



# Mauna Kea Technologies

A Public Limited Company (Société anonyme) with share capital of 552,138 euros  
Registered office: 9 rue d'Enghien  
75010 Paris, France  
Registered at the Paris Register of Commerce and Companies under n° 431 268 028

*Consolidated Financial Statements in accordance with the IFRS Standards as of  
December 31, 2013*

**STATEMENT OF FINANCIAL POSITION**

(Amounts in thousands of euros)

	Note	As of 31 December	
		2013	2012
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Intangible assets	3	3 713	3 163
Property, plant, and equipment	4	519	571
Non-current financial assets	5	77	73
<b>Total of non-current assets</b>		<b>4 309</b>	<b>3 807</b>
<b>Current assets</b>			
Inventories & Work in progress	6	2 263	1 936
Trade receivables	7	3 114	3 324
Other current assets	7	1 859	2 143
Current financial assets	8	207	211
Cash and cash equivalents	9	27 792	37 638
<b>Total of current assets</b>		<b>35 235</b>	<b>45 251</b>
<b>TOTAL OF ASSETS</b>		<b>39 544</b>	<b>49 058</b>

	Note	As of 31 December	
		2013	2012
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	10	552	542
Share premium	10	57 501	56 805
Reserves		(16 253)	(4 054)
Foreign currency translation on reserve		(124)	(76)
Profit / (loss)		(11 516)	(13 056)
<b>Total of equity</b>		<b>30 159</b>	<b>40 162</b>
<b>Non-current Liabilities</b>			
Long-term loans and borrowings	11	2 643	2 362
Non-current provisions	12	465	481
<b>Total of non-current liabilities</b>		<b>3 108</b>	<b>2 843</b>
<b>Current liabilities</b>			
Short-term loans and borrowings	11	659	756
Trade payables	13	2 439	2 178
Other current liabilities	13	3 178	3 119
<b>Total of current liabilities</b>		<b>6 276</b>	<b>6 053</b>
<b>TOTAL OF EQUITY AND LIABILITIES</b>		<b>39 544</b>	<b>49 058</b>

**COMPREHENSIVE INCOME STATEMENT**

(Amounts in thousands of euros)

	Note	As of 31 December	
		2013	2012
<b>Operating Revenue</b>			
Sales	15	9 977	8 810
Other income	15	939	1 472
<b>Total of revenue</b>		<b>10 915</b>	<b>10 282</b>
<b>Operating Expenses</b>			
Cost of sales		(3 042)	(2 705)
<i>Gross margin</i>		70%	69%
Research & Development	18	(3 611)	(3 262)
Sales & Marketing	18	(11 174)	(12 527)
Administrative expenses	18	(3 759)	(3 684)
Share-based payments	17	(851)	(1 073)
<b>Total of expenses</b>		<b>(22 437)</b>	<b>(23 251)</b>
<b>Operating profit</b>		<b>(11 521)</b>	<b>(12 969)</b>
Financial revenue	19	207	101
Financial expenses	19	(202)	(186)
<b>Profit before tax</b>		<b>(11 516)</b>	<b>(13 054)</b>
Income tax expense	20		(1)
<b>Profit / (loss)</b>		<b>(11 516)</b>	<b>(13 056)</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial differences on defined benefit plans	12	6	(32)
<b>Total of items that will not be reclassified to profit or loss</b>		<b>6</b>	<b>(32)</b>
<i>Items that will be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(49)	(21)
Cash flow hedge	11	(30)	
<b>Total of items that will be reclassified subsequently to profit or loss</b>		<b>(79)</b>	<b>(21)</b>
<b>Other comprehensive income for the year, net of tax</b>		<b>(73)</b>	<b>(52)</b>
<b>Comprehensive income</b>		<b>(11 589)</b>	<b>(13 108)</b>
Weighted average number of shares outstanding (in thousands)	23	13 727	13 449
<b>Basic earnings per share (EUR/share)</b>	23	<b>(0,84)</b>	<b>(0,97)</b>
Weighted average number of potential shares (in thousands)		15 317	15 077

**STATEMENT OF CHANGES IN EQUITY**

(Amounts in thousands of euros)

		<b>Issued capital</b>	<b>Share premium</b>	<b>Treasury shares</b>	<b>Reserves</b>	<b>Foreign currency translation on reserve</b>	<b>Profit / (loss)</b>	<b>Total of equity</b>
<b>Equity as of</b>	<b>12/31/2011*</b>	<b>536</b>	<b>56 190</b>	<b>(73)</b>	<b>2 886</b>	<b>(55)</b>	<b>(7 909)</b>	<b>51 575</b>
Allocation of the profit / (loss)					(7 909)		7 909	
Allocation of carry forward								
Capital transactions		6	615					621
Share-based payment transactions (1)					1 140			1 140
Treasury shares transactions				(111)	45			(65)
Comprehensive income as of	12/31/2012				(32)	(21)	(13 056)	(13 108)
<b>Equity as of</b>	<b>12/31/2012</b>	<b>542</b>	<b>56 805</b>	<b>(184)</b>	<b>(3 869)</b>	<b>(76)</b>	<b>(13 056)</b>	<b>40 162</b>
Allocation of the profit / (loss)					(13 056)		13 056	
Capital transactions		10	697					706
Share-based payment transactions (1)					885			885
Treasury shares transactions				46	(51)			(4)
Comprehensive income as of	12/31/2013				(24)	(49)	(11 516)	(11 589)
<b>Equity as of</b>	<b>12/31/2013</b>	<b>552</b>	<b>57 501</b>	<b>(138)</b>	<b>(16 115)</b>	<b>(124)</b>	<b>(11 516)</b>	<b>30 159</b>

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 detail of the share-based payments is set out in Note 10: Share capital.

**CASH-FLOW STATEMENT**  
(Amounts in thousands of euros)

	Note	As of 31 December	
		2013	2012
<b>Cash flows from operating activities</b>			
Profit / (loss)		(11 516)	(13 056)
Elimination of amortisations, depreciations and provisions		676	710
Share-based payment transaction expense and revenue	16/17	851	1 073
Other items excluded from the auto-financing capacity		(26)	57
<i>Revenue and expenses related to the discounting of repayable advances</i>		(34)	(3)
<i>Net gain or loss from cash equivalents</i>	19	(10)	(12)
<i>Other non-cash items</i>		17	72
Capital gain or loss from asset sales			7
Elimination of the income tax expense	20		1
<b>Auto-financing capacity</b>		<b>(10 016)</b>	<b>(11 207)</b>
Income tax expense paid			(1)
Change in WCR related to business activities		405	(2 073)
<i>Inventories &amp; Work in progress</i>		(383)	(475)
<i>Trade receivables</i>		178	(1 937)
<i>Other current assets</i>		282	(276)
<i>Trade payables</i>		266	(135)
<i>Other current liabilities</i>		62	750
<b>Net cash flows from operating activities (A)</b>		<b>(9 612)</b>	<b>(13 280)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets	3/4	(1 146)	(1 191)
Proceeds from sale of property, plant and equipment and intangible assets			16
Proceeds from sale of current financial assets			839
Change in loans and advances granted			(94)
<b>Net cash flows from investing activities (B)</b>		<b>(1 146)</b>	<b>(429)</b>
<b>Cash flows from financing activities</b>			
Proceeds from exercise of share options	10	706	621
Repurchases and resales of treasury shares		(4)	(65)
Net financial interests paid		10	12
<i>Gain from cash equivalents</i>		110	12
<i>Loss from cash equivalents</i>		(100)	
Other cash flows from financing operations	11	210	(566)
<b>Net cash flows from financing activities (C)</b>		<b>923</b>	<b>2</b>
Net foreign exchange difference (D)		(10)	(2)
<b>Change in cash (A) + (B) + (C) + (D)</b>		<b>(9 846)</b>	<b>(13 709)</b>
Cash at the beginning of the period	9	37 638	51 347
Cash at the end of the period	9	27 792	37 638
<b>Change in cash</b>		<b>(9 846)</b>	<b>(13 709)</b>

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## Note 1: Accounting principles

### 1.1 Accounting principles applied by the Group

The financial statements are presented in thousands of euros. As a convention, the sum of rounded figures is not equal to the rounded figure of the sum.

They were approved by the Board of Directors on April 9, 2014. These financial statements will be definitive only after their approval by 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 estimates have been made on 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 December 31, 2013 amounting to €27.8 million enabling the Company to cover its next twelve month future cash requirements.

The principles adopted for the preparation of this financial information result from the application of all the standards and interpretations adopted by the European Union, the application of which became mandatory on December 31, 2013. These are available on the website of the European Commission [http://ec.europa.eu/internal\\_market/accounting/ias/index\\_fr.htm](http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm).

The new standards, amendments, revisions and interpretations of standards adopted by the European Union with mandatory application beginning on January 1, 2013 and applied for the first time by the Company for the year fiscal year are:

- IFRS 13 “Fair Value Measurement”;
- Amendment IFRS 1 “Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters”;
- Amendment IFRS 1 “Government Loans”;
- Amendment to IAS 12 “Deferred Taxes: Recovery of Underlying Assets”;
- Amendment to IFRS 7 “Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities”;
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”;
- Annual improvements to IFRS: 2009 - 2011 cycle.

The application of these standards did not have a significant impact on the consolidated financial statements. The Company early adopted revised standard IAS 19 and the amendment to IAS 1 on the presentation of items of other comprehensive income as of December 31, 2013.

The Company has not early adopted other standards, amendments, revisions or interpretations which will become compulsory for fiscal years beginning after January 1, 2013. These are the following standards, amendments, revisions and interpretations of the following standards:

- IFRS 10, “Consolidated Financial Statements,” applicable to financial years opened from January 1, 2014,
- IFRS 11, “Joint Arrangements,” applicable to financial years opened from January 1, 2014,
- IFRS 12 Disclosure of Interests in Other Entities, effective for fiscal years beginning on or after January 1, 2014;
- IAS 27 Revised Separate Financial Statements, effective for fiscal years beginning on or after January 1, 2014;
- Amendment to IAS 28 “Investments in Associates and Joint Ventures”, applicable to financial years opened from January 1, 2014;
- Amendments to IFRS 10, 11 and 12, “Transition Guidance,” effective for fiscal years beginning on or after January 1, 2014;

- Amendments to IFRS 10, 12 and IAS 27 “Investment Entities,” applicable to financial years opened from January 1, 2014;
- Amendment to IAS 32, “Offset of financial assets and liabilities,” applicable to financial years opened from January 1, 2014;
- Amendment to IAS 36 “Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets,” applicable to financial years opened from January 1, 2014;
- Amendment IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”, applicable to financial years opened from January 1, 2014.

The Company has not early adopted any standards, amendments, revisions or interpretations not yet adopted for use in the European Union:

- IFRS 9 “Financial Instruments”;
- Amendment IAS 19 Employee Benefits”;
- Annual improvements to IFRS: 2010 - 2012 cycle;
- Annual improvements to IFRS: 2011 - 2013 cycle;
- IFRIC 21 “Levies Charged by Public Authorities.”

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 recognized 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 recognized as assets in the balance sheet at their acquisition or production cost. The subsidies received and related the capitalized expenses are recognized as a reduction of cost.

#### ***Research and development expenses***

The research expenses are consistently recognized as expenses.

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

- (a) Technical ability to complete 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 recognized all its R&D costs as expenses, until the first prototypes of Cellvizio were refined.

The expenditures related to the refinement of new products were recognized as assets, with those related to the improvements of existing products remaining as expenses for the fiscal year.

The development costs recognized as assets are amortized 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 recognized as assets.

#### *Patents*

The costs related to the filing of patents incurred by Mauna Kea Technologies until the latter were obtained are recognized as intangible assets because of the compliance with the criteria for the capitalization of said costs stipulated by IAS 38.

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

#### *Software*

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

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

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

Property, plant, and equipment are recognized 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 expensed as incurred. The subsidies received and related the capitalized expenses are recognized 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 Cellvizio at disposal in our partnership hospitals (Reference Centers) are capitalized.

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,
Cellvizio at disposal in hospitals.....	5 years
Research equipment and Technical facilities .....	7 years,
Office equipment and furniture .....	5 years,
Computer equipment .....	3 years.

### ***1.6 Recoverable amount of the non-current tangible and intangible assets***

Intangible assets and property, plant, and equipment are tested for impairment if the recovery of their book value is uncertain. With respect to the intangible assets in progress, even in the absence of indicators of impairment, an impairment test is conducted annually.

An impairment loss is recognized to the extent of the excess of the carrying value over the recoverable value of the asset. 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 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, 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 derecognition 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.

### ***1.7 Financial assets***

The Company's financial assets include 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".

#### *Loans and receivables*

This category includes trade receivables, the other loans and receivables, and deposits and guarantees, which are classified under Non-current financial Assets on the balance sheet.

These instruments are initially recognized to the accounts at their fair value and then at the amortized 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 company analyzes each of its trade receivables past due to determine whether an impairment loss should be recognized.

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 recognized in the income statement.

#### *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.

### ***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 recognized in expenses. The inventories are measured according to the FIFO method.

The demonstration equipment intended for sale in the short term is recognized 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 Issued capital***

The costs of share capital transactions that are directly attributable to the issue of new shares or options are recognized 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. The balance of "liquidity" is recorded as current financial assets.

### ***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 17: Share-based payments. The other factors taken into consideration are also presented in Note 17: Share-based payments.

### ***1.13 Measurement and recognition of financial liabilities***

#### *Financial liabilities at the amortized cost*

The borrowings and other financial liabilities are valued initially at their fair value and then at the amortized 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 amortized actuarially over the lifetime of the liability, on the basis of the EIR.

The EIR is the rate that equalizes the anticipated flow of future cash outflows with the current net book value of the financial liability in order to deduct from it its amortized cost.

#### *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 Measurement and recognition of derivatives***

#### *Financial instruments used to hedge future cash flows*

The Company uses derivatives to manage and reduce its exposure to the risk of exchange rate fluctuations relating to its operating activities. Hedging exchange rate fluctuations only involves future cash flows on recorded assets or liabilities or a highly probable forecast transaction (e.g. expected purchase) that would impact the income statement.

Derivatives are measured at their fair value and recognized in the statement of financial position based on their maturity date. The Company applies hedge accounting by providing supporting documentation on the hedge relationship at the inception of each hedge and by assessing the effectiveness of the hedge relationship over the duration of the hedge. Fair value is based on quotations from third-party financial institutions.

The effective portion of derivative's gain or loss in fair value is recognized against equity and subsequently reclassified under operating profit/loss when the hedged transaction impacts profit/loss. The ineffective portion is reported under foreign exchange gains or losses.

### **1.15 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 fulfill 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.

### **1.16 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 recognized 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 recognized as a provision is the best estimate of the expenditure necessary to extinguish the obligation, updated if necessary, on 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 government 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 valued 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 and net interest are recorded in operational result, and 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.

### ***1.17 Revenue from the 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 valued reliably, when it is likely that the future economic advantages will benefit 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.

### ***1.18 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. Otherwise, the subsidy is posted in the accounts under "Other income" for the fiscal year to which the corresponding charges or expenses 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 January 1, 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 part of the tax credit used to finance research expenses is recognized under "Other income" of the year to which the eligible research expenses are related. The part used to finance eligible development expenses is deducted from costs related to assets.

### ***1.19 Cost of sales***

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

### ***1.20 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.

### ***1.21 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. Considering its stage of development, the Company does not post assets net of deferred taxes to the accounts.

### ***1.22 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.

### ***1.23 Other comprehensive income***

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

- EUR/USD currency translation differences of the subsidiary Mauna Kea Technologies, Inc;
- Changes in pension plan provisions arising from changes in the actuarial assumptions.
- The effective portion of the change in cash flow hedging instruments.

### ***1.24 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.

**1.25 Events after the closure of accounts**

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 25: Subsequent events.

**Note 2: Company and scope**

Founded in May 2000, Mauna Kea Technologies S.A. ("the Company") develops, produces and markets microendoscopes and probes and provides the related services.

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

Companies	As of 31 December				Consolidation method
	2013		2012		
	% 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:

<b>INTANGIBLE ASSETS</b>					
(Amounts in thousands of euros)					
	<u>12/31/2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Reclassification</u>	<u>12/31/2012</u>
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
<b>Total gross of intangible assets</b>	<b>3 658</b>	<b>968</b>	<b>(20)</b>		<b>4 607</b>
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)
<b>Total amort. / dép. of intangible assets</b>	<b>(1 066)</b>	<b>(378)</b>			<b>(1 444)</b>
<b>Total net of intangible assets</b>	<b>2 592</b>	<b>590</b>	<b>(20)</b>		<b>3 163</b>

<b>INTANGIBLE ASSETS</b>					
(Amounts in thousands of euros)					
	<u>12/31/2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Reclassification</u>	<u>12/31/2013</u>
Development costs	2 313			35	2 348
Patents, licenses and trademarks	1 046	53		101	1 200
Software packages	204	50	(11)	114	357
Development costs in progress	390	713		(35)	1 069
Patents, licenses and trademarks in progress	539	141		(101)	579
Other intangible assets in progress	114	16		(114)	16
<b>Total gross of intangible assets</b>	<b>4 607</b>	<b>973</b>	<b>(11)</b>		<b>5 568</b>
Amort. / dép. of development costs	(1 052)	(283)			(1 335)
Amort. / dép. of patents, licenses and trademarks	(292)	(78)			(369)
Amort. / dép. of software packages	(100)	(63)	11		(151)
<b>Total amort. / dép. of intangible assets</b>	<b>(1 444)</b>	<b>(423)</b>	<b>11</b>		<b>(1 856)</b>
<b>Total net of intangible assets</b>	<b>3 163</b>	<b>550</b>			<b>3 713</b>

The main projects which development costs have been capitalized during the period are the Second Generation Cellvizio Dual Band, and Cellvizio software 2.2.

The period was marked by the start of marketing of the urology probe, which led to the start of amortization of the development costs relating to this project.

<b>ANNUAL CHANGE IN DEVELOPMENT COSTS</b>		
<b>(CAPITALISED PORTION)</b>		
(Amounts in thousands of euros)		
	<b>As of 31 December</b>	
	<u>2013</u>	<u>2012</u>
External costs	90	118
Wages and salaries, social security costs	842	416
Research Tax Credit	(253)	(125)
Share-based payment transaction expense	34	66
<b>Gross change in development costs</b>	<b>713</b>	<b>475</b>
Amortisation of development costs	(283)	(293)
<b>Net change in development costs</b>	<b>431</b>	<b>182</b>

The expenses of development in progress (Cellvizio Dual Band Second Generation and Cellvizio Software 2.2) and the patents in progress are subject to an annual impairment test to determine their use value, which is based on the discounted cash flows method and determined as follows:

- cash flow projections are determined for the years 2014 to 2018 based on future sales forecasts which correspond to the best estimates made by the management. For the tests conducted on patents in progress, a final value calculated by taking into account a discounted normalized flow with a growth rate to infinity of 2% integrated into the measurement to the extent that the residual period of protection is greater than 5 years;
- the discounting rate used is the weighted average cost of the share capital of the Group of 12%. This is the rate used by financial analysts in the business sector who cover value.

These tests did not reveal any impairment of the assets tested.

A sensitivity test was conducted based on the following key assumptions used by management:

- Reduction in the sales growth rate by 5 points per year over the forecast period.
- Change in the EBITDA margin over sales ratio of  $\pm 1$  point of the normalized flow.
- Increase in the weighted average cost of the share capital of 1 point.

No additional impairment was recognized as a result of the sensitivity tests conducted.

## 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)						
	12/31/2011	Increase	Decrease / Scrapping	Exchange differences	Reclassification	12/31/2012
Laboratory equipment	977	89	(103)	2	68	1 032
Fixture in buildings	33	17				50
Other tangible assets	592	183	(74)	(2)	(64)	636
<b>Total gross of property, plant and equipment</b>	<b>1 602</b>	<b>289</b>	<b>(177)</b>		<b>4</b>	<b>1 718</b>
Amort. / dép. of laboratory equipment	(686)	(165)	90		7	(754)
Amort. / dép. of fixture in buildings	(12)	(6)				(18)
Dep other tang assets	(341)	(95)	61	1		(375)
<b>Total amort. / dép. of property, plant and equipment</b>	<b>(1 039)</b>	<b>(266)</b>	<b>150</b>	<b>1</b>	<b>7</b>	<b>(1 147)</b>
<b>Total net of property, plant and equipment</b>	<b>563</b>	<b>23</b>	<b>(26)</b>	<b>1</b>	<b>11</b>	<b>571</b>

PROPRETY, PLANT AND EQUIPMENT (Amounts in thousands of euros)						
	12/31/2012	Increase	Decrease / Scrapping	Exchange differences	Reclassification	12/31/2013
Laboratory equipment	1 032	54	(189)	2	(24)	874
Fixture in buildings	50	1				51
Other tangible assets	636	153	(36)	(4)	(1)	747
<b>Total gross of property, plant and equipment</b>	<b>1 718</b>	<b>208</b>	<b>(226)</b>	<b>(2)</b>	<b>(25)</b>	<b>1 673</b>
Amort. / dép. of laboratory equipment	(754)	(132)	189		17	(681)
Amort. / dép. of fixture in buildings	(18)	(7)				(24)
Dep other tang assets	(375)	(114)	36	2	1	(449)
<b>Total amort. / dép. of property, plant and equipment</b>	<b>(1 147)</b>	<b>(253)</b>	<b>226</b>	<b>2</b>	<b>17</b>	<b>(1 154)</b>
<b>Total net of property, plant and equipment</b>	<b>571</b>	<b>(45)</b>			<b>(7)</b>	<b>519</b>

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

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	
	2013	2012
Inventories of raw materials	920	936
Inventories & work in progress of finished goods	1 414	1 074
<b>Total gross of inventories &amp; work in progress</b>	<b>2 334</b>	<b>2 010</b>
Dep. of inventories of raw materials	(59)	(75)
Dep. of inventories & work in progress of finished goods	(13)	
<b>Total dep. of inventories &amp; work in progress</b>	<b>(72)</b>	<b>(75)</b>
<b>Total net of inventories &amp; work in progress</b>	<b>2 263</b>	<b>1 936</b>

At the end of each period, inventories and work in progress of finished goods 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%.

## Note 7: Trade receivables and other current assets

### 7.1 Trade and accounts payable

The trade receivables are broken down as follows:

### TRADE RECEIVABLES

(Amounts in thousands of euros)

	As of 31 December	
	2013	2012
Trade receivables	3 151	3 324
Dep. of trade receivables	(37)	
<b>Total net of trade receivables</b>	<b>3 114</b>	<b>3 324</b>

Trade receivables past due and not impaired amounted to €683 thousand as at December 31, 2013. Most receivables had been collected as of the balance sheet date.

The €173 thousand decrease in trade receivables results from an improvement in payment deadlines at December 31, 2013.

**7.2 Other current assets**

The other current assets are broken down as follows:

<b>OTHER CURRENT ASSETS</b>	
(Amounts in thousands of euros)	
	<b>As of 31 December</b>
	<b>2013</b>
	<b>2012</b>
Personnel and related accounts	28
Research Tax Credit	984
Other tax receivables	279
Other receivables	318
Prepaid expenses	250
<b>Total gross of other current assets</b>	<b>1 859</b>
Dep. of other current assets	(626)
<b>Total net of other current assets</b>	<b>1 233</b>

Other taxes receivable are related to deductible VAT and reimbursement of VAT requested in the total amount of €279 thousand.

Other receivables mainly include advances to suppliers, amounting to €282 thousand.

The prepaid expenses correspond, in 2013, mostly to insurance, rent and travel expenses paid in advance.

*Research Tax Credit*

The changes in the Research Tax Credit were as follows:

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

<b>CHANGES IN THE RESEARCH TAX CREDIT RECEIVABLE</b>					
(Amounts in thousands of euros)					
	<b>12/31/2012</b>	<b>Operating revenue</b>	<b>Payment received</b>	<b>Capitalised portion</b>	<b>12/31/2013</b>
Research Tax Credit	1 100	732	(1 100)	253	984

The Company requested the reimbursement of the 2013 Research Tax Credit under the regime for EU SMEs, in accordance with current regulations.

## Note 8: Current financial assets

The current financial assets item corresponds to the cash balance of the securities account opened under the Company's liquidity contract domiciled with Gilbert Dupont, i.e. €207 thousand at December 31, 2013 compared with €211 thousand at December 31, 2012.

## 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	
	2013	2012
Short-term bank deposits	3 287	721
Money market funds	24 505	36 917
<b>Total of cash and cash equivalents</b>	<b>27 792</b>	<b>37 638</b>
of which, unrealised gains are	0	16

The amount of unrealized capital gains on cash equivalents was recorded under financial gains or losses.

The money market funds are broken down as follows:

	Quantity	Price as of 12.31.2012 (in €)	Valuation (in K€)	Cost price (in K€)	Net value (in K€)
CPR Cash P	1 088	22 523	24 505	24 505	24 505
<b>Total of money market funds</b>	<b>1 088</b>		<b>24 505</b>	<b>24 505</b>	<b>24 506</b>

## Note 10: Share capital

### 10.1 Share capital issued

The Company's share capital totals five hundred and fifty-two thousand one hundred and thirty-eight euros and twenty-eight cents (€552,138.28), divided into 13,803,457 shares, with a par value of €0.04 each, fully subscribed and paid up.

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 history of the Company's share capital since December 31, 2012:

Date	Type of transaction	Issued capital (en K€)	Share premium (en K€)	Number of shares comprising the issued capital (in thousands)
<b>12/31/2012</b>	<b>Total</b>	<b>542</b>	<b>56 805</b>	<b>13 562</b>
2/4/2013	Exercise of BSPCE	5	256	114
2/5/2013	Exercise of stock options	1	50	13
3/1/2013	Exercise of BSPCE	1	111	34
3/5/2013	Exercise of stock options	1	57	14
7/4/2013	Exercise of BSPCE	1	85	27
8/5/2013	Exercise of stock options	1	99	25
8/13/2013	Exercise of BCE warrants	1	28	13
10/4/2013	Exercise of BCE warrants	0	4	1
12/5/2013	Exercise of BCE warrants	0	7	2
<b>12/31/2013</b>	<b>Total</b>	<b>552</b>	<b>57 501</b>	<b>13 803</b>

### 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 December 31, 2012 are presented below:

Type	Date of granting	Exercise price	Price	Outstanding as of				Outstanding as of 12.31.2013	Potential number of shares
				12.31.2012	Granted	Exercised	Cancelled		
Options granted before the 1st january 2013				5 245 260		966 844	408 756	3 869 660	1 387 790
BSPCE 2013	5/7/2013	10.2800	10.0000		63 000			63 000	63 000
SO 2013	12/9/2013	10.0500	10.0700		101 000			101 000	101 000
			<b>Total</b>	<b>5 245 260</b>	<b>164 000</b>	<b>966 844</b>	<b>408 756</b>	<b>4 033 660</b>	<b>1 551 790</b>

Following the consolidation of shares (4 old shares for 1 new one) on May 25, 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. As of December 31, 2013, the exercisable warrants corresponds to 847,790 shares.

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 according to the procedure described in Note 17: Share-based payments.

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

	As of 31 December	
	2013	2012
Share-based payments (capitalised portion)	34	66
Share-based payments (expense of the period)	851	1 073
	<b>885</b>	<b>1 140</b>

### 10.3 Acquisition by the Company of its own shares

The Company's combined AGM of June 19, 2013 authorized the Board of Directors, for a period of 18 months from the date of the meeting, to implement a share buyback program, on one or more occasions, in accordance with the provisions of Article L. 225-209 and following of the French Commercial Code and in accordance with the General Regulations of the *Autorité des Marchés Financiers* (AMF) under the conditions described below:

#### Objectives of the share repurchase program:

- to ensure the liquidity of the Company's shares under the terms of a liquidity contract to be concluded with an investment services provider, in accordance with a Code of Conduct approved 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 tender shares on exercise of the rights attached to securities giving access to the share capital;
- to purchase shares to hold for their subsequent exchange or use as consideration in potential acquisitions; 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.

**Maximum number of shares that may be purchased:** 10% of the total number of shares as of the share buyback date. When shares are purchased for market-making purposes and to ensure the liquidity of the Company's share, the number of shares included in the calculation of the 10% ceiling above is equal to the number of shares purchased, less the number resold during the term of the authorization.

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 over the year:

	2013				
	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
Securities purchased	226 669	149 378	138 212	113 646	627 905
Price (in €)	12.65	10.46	9.48	9.95	10.94
Total amount (in K€)	2 868	1 562	1 311	1 131	6 871
Securities sold	226 267	141 581	143 394	118 320	629 562
Price (in €)	12.64	10.36	9.48	9.97	10.91
Total amount (in K€)	2 861	1 467	1 359	1 180	6 867

As at December 31, 2013, the Company held 13,481 Mauna Kea Technologies shares, purchased at an average price of €10.25 and valued at €10.45, resulting in a profit of €3 thousand.

## 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 posted as "Short-term borrowings and financial debt".

#### *First advance*

On August 5, 2004, OSEO granted Mauna Kea Technologies interest-free aid in the amount of €400 thousand for the development of an industrial prototype of a multi-wavelength fiber confocal microscopy system to be used for in vivo molecular imaging. As at December 31, 2013, the entire amount of this aid had been reimbursed.

#### *Second advance*

On October 10, 2006, Mauna Kea Technologies obtained an interest-free repayable innovation aid in the amount of €620 thousand from OSEO for the development of a multi-modal endoscopic device to be used for medical diagnostics. The OSEO payments have been paid in installments between the date the agreement was signed and the end of the project as follows:

- First payment of €300 thousand after the agreement was signed (on October 30, 2006);
- Second payment of €180 thousand on May 14, 2010;
- Last payment of €140 thousand on June 10, 2013.

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

- |                                    |                |
|------------------------------------|----------------|
| - On September 30, 2012            | €150 thousand  |
| - On September 20, 2013            | €170 thousand  |
| - No later than September 30, 2014 | €300 thousand. |

*Third advance*

On May 31, 2010, Mauna Kea Technologies obtained repayable innovation aid of in the amount of €3,416 thousand 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 first payments on this advance are as follows:

- First payment of €454 thousand on May 31, 2010;
- Second payment of €1,138 thousand on December 21, 2011;
- Third payment of €685 thousand on May 29, 2013.

The OSEO grant stipulates two further payments totaling €1,139 thousand.

Based on the initial contract, the Company is required to reimburse OSEO a total of €3,996 thousand including 2.45% interest once total sales of €2,500 thousand is reached. This amount will be updated according to the amounts actually received.

**11.2 COFACE advances**

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

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

From 2011 to 2013, the Company made repayments to COFACE amounting €783 thousand. On the basis of the most recent commercial projections, the repayment of the remaining €921 thousand should be the following:

- Fourth repayment of €336 thousand on August 31, 2014;
- Fifth repayment of €585 thousand on August 31, 2015.

**CHANGES IN REPAYABLE ADVANCES**

(Amounts in thousands of euros)

	<u>12/31/2011</u>	<u>Receipt</u>	<u>Repayment</u>	<u>Others</u>	<u>12/31/2012</u>
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
<b>Total of repayable advances</b>	<b>3 567</b>		<b>(566)</b>	<b>87</b>	<b>3 088</b>

	<u>12/31/2012</u>	<u>Receipt</u>	<u>Repayment</u>	<u>Others</u>	<u>12/31/2013</u>
OSEO Funding (1st advance)	120		(120)		
OSEO Funding (2nd advance)	324	140	(170)	4	297
OSEO Funding (3rd advance)	1 433	685		(42)	2 075
COFACE	1 212		(324)	6	894
<b>Total of repayable advances</b>	<b>3 088</b>	<b>825</b>	<b>(614)</b>	<b>(32)</b>	<b>3 266</b>

**11.3 Long-term loans and borrowings**

Long-term debt is broken down as follows:

**LONG-TERM LOANS AND BORROWINGS**

(Amounts in thousands of euros)

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

	<u>12/31/2012</u>	<u>Receipt</u>	<u>Reclassification</u>	<u>Others</u>	<u>12/31/2013</u>
Shareholders' accounts	5				5
Repayable advances OSEO Funding	1 586	685	(180)	(15)	2 075
Repayable advances COFACE	771		(214)	6	563
<b>Total of long-term loans and borrowings</b>	<b>2 362</b>	<b>685</b>	<b>(394)</b>	<b>(10)</b>	<b>2 643</b>

For 2012, the amounts under reclassifications include the reclassification from short-term financial debt of the undiscounted portion of repayable advances in the amount of €470 thousand due in 2013.

For 2013, the amounts under reclassifications include the reclassification from short-term financial debt of the undiscounted portion of repayable advances in the amount of €394 thousand due in 2014.

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

**11.4 Cash flow hedges**

To hedge its exposure to exchange rate risk for a portion of its cash flows from operating activities in foreign currencies, the Group initiated a hedging program for the yen.

<u>Company</u>	<u>Currency</u>	<u>Hedged Notional (in thousand in currency)</u>	<u>Hedged currency</u>	<u>Maturity</u>	<u>Hedging instrument</u>	<u>Risk covered</u>
Mauna Kea Technologies SA	EUR	50 000	JPY	2014	Future	Purchase of raw materials

The change in hedging instruments breaks down as follows:

12/31/2012	<u>Cash flow hedge</u>
Change of fair value through equity	(30)
Transfer in income statement	
<b>12/31/2013</b>	<b><u>(30)</u></b>

The Group expects these amounts recognized for this cash flow hedge instrument under equity as of December 31, 2013 to impact operating income in less than one year.

### 11.5 Repayment terms of financial liabilities

The repayment terms of financial liabilities as of December 31, 2013 are broken down as follows:

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

	<u>Gross amount</u>	<u>Less than one year</u>	<u>One to three years</u>	<u>Three to five years</u>
Long-term loans and borrowings	2 643		1 270	1 373
Short-term loans and borrowings	628	628		
Cash flow hedge	30	30		
Trade payables	2 439	2 439		
Other current liabilities	3 178	3 178		
<b>Total of financial liabilities</b>	<b><u>8 919</u></b>	<b><u>6 276</u></b>	<b><u>1 270</u></b>	<b><u>1 373</u></b>

The repayment terms of long-term loans and borrowings and short-term loans and borrowings relating to repayable advances are determined based on the planned repayment estimates as at December 31, 2013.

## Note 12: Non-current provisions

Non-current provisions are broken down as follows:

#### NON-CURRENT PROVISIONS (Amounts in thousands of euros)

	<u>12/31/2011</u>	<u>Allowance</u>	<u>Unused reversals</u>	<u>Used reversals</u>	<u>Others</u>	<u>12/31/2012</u>
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
<b>Total of non-current provisions</b>	<b><u>390</u></b>	<b><u>293</u></b>	<b><u>(55)</u></b>	<b><u>(173)</u></b>	<b><u>25</u></b>	<b><u>481</u></b>

#### NON-CURRENT PROVISIONS (Amounts in thousands of euros)

	<u>12/31/2012</u>	<u>Allowance</u>	<u>Unused reversals</u>	<u>Used reversals</u>	<u>Others</u>	<u>12/31/2013</u>
Pension plan provision	174	27	(14)		(6)	181
Provisions for personnel disputes	244				(11)	233
Provision for software update	23		(8)			15
Others provisions for expenses	40	10	(15)			36
<b>Total of non-current provisions</b>	<b><u>481</u></b>	<b><u>37</u></b>	<b><u>(36)</u></b>		<b><u>(17)</u></b>	<b><u>465</u></b>

The changes listed under "Other" related first to actuarial variations in valuation of pension obligations of €(6) thousand in 2013 against €32 thousand in 2012; and secondly, currency exchange adjustments of €(11) thousand in 2013 versus €(6) thousand in 2012.

On July 29, 2013, the dispute with AntiCancer Inc. was settled. The U.S. District Court for the Southern District of California handed down a judgment rejecting all claims made by AntiCancer Inc. against Mauna Kea Technologies for patent infringement. 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 recognized 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	
	2013	2012
% social security expenses	48%	47%
Salary increases	2%	2%
Discount rate	3.50%	3.29%

- Retirement age: 65;
- Terms of retirement: voluntary retirement;
- Mortality table: INSEE 2013 in 2013 and INSEE 2011 in 2012;
- Collective agreement: metal industries;
- Digressive employee turnover based on age.

The Company does not finance its pension plan provision. No retirements took place over the last 2 fiscal years.

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

**Note 13: Trade payable and other current liabilities**

No discounts were made on trade payables and other current liabilities because they matured within one year at the end of each fiscal year in question.

**13.1 Trade payables**

Trade payables were broken down as follows:

	TRADE PAYABLES (Amounts in thousands of euros)	
	As of 31 December	
	2013	2012
Trade payables	2 439	2 178

**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	
	2013	2012
Taxes payable	132	213
Staff and social security payable	2 174	2 145
Other payable	243	133
Deferred revenue	630	628
<b>Total of other current liabilities</b>	<b>3 178</b>	<b>3 119</b>

Tax liabilities mainly concern taxes on payroll, turnover and value added tax.

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

Deferred income essentially comprises maintenance contracts on systems sold (maintenance periods of one to three years), as well as a one-year warranty on Cellvizio.

## Note 14: Financial assets and liabilities on balance sheet and their impact on the profit

### FINANCIAL INSTRUMENTS ON BALANCE SHEET AND THEIR IMPACT ON THE PROFIT (OR LOSS)

(Amounts in thousands of euros)

As of 31 December 2012	Value on the balance sheet	Fair value through profit or loss	Fair value through equity	Loans and receivables	Debt at amortised cost	Non-financial instruments
<b>Assets</b>						
Non-current financial assets	73			73		
Trade receivables	3 324			3 324		
Other current assets (2)	1 916			1 916		
Current financial asset	211			211		
Cash equivalents (1)	36 917	36 917				
Cash	721			721		
<b>Total of assets</b>	<b>43 162</b>	<b>36 917</b>		<b>6 245</b>		
<b>Liabilities</b>						
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 (2)	2 436				2 436	
<b>Total of liabilities</b>	<b>7 731</b>				<b>7 731</b>	
<b>As of 31 December 2013</b>						
<b>Assets</b>						
Non-current financial assets	77			77		
Trade receivables	3 114			3 114		
Other current assets (2)	1 327			1 327		
Current financial assets	207			207		
Cash equivalents (1)	24 505	24 505				
Cash	3 287			3 287		
<b>Total of assets</b>	<b>32 518</b>	<b>24 505</b>		<b>8 013</b>		
<b>Liabilities</b>						
Long-term loans and borrowings	2 643				2 643	
Short-term loans and borrowings	659		30		629	
Trade payables	2 439				2 439	
Other current liabilities (2)	2 548				2 548	
<b>Total of liabilities</b>	<b>8 289</b>		<b>30</b>		<b>8 259</b>	

(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).

(2) Advances paid and received that are not repaid in cash, deferred income and prepaid expenses that are not defined as financial liabilities are not included here.

## Note 15: Sales revenue and operating revenue

Sales and operating revenue consist of the following:

### SALES AND OPERATING REVENUE (Amounts in thousands of euros)

	As of 31 December	
	2013	2012
Sales	9 977	8 810
Subsidies	13	373
Research Tax Credit and other tax credits	826	978
Discounted portion of repayable advances	78	90
Other income	22	31
<b>Total of revenue</b>	<b>10 915</b>	<b>10 282</b>

The Group's sales comprise the sale of Cellvizio products and accessories (probes, software and others), and services.

In 2013, the other tax credits cover the amount of the competitiveness and employment tax credit.

### SALES BY TYPE (Amounts in thousands of euros)

	As of 31 December	
	2013	2012
Total sales of "equipements"	6 835	6 172
Total sales of "consumables" (probes)	2 603	2 003
Total sales of "services"	538	634
<b>Total sales by type</b>	<b>9 977</b>	<b>8 810</b>

Sales revenue by geographical area is as follows:

### SALES BY GEOGRAPHICAL AREA (Amounts in thousands of euros)

	As of 31 December	
	2013	2012
EMEA (Europe, Middle-east, Africa)	2 973	3 208
<i>including France</i>	<i>1 073</i>	<i>848</i>
America	4 502	4 243
<i>including USA</i>	<i>3 536</i>	<i>4 144</i>
Asia	2 502	1 359
<i>including China</i>	<i>1 136</i>	<i>583</i>
<b>Total sales by geographical area</b>	<b>9 977</b>	<b>8 810</b>

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.

The distributor Fujifilm, especially active on the Chinese market, is the Group's main customer and accounted for 11% of sales as at December 31, 2013. None of the Group's customers' accounts represented more than 10% of sales revenue in 2012.

## Note 16: Staff costs

The Group employed 112 persons as of December 31, 2013 as against 121 persons as of December 31, 2012.

Employee expense was as follows:

### EMPLOYEE BENEFITS EXPENSE (Amounts in thousands of euros)

	As of 31 December	
	2013	2012
Wages and salaries, social security costs	10 739	11 090
Pension costs	13	12
Share-based payment transaction expenses	851	1 073
<b>Total of employee benefits expense</b>	<b>11 603</b>	<b>12 176</b>

## Note 17: Share-based payments

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

They were recognized 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 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 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:

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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 31.12.2013
BSPCE 2	15/03/02	0,4918	0,4918	4,75	4,86%	37 000	9 898	9 898	9 898
BSA	25/06/02	0,01	0,4918	5,00	4,63%	350 877	164 912	164 912	164 912
BSPCE 2	13/12/02	0,4918	0,4918	6,25	3,87%	240 500	70 948	70 948	70 948
BSA	27/06/03	0,01	0,5671	2,50	2,39%	132 208	0	0	0
BSPCE 3	10/07/03	0,5671	0,5671	6,25	3,32%	55 000	18 425	18 425	18 425
BSPCE 3	07/01/04	0,5671	0,5671	6,25	3,66%	30 000	10 200	10 200	10 200
BCE-A	18/05/04	0,5671	0,5671	6,81	3,90%	550 000	192 500	192 500	192 500
BCE-B	18/05/04	0,5671	0,5671	6,81	3,95%	550 000	192 500	192 500	192 500
BSPCE 3	01/06/04	0,5671	0,5671	6,25	3,90%	25 000	8 500	8 500	8 500
BSA	02/06/04	0,01	0,5671	5,00	3,55%	179 500	98 725	98 725	98 725
BSPCE 4	28/07/04	0,5671	0,5671	6,25	3,85%	15 000	5 100	5 100	5 100
BSPCE 4	30/07/04	0,5671	0,5671	6,25	3,76%	155 000	52 700	52 700	52 700
BSPCE 4	01/10/04	0,5671	0,5671	6,25	3,63%	30 000	10 125	10 125	10 125
BSPCE 4	03/11/04	0,5671	0,5671	6,25	3,47%	50 000	16 750	16 750	16 750
BSPCE 4	19/11/04	0,5671	0,5671	6,25	3,38%	40 000	13 400	13 400	13 400
BSPCE 4	10/05/05	0,5671	0,5671	6,25	2,97%	25 000	8 375	8 375	8 375
BSPCE 4	01/06/05	0,5671	0,5671	6,25	2,81%	30 000	9 975	9 975	9 975
BSPCE 4	11/07/05	0,5671	0,5671	6,25	2,82%	80 000	26 600	26 600	26 600
BSPCE 4	20/07/05	0,5671	0,5671	6,25	2,88%	45 000	14 963	14 963	14 963
BSA	07/03/06	0,916	0,916	1,53	3,16%	18 000	0	0	0
BSPCE 5	10/03/06	0,916	0,916	6,25	3,57%	310 950	166 139	166 139	166 139
BSPCE 5	10/08/06	0,916	0,916	6,25	3,79%	100 000	44 000	44 000	44 000
BSPCE 5	13/09/06	0,916	0,916	6,25	3,71%	20 000	5 475	5 475	5 475
BSPCE 5	09/10/06	0,916	0,916	6,25	3,68%	25 000	13 688	13 688	13 688
BSA	27/04/07	1,1768	1,1768	3,50	4,20%	30 000	16 200	16 200	16 200
BSPCE 5	20/06/07	0,916	0,916	6,25	4,63%	120 000	0	0	0
BSA	27/07/07	1,1768	1,1768	3,50	4,35%	180 000	97 200	97 200	97 200
SO 2008	02/06/08	1	1	4,75	4,34%	670 000	285 425	285 425	285 425
BSPCE 6	04/08/08	1	1	6,26	4,39%	1 225 000	408 196	408 196	408 196
BCE-A	04/08/08	1	1	5,39	4,39%	500 000	304 999	304 999	304 999
BSPCE 6	08/12/08	1	1	6,25	3,32%	35 000	20 650	20 650	20 650
SO 2008	30/01/09	1	1	4,60	2,75%	40 000	20 800	20 800	20 800
BSPCE 6	24/11/09	1	1	6,19	2,86%	637 500	215 179	215 179	215 179
SO 2008	01/03/10	1	1	4,75	2,24%	250 000	76 600	76 093	75 323
SO 2010	31/01/11	1	1	6,25	2,94%	245 000	108 850	104 105	97 209
BSPCE 2010	15/02/11	1	1	6,25	3,00%	915 000	471 050	449 184	417 111
SO 2010	15/02/11	1	1	6,25	3,00%	50 000	5 900	5 610	5 186
BSPCE 2010	01/03/11	1	1	6,25	2,93%	200 000	118 000	111 865	102 802
SO 2010	01/04/11	4	1	6,25	3,17%	100 000	35 938	33 751	30 487
BSA	05/07/11	13	13	6,00	2,89%	80 000	495 733	481 999	455 005
BSPCE 2011	05/07/11	13	13	6,46	2,92%	33 750	0	0	0
BSPCE 2011	05/12/11	13	11,78	6,25	2,57%	129 500	664 818	599 256	500 503
SO 2011	05/12/11	11,44	11,78	6,12	2,52%	288 153	264 930	247 233	220 567
BSPCE 2012	04/12/12	10,79	10,79	6,25	1,19%	239 500	901 114	717 286	412 053
SO 2012	04/12/12	10,79	10,79	6,25	1,19%	161 000	506 025	402 796	231 391
BSPCE 2013	07/05/13	10,28	10	6,25	0,99%	63 000	214 358	159 846	57 991
SO 2013	09/12/13	10,05	10,07	6,25	1,57%	101 000	356 278	241 256	8 085
<b>Total</b>				<b>5,77</b>	<b>3,27%</b>	<b>9 387 438</b>	<b>6 742 137</b>	<b>6 152 825</b>	<b>5 136 259</b>

The other 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;
- Turnover: 15%;
- Volatility: 60% for the BSAs, BSPCEs and stock options granted before December 31, 2011, 35% for the BSPCEs and stock options granted in 2012 and 34% for the BSPCEs and stock options granted in 2013.

As of 2012, the volatility applied corresponds to the average historic volatility of a basket of stocks of listed companies in the sector of industry in which the Company operates and/or have a market capitalization and traded share volume comparable with those of the Company. Listed companies whose shares were traded for less than 1 euro were excluded from the panel.

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.

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

The expense recognized in 2013 was €885 thousand, of which €851 thousand had an impact on the 2013 income statement, with the balance €(34) thousand recognized as development expenses.

## Note 18: External expenses

### 18.1 Research & Development Department

**RESEARCH & DEVELOPMENT**  
(Amounts in thousands of euros)

	As of 31 December	
	2013	2012
Purchases consumed	26	86
Payroll expenses	2 135	2 080
External expenses	1 015	621
Net change in amortisation and depreciation	435	475
<b>Total of Research &amp; Development</b>	<b>3 611</b>	<b>3 262</b>

### 18.2 Sales & Marketing Department

**SALES & MARKETING**  
(Amounts in thousands of euros)

	As of 31 December	
	2013	2012
Purchases consumed	70	162
Payroll expenses	6 263	6 765
External expenses	4 735	5 236
Net change in amortisation and depreciation	106	364
<b>Total of Sales &amp; Marketing</b>	<b>11 174</b>	<b>12 527</b>

### 18.3 Overhead

**OVERHEAD EXPENSES**  
(Amounts in thousands of euros)

	As of 31 December	
	2013	2012
Purchases consumed	59	74
Payroll expenses	1 893	1 944
External expenses	1 594	1 758
Taxes	85	42
Net change in amortisation and depreciation	128	(134)
<b>Total of Overhead expenses</b>	<b>3 759</b>	<b>3 684</b>

## Note 19: 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	
	2013	2012
Gains on current financial assets		23
Foreign exchange gains	97	66
Gains on cash equivalents	110	12
Other financial incomes		1
<b>Total of financial revenue</b>	<b>207</b>	<b>101</b>
Foreign exchange losses	(56)	(99)
Losses on cash equivalents	(100)	
Discounting expenses	(44)	(87)
<b>Total of financial expenses</b>	<b>(202)</b>	<b>(186)</b>
<b>Total of financial revenue and expenses</b>	<b>5</b>	<b>(85)</b>

## Note 20: Income tax expense

According to the legislation in force, the Group has tax losses that may be carried forward indefinitely in France in the total amount of €52,559 thousand and tax losses that may be carried forward for 20 years in the United States in the total amount of €16,581 thousand, that is, a total of €69,140 thousand as of December 31, 2013. 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%.

	As of 31 December	
	2013	2012
Profit / (loss)	(11 516)	(13 056)
Income tax expense		1
<b>Profit before tax</b>	<b>(11 516)</b>	<b>(13 054)</b>
<b>Theoretical tax expense - 34,43%</b>	<b>(3 965)</b>	<b>(4 495)</b>
Other non-deductible expenses and tax-exempt income	27	93
Expenses allocated to share premium		
US minimum tax		1
Effect of tax rate differences	(22)	(33)
Deferred tax assets not recognised	3 960	4 434
<b>Actual income tax expense</b>		<b>1</b>

## Note 21: Commitments

### *Obligations pursuant to ordinary rental agreements*

A new commercial lease was signed with SCI Enghien 9 in 2013 to rent the fifth floor of the Company's registered office. As the previous contracts, this lease was signed for a period of nine full consecutive years and may be terminated by the Company at the three-year or six-year point.

A new commercial lease was also signed by CRM Central Properties LLC and Mauna Kea Technologies Inc. to rent the offices located at 1325 Satellite Boulevard, Unit 108, Suwanee, GA, United States from February 1, 2013 to February 28, 2015.

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

The firm and unconditional commitments under ordinary rental agreements are broken down as follows as of December 31, 2013:

	As of 31 December	
	2013	2012
Portion with terms of less than 1 year	211	199
Portion with terms of between 1 and 5 years	429	
Portion with terms more than 5 years	119	430
<b>Total of commitments pursuant to ordinary rental agreements</b>	<b>759</b>	<b>629</b>

*Commitments under other contracts*

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	
	2013	2012
	Portion with terms of less than 1 year	1 558
Portion with terms of between 1 and 5 years	168	169
<b>Total of supplier commitments</b>	<b>1 726</b>	<b>877</b>

There were no material changes to the Company's other commitments over the year.

## Note 22: Transactions with related parties

The amounts of compensation presented below, which were granted to the members of the Company's executive staff and other related parties, were recognized as expenses during the periods presented:

RELATED PARTY TRANSACTIONS (Amounts in thousands of euros)	As of 31 December	
	2013	2012
	Wages and salaries executive management	288
Wages and salaries other related party	105	70
Share-based payments executive management	0	18
Share-based payments other related party	11	5

The valuation method used for the benefits related to these share-based payments is presented in Note 17: Share-based payments.

## Note 23: 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	
	2013	2012
	Profit / (loss) (in K€)	(11 516)
Weighted average number of shares outstanding (in thousands)	13 727	13 449
<b>Earnings per share (in €)</b>	<b>(0,84)</b>	<b>(0,97)</b>
Weighted average number of potential shares (in thousands)	15 317	15 077

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 24: Management of financial risk

The main financial instruments used by the Group are financial assets, cash, and investment securities. The purpose of managing these instruments is to finance the Company's business activity. It is the Group's policy not to subscribe to financial instruments for speculative purposes. For the first time in 2013, the Company bought a derivative instrument to hedge future cash flows.

The primary risks to which the Group is exposed are interest rate risk and credit risk.

#### *Exchange rate risk*

The main currencies for which the Group is exposed to a significant exchange rate risk are the US dollar and the yen.

The purpose of the Mauna Kea Technologies Inc. subsidiary established in the State of Georgia 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 management 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.

A change in exchange rates has an impact on Group 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 €376 thousand as of December 31, 2013;
- A variation in the EUR/USD exchange rate of -10% would have generated a drop in earnings of €(459) thousand as of December 31, 2013.

In 2013, the Company entered into a yen forward contract to reduce its exposure to exchange rate risk on future purchases.

#### *Liquidity risk*

See Note 1.9: Cash and cash equivalents

#### *Interest Rate Risk*

The Company's exposure to interest rate risk primarily involves cash equivalents and investment securities. These 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 December 31, 2013, 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 €3,499 thousand 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 in a prudent manner. Cash and cash equivalents include available cash and current financial instruments owned by the Company (mostly money market funds). As of December 31, 2013, 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 established policies that insure it that its customers have an appropriate credit risk history.

*Fair value*

The fair value of financial instruments traded on an active market is based on the market price at the balance sheet 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 25: Subsequent events**

On February 12, 2014, under the delegation of authority accorded by the Annual General Meeting of June 19, 2013, the Board of Directors decided to :

- Grant 281,000 business creator shares (BSPCEs) given entitlement to subscribe for one ordinary share of the Company to the employees and the Chief Executive officer,
- Grant 10,000 ordinary stock options to Mauna Kea Technologies Inc.'s employees.

The exercise price of both instruments giving access to capital has been set at €10.56.