

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English-speaking users. This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to the shareholders. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Mauna Kea Technologies

Year ended December 31, 2018

Statutory auditors' report on the financial statements

EXCO SOCODEC
51, avenue Françoise Giroud
21000 Dijon
S.A.R.L. au capital de € 3.200.000
400 726 048 R.C.S. Dijon

Commissaire aux Comptes
Membre de la compagnie
régionale de Dijon

ERNST & YOUNG et Autres
Tour First
TSA 14444
92037 Paris-La Défense cedex
S.A.S. à capital variable
438 476 913 R.C.S. Nanterre

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

Mauna Kea Technologies

Year ended December 31, 2018

Statutory auditors' report on the financial statements

To the Annual General Meeting of Mauna Kea Technologies,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meetings, we have audited the accompanying financial statements of Mauna Kea Technologies for the year ended December 31, 2018.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2018 and of the results of its operations for the year then ended in accordance with French accounting principles.

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

Basis for Opinion

■ Audit Framework

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

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

■ Independence

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

Justification of Assessments - Key Audit Matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

■ Revenue Recognition

Key Audit Matter	Our response
<p>The products and service sales of the Company are booked in accordance with the procedures described in Note 3 to the annual financial statements.</p> <p>The Company's revenue results mainly from the sale of systems, consumables (probes) and maintenance and repair services.</p> <p>Regarding the sale of products, revenue is recognized upon transfer of ownership.</p> <p>We have considered revenue recognition to be a key audit matter given the importance of revenues as a financial indicator of the group but also the importance of revenue flows close to the year-end.</p>	<p>We have analyzed the revenue recognition methods and controls implemented by the Company. Our work consisted in:</p> <ul style="list-style-type: none"> ▶ analyzing the contractual clauses, by sampling, mainly of the most significant contracts of the financial year, in order to assess the consistency of the accounting method applied; ▶ analyzing the most significant transactions of the year ended December 31, 2018 by obtaining the purchase orders, invoices, delivery vouchers as well as the significant transactions with new customers or in countries where the Company has a reduced activity; ▶ assessing the correct application of the separation principle of the fiscal years, by sampling of a selected significant transactions recorded before and after the year-end in order to determine whether these products were related to the right period.

■ Going Concern

Risk identified	Our response
<p>The financing of the Company's operations is performed mainly by capital contributions (by capital increase), debt or loan issuance.</p>	<p>We examined the available or forthcoming financing. Our work notably consisting in:</p> <ul style="list-style-type: none"> ▶ analyzing the projected expenses for the next twelve months and assessing their consistency with the Company's activity and strategy;

As indicated in Note 3 to the annual financial statements, going concern assumption was adopted by the Board of Directors taking into account the cash position as at December 31, 2018, sales prospects (including those resulting from signed partnerships), the receipt of the 2017 research tax credit, the granting of a repayable advance and the drawdown of Tranche C of IPF.

The assessment of estimated financing needs for the next twelve months and the Company's capacity to find proper financing are considered as a key audit matter in order to determine if the going concern assumption can apply to annual financial statements.

- ▶ comparing the amount of the financing needed to the expected expenses;
- ▶ analyzing the available financing sources.

In addition, we:

- ▶ analyzed the projected cash flows for the next twelve months prepared by the Finance Department taking into account the financing sources and sales prospects;
- ▶ reconciled these projections with the actual figures as at 31 December 2018 and to the budget approved by the Board of Directors;
- ▶ analyzed the sensitivity of each of the key assumptions implemented by management to changes in the business plan;
- ▶ verified the accuracy of the historical estimates made by management;
- ▶ interviewed the management regarding its knowledge of subsequent events to December, 31 2018, which may affect the projected cash flows .

We also considered whether Note 3 to the annual financial statements contains the appropriate disclosure.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

■ Information given in the management report and in the other documents with respect to the financial position and the financial statements provided to the Shareholders

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents with respect to the financial position and the financial statements provided to the Shareholders.

We attest that the information relating to payment terms referred to in article D. 441-4 of the French Commercial Code (*Code de commerce*) is fairly presented and consistent with the financial statements.

■ Information relating to Corporate Governance

We attest that the Corporate Governance section of the Management Report sets out the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code (*Code de commerce*).

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from controlling and controlled companies. Based on these procedures, we attest the accuracy and fair presentation of this information.

With respect to the information relating to items that your Company considered likely to have an impact in the event of a takeover bid or exchange offer, provided pursuant to Article L. 225-37-5 of the French Commercial Code (*Code de commerce*), we have agreed this information to the source documents communicated to us. Based on these procedures, we have no observations to make on this information.

■ Other information

In accordance with French law, we have verified that the required information concerning the identity of the shareholders or holders of the voting rights has been properly disclosed in the management report.

Report on Other Legal and Regulatory Requirements

■ Appointment of the Statutory Auditors

We were appointed as statutory auditors of Mauna Kea Technologies by the annual general meeting held on June 13, 2018 for EXCO SOCODEC and on May 25, 2011 for ERNST & YOUNG et Autres.

As at December 31, 2018, EXCO SOCODEC and ERNST & YOUNG et Autres were in the first year and eighth year of total uninterrupted engagement respectively.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Financial Statements

■ Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- ▶ Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- ▶ Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
- ▶ Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- ▶ Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

■ Report to the Audit Committee

We submit to the Audit Committee a report which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Dijon and Paris-La Défense, April 16, 2019

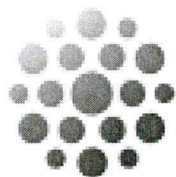
The Statutory Auditors
French original signed by

EXCO SOCODEC

ERNST & YOUNG et Autres

Olivier Gallezot

Cédric Garcia



Mauna Kea Technologies

A Public Limited Company (*Société anonyme*) with share capital of 1,008,053.52 euros

Registered office: 9 rue d'Enghien

75010 Paris, France

431 268 028 in the Paris Trade and Companies Register

*Financial statements for the financial year ended
12/31/2018*

I. BALANCE SHEET AS OF DECEMBER 31, 2018

A. Balance sheet - Assets

Rubric	Gross amount	Dep. and Amort. Prov.	Net 12/31/18	Net 12/31/17
Uncalled issued capital				
INTANGIBLE ASSETS				
Start-up costs				
Development costs				
Concessions, patents and similar rights	893,097	541,887	351,210	185,247
Goodwill				
Other intangible assets	18,850	11,207	7,643	
Advances, prepayments on intangible assets				
PROPERTY, PLANT AND EQUIPMENT				
Land				
Buildings	51,090	50,381	709	1,648
Technical facilities, machinery and equipment	1,248,523	1,004,717	243,806	133,111
Other tangible assets	1,162,416	865,586	296,830	357,196
Assets under construction	148,444		148,444	318,362
Advances and prepayments				
LONG-TERM INVESTMENTS				
Companies accounted for by the equity method				
Other participating interests	23,077	23,077		
Loans related to participating interests	46,334,105	42,225,521	4,108,584	875,988
Other fixed securities				
Loans				
Other long-term investments	267,193		267,193	329,330
FIXED ASSETS	50,146,795	44,722,376	5,424,420	2,200,884
INVENTORIES & WORK IN PROGRESS				
Raw materials and supplies	1,040,576	53,449	987,128	555,375
Work in progress - goods				
Work in progress - services				
Semi-finished and finished goods	1,415,113	82,833	1,332,279	1,644,346
Goods				
Advances and prepayments on orders	114,695		114,695	38,053
RECEIVABLES				
Trade receivables	3,447,603	1,445,622	2,001,982	2,247,994
Other receivables	2,671,335		2,671,335	2,428,834
Capital subscribed and called but not paid				
MISCELLANEOUS				
Investment securities				
Cash and cash equivalents	8,165,994		8,165,994	17,337,768
ACCRUALS				
Prepaid expenses	319,924		319,924	92,450
CURRENT ASSETS	17,175,240	1,581,903	15,593,336	24,344,820
Deferred issuance expenses				
Bond redemption premium				
Unrealized foreign exchange losses	6,341		6,341	6,997
TOTAL	67,328,376	46,304,279	21,024,097	26,552,701

B. Balance sheet - Liabilities

Rubrics	2018 Financial year	2017 Financial year
Share capital (of which paid up: 1,008, 054)	1,008,054	973,894
Issue, merger and contribution premiums	91,753,281	87,972,844
Revaluation reserve		
Legal reserve		
Statutory or contractual reserves		
Regulated reserves		
Other reserves	(19,560)	(19,560)
Retained earnings	(74,786,685)	(70,804,485)
PROFIT/(LOSS) FOR THE YEAR	(11,871,126)	(3,982,200)
Investment subsidies		
Regulated provisions		
SHAREHOLDERS' EQUITY	6,083,964	14,140,493
Proceeds from the issue of participating securities		
Conditional advances	2,903,563	3,057,307
OTHER EQUITY	2,903,563	3,057,307
Provisions for risks	91,341	34,997
Provisions for expenses	14,782	14,782
PROVISIONS	106,123	49,779
FINANCIAL DEBTS		
Convertible bonds		
Other bonds		
Loans and borrowings from credit institutions		
Other loans and borrowings	4,245,292	4,125,170
Advances and prepayments received on current orders		
OPERATING LIABILITIES		
Trade payables	2,023,248	1,474,177
Tax and employee-related liabilities	1,412,273	1,437,436
OTHER LIABILITIES		
Amount due on fixed assets and related accounts		
Other payable	62,804	62,753
ACCRUALS		
Deferred revenues	209,060	213,388
LIABILITIES	7,952,675	7,312,924
Unrealized foreign exchange gains	3,977,772	1,992,199
TOTAL	21,024,097	26,552,701

II. INCOME STATEMENT AS OF DECEMBER 31, 2018

Rubrics	2018 Financial year			2017
	France	Exports	Total	Financial year
Sales of goods		89,549	89,549	1,606
Sale of manufactured goods	218,567	6,885,533	7,104,100	5,395,817
Sale of services rendered	103,200	1,041,598	1,144,798	889,821
NET SALES	321,767	8,016,680	8,338,448	6,287,244
Production in stock			(162,807)	185,464
Fixed asset production				
Operating subsidies			2,861	18,283
Write-backs of impairments, provisions (and amortization), cost transfers			88,754	115,831
Other income			107,481	84,922
OPERATING REVENUE			8,374,736	6,691,744
Purchases of goods (including customs duties)			302	4,692
Change in stocks (goods)				769
Purchases of raw materials and other supplies			1,633,394	1,092,441
Change in stocks (raw materials and supplies)			(312,683)	158,996
Other purchases and external expenses			6,018,692	4,957,941
Taxes and similar payments			161,661	153,739
Wages and salaries			4,888,217	4,572,162
Social security expenses			2,143,104	2,005,466
Operating allowances:				
Amortization on fixed assets			238,046	247,822
Impairment on fixed assets				
Impairment on current assets			346,103	181,390
Provisions			57,000	
Other expenses			257,335	239,169
OPERATING EXPENSES			15,431,172	13,614,586
			OPERATING REVENUE	(7,056,436)
				(6,922,842)
JOINT VENTURES				
Profits transferred in and losses transferred out				
Profits transferred out and losses transferred in				
FINANCIAL REVENUE			432,553	2,409,778
Financial revenue from participating interests				
Revenue from other investments and long-term receivables				
Other interest and similar revenue			384,729	457,647
Write-backs of provisions, cost transfers			1,728	1,883,527
Foreign exchange gains			46,095	68,604
Net proceeds from disposals of investment securities				
FINANCIAL EXPENSES			6,391,047	609,014
Depreciation, amortization and provisions - financial items			5,637,758	3,783
Interest and similar expenses			677,979	464,959
Foreign exchange losses			75,310	140,273
Net expenses on disposals of investment securities				
			FINANCIAL NET INCOME	1,800,764
			PROFIT BEFORE TAX	(5,122,078)
NON-RECURRING REVENUE			3,844	10,869
Non-recurring revenue from non-capital transactions				
Non-recurring revenue from capital transactions			3,844	10,869
Write-backs of provisions, cost transfers				
NON-RECURRING EXPENSES			1,104	15,478
Non-recurring expenses on non-capital transactions			35	
Non-recurring expenses on capital transactions			1,069	15,478
Depreciation, amortization and provisions exceptional items				
			NON-RECURRING INCOME (EXPENSE)	(4,609)
Employee profit-sharing				
Income tax			(1,141,064)	(1,144,487)
TOTAL INCOME			8,811,133	9,112,392
TOTAL EXPENSES			20,682,259	13,094,592
PROFIT OR LOSS			(11,871,126)	(3,982,200)

III. APPENDIX

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1. THE COMPANY'S ACTIVITY AND HIGHLIGHTS OF THE FINANCIAL YEAR

1.1. The Company's activity

Established in 2000, Mauna Kea Technologies is a global medical device company focused on leading innovation in endomicroscopy and optical biopsy. The Company designs, develops and markets innovative tools to visualize and detect cell abnormalities in real time during standard gastrointestinal and pulmonary endoscopy procedures. Its flagship product, Cellvizio, is a confocal miniprobe endomicroscopy system which provides physicians and researchers high-resolution images of tissues at the cellular level. Large-scale, international, multi-center clinical trials have demonstrated Cellvizio's ability to help physicians to more accurately detect early forms of diseases and make immediate treatment decisions. Designed to help physicians in their diagnoses, provide patients with better treatment and reduce hospital costs, the Cellvizio system can be used with practically all endoscopes.

1.2. Highlights of the financial year

The financial statements cover the financial year from 1/1/2018 to 12/31/2018, i.e. for a period of 12 months.

On November 13, 2018, the Company signed an amendment to its subscription agreement dated February 3, 2017 with IPF Partners, a provider of alternative financing solutions. The amendment provides the option for the Company to subscribe two new tranches of €5 million each.

The first tranche for €5.0 million is available until April 2019, and another tranche of €5.0 million is available until September 2019. Both tranches would be subject to conditions for achieving pre-defined revenue levels. As at December 31, 2018, the Company met the necessary conditions to raise the first tranche.

The loans would bear interest at an annual rate equal to three month Euribor + 8.0%. The first loan tranche has a term of five years, with deferred principal repayment for the first 15 months. The second loan tranche has a term of four years, with deferred principal repayment for the first 12 months. The issuance of warrants is subject to certain restrictive financial performance conditions, included in the terms and conditions of the contract.

2. MAJOR EVENTS SINCE THE REPORTING PERIOD

On February 21, 2019, the Company announced a mutual decision to terminate the development and distribution agreements with Cook Medical due to the lack of sales performance in the urology market and the lack of sales activity.

Despite the lack of sales performance in the urology market, the Company made significant progress over the past few years in product development, certification and clinical validation of our Cellvizio technology in urology.

3. ACCOUNTING RULES AND METHODS

The Company's annual financial statements were prepared according to the standards, principles and methods of the general accounting plan attached to regulation 2016(07) of the French Accounting Standards Authority (*Autorité des Normes Comptables*) of November 4, 2016, approved by order of December 2016, in accordance with the provisions of French legislation, in line with the principle of prudence and in accordance with the general rules for preparing and presenting the annual financial statements:

- i. continuity of accounting methods from one financial year to another;
- ii. independence of financial years;
- iii. going concern.

The going concern assumption was adopted by the Board of Directors taking into account the following elements:

- the cash position at 31 December 2018 of €8.2m;
- sales prospects (including those resulting from signed partnerships);
- the receipt of the 2017 research tax credit of €1.1 million in 2019;
- the granting of a repayable advance and a PERSEE grant of €0.6 million in 2019;
- the drawdown of Tranche C of IPF's €5 million debt in 2019.

In this context, the Company considers that it is in a position to meet its commitments until December 31, 2019.

The accounting elements are valued according to the historical cost method.

The most significant accounting principles and methods, used in the preparation of the company financial statements are as follows:

3.1. Fixed assets

Property, plant, and equipment

Property, plant and equipment and intangible assets are recorded at the cost of acquisition and their depreciation and amortization is calculated on the basis of their estimated useful lives. The depreciation method and period by category of fixed assets is as follows:

Category	Term	Method
Software packages	1 to 3 years	Straight line method
Patents, licenses and trademarks	10 years	Straight line method
Other property, plant and equipment:		
- fixtures	7 years	Straight line method
- tools	2 to 7 years	Straight line method
- computer equipment	3 years	Straight line method
- furniture	5 years	Straight line method

Development costs are recorded under expenses.

Long-term investments and investment securities

The elements constituting the fixed assets were valued according to the historical cost method, which is marked by the use of nominal costs expressed in current euros. The gross value comprises the purchase price, excluding transaction costs. Where the inventory value is less than the gross value, a provision for impairment is recorded for the difference.

3.2. Evaluation of inventories

Inventories are valued at their cost of acquisition according to the following methods:

Description	Methods
Raw materials	First-in first-out
Work in progress	Cost of work in progress
Finished products	Cost price, except for marketing costs

The acquisition cost is comprised of:

- the purchase price, including customs duties and other non-recoverable taxes;
- post-deduction of trade rebates, deductions, cash discounts and other similar elements;
- transport, handling and storage costs (if justified by specific operating conditions);
- and other costs directly attributable to the acquisition.

The cost of production includes consumption of raw materials, direct costs, depreciation of assets used in production.

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

Where applicable, stocks were impaired through provisions to take into account their realizable value on the reporting date.

3.3. Receivables

Receivables are recorded at their nominal value. A provision for impairment is made where the inventory value is less than the book value.

3.4. Provisions

Pursuant to the principle of prudence, provisions for risks and expenses are made to face probable outflows of resources in favor of third parties with no counterparty for the Company. These provisions are estimated by taking into consideration the most probable assumptions on the reporting date.

3.5. Foreign currency transactions

The expenses and revenue in foreign currency are recorded for their corresponding value on the transaction date.

Foreign currency receivables and payables existing at year-end are converted at the exchange rate on this date. The conversion difference is recorded in the balance sheet under "Translation differences".

Unrealized foreign exchange gains that have not been offset are recorded under provision for risks.

Foreign currency cash accounts existing at year-end are converted at the exchange rate on this date. The unrealized foreign exchange gains or losses resulting from this conversion are recorded in profit/loss.

3.6. Subsidies and conditional advances

The Company receives a certain number of forms of assistance, in the form of subsidies or conditional advances. Details of these aids are provided in the balance sheet notes 5.3.

Subsidies are recorded:

- where there is reasonable assurance that the Company will comply with the conditions attached to the subsidies;
- and when they are received.

In practice, subsidies are thus recognized when the documentation justifying the R&D expenses incurred has been accepted by the funding agency.

Conditional advances from public authorities were made subject to a contract with BPI (formerly "OSEO Innovation") and "Coface".

The Company has this type of contract for advances as of December 31, 2018. These advances are 100% repayable (at their nominal value) in the event of technical and/or commercial success. The advances received from Coface were completely repaid as of December 31, 2018.

3.7. 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 financial year in which the expenditures were made and the next three financial years, or, as applicable, be reimbursed for the excess portion.

The Company has been receiving the Research Tax Credit since its establishment.

The Company requested the repayment of the 2017 Research Tax Credit under the regime for EU SMEs, in accordance with the regulations in force. As of the date of this document, the repayment had not yet been received.

3.8. Deviations from general principles

3.8.1. Change in the valuation methods

There was no notable change in the valuation method during the financial year.

3.8.2. Changes in the presentation methods

There was no notable change in the presentation method during the financial year.

3.9. Revenue recognition

The revenue consists of 3 types of products:

- System sales
- Consumable sales (probes)
- Maintenance and repair services

The company recognizes the sales of systems and consumables in revenue when the transfer of ownership is realized. This transfer of ownership is documented by a contract, a purchase order and a delivery note.

Whereas sales of maintenance services covering a period exceeding the financial year are recognized as deferred income. These deferred revenues are therefore spread over time according to the duration of the services contracted with the customer.

4. INFORMATION ON BALANCE SHEET ASSETS

4.1. Property, plant and equipment and intangible assets

4.1.1. Table of acquisitions and disposals during the financial year

Figures expressed in euros	At 12/31/2017	Acquisitions	Transfers between items and corrections +/-	Disposals	At 12/31/2018
Start-up and development costs					
Other intangible fixed asset items	663,591	46,582	201,774		911,947
Total Intangible assets	663,591	46,582	201,774	0	911,947
Land					
Buildings on freehold land					
Buildings on non-freehold land					
Buildings, installations, fixtures.....	51,090				51,090
General installations and fixtures	501,723	7,778	(2,635)		506,866
Technical facilities, machinery and equipment	1,085,450	200,501	(37,297)	(131)	1,248,523
Vehicles					
Office and computer equipment, furniture	620,420	36,261	8,076	(9,207)	655,550
Recoverable packaging and other items					
Total Property, plant, and equipment	2,258,683	244,540	(31,856)	(9,338)	2,462,029
Property, plant and equipment in progress(1)	318,363		(169,918)		148,444
Total property, plant and equipment outstanding	318,363	0	(169,918)	0	148,444
Prepayments					
TOTAL	3,240,637	291,122	0	(9,338)	3,522,420

(1) These changes in the property, plant and equipment and intangible asset items from one financial year to another are due to asset acquisition and sale transactions by the Company for its business.

4.1.2. Depreciation and amortization table

The depreciation and amortization of property, plant and equipment and intangible assets are calculated on a straight line or digressive basis, according to the nature of the goods and based on the estimated useful life.

Technical depreciation and amortization table:

Figures expressed in euros	At 12/31/2017	Allowance	Decreases or write-backs	At 12/31/2018
Start-up and development costs				
Other intangible assets	478,343	74,750		553,094
Total Amort. of Intangible assets	478,343	74,750	0	553,094
Land				
Buildings	49,441	939		50,381
General installations and fixtures	282,295	48,629		330,924
Technical facilities, machinery and equipment	952,339	52,509	131	1,004,717
Vehicles				
Office and computer equipment, furniture	482,652	61,217	9,207	534,661
Recoverable packaging and other items				
Total Amort. of Property, plant, and equipment	1,766,727	163,295	9,339	1,920,683
TOTAL	2,245,070	238,045	9,339	2,473,777

4.1.3. Provisions for fixed asset impairment

See Section [5.2. Statement of provisions](#).

4.2. Long-term investments

Table of transactions for the financial year:

Figures expressed in euros	Gross value at 12/31/17	Acquisitions and transfers between items	Disposals and Transfers between items	Gross value At 12/31/2018	provision	Net value At 12/31/2018
Other participating interests	37,486,171	8,871,011		46,357,182	42,248,598	4,108,584
Loans and other long-term investments	331,058	1,174	65,039	267,193		267,193
TOTAL	37,817,229	8,872,185	65,039	46,624,375	42,248,598	4,375,777

4.3. Stocks of goods and work-in-progress

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 assets are held by the Company for use by After-Sales Customer Service. They are impaired by 80%.

The inventory amount is broken down as follows:

Figures expressed in euros	Gross Amount	Impairment	Balance at 12/31/18
Raw materials	1,040,576	53,449	987,128
Finished products	1,415,113	82,833	1,332,279
TOTAL	2,455,689	136,282	2,319,407

4.4. Provisions for impairment of inventories and receivables

See Section 5.2. Statement of provisions.

4.5. Maturity of receivables

The gross value of receivables held by the Company amounts to €53,040,160 as of 12/31/2018 and can be broken down as follows:

Figures expressed in euros	Gross Amount	At no more than one year	At more than one year
FIXED ASSETS:	46,601,298	267,193	46,334,105
Loans related to participating interests	46,334,105		46,334,105
Loans			
Other long-term investments	267,193	267,193	
CURRENT ASSETS:	6,438,862	6,438,862	0
Receivables	3,447,603	3,447,603	
Doubtful receivables			
Personnel and related accounts	18,136	18,136	
Social security bodies	5,211	5,211	
Statement: various taxes	2,522,001	2,522,001	
Group companies and associates			
Sundry debtors	125,987	125,987	
Prepaid expenses	319,924	319,924	
TOTAL	53,040,160	6,706,055	46,334,105
Amounts of loans granted during the year			
Amounts of repayments received during the year			
Loans and advances granted to partners (natural persons)			

4.6. Trade receivables

RECEIVABLES	Gross amount	Dep. and Amort. Prov.	Net 12/31/18	Net 12/31/17
Trade receivables	3,447,603	1,445,622	2,001,982	2,247,994
Other receivables	2,671,335		2,671,335	2,428,834
Capital subscribed and called but not paid				
TOTAL	6,118,938	1,445,622	4,673,317	4,676,828

Including Group receivables:

Figures expressed in euros	2018	2017
Consolidated affiliate company receivables	1,302,005	1,021,666
TOTAL	1,302,005	1,021,666

Provisions are determined per the terms and conditions outlined in [Section 5.2.5](#).

4.7. Accrued revenue

The amount of accrued revenue included in the following balance sheet items is:

Figures expressed in euros	At 12/31/2018	At 12/31/2017
Receivables - Invoices to be raised	940,223	757,809
Accrued revenue	118,000	118,000
TOTAL	1,058,222	875,809

The invoices to be raised represent the re-invoicing of management fees and current account interest to the subsidiary Mauna Kea Technologies Inc.

Accrued revenue corresponds to the subsidies from the OSEO/BPI.

4.8. Investment securities

As of December 31, 2018, the Company held no money market funds.

4.9. Accruals

4.9.1. Prepaid expenses

Prepaid expenses amount to €319,924.

Figures expressed in euros	At 12/31/2018	At 12/31/2017
Operating expenses	319,924	92,450
Financial expenses		
Non-recurring expenses		
TOTAL	319,924	92,450

4.9.2. Translation differences

DIFFERENCE ON THE ASSET SIDE		DIFFERENCE ON THE LIABILITY SIDE	
	Euros		Euros
Decrease in receivables	5,461	Decrease in liabilities	385
Increase in liabilities	879	Increase in receivables	3,977,387
TOTAL	6,341	TOTAL	3,977,772

5. INFORMATION ON BALANCE SHEET LIABILITIES

5.1. Equity

Issued capital

The share capital is set at one million eight thousand fifty three euros and fifty-two cents (€1,008,053.52). It is divided into 25,201,338 ordinary shares, fully subscribed and paid up, each with a par value of €0.04.

This figure does not include Stock Warrants (BSAs), "Founders' Warrants" (BSPCEs) or 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, 2017:

Type of transaction	Issued Capital (K Eur)	Share Premium (K Eur)	Number of shared comprising the issued capital (in thousand)
As of December 31, 2017	974	87 973	24 347
Exercise BSA Plan of 12/01/2017	34	3 746	850
Exercise SO	0	10	4
Others	0	25	0
Total as of December 31, 2018	1 008	91 753	25 201

The Company also opened, in December 2017, an equity financing facility with Kepler Cheuvreux covering a maximum number of 2,250,000 shares available for subscription over a maximum period of 24 months.

At December 31, 2018, 2,050,000 shares were purchased via the financing lines with Kepler, of which 850,000 shares in 2018. Out of the 2,250,000 BSAs subscribed as of December 1, 2017, 91% were used at the closing of the fiscal year.

Stock warrants and stock options and preferred stock awarded to employees or service providers

Since its formation, the Company issued "Stock Warrants" (BSA), stock warrants for its employees ("BSPCE" and others) as well as stock options (SO) and free performance shares (PS), the changes since December 31, 2017 are represented below.

In 2018, the Company issued a new free preference share plan, the terms of which have been approved by the shareholders at the General Meeting of October 5, 2018, and new stock options and stock warrants plans.

Type	Date of granting	Exercise price	Outstanding as of 12.31.17	Granted	Exercised	Cancelled	Outstanding as of 12.31.18	Potential number of shares
Options granted before January 1, 2018			3 491 426		854 000 *	1 487 442	1 149 984	2 275 813
SO	28/02/2018	3.12 €		300 000		70 000	230 000	230 000
SO	24/07/2018	2.54 €		80 000			80 000	80 000
SO	19/09/2018	2.86 €		40 000			40 000	40 000
SO	12/11/2018	2.59 €		600 000			600 000	600 000
SO	28/11/2018	2.52 €		35 000			35 000	35 000
BSA	28/02/2018	3.12 €		55 000			55 000	55 000
BSA	22/03/2018	2.92 €		50 000		50 000	0	0
BSA	12/11/2018	2.76 €		40 000			40 000	40 000
AP	10/10/2018			5 700			5 700	570 000
AP	12/11/2018			1 375			1 375	137 500
			3 491 426	1 207 075	854 000	1 607 442	2 237 059	4 063 313

* Of which 850,000 warrants exercised as part of PACEP financing set up in December 2017.

Following the consolidation of shares (four old shares for a new one) on May 25, 2011, four stock warrants, BSPCEs or stock options granted before that date are needed to subscribe for one new share. For warrants and options granted after that date, the ratio is one to one.

Starting from July 2014, the Company could no longer issue any new BSPCE plans, because it had exceeded the threshold of €150 million in market capitalization more than three years ago.

The terms and conditions for exercising preferred shares are described in the minutes of the Combined General Meeting of October 5, 2018 in resolutions 14 and 15 (https://www.maunakeatech.com/uploads/media/media_pdf/0001/03/PV%20AGM%205%20octobre%202018%20Rev.pdf).

Company's buyback of its own shares

The Extraordinary General Meeting of October 5, 2018, 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 et seq. of the French Commercial Code and in accordance with the General Regulation of the *Autorité des Marchés Financiers* (AMF) under the terms and conditions described below:

Objectives of the share buyback 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 share award, or employee savings plans, or other awards of shares to the employees and executives of the Company or the companies associated with it;
- to tender shares upon 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:

	2018				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Securities purchased	378 387	288 385	222 908	195 498	1 085 178
Price	3,69	2,90	0,79	2,55	
Total amount (in K€)	1 395	836	177	499	2 908
Securities sold	368 340	270 072	237 573	188 521	1 064 506
Price	3,69	2,91	0,71	2,57	
Total amount (in K€)	1 360	785	170	485	2 799

At December 31, 2018, the Company held 38,819 Mauna Kea Technologies shares acquired at an average price of €2.08 and valued at €2.01, i.e. an unrealized capital loss of €2,556.42.

Appropriation of earnings for financial year 2017:

The financial statements for the financial year 2017 showed a net loss of €(3,982,200). Following the decision of the Ordinary Shareholders' Meeting approving the financial statements, this loss was allocated to retained earnings.

5.2. Statement of provisions

Details of the provisions by type are as follows:

5.2.1. Provisions for disputes

Figures expressed in euros	At 12/31/2017	Allowance	Write-backs	At 12/31/2018
Provisions for disputes	28,000	57,000		85,000
TOTAL	28,000	57,000		85,000

At December 31, 2018, the Company recognized a €57,000 provision concerning a labor-related dispute.

5.2.2. Provisions for risks

Figures expressed in euros	At 12/31/2017	Allowance	Write-backs	At 12/31/2018
Provisions for foreign exchange losses	6,997	6,341	6,997	6,341
TOTAL	6,997	6,341	6,997	6,341

5.2.3. Provisions for expenses

Figures expressed in euros	At 12/31/2017	Allowance	Write-backs	At 12/31/2018
Other provision for risks and expenses	14,782			14,782
TOTAL	14,782	0	0	14,782

5.2.4. Provisions for fixed asset impairment

Figures expressed in euros	At 12/31/2017	Allowance	Write-backs	At 12/31/2018
Provisions for other long-term investments	36,611,911	5,638,415	(1,728)	42,248,598
TOTAL	36,611,911	5,638,415	(1,728)	42,248,598

During the 2018 financial year, an advance of €8,871,011 was granted to the subsidiary Mauna Kea Technologies Inc. The total amount of advances stood at €46,334,105. This sum has been provisioned for the negative net asset value of the subsidiary, i.e., €42,225,521.

5.2.5. Provisions for inventory impairment

Figures expressed in euros	At 12/31/2017	Allowance	Write-backs	At 12/31/2018
Raw materials	54,346		(897)	53,449
Finished products	51,746	40,703	(9,616)	82,833
TOTAL	106,092	40,703	(10,513)	136,282

5.2.6. Provisions for impairment of receivables

Figures expressed in euros	At 12/31/2017	Allowance	Write-backs	At 12/31/2018
Item: Doubtful receivables	1,180,776	305,400	(40,555)	1,445,621
Item: Other receivables				
TOTAL	1,180,776	305,400	(40,555)	1,445,621

5.3. Liability repayment schedule

LIABILITIES	Gross amount end of FY	Less than 1 year	1 to 5 years	At more than 5 years
Convertible bonds				
Other bonds				
Loans and borrowings from credit institutions:				
repayable within a maximum of one year at inception				
repayable after more than one year at inception				
Other loans and borrowings	4,245,292	845,292	3,400,000	
Trade payables	2,023,248	2,023,248		
Personnel and related accounts	663,956	663,956		
Social security and other welfare agencies	618,284	618,284		
State and other public authorities:				
Income tax				
Value added tax	8,724	8,724		
Guaranteed bonds				
Other taxes and related accounts	121,309	121,309		
Amount due on fixed assets and related accounts				
Group companies and associates	5,000			5,000
Other payable	57,804	57,804		
Liabilities representing borrowed securities or securities provided as collateral				
Deferred revenues	209,060	209,060		
TOTAL	7,952,677	4,547,677	3,400,000	5,000
Loans repaid during the year				
Loans repaid during the year				

5.4. Trade payables

Figures expressed in euros	At 12/31/2018	At 12/31/2017
Group suppliers		
Suppliers in France	805,814	360,880
International suppliers	90,215	159,057
Suppliers whose invoices are not yet received	1,127,218	954,240
Net book value	2,023,248	1,474,177

5.5. Accrued expenses

The amount of accrued expenses included in the following balance sheet items is:

Rubrics	2018 Financial year	2017 Financial year
OPERATING LIABILITIES		
Trade payables	1,127,218	954,240
Tax and employee-related liabilities	1,108,303	1,078,842
FINANCIAL DEBTS		
Convertible bonds		
Other bonds		
Loans and borrowings from credit institutions		
Other loans and borrowings (of which loans to individuals:)		
Advances and prepayments received on current orders		
OTHER LIABILITIES		
Amount due on fixed assets and related accounts		
Other payable		
ACCRUALS		
Deferred revenues		
LIABILITIES	2,235,521	2,033,082

5.6. Accruals

5.6.1. Deferred revenues

Deferred revenue breaks down as follows:

Figures expressed in euros	At 12/31/2018	At 12/31/2017
Operating revenue	209,060	213,387
Financial revenue		
Non-recurring revenue		
TOTAL	209,060	213,387

5.6.2. Translation differences

See [Section 4.9.2](#).

5.7. Amounts due to related companies

The Company has no liability towards its subsidiary.

6. INFORMATION ON THE INCOME STATEMENT

6.1. Breakdown of the net sales amount

Sales for financial year 2018 break down as follows:

Figures expressed in euros	2018 Financial year			2017 financial year
	France	EEC + Exports	Total	Total
Sales of goods		89,549	89,549	1,606
Sales of finished products	218,567	6,885,533	7,104,100	5,395,817
Sale of services rendered	103,200	1,041,598	1,144,798	889,821
Sales	321,767	8,016,680	8,338,448	6,287,244
%	3.86%	96.14%	100.00%	

6.2. Other operating revenue

Figures expressed in euros	At 12/31/2018	At 12/31/2017
Production in stock	(162,807)	185,464
Fixed asset production		
Other management revenue and operating subsidies	2,861	18,283
Write-backs of depreciation and amortization, provisions, cost transfers and other revenue	88,754	115,831
Other income	107,481	84,921
TOTAL	(36,289)	404,499

The cost transfers include re-invoicing of training costs to the OPCAİM, employee benefits in kind, as well as refunds related to health insurance and other insurance companies.

6.3. Compensation of the statutory auditors

Depending on their mission statements, the summary of fees of the Statutory Auditors for the current and previous financial years is as follows:

Amount in euros	2018		2017	
	Financial year		Financial year	
	EY	EXCO	EY	COFIDEC
Audit				
Statutory auditors, certification and review of the annual financial statements and the consolidated financial statements				
- Mauna Kea Technologies SA	49,250	49,000	49,250	40,125
- Fully consolidated subsidiaries	34,075		34,075	
Sub-total	83,325	49,000	83,325	40,125
Others services rendered by the network to the fully consolidated subsidiaries				
Services other than account certification (SACC)	46,600	0	38,410	
Sub-total	46,600	0	38,410	
Total	129,925	49,000	121,735	40,125

6.4. Net financial income

The financial net income for the year was €(5,958,494) and breaks down as follows:

Rubrics	Financial year 2018	2017 Financial year
FINANCIAL REVENUE	432,553	2,409,778
Financial revenue from participating interests		
Revenue from other investments and long-term receivables		
Other interest and similar revenue	384,729	457,647
Write-backs of provisions, cost transfers	1,728	1,883,527
Foreign exchange gains	46,095	68,604
Net proceeds from disposals of investment securities		
FINANCIAL EXPENSES	6,391,047	609,014
Depreciation, amortization and provisions - financial items	5,637,758	3,783
Interest and similar expenses	677,979	464,959
Foreign exchange losses	75,310	140,273
Net expenses on disposals of investment securities		
FINANCIAL NET INCOME	(5,958,494)	1,800,764

The Company has not paid any dividends.

The financial allowances are mainly related to the impairment of current account advances to the subsidiary Mauna Kea Technologies Inc. for €5,638,415.

6.5. Non-recurring income

The non-recurring income of €2,740 for the financial year breaks down as follows:

Rubrics	2018 Financial year	2017 Financial year
NON-RECURRING REVENUE	3,844	10,869
Non-recurring revenue from non-capital transactions		
Non-recurring revenue from capital transactions	3,844	10,869
Write-backs of provisions, cost transfers		
NON-RECURRING EXPENSES	1,104	15,478
Non-recurring expenses on non-capital transactions	35	
Non-recurring expenses on capital transactions	1,069	15,478
Depreciation, amortization and provisions exceptional items		
NON-RECURRING INCOME (EXPENSE)	2,740	(4,609)

6.6. Income tax

6.7.1. Tax situation

As of December 31, 2018, the Company has a tax loss carry forward of €78,377,269.

6.7.2. Deferred taxes

BASES	Opening balance (€'000)	Change in net income for the financial year (€'000)	Closing balance (€'000)
Differences between the tax regime and the accounting treatment of some revenues and expenses:			
Social security contribution			
Other provisions for risks	6,997	(656)	6,341
TOTAL	6,997	(656)	6,341

6.7.3. Tax Credits

The Company benefits from the provisions of Articles 244 quarter B and 49 septies F of the French General Tax Code relating to research tax credits. The Research Tax Credit amount for financial year 2018 was €1,097,033. The amount of other tax credits stood at €44,031 and corresponds mainly to the competitiveness and employment tax credit.

In accordance with the information note from the ANC dated February 28, 2013, the competitiveness and employment tax credit (CICE) is recognized as a decrease in corporate income tax.

During the year ended December 31, 2018, the CICE made it possible to incur certain expenses allowing the Company to be more competitive. The actions taken by the Company during the year were largely for research and innovation.

7. MISCELLANEOUS INFORMATION

7.1. Average number of salaried and temporary employees

Over the 2018 financial year, the average number of employees broke down as follows:

2018 Financial year	Workforce
Executives	64
Supervisors, technicians and employees	9
Operators	2
TOTAL	75

7.2. List of subsidiaries and investments

Companies concerned	Issued capital	Capital held	Shareholders' equity including profit/loss	Net profit/loss
Mauna Kea Technologies Inc (*)	30,000	100%	-48,562,536	-4,687,614

(*) The amounts are shown in US dollars

7.3. Information on related parties

There is no information on transactions between related parties as current transactions are excluded from the list of transactions with related parties.

7.4. Compensation of administrative bodies

The compensation of the management bodies is not provided as this would reveal individual compensation.

7.5. Financial commitments

7.5.1. Commitments given

Commitments given	Total	-1 year	from 1 to 5 years	+5 years
Related to leases	763,317	155,889	590,983	16,444
Related to supply contracts	1,304,997	1,132,655	172,342	
	2,068,314	1,288,544	763,325	16,444

7.5.2. Commitments received

No commitment was received as of 12/31/2018.

7.6. Commitments towards employees

7.6.1. Retirement commitments

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

ENGAGEMENT RETRAITE

	31/12/2018	31/12/2017
% charges sociales	48%	48%
Augmentation des salaires	2%	2%
Taux d'actualisation	1,97%	1,70%

- retirement age: 65;
- terms of retirement: voluntary retirement;
- Mortality table: INSEE 2015,
- collective agreement: metal industries;
- digressive employee turnover based on age.

The pension plan (IFC) is amounted 179,431 euros for the year ended 2018.

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

No provision has been recorded in the income statement.

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

7.6.2. Individual right to training (DIF)

In accordance with the provisions of law No. 2004(391) of May 4, 2004, on vocational training, the Group's French companies grant their employees an individual right to training of a minimum of twenty hours per calendar year, which can accrue for a maximum period of six years. At the end of this period, and if the employee fails to make use thereof, all the rights will be limited to a maximum of one hundred and twenty hours.

From January 1, 2015, the Individual Training Account (CPF) will replace the DIF. Hours acquired as of December 31, 2018 under CPF should be used before December 31, 2023.

This account is no longer managed by the Company but directly by the Caisse des Dépôts et Consignation. To benefit from the hours acquired under CPF, employees must register on the CPF's website: <http://www.moncompteformation.gouv.fr>.