

# Consolidated financial statements 2009

Orolia SA, a French limited liability company (*société anonyme*) with  
share capital of €16,675,836

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For the period from 1 January to 31 December 2009



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## 1. Income Statement

<i>in €'000s</i>	Note	31/12/2009	31/12/2008
<b>Revenue</b>	6.3.2	<b>31,101</b>	<b>28,174</b>
Production in inventory (variation)		(530)	29
Capitalised production	6.3.2	1,686	1,441
Reversals of provisions, transfers of charges		739	155
Grants received		361	158
Other income including research tax credit		271	478
<b>Operating income</b>		<b>33,628</b>	<b>30,435</b>
Purchases and external expenses		16,899	15,535
Taxes, levies and similar charges		208	126
Employment costs	6.3.3	12,532	10,285
Other operating expenses		298	66
Depreciation, amortisation and provisions		2,110	1,220
<b>Operating expenses</b>		<b>32,048</b>	<b>27,233</b>
<b>Operating profit</b>		<b>1,580</b>	<b>3,203</b>
<b>Financial income / (expense)</b>	6.3.4	<b>(136)</b>	<b>(686)</b>
<b>Profit from ordinary activities</b>		<b>1,444</b>	<b>2,517</b>
<b>Net exceptional income / (expense)</b>		<b>(902)</b>	<b>31</b>
Income tax	6.3.6	(120)	(411)
Amortisation of goodwill		(3,493)	(1,026)
<b>Consolidated net profit</b>		<b>(3,071)</b>	<b>1,111</b>
<i>A. Attributable to minority interests</i>		(2)	207
<i>B. Attributable to owners of the parent</i>		(3,069)	904
Basic earnings per share (attributable to owners of the parent, in euros)	6.3.7	(1.11)	0.37
Diluted earnings per share (attributable to owners of the parent, in euros)	6.3.7	(1.11)	0.33

## 2. Balance sheet – assets

<i>in €'000s</i>	Note	31/12/2009	31/12/2008
Goodwill	6.3.8	17,389	9,436
Intangible assets	6.3.9	4,388	2,898
Property, plant and equipment	6.3.10	3,838	1,643
Non-current financial assets	6.3.12	362	158
<b>Non-current assets</b>		<b>25,977</b>	<b>14,134</b>
Inventories and work-in-progress	6.3.13	7,349	3,984
Advances and part payments		424	147
Trade receivables and related accounts	6.3.14	8,476	5,251
Accrued income		2,314	4,244
Other receivables	6.3.15	3,560	1,538
Marketable securities	6.3.16	13,049	7,887
Cash	6.3.16	2,311	3,486
<b>Current assets</b>		<b>37,483</b>	<b>26,538</b>
Deferred expenses		851	1,431
<b>Total assets</b>		<b>64,310</b>	<b>42,103</b>

## 3. Balance sheet – equity and liabilities

<i>in €'000s</i>	Note	31/12/2009	31/12/2008
Share capital	6.3.17	16,675	9,786
Share, contribution and merger premiums		14,158	7,403
Consolidated reserves		5,597	1,501
Currency translation reserves		(68)	230
Net profit / (loss) for the period attributable to owners of the parent		(3,069)	904
<b>Equity attributable to owners of the parent</b>		<b>33,295</b>	<b>19,824</b>
Minority interest		543	545
<b>Provisions</b>	6.3.18	<b>2,731</b>	<b>1,318</b>
Financial debt	6.3.19	12,818	8,453
Trade payables and related accounts	6.3.20	6,700	4,647
Advances and part payments received		1,054	2,986
Tax and social benefit liabilities	6.3.22	3,928	2,411
Other payables	6.3.23	172	435
Factor	6.3.19	2,313	561
Short-term bank borrowing	6.3.19	134	359
<b>Debts</b>		<b>27,120</b>	<b>19,851</b>
Deferred income	6.3.21	621	564
<b>Total equity and liabilities</b>		<b>64,310</b>	<b>42,103</b>

## 4. Cash flow statement

<i>in €'000s</i>	31/12/2009	31/12/2008
<b>Net cash flows (used in) / from operating activities</b>		
Net profit / (loss)	(3,071)	1,111
Elimination of expenses and income with no effect on cash flows or not related to operating activities:		
- depreciation, amortisation and provisions	5,243	2,890
- other changes	(63)	150
<b>Gross cash flow from operations</b>	<b>2,109</b>	<b>4,151</b>
<b>Change in operating WCR</b>	<b>(1,860)</b>	<b>358</b>
- change in current assets	(270)	(1,220)
- change in trade payables	(2,130)	(863)
<b>Net cash flows from operations</b>	<b>249</b>	<b>4,509</b>
<b>Cash flows (used in) / from investing activities</b>		
Purchases of intangible assets	(1,845)	(1,594)
Purchases of property, plant and equipment	(297)	(871)
Purchases of financial assets	(198)	12
Purchases of shareholdings net of cash and cash equivalents acquired	(16,417)	(3,625)
<b>Net cash flows (used in) / from investing activities</b>	<b>(18,756)</b>	<b>(6,077)</b>
<b>Net cash flows (used in) / from financing activities</b>		
Increase in financial debt	6,293	7,816
Decrease in financial debt	(176)	
Increase in share capital	16,712	406
Effect of acquisitions of treasury shares	(110)	
Dividends paid		
<b>Net cash flows (used in) / from financing activities</b>	<b>22,719</b>	<b>8,222</b>
<b>CHANGE IN NET CASH AND CASH EQUIVALENTS (*)</b>	<b>4,212</b>	<b>6,654</b>
Net cash and cash equivalents at the start of the period	11,014	4,360
Net cash and cash equivalents at the end of the period	15,226	11,014

(\*) For all the periods presented:

The change in factor outstandings is presented as a net cash flow used in / from financing activities.

Net cash and cash equivalents at the start and end of the period is defined as cash plus marketable securities less current bank borrowings.

## 5. Changes in consolidated equity attributable to owners of the parent

At 31 December 2009

<i>in €'000s</i>	Share capital	Share issue, merger and contribution premiums	Profit or loss for the period	Consolidated reserves	Currency translation reserves	Equity attributable to owners of the parent
<b>31 December 2007</b>	<b>9,702</b>	<b>7,081</b>	<b>1,289</b>	<b>467</b>	<b>(253)</b>	<b>18,286</b>
Unappropriated profit or loss			(1,289)	1,035	253	0
Profit or loss for the period			904			904
Increase(s) in share capital	84	322				406
Changes in currency translation differences					230	230
<b>31 December 2008</b>	<b>9,786</b>	<b>7,403</b>	<b>904</b>	<b>1,501</b>	<b>230</b>	<b>19,824</b>
Unappropriated profit or loss			(904)	1,134	(230)	0
Profit or loss for the period			(3,069)			(3,069)
Increase(s) in share capital	6,889	6,755		2,962		16,606
Changes in currency translation differences					(68)	(68)
<b>31 December 2009</b>	<b>16,675</b>	<b>14,158</b>	<b>(3,069)</b>	<b>5,597</b>	<b>(68)</b>	<b>33,295</b>

## 6. Notes to the financial statements

### 6.1. Introduction

Orolia was formed in October 2006 and at that date acquired Temex Sync, Temex Neuchâtel Time, and T4 Science.

Temex Neuchâtel Time was renamed SpectraTime in October 2007.

On 1 September 2007, Temex Sync transferred all its assets and liabilities to Orolia (under the French procedure known as *transmission universelle de patrimoine*), after which Temex Sync was dissolved.

In July 2007, Orolia increased its share capital by issuing new shares to qualified investors, for €11,925,000 (including share premium). The expenses related to this transaction were set against the share premium, for €1,028k. On completion of this share capital increase, Orolia sought a listing on Alternext (NYSE Euronext Paris) under the private placement procedure.

The holding in US company Spectracom was acquired on 22 August 2007.

On 31 January 2008, Orolia signed a bond loan agreement with Euromezzanine. The bonds, amounting to €8 million in total, are accompanied by share subscription warrants that allow Euromezzanine to subscribe to 269,500 new shares, for a price of €12.5 per new share subscribed to. Following the share capital increase in December 2009, the exchange parity has been reviewed in accordance with the mezzanine loan agreement and the share subscription warrants now give an entitlement to 276,500 shares.

In March 2008, Orolia acquired 100% of the shares of the Swedish company Pendulum Instruments.

In January 2009, Orolia formed Orolia Global Services in the UK and this company purchased all the assets of the UK company Rapco Electronics.

In July 2009, Orolia obtained agreement from the French Stock Market regulator, the AMF, for the transfer of its shares from trading group EA (private placement) to trading group E2 (consisting of companies having offered securities to the public) of the Alternext market at Paris to allow them to be traded continuously and improve their liquidity.

On 16 September 2009, an Extraordinary General Meeting of Orolia shareholders approved the contribution by Airtek Capital Group of two million (2,000,000) shares in Kannad, a French limited simplified liability company with share capital of €2,000,000 and registered office at Village du Hirgoat - ZI des Cinq Chemins - 56520 Guidel, France, registered at the Register of Commerce and Companies under number 500 055 744 R.C.S. Lorient. This contribution was valued at €10,000,000.

To provide consideration for this contribution, the General Meeting decided to increase the share capital by €4,324,324 from €9,786,000 to €14,110,324 by issuing 1,081,081 new shares of €4 nominal value.

On 20 November 2009, Orolia finalised the purchase of the assets of McMurdo, a division of the UK company Signatures Industries, a subsidiary of the US group Digital Angel (NASDAQ: DIGA). McMurdo's assets were contributed to a newly formed UK company, McMurdo Ltd, a 100% subsidiary of Orolia. Cash consideration of US\$9.6 million was paid, in a deal structured as a sale of assets without cash or debts, the trade receivables and payables not having been contributed.

On 17 December 2009, Orolia carried out a share capital increase by issuing 641,378 new shares at a price of €9.25 per share, representing new funds of €5.93m intended to finance the Group's development. The new shares, immediately considered in the same way as the existing 3,527,581 shares, were admitted for trading on Alternext on 21 December 2009. The share capital was thus increased from €14,110,324 to €16,675,836.

At the end of November 2009, Orolia agreed a medium-term loan of €3 million from Société Générale repayable in constant annuities over 5 years to partially finance the acquisition of the assets of McMurdo.

## **6.2. Accounting methods and policies**

### **6.2.1. General context**

The Group's consolidated financial statements have been prepared in accordance with the requirements of CRC Regulation 2005-10 of 3 November 2005, which amended CRC Regulation 99-02 of 29 April 1999 relating to the preparation of the consolidated financial statements of commercial companies and public undertakings. The explanatory notes below form an integral part of the consolidated financial statements.

The general accounting conventions have been applied while respecting the principles of prudence, in agreement with the fundamental hypotheses:

- on-going nature of the activity;
- consistent application of methods from one period to the next;
- accruals and matching.

The historical cost method has been used as the standard method for valuing items recorded in the accounts.

The share option and performance share plans came under CRC Regulation 2008-15 of 4 December 2008 relating to the accounting for share purchase option and share subscription option plans and free share allocation plans benefiting employees. As the Group has no intention of acquiring existing shares, this regulation has no effect on the consolidated financial statements as at 31 December 2009.

### **Consolidation method**

All the companies over which the Group has full control are fully consolidated with the minority interest being reported as a separate item. All transactions between consolidated companies and inter-company gains and losses are eliminated.

### **Translation of foreign companies' financial statements**

The income statements of foreign companies located outside the eurozone are translated at the average exchange rate for the period while their balance sheets are translated at the exchange rate for the period in question, except for equity, which is translated at the historical rate. Currency translation differences are shown separately in equity.

### **Preferred methods**

The preferred methods applied are:

- recognition of retirement benefit and other employee benefit obligations;
- recognition of transactions that are partially completed at the balance sheet date;
- restatement of lease finance contracts;
- recognition of development costs under assets;
- gains and losses arising on the translation of assets and liabilities denominated in foreign currency are recognised through profit or loss for the period.

### 6.2.2. *Minority interests*

Minority interest is the portion of equity and profit or loss of each consolidated company not attributable to the parent.

Whenever the minority interest in a consolidated entity becomes negative, the surplus and any future losses attributable to the minority interest are borne by the Group.

### 6.2.3. *Use of estimates*

In preparing this financial information, the Group's management must make estimates and assumptions that affect the carrying amount of assets and liabilities, income and expenses, and the disclosures made in the explanatory notes.

The Group's management makes these estimates and assessments continuously on the basis of its experience and various other factors considered reasonable, which form the basis of these assessments. The amounts shown in future financial statements may be different from the estimates presented depending on how these assumptions evolve or whether conditions change.

The main estimates made by Management in preparing the financial statements relate to the valuation and useful lives of operating assets, tangible and intangible assets and goodwill, to the amount of provisions for risks and other operating provisions, and to the assumptions used in calculating employee benefit obligations and deferred taxes.

The consolidated financial statements have been prepared taking account of the current context of slow economic and financial recovery and on the basis of financial market information available at the balance sheet date. The immediate effects of the past crisis have been taken into account, in particular in the measurement of assets, such as inventories and trade receivables, and of liabilities. Regarding longer term assets such as intangible assets and goodwill, it has been assumed that economic recovery will be slow. The value of these assets is assessed at each balance sheet date on the basis of the long-term economic outlook and on the basis of the Group Management's best assessment in a context of reduced visibility as regards future cash flows.

### 6.2.4. *Goodwill*

The cost of acquisition of shares is the fair value of the assets paid as consideration plus all costs directly applicable to the acquisition, net of tax deductions. Whenever the purchase agreement provides for an adjustment to the purchase price, the amount of the adjustment is included directly in the cost of acquisition.

The difference between the cost of acquisition of the shares and the acquirer's share of the fair value of the identified assets and liabilities at the date of acquisition constitutes goodwill.

If within a period ending at the first financial year following first consolidation, new information results in a new assessment of the fair values of the assets and liabilities as at the date of first consolidation, these are adjusted. A corresponding amendment of the gross value of the acquisition and cumulative amortisation of goodwill is made automatically.

When first consolidated, assets and liabilities that can be measured separately are recorded in the consolidated balance sheet at their fair value determined on the basis of the Group's intended use of them. Assets intended for sale are measured at their market price at the date of acquisition. Assets intended for use in operations are measured at their value in use.

The amount resulting from the valuation of identifiable assets constitutes their new gross value. This is used as the basis for subsequent calculations of disposal gains or losses, depreciation and amortisation charges and impairment losses.

### **Goodwill on first consolidation**

Goodwill on first consolidation is the excess of the cost of acquisition over the Group's share of the acquiree's restated net equity at the date of acquisition. Goodwill on first consolidation not allocated to identifiable assets or liabilities measured at fair value has been allocated to goodwill for the previous acquisitions and is amortised over 10 years.

This is the period used at the time of acquisition to calculate the overall profitability of each transaction. Today, this period is the same for all the companies acquired, each operating in a specific niche market in a single business segment.

The principal valuation method used in connection with the Group's acquisitions is to discount a standard operating profit less a theoretical tax charge to infinity at the Group's estimated cost of capital. This allows a company's recurrent profitability excluding exceptional items to be assessed on a reasonable basis, smoothing the impact of peaks and troughs. The cash and borrowing position is then considered.

The main assumptions made are:

- discount rate (WACC): 12%
- growth rate to infinity: 2%
- budget period: 1 year. The budget for the next financial year is that approved by the Company's governing bodies.

The multiple used in valuations is thus a factor of 10, applied to the standard operating profit less the theoretical tax charge.

This is equivalent to taking 10 years of cumulative profit or loss into account for the valuation and justifies the amortisation period used by the Group for all its acquisitions.

### **Goodwill**

Goodwill is reported under non-current assets and is amortised in accordance with a previously defined schedule over a period determined on the basis of the objectives retained at the time of acquisition. This period does not exceed 10 years. In the event of a material change in the objectives retained at the time of acquisition, an exceptional amortisation charge is recognised or the amortisation plan is amended with respect to future amortisation charges.

Negative goodwill is recognised under liabilities as a provision for risks and charges and, should it correspond to a forecast of future losses, is reversed through profit and loss over time at a predefined rate. If it does not correspond to identified liabilities, it is reversed through profit or loss in the year of acquisition.

If the valuation of identifiable assets and liabilities results in negative goodwill, recognition of these valuation differences is limited to this amount.

Impairment tests are performed on goodwill at least annually or more frequently if there are any indications that an asset might be impaired. An impairment test consists in comparing the net carrying amount of an asset with its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Value in use is calculated using the same method as that used at the time of acquisitions described above.

Whenever an impairment test indicates a loss of value, this is recognised so that the asset's net carrying amount does not exceed its recoverable amount. Whenever the recoverable amount is less than the carrying amount of an asset (or group of assets), an impairment loss is recognised in profit or loss for the difference.

#### **6.2.5. Non-current assets**

Assets financed by means of lease agreements that transfer substantially all the risks and rewards incidental to ownership of the asset to the Group are recognised as non-current assets, and the corresponding financial obligations are recognised under liabilities.

### **Research and development expenditures**

In application of the preferred method, Orolia has decided to recognise its research and development expenditures as assets whenever they meet the following conditions:

- the project in question can be individually identified;
- the project is likely to be technically feasible and commercially profitable;
- the costs of the project can be separately determined.

These development expenses are amortised over the product's useful life, generally estimated at three years from the time of its commercial launch.

The other research and development expenditures that do not meet the above criteria are recognised as expenses in the period.

### **Property, plant and equipment**

Items of property, plant and equipment are measured at their acquisition cost (purchase price plus ancillary expenses) or at their production cost.

However, interest on loans needed for the acquisition of these assets is not capitalised.

### **Depreciation and amortisation**

Non-current assets are depreciated on a straight-line basis, over the following periods:

- |  |               |
|--|---------------|
| • Software                                     | 3 to 5 years  |
| • Technical installations, equipment and tools | 3 to 10 years |
| • Property fixtures and fittings               | 5 to 10 years |
| • Office and computer equipment                | 3 to 5 years  |
| • Office furniture                             | 5 to 10 years |

### **Impairment of assets**

Impairment tests must be performed on tangible and intangible assets whenever there is an indication of loss of value. In order to assess whether an asset might be impaired, the Company considers the following factors from internal and external sources:

External sources of information:

- an asset's market value has declined (significantly more than would be expected as a result of the passage of time or normal use);
- significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to have a material adverse effect on an asset's value in use, its recoverable amount or both.

Internal sources of information:

- evidence is available of obsolescence or physical damage of an asset not provided for in the depreciation schedule;
- there have been significant changes in the manner in which an asset is used;
- the economic performance of an asset is worse than expected;
- there is a marked decline in future cash flows generated by the asset.

Whenever there is an indication that an asset may be impaired, an impairment test is performed and the carrying amount of the asset is compared with its present value.

The carrying amount of an asset is its gross amount less cumulative depreciation, if it is a depreciable asset, and any impairment losses.

The present value is an estimate made taking account of the market and the asset's value in use for the Company. It results from the comparison between the market value and the value in use. The market value is the amount that could be obtained at the balance sheet date from the sale of the asset in a transaction concluded at normal market conditions less costs to sell.

The value in use is the value of the future economic benefits expected to flow from the use of the asset and its disposal. The Company considers that the value in use corresponds to the discounted expected future net cash flows. These are determined on the basis of budget data.

In the particular case of research and development expenditure, the discounting rate used is the Group's weighted average cost of capital (12%), described above plus a premium ranging from 0 to 5% to reflect the project's difficulty.

#### *6.2.6. Inventories and work-in-progress*

Inventories and work-in-progress are measured at their cost of acquisition or production. Inventory movements are recognised on a first-in first-out basis.

Inventories are written down whenever a loss is probable or turnover of articles is insufficient.

Work-in-progress and finished products are measured at the direct cost of raw materials, production labour and purchases of sub-contracted work used in production, plus a share of manufacturing overheads.

Orolia conducts regular rotating physical inventory counts during the year.

#### *6.2.7. Long-term contracts*

Revenue on long-term contracts is recognised using the preferred method, the stage of completion method.

Revenue is calculated on a stage of completion basis as follows:

$$\frac{\text{Costs incurred x overall revenue}}{\text{Budgeted costs}}$$

A provision is taken in respect of any probable loss on contracts in progress or in the order book, as soon as it is known.

Progress payments received on contracts are recorded under "advances and part payments received".

Commission on sales is included in the cost of these contracts and is recognised as an expense at the same time as the corresponding sales.

Financial income on long-term contracts is recognised in profit or loss when entitlement to it is acquired.

#### *6.2.8. Trade receivables*

Trade receivables are recognised at the time of the corresponding transfer of ownership, generally at the time of delivery of goods or the performance of services, as applicable.

Allowances are recognised whenever there are doubts as to the recoverability of these receivables at the balance sheet date.

### 6.2.9. Marketable securities

Marketable securities are measured at the lower of their acquisition cost plus revenue accrued during the period, and their market value.

### 6.2.10. Lump-sum retirement benefits

For France, lump-sum retirement benefits are calculated:

- on the basis of retirement at 65 for management and at 60 for other employees;
- an annual salary increase rate of 2.5% , in accordance with the salary policy of recent years;
- a discount rate of 5.63% aligned with the estimated yield of prime bonds (3.63% 10-year French Government bond rate index (OAT TEC10) at 4 January 2010 + risk premium of 2%. Source: *Caisse des Dépôts et Consignations-Comité de Normalisation Obligatoire*);
- a low staff turnover rate based on the Company's actual experience;
- a mortality rate calculated from the 2003 INSEE tables for men and women;
- an average social benefit charge of 45%.

Age	Rate of turnover	
	Orolia SA	Kannad SAS
between 20 and 39 years	9.0%	25.75%
between 40 and 49 years	7.7%	11.82%
between 50 and 65 years	0%	0%

The amount of benefit entitlement in terms of months derives from application of national agreements for management grades and from the Paris region and the Morbihan *département* metalworking industry collective bargaining agreements for the non-management grades.

Defined benefit calculations are made through the lump-sum calculation for France only.

With regard to Switzerland, as pension management is outsourced to an insurance company and in the absence of a contractual obligation to employees with respect to benefits, Orolia accounts for this plan as a defined contribution plan.

In Sweden, the Group uses a joint multi-employer organisation (Alecta) for the part of the obligations that is managed by means of a capitalisation plan. Under recommendation URA42 of the Swedish Financial Emerging Issues Task Force, this fund must be considered as a defined benefit fund but in common with the other user companies in Sweden, Orolia has not had access to the data enabling it to report on this plan as a defined benefit plan. The Alecta pension fund is therefore reported as a defined contribution plan.

Orolia regularly examines the regulations in force in the countries where the Group operates in order to anticipate any regulatory changes and their accounting impacts.

### 6.2.11. Deferred income

Deferred income is recognised whenever services have been invoiced and not yet completely delivered. In the main, this relates to the provision of continuous services under contracts that will produce their effects in the next period.

In accordance with the AMF's recommendations, investment grants are reclassified as deferred income and are recognised in consolidated profit or loss at the same pace as the corresponding expenditures.

### 6.2.12. Finance leases

The preferred option has been applied for the accounting treatment of lease finance agreements in the consolidated financial statements.

### 6.2.13. Exceptional income and expenses

In general, exceptional income and expenses arise from "extra-ordinary" events, in the sense that they are not related to the enterprise's ordinary activities.

#### 6.2.14. *Income tax*

##### **Current tax**

Current tax is determined on the basis of the taxable profit or loss for the period, which may be different from the accounting profit or loss as a result of write-backs or deductions of some income and expense items in accordance with the tax rules in force, and applying the tax rates enacted at the balance sheet date.

##### **Research tax credit**

Industrial and commercial enterprises taxed under the standard system and incurring research expenditure are entitled to a tax credit in France.

The tax credit is calculated per calendar year and is offset against the tax due by the enterprise for the year in which the research expenditures are incurred. Unused tax credits may be carried forward for the three years following that in which entitlement is acquired. The portion remaining unused at the end of this period is refunded to the enterprise.

As entitlement to the research tax credit is definitively acquired regardless of the Group's tax position, it has been decided to classify this income under other operating income.

##### **Deferred tax**

Deferred tax is calculated using the liability method applying the tax rates in force in each country. A deferred tax asset is recognised in respect of tax losses that can be carried forward, whenever their recovery is likely.

#### 6.2.15. *Provisions*

A provision is a liability of uncertain timing or amount in respect of a clearly defined obligation rendered probable by past events.

This item comprises provisions for:

- customer claims and warranties
- penalties
- disputes and litigation
- losses on completion
- other liabilities.

#### 6.2.16. *Treasury shares*

In connection with a liquidity contract set up in 2009, Orolia owns treasury shares acquired during the year. These are reported as a deduction from equity.

### 6.3. Other disclosures

#### 6.3.1. Consolidation scope

Name	Address	%	Balance sheet date	Reporting currency
<b>OROLIA</b>	3 avenue du Canada 91974 Les Ulis, France	Parent	31/12/2009	EUR
<b>KANNAD SAS</b>	Village du Hirgoat - ZI des Cinq Chemins - 56520 Guidel, France	100	31/12/2009	EUR
<b>McMURDO Ltd</b>	Silver Point, Airport Service Road, Portsmouth, Hampshire, PO3 5PB, UK.	100	31/12/2009	GBP
<b>OROLIA GLOBAL SERVICES Ltd</b>	6A Beechwood Chineham Park Basingstoke, Hampshire RG24 8WA, UK	100	31/12/2009	GBP
<b>PENDULUM INSTRUMENTS AB</b>	Karlsbodavägen 39 SE-16866 Bromma, Sweden	100	31/12/2009	SEK
<b>PENDULUM INSTRUMENTS Inc</b>	5811 Racine Street, Oakland, CA 94609, USA	100	31/12/2009	USD
<b>PENDULUM INSTRUMENTS Ltd</b>	Business Center White Island 197342, Serdobolsakya 64D St. Petersburg, Russia	100	31/12/2009	RUB
<b>SPECTRACOM</b>	95 Methodist Hill Drive Rochester, NY 14623 USA	100	31/12/2009	USD
<b>SPECTRATIME</b>	29 rue Vauseyon 2000 Neuchâtel, Switzerland	100	31/12/2009	CHF
<b>T4 SCIENCE</b>	29 rue Vauseyon 2000 Neuchâtel, Switzerland	50	31/12/2009	CHF

All these companies are fully consolidated.

Orolia acquired 100% of the shares of Pendulum Instruments in March 2008. Under the agreement between the two companies, Orolia acquired 100% of the shares of Pendulum Instruments AB for total consideration of SEK 47 million, broken down as follows:

- SEK 32,000,000, paid on the date of the sale, of which SEK 8,000,000 was paid into an escrow account as a warranty against liabilities for a period of 15 months (the first SEK 800,000 claimed being excluded from the warranty), subsequently reduced to SEK 4,000,000 for a further 18 months.
- A maximum of SEK 15,000,000 as supplementary consideration based on the financial performance in 2008 and 2009.

Given the performance in 2009, no supplementary consideration will be payable for the acquisition of the shares in Pendulum Instruments. The final estimate of goodwill is therefore:

- Equity: €1,415k
- Share of equity acquired by Orolia: €1,415k

- Cost of acquisition : €3,950k
- Goodwill: €2,535k

Furthermore, given the continuing effects of the economic crisis on the “test & measurement” segment at the beginning of 2010, the Board of Directors has taken a prudent approach in conducting the impairment test and has decided to write down the goodwill in Pendulum Instruments in full at 31 December 2009.

Orolia acquired 100% of the assets of Rapco Electronics through Orolia Global Services Ltd in January 2009 for GBP 300,000.

- Assets acquired: €91k
- Cost of acquisition: €385k
- Goodwill: €294k

Orolia Global Services contributed to the earnings for the year for 12 months.

Orolia acquired 100% of the shares in Kannad in September 2009 in consideration for which 1,081,081 new shares were issued with a value estimated at €9.25 per share during the negotiations. Nevertheless, the value to retain in accordance with French consolidation standards is the share price at the date of the General Meeting that authorised the issue, which was therefore €10.24 on 16 September 2009. The cost of acquisition was therefore €11,070k.

- Assets acquired: €5,186k
- Cost of acquisition: €11,070k
- Goodwill: €5,884k

Kannad contributed to the earnings for the year for 3 months.

Orolia acquired 100% of the assets of McMurdo from the UK company Signature Industries Ltd in November 2009 for \$9,585k.

The consideration was paid as follows:

- \$8,585k paid on completion
- \$1,000k deposited in an escrow account for 12 months as a warranty against liabilities (the first \$250,000 of claims being excluded from warranty)
- Assets acquired: €1,822k
- Cost of acquisition: €7,209k
- Goodwill: €5,387k

McMurdo contributed to the earnings for the year for 1 month.

### 6.3.2. Operating income

#### Revenue

In September 2009, Orolia reorganised its business into three Divisions. These three Divisions – Positioning, Navigation and Timing – bring the Group’s companies and their technologies together on a consistent basis, in order to ensure a high level of expertise and knowledge and to provide faultless client service and operational effectiveness at both divisional and Group level. This new organisation enables the Group to strengthen its sales networks and to optimise its R&D work while providing an organisational structure that can develop with its external and organic growth.

- **Positioning:** Orolia’s acquisition of Kannad and McMurdo, world leaders in the field of distress beacons for maritime, aeronautical and land-based applications, is at the origin of this Division. These two companies specialise in the design of systems for the location, measurement and transmission of data in harsh environments. Orolia’s range of positioning systems is structured around two strategic areas: safety (COSPAS-SARSAT distress localisation beacons) for maritime, aeronautical and land-based applications and tracking/geolocalisation (monitoring of fishing equipment and vessels (Vessel Monitoring Systems), beacons, air safety etc).
- **Navigation:** SpectraTime and T4 Science form the basis of this Division. SpectraTime ranks as the second manufacturer in the world of atomic clocks (*Company estimate*), primary time and frequency sources of which the intrinsic characteristics (exactness, accuracy and stability) make them the highest performing in the world. SpectraTime designs, manufactures and markets Rubidium atomic clocks for embarked use in space and for ground applications (defence and telecommunications), and passive hydrogen masers for navigation satellites. T4 Science, another Group company, ranks third worldwide (*Company estimate*) in the field of active hydrogen masers. This is a particular type of atomic clock that is extremely stable and indispensable to certain scientific applications such as geodesy and radio astronomy, satellite navigation ground system command and monitoring stations, telemetry, and for

guiding satellites and interplanetary probes.

- Timing:** the Group companies Spectracom and Pendulum Instruments merged operationally when this Division was formed. Brought together under the Spectracom brand, these two entities now share a single management team and the same management, services and sales infrastructure. Spectracom ranks second worldwide in time servers and synchronised frequency references (*Company estimate*). Spectracom's GPS clocks enable mission critical telecommunication and broadcasting infrastructures, surveillance and monitoring centres, computer networks, data centres and defence and combat systems to be synchronised. Spectracom's time servers allow certain precise events occurring within networks to be dated with a high degree of reliability and traceability (e.g. in emergency call centres, for financial transactions, etc). Spectracom ranks first worldwide in the civil defence market (police, fire and ambulance services), and for synchronisation equipment for terrestrial digital broadcasting networks. Through its Pendulum Instruments brand, Spectracom designs frequency counters and analysers, frequency and time benchmarks and systems to distribute the related signals. These enable the time-frequency characteristics of electronic equipment to be calibrated, measured or analysed. Spectracom's main markets are the defence sector, electronic equipment sub-contractors, communications and metrology.

As well as developing, designing and carrying out the final assembly and testing of their products, the Orolia Group companies provide maintenance and upgrade services for their products, as required in areas where the reliability and long-term permanency of systems are critical. For the most complex products, in particular in the fields of defence and aerospace, operational lifespan can exceed 10 to 25 years, necessitating the provision of the Maintenance of Operational Capability of these products through recurrent, multi-year contracts.

### Breakdown by business line

<i>in €'000s</i>	2009	2008
Positioning	4,620	0
Navigation	9,552	10,867
Timing	16,929	17,307
<b>Total</b>	<b>31,101</b>	<b>28,174</b>

### Geographical breakdown

<i>in €'000s</i>	2009	%	2008	%
Europe / Middle East / Africa	16,930	54%	13,657	49%
North and South America	10,170	33%	9,032	32%
Asia / Pacific	4,001	13%	5,485	19%
<b>Total</b>	<b>31,101</b>	<b>100%</b>	<b>28,174</b>	<b>100%</b>

### Capitalised production

This relates mainly to development expenditures capitalised during the period.

### 6.3.3. Employees

#### Number of employees

Management and non-management employee numbers were as follows at the balance sheet date:

	31 December 2009	31 December 2008
Manual workers	41	25
Managers and technicians	253	146
<b>Total</b>	<b>294</b>	<b>171</b>

#### Employment costs

Employment costs break down as follows:

<i>in €'000s</i>	2009	2008
Wages, salaries and benefits	9,979	8,425
Social benefit and tax charges	2,553	1,860
<b>Total</b>	<b>12,532</b>	<b>10,285</b>

#### Expenses recognised in respect of defined contribution pension plans

Employer's contributions paid in respect of pension plans break down by country as follows:

<i>in €'000s</i>	2009
UK	2
USA	0
France	213
Russia	6
Sweden	128
Switzerland	449
<b>Total</b>	<b>798</b>

#### 6.3.4. Financial income / (expense)

<i>in €'000s</i>	2009	2008
Miscellaneous financial expenses	(168)	(730)
Interest paid on loans	(594)	(498)
Financial income	626	542
<b>Total</b>	<b>(136)</b>	<b>(686)</b>

#### 6.3.5. Other information on the income statement

The capitalisation of research and development expenditures amounted to a total of €1,482k and an amortisation expense of €1,189k.

Net exceptional expense for the period amounted to €902k and breaks down as follows:

<i>in €'000s</i>	2009	2008
Impairment of R&D assets	(500)	
Restructuring costs	(426)	
Other	24	31
	<b>(902)</b>	<b>31</b>

Workforce reduction measures taken in France, Sweden, the USA and the UK and the other restructuring costs have led to an expense of €426k for the period.

Moreover, impairment tests performed on R&D expenditure recorded as assets revealed insufficient profitability compared with the Group's standards for one product intended for the digital broadcast market, given a very prudent approach with respect to the recovery of this market which was severely hit in 2009. It has therefore been decided to recognise a 100% impairment loss on this asset, amounting to €386k. Similarly, in connection with the rationalisation of the product portfolio between Kannad and McMurdo, a capitalisable R&D study project was written down following abandonment of a duplicate product, an expense of €114k.

#### 6.3.6. Income tax

The income tax expense for the period was €120k.

##### Tax expense

<i>in €'000s</i>	2009	2008
Net profit / (loss)	(3,071)	1,111
Income tax	120	411
<b>Net profit / (loss) before tax</b>	<b>(2,951)</b>	<b>1,522</b>

## Reconciliation of actual and theoretical tax expense

The reconciliation between the actual and theoretical tax expense resulting from the application of the nominal tax rate in France of 33% to the net profit before tax is as follows:

<i>in €'000s</i>	<b>2009</b>	<b>2008</b>
Net profit before tax and amortisation of goodwill	541	2,548
Average tax rate	33.33%	33.33%
<b>Theoretical tax charge</b>	<b>180</b>	<b>849</b>
Increase / (decrease) of the tax expense resulting from:		
- tax credits and assets	20	92
- permanent differences	40	92
- tax deficits originating in the period and not capitalised		
- use of previous carryforward tax losses not previously capitalised		7
- impact of differences in tax rates	38	101
- other differences	(38)	146
<b>Actual tax expense</b>	<b>120</b>	<b>411</b>

## Analysis of income tax

At 31 December 2009:

<i>in €'000s</i>	<b>Before tax</b>	<b>Income tax</b>	<b>Net after tax</b>
Profit from ordinary activities	1,444	(395)	1,049
Net exceptional income / (expense)	(902)	275	(627)
Goodwill amortisation	(3,493)		(3,493)
Accounting profit or loss	(2,951)	(120)	(3,071)

The tax expense comprises current tax expense for €578k and deferred tax income for €458k.

## Carryforward tax losses

At 31 December 2009, there was a carryforward tax loss of €2,291k related to Orolia and of €96k related to Kannad.

## Increases and decreases of future tax liabilities

<i>in €'000s</i>	<b>2009</b>	<b>2008</b>
<b>Increases</b>		
<b>Decreases</b>	<b>71</b>	<b>12</b>
- ORGANIC (sales-based social charge)	38	12
- Statutory employee profit-sharing	33	0
<b>Total increases (decreases) of future tax bases</b>	<b>71</b>	<b>12</b>

### 6.3.7. Earnings per share

#### Basic earnings per share

Basic earnings per share is based on the weighted average number of shares outstanding during the period.

<i>in €'000s</i>		2009	2008
Net profit / (loss) attributable to owners of the parent	(a)	(3,069)	904
Average number of shares outstanding during the period:	(b)	2,754,468	2,436,000
- number of shares at the start of the period		2,446,500	2,425,500
- number of shares at the end of the period		4,168,959	2,446,500
<b>Earnings per share attributable to owners of the parent (in euros)</b>	<b>(a) / (b)</b>	<b>(1.11)</b>	<b>0.37</b>

#### Diluted earnings per share

Diluted earnings per share is based on the weighted average number of shares outstanding and the number of shares that would be issued following conversion of convertible instruments to shares.

<i>in €'000s</i>		2009	2008
Net profit / (loss) attributable to owners of the parent	(a)	(3,069)	904
Average number of shares outstanding during the period:	(b)	2,754,468	2,436,000
Number of potentially dilutive shares	(c)	464,000	325,750
Number of shares included in the calculation of diluted earnings per share	(d) = (b)+(c)	3,218,468	2,761,750
<b>Diluted earnings per share attributable to owners of the parent (in euros)</b>	<b>(a) / (d)</b>	<b>(1.11) (*)</b>	<b>0.33</b>

(\*) Under the applicable rules, diluted earnings per share cannot be less than basic earnings per share. This means that although the arithmetically correct figure for diluted EPS is -€0.95, the figure to be retained is -€1.11.

### 6.3.8. Goodwill

#### Changes between 1 January 2009 and 31 December 2009

<i>in €'000s</i>	1 January 2009	Changes in scope	Increases	Decreases	31 December 2009
Temex Sync	1,352				1,352
SpectraTime	513				513
T 4 Science	93				93
Spectracom	6,180				6,180
Pendulum Instruments	2,770			(120)	2,650
Orolia Global Services			294		294
Kannad		39	5,884		5,923
McMurdo			5,387		5,387
<b>Gross goodwill</b>	<b>10,908</b>	<b>39</b>	<b>11,565</b>	<b>(120)</b>	<b>22,392</b>
Temex Sync	304		135		439
SpectraTime	115		51		166
T4 Science	21		9		30
Spectracom	824		618		1,442
Pendulum Instruments	208		2,442		2,650
Orolia Global Services			29		29
Kannad		39	147		186
McMurdo			60		60
<b>Cumulative amortisation</b>	<b>1,472</b>	<b>39</b>	<b>3,492</b>		<b>5,003</b>
<b>Net goodwill</b>	<b>9,436</b>	<b>0</b>	<b>8,073</b>	<b>(120)</b>	<b>17,389</b>

Goodwill in Pendulum Instruments was determined definitively at the end of December 2009, in view of the clause providing for supplementary consideration payable in 2010 on the basis of the 2009 results.

Furthermore, given the continuing effects of the economic crisis on the "Test & Measurement" segment at the beginning of 2010, the Board of Directors has taken a prudent approach in conducting the impairment test and has decided to write down the goodwill in Pendulum Instruments in full at 31 December 2009.

### 6.3.9. Intangible fixed assets, net

#### Changes between 1 January 2009 and 31 December 2009

	1 January 2009	Changes in the period				Translation differences	31 December 2009
		Changes in scope	Increases	Decreases	Others		
Development expenses	3,065	1,070	1,570			(55)	5,650
Others	5						5
Concessions, patents and rights	796	25	143			2	966
Software	249	121	184				554
<b>Intangible assets, gross</b>	<b>4,114</b>	<b>1,216</b>	<b>1,897</b>			<b>(53)</b>	<b>7,175</b>
Development expenses	479	151	1,189			(8)	1,811
Patents	680	25	105		2	2	814
Software	57	39	63	5	(2)	0	161
<b>Cumulative amortisation</b>	<b>1,216</b>	<b>215</b>	<b>1,357</b>	<b>5</b>		<b>(7)</b>	<b>2,787</b>
<b>Intangible assets, net</b>	<b>2,898</b>	<b>1,002</b>	<b>540</b>	<b>(5)</b>		<b>(46)</b>	<b>4,388</b>

### 6.3.10. Property, plant and equipment, net

#### Changes between 1 January 2009 and 31 December 2009

	1 January 2009	Changes in the period				Translation differences	31 December 2009
		Changes in scope	Increases	Decreases	Others		
Land and buildings		867		(867)			
Plant and equipment	3,552	792	324	(26)	11	17	4,670
Finance leases	144	94	1,475				1,714
Office, transport & IT equipment	808	100	167	(38)	128	6	1,170
In progress	112	3	46	(112)			50
Others	954	596	72	(589)	(14)	(6)	1,012
<b>Property, plant and equipment, gross</b>	<b>5,571</b>	<b>2,452</b>	<b>2,084</b>	<b>(1,633)</b>	<b>125</b>	<b>17</b>	<b>8,616</b>
Land and buildings	1		13	(13)	(1)		
Plant and equipment	2,616	261	337	(26)	19	13	3,221
Finance leases	39	19	50				109
Office, transport & IT equipment	599	14	101	(37)	96	4	777
In progress	0						
Others	672	5	93	(21)	(70)	(7)	671
<b>Cumulative depreciation</b>	<b>3,928</b>	<b>300</b>	<b>593</b>	<b>(97)</b>	<b>44</b>	<b>10</b>	<b>4,778</b>
<b>Property, plant and equipment, net</b>	<b>1,643</b>	<b>2,152</b>	<b>1,491</b>	<b>(1,536)</b>	<b>81</b>	<b>7</b>	<b>3,838</b>

The Group applies the preferential method in CRC Regulation 99-02 as amended, relating to the capitalisation of material finance lease contracts designated as financing arrangements. Such contracts are restated as follows:

- The finance charge, if not contractually stipulated, is calculated applying a constant interest rate across the contract term.
- Rental payments recorded in separate company financial statements are cancelled and replaced by a finance charge and gradual repayment of debt.
- The assets in question are depreciated applying the Group's accounting policies.
- Leased items are recognised as assets at the value stipulated in the contract.

The assets in question are mainly the land and buildings at the Guidel site (gross amount €1,714k taking account of the lease-back transaction). Depreciation to date in respect of the period was €109k, giving a residual value of €1,605k. The corresponding debt amounted to €1,577k at the balance sheet date.

### 6.3.11. Breakdown of tangible and intangible non-current assets by activity

31 December 2009	Positioning	Navigation	Timing	Total
Intangible assets	1,098	100	<b>3,190</b>	<b>4,388</b>
Property, plant and equipment	2,164	1,007	<b>667</b>	<b>3,838</b>
<b>Total</b>	<b>3,262</b>	<b>1,107</b>	<b>3,857</b>	<b>8,226</b>

### 6.3.12. Non-current financial assets

#### Changes between 1 January 2009 and 31 December 2009

<i>in €'000s</i>	1 January 2009	First consolidation	Increases	Translation differences	31 December 2009
Deposits and guarantees	158	5	20	2	186
Liquidity account			32		32
FINAMUR loan on lease-back			145		145
SICAVs pledged					
<b>Total</b>	<b>158</b>	<b>5</b>	<b>197</b>	<b>2</b>	<b>362</b>

### 6.3.13. Inventories and work-in-progress

#### Changes between 1 January 2009 and 31 December 2009

	1 January 2009	First consolidation	Change in the period		Translation differences	31 December 2009
			Change	Other movements		
1. Supplies and raw materials	2,884	3,025	304		37	6,250
2. Work-in-progress	61	454	(78)		(2)	435
3. Finished products	2,003	1,748	(433)		(7)	3,311
4. Merchandise	0					
<b>Gross inventory</b>	<b>4,948</b>	<b>5,227</b>	<b>(207)</b>		<b>28</b>	<b>9,997</b>
1. Supplies and raw materials	608	844	166		5	1,624
2. Work-in-progress	0	18				18
3. Finished products	356	742	(90)		(1)	1,006
4. Merchandise	0					
<b>Allowances</b>	<b>964</b>	<b>1,604</b>	<b>76</b>		<b>4</b>	<b>2,648</b>
<b>Net inventory</b>	<b>3,984</b>	<b>3,623</b>	<b>(283)</b>		<b>24</b>	<b>7,349</b>

### 6.3.14. Trade and other receivables

All trade receivables are payable within one year.

### 6.3.15. Other receivables

Other receivables comprise:

<i>in €'000s</i>	31 December 2009		31 December 2008	
	Within one year	After one year	Within one year	After one year
Income tax	720		800	58
Deferred tax assets	0	925	51	0
VAT	700		283	0
Other operating receivables	1,151		207	0
Grant related to assets	62		139	0
<b>Total other receivables (net)</b>	<b>2,635</b>	<b>925</b>	<b>1,480</b>	<b>58</b>

Deferred tax assets correspond to the carryforward tax losses of Orolia (€626k), Kannad (€24k), Pendulum Instruments AB (€146k) and McMurdo (€129k).

### 6.3.16. Net cash and cash equivalents

#### Components of net cash and cash equivalents

At 31 December 2009, the Group's net cash and cash equivalents comprised:

<i>in €'000s</i>	31 December 2009	31 December 2008
Cash	13,049	3,486
Marketable securities	2,311	7,887
<b>Cash assets</b>	<b>15,360</b>	<b>11,373</b>
Short-term bank borrowing	134	359
<b>Cash liabilities</b>	<b>134</b>	<b>359</b>
<b>Net cash and cash equivalents</b>	<b>15,226</b>	<b>11,014</b>

#### Marketable securities

Marketable securities comprise funds invested in risk-free UCITS (mainly cash SICAVs or similar vehicles) or certificates of deposit with counterparties with a rating greater than A and are reported at their cost of acquisition. Changes between periods in the value of marketable securities were as follows:

#### Changes between 1 January 2009 and 31 December 2009

<i>in €'000s</i>	1 January 2009	First consolidation	Acquisitions	Disposals	Translation differences	31 December 2009
SICAV	7,887	2,762	34,490	32,100	9	13,049
Term deposit account	0					
<b>Total</b>	<b>7,887</b>	<b>2,762</b>	<b>34,490</b>	<b>32,100</b>	<b>9</b>	<b>13,049</b>

### 6.3.17. Share capital

At 31 December 2009, the share capital was €16,675,836 represented by 4,168,959 shares of €4 nominal value. The Company's shares are held as follows: 54.2% by Airtek Capital Group, 480 avenue Louise – 1015 Brussels – Belgium, 17.8% by BNP-Paribas Private Equity via various FCPI innovation mutual investment funds, 7.1% by the management and 20.9% by investors, of whom most subscribed to the share capital increase in July 2007.

### 6.3.18. Provisions

Provisions have been taken for all disputes (of a technical, tax or other nature) and liabilities for the amount of their estimated probable amount at the balance sheet date.

At 31 December 2009, the main provisions were:

<i>in €'000s</i>	<b>1 January 2009</b>	<b>First consolidation</b>	<b>Reversals</b>	<b>Provisions taken</b>	<b>Others</b>	<b>Translation differences</b>	<b>31 December 2009</b>
Provision for retirement benefit obligations	87	142	(25)				204
Provision for Jubilee expenses	320	9	(1)	35		1	364
Provision for contractual penalties	14		(8)				6
Provision for customer warranties	168	427	(37)	233		7	799
Provision for loss on completion	1		(1)				0
Provision for disputes	153	572	(99)			1	627
Provision for foreign currency exchange rate gains and losses	370				(370)		0
Provision for licence-related risk	120		(120)				0
Provision for restructuring costs	85	183	(7)	180		1	442
Other provisions		289				1	290
<b>Total</b>	<b>1,318</b>	<b>1,622</b>	<b>(298)</b>	<b>448</b>	<b>(370)</b>	<b>11</b>	<b>2,731</b>

Of the €298k of provision reversals, €240k related mainly to provisions used to cover disputes.

A reclassification of €120k was made on 1 January 2009 between the provision for Jubilee expenses and the provision for licence-related risk and of €7k between the provision for restructuring costs and the provision for Jubilee expenses. The total remained unaltered.

The provision for retirement benefit obligations corresponds to the Group's future obligations for payments to its employees at the time of their retirement (see 6.2.10).

The provision for Jubilee expenses corresponds to the future obligations to pay long-service bonuses to the Swiss and British employees.

The provision for penalties relates mainly to late-delivery penalties on one contract.

The provision for customer warranties covers costs to be borne by the Group during the warranty periods granted to customers.

The provision for loss on completion was related to a contract in progress for which the estimated direct costs exceeded the selling price. As the contract has been completed, the provision has been reversed in full.

The provision for disputes relates to the Group's various disputes with its customers about deliveries of goods that did not meet customers' expectations and are being remedied.

The provision for foreign currency exchange rate gains and losses results from unrealised foreign exchange losses on assets denominated in foreign currency at the balance sheet date. This is now reclassified to each of the corresponding balance sheet accounts.

The provision for licence-related risk related to a dispute on the amount of royalties due on a licence agreement with the Neuchâtel Observatory. A written agreement was reached in August 2009 in respect of this dispute, which has allowed the provision to be reversed in full.

The provision for restructuring costs relates to employment disputes, the costs of workforce reduction measures and the costs of under-use of premises subsequent to reductions in workforce and / or the transfer of activities.

The other provisions relate mainly to risks associated with minimum purchase commitments made to certain Group subcontractors.

### Changes in net obligation and reconciliation of provision for retirement benefit obligations

<i>in €'000s</i>	31 December 2009	31 December 2008
<b>Obligation at start of period</b>	<b>87</b>	<b>97</b>
Change in consolidation scope	142	
Interest cost		
Present service cost	(14)	(27)
Actuarial gains / (losses)	(11)	17
Plan amendments		
<b>Obligation at the end of the period</b>	<b>204</b>	<b>87</b>
Unrecognised actuarial (gains) and losses		
Unrecognised past service cost		
<b>Provision at the end of the period</b>	<b>204</b>	<b>87</b>

At 31 December 2009, there are no government, court or arbitration proceedings, including any proceedings of which the Company is aware, that are pending or that could arise likely to materially affect the Company's financial situation or profitability, or that has had a material affect thereon in the last 12 months.

#### 6.3.19. Financial debt, bank facilities and factoring

31 December 2009	Within 1 year	Between 1 and 5 years	After 5 years	Total	Rate
Loans	600	10,400	0	11,000	Floating/Fixed
Other financial debt	415	481	922	1,818	Floating
<b>Financial debt</b>	<b>1,015</b>	<b>10,881</b>	<b>922</b>	<b>12,818</b>	<b>Floating</b>
Factoring	2,313			2,313	Floating
Short-term bank advances	134			134	Floating
<b>Bank facilities and factoring</b>	<b>2,447</b>			<b>2,447</b>	<b>Floating</b>
<b>Total</b>	<b>3,462</b>	<b>10,881</b>	<b>922</b>	<b>15,265</b>	<b>Floating</b>

To support its external growth policy, the Group agreed a bond loan on 31 January 2008 with Euromezzanine. The bonds, amounting to €8 million in total, include share subscription warrants that allow Euromezzanine to subscribe to 276,500 new shares, for a price of €12.5 per new share subscribed to. In particular, these funds made possible the acquisition of Pendulum Instruments in March 2008. An interest-rate hedge has been set up for the full amount of this debt, guaranteeing a maximum Euribor 6-month rate of 4.75% and a minimum rate of 2.96%.

The principal covenant relating to this debt is compliance with a net consolidated financial debt ratio (Net consolidated debt to consolidated Ebitda) which must remain below or equal to 3.

In connection with the financing of the acquisition of the operations of McMurdo, the Group has signed a medium-term loan agreement on 27 November 2009 with Société Générale for €3 million, the principal being repayable in 5 constant annuities. As the loan was initially at floating rate, a floating/fixed hedge swap was entered into to eliminate the interest rate risk, guaranteeing a fixed rate of 2.28% excluding margin.

The main covenants related to this debt are:

- a) Consolidated net financial debt to Consolidated gross operating income less than 3

- b) Consolidated net financial debt to Consolidated net equity equal to or less than 1.5
- c) Consolidated free cash flow to Consolidated debt service costs greater than 0.7

On 3 December 2009, Kannad carried out a lease-back transaction relating to its property at Guidel with Crédit Agricole Leasing. The company has a 12-year commitment. This transaction has been restated in accordance with the Group's accounting policies in order to report the property as a non-current asset with a corresponding financial debt. Termination will be possible as from the fifth year.

### 6.3.20. Trade payables and related accounts

All trade payables are payable within one year.

### 6.3.21. Deferred income and expenses

Deferred income and expenses relate solely to operations.

### 6.3.22. Tax and social benefit liabilities

Tax, social benefit and employment payables are due within one year and break down as follows:

<i>in €'000s</i>	31 December 2009	31 December 2008
VAT due	95	61
Income tax	1,401	755
Other tax payables	10	37
Employee remuneration due	1,306	1,180
Social charges	1,044	378
Other social benefit and employment payables	72	0
<b>Total tax, social benefit and employment payables</b>	<b>3,928</b>	<b>2,411</b>

### 6.3.23. Other payables

Other payables break down as follows:

<i>in €'000s</i>	31 December 2009		31 December 2008	
	Within one year	After one year	Within one year	After one year
Credit notes to be issued	0	0	0	0
Other operating payables	172	0	206	229
<b>Total other payables</b>	<b>172</b>	<b>0</b>	<b>206</b>	<b>229</b>

Other payables at more than one year in 2008 corresponded to the assessment of the contingent supplementary purchase consideration for the Pendulum Instruments shares acquired, payable in 2009 and 2010. Given the performance in 2009, no supplementary consideration will be payable for the acquisition of the shares in Pendulum Instruments.

#### 6.3.24. *Accrued expenses*

Accrued expenses included in balance sheet items break down as follows:

<i>in €'000s</i>	31 December 2009	31 December 2008
Trade payables and related accounts	3,269	509
Tax and social benefit liabilities	2,226	1,228
Liabilities related to non-current assets and related accounts		0
Other payables	151	426
<b>Total accrued expenses</b>	<b>5,646</b>	<b>2,163</b>

#### 6.3.25. *Off-balance sheet commitments*

SpectraTime, Spectracom and Pendulum Instruments have pledged their trade receivables (and inventories in the case of Spectracom), as a guarantee in favour of their banks for working capital finance.

Orolia has given a shareholder's guarantee in favour of HSBC US for the amount of Spectracom's commitments, and a letter of comfort in favour of Crédit Suisse to guarantee Spectracom's and SpectraTime's credit facilities.

In connection with the mezzanine loan contracted in January 2008, an interest-rate hedge has been set up for the entire loan, guaranteeing a maximum Euribor 6-month rate of 4.75% and a minimum rate of 2.96%. At 31 December 2009, the amount necessary to unwind this hedge would have been €291k. Furthermore, Euromezzanine has a first-ranking pledge of the shares in Spectracom. This debt is governed by the covenants described in 6.3.19.

In connection with the acquisition of Pendulum Instruments, Orolia has a warranty against liabilities from its previous owner in the form of an escrow account for an amount of SEK 4,000,000.

In connection with the acquisition loan in relation to McMurdo, taken out in December 2009, an interest rate hedge has been set up in respect of the full amount of the loan, guaranteeing a fixed interest rate of 2.28%. At 31 December 2009, the amount necessary to unwind this hedge would have been €13k. Orolia has pledged 75% of the shares in Kannad to Société Générale to guarantee its commitments in respect of the €3 million loan taken out in December 2009. This debt is governed by the covenants described in 6.3.19.

Orolia has a warranty against liabilities from Signature Industries Ltd in the form of an escrow account for an amount of \$1 million in connection with the purchase of the assets of McMurdo Ltd.

Kannad has set up participating forward foreign exchange contracts for a notional amount of USD 2,500k to hedge against an unfavourable change in the USD exchange rate affecting its sales in the dollar zone. At 31 December 2009, these contracts, had they been unwound at market conditions obtaining on that date, would have generated a foreign exchange loss of €18k.

<i>in €'000s</i>	31 December 2009	31 December 2008
<b>Commitments given</b>		
Guarantees, surety, etc	125	715
Pledge of shares	11,000	8,000
Finance and operating leases	2,800	177
<b>Total commitments made</b>	<b>13,925</b>	<b>8,892</b>
<b>Commitments received</b>		
Guarantees, surety, etc	69	644
Finance and operating leases		
Balance sheet warranties	1,084	845
<b>Total commitments received</b>	<b>1,153</b>	<b>1,489</b>
<b>Reciprocal commitments</b>		
Foreign exchange forward contracts	1,735	317
Interest rate hedges	11,000	8,000
<b>Total reciprocal commitments</b>	<b>12,735</b>	<b>8,317</b>

#### 6.3.26. *Related party disclosures*

Related parties are enterprises that have the same principal shareholder as Orolia but whose financial statements are not included in its consolidated financial statements. At 31 December 2009, the reciprocal positions of Orolia and its related parties break down as follows:

<i>in €'000s</i>	31 December 2009	31 December 2008
Debts	0	212
Receivables	0	143
Financial income	0	0
Financial expenses	0	0

#### 6.3.27. *Equity instruments*

A free share plan relating to 70,000 shares was authorised by the General Meeting of 16 September 2009.

At its meeting of 17 December 2009, the Board of Directors decided to grant:

- 60,000 shares to Jean-Yves Courtois;
- 10,000 shares to Christophe François.

These shares will be allocated on 17 December 2011 on condition that:

- the price of the Orolia share is higher than €9.25 on the basis of the higher of the average of the last 5 market trading days in 2011 and the average of the last 3 months in 2011;
- Jean-Yves Courtois and Christophe François are still employed by the Company or are Company officers for the purposes of allocation of the shares.

In the event of resignation (it being clearly stated that the transfer of a contract of employment to another Group entity does not constitute resignation), dismissal or termination of employment, before 17 December 2011, the

grantees would cease, as from the end of the notice period, to be beneficiaries of this plan and would in consequence lose all rights to free shares in the future.

In consequence, as at 17 December 2011 and if the vesting conditions are met, 70,000 new shares will be issued in connection with a share capital increase resulting from the granting of the shares.

	2007 Options	2007 Options	2007 Options	2008 Warrants	2008 Options	2008 Options	Free shares
<b>Date of Shareholders' Meeting</b>	22/07/2007	22/07/2007	22/07/2007	30/01/2008	10/06/2008	10/06/2008	16/09/2009
Date of Board Meeting	20/09/2007	24/07/2008	16/04/2009		20/10/2009	17/12/2009	17/12/2009
Number of options and warrants authorised	75,000	75,000	75,000	500	50,000	50,000	70,000
Number of options and warrants granted	46,500	11,000	10,000	500	20,000	30,000	70,000
Number of options and warrants expired at 31 December 2009	0	0	0	0	0	0	0
Number of options and warrants exercised	0	0	0	0	0	0	0
Number of options and warrants exercisable at 31 December 2009	30,657	4,160	0	500	0	0	0
Total number of shares subscribed to	0	0	0	0	0	0	0
Total number of shares that could be subscribed to	46,500	11,000	10,000	276,500	20,000	30,000	70,000
of which by senior executives	0	0	0	0	0	0	70,000
Number of persons involved	14	10	8	1 (Euromezzanine)	11	14	2
of which senior executives	0	0	0	0	0	0	2
Exercise date of options and warrants							17/12/2011
Expiry date of options and warrants	6 years	6 years	6 years	5 – 6 years	8 years	8 years	N/A
Value of the underlying Acquisition price per option or warrant	0	0	0	0	0	0	
Subscription price per share	€12.50	€16.40	€12.50	€12.50	€9.25	€9.25	€0.00

6.3.28. *Statutory auditors' fees*

<i>(in €'000s)</i>	<b>Deloitte &amp; Associés Deloitte Touche Tohmatsu network</b>		<b>Others</b>	
	Amount (excl. VAT)	%	Amount (excl. VAT)	%
	2009	2009	2009	2009
Audit				
- Statutory audit, certification, examination of separate and consolidated accounts	224	100%	50	79%
- <i>Issuer</i>	147	66%	5	8%
- <i>Fully consolidated subsidiaries</i>	77	34%	45	71%
- Other work and services directly connected with appointment as statutory auditor:				
- <i>Issuer</i>				
- <i>Fully consolidated subsidiaries</i>				
<b>Sub-total</b>	<b>224</b>	<b>100%</b>	<b>50</b>	<b>79%</b>
Other services provided by the network to fully consolidated subsidiaries			13	21%
- <i>Legal, tax and employment</i>			13	21%
- <i>Other</i>				
<b>Sub-total</b>			<b>13</b>	<b>21%</b>
<b>TOTAL</b>	<b>224</b>	<b>100%</b>	<b>63</b>	<b>100%</b>

6.3.29. *Post balance sheet events*

None