Mauna Kea Technologies

A Public Limited Company (Société anonyme) with share capital of €1,222,869.60
Registered office: 9 rue d'Enghien
75010 Paris, France
431 268 028 in the Paris Trade and Companies Register

2020 Half-Year Financial Report

Contents

2020 Half-year activity report

1. COMPANY'S ACTIVITY AND EARNINGS

First half 2020 results and recent highlights

- Total revenue for the first half of 2020 fell by €1.3 million, or 30% year-on-year, to €3.2 million.

- Total sales for the first half of 2020 fell by €1.8 million, or 47% year-on-year, to €2.1 million.
  - Sales of consumables fell by €1.1 million, or 52% year-on-year, to €1.0 million.
  - Sales of systems fell by €0.8 million, or 59% year-on-year, to €0.6 million.
  - Sales of services increased by €36,000, up 7% on the previous year, to €0.6 million.

- The Company placed 4 new Cellvizio systems under its PPU program in the first half of 2020, compared to 10 in the first half 2019.

- Gross margin was 67% in the first half of 2020, compared to 63% in the first half of 2019. The change in gross margin is mainly due to an unfavorable sales mix in the first half of 2019.

- Operating loss was €6.2 million, compared to operating loss of €6.6 million in the first half of 2019.

- Net loss was €6.7 million, compared to net loss of €8.1 million in the first half of 2019.

As of June 30, 2020, the Company had a cash balance of €4.2 million and total indebtedness of €17.7 million, compared to €10.0 million of cash and €17.4 million of total indebtedness as of December 31, 2019.

First half 2020 results

(in € thousands) – IFRS	S1 2020 (June 30, 2020)	S1 2019 (June 30, 2019)	Change %
Operating revenue			
Sales	2,100	3,937	(47%)
Other income	1,064	576	85%
Total of revenue	**3,164**	**4,512**	(30%)
Operating expenses			
Cost of sales	(688)	(1,468)	(53%)
Gross margin (%)	67%	63%	
Research & Development	(1,460)	(2,050)	(29%)
Sales & Marketing	(4,199)	(4,597)	(9%)
Administrative expenses	(2,852)	(2,578)	11%
Share-based payments	(184)	(432)	(58%)
Total of expenses	**(9,383)**	**(11,126)**	**(16%)**
Operating profit (loss)	**(6,219)**	**(6,614)**	**(6%)**
Profit / (loss)	**(6,712)**	**(8,097)**	**(17%)**

First half 2020 revenue: 10 systems shipped in total with 4 systems placed under consignment

Total sales for the first half of 2020 stood at €2.1 million, down 47% on the previous year. Sales figures for the first half of 2020 reflect a 7% increase in service revenues. This partially offset the decline in sales of systems and consumables, down 59% and 52%, respectively, compared with the same period in the previous year.

The total number of shipments (sales and placements) of Cellvizio systems fell by 60% year-on-year to stand at 10 in the first half of 2020, compared with 25 shipments in the same period of the previous year. Four new systems were placed in the first half of 2020, due to the Company's new, more targeted strategy to promote the future adoption of Cellvizio in the U.S. gastroenterology market by focusing on clinicians specializing in upper endoscopy.
Shipments of consumable probes declined by 67% year-on-year in the first half of 2020 due to the global Covid-19 pandemic.

Clinical sales

Total clinical sales for the first half of 2020 amounted to €2 million, down 46% on the previous year. This was mainly due to a 66% decrease in sales in the Asia-Pacific region, a 66% decrease in sales in the EMEA and Rest of the World regions, and a 19% decrease in sales in the United States and Canada regions.

Pre-clinical sales

Preclinical sales totaled €51,000 in the first half of 2020, compared with €159,000 in the previous year. The 68% fall year-on-year in preclinical sales in the first half of 2020 is due to the Company's strategic focus on clinical sales opportunities.

First half 2020 consolidated results

Gross margin was 67% in the first half of 2020, compared with 63% in the first half of 2019. The change in gross margin is mainly due to an unfavorable sales mix in the first half of 2019.

Total operating expenses, including cost of sales, amounted to €9.4 million in the first half of 2020, compared with €11.1 million in the same period of the previous year. This amount includes €0.7 million in depreciation, amortization and provisions.

Total operating expenses (excluding cost of sales) in the first half of 2020 fell by €1.0 million, or 10.0% year-on-year, to €8.7 million, versus €9.7 million in the previous year. The fall in total operating expenses was primarily driven by:

- a decrease in commercial costs of €0.4 million, or 8.6% year-on-year, to €4.2 million, mainly as a result of cost reduction measures and the impact of the health crisis, which saw the cancellation of seminars and promotional events and a reduction in travel by the sales force;
- a decrease in R&D expenses of €0.6 million, or 28.8% year-on-year, to €1.5 million, due to cost reduction measures and a higher proportion of capitalized payroll (wages and salaries, social security costs) and external expenses as part of the project to launch GEN III in 2020 (in 2019, these costs were only capitalized from April);
- an increase in administrative expenses of €0.3 million, or 10.6% year-on-year, to €2.9 million, primarily due to an increase in consultants' and lawyers' fees (linked in particular to the drawdown of the 2nd instalment of the EIB loan);
- a decrease in share-based payments of €0.2 million, or 58.7% year-on-year, due to the free share and stock option plan in 2019.

Operating loss in the first half of 2020 period was €6.2 million, compared to €6.6 million last year. The operating loss was relatively unchanged due to the €1.1 million decrease in gross margin, offset by a €0.5 million increase in other income (Research Tax Credit and operating subsidies), and a €1.0 million reduction in operating expenses compared with the previous year.

Net loss in the first half of 2020 period was €6.7 million, compared to €8.1 million in the prior year period. The decrease in net loss was chiefly due to the fall in operating losses compared with the previous year, and the reduction in financial expenses, largely explained by the non-recurring financial expense of €1.7 million from the early repayment of the IPF Partners bond financing in the first half of 2019.

As of June 30, 2020, the Company had cash of €4.2 million, compared with a bank overdraft of €2.7 million as of June 30, 2019.

Cash used in operating and investing activities in the first half 2020 period totaled -€4.9 million, compared to -€4.8 million in the prior year period.

Mauna Kea Technologies had 95 employees as of June 30, 2020, compared to 100 as of December 31, 2019 and 99 as of June 30, 2019.

2. POSITION AND HIGHLIGHTS OF THE HALF-YEAR

Covid-19 pandemic

The Company has introduced various preventive measures to protect its employees' health during the Covid-19 pandemic. As of the date of the Board of Directors meeting, the Company asked its employees in France to prioritize working from home and to organize meetings and events remotely wherever possible. For those employees who need to be in the workplace, physical distancing measures and hygiene precautions are in place.

All measures proposed by the French government have been examined from a financial point of view. The Group has benefited in particular from employee partial employment payments and the deferral of social security contributions. BNP Paribas and Bpifrance have also approved €4 million in financing for the Group in the form of a government-backed loan.
In the United States, steps have been taken to secure additional funding (see section on New funding – Paycheck Protection Program).

The Covid-19 pandemic had a material impact on the Group's commercial activities in the first half of 2020, with an overall decrease of 47% on the previous year. Second-quarter trends for procedures and sales in the Group's main commercial markets worldwide were significantly affected by the global crisis triggered by the Covid-19 pandemic. The Group recorded a fall in sales of €1.6 million, down 72% on the second quarter of 2019. The decline in system sales accounted for half of this decrease, while the other half was due to the fall in demand for consumables.

Clinical results and conferences: the medical value of optical biopsy

New licenses

March 2020

On March 3, 2020, Mauna Kea Technologies obtained 510(k) clearance (K193416) from the United States Food and Drug Administration (FDA) and CE marking for the next-generation Cellvizio® endomicroscopy platform, developed with the Company's new proprietary system architecture. This marks the 18th U.S. FDA 510(k) clearance of the Cellvizio® pCLE/nCLE platform. The new Cellvizio platform features innovative modular design solutions to facilitate and further integrate endomicroscopy in operating theaters and in other manufacturers' platforms. The hardware and software of the new platform have been completely redesigned to accommodate future developments, including the integration of deep learning capabilities for assisted interpretation of endomicroscopic images. The new ergonomics and significantly reduced footprint of the new Cellvizio allow for easy integration with advanced navigation, robotics and laparoscopic surgery systems. The new platform is also capable of integrating with other proprietary endomicroscopic architectures, allowing imaging at other wavelengths for fluorescence-guided surgery and molecular imaging.

Gastroenterology

May 2020

Publication of a study by the Technology and Value Assessment Committee (TAVAC) of the Society of American Gastrointestinal and Endoscopic Surgeons (SAGES) on the safety and effectiveness of confocal laser endomicroscopy as a diagnostic tool for evaluating gastrointestinal pathologies. The article, entitled "SAGES TAVAC safety and efficacy analysis confocal laser endomicroscopy", was published in the international peer-reviewed journal *Surgical Endoscopy* (doi.org/10.1007/s00464-020-07607-3), the official publication of SAGES.

Pneumonology

June 2020

As part of the Group's collaboration with Johnson & Johnson's Lung Cancer Initiative (LCI), Dr. Christopher Manley, Director of the Department of Interventional Pulmonology and Assistant Professor of Medicine at the Fox Chase Cancer Center (FCCC) in Philadelphia, and Dr. Jouke T. Annema, Professor of Pulmonary Endoscopy at the University of Amsterdam Medical Centre, obtained FCCC approval to launch a pilot clinical trial combining nCLE and robotic navigational bronchoscopy using both Cellvizio® and the Monarch™ platform of Auris Health, Inc., one of Johnson & Johnson's medical device companies, for the diagnosis of peripheral lung nodules. The trial will be co-funded by Johnson & Johnson's LCI and Mauna Kea Technologies (Clinicaltrials.gov: NCT04441749). The main aim of the trial is to assess the feasibility and safety of nCLE during robotic navigational bronchoscopy in the evaluation of peripheral lung lesions. This study will involve 25 patients presenting peripheral nodules.

Indebtedness

On April 17, 2020, the Company received confirmation from the EIB that it could draw down the second instalment of €6 million under the agreement. The funds were released on July 8, 2020 (see Section 4 – Subsequent events).

On April 20, 2020, the Company received, through its subsidiary Mauna Kea Inc., payment of a €0.6 million forgivable loan under the United States Paycheck Protection Program. Having reasonable assurance as of June 30, 2020 that the criteria for forgiveness will be met, and in accordance with IAS 20, this loan is treated as a government grant and is presented under Other income in the income statement.

3. DEVELOPMENT AND PROSPECTS

In 2020/2021, the Company will concentrate on continuing to grow sales of Cellvizio consumables in the U.S. gastroenterology market, while continuing to roll out the Cellvizio system to new clinicians in U.S. hospitals specializing in this field. Mauna Kea has a major opportunity to penetrate the U.S. gastroenterology market and is assessing its next clinical indication to determine where the commercial focus should be. In 2019, we began the process of assessing the commercial potential of our Cellvizio system in the interventional pulmonology market. The work done so far in interventional pulmonology is extremely encouraging, confirming the commercial potential of this field and resulting in a new collaboration with Johnson & Johnson's Lung Cancer Initiative (LCI) last December. The work will continue in 2020/2021.

4. EVENTS OCCURRING SINCE THE END OF THE HALF-YEAR PERIOD

On July 8, 2020, in accordance with the loan agreement amended on June 19, 2020, the Company received the 2nd instalment for the amount of €6 million. This second instalment will bear annual interest of 3% and capitalized interest of 4%, payable in 5 years with the principal. It is also accompanied by the issuance of share subscription warrants (BSAs) entitling the holder, if the warrants are exercised, to subscribe for a maximum of 500,000 shares of the Company (i.e. 1.6% of the share capital on a non-diluted basis). These warrants were issued on the basis of the twenty-fourth resolution adopted by the Combined General Meeting of July 2, 2020. The exercise price of the warrants is equal to the volume weighted average of the last three trading days preceding their issue, less a 5% discount. Once issued, the warrants may be exercised until July 3, 2039.

On July 17, 2020, the Company announced that BNP Paribas and Bpifrance had approved €4 million in financing in the form of a government-backed loan. BNP Paribas and Bpifrance will each lend €2 million at fixed interest rates of 0.25% and 1.75%, respectively. These non-dilutive loans will be 90% guaranteed by the French government (ministerial decrees of March 23 and April 17, 2020 granting the State guarantee to credit institutions and financial companies, pursuant to Article 6 of Law No. 2020-289 of March 23, 2020). Each loan has an initial term of one year. At the end of the first year, the Company may choose to defer repayment of the principal for up to five years.

5. RISKS AND UNCERTAINTIES - TRANSACTIONS WITH RELATED PARTIES

The risks faced by the Company are described in Chapter 4 "Risk Factors" of the Company's 2019 Universal Registration Document.

Relationships with related parties are covered in Note 22 to the 2020 half-yearly financial statements.

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Consolidated financial statements prepared in accordance with IFRS as of June 30, 2020

STATEMENT OF FINANCIAL POSITION
(Amounts in thousands of euros)

	Note	06/30/2020	12/31/2019
ASSETS			
Non-current Assets			
Intangible assets	3	2 788	2 343
Property, plant and equipment	4	1 993	1 956
Right of use	4	1 627	1 370
Non-current financial assets	5	319	173
Total of non-current assets		**6 727**	**5 842**
Current assets			
Inventories & Work in progress	6	2 828	2 592
Trade receivables	7	1 672	2 444
Other current assets	7	2 083	2 701
Current financial assets	5	89	59
Cash and cash equivalents	8	4 211	9 982
Total of current assets		**10 884**	**17 778**
TOTAL OF ASSETS		**17 611**	**23 621**

	Note	06/30/2020	12/31/2019
EQUITY AND LIABILITIES			
Equity			
Issued capital	9	1 223	1 223
Share premium	9	98 265	98 257
Reserves		(99 047)	(84 130)
Foreign currency translation on reserve		178	176
Profit / (Loss)		(6 712)	(15 272)
Total of equity		**(6 093)**	**253**
Non-current Liabilities			
Long-term loans	10	16 094	15 499
Non-current provisions	11	308	299
Total of non-current liabilities		**16 402**	**15 799**
Current liabilities			
Short-term loans and borrowings	10	1 621	1 916
Trade payables		1 938	2 275
Other current liabilities	12	3 744	3 380
Total of current liabilities		**7 303**	**7 570**
TOTAL OF EQUITY AND LIABILITIES		**17 611**	**23 621**

COMPREHENSIVE INCOME
(Amounts in thousands of euros)

	Note	06/30/2020	06/30/2019
Operating Revenue			
Sales	**14**	2 100	3 937
Other income	**14**	1 064	576
Total of revenue		**3 164**	**4 512**
Operating expenses			
Cost of sales		(688)	(1 468)
Gross margin		*67%*	*62,7%*
Research & Development	**16**	(1 460)	(2 050)
Sales & Marketing	**16**	(4 199)	(4 597)
Administrative expenses	**16**	(2 852)	(2 578)
Share-based payments	**9**	(184)	(432)
Total of expenses		**(9 383)**	**(11 126)**
Current operating profit		**(6 219)**	**(6 614)**
Financial revenue	**17**	13	274
Financial expenses	**17**	(505)	(1 756)
Profit before tax		**(6 712)**	**(8 097)**
Income tax expense	**18**		
Profit / (Loss)		**(6 712)**	**(8 097)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial differences on defined benefit plans	**11**	(1)	28
Total of items that will not be reclassified to profit or loss		**(1)**	**28**
Items that will be reclassified to profit or loss			
Exchange differences on translation of foreign operations		2	18
Total of items that will be reclassified to profit or loss		**2**	**18**
Other comprehensive income for the year, net of tax		**1**	**47**
Comprehensive income		**(6 710)**	**(8 051)**
Weighted average number of shares outstanding (in thousands)		30 511	25 201
Basic earnings per share (EUR / share)	**20**	**(0,22)**	**(0,32)**
Weighted average number of potential shares (in thousands)		35 195	30 944

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	**12/31/2018**	**1 008**	**91 753**	**(219)**	**(71 853)**	**74**	**(12 785)**	**7 979**
Allocation of the profit / (loss)					(12 785)		12 785	
Capital transactions			20					20
Share-based payment transactions					432			432
Treasury shares transactions				(9)	4			(5)
Comprehensie income as of	06/30/2019				28	18	(8 097)	(8 051)
Equity as of	**06/30/2019**	**1 008**	**91 773**	**(228)**	**(84 218)**	**93**	**(8 097)**	**331**
Restated equity as of	**12/31/2019**	**1 223**	**98 257**	**(188)**	**(83 943)**	**176**	**(15 272)**	**253**
Allocation of the profit / (loss)					(15 272)		15 272	
Capital transactions			8					8
Share-based payment transactions					184			184
Treasury shares transactions				113	59			171
Comprehensie income as of	06/30/2020				(1)	2	(6 712)	(6 710)
Equity as of	**06/30/2020**	**1 223**	**98 265**	**(75)**	**(98 972)**	**178**	**(6 712)**	**(6 093)**

CASH-FLOW STATEMENTS
(Amounts in thousands of euros)

	Note	06/30/2020	06/30/2019
Cash flow from operating activities			
Profit / (Loss)		(6 712)	(8 097)
Elimination of amortization, depreciation and provisions		700	692
Share-based payment transaction expense and revenue	**9**	184	432
Other items excluded from the auto-financing capacity		436	2 025
Revenue and expenses related to the discounting of repayable advances	**10**	*43*	*1*
Revenue and expenses related to the bonds	**10**	*384*	*(140)*
Net financial interests	**10**	*20*	*2 143*
Other non-cash items		*(11)*	*22*
Auto-financing capacity		**(5 391)**	**(4 948)**
Change in WCR related to business activities		1 381	820
Inventories & work in progress	**6**	*(26)*	*92*
Trade receivables	**7**	*776*	*(378)*
Other current assets	**7**	*647*	*1 279*
Trade payables		*(335)*	*(366)*
Other current liabilities	**12**	*318*	*193*
Net cash flows from operating activities (A)		**(4 011)**	**(4 128)**
Cash flow from investing activities			
Purchase of property, plant and equipment and intangible assets	**3/4**	(908)	(682)
Proceeds from sale of property, plant and equipment and intangible assets		1	
Change in loans and advances granted		15	(38)
Net cash flows from investing activities (B)		**(892)**	**(720)**
Cash flow from financing activities			
Proceeds from exercise of share options	**9**		20
Reimbursments - IPF loan			(4 000)
Fees on reimbursments - IPF loan			(1 789)
Reimbursment of debt on leases (IFRS 16)	**10**	(276)	(192)
Other financial interests paid	**10**	(21)	(503)
Financing of Tax Research Credit	**10**	(565)	
Other cash flows from financing operations		(16)	
Net cash flows from financing activities (C)		**(878)**	**(6 464)**
Net foreign exchange difference (D)		9	6
Change in cash (A) + (B) + (C) + (D)		**(5 771)**	**(11 306)**
Cash at the beginning of the period	**8**	9 982	8 623
Cash at the end of the period	**8**	4 211	(2 683)
Change in cash		**(5 771)**	**(11 306)**

NOTES TO THE FINANCIAL STATEMENTS

HIGHLIGHTS OF THE HALF-YEAR

New licenses

On March 3, 2020, Mauna Kea Technologies obtained 510(k) clearance (K193416) from the United States Food and Drug Administration (FDA) and CE marking for the next-generation Cellvizio® endomicroscopy platform, developed with the Company's new proprietary system architecture. This marks the 18th U.S. FDA 510(k) clearance of the Cellvizio® pCLE/nCLE platform.

The new Cellvizio platform features innovative modular design solutions to facilitate and further integrate endomicroscopy in operating theaters and in other manufacturers' platforms.
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New funding

On April 17, 2020, the Company received confirmation from the EIB that it could draw down the second instalment of €6 million under the agreement. The funds were released on July 8, 2020 (see Note 23 Subsequent events).

On April 20, 2020, the Company received, through its subsidiary Mauna Kea Inc., payment of a €0.6 million forgivable loan under the United States Paycheck Protection Program. Having reasonable assurance as of June 30, 2020 that the criteria for forgiveness will be met, and in accordance with IAS 20, this loan has been deemed to be a government grant and is presented under Other income in the income statement.

Covid-19 pandemic

The Company has introduced various preventive measures to protect its employees' health during the Covid-19 pandemic. As of the date of the Board of Directors meeting, the Company asked its employees in France to prioritize working from home and to organize meetings and events remotely wherever possible. For those employees who need to be in the workplace, physical distancing measures and hygiene precautions are in place.

All measures proposed by the French government have been examined from a financial point of view. The Group has benefited in particular from employee partial employment payments and the deferral of social security contributions. BNP Paribas and Bpifrance have also approved €4 million in financing for the Group in the form of a government-backed loan.
In the United States, steps have been taken to secure additional funding (see section on New funding - Paycheck Protection Program).

The Covid-19 pandemic had a material impact on the Group's commercial activities in the first half of 2020, with an overall decrease of 47% on the previous year. Second-quarter trends for procedures and sales in the Group's main commercial markets worldwide were significantly affected by the global crisis triggered by the Covid-19 pandemic. The Group's sales fell €1.6 million in the second quarter, down 72% on the second quarter of 2019. The decline in system sales accounted for half of this decrease, while the other half was due to the fall in demand for consumables.

Note 1: Accounting principles

1.1 Accounting principles applied by the Group

The financial statements are presented in thousands of euros.

The condensed consolidated financial statements of the first half-year 2020, approved by the Board of Directors' meeting on September 21, 2020, have been prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

The Board of Directors applied the going concern assumption taking into account:
- the drawdown of the second instalment of €6 million under the EIB financing agreement, disbursed in July 2020
- the drawdown of a €4 million loan guaranteed by the French government from BNP Paribas and Bpifrance, disbursed in July and August 2020
- the granting of a repayable advance and a PERSEE grant of €0.5 million

- future sales outlook: at the end of the second quarter 2020, the Group saw a marked improvement in its underlying business trends with the lifting of restrictions and the reopening of some facilities; the volume of procedures in the United States in particular returned to pre-Covid levels in June. Nevertheless, the Group is closely monitoring the situation with regard to the health crisis and could lower its sales forecasts in the event of a second wave.

These elements should cover the Group's cash requirements until June 30, 2021. The Company intends also to implement the appropriate financing solutions to cover its cash requirements beyond that date.

Since they are condensed financial statements, the half-year consolidated financial statements do not include all the financial disclosures required in a full set of annual financial statements. They should therefore be read in conjunction with the Group's financial statements for the year ended December 31, 2019, subject to the specific characteristics for the preparation of interim financial statements, described below.

1.2 Significant accounting policies

Apart from the specific aspects of preparing interim financial statements set out in Note 1.3 "Basis of preparation of half-year financial statements", the significant accounting policies used are the same as those used for the preparation of the consolidated financial statements for the financial year ended December 31, 2019.

1.2.1 New standards and interpretations for mandatory application from January 1, 2020

- Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors"
- Amendments to IFRS 3
- Amendments to conceptual framework references in IFRS
- Amendment to IFRS 7 and IFRS 9

The first-time application of these amendments does not have a material impact on the Group.

1.2.2 Standards and interpretations published by IASB but not yet adopted by the European Union

The Group has not opted for the early application of the standards and interpretations published by IASB but not yet adopted by the European Union as of June 30, 2020, in particular:

- Amendments to IAS 1 "Presentation of financial statements"
- Amendments to IFRS 16 "Leases"
- IFRS 17 "Insurance contracts".

No material impact is expected as a result of the application of these standards.

1.2.3 Significant accounting estimates and judgments

Estimates and judgments made by management when applying the accounting policies described above are based on historical information and other factors, notably the anticipation of future events judged to be reasonable in light of circumstances. These estimates and judgments are primarily the following:

Valuation of stock warrants, stock options and preferred stock
The fair value of stock warrants and stock options granted to employees or service providers is measured on the basis of actuarial models. These models rest on certain calculation assumptions such as the expected volatility of the security.

Valuation of the Research Tax Credit
Income from the Research Tax Credit is measured using the methods detailed in Note 1.17 "Other income – Research Tax Credit" to the Group's financial statements at December 31, 2019.

Valuation of the long-term intangible assets
The value in use of intangible assets is measured on the basis of assumed sales growth and a discount rate that reflect the best estimates of management.

Covid-19 pandemic
The Group has assessed the impact of the uncertainties caused by the Covid-19 pandemic. As of June 30, 2020, these uncertainties did not materially affect the estimates and judgments used by Management.

The Group will continue to update those estimates and assumptions as the situation evolves.

The final amounts may differ from those estimates.

1.3 Basis of preparation of the interim financial statements

1.3.1 Taxes

The half-year income tax expense is calculated for each country based on an estimated average effective rate calculated on an annual basis and applied to the country's half-year profit. Where applicable, this estimate takes into account the use of tax loss carry forwards and whether or not they have been recognized.

No income tax expense was recorded at June 30, 2020.

1.3.2 Impairment tests

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

As mentioned in the section on highlights for the half-year period, the Covid-19 pandemic had a material impact on the Group's commercial activities in the first half of 2020, with an overall decline of 47% compared with June 30, 2019. This disclosure is an indication of impairment loss under IAS 36. An impairment test was performed as of June 30 according to the method described below.

An impairment loss is recognized to the extent that the carrying amount exceeds 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 Company's intangible assets, there are no market data that allow the net fair value of the costs of sale to be determined other than by an estimation of future cash flows. Consequently, the recoverable amount is essentially 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 estimated future cash flows expected from the continued use of the assets and their disposal at the end of the intended use by the business. It does not take into account the impact of the financial structure, tax effects, or restructuring efforts not undertaken.

The recoverable amount must be estimated for each individual asset. If this is not possible, IAS 36 requires a company to determine the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. Only one cash-generating unit has been defined at Group level. It is therefore at Group level that this impairment test was performed.

This value is based on the discounted cash flow method over a period of 5 years and using a terminal value calculated on the basis of an updated standard flow with a growth of 3%.

The future cash flows over the period 2021 to 2025 are based on the following assumptions:

- An average sales growth rate broken down by geographic area and by distribution model (pay-per-use, direct sales of systems, sales to distributors)
- A constant margin rate taking into account the cost of products sold depending on the type and generation of the products
- A constant distribution of expenses by type (R & D, Sales & Marketing and Administrative Expenses)
- Investments (including systems made available through the pay-per-use program in the United States)

The work carried out as of June 30, 2020 did not lead to recognition of an impairment loss.

Sensitivity tests were carried out on sales growth rate assumptions. A 5% decrease in sales forecasts would not entail the recognition of further impairment.

1.3.3 Pension plan provision

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

	06/30/2020	12/31/2019
% social security expenses	47%	47%
Salary increases	2%	2%
Discount rate	1,14%	1,17%

- Retirement age: 65;
- Terms of retirement: voluntary retirement;
- Mortality table: INSEE 2018;
- Collective agreement: metal industries;
- Turnover: high and digressive based on age.

The Company does not finance its pension plan provision. The discount rate benchmark is the iBoxx Corporate AA10+. No retirements took place in the first half 2020.

1.3.4 Operating subsidies

In accordance with IAS 20, government grants, including non-monetary grants at fair value, are not recognized until there is reasonable assurance that:
- the entity will comply with the conditions attaching to them; and
- the subsidies will be received.

Government grants are recognized in income on a systematic basis over the periods necessary to link them to the costs they are intended to compensate.

In the case of government grants intended to compensate items in the income statement by means of a loan at a preferential rate of interest, and where that rate is final, the savings resulting from the preferential rate are treated as an operating subsidy and are recognized as a deduction from expenses or in income, depending on the terms of the financing agreement.

The Group presents these operating subsidies under Other income in the income statement.

During the first half of 2020, the Group received support from the French and U.S. Governments in view of the downturn caused by the Covid-19 pandemic.

In France, the government financed €90,000 of the partial employment payments made to employees.

In the United States, the Group secured a €0.6 million forgivable loan through its subsidiary Mauna Kea Inc., subject to the following conditions:
- maintaining headcount and salary levels for the period stipulated in the agreement;
- use of the funds to cover expenses at least 75% composed of payroll costs.

Having reasonable assurance as of June 30, 2020 that the criteria for forgiveness will be met, this loan has been deemed to be a government grant to offset operating expenses and is therefore presented under Other income in the income statement.

Note 2: Company and scope

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

As part of its development in the United States, the Company created Mauna Kea Technologies Inc. on January 3, 2005.

Entities	06/30/20		12/31/19		Consolidation method
	% of interests	% of control	% of interests	% of control	
Mauna Kea Technologies SA (1)	100%	100%	100%	100%	Fully consolidated
Mauna Kea Technologies Inc	100%	100%	100%	100%	Fully consolidated

(1) Group's parent company

No change in scope took place during the period.

Note 3: Intangible assets

The changes in intangible assets break down as follows:

INTANGIBLE ASSETS
(Amounts in thousands of euros)

	12/31/2019	Increase	Decrease	Reclassification	06/30/2020
Development costs	3 623				3 623
Patents, licenses and trademarks	1 791	8			1 798
Software packages	924	10			934
Development costs in progress	838	585			1 423
Patents, licenses and trademarks in progress	498	4	(43)		459
Total gross of intangible assets	**7 675**	**606**	**(43)**		**8 238**
Amort. / dep. of development costs	(3 621)	(3)			(3 623)
Amort. / dep. of patents, licenses and trademarks	(1 050)	(69)			(1 119)
Amort. / dep. of software packages	(661)	(46)			(707)
Total amort. / dep. of Intangible assets	**(5 332)**	**(118)**			**(5 450)**
Total net of Intangible assets	**2 343**	**488**	**(43)**		**2 788**

The GEN III system development costs were capitalized for the first time in 2019 for the amount of €838 thousand.

Since March 2019, these costs have fulfilled the capitalization criteria pursuant to IAS 38:
- the technical feasibility of the intangible asset for use or sale;
- its intention to complete the asset and its ability to use or sell it;
- the fact that this asset will generate future economic benefits;
- the existence of resources available to complete the development and;
- its ability to reliably assess the expenditures incurred for the development project.

As of June 30, 2020, an additional €585 thousand had been capitalized for the development of this new system.

Following the impairment test carried out as of June 30, 2020, no impairment loss was recognized.

Note 4: Property, plant, and equipment

The changes in property, plant and equipment break down as follows:

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

	12/31/2019	Increase	Decrease / Scrapping	Exchange differences	Reclassification	06/30/2020
Industrial equipment	3 595	48		6		3 648
Fixture in buildings	51					51
Other tangible assets	1 461	297	(2)	1		1 757
Total gross of Property, plant and equipment	**5 107**	**345**	**(2)**	**6**		**5 457**
Amort. / dép. du matériel industriel	(2 017)	(256)		(6)		(2 278)
Amort. / dep. of fixture in buildings	(51)					(51)
Amort. / dep. of other tangible assets	(1 083)	(52)	1			(1 135)
Total amort. / dep. of Property, plant and equipment	**(3 151)**	**(307)**	**1**	**(6)**		**(3 464)**
Total net of Property, plant and equipment	**1 956**	**37**	**(1)**	**(0)**		**1 993**
Right of use	4 598	524	(55)	1		5 067
Amort. / dep. of right of use	(3 228)	(267)	55			(3 440)
Total net of Right of use	**1 370**	**257**		**1**		**1 627**

The increase in the rights-of-use is due to the revaluation of lease payments for premises in France in line with the performance of real estate indexes, and to the extension of two real estate leases.

Note 5: Financial assets

Non-current financial assets as of June 30, 2020 include security deposits paid under operating leases for €187 thousand, and collective holdbacks relating to the sale of receivables from the 2017/2018/2019 Research Tax Credit for €131 thousand.

Current financial assets correspond to the cash balance of the securities account opened under the Company's liquidity contract held with Gilbert Dupont, which amounted to €36 thousand as of June 30, 2020, and to the individual holdback relating to the sale of receivables from the 2019 Research Tax Credit for €53 thousand.

Note 6: Inventories and work in progress

The inventories and work in progress break down as follows:

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

	06/30/2020	12/31/2019
Inventories of raw materials	1 731	1 212
Inventories & work in progress of finished goods	1 317	1 547
Total gross of inventories & work in progress	**3 048**	**2 760**
Dep. of inventories of raw material	(115)	(79)
Dep. of inventories & work in progress of finished goods	(105)	(89)
Total dep. of inventories & work in progress	**(220)**	**(168)**
Total net of inventories & work in progress	**2 828**	**2 592**

Note 7: Trade receivables and other current assets

7.1 Trade receivables

TRADE RECEIVABLES
(Amounts in thousands of euros)

	06/30/2020	12/31/2019
Trade receivables	2 404	3 185
Dep. of trade receivables	(732)	(740)
Total net of trade receivables	**1 672**	**2 444**

The allowance for doubtful receivables covers 30% of the gross value of receivables as of June 30, 2020, compared with 23% as of December 31, 2019.

Receivables as of June 30, 2020 break down as follows:

DATE OF PAYMENT FOR TRADE RECEIVABLES
(Amounts in thousands of euros)

	06/30/2020	Less than a year	Over a year
Trade receivables	2 404	1 657	747
Dep. of trade receivables	(732)	(117)	(615)
Total net of trade receivables	**1 672**	**1 540**	**132**

7.2 Other current assets

Other current assets break down as follows:

OTHER CURRENT ASSETS
(Amounts in thousands of euros)

	06/30/2020	12/31/2019
Staff and related accounts	10	18
Research Tax Credit	1 405	1 894
Other tax receivables	289	305
Other receivables	111	355
Prepaid expenses	270	128
Total gross of other current assets	**2 083**	**2 701**
Dep. of other current assets		
Total net of other current assets	**2 083**	**2 701**

The change in the receivable linked to the Research Tax Credit and the Innovation Tax Credit is as follows:

CHANGES IN RESEARCH AND INNOVATION TAX CREDIT RECEIVABLES
(Amounts in thousands of euros)

	12/31/2019	Operating revenue	Payment received	Other	06/30/2020
Research and Innovation Tax Credit	2 138	337	(1 097)	27	1 405

The Research Tax Credit and Innovation Tax Credit for the first half of 2020 were estimated at €337 thousand, compared with €576 thousand as of June 30, 2019.

The payment received as of June 30, 2020 for €1,097 thousand corresponds to the reimbursement by the tax authority of the 2018 Research Tax Credit. The amount remaining in the balance sheet corresponds to the 2019 Research Tax Credit and the estimated amount of the Research Tax Credit and Innovation Tax Credit for the first half of 2020.

Other tax receivables are related to deductible VAT and a requested VAT reimbursement totaling €271 thousand compared to €236 thousand at December 31, 2019.

Other receivables mainly included advances to suppliers amounting to €104 thousand compared to €194 thousand at December 31, 2019.

Note 8: Cash and cash equivalents

Cash and cash equivalents break down as follows:

CASH AND CAHS EQUIVALENTS
(Amounts in thousands of euros)

	06/30/2020	12/31/2019
Short-term bank deposits	4 211	9 982
Total of cash and cash equivalents	**4 211**	**9 982**

Note 9: Share capital

9.1 Issued capital

The share capital is set at one million two hundred twenty-two thousand eight hundred sixty-nine euros and sixty cents (€1,222,869.60). It is divided into 30,571,740 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 (SOs) granted to certain investors and natural persons, who may or may not be employees of the Company, and free performance share units (PSUs).

The table below shows the history of the Company's share capital since January 1, 2020:

Type of transaction	Issued capital (€K)	Share premium (€K)	Number of shared comprising the issued capital (K)
As of December 31, 2019	1,223	98,257	30,571
Others	0	8	0
Total	**1,223**	**98,265**	**30,571**

9.2 Share purchase warrants and stock options

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, 2019 are represented below.

Share-based payments

Type	Date of granting	Exercise price	Outstanding at 12/31/2019	Number of shares	Exercised	Cancelled	Outstanding at 06/30/2020	Potential number of shares
Options granted before January 1st, 2020			3 968 709			515 382	3 453 327	4 655 667
SO	03/24/2020	0,98 €	15 000				15 000	15 000
AP	04/27/2020		100				100	10 000
				0	0	515 382	3 468 427	4 680 667

Share-based payment expenses increased by €248 thousand, from €432 thousand in June 2019 to €184 thousand as of June 30, 2020.

The other main assumptions used to determine share-based payment expenses using the Black-Scholes valuation model were as follows:

- Risk-free interest rate: Government borrowing rate (GFRN index),

- Dividend: none,
- Turnover: 15%,
- Volatility: 60% for warrants, founders' warrants and stock options granted before December 31, 2011, 35% for founders' warrants and stock options granted in 2012, 34% for founders' warrants and stock options granted in 2013, 32% and 33% for plans granted in 2014, 33% for plans granted in 2015, 29.99% for plans granted in 2016, 55% for plans granted in 2017, 59% for plans granted in 2018, 50% for plans granted in 2019 and 40% for plans granted in 2020.

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

The exercise price, estimated life and fair value of underlying shares at the award date of the warrants were used to value each category of share-based compensation.

9.3 Treasury shares as of June 30, 2020

As of June 30, 2020, the Company held 58,471 Mauna Kea Technologies shares acquired at an average price of €1.282 representing an amount of €74,959.82.

Note 10: Loans and borrowings

The changes in loans and borrowings break down as follows:

CHANGES IN FINANCIAL DEBTS

(Amounts in thousands of euros)

	12/31/2019	Receipt	Repayment	Capitalized interests	Other	06/30/2020
Repayable advance BPI (ex Oseo)	3 423			43		3 466
Lease liability IFRS 16	1 390	524	(276)		2	1 640
Loan BEI	10 616			392		11 008
Warrants BEI	522				(8)	514
Research & Innovation Tax Credit financing	1 442	532	(1 097)		191	1 068
Other	22					22
Total of financial debts	**17 415**	**1 056**	**(1 374)**	**435**	**185**	**17 717**

The breakdown between non-current and current borrowings as of June 30, 2020 is as follows:

CHANGES IN NON CURRENT FINANCIAL DEBTS

(Amounts in thousands of euros)

	12/31/2019	Receipt	Repayment	Capitalized interests	Other	06/30/2020
Repayable advance BPI (ex Oseo)	3 423			43		3 466
Lease liability IFRS 16	916	524			(354)	1 086
Loan BEI	10 616			392		11 008
Warrants BEI	522				(8)	514
Other	22					22
Total of non current financial debts	**15 499**	**524**		**435**	**(362)**	**16 095**

CHANGES IN CURRENT FINANCIAL DEBTS

(Amounts in thousands of euros)

	12/31/2019	Receipt	Repayment	Capitalized interests	Other	06/30/2020
Lease liability IFRS 16	474		(276)		356	553
Research & Innovation Tax Credit financing	1 442	532	(1 097)		191	1 068
Total of non current financial debts	**1 916**	**532**	**(1 374)**		**547**	**1 621**

10.1 Advances from BPI (formerly OSEO Fi)

On May 31, 2010, Mauna Kea Technologies obtained a repayable innovation loan in the amount of €3,416 thousand from OSEO as part of the PERSEE project. The PERSEE project aims to develop, validate and then market a device capable of improving diagnostic and preoperative assessment techniques for cancer patients. The first payments of the loan were 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,
- Fourth payment of €626 thousand on December 22, 2016,

The fifth payment of €512 thousand has been delayed and should be received following the last key stage corresponding to the presentation of the clinical trial results. The advances granted carry interest at a rate of 2.45%.

The 2010 contract between Oseo, now BPI France, and the Company stipulates that the first repayment should take place once sales of €2,500 thousand on new products are reached.

The total amount repayable, based on the proposed new repayment schedule, will be €4,961 thousand, including capitalized expenses.
If no repayment occurs within 10 years of the first aid payment, Mauna Kea will be released from any obligation to pay a financial return.

In addition, if the cumulative sales amount is greater than €50,000 thousand, 2% of the sales generated must be paid over fifteen years.

In addition, the specific contract between BPI France (formerly Oseo) and Mauna Kea stipulates in Article 4.3 that in the event of a failure by the company to comply with any of its obligations as listed in the contract, of any irregular tax and social security situation, of inaccurate or false declarations, of a contribution, merger, demerger, transfer of control or of assets of the Company, Mauna Kea SA must repay in advance the discounted value.

10.2 Loans

Following the financing agreement with the European Investment Bank (EIB) signed on June 20, 2019 for €22.5 million, the Company received the first instalment for a net amount of €11.5 million on July 3, 2019, and the second one of €6 million on July 8, 2020.
The third and final instalment of €5 million will be available subject to achieving certain milestones.

The first instalment includes the issuance of share subscription warrants (BSAs) entitling the holder, in the event of exercise, to subscribe for a maximum of 1,450,000 shares of the Company (i.e. 5.75% of the share capital on a non-diluted basis) subject to the legal and contractual adjustments provided for in the documentation. These warrants were issued on the basis of the fourth resolution (private placement) adopted by the Extraordinary General Meeting of October 5, 2018. The exercise price of the warrants is equal to the weighted average of the volumes of the last three trading days preceding their issue, less a 5% discount, i.e. €1.8856 per warrant. The warrants (BSA) may be exercised until the twentieth anniversary of their issuance, i.e. July 3, 2039.

This issuance has been analyzed according to IFRS 9 criteria and has led to the recognition of a derivative instrument measured at fair value as of the grant date. It is then remeasured at each reporting date with a corresponding adjustment in profit/(loss).

As of June 30, 2020, the derivative had been restated for €514 thousand on the basis of the following assumptions:

- theoretical maturity: 19 years
- probable maturity: 5 years

- volatility: 50% in 5 years and 40% in 19 years
- repo: 2.5% per annum
- reference price: €1.36

The change in value of €7 thousand between December 31, 2019 and June 30, 2020 is recognized in net financial income.

10.3 Sale of the Research Tax Credit/Innovation Tax Credit receivable

The liability relating to the sale of the Research Tax Credit/Innovation Tax Credit receivable amounted to €1,068 thousand as of June 30, 2020.

The increase in the liability of €532 thousand over the period corresponds to the sale of the additional 2019 Research Tax Credit receivable. In April 2020, the Group also received the reimbursement from the tax authority of the 2018 Research Tax Credit receivable for €1,097 thousand.

The residual carrying amount corresponds to the total 2019 Research Tax Credit receivable.

Note 11: Non-current provisions

NON-CURRENT PROVISIONS
(Amounts in thousands of euros)

	12/31/2019	Allowance	Unused reversals	Used reversals	Others	06/30/2020
Pension plan provision	234	20	(12)		1	243
Provision for personnel dispute	65					65
Total of non-current provisions	**299**	**20**	**(12)**			**308**

Note 12: Other current liabilities

Other current liabilities break down as follows:

OTHER CURRENT LIABILITIES
(Amounts in thousands of euros)

	06/30/2020	12/31/2019
Tax payables	186	113
Satff and social security payables	2 765	2 514
Other current payables	69	(0)
Deferred revenue	725	752
Total of other current liabilities	**3 745**	**3 380**

Tax liabilities mainly relate to payroll taxes, sales tax and value added tax.

Payroll-related liabilities represent provisions for paid leave, provisions for bonuses and commissions and social security contributions. The increase compared with December 31, 2019 is mainly due to the deferral of social security contributions obtained as part of the measures proposed by the French government in response to the Covid-19 pandemic.

Deferred income essentially comprises maintenance contracts on systems sold (maintenance periods of one to three years).

Note 13: Financial instruments on balance sheet

As of June 30th, 2020	Value on the Balance sheet	Fair value through profit or loss	Fair value through equity	Loans and receivables	Debt at amortized cost
Assets					
Non-current financial assets	319			319	
Trade receivables	1 672			1 672	
Other current assets (1)	2 083			2 083	
Current financial assets	89			89	
Cash	4 211	4 211			
Total of assets	**8 375**	**4 211**		**4 164**	
Liabilities					
Long-term loans and borrowings	16 094	514			15 580
Short-term loans and borrowings	1 621				1 621
Trade payables	1 938				1 938
Other current liabilties (1)	3 020				3 020
Total of liabilties	**22 673**	**514**	**0**	**0**	**22 159**

(1) Advances paid and received that are not repaid in cash, and deferred income and prepaid expenses that do not meet the definition of financial liabilities, are not included.

Note 14: Sales and operating revenue

Sales and operating revenue consist of the following:

SALES AND OPERATING REVENUE
(Amounts in thousands of euros)

	06/30/2020	06/30/2019
Sales	2 100	3 937
Operating subsidies	727	
Research Tax Credit and other tax credit	337	576
Total of revenues	**3 164**	**4 512**

The Group's sales, comprising the sale of Cellvizio® products and accessories (probes, software packages, etc.) as well as the provision of services, decreased by 47% during the first half year 2020 compared to the first half year 2019. The trends for the first half of the year, and specifically the second quarter, concerning procedures and sales in the Group's main commercial markets worldwide, were significantly affected by the global crisis triggered by the Covid-19 pandemic.

Operating subsidies include:
- partial employment payments made by the French government to help companies through the Covid-19 pandemic, in the amount of €90 thousand;
- the €0.6 million forgivable loan under the United States Paycheck Protection Program. As of June 30, 2020, the Group had reasonable assurance that the criteria for forgiveness of the loan will be met. Therefore, in accordance with IAS 20, this loan is presented as an operating subsidy (see Note 1.3.4 Operating subsidies)

The change in tax credits compared with the first half of 2019 is mainly due to fewer hours being spent on projects eligible for the Research Tax Credit in 2020.

SALES BY TYPE OF PRODUCT
(Amounts in thousands of euros)

	06/30/2020	06/30/2019
Total sales of "equipements"	557	1 349
Total sales of "consumables" (probes)	982	2 063
Including "pay-per-use" program	*528*	*801*
Total sales of "services"	560	525
Total of sales by type	**2 100**	**3 937**

The decline in sales in the first half of 2020 was mainly driven by the 52% decrease in consumables and the 59% decrease in system sales.

Sales by geographical area as of June 30, 2020 break down as follows:

SALES BY GEOGRAPHICAL AREA

(Amounts in thousands of euros)

	06/30/2020	06/30/2019
EMEA (Europe, Middle-east, Africa)	260	560
including France	76	*129*
America	1 321	1 629
including USA	1 321	1 629
Latin America (1)		250
Asie	519	1 497
including China	*477*	*1 421*
including Japan	*9*	*34*
Total sales by geographical area	**2 100**	**3 687**

(1) Since January 1, 2020, sales for Latin America, which are non-material, have been included in the EMEA region (€9 thousand as of June 30, 2020)

For the purposes of geographical analysis, the management of the Group allocates sales revenue according to the place of delivery, or, in the case of services, according to the location of the customer's registered office.

The decline in sales during the first half of 2020 breaks down as a 65% decrease in the Asia-Pacific region, a 19% decrease in the United States and Canada regions, and a 68% decrease in the EMEA and Rest of the World regions.

As of June 30, 2020, one of the Group's distributors in the APAC area accounted for 23% of sales revenue.

Note 15: Employee benefits expense

The Group employed 95 people as of June 30, 2020 compared with 99 as of June 30, 2019.

The employee benefits expense breaks down as follows:

EMPLOYEE BENEFITS EXPENSE

(Amounts in thousands of euros)

	06/30/2020	06/30/2019
Wages and salaries, social security costs	5 400	6 030
Net pension costs variation	8	50
Share-based payment transaction expenses	184	432
Total of employee benefits expense	**5 591**	**6 512**

Note 16: External expenses

16.1 Research & Development Department

RESEARCH & DEVELOPMENT

(Amounts in thousands of euros)

	06/30/2020	06/30/2019
Purchases consumed	1	55
Employee benefits expenses	977	1 271
External expenses	374	520
Net change in amortization and depreciation	110	196
Other	(3)	8
Total of Research & Development	**1 460**	**2 050**

The decrease in R&D expenses compared with the first half of 2019 is due to cost reduction measures and a higher proportion of capitalized payroll (wages and salaries, social security costs) and external expenses as part of the project to launch GEN III in 2020 (in 2019, these costs were only capitalized from April).

16.2 Sales & Marketing Department

SALES & MARKETING
(Amounts in thousands of euros)

	06/30/2020	06/30/2019
Purchases consumed	139	(36)
Employee benefits expenses	3 014	3 060
External expenses	861	1 290
Net change in amortization and depreciation	215	272
Other	(29)	10
Total of Sales & Marketing	**4 199**	**4 597**

The relative decrease in external expenses compared with the first half of 2019 is mainly due to cost reduction measures and the impact of the health crisis, which saw the cancellation of seminars and promotional events and a reduction in travel by the sales force.

16.3 Administrative expenses department

ADMINISTRATIVE EXPENSES
(Amounts in thousands of euros)

	06/30/2020	06/30/2019
Purchases consumed	50	26
Employee benefits expenses	1 098	1 403
External expenses	1 278	866
Taxes	53	54
Net change in amortization and depreciation	339	250
Other	34	(21)
Total of administrative expenses	**2 852**	**2 578**

The increase in external expenses compared with the first half of 2019 is primarily due to the increase in consultants' and lawyers' fees (linked in particular to the drawdown of the 2nd instalment of the EIB loan).

Note 17: Financial income and expenses

Financial income and expenses break down as follows:

FINANCIAL REVENUE AND EXPENSES
(Amounts in thousands of euros)

	06/30/2020	06/30/2019
Foreign exchange gains	5	276
Gains on cash equivalents		(3)
Gains on fair value reassessment	8	
Total of financial revenue	**13**	**274**
Foreign exchange losses	(31)	(273)
Interest expenses	(21)	(273)
Other financial expenses	(19)	(1 448)
Disount expenses	(435)	239
Total of financial expenses	**(506)**	**(1 755)**
Total of financial revenue and expenses	**(494)**	**(1 481)**

Financial expenses as of June 30, 2019 included €1,391 thousand in interest and exit penalties relating to early repayment of the IPF loan.

As of June 30, 2020, discounting expenses included accrued interest on the Oseo repayable advance for €43 thousand and on the 1st instalment of the EIB loan for €392 thousand.

Note 18: Income tax

The Group did not capitalize its tax losses.

Note 19: Commitments

The Company had the following commitments as of June 30, 2020:

Lease obligations

Lease obligations are disclosed in the financial statements to June 30, 2020 and are the subject of Note 4 with the first-time application of IFRS 16.

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 its operations, it has made commitments to purchase a certain quantity of sub-assemblies from certain suppliers as described in the table below:

OBLIGATIONS PURSUANT TO OTHER AGREEMENTS
(Amounts in thousands of euros)

	06/30/2020	06/30/2019
Portion with terms of less than 1 year	1 137	779
Portion with terms of between 1 and 5 years	2 381	3 832
Portion with terms of more than 5 years		
Total of supplier commitments	**3 519**	**4 611**

Obligations related to the EIB loan

Following the financing agreement with the European Investment Bank (EIB) signed on June 20, 2019 for €22.5 million, the Company received the first instalment of €11.5 million on July 3, 2019 and the second one of €6 million on July 8, 2020.

The 2nd instalment is also accompanied by the issuance of share subscription warrants (BSAs) entitling the holder, if the warrants are exercised, to subscribe for a maximum of 500,000 shares of the Company (i.e. 1.6% of the share capital on a non-diluted basis). These warrants were issued on the basis of the twenty-fourth resolution adopted by the Combined General Meeting of July 2, 2020. The exercise price of the warrants is equal to the volume weighted average of the last three trading days preceding their issue, less a 5% discount. Once issued, the warrants may be exercised until July 3, 2039.

The next instalment of €5 million will be available subject to achieving certain milestones, particularly related to commercial progress and the improvement of shareholders' equity. The drawdown of this instalment is subject to additional equity capital financing of €15 million and the achievement, over a rolling 12-month period, of €24 million of cumulative revenues. The fixed interest rate includes a portion at 3% annually and a portion at 3% capitalized. Repayment of the principal and capitalized interest will be made in full after the fifth year from the date of drawdown.

This loan is subject to financial covenants.

The guarantees, taken by the European Investment Bank, cover the Company's trade receivables and inventories. In accordance with the financing agreement as amended on June 19, 2020, the Company granted the European Investment Bank a pledge on the intellectual property rights relating to three patents held by the Company. This pledge agreement will take effect on December 17, 2021 after the expiry of the rights of first negotiation and first refusal granted to JJDC under the strategic financing agreement signed on December 13, 2019.

Note 20: Earnings per share

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 21: Management of financial risk

Credit risk management

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 cash on hand only.

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

With regard to its customers, the Company has no significant concentration of credit risk. The Group has established policies that insure that its customers have an appropriate credit risk history.
Nevertheless, the impact of the Covid-19 pandemic on the recovery of trade receivables has been assessed. The Group sees the occasional deterioration in its payments outstanding, but no significant deterioration in credit defaults, which would require an overhaul of the provisioning rules as of June 30, 2020.
The Group continues to pay close attention to changes in the economic environment and will adjust its provisions for trade receivables at future reporting dates if necessary.

Liquidity risk management

During the first half of 2020, the Group increased its monitoring of cash flow (daily analysis of positions, bimonthly cash flow forecasts, etc.) and working capital requirement.

Note 22: Transactions with related parties

The related-party transactions shown below were recognized as expenses during the periods presented:

RELATED PARTY TRANSACTIONS
(Amounts in thousands of euros)

	06/30/2020	06/30/2019
Wages and salaries - General direction	324	194
Share-based payments - General direction	155	236
Pension plan - General direction	3	11
Attendance fees - Executive officers	118	86
Share-based payments - Executive officers	49	20

Note 23: Subsequent events

New funding

On July 8, 2020, in accordance with the loan agreement amended on June 19, 2020, the Company received the 2nd instalment for the amount of €6 million. It will bear annual interest of 3% and capitalized interest of 4%, payable in 5 years with the principal. This 2nd instalment is also accompanied by the issuance of share subscription warrants (BSAs) entitling the holder, if the warrants are exercised, to subscribe for a maximum of 500,000 shares of the Company (i.e. 1.6% of the share capital on a non-diluted basis). These warrants were issued on the basis of the twenty-fourth resolution adopted by the Combined General Meeting of July 2, 2020. The exercise price of the warrants is equal to the volume weighted average of the last three trading days preceding their issue, less a 5% discount. Once issued, the warrants may be exercised until July 3, 2039.

On July 17, 2020, the Company announced that BNP Paribas and Bpifrance had approved €4 million in financing in the form of a government-backed loan. BNP Paribas and Bpifrance will each lend €2 million at fixed interest rates of 0.25% and 1.75%, respectively. These non-dilutive loans will be 90% guaranteed by the French government (ministerial decrees of March 23 and April 17, 2020 granting the State guarantee to credit institutions and financial companies, pursuant to Article 6 of Law No. 2020-289 of March 23, 2020). Each loan has an initial term of one year. At the end of the first year, the Company may choose to defer repayment of the principal for up to five years.

Exco Socodec

ERNST & YOUNG et Autres

Mauna Kea Technologies

Period from January 1 to June 30, 2020

STATUTORY AUDITORS' REPORT ON THE HALF-YEARLY FINANCIAL INFORMATION

EXCO SOCODEC
51, avenue Françoise Giroud
2100 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

Statutory auditors' review report on the half-yearly financial information

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of Mauna Kea Technologies for the period from January 1 to June 30, 2020,
- the verification of the information presented in the half-yearly management report.

These condensed half-yearly consolidated financial statements were prepared under the responsibility of the Board of Directors on September 21, 2020 on the basis of the information available at that date in the evolving context of the crisis related to Covid-19 and of difficulties in assessing its impact and future prospects. Our role is to express a conclusion on these financial statements based on our review.

1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

2. Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review prepared on September 21, 2020.

We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Dijon and Paris-La Défense, 22 septembre 2020

The Statutory Auditors
French original signed by

EXCO SOCODEC	ERNST & YOUNG et Autres
Olivier Gallezot	Franck Sebag

STATEMENT BY THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT

(Article 222-3-4 of the General Regulations of the AMF [Autorité des Marchés Financiers/French Financial Markets Authority])

I attest that, to my knowledge, the condensed consolidated financial statements for the last half-yearly period were prepared in accordance with the applicable accounting standards (IFRS standards as adopted by the European Union) and give a fair representation of the company's assets, financial position and results, and all companies including in the scope of consolidation, and that the half-yearly activity report presents an accurate picture of the significant events occurring during the first six months of the fiscal year, their impact on the financial statements and the principal transactions between related parties, along with a description of the principal risks and the principal uncertainties for the remaining six months of the year.

Robert L. Gershon

Chief Executive Officer