A Public Limited Company (Société anonyme) with share capital of 559,701 euros
Registered office: 9 rue d'Enghien
75010 Paris, France
431 268 028 R.C.S. Paris

Consolidated Financial Statements in accordance with IFRS as of December 31, 2014

STATEMENT OF FINANCIAL POSITION
(Amounts in thousands of euros)

	Note	As of 31 December 2014	2013
ASSETS			
Non-current Assets			
Intangible assets	**3**	3,542	3,713
Property, plant, and equipment	**4**	794	519
Non-current financial assets	**5**	105	77
Total of non-current assets		**4,440**	**4,309**
Current assets			
Inventories & Work in progress	**6**	1,912	2,263
Trade receivables	**7**	3,874	3,114
Other current assets	**7**	2,165	1,859
Current financial assets	**8**	128	207
Cash and cash equivalents	**9**	15,018	27,792
Total of current asets		**23,098**	**35,235**
TOTAL OF ASSETS		**27,538**	**39,544**

STATEMENT OF FINANCIAL POSITION
(Amounts in thousands of euros)

	Note	As of 31 December 2014	2013
EQUITY AND LIABILITIES			
Equity			
Issued capital	**10**	560	552
Share premium	**10**	58,162	57,501
Reserves		(26,604)	(16,253)
Foreign currency translation on reserve		23	(124)
Profit / (loss)		(13,991)	(11,516)
Total of equity		**18,150**	**30,159**
Non-current Liabilities			
Long-term loans and borrowings	**11**	2,606	2,643
Non-current provisions	**12**	518	465
Total of non-current liabilities		**3,124**	**3,108**
Current liabilities			
Short-term loans and borrowings	**11**	638	659
Trade payables	**13**	2,238	2,439
Other current liabilities	**13**	3,388	3,178
Total of current liabilities		**6,264**	**6,276**
TOTAL OF EQUITY AND LIABILITIES		**27,538**	**39,544**

COMPREHENSIVE INCOME STATEMENT
(Amounts in thousands of euros)

	Note	As of 31 December 2014	2013
Operating Revenue			
Sales	**15**	11,016	9,977
Other income	**15**	1,267	939
Total of revenue		**12,282**	**10,915**
Operating Expenses			
Cost of sales		(3,675)	(3,042)
Gross margin		*67%*	*70%*
Research & Development	**18**	(4,583)	(3,611)
Sales & Marketing	**18**	(12,753)	(11,174)
Admnistrative expenses	**18**	(3,837)	(3,759)
Share-based payments	**17**	(1,257)	(851)
Total of expenses		**(26,106)**	**(22,437)**
Operating profit		**(13,823)**	**(11,521)**
Financial revenue	**19**	251	207
Financial expenses	**19**	(419)	(202)
Profit before tax		**(13,991)**	**(11,516)**
Income tax expense	**20**	0	0
Profit / (loss)		**(13,991)**	**(11,516)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial differences on defined benefit plans	**12**	(79)	6
Total of items that will not be reclassified to profit or loss		**(79)**	**6**
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		147	(49)
Cash flow hedge	**11**	30	(30)
Total of items that will be reclassified subsequently to profit or loss		**178**	**(49)**
Other comprehensive income for the year, net of tax		**99**	**(73)**
Comprehensive income		**(13,892)**	**(11,589)**
Weighted average number of shares outstanding (in thousands)	**23**	13,905	13,727
Basic earnings per share (EUR/share)	**23**	**(1.01)**	**(0.84)**
Weighted average number of potential shares (in thousands)	**23**	15,588	15,317

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

		Issued capital	Share premium	Treasury shares	Reserves	Foreign currency translation on reserve	Profit / (loss)	Total of equity
Equity as of	**12/31/2012**	**542**	**56,805**	**(184)**	**(3,869)**	**(76)**	**(13,056)**	**40,162**
Allocation of the profit / (loss)					(13,056)		13,056	
Capital transactions		10	697					706
Share-based payment transactions					885			885
Treasury shares transactions				46	(51)			(4)
Comprehensive income as of	12/31/2013				(24)	(49)	(11,516)	(11,589)
Equity as of	**12/31/2013**	**552**	**57,501**	**(138)**	**(16,115)**	**(124)**	**(11,516)**	**30,159**
Allocation of the profit / (loss)					(11,516)		11,516	
Capital transactions		8	660					668
Share-based payment transactions					1,295			1,295
Treasury shares transactions				33	(114)			(81)
Comprehensive income as of	12/31/2014				(48)	147	(13,991)	(13,892)
Equity as of	**12/31/2014**	**560**	**58,162**	**(105)**	**(26,499)**	**23**	**(13,991)**	**18,150**

CASH-FLOW STATEMENT
(Amounts in thousands of euros)

	Note	As of 31 December 2014	2013
Cash flows from operating activities			
Profit / (loss)		(13,991)	(11,516)
Elimination of amortisations, depreciations and provisions		884	676
Share-based payment transaction expense and revenue	**16/17**	1,257	851
Other items excluded from the auto-financing capacity		99	(26)
Revenue and expenses related to the discounting of repayable advances	*11*	*153*	*(34)*
Net financial interest paid		*(99)*	*(10)*
Other non-cash items		*44*	*17*
Capital gain or loss from asset sales			
Elimination of the income tax expense	**20**		
Auto-financing capacity		**(11,751)**	**(10,016)**
Income tax expense paid			
Change in WCR related to business activities		(980)	405
Inventories & Work in progress		*153*	*(383)*
Trade receivables		*(673)*	*178*
Other current assets		*(303)*	*282*
Trade payables		*(211)*	*266*
Other current liabilities		*54*	*62*
Net cash flows from operating activities (A)		**(12,731)**	**(9,612)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**3/4**	(618)	(1,146)
Proceeds from sale of property, plant and equipment and intangible assets			
Proceeds from sale of current financial assets			
Change in loans and advances granted		51	
Other cash flows from investing operations			
Net cash flows from investing activities (B)		**(567)**	**(1,146)**
Cash flows from financing activities			
Proceeds from exercise of share options	**10**	668	706
Repurchases and resales of treasury shares		(81)	(4)
Net financial interests paid		99	10
Gain from cash equivalents	*19*	*123*	*110*
Loss from cash equivalents		*(25)*	*(100)*
Other cash flows from financing operations	**11**	(203)	210
Net cash flows from financing activities (C)		**483**	**923**
Net foreign exchange difference (D)		41	(10)
Change in cash (A) + (B) + (C) + (D)		**(12,774)**	**(9,846)**
Cash at the beginning of the period	**9**	27,792	37,638
Cash at the end of the period	**9**	15,018	27,792
Change in cash		**(12,774)**	**(9,846)**

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Accounting Principles

1.1 Accounting principles applied by the Group

The financial statements are presented in thousands of euros. Rounding may in some cases cause insignificant variances in totals.

They were approved by the Board of Directors on April 13, 2015. 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. Preparing the financial statements according to IFRS means making estimates and assumptions that affect the amounts and the disclosures in the statements, particularly in measuring the cost of share-based payments and in the values in use applied to 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 going concern was adopted by the Board of Directors considering the cash available on December 31, 2014 amounting to €15 million ensuring that the Company meets its cash flow needs in the period to December 31, 2015.
In addition, the Company intends to employ appropriate financing solutions to meet its future cash needs. A line of equity financing was notably finalized with Société Générale on March 11, 2015 as detailed in Note 25: Subsequent events.

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 was mandatory at December 31, 2014. These are available on the website of the European Commission: 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 for accounting periods beginning on or after January 1, 2014 and applied for the first time by the Company for the year fiscal year are:

- IFRS 10 “Consolidated Financial Statements”;
- IFRS 11 “Joint Arrangements”;
- IFRS 12 “Disclosure of Interests in Other Entities”;
- IAS 28 Revised “Interests in Associates and Joint Ventures”;
- Amendments to IFRS 10, 11 and 12, “Transition Guidance”;
- Amendments to IFRS 10, IFRS 12 and IAS 27 “Investment Entities”;
- Amendments to IAS 32 “Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities”;
- Amendments to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”;
- Amendments to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”.

The application of these standards did not have a significant impact on the consolidated financial statements.

Furthermore, the Company has not early adopted other standards, amendments, revisions or interpretations which will become compulsory for fiscal years beginning after January 1, 2015. These are the following standards, amendments, revisions and interpretations of the following standards:

- IFRIC 21 “Levies” applicable to periods open from June 17, 2014 forward;
- Annual improvements to IFRS: 2010 - 2012 cycle, effective for financial years beginning on or after February 1, 2015
- Annual improvements to IFRS: 2011 - 2013 cycle, effective for financial years beginning on or after January 1, 2015

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

- IFRS 9 and its amendments on “Financial Instruments”;
- IFRS 15 “Revenue from Contracts with Customers”;
- Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”;

- Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”;
- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations".
- Amendments to IAS 1 relative to “disclosures”
- Annual improvements to IFRS: 2012 – 2014 cycle.

The impacts of the application of these standards on the consolidated financial statements are currently being analyzed.

1.2. Consolidation methods

The subsidiaries are all the entities for which the Company exercises control, with that control 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.
Development expenditures related to the refinement of new products were then recognized as assets, with those related to research and 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, on their useful lifetime, over seven years for the projects put into service before December 31, 2013 and over five year for the projects put into service later on. 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), the Cellvizio at disposal in hospitals and having concluded a fee-for-service billing or a sale of consumables or the Cellvizio permanently used as demo equipment or replacement material 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 value in use, 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 value in use.

The value in use is determined each year in accordance with IAS 36: 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.

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 until the end of the Company’s eligibility to this system in July 2014 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 employees not entitled for BSPCEs (employees of the subsidiary Mauna Kea Technologies Inc, employees of the Company for the instruments awarded after July 20114) .

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 valuated 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 valuated at the current value of the future payments estimated using the market rate based on the long-term obligations of the first-category companies with a term that corresponds to that estimated for the plan.
The company relies on actuaries qualified to conduct an annual review of the valuation of these plans.

In application to IAS 19 revised “Employee benefits”, the service cost 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.

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 valuated 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.

	As of 31 December				
	2014		2013		Consolidation method
Companies	% of	% of control	% of	% of control	
Mauna Kea Technologies SA (1)	100%	100%	100%	100%	Full consolidation
Mauna Kea Technologies Inc	100%	100%	100%	100%	Full consolidation

(1) Parent company of the Group

No change in scope took place during the period.

Note 3: Long-term intangible assets

The intangible assets are broken down as follows:

INTANGIBLE ASSETS
(Amounts in thousands of euros)

	12/31/2012	Increase	Decrease	Reclassification	12/31/2013
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
Total gross of intangible assets	**4,607**	**973**	**(11)**		**5,568**
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)
Total amort. / dép. of intangible assets	**(1,444)**	**(423)**	**11**		**(1,856)**
Total net of intangible assets	**3,163**	**550**			**3,713**

INTANGIBLE ASSETS
(Amounts in thousands of euros)

	12/31/2013	Increase	Decrease	Reclassification	12/31/2014
Development costs	2,348			1,275	3,623
Patents, licenses and trademarks	1,200	32		107	1,340
Software packages	357	39		16	413
Development costs in progress	1,069	207		(1,275)	
Patents, licenses and trademarks in progress	579	124		(107)	596
Other intangible assets in progress	16			(16)	
Total gross of intangible assets	**5,568**	**403**			**5,972**
Amort. / dép. of development costs	(1,335)	(406)			(1,741)
Amort. / dép. of patents, licenses and trademarks	(369)	(84)			(454)
Amort. / dép. of software packages	(151)	(84)			(236)
Total amort. / dép. of intangible assets	**(1,856)**	**(574)**			**(2,431)**
Total net of intangible assets	**3,713**	**(171)**			**3,542**

The period was marked by the launch of the marketing of the second generation Cellvizio Dual Band and the new 2.2 version of the Cellvizio software, which led to the start of amortization of the development costs relating to these projects.

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

	As of 31 December	
	2014	**2013**
External costs		90
Wages and salaries, social security costs	242	842
Research Tax Credit	(73)	(253)
Share-based payment transaction expense	38	34
Gross change in development costs	**207**	**713**
Amortisation of development costs	(406)	(283)
Net change in development costs	**(199)**	**431**

The intangibles assets are subject to an impairment test to determine their value in use, which is based on the discounted cash flows method and determined as follows:

- cash flow projections are determined for the years 2015 to 2019 based on future sales forecasts which correspond to the best estimates made by the management. For the tests conducted on patents, 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 ± 1 point of the normalized flow.
- Increase in the weighted average cost of the share capital of 1 point.

No impairment should be 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)

	12/31/2012	Increase	Decrease / Scrappring	Exchange differences	Reclassification	12/31/2013
Industrial equipment	1,032	54	(189)	2	(24)	874
Fixture in buildings	50	1				51
Other tangible assets	636	153	(36)	(4)	(1)	747
Total gross of property, plant and equipment	**1,718**	**208**	**(226)**	**(2)**	**(25)**	**1,673**
Amort. / dép. of industrial 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)
Total amort. / dép. of property, plant and equipment	**(1,147)**	**(253)**	**226**	**2**	**17**	**(1,154)**
Total net of property, plant and equipment	**571**	**(45)**			**(7)**	**519**

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

	12/31/2013	Increase	Decrease / Scrappring	Exchange differences	Reclassification	12/31/2014
Industrial equipment	874	53		19	347	1,293
Fixture in buildings	51					51
Other tangible assets	747	199	(1)	12	(43)	914
Total gross of property, plant and equipment	**1,673**	**253**	**(1)**	**31**	**304**	**2,259**
Amort. / dép. of industrial equipment	(681)	(217)		(5)	39	(864)
Amort. / dép. of fixture in buildings	(24)	(7)				(31)
Dep other tang assets	(449)	(127)	1	(8)	13	(570)
Total amort. / dép. of property, plant and equipment	**(1,154)**	**(351)**	**1**	**(13)**	**52**	**(1,465)**
Total net of property, plant and equipment	**519**	**(98)**		**17**	**356**	**794**

Reclassifications refer to movements from one item to another, and the reclassification from inventory to non-current assets of equipment permanently used as demonstration or replacement equipment and equipment at disposal to clients of the Group.

In the absence of impairment indicators, no impairment tests were conducted to 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	
	2014	**2013**
Inventories of raw materials	816	920
Inventories & work in progress of finished goods	1,216	1,414
Total gross of inventories & work in progress	**2,032**	**2,334**
Dep. of inventories of raw materials	(74)	(59)
Dep. of inventories & work in progress of finished goods	(45)	(13)
Total dep. of inventories & work in progress	**(120)**	**(72)**
Total net of inventories & work in progress	**1,912**	**2,263**

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 impaired by 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	
	2014	**2013**
Trade receivables	3,948	3,151
Dep. of trade receivables	(73)	(37)
Total net of trade receivables	**3,874**	**3,114**

Trade receivables past due and not impaired amounted to €928 thousand at December 31, 2014.
The increase in trade receivables was due largely to larger outstandings at certain distributors.

7.2 Other current assets

The other current assets are broken down as follows:

OTHER CURRENT ASSETS
(Amounts in thousands of euros)

	As of 31 December	
	2014	**2013**
Personnel and related accounts	50	28
Research Tax Credit	1,251	984
Other tax receivables	328	279
Other receivables	208	318
Prepaid expenses	328	250
Total gross of other current assets	**2,165**	**1,859**
Dep. of other current asets		
Total net of other current assets	**2,165**	**1,859**

Other taxes receivable are related to deductible VAT and reimbursement of VAT requested.

Other receivables mainly include advances to suppliers, amounting to €165 thousand in 2014 and € 282 thousand in 2013.

The prepaid expenses correspond, in 2014, mostly to insurance, rent, design, communication expenses and travel expenses.

Research Tax Credit

The changes in the Research Tax Credit were as follows:

CHANGES IN THE RESEARCH TAX CREDIT RECEIVABLE
(Amounts in thousands of euros)

	12/31/2012	**Operating revenue**	**Payment received**	**Capitalised portion**	**12/31/2013**
Research Tax Credit	1,100	732	(1,100)	253	984

CHANGES IN THE RESEARCH TAX CREDIT RECEIVABLE
(Amounts in thousands of euros)

	12/31/2013	**Operating revenue**	**Payment received**	**Capitalised portion**	**12/31/2014**
Research Tax Credit	984	1,178	(984)	73	1,251

The Company requested the reimbursement of the 2014 Research Tax Credit under the regime for EU SMEs, in accordance with current regulations. This reimbursement will be made in 2015.

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. €128 thousand at December 31, 2014 compared with €207 thousand at December 31, 2013.

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	
	2014	**2013**
Short-term bank deposits	14,375	3,287
Money market funds	643	24,505
Total of cash and cash equivalents	**15,018**	**27,792**

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:

MONEY MARKET FUNDS

	Quantity	Price as of 12.31.2012 (in €)	Valuation (in K€)	Cost price (in K€)
Actions BNP Paribas deposit P	629	1,022	643	643
Total of money market funds	**629**		**643**	**643**

Note 10: Share capital

10.1 Share capital issued

The share capital is set at five hundred fifty-nine thousand seven hundred euros and seventy-six cents (€559,700.76). It is divided into 13,992,519 ordinary shares, fully subscribed and paid up, each with a par value of €0.04.

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

The table below shows the history of the Company's share capital since December 31, 2013:

Date	Type of transaction	Issued capital (en K€)	Share premium (en K€)	Number of shares comprising the issued capital
12/31/2013	**Total**	**552**	**57,501**	**13,803**
2/6/2014	Exercice of BSPCE	1	104	26
3/7/2014	Exercise of stock options	0	19	5
4/3/2014	Exercice of BSPCE	2	155	44
6/2/2014	Exercice of BSPCE	3	215	80
8/4/2014	Exercice of BSPCE	1	62	20
9/1/2014	Exercice of BSPCE	0	28	7
10/1/2014	Exercice of BSPCE	0	17	8
11/14/2014	Souscription of BSA		18	
12/22/2014	Souscription of BSA		24	
12/24/2014	Souscription of BSA		18	
12/31/2014	**Total**	**560**	**58,162**	**13,993**

10.2 Stock warrants and options

The Company issued stock subscription warrants (BSAs) representing compensation, stock warrants for employees (BSPCEs and BCEs) and stock options (SO) for which the changes since December 31, 2013 are presented below:

Type	Date of granting	Exercise price	Price	Outstanding as of 12.31.2012	Granted	Exercised	Cancelled	Outstanding as of 12.31.2013	Potential number of shares
Options granted before the 1st january 2014				**4,033,660**		**754,373**	**90,881**	**3,188,406**	**1,289,664**
BSPCE 2014	2/12/14	10.56			281,000		5,000	276,000	276,000
SO 2014	2/12/14	10.56			10,000		2,000	8,000	8,000
SO	9/1/14	6.02			100,000		100,000		
BSA	9/1/14	6.12			100,000			100,000	100,000
				4,033,660	**491,000**	**754,373**	**197,881**	**3,572,406**	**1,673,664**

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.

10.3 Acquisition by the Company of its own shares

The Company's combined general meeting of June 11, 2014 authorized the Board of Directors, for a period of 18 months from the date of the meeting, to implement a share repurchase 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:

	2014				
	1st	**2nd**	**3rd**	**4th**	**Total**
Securities purchased	172,060	161,310	179,026	221,820	734,216
Price	11.50	11.11	6.61	5.95	8.54
Total amount	1,979	1,792	1,183	1,319	6,273
Securities sold	176,578	146,421	180,318	226,843	730,160
Price	11.50	11.12	6.64	5.91	8.48
Total amount	2,030	1,628	1,197	1,340	6,194

As at December 31, 2014, the Company held 17,537 Mauna Kea Technologies shares, purchased at an average price of €5.99 and valued at €5.75, resulting in a loss of €4 thousand.

Note 11: Borrowings and financial debts

11.1 Advances from BPI (formerly OSEO)

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 reimbursable 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. 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:

- September 30, 2012 €150 thousand
- September 20, 2013 €170 thousand
- No later than September 30, 2015 €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 2014, the Company made repayments to COFACE amounting to €986 thousand. On the basis of the most recent commercial forecasts, the repayment of the remaining €718 thousand should occur no later than August 31, 2018.

CHANGES IN REPAYABLE ADVANCES
(Amounts in thousands of euros)

	12/31/2012	Receipt	Repayment	Others	12/31/2013
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
Total of repayable advances	**3,088**	**825**	**(614)**	**(32)**	**3,266**

	12/31/2013	Receipt	Repayment	Others	12/31/2014
OSEO Funding (1st advance)					
OSEO Funding (2nd advance)	297			3	300
OSEO Funding (3rd advance)	2,075			126	2,201
COFACE	894		(203)	24	715
Total of repayable advances	**3,266**		**(203)**	**153**	**3,216**

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)

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

	12/31/2013	Receipt	Repayment	Reclassification	Others	12/31/2014
Shareholders' accounts	5					5
Repayable advances OSEO Funding	2,075				149	2,224
Repayable advances COFACE	563			(209)	23	377
Total of long-term loans and borrowings	**2,643**			**(209)**	**172**	**2,606**

For 2014, the amounts under reclassifications include the reclassification from short-term financial debt of the undiscounted portion of repayable advances in the amount of €203 thousand due in 2015.

The changes listed under "Others" 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 had initiated a hedging program for the yen and subscribed a forward contract agreement of JPY 50 millions, with a maturity date in October 2014.
For 2014 the required criteria of hedge effectiveness are not sufficient to sustain the hedging relationship, the €(30) thousand registered in equity in 2013 had been recycled in financial result in 2014.

11.5 Repayment terms of financial liabilities

The repayment terms of financial liabilities as of December 31, 2014 are broken down as follows:

REPAYMENT TERMS OF LIABILITIES
(Amounts in thousands of euros)

	Gross amount	Less than one year	One to three years	Three to five years
Long-term loans and borrwings	2,606		1,122	1,484
Short-term loans and borrowings	638	638		
Trade payables	2,238	2,238		
Other current liabilities	3,388	3,388		
Total of liabilities	**8,870**	**6,264**	**1,122**	**1,484**

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, 2014.

Note 12: Non-current provisions

Non-current provisions are broken down as follows:

NON-CURRENT PROVISIONS
(Amounts in thousands of euros)

	12/31/2012	Allowance	Unused reversals	Used reversals	Others	12/31/2013
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
Total of non-current provisions	**481**	**37**	**(36)**		**(17)**	**465**

NON-CURRENT PROVISIONS
(Amounts in thousands of euros)

	12/31/2013	Allowance	Unused reversals	Used reversals	Others	12/31/2014
Pension plan provision	181	55	(28)		79	287
Provisions for personnel disputes	233	91	(242)		9	91
Provision for software update	15					15
Others provisions for expenses	36	82			7	125
Total of non-current provisions	**465**	**228**	**(270)**		**95**	**518**

The changes listed under "Others" related first to actuarial differences in valuation of pension obligations of €79 thousand in 2014 against €6 thousand in 2013; and secondly, currency exchange adjustments of €16 thousand in 2014 versus €11 thousand in 2013.

12.1 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	
	2014	**2013**
% social security expenses	48%	47%
Salary increases	2%	2%
Discount rate	1.89%	3.50%

- Retirement age: 65;
- Terms of retirement: voluntary retirement;
- Mortality table: INSEE 2014 in 2014 and INSEE 2013 in 2013;
- 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.

12.2 Provisions for employee litigation

In May 2014 an employee lawsuit in the United States was resolved in our favor, without any monetary cost to the Group. Since the provision was no longer called for, it was completely reversed.

12.3 Other 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.
On December 31, 2014 the Group recognized a provision of €82 thousand for a commercial lawsuit in the United States.

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	
	2014	**2013**
Trade payables	2,238	2,439

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	
	2014	**2013**
Taxes payable	202	132
Staff and social security payable	2,466	2,174
Other payable	53	243
Deferred revenue	667	630
Total of other current liabilities	**3,388**	**3,178**

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 2013	Value on the balance sheet	Fair value through profit or loss	Fair value through equity	Loans and receivables	Debt at amortised cost
Assets					
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	
Total of assets	**32,518**	**24,505**		**8,013**	
Liabilities					
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	2,548				2,548
Total of liabilities	**8,289**		**30**		**8,259**

As of 31 December 2014	Value on the balance sheet	Fair value through profit or loss	Fair value through equity	Loans and receivables	Debt at amortised cost
Assets					
Non-current financial assets	105			105	
Trade receivables	3,874			3,874	
Other current assets (2)	1,672			1,672	
Current financial assets	128			128	
Cash equivalents (1)	643	643			
Cash	14,375			14,375	
Total of assets	**20,797**	**643**		**20,154**	
Liabilities					
Long-term loans and borrowings	2,606				2,606
Short-term loans and borrowings	638				638
Trade payables	2,238				2,238
Other current liabilities	2,721				2,721
Total of liabilities	**8,203**				**8,203**

(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	
	2014	**2013**
Sales	11,016	9,977
Subsidies	4	13
Research Tas Credit and other tax credits	1,239	826
Discounted portion of repayable advances	23	78
Other income	1	22
Total of revenue	**12,282**	**10,915**

The Group's sales comprise the sale of Cellvizio products and accessories (probes, software and others) as well as services.
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	
	2014	**2013**
Total sales of "equipements"	7,175	6,835
Total sales of "consumables" (probes)	2,958	2,603
Total sales of "services"	882	538
Total sales by type	**11,016**	**9,977**

Sales revenue by geographical area is as follows:

SALES BY GEOGRAPHICAL AREA
(Amounts in thousands of euros)

	As of 31 December	
	2014	**2013**
EMEA (Europe, Middle-east, Africa)	3,197	2,973
including France	*1,047*	*1,073*
America	4,013	4,502
including USA	*2,810*	*3,536*
Asia	3,806	2,502
including China	*995*	*1,136*
including Japan	*1,446*	*587*
Total sales by geographical area	**11,016**	**9,977**

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.

At December 31, 2013 one customer represented more than 10% of sales revenue.
At December 31, 2014 none of the Group's customers' accounts represented more than 10% of sales revenue.

Note 16: Staff costs

The Group employed 120 persons as of December 31, 2014 as against 112 persons as of December 31, 2013.

Employee expense was as follows:

EMPLOYEE BENEFITS EXPENSE
(Amounts in thousands of euros)

	As of 31 December	
	2014	**2013**
Wages and salaries, social security costs	12,364	10,739
Pension costs	27	13
Share-based payment transaction expenses	1,257	851
Total of employee benefits expense	**13,648**	**11,603**

Note 17: Share-based payments

The share-based payments include all warrants (BSAs/BSPCEs/Stock Options) awarded to employees, to non-employee members of the Board of Directors or of the Supervisory Board or service providers.

They were recognized as expenses beginning in the year they were awarded, with the exception of the BCE-A of August 4, 2008 and of the 100 000 2014-BSPCEs with immediate vesting, the terms of acquisition of the BSPCEs and the stock options are as follows:
- 25% of the BSPCEs/Stock Options are vested, assuming beneficiaries remain within the Group on or after the first anniversary of the day they were awarded;
- 25% of the BSPCEs/Stock Options are vested, assuming beneficiaries remain within the Group on or after the second anniversary of the day they were awarded;
- 25% of the BSPCEs/Stock Options are vested, assuming beneficiaries remain within the Group on or after the third anniversary of the day they were awarded;
- The remainder (25% of the BSPCEs/Stock Options) are vested, assuming beneficiaries remain within the Group on or after the fourth anniversary of the day they were awarded;

The terms and conditions governing the acquisition of the stock warrants granted during the 2011 and 2014 fiscal years are the following:
- 33.3% of the stock warrants are vested, assuming beneficiaries remain within the Group beginning on the first anniversary of the date on which they were granted;
- 33.3% of the stock warrants are vested, assuming beneficiaries remain within the Group 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;

With exception of the SO awarded in 2011, exercisable no later than 7 years of the date of their issuance, the warrants (BSAs/BSPCEs/Stock Options) are exercisable 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.

All outstanding warrants as of December 31, 2014 break down as follows:

SHARE-BASED PAYMENTS

Type	Date of granting	Exercise price	Expiration date	Number of warrants	Cancelled	Exercised	Outstanding warrants at 12/31/2014	Equivalent in shares at 12/31/2014	Equivalent in shares vestable at 12/31/2014
BSPCE 4	7/11/05	0.5671	7/11/15	80,000	0	0	80,000	20,000	20,000
BSPCE 5	3/10/06	0.916	3/10/16	310,950	17,500	158,450	135,000	33,750	33,750
BSPCE 5	8/10/06	0.916	8/10/16	100,000	20,000	45,000	35,000	8,750	8,750
BSPCE 5	9/13/06	0.916	9/13/16	20,000	10,000	0	10,000	2,500	2,500
BSPCE 5	10/9/06	0.916	10/9/16	25,000	0	0	25,000	6,250	6,250
SO 2008	6/2/08	1.00	6/2/15	670,000	230,000	188,592	251,408	62,852	62,852
BSPCE 6	8/4/08	1.00	8/4/18	1,225,000	570,008	337,492	317,500	79,375	79,375
BCE-A	8/4/08	1.00	8/4/18	500,000	0	4	499,996	124,999	124,999
BSPCE 6	12/8/08	1.00	12/8/18	35,000	0	0	35,000	8,750	8,750
SO 2008	1/30/09	1.00	1/30/16	40,000	0	4,000	36,000	9,000	9,000
BSPCE 6	11/24/09	1.00	11/24/19	637,500	273,756	192,492	171,252	42,813	42,813
SO 2008	3/1/10	1.00	3/1/17	250,000	100,000	10,000	140,000	35,000	35,000
SO 2010	1/31/11	1.00	1/31/21	245,000	88,750	56,250	100,000	25,000	18,750
BSPCE 2010	2/15/11	1.00	2/15/21	915,000	120,000	259,500	535,500	133,875	89,813
SO 2010	2/15/11	1.00	2/15/21	50,000	40,000	0	10,000	2,500	1,875
BSPCE 2010	3/1/11	1.00	3/1/21	200,000	0	150,000	50,000	12,500	0
SO 2010	4/1/11	1.00	4/1/21	100,000	0	0	100,000	25,000	18,750
BSA	7/5/11	13.00	7/5/21	80,000	0	0	80,000	80,000	80,000
BSPCE 2011	12/5/11	13.00	12/5/21	129,500	68,250	0	61,250	61,250	54,375
SO 2011	12/5/11	11.44	12/5/21	288,153	268,153	0	20,000	20,000	15,000
BSPCE 2012	12/4/12	10.79	12/4/22	239,500	21,625	625	217,250	217,250	107,900
SO 2012	12/4/12	10.79	12/4/22	161,000	31,000	0	130,000	130,000	65,000
BSPCE 2013	5/7/13	10.28	5/7/23	63,000	15,750	0	47,250	47,250	13,500
SO 2013	12/9/13	10.05	12/9/23	101,000	0	0	101,000	101,000	25,250
BSPCE 2014	2/12/14	10.56	2/12/24	281,000	5,000	0	276,000	276,000	0
SO 2014	2/12/14	10.56	2/12/24	10,000	2,000	0	8,000	8,000	0
BSA 2014	9/1/14	6.12	9/1/24	100,000	0	0	100,000	100,000	0
BSPCE 2014	9/1/14	6.02	9/1/24	100,000	100,000	0	0	0	0
				6,956,603	**1,981,792**	**1,402,405**	**3,572,406**	**1,673,664**	**924,252**

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: rate of government borrowings (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, 34% for the BSPCEs and stock options granted in 2013 and 33% for plans granted in 2014.

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 of share-based payments during the period breaks down as follows:

SHARE-BASED PAYMENTS
(Amounts in thousands of euros)

	As of 31 December	
	2014	**2013**
BSPCE	905	685
Stock Options	327	83
BSA	63	117
Total share-based payments	**1,295**	**885**
Capitalised part on R&D	-38	-34
Expense IFRS 2 of the period	**1,257**	**851**

Note 18: External expenses

18.1 Research & Development Department

RESEARCH & DEVELOPMENT
(Amounts in thousands of euros)

	As of 31 December	
	2014	**2013**
Purchases consumed	59	26
Employee benefits expenses	2,607	2,135
External expenses	1,259	1,015
Net change in amortisation and depreciation	658	435
Total of Research & Development	**4,583**	**3,611**

18.2 Sales & Marketing Department

SALES & MARKETING
(Amounts in thousands of euros)

	As of 31 December	
	2014	**2013**
Purchases consumed	89	70
Employee benefits expenses	7,516	6,263
External expenses	5,085	4,735
Net change in amortisation and depreciation	62	106
Total of Sales & Marketing	**12,753**	**11,174**

18.3 Overhead

ADMINISTRATIVE EXPENSES
(Amounts in thousands of euros)

	As of 31 December	
	2014	**2013**
Purchases consumed	56	59
Employee benefits expenses	1,752	1,893
External expenses	1,739	1,594
Taxes	130	85
Net change in amortisation and depreciation	159	128
Total of Administrative expenses	**3,837**	**3,759**

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	
	2014	**2013**
Foreign exchange gains	124	97
Gains on cash equivalents	123	110
Other financial incomes	4	
Total of financial revenue	**251**	**207**
Foreign exchange losses	(218)	(56)
Losses on cash equivalents	(25)	(100)
Discounting expenses	(176)	(44)
Total of financial expenses	**(419)**	**(202)**
Total of financial revenue and expenses	**(168)**	**5**

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 €59,963 thousand and tax losses that may be carried forward for 20 years in the United States in the total amount of €25,113 thousand, that is, a total of €85,076 thousand as of December 31, 2014. The deferred tax asset base net of temporary passive differences was not capitalized in order to be conservative, pursuant to the principles described in Note 1: Accounting principles.

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

TAX RECONCILIATION
(Amounts in thousands of euros)

	As of 31 December	
	2014	**2013**
Profit / (loss)	(13,991)	(11,516)
Income tax expense		
Profit before tax	**(13,991)**	**(11,516)**
Theoretical tax expense - 34,43%	**(4,817)**	**(3,965)**
Other non-deductible expenses and tax-exempt income	28	27
Effect of tax rate differences	(34)	(22)
Deferred tax assets not recognised	4,824	3,960
Actual income tax expense		

Note 21: Commitments

Obligations pursuant to ordinary rental agreements

A new commercial lease was signed by Capkey Gates at Sugarloaf Partners LLC and Mauna Kea Technologies Inc. to rent the offices located at 1325 Satellite Boulevard, Unit 108, Suwanee, GA, 333024 United States from February 1, 2013 to February 28, 2017.

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, 2014:

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

	As of 31 December	
	2014	**2013**
Portion with terms of less than 1 year	224	211
Portion with terms of between 1 and 5 years	448	429
Portion with terms of more than 5 years	89	119
Total of commitments pursuant to ordinary rental agreements	**761**	**759**

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	
	2014	**2013**
Portion with terms of less than 1 year	1,526	1,558
Portion with terms of between 1 and 5 years	1,858	168
Total of supplier commitments	**3,384**	**1,726**

The increase in supplier liabilities was due to renegotiation of the contract with the Japanese supplier of fiber optics over the next three years.

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	
	2014	**2013**
Wages and salaries - General direction	219	288
Wages and salaries other related party	86	105
Share-based payments - General direction (*)	333	
Share-based payments other related party	1	11
Fees	36	

The valuation method used for the benefits related to these share-based payments is presented in Note 17: Share-based payments.
(*) Plan of 100,000 BPCEs was awarded on February, 12th 2014, with a subscription price at 10,56€ per share.

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 stock outstanding during the year.

EARNINGS PER SHARE

	As of 31 December	
	2014	**2013**
Profit / (loss) (in K€)	**(13,991)**	**(11,516)**
Weighted average number of shares outstanding (in thousands)	13,905	13,727
Earnings per share (in €)	**(1.01)**	**(0.84)**
Weighted average number of potential shares (in thousands)	15,588	15,317

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 €527 thousand as of December 31, 2014;
- A variation in the EUR/USD exchange rate of -10% would have generated a drop in earnings of €(644) thousand as of December 31, 2014.

In 2013, the Company entered into a yen forward contract to reduce its exposure to exchange rate risk on future purchases. It expired in 2014. There are no other contracts covering this risk.

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, 2014, the Company's financial debt was not subject to interest rate risk because it primarily involved interest-free repayable advances or preferred-interest rate in a total non-discounted amount of €3,296 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, 2014, 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 trade receivables, the Company has no significant concentration of credit risk.

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 approach the fair value of those items.

Note 25: Subsequent events

On March 11, 2015 the Company established a line of equity financing with Société Générale based on the 20th resolution of the General Meeting of Shareholders on June 11, 2014.
At the share price on that date, the total use of this financing line would bring the Company additional financing of €7 million.
As part of this financing line, and subject to compliance with certain conditions (floor price subscription and minimum average daily volume traded), Société Générale agreed to subscribe 1,390,000 new shares, representing 9.9% of the current capital stock by January 11, 2016, with at least half by July 11, 2015, what times and in what fractions Société Générale may choose.
For each tranche, the issue price will bear a 5% discount off the average price, weighted by the volumes traded in the preceding three sessions. In March 2015, first month of the implementation of this line of equity financing, 140,000 stock subscription warrants have been subscribed in an amount of €704,900.