ANNUAL REPORT 2016

MEDICREA
(IM)PROVE

MEDICREA®
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ANNUAL REPORT 2016

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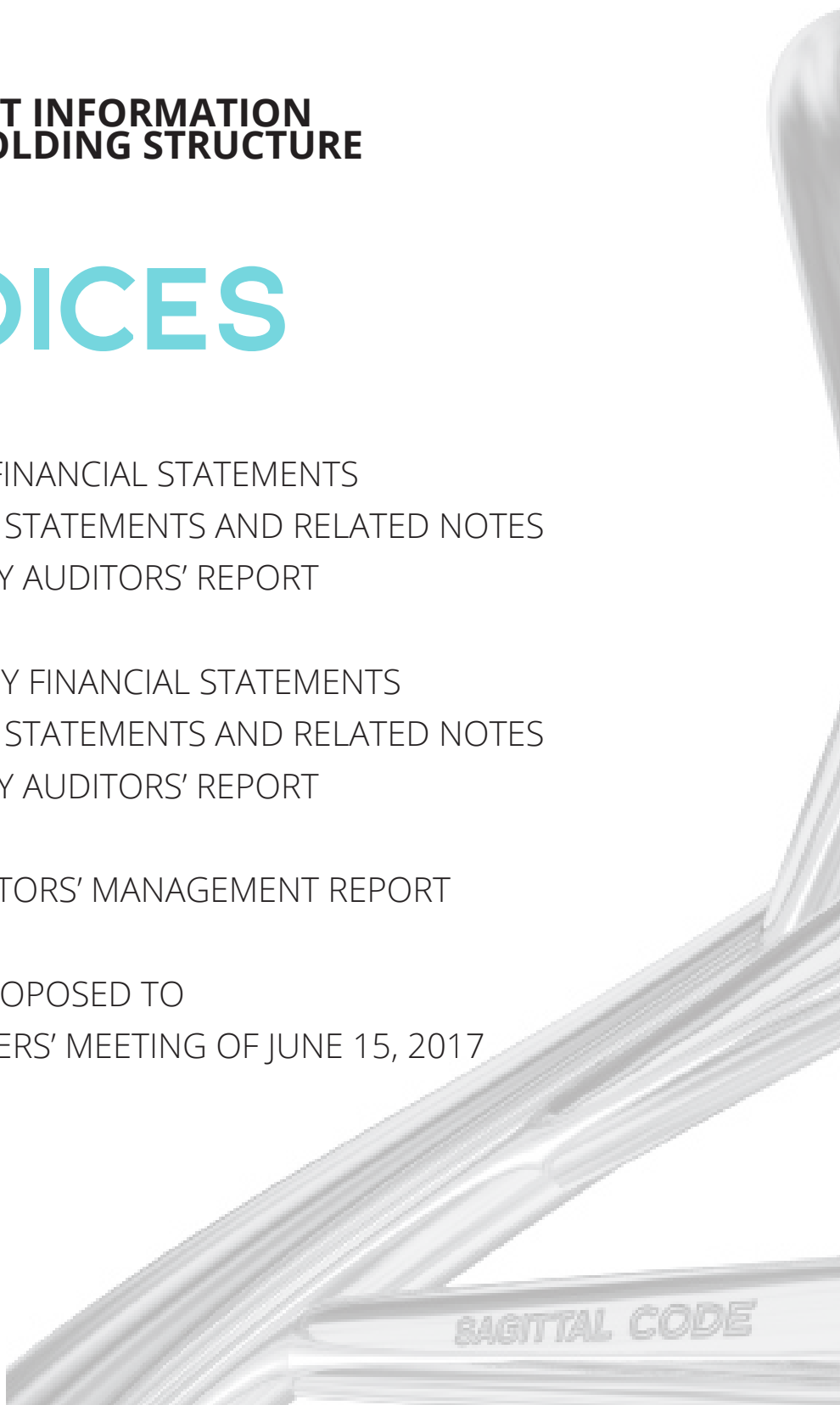
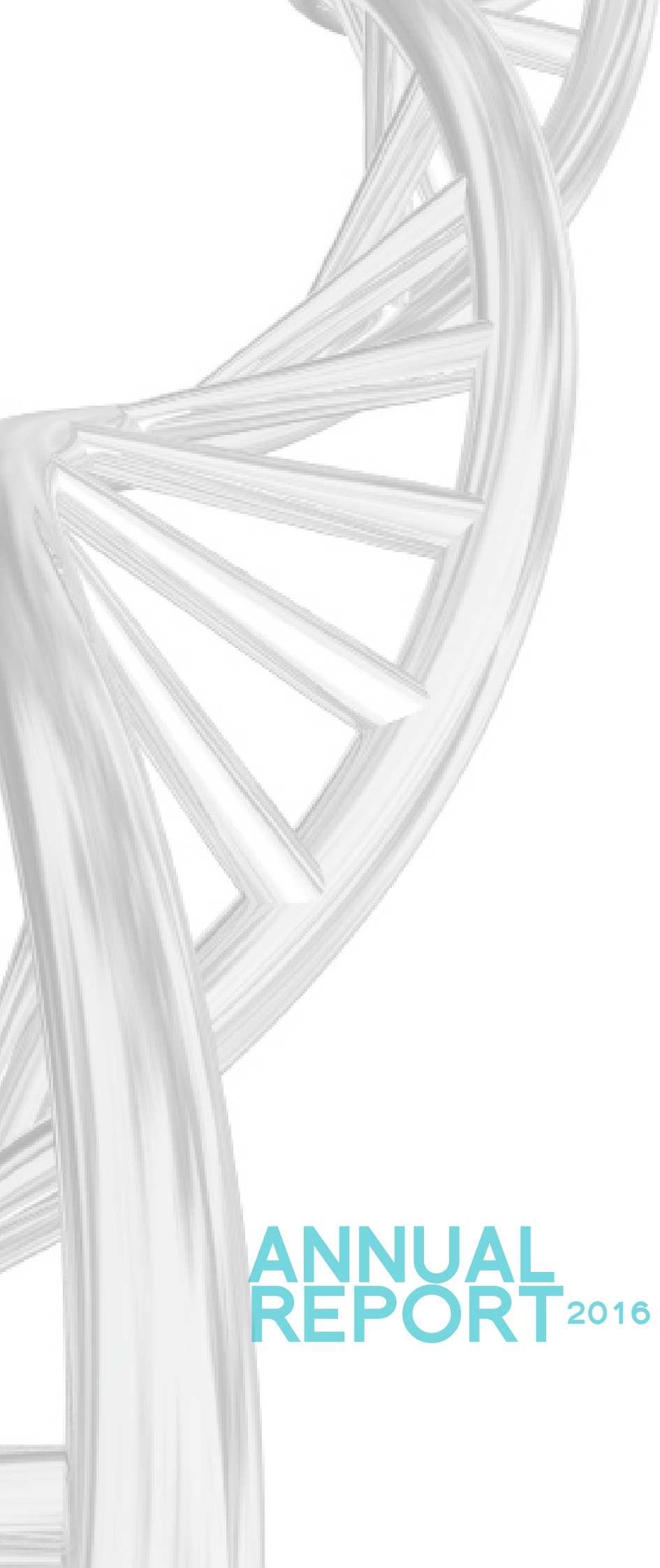
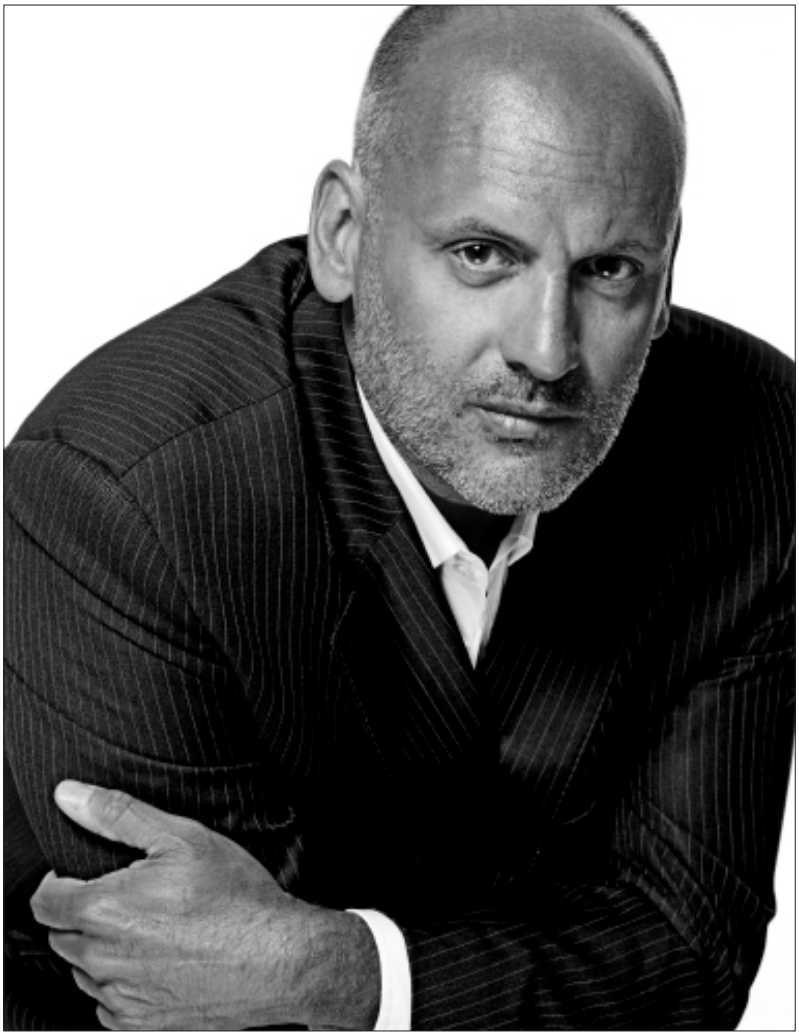




ANNUAL REPORT 2016

DREAM IT DO IT

photo Stéphane de Bourgies



Denys SOURNAC
Chairman and Chief Executive Officer
Co-founder of MEDICREA

CHAIRMAN'S MESSAGE

"A shift in the healthcare system affecting the orthopedic world is currently taking place at global level, meaning that the sector is now less focused on the implant itself and more concentrated on the outcome of the surgery, for a value-based approach to treatments in comparison with traditional treatments.

This shift is particularly important for spine, with aging populations causing a significant increase in degenerative spinal pathologies, often accompanied by multiple interventions. Spinal implants are therefore becoming a real public health issue and personalized treatment is therefore taking on its full meaning.

We know there is a direct connection between alignment of the patient's spine and the success of the surgery. Every patient has a unique anatomy and sagittal profile which must be taken into account fully in order to identify the most appropriate treatment. There is no standard correct solution or reliable technique to personalize implants in the operating room. Many patients therefore have to undergo new procedures to correct their sagittal alignment, which has consequences on their quality of life as well as a high cost to society. Personalized medicine provides a solution to all these problems.

The development of patient-specific medicine is primarily related to the scientific advances made possible by modern calculation software and technologies. Personalized medicine will continue to transform the practice, firstly with the personalization of treatment and subsequently by progressing toward better prevention. Against this backdrop, the role of manufacturers of therapeutic solutions is changing, and they are becoming genuine partners in the research of products and services that will be tailored to the personalized care of each patient.

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

We are positioning ourselves as a genuine partner to surgeons from operation planning onwards and we offer an unrivalled mix of innovative products and comprehensive pre- and post-operative services. Improving is a never-ending process. We are working tirelessly to make surgery simpler, safer, quicker, and less invasive.

We are improving things together, and we are demonstrating this on a daily basis. (IM)PROVE ! "

Denys SOURNAC


NO
THING
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IMP
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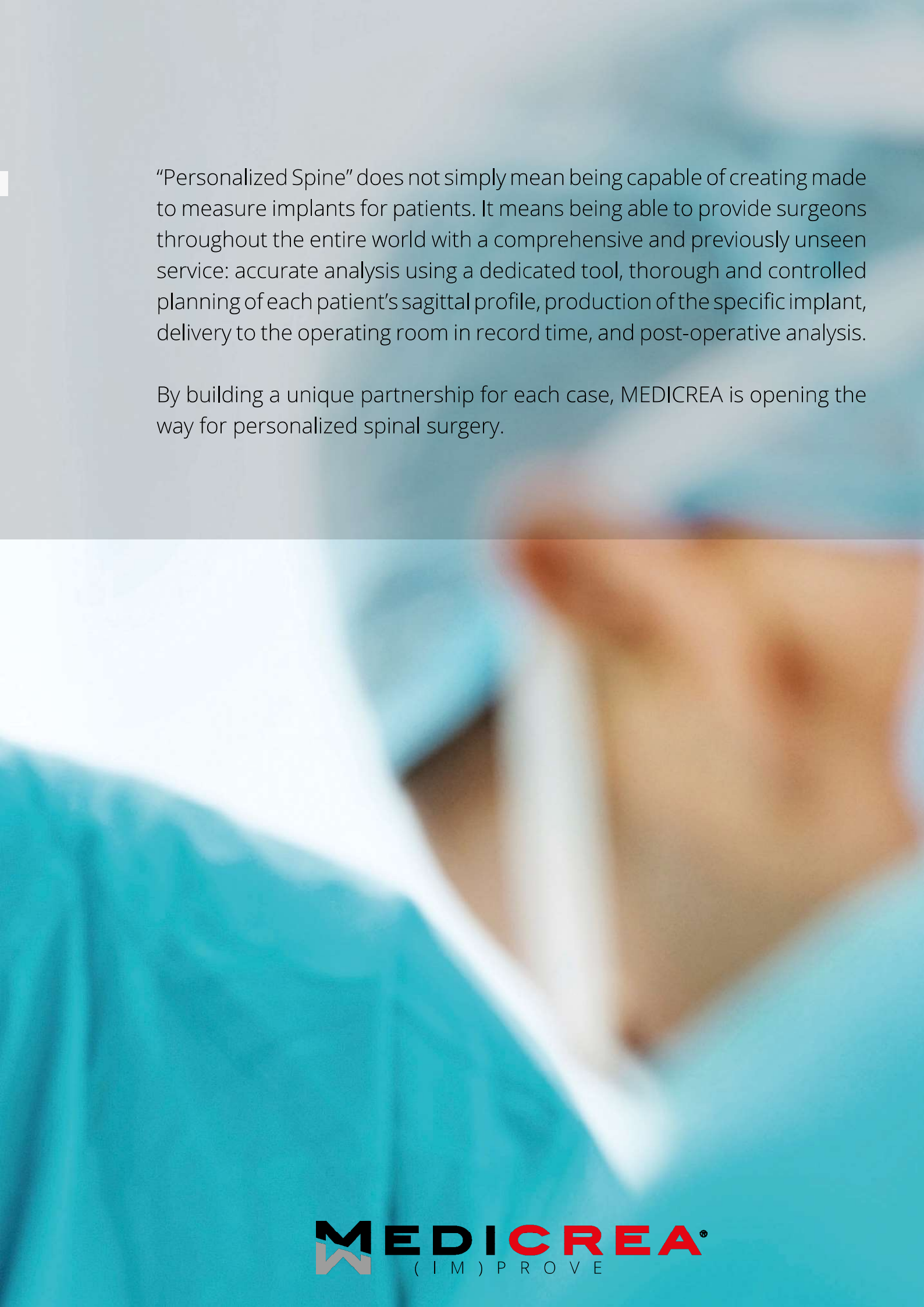
DREAM IT
DO IT
PATIENT-SPECIFIC
IMPLANTS ARE
A REALITY
medicrea.com | leading personalized spine



"Personalized Spine" does not simply mean being capable of creating made to measure implants for patients. It means being able to provide surgeons throughout the entire world with a comprehensive and previously unseen service: accurate analysis using a dedicated tool, thorough and controlled planning of each patient's sagittal profile, production of the specific implant, delivery to the operating room in record time, and post-operative analysis.

By building a unique partnership for each case, MEDICREA is opening the way for personalized spinal surgery.

MEDICREA®
(IM)PROVE

1 OVERVIEW

MEDICREA Group specializes in bringing pre-operative digital planning and pre and post-operative analytical services to the world of complex spine. Through the lens of predictive medicine, it leads the design, integrated manufacture, and distribution of 30+ FDA approved implant technologies, utilized in over 100k spinal surgeries to date. The Group has an ultra-modern manufacturing facility in Lyon, France housing the development and machining of 3D-printed patient-specific implants.

MEDICREA operates on a spinal surgery market worth approximately $11 billion. This market has been heavily affected by healthcare policy reforms in Europe as well as in the United States, aimed in particular at reducing the budgets of both state -run and private healthcare facilities. Pressure on prices orchestrated by hospitals, reductions of basic reimbursement rates made by governments, social security bodies, health insurance companies and funds, and the tightening up of certification procedures for medical devices all impact the development of the market.

Despite these detrimental factors, the spinal surgery market is enjoying renewed growth under the influence of several factors:

- changing demographics: aging populations, sedentary lifestyles, and an increase in the number of people who are overweight or obese, all of which favor the development of spinal pathologies;
- access to a similar level of healthcare in emerging countries to that seen in western nations;
- the development of surgical procedures thanks to the reduction in operating times, the growth of less invasive operating techniques and the advent of personalized medicine.

MEDICREA Group has transformed itself into 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, and providing unrivaled operating comfort for surgeons.

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. It is becoming a matter of course for surgeons, with a very high loyalty rate once they agree to entrust the Group with a few surgical cases to test its capabilities.

MEDICREA, in addition to the services offered with its personalized implants, has an extensive range of spinal implants, which has been designed to treat spinal pathologies at every level, from cervical to lumber vertebrae and sacrum, irrespective of the cause, scoliosis, malformations, degenerative diseases, trauma and tumors and which are compatible with all traditional and cutting-edge surgical procedures.

2016 represented a year of large-scale transformation for the Company, marked by several key events:

- development of new digital services for pre-operative planning and for pre- and post-operative analysis, unique in the world:
- significant acceleration in the pace of adoption of UNiD™ patient-specific rods (up 106% in relation to 2015);
- fundraising of €20 million in August 2016, mainly from US investors;
- appointment of Rick KIENZLE, co-founder of GLOBUS MEDICAL, as Chief Strategy and Business Development Officer, who also became a Company shareholder;
- bringing the production factory, the research and development center and all the Group's support functions together under one roof at a new ultra-modern site in Lyon, France, spanning 8,000 m^2;
- continued development of additive titanium 3D printing manufacturing processes for patient-specific interbody cages and corpectomy implants, which should begin to be marketed in the United States and Europe in the second and third quarters of 2017 respectively.

MEDICREA has increased its revenues fivefold since its 2006 IPO, with the figure standing at €29.4 million in 2016, and, for the seventh consecutive year, posted positive earnings before interest, tax, depreciation and amortization (EBITDA). The Group's had a workforce of 169 employees at December 31, 2016.

2 THE GROUP AT A GLANCE

A. ORGANIZATION

MEDICREA INTERNATIONAL
Parent company
Rillieux-la-Pape, FRANCE

- MEDICREA USA
  New York, USA
- MEDICREA Poland Sp. z o.o.
  Warsaw, POLAND
- MEDICREA TECHNOLOGIES UK
  Cambridge, UK
- MEDICREA GmbH
  Cologne, GERMANY
- MEDICREA TECHNOLOGIES
  Rillieux-la-Pape, FRANCE

- Administration & Finance
- Human resources & legal
- R&D
- Marketing
- Supply chain
- Quality
- Export sales
- IT
- Production

B. HISTORY

MEDICREA® TODAY

leading personalized spine

2016 1,000+ surgical procedures carried out using UNiD™ customized rods

MEDICREA launches a lifetime warranty for custmized UNID implantable devices in the United States

2015 MEDICREA reaches 30 product ranges with FDA clearances

2014
- **World's first 3D-printed patient-specific spinal implant, UNiD™ interbody device**
  - UNiD patient-specific rod is **FDA cleared**
  - MEDICREA brings **3D printing in-house**

2013 World's first patient-specific spinal implant, UNiD™ rod with PASS LP®

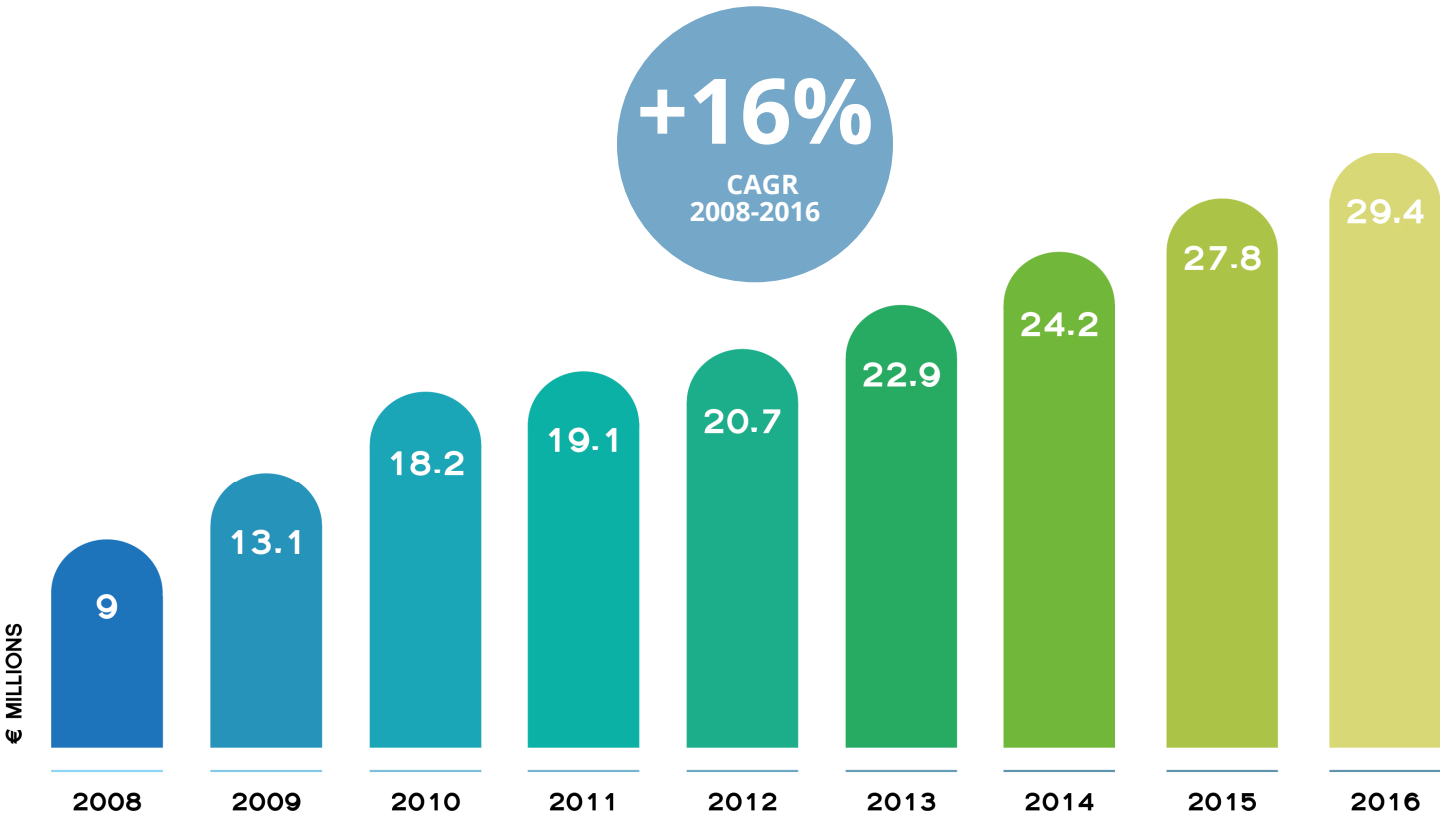
2008 PASS LP® posterior thoracolumbar system is FDAcleared

2007 MEDICREA USA direct sales subsidiary is founded

2006 MEDICREA IPO on Euronext Paris

2002 MEDICREA is founded by Denys Sournac

C. DEVELOPMENTS



D. ACHIEVEMENTS

UNiD®:
- Range of implants and services for personalized spinal surgery
- 1,100 surgical procedures carried out to the end of December 2016
- More than 115 user surgeons
- Lifetime warranty for UNiD customized implantable devices in the United States
- Growing interest of surgeons and patients in this personalized treatment

Extensive range:
- Range incorporating over 20 products
- Treatment of degenerative, traumatic and tumor pathologies and of major deformities
- Sustained development program

International presence:
- 85% of sales are for export
- 4 sales subsidiaries, including one new entity in Poland, opened at the end of 2016
- Distribution in 30 countries

Scientific support:
- 8 ongoing studies
- Dedicated scientific support team
- Close collaboration with opinion leaders

R&D:
- R&D effort represents almost 10% of sales
- 11 development engineers
- Healthy portfolio of patents

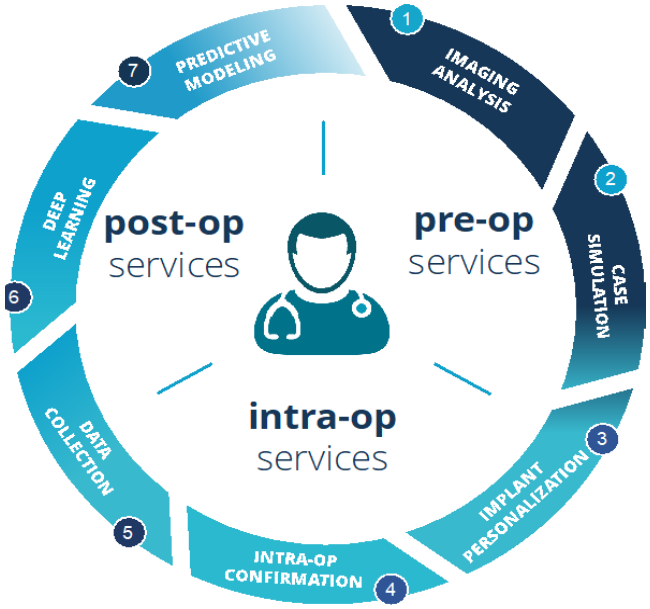
E. INNOVATIONS

Personalized medicine is an innovative concept which has gradually become one of the biggest challenges of tomorrow's medicine. 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. For the first time, each patient is considered to be unique and can receive the treatment with the best chance of being effective.

There are many different definitions of personalized medicine: "providing the right treatment to the right patient at the right dose at the right time," according to the European Union, or "Healthcare that is informed by each person's unique clinical, genetic and environmental information," according to the American Medical Association, but in every case it is about finding the ideal diagnostic / patient combination.

In recent years, navigation techniques have been developed in the field of spinal surgery in order to assist surgeons during pedicle navigation, resulting in the improved reliability of the operating procedure by taking into account the specific anatomy of the patient. Despite these advances, no specifically designed and manufactured device was implanted.

MEDICREA decided to integrate this personalized medicine policy with a patient-specific approach. In capturing a systems-based model for the iterative application of patient-specific spinal technology via UNiD™, 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.



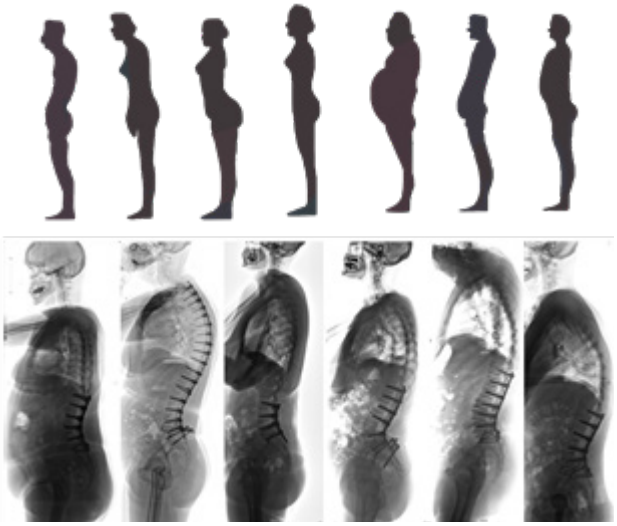
The UNiD Lab and its highly-trained Bio-Medical engineers work collaboratively with the Surgeons and Health Care Providers to preoperatively simulate a wide range of surgical strategies and technologies. This science and collaboration materializes in the physical form of personalized implant solutions. The surgeons can pre-select or specifically design implants for each patient supported by scientifically sound preoperative work and preparation.

Because of this disruptive approach, the Company is neither restricted by nor economically dependent upon antiquated product revenue streams built on clinical assumptions or non-scientific historic norms. MEDICREA is also free of legacy manufacturing methods and the industry's infamously bloated distribution organizations. The anachronistic 20th century medical device commercial strategy of "standard sizes fit all and more is better» does not live in the new approach to Spine.

UNiD™ makes it possible to examine the most difficult clinical questions, deploy sophisticated IT technologies, design methods and proprietary manufacturing all in pursuit of cost reducing better outcomes. MEDICREA believes each surgeon and patient is innately different. Thoughtful deep learning science must account for all of these variances. MEDICREA provides each unique surgeon with personalized 21st Century Scientific Intelligence, enabling them to treat each patient individually with optimized, comprehensive, personalized procedural and implant solutions every day.

EVERY PATIENT IS UNIQUE

EVERY CORRECTION MUST BE SPECIFIC



F. PRODUCT RANGES

MEDICREA stands out as a result of its dynamism and capacity for innovation. Enjoying a growing reputation and maintaining close relationships with visionary and innovative surgeons, the products patented and developed by the Company offer new functionalities and less invasive surgical solutions while being quicker and easier to implement than traditional techniques, particularly for all types of complex spinal column surgery in adolescents and adults.

The Company's development is driven by the following threefold objective: offering long-term relief to patients, improving operating comfort for surgeons and reducing procedure time thanks to unique expertise.

In addition to its range of services and UNiD® personalized implants, MEDICREA has an extensive range of spinal implants designed to treat spinal pathologies at every level, from cervical to lumbar vertebrae and sacrum, irrespective of the cause, scoliosis, malformations, degenerative diseases, trauma and tumors and which are compatible with all traditional and cutting-edge surgical procedures, such as minimally-invasive surgery for example. MEDICREA offers both fusion and non-fusion spinal implants, across several ranges, as follows:

1. CERVICAL

CERVICAL range

MEDICREA offers an extensive range of implants for the cervical spine:

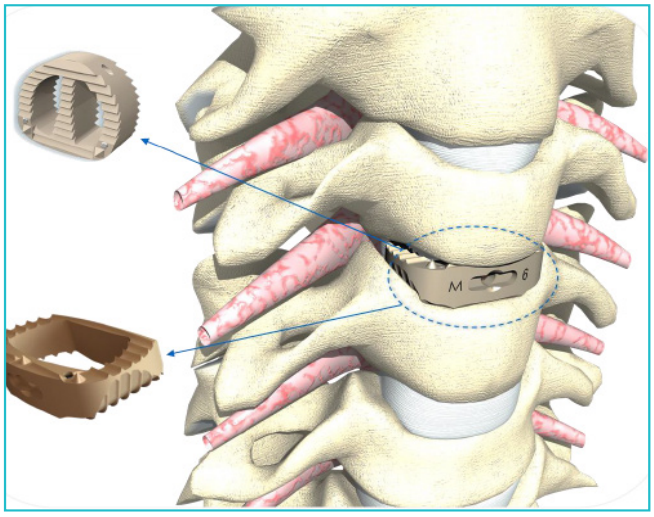
a. IMPIX-C® and IMPIX MANTA® Cervical Cages

The role of these interbody cages is to replace damaged intervertebral discs in the cervical region. MEDICREA offers two types of anatomical design:

- IMPIX-C® dome-shaped cages with a central rail;
- IMPIX-MANTA® cages with a beveled profile.

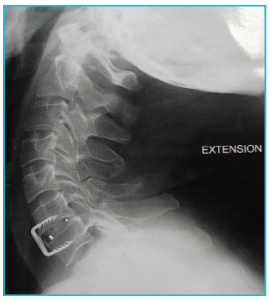
Both these ranges allow disc height and lordosis to be restored and offer very good stability within the intervertebral area. The cages are supplied sterile, with single-use instrumentation, and exist in a version pre-filled with a synthetic bone substitute under the names IMPIX-C+® and IMPIX-MANTA+®.

All standard cages are CE-marked and FDA-approved. The pre-filled cages are CE-marked.



b. C-JAWS® and K-JAWS® compression staples

C-JAWS® is a unique cervical osteosynthesis system allowing interbody implants to be fully stabilized. The compression then applied by the staple stimulates and accelerates bone fusion. Easy to use, its fitting reduces operating time by up to 90% in comparison with the fitting of a traditional cervical plate.



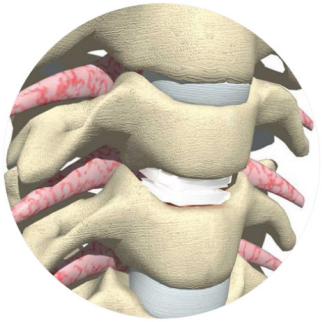
K-JAWS® is made up of a C-JAWS® staple and an IMPIX-C®interbody fusion cage. The K-JAWS® implant is less invasive and quicker to fit than any other cervical plate on the market. Its principle of fixation by the compression of two adjacent vertebrae, around the previously inserted interbody fusion cage, provides excellent stability thanks to the axial location of the compressive forces, in the vertebral bodies of the cervical spine.

C-JAWS® and K-JAWS® are CE-marked and FDA-approved.

c. GRANVIA® C disc prosthesis (non-fusion)

GRANVIA® C is the only cervical prosthesis on the market that respects the physiological differentiated centers of rotation and is entirely designed in ceramic thereby meaning it is fully MRI compatible. The spinal column's natural mobility is preserved and shocks are absorbed thanks to this prosthesis. Highly resistant and completely stable, it is very easy for surgeons to use.

GRANVIA® C is CE-marked.



2. LUMBAR AND THORACO-LUMBAR

PASS® range

The PASS® range is characterized by a comprehensive and very versatile polyaxial spinal system, known as Low Profile. Its unique concept enables the rod to be connected at a distance from the spine, minimizing the strain applied and the pressure thanks to a unique surgical technique, irrespective of the indication or the surgical approach.

a. PASS LP®: MEDICREA's flagship product

The PASS LP® range represented 75% of the Group's sales in 2016.

A standard for the treatment of spinal column deformities (scoliosis, traumatology, spondylisthesis, etc.), PASS LP® is the thoraco-lumbar fixation system that uses the lowest profile on the market and enables 3-dimensional correction according to the ST2R (Simultaneous Translation on 2 Rods) technique. It is particularly indicated for the reduction of adolescent idiopathic scoliosis.

An extra small (XS) range of Pass LP implants has been developed. These implants are specially designed for the specific requirements of pediatric deformity surgery and now allow surgeons to treat small stature pediatric patients effectively, by using implants with 40% less volume during their procedures.

The product offers numerous benefits:

- connection to the spine at distance: the connection of the rod is facilitated as it is performed using anchorages with threaded extension and flexible guides, without the need for complicated rod persuaders;
- load distribution: the ST2R technique enables pressure to be distributed across the entire structure, and as such, correction to take place gradually;
- optimum safety: there is a lower risk of the device breaking off or tearing away due to the reduced pressure at the interface with the bone, thanks to the innovative design of the implants and the surgical technique;
- user friendliness: Use by the surgeon in the operating room is made easy thanks to compact, optimized and tailored instrumentation. One container of implants and two of instruments allow all the various indications to be covered.

PASS LP® and PASS XS® are CE-marked and FDA-approved.

b. LigaPASS®

The LigaPASS® 2.0 range provides fixation systems using flexible bands in thoraco-lumbar posterior position, with a wide variety of connectors specifically tailored to meet clinical requirements.
LigaPASS® offers the assurance of secure fixation no matter how complex the surgical case with the following benefits:

- stability comparable to that offered by a pedicle screw;
- capacity to perform derotation / translation by following the ST2R technique;
- optimum bone/implant contact surface;
- secure technique with single and dual band options;
- additional fixation point on existing constructs;
- ideal component for cases of deformity and revision.

A LigaPASS®XS version has also been developed to correct pediatric spinal deformities in small stature patients stature.

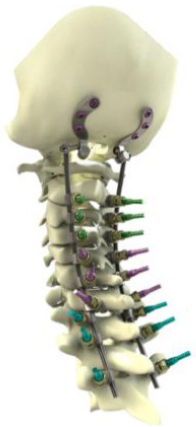
LigaPASS® and LigaPASS® XS are CE-marked and FDA-approved.

c. PASS OCT®

MEDICREA has developed a occipito-cervico-thoracic (OCT) fixation system for the posterior surgical treatment of traumatic and degenerative pathologies of the upper cervical and thoracic column.

PASS OCT® was developed to offer surgeons posterior stabilization of the upper section of the spinal column and to promote the fusion of the occipito-cervical junction.

The range is comprised of polyaxial screws and hooks, modular occipital plates, rods, and occipital rods and connectors.



d. PASS MIS®

PASS MIS® is a posterior anchoring system for a minimally invasive, percutaneous or “mini-open” approach.

Thanks to the principle of lateral connection of the rod – which firstly allows for a pedicular approach to the fractured vertebra – to both the realignment connectors and to the monoaxial screws, the PASS MIS system offers a treatment solution that is particularly suitable for trauma cases.

The PASS MIS system is also indicated for the treatment of degenerative and tumor related cases.

e. PASS Antérieur®

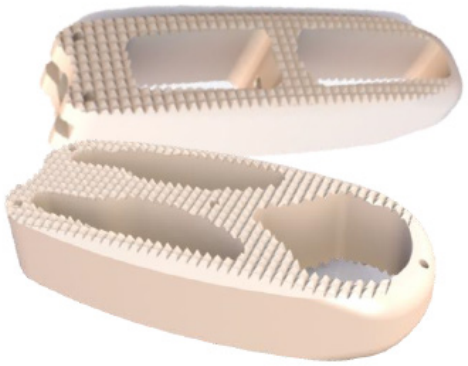
As an extension of the PASS LP® system, MEDICREA has also developed a range of specific implants enabling surgery using an anterior approach. In this way, PASS Antérieur® offers all the advantages of PASS LP®, high quality anchoring and polyaxiality, minimal profile and connection of the rod at distance from the spinal column for this type of fitting. Specific connectors are tailored to single and dual rod constructs.
PASS Antérieur® is CE-marked and FDA-approved.

THORACO-LOMBAR range

MEDICREA offers a wide range of implants for the thoracic and lumbar spine: interbody cages, lumbosacral plates and bone substitutes.

a. IMPIX® Lumbar Cages

The role of these interbody cages is to replace damaged intervertebral discs in the lumbar region. Their purpose is to perform interbody fusion and restore disc height. MEDICREA offers a range of lumbar cages that enable compatibility with patients' different anatomies as well as the various surgical techniques, with post-operative visualization of the bone fusion process.



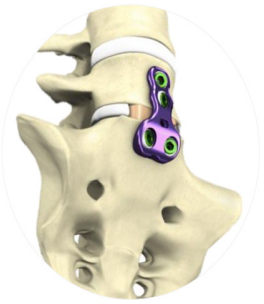
The types of IMPIX® cages include:

- ALIF (Anterior Lumbar Interbody Fusion), lumbar interbody fusion cage for anterior approach
- TLIF (Trans Lumbar Interbody Fusion), lumbar interbody fusion cage for transforaminal approach
- DLIF/OLIF (Direct lateral/Oblique Lumbar Interbody Fusion), lumbar interbody fusion cage for lateral / oblique approach
- PLIF (Posterior Lumbar Interbody Fusion), lumbar interbody fusion cage for lateral / oblique approach.

The IMPIX® lumbar cages are CE-marked and FDA-approved.

b. STABOLT® anterior lumbosacral plate

STABOLT® is an anatomically shaped L5-S1 anterior plate allowing an angled insertion of screws and benefiting from an integrated screw locking system. This system offers a range of triangular and low profile designs to ensure perfect compatibility in different anatomies, thereby respecting the lumbosacral angle specific to each patient as well as the surrounding vascular structures.



The implant is CE-marked and FDA-approved.

c. Osmosys®

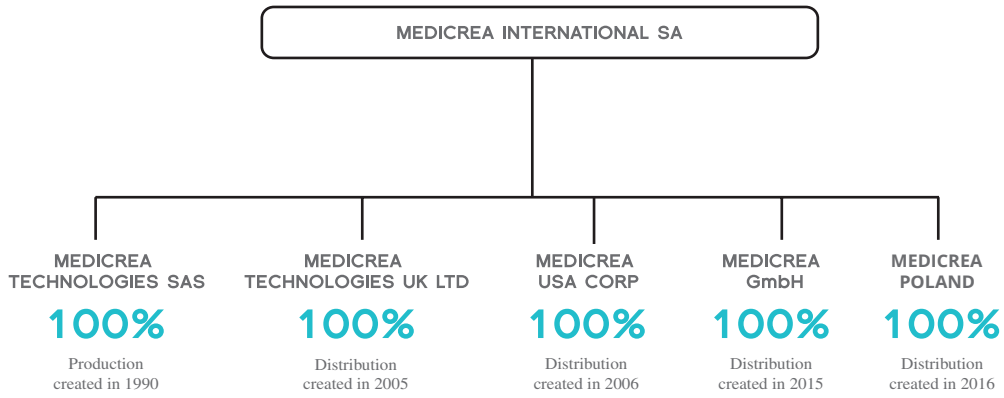
Osmosys® is a highly macroporous bone substitute made up of 60% HAP (hydroxyapatite) for its excellent mechanical properties and 40% βTCP (tricalcium phosphate) for good resorption.

Osmosys® is CE-marked and FDA-approved.

3 GOVERNANCE

1. LEGAL STRUCTURE

At December 31, 2016, MEDICREA Group was structured as follows:



- MEDICREA INTERNATIONAL, the parent company, is now based in Rillieux-la-Pape near Lyon. With this site, MEDICREA has brought together its former headquarters from Neyron (Ain) and its production unit based in La Rochelle until that point and which was shut down in January 2017. MEDICREA INTERNATIONAL now houses production activities, the research and development center and all commercial and administrative functions present in France. MEDICREA TECHNOLOGIES, also based in Rillieux-la-Pape, operates a business repairing motors for surgical devices.

- MEDICREA TECHNOLOGIES UK, based in Cambridge, distributes the Group's products in the United Kingdom. It is wholly owned by MEDICREA INTERNATIONAL;

- MEDICREA USA, based in New York, distributes the Group's products in the United States. It is wholly owned by MEDICREA INTERNATIONAL;

- MEDICREA GmbH, based in Cologne, has been marketing the Group's products in Germany since July 2015. It is wholly owned by MEDICREA INTERNATIONAL;

- MEDICREA POLAND, based in Warsaw, has been marketing the Group's products in Poland since November 2016. It is wholly owned by MEDICREA INTERNATIONAL.

2. MANAGEMENT BODIES

The Group defines its strategy, oversees its management and monitors the proper functioning of all its operations through the following decision making bodies:

Board of Directors

It safeguards the interests of the Company and its shareholders and ensures that the decisions taken are implemented by the leadership team. The guiding principles for the Board's operation are set by rules adopted in October 2006. It met 7 times during the 2016 financial year, with an 76.78% attendance rate among its directors.

At December 31, 2016, the Board was made up of the following members:
Denys SOURNAC, Chairman and Chief Executive Officer
Jean Philippe CAFFIERO, Deputy Chief Executive Officer
Patrick BERTRAND, Director
Christophe BONNET, Director
Pierre BUREL, Director
Jean Joseph MORENO, Director
François Régis ORY, Director
Marc RECTON, Director

The total attendance fees paid to members of the Board of Directors in 2016, in respect of 2015, stood at €48,000 excluding the €9,600 "forfait social" (corporate social contribution) paid directly by the Company.

Ad Hoc Committee

Under the supervision of the Board of Directors, this committee determines and recommends the amounts of and procedures governing the services provided by ORCHARD INTERNATIONAL, of which Denys SOURNAC and Jean Philippe CAFFIERO are shareholders, and ensures that they are on arms' length terms. It is chaired by Christophe BONNET, assisted by François Régis ORY and Jean Joseph MORENO, all of whom are members of the Board of Directors.

Other committees reporting directly to the Board of Directors may be set up as and when required by the Group's expansion and increasing size.

Strategic Committee

Set up in September 2010, this committee determines the Company's strategy and general policy in accordance and compliance with the decisions taken and major policies adopted by the Board of Directors and decides on the resources and means needed to achieve the defined objectives. Its members are as follows:

Denys SOURNAC, Chairman and Chief Eexecutive Officer
Nadège BOURDOIS, VP Legal and Human Resources
Fabrice KILFIGER, Chief Financial Officer
David RYAN, VP Product Development and Marketing

The Committee meets as often as is deemed necessary, determined by the Company's expansion and changes in its activity.

Management Committee

The Management Committee brings together the Group's various operational divisions. It is responsible for implementing the strategy and general policies, managing all projects, assessing progress and taking any necessary corrective action. It meets each quarter and its members are as follows:

Denys SOURNAC, Chairman and Chief Executive Officer
Didier BONDIL, VP Operations
Nadège BOURDOIS, VP Human Resources and Legal
Fabrice KILFIGER, Chief Financial Officer
Thomas MOSNIER, Chief Scientific Officer
Pierre Laurent RAVIS, Chief Information Officer
David RYAN, VP Product Development and Marketing

4 STOCK MARKET INFORMATION AND SHAREHOLDING STRUCTURE

1. STOCK MARKET INFORMATION

MEDICREA has been listed on Alternext Paris since June 26, 2006, ISIN Code FR 0004178572, Ticker ALMED. The share was launched at €7.94 and has been listed continuously since February 2007.

The MEDICREA share is eligible for the 2015/16 PEA-PME SME equity savings plan, in accordance with Decree n°2014-283 of March 4, 2014 published within the framework of the application of Article 70 of the 2014 Finance Act n° 2013-1278 of December 29, 2013, which defines the conditions for companies to be eligible for the PEA-PME SME savings plan.

The main trading statistics relating to the security over the last three years may be summarized as follows:

	12.31.2016	12.31.2015	12.31.2014
Number of shares at December 31	10,033,067	8,987,588	8,496,452
High price	7.04	9.34	10.60
Low price	4.33	6.31	7.05
Average price for the period	5.46	7.75	9.10
Price at December 31	5.40	6.78	8.70
Market capitalization at December 31	€54 m	€61 m	€74 m
Number of transactions	6,465	8,776	20,512
Trading volume	1,937,451	1,638,981	3,609,057
Capital turnover rate	20.18%	18.2%	42.6%

Changes in the share price during 2016 were as follows:

2. SHAREHOLDING STRUCTURE

The shareholding of the Company is characterized by the following factors:
- 2,500 shareholders in total;
- The leading shareholder is made up of the founding executives who together hold 24% of the share capital;
- The second largest shareholder, represented by an investment fund, holds 6.2% of the share capital;
- The 10 leading shareholders together hold approximately 60% of the share capital. 80% of the share capital is held by 25 shareholders.

3. LIQUIDITY CONTRACT AND LISTING SPONSOR

In order to stimulate trading, the security is covered by a market-making contract entered into with the brokerage firm Gilbert Dupont, renewable annually by tacit agreement and compliant with the French Financial Markets Association (AMAFI) ethics code. Gilbert Dupont also acts as Listing Sponsor.

4. FINANCIAL ANALYSIS

The brokerage firms Life Science Advisors (US), Gilbert Dupont and Invest Securities track the share.

5. 2017 FINANCIAL COMMUNICATION CALENDAR

Financial publications will be submitted after market. The calendar below is provided for information only and may be subject to change:

2017 First Quarter Sales	Thursday April 13, 2017
Annual Shareholders' Meeting	Tuesday June 15, 2017
2017 Half-Year Sales	Tuesday July 11, 2017
2017 Half-Year Results	Thursday October 5, 2017
2017 Third Quarter Sales	Thursday October 12, 2017
2017 Annual Sales	Thursday January 11, 2018

6. INFORMATION AND DOCUMENTATION SOURCES

Annual Financial Report published within four months of the financial year end, available on request from the Company's registered office, and which can be downloaded from its website www.medicrea.com

Legal documents, Bylaws, Statutory Auditors' Reports, minutes from shareholders' meetings are all available to consult at no cost and on request at the Company's registered office.

The Company website www.medicrea.com details the main information about the market, businesses, products, news, press releases and financial data.

The Alternext website www.alternext.com provides all the regulated and mandatory financial information published by the Company

Person responsible for information

Denys SOURNAC, Chairman and Chief Executive Officer
Fabrice KILFIGER, Chief Financial Officer

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1. ACTIVITY

MEDICREA Group specializes in bringing pre-operative digital planning and pre- and post-operative analytical services to the world of complex spine. Through the lens of predictive medicine, it leads the design, integrated manufacture, and distribution of 30+ FDA approved implant technologies, utilized in over 100k spinal surgeries to date. The Company has an ultra-modern manufacturing facility in Lyon, France housing the development and machining of 3D-printed patient-specific implants.

The Group distributes its products in more than 30 countries via an external distribution network made up of companies and exclusive independent distribution agents. As part of an overall strategy with the aim of controlling delivery processes, reinforcing the impact of the technical and marketing messages conveyed, and capturing an ever-greater share of gross margin, the Group relies on its own marketing entities for its key markets, namely the United States (with MEDICREA USA in New York), France, the United Kingdom (with MEDICREA TECHNOLOGIES UK in Cambridge), Germany (with MEDICREA GMBH in Cologne) and, since the end of 2016, Poland (with MEDICREA POLAND in Warsaw).

MEDICREA INTERNATIONAL, the parent company, and MEDICREA TECHNOLOGIES complete the Group structure.

2. FISCAL YEAR HIGHLIGHTS

The following are the highlights of the 2016 fiscal year:

2.1. Market and environment

A shift in the healthcare system affecting the orthopedic world is currently taking place at global level, meaning that the sector is now less focused on the implant itself and more concentrated on the outcome of the surgery, for a value-based approach to treatments in comparison with traditional treatments. This shift is particularly important for spine, with aging populations causing a significant increase in degenerative pathologies of the spinal column, often accompanied by multiple interventions. Spinal implants are therefore becoming a real public health issue and personalized medicine is therefore taking on its full meaning.

The development of patient-specific medicine is primarily related to the scientific advances made possible by modern calculation software and technologies. Personalized medicine will continue to transform the practice, firstly with the personalization of treatment and subsequently by progressing toward better prevention. Against this backdrop, the role of manufacturers of therapeutic solutions is changing, and they are becoming genuine partners in the research of products and services that will be tailored to the personalized care of each patient.

MEDICREA has taken tremendous strides in recent years in pioneering a personalized outcome-focused approach to spinal care with the analytical services of UNiD™ Lab and UNiD™ patient-

specific implants, to the point that we are truly taking ownership of this market segment and becoming the leader for personalized spinal surgery.

2.2. Results and performance

With 10 years of listing on the Alternext Paris Stock Exchange and the development of a unique spine company with an unparalleled breakthrough technology in patient-specific implants, 2016 represented a year of large-scale transformation, marked by several key events summarized below:

- The development of new and unique digital services for pre-operative planning and for pre- and post-operative analyses;
- A significant acceleration in the adoption rate of UNiD™ patient-specific rods (up 106% compared with 2015) with more than 1,100 surgical procedures carried out at December 31, 2016 following the launch in France in September 2013 and the approval of this technology by the FDA early in 2015;
- The continued compilation of a growing clinical database, enriched daily using deep learning capabilities for the predictive modeling of the most appropriate patient-specific surgical strategies based on surgeon specific techniques;
- Fundraising of €20 million in August 2016, from predominantly US investors;
- Appointment of Rick KIENZLE, co-founder of GLOBUS MEDICAL, as Chief Strategy and Business Development Officer, who also became a Company shareholder;
- Bringing the production factory, the research and development center and all the Group's support functions together under one roof at a new ultra-modern site in Lyon spanning 8,000 m^2;
- The continued development of titanium 3D printing manufacturing processes for patient-specific interbody cages and corpectomy implants, expected to be marketed in the United States and Europe in the second and third quarters of 2017 respectively;

These developments translated into very significant intangible and tangible investments totaling €9 million in 2016, including €2 million in research costs.

Sales reached a total of €29.4 million in 2016, generating a 6% growth compared to the previous year.

Gross margin, structurally close to 80%, fell by 3 points to 76% due to the use of subcontracting from the second half to mitigate the shutdown in production at the La Rochelle factory and the gradual resumption of operations at the new Lyon site following receipt of the necessary certifications issued by the regulatory certification bodies after a successful certification audit in late 2016.

Overheads increased by €3.5 million in comparison to 2015 to support the roll-out, primarily in the United States, of the Company's innovations in personalized implants with the creation of a dedicated team of engineers within the UNiD™ laboratory and the launch of marketing initiatives aimed at raising awareness among both surgeons and patients.

Other non-recurring expenses totaling €2.4 million primarily comprise the cost of closing the La Rochelle factory and bringing operations under one roof at the new headquarters (€1.2 million), as well as a loss of €0.9 million related to the recognition in expenses of advances on fees paid regularly since 2013 as part of the development of a software platform, and which will not be able to be recovered quickly.

Cost of net financial debt rose by €0.5 million following the implementation of a €15 million convertible bond loan, for which the application of recognition rules defined under IAS 32, IAS 39 and IFRS 7 significantly increased financial expenses without any impact on cash.

Loss before tax amounted to €7.8 million, versus a loss of €1.8 million for the year ended December 31, 2015. These results reflect the transformation undertaken by MEDICREA during the 2016 fiscal year.

Available cash amounted to €8 million at December 31, 2016.

2.3. Products

MEDICREA Group has transformed itself into 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, and providing unrivaled operating comfort for surgeons.

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. It is becoming a matter of course for surgeons, with a very high loyalty rate once they agree to entrust the Company with a few surgical cases to test its capabilities.

2.4. Research & development

In 2016, the Group finalized the extension of its range of implants with the development of a highly innovative “tulip” type screw which allow it to serve the highly important degenerative spinal indications market, and to develop manufacturing processes for intervertebral cages and titanium 3D printed corpectomy implants. The Group firmly believes that computer-assisted patient-specific surgery is the most appropriate solution to spinal column pathologies, a view that has been confirmed by the growing interest manifested in its solutions not only by surgeons, but also by patients. The registration files required to market the customized 3D printed implants particularly for the European and North American markets were submitted during the fiscal year and the corresponding approvals should be issued by the certifying bodies during the first half of 2017.

2.5. Organization

In September 2016, MEDICREA Group moved into its new headquarters located on the Vancia site in Rillieux-la-Pape, on the outskirts of Lyon. With this site, MEDICREA has brought together its former Neyron (Ain) headquarters and its production unit, until then based in La Rochelle. Since the majority of MEDICREA's subcontractors, particularly in the field of mechanics, are based in the Auvergne-Rhône-Alpes region, the Company is moving closer to its strategic partners. The 8,000m² building houses offices, a research and development center and state-of-the-art production workshops dedicated to the manufacture of customized implants via 3D printing, and via titanium machining.

Richard KIENZLE, co-founder of the company GLOBUS MEDICAL, joined MEDICREA Group as Chief Commercial and Business Development Officer in the United States. He has more than 25 years' experience in sales management within companies operating on the medical device market, notably SYNTHES and US SURGICAL. His role is to coordinate MEDICREA's commercial development of services and of the personalized treatments which use UNiD™ technology.

In December 2016, MEDICREA EUROPE FRANCOPHONE was dissolved without liquidation and absorbed by MEDICREA INTERNATIONAL. This decision was taken with the aim of simplifying and rationalizing flows, and involved no change to the structure of the sales force on the French market.

In addition, a new marketing subsidiary was opened in Poland in late 2016.

2.6. Financing

In August 2016, MEDICREA raised €20 million in financing, which consisted of €15 million in convertible bonds, held by ATHYRIUM CAPITAL MANAGEMENT, a US investor strongly regarded in the healthcare industry, and €5 million in equity through a private placement, in which Denys SOURNAC, President and CEO, and Richard KIENZLE participated.

3. CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2016

3.1. CONSOLIDATED INCOME STATEMENT

(€)	Notes	Total IFRS 12.31.2016	Total IFRS 12.31.2015
Net sales	4.1	29,375,426	27,757,300
Cost of sales	4.2	(6,941,264)	(5,954,091)
Gross margin		22,434,162	21,803,209
Research & development costs		(1,064,366)	(983,892)
Sales & marketing expenses		(16,164,574)	(13,217,792)
Sales commissions		(3,426,172)	(3,109,005)
General and administrative expenses		(6,223,950)	(5,955,974)
Other operating income and expenses	4.5	(2,377,170)	(85,155)
Operating income/(loss) before share-based payments		(6,822,070)	(1,548,609)
Share-based payments		(283,434)	(45,218)
Operating income/(loss) after share-based payments		(7,105,504)	(1,593,827)
Cost of net financial debt	10.4	(1,085,382)	(328,738)
Other financial (expenses) / income	10.4	358,415	99,408
Tax (charge) / income	12.1	263,246	307,851
Consolidated net income/(loss)		(7,569,225)	(1,515,306)

Earnings per share	14.2	(0.80)	(0.17)
Diluted earnings per share	14.2	(0.80)	(0.17)

The accompanying notes form an integral part of the consolidated financial statements.

3.2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€)	Total IFRS 12.31.2016	Total IFRS 12.31.2015
Consolidated net income/(loss)	(7,569,225)	(1,515,306)
Translation adjustment	(26,535)	711,254
Total comprehensive income/(loss)	(7,595,760)	(804,052)

The accompanying notes form an integral part of the consolidated financial statements.

3.3. CONSOLIDATED BALANCE SHEET

(€)	Notes	Total IFRS 12.31.2016	Total IFRS 12.31.2015
Goodwill	6.1	2,628,424	2,637,014
Intangible assets	6.5	6,071,368	4,901,518
Property, plant and equipment	6.5	10,099,217	7,012,731
Non-current financial assets	6.5	938,408	686,901
Deferred tax assets	12.2	2,454,025	1,021,671
Total non-current assets		**22,191,442**	**16,259,835**
Inventories	7	8,726,493	7,018,645
Trade receivables	8	5,158,818	4,709,894
Other current assets	8	3,511,477	2,902,154
Cash and cash equivalents	10.1.3	8,063,140	2,168,215
Total current assets		**25,459,928**	**16,798,908**
Total assets		**47,651,370**	**33,058,743**

(€)	Notes	Total IFRS 12.31.2016	Total IFRS 12.31.2015
Share capital	14	1,605,307	1,438,030
Issue, merger and contribution premiums	14	42,448,276	37,635,654
Consolidated reserves	14	(22,403,157)	(22,320,502)
Net income/(loss) for the year	14	(7,569,225)	(1,515,306)
Total shareholders' equity		**14,081,201**	**15,237,876**
Conditional advances	10.1.2	317,500	403,750
Non-current provisions	9	513,842	460,933
Deferred tax assets	12.2	1,407,986	324,098
Long-term financial debt	10.1.1	18,308,727	7,156,452
Total non-current liabilities		**20,548,055**	**8,345,233**
Current provisions	9	1,124,676	30,888
Short-term financial debt	10.1.1	3,602,301	3,270,073
Other current financial liabilities		-	10,575
Trade payables	11	6,000,976	4,055,971
Other current liabilities	11	2,294,161	2,108,127
Total current liabilities		**13,022,114**	**9,475,634**
Total shareholders' equity and liabilities		**47,651,370**	**33,058,743**

The accompanying notes form an integral part of the consolidated financial statements.

3.4. CONSOLIDATED CASH FLOW STATEMENT

(€)	Total IFRS 12.31.2016	Total IFRS 12.31.2015
Consolidated net income/(loss)	**(7,569,225)**	**(1,515,306)**
Property, plant and equipment depreciation and intangible asset amortization	4,238,236	3,135,346
Provisions for impairment	1,768,380	543,446
Proceeds from sale of non-current assets	340,732	424,087
Share-based payments	283,434	45,218
Change in deferred taxes	(348,465)	(810,347)
Corporate tax	(990,327)	(976,587)
Cost of net financial debt	1,085,382	328,738
Self-financing capacity	**(1,191,853)**	**1,174,595**
Change in inventories and work in progress	(2,362,449)	(1,028,268)
Change in trade receivables	(416,004)	(386,908)
Change in trade payables and liabilities relating to non-current assets	1,945,005	(124,376)
Change in other receivables and payables	612,344	506,289
Cash flow from working capital requirement	**(221,104)**	**(1,033,263)**
Taxes paid / refunded	(45,309)	(9,587)
Net cash flow from operating activities	**(1,458,266)**	**131,745**
Acquisition of non-current assets	(9,094,944)	(5,896,896)
Government grants received / (repaid)	(86,250)	(51,250)
Net cash flow from investment activities	**(9,181,194)**	**(5,948,146)**
Share capital increase	5,104,354	3,590,607
Proceeds from new borrowings	16,504,287	6,801,271
Repayment of borrowings	(2,849,794)	(3,178,129)
Interest paid	(750,257)	(299,674)
Other movements	(1,783,239)	(38,645)
Net cash flow from financing activities	**16,225,351**	**6,875,430**
Translation effect on cash and cash equivalents	349	(16,467)
Other movements	(124,373)	115,577
Change in cash and cash equivalents	**5,461,867**	**1,158,139**
Cash and cash equivalents - beginning of year	**1,791,515**	**633,376**
Cash and cash equivalents - end of year	**7,253,382**	**1,791,515**

Positive cash balances - beginning of year	2,168,215	1,181,506
Positive cash balances - end of year	8,063,140	2,168,215
Change in positive cash balances	**5,894,925**	**986,709**
Negative cash balances - beginning of year	(376,700)	(548,130)
Negative cash balances - end of year	(809,758)	(376,700)
Change in negative cash balances	**(433,058)**	**171,430**
Change in cash and cash equivalents	**5,461,867**	**1,158,139**

The accompanying notes form an integral part of the consolidated financial statements.

3.5. CHANGE IN CONSOLIDATED SHAREHOLDERS' EQUITY

(€)	Number of shares	Share capital	Reserves	Shareholders' equity Group share	Minority interests	Consolidated shareholders' equity
SHAREHOLDERS' EQUITY – 12.31.2014	8,481,407	1,357,025	11,264,447	12,621,472	-	12,621,472
Share capital increase	506,281	81,005	3,315,897	3,396,902	-	3,396,902
2015 comprehensive income/(loss)	-	-	(804,052)	(804,052)	-	(804,052)
Stock options and free shares	-	-	45,218	45,218	-	45,218
Other movements	-	-	(21,664)	(21,664)	-	(21,664)
SHAREHOLDERS' EQUITY - 12.31.2015	8,987,688	1,438,030	13,799,846	15,237,876	-	15,237,876
Share capital increase	1,045,479	167,277	4,812,622	4,979,899	-	4,979,899
2016 comprehensive income/(loss)	-	-	(7,595,760)	(7,595,760)	-	(7,595,760)
Stock options and free shares	-	-	283,434	283,434	-	283,434
Other movements	-	-	1,175,752	1,175,752	-	1,175,752
SHAREHOLDERS' EQUITY - 12.31.2016	10,033,167	1,605,307	12,475,894	14,081,201	-	14,081,201

The accompanying notes form an integral part of the consolidated financial statements.

3.6. EXPLANATORY NOTES

The notes form an integral part of the financial statements prepared in accordance with IFRS.

MEDICREA is listed on the Alternext market of Euronext Paris, ISIN FR004178572, Ticker ALMED.

The consolidated financial statements for the 2016 fiscal year were approved by the Board of Directors on March 28, 2017. They will be submitted for approval at the Shareholders' General Meeting of June 15, 2017.

NOTE 1: ACCOUNTING PRINCIPLES

1.1 Accounting framework

The financial statements of MEDICREA Group at December 31, 2016 have been prepared in accordance with the IFRS (International Financial Reporting Standards) in force within the European Union, pursuant to European Regulation n° 1606/2002 of July 19, 2002, and available at ec.europa.eu/internal_market/accounting/ias/index_en.htm.

These standards include:

- International Accounting Standards (IAS);
- International Financial Reporting Standards (IFRS);
- SIC (Standard Interpretation Committee) interpretations;
- IFRIC (International Financial Interpretation Committee) interpretations.

The annual financial statements have been prepared in accordance with the going concern principle, assessed in light of the Group's capacity to meet its cash flow requirements over the next 12 months 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.

1.2 Standards, amendments and interpretations adopted by the European Union, the application of which is mandatory for reporting periods starting on or after January 1, 2016

The IASB has published the following standards, amendments, and interpretations, which have been adopted by the European Union:

Amendments to IAS 19	Defined benefit plans: Employee contributions
Annual improvements to IFRS - 2010-2012 cycle	Various provisions
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization
Amendments to IAS 1	Disclosure initiative
Annual improvements to IFRS - 2012-2014 cycle	Various provisions

These publications do not have a material impact on the Group's consolidated financial statements.

1.3 Standards, amendments and interpretations adopted by the European Union, the application of which is mandatory for reporting periods starting on or after January 1, 2016 and not applied early by the Group

The IASB has published the following standards, amendments, and interpretations, which have been adopted by the European Union:

Standards, amendments and interpretations	Application date	Impact on the Group
IFRS 15 Revenue from contracts with customers	January 1, 2018	IFRS 15 will replace IAS 11, IAS 18 and the related IFRIC and SIC interpretations regarding the recognition of revenue from ordinary activities, and is introducing a new model for recognizing that revenue. Clarifications to the standard were published by the IASB on April 12, 2016 following the publication of the "IFRS 15 Clarification Survey" in July 2015; these clarifications are expected to be approved by the European Union in the near future. The European Union adopted IFRS 15 on September 22, 2016. The Group will finalize the assessments and quantification of any impact relating to the application of this new standard during the first half of 2017.
IFRS 9 Financial instruments	January 1, 2018	The IASB finalized its plan to replace IAS 39 – Financial Instruments on July 24, 2014, by publishing the full version of IFRS 9. That version introduces significant changes compared with the current IAS 39: - provisions relating to the classification and measurement of financial assets will now be based on the combined assessment of the management model for each asset portfolio and of the contractual terms of the financial assets; - meanwhile, the impairment model has abandoned the current approach based on incurred losses in favor of an approach based on expected losses; - the hedge component includes a number of significant advances that promote the convergence of the entity's accounting system and risk management policy. The Group is not expecting any significant impact on the classification and measurement of its financial assets, in view of the nature of its transactions and business activities.

1.4 Standards, amendments and interpretations published by the IASB and not yet adopted by the European Union

The IASB has published the following standards, amendments, and interpretations, which have not yet been adopted by the European Union:

Standards, amendments and interpretations	Application date (1)	Impact on the Group
IFRS 16 Leases	January 1, 2019	The IASB published IFRS 16 – Leases on January 13, 2016. IFRS 16 will replace IAS 17, as well as the related IFRIC and

		SIC interpretations, and will eliminate the difference in accounting treatment that was previously established between "operating leases" and "finance leases". Lessees must recognize all leases with a term of over one year, in the same way as the procedures currently provided for finance leases by IAS 17, and thus recognize an asset representing the right to use the leased asset in exchange for a liability representing the obligation to pay for that right. The Group carried out an assessment of all of its leases and of their main provisions likely to be concerned by the new standard during 2016, with the aim of providing an analysis of the impact of the application of this standard on the Group's financial statements as from 2017.

(1) Subject to adoption by the European Union

The IASB has also published the following documents, which the Group does not expect to have a material impact on its consolidated financial statements:

Standards, amendments and interpretations		Application date (1)
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The IASB has deferred the initial application date to a date that remains to be specified.
Amendments to IAS 12	Income tax: recognition of deferred tax assets for unrealized losses	January 1, 2017
Amendments to IAS 7	Disclosure initiatives	January 1, 2017
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	January 1, 2018
Annual improvements to IFRS - 2014-2016 cycles	Various provisions	January 1, 2017 / January 1, 2018
IFRIC 22 interpretation	Foreign currency transactions and advance consideration	January 1, 2018

(1) Subject to adoption by the European Union

NOTE 2: SCOPE OF CONSOLIDATION

2.1 Consolidation method

Consolidation is based on the statutory financial statements, prepared at December 31, 2016, of the various legal entities comprising the Group.

Subsidiaries controlled directly or indirectly by the Group are fully consolidated. Control of an entity exists when the Group:

- holds power over the entity;
- is exposed or has rights to variable returns from its involvement with the entity;
- has the ability to use its power to influence the amount of its returns.

All transactions between consolidated entities are eliminated, as are intra-group income and losses (capital gains on asset disposals, inventory margins, amortization and depreciation of assets produced and retained by the Group).

2.2 Changes in consolidation scope

The consolidation scope includes the following entities:

- MEDICREA INTERNATIONAL (Group parent company);
- MEDICREA TECHNOLOGIES;
- MEDICREA TECHNOLOGIES UK;
- MEDICREA USA;
- MEDICREA EUROPE FRANCOPHONE (the company was wound up at the end of 2016 via the contribution of all its assets and liabilities to MEDICREA INTERNATIONAL);
- MEDICREA GMBH;
- MEDICREA POLAND (entity created at the end of 2016).

Control and interest percentages at December 31, 2016 are detailed in the table below:

	Registered office:	% control	% interest
MEDICREA TECHNOLOGIES	La Rochelle, FR	100%	100%
MEDICREA TECHNOLOGIES UK	Swaffam Bulbeck, UK	100%	100%
MEDICREA USA	New-York, USA	100%	100%
MEDICREA GMBH	Köln, GER	100%	100%
MEDICREA POLAND	Warsaw, PL	100%	100%

The company MEDICREA POLAND, a company incorporated under Polish law, was created in November 2016 with share capital of PLN 200,000.

MEDICREA EUROPE FRANCOPHONE was wound up with no liquidation process on December 30, 2016 via a decision of MEDICREA INTERNATIONAL, its sole shareholder.

2.3 Foreign currency translation

2.3.1 Translation of financial statements expressed in foreign currencies

The presentation currency of the Group's consolidated financial statements is the Euro.

The financial statements of each consolidated Group company are prepared in its functional currency, which is the currency of the principal economic environment in which each subsidiary operates and is the local currency.

The financial statements of entities whose functional currency is not the Euro are translated into Euros as follows:

- for balance sheet items, at the year-end exchange rate;
- for income statement items, at the average exchange rate for the period;
- for cash flow statement items, at the average exchange rate for the period.

Exchange differences arising from the application of these rates are recorded under "Translation adjustment" in shareholders' equity.

At December 31, 2016, the change in the translation adjustment recognized in Shareholders' equity is analyzed by currency as follows:

(€)	12.31.2016	12.31.2015
US Dollar	(33,522)	620,248
Pound Sterling	8,461	91,006
Zloty	(1,474)	-
Total	**(26,535)**	**711,254**

2.3.2 Foreign currency transactions

Transactions carried out by an entity in a currency other than its functional currency are translated using the exchange rate applicable at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Non-monetary assets and liabilities denominated in a foreign currency are recognized at the historical exchange rate applicable at the transaction date.

Differences arising from the translation of foreign currency transactions are generally recognized under net financial income/(expense) in the income statement.

Foreign exchange gains and losses arising from the translation or elimination of intra-group transactions or receivables and liabilities denominated in currencies other than the entity's functional currency are recorded in the income statement unless they relate to long-term intra-

group financing transactions which can be considered as transactions relating to equity. In the latter case, translation adjustments are recorded in shareholders' equity under "Translation adjustment".

2.4 Use of estimates by Management

As part of the preparation of the consolidated financial statements, the valuation of some assets and liabilities requires the use of judgments, assumptions and estimates. This primarily involves the valuation of intangible assets, determining the amount of provisions for current and non-current liabilities and provisions for inventory impairment, the valuation of benefits giving access to the company's share capital, stock options and free shares, and, if applicable, deferred tax assets.

Rapid changes in economic environments increase the difficulties of valuing and estimating certain assets and liabilities, as well as contingencies on business developments. The estimates made by management were based on information available to it at December 31, 2016, after taking account of events subsequent to that period in accordance with IAS 10. These assumptions, estimates and judgments made on the basis of information or situations existing at the date of preparation of the financial statements, may prove different from subsequent actual events.

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 operating expenses.

The value in use is calculated as the present value of estimated future cash flows expected from the use of assets or their potential disposal.

At December 31, 2016, the Group was not aware of any changes in estimates having a significant impact during the period.

NOTE 3: SEGMENT REPORTING

In accordance with the provisions of IFRS 8 "Operating Segments", the segment reporting presented below is based on the internal reports used by Executive Management to assess performance and allocate resources to the various segments. Executive Management is the chief operating decision maker for the purposes of IFRS 8.

MEDICREA Group generates most of its business in a single operating segment, that of spinal implants. Therefore, the Group presents only one level of segment reporting, namely by geographic region, which corresponds to the functional organization of the Group through its marketing entities.
The different geographic regions are:

- France;
- United States;
- United Kingdom;
- Germany;
- Poland;
- Rest of the world.

3.1 Breakdown of sales by geographic region

By geographic region, sales are analyzed as follows:

	12.31.2016		12.31.2015		12.31.2014	
	(€)	(%)	(€)	(%)	(€)	(%)
France	5,143,923	18%	4,699,723	17%	3,862,765	16%
United States	17,646,708	60%	16,341,872	59%	13,995,488	58%
United Kingdom	522,451	2%	833,170	3%	1,163,251	5%
Germany	66,428	0%	-	-	-	-
Rest of the world	5,995,916	20%	5,882,535	21%	5,182,751	21%
of which Europe	*2,408,430*		*3,109,911*		*2,738,360*	
of which South America	*2,442,467*		*1,591,836*		*1,412,172*	
of which Asia	*579,074*		*840,304*		*892,179*	
of which Oceania	*157,747*		*81,372*		*97,877*	
of which Middle East and Africa	*408,198*		*259,112*		*42,163*	
Total	29,375,426	100%	27,757,300	100%	24,204,255	100%

The Polish subsidiary was set up at the end of 2016, and there were no significant business activities in that country during the fiscal year.

3.2 2016 income statement by geographic region

(€)	France	United States	United Kingdom	Germany	Rest of the world	Total IFRS 12.31.2016
Net sales	**5,143,923**	**17,646,708**	**522,451**	**66,428**	**5,995,916**	**29,375,426**
Cost of sales	(1,661,312)	(2,097,285)	(78,965)	(19,649)	(3,084,053)	(6,941,264)
Gross margin	**3,482,611**	**15,549,423**	**443,486**	**46,779**	**2,911,863**	**22,434,162**
Research & development costs	(881,016)	(183,350)	-	-	-	(1,064,366)
Sales & marketing expenses	(4,498,943)	(8,253,098)	(832,728)	(751,940)	(1,827,865)	(16,164,574)
Sales commissions	6,877	(3,431,249)	-	-	(1,800)	(3,426,172)
General and administrative expenses	(4,152,764)	(1,692,635)	(212,234)	(72,422)	(93,895)	(6,223,950)
Other operating income and expenses	(2,353,792)	2,218	-	(25,596)	-	(2,377,170)
Operating income/(loss) before share-based payments	**(8,397,027)**	**1,991,309**	**(601,476)**	**(803,179)**	**988,303**	**(6,822,070)**
Share-based payments	(68,916)	(214,518)	-	-	-	(283,434)
Operating income/(loss) after share-based payments	**(8,465,943)**	**1,776,791**	**(601,476)**	**(803,179)**	**988,303**	**(7,105,504)**
Cost of net financial debt	(1,109,196)	28,190	4,068	(7,021)	(1,423)	(1,085,382)
Other financial (expenses) / income	404,111	4,502	(11,027)	-	(39,171)	358,415
Tax (charge) / income	-	279,029	(8,572)	(7,211)	-	263,246
Consolidated net income/(loss)	**(9,171,028)**	**2,088,512**	**(617,007)**	**(817,411)**	**947,709**	**(7,569,225)**

The Polish subsidiary was set up at the end of 2016, and there were no significant business activities in that country during the fiscal year.

3.3 2015 income statement by geographic region

(€)	France	United States	United Kingdom	Germany	Rest of the world	Total IFRS 12.31.2015
Net sales	**4,699,723**	**16,341,872**	**833,170**	**-**	**5,882,535**	**27,757,300**
Cost of sales	(1,366,474)	(1,682,966)	(109,092)	-	(2,795,559)	(5,954,091)
Gross margin	**3,333,249**	**14,658,906**	**724,078**	**-**	**3,086,976**	**21,803,209**
Research & development costs	(833,404)	(150,488)	-	-	-	(983,892)
Sales & marketing expenses	(3,712,532)	(6,985,818)	(726,279)	(170,429)	(1,622,734)	(13,217,792)
Sales commissions	(35,182)	(3,073,823)	-	-	-	(3,109,005)
General and administrative expenses	(3,928,962)	(1,706,499)	(203,481)	(35,058)	(81,974)	(5,955,974)
Other operating income and expenses	(85,155)	-	-	-	-	(85,155)
Operating income/(loss) before share-based payments	**(5,261,986)**	**2,742,278**	**(205,682)**	**(205,487)**	**1,382,268**	**(1,548,609)**
Share-based payments	-	(45,218)	-	-	-	(45,218)
Operating income/(loss) after share-based payments	**(5,261,986)**	**2,697,060**	**(205,682)**	**(205,487)**	**1,382,268**	**(1,593,827)**
Cost of net financial debt	(328,738)	-	-	-	-	(328,738)
Other financial (expenses) / income	91,508	7,497	403	-	-	99,408
Tax (charge) / income	207,057	496,681	(247,129)	-	(148,758)	307,851
Consolidated net income/(loss)	**(5,292,159)**	**3,201,238**	**(452,408)**	**(205,487)**	**1,233,510**	**(1,515,306)**

Expenses of the Research and Development, Marketing, Export Distribution, Finance, and General Administration departments incurred by Group headquarters are all presented under the segment “France”, with no analytical reallocation to other geographic regions.

3.4 2016 balance sheet by geographic region

(€)	France	United States	United Kingdom	Germany	Rest of the world	Total IFRS 12.31.2016
Goodwill	2,628,424	-	-	-	-	2,628,424
Intangible assets	5,554,575	516,793	-	-	-	6,071,368
Property, plant and equipment	6,916,792	2,694,808	258,946	93,590	135,081	10,099,217
Non-current financial assets	593,425	324,913	-	20,070	-	938,408
Deferred tax assets	1,407,981	1,097,719	(44,464)	(7,211)	-	2,454,025
Total non-current assets	**17,101,197**	**4,634,233**	**214,482**	**106,449**	**135,081**	**22,191,442**
Inventories	1,876,639	6,291,292	389,896	168,666	-	8,726,493
Trade receivables	1,254,901	2,367,526	126,352	24,321	1,385,718	5,158,818
Other current assets	3,025,993	447,064	16,904	20,156	1,360	3,511,477
Cash and cash equivalents	7,558,458	407,091	49,487	4,456	43,648	8,063,140
Total current assets	**13,715,991**	**9,512,973**	**582,639**	**217,599**	**1,430,726**	**25,459,928**
Total assets	**30,817,188**	**14,147,206**	**797,121**	**324,048**	**1,565,807**	**47,651,370**

(€)	France	United States	United Kingdom	Germany	Rest of the world	Total IFRS 12.31.2016
% share capital	1,605,307	-	-	-	-	1,605,307
Issue, merger and contribution premiums	42,448,276	-	-	-	-	42,448,276
Consolidated reserves	(35,612,220)	10,463,180	1,251,057	1,051,872	442,954	(22,403,157)
Net income/(loss) for the year	(9,171,028)	2,088,512	(617,007)	(817,411)	947,709	(7,569,225)
Total shareholders' equity	**(729,665)**	**12,551,692**	**634,050**	**234,461**	**1,390,663**	**14,081,201**
Conditional advances	317,500	-	-	-	-	317,500
Non-current provisions	513,842	-	-	-	-	513,842
Deferred tax assets	1,407,986	-	-	-	-	1,407,986
Long-term financial debt	18,308,727	-	-	-	-	18,308,727
Total non-current liabilities	**20,548,055**	**-**	**-**	**-**	**-**	**20,548,055**
Current provisions	1,124,676	-	-	-	-	1,124,676
Short-term financial debt	3,602,186	-	-	115	-	3,602,301
Trade payables	4,487,631	1,280,849	112,863	71,484	48,149	6,000,976
Other current liabilities	1,784,305	314,665	50,208	17,988	126,995	2,294,161
Total current liabilities	**10,998,898**	**1,595,514**	**163,071**	**89,587**	**175,144**	**13,022,114**
Total shareholders' equity and liabilities	**30,817,188**	**14,147,206**	**797,121**	**324,048**	**1,565,807**	**47,651,370**

The Polish subsidiary was set up at the end of 2016, and there were no significant business activities in that country during the fiscal year.

3.5 2015 balance sheet by geographic region

(€)	France	United States	United Kingdom	Germany	Rest of the world	Total IFRS 12.31.2015
Goodwill	2,637,014	-	-	-	-	2,637,014
Intangible assets	4,630,813	270,705	-	-	-	4,901,518
Property, plant and equipment	4,879,518	1,750,008	283,713	10,829	88,663	7,012,731
Non-current financial assets	317,340	349,491	-	20,070	-	686,901
Deferred tax assets	324,098	716,202	(18,629)	-	-	1,021,671
Total non-current assets	**12,788,783**	**3,086,406**	**265,084**	**30,899**	**88,663**	**16,259,835**
Inventories	1,177,184	5,396,274	445,187	-	-	7,018,645
Trade receivables	1,438,202	2,328,732	119,026	-	823,934	4,709,894
Other current assets	1,848,445	982,970	29,032	38,829	2,878	2,902,154
Cash and cash equivalents	1,492,742	483,435	113,598	78,440	-	2,168,215
Total current assets	**5,956,573**	**9,191,411**	**706,843**	**117,269**	**826,812**	**16,798,908**
Total assets	**18,745,356**	**12,277,817**	**971,927**	**148,168**	**915,475**	**33,058,743**

(€)	France	United States	United Kingdom	Germany	Rest of the world	Total IFRS 12.31.2015
% share capital	1,438,030	-	-	-	-	1,438,030
Issue, merger and contribution premiums	37,635,654	-	-	-	-	37,635,654
Consolidated reserves	(31,044,617)	7,714,819	1,204,133	239,347	(434,184)	(22,320,502)
Net income/(loss) for the year	(5,292,159)	3,201,238	(452,408)	(205,487)	1,233,510	(1,515,306)
Total shareholders' equity	**2,736,908**	**10,916,057**	**751,725**	**33,860**	**799,326**	**15,237,876**
Conditional advances	403,750	-	-	-	-	403,750
Non-current provisions	460,933	-	-	-	-	460,933
Deferred tax assets	324,098	-	-	-	-	324,098
Long-term financial debt	7,156,452	-	-	-	-	7,156,452
Total non-current liabilities	**8,345,233**	**-**	**-**	**-**	**-**	**8,345,233**
Current provisions	17,110	13,778	-	-	-	30,888
Short-term financial debt	3,270,073	-	-	-	-	3,270,073
Other current financial liabilities	10,575	-	-	-	-	10,575
Trade payables	2,705,150	988,410	167,726	87,565	107,120	4,055,971
Other current liabilities	1,660,307	359,572	52,476	26,743	9,029	2,108,127
Total current liabilities	**7,663,215**	**1,361,760**	**220,202**	**114,308**	**116,149**	**9,475,634**
Total shareholders' equity and liabilities	**18,745,356**	**12,277,817**	**971,927**	**148,168**	**915,475**	**33,058,743**

NOTE 4: OPERATIONAL DATA

4.1 Revenue

In accordance with IAS 18, revenue is recognized net of any trade discounts, volume rebates, credit notes and settlement discounts. Revenue is recognized when:

- it is probable that future economic benefits will flow to the Group;
- the amount of revenue can be measured reliably;
- at the transaction date, it is probable that the amount of the sale will be recovered.

Sales comprise the value excluding tax of goods and services sold by consolidated entities as part of their ordinary activities, after elimination of intra-group 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 Group delivers directly to healthcare institutions, implants and instruments are held on consignment. They are not invoiced on delivery and remain recognized as Group assets. Only implants that have been placed and/or broken or lost instruments are subsequently invoiced.

Regular inventories of assets held on consignment are made, either directly on site, or after the assets are returned and reviewed at the Group's distribution centers, and any necessary accounting adjustments are recognized in the financial statements.

Gains and losses resulting from the unwinding of exchange rate hedges relating to commercial transactions are presented as other operating income and expenses.

4.2 Amortization, depreciation and impairment charges

Amortization and depreciation charges included in the income statement relate to the following assets:

Amortization and depreciation	12.31.2016	12.31.2015	12.31.2014
Industrial and commercial property rights	388,384	397,325	290,467
Other intangible assets	1,284,317	993,328	925,277
Buildings	17,720	3,854	1,722
Plant, machinery and tools, instruments	2,152,314	1,408,203	1,012,884
Other property, plant and equipment	395,501	332,636	274,260
Total	**4,238,236**	**3,135,346**	**2,504,610**

Impairment	12.31.2016	12.31.2015	12.31.2014
Inventories	654,601	340,889	(225,269)
Trade receivables	(32,919)	58,347	8,858
Total	**621,682**	**399,236**	**(216,411)**

Amortization and depreciation charges are analyzed as follows:

(€)	12.31.2016	12.31.2015	12.31.2014
Cost of sales	399,193	328,120	225,973
Research & development and patent costs	1,666,296	1,418,203	1,213,760
Sales & marketing expenses	1,670,137	1,051,529	817,511
General and administrative expenses	412,668	337,494	247,366
Other operating income and expenses	89,942	-	-
Total	4,238,236	3,135,346	2,504,610

4.3 Royalties

Royalties paid to certain designer surgeons, related to the purchase by contract of their inventors' rights, are calculated and paid quarterly, based on the sales of each product concerned generated by the Group. These royalties are recognized as operating expenses.

Royalties received on patents owned by the Group and used in other medical applications by other companies are recognized as operating revenues.

4.4 Other operating income and expenses

Other operating income and expenses include items of revenue which, due to their nature, amount or frequency, cannot be considered as being part of ordinary activities or income from recurring operations.

The amount of other operating income and expense for the 2016 fiscal year included all of the expenses relating to transferring the Neyron and La Rochelle operations to the new site in Rillieux-la-Pape, the cost of shutting down the production unit in La Rochelle and the write-off of advances paid to a software designer in connection with the development of a healthcare IT platform, which will not be recovered.

The change in other operating income and expenses at December 31, 2016 broke down as follows:

(€)	12.31.2016	12.31.2015
Write-off of advances on royalties	(913,741)	-
Redundancy costs for the employees at the La Rochelle production unit	(783,793)	-
Cost of shutting down the Neyron premises	(304,045)	-
Cost of transferring the staff at the La Rochelle production unit	(263,636)	-
Cost of shutting down the La Rochelle production unit	(214,479)	-
Employee litigation	(25,597)	(85,155)
Reversal of the retirement allowances for the employees made redundant at La	123,571	-
Rochelle	4,550	-
Other		
Total	(2,377,170)	(85,155)

4.5 Operating income

The key performance indicator used by the Group is operating income before share-based payments. It includes income from ordinary activities and other operating income and expenses, which comprise unusual, non-recurring and material items, and exchange gains and losses on commercial transactions.

NOTE 5: EMPLOYEE COSTS AND BENEFITS

5.1 Workforce

The workforce can be analyzed by category and geographic region as follows:

	12.31.2016	12.31.2015	12.31.2014
Executives	84	72	67
Supervisors - Employees	85	68	61
Total	169	140	128
of which France	*113*	*102*	*90*
of which United Kingdom	*7*	*6*	*5*
of which United States	*42*	*30*	*33*
of which Germany	*5*	*2*	-
of which Poland	*2*	-	-

5.2 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.

Pursuant to IAS 19 revised, within the context of defined benefit plans, post-employment benefits and other long-term benefits are measured in accordance with the projected unit credit method based on parameters specific to each employee (age, occupational category), and assumptions specific to the company (collective agreement, staff turnover rate, future salary forecasts, life table). Before IAS 19 R came into force, the Group had opted for the immediate recognition of actuarial gains and losses in the income statement. Accordingly, the opening balances of shareholders' equity at January 1, 2013 and January 1, 2014 have not been restated due to the lack of impact of IAS 19 R on the financial statements.

Actuarial gains and losses are generated when differences are noted between actual data and previous forecasts, or following a change in actuarial assumptions. In the case of post-employment benefits, actuarial gains and losses generated are recognized in the statement of comprehensive income net of deferred tax.

Past service costs resulting from the adoption of a new plan or a change to an existing defined benefit plan are immediately recognized in the income statement. The expense includes:

- the cost of services rendered during the fiscal year, past service costs and the potential effects of any plan curtailment or liquidation recognized in operating income;
- the charge net of interest on obligations and plan assets recognized in net financial income/(expense).

The Group does not finance its commitments through payments to external funds.

The servicing of retirement benefits as provided for by the collective agreements applicable to MEDICREA INTERNATIONAL, and MEDICREA TECHNOLOGIES (Import/Export and Charente Maritime Ironworks, respectively) is the subject of a provision recognized in non-current liabilities. The corresponding commitment is measured annually based on the specific features of these entities and external factors, which are summarized as follows:

- 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 44% 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: 1.40%, 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 IAS 19 and the ANC's recommendation.

The provision for acquired rights was €525,011 at December 31, 2016, compared with €468,043 at December 31, 2015. Movements are analyzed as follows:

(€)	12.31.2016
Actuarial liability at 12.31.2015	468,043
Service cost in operating income	*(42,869)*
Net financial expense	*10,219*
Charge for the year in respect of defined benefit plans	(32,650)
Actuarial gains and losses	89,618
Actuarial liability at 12.31.2016	525,011

The La Rochelle plant was shut down on January 31, 2017, and employees who did not wish to transfer to the Rillieux-la-Pape site were made redundant. Estimates of retirement benefits at December 31, 2016 were therefore drawn up excluding the employees who left MEDICREA TECHNOLOGIES in early 2017, and by transferring the employees who agreed to be redeployed to MEDICREA INTERNATIONAL.

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

Regarding foreign subsidiaries, a detailed review of retirement commitment obligations is carried out based on the rules applicable to each country and provisions are recognized if necessary.

5.3 Long-service awards

No provision is established for commitments related to long-service awards, since collective agreements do not provide for any specific provision in that regard.

5.4 Share-based payments

Stock options and free shares are allocated to employees of Group entities.

Stock option and free share plans are deemed to be equity-settled plans according to the classification specified by IFRS 2. At the allocation date, the Group estimates the fair value of plan instruments whose payment is based on shares. The fair value of the shares is determined based on the Black & Scholes model, which meets IFRS 2 criteria.

The fair value is recognized in employee costs over the vesting period and offset by a specific reserve account. The amount recognized takes account of the number of beneficiaries, the vesting probability adjusted for departure assumptions, the price of the underlying instrument, the maturity profile of the options, the dividend yield, the volatility of the MEDICREA share, and the risk-free rate. The expense is recognized over the entire vesting period. For stock options, one third of the fair value is recognized in the year options are allocated, one third the following year and the balance two years later. For free shares, the fair value of instruments allocated to the beneficiaries has so far been recognized over two years, or one year for those allocated under the Macron Law, except for American employees for whom it is recognized over a four-year period, or two years for those allocated under the Macron Law.

The volatility used was determined based on historical observation of the MEDICREA share and was compared with a sample of securities of comparable companies. The risk-free rate corresponds to the 6-year zero coupon Eurozone rate at the allocation date. Cancelled securities were taken into account to ensure only outstanding securities were valued.

At the end of the vesting period, the amount of cumulative benefits recognized is retained in reserves, irrespective of whether options have been exercised or not.

5.4.1 Description of existing plans

At the Shareholders' Meetings of March 10, 2006, June 25, 2009, June 14, 2012, June 25, 2014, June 3, 2015 and December 18, 2015, 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 and September 19, 2016, share subscription options and/or free shares were allocated.

- **Subscription options**

The main features of current option plans are as follows:

Allocation date (Date of Board of Directors' meeting)	06.05.08	06.25.09	12.17.09	06.17.10	06.16.11	12.17.13	03.27.14	09.03.15	07.25.16	09.19.16
Number of options allocated	25,215	99,200	15,000	112,800	95,500	10,000	30,000	12,000	400,000	6,500
Subscription price	€6	€6.16 €6.56*	€6.32	€6.14 €6.28*	€9.10 €11.44*	€8.77	€9.10	€6.67	€5.43*	€5.74*
Vesting period	0-2 years (1)	1-3 years (2)	0-2 years (2)	1-3 years (1)	1-3 years (1)	1-3 years (1)	1-3 years (1)	1-3 years (3)	1-3 years (4)	1-3 years (5)
Options term	10 years	7 years	7 years	7 years	7 years	7 years	7 years	7 years	7 years	7 years

* The exercise price is different for American employees since the final vesting dates are effective 20 trading days after the date of the Board of Directors' meeting deciding on the allocation.

(1) Options are fully exercisable

(2) Any options that were not exercised have lapsed

(3) One third of options are exercisable, one third from September 3, 2017 and one third from September 3, 2018.

(4) One third of options will be exercisable from July 25, 2017, one third from July 25, 2018 and one third from July 25, 2019.

(5) One third of options will be exercisable from September 19, 2017, one third from September 19, 2018 and one third from September 19, 2019.

Exercise of the options is subject to the employee being employed by the Group at the exercise date. Out of a total of 806,215 options allocated, and due to the departure of employees since the first plans were put in place, 139,256 options had lapsed at December 31, 2016. In addition, the exercise period for 59,720 options lapsed at the end of 2016 and 37,521 options have been exercised (15,147 in 2014 and 22,374 in 2015). The number of options that are still exercisable was therefore 569,718 at December 31, 2016.

- **Free shares**

186,274 shares have been allocated since 2008. These shares are vested on the beneficiary at the end of a two-year period for French employees and a four-year period for American employees (excluding those under the Macron scheme, which halved these periods). In view of the employee departures that occurred between the 2008 and 2016 fiscal years, the number of free shares allotted and vested amounted to 94,283, to which should be added 41,990

allotted free shares that will vest on September 19, 2017, and 31,000 allotted free shares that will vest on September 19, 2018, i.e. a total of 167,273 allotted free shares.

5.4.2 Change in the number of outstanding securities

Transactions in share-based payment instruments in the 2016 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	6.72	5.43	72,990	0.72	1.72
- canceled	(4,400)	-	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**

For the 2015 fiscal year, these transactions can be 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 12.31.14	**240,212**	**2.89**	**7.21**	-	-	-
- allocated	12,000	6.67	6.67	-	-	-
- canceled	500	1.59	6.14	-	-	-
- lapsed	-	-	-	-	-	-
- exercised (1)	22,374	2.18	6.15	-	-	-
Balance at 12.31.15	**229,338**	**2.36**	**7.29**	-	-	-

(1) 22,374 stock options have been exercised in 2015. The corresponding capital increase was only recorded for 5,698 options at December 31, 2015.

5.4.3 Reflection of allocated instruments in the financial statements

The accounting impacts of allocated instruments are as follows:

Allocation date	Type	Number of outstanding securities	Exercise price (€)	Share price on the allocation date (€)	Dividend yield	Expected volatility	Risk-free rate	Fair value (€)	2016 accounting charge (€ K)	Cost of plans since inception (€K)
06.05.2008	Option	9,759	6.00	5.73	0%	40%	4.44%	2.74	-	27
06.05.2008	Share	17,163	Free	5.73	0%	-	-	5.73	-	98
06.25.2009	Option	7,480	6.16	6.55	0%	40%	2.89%	2.83	-	21
06.25.2009	Share	35,700	Free	6.55	0%	-	-	6.55	-	234
12.17.2009	Option	13,000	6.32	5.96	0%	40%	2.54%	2.31	-	30
12.17.2009	Share	2,000	Free	5.96	0%	-	-	5.96	-	12
06.17.2010	Option	49,500	6.14	6.22	0%	40%	1.83%	2.47	-	122
06.17.2010	Option	22,500	6.28	6.22	0%	40%	1.83%	2.38	-	54
06.17.2010	Share	35,920	Free	6.22	0%	-	-	6.22	-	224
06.16.2011	Option	26,500	9.10	9.40	0%	33%	2.37%	3.06	-	81
06.16.2011	Option	20,000	11.44	9.40	0%	33%	2.37%	4.78	-	96
06.16.2011	Share	3,500	Free	9.40	0%	-	-	9.40	-	33
12.17.2013	Option	10,000	8.77	8.88	0%	36%	2.69%	3.05	3	30
03.27.2014	Option	30,000	9.10	9.14	0%	35%	2.33%	3.02	14	88
09.03.2015	Option	12,000	6.67	6.48	0%	33%	0.37%	1.76	11	15
07.25.2016	Option	400,000	5.43	5.85	0%	36%	-0.31%	1.86	160	160
09.19.2016	Share	72,990	Free	5.85	0%	-	-	5.85	94	94
09.19.2016	Option	6,500	5.53	5.04	0%	36%	-0.31%	1.31	1	1
TOTAL		774,512							283	1,420

This table does not take into account the 37,521 stock options that were exercised in 2014 and 2015 and the 61,720 stock options that lapsed on December 31, 2016 and which may no longer be exercised.

The number of instruments in circulation may be broken down as follows:

Number	12.31.16
Number of outstanding securities	774,512
Number of options exercised	(37,521)
Number of outstanding, unexercised securities	736,991
of which stock options allocated	*569,718*
of which of number of free shares allocated	*167,273*

5.5 French Individual Training Right (ITR) now Personal Training Account (PTA)

Only training expenses effectively incurred in respect of the individual training right, as decided jointly by the employee and the Group, 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 Group, 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.

As of January 1, 2015, the ITR was replaced by the Personal Training Account (PTA), which is no longer metered by the Group but by the Caisse des Dépôts et Consignation. The Group's annual contribution in respect of the PTA (0.2% of French companies' payroll costs) is paid to *Organismes Paritaires Collecteurs Agréés* (OPCAs), which in turn finance the future training programs carried out under this framework.

5.6 US Employee Stock Purchase Plan (ESPP)

A stock purchase plan reserved for MEDICREA USA's American employees has been in place since January 1, 2015. It provides these employees with the opportunity to purchase shares in the parent company MEDICREA INTERNATIONAL, within the strict tax and legal framework specified by US regulations, the main characteristics of which are as follows:

- Only employees who have worked for the company for at least three months at the time of the annual subscription (in December) may take part in the plan, by paying a fixed amount into a dedicated account on a monthly basis;
- The sums thus accumulated give them the right at the end of each year to purchase MEDICREA INTERNATIONAL shares at a price equal to 85% of the average share price at January 1 and November 30;
- These shares must be retained for 12 months before they can be sold or transferred.

7,879 shares were subscribed by 7 employees at a price of USD 4.32 in 2016 (6,299 shares had been subscribed by 7 employees at a price of USD 6.41 in 2015). The difference between the price actually paid by the Company to acquire the options and the price paid by the employees is recorded as an expense in the fiscal year. The expenses relating to the administration of this plan, or USD 14,862 in 2016 (USD 17,918 in 2015) are borne by MEDICREA USA. This plan will be closed at the end of 2017.

5.7 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 Group 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 2016 fiscal year for work carried out by Mr. SOURNAC was €300,000 exclusive of tax (unchanged from 2015).

Mr. SOURNAC did not receive any direct or indirect compensation from the Company other than that mentioned above, excluding Directors' fees of €6,000 in 2016 (unchanged from 2015).

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 2016, ORCHARD INTERNATIONAL invoiced a total of €64,000 exclusive of tax (unchanged from 2015) to MEDICREA INTERNATIONAL for the sales management duties carried out by Mr. CAFFIERO. It should be noted that since January 1, 2015, at Mr. CAFFIERO's request to reduce his activities within the Group, the amount of services invoiced by ORCHARD INTERNATIONAL has been significantly revised downward.

Mr. CAFFIERO did not receive any direct or indirect compensation other than that mentioned above, excluding Directors' fees of €6,000 in 2016 (unchanged from 2015).

5.8 Employee costs analysis

Employee costs are analyzed as follows (excluding temporary staff costs), after taking account of the French competitiveness and employment credit of €134,080 for the fiscal year 2016 (€130,039 for the fiscal year 2015);

(€)	12.31.2016	12.31.2015	12.31.2014
Cost of sales	2,256,701	1,908,159	1,477,098
Research & development costs	1,547,585	1,449,498	990,424
Share of capitalized expenses	(1,486,558)	(1,257,579)	(812,186)
Research & development costs (1)	61,027	191,919	178,238
Sales & marketing expenses	8,500,790	6,809,163	5,586,637
General and administrative expenses	2,287,114	2,230,994	2,034,897
Total	13,105,632	11,140,235	9,276,870

(1): corresponds to non-capitalized employee costs

NOTE 6: INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, AND FINANCIAL ASSETS

6.1 Goodwill

As part of a business combination, payments made by the Group in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognized are recorded as goodwill under assets in the balance sheet.

Goodwill primarily relates to MEDICREA TECHNOLOGIES, based in La Rochelle, France, acquired in 2002 following an LBO.

Pursuant to IAS 36, such goodwill is not amortized but is subject to impairment tests at least at each fiscal year end, by comparing total assets with their market value as represented by their market capitalization. The market capitalization based on the MEDICREA share price was €54.2 million at December 31, 2016, compared with consolidated net worth of €14.1 million.

6.2 Non-current assets impairment tests

Impairment testing of property, plant and equipment, and intangible assets is performed when there is any indication of impairment and at least annually for intangible assets with an indefinite life, primarily goodwill. Pursuant to IAS 36, when the net book value of assets with an indefinite life becomes greater than the higher of their value in use or market value, impairment is recorded for the difference. The value in use is based on discounted future cash flows that will be generated by these assets. The market value of the asset is determined by reference to recent similar transactions or to assessments by independent appraisers in the context of a disposal.

For these tests, the assets are broken down by cash generating units (CGUs) that correspond to consistent groups of cash-generating assets. With regard to the Group's organizational structure and the cash flows between the various entities, a single CGU has been identified.

6.3 Intangible assets

Intangible assets include research and development costs, patents and trademarks, and software. Research and development costs are recorded in balance sheet assets when they meet all of the criteria of IAS 38. Capitalized costs are based on precise analytical monitoring, resulting in a breakdown of costs incurred by type and by project. These costs are maintained as assets as long as the Company retains substantially all the risks and rewards of ownership of the assets. Research and development costs are amortized on a straight-line basis over their expected useful lives, which correspond to the duration of expected future economic benefits. This period is usually 5 years.

Pursuant to IAS 23, borrowing costs allocated to the financing of research and development costs and recognized in intangible assets are considered as an element of the cost of these assets and are therefore capitalized.

Patents, licenses and trademarks are amortized over 5 to 10 years, depending on their useful lives.
Software is amortized over periods ranging from one to three years.

6.4 Property, plant and equipment

In accordance with IAS 16, 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 its components have different useful lives or if it provides benefits to the Group at a different pace that requires the use of different amortization rates and methods.

The depreciation periods applied by the Group are as follows:

- land is not depreciated;
- fixtures and land improvements are depreciated over 15 years;
- industrial equipment is depreciated over its estimated useful life, ranging from 3 to 10 years;
- machinery and tools are depreciated over their estimated useful lives, ranging from 2 to 3 years;
- technical facilities and fittings are depreciated over their estimated useful lives, ranging from 5 to 10 years.
- other categories of property, plant and equipment, such as office equipment, computer hardware, and furniture are depreciated over their useful lives, ranging from 3 to 10 years.

Assets acquired through lease financing, under which all risks and rewards incident to ownership of the assets are substantially transferred to the Group, are recorded in a manner identical to a credit purchase for the original values of the contract, thus resulting in the recognition of a depreciable asset and a financial liability. The classification of leases is assessed in light of IAS 17. The assets concerned mainly comprise machines and various industrial equipment used in the manufacture of implants and ancillary parts as prototypes, first batches and large batches.

Lease-financed assets (mainly computer hardware and office equipment), which are used for their entire useful lives and whose lease covers the price of the financed assets are also recognized in a manner identical to a credit purchase, in accordance with IAS 17.

Ancillary parts included in sets made available to customer health institutions until their replacement for cause of breakage, loss or obsolescence, are depreciated over a period of three years. Demonstration equipment is generally depreciated over 5 years.

6.5 Non-current assets, and amortization and depreciation charges of the last three years

Non-current assets (excluding goodwill) are analyzed as follows:

Non-current assets – €	12.31.2016	12.31.2015	12.31.2014
Research & development costs	10,611,860	8,320,009	6,414,152
Patents and similar rights	3,688,144	3,578,786	3,463,728
Computer licenses and software	1,246,653	828,945	526,130
Brands	25,133	25,133	25,133
Intangible assets	**15,571,790**	**12,752,873**	**10,429,143**
Buildings	22,182	56,082	22,855
Plant & equipment	6,461,797	5,812,818	3,935,289
Demonstration equipment	658,189	690,108	683,926
Instrument sets	5,767,515	5,094,922	4,560,108
Computer hardware and office equipment	1,740,258	1,106,404	1,002,030
Other non-current assets	3,734,134	1,374,225	1,246,421
Property, plant and equipment	**18,384,075**	**14,134,559**	**11,450,629**
Guarantees and deposits	779,803	528,288	260,344
Pledges	158,605	158,613	158,357
Non-current financial assets	**938,408**	**686,901**	**418,701**
Total gross values	**34,894,273**	**27,574,333**	**22,298,473**

Amortization, depreciation and provisions – €	12.31.2016	12.31.2015	12.31.2014
Intangible asset amortization	9,500,422	7,851,355	6,458,749
Property, plant and equipment depreciation	8,284,858	7,121,828	5,969,339
Total amortization, depreciation and provisions	**17,785,280**	**14,973,183**	**12,428,088**
Total net values	**17,108,993**	**12,601,150**	**9,870,385**

Over a 3-year period, changes in non-current assets (excluding goodwill) were as follows:

Net non-current assets – €	12.31.2016	12.31.2015	12.31.2014
At January 1	**12,601,150**	**9,870,385**	**7,473,198**
Investments during the period	9,094,944	5,896,896	5,061,716
Disposals during the period	(378,400)	(430,278)	(453,363)
Amortization, depreciation and provision charges	(4,238,236)	(3,135,346)	(2,504,610)
Translation adjustment	29,535	399,493	293,444
At December 31	**17,108,993**	**12,601,150**	**9,870,385**

6.6 Change in non-current assets, and depreciation and amortization during 2016

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

Gross values (€)	01.01.2016	Translation adjustment	Acquisitions	Disposals	Other	12.31.2016
Research & development costs	8,320,009	10,620	2,281,231	-	-	10,611,860
Patents and similar rights	3,578,786	-	109,358	-	-	3,688,144
Computer licenses and software	828,945	(6,042)	413,570	23,720	33,900	1,246,653
Brands	25,133	-	-	-	-	25,133
Intangible assets	**12,752,873**	**4,578**	**2,804,159**	**23,720**	**33,900**	**15,571,790**
Buildings	22,182	-	-	-	-	22,182
Plant & equipment	5,855,467	360	623,211	7,419	(9,822)	6,461,797
Demonstration equipment	690,108	5,845	249,095	286,859	-	658,189
Instrument sets	5,094,922	44,137	1,602,591	975,816	1,681	5,767,515
Computer hardware and office equipment	1,106,404	(2,442)	634,446	88,972	90,822	1,740,258
Other non-current assets	1,365,476	9,891	2,903,739	452,469	(92,503)	3,734,134
Property, plant and equipment	**14,134,559**	**57,791**	**6,013,082**	**1,811,535**	**(9,822)**	**18,384,075**
	528,256	11,473	277,703	37,629	-	779,803
Guarantees and deposits	158,645	-	-	40	-	158,605
Pledges	**686,901**	**11,473**	**277,703**	**37,669**	**-**	**938,408**
Non-current financial assets						
Total gross values	**27,574,333**	**73,842**	**9,094,944**	**1,872,924**	**24,078**	**34,894,273**

Amortization and depreciation (€)	01.01.2016	Translation adjustment	Charges	Reversals	Other	12.31.2016
Research & development costs	4,916,860	6,110	1,284,317	-	-	6,207,287
Patents and similar rights	2,618,642	-	222,752	-	-	2,841,394
Computer licenses and software	290,720	(6,024)	165,632	23,720	-	426,608
Brands	25,133	-	-	-	-	25,133
Intangible assets	**7,851,355**	**86**	**1,672,701**	**23,720**	**-**	**9,500,422**
Buildings	4,462	-	17,720	-	-	22,182
Plant & equipment	2,182,945	364	476,202	28,792	24,078	2,654,797
Demonstration equipment	388,674	3,595	221,693	285,119	-	328,843
Instrument sets	2,768,560	30,901	1,454,419	775,030	-	3,478,850
Computer hardware and office equipment	807,972	(1,752)	154,299	82,545	(32,366)	845,608
Other non-current assets	969,215	11,113	241,202	299,318	32,366	954,578
Property, plant and equipment	**7,121,828**	**44,221**	**2,565,535**	**1,470,804**	**24,078**	**8,284,858**
Total amortization and depreciation	**14,973,183**	**44,307**	**4,238,236**	**1,494,524**	**24,078**	**17,785,280**

Net values (€)	01.01.2016	Translation adjustment	Increases	Decreases	Other	12.31.2016
Intangible assets	4,901,518	4,492	1,131,458	-	33,900	6,071,368
Property, plant and equipment	7,012,731	13,570	3,447,547	340,731	(33,900)	10,099,217
Non-current financial assets	686,901	11,473	277,703	37,669	-	938,408
Total net values	**12,601,150**	**29,535**	**4,856,708**	**378,400**	-	**17,108,993**

The main changes in non-current assets are as follows:

1 / Research and development activity is structurally important and is a key differentiating factor for the Group. The main costs incurred in the 2016 fiscal year include:

- Continued development of a complete solution (UNiD ™) 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 2016 amounted to €2,281,231 compared with €1,886,300 in 2015. Total R&D costs expensed for the year are analyzed as follows:

(€)	12.31.2016	12.31.2015
Research & development costs	4,335,924	3,846,654
of which amortization charge of capitalized R&D costs	*1,284,317*	*993,328*
Capitalization of R&D costs	(2,281,231)	(1,886,300)
Research tax credit	(990,327)	(976,462)
Total R&D costs expensed for the year	**1,064,366**	**983,892**

2 / Patent costs capitalized in 2016 amounted to €109,358, compared with €115,058 in respect of the previous year. They primarily relate to customized osteosynthesis spinal rods (UNiD® rods), the thoraco-lumbar fixation system PASSLP® and its extensions and the LigaPASS® 2.0 system, an anchoring technology using a sub-laminar band for thoraco-lumbar spinal posterior fixation.

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 Group is continuing to expand its machine base with an investment of €0.2 million in an automatic contouring line intended for the manufacture of customized UNID™ rods and €0.2 million in a compressor to supply the machinery on the new Rillieux-la-Pape site.

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 Group 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. The development of the Group's activity requires it to increase and renew the assets used by its customers, particularly in the United States and in newly-created distribution subsidiaries. Fully-amortized instruments are taken off the books on a regular basis.

7/ The increase in IT and office equipment is directly related to the commissioning of the new headquarters.

8/ The growth in other property, plant and equipment is due to initial fittings and fixtures at the new headquarters for €2.3 million as well as work to extend MEDICREA USA's offices in New York for €0.9 million.

9/ Depreciation of buildings and other property, plant and equipment includes a non-recurring charge of €0.1 million to take the net book value of the fixtures and fittings of the La Rochelle site not transferred to a nil amount as a result of the closure of the factory.

6.7 Leases

6.7.1 Finance leases

Property, plant and equipment acquired under finance leases concern software, technical facilities, equipment and tools and computer hardware. Their net value totaled €1,961,587 at December 31, 2016 compared with €2,219,355 at December 31, 2015 and were analyzed as follows:

(€)	12.31.2016	12.31.2015	12.31.2014
Software	21,700	-	-
Technical facilities and equipment	3,432,347	3,432,347	2,683,357
Computer hardware	397,519	397,519	388,535
Total gross values	**3,851,566**	**3,829,866**	**3,071,892**
Amortization - Software	7,655	-	-
Depreciation - technical facilities	1,527,265	1,305,544	1,104,494
Depreciation - computer hardware	355,059	304,967	243,648
Total amortization and depreciation	**1,889,979**	**1,610,511**	**1,348,142**
Total net values	**1,961,587**	**2,219,355**	**1,723,750**

Financial debt corresponding to assets financed by these contracts totaled €1,267,017 at December 31, 2016 compared with €1,714,319 at December 31, 2015.

Commitments are analyzed as follows:

(€)	12.31.2016	12.31.2015	12.31.2014
Original value	3,851,566	3,829,866	3,071,892
Depreciation	(1,889,979)	(1,610,511)	(1,348,142)
Of which depreciation charges for the year	*(279,468)*	*(262,173)*	*(186,971)*
Net value	**1,961,587**	**2,219,355**	**1,723,750**
Lease payments			
Total payments from previous years (1)	1,034,543	510,326	1,552,860
Lease payments for the year (1)	504,997	524,217	262,660
Total	**1,539,540**	**1,034,543**	**1,815,520**
Future minimum lease payments			
Within 1 year	426,986	496,359	386,662
1 to 5 years	867,764	1,177,429	922,873
More than 5 years	-	103,840	221,842
Total	**1,294,750**	**1,777,628**	**1,531,377**
Residual values	**23,514**	**23,297**	**15,806**

(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.

6.7.2 Operating leases

Operating leases mainly include rent payable in respect of buildings used for operational purposes and are analyzed as follows:

Entities	2016 annual rent
MEDICREA INTERNATIONAL – Lyon	€532,005
MEDICREA TECHNOLOGIES – La Rochelle	€143,348
MEDICREA TECHNOLOGIES UK – Cambridge	£10,775
MEDICREA USA – New York *	$330,146
MEDICREA GMBH – Cologne	€34,122

* six months rent-free granted in 2016 on lease renewal

The lease for MEDICREA INTERNATIONAL's former premises 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. The Group therefore centralized the operations of its three French subsidiaries on a single site for an annual rental charge of €1 million and having signed a 12-year rental commitment. The lease for the La Rochelle manufacturing site has been terminated with effect from January 31, 2017.

In the United States, the lease expiring at the end of March 2016 was renegotiated and renewed for a term of 10 years, the leased area being increased by an additional floor. The new annual rental charge, which will only take effect from 2017, is €1 million for a 48-month rental commitment. In the event of early termination of the lease, the premises will be re-let easily as a result of their prime location in New York City.

Future minimum operating lease payments are summarized as follows, exclusive of finance leases recognized in property, plant and equipment:

(€)	12.31.2016	Within 1 year	1 to 5 years	5 to 10 years	More than 10 years
Real estate and equipment rental	**23,449,016**	2,205,512	8,189,313	10,015,611	3,038,580

6.8 Non-current financial assets

These mainly comprise guarantees and deposits, and are not discounted due to the lack of known maturity and their low value. If applicable, impairment is recognized when their book value exceeds their recoverable value. The increase in deposits and guarantees in 2016 is directly related to the lease agreements for the Group's new real estate facilities.

NOTE 7: INVENTORIES AND WORK IN PROGRESS

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:

(€)	12.31.2016	12.31.2015	12.31.2014
Raw materials	570,525	327,852	281,250
Work-in-process	640,224	378,648	440,106
Semi-finished goods	1,029,521	541,713	625,615
Finished goods	9,174,538	7,804,146	6,677,120
Gross values	**11,414,808**	**9,052,359**	**8,024,091**
Provisions for impairment	(2,688,315)	(2,033,714)	(1,692,825)
Net values	**8,726,493**	**7,018,645**	**6,331,266**

The gross value of inventories grew 26% in comparison with 2015. To anticipate the shut-down of the La Rochelle plant in two stages, in August 2016 and in January 2017, together with the gradual start-up of the new site in Rillieux-la-Pape, which related to the need to obtain all of the mandatory regulatory classifications, the Group made significant use of sub-contractors during the 2nd half of 2016, in order to ensure continuity of service for all of its customers. This temporary situation had an unfavorable impact on margins in the 2nd half of the fiscal year, and significantly increased inventory levels, especially for finished and semi-finished goods.

Provisions for impairment by category of inventories are as follows:

(€)	12.31.2016	12.31.2015	12.31.2014
Raw materials	53,962	13,237	16,964
Work-in-process	53,457	47,601	9,834
Semi-finished goods	-	16,416	23,547
Finished goods	2,580,896	1,956,460	1,642,480
Provisions for impairment	**2,688,315**	**2,033,714**	**1,692,825**

The increase in provisions is primarily related to the higher inventory level.

NOTE 8: TRADE RECEIVABLES AND OTHER CURRENT ASSETS

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 Group factors some of its receivables based on its cash flow requirements. Factored invoices are maintained in trade receivables.

Trade and other receivables are analyzed as follows:

(€)	12.31.2016	12.31.2015	12.31.2014
Trade receivables - gross value	5,195,604	4,779,599	4,392,691
Provision for doubtful debts	(36,786)	(69,705)	(11,358)
Trade receivables	**5,158,818**	**4,709,894**	**4,381,333**
Social security receivables	10,677	31,843	25,970
Tax receivables	2,339,202	1,593,332	1,354,602
Other receivables	436,412	892,408	485,635
Prepaid expenses	725,186	384,571	436,435
Other current assets	**3,511,477**	**2,902,154**	**2,302,642**
Total receivables – gross values	**8,707,081**	**7,681,753**	**6,695,333**
Total receivables – net values	**8,670,295**	**7,612,048**	**6,683,975**

The average settlement period for trade receivables was 53 days at December 31, 2016, against 58 days at the previous year-end.

Trade receivables deemed highly unlikely to be collected are the subject of a provision for impairment.

Tax receivables primarily include the research tax credit, the employment and competitiveness tax credit and VAT to be claimed back (this last item increased significantly compared with the 2015 fiscal year).

Other receivables mainly include advances and prepayments to suppliers. The decrease in the amount compared with December 31, 2015 is explained by the write-off in 2016 of advances paid in connection with a cooperation agreement signed with a US IT company (USD 1,200,000) and with an agreement involving the assignment of rights to a surgeon (USD 76,138).

NOTE 9: PROVISIONS AND CONTINGENT LIABILITIES

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 Group, the amount of which can be reliably measured. Provisions are broken down between current and non-current liabilities according to due dates. When the liability settlement date exceeds one year, the amount of the provision is subject to

a discount calculation, the effects of which are only recognized in net financial income/(expense) if the impact is material.

Current and non-current provisions include provisions for liabilities and are broken down as follows:

(€)	12.31.2016	12.31.2015	12.31.2014
Provisions for pensions and other employee benefits	525,011	468,043	347,611
Provisions for litigation	10,000	23,778	-
Provisions for charges	1,103,507	-	-
Total	**1,638,518**	**491,821**	**347,611**

The provision for charges primarily includes relocation allowances and/or severance pay owed to employees of the La Rochelle factory following the closure of the site. In parallel, the Group's retirement allowance obligations decreased compared with the previous fiscal year.

The change in provisions for liabilities can be analyzed as follows:

(€)	2016	2015	2014
At January 1	**491,821**	**347,611**	**331,747**
Provision charges	1,193,201	137,724	47,883
Provision reversals – used	(13,562)	-	(99,193)
Provision reversals – unused	(122,343)	-	-
Actuarial gains and losses	89,618	6,161	67,174
Translation adjustment	(217)	325	-
At December 31	**1,638,518**	**491,821**	**347,611**
Changes in operating income/(loss)	*1,047,077*	*130,339*	*(58,868)*
Changes in net financial income/(expense)	*10,219*	*7,385*	*7,558*

The maturity dates of current and non-current provisions are analyzed as follows:

(€)	12.31.2016	Within 1 year	1 to 5 years	More than 5 years
Provisions for pensions and other employee benefits	525,011	11,169	37,338	476,504
Provisions for litigation	10,000	10,000	-	-
Provisions for charges	1,103,507	1,103,507	-	-
Total	**1,638,518**	**1,124,676**	**37,338**	**476,504**

NOTE 10: FINANCING AND FINANCIAL INSTRUMENTS

10.1 Net financial debt

10.1.1 Financial debt

Financial debt is recognized at amortized cost, which corresponds to their nominal value, net of associated issue premiums and costs recorded incrementally in net financial income/(expense) until maturity in accordance with the effective interest rate method.

Financial debt is analyzed as follows:

(€)	12.31.2016	12.31.2015	12.31.2014
Bond issues	15,044,576	1,760,662	545,000
Loans from credit institutions	4,774,752	6,448,853	4,335,608
Operating leases	1,247,341	1,661,642	1,327,899
Finance leases	19,676	52,677	92,185
Bank overdrafts	500,000	376,700	400,000
Factoring	309,758	-	148,130
Accrued bank interest	5,926	7,462	8,773
Accrued loan interest	8,999	9,865	15,048
Other financial debt	-	108,664	97,224
Total	21,911,028	10,426,525	6,969,867

At December 31, 2016, all financial debt was taken out in Euros and at fixed rates.

The change in the balance of borrowings from credit institutions is related to repayments made in 2016 within the framework of existing amortization schedules, to the four new loans that were taken out for a total of €0.3 million and bearing interest rates ranging between 0.75% and 1.79% over periods of 4 to 5 years, to finance various industrial equipment, as well as a loan of €0.1 million at a fixed rate of 4.25% over a period of 2 years, to finance the costs of research and development in 2016 eligible for the research tax credit.

As part of the consolidation of its financing requirements and to fund its future investments, the Group has issued:

- a bond loan amounting to €1,150,000 in February 2016 at an interest rate of 7% (the interest is payable quarterly), which will be redeemed in full at the end of a two-year period;
- a bond convertible into the Company's 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. Certain commitments are attached to these financial instruments, and are described in Paragraph 10.3.3 – Liquidity risk. This convertible bond loan is recognized in accordance with IAS 32, IAS 39, and IFRS 7.

The two bond loans subscribed in 2016 are in addition to the €2 million convertible bond loan at an interest rate of 6% arranged in April 2015, where the remaining capital amount repayable was €1.4 million at December 31, 2016. The bond debt broke down as follows at the end of the fiscal year:

(€)	12.31.2016	12.31.2015	12.31.2014
Convertible bond loan – August 2016 (1)	12,508,018	-	-
Convertible bond loan – February 2016	1,150,000	-	-
Convertible bond loan – April 2015	1,386,558	1,760,662	-
Other bond loans	-	-	545,000
Total	**15,044,576**	**1,760,662**	**545 000**

(1) In accordance with IAS 32, IAS 39, and IFRS 7, a convertible bond is classified as a compound instrument to the extent that its hybrid nature raises the issue of whether the instrument should be classified as debt or equity. In this regard, a bond that the holder may convert into a fixed number of ordinary shares in the issuer includes two components:

- a debt component;
- an equity component, which corresponds to the stock options sold to the bond subscribers by the issuer.

In view of these factors, the €15,000,000 bond loan was broken down into a debt component of €13,561,365 and an equity component of €1,438,635 pursuant to the so-called split-accounting method (IAS 32).

The same reasoning was applied to the issue costs for the loan, which amounted to €1,550,120 in total, and resulted in those costs being broken down into a debt component of €1,401,450 and an equity component of €148,671.

The breakdown of the convertible bond loan was as follows at December 31, 2016:

(€)	12.31.2016
Convertible bond loan	15,000,000
Equity component of the bond loan	(1,438,635)
Loan issue costs	(1,550,120)
Equity component of the issue costs	148,671
Amortization of the restatement of the bond loan for the fiscal year	235,697
Amortization of the restatement of the issue costs for the fiscal year	112,405
Total	**12,508,018**

No new operating leases or finance leases were entered into in 2016.

A new factoring agreement relating to export trade receivables was arranged with a new financial organization in 2016. In France, the Group finances its trade receivable item via a short-term cash facility, €500,000 of which had been used at December 31, 2016.

The average interest rate for 2016 stood at 5.54% compared with 3.93% for 2015.
The maturity dates of financial liabilities are broken down as follows:

(€)	12.31.2016	Within 1 year	1 to 5 years	More than 5 years
Bond issues	15,044,576	392,875	14,651,701	-
Loans from credit institutions	4,774,752	1,979,457	2,751,558	43,737
Operating leases	1,247,341	391,332	856,009	-
Finance leases	19,676	13,954	5,722	-
Bank overdrafts	500,000	500,000	-	-
Factoring	309,758	309,758	-	-
Accrued bank interest	5,926	5,926	-	-
Accrued loan interest	8,999	8,999	-	-
Total	**21,911,028**	**3,602,301**	**18,264,990**	**43,737**

Securities granted in relation to certain Group assets to guarantee borrowings, as well as early repayment clauses and covenants are detailed in Note 15.1 "Off-balance sheet commitments".

10.1.2 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 2016 fiscal year.

10.1.3 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.

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:

(€)	12.31.2016	12.31.2015	12.31.2014
Cash	8,063,140	2,168,215	1,181,506
Cash and cash equivalents	**8,063,140**	**2,168,215**	**1,181,506**
Bank overdrafts	(500,000)	(376,700)	(400,000)
Factoring	(309,758)	-	(148,130)
Net cash and cash equivalents	**7,253,382**	**1,791,515**	**633,376**

The strengthening of the net cash position was primarily due to the gross €20 million fundraising completed by the Group in August 2016.

10.1.4 Cash flow statement

The cash flow statement is prepared in accordance with IAS 7, starting from consolidated net income. Distinction is made between cash flow from operating activities and cash flow from investment and financing activities.

Group cash, the change in which is analyzed in the cash flow statement, is defined as the net balance of the following balance sheet items: cash and cash equivalents, bank overdrafts and credit bank balances.

The cash flow statement for the past two years is detailed in section 3.4 of the financial statements at December 31, 2016.

The other changes in net cash flows from financing activities, which amounted to €1,783,239 for the fiscal year, are explained as follows:

(€)	12.31.2016
Issue costs for the €15 million bond loan	1,550,120
Redemption of the other financial loans	138,191
Capital increase expenses charged as issue costs	94,928
Total	1,783,239

10.2 Fair value of financial instruments

Financial instruments comprise financial assets, financial liabilities and derivatives. Financial instruments are included in various balance sheet items. Pursuant to IAS 39, financial instruments are allocated to five categories that do not correspond to IFRS balance sheet items. The allocation determines the applicable accounting and valuation rules, which are described below:

- Investments held to maturity: no instrument of any material value currently meets this definition;
- Assets treated at fair value through profit or loss: this category concerns possible cash investments for which changes in fair value are recognized in income;
- Assets and liabilities recorded at amortized cost: this item includes mainly guarantees and deposits, staff loans, trade receivables, trade payables and financial debt. These assets and liabilities are recognized in the balance sheet originally at fair value, which is in practice close to the contractual nominal value. They are measured at amortized cost and adjusted, where applicable, for impairment;
- Assets available for sale: no instrument held meets this definition;
- Derivatives: the Group may use hedging instruments to limit its exposure to risk. These mainly include currency and interest rate hedging instruments such as forward currency transactions and currency options with premiums.

The Group not having set up documentation to demonstrate the effectiveness of these hedges pursuant to IAS 39, the corresponding changes in fair value of these derivative instruments are recognized directly in other financial income and expenses and derivatives are presented in other current assets or other current liabilities.

10.2.1 Income statement disclosures

The following table presents the impact of financial assets and liabilities on the income statements for the 2016 and 2015 fiscal years, as well as the breakdown of this impact according to the categories outlined in IAS 39:

	Designation of financial instruments	At 12.31.2016	At 12.31.2015
Income / (charges) recognized in operating income		**-**	**7,801**
Net exchange gain/(loss) excluding financial instruments	B	-	7,801
Investment income		**5,447**	**255**
Proceeds from sale of marketable securities	A	5,447	255
Finance costs		**(1,085,382)**	**(328,738)**
Interest charge	B	(1,085,382)	(328,738)
Other financial income		**533,674**	**231,560**
Other revenue	A	1,028	-
Exchange gains	A	522,071	217,033
Changes in fair value of derivatives	A	10,575	14,527
Other financial expenses		**(180,706)**	**(132,407)**
Exchange losses	A	(180,706)	(132,407)

10.2.2 Balance sheet disclosures

The following table presents a breakdown of assets and liabilities according to the categories outlined in IAS 39.

	At 12.31.2016			At 12.31.2015		
Sections	Designation of financial instruments	Net book value	Of which measured at fair value (1)	Designation of financial instruments	Net book value	Of which measured at fair value (1)
Assets (€)						
Trade receivables	C	5,158,818	5,158,818	C	4,709,894	4,709,894
Other current assets (2)	C	436,412	436,412	C	892,408	892,408
Cash and cash equivalents	A	8,063,140	8,063,140	A	2,168,215	2,168,215
Liabilities (€)						
Negative cash balances (3)	A	809,758	809,758	A	376,700	376,700
Current and non-current financial liabilities excluding negative cash balances	B	21,101,270	21,101,270	B	10,049,825	10,049,825
Financial instruments	A	-	-	A	10,575	10,575
Trade payables	C	6,000,976	6,000,976	C	4,055,971	4,055,971
Other current liabilities (4)	C	291,031	291,031	C	116,476	116,476

(1) the net book value of assets and liabilities measured at cost or amortized cost is close to their fair value
(2) excluding tax and social security receivables, and accruals
(3) including bank overdrafts and factoring
(4) excluding tax and social security payables, and accruals

A: assets and liabilities at fair value through profit and loss
B: assets and liabilities measured at amortized cost
C: assets and liabilities measured at cost

Fair value movements and impairment are only recognized through profit and loss. No amount was directly recorded in shareholders' equity.

10.3 Risk management

The Group's market risk management policy is characterized by:

- centralization of risks at MEDICREA INTERNATIONAL level;
- a hedging target;
- risk assessment based on detailed one-year forecasts;
- monitoring of variances between forecasts and actual results.

10.3.1 Risks related to changes in raw material prices

The manufacturing of implants mainly requires the purchase of two materials, titanium and PEEK (PolyEther Ether Ketone). As suppliers of these raw materials are few in number, the Group is subject to changes in market price which are difficult to predict or control, and which could have a negative impact on financial performance. Purchases of these materials are not the subject of hedging contracts. They account for a small part of the cost price of products manufactured.

10.3.2 Credit risk

The Group monitors its customers' average payment period on a monthly basis. This ratio was 53 days at December 31, 2016. For international customers not paying in advance, the Group puts in place coverage mechanisms, such as:

- an application for guarantee from Coface. At the end of December 2016, the maximum amount of trade receivables that may be guaranteed by Coface was €793,000;
- letters of credit (€149,128 at December 31, 2016).

The Group is not exposed to a significant credit risk as shown in the table below:

(€)	12.31.2016	12.31.2015
Gross trade receivables	5,195,604	4,779,599
Outstanding for more than 6 months	71,432	114,463
% of trade receivables	1.55%	2.39%
Total provision for doubtful receivables	36,786	69,705
% of trade receivables	0.80%	1.46%
Bad debt losses	13,757	3,719

10.3.3 Liquidity risks

In previous fiscal years, the Group has faced temporary liquidity crises that have slowed its development.

The financial resources secured following fund raising transactions totaling approximately €34 million have significantly reduced this liquidity risk and have given the Group the means to implement its expansion strategy, create new subsidiaries and launch new products.

In August 2016, the Group completed fundraising worth €20 million, comprised of €15 million in convertible bonds, to mature after four years and at an interest rate of 6.75%, and a €5 million share capital increase via private placement. This financial transaction therefore sharply reduced the short-term liquidity risk, with all overdraft facilities (excluding factoring) having been fully repaid upon receipt of the funds.

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.

At December 31, 2016, the consolidated net financial debt to consolidated shareholders' equity ratio was 1 and the consolidated net financial debt to consolidated EBITDA ratio was significantly higher than 3. If the €15 million in convertible bonds resulting from the fund raising in August 2016 had been recognized under equity (based on the assumption that the bonds held by investors would be converted into new shares during the term of the bond), both ratios would have been easily complied with. In any event, the Group has secured a waiver from the banking institution concerned, without any change to initial borrowing terms and at no additional cost.

Furthermore, the contract relating to the €15,000,000 convertible bond issued in August 2016 specified that the Group 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, 2016.

10.3.4 Foreign exchange risks

Most of the Group's supplies are denominated in Euros. Sales to US and UK subsidiaries are made in local currencies, the products then being sold in these markets in the country's functional currency. As a result, the subsidiaries are not subject to any exchange rate risk on their purchases but MEDICREA INTERNATIONAL has an exchange risk on its foreign-currency sales.

At December 31, 2016, the Group did not have any ongoing currency hedging.

10.3.5 Interest rate risks

At December 31, 2016, all loans carried a fixed rate. As a result, the Group is not exposed to the risk of changes in interest rates.

10.3.6 Risk of changes in exchange rates and impact on key performance indicators

The Group generated 60% of its 2016 consolidated sales in dollars through its subsidiary MEDICREA USA. This proportion should continue to increase over the coming years, with dollar-denominated sales that could potentially represent almost two-thirds of consolidated Group sales.

The US, UK and Polish subsidiaries are invoiced in their functional currency and foreign exchange hedges have been put in place on an ad hoc basis to cover the risk of fluctuation in the corresponding currencies (mainly dollars).

Intrinsically, the fluctuations of the dollar against the Euro, upward and downward, are therefore likely to materially affect the Group's performance indicators, particularly in terms of sales growth.

The dollar has gone up by less than 1% since December 31, 2015 leading to a minimal impact on sales and operating income before share-based payments. A breakdown of these changes can be found in Note 13.

A 15% appreciation of the dollar against the Euro, applied to 2016 data, would result in a €3.1 million increase in Group sales and an increase of approximately €0.7 million in operating income based on the results generated by the US subsidiary over the fiscal year 2016, as all its purchases and overheads are denominated in dollars.

Conversely, a 15% depreciation of the dollar against the euro, applied to 2016 data, would result in declines in both Group sales and Group operating income in the same proportions as those indicated above.

10.3.7 Warranties on UNiD products

As of November 2016 and exclusively for sales in the United States, the Group 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™ customized 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 Group did not recognize any provision in its financial statements at December 31, 2016 and, depending on the data collected in 2017, it will assess whether or not it is necessary to review its position for the next fiscal year.

10.4 Cost of net financial debt and other financial income and expenses

The cost of net financial debt includes the cost of gross financial debt (interest on loans, interest on finance leases and operating leases, bank fees and premiums) less investment income and cash equivalents.

These items are analyzed as follows:

(€)	12.31.2016	12.31.2015	12.31.2014
Bond interest	907,573	40,270	38,150
Loan interest	117,141	223,759	106,140
Finance lease interest	35,995	44,436	23,510
BPI loan guarantee	11,643	16,658	15,206
Overdraft interest	8,199	3,765	1,016
Interest on current accounts	3,212	-	-
Factoring interest	1,618	844	3,337
Other financial (income) / expenses	-	(994)	823
Cost of net financial debt	**1,085,382**	**328,738**	**188,182**
Foreign exchange gains / (losses)	351,940	99,153	(230,300)
Income from cash investments	5,447	255	724
Other financial income / (expenses)	1,027	-	-
Other financial income / (expenses)	**358,415**	**99,408**	**(229,576)**

NOTE 11: TRADE PAYABLES AND OTHER CURRENT LIABILITIES

Changes in trade payables and other current liabilities were as follows:

(€)	12.31.2016	12.31.2015	12.31.2014
Trade payables	**6,000,976**	**4,055,971**	**4,180,347**
Social security liabilities	1,666,076	1,740,673	1,567,927
Tax liabilities	337,054	250,978	310,969
Other current liabilities	291,031	116,476	109,604
Other current liabilities	**2,294,161**	**2,108,127**	**1,988,500**
Total operating liabilities	**8,295,137**	**6,164,098**	**6,168,847**

The change in trade payables is explained by the very substantial use of sub-contractors since the end of the 1st half of 2016, in order to offset the two-stage shut-down of the La Rochelle plant (in August 2016 and in January 2017), and the gradual rise in expenses at the new site in Rillieux-la-Pape, which was the subject of mandatory regulatory classification audits, as part of the issuance of authorizations to bring products to the European market.

At December 31, 2016, the maturity of all operating liabilities was less than one year.

NOTE 12: CORPORATE TAX

Since January 1, 2003, MEDICREA INTERNATIONAL and MEDICREA TECHNOLOGIES have been part of the same tax consolidation group, with MEDICREA INTERNATIONAL acting as parent company and being solely liable for corporate tax on the overall net income achieved by the Group. MEDICREA EUROPE FRANCOPHONE, which was wholly owned, and had been consolidated since January 1, 2015, was wound up with no liquidation process, and absorbed by MEDICREA INTERNATIONAL on December 30, 2016, which meant that it was automatically

excluded from the tax consolidation scope at January 1, 2016. Savings resulting from the implementation of the tax consolidation agreement are retained by the parent company.
The corporate tax expense corresponds to current tax adjusted for deferred taxes. The latter result from adjustments made to parent company financial statements, as well as temporary differences between accounting income and taxable income, in accordance with IAS 12.

Deferred taxes are calculated according to the liability method in respect of temporary differences existing on the balance sheet date between the tax base and the accounting base of assets and liabilities, as well as for tax losses carried forward. Deferred tax assets and liabilities are calculated taking into account tax rates that have been enacted or substantively enacted and which will apply when the temporary differences are reversed. Deferred tax assets are only taken into account if their recovery is probable due to taxable income expected to be generated in the near future.

Deferred tax assets and liabilities are recognized as non-current assets and liabilities.

Tax credits and tax credits unclaimed in previous years are recorded in operating income in accordance with IAS 20.

The research tax credit is recognized as a €990,327 reduction in research and development costs (€976,587 in 2015).

12.1 Analysis of the corporate tax rate

The Group's corporate tax charge for the year to December 31, 2016 is analyzed as follows:

(€)	12.31.2016	12.31.2015	12.31.2014
Consolidated net income/(loss)	**(7,569,225)**	**(1,515,306)**	**(1,049,889)**
Corporate tax	263,246	307,851	(349,713)
Income/(loss) before tax	**(7,832,471)**	**(1,823,157)**	**(700,176)**
Share-based payments	(283,434)	(45,218)	(79,422)
Taxable income/(loss)	**(7,549,037)**	**(1,777,939)**	**(620,754)**
Adjustment to the research and employment and competitiveness tax	(1,121,677)	(1,106,501)	(637,283)
credit	-	3,051	(193,638)
Adjustment Federal State taxes (US)	**(8,670,714)**	**(2,881,389)**	**(1,451,675)**
Taxable income excluding adjustments	**2,889,949**	**960,367**	**483,843**
Theoretical tax income / (charge) @33.33%			
	(188,684)	(10,968)	(18,971)
Difference in tax rates of other countries	(350,210)	501,721	(129,098)
Tax on permanent differences	(1,995,445)	(779,592)	(452,035)
Uncapitalized tax losses carried forward	-	-	390,178
Use of uncapitalized tax losses carried forward	-	(252,643)	-
Prior losses capitalized and transferred to the income statement	-	-	112,975
Correction of previous losses	(140,429)	-	(8,593)
Correction of corporate tax rates	510,074	(88,428)	(594,601)
Capping of deferred tax assets	-	3,051	(193,638)
Adjustment of Federal State taxes (US)	(462,009)	(25,657)	60,227
Other			
	263,246	**307,851**	**(349,713)**
Recognized corporate tax income/ (charge)			

12.2 Analysis of deferred taxation

Deferred tax assets and liabilities are analyzed as follows:

(€)	12.31.2016	12.31.2015	12.31.2014
Tax losses carried forward	1,285,690	733,399	400,212
Temporary tax differences	44,618	44,108	-
Consolidation restatements	1,123,717	244,164	202,385
Total deferred tax assets	**2,454,025**	**1,021,671**	**602,597**
Temporary tax differences	641,045	44,151	94,463
Consolidation restatements	766,941	279,947	620,908
Total deferred tax liabilities	**1,407,986**	**324,098**	**715,371**

The Group recognizes deferred tax assets on tax losses carried forward providing they can be recovered within 5 years at most.

Recoverability testing of tax losses carried forward, performed on a subsidiary-by-subsidiary basis, led to the non-capitalization of tax losses generated by the Group's entities, excluding those relating to the US subsidiary. Furthermore, for French entities, deferred tax assets related to consolidation restatements cannot exceed deferred tax liabilities.

Deferred tax assets not recognized in the balance sheet totaled €9.4 million at December 31, 2016, including €8.2 million of unrecognized tax losses carried forward and €1.2 million related to consolidation restatements.

The Group has recognized the following tax losses:

(€)	12.31.2016	of which capitalized	Corresponding deferred tax
MEDICREA INTERNATIONAL tax consolidation	22,584,065	-	-
MEDICREA UK	1,949,591	-	-
MEDICREA USA	4,591,750	4,591,750	1,285,690
MEDICREA GMBH	992,160	-	-
MEDICREA POLAND	18,486	-	-
Total available tax losses	**30,136,052**	**4,591,750**	**1,285,690**

Deferred tax asset movements on tax losses carried forward are analyzed as follows:

(€)	12.31.2016
Tax losses carried forward at January 1, 2016	**733,399**
Capitalized tax losses carried forward - MEDICREA USA	647,787
Change in the corporate tax rate	(144,379)
Translation adjustment	48,883
Tax losses carried forward at December 31, 2016	**1,285,690**

Changes in deferred taxes are primarily due to consolidation adjustments and capping mechanisms for deferred tax assets and liabilities.

NOTE 13: IMPACT OF EXCHANGE DIFFERENCES ON GROUP SALES AND OPERATING INCOME

Average exchange rates evolved as follows:

Average conversion rate	2016	2015
USD / EUR	1.10605	1.11500
GBP / EUR	0.81251	0.72794
PLN / EUR	4.3622	-

The impact of currency fluctuations on the comparability of the financial statements for the 2015 and 2016 fiscal years is as follows:

(€)	12.31.2016 at the 2016 rate	12.31.2016 at the 2015 rate	Impact of exchange rate
Sales	29,375,426	29,294,469	80,957
Operating income after share-based payments	(7,105,504)	(7,205,275)	99,771

NOTE 14: SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

14.1 Shareholders' equity

14.1.1 Share capital

Following equity transactions carried out during the fiscal year, share capital at December 31, 2016 totaled €1,605,306.72 and comprised of 10,033,167 shares with par value of €0.16 each. The number of authorized shares outstanding is as follows:

(€)	12.31.2016	12.31.2015	12.31.2014
Number of authorized shares	10,033,067	8,987,588	8,481,305
Number of preference shares	100	100	100
Number of shares issued and fully paid up	10,033,167	8,987,688	8,481,305
Par value (€)	0.16	0.16	0.16
Number of shares outstanding at end of period	10,033,067	8,987,588	8,481,405
Number of shares with double voting rights	2,650,743	2,641,990	2,744,677
Number of treasury shares held by the Group	-	-	-
Number of treasury shares held by the parent company	2,650	3,046	2,722

Transactions in the share capital of MEDICREA INTERNATIONAL over the period January 1, 2016 to December 31, 2016 are summarized as follows:

- At January 1, 2016, the share capital was €1,438,030.08, represented by 8,987,588 ordinary shares and 100 P preference shares.
- On April 4, 2016, the Board of Directors recognized a share capital increase related to the exercise of 16,676 Stock Options between May and July 2015.
- On August 9, 2016, the Board of Directors recognized the issue of 1,028,803 new shares as part of a share capital increase reserved for qualified investors.

- At December 31, 2016, the share capital was therefore made up of 10,033,067 ordinary shares and 100 P preference shares.

14.1.2 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. 2.1% of the Company's share capital at December 31, 2016. These preference shares do not grant voting rights or entitlement to dividends. They are not listed on Alternext.

The conversion of the preference shares into ordinary shares would not have been possible during the 2016 fiscal year based solely on the performance of MEDICREA shares.

14.1.3 Treasury shares

The MEDICREA shares held by the Group are recognized at acquisition cost and deducted from consolidated shareholders' equity 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.

Transfer proceeds are recognized directly in equity net of tax.

14.1.4 Change in shareholders' equity

The change in shareholders' equity for the past two years is detailed in Note 3.5 to the financial statements at December 31, 2016. Translation adjustments related to the consolidation of foreign subsidiaries' financial statements in Euros are included in the "Reserves" column, since their values have no material impact on the financial statements at December 31, 2016.

Other movements at December 31, 2016 are analyzed as follows:

(€)	12.31.2016
Bond loan recognized in equity	1,438,635
Amortization of the bond loan issue costs	(148,670)
Actuarial gains and losses relating to retirement allowances	(89,618)
Current account translation differences	(13,941)
Change in goodwill	(8,589)
Treasury shares	(2,065)
Total	1,175,752

14.1.5 Issue, buyback and redemption of debt and equity securities

Two unlisted bond loans were issued during the 2016 fiscal year:

- The first loan, which is not convertible into shares, was issued in February 2016 in an amount of €1,150,000 for a term of two years. The loan, which bears interest at 7% is redeemable in full on maturity, and was subscribed by Denys SOURNAC and several other Directors;
- the second loan issued in August 2016, which is convertible into new ordinary shares in MEDICREA INTERNATIONAL, in an amount of €15,000,000, with a four-year maturity and at an interest rate of 6.75%, was subscribed by ATHYRIUM CAPITAL MANAGEMENT, a leading US investor in the healthcare sector, and included a non-conversion premium of 10%.

Furthermore, in 2016 the Group redeemed 37 of the 200 convertible bonds issued to an institutional investor in April 2015, i.e. an amount of €0.4 million on the initial loan of €2 million, which matures in April 2020.

Concurrent to the raising of €15 million in bonds, the Group completed a €5 million share capital increase via private equity placement, at a price of €4.86 per share, which represents a discount of 5% compared to the 3-day volume weighted average stock price prior to the transaction. This transaction was subscribed by various French and US investors, by Denys SOURNAC, MEDICREA's Chairman and Chief Executive Officer, and by Richard KIENZLE, who joined the Group as Director of Strategy and Commercial Development on that occasion.

Following the completion of the bond transaction in August 2016, the potential dilution resulting from the conversion of the bonds was 19.3%, including the €5 million capital increase via private placement described above. The bonds are convertible into new ordinary shares of the Company at a price per share amounting to €6.25, a 22.5% premium compared to the 5-day volume weighted average Company share price prior to the transaction.

14.1.6 Dividends paid during the fiscal year

Nil.

14.2 Earnings per share

Pursuant to IAS 33, earnings per share is calculated based on the weighted average number of shares outstanding over the fiscal year, after deducting the average number of treasury shares.

Diluted earnings per share is calculated based on net income (Group share) divided by the average number of shares comprising the share capital adjusted for the maximum impact of the conversion of dilutive instruments into ordinary shares, and taking account of changes in the number of shares, if any. This includes:

- share subscription options to be exercised at a future date;
- free share allocations;
- the number of treasury shares held at year-end;
- any other instrument giving deferred access to the Company's share capital.

Potential new ordinary shares must be treated as dilutive if, and only if, their conversion into ordinary shares would decrease earnings per share, or increase the loss per share of continued ordinary activities.

In accordance with IAS 33, and in order to avoid an accretive effect, the potential ordinary shares resulting from the allotted stock option plans (363,851 shares), the preference shares (210,000 shares) and the bonds potentially convertible into shares resulting from the issue of a €15,000,000 bond loan in August 2016 (2,400,000 shares) were not taken into consideration at December 31, 2016 when determining their potential dilutive effect.

NOTE 15: OTHER INFORMATION

15.1 Off-balance sheet commitments

15.1.1 Commitments given in relation to medium-term borrowings

(€)	12.31.2016	12.31.2015	12.31.2014
Pledges of business goodwill (1)	6,746,836	7,564,456	7,572,500
Financial instrument collateral	-	153,550	153,550
Joint and several guarantees (2)	500,000	500,000	300,000
Cash collateral (3)	62,500	62,500	37,500

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

15.1.2 Commitments received in relation to the establishment of authorized overdrafts and short-term credits

(€)	12.31.2016	12.31.2015	12.31.2014
Assignment of trade receivables – Dailly	500,000	500,000	400,000
Miscellaneous guarantees and sureties	-	307,239	307,239
BPI counter guarantee (1)	1,742,846	2,371,978	1,492,156

(1) counter guarantees granted by BPI to MEDICREA INTERNATIONAL for the benefit of its bank partners on the arrangement of certain medium-term financing.

The total amount of overdrafts authorized but unconfirmed at December 31, 2016 was €782,600.

15.1.3 Other commitments

During the 2013 fiscal year, the Group launched, in cooperation with a US IT firm, the joint development and operation of specific software making it possible to design patient-specific spinal implants, subsequently intended to be manufactured and marketed on an exclusive basis by MEDICREA and its subsidiaries for an initial period of four years and until December 31, 2017. Contractual terms provide for the payment by MEDICREA of royalties on product sales ordered via the software. The parties have agreed to the annual payment, by MEDICREA, of $400,000 in advances on royalties for the entire term of the contract. As such, royalties due by MEDICREA under the contract will be deducted, with no time limitation, from advances on royalties already received by the US partner.

In view of the estimated royalties payable over the next fiscal years, and of the change in developments with the IT service provider, the Group took the decision to expense all of the advances already paid, which were included in other receivables on the balance sheet in 2016, i.e. a total amount of €913,741, which was recorded under other operating expenses. There was therefore no longer any relevant commitment in the balance sheet at December 31, 2016.

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

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

	12.31.2016			12.31.2015		
	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights
ORCHARD INTERNATIONAL (1)	1,727,490	17.22	27.24	1,727,490	19.22	29.71
Denys SOURNAC (2)	463,732	4.62	3.66	270,547	3.01	2.33
Jean Philippe CAFFIERO	246,089	2.45	3.76	246,089	2.74	4.10
Other Directors						
Pierre BUREL (2)	194,587	1.94	1.53	91,707	1.02	1.44
Patrick BERTRAND (2)	113,968	1.14	1.04	93,392	1.04	0.93
François Régis ORY (2)	108,652	1.08	0.86	108,652	1.21	0.93
Christophe BONNET	52,128	0.52	0.81	52,128	0.58	0.88
Jean Joseph MORENO	22,900	0.23	0.30	22,900	0.25	0.33
Marc RECTON	18,752	0.19	0.25	18,752	0.21	0.27
Total	**2,948,298**	**29.39%**	**39.45%**	**2,631,657**	**29.28%**	**40.92%**

(1): Shares held by the holding company, ORCHARD INTERNATIONAL. The following table provides details of ORCHARD INTERNATIONAL's shareholding structure as of December 31, 2016:

- Société civile DENYS SOURNAC COMPANY	58.37%
- Société civile PLG Invest (Jean-Philippe CAFFIERO)	36.60%
- AMELIANE SAS	4.87%
- Christelle LYONNET	0.13%
- Denys SOURNAC	0.03%

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

15.3 Related-party disclosures

As mentioned in section 5.7 above, ORCHARD INTERNATIONAL invoices MEDICREA INTERNATIONAL for various services, the amounts of which changed over the last three fiscal years as follows:

(€)	2016 amount invoiced, excl. VAT	2015 amount invoiced, excl. VAT	2014 amount invoiced, excl. VAT
Management services	300,000	300,000	292,000
Rebilling of employee costs	151,500	151,500	151,500
Rebilling of seconded executive's salary	64,000	64,000	151,458
Rebilling of seconded executive's expenses	4,391	-	6,681
Share of expenses	11,004	11,003	11,000
Rent and rental costs	26,764	20,436	20,464
Total	**557,659**	**546,939**	**633,103**

15.4 Statutory Auditors' fees

	EY				Odicéo				Cabinet Henri Roche			
	Amount (excl. VAT)		%		Amount (excl. VAT)		%		Amount (excl. VAT)		%	
(€)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2015	2014
Audit												
Issuer	41,900	41,100			26,300	22,200			-	-		
Consolidated subsidiaries (1)	24,500	21,500			15,100	11,400			-	7,400		
Audit, certification, review of individual and consolidated financial statements	66,400	62,600	91%	91%	41,400	33,600	82%	91%	-	7,400	-	100%
Issuer	6,400	6,300			8,950	3,200			-	-		
Consolidated subsidiaries (1)	-	-			-	-			-	-		
Other assignments directly related to the audit assignment	6,400	6,300	9%	9%	8,950	3,200	18%	9%	-	-	-	0%
Sub-total Audit fees	72,800	68,900	100%	100%	50,350	36,800	100%	100%	-	7,400	-	100%
Other services provided by Statutory Auditors to consolidated subsidiaries												
Legal, tax and corporate	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total other services	-	-	-	-	-	-	-	-	-	-	-	-
Total	72,800	68,900	100%	100%	50,350	36,800	100%	100%	-	7,400	-	100%

(1) MEDICREA TECHNOLOGIES, MEDICREA EUROPE FRANCOPHONE and MEDICREA USA.

15.5 Post-balance sheet events

Nil.

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2016

Leading personalized spine | medicrea.com

MEDICREA INTERNATIONAL
Fiscal year ended December 31, 2016

Statutory Auditors' report on the
consolidated financial statements

ODICEO
115, boulevard Stalingrad
C.S. 52038
69616 Villeurbanne Cedex
French corporation *(société anonyme)*
with share capital of €275,000

Statutory Auditor
Member of Compagnie
Régionale de Lyon

ERNST & YOUNG et Autres
Tour Oxygène
10-12, boulevard Marius Vivier Merle
69393 Lyon Cedex 03
Corporation with variable capital
(S.A.S. à capital variable)

Statutory Auditor
Member of Compagnie
Régionale de Versailles

Medicrea International

Fiscal year ended December 31, 2016

Statutory Auditors' report on the consolidated financial statements

To the Shareholders,

In compliance with the assignment entrusted to us by your Shareholders' Meetings, we hereby present our report for the year ended December 31, 2016 on:

- our audit of the accompanying Medicrea International consolidated financial statements;
- the justification of our assessments;
- the specific legal verification.

The consolidated financial statements have been prepared by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the consolidated financial statements

We have conducted our audit in accordance with professional standards applicable in France; these standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis or other method of selection, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements for the fiscal year, in light of IFRS accounting guidelines as approved by the European Union, give a true and fair view of the assets and liabilities, financial position and net income of the entities included on consolidation.

II. Justification of assessments

Pursuant to the provisions of Article L. 823-9 of the Commercial Code relative to the justification of our assessments, we bring to your attention the following matters:

Notes 6 and 12 to the consolidated financial statements describe the valuation, recognition and impairment rules applied to goodwill, intangible assets and deferred tax. As part of our assessment of the accounting principles adopted by your Group, we have verified the appropriateness of the above-specified accounting methods and information disclosed in the notes to the consolidated financial statements and we have assured ourselves of their correct application.

These assessments were made within the framework of our audit, which focuses on the consolidated financial statements as a whole, and accordingly contributed to the issuance of our opinion in the first part of this report.

III. Specific verification

We have also performed the specific verification required by law on information provided in the Group's management report, in accordance with professional standards applicable in France.

We have no comments to make concerning the fairness of the information and its consistency with the consolidated financial statements.

Villeurbanne and Lyon, April 28, 2017

The Statutory Auditors

ODICEO	ERNST & YOUNG et Autres
Alain Fayen	Nicolas Sabran

MEDICREA INTERNATIONAL PARENT COMPANY FINANCIAL STATEMENTS

AT DECEMBER 31, 2016

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CONTENTS

1. ACTIVITY

MEDICREA Group specializes in bringing pre-operative digital planning and pre- and post-operative analytical services to the world of complex spine. Through the lens of predictive medicine, it leads the design, integrated manufacture, and distribution of 30+ FDA approved implant technologies, utilized in over 100k spinal surgeries to date. The Company has an ultra-modern manufacturing facility in Lyon, France, housing the development and machining of 3D-printed patient-specific implants.

The Group distributes its products in more than 30 countries via an external distribution network made up of companies and exclusive independent distribution agents. As part of an overall strategy with the aim of controlling delivery processes, reinforcing the impact of the technical and marketing messages conveyed, and capturing an ever-greater share of gross margin, the Group relies on its own marketing entities for its key markets, namely the United States (with MEDICREA USA in New York), France, the United Kingdom (with MEDICREA TECHNOLOGIES UK in Cambridge), Germany (with MEDICREA GMBH in Cologne) and, since the end of 2016, Poland (with MEDICREA POLAND in Warsaw).

MEDICREA INTERNATIONAL, the parent company, and MEDICREA TECHNOLOGIES, a production subsidiary, complete the Group structure.

MEDICREA INTERNATIONAL houses the following activities – executive management, export distribution, marketing, research and development, and clinical and scientific trial monitoring, as well as the administrative and financial functions for the Group's various entities. The Company's customers include independent distributors located all over the world and distribution subsidiaries as detailed above.

The Group's production activity, until now overseen by the company MEDICREA TECHNOLOGIES and its production unit based in La Rochelle, was gradually transferred in 2016 into MEDICREA INTERNATIONAL in parallel with the launch of production at the new Vancia site at Rillieux-la-Pape (69), which has now received all the authorizations and certifications necessary for the manufacture of medical devices for the spinal column.

MEDICREA INTERNATIONAL is listed on the Alternext market of Euronext Paris, ISIN FR004178572, Ticker ALMED.

2. FISCAL YEAR HIGHLIGHTS

The following are the highlights of the 2016 fiscal year:

2.1 Market and environment

A shift in the healthcare system affecting the orthopedic world is currently taking place at global level, meaning that the sector is now less focused on the implant itself and more concentrated on the outcome of the surgery, for a value-based approach to treatments in comparison with traditional treatments. This shift is particularly important for spine, with aging populations causing a significant increase in degenerative pathologies of the spinal column, often accompanied by multiple interventions. Spinal implants are therefore becoming a real public health issue and personalized medicine is therefore taking on its full meaning.

The development of patient-specific medicine is primarily related to the scientific advances made possible by modern calculation software and technologies. Personalized medicine will continue to transform the practice, firstly with the personalization of treatment and subsequently by progressing toward better prevention. Against this backdrop, the role of manufacturers of therapeutic solutions is changing, and they are becoming genuine partners in the research of products and services that will be tailored to the personalized care of each patient.

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

2.2 Distribution and activity

2016 sales stood at €14 million, a decline of €1.7 million in relation to 2015, with exchange rate movements having no impact on the comparability of the sales performance of the two fiscal years. This trend is directly related to the recovery of all inventories held until that point by MEDICREA EUROPE FRANCOPHONE as part of the simplification of the marketing structure in France, and which led to the posting of significant credit notes on sales.

Sales with international distributors, which reflect the direct marketing business of MEDICREA INTERNATIONAL, were stable at €5 million. Invoicing in Brazil, which stood at almost €2 million, returned to a level more in line with the potential of the country as a result of a major order during the second half of the fiscal year, but the decline in sales in Europe (excluding France) offset the healthy performances recorded elsewhere.

2.3 Products

MEDICREA INTERNATIONAL has transformed itself into 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, and providing unrivaled operating comfort for surgeons.

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. It is becoming a matter of course for surgeons, with a very high loyalty rate once they agree to entrust the Company with a few surgical cases to test its capabilities.

2.4 Research & development

In 2016, the Company finalized the extension of its range of implants with the development of a highly innovative "tulip" type screw which allow it to serve the highly important degenerative spinal indications market, and to develop manufacturing processes for intervertebral cages and titanium 3D printed corpectomy implants. The Company firmly believes that computer-assisted patient-specific surgery is the most appropriate solution to spinal column pathologies, a view that has been confirmed by the growing interest manifested in its solutions not only by surgeons, but also by patients. The registration files required to market the customized 3D printed implants particularly for the European and American markets were submitted during the fiscal year and the corresponding approvals should be issued by the certifying bodies during the first half of 2017.

2.5 Organization

In September 2016, MEDICREA INTERNATIONAL moved into its new headquarters located on the Vancia site in Rillieux-la-Pape, on the outskirts of Lyon. With this site, MEDICREA has brought together its former Neyron (Ain) headquarters and its production unit, until then based in La Rochelle. Since the majority of MEDICREA's subcontractors, particularly in the field of mechanics, are based in the Auvergne-Rhône-Alpes region, the Company is moving closer to its strategic partners. The 8,000m² building houses offices, a research and development center and state-of-the-art production workshops dedicated to the manufacture of customized implants via 3D printing, and via titanium machining.

Richard KIENZLE, co-founder of the company GLOBUS MEDICAL, joined MEDICREA Group as Chief Commercial and Business Development Officer in the United States. He has more than 25 years' experience in sales management within companies operating on the medical device market, notably SYNTHES and US SURGICAL. His role is to coordinate MEDICREA's commercial development of services and of the personalized treatments which use UNiD™ technology.

In December 2016, MEDICREA EUROPE FRANCOPHONE was dissolved without liquidation and absorbed by MEDICREA INTERNATIONAL. This decision was taken with the aim of simplifying and rationalizing flows, and involved no change to the structure of the sales force on the French market.

In addition, a new marketing subsidiary was opened in Poland in late 2016.

2.6 Financing

In August 2016, MEDICREA INTERNATIONAL raised €20 million in financing, which consisted of €15 million in convertible bonds, held by ATHYRIUM CAPITAL MANAGEMENT, a US investor strongly regarded in the healthcare industry, and €5 million in equity through a private placement, in which Denys SOURNAC, President and CEO, and Richard KIENZLE participated.

3. PARENT COMPANY FINANCIAL STATEMENTS AT DECEMBER 31, 2016

3.1 INCOME STATEMENT

(€)	Notes	12.31.2016	12.31.2015
Net sales	2.1	14,071,050	15,693,735
Finished products and work in progress		289,672	147,095
Own work capitalized	2.2	2,131,204	1,799,686
Operating grants		5,562	16,938
Provision reversals and transfers of charges	2.3	64,709	50,781
Other revenue		31,607	25,418
Operating revenues		**16,593,804**	**17,733,653**
Purchases consumed, subcontracting and other supplies		(3,663,887)	(6,239,714)
Other external purchases and charges		(6,486,362)	(4,623,683)
Taxes and duties		(234,949)	(248,017)
Wages and salaries	3.1	(3,489,325)	(3,076,459)
Social security costs	3.1	(1,441,946)	(1,247,209)
Amortization and depreciation charges		(2,078,656)	(1,591,902)
Provision charges		(1,524,940)	(193,391)
Other expenses		(752,303)	(533,729)
Operating expenses		**(19,672,368)**	**(17,754,104)**
Operating income/(loss)		**(3,078,564)**	**(20,451)**
Financial income		2,134,220	349,624
Financial expenses		(9,672,317)	(818,221)
Net financial income / (expense)	8.2	**(7,538,097)**	**(468,597)**
Income/(loss) before tax		**(10,616,661)**	**(489,048)**
Exceptional income		12,002	37,415
Exceptional expenses		(1,171,328)	(13,869)
Net exceptional income/(expense)	2.5	**(1,159,326)**	**23,546**
Corporate tax	10	970,054	1,080,418
Net income / (loss)		**(10,805,933)**	**614,916**

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

3.2 BALANCE SHEET

(€)	Notes	12.31.2016			12.31.2015
		Gross	Amort., depr. & prov.	Net	Net
Intangible assets	4.6	13,091,335	7,691,030	5,400,305	4,512,697
Property, plant and equipment	4.6	7,827,849	2,986,093	4,841,756	1,488,750
Non-current financial assets	4.6	22,419,264	10,400,000	12,019,264	20,514,375
Non-current assets		**43,338,448**	**21,077,123**	**22,261,325**	**26,515,822**
Inventories	5	8,578,755	2,600,105	5,978,650	4,184,274
Trade receivables	6	2,449,647	36,786	2,412,861	4,720,905
Other receivables	6	12,210,660	-	12,210,660	4,466,358
Cash and cash equivalents	8.1.2	7,701,530	518	7,701,012	884,298
Current assets		**30,940,592**	**2,637,409**	**28,303,183**	**14,255,835**
Total assets		**74,279,040**	**23,714,532**	**50,564,508**	**40,771,657**

(€)	Notes	12.31.2016			12.31.2015
		Gross	Amort., depr. & prov.	Net	Net
Share capital	12.1			1,605,307	1,438,030
Reserves	12.1			28,026,008	22,598,470
Net income/(loss) for the year				(10,805,933)	614,916
Shareholders' equity				**18,825,382**	**24,651,416**
Conditional advances	13			317,500	403,750
Other equity				**317,500**	**403,750**
Long-term financial debt	8.1.1			19,810,775	5,678,813
Group and associates	8.1.1			-	3,479,573
Non-current liabilities				**19,810,775**	**9,158,386**
Provisions for liabilities and charges	7			276,059	15,543
Short-term financial debt	8.1.1			2,715,808	2,243,246
Group and associates	8.1.1			1,021,046	-
Trade payables	9			6,074,036	3,175,983
Other liabilities	9			1,523,902	1,123,333
Current liabilities				**11,610,851**	**6,558,105**
Total shareholders' equity and liabilities				**50,564,508**	**40,771,657**

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

3.3 CASH FLOW STATEMENT

(€)	12.31.2016	12.31.2015
Net income / (loss)	**(10,805,933)**	**614,916**
Property, plant and equipment depreciation and intangible asset amortization	2,078,656	1,591,902
Provision charges	8,534,032	528,842
Proceeds from sale of non-current assets	216,095	40,994
Self-financing capacity	**22,850**	**2,776,654**
Change in inventories and work in progress	(2,975,005)	(1,048,229)
Change in trade receivables	2,278,857	(522,645)
Change in trade payables and liabilities relating to non-current assets	2,898,052	(508,077)
Change in other receivables and payables	(1,599,772)	(792,445)
Cash flow from working capital requirement	**602,132**	**(2,871,396)**
Net cash flow from operating activities	**624,982**	**(94,742)**
Acquisition of non-current assets	(6,710,186)	(3,594,042)
Disposal of non-current assets	-	21,700
Conditional advances received (repaid)	(86,250)	(51,250)
Other movements	219,933	21,719
Net cash flow from investment activities	**(6,576,503)**	**(3,601,873)**
Share capital increase	5,104,354	3,396,902
Proceeds from new borrowings	16,417,587	6,043,297
Repayment of borrowings	(2,197,198)	(2,547,814)
Increase / (decrease) in subsidiaries' current accounts	(6,816,188)	(2,985,522)
Other movements	(240,320)	11,442
Net cash flow from financing activities	**12,268,235**	**3,918,305**
Change in cash and cash equivalents	**6,316,714**	**221,690**
Cash and cash equivalents - beginning of year	**884,298**	**662,608**
Cash and cash equivalents - end of year	**7,201,012**	**884,298**

Positive cash balances - beginning of year	884,298	662,608
Positive cash balances - end of year	7,701,012	884,298
Change in positive cash balances	**6,816,714**	**221,690**
Negative cash balances - beginning of year	-	-
Negative cash balances - end of year	500,000	-
Change in negative cash balances	**500,000**	**-**
Change in cash and cash equivalents	**6,316,714**	**221,690**

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, 2016

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 March 28, 2017.

NOTE 1: ACCOUNTING PRINCIPLES

1.1 Accounting framework

The annual financial statements of the parent company MEDICREA INTERNATIONAL have been prepared in accordance with applicable French accounting regulations. General accounting conventions have been applied, in accordance with the principle of prudence, pursuant to basic assumptions which are designed to provide a true and fair view of the company: going concern, consistency of accounting methods from one year to the next, independence of fiscal years. The going concern principle is assessed in light of the Company's capacity to meet its cash flow requirements over the next 12 months linked to its operations, its investments and the repayment of its 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 2016 are identical to those applied the previous year.

The financial statements of MEDICREA INTERNATIONAL are presented in Euros.

1.2 Use of estimates by Management

As part of the preparation of the parent company financial statements, the valuation of some assets and liabilities and income statement items requires the use of judgments, assumptions and estimates. These include the valuation of intangible and financial assets, and provisions for impairment of inventories, as well as determining the amount of provisions for liabilities and charges.

Rapid changes in economic environments increase the difficulties of valuing and estimating certain assets and liabilities, as well as contingencies on business developments. The estimates made by management were based on information available to it at December 31, 2016, after taking account of events subsequent to that period and until the date the financial statements were approved by the Board of Directors. These assumptions, estimates and judgments made on the basis of information or situations existing at the date of preparation of the financial statements, may prove different from subsequent actual events.

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 operating expenses.

The value in use is calculated as the present value of estimated future cash flows expected from the use of assets or their potential disposal.

At December 31, 2016, the Company was not aware of any changes in estimates having a significant impact during the period.

1.3 Foreign currency transactions

Transactions denominated in foreign currencies are recorded at their corresponding Euro value on the date of the transaction. At the end of the period, financial assets and monetary liabilities denominated in foreign currencies are translated at the closing rate. The resulting foreign exchange gains and losses are recorded as exchange gains and losses and presented under other financial income and expenses in the income statement.

NOTE 2: OPERATIONAL DATA

2.1 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 specific cases, the implants and instruments can be held on consignment at certain selected distributors. 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:

(€)	12.31.2016			12.31.2015		
	France	Exports	Total	France	Exports	Total
Merchandise sales	687,067	12,814,172	13,501,239	3,204,611	12,056,347	15,260,958
Provision of services	407,299	162,512	569,811	301,013	131,764	432,777
Total sales	**1,094,366**	**12,976,684**	**14,071,050**	**3,505,624**	**12,188,111**	**15,693,735**

The change in sales between 2016 and 2015 is analyzed as follows:

(€)	2016	2015	Change
MEDICREA USA	7,348,225	6,862,852	7%
MEDICREA EUROPE FRANCOPHONE	941,587	3,385,854	(72)%
MEDICREA GMBH	364,421	15,547	2,244%
MEDICREA TECHNOLOGIES UK	161,856	247,882	(35)%
MEDICREA TECHNOLOGIES	106,307	75,567	41%
MEDICREA POLAND	24,997	-	100%
Total intra-Group sales and rebillings	**8,947,393**	**10,587,702**	**(15)%**
Distributors	5,082,746	5,061,414	- %
Other	40,911	44,619	(8)%
Net sales	**14,071,050**	**15,693,735**	**(10)%**

Sales with the Company's marketing subsidiaries fell by almost 15% compared with the previous year, as a result of the takeover of MEDICREA EUROPE FRANCOPHONE's entire inventory at the end of 2016. Sales to other distribution subsidiaries grew 11% in parallel with the growth in sales achieved by these entities in their respective markets. These sales meet demand from customer hospitals and subsidiaries to replenish their inventories.

Sales with international distributors, which reflect the direct marketing business of MEDICREA INTERNATIONAL, were stable compared with 2015.

2.2 Own work capitalized

Own work capitalized, which grew €0.3 million in relation to the 2015 fiscal year, includes the capitalization of R&D costs, patent costs and prototyping costs. This increase reflects the Company's sustained efforts in innovation.

2.3 Provision reversals and transfers of charges

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

(€)	12.31.2016	12.31.2015
Provision for bad debts	7,600	3,719
Transfers of charges	57,109	47,062
Provision reversals and transfers of charges	**64,709**	**50,781**

2.4 Other revenue

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

2.5 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.

The amount of exceptional income and expenses for the 2016 fiscal year included the expenses relating to transferring the Neyron and La Rochelle operations to the new site in Rillieux-la-Pape, and the write-off of advances paid to a software designer in connection with the development of a healthcare IT platform, which will not be recovered.

The change in exceptional income and expenses at December 31, 2016 broke down as follows:

(€)	12.31.2016	12.31.2015
Write-off of advances on royalties	(913,741)	-
Cost of shutting down the Neyron premises	(160,836)	-
Cost of transferring the staff at the La Rochelle production unit	(87,080)	-
Other	2,331	23,546
Total	**(1,159,326)**	**23,546**

NOTE 3: EMPLOYEE COSTS AND BENEFITS

3.1 Workforce

The workforce can be analyzed by category as follows:

	12.31.2016	12.31.2015	12.31.2014
Executives	46	44	35
Supervisors - Employees	27	17	13
Total	**73**	**61**	**48**

The increase in workforce was primarily due to the introduction of production teams within the new factory in Rillieux-la-Pape. MEDICREA TECHNOLOGIES employees who agreed to relocate will move to MEDICREA INTERNATIONAL during the first half of 2017. The 2016 payroll therefore grew significantly in comparison with the previous fiscal year (up 14%).

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 in the Company's financial statements 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 44% for executives and 42% 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: 1.40%, 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.

The value of acquired rights was €513,368 at December 31, 2016, compared with €256,964 at December 31, 2015. Movements are analyzed as follows:

(€)	12.31.2016
Actuarial liability at 12.31.2015	256,964
Service cost in operating income	*66,328*
Net financial expense	*5,653*
Charge for the year in respect of defined benefit plans	71,981
Actuarial gains and losses	90,041
Change in consolidation scope	94,382
Actuarial liability at 12.31.2016	513,368

The La Rochelle plant was shut down on January 31, 2017, and several MEDICREA TECHNOLOGIES employees agreed to join the new site in site de Rillieux-la-Pape from September 2016. The estimates for the end-of-career allowances at December 31, 2016 were therefore drawn up incorporating the obligations concerning these new employees who will be transferred to MEDICREA INTERNATIONAL in 2017.

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

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 Stock options and free shares

At the Shareholders' Meetings of March 10, 2006, June 25, 2009, June 14, 2012, June 25, 2014, June 3, 2015 and December 18, 2015, 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, and September 19, 2016 share subscription options and/or free shares were allocated.

Taking account of employee departures in the fiscal years 2008 to 2016, the numbers of free shares and stock options allocated to MEDICREA INTERNATIONAL employees were 98,156 (of which 36,000 will be vested on September 19, 2017) and 74,739 (of which 15,521 have been exercised) respectively at December 31, 2016.

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.

As of January 1, 2015, the ITR was replaced by the Personal Training Account (PTA), which is no longer metered by the Company but by the Caisse des Dépôts et Consignation. The Company's annual contribution in respect of the PTA (0.2% of French companies' 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 €81,325 was recognized in 2016 in relation to this tax credit, compared with €70,589 in 2015.

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 Group 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 2016 fiscal year for work carried out by Mr. SOURNAC was €300,000 exclusive of tax (unchanged from 2015).

Mr. SOURNAC did not receive any direct or indirect compensation from the Company other than that mentioned above, excluding Directors' fees of €6,000 in 2016 (unchanged from 2015).

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 2016, ORCHARD INTERNATIONAL invoiced a total of €64,000 exclusive of tax (unchanged from 2015) to MEDICREA INTERNATIONAL for the sales management duties carried out by Mr. CAFFIERO. It should be noted that since January 1, 2015, at Mr. CAFFIERO's request to reduce his activities within the Group, the amount of services invoiced by ORCHARD INTERNATIONAL has been significantly revised downward.

Mr. CAFFIERO did not receive any direct or indirect compensation other than that mentioned above, excluding Directors' fees of €6,000 in 2016 (unchanged from 2015).

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 3 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.

Property, plant and equipment primarily comprise industrial equipment, demonstration equipment, sets of instruments on consignments with certain distributors, premises' fittings, computer hardware, and furniture.

The depreciation periods applied by the Company are as follows:

- demonstration equipment and sets of instruments on consignment are depreciated over their estimated useful lives, ranging from 3 to 5 years.
- Industrial equipment is depreciated over its estimated useful life, estimated to be 5 to 10 years.
- technical facilities and fittings are depreciated over their estimated useful lives, ranging from 5 to 10 years.

- office equipment, computer hardware, and furniture are depreciated over their useful lives, ranging from 3 to 10 years.

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 TECHNOLOGIES	La Rochelle, FR	100%
MEDICREA TECHNOLOGIES UK	Swaffam Bulbeck, UK	100%
MEDICREA USA	New-York, USA	100%
MEDICREA GMBH	Köln, GER	100%
MEDICREA POLAND	Warsaw, PL	100%

Equity securities are broken down as follows:

(€)	12.31.2016	12.31.2015
MEDICREA TECHNOLOGIES	11,946,000	11,946,000
MEDICREA TECHNOLOGIES UK	2,465,018	2,465,018
MEDICREA USA	7,395,058	7,395,058
MEDICREA GMBH	100,000	100,000
MEDICREA POLAND	47,118	-
MEDICREA EUROPE FRANCOPHONE	-	150,000
Total gross values	**21,953,194**	**22,056,076**
Impairment	(10,400,000)	(1,950,000)
Total net values	**11,553,194**	**20,106,076**

The company MEDICREA POLAND, a company incorporated under Polish law, was created in November 2016 with share capital of PLN 200,000.

MEDICREA EUROPE FRANCOPHONE was wound up with no liquidation process on December 30, 2016 via a decision of the sole shareholder, and absorbed by MEDICREA INTERNATIONAL.

The discounting of future cash flows generated by the subsidiaries at December 31, 2016 resulted in an additional provision of €8.6 million being recognized in relation to MEDICREA TECHNOLOGIES shares, following the closure of the La Rochelle site and the transfer of operations to MEDICREA INTERNATIONAL.

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, 2016, treasury shares were analyzed as follows:

(€)	2016		2015	
	Number	Amount	Number	Amount
Liquidity contract	2,650	14,054	3,046	20,867
Total number of MEDICREA shares	**2,650**	**14,054**	**3,046**	**20,867**

4.6 Change in non-current assets, and depreciation and amortization in 2016

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

(€) Gross values	01.01.2016	Acquisitions	Disposals	Transfer	12.31.2016
Research & development costs	7,809,466	2,021,846	-	-	9,831,312
Patents and similar rights	2,161,953	109,357	-	-	2,271,310
Computer software and licenses	679,300	281,696	-	2,584	963,579
Brands	25,133	-	-	-	25,133
Intangible assets	**10,675,852**	**2,412,899**	**-**	**2,584**	**13,091,335**
Plant & equipment	943,880	839,312	4,030	21,916	1,801,078
Demonstration equipment	337,192	84,706	67,496	23,281	377,683
Equipment on consignment	264,097	146,700	88,258	2,177,162	2,499,701
Computer hardware and office equipment	599,952	551,483	48,068	11,438	1,114,805
Other non-current assets	428,430	1,924,330	323,510	5,332	2,034,582
Property, plant and equipment	**2,573,551**	**3,546,531**	**531,362**	**2,239,129**	**7,827,849**
Equity securities	22,056,076	47,118	-	(150,000)	21,953,194
Receivables from investments	259,829	-	211,555	-	48,274
Treasury shares (1)	20,852	-	6,798	-	14,054
Guarantees and deposits	127,618	277,704	1,580	-	403,742
Non-current financial assets	**22,464,375**	**324,822**	**219,933**	**(150,000)**	**22,419,264**
Total gross values	**35,713,778**	**6,284,252**	**751,295**	**2,091,713**	**43,338,448**

(€) Amortization, depreciation and provision charges	01.01.2016	Charges	Reversals	Transfer	12.31.2016
Research & development costs	4,722,853	1,167,847	-	-	5,890,700
Patents and similar rights	1,253,257	217,057	-	-	1,470,314
Computer software and licenses	161,912	140,387	-	2,584	304,883
Brands	25,133	-	-	-	25,133
Intangible assets	**6,163,155**	**1,525,291**	**-**	**2,584**	**7,691,030**
Plant & equipment	89,937	136,299	1,250	21,916	246,902
Demonstration equipment	171,397	103,643	66,236	15,620	224,424
Equipment on consignment	175,059	181,282	34,259	1,613,570	1,935,652
Computer hardware and office equipment	461,033	78,448	43,163	7,082	503,400
Other non-current assets	187,375	53,693	170,360	5,007	75,715
Property, plant and equipment	**1,084,801**	**553,365**	**315,268**	**1,663,195**	**2,986,093**
Equity securities	1,950,000	8,600,000	-	(150,000)	10,400,000
Non-current financial assets	**1,950,000**	**8,600,000**	**-**	**(150,000)**	**10,400,000**
Total amortization, depreciation and impairment	**9,197,956**	**10,678,656**	**315,268**	**1,515,779**	**21,077,123**

(€) Net values	01.01.2016	Increase	Decrease	Transfer	12.31.2016
Intangible assets	4,512,697	887,608	-	-	5,400,305
Property, plant and equipment	1,488,750	2,993,166	216,094	575,934	4,841,756
Non-current financial assets	20,514,375	(8,275,178)	219,933	-	12,019,264
Total net values	**26,515,822**	**(4,394,404)**	**436,027**	**575,934**	**22,261,325**

(1) cash held via the liquidity contract is included in Cash and cash equivalents.

The transfer column in the above analysis reflects the integration of MEDICREA EUROPE FRANCOPHONE's assets following its absorption by the Company in late 2016. 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 2016 fiscal year include:

- Continued development of a complete solution (UNiD ™) 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 2016 amounted to €2,021,846 compared with €1,684,628 in 2015. Total R&D costs expensed for the year are analyzed as follows:

(€)	12.31.2016	12.31.2015
Research & development costs	4,016,275	3,486,712
of which amortization charge of capitalized R&D costs	*1,167,847*	*930,964*
Capitalization of R&D costs	(2,021,846)	(1,684,628)
Total R&D costs expensed for the year	**1,994,429**	**1,802,084**

2 / Patent costs capitalized in 2016 amounted to €109,357, compared with €115,059 in respect of the previous year. They primarily relate to customized osteosynthesis spinal rods (UNiD® rods), the thoraco-lumbar fixation system PASSLP® and its extensions and the LigaPASS® 2.0 system, an anchoring technology using a sub-laminar band for thoraco-lumbar spinal posterior fixation.

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 is continuing to expand its machine base with an investment of €0.2 million in an automatic contouring line intended for the manufacture of customized UNID™ rods and €0.2 million in a compressor to supply the machinery on the new Rillieux-la-Pape site.

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. The development of the Company's business led it to increase and renew the assets used by its customers, notably in France especially as the cost of the instruments provided to hospitals and clinics are now borne in full by the Company following the absorption of its subsidiary MEDICREA EUROPE FRANCOPHONE. Fully-amortized instruments are taken off the books on a regular basis.

7/ The increase in IT and office equipment is directly related to the commissioning of the new headquarters.

8/ The growth in other property, plant and equipment is due to initial fittings and fixtures at the new headquarters for €2.3 million.

9/ Depreciation of buildings and other property, plant and equipment includes a non-recurring charge of €0.2 million to take the net book value of the fixtures and fittings of the La Rochelle site not transferred to a nil amount as a result of the closure of the factory.

10/ Non-current financial assets include equity securities, treasury shares held as part of a liquidity contract, receivables from investments and guarantees paid. The latter increased significantly over the 2016 fiscal year following the move to the new headquarters, the rental deposits relating to the former building not yet having been cashed as of December 31, 2016. Receivables from investments correspond to two loans at a fixed rate of 2.15% for a term of seven years, taken out by MEDICREA INTERNATIONAL on behalf of MEDICREA TECHNOLOGIES and used to finance various investments in industrial equipment.

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, according to the schedule set out in the contract. They concern software, technical facilities, equipment and tools and computer hardware. Their net value totaled €1,463,620 at December 31, 2016 compared with €1,125,890 at December 31, 2015 and were analyzed as follows:

(€)	12.31.2016	12.31.2015
Software	21,700	-
Technical facilities and equipment	1,678,145	1,124,145
Computer hardware	76,517	76,517
Total gross values	**1,776,362**	**1,200,662**
Software amortization	7,655	-
Technical facility and equipment depreciation	252,174	39,140
Computer hardware depreciation	52,913	35,632
Total amortization and depreciation	**312,742**	**74,772**
Total net values	**1,463,620**	**1,125,890**

Lease-financed commitments are analyzed as follows:

(€)	12.31.2016	12.31.2015
Original value	1,776,362	1,200,662
Amortization and depreciation	(312,742)	(74,772)
Of which depreciation charges for the year	*123,801*	*57,531*
Net value	**1,463,620**	**1,125,890**
Lease payments (1)		
Total payments from previous years	486,342	36,637
Lease payments for the year	342,421	227,415
Total	**828,763**	**264,052**
Future minimum lease payments		
Within 1 year	296,761	221,332
1 to 5 years	785,299	817,576
Total	**1,082,060**	**1,038,908**
Residual values	**17,665**	**11,908**

(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 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. The French facilities have been brought together on a single site for an annual rental charge of €1 million and having signed a 12-year rental commitment.

Operating lease commitments can therefore be summarized as follows:

(€)	12.31.16	Within 1 year	1 to 5 years	5 to 10 years	More than 10 years
Real estate and equipment rental	**12,539,205**	1,107,702	3,858,272	4,737,650	2,835,581

NOTE 5: INVENTORIES AND WORK IN PROGRESS

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:

(€)	12.31.2016	12.31.2015
Raw materials	263,928	98,939
Work-in-process	76,113	9,095
Semi-finished goods	261,715	39,061
Finished goods	7,976,999	5,456,656
Gross values	**8,578,755**	**5,603,751**
Provision for writedown of finished goods	(2,600,105)	(1,419,477)
Net values	**5,978,650**	**4,184,274**

MEDICREA INTERNATIONAL owns inventories intended for supply to marketing subsidiaries and to fulfill the needs of independent distributors. Inventories of finished goods are centrally managed, allowing the Company to optimize and anticipate the needs of its distribution subsidiaries at its own site.

Since August 2016 with the transfer to the new site at Rillieux-la-Pape of one section of the production equipment from the La Rochelle factory and the planned closure of the latter, MEDICREA INTERNATIONAL is now a manufacturer of implants in its own right. As such, the breakdown and amount of inventory has changed considerably in relation to the previous fiscal year.

The gross value of inventories grew 53%. To anticipate the shut-down of the La Rochelle plant in two stages, together with the gradual start-up of the new site due to the need to obtain all of the mandatory regulatory classifications, the Company made significant use of sub-contractors during the 2nd half of 2016, in order to ensure continuity of service for all of its customers. This temporary

situation had an unfavorable impact on margins in the 2nd half of the fiscal year, and significantly increased inventory levels, especially for finished and semi-finished goods.

The rise in writedowns is in direct correlation with that of gross inventories.

NOTE 6: 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:

(€)	12.31.2016	12.31.2015
Trade receivables - gross value	2,449,647	4,728,505
Provision for doubtful debts	(36,786)	(7,600)
Trade receivables	**2,412,861**	**4,720,905**
Social security receivables	2,200	9,100
Tax receivables	1,811,769	1,233,629
Intra-Group current accounts	8,052,511	3,694,849
Other receivables	1,622,101	48,854
Advances and prepayments to suppliers	251,777	830,591
Prepaid expenses	460,548	183,792
Asset translation adjustment	9,754	5,543
Other gross receivables	**12,210,660**	**6,006,358**
Impairment of intra-Group current accounts	-	(1,540,000)
Other receivables	**12,210,660**	**4,466,358**
Total receivables – gross values	**14,660,307**	**10,734,863**
Total receivables – net values	**14,623,521**	**9,187,263**

The change in trade receivables between 2016 and 2015 is analyzed as follows:

(€)	12.31.2016	12.31.2015
MEDICREA GMBH	77,481	15,547
MEDICREA TECHNOLOGIES	55,488	17,527
MEDICREA POLAND	24,997	-
MEDICREA USA	203	3,361,654
MEDICREA EUROPE FRANCOPHONE	-	352,025
MEDICREA TECHNOLOGIES UK	-	67,190
Intra-Group receivables	**158,169**	**3,813,943**
Non-Group receivables	2,291,478	914,562
Total	**2,449,647**	**4,728,505**

The fall in Group receivables was partly due to the absorption at the end of the year of the company MEDICREA EUROPE FRANCOPHONE and to the transfer to the current account of virtually all of MEDICREA USA's receivables.

The average settlement period for non-Group trade receivables was 43 days at December 31, 2016, against 66 days at the previous year-end. Following the absorption of the company MEDICREA EUROPE FRANCOPHONE, since December 30, 2016 non-Group receivables have included invoices for which payment is owed by hospitals and clinics in France.

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 €970,054 and the competitiveness and employment tax credit of €81,325. Other tax receivables primarily include VAT to be recovered.

At December 31, 2016, intra-Group current accounts were broken down as follows:

(€)	12.31.2016	12.31.2015
MEDICREA USA current account	6,705,788	-
MEDICREA GMBH current account	1,036,420	123,942
MEDICREA TECHNOLOGIES UK current account	310,303	-
MEDICREA EUROPE FRANCOPHONE current account	-	3,390,570
MEDICREA TECHNOLOGIES tax consolidation current account	-	180,337
Total intra-Group current accounts (gross value)	**8,052,511**	**3,694,849**
MEDICREA EUROPE FRANCOPHONE current account impairment	-	(1,540,000)
Total intra-Group current accounts (net value)	**8,052,511**	**2,154,849**

Other receivables mainly include advances and prepayments to suppliers. The decrease in the amount compared with December 31, 2015 is explained by the write-off in 2016 of advances paid in connection with a cooperation agreement signed with a US IT company (USD 1,200,000) and with an agreement involving the assignment of rights to a surgeon (USD 76,138).

The maturity dates of receivables are broken down as follows:

(€)	12.31.2016	Within 1 year	1 to 5 years	More than 5 years
Other non-current financial assets	403,742	63,498	62,500	277,744
Receivables from investments	48,274	48,274	-	-
Trade receivables	2,449,647	2,449,647	-	-
Social security receivables	2,200	2,200	-	-
Tax receivables	1,811,769	1,811,769	-	-
Intra-Group current accounts	8,052,511	-	8,052,511	-
Other receivables	1,622,101	1,622,101	-	-
Advances and prepayments to suppliers	251,777	251,777	-	-
Prepaid expenses	460,548	460,548	-	-
Total	**15,102,569**	**6,709,814**	**8,115,011**	**277,744**

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

(€)	12.31.2016	12.31.2015
Receivables from investments	-	604
Trade receivables	119,622	99,438
Other receivables	59,328	20,672
Total	178,950	120,714

NOTE 7: PROVISIONS AND CONTINGENT LIABILITIES

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 between current and non-current liabilities according to due dates. When the liability settlement date exceeds one year, the amount of the provision is subject to a discount calculation, the effects of which are only recognized in net financial income/(expense) if the impact is material.

Current and non-current provisions include provisions for liabilities and are broken down as follows:

(€)	12.31.2016	12.31.2015
Provisions for litigation	10,000	10,000
Provisions for charges	256,305	-
Provisions for currency risk	9,754	5,543
Total	276,059	15,543

The provision for charges primarily refers to writedowns of MEDICREA TECHNOLOGIES' inventory, taken back in January 2017, and to relocation allowances to be paid to employees of the La Rochelle factory transferred to the new site at Rillieux-la-Pape subsequent to the closure of the site.

NOTE 8: FINANCING AND FINANCIAL INSTRUMENTS

8.1 Net financial debt

8.1.1 Financial debt

Financial debt is recognized at its historical value.
Borrowing costs are recorded under deferred charges and amortized in equal amounts over the duration of the loan to which they relate.

Financial debt is analyzed as follows:

(€)	12.31.2016	12.31.2015
Bond issues	17,536,558	1,760,662
Loans from credit institutions	4,476,607	6,031,636
Bank overdrafts	500,000	-
Accrued loan interest	8,642	9,329
Accrued bank interest	4,776	4,567
Other financial debt	-	108,663
Non-Group financial debt	**22,526,583**	**7,914,857**
Group and associates	1,021,046	3,486,775
Total financial debt	**23,547,629**	**11,401,632**

At December 31, 2016, all financial debt was taken out in Euros and at fixed rates.

The change in the balance of borrowings from credit institutions is related to repayments made in 2016 within the framework of existing amortization schedules, to the four new loans that were taken out for a total of €0.3 million and bearing interest rates ranging between 0.75% and 1.79% over periods of 4 to 5 years, to finance various industrial equipment, as well as a loan of €0.1 million at a fixed rate of 4.25% over a period of 2 years, to finance the costs of research and development in 2016 eligible for the research tax credit.

As part of the consolidation of its financing requirements and to fund its future investments, the Company has issued:

- a bond loan amounting to €1,150,000 in February 2016 at an interest rate of 7% (the interest is payable quarterly), which will be redeemed in full at the end of a two-year period;
- a bond convertible into the Company's shares amounting to €15,000,000 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 at December 31, 2016. 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.

The two bond loans subscribed in 2016 are in addition to the €2 million bond loan at an interest rate of 6% arranged in April 2015, where the remaining capital amount repayable was €1.4 million at December 31, 2016.

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

(€)	12.31.2016	12.31.2015
Convertible bond loan – August 2016	15,000,000	-
Convertible bond loan – February 2016	1,150,000	-
Convertible bond loan – April 2015	1,386,558	1,760,662
Total	**17,536,558**	**1,760,662**

Financial debt with other Group entities are analyzed as follows:

(€)	12.31.2016	12.31.2015
MEDICREA TECHNOLOGIES current account	1,021,046	2,635,178
MEDICREA USA current account	-	515,153
MEDICREA TECHNOLOGIES UK current account	-	329,242
Group and associates	**1,021,046**	**3,479,573**
MEDICREA TECHNOLOGIES guarantee	-	3,412
MEDICREA EUROPE FRANCOPHONE guarantee	-	3,790
Other financial debt	**-**	**7,202**
Total	**1,021,046**	**3,486,775**

Bank overdrafts of €500,000 correspond to the cash facility guaranteed by amounts invoiced to French healthcare facilities by MEDICREA EUROPE FRANCOPHONE prior to being absorbed by the Company.

The average interest rate for 2016 stood at 5.79% compared with 4.16% for 2015. This change was due to the subscription in 2016 of bond debt bearing higher fixed rates than those applying to standard funding.

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

(€)	12.31.2016	Within 1 year	1 to 5 years	More than 5 years
Bond loans	17,536,558	392,875	17,143,683	-
Loans from credit institutions	4,476,607	1,809,514	2,623,356	43,737
Bank overdrafts	500,000	500,000	-	-
Accrued loan interest	8,642	8,642	-	-
Accrued bank interest	4,776	4,776	-	-
Group and associates	1,021,046	1,021,046	-	-
Total	**23,547,629**	**3,736,853**	**19,767,039**	**43,737**

8.1.2 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:

(€)	12.31.2016	12.31.2015
Cash	7,547,462	730,748
Marketable securities	153,550	153,550
Cash and cash equivalents	**7,701,012**	**884,298**
Bank overdrafts	(500,000)	-
Net cash and cash equivalents	**7,201,012**	**884,298**

Marketable securities mainly include money market funds (SICAV) as security for a bank guarantee given for payment of rent.

The strengthening of the net cash position was primarily due to the gross €20 million fundraising completed in August 2016.

The cash flow statement for the period January 1, 2016 to December 31, 2016 highlights cash usage over the fiscal year.

8.1.3 Hedge instruments

Most of the Company's supplies are denominated in Euros. Sales to US and UK subsidiaries are made in local 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.

8.2 Net financial income / (expense)

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

(€)	12.31.2016	12.31.2015
Cost of net financial debt	(724,259)	(299,794)
Net exchange gain / (loss)	377,634	182,051
Capital gain / (loss) on disposal of marketable securities	(8,863)	(5,893)
Loss resulting from the transfer of all assets and liabilities of MEDICREA EUROPE FRANCOPHONE	(118,398)	-
Charges to provisions for exchange losses	(9,754)	(5,543)
Reversal of provisions for exchange losses	5,543	582
Charges to provisions for impairment of MEDICREA TECHNOLOGIES securities	(8,600,000)	-
Reversal of provisions for impairment of the MEDICREA EUROPE FRANCOPHONE current account	1,540,000	-
Charges to provisions for impairment of MEDICREA TECHNOLOGIES UK securities	-	(300,000)
Charges to provisions for impairment of the MEDICREA EUROPE FRANCOPHONE current account	-	(40,000)
Net financial income / (expense)	**(7,538,097)**	**(468,597)**

The net exchange gain of €0.4 million was primarily due to the exchange rate differences recorded when payments were made by MEDICREA USA.

The absorption of MEDICREA EUROPE FRANCOPHONE into the Company led to a certain number of accounting adjustments related to the removal of reciprocal undertakings and transactions.
The closure of the La Rochelle factory which fell under the legal entity MEDICREA TECHNOLOGIES, led the Company to recognize an additional provision of €8.6 million for the impairment of shares, which explains most of the increase in net financial expense in 2016 in relation to the previous fiscal year.

NOTE 9: TRADE PAYABLES AND OTHER CURRENT LIABILITIES

Trade payables and other liabilities are analyzed as follows:

(€)	12.31.2016	12.31.2015
Trade payables	**6,074,036**	**3,175,983**
Social security liabilities	1,002,862	824,060
Tax liabilities	120,101	123,457
Other liabilities	169,568	62,277
Customer advances and prepayments	117,669	-
Translation adjustment liability	113,702	113,539
Total other liabilities	**1,523,902**	**1,123,333**
Total operating liabilities	**7,597,938**	**4,299,316**

The change in trade payables between 2016 and 2015 is analyzed as follows:

(€)	12.31.2016	12.31.2015
MEDICREA TECHNOLOGIES	2,800,502	1,931,408
MEDICREA EUROPE FRANCOPHONE	-	1,649
MEDICREA USA	-	6,591
Intra-Group liabilities	**2,800,502**	**1,939,648**
Non-Group liabilities	3,273,534	1,236,335
Total	**6,074,036**	**3,175,983**

The increase in non-Group trade payables was primarily the result of investments and improvements made in relation to the new Rillieux-la-Pape site and the gradual transfer of the management of all MEDICREA TECHNOLOGIES' production suppliers and subcontractors to the Company.

The liability translation adjustment at December 31, 2016 mainly comprised the translation of Group receivables denominated in foreign currencies (see section 6).

At December 31, 2016, the maturity of all operating liabilities was less than one year.

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

(€)	12.31.2016	12.31.2015
Financial debt	8,642	13,896
Trade payables	639,687	329,684
Social security liabilities	717,034	558,852
Tax liabilities	90,684	107,818
Other liabilities	58,355	55,692
Total	1,514,402	1,065,942

NOTE 10: CORPORATE TAX

Since January 1, 2003, MEDICREA INTERNATIONAL and MEDICREA TECHNOLOGIES have been part of the same tax consolidation group, with MEDICREA INTERNATIONAL acting as parent company and being solely liable for corporate tax on the overall net income achieved by the Group. MEDICREA EUROPE FRANCOPHONE, which was wholly owned, and had been consolidated since January 1, 2015, was wound up with no liquidation process, and absorbed by MEDICREA INTERNATIONAL on December 30, 2016, which meant that it was automatically excluded from the tax consolidation scope at January 1, 2016. Savings resulting from the implementation of the tax consolidation agreement are retained by the parent company.

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

(€)	12.31.2016	12.31.2015
Research tax credit	(970,054)	(912,320)
Tax consolidation	-	(168,098)
Corporate tax charge / (income)	(970,054)	(1,080,418)

The research tax credit for the 2016 fiscal year totaled €1 million against €0.9 million for the previous fiscal year. This increase reflects the significant efforts made by the Company in research and development.

Temporarily non-deductible expenses totaled €2,645 for the year to December 31, 2016, compared with €106,850 for the year to December 31, 2015.

The MEDICREA INTERNATIONAL tax consolidation group had cumulative losses of €22,584,065 at December 31, 2016.

NOTE 11: IMPACT OF EXCHANGE DIFFERENCES ON SALES AND OPERATING INCOME

Average exchange rates evolved as follows:

Average conversion rate	2016	2015
USD / EUR	1.10605	1.11500
GBP / EUR	0.81251	0.72794
PLN / EUR	4.3622	-

The impact of currency fluctuations on the comparability of the financial statements for the 2015 and 2016 fiscal years is as follows:

(€)	12.31.2016 at the 2016 rate	12.31.2016 at the 2015 rate	Impact of exchange rate
Sales	14,071,050	14,090,796	(19,746)
Operating income	(3,078,564)	(3,051,056)	(27,508)

NOTE 12: SHAREHOLDERS' EQUITY

12.1 Shareholders' equity

12.1.1 Share capital

Following equity transactions carried out during the fiscal year, share capital at December 31, 2016 totaled €1,605,306.72 and comprised of 10,033,167 shares with par value of €0.16 each. The number of authorized shares outstanding is as follows:

(€)	12.31.2016	12.31.2015	12.31.2014
Number of authorized shares	10,033,067	8,987,588	8,481,305
Number of preference shares	100	100	100
Number of shares issued and fully paid up	10,033,167	8,987,688	8,481,305
Par value (€)	0.16	0.16	0.16
Number of shares outstanding at end of period	10,033,067	8,987,588	8,481,405
Number of shares with double voting rights	2,650,743	2,641,990	2,744,677
Number of treasury shares held by the Group	-	-	-
Number of treasury shares held by the parent company	2,650	3,046	2,722

Transactions in the share capital of MEDICREA INTERNATIONAL over the period January 1, 2016 to December 31, 2016 are summarized as follows:

- At January 1, 2016, the share capital was €1,438,030.08, represented by 8,987,588 ordinary shares and 100 P preference shares.
- On April 4, 2016, the Board of Directors recognized a share capital increase related to the exercise of 16,676 Stock Options between May and July 2015.
- On August 9, 2016, the Board of Directors recognized the issue of 1,028,803 new shares as part of a share capital increase reserved for qualified investors.
- At December 31, 2016, the share capital was therefore made up of 10,033,067 ordinary shares and 100 P preference shares.

12.1.2 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. 2.1% of the Company's share capital at December 31, 2016. These preference shares do not grant voting rights or entitlement to dividends. They are not listed on Alternext.

The conversion of the preference shares into ordinary shares would not have been possible during the 2016 fiscal year based solely on the performance of MEDICREA shares.

12.1.3 Change in shareholders' equity

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

(€)	01.01.2016	Increase	Decrease	12.31.2016
Share capital	1,438,030	167,277	-	1,605,307
Merger premium	2,738,619	-	-	2,738,619
Issue premium	37,721,179	4,937,077	-	42,658,256
Allocation of share capital increase-related	(2,824,144)	-	(124,455)	(2,948,599)
costs	19,360	-	-	19,360
Legal reserve	41,767	-	-	41,767
Reserve for own shares	208,270	-	-	208,270
Statutory reserves	449,244	-	-	449,244
Other reserves	(15,755,825)	614,916	-	(15,140,909)
Retained earnings	-	-	(10,805,933)	(10,805,933)
Net loss for fiscal year 2016	614,916	-	(614,916)	-
Net loss for fiscal year 2015	24,651,416	5,719,270	(11,545,304)	18,825,382
Shareholders' equity				

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

(€)	2016	2015
Balance at January 1	34,897,035	31,614,738
Share capital increase in cash	4,937,077	3,590,607
Sub-total	39,834,112	35,205,345
Allocation of share capital increase-related costs	(124,455)	(274,710)
Allocation to the reserve for own shares	-	(33,600)
Balance at December 31	39,709,657	34,897,035

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

12.1.4 Dividends paid during the fiscal year

Nil

12.1.5 Issue, buyback and redemption of debt and equity securities

Two unlisted bond loans were issued during the 2016 fiscal year:

- The first loan, which is not convertible into shares, was issued in February 2016 in an amount of €1,150,000 for a term of two years. The loan, which bears interest at 7% is redeemable in full on maturity, and was subscribed by Denys SOURNAC and several other Directors;

- the second loan issued in August 2016, which is convertible into new ordinary shares in MEDICREA INTERNATIONAL, in an amount of €15,000,000, with a four-year maturity and at an interest rate of 6.75%, was subscribed by ATHYRIUM CAPITAL MANAGEMENT, a leading US investor in the healthcare sector, and included a non-conversion premium of 10%.

Furthermore, in 2016, the Company redeemed 37 of the 200 convertible bonds issued to an institutional investor in April 2015, i.e. an amount of €0.4 million on the initial loan of €2 million, which matures in April 2020.

Concurrent to the raising of €15 million in bonds, the Company completed a €5 million share capital increase via private equity placement, at a price of €4.86 per share, which represents a discount of 5% compared to the 3-day volume weighted average stock price prior to the transaction. This transaction was subscribed by various French and US investors, by Denys SOURNAC, MEDICREA's Chairman and Chief Executive Officer, and by Richard KIENZLE, a founding member of GLOBUS MEDICAL, who joined the Group as Director of Strategy and Commercial Development on that occasion.

Following the completion of the bond transaction in August 2016, the potential dilution resulting from the conversion of the bonds was 19.3%, including the €5 million capital increase via private placement described above. The bonds are convertible into new ordinary shares of the Company at a price per share amounting to €6.25, a 22.5% premium to the 5-day volume weighted average Company share price prior to the transaction.

NOTE 13: 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 2016 fiscal year.

NOTE 14: OTHER INFORMATION

14.1 Off-balance sheet commitments

14.1.1 Commitments given in relation to medium-term borrowings

(€)	12.31.2016	12.31.2015	12.31.2014
Pledges of business goodwill (1)	6,171,836	6,989,456	6,997,500
Financial instrument collateral	-	153,550	153,550
Joint and several guarantees (2)	500,000	500,000	300,000
Cash collateral (3)	62,500	62,500	37,500

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

A four-year bank loan of €1 million taken out in November 2014 is 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.

At December 31, 2016, the consolidated net financial debt to consolidated shareholders' equity ratio was 1 and the consolidated net financial debt to consolidated EBITDA ratio was significantly higher than 3. If the €15 million in convertible bonds resulting from the fund raising in August 2016 had been recognized under equity (based on the assumption that the bonds held by investors would be converted into new shares during the term of the bond), both ratios would have been easily complied with. In any event, the Group has secured a waiver from the banking institution concerned, without any change to initial borrowing terms and at no additional cost.

Furthermore, the contract relating to the €15,000,000 convertible bond issued in August 2016 specified that the Group 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, 2016.

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

(€)	12.31.2016	12.31.2015	12.31.2014
Assignment of trade receivables – Dailly	500,000	500,000	400,000
Miscellaneous guarantees and sureties	-	307,239	307,239
BPI counter guarantee (1)	1,703,846	2,331,178	1,415,356

(1) counter guarantees granted by BPI to MEDICREA INTERNATIONAL for the benefit of its bank partners on the arrangement of certain medium-term financing.

The total amount of overdrafts authorized but unconfirmed at December 31, 2016 was €782,600.

14.1.3 Other commitments

During the 2013 fiscal year, MEDICREA INTERNATIONAL launched, in cooperation with a US IT firm, the joint development and operation of specific software making it possible to design patient-specific spinal implants, subsequently intended to be manufactured and marketed on an exclusive basis by MEDICREA and its subsidiaries for an initial period of four years and until December 31, 2017. Contractual terms provide for the payment by MEDICREA INTERNATIONAL of royalties on products sales ordered via the software. The parties have agreed to the annual payment, by the Company, of $400,000 in advances on royalties for the entire term of the contract. As such, royalties due by MEDICREA INTERNATIONAL under the contract will be deducted, with no time limitation, from advances on royalties already received by the US partner.

In view of the estimated royalties payable over the next few fiscal years, and of the change in developments with the IT service provider, the Company took the decision to expense all of the advances already paid, which were included in other receivables on the balance sheet in 2016, i.e. a total amount of €913,741, which was recorded under exceptional income and expenses. There was therefore no longer any relevant commitment in the balance sheet at December 31, 2016.

14.2 UNiD warranty

As of November 2016 and exclusively for sales in the United States, 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™ customized 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, 2016 and, depending on the data collected in 2017, it will assess whether or not it is necessary to review its position for the next fiscal year.

14.3 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:

(€)	2016 amount invoiced, excl. VAT	2015 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	11,003
Rent and rental costs	26,764	20,436
Total	**557,659**	**546,939**

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

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

	12.31.2016			12.31.2015		
	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights
ORCHARD INTERNATIONAL (1)	1,727,490	17.22	27.24	1,727,490	19.22	29.71
Denys SOURNAC (2)	463,732	4.62	3.66	270,547	3.01	2.33
Jean Philippe CAFFIERO	246,089	2.45	3.76	246,089	2.74	4.10
Other Directors						
Pierre BUREL (2)	194,587	1.94	1.53	91,707	1.02	1.44
Patrick BERTRAND (2)	113,968	1.14	1.04	93,392	1.04	0.93
François Régis ORY (2)	108,652	1.08	0.86	108,652	1.21	0.93
Christophe BONNET	52,128	0.52	0.81	52,128	0.58	0.88
Jean Joseph MORENO	22,900	0.23	0.30	22,900	0.25	0.33
Marc RECTON	18,752	0.19	0.25	18,752	0.21	0.27
Total	**2,948,298**	**29.39%**	**39.45%**	**2,631,657**	**29.28%**	**40.92%**

(1): Shares held by the holding company, ORCHARD INTERNATIONAL. The following table provides details of ORCHARD INTERNATIONAL's shareholding structure as of December 31, 2016:

- Société civile DENYS SOURNAC COMPANY	58.37%
- Société civile PLG Invest (Jean-Philippe CAFFIERO)	36.60%
- AMELIANE SAS	4.87%
- Christelle LYONNET	0.13%
- Denys SOURNAC	0.03%

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

14.5 Statutory Auditors' fees

	EY				Odiceo			
	Amount (excl. VAT)		%		Amount (excl. VAT)		%	
(€)	2016	2015	2016	2015	2016	2015	2016	2015
AUDIT								
Audit, certification, review of individual and consolidated financial statements	44,900	41,100	88%	87%	29,300	22,200	77%	87%
Other assignments directly related to the audit assignment	6,400	6,300	12%	13%	8,950	3,200	23%	13%
SUB-TOTAL AUDIT FEES	51,300	47,400	100%	100%	38,250	25,400	100%	100%
OTHER SERVICES PROVIDED BY STATUTORY AUDITORS TO CONSOLIDATED SUBSIDIARIES								
Legal, tax and corporate	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
SUB-TOTAL OTHER SERVICES	-	-	-	-	-	-	-	-
TOTAL	51,300	47,400	100%	100%	38,250	25,400	100%	100%

14.6 Post-balance sheet events

Nil.

14.7 Five-year financial summary

See the management report.

14.8 List of subsidiaries and equity investments

The amounts below are expressed in Euros.

Entities	Total shareholders' 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					
French subsidiaries									
MEDICREA TECHNOLOGIES	3,342,349	100%	11,946,000	3,346,000	48,274 (1)	-	7,610,484	(1,249,076)	-
International subsidiaries									
MEDICREA TECHNOLOGIES UK	212,349	100%	2,465,018	665,018	310,303	-	522,451	(703,810)	-
MEDICREA USA	4,992,732	100%	7,395,058	7,395,058	6,705,788	-	17,656,364	(2,002,404)	-
MEDICREA GMBH	(891,598)	100%	100,000	100,000	1,036,420	-	68,788	(785,968)	-
MEDICREA POLAND	18,412	100%	47,119	47,119	-	-	296	(27,234)	-

(1) Including €48,274 of receivables related to equity securities

STATUTORY AUDITORS' REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS

AT DECEMBER 31, 2016

Leading personalized spine | medicrea.com

MEDICREA INTERNATIONAL
Fiscal year ended December 31, 2016

Statutory Auditors' report on the
parent company financial statements

ODICEO
115, boulevard Stalingrad
C.S. 52038
69616 Villeurbanne Cedex
French corporation *(société anonyme)*
with share capital of €275,000

Statutory Auditor
Member of Compagnie
Régionale de Lyon

ERNST & YOUNG et Autres
Tour Oxygène
10-12, boulevard Marius Vivier Merle
69393 Lyon Cedex 03
Corporation with variable capital
(S.A.S. à capital variable)

Statutory Auditor
Member of Compagnie
Régionale de Versailles

Medicrea International

Fiscal year ended December 31, 2016

Statutory Auditors' report
on the parent company financial statements

To the Shareholders,

In compliance with the assignment entrusted to us by your Shareholders' Meetings, we hereby present our report for the year ended December 31, 2016 on:

- our audit of the accompanying Medicrea International annual financial statements;
- the justification of our assessments;
- the specific verifications and information required by law.

The parent company financial statements have been prepared by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the parent company financial statements

We have conducted our audit in accordance with professional standards applicable in France; these standards require that we plan and perform the audit to obtain reasonable assurance as to whether the parent company financial statements are free from material misstatement. An audit includes examining, on a test basis or other method of selection, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, in light of French accounting principles and methods, the parent company financial statements provide a true and fair view of the financial performance for the fiscal year then ended and the financial position, assets and liabilities of the company at the end of the fiscal year.

II. Justification of assessments

Pursuant to the provisions of Article L. 823-9 of the Commercial Code relative to the justification of our assessments, we bring to your attention the following matters:

Note 4.4 to the parent company financial statements outlines the valuation, recognition and impairment rules applied to equity securities. As part of our assessment of the accounting principles adopted by your Company, we have verified the appropriateness of the above-specified accounting methods and information disclosed in the notes to the parent company financial statements and we have assured ourselves of their correct application.

These assessments were made within the framework of our audit, which focuses on the parent company financial statements as a whole, and accordingly contributed to the issuance of our opinion in the first part of this report.

III. Specific verification and information

We have also performed the specific verification required by law in accordance with professional standards applicable in France.

We have no comments to make concerning the fairness and consistency with the parent company financial statements of the information given in the Board of Directors' management report and in the documents sent to the shareholders concerning the financial position and the parent company financial statements.

In accordance with the law, we have verified that the various information relating to the identity of shareholders and holders of voting rights was disclosed in the management report.

Villeurbanne and Lyon, April 28, 2017

The Statutory Auditors

ODICEO	ERNST & YOUNG et Autres
Alain Fayen	Nicolas Sabran

BOARD OF DIRECTORS' MANAGEMENT REPORT

AT DECEMBER 31, 2016

Leading personalized spine | medicrea.com

MEDICREA INTERNATIONAL
A French corporation *(société anonyme)* with share capital of €1,605,306.72
Registered office: 5389, route de Strasbourg – 69140 RILLIEUX-LA-PAPE
393 175 807 RCS LYON

BOARD OF DIRECTORS' REPORT ON THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016 SUBMITTED TO THE COMBINED SHAREHOLDERS' MEETING OF JUNE 15, 2017

MEDICREA Group specializes in bringing pre-operative digital planning and pre- and post-operative analytical services to the world of complex spine. Through the lens of predictive medicine, it leads the design, integrated manufacture, and distribution of 30+ FDA approved implant technologies, utilized in over 100k spinal surgeries to date. The Company has an ultra-modern manufacturing facility in Lyon, France housing the development and machining of 3D-printed patient-specific implants.

The Group distributes its products in more than 25 countries via an external distribution network made up of companies and exclusive independent distribution agents. As part of an overall strategy with the aim of controlling delivery processes, reinforcing the impact of the technical and marketing messages conveyed, and capturing an ever greater share of gross margin, the Group relies on its own marketing entities for its key markets, namely the United States (with MEDICREA USA in New York), France, the United Kingdom (with MEDICREA TECHNOLOGIES UK in Cambridge), Germany (with MEDICREA GMBH in Cologne) and, since the end of 2016, Poland (with MEDICREA POLAND in Warsaw).

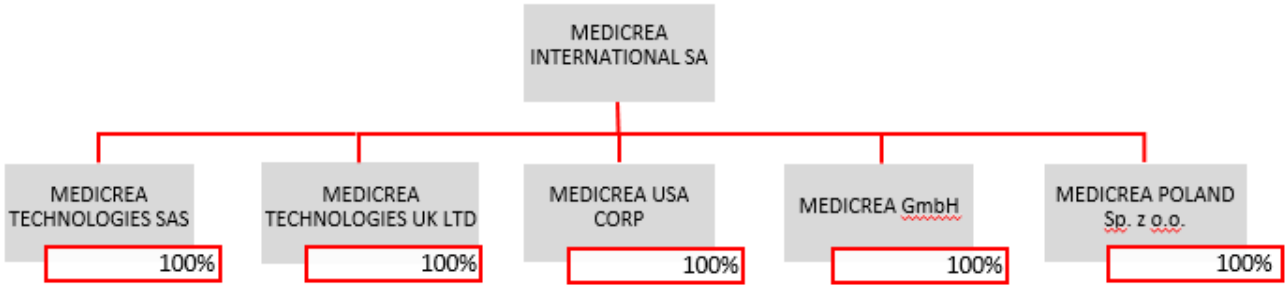
In accordance with the law and the Bylaws, this Report contains a summary of the position and activity of MEDICREA Group and of the company MEDICREA INTERNATIONAL during the fiscal year ended December 31, 2016. The annual consolidated and parent company financial statements for the fiscal year are subject to the approval of the Shareholders' Meeting.

INFORMATION ABOUT THE GROUP

1 – GROUP SCOPE

The Group distributes its products in more than 25 countries via four marketing subsidiaries and a network of independent distributors.

At December 31, 2016, MEDICREA Group was structured as follows:



The company MEDICREA POLAND, a company incorporated under Polish law, was created in November 2016 with share capital of PLN 200,000.

MEDICREA EUROPE FRANCOPHONE was wound up with no liquidation process on December 30, 2016 via a decision of the sole shareholder, and absorbed by MEDICREA INTERNATIONAL.

A table identifying the main subsidiary and investment figures is included in Appendix 1.

2 – SITUATION AND DEVELOPMENT OF ACTIVITY OVER THE FISCAL YEAR JUST ENDED

The following are the highlights of the 2016 fiscal year:

- Market and environment

A shift in the healthcare system affecting the orthopedic world is currently taking place at global level, meaning that the sector is now less focused on the implant itself and more concentrated on the outcome of the surgery, for a value-based approach to treatments in comparison with traditional treatments. This shift is particularly important for spine, with aging populations causing a significant increase in degenerative pathologies of the spinal column, often accompanied by multiple interventions. Spinal implants are therefore becoming a real public health issue and personalized medicine is therefore taking on its full meaning.

The development of patient-specific medicine is primarily related to the scientific advances made possible by modern calculation software and technologies. Personalized medicine will continue to transform the practice, firstly with the personalization of treatment and subsequently by progressing toward better prevention.

Against this backdrop, the role of manufacturers of therapeutic solutions is changing, and they are becoming genuine partners in the research of products and services that will be tailored to the personalized care of each patient.

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

- Results and performance

With 10 years of listing on the Alternext Paris Stock Exchange and the development of a unique spine company with an unparalleled breakthrough technology in patient specific implants, 2016 represented a year of large-scale transformation, marked by several key events summarized below:

- The development of new and unique digital services for pre-operative planning and for pre- and post-operative analyses;
- A significant acceleration in the adoption rate of UNiD™ patient-specific rods (up 106% compared with 2015) with more than 1,100 surgical procedures carried out at December 31, 2016 following the launch in France in September 2013 and the approval of this technology by the FDA early in 2015;
- The continued compilation of a growing clinical database, enriched daily using deep learning capabilities for the predictive modeling of the most appropriate patient-specific surgical strategies based on surgeon specific techniques;
- Fundraising of €20 million in August 2016, from predominantly US investors;
- Appointment of Rick KIENZLE, co-founder of GLOBUS MEDICAL, as Chief Strategy and Business Development Officer, who also became a Company shareholder;
- Bringing the production factory, the research and development center and all the Group's support functions together under one roof at a new ultra-modern site in Lyon spanning 8,000 m^2;
- The continued development of titanium 3D printing manufacturing processes for patient-specific interbody cages and corpectomy implants, expected to be marketed in the United States and Europe in the second and third quarters of 2017 respectively;

These developments translated into very significant intangible and tangible investments totaling €9 million in 2016, including €2 million in research costs.

Group Sales reached a total of €29.4 million in 2016, generating a 6% growth compared to the previous year.

Gross margin, structurally close to 80%, fell by 3 points to 76% due to the use of subcontracting from the second half to mitigate the shutdown in production at the La Rochelle factory and the gradual resumption of operations at the new Lyon site following receipt of the necessary certifications issued by the regulatory certification bodies after a successful certification audit in late 2016.

Structure costs increased by €3.5 million compared with the 2015 fiscal year in support of the roll-out, primarily in the United States, of the Group's innovations in customized implants with the creation of a dedicated team of engineers within the UNiD™ laboratory, and the launch of marketing initiatives aimed at raising awareness among both surgeons and patients.

Other non-recurring expenses totaling €2.4 million primarily comprise the cost of closing the La Rochelle factory and bringing operations under one roof at the new headquarters (€1.2 million), as well as a loss of €0.9 million related to the recognition in expenses of advances on fees paid regularly since 2013 as part of the development of a software platform, and which will not be able to be recovered quickly.

Cost of net financial debt rose by €0.5 million following the implementation of a €15 million convertible bond loan, for which the application of recognition rules defined under IAS 32, IAS 39 and IFRS 7 significantly increased financial expenses without any impact on cash.

Loss before tax amounted to €7.8 million, versus a loss of €1.8 million for the year ended December 31, 2015. These results reflect the transformation undertaken by MEDICREA during the 2016 fiscal year.

Available cash amounted to €8 million at December 31, 2016.

- Products

MEDICREA Group has transformed itself into 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, and providing unrivaled operating comfort for surgeons.

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. It is becoming a matter of course for surgeons, with a very high loyalty rate once they agree to entrust the Group with a few surgical cases to test its capabilities.

- Research & development

In 2016, the Group finalized the extension of its range of implants with the development of a highly innovative "tulip" type screw which allow it to serve the highly important degenerative spinal indications market, and to develop manufacturing processes for intervertebral cages and titanium 3D printed corpectomy implants.

The Group firmly believes that computer-assisted patient-specific surgery is the most appropriate solution to spinal column pathologies, a view that has been confirmed by the growing interest manifested in its solutions not only by surgeons, but also by patients. The registration files required to market the customized 3D printed implants particularly for the European and North American markets were submitted during the fiscal year and the corresponding approvals should be issued by the certifying bodies during the first half of 2017.

- Organization

In September 2016, MEDICREA Group moved into its new headquarters located on the Vancia site in Rillieux-la-Pape, on the outskirts of Lyon. With this site, MEDICREA has brought together its former Neyron (Ain) headquarters and its production unit, until then based in La Rochelle. Since the majority of MEDICREA's subcontractors, particularly in the field of mechanics, are based in the Auvergne-Rhône-Alpes region, the Company is moving closer to its strategic partners. The 8,000m² building houses offices, a research and development center and state-of-the-art production workshops dedicated to the manufacture of customized implants via 3D printing, and via titanium machining.

Richard KIENZLE, co-founder of the company GLOBUS MEDICAL, joined MEDICREA Group as Chief Commercial and Business Development Officer in the United States. He has more than 25 years' experience in sales management within companies operating on the medical device market, notably SYNTHES and US SURGICAL. His role is to coordinate MEDICREA's commercial development of services and of the personalized treatments which use UNiD™ technology.

In December 2016, MEDICREA EUROPE FRANCOPHONE was dissolved without liquidation and absorbed by MEDICREA INTERNATIONAL. This decision was taken with the aim of simplifying and rationalizing flows, and involved no change to the structure of the sales force on the French market.

In addition, a new marketing subsidiary was opened in Poland in late 2016.

- Financing

In August 2016, MEDICREA raised €20 million in financing, which consisted of €15 million in convertible bonds, held by ATHYRIUM CAPITAL MANAGEMENT, a US investor strongly regarded in the healthcare industry, and €5 million in equity through a private placement, in which Denys SOURNAC, President and CEO, and Richard KIENZLE participated.

2.1 Review of the financial statements

The financial statements of MEDICREA Group at December 31, 2016 have been prepared in accordance with the IFRS (International Financial Reporting Standards) in force within the European Union, pursuant to European Regulation n° 1606/2002 of July 19, 2002, and available at http://ec.europa.eu/internal_market/accounting/ias/index_en.htm.

The summarized financial statements are as follows:

Consolidated income statements (IFRS)

(€ K)	12.31.2016	12.31.2015
Net sales	**29,375**	**27,757**
Cost of sales	(6,941)	(5,954)
Gross margin	**22,434**	**21,803**
Research & development costs	(1,064)	(984)
Sales & marketing expenses	(16,165)	(13,218)
Sales commissions	(3,426)	(3,109)
General and administrative expenses	(6,224)	(5,956)
Other operating income and expenses	(2,377)	(85)
Operating income/(loss) before share-based payments	**(6,822)**	**(1,549)**
Share-based payments	(283)	(45)
Operating income/(loss) after share-based payments	**(7,105)**	**(1,594)**
Cost of net financial debt	(1,085)	(329)
Other financial (expenses) / income	358	100
Tax (charge) / income	263	308
Consolidated net income/(loss)	**(7,569)**	**(1,515)**

Consolidated balance sheet (IFRS)

(€ K)	12.31.2016	12.31.2015
Goodwill	2,629	2,637
Intangible assets	6,071	4,901
Property, plant and equipment	10,099	7,013
Non-current financial assets	938	687
Deferred tax assets	2,454	1,022
Total non-current assets	**22,191**	**16,260**
Inventories	8,727	7,019
Trade receivables	5,159	4,710
Other current assets	3,511	2,902
Cash and cash equivalents	8,063	2,168
Total current assets	**25,460**	**16,799**
Total assets	**47,651**	**33,059**

(€ K)	12.31.2016	12.31.2015
% share capital	1,605	1,438
Issue, merger and contribution premiums	42,448	37,636
Consolidated reserves	(22,403)	(22,321)
Group net income/(loss) for the year	(7,569)	(1,515)
Total shareholders' equity	**14,081**	**15,238**
Conditional advances	317	404
Non-current provisions	514	461
Deferred tax assets	1,408	324
Long-term financial debt	18,309	7,156
Total non-current liabilities	**20,548**	**8,345**
Current provisions	1,125	31
Short-term financial debt	3,602	3,270
Other current financial liabilities	-	11
Trade payables	6,001	4,056
Other current liabilities	2,294	2,108
Total current liabilities	**13,022**	**9,476**
Total shareholders' equity and liabilities	**47,651**	**33,059**

2.2 Comments on the consolidated income statement

Net sales for 2016 totaled €29.4 million, an increase of 6% compared with the previous year. The United States, which is the leading and priority market, generated 60% of total sales.

The five subsidiaries that distribute directly to hospitals and clinics (MEDICREA USA, MEDICREA EUROPE FRANCOPHONE, MEDICREA TECHNOLOGIES UK, MEDICREA GMBH and MEDICREA POLAND) generated 80% of consolidated sales (79% in 2015).

Gross margin, structurally close to 80%, fell by 3 points to 76% due to the use of subcontracting from the second half to mitigate the shutdown in production at the La Rochelle factory and the gradual resumption of operations at the new Lyon site.

Payroll costs stood at €14.3 million and were up €2 million in relation to the previous fiscal year. This increase was due to the recruitment undertaken in 2016, with in particular the creation of a dedicated team of engineers within the UNiD™ laboratory in both France and the United States.

The Group continued to invest heavily in research and development, with details of the major projects provided in Paragraph 5. The R&D costs recorded under expenses for the fiscal year, after recognition under assets of expenditure to be capitalized (€2.3 million) and allocation of the research tax credit (€1 million), stood at €1.1 million (€1 million in 2015), including a provision of €1.3 million to amortization in relation to the capitalized research costs.

Sales and marketing expenses, of which the payroll component represented approximately 53 % of the total, grew 22% in comparison with 2015, reaching €16.2 million, following the intensification of marketing efforts and in particular the launch of initiatives to raise awareness among both surgeons and patients.

Sales commissions, proportionate to sales, totaled €3.4 million in 2016. They primarily relate to MEDICREA USA and remunerate the commercial work of the sales agents used by the Company.

Administrative expenses mainly comprised of salaries and charges grew 4% in comparison with 2015, following the increase in staff numbers, the expenses incurred in relation to the IT infrastructure and the new real estate leases.

The larger workforce and intensified research and development and marketing investment in 2016 increased the operating breakeven point to quarterly sales of €10.4 million (compared with €7.3 million in 2015).

Other non-recurring expenses totaling €2.4 million primarily comprise the cost of closing the La Rochelle factory and bringing operations under one roof at the new headquarters (€1.2 million), as well as a loss of €0.9 million related to the recognition in expenses of advances on fees paid regularly since 2013 as part of the development of a software platform, and which will not be able to be recovered quickly.

The loss from recurring operations before share-based payments was therefore €6.8 million in 2016 (a loss of €1.5 million in 2015).

Charges to amortization and impairment provisions are recognized in respect of the large number of instrument sets and implants provided to public and private hospitals necessary for the expansion of the Group's business and therefore such equipment has a significant impact on Group earnings. Before taking these costs and provision charges into account, 2016 EBITDA was €0.3 million compared with €1.9 million in 2015.

Payroll costs related to share-based payments correspond to the cost of the stock-options and free shares allocated to Group employees.

The currency impact had no significant effect on the development of revenues and costs over the period.

Net financial debt rose by €0.5 million following the implementation of a €15 million convertible bond loan, for which the application of recognition rules defined under IFRS significantly increased financial expenses without any impact on cash. The average interest rate was 5.54% in 2016, compared with 3.93% in 2015.

Taking into account these factors and after recognition of the deferred tax charges primarily related to the capitalization of losses carried forward recorded in the balance sheet of the US subsidiary, there was a net loss of €7.6 million. The Group does not pay any corporate tax and, for its fiscally-consolidated French subsidiaries, has substantial reserves of tax losses carried forward not recognized in its financial statements.

In accordance with the presentation method selected during the transition to IFRS, the research tax credit is recognized as a deduction from research and development expenditure (€1 million in both 2016 and 2015).

2.3 Comments on the consolidated balance sheet

Total assets were €47.7 million, an increase of €14.6 million compared with the previous fiscal year.

Non-current assets, which increased by €5.9 million, represented 47% of total assets.

Intangible assets grew €1.2 million as a result of the ongoing research and development efforts and the development of a surgical planning software package.

The €3.1 million increase in property, plant and equipment is due to fittings and fixtures at the Group's new headquarters for €2.3 million as well as work to extend MEDICREA USA's offices in New York for €0.9 million.

The €1.4 million increase in deferred tax assets was directly related to consolidation adjustments and the recognition of deferred taxes on the tax losses carried forward of the US subsidiary alone.

Within current assets, net inventories increased by €1,7 million in comparison with 2015, including a €0.1 million increase in impairment provision. They represented 18% of total assets, compared with 21% in 2015. The gross value of inventories grew 26% subsequent to the forecast of the closure of the La Rochelle factory in late January 2017 and the gradual start-up of the Rillieux-la-Pape factory.

Trade receivables were relatively stable due to god control of the average collection period, which was 53 days at December 31, 2016, compared with 58 days one year earlier.

The €0.6 million increase in other current assets was due to the growth in tax receivables yet to be recovered.

The strengthening of the net cash position was primarily due to the total gross €20 million fundraising completed by the Group in August 2016.

Shareholders' equity stood at €14.1 million at the end of 2016. Its change in relation to 2015 was mainly the result of the share capital increases in 2016 as well as the comprehensive income for the fiscal year.

Provisions include relocation allowances and/or severance pay relating to employees of the La Rochelle factory.

Gross financial debt was €22 million, up €12 million compared with 2015. The increase was primarily due to the issue of €15 million in convertible bonds, to mature in 4 years and at an interest rate of 6.75%. These bonds include a non-conversion premium amounting to 10% of its face value.

The increase in deferred tax liabilities was mainly related to consolidation adjustments, notably those involving IFRS treatment of the funds raised in August 2016.

Trade payables totaled €6 million, an increase of €2 million compared with the previous fiscal year which was due to the very substantial use of sub-contractors since the end of the 1st half of 2016, in order to offset the two-stage shut-down of the La Rochelle plant (in August 2016 and in January 2017), and the gradual rise in expenses at the new site in Rillieux-la-Pape, which was the subject of mandatory regulatory classification audits, as part of the issuance of authorizations to bring products to the European market.

Other current liabilities totaled €2.3 million at the end of 2016 and mainly comprised tax and social security liabilities.

3 – DEVELOPMENT AND FUTURE PROSPECTS

During the first quarter of 2017, MEDICREA continued the Group's major transformation works initiated in 2016, which will allow it to address new market challenges. The permanent closure of the original La Rochelle site and the relocation of all manufacturing operations to the new ultra-modern facility in Rillieux-la-Pape, near Lyon, was finalized during the period.

This transfer mobilized a significant portion of the Company's resources, which were also in great demand due to the two certification audits successfully completed, one by the FDA (Food and Drug Administration) for the marketing of implants in the United States, and one by LNE/G-MED (Working Group for the Evaluation of Medical Devices) for the renewal of CE marking. Against this backdrop, Q1 sales remained stable compared to the same period of the previous year at €7 million.

Adoption of the UNiD™ patient-specific rod technology continued over Q1 2017 with a 38% increase in surgeries carried out in the United States compared to the same quarter of 2016.

MEDICREA submitted a 510(k) registration application to the US Food and Drug Administration (FDA), aimed at securing marketing authorization for its 3D printed titanium interbody cages, which are compatible with its "UNiD™ Lab" personalized surgical planning and analysis services. Relying on both its in-house additive manufacturing capabilities and the FDA approval expected by the end of 2017, the 3D titanium cage printing platform will enable the Group to offer patients and surgeons an improved and comprehensive range.

4 – INFORMATION RELATING TO SUBSIDIARIES AND INVESTMENTS

The corporate results of the subsidiaries and significant comments on activity over the 2016 fiscal year are presented below:

- MEDICREA INTERNATIONAL SA

Information about the company MEDICREA INTERNATIONAL SA is identical to that provided in Paragraph 1 of the information concerning the parent company contained in this Report.

- MEDICREA TECHNOLOGIES SAS

(€ K)	2016	2015	2014
Sales	7,610	7,806	7,923
Operating income/(loss)	(71)	330	690
Net financial income / (expense)	4	8	13
Net exceptional income/(expense)	(1,202)	31	-
Net income / (loss)	(1,249)	265	789
Workforce size (excluding trainees)	28	30	30

The change in sales between 2016 and 2015 is analyzed by customer as follows:

(€ K)	2016	2015	Change
MEDICREA INTERNATIONAL	6,792	7,026	(3)%
Repair center	788	686	+15%
Other	30	94	(68)%
Sales	**7,610**	**7,806**	**(2)%**

Excluding repair center customers who are invoiced directly, MEDICREA TECHNOLOGIES' sole customer is MEDICREA INTERNATIONAL.

Sales fell 2% compared with the previous fiscal year, since the Company's business relies very heavily on the inventory levels and the needs of MEDICREA INTERNATIONAL and its subsidiaries. To anticipate the shut-down of the La Rochelle plant in two stages, in August 2016 and in January 2017, together with the gradual start-up of the new site in Rillieux-la-Pape, which related to the need to obtain all of the mandatory regulatory classifications, the Company made significant use of sub-contractors during the 2nd half of 2016, in order to ensure continuity of service for all of its customers. This temporary situation had a negative impact on operating income, leading to a loss of €0.1 million for the 2016 fiscal year, compared with an income of €0.3 million for the previous fiscal year.

The net exceptional expense of €1.2 million includes all the expenses relating to transferring the La Rochelle operations to the new site in Rillieux-la-Pape, and the costs of closing the La Rochelle production facility.

Taking into account these elements, a net loss of €1.2 million was recorded in 2016, compared with a net income of €0.3 million for the previous fiscal year.

- MEDICREA EUROPE FRANCOPHONE SAS

(€ K)	2016	2015	2014
Sales	5,208	4,750	3,873
Operating income/(loss)	307	(389)	(395)
Net financial income / (expense)	(28)	(35)	(34)
Net exceptional income/(expense)	-	-	920
Net income / (loss)	279	(424)	491
Workforce size (excluding trainees)	12	11	12

By invoicing market, sales over the last three fiscal years progressed as follows:

(€ K)	2016	2015	2014
France	5,115	4,701	3,823
Mediterranean region	93	49	50
Sales	**5,208**	**4,750**	**3,873**

In December 2016, MEDICREA EUROPE FRANCOPHONE was dissolved without liquidation and absorbed by MEDICREA INTERNATIONAL. This decision was taken with the aim of simplifying and rationalizing flows, and involved no change to the structure of the sales force on the French market. All employees were retained by MEDICREA INTERNATIONAL.

The company continued to grow in France with a 9% rise in sales compared with the previous fiscal year. Operating income grew by €0.7 million as a result of the MEDICREA INTERNATIONAL taking back all the Company's inventory in late 2016, and without this exceptional event, a loss of approximately €0.3 million would have been recorded.

The 2016 net income amounted to €0.3 million, versus a loss of €0.4 million in 2015.

- MEDICREA USA CORP

(€ K)	2016	2015	2014
EUR/USD exchange rate	1.106	1.115	1.3348
Sales	17,656	16,342	13,996
Operating income/(loss)	(2,016)	(1,486)	657
Net financial income / (expense)	14	3	23
Net income/(loss)	(2,002)	(1,634)	443
Workforce size (excluding trainees)	42	30	33

In dollars, 2016 sales grew 7.2% in relation to the previous fiscal year. The stronger dollar had no material impact on the conversion of sales into euros.

In percentage of sales, the gross margin was stable in comparison with the 2015 fiscal year.

In dollars, operating expenses increased 13% following the strengthening of sales teams, in particular with the recruitment of a Chief Commercial & Business Development Officer and investments made to promote the patient-specific pre-contoured rods and the UNiD® operation planning platform.

Against this backdrop, the operating loss was €2 million in 2016, compared with a loss of €1.5 million for the previous fiscal year.

- MEDICREA TECHNOLOGIES UK LTD

(€ K)	2016	2015	2014
EUR/GBP exchange rate	0.8125	0.7279	0.8077
Sales	522	833	1,163
Operating income/(loss)	(784)	(333)	(78)
Net income/(loss)	(703)	(229)	(23)
Workforce size (excluding trainees)	7	6	5

The 2016 fiscal year was a year of transition for the Company, with the arrival at the end of 2015 of a new VP of Operations, the post having remained vacant for a year, and the complete renewal of the sales force during the first half of 2016. Against this backdrop, sales fell 37% in euros (30% in pounds sterling) and an operating loss of €0.7 million was recorded.

- MEDICREA GMBH

(€ K)	2016	2015
Sales	66	-
Operating income/(loss)	(782)	(206)
Net income/(loss)	(786)	(206)
Workforce size (excluding trainees)	5	2

The company, which was created in 2015, saw its sales rise only very slowly in 2016, following a complete restructuring of the company's sale force and operational management, which meant it could not cover staff costs, operating costs and the marketing expenses aimed at penetrating the German market. The operating loss was €0.8 million.

- MEDICREA POLAND

(€ K)	2016
EUR/PLN exchange rate	4.3622
Sales	0
Operating income/(loss)	(27)
Net income/(loss)	(27)
Workforce size (excluding trainees)	2

The company was formed at the very end of 2016, without any significant sales over the period, with only the charges connected with the operational launch of the structure (staff and administrative costs) having been incurred.

5 – RESEARCH AND DEVELOPMENT ACTIVITIES

The Group has made extending its range of products a key priority and for several years has dedicated a significant amount of its financial resources to research and development activities. Spending has progressed as follows:

(€ K)	2016	2015	2014	2013	2012
Capitalized R&D costs	2,281	1,886	1,069	1,017	845
Expensed R&D costs (1)	2,055	1,960	1,893	1,729	1,741
- of which amortization charge of R&D costs	(1,284)	(993)	(904)	(842)	(717)

(1): before allocation of the Research Tax Credit

In 2016, MEDICREA was granted seven FDA authorizations: OCT UNiD™ rod, PASS LP XS, LigaPASS XS, PASS Tulip screws and hooks, PASS OCT domino and connector offset. 379 new references have also been CE marked.

During the 2016 fiscal year, the work of the research and development teams more specifically focused on the following products:

- UNiD rod: Osteosynthesis rod custom contoured for a given patient according to the pre-operative planning defined by the surgeon, assisted planning service

- UNiD VBR: Custom corporectomy implant for a given patient according to the pre-operative planning defined by the surgeon, associated with an assisted planning service

- IMPIX 3D Print: interbody lumbar cage manufactured using the 3D impression process

- PASS DEGEN Tulip: top loading polyaxial screw allowing surgeons to pre-operatively set the polyaxiality to a given value in order to control the correction applied

- PASS LP XS: thoraco-lumbar fixation system specially adapted for pediatric and juvenile surgery leading to the gradual reduction in spinal deformity thanks to the use of an entire polyaxial anchoring system.

- LIGAPASS: vertebral anchoring system using flexible bands, and LIGAPASSLP for adolescent idiopathic scoliosis indications

The Group is actively working to expand its range of patient-specific implants and in 2017, will ramp up the production of intervertebral cages and corpectomy implants manufactured via titanium 3D printing. The Group firmly believes that computer-assisted patient-specific surgery is the most appropriate solution to spinal column pathologies, a view that has been confirmed by the growing interest manifested in its solutions not only by surgeons, but also by patients.

6 – CORPORATE AND ENVIRONMENTAL INFORMATION

6.1 Corporate information

At December 31, 2016, the Group's workforce comprised 169 employees, of whom one was part-time, one was on a skills training contract and two people were on fixed-term contracts. The workforce is supplemented by a small number of trainees, for whom agreements are signed throughout the year.

113 people are employed in France (parent company and subsidiaries), 42 work for the US subsidiary, 7 for the UK subsidiary, 5 for the German subsidiary and 2 for the Polish subsidiary.

The average gross salary for the 2016 fiscal year stood at €6,010 (€5,923 in 2015). Excluding the remuneration of employees of the US subsidiary, the average gross salary was €4,471 (€4,449 in 2015).

The gender breakdown by staff category is as follows:

	Male	Female	Total
Executives	53	31	84
Supervisors - Employees	51	34	85
Total	**104**	**65**	**169**

- Training

Payments made to collecting bodies for continuous in-service training amounted to approximately €62,900 in 2016 (€60,000 in 2015) for the French companies, amounts that were used in full to train Group employees and were higher than the legal training obligation.

Work placement agreements are signed with educational establishments on a regular basis with the aim of enabling students to learn a skill and familiarize themselves with life in a company. These work placements, which more specifically involve the Research and Development, Marketing and Regulated Affairs Departments, at a rate of one to two trainees per year per department, confer entitlement to incentives generally lasting for a period of four to six months. They are not a substitute for permanent positions, with specific one-off assignments being given to trainees. Skills training and/or apprenticeship contracts, of which there are generally between one and three per year, may also be agreed, for a duration of between one and two years.

- Safety

After the Group's production activities and headquarters were transferred and brought together at a single, extremely spacious and state of the art site, operating conditions have been optimized. The production workshop, logistics department and repair center for motors for surgical devices enjoy dedicated areas adapted for the different activities meaning a high level of safety can be ensured and risks related to accidents at work can be mitigated in a satisfactory manner.

A comprehensive risk management assessment has been prepared and is updated annually for all French organizations.

By virtue of its medical device design and manufacturing operations, the Group is also subject to Public Health Code regulations.

- Staff retention

Employees of the French entities have access to a Group Savings Plan, thereby entitling them to subscribe to Company shares under favorable terms, supplemented by an employer contribution of 50% on the occasion of any share capital increase. There was no share capital increase reserved for employees during the 2016 fiscal year.

In addition, in 2016 the Board of Directors made use of the delegation granted to it by the Annual General Meeting of December 18, 2015 by allocating 406,500 share subscription options to American employees. It also made use of the delegation of authority relating to the allocation of free shares by allocating 72,990 free shares to French and US employees.

Since the French companies are in a tax loss situation, mechanisms for legal employee profit-sharing do not apply.

- Subcontracting

As part of its manufacturing business, the Group relies on a network of qualified subcontractors, with no facilities to date in controlled environments such as cleanrooms. The ultra-clean processing and the sterilization using gamma irradiation of sterile products are also subcontracted. The use of subcontracting increased sharply in relation to the previous fiscal year following the transfer and two-step shut down of the La Rochelle production unit, and the need to continue to guarantee supplies to customers and to ensure their requirements were met, in the expectation that the regulatory certifications for the new Rillieux-la-Pape site would be received at the end of 2016. Purchases of components during the 2016 fiscal year totaled €3.4 million (€2.5 million in 2015).

6.2 Environmental information

Environmental risks are virtually non-existent, except for the activity managing and monitoring the rotating instrument sets within the sales subsidiaries, which expose the individuals handling medical devices to products that may be contaminated by biological pathogens and are sources of infection risks. Working procedures that limit employee exposure are in place and waste disposal channels for healthcare activities involving risk of infection and similar are respected. Safety procedures regarding the handling and disposal of these products comply with the legislative and regulatory provisions in force in the countries concerned.

The Vancia site in Rillieux-la-Pape, governed by the legal entity MEDICREA INTERNATIONAL where the manufacture of medical devices now takes place, is ISO 13485 2012 version and ISO 9001 certified, as well as CE marked. The Group has introduced a program of overseeing processes and of quality control inspections, specifically a set of operating procedures, and processes and specifications designed to ensure compliance with best practices in relation to the development and manufacture of products, and of monitoring the environmental impact.

Moreover, the legislative and regulatory provisions defined by ANSM (French National Drug Safety Authority), the European Commission, the FDA and the equivalent regulatory authorities in the other countries, provide a very strict framework for activities involving the design and manufacture of medical devices. They set the essential safety requirements and define the assessment and compliance procedures that are integrated into the quality management system. These very strict rules have implications at every level of the Group and help to strengthen the measures taken to keep the industrial assets in optimum condition for use and in compliance with the applicable standards.

7 – RISKS

7.1 Risks associated with the Company's business

The spinal surgery market is highly competitive, with the potential for innovative products to be introduced into it by its participants via extensive distribution networks.

This market is also highly concentrated, mainly in the United States, with 10 leading players who share between them approximately 80% of the global market. These major players benefit from competitive advantages such as:

- Powerful distribution networks,
- Substantial financial resources for the research and development of new products, their protection in relation to industrial property and their commercial promotion,
- Firmly established relationships with specialist surgeons and hospitals.

7.2 Regulatory environment risks

The products manufactured and distributed by the Group are subject to strict and evolving regulations. Medical devices can only be marketed in Europe if they bear the CE mark which guarantees compliance with the essential health and safety requirements defined by regulations. Marketing of the products in countries other than those in the European Union also necessarily involves specific procedures for obtaining the authorizations required, notably in the United States, a priority country for the development of the Group's operations. In this way, the US market is governed by the regulations laid down by the Food and Drug Administration (FDA). The marketing of medical devices on this market may, according to device class, be subject to 510K procedures or pre-authorization applications required by the FDA (PMA). These authorization application processes can be long and costly. FDA authorizations may also be subsequently withdrawn, and the FDA may require product recalls, prohibit sales or seize products. These draconian measures are often related to serious problems identified when the products are used (case of vigilance) or following inspections of companies.

The departments in charge of quality assurance have been continually strengthened since 2012, notably in relation to the monitoring of international standards and to regulatory requirements.

Two certification audits were successfully completed by LNE/G-MED (Group for the Assessment of Medical Devices) in October 2016 and March 2017 for the renewal of CE marking, and by the FDA (Food and Drug Administration) in February 2017 for the marketing of implants in the United States. These audits specifically confirmed the level of expertise in the various skills used within the Group, with areas for further improvement, in particular in the field of formally setting out "good practices".

7.3 Risks associated with the malfunction of industrial processes

The Group's quality assurance system includes procedures intended to detect any non-compliant products, internally or externally, in accordance with regulatory requirements. These procedures are integrated into a non-conformity management system known as CAPA (Corrective Action & Preventive Action). This system enables 1) a case of non-compliance to be identified and declared, 2) all the investigations related to analyzing the causes and risks to be recorded, 3) any non-compliance to be addressed and 4) the effectiveness of the action taken to rectify the instance of non-compliance to be measured.

In case of an issue with a medical device, non-conformities can be identified internally throughout design and manufacturing processes, as well as during inspections before a medical device is released, but also during (external or internal) audits or regulatory inspections, or even by customers.

In addition, any incidents affecting patients and/or users are stipulated in the regulatory framework of medical device vigilance, which describes how to report an incident to the competent authorities.

Every incident is analyzed using the CAPA system in order to reduce risks and prevent incidents recurring. Risk management reviews are implemented within the Company to detect and assess any problem.

All these procedures to record and analyze defective or potentially defective products therefore allow MEDICREA Group to continually improve in order to reduce product related risks wherever possible. Nevertheless, a lack of compliance with applicable standards could result in suspension or withdrawal of CE certification and other accreditation delivered by a competent health authority, thus preventing the product concerned from being sold.

7.4. Intellectual property risks

The Group's commercial success depends on its ability to acquire, maintain and protect its patents and other intellectual property rights. In the field of the manufacture and sale of medical products for spinal column surgery, patent law continues to evolve and is subject to uncertainties. When a patent is filed, other patents may already have been filed but not yet published.

Thus, the granting of a patent guarantees neither validity nor applicability, which can both be challenged by third parties.

As a result, the Group cannot guarantee:

- that pending patent applications will actually result in patents being issued,
- that patents delivered or licensed out to the Group or its partners will not be challenged by others or invalidated,
- that the extent of the protection conferred by patents is sufficient to protect it from its competitors,
- that its products are not infringing patents owned by others.

Moreover, the trend in the medical and surgical equipment industry is towards an increase in disputes and litigation in the field of industrial and intellectual property. Consequently, any action brought against the Group could result in substantial costs and have a significant impact on the development of its business.

7.5 Litigation risk

The Group believes that the provisions allocated to cover the disputes or litigation known at the year-end are sufficient to avoid its consolidated net worth being materially affected in the event of an unfavorable outcome.

7.6 Risks related to changes in raw material prices

Implant manufacture requires purchasing specific materials such as titanium, cobalt chromium and PEEK. As suppliers of these raw materials are few in number, the Group is subject to changes in market price which are difficult to predict or control, and which could have a negative impact on financial performance.

Purchases of these materials are not the subject of hedging contracts. They account for a relatively small part of the cost price of products manufactured. As such, fluctuations, both upward and downward, in the price of these raw materials would only have a limited impact on the Group's profitability.

7.7 Risks associated with changes to medical device reimbursement policies

Against a backdrop of flat economic growth in most global regions, governments and other third party payors (private health insurance cover, healthcare management organizations) are actively working to contain healthcare costs by limiting and/or reducing cover and the reimbursement rate for medical devices and surgical procedures. It is likely that new measures aimed at regulating health reimbursement systems and controlling healthcare spending (especially in France and the rest of Europe) could be integrated into governments' finance laws and legislative proposals in the coming years.

7.8 Liquidity risks

In order to best manage this risk, the Group has implemented daily monitoring of its cash, and monthly updates of cash receipts and payments over 12 rolling months. This ensures it will always have enough liquidity to honor maturing liabilities and, if difficulties are anticipated, necessary action can be taken to secure its cash flow.

In previous fiscal years, the Group has faced temporary liquidity crises that have slowed its development.

The financial resources secured following equity fundraising transactions totaling approximately €34 million at June 30, 2016 have significantly reduced this liquidity risk and have given the Group the means to implement its expansion strategy, create new subsidiaries and launch new products.

In August 2016, the Group completed fundraising worth €20 million, comprised of €15 million in convertible bonds, to mature after four years and at an interest rate of 6.75%, and a €5 million share capital increase via private placement. This financial transaction therefore sharply reduced the short-term liquidity risk, with all overdraft facilities (excluding factoring) having been fully repaid upon receipt of the funds.

7.9 Exchange rate risks

Most of the Group's supplies are denominated in Euros. Sales to US, UK and Polish subsidiaries are made in local 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, the Group's parent company, is exposed to an exchange risk on part of its foreign currency-denominated sales, which it hedges against as opportunities arise, mostly by setting up forward sales transactions.

7.10 Interest rate risks

At December 31, 2016, all loans carried a fixed rate.

7.11 Share risks

Any available cash surpluses are exclusively invested in risk-free marketable securities or open-ended mutual funds (SICAV).

7.12 Inflation risks

Group companies do not operate in States with hyper-inflationary economies.

7.13 Risk of changes in exchange rates and impact on key performance indicators

The Group generated 60% of its consolidated sales in dollars in the 2016 fiscal year, through its subsidiary MEDICREA USA. This proportion should increase over the coming fiscal years and could stand at almost two thirds of the business.

The fluctuations of the dollar against the Euro, upward and downward, are therefore likely to materially affect the Group's performance indicators, particularly in terms of sales and operating income growth.

7.14 Warranties on UNiD products

As of November 2016 and exclusively for sales in the United States, the Group 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™ customized 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 Group did not recognize any provision in its financial statements at December 31, 2016 and, depending on the data collected in 2017, it will assess whether or not it is necessary to review its position for the next fiscal year.

8 – SIGNIFICANT EVENTS BETWEEN THE YEAR-END AND THE DATE OF THE REPORT

No significant event has occurred since the year-end.

INFORMATION ON THE PARENT COMPANY

1 – SITUATION AND DEVELOPMENT OF ACTIVITY OVER THE FISCAL YEAR JUST ENDED

Details pertaining to the overall background and economic context are provided in paragraph 1 of the Board of Directors' report on the Group.

MEDICREA INTERNATIONAL's financial statements at December 31, 2016 have been prepared pursuant to French generally accepted accounting principles.

The summarized financial statements are as follows:

Income statement

(€ K)	12.31.2016	12.31.2015
Net sales	14,071	15,694
Finished products and work in progress	290	147
Own work capitalized	2,131	1,800
Operating grants	5	17
Provision reversals and transfers of charges	65	51
Other revenue	32	25
Operating revenues	**16,594**	**17,734**
Purchases consumed, subcontracting and other supplies	(3,664)	(6,240)
Other external purchases and charges	(6,486)	(4,624)
Taxes and duties	(235)	(248)
Wages and salaries	(3,489)	(3,076)
Social security costs	(1,442)	(1,247)
Amortization and depreciation charges	(2,079)	(1,592)
Provision charges	(1,525)	(193)
Other expenses	(753)	(534)
Operating expenses	**(19,673)**	**(17,754)**
Operating income/(loss)	**(3,079)**	**(20)**
Financial income	2,134	350
Financial expenses	(9,672)	(819)
Net financial income / (expense)	**(7,538)**	**(469)**
Income/(loss) before tax	**(10,617)**	**(489)**
Exceptional income	12	38
Exceptional expenses	(1,171)	(14)
Net exceptional income/(expense)	**(1,159)**	**24**
Corporate tax	970	1,080
Net income / (loss)	**(10,806)**	**615**

Balance sheet

(€ K)	12.31.2016	12.31.2015
Intangible assets	5,400	4,513
Property, plant and equipment	4,842	1,489
Non-current financial assets	12,019	20,514
Non-current assets	**22,261**	**26,516**
Inventories	5,979	4,184
Trade receivables	2,413	4,721
Other receivables	12,211	4,466
Cash and cash equivalents	7,701	884
Current assets	**28,304**	**14,255**
Total assets	**50,565**	**40,771**

(€ K)	12.31.2016	12.31.2015
Share capital	1,605	1,438
Reserves	28,026	22,598
Net income/(loss) for the year	(10,806)	615
Shareholders' equity	**18,825**	**24,651**
Conditional advances	318	404
Other equity	**318**	**404**
Long-term financial debt	19,811	5,679
Group and associates	-	3,480
Non-current liabilities	**19,811**	**9,159**
Provisions for liabilities and charges	276	15
Short-term financial debt	2,716	2,243
Group and associates	1,021	-
Trade payables	6,074	3,176
Other liabilities	1,524	1,123
Current liabilities	**11,611**	**6,557**
Total shareholders' equity and liabilities	**50,565**	**40,771**

1.1 Comments on the income statement

MEDICREA INTERNATIONAL is the parent company of MEDICREA Group. It markets its products through a network of distribution subsidiaries and via independent distributors in more than thirty countries.

MEDICREA USA, MEDICREA TECHNOLOGIES UK, MEDICREA GMBH and now MEDICREA POLAND buy directly and solely from MEDICREA INTERNATIONAL. MEDICREA EUROPE FRANCOPHONE, a subsidiary that distributed the products on the French market, was absorbed into MEDICREA INTERNATIONAL in late 2016 via the transfer of all assets and liabilities in order to simplify the business structure.

Until now, MEDICREA INTERNATIONAL had acquired the vast majority of its production purchases from its subsidiary MEDICREA TECHNOLOGIES, which owned the La Rochelle factory. The latter was gradually relocated over the course of the 2016 fiscal year to the new Vancia site at Rillieux-la-Pape, which now houses all the Group's operations in France. The La Rochelle factory was permanently closed in January 2017. MEDICREA INTERNATIONAL secured all the necessary regulatory certifications authorizing it to manufacture on its new site, thereby becoming a manufacturer of medical devices for the spinal column in its own right.

The change in sales between 2016 and 2015 is analyzed by customer as follows:

(€)	2016	2015	Change
MEDICREA USA	7,348,225	6,862,852	7%
MEDICREA EUROPE FRANCOPHONE	941,587	3,385,854	(72)%
MEDICREA GMBH	364,421	15,547	2,244%
MEDICREA TECHNOLOGIES UK	161,856	247,882	(35)%
MEDICREA TECHNOLOGIES	106,307	75,567	41%
MEDICREA POLAND	24,997	-	100%
Total intra-Group sales and rebillings	**8,947,393**	**10,587,702**	**(15)%**
Distributors	5,082,746	5,061,414	- %
Other	40,911	44,619	(8)%
Net sales	**14,071,050**	**15,693,735**	**(10)%**

Sales with the Company's marketing subsidiaries fell by almost 15% compared with the previous year, as a result of the takeover of MEDICREA EUROPE FRANCOPHONE's entire inventory at the end of 2016. Sales to other distribution subsidiaries grew 11% in parallel with the growth in sales achieved by these entities in their respective markets. These sales meet demand from customer hospitals and subsidiaries to replenish their inventories.

Sales generated with international distributors, which represents MEDICREA INTERNATIONAL's direct sales activity, remained stable in relation to 2015, with trends varying according to geographic region: an increase in South America with a recovery in Brazil triggered by an a one-off order, stability in Asia and a decline in traditional European markets which are generally experiencing increasing levels of pricing pressure.

Other operating revenues totaled €2.5 million, versus €2 million in 2015. They mainly consist of finished products and work in progress (€0.3 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 54% of sales in 2016, against 57% in 2015. To anticipate the shut-down of the La Rochelle plant, together with the gradual start-up of the new site due to the need to obtain all of the mandatory regulatory classifications, the Company recruited production staff at the new site in Rillieux-la-Pape, ahead of the closure of the original factory in La Rochelle. The additional cost caused by the temporary doubling up of certain positions contributed to the temporary decline in gross margin, as was the case with the takeover, after the issue of credit notes on sales, of the entirety of MEDICREA EUROPE FRANCOPHONE's inventory.

The 2016 payroll grew significantly in comparison with the previous fiscal year (up 14%). The increase in workforce was primarily due to the introduction of production teams within the new factory in Rillieux-la-Pape. MEDICREA TECHNOLOGIES employees who agreed to relocate will move to MEDICREA INTERNATIONAL during the first half of 2017.

Amortization and depreciation charges grew €0.5 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 4th quarter of 2016. Provision charges, up €1.3 million in relation to the previous fiscal year, primarily relate to the depreciation of implant inventory levels.

Taking into consideration the points specified above, 2016 operating loss was €3.1 million, compared with a virtually breakeven position in 2015.

The net financial expense was €7.5 million, mainly due to the €0.7 million cost of financial debt, €7.1 million of equity security impairment, and €0.4 million of positive exchange rate effects.

The closure of the La Rochelle factory which fell under the legal entity MEDICREA TECHNOLOGIES, led the Company to recognize an additional provision of €8.6 million for the impairment of shares, which explains most of the increase in net financial expense in 2016 in relation to the previous fiscal year.

The net exceptional expense of €1.1 million includes the expenses relating to transferring the Neyron and La Rochelle operations to the new site in Rillieux-la-Pape, and the write-off of advances paid to a software designer in connection with the development of a healthcare IT platform, which will not be recovered.

Ultimately, after a research tax credit of €1 million was taken into account, a net loss of €10.8 million was recorded over the 2016 fiscal year, which was impacted by the numerous exceptional and non-recurring items detailed above, against a net income of €0.6 million in 2015.

1.2 Comments on the balance sheet

Total assets were €51 million, an increase of €10 million compared with the end of 2015.

Non-current assets represented 44% of total assets, compared with 65% in 2015. The main changes concern the capitalization of research and development costs for the period totaling €2.1 million, installations and fittings at the new headquarters totaling €2.3 million as well as an €8.6 million impairment of MEDICREA TECHNOLOGIES shares as previously explained.

Inventories increased 43% in relation to the previous fiscal year as a result of several elements: the takeover of MEDICREA EUROPE FRANCOPHONE's inventory following its absorption, the temporary increase in inventory levels as part of the closure of the La Rochelle factory in order to ensure continuity of service to customers, and the start-up of MEDICREA INTERNATIONAL's production activity which necessitated the build-up of inventories of raw materials and semi-finished products.

The reduction in Group receivables was due to the absorption of the company MEDICREA EUROPE FRANCOPHONE, the transfer to the current account of virtually all of MEDICREA USA's receivables and the significant efforts undertaken by the Company to recover its non-Group receivables, resulting in an improvement in the average settlement period which fell from 66 days at December 31, 2015 to 43 days at December 31, 2016.

Other receivables increased €7.8 million under the combined effect of intra-Group current accounts which grew €4.4 million as a result of the transfer of virtually all of MEDICREA USA's trade receivables, the transfer of all the assets and liabilities of the company MEDICREA EUROPE FRANCOPHONE, and the recognition under deferred charges of €15 million in bond loan issue costs (€1.4 million).

Shareholders' equity was €19 million at the end of 2016, down €6 million compared with 2015. This fall was due to the 2016 net loss of €10.8 million, offset by the €5 million share capital increase completed in August 2016.

Financial debt increased by €14.6 million compared with 2015. €16.4 million in new borrowing was taken out in 2016 including two bond loans of €1.1 million issued in February 2016 at an interest rate of 7%, repayable at maturity upon expiry of a period of two years, and of €15 million in August 2016 at a rate of 6.75%, repayable at maturity upon expiry of a period of four years and including a non-conversion premium of 10%.

Other current liabilities (excluding financial liabilities and intra-Group current accounts) stood at €8 million and rose €3.7 million as a result of the increase in trade payables which was mainly due to investments and improvements made at the new Rillieux-la-Pape site and the gradual transfer to the Company of the management of all MEDICREA TECHNOLOGIES' production suppliers and subcontractors.

Pursuant to the provisions of Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, information on supplier payment terms is as follows:

(€ K)		2016	2015
Trade payables - not due (1)		2,429	998
Of which:	*within 30 days*	*816*	*941*
	within 30 to 60 days	*1,613*	*57*
	within more than 60 days	*-*	*-*
Trade payables - overdue (1)		3,006	1,848

(1) 54% of payables not due and 58% of payables overdue are intra-Group liabilities.

2 – DEVELOPMENT AND FUTURE PROSPECTS

Since August 2016 with the transfer to the new site at Rillieux-la-Pape of one section of the production equipment from the La Rochelle factory and the planned closure of the latter, MEDICREA INTERNATIONAL is now a manufacturer of implants in its own right. All the Group's production will be progressively handled by the Company which will market its products either direct, on the French market, or via a network of independent distributors across 30 countries, or through distribution subsidiaries held directly on strategic markets (the US, UK, Germany, and since 2016, Poland). Its development growth is directly related to that of the Group, the main trends of which are summarized in paragraph 2 of the Board of Directors' report on the Group.

3 – INFORMATION RELATING TO SUBSIDIARIES AND INVESTMENTS

Information pertaining to subsidiaries and equity investments is identical to that provided in paragraph 4 of the Board of Directors' report on the Group.

4 – RESEARCH AND DEVELOPMENT ACTIVITIES

Progress in research and development is discussed in paragraph 5 of the Board of Directors' report on the Group.

5 – STOCK MARKET PERFORMANCE

The share is covered by a market-making contract in partnership with Gilbert Dupont. The share is listed on Alternext Paris, under the ISIN code FR004178572 and the Ticker ALMED.

Key stock market data is as follows:

	2016	2015	2014
Number of shares at December 31	10,033,067	8,987,588	8,481,305
High price	7.04	9.34	10.60
Low price	4.33	6.31	7.05
Average price for the period	5.46	7.75	9.10
Share price at 12/31	5.40	6.78	8.70
Market capitalization at 12/31	€54,178,562	€60,935,847	€73,787,354
Number of transactions	6,465	8,776	20,512
Trading volume	1,937,451	1,638,981	3,609,057
Capital turnover rate	20.18%	18.2%	42.6%

6 – REPORT ON OWN SHARE TRANSACTIONS CARRIED OUT BY THE COMPANY DURING THE YEAR

Pursuant to the provisions of Article L. 225–211 sub-paragraph 2 of the French Commercial Code, and as part of the approval given by the Combined Shareholders' Meeting of June 7, 2016, the Company carried out the following transactions concerning its own shares during the fiscal year which ended on December 31, 2016:

- number of shares bought during the fiscal year:	146,787
- number of shares sold during the fiscal year:	147,183
- average price of the purchases:	€5.37
- average price of the sales:	€5.34
- trading fees:	Nil
- number of shares registered in the Company's name at December 31, 2016:	2,650
- value based on the purchase price:	€14,236
- par value of shares:	€0.16
- fraction of share capital represented:	Negligible

These transactions were conducted by the brokers Gilbert Dupont, an investment services provider, as part of the liquidity contract drawn up in accordance with the Ethics Code of the AMF.

7 – SENIOR EXECUTIVES' THRESHOLD CROSSINGS, HOLDINGS, TREASURY SHARES AND SECURITIES TRANSACTIONS

7.1 Information pertaining to the share capital and threshold crossings

Pursuant to the provisions of Article L. 233-13 of the French Commercial Code, and based on the information received pursuant to Articles L. 233-7 and L. 233-12 of said Code, we hereby disclose:

- the identity of shareholders who, at the end of the fiscal year, directly or indirectly hold more than 5%, 10%, 15%, 20%, 25%, 33.33%, 50%, 66.66%, 90% and 95% of the authorized share capital or voting rights at Shareholders' Meetings.

Furthermore, it should be noted that the statutory provisions impose an obligation to inform if an increase or decrease in the equity holding threshold of 2% of the capital or voting rights is exceeded; this information is renewed every time each additional 2% fraction of the capital or voting rights is exceeded.

	At 12.31.2016		At 12.31.2015	
	% share capital	% voting rights	% share capital	% voting rights
More than 5%	GRANDEUR PEAK ADVISORS	GRANDEUR PEAK ADVISORS	GRANDEUR PEAK ADVISORS	GRANDEUR PEAK ADVISORS
More than 15%	ORCHARD INTERNATIONAL		ORCHARD INTERNATIONAL	
More than 25%		ORCHARD INTERNATIONAL		ORCHARD INTERNATIONAL

Since January 1, 2017 and until the date of drafting of this Report, the Company has been made aware of no declaration regarding the crossing of any threshold.

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

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

	12.31.2016			12.31.2015		
	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights
ORCHARD INTERNATIONAL (1)	1,727,490	17.22	27.24	1,727,490	19.22	29.71
Denys SOURNAC (2)	463,732	4.62	3.66	270,547	3.01	2.33
Jean Philippe CAFFIERO	246,089	2.45	3.76	246,089	2.74	4.10
Other Directors						
Pierre BUREL (2)	194,587	1.94	1.53	91,707	1.02	1.44
Patrick BERTRAND (2)	113,968	1.14	1.04	93,392	1.04	0.93
François Régis ORY (2)	108,652	1.08	0.86	108,652	1.21	0.93
Christophe BONNET	52,128	0.52	0.81	52,128	0.58	0.88
Jean Joseph MORENO	22,900	0.23	0.30	22,900	0.25	0.33
Marc RECTON	18,752	0.19	0.25	18,752	0.21	0.27
Total	**2,948,298**	**29.39%**	**39.45%**	**2,631,657**	**29.28%**	**40.92%**

(1): Shares held by the holding company, ORCHARD INTERNATIONAL. The following table provides details of ORCHARD INTERNATIONAL's shareholding structure as of December 31, 2016:

- Société civile DENYS SOURNAC COMPANY	58.37%
- Société civile PLG Invest (Jean-Philippe CAFFIERO)	36.60%
- AMELIANE SAS	4.87%
- Christelle LYONNET	0.13%
- Denys SOURNAC	0.03%

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

7.3 Share capital and treasury shares

At December 31, 2016, the Company held 2,650 of its own shares as part of the share's liquidity and market-making contract on the stock market.

At December 31, 2016, share capital totaled €1,605,306.72, and comprised 10,033,167 shares as follows:
- 10,033,067 ordinary shares;
- 100 unlisted preference shares.

Pursuant to the provisions of Article L. 225-211 sub-paragraph 2 of the French Commercial Code and in accordance with the authorizations granted by the Combined Shareholders' Meeting of June 3, 2015 and the Combined Shareholders' Meeting of June 7, 2016, the Company bought back some of its own shares during the year ended December 31, 2016, as described in point 6 above.

7.4 Securities transactions by senior executives and executive equivalents during the fiscal year

In accordance with the legal and regulatory requirements, we provide a table hereafter which summarizes the transactions carried out in the Company's securities during the fiscal year 2016 by senior

executives or by persons closely connected to them, prepared on the basis of information provided to us:

- Number of securities sold: 0
- Number of securities acquired: 0
- Number of securities subscribed: 316,641
  Persons concerned: Denys SOURNAC, Pierre BUREL et Patrick Bertrand), as part of a share capital increase via private placement completed in August 2016 concerning a total of 1,028,803 shares
- Number of shares exchanged: 0

8 – EMPLOYEE SHAREHOLDING

Pursuant to the provisions of Article L. 225-102 of the French Commercial Code, the number of shares of the Company's capital held by employees at the last day of the fiscal year is reported annually, as well as the proportion of share capital represented on December 31, 2016 by shares held by company personnel and personnel of related companies within the meaning of Article L. 225-180 of the French Commercial Code under a company savings plan and a company investment trust.

At December 31, 2016, employees of the Company and related companies held 0.87% of the Company's capital, including 0.55% via the company savings plan.

8.1 Group savings plan

MEDICREA INTERNATIONAL has implemented a group savings plan (PEG) open to staff members having more than three months' employment. The fund is managed by Crédit du Nord.

There was no capital increase reserved for employees during the 2016 fiscal year, consequently the Company did not pay any employer's matching contributions.

8.2 Stock subscription or purchase options – Allocation of free shares

Pursuant to the provisions of Articles L. 225–184 and L. 225-197-4 of the French Commercial Code, a special report on stock subscription or purchase options and a special report on the allocation of free shares will be made available.

We inform you that 406,500 stock options were allocated during the fiscal year ended December 31, 2016, as well as 72,990 free shares.

Taking into account the employees who left between the 2008 and 2016 fiscal years, the exercise of options and the lapsing of the plan introduced in 2009, the free shares (including free shares allocated but whose retention period has not yet expired) and stock options allocated to employees stood at 167,273 and 569,718 respectively at December 31, 2016.

9 – AGREEMENTS REFERRED TO IN ARTICLES L. 225-38 ET SEQ. OF THE FRENCH COMMERCIAL CODE

The Statutory Auditors will read their report, which mentions the agreements duly authorized by the Board of Directors for the year ended December 31, 2016, and the agreements authorized for previous years and which continued during the fiscal year.

10 – INFORMATION ON CORPORATE OFFICERS

Pursuant to the provisions of Article L. 225-102-1 of the French Commercial Code, a list in Appendix 2 details all the remits and functions performed in each company by each corporate officer during the fiscal year, based on information provided by each interested party.

11 – RENEWAL OF DIRECTORS' TERMS OF OFFICE

No director's term of office expires at the end of the next General Meeting.

12 – CORPORATE OFFICERS' COMPENSATION AND BENEFITS OF ANY KIND, DIRECT AND INDIRECT

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 Group 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 2016 fiscal year for work carried out by Mr. SOURNAC was €300,000 exclusive of tax (unchanged from 2015).

Mr. SOURNAC did not receive any direct or indirect compensation from the Company other than that mentioned above, excluding Directors' fees of €6,000 in 2016 (unchanged from 2015).

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 2016, ORCHARD INTERNATIONAL invoiced a total of €64,000 exclusive of tax (unchanged from 2015) to MEDICREA INTERNATIONAL for the sales management duties carried out by Mr. CAFFIERO. It should be noted that since January 1, 2015, at Mr. CAFFIERO's request to reduce his activities within the Group, the amount of services invoiced by ORCHARD INTERNATIONAL has been significantly revised downward.

Mr. CAFFIERO did not receive any direct or indirect compensation other than that mentioned above, excluding Directors' fees of €6,000 in 2016 (unchanged from 2015).

13 – DETERMINATION OF DIRECTORS' FEES

We would remind you that the Shareholders' Meeting of June 7, 2016 determined the amount of directors' fees allocated to the Board of Directors at €56,000 for the year ended December 31, 2016 and for subsequent years, until decided otherwise.

We suggest allocating the amount of €72,000 to your Board of Directors as directors' fees for the year ending December 31, 2017 and for subsequent years, until decided otherwise by the Shareholders' Meeting.

14 – CORPORATE AND ENVIRONMENTAL INFORMATION

The very nature of MEDICREA INTERNATIONAL's activities is unlikely to present significant risks to the environment.

15 – PROPOSED ALLOCATION OF 2016 NET INCOME

It is requested that the financial statements be approved as presented (balance sheet, income statement and notes), showing a net loss of €10,805,933.45 for the fiscal year ended December 31, 2016, which the Board of Directors proposes at the Shareholders' Meeting to allocate it in its entirety to Retained Losses.

16 – DIVIDENDS PAID

Pursuant to the provisions of Article 243 bis of the French General Taxation Code, please note that no dividend has been paid in the last three fiscal years.

17 – FIVE-YEAR FINANCIAL SUMMARY

Pursuant to the provisions of Article R. 225-102 of the French Commercial Code, a summary of the Company's earnings over each of the last five fiscal years is included in Appendix 3.

18 – NON-DEDUCTIBLE EXPENSES REFERRED TO IN ARTICLES 39-4 AND 223 OF THE FRENCH GENERAL TAXATION CODE

Pursuant to Article 223-IV and 223-V of the French General Taxation Code, the total of expenses and costs that cannot be deducted from earnings as referred to in Article 39-4 of the General Taxation Code, as well as the tax incurred in relation to said expenses and costs, were €104,516 and €34,835 respectively for the fiscal year ended December 31, 2016 (€88,078 and €29,356 respectively in relation to the previous year).

19 – SIGNIFICANT EVENTS THAT OCCURRED BETWEEN THE YEAR-END AND THE DATE OF THE REPORT

No significant events requiring disclosure occurred since the year-end.

20 – AUTHORIZATIONS GRANTED TO THE BOARD OF DIRECTORS BY THE SHAREHOLDERS' MEETING

20.1 Renewal of the authorization granted to the Company to purchase its own shares on the stock market

It is proposed to authorize the Company to trade its own shares on the stock market, pursuant to the provisions of Article L. 225-209 of the French Commercial Code, and subject to compliance with legal and regulatory requirements applicable at the time of its implementation, for the sole purpose of, and by order of priority:

- transactions conducted by an investment services provider as part of the liquidity contract drawn up in accordance with the Ethics Code of the AMAFI;
- allocation of plans for share purchase options and/or allocation of free shares;
- cancellation of shares purchased;
- coverage of debt securities convertible into shares.

No other use of this share buyback program is considered.

The transactions conducted as part of the buyback program would be carried out pursuant to applicable regulations.

A background document would be distributed according to applicable regulations, stating:

- the maximum number of shares to be acquired: no more than 10% of share capital (including shares already held);
- the maximum purchase price per share, subject to adjustments relating to any transactions affecting the Company's capital, set at €25 (excluding acquisition costs).

The theoretical maximum amount for the implementation of this program would be €25,082,917.50, financed either by own resources or by the use of short- or medium-term external funding.

Shares could be bought back by any appropriate method, including through acquisition of blocks of securities on one or more occasions, and including while a public tender offer is in progress.

The authorization would be valid from the date of the Annual Shareholders' Meeting called to approve the financial statements at December 31, 2016 and for a period of eighteen months.

If this resolution is adopted, the Board of Directors should report annually on the use of this authorization.

A request is also made to authorize the Board of Directors, for a period of 18 months, to cancel at its sole discretion, in one or more transactions, no more than 10% of the capital calculated on the day of the cancellation decision and after deducting any shares canceled during the preceding 24 months, any shares that the Company holds or may hold as a result of repurchases made under the terms of its buyback program and to reduce the share capital proportionately pursuant to applicable regulations. The Board of Directors would therefore have the powers required to take all necessary measures.

20.2 Authorization to be granted to the Board of Directors to allocate share purchase and/or subscription options to the Group's employees or executive corporate officers

20.2.1 Reasons:

It should be noted that the Combined Shareholders' Meeting of June 7, 2016 authorized the Board of Directors to grant Company share subscription and/or purchase options for a period of twenty-six months. Although this delegation has not yet expired, we consider it appropriate to bring the expiry dates of this authorization into line with the authorization granted to the Board of Directors to allocate free shares, given that their ceilings are common, such authorization expires on February 18, 2018 and the renewal of which we are proposing, (see 20.3 below).

We believe it advisable to continue with this system in order to involve both staff and executives in the successful development of both the Company and Group.

Pursuant to the provisions of Articles L. 225-177 *et seq.* of the French Commercial Code, we suggest authorizing the Board of Directors to grant, on one or more occasions and at its sole discretion, to Company and Group employees and/or executive corporate officers, share purchase and/or subscription options for Company-issued stock within a specific period and subject to certain conditions.

20.2.2 Purpose, and terms and conditions:

Implementation

The options would include subscriptions to new shares or the purchase of existing shares. Subscription option beneficiaries could subscribe to shares that would be issued as and when options are granted, which would result in capital increases.

Under this authorization and under previous authorizations:

- The total number of subscriptions granted and not yet exercised may not confer the right to subscribe to a quantity of shares exceeding one third of the share capital;
- The total number of these purchase options may not exceed 10% of the total number of shares issued by the Company, the latter not being authorized to hold more than 10% of its own shares.

In any event, the cumulative total number of shares resulting from both (i) the exercise of purchase and/or subscription options that would be granted in respect of this authorization, and (ii) the allocation of free shares hereafter, may not exceed an overall number equal to 5% of the total number of shares comprising Company stock at the date of allocation.

Beneficiaries

The beneficiaries of these options may be all or some of the employees or executive corporate officers of the Company and the Group's companies (within the meaning of Article L 225-180 of the French Commercial Code), subject to legal and regulatory provisions applicable at the time of its implementation.

Pursuant to the law, beneficiaries holding more than 10% of the share capital may not be granted options.

We suggest you grant full powers to the Board of Directors in order to determine the beneficiaries of these options.

Price

Pursuant to Article L. 225-177 of the French Commercial Code, the purchase and/or subscription share price would be determined on the day on which the option is granted by the Board of Directors, in accordance with the objective methods applicable to the valuation of shares which takes account, applying a specific weighting, of the Company's net asset position, profitability and business prospects, on a consolidated basis, in the manner determined by the Combined Shareholders' Meeting based on the Statutory Auditors' report.

We therefore suggest determining the method of price calculation as follows: equal to the weighted average of the last 20 trading days prior to the day the option would be granted.

Period of validity

The authorization for the Board of Directors to grant options would be given for 26 months as of the Shareholders' Meeting.

In the absence of specific plan stipulations, the options allocated would be exercisable for a maximum period of 7 years.

The authorization granted by the Shareholders' Meeting would outweigh, in favor of the beneficiaries of the subscription options, any explicit waiver by shareholders of their preferential subscription rights to shares that would be issued as and when the subscription options are exercised.

Capital increase resulting from exercise of share subscription

The capital increase arising from the exercise of share subscription options would be definitively carried out due to the sole fact of the option exercise declaration, accompanied by the subscription form and payment in cash or by offsetting against receivables of an equivalent amount.

The amount of the share capital increase resulting from the exercise of options would not count towards the Overall Ceiling set in the 12th Resolution at the Shareholders' Meeting of May 11, 2017.

At the first meeting following each fiscal year-end, the Board of Directors would record, if applicable, the number and amount of shares issued during the year, would make the necessary amendments to the Bylaws, and carry out the publication formalities.

Pursuant to the provisions of Article L. 225-184 of the French Commercial Code, each year the Board of Directors would inform shareholders in a special report at the Ordinary Shareholders' Meeting of transactions carried out under this authorization.

Other conditions

Shares acquired or subscribed to in conjunction with the preceding provisions should be registered and would bear rights immediately. For an equivalent par value, they would be entitled to the same dividend as what could be distributed to other shares bearing the same rights.

The Shareholders' Meeting would give full authority to the Board of Directors, who may further delegate such authority to the Chief Executive Officer, to set the other terms under which the options would be granted, such as the beneficiaries, the maximum number of options exercisable by the beneficiary, the exact purchase and/or subscription option price, the opening date and terms of exercise of the options and, more broadly, to establish the rules of the option plan with all restrictions, particularly the exercise and/or retention of shares, and specific conditions pertaining to these options that it would deem appropriate, and generally do whatever is required to implement said authorization and its consequences.

20.3 Authorization to be granted to the Board of Directors to allocate free shares to Group employees and executive corporate officers

It should be noted that the Combined Shareholders' Meeting of December 18, 2015 authorized the Board of Directors to grant free Company shares to Group employees and executive corporate officers for a period of twenty-six months.

This authorization will cease to be valid on February 18, 2018.

We believe it advisable to continue with this system in order to involve both staff and executives in the successful development of both the Company and Group.

Pursuant to the provisions of Articles L. 225-177 *et seq.* of the French Commercial Code, we suggest that you:

– Authorize the Board of Directors, for a period of 26 months from this Shareholders' Meeting, to allocate, in one or more instalments and at its sole discretion, either existing free shares in the Company resulting from the purchase made by it or free shares to be issued via a share capital increase, in favor of employed members of staff or corporate officers that it selects from the employees and executive corporate officers of the Company and of French or international companies related to it within the meaning of Article L. 225-197-2 I of the French Commercial Code subject to the legal and regulatory provisions in force at the time of its implementation;

– Decide that the cumulative total number of shares issuing (i) both from the free allocation of shares resulting from this authorization, be they existing shares or shares to be issued, and (ii) from the exercise of the purchase and/or subscription options provided for above, may not exceed an overall number equal to 5% of the total number of shares comprising the share capital of the Company at the date of allocation;

– Decide that the allocation of shares to their beneficiaries will be definitive at the end of a minimum vesting period of one year;

– Decide that the duration of the vesting period will end early, in the event of the incapacity of the beneficiary falling into the second or third categories provided for in Article L. 341-4 of the French Social Security Code;

– Decide that at the end of the above-mentioned vesting period, the beneficiaries, having definitively become the owners of the shares allocated to them free of charge by the Board of Directors, may only transfer said shares at the end of a retention period whose duration will be determined by the Board of Directors, but which may under no circumstances be less than one year;

– Decide that, for beneficiaries not resident in France for tax purposes, the Board of Directors may annul the above-mentioned retention period provided that the vesting period lasts a minimum of two years;

– Decide that the shares acquired, under this authorization, shall be in registered form;

– Note that, regarding the shares to be issued, (i) this authorization will entail, at the end of the vesting period, a share capital increase by capitalization of reserves, profits or issue premiums in favor of the recipients of said shares and the corresponding waiver by the Shareholders in favor of the beneficiaries of the allocations to the portion of reserves, profits and premiums thus capitalized, (ii) this authorization would automatically entail, in favor of the beneficiaries of said shares, waiver by the shareholders of their preferential subscription right;

– The amount of the share capital increase would not count towards the Overall Ceiling I set in the 12th resolution of the Shareholders' Meeting of May 11, 2017.

The Shareholders' Meeting would, for a period of 26 months, delegate full authority to the Board of Directors, who may further delegate to the Chairman and CEO, acting subject to the above conditions, in particular to:

– Implement this authorization;

– Set the terms and conditions and where necessary the criteria for the allocation of the shares;

– Decide on the number of shares to be allocated free of charge;

– Determine the identity of the beneficiaries, the number of shares allocated free of charge to each of them and the procedures for the allocation of shares;

– Agree on any clauses prohibiting the immediate resale of some or all of the shares in the event of allocation to corporate officers;

– In the case of the allocation of shares to be issued, set the amount and nature of the reserves, profits and premiums to be capitalized;

– Record the share capital increase or increases carried out pursuant to this authorization, and amend the Bylaws accordingly;

– And more generally do whatever is necessary.

20.4 Delegation of authority to be granted to the Board of Directors to proceed with a share capital increase reserved for employees of the Company and companies within its Group

We inform you that pursuant to the provisions of Article L. 225-129-6 of the French Commercial Code, the Shareholders' Meeting must rule on a draft resolution to conduct a capital increase under the conditions provided for in Articles L. 3332-18 *et seq.* of the French Labor Code:

– When making any decision to increase the capital by way of cash contributions, subject to statutory exceptions;

– During the third calendar year following the previous Shareholders' Meeting having approved a capital increase project reserved for employees if employees hold less than 3% of the Company's share capital.

This capital increase would meet the specific attributes set out in Articles L. 225-138-1 of the French Commercial Code and Articles L. 3332-18 *et seq.* of the French Labor Code.

Consequently, we ask you to delegate to the Board of Directors the authority to proceed, at its sole discretion, with this capital increase within the limit of a maximum aggregate amount of €40,000 of

nominal value; this amount would be deducted from the Overall Ceiling I which was set in the 12th resolution of the Shareholders' Meeting of May 11, 2017.

The beneficiaries of this increase would be all employees of the Company and its Group's companies as defined in Article L. 225-180 of the French Commercial Code via an employees' mutual fund (FCPE) as part of the Company Savings Plan.

Shareholders would have to waive their preferential subscription rights in favor of members of a company savings plan via an employees' mutual fund (or any other members' plan for which the articles L. 3332-18 *et seq.* of the French Labor Code would allow the reservation of a capital increase on equivalent terms) belonging to the Company and Group companies as defined under Article L. 225-180 of the French Commercial Code.

The price would be determined pursuant to law, in particular according to objective share price valuation methods. The subscription price may neither exceed the purchase price thus determined, nor be less than 20% thereof (30% if the period of unavailability under the plan pursuant to Articles L. 3332-25 and L. 3332-26 of the French Labor Code is at least 10 years);

The final amount of the capital increase, within the price limit indicated above, would only be set for the amount of the shares effectively subscribed to by employees upon expiry of the subscription period prescribed by the Board of Directors.

Shares should be fully paid up on the day of subscription and would be unavailable for five (5) years after the final completion date of the capital increase, except in cases exhaustively listed by law.

The delegation hereby given to the Board of Directors to determine a capital increase reserved for employees pursuant to the provisions of Article L. 3332-18 *et seq.* of the aforementioned French Labor Code would be valid for 26 months from the date of this Shareholders' Meeting.

It is proposed to grant full authority to the Board of Directors, who may further delegate such authority to the Chairman and Chief Executive Officer, in order to implement the aforementioned delegation, in particular to determine the attributes of the transferable securities issued and, more broadly, to take all measures and accomplish all formalities required for the successful completion of each capital increase, to record the completion thereof, and to amend the Bylaws accordingly.

21 – STATUTORY AUDITORS' REPORT

The Statutory Auditors have prepared the following reports, made available to shareholders for review:

– Report on the parent company financial statements
– Report on the consolidated financial statements
– Special report on the agreements mentioned by Articles L. 225-38 *et seq.* of the French Commercial Code;

- Special report on the cancellation of securities acquired under the Company's program to buy back its own shares;
- Special report on the allocation of stock purchase or subscription options;
- Special report on the allocation of free shares to employees and/or executive corporate officers of the Company and the Group;
- Special report on the cancellation of shareholders' preferential subscription rights in favor of employees of the Company and its Group's companies according to Article L-225-180 of the French Commercial Code

22 – BOARD OF DIRECTORS' REPORTS ON CAPITAL INCREASE DELEGATIONS

Pursuant to the provisions of Article L. 225-100 of the French Commercial Code, in Appendix 4 to this report information is listed pertaining to:

- currently valid delegations of authority and powers relating to capital increases, granted by the Shareholders' Meeting to the Board of Directors;
- any use made during the fiscal year of the above-mentioned delegations.

Once the Statutory Auditors' reports have been read, the Board of Directors invites you to adopt the resolutions submitted to the Shareholders' Meeting's vote.

APPENDIX 1

LIST OF SUBSIDIARIES AND EQUITY INVESTMENTS

Entities	Total shareholders' 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					
French subsidiaries									
MEDICREA TECHNOLOGIES	3,342,349	100%	11,946,000	3,346,000	48,274 (1)	-	7,610,484	(1,249,076)	-
International subsidiaries									
MEDICREA TECHNOLOGIES UK	212,349	100%	2,465,018	665,018	310,303	-	522,451	(703,810)	-
MEDICREA USA	4,992,732	100%	7,395,058	7,395,058	6,705,788	-	17,656,364	(2,002,404)	-
MEDICREA GMBH	(891,598)	100%	100,000	100,000	1,036,420	-	68,788	(785,968)	-
MEDICREA POLAND	18,412	100%	47,119	47,119	-	-	296	(27,234)	-

(2) Including €48,274 of receivables related to equity securities

APPENDIX 2

LIST OF ALL APPOINTMENTS AND DUTIES CARRIED OUT BY EACH CORPORATE OFFICER DURING THE FISCAL YEAR ENDED 12.31.2016

Denys SOURNAC:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Chairman and CEO	Nil
MEDICREA TECHNOLOGIES	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Chairman	Nil
DENYS SOURNAC COMPANY	345, montée de Bellevue – 01600 Reyrieux	Manager	Nil
LES CHALETS Z	345, montée de Bellevue – 01600 Reyrieux	Co-Manager	Nil
ID SOURNAC	345, montée de Bellevue – 01600 Reyrieux	Co-Manager	Nil
BDB GESTION MARINE	345, montée de Bellevue – 01600 Reyrieux	Co-Manager	Nil
SUM LAB	345, montée de Bellevue – 01600 Reyrieux	Co-Manager	Nil
IDS GESTION	6, rue Adolphe – L 1116 Luxembourg	Category A Co-Manager	Nil
IDS KAP	209 A, avenue Louise – B 1050 Bruxelles	Category A Co-Manager	Nil

Jean-Philippe CAFFIERO:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director and Deputy CEO	Nil
PLG INVEST	12, rue de la Garenne – 69005 Lyon	Manager	Nil

Christophe BONNET:

Company name	Headquarters	Terms of office	Duties
SAS BORNE	12, rue Gardénat Lapostol – 92150 Suresnes	Chairman	Nil
SCI LES ESTABLES	12, rue Gardénat Lapostol – 92150 Suresnes	Manager	Nil
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director	Nil

Patrick BERTRAND:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director	Nil
SARL EURO-PJB	119, boulevard Stalingrad – 69100 Villeurbanne	Manager	Nil
SCI PJB MONTCHALIN	Montchalin – 38510 Courtenay	Manager	Nil
SCI LA TOUR ST JEAN	Montchalin – 38510 Courtenay	Manager	Nil
MARTINET SA	24, rue du Limousin – 38070 Saint Quentin Fallavier	Director	Nil

Jean-Joseph MORENO:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director	Nil
SCI MC		Manager	Nil
SCI SAGITTAIRE	298, cote de Chanvre – 69360 Solaize	Manager	Nil
SCI MORAY	3, chemin des Verzières – 69110 Saint Foy Les Lyon	Manager	Nil
SAS MORE INVESTMENTS	298, cote de Chanvre – 69360 Solaize	Chairman	Nil
SAS MORE LOCK	298, cote de Chanvre – 69360 Solaize	Chairman	Nil

Marc RECTON:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director	Nil
MARC RECTON & ASSOCIES	72, rue du Faubourg Saint Honoré – 75008 Paris	Manager	Nil
SC MR PIERRE 2	72, rue du Faubourg Saint Honoré – 75008 Paris	Manager	Nil
SC MR PARTICIPATIONS 2	72, rue du Faubourg Saint Honoré – 75008 Paris	Manager	Nil
SAS ALAMA LUXURY Paris	72, rue du Faubourg Saint Honoré – 75008 Paris	Chairman	Nil
SAS FINANCIERE GERARD FAIVRE	72, rue du Faubourg Saint Honoré – 75008 Paris	Chairman of the Management Committee	Nil

François Régis ORY:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director	Nil
L'AMELIANE	14, chemin de la Pomme – 69160 Tassin	Chairman	Nil
LA FLORENTIANE	14, chemin de la Pomme – 69160 Tassin	Chairman	Nil
LYPOLIANE	14, chemin de la Pomme – 69160 Tassin	Chairman	Nil
SCI DE CHANAS	14, chemin de la Pomme – 69160 Tassin	Manager	Nil
OLYMPIQUE LYONNAIS GROUPE	350, avenue Jean Jaurès – 69007 Lyon	Director	Nil
SCI L'AMAURY	600, chemin de la Ronze – 69480 Morance	Manager	Nil
SCI L'AMELAÏS	600, chemin de la Ronze – 69480 Morance	Manager	Nil
SOCIETE CIVILE FLORINE	14, chemin de la Pomme – 69160 Tassin	Manager	Nil
SWORD GROUP SE	9, rue Charles de Gaulle – 69370 Saint Didier	Director	Nil
ABM MEDICAL	2, rue Gabriel Bourdarias – 69200 Vénissieux	Manager	Nil
ABM ILE DE FRANCE	2, rue Gabriel Bourdarias – 69200 Vénissieux	Manager	Nil
ABM NORD	2, rue Gabriel Bourdarias – 69200 Vénissieux	Manager	Nil
ABM RHONE-ALPES	2, rue Gabriel Bourdarias – 69200 Vénissieux	Manager	Nil
ABM SUD	2, rue Gabriel Bourdarias – 69200 Vénissieux	Manager	Nil

Pierre BUREL:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director	Nil
SUD PARTICIPATION BUREL HOLDING	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
SOGET	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
RUMEX	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
PETER'S	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
SOCIETE HOTELIERE LA RESIDENCE	Saint Jean – 97,133 Saint Barthélémy	Manager	Nil
ASPHODELE	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
HYSOPE	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
CHAMAN	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
LES NOISETIERS	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
SYCOMORE	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
SAINT JEAN D'EST	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
EGLANTINES	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
COBAE	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
BERGENIA	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
LE ROYANNAIS	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
XIMENIA	65A Route de Saint Maximin – 83149 Bras	Manager	Nil
ULMUS	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
WISTARIA	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
DAPHNEE	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
FLORYAL	Saint Jean – 97133 Saint Barthélémy	Manager	Nil
VITIS	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
HOTELLERIE DU SOLEIL	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
HOTEL BON REPOS	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
DOMAINE D AGOULT	La Grande Bastide – 83470 Ollières	Manager	Nil
SPB GESTION	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
LE MAS DE LA MAROTTE	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
THEAS	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
LES DOMAINES DE PROVENCE	Route de Rians - 83470 Ollières	Manager	Nil
ABBAYE SAINT HILAIRE	Route de Rians - 83470 Ollières	Manager	Nil

APPENDIX 3

FIVE-YEAR FINANCIAL SUMMARY

(€)	2016	2015	2014	2013	2012
Share capital at year-end					
Share capital	1,605,307	1,438,030	1,357,025	1,355,121	1,353,281
Number of shares outstanding	10,033,167	8,987,688	8,481,405	8,467,505	8,458,005
Transactions and net income for the year					
Net sales	14,071,050	15,693,735	14,335,814	10,630,773	10,124,736
Income/(loss) before tax, depreciation, amortization and provisions	43,546	1,637,488	(127,773)	298,936	(668,623)
Corporate tax	970,054	1,080,418	451,516	275,905	382,781
Employee profit sharing	-	-	-	-	-
Income after tax, depreciation, amortization and provisions	(10,805,933)	614,916	241,888	(929,753)	(2,661,208)
Dividends	-	-	-	-	-
Earnings per share					
EPS after tax, before depreciation, amortization and provisions	(0.01)	0.18	0.04	0.07	(0.31)
EPS after tax, depreciation, amortization and provisions	(1.08)	0.07	0.03	(0.11)	(0.03)
Dividend per share	-	-	-	-	-
Workforce					
Average workforce size during the year	65	51	40	36	38
Total payroll for the year	3,489,325	3,076,459	2,329,736	1,810,750	1,808,422
Social security contributions for the year	1,441,946	1,247,209	970,525	801,705	783,390

APPENDIX 4

DELEGATIONS OF AUTHORITY AND POWERS GRANTED TO THE BOARD OF DIRECTORS BY THE SHAREHOLDERS' MEETING

In order to comply with the provisions of Article L. 225-100 of the French Commercial Code, we hereby inform you as follows:

- currently valid delegations of authority and powers relating to capital increases, granted by the Shareholders' Meeting to the Board of Directors:

  The Extraordinary Shareholders' Meeting of June 3, 2015:

  - authorized, for 26 months, the Company to increase its share capital up to a maximum of €400,000 (and €10 million for issuances whose primary security is a debt security such as a bond) by issuance of all marketable securities, without waiver of preferential subscription rights, with delegation to the Board of Directors to decide on said capital increases;

  - authorized, for 26 months, the Company to increase its share capital up to a maximum nominal amount of €400,000 (and €10,000,000 for issuances whose primary security is a debt security such as a bond) by issuance of all marketable securities, with waiver of preferential subscription rights, with delegation to the Board of Directors to decide on said capital increases;

  - authorized, for 26 months, the Board of Directors to increase the share capital up to a maximum of 20% of the share capital by issuance of all marketable securities with waiver of preferential subscription rights in favor of qualified investors or a limited number of investors by offering referred to in Section II of Article L. 411-2 of the French Monetary and Financial Code;

  - authorized, for 26 months, the Board of Directors to increase the number of securities to be issued under a capital increase as described above, in the event of over-subscription, all within the conditions of Article L. 225-135-1 of the French Commercial Code.

  The Extraordinary Shareholders' Meeting of December 18, 2015:

  - decided to increase the overall limits of capital increase ceilings to take them from €400,000 to €600,000 with regard to capital increases liable to be made immediately and/or in the future, and from €10,000,000 to €15,000,000 in par value with regard to debt securities giving access to capital by any means, whether immediate or in the future;

- authorized, for 18 months, that the Board of Directors increase the Company's share capital from €600,000 in par value (€15,000,000 for the issuance of securities whose primary security is a debt security) by issuance of ordinary shares and/or securities giving access to Company capital or entitlement to the allocation of debt securities with waiver of preferential subscription rights pursuant to Article 225-138 of the French Commercial Code; with waiver of preferential subscription rights in favor of the following categories of people: International investment funds and/or companies (i.e.: that conduct financial transactions in several countries), mostly American (i.e. United States of America), active in the field of health and/or medical devices, and which will each participate in the transaction for an amount of no less than €500,000 or the equivalent of this amount in foreign currency (in accordance with Article 211-2.3° of the General Regulations of the French financial markets authority).

- authorized, for 26 months, that allocations be carried out, either of existing Company shares originating from purchases made by it, or of free shares to be issued through a capital increase, in favor of employees or executive corporate officers of the Company or of French or foreign companies related to it pursuant to the conditions referred to in Paragraph 1 of Article L. 225-197-2 I of the French Commercial Code.

The Extraordinary Shareholders' Meeting of June 7, 2016:

- authorized, for 26 months, the Board of Directors to grant Company share purchase and/or subscription options in favor of all or some of the employees and/or executive corporate officers of the Company and French or foreign companies related to it, pursuant to the conditions referred to in Article L. 225-180 of the French Commercial Code;

- authorized, for a period of 26 months, the Board of Directors to carry out, at its sole discretion, a share capital increase reserved for all employees of the Company and companies in its Group.

– concerning the use made during the fiscal year of the above-mentioned delegations.

Regarding the delegations granted by the Combined Shareholders' Meeting of June 3, 2015:

The Board of Directors of July 25, 2016, making use of the delegation granted to it by the Combined Shareholders' Meeting of June 3, 2015 in its twelfth resolution, decided to increase the capital with waiver of preferential subscription rights in favor of a limited number of investors and as part of an offering referred to in Article L.411-2 Paragraph II of the Monetary and Financial Code. By delegation of authorization from the Board of Directors, the Chairman, by decision of August 12, 2016, recorded the capital increase by issuance of 1,028,803 new shares with a par value of €0.16 each and thus an increase of €164,608.48.

It is specified that on June 3, 2015 the Board of Directors made use of this delegation and decided to increase the share capital with waiver of the preferential subscription right in favor of a limited circle of investors. By sub-delegation from the Board of Directors, the Chairman, by decision of June 29, 2015, recorded the capital increase by issuance of 485,438 new shares with a par value of €0.16 each and thus an increase of €77,670.08.

Regarding the delegations granted by the Combined Shareholders' Meeting of December 18, 2015:

The Board of Directors of July 25, 2016, making use of the delegation granted to it by the Combined Shareholders' Meeting of December 18, 2015 in its second resolution, decided in principle to issue bonds with waiver of preferential subscription rights in favor of a category of individuals. Upon sub-delegation by the Board of Directors, the Chairman took note, by decision of August 12 2016, of the issue of 2,400,000 convertible bonds under the conditions set in the Terms and Conditions and Securities Purchase Agreement in their final version dated August 9, 2016.

DRAFT RESOLUTIONS PROPOSED TO THE SHAREHOLDERS' MEETING

OF JUNE 15, 2017

MEDICREA INTERNATIONAL

A French corporation *(société anonyme)* with share capital of €1,605,306.72
Registered office: 5389 Route de Strasbourg – Vancia (69140) RILLIEUX LA PAPE

393 175 807 RCS LYON

DRAFT RESOLUTIONS TO THE COMBINED SHAREHOLDERS' MEETING OF JUNE 15, 2017

Ordinary resolutions

FIRST RESOLUTION

Approval of the parent company financial statements

The Shareholders' Meeting, after submission of the Board of Directors' report and after reading the Statutory Auditors' report on the parent company financial statements for the year ended December 31, 2016, approves the parent company financial statements as they were submitted, as well as the transactions recorded in these statements or summarized in these reports.

The Shareholders' Meeting also approves the total amount of non-deductible expenses and costs from profits liable to corporate tax totaling €104,516, as well as the tax payable due to said expenses and costs amounting to €34,835.

Consequently, it discharges the Directors from any liability in the performance of their duties for the fiscal year.

SECOND RESOLUTION

Allocation of net income

The Shareholders' Meeting, based on the proposal by the Board of Directors, resolves to carry forward to "Retained earnings" the entire net loss for the fiscal year, totaling €10,805,933.45.

Pursuant to the provisions of Article 243 bis of the French General Taxation Code, please note that no dividend has been paid in the last three fiscal years.

THIRD RESOLUTION

Regulated agreements

The Shareholders' Meeting, after hearing the special report of the Statutory Auditors on the agreements falling under Articles L. 225-38 *et seq.* of the French Commercial Code, approves the new regulated agreements entered into during the fiscal year, and acknowledges the continuation of agreements authorized in previous years and mentioned in said report.

FOURTH RESOLUTION

Approval of the consolidated financial statements

The Shareholders' Meeting, after submission of the Board of Directors' report including the Group's management report and after reading the Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2016, approves the consolidated financial statements as they were submitted as well as the transactions recorded in these statements or summarized in these reports.

FIFTH RESOLUTION

Change in Directors' fees

The Shareholders' Meeting determines at €72,000 the amount of directors' fees allocated to the Board of Directors for the year ending December 31, 2017 and for subsequent fiscal years, until decided otherwise by the Shareholders' Meeting.

SIXTH RESOLUTION

Authorization granted to the Company to purchase and hold its own shares

The Shareholders' Meeting, upon proposal by the Board of Directors, decides, in accordance with Article L. 225-209 of the French Commercial Code, and subject to compliance with statutory and regulatory provisions applicable at the time of intervention, to authorize the Company to purchase and hold its own shares, up to no more than 10% of the share capital, for the sole purpose of, and by order of priority:

- transactions conducted by an investment services provider as part of the liquidity contract drawn up in accordance with the Ethics Code of the AMAFI,
- allocation of plans for share purchase options and/or allocation of free shares;
- cancellation of shares purchased;
- coverage of debt securities convertible into shares.

The transactions conducted as part of the buyback program will be carried out pursuant to applicable regulations.

Share purchases made under this authorization will be implemented within the following price limit, subject to adjustments relating to any transactions affecting the Company's capital: the maximum purchase price cannot exceed €25 (excluding acquisition costs) per share with a par value of €0.16.

The theoretical maximum amount for the implementation of this program is €25,082,917.50, financed either by own resources or by the use of short- or medium-term external funding.

Shares can be bought back by any appropriate method, including through acquisition of blocks of securities on one or more occasions, and including while a public tender offer is in progress within the limits authorized by stock market regulations.

In the event of capital transactions, in particular by incorporation of reserves and free allocations, division or consolidation of securities, the above prices will be adjusted accordingly.

To this end, full authority are granted to the Board of Directors who may further delegate to the Chairman and CEO the authority to place all stock market orders, enter into all agreements, in particular with a view to keeping records of share purchases and sales, make all declarations to the AMF and any other organizations; carry out all other formalities and, more generally, do all that is necessary.

This authorization is granted until the date of the next Shareholders' Meeting called to approve the financial statements, within the statutory limit of eighteen months as of this day.

Every year the Board of Directors shall inform the Ordinary General Meeting of transactions carried out pursuant to this authorization.

SEVENTH RESOLUTION

Powers to carry out formalities

The Shareholders' Meeting grants full authority to the bearer of originals, copies or extracts of these minutes in order to accomplish all necessary filing and other formalities.

Extraordinary resolutions

EIGHTH RESOLUTION

Authorization to be granted to the Board of Directors to cancel the shares held by the Company as part of the share buyback program

The Shareholders' Meeting, after reviewing the Board of Directors' report and after reading the Statutory Auditors' special report and subject to approval of the 6th resolution submitted to this Shareholders' Meeting, authorizes the Board of Directors, who may further delegate to the Chairman and CEO, to:

– cancel the shares held by the Company or acquired by it as part of the share buyback program, within the limit of 10% of the share capital per twenty-four-month period;
– make a corresponding reduction in the share capital by the amount of the canceled shares;
– amend the bylaws accordingly, and more generally do whatever is necessary.

This authorization is hereby granted for eighteen months as of the date of this Meeting.

NINTH RESOLUTION

Authorization to be granted to the Board of Directors to proceed with the allocation of share purchase or subscription options

The Shareholders' Meeting, after reviewing the Board of Directors' report, and after reading the Statutory Auditors' special report, authorizes the Board of Directors, pursuant to the provisions of Articles L. 225-177 *et seq.* of the French Commercial Code, to grant, on one or more occasions and at its sole discretion, Company share purchase and/or subscription options in favor of all or some employees and/or executive corporate officers of the Company and French or foreign companies related to it under the conditions referred to in Article L. 225-180 of the French Commercial Code, in the following conditions:

1° - Period during which the Meeting's authorization must be used by the Board:

This authorization, which may hereby be used by the Board of Directors on one or more occasions, is given by the Shareholders' Meeting for a period of 26 months as of this date.

2° - Period during which the options must be exercised by the beneficiaries:

As the maximum period during which the options may be exercised is freely set by the Meeting, pursuant to the provisions of Article L. 225-183, sub-paragraph 1 of the French Commercial Code, the Shareholders' Meeting decides that the options may be exercised during a period not exceeding 7 years, which shall start from the date the options were allocated, subject to restrictions that could be applied by the Board of Directors regarding the exercise period of said options.

The authorization granted by the Shareholders' Meeting would outweigh, in favor of the beneficiaries of the options, any explicit waiver by shareholders of their preferential subscription rights to subscription shares that will be issued as and when the subscription options are exercised.

3° - Determination of pricing terms:

The Shareholders' Meeting recalls that pursuant to current statutory provisions and in particular those of Article L. 225-177 of the French Commercial Code, the price of share purchase and/or subscription by beneficiaries is determined by the Board of Directors on the day the options are allocated and in accordance with objective methods applicable to the valuation of shares which takes account, applying a specific weighting, of the Company's net asset position, profitability and business prospects, on a consolidated basis.

Accordingly, the Shareholders' Meeting decides that the purchase and/or subscription price of shares by beneficiaries will be determined by the Board of Directors, on the date the options are allocated, as follows: equal to the weighted average of the last twenty trading days prior to the day the option is allocated.

4° - Total amount of options allocated:

The Shareholders' Meeting decides that the cumulative total number of shares resulting from both (i) the exercise of purchase and/or subscription options thus granted in respect of this authorization, and (ii) the allocation of free shares under the 10th resolution of this Shareholders' Meeting may not exceed an overall number equal to 5% of the total number of shares comprising Company stock at the date of allocation.

5° - Capital increase resulting from exercise of share subscription

The capital increase arising from the exercise of share subscription options will be definitively carried out due to the sole fact of the option exercise declaration, accompanied by the subscription form and payment in cash or by offsetting against receivables of an equivalent amount.

It is specified that the amount of said share capital increase, resulting from the exercise of subscription options will not count towards the overall ceiling provided for in the 12th resolution of the Combined Shareholders' Meeting of May 11, 2017 ("Overall Ceiling I").

At the first meeting following fiscal year-end the Board of Directors will record, if applicable, the number and amount of shares issued during the year, will amend the bylaws as necessary, and carry out the publication formalities.

6° - Entitlement:

Shares acquired or subscribed in conjunction with the preceding provisions are required to be registered and will bear rights immediately. Consequently, for the same par value they will be entitled to the same dividend that could be distributed to other shares carrying the same rights.

7° - Powers:

The Shareholders' Meeting gives full authority to the Board of Directors, who may further delegate to the Chairman and CEO, acting subject to the above conditions, to:

- state the other conditions under which the options will be granted, such as the beneficiaries, the maximum number of options exercisable by each beneficiary, the price of the options available pursuant to the terms determined by the Shareholders' Meeting, the opening date, and the terms of exercise of the options;
- and, more generally, to hereby establish or amend the rules of the option plan with all the restrictions, in particular concerning the exercise period of the options and/or retention of the shares, and the specific conditions pertaining to said options that it deems appropriate and generally do whatever is required to implement said authorization and its consequences.

The Shareholders' Meeting also authorizes the Chairman and CEO to acquire, on behalf of the Company, the shares required for the allocation of share purchase options.

TENTH RESOLUTION

Authorization to be granted to the Board of Directors for a period of 26 months, to award free existing shares or shares to be issued; with waiver of the preferential subscription right of Shareholders

The Shareholders' Meeting, having read the Board of Directors' Report and the Statutory Auditors' Special Report and in accordance with the provisions of Articles L. 225-197-1 *et seq*. of the French Commercial Code:

– Authorizes the Board of Directors, for a period of 26 months from this Shareholders' Meeting, to allocate, in one or more instalments and at its sole discretion, either existing free shares in the Company resulting from the purchase made by it or free shares to be issued via a share capital increase, in favor of employed members of staff or corporate officers that it selects from the employees and executive corporate officers of the Company and of French or international companies related to it within the meaning of Article L. 225-197-2 I of the French Commercial Code;

– Decides that the cumulative total number of shares issuing (i) both from the allocation of free shares resulting from this authorization, and (ii) from the exercise of the purchase and/or subscription options provided for under the 9th resolution of this Shareholders' Meeting may not exceed an overall number equal to 5% of the total number of shares comprising the share capital of the Company at the date of allocation;

– Decides that the allocation of the shares to their beneficiaries will become definitive at the end of a vesting period set by the Board of Directors, it being understood that this duration may not be less than one year, and that said shares shall be retained for a minimum period set by the Board of Directors, it being understood that this period may not be less than one year.

– Decides that the duration of the vesting period will end early in the event of the incapacity of the beneficiary falling into the second or third categories provided for in Article L. 341-4 of the French Social Security Code;

– Decides that, for beneficiaries not resident in France for tax purposes, where the legal and regulatory provisions in force at the date of its decision so authorize it, the Board of Directors may annul the above-mentioned retention period provided that the vesting period is at least as long as the cumulative vesting and retention periods set by the legal and regulatory provisions in force at the date of the decision of the Board of Directors;

– Decide that the shares acquired under this authorization shall be held in registered form;

– Notes that, regarding the shares to be issued, (i) this authorization will entail, at the end of the vesting period, a share capital increase by capitalization of reserves, profits or issue premiums in favor of the recipients of said shares and the corresponding waiver by the Shareholders in favor of the beneficiaries of the allocations to the portion of reserves, profits and premiums thus capitalized, (ii) this authorization would automatically entail, in favor of the beneficiaries of said shares, waiver by the Shareholders of their preferential subscription right. It is specified that said share capital increase will not count towards the overall ceiling provided for in the 12th resolution of the Combined Shareholders' Meeting of May 11, 2017 ("Overall Ceiling I").

The Shareholders' Meeting grants full authority to the Board of Directors, who may further delegate to the Chairman and CEO, acting subject to the above conditions, in particular to:

- Implement this authorization;
- Set the terms and conditions and where necessary the criteria for the allocation of the shares;
- Decide on the number of shares to be allocated free of charge;
- Determine the identity of the beneficiaries, the number of shares allocated free of charge to each of them and the procedures for the allocation of shares;
- Agree on any clauses prohibiting the immediate resale of some or all of the shares in the event of allocation to corporate officers;
- In the case of the allocation of shares to be issued, set the amount and nature of the reserves, profits and premiums to be capitalized;
- Record the share capital increase or increases carried out pursuant to this authorization, and amend the Bylaws accordingly;
- and more generally do whatever is necessary.

ELEVENTH RESOLUTION

Delegation of authority to be granted to the Board of Directors to proceed with a share capital increase reserved for employees of the Company and companies within its Group

The Shareholders' Meeting, after reviewing the Board of Directors' report and after reading the Statutory Auditors' special report, and by applying the provisions of Article L. 225-129-6 of the French Commercial Code, authorizes the Board of Directors from this day forward and for a period of twenty-six (26) months, full powers to proceed at its sole discretion with one or more share capital increases in accordance with the provisions of Article L. 3332-18 *et seq.* of the French Labor Code, at the dates that it will determine, to a maximum aggregate nominal amount of forty thousand (40.000) euros reserved for members of a company savings plan via an employees' mutual fund (FCPE) (or any other members' plan for which Article L. 3332-18 of the French Labor Code would allow the reservation of a capital increase on equivalent terms) belonging to the Company and its Group companies within the meaning of Article L. 225-180 of the French Commercial Code, it being specified that this amount will be deducted from the overall ceiling which was set in the 12th resolution to the Combined Shareholders' Meeting of May 11, 2017 (**"Overall Ceiling I").**

The price will be determined pursuant to the law, in particular according to objective share price valuation methods. The subscription price can neither exceed the purchase price thus determined, nor be less than 20% thereof (30% if the period of unavailability under the plan pursuant to Articles L. 3332-25 and L. 3332-26 of the French Labor Code is at least 10 years); it being noted that the Board of Directors is entitled to reduce such discount if it deems appropriate, particularly in the event members of a company savings plan are offered securities on the international market and/or abroad in order to meet the requirements of applicable local legislation.

The Shareholders' Meeting hereby grants full authority to the Board of Directors, who may further delegate to the Chairman and CEO, within limits it specifies, to the CEO or Deputy CEO, to implement this delegation, and in particular to decide to increase capital pursuant to the above-mentioned conditions, to determine the terms, in particular setting the share issue price within the limits stipulated by law and this Shareholders' Meeting, to determine the dates of subscription opening and closing, and more generally to finalize all transactions contributing to this increase, and to amend the Bylaws accordingly.

The Shareholders' Meeting hereby acknowledges that this delegation invalidates any prior delegation having the same purpose.

TWELFTH RESOLUTION

Cancellation of shareholders' preferential subscription rights in favor of employees of the Company and its Group's companies

The Shareholders' Meeting, after reviewing the Board of Directors' report and after reading the Statutory Auditors' special report, decides to waive the preferential subscription rights of holders of ordinary shares or securities giving access to ordinary shares to be issued as part of the delegation under the 11th resolution above, in favor of members of a company savings plan via an employees' mutual fund (FCPE) (or any other members' plan for which the provisions of the Labor Code would allow the reservation of a capital increase on equivalent terms) of the Company and its Group companies within the meaning of Article L. 225-180 of the French Commercial Code.

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