EOS IMAGING

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PARIS TRADE AND COMPANIES REGISTER NO. 349 694 893

Half-year Financial Report

for the period from 1 January to 30 June 2019

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I. SUMMARY HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(in thousands of euros)

ASSETS	*Note*	30-juin-19	31-déc.-18
Goodwill	*3.1*	5 131	5 131
Intangible assets	*3.2*	7 462	6 606
Rights of use	*3.3*	4 064	
Property, plant, and equipment	*3.4*	2 401	2 394
Financial assets		353	309
Total non-current assets		**19 411**	**14 439**
Inventories and work in progress	*3.5*	14 580	8 779
Trade receivables	*3.6*	20 587	32 740
Other current assets	*3.7*	6 534	4 262
Cash and cash equivalents	*3.8*	8 694	19 768
Total current assets		**50 395**	**65 549**
TOTAL ASSETS		**69 806**	**79 989**

LIABILITIES		30-juin-19	31-déc.-18
Share capital		263	262
Treasury shares		(508)	(412)
Share premiums		6 870	21 559
Reserves		22 325	20 196
Translation reserves		812	642
Consolidated income attributable to the parent		(9 974)	(13 038)
Total equity	*3.9*	**19 788**	**29 210**
Provisions	*3.10*	942	933
Financial liabilities	*3.11*	25 559	25 679
Lease liabilities	*3.3*	3 577	
Total non-current liabilities		**30 077**	**26 612**
Financial liabilities	*3.11*	1 423	1 584
Lease liabilities	*3.3*	513	
Trade payables	*3.12*	5 584	7 074
Other current liabilities	*3.13*	12 421	15 509
Total current liabilities		**19 941**	**24 167**
TOTAL LIABILITIES		**69 806**	**79 989**

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)

	Note	**2019** *(6 months)*	**2018** *(6 months)*
Revenue from ordinary activities			
Revenue		6 003	17 544
Other revenue		1 008	766
Total revenue	*4.1*	**7 011**	**18 310**
Operating expenses			
Direct costs of production and services	4.2	(2 972)	(8 726)
Indirect costs of production and service	4.2	(2 031)	(1 801)
Research and development	4.2	(2 291)	(1 913)
Sales, clinical and marketing	4.2	(5 321)	(4 785)
Regulatory	4.2	(444)	(323)
Administrative costs	4.2	(2 588)	(2 975)
Share-based payments	3.9 & 4.2	(436)	(579)
Total expenses		**(16 083)**	**(21 102)**
OPERATING INCOME	*4.3*	**(9 072)**	**(2 793)**
Financial expenses	*4.4*	(904)	(3 727)
Financial revenue		2	677
INCOME FROM ORDINARY ACTIVITIES BEFORE INCOME TAXES		**(9 974)**	**(5 842)**
Income tax expense			
NET INCOME FOR THE PERIOD - Attributable to the parent		**(9 974)**	**(5 842)**
Translation differences on foreign entities		170	295
Actuarial difference on pension commitments		(37)	(37)
COMPREHENSIVE INCOME FOR THE PERIOD		**(9 840)**	**(5 584)**
Earnings per share (in €)		(0.38)	(0.26)

STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

EOS IMAGING Equity	Capital	Share premium	Treasury shares	Consolidated reserves	Translation differences	Consolidated profit (loss)	Total
31 December 2017	**226**	**79 145**	**(322)**	**(48 172)**	**112**	**(7 786)**	**23 203**
Allocation of the result Y-1				(7 786)		7 786	
Capital increase		69					69
Allocation of loss carry-forward to issue premium		(72 495)		72 495			
Change in translation differences					295		295
Change in actuarial differences				(37)			(37)
Result for period Y						(5 842)	(5 842)
Share-based payments				3 544			3 544
Treasury shares			(115)				(115)
30 June 2018	**227**	**6 718**	**(437)**	**20 043**	**407**	**(5 842)**	**21 116**
31 December 2018	**262**	**21 559**	**(412)**	**20 196**	**642**	**(13 038)**	**29 210**
Allocation of the result Y-1				(13 038)		13 038	
Capital increase	1	77					78
Allocation of loss carry-forward to issue premium		(14 766)		14 766			
Change in translation differences					170		170
Change in actuarial differences				(37)			(37)
Result for period Y						(9 974)	(9 974)
Share-based payments				436			436
Treasury shares			(96)				(96)
30 June 2019	**263**	**6 870**	**(508)**	**22 325**	**812**	**(9 974)**	**19 788**

STATEMENT OF CASH FLOWS

(in thousands of euros)

	2019 *6 months*	2018 *6 months*
CASH FLOWS RELATING TO OPERATING ACTIVITIES		
Consolidated net income	(9 974)	(5 842)
Elimination of depreciation, amortisation and provisions	783	568
Calculated revenue and expenditure related to share-based payments	436	579
Financial expenses - Lease liabilities	62	
Financial expenses - Bond borrowings		2 768
Financial expenses - OCEANE convertible bonds	(74)	142
Financial expenses - Repayable advances	2	6
Internally generated funds from operation	**(8 765)**	**(1 779)**
Inventories and work in progress	(5 801)	(2 880)
Trade receivables	12 276	(2 738)
Other current assets	(2 269)	(1 286)
Trade payables	(1 499)	(1 379)
Other current liabilities	(2 997)	1 743
Change in working capital requirements related to operations	**(290)**	**(6 541)**
Net cash related to operating activities	**(9 055)**	**(8 320)**
CASH FLOWS RELATING TO INVESTMENT ACTIVITIES		
Acquisition of property, plant, and equipment and intangible assets	(1 472)	(1 621)
Acquisition of property, intangible assets	10	
Change in financial assets	(44)	(132)
Net cash from/(used in) investing activities	**(1 506)**	**(1 753)**
CASH FLOWS RELATING TO FINANCING ACTIVITIES		
Capital increase	78	69
Cash flows due OCEANE's		28 184
Cash flows due to bound financing - IPF		(16 658)
Reimbursable of advances and other loans	(160)	(312)
Lease liabilities	(326)	
Receivables mobilized		859
Acquisition/disposal of treasury stock	(96)	(115)
Net cash from/(used in) financing activities	**(503)**	**12 025**
Impact of exchange rate fluctuations	40	(17)
Change in cash	**(11 025)**	**1 935**
Cash and cash equivalents at beginning of the year	19 719	6 930
Cash and cash equivalents at close of period	8 694	8 865
CHANGE IN CASH	**(11 025)**	**1 935**

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS

Note 1 : OVERVIEW AND SIGNIFICANT EVENTS

The company

Formed in 1989, EOS Imaging SA develops innovative medical imaging devices dedicated to osteo-articular conditions and orthopaedics, as well as associated applications.

The Company has established four subsidiaries as part of its international expansion:

- EOS Imaging Inc. in the United States in June 2006,
- EOS Image Inc. in Canada in August 2000,
- EOS Imaging GmbH in Germany in May 2008,
- EOS Imaging Pte Ltd in Singapore in May 2015.

In November 2013, the Company acquired 100% of the shares in OneFit Médical, a developer of knee and hip surgery planning software and a manufacturer of patient-specific cutting guides for orthopaedic surgeries.

The Company was listed on the NYSE Euronext regulated market in Paris on 15 February 2012.

Significant events

On 1 January 2019, Mike Lobinsky, who joined the company in August 2017 as President, North America, assumed the role of Chief Executive Officer, succeeding Marie Meynadier.

During the first quarter, EOS Imaging changed its sales cycle to better meet the expectations of its direct customers, by aligning the delivery of its equipment with the start of the installation phase, rather than the receipt of orders. This change has led to a transition period in which new orders[1] received will gradually come to build up an order book[2] and in which sales revenue will gradually pick as this equipment is delivered, which generally occurs 3 to 12 months after the order is placed. Sales revenue for the 2019 financial year, the accounting event for which remains unchanged as “on delivery”, has therefore been significantly impacted by the timing differences associated with this transition. This change has been accompanied by improvements in production and logistics management and will enable a reduction in working capital requirements.

[1] Equipment orders: bipartite agreements to purchase EOS equipment®

[2] Order book: total orders received but not yet delivered and invoiced

Note 2 : ACCOUNTING PRINCIPLES AND METHODS

Basis of preparation of the financial statements

The summary consolidated financial statements for the first half of 2019 were approved by the board of directors on 23 September 2019 and were prepared in accordance with the international financial reporting standard IAS 34 “Interim Financial Reporting”.

As summary statements, the half-year consolidated financial statements do not include all of the financial information required to be disclosed in the full-year financial statements and must be read in conjunction with the group’s financial statements for the year ended 31 December 2018, subject to the provisions specific to the preparation of interim financial statements as described below.

Principal accounting methods

The accounting principles used in preparation of the 2019 half-year financial statements comply with the international financial reporting standards and interpretations as adopted by the European Union at 30 June 2019. These are available on the European Commission’s website at:
https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting_en

The accounting principles used are identical to those used in preparation of the annual consolidated financial statements for the year ended 31 December 2018, except for the new applicable standards described below.

Changes in accounting rules and methods

The standards and amendments published in the Official Journal of the European Union as at the date of closing the half-year financial statements have been applied for the first time with effect from 1 January 2019.

The new standards and interpretations that must be mandatorily applied from 1 January 2019 are as follows:

- Amendments to IAS 19 (Plan Amendment, Curtailment or Settlement);
- Amendments to IFRS 9 (Prepayment Features with Negative Compensation);
- Amendments to IAS 28 (Long-term Interests in Associates and Joint Ventures);
- Annual improvements, cycle 2015-2017.

With the exception of IFRS 16, the impacts of which are summarised in the note on "Changes to accounting policies" to the consolidated financial statements, the new standards and interpretations did not have a material impact on the Group's consolidated financial statements at 30 June 2019.

IFRIC 23 (Uncertainty over Income Tax Treatments): IFRIC 23 supplements the provisions of IAS 12 (Income Taxes) by setting out procedures for measuring and recognising uncertainties over income tax treatments. The Group has not identified any material impact on equity associated with the implementation of this interpretation at 1 January 2019.

The group has, moreover, chosen not to apply those standards and interpretations for which application is not mandatory at 30 June 2019. Management does not expect application of these standards to have a material impact on the consolidated financial statements.

Changes to accounting policies

IFRS 16 – Leases

The Group has applied IFRS 16 to its lease accounting since 1 January 2019. This standard replaces IAS 17 and the associated IFRIC and SIC interpretations and removes the previous distinction between operating leases and finance leases from the lessee's perspective by introducing a single lessee accounting model.

Under IFRS 16, a lessee must recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated over the term of the lease and the lease liability is initially measured at its present value at the interest rate implicit in the lease if it can be easily determined or, failing that, at the incremental borrowing rate.

The amount of the liability is materially dependent on the assumptions used in relation to the term of commitments and the discount rate:

- The lease term used to calculate the liability is the term of the lease as originally negotiated, with no account taken of options to terminate the lease early or to extend the term of the lease;
- The discount rate is calculated as the sum of the risk-free rate, by reference to its term, and the Group's credit risk for the same reference term. This rate was estimated by the Group by geographic region.

The Group has made the transition using the transitional method known as the "simplified retrospective approach", which requires a liability to be recognised on the transition date equal to the discounted residual rental payments, offset by a right of use (in certain scenarios, adjusted by the amount of advance rent payments or accrued expenses), with all transitional impacts recognised in shareholders' equity.

The standard provides for a number of simplification measures on transition, and the Group has implemented those that allow it to exclude leases with a residual term of less than twelve months at the transition date and leases over low-value assets, to use the same method for leases classified as finance leases under IAS 17, and not to capitalise costs directly associated with entering into leases.

The implementation of this standard has led to the following presentational changes:

- On the statement of financial position: The recognition of lease liabilities of €4.1m on the transition date, in consideration for right-of-use assets valued at the same amount, as detailed in note 3.3 below. The transition had no impact on the Group's consolidated equity.
- On the income statement, the lease expense previously recognised in operating profit (loss) is recognised partly by a depreciation charge in operating profit (loss) and partly in finance costs.
- In the cash flow statement, the rental payments previously included in the cash flows relating to operating activities is presented in cash flows relating to financing activities for the amount allocated to repaying the liability.

Going concern

At 30 June 2019, the Group held cash of €8.7m, covering its financing needs for at least the next 12 months, due in particular to the reduction in its working capital requirements, which will be generated by the change in the commercial cycle.

Methods of preparing the half-year financial statements

Information on the seasonal nature of the Group's business

Historically highly seasonal, annual sales revenue has been split relatively evenly between the first and second halves of the year over the last three financial years. The change in the sales cycle implemented at the beginning of 2019 will nevertheless have the effect of unevenly distributing sales revenue from sales of equipment in 2019. Indeed, in the first half of the year, the number of new systems delivered was low, as preparatory installation work had not yet been carried out on customers' premises; in the second half of the year, once this preparatory installation work has progressed, a larger number of orders placed since the beginning of the year will be delivered for installation.

Impairment tests

At 30 June 2019, the Group was satisfied that there were no indicators that may suggest that its cash-generating unit (CGU) had lost value in the first half of 2019. Management concluded that there were no indications that its value had been impaired when compared to the position at 31 December 2018.

Changes in consolidation scope

The consolidation scope at 30 June 2019 is identical to that of the year ended 31 December 2018.

Note 3 : STATEMENT OF FINANCIAL POSITION

Note 3.1: Goodwill

Goodwill	31 December 2018	Increases	Reclassification	Reductions	Change in scope of consolidation	Change in exchange rates	30 June 2019
Goodwill ONEFIT Médical	5 131						5 131
Total gross goodwill	**5 131**						**5 131**
Impairment of goodwill							
Total net goodwill	**5 131**						**5 131**

Note 3.2: Intangible assets

In addition to internal development costs, research and development costs include the cost of licences related to partnership agreements.

Intangible assets	31 December 2018	Increases	Reclassifications	Reductions	Change in scope	Change in exchange rates	#REF!
Development costs	8 944	984					9 928
Software	1 791	118		(10)		1	1 900
Patents	640	25					665
Gross total intangible assets	**11 375**	**1 127**		**(10)**		**1**	**12 492**
Development costs	3 485	234					3 719
Software	1 172	18				1	1 191
Patents	112	8					120
Total amortisation and impairment	**4 769**	**261**				**1**	**5 031**
Net total intangible assets	**6 606**	**866**		**(10)**			**7 462**

Note 3.3: Rights of use and lease obligations

Rights of use

Rights of use	1 January 2019	Increases	Reclassifications	Reductions	Change in scope	Change in exchange rates	30 June 2019
Rights of use - immoveable property	3 888	245					4 133
Rights of use - moveable property	220						220
Total gross rights of use	**4 108**	**245**					**4 353**
Rights of use - immoveable property		251					251
Rights of use - moveable property		38					38
Total amortisation and impairment		**290**					**290**
Total net rights of use	**4 108**	**(45)**					**4 064**

The majority of leases are operating leases covering premises used by the Group.

The discount rate used by the Group on these leases ranges between 3.28% and 4.74%, depending on geographical region.

Net rights of use (in thousands of euros)	30/06/2019	01/01/2019
France	3 787	4 036
North America	277	72
Total net rights of use	**4 064**	**4 108**

Lease liabilities

The majority of leases are operating leases covering premises used by the Group.

Change in lease liabilities (in thousands of euros)	Offices	Equipment	Total
As at 1 January 2019	3 888	220	4 108
New lease	245		245
Repayments	(226)	(38)	(264)
As at 30 June 2019	**3 907**	**182**	**4 089**

Maturity of lease liabilities (in thousands of euros)	30-juin-19	1-janv.-19
Lease liabilities due in more than one year	3 577	3 566
Lease liabilities due within one year	513	542
Total liabilities	**4 089**	**4 108**

Note 3.4: Property, plant, and equipment

Property, plant, and equipment	déc-18	Increases	Reclassifications	Reductions	Change in scope	Change in exchange rates	juin-19
Fixtures and fittings	1 192					2	1 194
Technical installations and equipment	3 448	91				2	3 541
Office and computer equipment	1 099	118					1 217
Furniture	7						7
Fixed assets in progress	314	135					449
Gross total property, plant & equipment	**6 060**	**345**				**4**	**6 409**
Fixtures and fittings	765	53				1	820
Technical installations and equipment	1 901	213					2 114
Office and computer equipment	815	70				1	886
Furniture	6	3					10
Fixed assets in progress	178						178
Total amortisation and impairment	**3 666**	**340**				**2**	**4 008**
Net total property, plant & equipment	**2 394**	**5**				**2**	**2 401**

Note 3.5: Inventories and work in progress

Inventories and work in progress (in thousands of euros)	**dimanche 30 juin 2019**	**lundi 31 décembre 2018**
Components	7 409	5 539
Finished products	7 198	3 268
Depreciation	(27)	(27)
Net total inventories and WIP	**14 580**	**8 779**

The €3.9m increase in finished goods inventories may be explained by the production schedules in the first half of the year, which were implemented prior to the change in the sales cycle.

The €2.0m increase in component inventories may be explained, on the one hand, by the increase in inventories held for maintenance purposes, in order to meet the customer service deadlines of an increasing international installed base and, on the other hand, by the procurement of a proportion of the components earmarked for production scheduled for the second half of the year.

Inventories of low-turnover components are subject to an impairment review. The impairment charge is updated once a year at the end of the financial year i.e. on 31 December.

Note 3.6: Trade receivables

Trade receivables (in thousands of euros)	30/06/2019	31/12/2018
Trade receivables - net	20 587	32 740
Net total of customer receivables	**20 587**	**32 740**

Customer receivables include the balance of the two receivables assigned to a factor for a total amount of €926k.

During the period ended 30 June 2019, no customer individually accounted for more than 10% of consolidated revenue.

Note 3.7: Other current assets

Other current assets (in thousands of euros)	30/06/2019	31/12/2018
Research tax credit/CICE/CII	2 371	1 504
Suppliers - credits to receive	420	626
VAT	854	816
Prepaid expenses	564	411
Subsidies due	1 025	774
Other receivables	1 301	132
Total other current assets	**6 534**	**4 262**

The “Research tax credit/CICE/CII” line includes:

- Research tax credits recognised in respect of expenditure during the period by EOS Imaging and OneFit for a total of €934k, together with the research tax credit in respect of 2018 for both companies in the amount of €1,363k and for EOS Imaging Inc. in the amount of €29k.
- Onefit's competitiveness and employment tax credit (CICE) for 2018 was €45k. Reimbursement of EOS Imaging’s CICE asset for 2018 (€68k) was obtained during the period.

The item “Suppliers-credit notes to be received” mainly concerns components returned.

Deferred charges corresponded mainly to rent, insurance premiums and commitments in respect of conferences.

Subsidies receivable principally represent amounts recognised in respect of expenses incurred up to 30 June 2019 not reimbursed as at that date.

Other receivables include advances and prepayments made to suppliers in the amount of €1,066k.

Note 3.8: Cash and cash equivalents

Cash and cash equivalents (in thousands of euros)	**30/06/2019**	**31/12/2018**
Short-term bank deposits	8 652	19 680
Money market SICAV	43	88
Total	**8 694**	**19 768**

Short-term bank deposits can be broken down as follows:

- Current accounts in the amount of €8.6m, €3.1m of which is held by the American, Canadian, Singaporean and German subsidiaries;
- Liquid assets in the amount of €43k. These amounts comprise funds committed under a liquidity agreement that had not been invested in treasury shares at 30 June 2019.

Note 3.9: Equity

Share capital issued

Changes in the company's capital during the period were as follows:

Date	Transaction	Capital	Issue premium	Number of shares forming the capital
	Total at 31 December 2018	**262 379**	**21 558 956**	**26 237 907**
05/06/2019	Allocation of loss carry-forward to issue premium		(14 766 136)	
30/06/2019	Capital increase following the exercise of options	300	29 700	30 000
30/06/2019	Capital increase following the exercise of options	11	1 114	1 125
30/06/2019	Capital increase following the exercise of options	17	1 646	1 663
30/06/2019	Capital increase following the exercise of options	300	29 700	30 000
30/06/2019	Capital increase following the exercise of options	150	14 850	15 000
	Total at 30 June 2019	**263 157**	**6 869 830**	**26 315 695**

Capital increases took place as a result of the exercise of 77,788 options, leading to the creation of 77,788 new shares.

At 30 June 2019, the Company's share capital was €263,157. It was divided into 26,315,695 ordinary shares, fully subscribed and paid up, each with a par value of €0.01.

Treasury shares

Under the liquidity agreement, the Company held 92,339 of its own shares at 30 June 2019. These shares have been deducted from equity in an amount of €508k.

Stock subscription options

The company has issued the following plans:

Type	Option fair value	Number of shares granted	Plan fair value (in thousands of euros)
SO 2007	5.26 €	255 900	1 345
SO 2009 (a)	0.47 €	395 845	487
SO 2009 (b)	1.49 €	200 657	299
SO 2010 (a)	1.04 €	413 500	429
SO 2010 (b)	1.09 €	53 000	58
Bonus shares	5.15 €	360 000	1 854
SO 2012 (a)	between €1.61 and €1.84	376 916	651
SO 2012 (b)	between €2.02 and €2.18	40 000	84
SO 2014	between €3.92 and €4.33	223 000	380
Bonus shares	between €1.97 and €2.26	181 500	593
BSA 2015	2.25 €	120 000	270
BSA 2016	between €0.68 and €0.77	190 000	137
Bonus shares	between €3.86 and €4.24	133 000	432
Performance shares	between €0.74 and €1.47	280 000	353
Bonus shares	5.82 €	50 000	291
Performance shares	between €2.20 and €2.37	190 000	427
Bonus shares	between €4.58 and €4.89	208 500	794
Performance shares	1.27 €	40 000	51
Bonus shares	between €4.78 and €5.14	20 000	101
SO 2019	between €0.09 and €0.11	1 362 000	107
Total			**9 144**

The impact on the statement of comprehensive income of share-based payments is described in note 4.2.

Note 3.10: Provisions

Obligation to pay end-of-service indemnities

(in thousands of euros)	31 December 2018	Increases	Reductions	30 June 2019
Retirement benefits	662	37		698
Total	**662**	**37**		**698**

Disputes

(in thousands of euros)	31 December 2018	Increases	Reductions	30 June 2019
Disputes	308		(64)	243
Total	**308**		**(64)**	**243**

The provision for disputes relates to ongoing disputes with employees as at 30 June 2019.

Note 3.11: Current and non-current financial liabilities

Financial liabilities (in thousands of euros)	30/06/2019	31/12/2018
Bond borrowings	26 134	26 208
BPI advances - Ardea	473	506
Interest-free loan	375	500
Bank overdrafts		50
Total	**26 982**	**27 264**

Maturity schedule of financial liabilities	Balance sheet value	At up to 1 year	>1 yr up to 5 years max.	Over 5 years
Debt obligations	26 134	814	25 320	
BPI advances - Ardea	473	234	239	
Interest-free loan	375	375		
Bank overdrafts	0	0		
Total liabilities	**26 982**	**1 423**	**25 559**	**-**

Bond issue/OCEANES

In 2018, the company issued a bond for a nominal amount of €29,543k. These OCEANES bear interest at a nominal annual rate of 6%, payable six-monthly. If these bonds are not converted into shares, they will be redeemed at par on 31 May 2023.

The substance of these convertible bonds has been analysed and their “debt” and “equity” components have been valued. The “debt” component was valued by determining the fair value of a similar debt through discounting future cash flows. On conclusion of this analysis, 89.5% of the nominal value was determined to be “debt”.

The issue costs directly attributable to this transaction were €1,360k and were split between the two components in proportion to their respective values.

BPI advances

- In the context of its participation in the Industrial Strategic Innovation project, EOS Imaging received a reimbursable advance from OSEO in July 2009, for a maximum amount of €1,275k, the payments under which have amounted to €822k, corresponding to the contractually financed portion of expenditure committed by the company, which was lower than the amount forecast on signature of the agreement.

  On 2 February 2016, BPI recognised that the project had been partially commercially successful: €269k of its receivable was waived and the reimbursement conditions were re-defined. The company is required to repay €553k over a six-year period, with the repayments up to 30 June amounting to €365k. The discounting of this debt under IFRS reduced its balance to €188k at 30 June 2019.

- As part of its development of bespoke instrumentation for orthopaedic knee surgery, Onefit Médical received a repayable advance of €250k. As the project was deemed successful in 2015, repayments have been made in the amount of €230k. At 30 June 2019, the balance of this advance had consequently been reduced to €20k.

- Onefit Medical also received an innovation partnership loan of €150k for eight years including a three-year deferred amortisation period granted at the rate of three-month Euribor plus 5.6%, reduced to three-month Euribor plus 3.80% during the deferred amortisation period. This loan is repayable within five years of 31 May 2015. Repayments of €127.5k have been made, reducing the balance of the debt to €22.5k at 30 June 2019.

- As part of its development of a new generation of knee instrumentation, Onefit Medical also received an interest-free repayable advance of €250k granted in June 2014. The agreement associated with this advance was amended in January 2017, so that it was switched to a grant-funded project focused on the shoulder. Repayments under the amended advance agreement were deferred for 2 years and should restart in September 2019, over 58 months. In the event that the project is not successful, repayments are to be made over a period of 34 months beginning in September 2019.

Interest-free OSEO loan

EOS Imaging received an interest-free loan of €1.5m from OSEO in May 2013, paid in July 2013. This loan includes a deferred amortisation period followed by a straight-line amortisation period of 12 quarterly repayments, the first of which was made in April 2017 in the amount of €250k. At 30 June 2019, the balance of this liability had reduced to €375k.

Note 3.12: Trade payables

Trade payables (in thousands of euros)	**30/06/2019**	**31/12/2018**
Trade payables	5 584	7 074
Total	**5 584**	**7 074**

Note 3.13: Other current liabilities

Provisions for amounts due within one year

(in thousands of euros)	31 December 2018	Increases	Reductions	30 June 2019
Provision for taxes	91			91
Provision for installation costs		224		224
Customers warranties	1 215		(304)	911
Total	**1 306**	**224**	**(304)**	**1 227**

The provision for installation costs is intended to cover the installation costs of equipment that has been sold but not yet installed.

The provision for customer warranties is linked to the change in the number of items of equipment under warranty; a provision is recognised for the warranty at sale and starts to be amortised when the commissioning certificate is issued or when it is first used for patients. The decrease in billings linked to the implementation of the new commercial model in the first half of the year resulted in a limited increase in new provisions for warranties.

Other current liabilities

Other current liabilities (in thousands of euros)	30/06/2019	31/12/2018
Tax liabilities	785	933
Social security liabilities	1 667	3 181
Other liabilities (including royalties and factoring)	2 631	3 530
Deferred revenue	6 111	6 559
Total other current liabilities	**11 194**	**14 202**

Tax liabilities principally comprise VAT and payroll-based taxes.

Payroll-based liabilities represent salaries, social security expenses and holiday pay accruals. Their decrease in the first half of the year was due mainly to the payment during the period of bonus provisions recognised at 31 December. No provision for bonus payments was recognised at 30 June.

Other liabilities principally comprise royalty fees of €1,246k and the liability of €927k relating to the two receivables assigned to the factor as at 30 June 2019.

Deferred income represents mainly maintenance invoices.

Note 4 : DETAILS OF THE INCOME STATEMENT

Note 4.1: Revenue from ordinary activities

Sales revenue and other income

Revenue (in thousands of euros)	Financial Period Ended 30/06/2019	30/06/2018
Sales of equipment	772	13 608
Sales of services	4 657	3 461
Sales of consumables and related services	575	475
Total revenue	**6 004**	**17 544**

The change in sales revenue is due to:

- The significant decrease in equipment sales linked to the change in the sales cycle *(see note 1)*. During the period, the company delivered two systems.
- Significant growth (33%) in recurring maintenance and service revenue, linked to the increase in the installed base.

Note 4.2: Analysis of operating costs by function

Direct costs of production and services

Direct costs of production and service (in thousands of euros)	Financial Period Ended 30/06/2019	30/06/2018
Purchasing and subcontracting	2 174	7 527
Payroll costs	857	810
Royalties	20	338
Depreciation and amortization	(80)	52
Total direct costs of production and service	**2 971**	**8 726**

The direct costs of production and services, the changes in which are directly correlated to the change in sales revenue, essentially comprise the costs of production, transport and installation of equipment sold over the period, together with the maintenance costs of installed equipment maintained by EOS Imaging.

The gross margin on direct costs was equal to 50% of revenue at 30 June 2019, as it was at 30 June 2018.

Indirect costs of production and service

Indirect costs of production and service	Financial Period Ended	
(in thousands of euros)	**30/06/2019**	**30/06/2018**
Purchasing and subcontracting	641	1 156
Travel costs	488	
Payroll costs	825	587
Depreciation and amortization	78	58
Total indirect costs of production and service	**2 031**	**1 802**

Research & development

Research and development	Financial Period Ended	
(in thousands of euros)	**30/06/2019**	**30/06/2018**
Purchasing and subcontracting	1 106	595
Travel costs	67	
Payroll costs	699	946
Depreciation and amortization	418	373
Total research and development	**2 291**	**1 913**

Sales, clinical and Marketing

Sales, clinical and marketing	Financial Period Ended	
(in thousands of euros)	**30/06/2019**	**30/06/2018**
Purchasing and subcontracting	819	1 500
Studies	70	97
Travel costs	710	
Trade fairs and exhibitions	342	329
Payroll costs	3 381	2 859
Total marketing and sales	**5 321**	**4 785**

Regulatory

Regulatory (in thousands of euros)	Financial Period Ended 30/06/2019	30/06/2018
Purchasing and subcontracting	127	116
Travel costs	10	
Payroll costs	307	207
Total regulatory	**444**	**323**

Administrative costs

Administrative costs (in thousands of euros)	Financial Period Ended 30/06/2019	30/06/2018
Purchasing and subcontracting	1 679	1 323
Travel costs	34	
Payroll costs	755	1 535
Depreciation and allowances	119	117
Total administrative costs	**2 588**	**2 975**

Share-based payments

The plans issued by the company and in force at 30 June 2019 are described in note 3.9.

At 30 June 2019 the total number of ordinary shares liable to be created following the exercise of or subscription to stock options or other securities issued giving access to the Company's capital was 3,263,702, broken down as follows:

Type	Granted date	Exercise price	Price	Number of dilutive instruments at 30/06/2019
SO 2009	07/07/2009	1.00 €	2.16 €	375 895
SO 2010	06/07/2010	1.00 €	1.75 €	231 625
SO 2010	20/05/2011	1.00 €	1.75 €	7 500
SO 2012	21/09/2012	4.07 €		253 307
BSA Director	31/12/2012	4.24 €		40 000
SO 2014	23/05/2014	6.14 €		201 875
Bonus shares	08/12/2015	- €		-
BSA IPF	31/03/2015	4.71 €		120 000
BSA Director	01/03/2016	3.42 €		190 000
Bonus shares	15/12/2016	- €		-
Performance shares	15/12/2016	- €		-
Bonus shares	07/09/2017	- €		50 000
Performance shares	07/09/2017	- €		190 000
Bonus shares	12/12/2017	- €		181 500
Performance shares	05/02/2018	- €		40 000
Bonus shares	05/02/2018	- €		20 000
SO 2019	30/01/2019	2.68 €		1 362 000
				3 263 702

The table below summarises the costs shown in the income statement under "share-based payments" over the period.

(in thousands of euros)	SO Plan 2014	Bonus shares	BSA 2016	Bonus shares 2016	Performance shares 2016	Bonus shares Sept 2017	Performance shares 2017	Bonus shares Dec. 2018	Performance shares 2019	Bonus shares 2019	SO 2019	Total
31/12/2017	43	253	44	356	46	49	119					910
31/12/2018	14	- 43	19	171			201	408				770
30/06/2019	-	-	1	-	-	190	108		51	71	16	**436**

Note 4: 3: Operating profit (loss)

Operating expenses were €16,083k at 30 June 2019, compared with €21,102k at 30 June 2018, representing a decrease of 24%, linked to the 66% decrease in sales revenue.

The operating loss at 30 June 2019 was €9,072k, compared with €2,793k at 30 June 2018.

Note 4.4: Financial income

At the end of the first half of 2019, the Company posted a net financial expense of €902k, mainly linked to the interest payments under the OCEANES, compared with a net financial expense of €3,050k at 30 June 2018, resulting from the early repayment of the IPF debt.

Note 5 : COMMENTS ON THE CASH FLOW STATEMENT

Net cash outflows from operating activities were €9,055k in the first half of 2019, compared with €8,320k in the first half of 2018. The change in the working capital requirement relating to business activity was limited to -€290k compared with -€6,541k in the previous six-month period.
The reduction in trade receivables was absorbed by a short-term increase in inventories.

Net cash outflows from investing activities were €1,506k in the first half of 2019, compared with €1,753k in the first half of 2018. principally comprising development expenses capitalised during the period.

Net cash outflows relating to financing activities were €503k in the first half of 2019 compared with net inflows of €12,025k in the first half of 2018 linked to the bond issue carried out in the first half of 2018.

As a result of the above, cash and cash equivalents fell by €11,025k over the six-month period.

NOTE 6: COMMENTS ON OFF-BALANCE SHEET COMMITMENTS

Between 31 December 2018 and 30 June 2019, there was no significant change in off-balance sheet commitments.

Note 7 : **INFORMATION ON RELATED PARTIES**

The compensation set out below, granted to members of the Company's Board of Directors and Executive Committee, was recognised as expenditure during the relevant periods:

	Financial Period Ended	
(in thousands of euros)	**juin-19**	**déc-18**
Remuneration and benefits in kind	1 035	2 207
Payments in shares		19
Directors' fees	65	121
Total	**1 100**	**2 347**

II. HALF-YEAR ACTIVITY REPORT

1. HIGHLIGHTS OF THE FIRST HALF OF 2019

Performance and business developments:

In early 2019, the Group created an Advanced Orthopaedic Solutions (AOS) division, supervised by a division manager, combining the EOS 3D services, the EOS online surgical planning applications, and the integration of EOS images, 3D models and surgical plans in the operating theatre.

A total of 30 systems were ordered in the first half of the year for €12.8m.

Overall activity, measured on a basis comparable to that of the first half of 2018, by adding total orders received during the period to recurring maintenance and services revenue, amounted to €18.1m, compared with €17.5m in 2018, i.e. an increase of 3%. Growth was 16% in North America and 26% in Europe-Middle East. Activity in the Asia-Pacific region fell by 52% compared to the first half of 2018, a period that was marked by a chain of clinics in Australia placing orders for several systems and the first orders in India.

In Europe, the Middle East and Africa, the momentum in France continued with new orders from prestigious university hospitals. Orders were also taken in the new markets of Sweden and the Czech Republic. In the United Kingdom, the group continued its strategic partnership with Stryker. The group installed its first system in the United Arab Emirates. At the end of June, the installed base in EMEA was approximately 150 systems in 20 countries.

In North America, the adoption of EOS, which remains excellent in paediatric hospitals, has accelerated in hospitals that treat adult and paediatric ortho/neuro patients, as well as in hospitals that specialise in spine, hip or knee care. The company is continuing to roll out its EOSone® solutions to clinics and private practices. EOSone® combines the sale of the equipment, maintenance services, online software services and tools for communicating with patients, and includes a payment-per-use option. At the end of June 2019, the installed base of EOS equipment in North America was approximately 125 units. EOS is now installed in 100% of the Top 10[3] paediatric orthopaedic hospitals and in 90% of adult orthopaedic hospitals.

In Asia-Pacific, the Group continued its strong growth in Australia, where EOS has already installed more than 21 systems. The group is continuing its medical communication partnership with Medtronic in Japan. The Group has also provided support to its new distributor in China by training its sales and technical teams. The group also continued to develop its business portfolio in India.

Product development and regulatory agreements

The group has improved its advanced orthopaedic solutions offering with the launch of EOSlink.

EOS launched the latest version of its hipEOS hip-surgery planning application at the annual meeting of the American Academy of Orthopedic Surgeons (AAOS) in March 2019. This new version factors in the patient's hip range of motion by using standing and sitting images of the patient as well as 3D models, with the aim of anticipating implant impingement and dislocation risks.

Supply Chain

In the first half of the year, the Group worked with its suppliers to adapt supplies and the production plan to the needs of the new sales cycle.

2. EVENTS AFTER 30 JUNE 2019

The group has signed a partnership agreement aimed at further developing the use of EOS systems and solutions within the Vidi group, the leading medical imaging network in France.

The new production plan was implemented in July 2019.

Reimbursement for EOS examinations was approved in Germany in August 2019: reimbursement for patients in the public sector was approved by the local authorities (KBV) for the spine and lower limbs.

[3] US World News Report

3. ANALYSIS OF THE HALF-YEAR FINANCIAL STATEMENTS

ANALYSIS OF THE STATEMENT OF COMPREHENSIVE INCOME

Revenue analysis

Revenue (in thousands of euros)	Financial Period Ended 30/06/2019	 30/06/2018
Sales of equipment	772	13 608
Sales of services	4 657	3 461
Sales of consumables and related services	575	475
Total revenue	**6 003**	**17 544**

In the first half of 2019, the Group generated revenue of €6m, down 66% on the first half of 2018, including exchange rate effects.

The significant fall in equipment sales is linked to the change in the sales cycle *(see note 1)*. During the period, the company delivered two systems.

Revenue also includes sales of maintenance and service contracts, which represent recurring revenue for the Group that increased by 33% in the first half of 2019, reflecting the continuous increase in the installed base of EOS systems.

Revenue by geographical region

Revenue by geographical region (in thousands of euros)	Financial Period Ended 30/06/2019	 30/06/2018
France	1 191	4 246
EMEA excluding France	1 714	2 035
North America	2 735	6 828
Asia-Pacific	352	4 435
Latin America	11	
Total revenue by geographical region	**6 003**	**17 544**

Revenue from services, which accounted for 87% of revenue for the six-month period, increased in all regions and particularly in North America and Asia-Pacific. Revenue in the North America region grew by 56%, up from €1.5m to €2.3m, and revenue in the Asia-Pacific region increased by 41%, from €223k to €314k, these increases being linked to growth in the installed base.

One of the two items of equipment was sold in North America and the other was sold in the Middle East.

Analysis of the gross margin

(in thousands of euros)	30/06/2019	30/06/2018
Revenue	6 003	17 544
Direct cost of sales	- 2 972	- 8 726
Direct gross margin	**3 032**	**8 818**
Margin	**50.5%**	**50.3%**

The gross margin on direct costs, as at 30 June 2019, remained unchanged from the figure at 30 June 2018, at 50% of revenue.

Analysis of operating costs excluding direct costs of sales and share-based payments

Operating expenses (in thousands of euros)	**Financial Period Ended** 30/06/2019	30/06/2018
Direct cost of sales	2 972	8 726
Indirect costs of production and service	2 031	1 801
Research and development	2 291	1 913
Sales, clinical and marketing	5 321	4 785
Regulatory	444	323
Administrative costs	2 588	2 975
Share-based payments	436	579
Total operating expenses	**16 083**	**21 102**
Total operating expenses (excluding direct costs of sales and share-based payments)	**12 675**	**11 798**

Excluding the direct cost of sales, the change in which is linked to revenue, and the impact of share-based payments (award of bonus shares, stock options and stand-alone stock warrants), operating costs were €12.7m, up by 7% compared with the first half of 2018.

This increase was due mainly to:

- A 13% increase in indirect production and services costs related to the increase in revenue from Services and the hiring of employees in these departments.
- A 20% increase in research and development costs associated with the company's ongoing innovation projects.
- An 11% increase in sales, clinical and marketing costs linked primarily to growth in the number of marketing and sales staff.

The operating loss at 30 June 2019 was therefore €8.9m, compared with €2.8m at 30 June 2018.

Analysis of the consolidated net loss

After taking account of financial income, the net consolidated loss from ordinary activities was €9,974k in the first half of 2019, compared with a loss of €5,842k in the first half of 2018.

ANALYSIS OF CASH FLOWS

The changes in cash flows are described in Note 5.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

Non-current assets

Non-current assets stood at €19.41m at 30 June 2019, up from €14.43m at 31 December 2018.

The increase in this item reflects the capitalisation of leases under IFRS 16 applicable from 1 January 2019.

Current assets

Current assets stood at €50.39m at 30 June 2019, down from €65.54m at 31 December 2018.

This change mainly reflects the fall in trade receivables and the level of cash and cash equivalents at the end of the period.

Shareholders' equity

At 30 June 2019, equity amounted to €19.79m, compared with €29.21m at 31 December 2018.

This change reflects the loss in the first half of 2019.

Non-current liabilities

Non-current liabilities at 30 June 2019 stood at €30.08m, compared with €26.61m at 31 December 2018.

They principally comprised the bonds, the interest-free loans, the repayable advances and the lease liabilities, with amounts due within one year being reclassified as current liabilities. The increase in this item is mainly attributable to lease liabilities which are recognised following the application of IFRS 16 from 1 January 2019.

Current liabilities

Current liabilities stood at €19.94m at 30 June 2019, down from €24.17m at 31 December 2018.

This fall mainly reflects the €1.5m fall in social security liabilities linked to the payment of bonuses in respect of the previous financial year as well as the payment of royalties and the decrease in factored receivables.

3.1. MAIN RISKS AND UNCERTAINTIES

There have been no significant changes in the first half of 2019 to the risk factors to which the Group is exposed compared with those described in the 2018 Registration Document.

3.2. OUTLOOK

The Group anticipates a gradual pick-up in equipment invoicing in the second half of 2019 as well as a reduction in its working capital requirements.

III. STATUTORY AUDITORS’ REPORT ON THE HALF-YEAR FINANCIAL INFORMATION AS AT 30 JUNE 2019

EOS Imaging

Société Anonyme (Public limited company)

10 Rue Mercœur
75011 Paris

Statutory auditors' report on the 2019 half-year financial information

for the period from 1 January 2019 to 30 June 2019

DELOITTE & ASSOCIES

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Rapport des commissaires aux comptes sur l'information financière semestrielle

Période du 1er janvier 2019 au 30 juin 2019

Aux Actionnaires de la société EOS Imaging,

En exécution de la mission qui nous a été confiée par votre Assemblée générale et en application de l'article L.451-1-2 III du Code monétaire et financier, nous avons procédé à :

- l'examen limité des comptes consolidés semestriels résumés de la société EOS Imaging, relatifs à la période du 1er janvier 2019 au 30 juin 2019, tels qu'ils sont joints au présent rapport ;

- la vérification des informations données dans le rapport semestriel d'activité.

Ces comptes consolidés semestriels résumés ont été établis sous la responsabilité de votre Conseil d'Administration. Il nous appartient, sur la base de notre examen limité, d'exprimer notre conclusion sur ces comptes.

I- Conclusion sur les comptes

Nous avons effectué notre examen limité selon les normes d'exercice professionnel applicables en France. Un examen limité consiste essentiellement à s'entretenir avec les membres de la direction en charge des aspects comptables et financiers et à mettre en œuvre des procédures analytiques. Ces travaux sont moins étendus que ceux requis pour un audit effectué selon les normes d'exercice professionnel applicables en France. En conséquence, l'assurance que les comptes, pris dans leur ensemble, ne comportent pas d'anomalies significatives obtenue dans le cadre d'un examen limité est une assurance modérée, moins élevée que celle obtenue dans le cadre d'un audit.

Sur la base de notre examen limité, nous n'avons pas relevé d'anomalies significatives de nature à remettre en cause la conformité des comptes consolidés semestriels résumés avec la norme IAS 34 - norme du référentiel IFRS tel qu'adopté dans l'Union européenne relative à l'information financière intermédiaire.

Sans remettre en cause la conclusion exprimée ci-dessus, nous attirons votre attention sur le paragraphe « Changement de méthodes comptables » de la note 2. « Méthodes et principes comptables » de l'annexe aux comptes consolidés semestriels résumés, qui expose le changement de méthode comptable relatif à l'application obligatoire à compter du 1er janvier 2019 de la norme IFRS 16 « Contrats de locations ».

II- Vérification spécifique

Nous avons également procédé à la vérification des informations données dans le rapport semestriel d'activité commentant les comptes consolidés semestriels résumés sur lesquels a porté notre examen limité. Nous n'avons pas d'observation à formuler sur leur sincérité et leur concordance avec les comptes consolidés semestriels résumés.

A Paris-la Défense et Paris, le 23 septembre 2019

Les commissaires aux comptes

Deloitte & Associés	PKF Fidea Contrôle *Membre de PKF International*
Géraldine SEGOND	Aurélie LAFITTE

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

“I certify that, to the best of my knowledge, the summary consolidated financial statements for the first six months of 2018 have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and results of the company and all its consolidated companies, and that the half-year activity report presents a true picture of the material events during the first six months of the year, their impact on the half-year financial statements, the main related-party transactions and a description of the main risks and uncertainties for the remaining six months of the year.”

Paris, 23 September 2019

Mike Lobinsky, CEO of EOS imaging