# MEDICREA INTERNATIONAL
# PARENT COMPANY FINANCIAL STATEMENTS

# AT DECEMBER 31, 2017

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## CONTENTS

## 1. ACTIVITY

MEDICREA specializes in the development of personalized analytical services and implant solutions for the treatment of complex spinal conditions, based on the UNiD® ASI (Adaptive Spine Intelligence) technology.

MEDICREA leads the design, integrated manufacture, and distribution of 30+ FDA approved implant technologies, utilized in over 150k spinal surgeries worldwide to date. Operating in a $10 billion marketplace, MEDICREA is an SME with 170 employees worldwide, which includes 37 at its USA Corp. subsidiary in NYC.

MEDICREA is a company offering ground-breaking technologies for the treatment of spinal pathologies. It is seen as a genuine pioneer in this market by combining health-related IT technologies with the design and manufacture of next generation medical devices, and by prioritizing clinical results from a unique standpoint: improving the benefits of surgery for patients, while generating cost savings at all levels. This new approach relies on compiling and analyzing clinical data using deep learning algorithms and predictive interpretation solutions, which for the first time have led to the treatment of spinal pathologies through the combination of scientific precision and the fitting of patient-specific and modular implants.

The Company is based in Rillieux-la-Pape, near Lyon, France, where it has its own state-of-the-art implant and surgical instrument manufacturing facility, a manufacturing facility dedicated to the machining and development of 3D-printed, patient-specific implants, as well as four distribution subsidiaries in the US, UK and Poland, and Belgium since February 2018.

## 2. FISCAL YEAR HIGHLIGHTS

The following are the highlights of the 2017 fiscal year:

### 2.2. MARKET AND ENVIRONMENT

Personalized medicine is an area of research that is active in all areas of healthcare. Better understanding the pathologies of each patient thanks to increasingly accurate diagnostic testing means that patients can be guided toward using a specific treatment, and to avoid others, all in relation to identical clinical symptoms. Each patient is considered to be unique and can receive the treatment with the best chance of being effective.

MEDICREA decided very early on to integrate this shift and adopt a patient-specific approach, being the first spinal company to market patient-specific rods and 3D-printed interbody cages.

The Company has become a leading player in personalized medicine and is a pioneer in the spinal field, offering surgeons a previously unseen mix of innovative products and comprehensive services for spinal surgery that is perfectly tailored to the patient.

In capturing a systems-based model for the iterative application of patient-specific spinal technology via UNiD® ASI (Adoptive Spine Intelligence), MEDICREA is leveraging proprietary, industry-leading data sets as the means to answer the full spectrum of demanding clinical and commercial questions adjoining the Degenerative and Complex Spine surgical treatments. MEDICREA is building an iterative virtuous system formulated to deliver strong, tangible value, better outcomes and lower costs, to the Healthcare Shareholders benefiting patients, surgeons, hospitals and payors in the process.

MEDICREA has made tremendous progress in recent years in pioneering a personalized outcome-focused approach to spinal care with the analytical services of UNiD™ LAB and UNiD™ TEK patient-specific implants, to the point that we are truly taking ownership of this market segment and becoming the leader for personalized spinal surgery.

### 2.3. RESULTS AND PERFORMANCE

The sales generated with the Company's marketing subsidiaries decreased by around 30% compared with the previous fiscal year due to the effect of the transfer of all the assets and liabilities of MEDICREA EUROPE FRANCOPHONE in late 2016, and of MEDICREA TECHNOLOGIES in late 2017, and as a result of the mothballing of MEDICREA GMBH during 2017.

The sales generated with international distributors, public and private hospitals in France, and the customers of the repair center, which reflect MEDICREA INTERNATIONAL's direct marketing activities, increased by 13% although the trends were mixed depending on the geographical regions:

- In France, under stable market conditions, MEDICREA INTERNATIONAL achieved sales of €6 million in 2017, up 15% compared to the 2016 performance of MEDICREA EUROPE FRANCOPHONE, driven by the adoption of its UNiD™ ASI technology by a growing number of surgeons.

- In export markets and with distributors, and following the need to regain registration for all products in the range with the Brazilian health authorities and obtain validation of the new manufacturing facility, no sales were made in this market during 2017 (sales of €2 million in 2016). Since the authorizations were re-issued in December, the activity should return to a normative level from 2018. Excluding Brazil, the distribution business grew by 6%, generating sales of €3.6 million.

Other operating revenues totaled €6.5 million, versus €2.5 million in 2016. They mainly consist of finished products and work in progress (€3.4 million), and research and development expenditure, as well as patent costs recorded as own work capitalized and transferred to the assets side of the balance sheet (€2.1 million). The structurally high level of this item reflects the research and development efforts the Company has undertaken in recent years.

The gross management margin (which includes the subcontracting recorded in the parent company financial statements under "other external purchases and charges") stood at 53% of sales in 2017, against 51% in 2016. Gross margin was negatively impacted in 2017 due to the use of outsourcing as well as the temporary increase in costs associated with the relocation of the La Rochelle production site to the new Rillieux-la-Pape campus.

The 2017 payroll grew significantly in comparison with the previous fiscal year (up 65%). The change in headcount primarily reflects the consolidation of the Group's French business activities at a single site, and within the same company.

Amortization and depreciation charges grew €1.3 million in correlation with the significant investments made by the Company in recent fiscal years, notably research and development costs, and fixtures and fittings at the new headquarters, which have been in service since the 4$^{th}$ quarter of 2016. Provision charges, down €0.6 million in relation to the previous fiscal year, primarily relate to the impairment of implant inventory.

Taking into consideration the points specified above, 2017 operating loss was €6.9 million, compared with an operating loss of €3.1 million in 2016.

The net financial loss amounted to €4.7 million, primarily due to the €1.2 million cost of debt, €2.6 million in impairment charges on equity investments and current accounts (mothballing of MEDICREA GMBH and problems encountered by MEDICREA TECHNOLOGIES UK), and to negative currency effects amounting to €1 million.

Ultimately, after a research tax credit of €0.9 million was taken into account, a net loss of €10.7 million was recorded, against a net loss of €10.8 million in 2016.

## 2.4. PRODUCT PORTFOLIO AND RESEARCH AND DEVELOPMENT

MEDICREA is the first company in the spinal industry to offer a complete set of surgical planning services based on data and patient-specific implants. Over the course of 2017, the Company continued its expansion along this strategic axis and the fiscal year was marked by several major achievements.

*UNiD™ osteosynthesis patient-specific rods*

The Company expanded its range of UNiD™ patient-specific rods by offering a new implant tailored to minimally invasive percutaneous surgery. The first surgical procedure using a UNiD™ MIS patient-specific rod was thus performed in the United States in July 2017.

The Company also received FDA 510(k) clearance in August 2017 for surgical planning with UNiD™ HUB, its data-driven digital portal which provide surgeons with surgical strategy and predictive modeling functionality.

Lastly, in October 2017 MEDICREA published a major scientific white paper which shows that, relative to manually bent rods, patient-specific rods generated using Medicrea's UNiD™ ASI technology greatly reduce the incidence of postoperative rod breakage in adult complex spine surgical cases.

*Patient-specific, 3D-printed interbody cages*

The systematic approach to spinal column disorders implemented by MEDICREA, through its engineering services and in-house 3D printing resources, makes the Company a unique player and enables it to collaborate closely with surgeons to develop interbody devices that match their technical and clinical preferences.

In order to provide 3D printed, patient-specific interbody implants most suitable for both the patient's pathology and the surgeon's preferences, MEDICREA INTERNATIONAL acquired three patents from Dr. Paul McAfee of University of Maryland St. Joseph's Medical Center, United States, relating to a methodology to measure anatomical parameters and to design the interbody devices used in spinal surgery. These three patents protect an innovative technique that helps to ascertain the physiological height of the intervertebral space by using the anatomy of the patient to accurately select the appropriate interbody device. As such, they enable MEDICREA to strengthen its UNiD™ ASI platform.

In September 2017, the research and development work of the MEDICREA teams came to fruition in the operating room. In September 2017, the Company announced the world's first 360-degree personalized spine surgery in London, U.K., which was completed utilizing a bespoke combination of patient-specific interbody cages and rods, manufactured in-house at the Company's new united production and headquarters campus in Lyon and generated by its proprietary UNiD™ ASI systems technology.

November 2017 marked a major step for the Company, when MEDICREA announced it had secured FDA approval for its IB3D range of 3D-printed titanium interbody cages and the launch of AdapTEK, its adaptive technology meeting the specific needs of each surgeon. The first IB3D cages were fitted in the United States in January 2018.

*Other products in the range*

MEDICREA confirmed in June 2017 the extension of its portfolio of standard products for complex spinal pathologies with FDA clearance of its PASS® TULIP top-loading posterior fixation system. Fixation systems of this type are the global gold standard and the availability of this new product will allow the Group to reach a greater number of surgeons and offer them UNiD ASI™ technology regardless of their preferences in terms of instruments.

## 2.5. ORGANIZATION

In January 2017, the Company completed the transfer of the factory from La Rochelle to its new Rillieux-la-Pape site. The number of employees who wanted to move to this new site was very low, which resulted in significant disruption to the organizational structure and operation of the new plant during the 1st half of 2017, and in the significant use of sub-contractors on a temporary basis. The situation gradually returned to normal over the 2nd half of the fiscal year.

The Company decided to change its distribution strategy in Germany in June 2017 and mothballed its MEDICREA GmbH subsidiary, which had been launched in 2016. All the transactions relating to the German market are now handled directly from the Head Office in Rillieux-la-Pape.

In November 2017, MEDICREA TECHNOLOGIES was dissolved without liquidation and absorbed by MEDICREA INTERNATIONAL. This decision was taken with a view to simplifying and rationalizing business flows.

Lastly, the Company entered into a partnership with its historical Belgian distributor in February 2018, by purchasing a 51% interest in a company newly founded for that purpose, called MEDICREA BELGIUM.

## 2.6. FINANCING

MEDICREA performed two capital increases with qualified French and US investors in June and December 2017, in an overall amount of over €20 million. The terms and conditions of these capital increases are explained in detail in Section 8.1 of this document. The funds raised will be used to accelerate the development, mainly in the United States, of the UNiD™ ASI platform, to prepare for the commercialization of a new range of 3D-printed titanium interbody cages in the United States and Europe, and to continue extending the distribution network by setting up marketing subsidiaries.

# 3. PARENT COMPANY FINANCIAL STATEMENTS AT DECEMBER 31, 2017

## 3.1 INCOME STATEMENT

| (€) | Notes | 12.31.2017 | 12.31.2016 |
|---|---|---|---|
| Sales | 2.4 | 15,933,004 | 14,071,050 |
| Finished products and work in progress | 2.6 | 3,420,986 | 289,672 |
| Own work capitalized | 2.5 | 2,066,842 | 2,131,204 |
| Operating grants | | 12,817 | 5,562 |
| Provision reversals and transfers of charges | 2.7 | 353,307 | 64,709 |
| Other revenue | | 16,183 | 31,607 |
| **Operating revenues** | | **21,803,139** | **16,593,804** |
| Purchases consumed, subcontracting and other supplies | | (7,309,023) | (3,663,887) |
| Other external purchases and charges | | (7,779,621) | (6,486,362) |
| Taxes and duties | | (564,375) | (234,949) |
| Wages and salaries | | (5,730,151) | (3,489,325) |
| Social security costs | | (2,403,316) | (1,441,946) |
| Amortization and depreciation charges | | (3,424,244) | (2,078,656) |
| Provision charges | | (897,628) | (1,524,940) |
| Other expenses | | (625,518) | (752,303) |
| **Operating expenses** | | **(28,733,876)** | **(19,672,368)** |
| **Operating income** | | **(6,930,737)** | **(3,078,564)** |
| Financial income | | 281,506 | 2,134,220 |
| Financial expenses | | (5,015,234) | (9,672,317) |
| **Net financial income / (expense)** | 6.3 | **(4,733,728)** | **(7,538,097)** |
| **Income/(loss) before tax** | | **(11,664,465)** | **(10,616,661)** |
| Exceptional income | | 682,431 | 12,002 |
| Exceptional expenses | | (596,911) | (1,171,328) |
| **Net exceptional income/(expense)** | 2.9 | **85,520** | **(1,159,326)** |
| Corporate tax | 7 | 897,375 | 970,054 |
| **Net income / (loss)** | | **(10,681,570)** | **(10,805,933)** |

**The accompanying notes form an integral part of the parent company financial statements.**

## 3.2 BALANCE SHEET

| | | 12.31.2017 | | | 12.31.2016 |
|---|---|---|---|---|---|
| **(€)** | **Notes** | **Gross** | **Depr. amort. & prov.** | **Net** | **Net** |
| Intangible assets | **4.6** | 17,557,219 | 10,905,978 | 6,651,241 | 5,400,305 |
| Property, plant and equipment | **4.6** | 9,878,459 | 3,708,597 | 6,169,862 | 4,841,756 |
| Non-current financial assets | **4.6** | 10,396,494 | 2,565,018 | 7,831,476 | 12,019,264 |
| **Non-current assets** | | **37,832,172** | **17,179,593** | **20,652,579** | **22,261,325** |
| Inventories | **2.1** | 12,284,436 | 3,331,149 | 8,953,287 | 5,978,650 |
| Trade receivables | **2.2** | 3,390,636 | 30,146 | 3,360,490 | 2,412,861 |
| Other receivables | **2.2** | 11,827,970 | 1,824,440 | 10,003,530 | 12,210,660 |
| Cash and cash equivalents | **6.1.5** | 11,676,846 | - | 11,676,846 | 7,701,012 |
| **Current assets** | | **39,179,888** | **5,185,735** | **33,994,153** | **28,303,183** |
| **Total assets** | | **77,012,060** | **22,365,328** | **54,646,732** | **50,564,508** |

| | | 12.31.2017 | 12.31.2016 |
|---|---|---|---|
| **(€)** | **Notes** | **Net** | **Net** |
| Share capital | | 2,413,266 | 1,605,307 |
| Reserves | | 35,333,873 | 28,026,008 |
| Net income for the year | | (10,681,570) | (10,805,933) |
| **Shareholders' equity** | **8.3** | **27,065,569** | **18,825,382** |
| Conditional advances | **6.2** | 196,250 | 317,500 |
| **Other equity** | | **196,250** | **317,500** |
| Long-term financial debt | **6.1.1** | 17,346,185 | 19,810,775 |
| **Non-current liabilities** | | **17,346,185** | **19,810,775** |
| Provisions for liabilities and charges | **5.1** | 139,094 | 276,059 |
| Short-term financial debt | **6.1.2** | 3,544,980 | 2,715,808 |
| Group and associates | **6.1** | - | 1,021,046 |
| Trade payables | **2.3** | 3,956,359 | 6,074,036 |
| Other liabilities | **2.3** | 2,398,295 | 1,523,902 |
| **Current liabilities** | | **10,038,728** | **11,610,851** |
| **Total shareholders' equity and liabilities** | | **54,646,732** | **50,564,508** |

**The accompanying notes form an integral part of the parent company financial statements.**

## 3.3 CASH FLOW STATEMENT

| (€) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **Net income / (loss)** | **(10,681,570)** | **(10,805,933)** |
| Property, plant and equipment depreciation and intangible asset amortization | 3,032,043 | 2,078,656 |
| Provision charges | 3,548,681 | 8,534,032 |
| Proceeds from sale of non-current assets | 4,850 | 216,095 |
| Merger premium | (65,746) | - |
| **Self-financing capacity** | **(4,161,742)** | **22,850** |
| Change in inventories and work in progress | (3,634,948) | (2,975,005) |
| Change in trade receivables | (845,601) | 2,278,857 |
| Change in trade payables | (2,274,220) | 2,898,052 |
| Change in other receivables and payables | 4,279,085 | (1,599,772) |
| **Cash flow from working capital requirement** | **(2,475,684)** | **602,132** |
| **Net cash flow from operating activities** | **(6,637,426)** | **624,982** |
| Acquisition of non-current assets | (6,132,747) | (6,710,186) |
| Disposal of non-current assets | 587,594 | - |
| Conditional advances received (repaid) | (121,250) | (86,250) |
| Other movements | 177,131 | 219,933 |
| **Net cash flow from investment activities** | **(5,489,272)** | **(6,576,503)** |
| Share capital increase | 20,216,960 | 5,104,354 |
| Proceeds from new borrowings | 492,020 | 16,417,587 |
| Repayment of borrowings | (2,301,898) | (2,197,198) |
| Increase / (decrease) in subsidiaries' current accounts | (1,021,046) | (6,816,188) |
| Other movements | (1,283,504) | (240,320) |
| **Net cash flow from financing activities** | **16,102,532** | **12,268,235** |
| **Change in cash and cash equivalents** | **3,975,834** | **6,316,714** |
| **Cash and cash equivalents - beginning of year** | **7,201,012** | **884,298** |
| **Cash and cash equivalents - end of year** | **11,176,846** | **7,201,012** |
| Positive cash balances - beginning of year | 7,701,012 | 884,298 |
| Positive cash balances - end of year | 11,676,846 | 7,701,012 |
| **Change in positive cash balances** | **3,975,834** | **6,816,714** |
| Negative cash balances - beginning of year | 500,000 | - |
| Negative cash balances - end of year | 500,000 | 500,000 |
| **Change in negative cash balances** | **-** | **500,000** |
| **Change in cash and cash equivalents** | **3,975,834** | **6,316,714** |

**The accompanying notes form an integral part of the parent company financial statements.**

## 3.4 NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS AT DECEMBER 31, 2017

The notes form an integral part of the financial statements prepared in accordance with the legal and regulatory requirements applicable in France.

The parent company financial statements were approved by the Board of Directors on April 4, 2018.

## NOTE 1: ACCOUNTING PRINCIPLES

### 1.1 Preparation bases

MEDICREA INTERNATIONAL's financial statements are prepared in euros, in compliance with ANC Regulation No. 2014-03 of 5 June 2014, and in accordance with the going concern principle, as set out in Note 6.4.2. "Covenants" are assessed in light of the Company's capacity to meet – over the 12 months following the date of preparation of the financial statements – its cash flow requirements linked to its operations, its investments and the repayment of its short-term financial liabilities, while generating positive self-financing capacity and allocating sufficient financial resources. Depending on the case, the basic method used for the valuation of items recognized in the balance sheet is the historical cost, the contribution cost or the revalued amount. The accounting principles used in the preparation of the parent company financial statements for the year 2017 are identical to those applied the previous year.

The preparation of the financial statements requires the drawing up of estimates and assumptions likely to have an impact on the Company's assets and liabilities, as well as on those of its subsidiaries and equity investments.

The estimates and assumptions used are reviewed on an ongoing basis. Due to the uncertainty inherent to any valuation process, it is possible that the amounts shown in future financial statements may differ from the amounts currently estimated.

At December 31, 2017, the Company was not aware of any changes in estimates having a significant impact during the period.

### 1.2 Conversion of foreign currency-denominated items

Foreign currency-denominated transactions are converted at the exchange rate in effect at the time of the transaction, or at the rate of the currency hedge arranged, where applicable.

Foreign currency-denominated assets and liabilities are converted at the closing exchange rate, or maintained at the rate of the hedge assigned to them.

The difference resulting from the conversion of foreign currency-denominated liabilities and receivables at the closing exchange rate is taken to the balance sheet under "accruals", where applicable. In the event of an unrealized currency loss at the balance-sheet date, a provision is recorded for the amount of the unhedged risk.

# NOTE 2: OPERATIONAL DATA

## 2.1 Inventories

Raw material inventories are measured at their weighted average cost, including sourcing costs. Finished and semi-finished goods inventories are valued at cost, excluding sales and marketing expenses.

Impairment is recognized when the probable realizable value of inventories is lower than book value.

Gross and net inventories are analyzed as follows:

| | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| **(€)** | **Gross values** | **Impairment** | **Net values** | **Gross values** | **Impairment** | **Net values** |
| Raw materials | 494,979 | (26,379) | 468,600 | 263,928 | (53,962) | 209,966 |
| Work-in-process | 1,072,507 | (87,336) | 985,171 | 76,113 | (19,111) | 57,002 |
| Semi-finished goods | 1,891,621 | (157,507) | 1,734,114 | 261,715 | - | 261,715 |
| Finished goods | 8,825,329 | (3,059,927) | 5,765,402 | 7,976,999 | (2,527,032) | 5,449,967 |
| **Total** | **12,284,436** | **(3,331,149)** | **8,953,287** | **8,578,755** | **(2,600,105)** | **5,978,650** |

MEDICREA INTERNATIONAL now carries out all of the production operations on a stand-alone basis, which partially explains the significant increase in raw material inventories, work-in-progress, and semi-finished goods compared with the previous fiscal year. It centrally manages its inventories of finished goods intended for supply to marketing subsidiaries and to fulfill the needs of independent distributors.

The gross value of inventories grew 43% in comparison with 2016. The Company experienced a major industrial reorganization due to the transfer of its production plant from La Rochelle to Rillieux-la-Pape, which resulted in a large number of organizational changes and to the significant use of sub-contractors on a temporary basis. These factors, combined with a decrease in sales of the Company's distribution subsidiaries due to the economic environment (mainly in the United States), had an adverse effect on inventories. The Company has taken these problems into account, and a new industrial and logistics organizational structure based on managing the inventories on a pull-flow principle is currently being introduced, and is expected to produce its initial beneficial effects as from the 2$^{nd}$ quarter of 2018.

Impairment charges accounted for 27% of the average gross amounts at December 31, 2017, compared with 30% at December 31, 2016. The €0.7 million increase in these charges is linked to the increase in finished and semi-finished goods.

## 2.2 Trade and other receivables

Trade and other receivables are recorded at their nominal value.

A provision for impairment is established where the recoverable value of the receivables, based on the probability of collection, is lower than the book value. The recoverable value is assessed on a receivable-by-receivable basis according to this risk.

The Company factors some of its receivables based on its cash flow requirements. The value of invoicing subject to factoring at year-end, which as a result no longer appears in trade receivables at that date, is disclosed in off-balance sheet commitments.

Trade and other receivables are analyzed as follows:

| | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| **(€)** | **Gross values** | **Impairment** | **Net values** | **Gross values** | **Impairment** | **Net values** |
| **Trade receivables** | **3,390,636** | **(30,146)** | **3,360,490** | **2,449,647** | **(36,786)** | **2,412,861** |
| Social security receivables | 2,200 | - | 2,200 | 2,200 | - | 2,200 |
| Tax receivables | 1,701,476 | - | 1,701,476 | 1,811,769 | - | 1,811,769 |
| Intra-Group current accounts | 8,623,591 | (1,824,440) | 6,799,151 | 8,052,511 | - | 8,052,511 |
| Other receivables | 1,234,757 | - | 1,234,757 | 1,622,101 | - | 1,622,101 |
| Advances and prepayments to | 80,184 | - | 80,184 | 251,777 | - | 251,777 |
| suppliers | 158,668 | - | 158,668 | 460,548 | - | 460,548 |
| Prepaid expenses | 27,094 | - | 27,094 | 9,754 | - | 9,754 |
| Asset translation adjustment | **11,827,970** | **(1,824,440)** | **10,003,530** | **12,210,660** | **-** | **12,210,660** |
| **Other receivables** | | | | | | |
| **Total current assets** | **15,218,606** | **(1,854,586)** | **13,364,020** | **14,660,307** | **(36,786)** | **14,623,521** |
| **Average days sales outstanding** | | **67 days** | | | **43 days** | |

The change in trade receivables between 2017 and 2016 is analyzed as follows:

| **(€)** | **12.31.2017** | **12.31.2016** |
|---|---|---|
| MEDICREA USA | 1,520,922 | 203 |
| MEDICREA POLAND | 64,337 | 24,997 |
| MEDICREA TECHNOLOGIES UK | 10,792 | - |
| MEDICREA GMBH | - | 77,481 |
| MEDICREA TECHNOLOGIES | - | 55,488 |
| **Intra-Group receivables** | **1,596,051** | **158,169** |
| Non-Group receivables | 1,794,585 | 2,291,478 |
| **Total trade receivables** | **3,390,636** | **2,449,647** |

The €0.9 million increase in trade receivables breaks down between a €1.4 million increase in Group receivables as a result of the transfer of all of the receivables held against MEDICREA USA to the current account at December 31, 2016, and a €0.5 million decrease in non-Group receivables resulting from the absence of invoices for any products on the Brazilian market since the beginning of 2017.

Following the absorption of the company MEDICREA TECHNOLOGIES, since November 30, 2017 non-Group receivables have included invoices due by repair center customers.

Trade receivables deemed highly unlikely to be collected are the subject of a provision for impairment for their full amount exclusive of VAT.

Tax receivables include the research tax credit of €897,375 and the competitiveness and employment tax credit of €161,667. Other tax receivables primarily include VAT to be recovered.
At December 31, 2017, intra-Group current accounts were broken down as follows:

| | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| **(€)** | **Gross values** | **Impairment** | **Net values** | **Gross values** | **Impairment** | **Net values** |
| MEDICREA USA current account | 6,053,968 | - | 6,053,968 | 6,705,788 | - | 6,705,788 |
| MEDICREA GMBH current account | 1,229,795 | 1,229,795 | - | 1,036,420 | - | 1,036,420 |
| MEDICREA POLAND current account | 745,183 | - | 745,183 | - | - | - |
| MEDICREA TECHNOLOGIES UK current account | 594,645 | 594,645 | - | 310,303 | - | 310,303 |
| **Total intra-Group current accounts** | **8,623,591** | **1,824,440** | **6,799,151** | **8,052,511** | **-** | **8,052,511** |

The discounting of future cash flows generated by the subsidiaries at December 31, 2017 resulted in a provision of €1.8 million being recognized in relation to MEDICREA TECHNOLOGIES UK and MEDICREA GMBH current accounts.

The maturity dates of receivables are broken down as follows:

| **(€)** | **12.31.2017** | **Within 1 year** | **1 to 5 years** | **More than 5 years** |
|---|---|---|---|---|
| Other non-current financial assets | 389,300 | 66,810 | 40,000 | 282,490 |
| Trade receivables | 3,390,636 | 3,390,636 | - | - |
| Social security receivables | 2,200 | 2,200 | - | - |
| Tax receivables | 1,701,476 | 1,701,476 | - | - |
| Intra-Group current accounts | 8,623,591 | - | 8,623,591 | - |
| Other receivables | 1,234,757 | 1,234,757 | - | - |
| Advances and prepayments to suppliers | 80,184 | 80,184 | - | - |
| Prepaid expenses | 158,668 | 158,668 | - | - |
| **Total** | **15,580,812** | **6,634,731** | **8,663,591** | **282,490** |

Accrued income included in various asset items are broken down as follows:

| **(€)** | **12.31.2017** | **12.31.2016** |
|---|---|---|
| Trade receivables | 39,123 | 119,622 |
| Other receivables | 55,243 | 59,328 |
| **Total** | **94,366** | **178,950** |

## 2.3 Trade payables and other liabilities

Trade payables and other liabilities are analyzed as follows:

| **(€)** | **12.31.2017** | **12.31.2016** |
|---|---|---|
| **Trade payables** | **3,956,359** | **6,074,036** |
| Social security liabilities | 1,621,583 | 1,002,862 |
| Tax liabilities | 300,124 | 120,101 |
| Other liabilities | 435,477 | 169,568 |
| Customer advances and prepayments | 29,436 | 117,669 |
| Translation adjustment liability | 11,675 | 113,702 |
| **Total other liabilities** | **2,398,295** | **1,523,902** |
| **Total current liabilities** | **6,354,654** | **7,597,938** |
| *of which due in less than one year* | *6,104,508* | *7,597,938* |

The change in trade payables between 2017 and 2016 is analyzed as follows:

| (€) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| MEDICREA TECHNOLOGIES UK | 19,209 | - |
| MEDICREA USA | 15,560 | - |
| MEDICREA TECHNOLOGIES | - | 2,800,502 |
| **Intra-Group liabilities** | **34,769** | **2,800,502** |
| Non-Group liabilities | 3,921,590 | 3,273,534 |
| **Total** | **3,956,359** | **6,074,036** |

Since the transfer of the La Rochelle plant to Rillieux-la-Pape, trade payables are now carried directly by the Company, which previously used to obtain supplies from its MEDICREA TECHNOLOGIES production subsidiary. The decrease of around €2 million in overall trade payables compared with 2016 is linked to the fall in business volumes over the 2017 fiscal year, to the high level of trade payables over the last quarter of 2016, as part of the major orders delivered during the same period (primarily in Brazil), and more generally to better observance of due dates for settling invoices.

The liability translation adjustment at December 31, 2017 mainly comprised the translation of Group receivables denominated in foreign currencies (see section 2.2).

Accrued liabilities included in various liability items are broken down as follows:

| (€) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Financial debt | 12,078 | 8,642 |
| Trade payables | 751,191 | 639,687 |
| Social security liabilities | 1,203,368 | 717,034 |
| Tax liabilities | 290,055 | 90,684 |
| Other liabilities | 72,000 | 58,355 |
| **Total** | **2,328,692** | **1,514,402** |

## 2.4 Sales

Sales are recognized on the date the significant risks and rewards of ownership are transferred, which most frequently takes place when the products are shipped. In certain specific cases, when the Company delivers directly to healthcare institutions (e.g. in the French market), implants and instruments are held on consignment. They are not invoiced on delivery and remain recognized as assets. Only implants that have been placed and/or broken or lost instruments are subsequently invoiced.

Regular inventories of medical devices held on consignment are made, either directly on site, or after the assets are returned to and reviewed by the Company, and any necessary accounting adjustments are recognized in the financial statements.

Sales are analyzed as follows:

| (€) | 12.31.2017 France | 12.31.2017 Exports | 12.31.2017 Total | 12.31.2016 France | 12.31.2016 Exports | 12.31.2016 Total |
|---|---|---|---|---|---|---|
| Merchandise sales | 5,918,594 | 9,685,029 | 15,603,623 | 687,067 | 12,814,172 | 13,501,239 |
| Provision of services | 174,358 | 155,023 | 329,381 | 407,299 | 162,512 | 569,811 |
| **Total sales** | **6,092,952** | **9,840,052** | **15,933,004** | **1,094,366** | **12,976,684** | **14,071,050** |

The change in sales between 2017 and 2016 is analyzed as follows:

| (€) | 2017 | 2016 | Change |
|---|---|---|---|
| MEDICREA USA | 5,619,069 | 7,348,225 | (24)% |
| MEDICREA POLAND | 656,182 | 24,997 | N/S |
| MEDICREA TECHNOLOGIES | 160,585 | 941,587 | (83)% |
| MEDICREA TECHNOLOGIES UK | (17,401) | 161,856 | (111)% |
| MEDICREA GMBH | (168,768) | 364,421 | (146)% |
| MEDICREA EUROPE FRANCOPHONE | - | 106,307 | (100)% |
| **Total intra-Group sales and rebillings** | **6,249,667** | **8,947,393** | **(30)%** |
| Private and public hospitals - France | 5,962,073 | - | + 100% |
| Export distributors | 3,590,990 | 5,082,746 | (29)% |
| Repair center | 76,444 | - | + 100% |
| Other | 53,830 | 40,911 | + 32% |
| **Total external sales and rebillings** | **9,683,337** | **5,123,657** | **+ 89%** |
| **Net sales** | **15,933,004** | **14,071,050** | **+ 13%** |

The sales generated with the Company’s marketing subsidiaries decreased by around 30% compared with the previous fiscal year due to the effect of the transfer of all the assets and liabilities of MEDICREA EUROPE FRANCOPHONE in late 2016, the relocation of the manufacturing facility from La Rochelle to Rillieux-la-Pape in January 2017, and the inventories recovered from MEDICREA USA and MEDICREA GMBH.

The sales generated with international distributors, public and private hospitals in France, and the customers of the repair center since the transfer of all the assets and liabilities of MEDICREA TECHNOLOGIES in November 2017, which reflects MEDICREA INTERNATIONAL’s direct marketing activities, increased by 13% although the trends were mixed depending on the geographical regions:

- In France, under stable market conditions, MEDICREA INTERNATIONAL achieved sales of almost €6 million in 2017, up 15% compared to the prior year performance of MEDICREA EUROPE FRANCOPHONE (merged into MEDICREA INTERNATIONAL in December 2016), driven by the adoption of its UNiD™ ASI technology by a growing number of surgeons;

- In export markets, following the need to regain registration for all products in the range with the Brazilian health authorities and obtain validation of the new Rillieux-la-Pape manufacturing facility, no sales were made in this market during 2017 (sales of €2 million in 2016). Since the authorizations were secured in December 2017, the activity should quickly return to a normative level in 2018. Excluding Brazil, the distribution business grew by 6%, generating sales of €3.6 million.

### 2.5 Own work capitalized

Own word capitalized stood at €2.1 million, and was stable compared with the 2016 fiscal year. It includes the capitalization of R&D expenses and of expenditure on patents, and reflects the Company's sustained innovation efforts.

### 2.6 Finished products and work-in-progress

The €3.1 million increase in finished products and work-in-progress compared with 2016 was mainly due to the transfer of the production plant from La Rochelle to Rillieux-la-Pape, which resulted in a large number of organizational changes and to the significant use of sub-contractors on a temporary basis. These factors, combined with a decrease in sales of the Company's distribution subsidiaries due to the economic environment (mainly in the United States), had an adverse effect on inventories.

### 2.7 Provision reversals and transfers of charges

Provision reversals and transfers of charges are broken down as follows:

| **(€)** | **12.31.2017** | **12.31.2016** |
|---|---|---|
| Provision for liabilities and charges | 182,706 | - |
| Inventory impairment | 67,248 | - |
| Provision for bad debts | 10,911 | 7,600 |
| Transfers of charges | 92,442 | 57,109 |
| **Provision reversals and transfers of charges** | **353,307** | **64,709** |

The reversals of provisions for liabilities and charges are primarily explained by the impairment of MEDICREA TECHNOLOGIES' inventory, which was recorded in the Company's financial statements at the end of December 2016, and was reversed when the inventory was transferred in January 2017. They also include the transfer allowances paid to the employees of the La Rochelle plant who relocated to the new Rillieux-la-Pape site. A provision for these allowances was recorded at the end of 2016, and was reversed when they were paid during the 2017 fiscal year.

### 2.8 Other revenue

Royalties received on patents owned by the Company and used in other medical applications are recognized as other operating income.

### 2.9 Distinction between exceptional income and income from recurring operations

Income from recurring operations is derived from activities in which the Company is involved in the course of its business and related activities that are either incidental to or are an extension of its ordinary business, including the disposal and write-off of instruments and equipment.

Exceptional items result from unusual events or transactions that are distinct from the ordinary business and which are not expected to recur frequently and regularly.

Exceptional income for the 2017 fiscal year primarily includes the balance of the transfer allowances relating to the relocation of employees from the La Rochelle plant to the Rillieux-la-Pape campus.

## 2.10 Impact of exchange differences on sales and operating income

Average exchange rates evolved as follows:

| Average conversion rates | 12.31.2017 | 12.31.2016 |
|---|---|---|
| USD / EUR | 1.12493 | 1.10605 |
| GBP / EUR | 0.87313 | 0.81251 |
| PLN / EUR | 4.26218 | 4.3622 |

The impact of currency fluctuations on the comparability of the financial statements for the 2016 and 2017 fiscal years is as follows:

| (€) | 12.31.2017 at 2017 rates | 12.31.2017 at 2016 rates | Impact of exchange rates |
|---|---|---|---|
| Sales | 15,933,004 | 16,018,039 | (85,035) |
| Operating income | (6,930,737) | (6,960,912) | 30,175 |

## NOTE 3: EMPLOYEE COSTS AND BENEFITS

### 3.1 Workforce

The workforce can be analyzed by category as follows:

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Executives | 66 | 46 |
| Supervisors - Employees | 60 | 27 |
| **Total** | **126** | **73** |

The change in the headcount primarily reflects the consolidation of all of the organizations based in France within MEDICREA INTERNATIONAL, following the contribution transactions.

### 3.2 Pension plans and post-employment benefits

Defined contribution plans (legal and supplementary pension plans) are characterized by payments to organizations that free the employer from any subsequent obligation, with the organization being responsible for paying the amounts due to staff. Given their nature, defined contribution plans do not give rise to the recognition of provisions as the contributions are recognized as expenses when they are due.

No payment is made to an insurance company or any provision established to service retirement benefits provided for by the collective agreement applicable to MEDICREA INTERNATIONAL (Import / Export). The corresponding commitment is however assessed annually based on the following features:

- retirement age: age at which an employee has acquired sufficient entitlements to obtain a full pension;
- social security rates: adjusted based on the employee and company status. On average, rates are 46% for executives and 41% for non-executives;
- rate of salary increase: 2%;
- departure mode: at the employee's initiative;
- life table: INSEE 2012-2014 by gender;
- annual mobility: based on category (executive and non-executive) and age, with a turnover rate of 0 after 50 years old;
- discount rate: 1.30%, based on the long-term yields of private sector euro-denominated AA-rated bonds (Corporate bonds AA10+) over a period equivalent to that of commitments, in accordance with the ANC's recommendation.

No provision has been made in MEDICREA INTERNATIONAL's financial statements to cover retirement benefits.

The value of acquired rights was €600,328 at December 31, 2017, compared with €513,368 at December 31, 2016. Movements are analyzed as follows:

| **(€)** | **12.31.2017** | **12.31.2016** |
|---|---|---|
| Actuarial liability at 12.31.2016 | 513,368 | 256,964 |
| | | |
| *Service cost in operating income* | *86,922* | *66,328* |
| *Net financial expense* | *7,187* | *5,653* |
| **Charge for the year in respect of defined benefit plans** | **94,109** | **71,981** |
| | | |
| Actuarial gains and losses | (19,447) | 90,041 |
| Change in consolidation scope | 12,298 | 94,382 |
| | | |
| **Actuarial liability at 12.31.2017** | **600,328** | **513,368** |

The transfer of the production workforce from the La Rochelle plant to MEDICREA INTERNATIONAL at December 31, 2016 had been anticipated in order to calculate the actuarial commitment. Following the transfer of all assets and liabilities of MEDICREA TECHNOLOGIES to MEDICREA INTERNATIONAL as of November 30, 2017, the repair center employees also joined MEDICREA INTERNATIONAL's workforce. The impact of this transfer appears under "Change in consolidation scope".

The members of the Board of Directors and senior executives do not benefit from a supplementary pension plan.

### 3.3 Seniority awards

No provision is established for seniority award commitments. Applicable collective agreements do not provide for any specific provisions in this regard.

### 3.4 Share-based payments

Employees of the MEDICREA Group receive compensation in equity instruments, the payment of which is based on shares. This compensation takes the form of free share allocation plans or of stock option plans. Almost all of the costs relating to these plans have been recognized in the financial statements of MEDICREA.

At the Shareholders' Meetings of March 10, 2006, June 25, 2009, June 14, 2012, June 25, 2014, June 3, 2015, December 18, 2015, June 7, 2016, June 15, 2017 and November 8, 2017, the authority to allocate share subscription or purchase options and to allocate free shares was delegated to the Board of Directors. At the Board of Directors' meetings of June 5, 2008, June 25, 2009, December 17, 2009, June 17, 2010, June 16, 2011, December 17, 2013, March 27, 2014, September 3, 2015, July 25, 2016, September 19, 2016, and December 22, 2017, share subscription options and/or free shares were allocated.

#### 3.4.1 Share purchase option plans

No provision has been recorded in relation to these plans in accordance with the provisions of Article 624-6 of the French General Chart of Accounts.

The characteristic features of the share purchase option plans intended for the Company's employees, and which have been authorized by the Shareholders Meeting, were as follows at December 31, 2017:

| Year the plan was arranged | Number of options authorized | Number of options canceled | Number of options exercised | Number of shares not yet vested at 12/31/2017 | Exercise price (€) | Year unexercised options will lapse |
|---|---|---|---|---|---|---|
| 2008 | 20,723 | 10,964 | 4,167 | 5,592 | 6 | 2018 |
| 2009 | 53,480 | 33,000 | 20,480 | - | - | - |
| 2010 | 112,800 | 99,926 | 12,874 | - | - | - |
| 2011 | 95,500 | 84,500 | - | 11,000 | 9.10 / 11.44 * | 2018 |
| 2013 | 10,000 | 10,000 | - | - | 8.77 | 2020 |
| 2014 | 30,000 | - | - | 30,000 | 9.10 | 2021 |
| 2015 | 12,000 | 12,000 | - | - | - | - |
| 2016 | 406,500 | 406,500 | - | - | 5.43 * / 5.74 * | 2023 |
| 2017 | 660,000 | - | - | 660,000 | 4.19 / 4.11 * / 2.92 * | 2024 |
| **Total** | **1,401,003** | **656,890** | **37,521** | **706,592** | | |

* The exercise price differs for US employees as the allocation dates are final 20 trading days after the date of the Board of Directors' meeting deciding the allocation.

### 3.4.2 Free share plans

No provision has been recorded in relation to these plans in accordance with the provisions of Article 624-6 of the French General Chart of Accounts.

The characteristic features of these free share plans authorized by the Shareholders' Meeting were as follows at December 31, 2017:

| Year the plan was arranged | Number of free shares authorized | Number of free shares canceled | Number of free shares vested | Number of shares to be allocated at 12/31/2017 | Year vested (1) |
|---|---|---|---|---|---|
| 2008 | 18,099 | 936 | 17,163 | - | 2010 / 2012 |
| 2009 | 45,800 | 8,100 | 37,700 | - | 2011 / 2013 |
| 2010 | 45,885 | 9,965 | 35,920 | - | 2012 / 2014 |
| 2011 | 3,500 | - | 3,500 | - | 2013 |
| 2016 | 72,990 | 9,000 | 32,990 | 31,000 | 2017 / 2018 |
| **Total** | **186,274** | **28,001** | **127,273** | **31,000** | |

(1) The vesting year varies depending on the countries where the beneficiaries of the plan are employed.

### 3.4.3 Change in stock purchase option and free share plans

Transactions in share-based payment instruments in the 2017 fiscal year are summarized as follows:

| | Subscription options | | | Free shares | | |
|---|---|---|---|---|---|---|
| | **Number of options** | **Average residual contractual life** | **Average exercise price (€)** | **Number of shares** | **Average residual contractual life** | |
| | | | | | **France** | **United States** |
| **Balance at 12.31.15** | **229,338** | **2.36** | **7.29** | - | - | - |
| - allocated | 406,500 | 4.74 | 5.43 | 72,990 | 0.72 | 1.72 |
| - canceled | (4,400) | 0.77 | 6.81 | - | - | - |
| - lapsed | (61,720) | - | 6.16 | - | - | - |
| - exercised | - | - | - | - | - | - |
| **Balance at 12.31.16** | **569,718** | **5.33** | **6.09** | **72,990** | **0.72** | **1.72** |
| - allocated | 660,000 | 6.89 | 3.00 | - | - | - |
| - canceled | (464,000) | 5.64 | 5.75 | (9,000) | - | - |
| - lapsed | (59,126) | - | 6.14 | - | - | - |
| - exercised | - | - | - | (32,990) | - | - |
| **Balance at 12.31.17** | **706,592** | **6.58** | **3.67** | **31,000** | **-** | **0.72** |

### 3.5 French Personal Training Account (PTA)

Only training expenses effectively incurred in respect of the individual training right, as decided jointly by the employee and the Company, are recognized as expenses in the fiscal year. A provision charge is only recognized in the following two instances:

- persistent disagreement over two successive fiscal years between the employee and the Company, if the employee has requested individual training leave from Fongecif;
- resignation or dismissal of the employee, if the latter requests their individual training right before the end of their notice period.

The Company's annual contribution in respect of the PTA (0.2% of payroll costs) is paid to *Organismes Paritaires Collecteurs Agréés* (OPCAs), which in turn finance the future training programs carried out under this framework.

### 3.6 French tax credit for competitiveness and employment

The tax credit for competitiveness and employment is recognized as a reduction of employee costs as the corresponding compensation costs are incurred. Its purpose is to improve the Company's competitiveness and assist it in its efforts related to investments, innovation, training, recruitment, environmental and energy transition, and replenishment of working capital.

A total of €161,667 was recognized in 2017 in relation to this tax credit, compared with €81,325 in 2016. This increase is explained by the consolidation of the French workforce within a single organizational structure.

### 3.7 Senior executives and corporate officers' compensation

MEDICREA INTERNATIONAL has two executive corporate officers. They are Denys SOURNAC, Chairman and Chief Executive Officer of MEDICREA INTERNATIONAL, and Jean Philippe CAFFIERO, Deputy Chief Executive Officer of MEDICREA INTERNATIONAL.

Mr. SOURNAC is not an employee of MEDICREA INTERNATIONAL and is not compensated by the Company for his duties. The management holding company ORCHARD INTERNATIONAL receives fees for the services provided to MEDICREA INTERNATIONAL by Mr. SOURNAC. These fees are paid via a service agreement between ORCHARD INTERNATIONAL and MEDICREA INTERNATIONAL. The value of services invoiced by ORCHARD to MEDICREA INTERNATIONAL for the 2017 fiscal year for work carried out by Mr. SOURNAC was €300,000 exclusive of tax (unchanged from 2016).

Mr. SOURNAC did not receive any direct or indirect compensation from the Company other than that mentioned above, excluding Directors' fees of €7,000 in 2017 (€6,000 in 2016).

Mr. CAFFIERO is not compensated for his duties as Deputy CEO. Mr. CAFFIERO's export sales management services are invoiced by ORCHARD INTERNATIONAL to MEDICREA INTERNATIONAL, via the service agreement concluded between the two entities.

In 2017, ORCHARD INTERNATIONAL invoiced a total of €64,000 exclusive of tax (unchanged from 2016) to MEDICREA INTERNATIONAL for the sales management duties carried out by Mr. CAFFIERO. It is specified that Mr. CAFFIERO reduced his activities at MEDICREA INTERNATIONAL as from January 1, 2015, which therefore resulted in a significant decrease in the amount of the services invoiced by ORCHARD INTERNATIONAL. Mr. CAFFIERO has not carried out any operational duties at MEDICREA INTERNATIONAL since January 1, 2018, but retains his office as a Director of MEDICREA INTERNATIONAL.

Mr. CAFFIERO did not receive any direct or indirect remuneration other than those mentioned above, excluding Directors' fees of €7,000 in 2017 (€6,000 in 2016).

## NOTE 4: INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, AND FINANCIAL ASSETS

### 4.1 Impairment testing of amortizable assets

When new events or situations indicate that the book value of certain items of property, plant and equipment, and intangible assets may not be recoverable, this value is compared to the recoverable amount estimated based on the value in use if the net fair value cannot be estimated reliably. If the recoverable amount is less than the net book value of these assets, the latter is reduced to the recoverable value through the recognition of an impairment loss under expenses.

### 4.2 Intangible assets

Intangible assets include research and development costs, patents and trademarks, and software. Research and development costs are amortized over five years when they meet all of the criteria required for their recognition as assets. Capitalized costs are based on precise analytical monitoring, resulting in a breakdown of costs incurred by type and by project. Patents, licenses and trademarks are amortized over 5 to 10 years, depending on their useful lives. Software is amortized over periods ranging from 1 to 5 years.

### 4.3 Property, plant and equipment

Property, plant and equipment are valued using the historical cost method. The cost of an item of property, plant and equipment comprises:

- the purchase price, including import duties and non-refundable purchase taxes;
- any costs directly attributable to commissioning the asset in the manner intended;
- trade discounts and rebates deducted from the calculation of the purchase price.

Property, plant and equipment is broken down if their components have different useful lives or if they provide benefits to the Company at a different pace that requires the use of different amortization rates and methods.

Subsequent expenditure on non-current assets is expensed when it is incurred, except for the expenditure incurred in order to extend the useful life of the asset.

Ancillary parts included in sets made available to customer health institutions are capitalized until their return or replacement for cause of breakage, loss or obsolescence.

Property, plant and equipment is the subject of an impairment test, in accordance with the method set out in Note 4.1.

The depreciation charges are calculated in accordance with the estimated useful life of the non-current assets:

- technical facilities and equipment: 3 to 10 years;
- demonstration equipment; 3 years;
- Instrument sets; 3 years;
- office equipment, computer hardware, and furniture: 3 to 10 years;
- general facilities and fittings: 10 to 12 years;
- motor vehicles: 4 years.

In the case of the fixtures and fittings in the new head office in Rillieux-la-Pape, the estimated useful life corresponds to the full term of the lease.

### 4.4 Non-current financial assets and current accounts

Equity securities are valued at their historical acquisition cost and current accounts with subsidiaries at book value.

Impairment is recognized when the recoverable value assessed in accordance with the following criteria is lower than the value recognized under assets:

- value in use determined based on the net asset value of the subsidiary and its profitability prospects;
- value by reference to recent transactions involving companies operating in the same industry;
- value by reference to the discounted future cash flows generated by the subsidiary.

However, impairment is only recognized when the subsidiary has reached a normal operational level following its launch phase in the case of a start-up, or following the integration phase in the case of an acquisition.

The scope of the subsidiaries and interest percentages are detailed in the table below:

| | Registered office | % control |
|---|---|---|
| MEDICREA USA | New-York, USA | 100% |
| MEDICREA TECHNOLOGIES UK | Swaffam Bulbeck, UK | 100% |
| MEDICREA GMBH | Cologne, GER | 100% |
| MEDICREA POLAND | Łódź, PL | 100% |

Equity securities are broken down as follows:

| | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| **(€)** | **Gross value** | **Impairment** | **Net value** | **Gross value** | **Impairment** | **Net value** |
| MEDICREA USA | 7,395,058 | - | 7,395,058 | 7,395,058 | - | 7,395,058 |
| MEDICREA TECHNOLOGIES UK | 2,465,018 | (2,465,018) | - | 2,465,018 | (1,800,000) | 665,018 |
| MEDICREA GMBH | 100,000 | (100,000) | - | 100,000 | - | 100,000 |
| MEDICREA POLAND | 47,118 | - | 47,118 | 47,118 | - | 47,118 |
| MEDICREA TECHNOLOGIES | - | - | - | 11,946,000 | (8,600,000) | 3,346,000 |
| **Total** | **10,007,194** | **(2,565,018)** | **7,442,176** | **21,953,194** | **(10,400,000)** | **11,553,194** |

MEDICREA TECHNOLOGIES was wound up with no liquidation process on November 30, 2017 via a decision of MEDICREA INTERNATIONAL, its sole shareholder.

The discounting of future cash flows generated by the subsidiaries at December 31, 2017 resulted in an additional provision of €0.8 million being recognized in relation to MEDICREA TECHNOLOGIES UK and MEDICREA GMBH shares.

### 4.5 Treasury shares

The MEDICREA shares held by the Company are recognized at acquisition cost irrespective of the reason they are held.

When sold, the cost price of the shares is calculated in accordance with the first in, first out (FIFO) method, except for shares held within the framework of option plans, which are calculated on a plan-by-plan basis in accordance with the weighted average price method. Capital gains and losses on disposals are recorded in net financial income / (expense).

At December 31, 2017, treasury shares were analyzed as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| **(€)** | **Number** | **Amount** | **Number** | **Amount** |
| Liquidity contract | 4,438 | 14,310 | 2,650 | 14,054 |
| **Total number of MEDICREA shares** | **4,438** | **14,310** | **2,650** | **14,054** |

## 4.6 Change in non-current assets, and depreciation and amortization during FY 2017

The change in non-current assets is analyzed as follows:

| **Gross values (€)** | **01.01.2017** | Acquisitions | Disposals | TUP (2) | **12.31.2017** |
|---|---|---|---|---|---|
| Research & development costs | 9,831,312 | 1,836,995 | - | - | 11,668,307 |
| Patents and similar rights | 2,271,310 | 780,417 | - | 1,416,833 | 4,468,560 |
| Computer licenses and software | 963,580 | 461,253 | 54,271 | 24,656 | 1,395,218 |
| Brands | 25,133 | - | - | - | 25,133 |
| Domain name | - | - | - | 1 | 1 |
| **Intangible assets** | **13,091,335** | **3,078,665** | **54,271** | **1,441,490** | **17,557,219** |
| Buildings | - | - | - | 157 | 157 |
| Technical facilities and equipment | 1,801,078 | 642,372 | 26,042 | 52,983 | 2,470,391 |
| Demonstration equipment | 377,683 | 96,620 | 104,407 | - | 369,896 |
| Instrument sets | 2,499,701 | 943,659 | 403,134 | - | 3,040,226 |
| Computer hardware and office equipment | 1,114,805 | 247,054 | 269,377 | 1,539 | 1,094,021 |
| Other non-current assets | 2,034,582 | 1,120,330 | 262,540 | 11,396 | 2,903,768 |
| **Property, plant and equipment** | **7,827,849** | **3,050,035** | **1,065,500** | **66,075** | **9,878,459** |
| Equity securities | 21,953,194 | - | - | (11,946,000) | 10,007,194 |
| Receivables from investments | 48,274 | - | 48,274 | - | - |
| Treasury shares (1) | 14,054 | 256 | - | - | 14,310 |
| Guarantees and deposits | 403,742 | 3,791 | 92,651 | 60,108 | 374,990 |
| **Non-current financial assets** | **22,419,264** | **4,047** | **140,925** | **(11,885,892)** | **10,396,494** |
| **Total gross values** | **43,338,448** | **6,132,747** | **1,260,696** | **(10,378,327)** | **37,832,172** |

| **Amortization and depreciation (€)** | **01.01.2017** | Charges | Reversals | TUP (2) | **12.31.2017** |
|---|---|---|---|---|---|
| Research & development costs | 5,890,700 | 1,355,819 | - | - | 7,246,519 |
| Patents and similar rights | 1,470,314 | 296,375 | - | 1,376,273 | 3,142,962 |
| Computer licenses and software | 304,883 | 178,971 | 17,037 | 24,546 | 491,364 |
| Brands | 25,133 | - | - | - | 25,133 |
| Domain name | - | - | - | 1 | 1 |
| **Intangible assets** | **7,691,030** | **1,831,165** | **17,037** | **1,400,820** | **10,905,978** |
| Buildings | - | 1 | - | 36 | 37 |
| Technical facilities and equipment | 246,902 | 275,690 | 11,554 | 30,679 | 541,717 |
| Demonstration equipment | 224,424 | 102,265 | 104,407 | - | 222,282 |
| Instrument sets | 1,935,652 | 450,835 | 365,730 | - | 2,020,757 |
| Computer hardware and office equipment | 503,400 | 152,577 | 20,478 | 144 | 635,643 |
| Other non-current assets | 75,715 | 219,510 | 8,121 | 1,057 | 288,161 |
| **Property, plant and equipment** | **2,986,093** | **1,200,878** | **510,290** | **31,916** | **3,708,597** |
| Equity securities | 10,400,000 | 765,018 | - | (8,600,000) | 2,565,018 |
| **Non-current financial assets** | **10,400,000** | **765,018** | **-** | **(8,600,000)** | **2,565,018** |
| **Total amort., depr. and impairment** | **21,077,123** | **3,797,061** | **527,327** | **(7,167,264)** | **17,179,593** |

| **Net values (€)** | **01.01.2017** | Increases | Decreases | TUP (2) | **12.31.2017** |
|---|---|---|---|---|---|
| Intangible assets | 5,400,305 | 1,247,500 | 37,234 | 40,670 | 6,651,241 |
| Property, plant and equipment | 4,841,756 | 1,849,157 | 555,210 | 34,159 | 6,169,862 |
| Non-current financial assets | 12,019,264 | (760,971) | 140,925 | (3,285,892) | 7,831,476 |
| **Total net values** | **22,261,325** | **2,335,686** | **733,369** | **(3,211,063)** | **20,652,579** |

(1) cash held via the liquidity contract is included in cash and cash equivalents.
(2) The transfer (TUP) column in the above analysis reflects the integration of MEDICREA TECHNOLOGIES's assets following its absorption by the Company in late 2017.

The main changes in non-current assets resulting from this event are as follows:

1 / Research and development activity is structurally important and is a key differentiating factor for the Company. The main costs incurred in the 2017 fiscal year include:

- Continued development of the UNiD™ platform and service offering including several software applications and an operating assistance and planning unit that make it possible to provide patients with patient-specific implants;
- Development of patient-specific corpectomy implants;
- Finalization of the 3D-printing manufacturing process using additive titanium layers;
- Incorporation of new services for the use of data pre-, inter- and post-operatively and for analytical teaching.

R&D costs capitalized for the fiscal year 2017 amounted to €1,836,995 compared with €2,021,846 in 2016.

2 / Patent costs capitalized in 2017 amounted to €780,417, compared with €109,358 in respect of the previous year. €0.6 million of these costs relates to the purchase of three patents from Dr Paul McAfee, which protect an innovative technique that helps to ascertain the physiological height of the intervertebral space by using the anatomy of the patient to accurately select the appropriate interbody device.

3/ The growth in the number of licenses and software packages is primarily linked to the development of a surgical planning software package and applications.

4/ The Company continued to expand its machine base with an investment of €0.3 million euros in various industrial equipment in 2017 and bought back a number of machines of the La Rochelle manufacturing facility from MEDICREA TECHNOLOGIES.

5/ Demonstration equipment is subjected to an exhaustive inventory each year. It includes all products, with their own serigraphy and not saleable in their current condition, used by the sales force to train customers to manipulate implants and instruments. This equipment is regularly updated based on movements in / out of new / old products.

6/ To carry out the surgical procedures, the Company offers its customers sets comprising instruments and implants. This equipment is stored at healthcare facilities or is available on loan. The instruments are recorded under property, plant and equipment and depreciated over a period of 3 years. Business development requires the Company to increase and renew the assets used by its customers, particularly in France. Fully-amortized instruments are taken off the books on a regular basis.

7/ The increase in the IT and office equipment item is primarily explained by the installation of video equipment at the new headquarters in Rillieux-la-Pape.

8/ The growth in other property, plant and equipment is due to the completion of installation work at the new headquarters for €1.1 million.

9/ Non-current financial assets include equity securities, treasury shares held as part of a liquidity contract, receivables from investments and guarantees paid.

## 4.7 Leases

### 4.7.1 Finance leases

Non-current assets acquired through finance leases are recognized in the parent company financial statements under expenses for the year (lease payments), according to the schedules set out in the contract. They are broken down as follows:

| | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| **(€)** | **Gross values** | **Amort./depr.** | **Net values** | **Gross values** | **Amort./depr.** | **Net values** |
| Software | 21,700 | (14,888) | 6,812 | 21,700 | (7,655) | 14,045 |
| Technical facilities and equipment | 3,108,569 | (1,424,482) | 1,684,087 | 3,432,347 | (1,527,265) | 1,905,082 |
| Computer hardware | 962,273 | (407,287) | 554,986 | 397,519 | (355,059) | 42,460 |
| **Total** | **4,092,542** | **(1,846,657)** | **2,245,885** | **3,851,566** | **(1,889,979)** | **1,961,587** |

Lease-financed commitments are analyzed as follows:

| **(€)** | **12.31.2017** | **12.31.2016** |
|---|---|---|
| **Lease payments** | | |
| Total payments from previous years (1) | 1,425,166 | 1,034,543 |
| Lease payments for the year (1) | 525,252 | 504,997 |
| **Total** | **1,950,418** | **1,539,540** |
| **Future minimum lease payments** | | |
| Within 1 year | 494,797 | 426,986 |
| 1 to 5 years | 949,841 | 867,764 |
| More than 5 years | - | - |
| **Total** | **1,444,638** | **1,294,750** |
| **Residual values** | **19,532** | **23,514** |

(1) Total payments from previous years and lease payments for the year only include lease payments made in relation to leases still in force at year-end.

### 4.7.2 Operating leases

Certain items of equipment (mainly photocopiers and computer hardware) are lease-financed over periods of 3 to 5 years.

The lease for MEDICREA INTERNATIONAL's former premises in Neyron ended on October 31, 2016. The move to the new buildings, of which the Company is also a tenant, took effect as of the end of September 2016. Following the transfer of the La Rochelle plant to Rillieux-la-Pape early in 2017, the French facilities have been brought together on a single site for an annual rental charge of €1.1 million and having signed a 12-year rental commitment.

Operating lease commitments can therefore be summarized as follows:

| (€) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Within 1 year | 1,263,912 | 1,107,702 |
| 1 to 5 years | 4,563,160 | 3,858,272 |
| 5 to 10 years | 5,564,600 | 4,737,650 |
| More than 10 years | 834,690 | 2,835,581 |
| **Total** | **12,226,362** | **12,539,205** |

## NOTE 5: PROVISIONS AND CONTINGENT LIABILITIES

### 5.1 Provisions

A provision is recognized when there is an actual obligation, legal or constructive, towards a third party resulting from a past event and existing irrespective of future actions, which will result in a probable cash outflow for the Company, the amount of which can be reliably measured.

Provisions are broken down as follows:

| (€) | Provisions for salary disputes | Provisions for charges | Provisions for currency risk | Total |
|---|---|---|---|---|
| **Provisions at January 1, 2017** | **10,000** | **256,305** | **9,754** | **276,059** |
| Charges | 90,000 | 18,500 | 27,094 | 135,594 |
| Used during the year | - | (216,787) | (9,754) | (226,541) |
| Reversals | (10,000) | (43,000) | - | (53,000) |
| Change in consolidation scope | - | 6,982 | - | 6,982 |
| **Provisions at December 31, 2017** | **90,000** | **22,000** | **27,094** | **139,094** |
| *of which due in less than one year* | *90,000* | *22,000* | *27,094* | *139,094* |

### 5.2 Contingent liabilities

In contrast to the definition of a provision provided above, a contingent liability is:

- a potential obligation resulting from a past event, the existence of which will only be confirmed by the occurrence or non-occurrence of an uncertain event that is not under the Company's control;
- a current obligation resulting from a past event, where either the amount of the obligation cannot be estimated reliably, or it is unlikely that an outflow of resources representing economic benefits will be required in order to settle the obligation.

The contingent liabilities identified at December 31, 2017 were as follows:

- As of November 2016 and exclusively for sales of its US subsidiary, the Company introduced a lifetime warranty relating to its customized technology UNiD™. It covers all surgical procedures carried out using customized UNiD™ thoraco-lumbar and cervical rods as well as all MEDICREA implants used in combination with these rods. The warranty offered covers all costs related to the use of the analysis services provided by the UNiD™ Lab unit, as well as the replacement at no cost of UNiD™ patient-specific rods and any MEDICREA implants necessary for the treatment of patients requiring corrective surgery.

  Since the launch of this lifetime warranty across the United States, no activation request has been recorded. On this basis, the Company did not recognize any provision in its financial statements at December 31, 2017 and, depending on all the data collected in 2018, it will assess whether or not it is necessary to review its position at December 31, 2018.

- The agreement to purchase three patents from Doctor Paul McAfee, which protect an innovative technique that helps to ascertain the physiological height of the intervertebral space by using the anatomy of the patient to accurately select the appropriate interbody device, specifies that a compensation payment of US$1 million will be made to Doctor McAfee in the event that MEDICREA INTERNATIONAL is bought out by another company and the agreement is terminated, less any payments already made at the termination date.

## NOTE 6: FINANCING AND FINANCIAL INSTRUMENTS

### 6.1 Net financial debt

Net financial debt includes all of the long-term financial debt, short-term loans, and bank overdrafts, after deducting cash and cash equivalents.

The Company's net financial debt at December 31, 2017 is analyzed as follows:

| (€) | 12.31.2017 Non-current | 12.31.2017 Current | 12.31.2017 Total | 12.31.2016 Non-current | 12.31.2016 Current | 12.31.2016 Total |
|---|---|---|---|---|---|---|
| Long-term financial debt | 17,346,185 | 3,040,492 | 20,386,677 | 19,810,775 | 3,232,078 | 23,042,853 |
| Short-term and bank loans | - | 504,488 | 504,488 | - | 504,776 | 504,776 |
| **Gross financial debt** | **17,346,185** | **3,544,980** | **20,891,165** | **19,810,775** | **3,736,854** | **23,547,629** |
| Cash and cash equivalents | - | (11,676,846) | (11,676,846) | - | (7,101,012) | (7,101,012) |
| **Net financial debt** | **17,346,185** | **(8,131,866)** | **9,214,319** | **19,810,775** | **(3,364,158)** | **16,446,617** |

The decrease in net financial debt is linked to the capital increases performed in 2017.

#### 6.1.1 Analysis of long-term financial debt

Financial debt is recognized at its face value.

At December 31, 2017, all long-term financial debt was taken out in Euros and at fixed rates, and is analyzed as follows:

| **(€)** | **12.31.2017** | **12.31.2016** |
|---|---|---|
| Bond issues | 17,143,683 | 17,536,558 |
| Loans from credit institutions | 3,235,404 | 4,476,607 |
| Accrued loan interest | 7,590 | 8,642 |
| **Non-Group financial debt** | **20,386,677** | **22,021,807** |
| Group and associates | - | 1,021,046 |
| **Total** | **20,386,677** | **23,042,853** |

The bond debt broke down as follows at the end of the fiscal year:

| (€) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Convertible bond loan – August 2016 | 15,000,000 | 15,000,000 |
| Bond loan – February 2016 | 1,150,000 | 1,150,000 |
| Bond loan – April 2015 | 993,683 | 1,386,558 |
| **Total** | **17,143,683** | **17,536,558** |

- The Company issued a €2 million bond loan bearing interest at a rate of 6% (interest payable monthly) in April 2015, which is redeemable on a monthly basis in accordance with a schedule that runs until April 2020.

- The Company issued a €1.2 million bond loan bearing interest at a rate of 7% (interest payable quarterly) in February 2016, which was fully redeemed in February 2018.

- In August 2016, the Company issued a bond convertible into MEDICREA INTERNATIONAL shares amounting to €15 million in August 2016, at an interest rate of 6.75% (the interest is payable quarterly), which is redeemable in full at the end of a four-year period, and includes a non-conversion premium amounting to 10% of its face value. The sole investor in these convertible bonds is a leading US healthcare investor, ATHYRIUM CAPITAL MANAGEMENT. These bonds are convertible into new Company shares at a price of €6.25 per share;

  Given the uncertain nature of the non-conversion premium, such premium (€1,500,000) was not recognized. However, pursuant to the principle of prudence, a provision for risks will be established as soon as the Company considers the conversion to not be acquired.

### 6.1.2 Changes in financial liabilities

Changes in financial liabilities can be analyzed as follows:

| (€) | 12.31.2016 | Cash movements | | Change in consolidation scope | 12.31.2017 |
|---|---|---|---|---|---|
| | | Proceeds from new borrowings | Repayment of borrowings | | |
| Long-term borrowings | 22,021,807 | 492,020 | (2,300,783) | 161,934 | 20,374,978 |
| Short-term borrowings | 504,776 | - | (1,115) | 827 | 504,488 |
| Other | - | 11,699 | - | - | 11,699 |
| Group and associates | 1,021,046 | - | (1,021,046) | - | - |
| **Total** | **23,547,629** | **503,719** | **(3,322,944)** | **162,761** | **20,891,165** |

The change is related to repayments made during the 2017 fiscal year within the framework of existing amortization schedules and to the three new contracts that were taken out for a total of €0.5 million and bearing interest rates ranging between 0.75% and 0.8% over periods of 3 to 5 years, to finance various industrial equipment.

The "Change in consolidation scope" column results from the impact of the transfer of all assets and liabilities of MEDICREA TECHNOLOGIES to MEDICREA INTERNATIONAL.

### 6.1.3 Maturity of long-term financial debt

The maturity dates of long-term financial liabilities are broken down as follows:

| (€) | 12.31.2017 | Within 1 year | 1 to 5 years | More than 5 years |
|---|---|---|---|---|
| Bond issues | 17,143,683 | 1,562,349 | 15,581,334 | - |
| Loans from credit institutions | 3,223,705 | 1,470,553 | 1,753,152 | - |
| Accrued loan interest | 7,590 | 7,590 | - | - |
| Other | 11,699 | - | - | 11,699 |
| **Total** | **20,386,677** | **3,040,492** | **17,334,486** | **11,699** |

### 6.1.4 Analysis of short-term financial debt

In France, the Company finances its trade receivable item via a short-term cash facility treated as a bank overdraft.

At December 31, 2017, all short-term financial debt was taken out in Euros and at fixed rates, and is analyzed as follows:

| (€) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Bank overdrafts | 500,000 | 500,000 |
| Accrued bank interest | 4,488 | 4,776 |
| **Total** | **504,488** | **504,776** |

Bank overdrafts of €500,000 correspond to a cash facility guaranteed by amounts invoiced to French healthcare facilities.

### 6.1.5 Analysis of cash and cash equivalents

Cash and cash equivalents include cash and money market investments that are immediately available and with an insignificant risk of changes in value over time. The latter consist primarily of money market funds (SICAV) and cash held as collateral for financing obtained from other sources.

Impairment is recognized when the probable realizable value of these deposits is lower than the purchase cost. Unrealized or realized gains and losses are recognized in financial income/(expense). The fair value is determined by reference to the market price at the balance sheet date.

Net cash and cash equivalents changed as follows:

| (€) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Cash | 11,676,846 | 7,547,462 |
| Marketable securities | - | 153,550 |
| **Cash and cash equivalents** | **11,676,846** | **7,701,012** |

The strengthening of the net cash position was primarily due to the gross fundraising of €20.2 million, before issue costs, completed by the Company in June and December 2017.

The cash flow statement for the period January 1, 2017 to December 31, 2017 highlights cash usage over the fiscal year. The other changes in net cash flows from financing activities are detailed as follows:

| **(€)** | **12.31.2017** |
|---|---|
| Security deposits for sub-leases | 11,699 |
| Capital increase expenses charged as issue costs | (1,295,203) |
| **Total** | **(1,283,504)** |

### 6.1.6 Average debt rate

The average debt rate evolved as follows:

| | **12.31.2017** | **12.31.2016** |
|---|---|---|
| Euro (EUR) | 5.80% | 5.79% |

The high level of the average interest rate on the debt is primarily explained by the payments on the bond loans, for which the rates are higher than those charged in the case of conventional bank financing. The average interest rate on the debt worked out at 2.93% excluding the bond loans.

### 6.1.7 Hedge instruments

Most of the Company's supplies are denominated in Euros. Sales to UK subsidiaries are made in their functional currencies, the products then being sold in these markets in the country's currency. As a result, subsidiaries are not exposed to an exchange rate risk on purchases but MEDICREA INTERNATIONAL is exposed to an exchange risk on part of its sales, which it hedges against as opportunities arise using forward sales transactions.

At December 31, 2017, the Company did not have any ongoing currency hedging.

## 6.2 Conditional advances

Conditional advances mainly result from innovation grants awarded by BPI in the form of repayable advances.

Their change compared with the previous year resulted from ongoing repayment plans. No new grants were awarded during the 2017 fiscal year.

## 6.3 Net financial income / (expense)

Net financial income / (expense) can be analyzed as follows:

| (€) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Cost of net financial debt | (1,161,831) | (724,259) |
| Net exchange gain / (loss) | (1,026,017) | 377,634 |
| Capital gain / (loss) on disposal of marketable securities | (4,828) | (8,863) |
| Loss resulting from the transfer of all assets and liabilities of MEDICREA TECHNOLOGIES | 65,746 | - |
| Loss resulting from the transfer of all assets and liabilities of MEDICREA EUROPE FRANCOPHONE | - | (118,398) |
| Charges to provisions for exchange losses | (27,094) | (9,754) |
| Reversal of provisions for exchange losses | 9,754 | 5,543 |
| Charges to provisions for impairment of MEDICREA TECHNOLOGIES UK securities | (665,018) | - |
| Charges to provisions for impairment of MEDICREA GMBH securities | (100,000) | - |
| Charges to provisions for impairment of MEDICREA TECHNOLOGIES securities | - | (8,600,000) |
| Charges to provisions for impairment of the MEDICREA TECHNOLOGIES UK current account | (594,645) | - |
| Charges to provisions for impairment of the MEDICREA GMBH current account | (1,229,795) | - |
| Reversal of provisions for impairment of the MEDICREA EUROPE FRANCOPHONE current account | - | 1,540,000 |
| **Net financial income / (expense)** | **(4,733,728)** | **(7,538,097)** |

The net exchange loss of €1 million was primarily due to the exchange rate differences recorded when payments were made by MEDICREA USA.

The absorption of MEDICREA TECHNOLOGIES by the Company gave rise to the recognition of a merger premium of €65,746.

The discounting of future cash flows generated by the subsidiaries at December 31, 2017 resulted in an additional provision of €0.8 million being recognized in relation to MEDICREA TECHNOLOGIES UK and MEDICREA GMBH shares and €1.8 million on their current accounts.

## 6.4 Off-balance sheet commitments related to financing

### 6.4.1 Commitments given in relation to medium-term borrowings

| (€) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Pledges of business goodwill (1) | 6,743,777 | 6,171,836 |
| Joint and several guarantees | - | 500,000 |
| Cash collateral (2) | 62,500 | 62,500 |

(1) Pledges of business goodwill as security for bank loans (principal + interest)
(2) Holdbacks retained by BPI as cash collateral for loans totaling €1,250,000

#### 6.4.1.1 Commitments received in relation to the establishment of authorized overdrafts and short-term credit

| (€) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Assignment of trade receivables – Dailly | 500,000 | 500,000 |
| BPI counter guarantee (1) | 1,008,729 | 1,703,846 |

(1) Counter-guarantees granted to MEDICREA INTERNATIONAL by BPI as part of medium-term financing

The total amount of overdrafts authorized but unconfirmed at December 31, 2017 was €800,000.

### 6.4.2 Covenants

Two four-year bank loans totaling €1.5 million taken out in November 2014 are subject to certain clauses, including:

- The ratio of consolidated net financial debt to consolidated shareholders' equity to be below 0.33 at December 31 of each year throughout the loan repayment period;
- The ratio of consolidated net financial debt to consolidated EBITDA to be below 3 at December 31 of each year throughout the loan repayment period;
- A ban on dividends if the consolidated net financial debt to consolidated shareholders' equity ratio at year-end is higher than 0.2 after taking account of any projected dividend payment.

The remaining amount to be repaid on both of these loans at December 31, 2017 was €0.4 million over 2018; as a result, these commitments no longer raise any problems for the Company, which has furthermore obtained a waiver from the bank concerned, without any amendments to the initial terms of the loans, and at no additional cost.

The contract relating to the €15,000,000 convertible bond issued in August 2016 specified that the Company must ensure that it has available cash of at least €3.5 million, and that its gross financial debt, without deducting cash or taking the actual bond loan into account, is less than €10 million. Both these conditions were fulfilled at December 31, 2017.

The cash flow forecasts for the 12 months following the approval of the financial statements take into account strong growth in business volumes linked to the setting up of two new distribution subsidiaries (Belgium and Australia), and to the development of sales of implants in the UNiD range (patient-specific rods and 3D-printed titanium cages) in the United States, as well as the successful outcome of the discussions that have been ongoing since the beginning of the fiscal year, and are aimed at raising additional funds (budget of €5 million) in the form of debt or equity in the second or third quarter of 2018.

In view of the financing proposals received to date, the Company has not identified any factors that enable it to believe that this additional financing may not be arranged within the timeframes required to comply with the covenants of the agreement relating to the €15 million convertible bond loan mentioned previously.

The factors mentioned above, together with the assumption of a successful outcome for the financing or fundraising program currently under review, enable the parent company financial statements for the year ended December 31, 2017 to be prepared in accordance with the principle of the Company remaining a going concern for the next 12 months.

## NOTE 7: CORPORATE TAX

MEDICREA TECHNOLOGIES, which was wholly owned and had been consolidated since 2003, was wound up with no liquidation process and absorbed by MEDICREA INTERNATIONAL on November 30, 2017, which resulted in the automatic termination of the tax consolidation scope at January 1, 2017.

The change in the corporate tax charge is analyzed as follows:

| (€) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Research tax credit | (897,375) | (970,054) |
| **Corporate tax charge / (income)** | **(897,375)** | **(970,054)** |

Temporarily non-deductible expenses totaled €93,632 for the year to December 31, 2017, compared with a negative amount of €2,645 for the year to December 31, 2016.

MEDICREA INTERNATIONAL had cumulative losses of €33,878,939 at December 31, 2017.

## NOTE 8: SHAREHOLDERS' EQUITY

### 8.1 Share capital

Following equity transactions carried out during the fiscal year, share capital at December 31, 2017 totaled €2,413,265.76 and comprised of 15,082,911 shares with par value of €0.16 each. The number of authorized shares outstanding is as follows:

| (€) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Number of authorized shares | 15,082,811 | 10,033,067 |
| Number of preference shares | 100 | 100 |
| Number of shares issued and fully paid up | 15,082,911 | 10,033,167 |
| Par value (€) | 0.16 | 0.16 |
| Number of shares outstanding at end of period | 15,082,811 | 10,033,067 |
| Number of shares with double voting rights | 2,594,120 | 2,650,743 |
| Number of treasury shares held by the parent company | 4,438 | 2,650 |

Transactions in the share capital of MEDICREA INTERNATIONAL over the 2017 fiscal year are summarized as follows:

- At January 1, 2017, the share capital was €1,605,306.72, represented by 10,033,067 ordinary shares and 100 P preference shares.
- On June 22, 2017, the Board of Directors recognized the issue of 2,680,413 new shares as part of a share capital increase reserved for qualified investors.
- 32,990 new shares were issued on September 19, 2017, and corresponded to the delivery to French employees of the free shares allocated by the Board of Directors' meeting of September 19, 2016.
- On December 22, 2017, the Board of Directors recognized the issue of 2,336,341 new shares with share warrant attached (ABSA) as part of a share capital increase reserved for qualified US investors.

- At December 31, 2017, the share capital was therefore €2,413,265.76, represented by 15,082,811 ordinary shares and 100 P preference shares.

### 8.2 Preference shares

At the Shareholders' Meeting of December 17, 2014, it was decided to issue 100 preference shares to MMCO, a simplified joint stock company *(Société par Actions Simplifiée)* with share capital of €1,000, with its registered office at 5389 route de Strasbourg, 69140 Rillieux-la-Pape.
These preference shares will ultimately be convertible into ordinary shares of MEDICREA INTERNATIONAL, as determined by reference to the volume-weighted average price of the MEDICREA INTERNATIONAL share between September 17, 2018 and December 17, 2018, subject to the MEDICREA shares having reached significant and predefined performance levels during that period. The maximum number of ordinary shares that may be issued as a result of the conversion of all preference shares is 210,000, i.e. 1.4% of the Company's share capital at December 31, 2017. These preference shares do not grant voting rights or entitlement to dividends. They are not listed on Euronext Growth Paris.

The conversion of the preference shares into ordinary shares would not have been possible based solely on the MEDICREA share price during the 2017 fiscal year, since the performance criteria differed significantly from the share price.

### 8.3 Change in shareholders' equity

Changes in shareholders' equity during the year are analyzed as follows:

| (€) | 01.01.2017 | Increase | Decrease | 12.31.2017 |
|---|---|---|---|---|
| Share capital | 1,605,307 | 807,959 | - | 2,413,266 |
| Merger premium | 2,738,619 | - | - | 2,738,619 |
| Issue premium | 42,658,256 | 19,414,280 | - | 62,072,536 |
| Allocation of share capital increase-related | (2,948,599) | - | (1,295,203) | (4,243,802) |
| costs | 19,360 | - | - | 19,360 |
| Legal reserve | 41,767 | - | (3,207) | 38,560 |
| Reserve for own shares | 208,270 | - | - | 208,270 |
| Statutory reserves | 449,244 | 9,606 | (11,678) | 447,172 |
| Other reserves | (15,140,909) | - | (10,805,933) | (25,946,842) |
| Retained earnings | - | - | (10,681,570) | (10,681,570) |
| Net loss for fiscal year 2017 | (10,805,933) | 10,805,933 | - | - |
| Net loss for fiscal year 2016 | **18,825,382** | **31,037,778** | **(22,797,591)** | **27,065,569** |
| **Shareholders' equity** | | | | |

Changes in issue premiums net of capital increase costs are summarized as follows:

| (€) | 2017 | 2016 |
|---|---|---|
| **Balance at January 1** | **39,709,657** | **34,897,035** |
| Share capital increase in cash | 19,414,280 | 4,937,077 |
| **Sub-total** | **59,123,937** | **39,834,112** |
| Allocation of share capital increase-related costs | (1,295,203) | (124,455) |
| **Balance at December 31** | **57,828,734** | **39,709,657** |

Share capital increase-related costs are allocated to issue premium in accordance with the opinion of CNC's Emergency Committee of December 21, 2000.

### 8.4 Dividends paid during the fiscal year

Nil

### 8.5 Issue, buyback and redemption of debt and equity securities

#### Share capital increase of June 2017

MEDICREA INTERNATIONAL issued 2,680,413 new shares with a par value of €0.16 per unit, at a unit price of €4.85, including issue premium, for a total amount of €13 million, representing 21.08% of the Company's share capital after the transaction. As an indication, the participation of a shareholder holding 1% of the share capital of the Company prior to the issue became 0.79%.

#### Share capital increase of December 2017

MEDICREA INTERNATIONAL issued 2,336,341 new shares with share warrants attached (ABSA) with a par value of €0.16 per unit, at a unit price of €3.089, including issue premium, for a total amount of €7.2 million, representing 15.49% of the Company's share capital after the transaction. The number of shares issued may be increased to 3,504,510, i.e. a maximum amount of €10.9 million, in the event that all of the share warrants are exercised, which would represent 18.85% of the Company's share capital post-transaction.

For information, a shareholder holding 1% of the share capital of the Company prior to the issue would hold 0.78% after exercising all their share warrants.

Each new share issues comes with a share warrant, i.e. a total of 2,336,341 issued share warrants. Two share warrants grant the right to subscribe to one new MEDICREA share at an exercise price of €3.15. The share warrants may be exercised for a period of 3 years as from their issue date.

#### Convertible bonds

Furthermore, over the year to December 31, 2017 the Company redeemed a cumulative 101 of the 200 convertible bonds issued to an institutional investor in April 2015, i.e. an amount of €1 million on the initial loan of €2 million, which matures in April 2020.

## NOTE 9: OTHER INFORMATION

### 9.1 Senior executives' and corporate officers' interest in the Company's share capital

Changes in senior executives' and corporate officers' interest in MEDICREA INTERNATIONAL's share capital were as follows:

| | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| | Number of shares | % share capital | % voting rights | Number of shares | % share capital | % voting rights |
| ORCHARD INTERNATIONAL (1) | 1,727,490 | 11.45 | 19.55 | 1,727,490 | 17.22 | 27.24 |
| Denys SOURNAC (2) (3) | 457,488 | 3.03 | 2.59 | 455,732 | 4.55 | 3.60 |
| Jean Philippe CAFFIERO | 216,089 | 1.43 | 2.36 | 246,089 | 2.45 | 3.76 |
| **Other Directors** | | | | | | |
| Pierre BUREL (2) | 194,587 | 1.29 | 1.10 | 194,587 | 1.94 | 1.53 |
| Patrick BERTRAND (2) | 113,968 | 0.76 | 0.74 | 113,968 | 1.14 | 1.04 |
| François Régis ORY (2) | 108,652 | 0.72 | 0.61 | 108,652 | 1.08 | 0.86 |
| Rick KIENZLE | 102,880 | 0.68 | 0.58 | - | - | - |
| Christophe BONNET | 52,128 | 0.35 | 0.48 | 52,128 | 0.52 | 0.81 |
| Jean Joseph MORENO | 22,000 | 0.15 | 0.21 | 22,900 | 0.23 | 0.30 |
| Marc RECTON | 18,752 | 0.12 | 0.18 | 18,752 | 0.19 | 0.25 |
| **Total** | **3,014,034** | **19.98%** | **28.40%** | **2,940,298** | **29.32%** | **39.39%** |

(1): Shares held by the holding company, ORCHARD INTERNATIONAL. The following table provides details of ORCHARD INTERNATIONAL's shareholding structure as of December 31, 2017:

| | |
|---|---|
| - Société civile DENYS SOURNAC COMPANY | 59.66% |
| - Société civile PLG INVEST (Jean Philippe CAFFIERO) | 35.46% |
| - AMELIANE SAS | 4.72% |
| - Christelle LYONNET | 0.13% |
| - Denys SOURNAC | 0.03% |

(2): Total of the shares held directly and via a holding company

(3): After adjusting for 8,000 shares allocated to Denys SOURNAC in error at 12.31.2016.

### 9.2 Related-party disclosures

As mentioned in Section 3.7 above, ORCHARD INTERNATIONAL invoices MEDICREA INTERNATIONAL for various services, the amounts of which changed over the last two fiscal years as follows:

| (€) | 2017 amount invoiced, excl. VAT | 2016 amount invoiced, excl. VAT |
|---|---|---|
| Management services | 300,000 | 300,000 |
| Rebilling of employee costs | 151,500 | 151,500 |
| Rebilling of seconded executive's salary | 64,000 | 64,000 |
| Rebilling of seconded executive's expenses | - | 4,391 |
| Share of expenses | 11,004 | 11,004 |
| Rent and rental costs | 45,508 | 26,764 |
| **Total** | **572,012** | **557,659** |

## 9.3 Other commitments

The following table sums up the Company's other commitments:

| **(€)** | **12.31.2017** | **12.31.2016** |
|---|---|---|
| Assignment of trade receivables | 385,178 | 309,758 |

## 9.4 Statutory Auditors' fees

The fees paid to the Group's Statutory Auditors shown in the parent company income statement are as follows:

| | EY | | ODICÉO | |
|---|---|---|---|---|
| **Amount (excl. VAT)** | **2017** | 2016 | **2017** | 2016 |
| **Audit** | | | | |
| Audit, certification, review of individual and parent company financial statements | 41,688 | 44,900 | 31,042 | 29,300 |
| Services other than the certification of the financial statements | 6,072 | 6,400 | 6,036 | 8,950 |
| **Total fees** | **47,760** | **51,300** | **37,078** | **38,250** |

## 9.5 Post-balance sheet events

Nil.

## 9.6 Five-year financial summary

See the management report.

## 9.7 List of subsidiaries and equity investments

The amounts below are expressed in Euros.

| Entities | Total sharehol-ders' equity | Share capital ownership (%) | Book value of shares owned | | Loans and advances granted and outstanding | Guarantees and sureties given by the Company | Net sales for last fiscal year | Net income for last fiscal year | Dividends paid to the parent company |
|---|---|---|---|---|---|---|---|---|---|
| | | | Gross | Net | | | | | |
| **International subsidiaries** | | | | | | | | | |
| MEDICREA TECHNOLOGIES UK | (195,037) | 100% | 2,465,018 | - | 594,645 | - | 467,935 | (406,413) | - |
| MEDICREA USA | 447,279 | 100% | 7,395,058 | 7,395,058 | 6,053,968 | - | 16,000,915 | (4,201,519) | - |
| MEDICREA GMBH | (1,222,554) | 100% | 100,000 | - | 1,229,795 | - | 121,164 | (330,957) | - |
| MEDICREA POLAND | (208,798) | 100% | 47,119 | 47,119 | 745,183 | - | 121,114 | (223,676) | - |