Mauna Kea Technologies

A French Corporation (*société anonyme*) with share capital of € 542 470
Registered office: 9 Rue d'Enghien
75010 Paris, France
Registered at the Paris Register of Commerce and Companies under No. 431 268 028

Consolidated Financial Statements in accordance with the IFRS Standards as of 31 December 2012

STATEMENT OF FINANCIAL POSITION
(Amounts in thousands of euros)

	Note	As of 31 December 2012	2011*
ASSETS			
Non-current Assets			
Intangible assets	**3**	3 163	2 592
Property, plant, and equipment	**4**	571	563
Non-current financial assets	**5**	73	64
Total of non-current assets		**3 807**	**3 219**
Current assets			
Inventories & Work in progress	**6**	1 936	1 515
Trade receivables	**7**	3 324	1 409
Other current assets	**7**	2 143	1 868
Current financial assets	**8**	211	943
Cash and cash equivalents	**9**	37 638	51 347
Total of current asets		**45 251**	**57 081**
TOTAL OF ASSETS		**49 058**	**60 300**

STATEMENT OF FINANCIAL POSITION
(Amounts in thousands of euros)

	Note	As of 31 December 2012	2011*
EQUITY AND LIABILITIES			
Equity			
Issued capital	**10**	542	536
Share premium	**10**	56 805	56 190
Reserves		(4 054)	2 813
Foreign currency translation on reserve		(76)	(55)
Profit / (loss)		(13 056)	(7 909)
Total of equity		**40 162**	**51 575**
Non-current Liabilities			
Long-term loans and borrowings	**11**	2 362	2 745
Non-current provisions	**12**	481	390
Total of non-current liabilities		**2 843**	**3 135**
Current liabilities			
Short-term loans and borrowings	**11**	756	978
Trade payables	**13**	2 178	2 315
Other current liabilities	**13**	3 119	2 297
Total of current liabilities		**6 053**	**5 590**
TOTAL OF EQUITY AND LIABILITIES		**49 058**	**60 300**

*As the Company elected for the early application in January 2012 of the revised standard IAS 19 – Employee Benefits, the financial statements for the year 2011 have been drawn up with the new regulations for the purposes of comparison.

COMPREHENSIVE INCOME STATEMENT
(Amounts in thousands of euros)

	Note	As of 31 December 2012	2011*
Operating Revenue			
Sales	**14**	8 810	5 016
Other income	**14**	1 472	960
Total of revenue		**10 282**	**5 976**
Operating Expenses			
Cost of sales		(2 705)	(1 583)
Gross margin		*69%*	*68%*
Research & Development	**17**	(3 262)	(2 291)
Sales & Marketing	**17**	(12 527)	(6 281)
Admnistrative expenses	**17**	(3 684)	(3 271)
Share-based payments	**16**	(1 073)	(654)
Total of expenses		**(23 251)**	**(14 079)**
Operating profit		**(12 969)**	**(8 103)**
Financial revenue	**18**	101	449
Financial expenses	**18**	(186)	(253)
Profit before tax		**(13 054)**	**(7 908)**
Income tax expense	**19**	(1)	(2)
Profit / (loss)		**(13 056)**	**(7 909)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial differences on defined benefit plans	**12**	(32)	(26)
Total of items that will not be reclassified to profit or loss		**(32)**	**(26)**
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(21)	9
Total of items that will be reclassified subsequently to profit or loss		**(21)**	**9**
Other comprehensive income for the year, net of tax		**(52)**	**(17)**
Comprehensive income		**(13 108)**	**(7 926)**
Weighted average number of shares outstanding (in thousands) **		13 449	11 104
Basic earnings per share (EUR/share)	**22**	**(0,97)**	**(0,71)**
Weighted average number of potential shares (in thousands)		15 077	11 762

*As the Company opted for the early application in January 2012 of the revised standard IAS 19 – Employee Benefits, the financial statements for the year 2011 have been drawn up with the new regulations for the purposes of comparison.
** On 25 May 2011, the Company consolidated its shares as 4 old shares for 1 new share.

STATEMENT OF CHANGES IN EQUITY
(Amounts in thousands of euros)

		Issued capital	Share premium	Treasury shares	Reserves	Foreign currency translation on reserve	Profit / (loss)	Total of equity
Equity as of	**31/12/2010**	**357**	**30 168**		**(19 707)**	**(64)**	**(3 893)**	**6 862**
Allocation of the profit / (loss)					(3 893)		3 893	
Allocation of carry forward			(25 746)		25 746			
Capital transactions (2)		179	51 767					51 946
Share-based payment transactions (1)					765			765
Treasury shares transactions				(73)				(73)
Comprehensive income as of	31/12/2011				(26)	9	(7 909)	(7 926)
Equity as of	**31/12/2011***	**536**	**56 190**	**(73)**	**2 886**	**(55)**	**(7 909)**	**51 575**
Allocation of the profit / (loss)					(7 909)		7 909	(0)
Capital transactions		6	615					621
Share-based payment transactions (1)					1 140			1 140
Treasury shares transactions				(111)	45			(65)
Comprehensive income as of	31/12/2012				(32)	(21)	(13 056)	(13 108)
Equity as of	**31/12/2012**	**542**	**56 805**	**(184)**	**(3 869)**	**(76)**	**(13 056)**	**40 162**

*As the Company elected for the early application in January 2012 of the revised standard IAS 19 – Employee Benefits, the financial statements for the year 2011 have been drawn up with the new regulations for the purposes of comparison.

(i) The detail of the share-based payments is set out in Note 10: Share capital

(ii) The gross amount of the capital increase in the year 2011 was €56,995K, of which €56,501K resulted from the initial public offering of the shares of the Company on Paris Euronext regulated market on 6 july 2011, minus the directly attributable to that capital increase by €(5,049)K.

CASH-FLOW STATEMENT
(Amounts in thousands of euros)

	Note	As of 31 December 2012	2011*
Cash flows from operating activities			
Profit / (loss)		(13 056)	(7 909)
Elimination of amortisations, depreciations and provisions		710	598
Share-based payment transaction expense and revenue	**16**	1 073	765
Other items excluded from the auto-financing capacity		57	(191)
Revenue and expenses related to the discounting of repayable advances	***14/18***	*(3)*	*(2)*
Interest expenses paid			*4*
Net gain or loss from cash equivalents		*(12)*	*(269)*
Other non-cash items		*72*	*76*
Unrealised gains and losses related to changes in the fair value	**8**		(111)
Capital gain or loss from asset sales		7	
Elimination of the income tax expense	**19**	1	2
Auto-financing capacity		**(11 207)**	**(6 847)**
Income tax expense paid		(1)	(1)
Change in WCR related to business activities		(2 073)	669
Inventories & Work in progress		*(475)*	*(203)*
Trade receivables		*(1 937)*	*(672)*
Other current assets		*(276)*	*(875)*
Trade payables		*(135)*	*1 545*
Other current liabilities		*750*	*876*
Net cash flows from operating activities (A)		**(13 280)**	**(6 178)**
Cash flows from investing activities			
Acquisitions of property, plant and equipment and intangible assets	**3/4**	(1 191)	(1 067)
Proceeds on sale of property, plant and equipment and intangible assets		16	
Acquisitions of current financial assets			(705)
Proceeds on sale of current financial assets		839	
Change in loans and advances granted		(94)	(129)
Net cash flows from investing activities (B)		**(429)**	**(1 902)**
Cash flows from financing activities			
Proceeds on exercise of share options	**10**	621	390
Proceeds on issue of shares**	**10**	0	51 556
Received from equity holders of the parent		*0*	*51 556*
Received from non-controlling interests			
Repurchases and resales of treasury shares		(65)	(73)
Net financial interests paid		12	265
Net gain or loss from cash equivalents		*12*	*269*
Interest expenses paid			*(4)*
Other cash flows from financing operations	**11**	(566)	932
Net cash flows from financing activities (C)		**2**	**53 070**
Net foreign exchange difference (D)		(2)	34
Change in cash (A) + (B) + (C) + (D)		**(13 709)**	**45 024**
Cash at the beginning of the period	**9**	51 347	6 323
Cash at the end of the period	**9**	37 638	51 347
Change in cash		**(13 709)**	**45 024**

*As the Company elected for the early application in January 2012 of the revised standard IAS 19 – Employee Benefits, the financial statements for the year 2011 have been drawn up with the new regulations for the purposes of comparison.
** The costs of the operation on capital of €5,049K were taken into account in the line “Proceeds from the issue of shares”.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Accounting principles

1.1 Accounting policies applied by the Group

The financial statements are presented in thousands of Euros.

They were approved by the Board of Directors on 26 March 2013. These financial statements will be definitive only after the approval of the Annual General meeting.

The financial statements are prepared on the basis of their historical cost, with the exception of the financial assets, which are valued at their fair value. The preparation of the financial statements in accordance with the IFRS principles requires that estimations be made and assumptions be formulated that affect the amounts and the information provided in the financial statements, in particular, within the context of the valuation of the cost of the share-based payments and the use values taken into account for the purpose of the impairment tests. These assumptions and estimate, have been made of the basis of situations at the date of drawing up the accounts, and may turn out in the future to differ from the actual results. As applicable, a sensitivity analysis may be implemented if this variation is significant.

The assumption of the going concern was adopted by the Board of Directors considering the cash available on 31 December 2012 amounting to 37.7 million euros enabling the company to cover its future cash requirements.

The principles adopted for the preparation of this financial information are the product of the application of all the standards and interpretations adopted by the European Union, the application of which became mandatory on 31 December 2012. The latter are available on the website of the European Commission http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm

The new standards, amendments, and interpretations of standards published with mandatory application beginning on 1 January 2012 have no significant effect on the consolidated financial statements as of 31 December 2012. These are the following amended standards:

- Amendment IFRS 7, “Financial instruments: Disclosures transfers of financial assets”.

The Company elected for early application on 1 January 2012 of the following amendments and revisions

- Amendment IAS 1. “*Presentation of Items of Other Comprehensive Income”, with mandatory application to financial statement as from 1 June 2012”.*
- *IAS 19 Employee benefits”, with mandatory application to financial statements from 2013.*

As a result of the retrospective nature of revised Standard IAS 19, the financial statements for the year 2011 have been drawn up with the new regulations for the purposes of comparison. Details of the impact of the first application of this standard are set out in note 25.

The principal impact of the early application of revised standard IAS 19 on the Company’s financial information is the immediate and complete recording of other items in the comprehensive income, these actuarial differences will not be reclassified later in the net result.

Furthermore, the Company chose not to apply early the other standards amendments, revisions and interpretations of published standards, the application of which will be mandatory only for those fiscal years that begin after 1 January 2012. These are the following standards, amendments, revisions and interpretations of the following standards:

- IFRS 10, “Consolidated Financial Statements,” applicable to financial years opened from 1 January 2014,
- IFRS 11, “Joint Arrangements,” applicable to financial years opened from 1 January 2014,
- IFRS 12, “Disclosure of Interests in Other Entities”, applicable to financial years opened from 1 January 2014,
- IFRS 13, “Evaluation of fair value”, applicable to financial years opened from 1 January 2013,

- Amendment to IAS 12 “Income taxes - deferred tax: recovery of Underlying Assets”, applicable to financial years opened from 1 January 2013,
- Amendment to IAS 32, “Offset of financial assets and liabilities”, applicable to financial years opened from 1 January 2014,
- Amendment to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters", applicable to financial years opened from 1 January 2013,
- Amendment to IFRS 7 “Additional information: offsetting of financial assets and financial liabilities” applicable to financial years opened from 1 January 2013,
- Amendment to IAS 27 “Separate financial statements”, applicable to financial years opened from 1 January 2014,
- amendment to IAS 28 “Investments in Associates and Joint Ventures”, applicable to financial years opened from 1 January 2014,
- IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine." applicable to financial years opened from 1 January 2013.

Furthermore the Company has chosen not to apply early the standards, amendments, revisions and interpretations to published standards and not endorsed by the EU:
- all standards amended under the 2011 annual improvements to IFRS,
- IFRS 9 “Financial Instruments”.

The management anticipates that the application of these standards will not have a significant impact on the consolidated financial statements.

1.2. Consolidation methods

The subsidiaries are all the entities for which the Company has the power to direct the financial and operational policies, with that power being accompanied generally by the ownership of more than half of the voting rights. The subsidiaries are consolidated by the full consolidation method beginning on the date on which the Company acquires the control of them. They are deconsolidated beginning on the date on which the controls cease to be exercised.

The intra-group transactions and balances are eliminated. The accounting methods of the subsidiaries have been aligned with those of the Company.

1.3 Net investments abroad

In compliance with the IAS 21 §15 standard, the foreign exchange translation gains and losses on long term accounts receivable from his subsidiary in US dollars were recognised in equity. Indeed, these accounts receivables are considered as net investments in currencies within consolidated foreign subsidiaries, considering the unforeseeable nature of the payment of these receivables.

1.4 Intangible assets

In application of the criteria in the IAS 38 standard, the intangible assets acquired are recognised as assets in the balance sheet at their acquisition or production cost. The subsidies received and related the capitalised expenses are recognised as a reduction of cost.

Research and development expenses

The research expenses are consistently recognised as expenses.

In accordance with IAS 38, the research costs are recognised as intangible assets only if all the following criteria are met:

(a) Technical ability to complete of the development project,
(b) Intention on the part of the Company to complete the project and to utilize it,

(c) Capacity to utilize the long-term intangible asset,
(d) Proof of the probability of future economic benefits associated with the asset,
(e) Availability of the technical, financial, and other resources for completing the project, and
(f) Reliable measurement of the development expenses.

In application of this standard, the Company recognised all its R&D costs as expenses, until the first prototypes of Cellvizio were refined.

As a result of this first success, the expenditures related to the refinement of new products were recognised as assets, with those related to the improvements of existing products remaining as expenses for the fiscal year.

The development costs recognised as assets are amortised using the straight line method over 7 years, their useful lifetime. The latter is treated as the period that runs until the obsolescence of the products recognised as assets.

Patents

The costs related to the filing of patents incurred by the Company until the latter were obtained are recognised as intangible assets because of the compliance with the criteria for the capitalisation of said costs stipulated by IAS 38.

They are amortised on the basis of the straight line method over the term of protection granted.

Software packages

The costs related to the acquisition of the licenses to software packages are recognised as assets on the basis of the costs incurred to acquire and to implement the software packages in question.

They are amortised using the straight-line method over a period of 1 to 3 years.

1.5 Property, plant, and equipment

Property, plant, and equipment are recognised at their acquisition or production cost. The renovations and major improvements are capitalized, and the repair and maintenance expenses and the costs of the other renovation work are recognised as a reduction of cost.

Property, plant, and equipment are depreciated on the basis of the straight line method over the estimated lifetime of the property. The fixtures of property rented are depreciated over the term of their own lifetime or over the term of the rental agreement, whichever is shorter.

The depreciation periods used are the following:

Fixtures and improvements in structures............………………………… 7 years,
Research and development tools ……………………………………….. 2 to 5 years,
Production tools .... 3 to 7 years,
Research equipment and Technical facilities .... 7 years,
Office equipment and furniture.. 5 years,
Computer equipment .... 3 years.

1.6 Recoverable amount of the intangible assets and property, plant, and equipment

Amortised intangible assets and depreciated property, plant, and equipment are subjected to an impairment test when the ability to recover their book value is uncertain. If the carriying value of the asset exceeds its recoverable amount, an impairment loss is recognised to write down the asset's value of the asset's book value of the recoverable amount. The recoverable value of an asset corresponds to its fair value minus the costs of sale or its use value, if the latter is higher.

With respect to the intangible assets in progress, even in the absence of indicators of impairment, an impairment test must be conducted annually.

With respect to the intangible assets of the Company, there do not exist any market data that allow the net fair value of the sale expenses to be determined other than by an estimation of the future cash flows. Consequently, the recoverable amount is, in substance, equal to the use value.

The use value is determined each year and for each cash-generating unit, in compliance with the IAS 36 standard: It corresponds to the discounted value of the estimated future cash flows, expected from the continuous use of the assets and from the de-recognition of them at the end of the use expected by the Company. It does not take into account the impact of the financial structure, the tax effects, or restructuring efforts not undertaken.The valuation method is based on the valuation by the Discounted Cash Flows method with flows for the years from 2013 to 2017 from the Company's projections.

The main parameters taken into account are summarized below:

- Forecast horizon: 5 years,
- The discounting rate used is the weighted average cost of the share capital of the Group of 12% and a growth rate to infinity of 2%. These rates are used by financial analysts in the business sector who cover value.
- The assumptions used by the group for the calculation of the recoverable amount of its assets are based on assumptions of future growth.
- Taking into consideration a final value calculated by taking into account a discounted normalized flow for the patents to the extent that the residual period of protection is greater than 5 years.

IAS 36.134 (f) requires a sensitivity analysis of the key assumptions used within the context of the impairment tests.
The principal sensitivity parameters taken into account are summarized below:

- Change in the weighted average cost of the share capital of ±1 point.
- Change in the growth rate to infinity of ± 1 point.
- Change in the EBITDA margin over sales ratio of ± 1 point of the normalized flow.

1.7 Financial assets

The financial assets include the available-for-sale assets, the held-to-maturity assets, loans and receivables, and the cash and cash equivalents.

The valuation and the accounting treatment of the financial assets and liabilities are defined by the IAS 39 standard "Financial Instruments: Recognition and Measurement".

Held-to-maturity assets

These securities are exclusively fixed income or determinable income and have fixed maturities, other than loans and receivables, that the Company has the positive intention and the ability to hold to maturity. After their initial recognition at their fair value, they are measured and recognised at the amortised costs on the basis of the effective interest method ("EIR").

The assets owned until their maturity are the object of a tracking of any objective indication of impairment. A financial asset is impaired if its book value is greater than its recoverable amount as estimated during impairment tests. The impairment is recognised in the income statement.

Loans and Receivables

This category includes the receivables from equity investments, the other loans and receivables, and trade receivables.

These instruments are initially recognised to the accounts at their fair value and then at the amortised cost calculated with the EIR method. The short term receivables without an interest rate are measured at the amount of the original invoice unless the application of an implicit interest rate has a significant effect. For the loans and variable rate accounts receivable, a periodic re-estimation of the cash flows, in order to reflect the change in the market interest rate, modifies the effective interest rate ("EIR") and therefore the valuation of the loan or of the receivable.

The loans and receivables are the object of a tracking of any objective indication of impairment. A financial asset is impaired if its book value is greater than its recoverable amount as estimated during impairment tests. The impairment is recognised in the income statement.

The loans and receivables also include the deposits and guarantees, which are classified under Non-current financial Assets on the balance sheet.

Assets at fair value through profit or loss

The assets considered to be held for trading purposes include the assets that the Company intends to resell in the near future in order to realize a capital gain, which is part of a portfolio of financial instruments managed together for which there exists a practice of selling in the short term. The assets held for trading may also include assets voluntarily classified in this category, in a manner that is independent of the criteria listed above ("fair value" option).

Available-for-sale assets

The available-for-sale assets include, primarily, securities that do not meet the criteria of the definition of the other categories of financial assets. They are measured at their fair value, and the changes in value are recognised in equity.

The fair value corresponds to the market price for those securities that are listed on the stock exchange or to an estimate of the use value for unlisted securities, determined on the basis of the financial criteria most appropriate for the specific situation of each security. When there is an objective indication of the impairment of these securities, the accumulated impairment that has been posted to shareholders' equity is recognized in the income statement.

1.8 Inventories and work in progress

The inventories are valued at their cost or at their net realizable value (NRV), if the latter is lower. In the latter case, the impairment loss is recognised in the income statement. The inventories are measured according to the FIFO method.

The demonstration equipment intended for sale in the short term is recognised in inventories.

1.9 Cash and Cash Equivalents

The cash equivalents are owned for the purpose of meeting short-term cash commitments rather than for the objective of investment or for other purposes. They are readily convertible, into a known amount of cash, and are subject to a negligible risk of change in value. The cash and cash equivalents are constituted by liquid assets that are available immediately, long-term investments that can be liquidated immediately, and short-term investment securities. They are evaluated on the basis of the IAS 39 according to the categories they belong to.

The short-term investment securities are readily convertible into a known amount of cash and are subject to a negligible risk of change in value. They are measured at fair value, and changes in value are recorded in the financial gains or losses.

1.10 Share Capital

The shares of stock are classified under equity. The costs of share capital transactions that are directly attributable to the issue of new shares or options are recognised in equity as a deduction from the revenue from the issue, net of tax.

1.11 Liquidity contract

Following its listing on the NYSE Euronext Paris regulated market, the Company signed a liquidity contract with a specialized institution in order to limit the intraday volatility of the Mauna Kea Technologies stock.

The portion of the contract that is invested in own shares of the Company by this service provider is posted to the accounts as a deduction from the consolidated shareholders' equity of the Company at the end of each fiscal year.

1.12 Share-based payments

Since its formation, the Company has established several plans for compensation paid in equity instruments in the form of "stock subscription warrants for business creator shares" [*bons de souscription de parts de créateur d'entreprise,* BSPCEs] awarded to employees and/or executives and in the form of "stock subscription warrants" [*bons de souscription d'actions*, BSAs] awarded to non-employee members of the Board of Directors or of the Supervisory Board and in the form of stock subscription options granted to the employees of the subsidiary Mauna Kea Technologies, Inc.

In application of the IFRS 2 standard, the cost of the transactions paid with equity instruments is posted to the accounts as an expense in exchange for an increase in the shareholders' equity for the period during the course of which the rights to be enjoyed from the equity instruments are acquired.

The Company has applied the IFRS 2 standard to all the equity instruments granted, since 2002, to employees, members of the Board of Directors or of the Supervisory Board, natural persons, or to companies.

The fair value of the stock share subscription options granted to the employees is determined by application of the Black-Scholes option valuation model. The same is the case for the options granted to other natural persons who provide similar services, with the market value of the latter not being ascertainable.

The determination of the fair value of the options includes the conditions governing the acquisition of the rights as described in Note 16: Share-based payments. The other factors taken into consideration are also presented in Note 16: Share-based payments.

1.13 Measurement and recognition of financial liabilities

Financial liabilities at the amortised cost

The borrowings and other financial liabilities are valuated initially at their fair value and then at the amortised cost, calculated on the basis of the effective interest rate ("EIR") method.

The transaction expenses that are directly attributable to the acquisition or to the issue of a financial liability reduce that financial liability. These expenses are then amortised actuarially over the lifetime of the liability, on the basis of the EIR.

The EIR is the rate that equalises the anticipated flow of future cash outflows with the current net book value of the financial liability in order to deduct its amortised cost therefrom.

Liabilities at fair value through profit and loss

The liabilities at fair value through profit and loss are measured at their fair value.

1.14 Conditional advances

The Company receives a certain number of forms of assistance, in the form of subsidies or conditional advances. The details concerning this assistance are provided in Note 11: Borrowings and financial debts.

A refundable loan under conditions is treated as a public subsidy if there exists reasonable assurance that the Company will fulfil the conditions related to the waiver of the repayment of the loan. If the contrary is the case, it is classified under debts.

The amount resulting from the benefit of the rate obtained at the time of the granting of repayable advances does not bear interest and is considered a subsidy. This benefit is determined by applying a discount rate equal to the rate of 10-year fungible Treasury (10-year *Obligations Assimilables du Trésor*, "OAT") bonds.

1.15 Provisions

Provisions for risks and expenses

The provisions for risks and expenses correspond to the commitments resulting from lawsuits and miscellaneous risks, the due dates and amounts of which are uncertain, with which the Company may be faced during its business activities.

A provision is recognised when the company has a legal or implicit obligation to a third party resulting from a past event, with respect to which it is likely or certain that it will cause an outflow of resources to that third party, without consideration that is anticipated to be at least equivalent to the latter, and for which the future outflows of liquid assets can be estimated reliably.

The amount recognised as a provision is the best estimate of the expenditure necessary to extinguish the obligation, updated if necessary, as of the closing date.

Retirement pension and post-employment benefits

The employees of the Company receive the retirement benefits stipulated by law in France:

- obtaining compensation paid by the Company to employees upon their retirement (defined benefit plan);
- payment of retirement pensions by the Social Security agencies, which are financed by the contributions made by companies and employees (defined contribution plans).

For the defined benefit plans, the costs of the retirement benefits are estimated by using the projected credit unit method. According to this method, the cost of the retirement pensions is recognized in the income statement in such a manner as to distribute it uniformly over the term of the services of the employees. The retirement benefits commitments are valuated at the current value of the future payments estimated using the market rate based on the long-term obligations of the first-category companies with a term that corresponds to that estimated for the plan.
The company relies on actuaries qualified to conduct an annual review of the valuation of these plans.

In application to IAS 19 revised "Employee benefits", the service cost is recorded in operational result, net interest in financial result, other remeasurements are included in other comprehensive income.
The Company's payments for the defined contribution plans are recognized as expenses on the income statement of the period with which they are associated.

The employees of the subsidiary Mauna Kea Technologies, Inc. do not benefit from post-employment benefits.

1.16 Revenue from ordinary business activities

The sales revenue of the company is primarily the result of the sale of innovative medical imaging devices for medical diagnostics, research, and related services.

The revenue from the ordinary business activities comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. The revenue from the ordinary business activities appears net of the value added tax, product returns, rebates, and discounts, and after deduction of the intra-group sales

The Company posts revenue to the accounts when the amount can be valuated reliably, when it is likely that the future economic advantages will benefit the Company, and when the specific criteria are met for the business activity of the Company. For sales of products, the sales revenue is recognized either at the time the products are made available or at or upon delivery depending on the terms and conditions of the order. The sales revenue related to the warranty is posted on the basis of the straight-line method over the lifetime of the warranty. When it is a matter of making Cellvizio available to a customer, Cellvizio remain as assets of the Company, and the sales revenue is recognized as the sale of consumables in the act performed by the health care professional.

1.17 Other income

Subsidies

Since it was created, because of its innovative character, the Company has received a certain number of sources of assistance or subsidies from the central Government or from local public authorities, intended to finance its operation or the recruitment of specific personnel.

The subsidies are recorded when there is a reasonable assurance that:

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

A public subsidy that is to be received either as compensation for expenses or for losses already incurred, or for immediate financial support of the Company without associated future costs, is posted to the accounts as revenue for the fiscal year during the course of which the debt becomes owned as a receivable.

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These subsidies are posted to the accounting books under "Other income" for the fiscal year to which the corresponding expenses or expenditures are posted.

Research Tax Credit

Research tax credits are granted to companies by the French government in order to encourage them to conduct technical and scientific research. Companies that prove that they have expenditures that meet the required criteria (research expenditures located in France or, since 1 January 2005, within the European Community or in another State that is a party to the Agreement on the European Economic Area that has concluded a tax treaty with France that contains an administrative assistance clause) receive a tax credit that can be used for the payment of the corporate tax due for the fiscal year in which the expenditures were made and the next three fiscal years, or, as applicable, be reimbursed for the excess portion.

The Company has received the Research Tax Credit since its constitution.

The Company has received the reimbursement of the Research Tax Credit for all the prior years during the course of the year following the close of the fiscal years involved. It requested the reimbursement of the 2012 Research Tax Credit under the community tax rules for small and medium firms in compliance with the regulatory texts in effect.

1.18 Cost of sales

The cost of sales is made up of raw material consumption, labor costs, inventory allowance, amortisations and overheads relating to the production.

1.19 Rental agreements

The Group does not have any finance leases pursuant to the IAS 17 standard.

The rental agreements for which a significant portion of the risks and advantages is preserved by the lessor are classified as ordinary rental agreements. The payments made for these ordinary rental agreements, net of any incentive measures, are recognized as expenses on the income statement in a linear manner over the term of the agreement.

1.20 Taxes

Income tax

The deferred income taxes are recognized on the basis of the broad conception and on the basis of the liability method, for all the temporary differences between the value for tax purposes and the stated book value of the assets and liabilities that appear within the financial statements. The primary temporary differences are related to the tax losses that can be carried forward or backward. The tax rates that have been ratified by a legal text as of the closing date are utilized to determine the differed taxes.

The deferred tax assets are posted to the accounts only to the extent that it is likely that the future profits will be sufficient to absorb the losses that can be carried forward or backward. Considering its stage of development, the Company does not post assets net of deferred taxes to the accounts.

1.20 Segment information

The Company has not, as of this date, identified separate sectors of business activity. The Company operates within a single operating segment: endomicroscopy. The assets and the operating loss presented are primarily located in France and in the United States.

1.21 Other items in the comprehensive income

The revenue and expense items for the period recognised directly in equity are presented, as applicable, under the rubric "Other comprehensive income". These are principally:

- EUR/USD currency translation differences of the foreign subsidiary Mauna Kea Technologies, Inc,
- Changes in the actuarial assumptions for the estimation of pension liability.

1.22 Decisive accounting estimates and judgments

The estimates and judgments made by the management while implementing the accounting methods described above are based on the historical information and on other factors, in particular, on the anticipation of future events judged to be reasonable in light of the circumstances. These estimates and judgments are primarily the following:

Valuation of the stock subscription warrants and stock subscription options

The valuation of the fair value of the stock warrants and stock subscription options granted to employees or to service providers is made on the basis of actuarial models. These models require the use by the Company of certain calculation assumptions such as the expected volatility of the security.

Valuation of the long-term intangible assets

The measurement of the use value of the long-term intangible assets is based on an assumption of growth in sales and a discount rate that reflects the best estimates of the management.

1.23 Events after the close of the fiscal year

The balance sheet and the income statement of the Company are adjusted to reflect the subsequent events that alter the amounts related to the situations that exist as of the closing date. The adjustments are made until the date the financial statements are approved by the Board of Directors.

The other events following the closing date that have not resulted in adjustments are presented in Note 24: Subsequent events.

Note 2: Company and scope

Founded in May 2000, Mauna Kea Technologies S.A. ("the Company") develops and markets medical devices, particularly optical instruments for medical imaging.

To enhance its development in the United States, the Company founded Mauna Kea Technologies, Inc., on 3 January 2005.

	As of 31 December				
	2012		2011		Consolidation method
Companies	% of interests	% of control	% of interests	% of control	
Mauna Kea Technologies SA (1)	100%	100%	100%	100%	Full consolidation
Mauna Kea Technologies Inc	100%	100%	100%	100%	Full consolidation

(1) Parent company of the Group

No change in scope took place during the period.

Note 3: Long-term intangible assets

The intangible assets are broken down as follows:

INTANGIBLE ASSETS
(Amounts in thousands of euros)

	31/12/2010	Increase	Decrease	Reclassification	31/12/2011
Development costs	1 033			746	1 779
Patents, licenses and trademarks	743	23		70	836
Software packages	72	15			87
Development costs in progress	491	704		(746)	449
Patents, licenses and trademarks in progress	425	156	(4)	(70)	507
Total gross of intangible assets	**2 764**	**898**	**(4)**		**3 658**
Amort. / dép. of development costs	(541)	(219)			(759)
Amort. / dép. of patents, licenses and trademarks	(178)	(51)			(229)
Amort. / dép. of software packages	(70)	(8)			(78)
Total amort. / dép. of intangible assets	**(789)**	**(277)**			**(1 066)**
Total net of intangible assets	**1 975**	**621**	**(4)**		**2 592**

INTANGIBLE ASSETS
(Amounts in thousands of euros)

	31/12/2011	Increase	Decrease	Reclassification	31/12/2012
Development costs	1 779			534	2 313
Patents, licenses and trademarks	836	80		130	1 046
Software packages	87	118			204
Development costs in progress	449	475		(534)	390
Patents, licenses and trademarks in progress	507	182	(20)	(130)	539
Other intangible assets in progress		114			114
Total gross of intangible assets	**3 658**	**968**	**(20)**		**4 607**
Amort. / dép. of development costs	(759)	(293)			(1 052)
Amort. / dép. of patents, licenses and trademarks	(229)	(63)			(292)
Amort. / dép. of software packages	(78)	(22)			(100)
Total amort. / dép. of intangible assets	**(1 066)**	**(378)**			**(1 444)**
Total net of intangible assets	**2 592**	**590**	**(20)**		**3 163**

The main projects which development costs have been capitalised during the period are the Second Generation Cellvizio Dual BAND, and the AQFlex probes.

The period was marked by the start of marketing of the First Generation Cellvizio Dual BAND, which led to the start of amortisation of the development costs relating to this project.

For the expenses of development in progress (Cellvizio Dual Band Second Generation) and the patents in progress, an impairment test is conducted in accordance with the methods described in Note 1.6.
The cash flow projections are determined by incorporating assumptions concerning growth of sales that reflect the best estimates made by the management over a term of 5 years. The use values taken into account are determined on the basis of the anticipated future cash flows, discounted at the weighted average cost of the share capital of 12%.

Based on the result of the impairement test, no loss was recognised
The sensitivity tests conducted in 2012 by the Company did not reveal any impairment of the assets tested.

ANNUAL CHANGE IN DEVELOPMENT COSTS (CAPITALISED PORTION)
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
External costs	118	64
Wages and salaries, social security costs	416	755
Research Tax Credit	(125)	(227)
Share-based payment transaction expense	66	112
Gross change in development costs	**475**	**704**
Amortisation of development costs	(293)	(219)
Net change in development costs	**182**	**485**

Note 4: Property, plant, and equipment

The assets under property, plant, and equipment are broken down as follows:

PROPRETY, PLANT AND EQUIPMENT
(Amounts in thousands of euros)

	31/12/2010	Increase	Decrease / Scrappring	Exchange differences	Reclassification	31/12/2011
Laboratory equipment	1 091	25		(3)	(136)	977
Fixture in buildings	24	9				33
Computer equipment	275	83	(4)	2		356
Other property, plant and equipment	183	52		1		236
Total gross of property, plant and equipment	**1 572**	**170**	**(4)**		**(136)**	**1 602**
Amort. / dép. of laboratory equipment	(590)	(149)		(1)	54	(686)
Amort. / dép. of fixture in buildings	(8)	(4)				(12)
Amort. / dép. of computer equipment	(215)	(46)	4	(1)		(259)
Amort. / dép. of other property, plant and equipment	(58)	(24)				(82)
Total amort. / dép. of property, plant and equipment	**(871)**	**(223)**	**4**	**(2)**	**54**	**(1 039)**
Total net of property, plant and equipment	**701**	**(54)**		**(2)**	**(82)**	**563**

PROPRETY, PLANT AND EQUIPMENT
(Amounts in thousands of euros)

	31/12/2011	Increase	Decrease / Scrappring	Exchange differences	Reclassification	31/12/2012
Laboratory equipment	977	89	(103)	2	68	1 032
Fixture in buildings	33	17				50
Computer equipment	356	125	(60)	(2)		419
Other property, plant and equipment	236	58	(14)		(64)	217
Total gross of property, plant and equipment	**1 602**	**289**	**(177)**		**4**	**1 718**
Amort. / dép. of laboratory equipment	(686)	(165)	90		7	(754)
Amort. / dép. of fixture in buildings	(12)	(6)				(18)
Amort. / dép. of computer equipment	(259)	(69)	60	1		(267)
Amort. / dép. of other property, plant and equipment	(82)	(27)				(108)
Total amort. / dép. of property, plant and equipment	**(1 039)**	**(266)**	**150**	**1**	**7**	**(1 147)**
Total net of property, plant and equipment	**563**	**23**	**(26)**	**1**	**11**	**571**

The reclassifications are related to reclassifications from laboratory equipment to other property, plant and equipment, reclassifications from inventory of finished goods to laboratory equipment for purposes of research and development, ot reclassifications from laboratory equipment to inventory for equipment intended for sale.

In the absence of impairment indicators, no impairment tests were conducted with respect to the amortized long-term intangible assets and depreciated property, plant, and equipment.

Note 5: Non-current financial assets

The non-current financial assets include only the security deposits paid according to ordinary rental agreements.

Note 6: Inventories and work in progress

Inventories and work in progress are broken down as follows:

INVENTORIES & WORK IN PROGRESS
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Inventories of raw materials	936	768
Inventories & work in progress of finished goods	1 074	780
Total gross of inventories & work in progress	**2 010**	**1 548**
Dep. of inventories of raw materials	(75)	(33)
Dep. of inventories & work in progress of finished goods		
Total dep. of inventories & work in progress	**(75)**	**(33)**
Total net of inventories & work in progress	**1 936**	**1 515**

At the end of each period, inventories and work in progress include certain assets related to goods that no longer appear in our catalogue. These identified assets are kept by the Company so that After-Sales Customer Service can use them. They are depreciated at 80%.

The increase in Inventory of €421K is explained by the expected increase in future sales.

Note 7: Trade receivables and other current assets

7.1 Trade receivables

The trade receivables are broken down as follows:

TRADE RECEIVABLES
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Trade receivables	3 324	1 409
Dep. of trade receivables		
Total net of trade receivables	**3 324**	**1 409**

All trade receivables have payment terms of less than one year.

Trade receivables are primarily related to distributors and customers in Europe, Canada, the United States, the Middle East, and Asia for the fiscal years presented
The increase in trade receivables of €1,915K results from the increase in business and sales to distributors with longer payment terms.

7.2 Other current assets

The other current assets are broken down as follows:

OTHER CURRENT ASSETS (Amounts in thousands of euros)	As of 31 December	
	2012	2011
Personnel and related accounts	43	44
Research Tax Credit	1 100	426
Other tax receivables	367	722
Other receivables	557	471
Prepaid expenses	76	204
Total gross of other current assets	**2 143**	**1 868**
Dep. of other current asets		
Total net of other current assets	**2 143**	**1 868**

Other taxes receivable are related to deductible VAT and reimbursement of VAT requested in the total amount of €367K.

The other accounts receivable include primarily the public subsidies receivable in the amount of €329K.

The prepaid expenses correspond, in 2012 mostly to insurance, health insurance fees paid in advance.

Research Tax Credit

The Company takes advantage of the provisions of Articles 244-*quater* B and 49-*septies* F of the French General Tax Code regarding the Research Tax Credit. In accordance with the principles described in Note 1: Accounting Principles, the non-activated part of the Research Tax Credit is recognised as other income of the year to which the eligible research expenses are related.

The changes in the Research Tax Credit were as follows:

CHANGES IN THE RESEARCH TAX CREDIT RECEIVABLE (Amounts in thousands of euros)	31/12/2010	Operating revenue	Payment received	Capitalised portion	31/12/2011
Research Tax Credit	681	199	(681)	227	426

CHANGES IN THE RESEARCH TAX CREDIT RECEIVABLE (Amounts in thousands of euros)	31/12/2011	Operating revenue	Payment received	Capitalised portion	31/12/2012
Research Tax Credit	426	975	(426)	125	1 100

Note 8: Current financial assets

The current financial assets item is broken down as follows:

CURRENT FINANCIAL ASSETS
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Liquidity contract - Cash	211	127
Money market funds		816
Total of current financial assets	**211**	**943**
of which, unrealised gains are	0	111

The amount of the unrealised capital gains from the money market funds has been posted to the income statement.

The securities account is opened in the name of the Company at Gilbert Dupont. During the period, an additional contribution to the liquidity contract of €150K was made by the Company, bringing the total amount contributed to €350K.

Note 9: Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

CASH AND CASH EQUIVALENTS
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Short-term bank deposits	721	3 112
Money market funds	36 917	48 205
Term deposit accounts		30
Total of cash and cash equivalents	**37 638**	**51 347**
of which, unrealised gains are	16	134

The amount of unrealised capital gains on cash equivalents was recorded on the income statement.

The money market funds are broken down as follows:

MONEY MARKET FUNDS

	Quantity	Price as of 31.12.2012 (in K€)	Valuation (in K€)	Cost price (in K€)
Amundi Tréso Etat	31	241	7 471	7 471
BNP Paribas Moné Etat I	210	54	11 273	11 273
Natixis Cash Première I	93	114	10 607	10 607
JPM Euro Government Liquidity C	717	11	7 557	7 541
Divers			9	9
Total of money market funds	**1 051**		**36 917**	**36 901**

Note 10: Share capital

10.1 Share capital issued

Share capital is set at the amount of five hundred forty two thousand four hundred sixty nine Euros and eighty-four cents (€ 542,469.84). It is divided into 13,561,746 fully subscribed and paid-up shares with a par value of € 0.04.

This figure does not include stock subscription warrants (BSAs), stock warrants for business creator shares (BSPCEs) and stock options granted to certain investors and natural persons, who may or may not be employees of the Company.

The table below shows the historical record of changes in the share capital of the company since 31 December 2011:

Date	Type of transaction	Issued capital (en K€)	Share premium (en K€)	Number of shares comprising the issued capital (in thousands)
31/12/2011		**536**	**56 190**	**13 403**
02/03/2012	Exercise of stock options	0	19	5
16/03/2012	Exercise of BSA warrants	1	76	16
02/04/2012	Exercise of BCE warrants	1	58	16
03/05/2012	Exercise of stock options	0	10	3
04/05/2012	Exercise of BSA warrants	0	47	10
03/08/2012	Exercise of BCE warrants	2	130	38
03/09/2012	Exercise of BCE warrants	1	53	13
08/11/2012	Exercise of BCE warrants	0	2	1
04/12/2012	Exercise of BSA warrants	1	117	25
04/12/2012	Exercise of BCE warrants	1	24	13
31/12/2012	Exercise of BCE warrants	1	79	20
	Total	**542**	**56 805**	**13 562**

10.2 Stock warrants and options

The Company issued stock subscription warrants (BSAs) representing compensation, stock warrants for employees (BSPCEs and other warrants) and stock options for which the developments that have occurred since 31 December 2011 are presented below:

Type	Date of granting	Exercise price	Price	Outstanding as of 31.12.2011	Granted	Exercised	Cancelled	Outstanding as of 31.12.2012	Potential shares
Options granted before the 1st january 2012				5 790 533		634 120	311 653	4 844 760	1 386 564
BSPCE 2012	04/12/2012	10,06	10,79		239 500			239 500	239 500
SO 2012	04/12/2012	10,06	10,79		161 000			161 000	161 000
			Total	**5 790 533**	**400 500**	**634 120**	**311 653**	**5 245 260**	**1 787 064**

Following the consolidation of shares (4 old shares for 1 new one) on 25 May 2011, four BSAs, BSPCEs, or stock options are needed to subscribe to one share for warrants with grant dates prior to that date. For warrants and options granted subsequent to that date, the rate is one warrant per share.

The payment for the options is made in shares of stock.

The exercise price, estimated lifespan, and fair value of the underlying shares as of the grant date of the warrants were used for the valuation of each category of share-based compensation.

DETAILS OF THE RESTATEMENT OF SHARE-BASED PAYMENTS
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Share-based payments (capitalised portion)	66	112
Share-based payments (expense of the period)	1 073	654
	1 140	**765**

10.3 Acquisition by the Company of its own shares

The Combined General Meeting of the Company that met on 15 June 2012 authorized the Board for Directors, for a time period of eighteen months from the date of the meeting, to implement, in one or more stages, a program for the buyback of the shares of the Company's stock pursuant to the provisions of Article L. 225-209 of the French Commercial Code and in accordance with the General Regulations of the Autorité des Marchés Financiers (AMF) under the conditions described below:

Maximum number of shares that may be purchased: 10% of the total number of shares as of the share buyback date. When the shares are acquired with the intent of encouraging the regular trading and liquidity of the stock, the number of shares taken into consideration for the calculation of the 10% limit stipulated above corresponds to the number of shares purchased minus the number of shares resold during the time period of the authorization.

Objectives of the share repurchase program:
- to ensure the liquidity of the shares of the Company's stock further to a liquidity agreement to be concluded with an independent investment service provider in compliance with the ethics charter recognized by the AMF;
- to meet the obligations related to stock option, free stock award, or employee savings plans, or other awards of shares to the employees and executives of the Company or the company associated with it;
- to deliver shares when rights attached to securities giving access to the share capital are exercised;
- to purchase shares to hold and deliver subsequently for exchange or in payment fur the purpose of any external growth transactions; or
- to cancel some or all of the shares of stock thereby bought back.

Maximum purchase price: € 30 per share excluding fees and commissions, with a total limit of € 5,000,000.

It is specified that the number of shares acquired by the Company to be retained and subsequently delivered in payment or in an exchange for the purpose of any merger, de-merger, or capital contribution may not exceed 5% of its share capital.

Summary of the shares purchased and sold since the implementation of the liquidity contract:

	2011		2012			
	3rd quarter	**4th quarter**	**1st quarter**	**2nd quarter**	**3rd quarter**	**4th quarter**
Securities purchased	2 100	18 631	11 921	66 944	167 630	219 670
Price	10,32	11,62	12,01	9,73	9,06	10,76
Total amount	21 671	216 482	143 193	651 218	1 519 562	2 363 231
Securities sold	1 100	12 804	12 655	51 997	165 192	228 010
Price	10,43	11,97	12,38	9,78	9,09	10,72
Total amount	11 474	153 294	156 621	508 662	1 502 378	2 443 771

As of 31 December 2012, the Company owned 15,138 shares of Mauna Kea Technologies acquired at an average price of € 12.17 and valued at € 12.34, resulting in a profit of €3K.

Note 11: Borrowings and financial debts

11.1 OSEO advances

Conditional advances from public authorities were made subject to a contract with "OSEO Innovation".

The Company has received three advance contracts of this type. The changes in their status are summarized below. These advances are 100% repayable (at their nominal value) in the event of technical and/or commercial success.

The portion of the advances received with repayment terms of more than one year is posted as “Long-term debt”, while the portion with repayment terms of less than one year is post as “Short-term borrowings and financial debt”.

First advance

On 5 August 2004, OSEO granted Mauna Kea Technologies interest-free aid in the amount of €400K for the development of an industrial prototype of a multi-wavelength fiber confocal microscopy system to be used for in vivo molecular imaging. The main stages of this advance are as follows:

- First payment of €200K after the agreement was signed;
- Second payment of €140K on 7 November 2005;
- Third payment of €60K on 12 June 2006;
- First repayment of €80K on 31 March 2008;
- Second repayment of €40K on 31 March 2009;
- Third repayment of €60K on 18 March 2011;
- Fourth repayment of €100K on 31 March 2012
- Fifth repayment of €120K on 31 March 2013 (at the latest).

Second advance

On 10 October 2006, Mauna Kea Technologies obtained an interest-free repayable innovation aid in the amount of €620K from OSEO for the development of a multi-modal endoscopic device to be used for medical diagnostics. The OSEO payments are to be paid in instalments between the date the agreement was signed and the end of the project, with the major stages being:

- First payment of €300K after the agreement was signed (on 30 October 2006);
- Second payment of €180K on 14 May 2010;
- Final payment of €140K to be received upon filing of the end of programme technical report.

In the event of the technical or commercial failure of the project or partial technical or commercial success, the Company will repay OSEO a lump-sum amount of €150K. As of this date, the studies conducted demonstrate that the project will be a success even though the project is in progress.

Repayment of this aid to support innovation will begin following the technical and commercial success of the project in accordance with the following terms:

- On 15 September 2012	€150K
- No later than 30 September 2013	€170K
- No later than 30 September 2014	€300K

Third advance

On 31 May 2010, Mauna Kea Technologies obtained repayable innovation aid of in the amount of €3,416K from OSEO as part of the PERSEE project. It is the ambition of this project to develop, validate, and then market a device capable of improving diagnostic and pre-operative assessment techniques for cancer patients. The main stages of this advance are as follows:

- First payment of €454K on 31 May 2010,
- Second payment of €1,138K on 21 December 2011,
- Third payment of €821K to be received in 2013 following the key-stage review by the OSEO,
- Fourth payment of €489Kscheduled for 2014,
- Fifth payment of €512K scheduled for 2016.

Repayment will be made in payments of specific amounts with an interest rate of 2.45% that will be determined based on revenue projections for the use of products and services generated by the project. Such repayment will begin following the technical and commercial success of the project in accordance with the following terms:

- No later than 31 December 2015 €230K
- No later than 31 December 2016 €520K
- No later than 31 December 2017 €900K
- No later than 31 December 2018 €1,300K
- No later than 31 December 2019 €1,046K

11.2 COFACE advances

The Company received interest-free repayable advances from COFACE for its development in the USA and Canada, over a four-year period in accordance with the following terms:

- First payment of €212K on 29 February 2008,
- Second payment of €652K on 23 December 2008,
- Third payment of €560K on 26 January 2010,
- Fourth payment of €280K on 27 December 2010.

Repayment will be made with payments determined on the basis of projections of sales revenue in the USA and Canada, from the use of products and services generated by the project up to the following limits:

- 14% of sales revenue related to services provided,
- 7% of the sales revenue in the case of sales of goods.

In the event that revenue is inadequate for the expected repayments, no additional repayments will be made to COFACE.

The due dates for the repayments, determined on the basis of the most recent commercial projections, are as follows:

- First repayment of €143K on 28 September 2011,
- Second repayment of €316K on 18 October 2012
- Third repayment of €442Kon 31 August 2013
- Fourth repayment of €639K on 31 August 2014
- Fifth repayment of €164K on 31 August 2015.

CHANGES IN REPAYABLE ADVANCES
(Amounts in thousands of euros)

	31/12/2010	Receipt	Repayment	Others	31/12/2011
OSEO Funding (1st advance)	267		(60)	8	215
OSEO Funding (2nd advance)	438			16	454
OSEO Funding (3rd advance)	397	1 138		(137)	1 398
COFACE	1 588		(143)	55	1 500
Total of repayable advances	**2 689**	**1 138**	**(203)**	**(58)**	**3 567**

	31/12/2011	Receipt	Repayment	Others	31/12/2012
OSEO Funding (1st advance)	215		(100)	5	120
OSEO Funding (2nd advance)	454		(150)	19	324
OSEO Funding (3rd advance)	1 398			34	1 433
COFACE	1 500		(316)	28	1 212
Total of repayable advances	**3 567**		**(566)**	**87**	**3 088**

11.3 Long-term debt

Long-term debt is broken down as follows:

LONG-TERM LOANS AND BORROWINGS
(Amounts in thousands of euros)

	31/12/2010	Receipt	Repayment	Reclassification	Others	31/12/2011
Deposits and garantees received	3		(3)			
Shareholders' accounts	5					5
Repayable advances OSEO Funding	1 042	1 138		(250)	(113)	1 817
Repayable advances COFACE	1 381			(514)	55	923
Other repayable advances	38			(38)		
Total of long-term loans and borrowings	**2 469**	**1 138**	**(3)**	**(801)**	**(58)**	**2 745**

	31/12/2011	Receipt	Repayment	Reclassification	Others	31/12/2012
Shareholders' accounts	5					5
Repayable advances OSEO Funding	1 817			(290)	59	1 586
Repayable advances COFACE	923			(180)	28	771
Total of long-term loans and borrowings	**2 745**			**(470)**	**87**	**2 362**

For 2011, the change in reclassification represented:

- the reclassification from short-term financial debt of the undiscounted portion of repayable advances in the amount of €764K due in 2012, on the hand.
- the reclassification from short-term financial debt of the other conditional advances immediately due in the amount of €38K, on the other.

For 2012, the change due to reclassification represented the reclassification from short-term financial debt of the undiscounted portion of repayable advances in the amount of €470K with due dates due in 2013.

The changes listed under “Other” involve the discounting of the long-term conditional advances.

11.4 Repayment terms of the financial liabilities

The repayment terms of the financial liabilities as of 31 December 2012 are broken down as follows:

REPAYMENT TERMS OF FINANCIAL LIABILITIES
(Amounts in thousands of euros)

	Gross amount	Less than one year	One to three years	Three to five years
Long-term loans and borrwings	2 362		1 143	1 219
Short-term loans and borrowings	756	756		
Trade payables	2 178	2 178		
Other current liabilities	3 119	3 119		
Total of financial liabilities	**8 415**	**6 053**	**1 143**	**1 219**

Note 12: Non-current provisions

Non-current provisions are broken down as follows:

NON-CURRENT PROVISIONS
(Amounts in thousands of euros)

	31/12/2010	Allowance	Unused reversals	Used reversals	Reclassification	Others	31/12/2011
Pension plan provision	81	45	(21)			26	130
Provisions for personnel disputes	123	176	(40)	(83)			176
Provision for software update	31	134		(116)	9		58
Others provisions for expenses	29	5			(9)		25
Total of non-current provisions	**265**	**360**	**(61)**	**(199)**		**26**	**390**

NON-CURRENT PROVISIONS
(Amounts in thousands of euros)

	31/12/2011	Allowance	Unused reversals	Used reversals	Reclassification	Others	31/12/2012
Pension plan provision	130	28	(15)			32	174
Provisions for personnel disputes	176	250	(39)	(137)		(6)	244
Provision for software update	58			(36)			23
Others provisions for expenses	25	15					40
Total of non-current provisions	**390**	**293**	**(55)**	**(173)**		**25**	**481**

The changes listed under “Other” related first to actuarial variations in valuation of pension obligations of €32K in 2012 against €26K in 2011; and secondly, currency exchange adjustments of €(6)K in 2012.
The Company litigation with the company Anticancer Inc. Relating to intellectual property, considering the unfounded nature of this action, no provision has been recorded.

12.1 Provision for risks and expenses

The provisions for updating of software packages were recognised in order to cover the costs of updating Cellvizio® products from version 1.0 to version 1.5.

12.2 Commitments related to lump-sum compensation paid upon retirement

For estimated retirement commitments, the following assumptions were used for all categories of employees (employees, ETAM [Employees, Technicians, and Supervisors], and managers):

PENSION PLAN PROVISION

	As of 31 December	
	2012	**2011**
% social security expenses	47%	49%
Salary increases	2%	2%
Discount rate	3,29%	3,45%

- Retirement age: 65,
- Terms of retirement: voluntary retirement,
- Mortality table: INSEE 2011 in 2012 and INSEE 2010 in 2011,
- Collective agreement: metal industries,
- Digressive employee turnover based on age.

The Company does not finance its pension plan provision.

The discount rate comes from iBoxx Corporate AA10+ references adjusted for the term of the Company's plan estimated at 23 years.

Changes in the actuarial assumptions resulted in changes in the estimated provision posted.
In 2011, the amount of actuarial differences which amounted to €26K, were reclassified as other items in the comprehensive profit (or loss) as a result of the retrospective application of IAS 19 as amended - Employee benefits.

No retirements took place over the last 2 fiscal years.

Note 13: Trade payable and other current liabilities

13.1 Trade payables

No discounts were made on trade payables because the amounts due were not than one year old at the end of each fiscal year in question.

Trade payables were broken down as follows:

TRADE PAYABLES
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Trade payables	2 178	2 315

13.2 Other current liabilities

The other current liabilities are broken down as follows:

OTHER CURRENT LIABILITIES
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Taxes payable	213	76
Staff and social security payable	2 145	1 418
Other payable	133	61
Deferred revenue	628	742
Total of other current liabilities	**3 119**	**2 297**

The Tax liabilities relate mainly to taxes levied on wages, taxes levied on turnover and value added tax.

The social debts are related to social contribution expenses, annual bonuses, and vacation compensation payable.

Defferred revenue corresponds mostly to the maintenance service contracts for systems sold (between one and three years maintenance) together with a one-year warranty on Cellvizio®.in 2011, this item also included the €334K receivable to be received for the Persée subsidy during 2012. A

Note 13bis: Financial instruments on the balance

Company assets and liabilities are measured at their fair value for each year.

FINANCIAL INSTRUMENTS ON BALANCE SHEET AND THEIR IMPACT ON THE PROFIT
(Amounts in thousands of euros)

31 December 2012	Value on the balance sheet	Fair value through profit or loss	Loans and receivables	Debt at amortised cost	Non-financial instruments
Assets					
Non-current financial assets	73		73		
Trade receivables	3 324		3 324		
Other current assets	2 143		2 143		
Current financial assets	211		211		
Cash equivalents (1)	36 917	36 917			
Cash	721		721		
Total of assets	**43 388**	**36 917**	**6 472**		**0**
Liabilities					
Long-term loans and borrowings	2 362			2 362	
Short-term loans and borrowings	756			756	
Trade payables	2 178			2 178	
Other current liabilities	3 119			3 119	
Total of liabilities	**8 415**			**8 415**	**0**

31 December 2011	Value on the balance sheet	Fair value through profit or loss	Loans and receivables	Debt at amortised cost	Non-financial instruments
Assets					
Non-current financial assets	64		64		
Trade receivables	1 409		1 409		
Other current assets	1 868		1 868		
Current financial assets (1)	943	816	127		
Cash equivalents (1)	48 205	48 205			
Cash	3 142		3 142		
Total of assets	**55 630**	**49 020**	**6 610**		**0**
Liabilities					
Long-term loans and borrowings	2 745			2 745	
Short-term loans and borrowings	978			978	
Trade payables	2 315			2 315	
Other current liabilities	2 297			2 297	
Total of liabilities	**8 335**			**8 335**	**0**

(1) The assessment of the fair value of financial assets at fair value on profit refers to an active market (Level 1 category according to IFRS 7)

Note 14: Sales revenue and operating revenue

Operating revenue is broken down as follows:

SALES AND OPERATING REVENUE
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Sales	8 810	5 016
Subsidies	373	646
Research Tax Credit and other tax credits	978	201
Discounted portion of repayable advances	90	92
Other income	31	22
Total of revenue	**10 282**	**5 976**

The sales revenue of the Company is comprised of the sale of Cellvizio® products and accessories (probes, software, etc.) and the provision of services.

SALES BY TYPE
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Total sales of "equipements"	6 172	3 385
Total sales of "consumables" (probes)	2 003	1 023
Total sales of "services"	634	608
Total sales by type	**8 810**	**5 016**

Sales revenue by geographical area is as follows:

SALES BY GEOGRAPHICAL AREA
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
EMEA (Europe, Middle East, Africa)	3 208	1 933
including France	*848*	*232*
America *	4 243	2 920
including United States of America	*4 144*	*2 330*
Asia	1 359	163
Total sales by geographical area	**8 810**	**5 016**

*The turnover achieved in Canada was €28K against €590K on 31 December 2011.

For the purposes of the geographical analysis, the management of the Group allocates the sales revenue on the basis of the place where the products are delivered or, if services are provided, on the basis of the location of the corporate headquarters of the customer.

As of 31 December 2012 none of the Group's customers' accounts represented more than 10% of consolidated sales revenue.
As of 31 December 2011, the largest customer accounted for, 12% of consolidated sales revenue.

Note 15: Staff costs

The Group employed 121 persons as of 31 December 2012 as against 88 persons as of 31 December 2011.

Personnel expenses are broken down as follows:

EMPLOYEE BENEFITS EXPENSE
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Wages and salaries, social security costs	11 090	6 637
Pension costs	12	24
Share-based payment transaction expenses	1 073	654
Total of employee benefits expense	**12 176**	**7 314**

Note 16: Share-based payments

The share-based payments include all warrants (BSAs/BSPCEs/Stock Options) awarded to employees or service providers.

They were recognised as expenses beginning in the year they were awarded, with the understanding that the terms of exercise of the BSPCEs and the stock options are as follows:
- 25% of the BSPCEs/Stock Options may be exercised on or after the first anniversary of the day they were awarded;
- 25% of the BSPCEs/Stock Options may be exercised on or after the second anniversary of the day they were awarded;
- 25% of the BSPCEs/Stock Options may be exercised on or after the third anniversary of the day they were awarded;
- The remainder (25% of the BSPCEs/Stock Options) may be exercised on or after the fourth anniversary of the day they were awarded;
- No later than within ten (10) years of the date of their issuance, it being specified that the BSPCEs/Stock Options that have not yet been exercised upon the expiration of this period of ten years would be null and void by operation of law,

The terms and conditions governing the exercise of the stock warrants granted during the 2011 fiscal year are the following:
- 33.3% of the stock warrants could be exercised beginning on the first anniversary of the date on which they were granted;
- 33.3% of the stock warrants could be exercised beginning on the second anniversary of the date on which they were granted;
- The remaining balance, that is, 33.3% of the stock warrants, may be exercised beginning on the third anniversary of the date they were granted.
- No later than within ten (10) years of the date of their issuance, it being specified that the stock warrants that have not yet been exercised upon the expiration of this period of ten years would be null and void by operation of law,

They are broken down as follows:

Type	Date of granting	Exercise price	Price	Average maturity	Average risk - free rate	Number of shares	Non-probabilistic cost	Probabilistic cost of the plan	Accumulated expenses as of 31.12.2012
BSPCE 2	15/03/2002	0,4918	0,4918	4,75	4,86%	37 000	9 898	9 898	9 898
BSA	25/06/2002	0,01	0,4918	5,00	4,63%	350 877	164 912	164 912	164 912
BSPCE 2	13/12/2002	0,4918	0,4918	6,25	3,87%	240 500	70 948	70 948	70 948
BSA	27/06/2003	0,01	0,5671	2,50	2,39%	132 208	0	0	0
BSPCE 3	10/07/2003	0,5671	0,5671	6,25	3,32%	55 000	18 425	18 425	18 425
BSPCE 3	07/01/2004	0,5671	0,5671	6,25	3,66%	30 000	10 200	10 200	10 200
BCE-A	18/05/2004	0,5671	0,5671	6,81	3,90%	550 000	192 500	192 500	192 500
BCE-B	18/05/2004	0,5671	0,5671	6,81	3,95%	550 000	192 500	192 500	192 500
BSPCE 3	01/06/2004	0,5671	0,5671	6,25	3,90%	25 000	8 500	8 500	8 500
BSA	02/06/2004	0,01	0,5671	5,00	3,55%	179 500	98 725	98 725	98 725
BSPCE 4	28/07/2004	0,5671	0,5671	6,25	3,85%	15 000	5 100	5 100	5 100
BSPCE 4	30/07/2004	0,5671	0,5671	6,25	3,76%	155 000	52 700	52 700	52 700
BSPCE 4	01/10/2004	0,5671	0,5671	6,25	3,63%	30 000	10 125	10 125	10 125
BSPCE 4	03/11/2004	0,5671	0,5671	6,25	3,47%	50 000	16 750	16 750	16 750
BSPCE 4	19/11/2004	0,5671	0,5671	6,25	3,38%	40 000	13 400	13 400	13 400
BSPCE 4	10/05/2005	0,5671	0,5671	6,25	2,97%	25 000	8 375	8 375	8 375
BSPCE 4	01/06/2005	0,5671	0,5671	6,25	2,81%	30 000	9 975	9 975	9 975
BSPCE 4	11/07/2005	0,5671	0,5671	6,25	2,82%	80 000	26 600	26 600	26 600
BSPCE 4	20/07/2005	0,5671	0,5671	6,25	2,88%	45 000	14 963	14 963	14 963
BSA	07/03/2006	0,916	0,916	1,53	3,16%	18 000	0	0	0
BSPCE 5	10/03/2006	0,916	0,916	6,25	3,57%	310 950	166 139	166 139	166 139
BSPCE 5	10/08/2006	0,916	0,916	6,25	3,79%	100 000	44 000	44 000	44 000
BSPCE 5	13/09/2006	0,916	0,916	6,25	3,71%	20 000	5 475	5 475	5 475
BSPCE 5	09/10/2006	0,916	0,916	6,25	3,68%	25 000	13 688	13 688	13 688
BSA	27/04/2007	1,1768	1,1768	3,50	4,20%	30 000	16 200	16 200	16 200
BSPCE 5	20/06/2007	0,916	0,916	6,25	4,63%	120 000	0	0	0
BSA	27/07/2007	1,1768	1,1768	3,50	4,35%	180 000	97 200	97 200	97 200
SO 2008	02/06/2008	1	1	4,75	4,34%	670 000	285 425	285 425	285 425
BSPCE 6	04/08/2008	1	1	6,26	4,39%	1 225 000	408 196	408 196	408 196
BCE-A	04/08/2008	1	1	5,39	4,39%	500 000	304 999	304 999	304 999
BSPCE 6	08/12/2008	1	1	6,25	3,32%	35 000	20 650	20 650	20 650
SO 2008	30/01/2009	1	1	4,60	2,75%	40 000	20 800	20 726	20 612
BSPCE 6	24/11/2009	1	1	6,19	2,86%	637 500	219 055	212 000	201 926
SO 2008	01/03/2010	1	1	4,75	2,24%	250 000	76 600	72 792	67 169
SO 2010	31/01/2011	1	1	6,25	2,94%	245 000	108 850	96 463	77 382
BSPCE 2010	15/02/2011	1	1	6,25	3,00%	915 000	495 450	434 238	339 000
SO 2010	15/02/2011	1	1	6,25	3,00%	50 000	5 900	5 167	4 026
BSPCE 2010	01/03/2011	1	1	6,25	2,93%	200 000	118 000	102 870	79 134
SO 2010	01/04/2011	4	1	6,25	3,17%	100 000	35 938	30 846	22 774
BSA	05/07/2011	13	13	6,00	2,89%	80 000	495 733	445 020	338 386
BSPCE 2011	05/07/2011	13	13	6,46	2,92%	33 750	0	0	0
BSPCE 2011	05/12/2011	13	11,78	6,25	2,57%	129 500	804 590	641 158	369 437
SO 2011	05/12/2011	11	11,78	6,12	2,52%	288 153	707 730	589 843	393 612
BSPCE 2012	04/12/2012	10,06	10,79	6,25	1,19%	239 500	1 099 305	747 249	30 868
SO 2012	04/12/2012	10,06	10,79	6,25	1,19%	161 000	738 990	502 326	20 750
			Total	**5,75**	**3,36%**	**9 223 438**	**7 213 507**	**6 187 265**	**4 251 643**

The expense recognised in 2011 was €765K, of which €654K had an impact on the 2011 income statement, with the balance €(112)K recognized as development expenses.
The expense recognised in 2012 was €1,140K, of which €1,073K had an impact on the 2012 income statement, with the balance €(66)K recognised as development expenses.

The primary assumptions used to determine share-based payments expense by applying the Black-Scholes valuation model for options were as follows:

- Risk-free interest rate: French government borrowing rate (GFRN index),
- Dividend: none,
- Volatility: 60% for the BSAs, BSPEs and stock options granted before 1 January 2012, 35% for the BSPEs and stock options granted on 4 December 2012. These volatilities correspond to the average historic volatility of a basket of stocks of comparable listed companies,
  the panel was refined during the year so as to hold only listed companies in the sector of industry in which the Company operates and/or have a market capitalisation and traded share volume comparable with those of the Company. Listed companies whose shares were traded for less than 1 euro were also excluded from the panel”
- Turnover: 15%,
- Expected lifespan: between 1.5 and 7 years.

The exercise price, estimated lifespan, and fair value of underlying shares as of the grant date of the warrants were used for the valuation of each category of share-based compensation.

Detailed information about the number of options by category and the exercise prices is presented in Note 10: Share Capital.

Note 17: External expenses

17.1 Research & Development Department

RESEARCH & DEVELOPMENT
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Purchases consumed	86	200
payroll expenses	2 080	1 315
External expenses	621	453
Net change in amortisation and depreciation	475	322
Total of Research & Development	**3 262**	**2 291**

17.2 Sales & Marketing Department

SALES & MARKETING
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Purchases consumed	162	232
payroll expenses	6 765	3 501
External expenses	5 236	2 474
Net change in amortisation and depreciation	364	74
Total of Sales & Marketing	**12 527**	**6 281**

17.3 Overhead

ADMINISTRATIVE EXPENSES
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Purchases consumed	74	45
payroll expenses	1 944	1 708
External expenses	1 758	1 218
Taxes	42	191
Net change in amortisation and depreciation	(134)	109
Total of Administrative expenses	**3 684**	**3 271**

Note 18: Financial income and expenses

Financial income and expenses are broken down as follows:

FINANCIAL REVENUE AND EXPENSES
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Gains on current financial assets	23	111
Foreign exchange gains	66	111
Gains on cash equivalents	12	218
Other financial incomes	1	9
Total of financial revenue	**101**	**449**
Foreign exchange losses	(99)	(99)
Losses on cash equivalents		(64)
Discounting expenses	(87)	(90)
Total of financial expenses	**(186)**	**(253)**
Total of financial revenue and expenses	**(85)**	**195**

Note 19: Income tax expense

According to the legislation in force, the Company has tax losses that may be carried forward indefinitely in France in the total amount of €43,388K and tax losses that may be carried forward for 20 years in the United States in the total amount of $17,823K, that is, a total of €56,896K as of 31 December 2012. The deferred tax asset base net of temporary passive differences was not capitalized in order to be conservative, pursuant to the principles described in Note 1: Accounting principles.

The tax rate applicable to the Company is the rate in effect in France (33.33%). By convention, the deferred income tax rate used is 34.43%.

TAX RECONCILIATION
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Profit / (loss)	(13 056)	(7 909)
Income tax expense	1	2
Profit before tax	**(13 054)**	**(7 908)**
Theoretical tax expense - 34,43%	**(4 495)**	**(2 723)**
Other non-deductible expenses and tax-exempt income	93	395
Expenses allocated to share premium		(1 738)
US minimum tax	1	2
Effect of tax rate differences	(33)	(17)
Deferred tax assets not recognised	4 434	4 082
Actual income tax expense	**1**	**2**

Note 20: Commitments

Obligations pursuant to ordinary rental agreements

For its registered office, the Company signed a rental agreement with SCI Enghien 9

The lease was granted for a period of nine full consecutive years, with the Company having the option to terminate the lease every three years for the third and fourth floors only.

In addition, the Company has entered into leases on vehicles and office equipment.

The amounts of future rent and charges are broken down as follows as of 31 December 2012:

OBLIGATIONS PURSUANT TO ORDINARY RENTAL AGREEMENTS
(Amounts in thousands of euros)

	As of 31 December	
	2012	**2011**
Portion with terms of less than 1 year	199	207
Portion with terms of between 1 and 5 years	430	450
Total of commitments pursuant to ordinary rental agreements	**629**	**657**

Obligations under other agreements

The Company subcontracts the manufacturing of some of the sub-assemblies necessary for the manufacturing of its products with suppliers. In order to secure these operations, it has made commitments to purchase a certain quantity of sub-assemblies from those suppliers as described in the table below.

OBLIGATIONS PURSUANT TO OTHER AGREEMENTS (Amounts in thousands of euros)	As of 31 December	
	2012	2011
Portion with terms of less than 1 year	708	1 586
Portion with terms of between 1 and 5 years	169	373
Total of supplier commitments	**877**	**1 960**

In addition, the Company has made commitments to participate in the actions of a foundation (San T Dige) jointly with other companies in its business segment.
The amount of its commitment was €10K in 2011.

Note 21: Transactions with related parties

The amounts of compensation presented below, which were granted to the members of the Company's executive staff, were recognised as expenses during the periods presented:

RELATED PARTY TRANSACTIONS (Amounts in thousands of euros)	As of 31 December	
	2012	2011
Wages and salaries	351	535
Directors' fees		
Share-based payments	23	51

The amount of remuneration granted to related parties in 2011 has been corrected to take into account the amount of remuneration granted to related parties who are not members of the Board of Directors.

The valuation method used for the benefits related to these share-based payments is presented in Note 16: Share-based payments.

Note 22: Net earnings per share

Basic earnings

Basic earnings per share are calculated by dividing the net earnings attributable to the shareholders of the Company by the weighted average number of shares of ordinary and preferred stock outstanding during the year.

EARNINGS PER SHARE	As of 31 December	
	2012	2011
Profit / (loss) (in K€)	**(13 056)**	**(7 909)**
Weighted average number of shares outstanding (in thousands)	13 449	11 104
Earnings per share (in €)	**(0,97)**	**(0,71)**
Weighted average number of potential shares (in thousands)	15 077	11 762

Instruments that grant rights to the share capital on a deferred basis (BSAs, BSPCEs or stock options) are considered anti-dilutive because they cause an increase in earnings per share. Thus, diluted earnings per share are identical to basic earnings per share.

Note 23: Management of financial risk

The major financial instruments of the Company are comprised of financial assets, cash, and investment securities. The purpose of managing these instruments is to make possible the financing of Company's business activity. It is the Company's policy not to subscribe to financial instruments for speculative purposes. The Company does not use derivatives.
The primary risks to which the Company is exposed are interest rate risk and credit risk.

Exchange rate risk

The purpose of the Mauna Kea Technologies Inc. subsidiary established in the State of Delaware is to distribute and market the Group's products in the United States. To this end, it is fully financed by the parent company, with which it has established three agreements:
- a cash agreement for a current account in USD;
- a distribution agreement;
- a service agreement (Management fees).

The Group's major exchange rate risk is linked to the Euro/USD parity fluctuation. In fact, the Group markets the product and services in the USA through its subsidiary Mauna Kea Technologies Inc. Its revenues and expenses - including the purchases of Cellvizio and probes to Mauna Kea Technologies SA-are expressed in US dollars the operational currency of the subsidiary. As a result, the Group is exposed to changes in the EUR/USD exchange rate through that subsidiary.

The effect of a change in exchange rates has an impact on Company earnings and shareholders' equity in the same manner as follows:

- A variation in the EUR/USD exchange rate of +10% would have generated an improvement in earnings of €516K as of 31 December 2012;
- A variation in the EUR/USD exchange rate of -10% would have generated a drop in earnings of €(631)K as of 31 December 2012.

The principal risks related to the effects of changes in exchange rates resulting from foreign currency investments in the subsidiary (current accounts) on shareholders' equity are considered to be insignificant equity. Exposure to exchange rate risk from investments is neutralized by the effect of changes in exchange rates related to the conversion of the subsidiary's financial debt.

At this stage of development, the Company has not made any hedging provisions to protect its business activity against exchange rate fluctuations. On the contrary, the Company cannot rule out that a significant increase in its business activity would force it to have greater exposure to exchange rate risk. Accordingly, the Company plans to seek out a policy adapted to edging these risks.

Liquidity risk

See Note 1.9: Accounting principles

Interest rate risk

The Company's exposure to interest rate risk primarily involves cash equivalents and investment securities. The latter are comprised of money market funds and term deposit accounts. Changes in interest rates have a direct impact on the rate of return for these investments and the cash flows generated.

As of 31 December 2012, the Company's financial debt was not subject to interest rate risk because it primarily involved interest-free repayable advances in a total non-discounted amount of €3,288K as described in Note 11: Borrowings and financial debt.

As of this date, the Company has not taken out any loans with credit institutions and therefore has only a very low exposure to interest rate risk.

Credit risk

In the Company's experience, the payment of certain public financing of research expenditures is subject to credit risk.

The Company manages its available cash prudently. Cash and cash equivalents include available cash and current financial instruments owned by the Company (mostly money market funds). As of 31 December 2012, the available cash and investment securities owned by the Company were for the most part invested in products with a maturity of less than 12 months.

Credit risk related to cash, cash equivalents, and current financial instruments is insignificant in light of the quality of the co-contracting financial institutions.

With regard to its customers, the Company has no significant concentration of credit risk. The Group has set procedures to make sure its customers have an appropriate credit risk history.

Fair value

The fair value of financial instruments traded on an active market, such as available-for-sale securities, is based on the market price as of the closing date. The market prices used for the financial assets held by the Company are the purchase prices in effect on the market as of the valuation date.

The nominal value, minus provisions for impairment, of other payables and receivables is assumed to be close to the fair value of those items.

Note 24: Subsequents events

None.

Note 25: First application of the revised standard IAS 19

This note summarizes the main impacts of the first application of the revised standard IAS 19 on the financial statements for the fiscal year 2011.

STATEMENT OF FINANCIAL POSITION
(Amounts in thousands of euros)

	31/12/2011 restated	IAS 19R Adjustments	31/12/2011 published
ASSETS			
Non-current Assets			
Intangible assets	2 592		2 592
Property, plant, and equipment	563		563
Non-current financial assets	64		64
Total of non-current assets	**3 219**		**3 219**
Current assets			
Inventories & Work in progress	1 515		1 515
Trade receivables	1 409		1 409
Other current assets	1 868		1 868
Current financial assets	943		943
Cash and cash equivalents	51 347		51 347
Total of current asets	**57 081**		**57 081**
TOTAL OF ASSETS	**60 300**		**60 300**

STATEMENT OF FINANCIAL POSITION
(Amounts in thousands of euros)

	31/12/2011 restated	IAS 19R Adjustments	31/12/2011 published
EQUITY AND LIABILITIES			
Equity			
Issued capital	536		536
Share premium	56 190		56 190
Reserves	2 813	(26)	2 838
Foreign currency translation on reserve	(55)		(55)
Profit / (loss)	(7 909)	26	(7 935)
Total of equity	**51 575**		**51 575**
Non-current Liabilities			
Long-term loans and borrowings	2 745		2 745
Non-current provisions	390		390
Total of non-current liabilities	**3 135**		**3 135**
Current liabilities			
Short-term loans and borrowings	978		978
Trade payables	2 315		2 315
Other current liabilities	2 297		2 297
Total of current liabilities	**5 590**		**5 590**
TOTAL OF EQUITY AND LIABILITIES	**60 300**		**60 300**

COMPREHENSIVE INCOME STATEMENT
(Amounts in thousands of euros)

	31/12/2011 restated	IAS 19R Adjustments	31/12/2011 published
Operating Revenue			
Sales	5 016		5 016
Other income	960		960
Total of revenue	**5 976**	**0**	**5 976**
Operating Expenses			
Cost of sales	(1 583)	1	(1 584)
Gross margin	*68%*		*68%*
Research & Development	(2 291)	9	(2 300)
Sales & Marketing	(6 281)	8	(6 288)
Admnistrative expenses	(3 271)	8	(3 279)
Share-based payments	(654)		(654)
Total of expenses	**(14 079)**	**26**	**(14 105)**
Operating profit	**(8 103)**	**26**	**(8 129)**
Financial revenue	449		449
Financial expenses	(253)		(253)
Profit before tax	**(7 908)**	**26**	**(7 933)**
Income tax expense	(2)		(2)
Profit / (loss)	**(7 909)**	**26**	**(7 935)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial differences on defined benefit plans	(26)	(26)	0
Total of items that will not be reclassified to profit or loss	**(26)**	**(26)**	**0**
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	9		9
Total of items that will be reclassified subsequently to profit or loss	**9**		**9**
Other comprehensive income for the year, net of tax	**(17)**	**(26)**	**9**
Comprehensive income	**(7 926)**		**(7 926)**
Weighted average number of shares outstanding (in thousands) **	11 104	11 104	11 104
Basic earnings per share (EUR/share)	**(0,71)**	**0,00**	**(0,71)**
Weighted average number of potential shares (in thousands)	11 762	11 762	11 762

STATEMENT OF CHANGES IN EQUITY
(Amounts in thousands of euros)

		Issued capital	Share premium	Treasury shares	Reserves	Foreign currency translation on reserve	Profit / (loss)	Total of equity
Published Equity as of	**31/12/2011**	**536**	**56 190**	**(73)**	**2 912**	**(55)**	**(7 935)**	**51 575**
IAS 19R Adjustments					(26)		26	
Restated Equity as of	**31/12/2011**	**536**	**56 190**	**(73)**	**2 886**	**(55)**	**(7 909)**	**51 575**

CASH-FLOW STATEMENT
(Amounts in thousands of euros)

	31/12/2011 restated	IAS 19R Adjustments	31/12/2011 published
Cash flows from operating activities			
Profit / (loss)	(7 909)	26	(7 935)
Elimination of amortisations, depreciations and provisions	598	(26)	623
Share-based payment transaction expense and revenue	765		765
Other items excluded from the auto-financing capacity	(191)		(191)
Revenue and expenses related to the discounting of repayable advances	*(2)*		*(2)*
Interest expenses paid	*4*		*4*
Net gain or loss from cash equivalents	*(269)*		*(269)*
Other non-cash items	*76*		*76*
Unrealised gains and losses related to changes in the fair value	(111)		(111)
Capital gain or loss from asset sales	(0)		
Elimination of the income tax expense	2		2
Auto-financing capacity	**(6 847)**		**(6 847)**
Income tax expense paid	(1)		(1)
Change in WCR related to business activities	669		669
Inventories & Work in progress	*(203)*		*(203)*
Trade receivables	*(672)*		*(672)*
Other current assets	*(875)*		*(875)*
Trade payables	*1 545*		*1 545*
Other current liabilities	*876*		*876*
Net cash flows from operating activities (A)	**(6 178)**		**(6 178)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	(1 067)		(1 067)
Proceeds from sale of property, plant and equipment and intangible assets	0		
Purchase of current financial assets	(705)		(705)
Change in loans and advances granted	(129)		(129)
Other cash flows from investing operations			
Net cash flows from investing activities (B)	**(1 902)**		**(1 902)**
Cash flows from financing activities			
Proceeds from exercise of share options	390		390
Proceeds from issue of shares**	51 556		51 556
Received from equity holders of the parent	*51 556*		*51 556*
Received from non-controlling interests			
Repurchases and resales of treasury shares	(73)		(73)
Net financial interests paid	265		265
Net gain or loss from cash equivalents	*269*		*269*
Interest expenses paid	*(4)*		*(4)*
Other cash flows from financing operations	932		932
Net cash flows from financing activities (C)	**53 070**		**53 070**
Net foreign exchange difference (D)	34		34
Change in cash (A) + (B) + (C) + (D)	**45 024**		**45 024**
Cash at the beginning of the period	6 323		6 323
Cash at the end of the period	51 347		51 347
Change in cash	**45 024**		**45 024**