liabilities at transition date as of January 1, 2019	7 309
IAS17 finance lease liabilities as of January 1, 2019	588
Rental liabilities at transition date as of January 1, 2019	7 897

The impacts on the income statement of adopting this standard are as follows:

(In thousands of euros)	December 31, 2019 excluding IFRS 16	Net impact of IFRS 16	December 31, 2019 reported
Revenue	93 477		93 477
Cost of sales	(43 594)		(43 594)
Gross margin	49 883	-	49 883
Operating expenses	(45 391)	66	(45 325)
Operating profit (loss)	4 492	66	4 558
Other operating income and expenses	(2 572)		(2 572)
Financial result	(189)	(194)	(383)
Tax expense	19		19
Net income for the period	1 750	(128)	1 622

Residual charge

The residual rental charge is presented in the table below and corresponds to rental charges and non-material movable property leases.

(In thousands of euros)	Property rentals and rental charges	Equipment rentals and rental charges	Statement of IFRS 16 rents	Residual balance
EKINOPS SA	(157)	(167)	282	(42)
EKINOPS Corporation	(47)	-	47	-
EKINOPS France SA	(584)	(58)	525	(117)
EKINOPS Belgium	(389)	(341)	665	(65)
EKINOPS Italy	(13)	(23)	24	(12)
EKINOPS India	(195)	-	174	(21)
One Access USA	-	-	-	-
EKINOPS Australia	(33)	-	36	-
TOTAL	(1 418)	(589)	1 753	(257)

□ Other mandatory standards, amendments, and interpretations as of January 1, 2019

IFRS annual improvements 2015–2017 cycle	Miscellaneous provisions.
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement.
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures.
Amendments to IFRS 9	Prepayment Features.
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments.

These publications had no significant impact on the Group's consolidated financial statements.

3.3 – Valuation rules and methods

3.3.1 – Scope

The Group controls all its subsidiaries, which are therefore fully consolidated.

During the financial year ended December 31, 2019, the changes in the scope of consolidation were as follows:

- Acquisition of Ekinops Brasil in July 2019,
- Dissolution of OneAccess UK (non-operating company)
- Creation of Ekinops Espana Srl in December 2019,

The table below presents the information relating to all entities included in the scope of consolidation as of the end of each financial year.

Company	Comments	Country	2019			2018		
			Percentage of interest	Consolidation method	Number of months of activity	Percentage of interest	Consolidation method	Number of months of activity
Ekinops SA	-	France	Parent	FC	12 months	Parent	FC	12 months
Ekinops Corp	-	United States	100%	FC	12 months	100%	FC	12 months
Ekinops France SA	-	France	100%	FC	12 months	100%	FC	12 months
Ekinops Belgium	-	Belgium	100%	FC	12 months	100%	FC	12 months
Ekinops Italia	-	Italy	100%	FC	12 months	100%	FC	12 months
Ekinops India	-	India	100%	FC	12 months	100%	FC	12 months
OneAccess US	Entity in liquidation	United States	100%	FC	12 months	100%	FC	12 months
Ekinops Australia	Ex OneAccess Australia	Australia	100%	FC	12 months	100%	FC	12 months
Ekinops Espana	-	Spain	100%	FC	1 months	-	-	-
Ekinops Brasil	-	Brazil	100%	FC	6 months	-	-	-

3.3.2 – Consolidation methods

The financial statements of subsidiaries cover the same reference period as those of the parent company using the same accounting methods.

All intra-group balances, intra-group transactions, and unrealized income, expenses, and gains that are included in the book value of assets from internal transactions are fully eliminated.

Companies in which the Group directly or indirectly exercises sole control are fully consolidated.

3.3.3 – Translation methods

a) Translation of financial statements of foreign subsidiaries

The operating currency of foreign companies is the local currency.

The financial statements of foreign companies using a currency different from the Group's consolidated reporting currency are translated using the "closing rate" method.

Their balance sheet items are translated at the exchange rate prevailing at the end of the financial year, and income statement items are translated at the average rate of the period. The resulting translation differences are recorded in translation differences in the consolidated reserves.

b) Transactions in foreign currencies

Transactions in foreign currencies are translated into euros at the exchange rate in force on the day of the transaction. At the end of each period, monetary financial assets and liabilities denominated in a foreign currency are translated using the rate prevailing on that date.

The resulting exchange losses and gains are recognized in other financial income and expenses on the income statement, with the exception of foreign exchange differences relating to monetary items meeting the definition of net investment in a foreign activity. These items are recognized in other comprehensive income and are recognized in profit or loss on disposal of the net investment.

3.3.4 – Judgments and estimates

In order to prepare the financial statements in accordance with IFRS, the Group's Management had to make assumptions, judgments, and estimates that could affect the amounts presented as assets and liabilities and the amounts presented as expenses and income for the period as of the date of preparation of the financial statements.

The main significant estimates made by the Group's Management include:

- fair value measurement of stock options (stock option plans, startup warrants, bonus share, and share warrants) granted to founders, managers, employees of the Group, and certain service providers. The measurement of this fair value results from models requiring the use of calculation assumptions (volatility, staff turnover, exercisability period, etc.);
- valuation of employee benefits, especially end-of-career benefits;
- valuation of provisions and especially the warranty provision
- estimate of repayment flows of repayable grants and advances;
- valuation of deferred taxes;
- goodwill impairment tests;
- accounting treatment of leases in the application of IFRS 16.

The Group's Management makes these estimates and assessments on an ongoing basis according to the going-concern assumption, its experience, and the information available as of the closing date. These estimates may be revised if the circumstances on which they were based change or if new information becomes available. Consequently, actual results may differ substantially from these estimates.

3.3.5 – Goodwill

In accordance with the provisions of the revised IFRS 3–Business Combinations, Goodwill represents the difference between:

- The sum of the following items:
- The price for acquisition of control;
- The amount of the non-controlling interest in the acquisition determined at fair value at the date of acquisition (full goodwill method); and
- The net amount of assets acquired and liabilities assumed, measured at fair value at the date of acquisition.

Costs directly attributable to business combinations are recognized as expenses on the income statement in “Other operating income and expenses.”

The recognized goodwill is not amortized but undergoes at least one annual impairment test to determine whether an impairment loss must be recognized. For impairment testing purposes, goodwill is allocated to Cash-Generating Units (CGU): a CGU is the smallest identifiable group of assets whose continued use generates cash inflows that are independent of cash inflows generated by other assets or groups of assets. The Group conducts impairment tests at the end of each year or whenever an indication of impairment loss is identified in order to estimate the recoverable amount of the CGU. The recoverable amount is the greater of the net fair value of the asset and its value in use (present value of cash flows expected from use of the CGU). An impairment loss is recognized for a CGU if the recoverable amount is less than the carrying amount. This impairment loss must first be allocated to the CGU's goodwill.

Impairment tests carried out for the 2019 financial year did not lead to the recognition of any impairment loss.

3.3.6 – Intangible assets

In accordance with IAS 38 – Intangible Assets, only items whose cost can be reliably estimated and by which future economic benefits are likely to accrue to the Group are recognized as intangible assets.

Intangible assets are valued according to the amortized cost method (historical cost as of the initial recognition date plus subsequent amortizable expenses and minus accumulated amortization and recognized impairment losses).

They primarily consist of:

- User licenses for software applications/packages, amortized on a straight-line basis over their useful life of between 1 and 6 years
- Development costs.

The OneAccess purchase price allocation during the 2018 financial year led to the determination of the fair value of intangible items with the following amortization periods:

- Developed technologies 6 years
- Customer Relations 10 years
- Order book..... 1 year

Development costs

The Group capitalizes development costs when they meet all the conditions defined by IAS 38:

- the technical feasibility of completing the intangible asset for use or sale,
- the intention to complete the asset for its use or sale,
- the ability to use or sell the produced asset,

- the ability of the asset to generate future economic benefits,
- the current or future availability of the technical, financial, or other resources necessary to carry out the project,
- the ability to reliably measure the expenditure attributable to this asset during its development phase.

Capitalized development costs include costs related to external service providers as well as the gross salaries and social security contributions of the employees who participated in the project, measured on the basis of the time spent plus a share of indirect costs. Research costs are systematically recorded as expenses.

The amortization of development costs begins from the date of marketing of the equipment or deployment of the software. Development costs are amortized on a straight-line basis over their estimated useful life.

Development costs for which amortization has not begun as of the end of the financial year are presented as "Ongoing development costs."

Residual values and useful lives are reviewed at each close and are adjusted where appropriate.

3.3.7 – Tangible assets

Tangible assets are valued at their acquisition cost (purchase price and incidental costs) or at their production cost for certain tangible assets produced internally. This capitalized production mainly concerns demonstration equipment.

Tangible assets are depreciated on a straight-line basis according to their useful life:

- Technical facilities 10 years
- Equipment and tools 3 to 10 years
- Office and IT equipment 3 to 5 years
- Demo equipment and development 4 years
- Improvements..... 5 to 10 years

Depreciable residual values and useful lives are reviewed at each close and are adjusted where appropriate.

3.3.8 – Asset impairment

In accordance with the provisions of IAS 36 – Impairment of Assets, where an event or change in market conditions presents a risk of impairment for an intangible or tangible asset, its carrying amount is reviewed to ensure that it remains below its recoverable amount. The recoverable amount is the higher value between the fair value minus the costs of sale and the value in use. Value in use is measured by discounting future cash flows to be generated by the continued use of the asset and its ultimate disposal. The recoverable amount at the closing date takes into account, in particular, the commercial evolution of products as well as technological developments.

If the recoverable amount is less than the carrying amount, an impairment loss corresponding to the difference between these two values is immediately recognized in net income.

An impairment loss recognized for a tangible or intangible asset that has a fixed useful life may be reversed if the recoverable amount again exceeds the carrying amount. However, the reversal may not exceed the initially recognized impairment loss.

3.3.9 – Inventories

Inventories are measured at the lower value between their cost price and their net realizable value. Net realizable value represents the estimated selling price under normal operating conditions minus marketing costs. The cost price is determined using the weighted average unit cost method.

The gross value of inventories of components includes the purchase price, customs duties, other taxes, and directly attributable handling, transport, and other costs.

The cost price of finished goods includes the cost of materials, the cost of direct labor, and a share of indirect production costs.

A provision for impairment is established on a case-by-case basis if the value in use is less than the book value. This is particularly the case when inventories are recorded for an amount greater than the amount that the company expects to obtain from their sale or use. The recoverable amount of inventories may also be allocated if those inventories are damaged, if they have become fully or partially obsolete, or if their selling price has declined.

Estimates of net realizable value take into consideration fluctuations of price or cost directly relating to events occurring after the end of the reporting period to the extent that such events confirm the conditions existing at the end of the period.

3.3.10 – Financial assets (excluding financial derivatives)

Financial assets, excluding cash and financial instruments, consist of loans and receivables. Loans and receivables are non-derivative financial assets not listed on an active market and with income that is determined or can be determined. They are included in current assets, except for assets with a term expiring more than 12 months after the closing date. Loans are valued at the amortized cost using the effective interest method. The recoverable amount of loans and receivables is reviewed where there is any indication that the asset may have suffered an impairment loss and at least at each close. If the recoverable amount is less than the carrying amount, an impairment loss is immediately recognized on the consolidated statement of net income.

Management regularly reviews and assesses the recoverable amount of trade receivables. If the recoverable amount is less than the net book value, a provision for impairment or a loss on bad debt is recognized in net income. This credit risk assessment is based on past experience in debt collection and payment defaults, the age of receivables where the due date has been exceeded, and the granted payment conditions. A due date is deemed to have been exceeded when payment has still not been made as of the date fixed by contract.

3.3.11 – Cash and cash equivalents

Cash mainly includes liquidity in current account balances. Cash equivalents include short-term investments that are highly liquid and present a risk of a change in value considered negligible. Investments with an initial maturity of more than three months without the possibility of an early exit and restricted bank accounts (frozen accounts) are excluded from cash and cash equivalents.

Cash equivalents are measured at fair value, and changes in fair value are recognized on the consolidated statement of net income.

Bank overdraft facilities are included in current financial debt.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash and cash equivalents as defined above, net of current bank overdrafts.

3.3.12 – Financial derivatives

The Group may need to use financial instruments in particular to reduce its exposure to risks of exchange rate fluctuation.

Financial derivatives are initially recognized at fair value at the inception date and are subsequently revalued at each closing date. The recognition of profits and losses at fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the hedged item.

Cash flow hedging

This is intended to protect against exposure to the variability of future cash flows relating to a particular risk associated with either an asset or liability recorded on the balance sheet or a highly probable future transaction, which may affect net income.

The Group applies cash flow hedge accounting only when the following conditions are met:

- There is internal documentation on the implemented hedging.
- The transaction being hedged is highly probable and involves exposure to changes in cash flow that could affect net income.

For hedging instruments documented as cash flow hedges, changes in value are recorded in equity for their effective portion; the ineffective portion is recorded on the income statement.

Fair value hedging

This is intended to protect against exposure to changes in the fair value of an asset, liability, or firm commitment (or an identified portion of an asset, liability, or firm commitment), which may be attributed to a specific risk and will have an impact on net income.

For hedging instruments documented as fair value hedging or not documents, changes in value are recorded on the income statement.

3.3.13 – Share buyback commitments

The Group may make commitments with minority shareholders of certain subsidiaries to buy back their holdings in the form of put options granted to them. The strike price of these transactions is fixed and established according to a predefined calculation formula. These put options granted to minority shareholders give rise to the recognition of a financial liability at fair value, and any subsequent changes in fair value will be recognized in profit or loss where appropriate.

3.3.14 – Measurement and recognition of other financial liabilities

Other financial liabilities are initially recognized at fair value at the transaction date. They are subsequently valued at the amortized cost using the effective interest method. The effective interest rate is the rate that equalizes the expected future cash outflows at the current net book value of the financial liability to deduct its amortized cost.

3.3.15 – Conditional advances, subsidies, and tax credits

The Group receives a number of subsidies or conditional advances. Subsidies are recognized where there is reasonable assurance that:

- the Group will comply with the conditions attached to the subsidies and,
- the subsidies will be received.

A forgivable loan subject to conditions is treated as a government subsidy when there is reasonable assurance that the company will meet the conditions for forgiveness of the loan. Otherwise, it is classified in financial debt and measured at amortized cost. Any difference between the amortized cost of the loan and its nominal value is recognized in subsidy income and spread over the during of the financed project.

A government subsidy receivable as immediate financial support to the company without future related costs is recognized as income in the year during which the receivable is acquired. Where the purpose of the subsidy is to offset the expense, it is recognized as a deduction from that expense.

Tax credits related to operating expenses are recognized in operating income net of the expenses to which they relate.

The research tax credit (CIR) and the innovation tax credit (CII) are presented as a deduction from "Research and development costs" on the consolidated statement of net income.

3.3.16 – Provisions

In accordance with IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets, the Group recognizes provisions only if the following three conditions are met:

- an entity has a present obligation (legal or constructive) to a third party as a result of a past event;
- it is probable that an outflow of resources representing economic benefits will be necessary to discharge the obligation; and
- the amount of the obligation can be estimated reliably.

The determination of risk exposure and the recognition and measurement of provisions involve a significant amount of judgments and estimates. These judgments and estimates are inherently subject to change, particularly if new information or new assessment factors become available.

Where the Group expects partial or full repayment of the provision, for example as a result of an insurance policy, accrued income may be recognized as an asset on the balance sheet if the repayment is virtually certain.

If the impact is significant, the provisions are discounted at a rate that reflects the risks specific to the liabilities. At each subsequent closing, the increase in the provision resulting from the lapse of time leads to the recognition of an "undiscounting" expense on the income statement.

When the provision is used, the provision writeback is credited to the expense account in which the expenditure covered by the provision was recorded. When the provision writeback reflects the extinguishment of the expected risk without an associated expenditure, the writeback is credited to provision allowance account.

Provision for warranty

A provision is established for expenses to be incurred in future years for warranties on equipment sold. This provision was established on the basis of historical data on warranties and by weighting possible exits according to their probability. The incurred costs include labor, travel, and spare parts.

According to the Group's forecasts, most of the provision will be consumed in the following financial year.

3.3.17 – Employee benefits

Certain employees of the Group are eligible for pension benefits provided by law:

- retirement compensation paid by the Company upon retirement (defined-benefit plan);
- payment of retirement pensions by social security agencies, funded by contributions from companies and employees (defined-contribution scheme).

Pension plans, similar compensation, and other employee benefits that are analyzed as defined-benefit plans (a plan in which the Company guarantees a defined amount or benefit level) are recognized on the balance sheet on the basis of an actuarial valuation of obligations as of the closing date minus, where applicable, the fair value of the related plan assets dedicated to them.

This actuarial valuation is based on the projected unit credit method. This method takes into account, on the basis of actuarial assumptions, the employee's expected length of service, the future compensation level, life expectancy, and employee turnover. The obligation is discounted using, where appropriate, an appropriate discount rate for each country where the obligations are located. It is recorded in proportion to the years of service of the employees.

Changes in actuarial assumptions are recorded in equity for the year.

The income statement incorporates the cost of services rendered, which shows the increase in obligations related to the acquisition of an additional year of service, and an interest expense that reflects the "undiscounting" of the obligations.

Contributions relating to defined-contribution plans are recognized in social security contributions on the income statement of the period to which they relate.

3.3.18 – Current liabilities

Current liabilities are liabilities to be settled or negotiated in the normal operating cycle or within twelve months of the end of the financial year.

3.3.19 – Share-based payment transactions

Since its creation, the Company has put in place several compensation plans settled in equity instruments (stock option plans, share warrants, startup warrants, and bonus shares) granted to the founders, directors, and certain employees of the Group. In accordance with IFRS 2 – *Share-based Payment*, these equity instrument awards are measured at fair value at the grant date. Fair value is determined using the most appropriate valuation model based on the characteristics of each plan.

The fair value determined at the grant date is recognized in payroll expenses on a straight-line basis on each milestone in the vesting period, with a corresponding increase in equity.

At each closing date, the Group reviews the number of options that may become exercisable. Where applicable, the impact of a revision of the estimate is recognized in the consolidated statement of net income with a corresponding adjustment in equity.

□ Stock warrants, startup warrants, and stock options:

The fair value of services received in consideration for the award of such instruments is definitively measured by reference to the fair value of such instruments at their grant date and to the number of instruments for which the vesting conditions will be satisfied at the end of the vesting period. To carry out this assessment, the Group uses a binomial mathematical valuation model. During the vesting period, the determined total fair value is spread on a straight-line basis over the entire vesting period of the plan in question, it being specified that plans classified as "graded vesting" are treated as independent plans.

The expense related to these instruments is recognized in profit or loss in payroll expenses with a corresponding increase in shareholders' equity. When the options are exercised, the strike price received by the Group is recorded in cash with an offset in shareholders' equity.

□ Bonus shares:

Bonus share plans are within the scope of IFRS 2, like share-based payments settled with equity instruments. Bonus shares are valued at their grant date. Fair values are spread on a straight-line basis over the plan's vesting period in payroll expenses with a corresponding increase in shareholders' equity.

3.3.20 – Recognition of revenue from ordinary business activities

Revenues generated by the Group come from the sale of equipment and service contracts.

a) Equipment sales

Equipment marketed by the Group is generally sold on the basis of customer purchase orders containing fixed and determinable prices, with no right of return or significant post-delivery obligations outside the general terms and conditions of sale. Income is recognized at the time of the transfer of control that occurs when the property is transferred to customers.

The Group considers that the contractual promise made to the customer under the warranty regarding the operation of equipment does not meet the definition of a separate performance obligation because it does not give rise to an "additional service." As such, warranty costs will continue to be recognized in accordance with IAS 37 "Provisions, Contingent Liabilities, and Contingent Assets."

b) Delivery of services

Delivered services relate mainly to maintenance contracts, warranty extensions, and installation services.

Revenue from installation services is recognized over the period during which the services are rendered.

Revenue corresponding to service contracts (mainly maintenance and warranty extension) is recognized on a straight-line basis over the effective duration of the contracts. The share of service contracts not relating to the current financial period is recognized in contract liabilities.

3.3.21 – Cost of sales

The cost of sales primarily consists of:

- purchases of components, optical modules, and other products necessary for the production of the sold goods;
- delivery of services of third parties for the manufacture, assembly, installation, and maintenance of the sold goods;
- customs duties, transport costs, and other taxes directly attributable to these purchases;
- direct and indirect costs allocated to the product manufacturing process.

3.3.22 – Operating profit (loss)

Operating profit (loss) includes all income and costs directly related to the Group's activities, whether such income and expenses are recurring or result from decisions or one-off operations.

For easier reading of the income statement and the performance of the Group, unusual and significant items at the consolidated level are identified on the operating profit (loss) line entitled "Other income and expenses."

Other operating income and expenses, excluded from current operating profit (loss), include:

- restructuring costs;
- impairment losses recognized mainly through impairment testing of cash-generating units (CGU) and goodwill;
- direct costs related to business combinations;
- disputes not arising from the Group's operational activity.

3.3.23 – Taxes

Current and prior-year tax assets and liabilities are valued at the amount expected to be recovered from or paid to tax authorities. The tax rates and regulations used to determine these amounts are those adopted or substantially adopted as of the closing date.

Deferred taxes are determined using the liability method for:

- all temporary differences between the tax base and the accounting base for assets and liabilities, except goodwill.
- tax losses that can be carried forward.

Tax assets are recognized only if it is likely that the Group will have future tax benefits against which they can be applied.

The assessment of the Group's ability to recover these assets takes into account, in particular, forecasts of future taxable profits as well as the history of results for tax purposes in previous years.

The Group has opted to present the company value-added contribution (CVAE) as a tax expense.

3.3.24 – Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to the Group's shareholders by the average number of common shares outstanding during the period.

Diluted earnings per share are determined by adjusting the net profit or loss for the period attributable to the Group's shareholders by the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. If the consideration of deferred equity instruments (share warrants, stock options) for calculation of diluted earnings per share creates an anti-dilution effect, these instruments are not taken into account.

Treasury shares deducted from shareholders' equity are not taken into account in the calculation of basic and diluted earnings per share.

NOTE 4 – Notes to the statement of consolidated financial position

4.1 – Goodwill

(In thousands of euros)	FY 2019	FY 2018
Net book value at January 1	27 523	27 523
Acquisitions	1 115	-
Disposals	-	-
Impairment loss	-	-
Currency translation adjustments (1)	(73)	-
Net book value at December 31	28 565	27 523

(1) : The translation difference for the period resulted from changes in the exchange rate of the Brazilian real

The goodwill at the beginning of the financial year resulted from the acquisition of the OneAccess Group on September 29, 2017.

In July 2019, the Group finalized the acquisition of the OTN-Switch platform (Optical Transport Network) developed by PADTEC, a Brazil-based manufacturer of optical network equipment, for €11 million. The transaction was carried out through the acquisition of a company incorporated under Brazilian law, in which technologies relating to the OTN platform and the associated research and development teams were transferred. This company, named Ekinops Brasil, is now a wholly owned subsidiary of the Group.

The recognized goodwill is provisional: the allocation of the purchase price and, in particular, the determination of the fair values of intangible assets (mainly developed technologies) are being finalized.

The following table shows how the provisional goodwill is determined:

Cash and cash equivalents	11 090
Total consideration	11 090
Intangible assets	8 009
Tangible assets	277
Working capital requirement	120
Cash and cash equivalents	1 570
Fair values of net assets acquired (1)	9 975
Goodwill	1 115

(1) Provisional amount, valuation of "developed technologies" in progress

□ **Determination of the recoverable amount of goodwill existing at the opening**

The parameters used to determine the recoverable amount are:

- Methodology..... Discounted cash flows
- Growth rate to infinity..... 2%
- Discount rate..... 9.9%

The projection horizon is 5 years and includes a terminal value.

A sensitivity of net cash flows is retained. The analysis leads to a change in the parameters of the growth rate to infinity by (1%) and the discount rate by +1.5%.

The determined recoverable amount does not lead to an impairment loss.

4.2 – Intangible assets

(In thousands of euros)	Developed technologies	Customer relations	Order book	Development costs	Ongoing development costs	Licenses and other intangible assets	Total
Gross value at December 31, 2018	24 712	8 997	1 021	4 949	374	4 292	44 345
Effect of business combinations	-	-	-	8 009	-	548	8 557
Capitalization of development costs	-	-	-	2 153	-	-	2 153
Acquisitions	-	-	-	-	58	58	116
Disposals	-	-	-	-	-	-	-
Effect of foreign exchange rate fluctuations	-	-	-	(526)	-	(36)	(562)
Gross value at December 31, 2019	24 712	8 997	1 021	14 586	432	4 862	54 610
Accumulated depreciation at December 31, 2018	(5 148)	(1 125)	(1 021)	(2 445)	-	(4 243)	(13 982)
Allowance for the period	(4 120)	(900)	-	(1 133)	-	(38)	(6 191)
Effect of foreign exchange rate fluctuations	-	-	-	-	-	-	-
Accumulated depreciation at December 31, 2019	(9 268)	(2 025)	(1 021)	(3 578)	0	(4 281)	(20 173)
Net value at December 31, 2018	19 564	7 872	-	2 504	374	49	30 363
Net value at December 31, 2019	15 444	6 972	-	11 007	432	581	34 436

4.3 – Tangible assets

(In thousands of euros)	Plant and machinery	Office furniture and equipment, computer hardware	Tangible assets in progress	Total
Gross value at December 31, 2018	12 182	6 242	-	18 424
Reallocation to rights of use ¹	(1 084)	(223)	-	(1 307)
Gross value at January 1, 2019	11 098	6 019	-	17 117
Effect of business combinations	467	-	-	467
Acquisition	872	407	-	1 279
Disposal	(95)	-	-	(95)
Impact of foreign exchange rate fluctuations	(28)	(3)	-	(31)
Gross value at December 31, 2019	12 313	6 423	-	18 736
Accumulated depreciation at December 31, 2018	(10 262)	(5 569)	-	(15 831)
Reallocation to rights of use ¹	505	193	-	698
Accumulated depreciation at January 1, 2019	(9 757)	(5 376)	-	(15 133)
Effect of business combinations	(191)	-	-	(191)
Allowance for the period	(690)	(268)	-	(958)
Decrease	114	-	-	114
Impact of foreign exchange rate fluctuations	12	2	-	14
Gross value at December 31, 2019	(10 512)	(5 642)	-	(16 154)
Net value at December 31, 2018	1 920	673	-	2 593
Gross value at December 31, 2019	1 801	781	-	2 582

1: The adoption of IFRS 16 results in the reclassification of contracts previously treated in accordance with IAS 17 to "Rights of Use"

4.4 – Reconciliation of investments with the statement of cash flows

(In thousands of euros)	December 31, 2019	December 31, 2018
Acquisition of intangible assets	(2 269)	(1 839)
Acquisition of tangible assets	(1 279)	(1 020)
Change in fixed asset supplier debts	(386)	1
Total	(3 933)	(2 858)

4.5 – Non-current financial assets & other non-current assets

(In thousands of euros)	Security deposit	Other	Non-current financial assets	Non-current share of CIR receivables	Other non-current assets
Gross value at December 31, 2018	798	379	1 177	7 519	7 519
Increase	131	40	171	1 220	1 220
Decrease	(192)	(75)	(267)	-	-
Currency fluctuations	-	3	3	-	-
Gross value at December 31, 2019	737	347	1 084	8 739	8 739
Accumulated impairment losses at December 31, 2018	-	-	-	-	-
Allowances for the period	-	-	-	-	-
Accumulated impairment losses at December 31, 2019	-	-	-	-	-
Net value at December 31, 2018	798	379	1 177	7 519	7 519
Gross value at December 31, 2019	737	347	1 084	8 739	8 739

4.6 – Rights of use and lease liabilities

4.6.1 – Rights of use

(In thousands of euros)	December 31, 2018	Reclassification Contracts IAS 17	Impact of IFRS 16 transition	New contracts and change over period	Amortization/ Depreciation	Translation adjustments	December 31, 2019
Rights of use – Technical equipment	-	560	-	-	(169)	-	391
Rights of use – Computer & office equipment	-	29	-	-	(29)	-	-
Rights of use – Buildings	-	-	6 124	-	(1 195)	-	4 930
Rights of use – Vehicles	-	-	869	267	(294)	-	843
Net value of rights of use	-	588	6 993	267	(1 686)	-	6 164

4.6.2 – Lease liabilities

(In thousands of euros)	December 31, 2018	Reclassification Contracts IAS 17	Impact of IFRS 16 transition	New loans	Reclassification	Rent liability repayments	December 31, 2019
Lease liability – Technical equipment	-	353	-	-	(109)		244
Lease liability – Computer & office equipment	-	16	-	-	(16)		0
Lease liability – Buildings	-	-	5 259		(1 129)		4 130
Lease liability – Vehicles	-	-	573	267	(307)		533
Total Non-current	-	369	5 832	267	(1 561)	-	4 907
Lease liability – Technical equipment	-	206	-		109	(182)	133
Lease liability – Computer & office equipment	-	13	-		16	(29)	0
Lease liability – Buildings	-	-	1 172		1 129	(1 180)	1 121
Lease liability – Vehicles	-	-	305		307	(291)	317
Total Current	-	219	1 477	-	1 561	(1 682)	1 571
Total	-	588	7 309	267	-	(1 682)	6 478

Schedule of lease liabilities

(In thousands of euros)	December 31, 2019	< 1 year	1–2 years	2–3 years	3–4 years	4–5 years	> 5 years
Lease liability – Technical equipment	377	139	126	97	15	-	-
Lease liability – Computer & office equipment	-	-	-	-	-	-	-
Lease liability – Buildings	5 251	1 127	1 015	947	888	667	608
Lease liability – Vehicles	850	319	236	180	90	25	1
Financial debt	6 478	1 585	1 377	1 223	993	692	609

4.7 – Inventories

(In thousands of euros)	December 31, 2018	Effect of business combinations	Change	Allowance for inventory impairment provision	Writeback of inventory impairment provision	Impact of foreign exchange rate fluctuations	December 31, 2019
Inventories of components	5 086	-	838	-	-	-	5 924
Finished product inventories	6 594	198	(1 393)	-	-	(9)	5 390
Gross values	11 680	198	(555)	0	0	(9)	11 314
Impairment losses – Components	(350)	-	-	(351)	48	-	(653)
Impairment losses – Finished products	(98)	-	-	(83)	17	-	(164)
Accumulated impairment losses	(448)		0	(434)	65	0	(817)
Net values	11 232		(555)	(434)	65	(9)	10 497

4.8 – Trade receivables and related accounts

(In thousands of euros)	December 31, 2018	Change	Impact of foreign exchange rate fluctuations	December 31, 2019
Trade receivables and related accounts	21 810	629	35	22 474
Accumulated impairment losses	(1 123)	13	-	(1 110)
Net values	20 687	642	35	21 364

The amount of mobilized receivables not yet due corresponding to factoring contracts without any transfer of risks and therefore included in trade receivables and related accounts was €8,124 K.

4.9 – Other current assets

(In thousands of euros)	December 31, 2018	Change	Reclassifications and other changes	December 31, 2019
Forward exchange purchases	-	-	-	-
Derivatives in assets	-	-	-	-
Corporate tax, CVAE receivable	47	366	(5)	408
Tax credits (CIR, CII, CICE)	2 175	86	-	2 261
Other taxes and social security receivable	3 377	103	3	3 483
Prepaid expenses	441	289	-	730
Other	160	128	(5)	283
Gross values	6 200	972	(7)	7 165
Accumulated impairment losses	(288)	180	-	(108)
Net values	5 912	1 152	(7)	7 057

4.10 – Cash and cash equivalents

(In thousands of euros)	December 31, 2018	Effect of business combinations	Change	Impact of foreign exchange rate fluctuations	December 31, 2019
Cash	25 115	1 570	5 976	(72)	32 588
Cash equivalents	-	-	-	-	-
Cash and cash equivalents	25 115	1 570	5 976	(72)	32 588
Bank overdraft facilities	-	-	-	-	-
Total net cash position	25 115	1 570	5 976	(72)	32 588

4.11 – Capital and equity instruments

4.11.1 – Share capital and share premiums

As of December 31, 2019, the capital of the parent company, Ekinops S.A., consisted of 24,127,677 fully paid-up common shares with a nominal unit value of €0.50.

Date	Type of operation	Capital	Number of shares created	Nominal value
At December 31, 2017		10 621 374 €	21 242 747	0,50 €
May 18, 2018	Award of bonus shares	143 207 €	286 414	0,50 €
At Monday, December 31, 2018		10 764 581 €	21 529 161	0,50 €
May 2019	Capital increases following exercise of options	5 038 €	10 075	0,50 €
June 11, 2019	Capital increase by private placement	1 076 458 €	2 152 916	0,50 €
July 16, 2019	Share issue - Exercise of share subscription warrants (1)	201 736 €	403 471	0,50 €
December 2019	Capital increases following exercise of options	16 027 €	32 054	0,50 €
At Tuesday, December 31, 2019		12 063 839 €	24 127 677	0,50 €

(1) Note on the OneAccess earnout

The contract to acquire OneAccess shares provided for an earnout in the amount determined with reference to the consolidated revenue generated by all “access” products and services over twelve months for the 2018 financial year. This earnout was recognized as debt in the financial statements closed as of December 31, 2018.

During the 2019 financial year, half of the earnout was paid in cash, and half in new Ekinops S.A shares (403,471 new shares).

4.11.2 – Share-based payments

At their meetings on July 29, 2019, and July 16, 2019, the boards of directors approved the plan regulations setting out the conditions and criteria for awarding, respectively, 150,000 stock options and 103,782 bonus shares for certain Group staff members. The vesting of these shares is subject to performance conditions in subsequent financial years.

a) Stock options (OSA)

	Starting new potential shares	Awarded during the period	Exercised during the period	Canceled or lapsed during the period	Ending new potential shares	Strike price (In €)	Remaining contractual life	Expense recognized at 12/31/2019 (In €K)	Expense recognized at 12/31/2018 (In €K)
12 mars 2009	12 400	-	-	(12 400)	0	4,83 €	-	-	-
15 septembre 2011	1 550	-	-	-	1 550	3,80 €	1,7 ans	-	-
25 février 2013	3 100	-	-	-	3 100	4,31 €	3,2 ans	-	-
19 juin 2014	211 885	-	-	(1 085)	210 800	5,07 €	4,5 ans	-	-
19 mai 2016	116 499	-	(42 129)	(17 050)	57 320	2,65 €	6,4 ans	-	(38)
29 juillet 2019	-	150 000	-	-	150 000	3,66 €	9,6 ans	(74)	-
Total stock options (OSA)	345 434	150 000	(42 129)	(30 535)	422 770	N/A	N/A	(74)	(39)

b) Share subscription warrants (BSA)

	Starting new potential shares	Awarded during the period	Exercised during the period	Canceled or lapsed during the period	Ending new potential shares	Strike price (In €)	Remaining contractual life	Expense recognized at 12/31/2019 (In €K)	Expense recognized at 12/31/2018 (In €K)
28 septembre 2007	31 000	-	-	-	31 000	4,83 €	0,9 ans	-	-
19 juin 2014	6 975	-	-	(6 975)	-	5,07 €	-	-	-
Total Share Subscription Warrants (BSA)	37 975	-	-	(6 975)	31 000	N/A	N/A	-	-

c) Startup warrants (BCE)

	Starting new potential shares	Awarded during the period	Exercised during the period	Canceled or lapsed during the period	Ending new potential shares	Strike price (In €)	Remaining contractual life	Expense recognized at 12/31/2019 (In €K)	Expense recognized at 12/31/2018 (In €K)
22 juin 2010	742 479	-	-	-	742 479	3,80 €	1,5 ans	-	-
21 octobre 2010	36 062	-	-	-	36 062	3,80 €	1,8 ans	-	-
12 mai 2011	59 474	-	-	-	59 474	3,80 €	2,4 ans	-	-
20 décembre 2012	63 206	-	-	-	63 206	3,80 €	2,4 ans	-	-
25 février 2013	333 250	-	-	-	333 250	4,31 €	4,2 ans	-	-
Total startup warrants (BCE)	1 234 471	-	-	-	1 234 471	N/A	N/A	-	-

d) Awarded bonus shares (AGA)

	Starting new potential shares	Awarded during the period	Vested during the period	Canceled or lapsed during the period	Ending new potential shares	Expense recognized at 12/31/2019 (In €K)	Expense recognized at 12/31/2018 (In €K)
13 juin 2018	-	1 005 000	-	-	1 005 000	(1 681)	(405)
16 juillet 2019	-	-	103 782	-	103 782	(44)	-
Total bonus shares awarded (AGA)	-	1 005 000	103 782	-	1 108 782	(1 726)	(405)

e) Summary of movements and reconciliation of the share-based payment expense

	Starting new potential shares	Awarded during the period	Exercised or acquired during the period	Canceled or lapsed during the period	Ending new potential shares	Expense recognized at 12/31/2019 (In €K)	Expense recognized at 12/31/2018 (In €K)
OSA	345 434	150 000	(42 129)	(30 535)	422 770	(74)	(39)
Share subscription warrants (BSA)	37 975	-	-	(6 975)	31 000	-	-
Startup warrants (BCE)	1 234 471	-	-	-	1 234 471	-	-
AGA	1 005 000	103 782	-	-	1 108 782	(1 726)	(405)
GRAND TOTAL	2 622 880	253 782	(42 129)	(37 510)	2 797 023	(1 800)	(444)

4.12 – Financial debt

a) Change in financial debt

(In thousands of euros)	December 31, 2018	Increases	Repayments	(Discounting) / Undiscounting	Reallocation to Rental Obligations (1)	Other changes	December 31, 2019
Bank loans	1 247	9 499	-	-	-	(3 976)	6 770
Bank loans/CIR financing	3 124	2 215	-	-	-	(1 651)	3 688
Finance lease debts	369	-	-	-	(369)	-	0
Conditional advances and interest-free loans	1 593	-	-	-	-	(618)	975
Discounting of advances and interest-free loans	(45)	-	-	-	-	26	(19)
Miscellaneous financial debt	420	255	-	-	-	(604)	71
Total non-current financial debt	6 708	11 969	-	-	(369)	(6 823)	11 485
Bank loans	1 082	-	(2 066)	-	-	3 976	2 992
Bank loans/CIR financing	1 708	-	(1 708)	-	-	1 651	1 651
Finance lease debts	219	-	-	-	(219)	-	0
Conditional advances and interest-free loans	618	-	(618)	-	-	618	618
Discounting of advances and interest-free loans	(39)	-	-	39	-	(26)	(26)
Factoring debt	4 955	35 469	(33 740)	-	-	-	6 684
Miscellaneous financial debt	516	-	(515)	-	-	604	605
Total current financial debt	9 059	35 469	(38 647)	39	(219)	6 823	12 524
Total financial debt	15 767	47 438	(38 647)	39	(588)	-	24 009

1: The adoption of IFRS 16 results in the reclassification of contracts previously treated in accordance with IAS 17 to "Lease Liabilities"

- "Conditional advances and interest-free loans" correspond to the interest-free loans for innovation from Banque Publique d'Investissement (BPI). These loans do not bear any interest. They are therefore restated as described in the accounting principles and methods (Note 3.3.16): They are valued at amortized cost (using the market rate applicable to each loan at the effective interest rate), and the difference between the valuation at amortized cost of the loan and its nominal value is considered as a subsidy received from the State and spread over the life of the loan.

- Factoring debts correspond to drawdowns under factoring contracts put in place by the Group. Given that these contracts do not transfer credit risk, the financial assets transferred to the Factor are not derecognized and are shown as trade receivables, whereas the drawdowns not yet repaid are included in financial debt.
- The Group may use bank loans to pre-finance the CIR. The repayment of these loans takes place simultaneously with the liquidation of the debt by the tax authorities.

b) Breakdown of financial debt by rate

(In thousands of euros)	December 31, 2019	Fixed Rate	Variable Rate
Non-current financial debt	11 485	7 797	3 688
Current financial debt	12 524	4 189	8 335
Total financial debt	24 009	11 986	12 023

4.13– Information on net debt

Net debt corresponds to current and non-current financial debt minus cash and cash equivalents.

a) Breakdown of net debt by currency

(In thousands of euros)	December 31, 2019	EUR	USD	AUD	Other currencies
Bank loans	9 762	9 762	-	-	-
Bank loans/CIR financing	5 339	5 339	-	-	-
Conditional advances and interest-free loans	1 593	1 593	-	-	-
Discounting of advances and interest-free loans	(45)	(45)	-	-	-
Factoring debt	6 684	6 684	-	-	-
Miscellaneous financial debt	676	676	-	-	-
Financial debt	24 009	24 009	-	-	-
Cash and cash equivalents	(32 588)	(22 690)	(7 339)	(2 125)	(434)
Net debt / (Cash and cash equivalents)	(8 579)	1 319	(7 339)	(2 125)	(434)

b) Breakdown of net debt by maturity

(In thousands of euros)	December 31, 2019	< 1 year	1–2 years	2–3 years	3–4 years	4–5 years	> 5 years	Discounting
Bank loans	9 762	2 992	2 991	2 879	600	300	-	-
Bank loans/CIR financing *	5 339	1 651	1 473	2 215	-	-	-	-
Conditional advances and interest-free loans	1 593	618	581	394	-	-	-	-
Discounting of advances and interest-free loans	(45)	(26)	(19)	-	-	-	-	-
Factoring debt	6 684	6 684	-	-	-	-	-	-
Miscellaneous financial debt	676	605	71	-	-	-	-	-
Financial debt	24 009	12 524	5 097	5 488	600	300	-	-
Cash and cash equivalents	(32 588)	(32 588)	-	-	-	-	-	-
Net debt / (Cash and cash equivalents)	(8 579)	(20 064)	5 097	5 488	600	300	-	-

* The repayment of bank loans intended to finance the CIR is concomitant with the repayment obtained from the tax authorities.

4.14–Provisions

(In thousands of euros)	December 31, 2018	Allowances	Writeback used	Writeback not used	Reclassification	December 31, 2019
Provisions for disputes	824	30	(84)	(90)	(180)	500
Provisions for social risks	400	-	(135)	-	-	265
Provisions for liabilities and charges Non-current portion	1 224	30	(219)	(90)	(180)	765
Provision for warranty	753	281	(209)	(50)	-	775
Provisions for disputes	100	100	-	-	180	380
Provisions for social risks	310	38	(165)	(85)	-	98
Provisions for liabilities and charges Current portion	1 163	419	(374)	(135)	180	1 253
Total	2 387	449	(593)	(225)	-	2 018

4.15– Commitments to personnel

a) Change in net commitment recognized on the balance sheet

(In thousands of euros)	December 31, 2019	December 31, 2018
Starting actuarial debt	2 496	2 620
Effect of business combinations	-	-
Cost of services rendered	230	271
Use (retirement)	(157)	(227)
Financial cost	36	33
Actuarial losses (gains)	536	(196)
Effect of foreign exchange rate fluctuations	3	(5)
Ending actuarial debt	3 144	2 496

As the Group does not have hedging assets, the entire commitment set out above is recorded in the Group's liabilities.

As specified in the accounting rules and methods, all actuarial gains or losses are recognized in equity. The cost of services rendered is recorded as an operating expense, and the financial cost is recorded in other financial income and expenses.

b) Actuarial assumptions

The main actuarial assumptions used for the calculation of end-of-career obligations are as follows:

Actuarial assumptions	December 31, 2019	December 31, 2018
Retirement age	65 years	65 years
Discount rate	0,77%	1,57%
Employer contribution rates	47,0%	47,0%
Rate of salary increases	2,30%	2,30%
Employee turnover		
< 25 years	10% - 15%	10% - 15%
25 - 30 years	10% - 20%	10% - 20%
30 - 35 years	20% - 25%	20% - 25%
35 - 40 years	15,0%	15,00%
40 - 45 years	2% - 10%	2% - 10%
45 - 50 years	2,00%	2,00%
50 - 55 years	2,00%	2,00%
> 55 years	0,0%	0,00%
Mortality table	TGHF05	TGHF05

c) Sensitivity of the net commitment to the discount rate

The following table examined the sensitivity of the end-of-career compensation plan to the discount rate. Amounts expressed in thousands of euros correspond to the valuation of the actuarial debt at the end of two financial years presented in the event of an increase or decrease in the discount rate:

End-of-career compensation commitment sensitivity analysis (In thousands of euros)	Decrease of 1 point	Decrease of 0.25 point	Increase of 0.25 points	Increase of 1 points
December 31, 2019	3 486	3 225	3 070	2 857
December 31, 2018	2 927	2 691	2 552	2 364

4.16– Debts on acquisition of securities

Debts on acquisition of securities recognized as of December 31, 2019, break down as follows:

(In thousands of euros)	December 31, 2018 ¹	Increase	Change	Reclassifications and other changes	December 31, 2019
Earnouts (1)	3 624	-	(3 624)	-	-
Share buyback commitments	756	-	-	-	756
Purchase of remaining non-controlling interests	450	-	(450)	-	-
Total debts on acquisition of securities	4 830	-	(4 074)	-	756

(1) The contract to acquire OneAccess shares provided for an earnout in the amount determined with reference to the consolidated revenue generated by all "access" products and services over twelve months for the 2017 and 2018 financial years. Half of this earnout, half payable in cash and half in new Ekinops shares, had been recognized as debt in the financial statements closed on December 31, 2018 for a total of €5,028 K.

Retrospective correction of the earnout payable in new shares

As of December 31, 2018, the earnout payable in new Ekinops shares had been determined on the basis of two calculation components:

- The amount of the earnout resulting from the economic performance of OneAccess and the calculation rules defined between the parties: €2,477,000,
- An Ekinops share value agreed between the parties when Ekinops acquired OneAccess: €6.144.

The Group had therefore determined that the number of new shares to be issued was 403,471 and recognized a debt of €2,477 K.

However, at December 31, 2018, pursuant to IFRS 13, the Group should have assessed the fair value of this debt in view of the Ekinops share price: €2.66 at December 31, 2018.

As a result, the Group had estimated the amount of its commitment too conservatively and therefore made a retrospective correction to the financial statements resulting in a €1,404 K decrease in the earnout debt as of December 31, 2018.

The offsetting entry for this adjustment was booked in "other operating income and expenses". (see note 5.5).

In addition, as of the date of issue of the new shares, (July 17, 2019), the Ekinops share was valued at €3.72. On this basis, the Group discounted the fair value of these shares, and an expense of (€427 K) was booked in "other operating income and expenses". (see note 5.5).

Thus, the settlement of the earnout resulted in a cash payment of €2,729 K and the issue of new shares valued at €1,499 K.

Acquisition of securities – Reconciliation with the statement of cash flows

(In thousands of euros)	December 31, 2019
Ekinops Brasil - Acquisition (net of cash)	(9 520)
OneAccess - cash earnout paid	(2 729)
Total	(12 249)

4.17– Other non-current liabilities

(In thousands of euros)	December 31, 2018	Change	Reclassifications and other changes	December 31, 2019
Discounting – BPI interest-free loans	45	-	(26)	19
Other subsidies	-	-	-	-
Contract liabilities – portion at more than one year	67	-	403	470
Total other non-current liabilities	112	-	377	489

4.18– Other current liabilities

(In thousands of euros)	December 31, 2018	Effect of business combinations	Change	Reclassifications and other changes	December 31, 2019
Forward exchange purchases	26	-	-	16	42
Derivative instrument liabilities	26	-	-	16	42
Trade payables	13 958	-	(130)	3	13 831
Trade payables	13 958	-	(130)	3	13 831
Corporate taxes payable	797	-	(117)	1	680
Corporate taxes payable	797	-	(117)	1	680
Debts on acquisitions of tangible and intangible assets.	8	432	(386)	(27)	27
Taxes and social security contributions payable	10 357	262	358	(8)	10 969
Contract liabilities – portion at less than one year	1 867	-	(610)	38	1 295
Customer advances and credit balances	70	-	12	1	83
Other	42	-	(42)	-	-
Total other current liabilities	12 344	694	(668)	4	12 374

4.19– Impact of change in working capital requirements

(In thousands of euros)	December 31, 2019	December 31, 2018
Net (incr.)/decr. in inventories	924	(2 498)
Net (incr.)/decr. in trade receivables	(642)	(61)
Net (incr.)/decr. in trade payables	(130)	2 925
Net (incr.)/decr. in other items	(2 038)	(297)
Net (incr.)/decr. in WCR	(1 886)	69

4.20– Categories of financial assets and liabilities

The following tables show the Group's categories of financial assets and liabilities as of the end of the presented financial years:

a) Financial assets

December 31, 2019

In thousands of euros	Balance sheet value	Amortized cost	Fair value through profit or loss	Fair value
Non-current financial assets	1 084	1 084	-	1 084
Trade receivables and related accounts	21 364	21 364	-	21 364
Other current assets*	283	283	-	283
Cash and cash equivalents	32 588	-	32 588	32 588
Total	55 319	22 731	32 588	55 319

* excluding social security contributions and taxes receivables and prepaid expenses

December 31, 2018

In thousands of euros	Balance sheet value	Loans and receivables	Fair value through profit or loss	Fair value
Non-current financial assets	1 177	1 177	-	1 177
Trade receivables and related accounts	20 687	20 687	-	20 687
Other current assets*	160	160	-	160
Cash and cash equivalents	25 115	-	25 115	25 115
Total	47 139	22 024	25 115	47 139

* excluding social security contributions and taxes receivables and prepaid expenses

b) Financial liabilities

December 31, 2019

In thousands of euros	Balance sheet value	Amortized cost	Fair value through profit or loss	Fair value
Financial debt	24 009	24 009	-	24 009
Debts on acquisition of securities	756	-	756	756
Trade payables and related accounts	13 831	13 831	-	13 831
Derivative instrument liabilities	42	-	42	42
Other liabilities*	110	110	-	110
Total	38 748	37 950	798	38 748

* Excluding taxes and social security contributions payable and deferred income

December 31, 2018

In thousands of euros	Balance sheet value	Amortized cost	Fair value through profit or loss	Fair value
Financial debt	15 767	15 767	-	15 767
Debts on acquisition of securities	6 234	-	6 234	6 234
Trade payables and related accounts	13 958	13 958	-	13 958
Derivative instrument liabilities	26	-	26	26
Other liabilities*	120	120	-	120
Total	36 105	29 845	6 260	36 105

* Excluding taxes and social security contributions payable and deferred income

c) Fair value hierarchy

Financial instruments are presented in three categories according to a hierarchy of fair value determination methods:

- Level 1: fair value calculated using rates/prices quoted on an active market for identical assets and liabilities;
- Level 2: fair value calculated using valuation techniques based on observable data such as prices of similar assets or liabilities or parameters quoted on an active market;
- Level 3: fair value calculated using valuation techniques based in whole or in part on unobservable data such as prices on an inactive market or valuation on the basis of multiples for unlisted securities or an agreement between the parties.

In thousands of euros	Level 1 category	Level 2 category	Level 3 category
Derivative instrument liabilities	-	42	-
Debts on acquisitions of securities	-	-	756
Total	-	42	756

Financial instruments consist of long-term contracts in US dollars. The fair value of financial assets was valued on the basis of bank valuations.

NOTE 5 – Notes to the income statement

5.1– Income from ordinary activities

a) By type

(In thousands of euros)	December 31, 2019	December 31, 2018
Sales of produced goods	88 517	79 264
Sales of produced services	4 960	4 958
Total revenue	93 477	84 222

The sold production of goods corresponds to hardware sales.

The production of services sold mainly corresponds to "support" maintenance contracts.

b) By geographic region

(In thousands of euros)	December 31, 2019	December 31, 2018
North and South America	15 606	9 848
Europe / Middle East / Africa / Asia-Pacific	77 872	74 374
Total revenue	93 477	84 222

5.2– Type of allocated expenditure by fonction

a) Type of research and development costs

(In thousands of euros)	December 31, 2019	December 31, 2018
Payroll expenses	(19 542)	(18 349)
Allowances for amortization/depreciation and provisions	(7 248)	(5 995)
Operational subcontracting and external personnel	(1 584)	(2 420)
Rental and lease expenses	(157)	(1 284)
Supplies, equipment, maintenance	(971)	(1 204)
Tax credit	3 481	3 124
Subsidies	1 753	814
Capitalization of development costs	2 211	1 818
Manufacturing costs allocated to costs of sales	4 633	5 106
Travel expenses	(406)	(349)
Other	(788)	(477)
Total research and development costs	(18 618)	(19 216)

b) Type of sales expenses

(In thousands of euros)	December 31, 2019	December 31, 2018
Payroll expenses	(13 290)	(12 207)
Outside personnel	(1 119)	(1 540)
Business travel and trips	(1 119)	(1 092)
Professional fees and consulting	(707)	(412)
Rental and lease expenses	(360)	(538)
Supplies, equipment, maintenance	(296)	(425)
Fairs, promotions, and advertising	(406)	(324)
Allowances for amortization/depreciation and provisions	(798)	(2 804)
Other	(375)	(196)
Total marketing and sales expenses	(18 470)	(19 538)

c) Type of general and administrative expenses

(In thousands of euros)	December 31, 2019	December 31, 2018
Payroll expenses – Excluding payments in shares	(3 752)	(3 758)
Payroll expenses – Payments in shares	(1 800)	(256)
Professional fees and consulting	(1 304)	(1 058)
Supplies, equipment, maintenance	(597)	(421)
Outside personnel	(73)	(456)
Insurance	(202)	(298)
Bank charges	(155)	(150)
Rental and lease expenses	(28)	(152)
Allowances for amortization/depreciation and provisions	(427)	(63)
Other	102	(436)
Total general and administrative expenses	(8 237)	(7 049)

5.3– Payroll expenses and Group headcount

a) Breakdown of personnel costs by fonction

(In thousands of euros)	December 31, 2019	December 31, 2018
Salaries and wages	(26 906)	(25 218)
Social security contributions and payroll taxes	(9 441)	(9 053)
Cost of services rendered	(235)	(44)
Payment in shares	(1 800)	(256)
Total payroll expenses	(38 382)	(34 570)

b) Breakdown of personnel expenses by type

(In thousands of euros)	December 31, 2019	December 31, 2018
Total research and development costs	(19 540)	(18 349)
Total marketing and sales expenses	(13 290)	(12 207)
Total general and administrative expenses	(5 552)	(4 014)
Total payroll expenses	(38 382)	(34 570)

c) Group headcount

(In units)	December 31, 2019	December 31, 2018
Salaried personnel	415	382
Seconded personnel	33	31
Total headcount	448	413

5.4– Amortization/depreciation and provisions: allowances and writebacks

(In thousands of euros)	December 31, 2019	December 31, 2018
Allowances for amortization – Intangible assets	(6 191)	(6 702)
Allowances for depreciation – Tangible assets	(958)	(1 086)
Allowances for amortization – Rights of use	(1 686)	
Net allowance for provisions for liabilities and charges of the “Current operating profit (loss)”	312	(1 071)
Cost of services rendered	(73)	(48)
Subtotal (EBITDA)	(8 596)	(8 907)
IAS 19 financial cost	(41)	(33)
Net allowance for provisions for liabilities and charges in “Other operating income and expenses”	250	
Subtotal (SCF)	(8 387)	(8 940)
Net allowance for writebacks of provisions on inventories	(369)	(7)
Total allowances for amortization/depreciation and provisions, net of writebacks	(8 756)	(8 947)

5.5– Other operating income and expenses

(In thousands of euros)	December 31, 2019	December 31, 2018 ¹
M&A fees	(2 448)	(778)
OneAccess - earnout - OneAccess	(427)	(2 934)
OneAccess - earnout - OneAccess - restated ¹	-	1 404
Other	303	278
Total	(2 572)	(2 030)

(1) The earnout relating to the acquisition of OneAccess was retrospectively adjusted in the 2018 financial statements. See note 4.16 of this report.

5.6– Financial profit (loss)

a) Net borrowing cost

(In thousands of euros)	December 31, 2019	December 31, 2018
Interest expenses	(403)	(159)
Effect of undiscounting	(39)	(50)
Net borrowing cost	(442)	(209)

b) Other financial income and expenses

(In thousands of euros)	December 31, 2019	December 31, 2018
Currency gains (losses)	50	101
Other financial income and expenses	10	(6)
Other financial income and expenses	60	95

5.7– Taxes

a) Breakdown of tax expense recorded for the presented financial years

(In thousands of euros)	December 31, 2019	December 31, 2018
Current income taxes	(795)	(710)
Change in deferred taxes	813	888
Tax expense	19	178

b) Tax analysis

(In thousands of euros)	December 31, 2019	December 31, 2018
Profit (loss) before taxes	1 604	(859)
Group theoretical tax rate	(0)	(0)
Theoretical tax expense at the Group's rate	(497)	286
Effect of tax credits (CIR, CICE, etc.)	1 082	1 041
Effect of share-based payments	(558)	(148)
Non-deductible earnouts	-	(978)
Use or recognition of temporary differences previously not recognized	1 200	1 689
Deficits and other net temporary differences not recognized	(205)	(2 050)
CVAE and other taxes presented in income taxes	(385)	(337)
Other permanent differences	(795)	360
Differences in rates related to foreign tax jurisdictions	177	315
Recognized tax expense	19	178

c) Deferred taxes

Balance at 12.31.2018	-3 644
- <i>Deferred tax assets</i>	1 953
- <i>Deferred tax liabilities</i>	(5 597)
Change reflected in profit (loss)	813
Impact of taxes on the first-time application of IFRS 16	34
Effect of foreign exchange rate fluctuations	17
Balance at 12.31.2019	(2 780)
- <i>Deferred tax assets</i>	2 293
- <i>Deferred tax liabilities</i>	(5 072)

The potential tax savings that would result from the application of tax loss carryforwards, not recognized as of December 31, 2019, total €26.6 million.

5.8 – Earnings per share

Below is information on earnings and shares used to calculate basic and diluted earnings per share for all activities.

a) **Basic earnings per share**

Basic earnings per share are calculated by dividing the net profit accruing to the Company's shareholders by the weighted average number of common shares outstanding during the year.

In thousands of euros / In units	December 31, 2019	December 31, 2018 ¹
Net income attributable to Ekinops SA shareholders	1 623	(674)
Weighted average number of outstanding shares:	22 908 325	21 408 331
- <i>Weighted average number of common shares</i>	22 920 246	21 420 873
- <i>Weighted average number of treasury shares</i>	(11 921)	(12 542)
Basic earnings per share (€/share)	0	(0)

b) **Diluted earnings per share**

For the financial year ended December 31, 2018, deferred equity instruments (BSA, BCE, SO) are considered anti-dilutive because they result in an increase in earnings per share.

In thousands of euros / In units	December 31, 2019	December 31, 2018 ¹
Net income attributable to Ekinops SA shareholders	1 623	(674)
Weighted average number of outstanding shares:	22 908 325	21 408 331
Weighted average number of potential shares:	931 492	
Diluted earnings per share (€/share)	0	N/A

NOTE 6 – Segment information

The presented information is based on the internal reporting used by Management to evaluate the performance of the various segments. The segment result of reference is the current operating profit (loss). The Group is managed on the basis of a single segment and does not distinguish between autonomous geographical segments.

However, with regard to the monitoring of revenue, the Group distinguishes two main areas: North and South America and Europe / Middle East / Africa / Asia-Pacific. This information is provided in Note 5.1.

NOTE 7 – Related-party disclosures

The amounts of compensation set out below were granted to the CEO and the members of the board of directors of the company. They were recorded as expenses during the presented financial years:

In thousands of euros	December 31, 2019	December 31, 2018
Compensation and benefits in kind	(693)	(552)
Payment in shares	(968)	(209)
Benefits in kind – GSC	(12)	(12)
Attendance fees	(32)	(43)
Total	(1 705)	(816)

NOTE 8 – Exposures to financial risks

8.1– Currency risks

The Group is subject to currency risks arising from purchases from component suppliers and commercial relations with its customers and its subsidiaries located outside the eurozone.

The Group's main currency risk exposures come from the US dollar (USD) and the Australian dollar (AUD).

The Group's net foreign exchange position on currencies as of December 31, 2019, is as follows:

In thousands of euros	Trade receivables	Trade payables	Obligation in foreign currencies	Obligation in foreign currencies	Hedging instruments	Net position after hedging
	(a)	(b)	(c)	(d) = (a) – (b) + / – (c)	(e)	(f) = (d) – (e)
USD	5 800	5 864		(64)	4 007	(4 071)
AUD	953	130		823		823
Other	261	153		(153)		(153)
TOTAL	7 014	6 147		606	4 007	(3 401)

To date, hedging transactions (through hedging contracts with different maturities) only involve purchases in US dollars.

The Group is therefore mainly exposed to currency risk from the US dollar (USD). As a result of the translation of these subsidiaries into the reporting currency (euro), a 10% increase or decrease in the US dollar against the euro would have had the following impacts on the consolidated statement of net income and the consolidated statement of changes in shareholders' equity:

In thousands of euros	December 31, 2019	
USD/EUR	+10%	-10%
Impact on net income	153	(153)
Impact on shareholders' equity	(610)	610

In addition, during 2019, the risk of an imbalance of flows resulted in the following figures: receipts in USD totaled 32.2 million, while total disbursements over the same period represented USD 36.0 million. To limit this risk, the group has established a hedging policy described above.

8.2– Credit risk

The maximum exposure to credit risk at the end of each financial year is represented by the book amount of the assets presented in the following table:

In thousands of euros	December 31, 2019	December 31, 2018
Non-current financial assets	1 084	1 177
Other non-current assets	8 739	7 519
Trade receivables and related accounts	21 364	20 687
Other current assets	7 057	5 912
Cash and cash equivalents	32 588	25 115
Total	70 832	60 410

- Receivables related to government subsidies and the research tax credit present a credit risk deemed insignificant in view of the Company's history.
- Credit risk related to cash, cash equivalents, and current financial instruments is not significant in view of the quality of the financial institutions party to the contracts.

With regard to trade receivables, there is a credit risk since a possible loss may occur if a customer fails to honor commitments on time. This credit risk related to receivables is limited due to, in particular, the quality of the Group's aged balance. The following table illustrates the aging of trade receivables and the related provisions for impairment losses:

In thousands of euros	December 31, 2019			December 31, 2018		
	Gross	%	Impairment losses	Gross	%	Impairment losses
Not yet due	18 852	84%	-	16 811	75%	-
Past due for 30 days or less	728	3%	-	1 639	7%	-
Past due for 31 to 60 days	1 181	5%	-	825	4%	-
Past due for 61 to 90 days	261	1%	-	461	2%	-
Past due for 91 to 180 days	328	1%	-	951	4%	-
Past due for more than 180 days	1 123	5%	(1 110)	1 121	5%	(1 121)
Total	22 473	100%	(1 110)	21 808	100%	(1 121)
Net value:	21 364			20 687		

NOTE 9 – Off-balance sheet commitments

9.1– Other commitments given

The Group subcontracts a large part of the production of its equipment to its partners. Orders for manufacturing finished products are launched on the basis of firm customer orders. In addition, the Group orders components or semi-finished products from these same subcontractors in order to be able to demonstrate commercial responsiveness. The Group therefore has a commitment to take back these inventories up to a certain limit.

The amount of this commitment relating to inventories of components and semi-finished products is estimated at €8.5 million as of December 31, 2019.

9.2- Financial guarantee

Type	Beneficiary	Amount	End date
Bank guarantee	Customer	AUD 150 K	June 2020

NOTE 10 – Post-closing events

In view of the COVID-19 pandemic situation and in line with government provisions in the countries in which the Group is physically present, Ekinops has taken the necessary measures to protect its employees, slow the spread of the virus and minimize the impact on its business.

The business continuity plan is now implemented in order to ensure that as many services as possible are maintained, including deliveries and customer service. To date, the Company has not had to introduce partial unemployment arrangements.

Since mid-March, employees able to do so have been working remotely and strict hygiene rules have been applied at all Group facilities worldwide. Readers are reminded that the Group's equipment is manufactured entirely in Europe at assembly plants located in France, Belgium and Hungary. All of these facilities are currently operating and able to manufacture Ekinops products. Nonetheless, the working arrangements implemented to ensure compliance with hygiene and safety rules and protect employees are likely to reduce productivity. At the Ekinops facility in Leuven (Belgium), social distancing and safety measures have led to a slight drop in productivity.

As the situation is naturally changing rapidly, it is currently difficult to measure the exact effects it will have on business in 2020, particularly if the crisis lasts longer or if lockdown measures are tightened. This situation could affect the Group business volumes and thereby this year's financial targets. The Group will keep the its shareholders and the market informed of any related material developments affecting its business.

In terms of procurement, Ekinops preemptively ordered the components and parts needed to carry out all Q1 2020 and most Q2 2020 equipment deliveries. Thanks to the gradual recovery of business in China, procurement issues affecting certain components are no longer a major concern for the Group.

NOTE 11 – EBITDA¹

The Group has chosen to disclose this aggregate in view of its significance for the analysis of its financial performance but also with regard to the conditions for the final vesting of bonus shares and stock options awarded to the Group's employees.

The Group thus defines its EBITDA as current operating profit (loss) restated for (i) allowances for and writebacks of amortization/depreciation and provisions and (ii) calculated expenses and income related to payments in shares.

The change in method brought about by adopting IFRS 16 results in an improvement of this aggregate by €1,880 K.

¹ Earnings Before Interest, Taxes, Depreciation and Amortization.

In thousands of euros	FY 2019	FY 2018
Current operating profit (loss)	4 558	1 285
Amortization (excluding rights of use), depreciation, and provisions	6 910	8 907
Payment in shares	1 800	256
IFRS 16 financial expenses	(194)	-
EBITDA – Proforma	13 074	10 448
Amortization of rights of use (IFRS 16)	1 686	
IFRS 16 financial expenses	194	
EBITDA – after adoption of IFRS 16	14 954	

NOTE 12 – STATUTORY AUDITORS' FEES

In thousands of euros	Statutory audit	Other services	Subtotal
Deloitte	111,75		111,75
- issuer	66,75		66,75
KPMG	22,5		22,5
- issuer	-		0
Mazars	12,65822785		12,65822785
- issuer	-		0
ALTONEO	26,25		26,25
- issuer	26,25		26,25



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