ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2018

Leading personalized spine | medicrea.com

CONTENTS

1. ACTIVITY

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

MEDICREA leads the design, integrated manufacture, and distribution of 30+ FDA approved implant technologies, utilized in over 150k spinal surgeries worldwide to date. Operating in a $10 billion marketplace, MEDICREA is an SME with 180 employees worldwide, which includes 40 at its USA Corp. subsidiary in NYC.

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

The Group is based in Rillieux-la-Pape, near Lyon, France, where it has its own ultra-modern implant and surgical instrument manufacturing facility dedicated to the machining and development of 3D-printed, patient-specific implants, and has subsidiaries in the US, Belgium, Poland and Australia. In the countries in which it does not operate directly, the Group markets its products through a network of independent distributors.

2. FISCAL YEAR HIGHLIGHTS

The following are the highlights of the 2018 fiscal year:

2.1. MARKET AND ENVIRONMENT

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

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

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

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

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

2.2. RESULTS AND PERFORMANCE

Sales for 2018 amounted to €32.3 million, a growth of 22% at constant exchange rates compared to 2017. All historical markets (United States, France, export distribution) grew versus the previous year and the new subsidiaries are now contributing significantly to Group revenue.

Nearly 3,200 UNiD™ personalized surgeries have been performed to date, of which 1,250 were performed only over the past year, an increase of 53% versus 2017. The trend is even more marked in the United States, where the number of personalized surgical procedures performed during the 4th quarter of 2018 increased very markedly, up 94% in relation to the 4th quarter of 2017.

The gross profit margin came in at 71%, down 2 percentage points relative to the prior year due to a change in the breakdown of sales by product. However, the gross profit margin improved significantly during the year, rising from 68% in the first half to almost 75% in the second half thanks to a more favorable sales mix and less use of subcontracting.

Operating expenses rose by € 3.4 million compared to 2017. Research and development expenses increased by €1 million compared to the previous fiscal year and reflect the Group's efforts to enhance and complete the UNiD ASI™ software platform offering of patient-specific implants and associated services.

Marketing expenses and sales commissions increased by €2.2 million as a result of opening two new subsidiaries (in Belgium and Australia), with a knock-on increase of €1.6 million in sales and marketing expenses, and the increasing proportion of sales via US distributors resulting in a €0.9 million increase in sales commissions.

Given these factors, the operating loss before non-recurring expenses was €7.8 million, compared with €7.6 million in the prior year.

Other non-recurring expenses totaling €0.6 million mainly consisted of costs incurred in mothballing the MEDICREA TECHNOLOGIES UK subsidiary and winding up the surgical device motor repair business, as well as legal fees in connection with US litigation.

The cost of net financial debt increased by €0.2 million. Loss before tax amounted to €11.3 million, versus a loss of €11.2 million for the year ended December 31, 2017.

Cash on hand amounted to €11 million at December 31, 2018.

2.3. PRODUCT PORTFOLIO AND RESEARCH AND DEVELOPMENT

MEDICREA is the first company in the spinal industry to offer a complete set of surgical planning services implementing artificial intelligence, predictive modelling and patient-specific implants. The 2018 financial year enabled the Group to consolidate this position by strengthening its UNiD® range while simultaneously continuing to develop its portfolio of standard products.

UNiD ASI™ range of patient-specific implants and services

In August, MEDICREA organized the very first conference devoted to artificial intelligence applied to spinal surgery and its role in the treatment of complex spinal deformities. 20 international surgeons, opinion leaders in this field, participated in this event during which MEDICREA presented its exclusive UNiD ASI™ technology.

In October, MEDICREA presented a new study demonstrating that patients operated on using a UNiD® patient-specific rod were 2.6 times more likely to achieve optimal correction of their spinal deformity. This study confirms the benefit of using UNiD® patient-specific rods for the surgical correction of sagittal imbalance in adults.

In parallel, throughout the year, the research and development teams have worked to enhance the UNiD® range, offering in particular from 2019 the option of specifically selecting all the interbody screws and implants that will be used ahead of surgery.

3D-printed titanium interbody cages

In early 2018, following receipt of approval by the FDA, MEDICREA launched the marketing of its IB3D range of 3D-printed titanium interbody cages within its own internal additive manufacturing unit.

In May, the IB3D was extended thanks to FDA approval of the 3D-printed **patient-specific** titanium interbody cages. With this world-first clearance, MEDICREA is able to digitally plan, manufacture in-house and supply a 3D-printed device in the United States that has been optimized to follow each patient's unique spinal anatomy using the Company's proprietary AI-driven UNiD technology.

Other products in the range

At the end of 2018, Medicrea obtained the necessary authorizations to manufacture in-house the LigaPASS®, its flagship spinal ligament-plasty product, which should contribute to improving the gross margin over the next few years.

MEDICREA also submitted to the FDA the file for the marketing in the United States of a latest generation generic tulip screw which will be able to provide a more complete product offering, particularly for surgeons who have already widely adopted UNiD® patient-specific rods.

2.4. ORGANIZATION

Several changes in scope took place in 2018 and altered the structure of the Group:

In February, the distribution subsidiary MEDICREA BELGIUM was created in partnership with the Group's existing distributor in the Belgian market, the latter having already overseen the distribution of MEDICREA products for the past ten years and controlling approximately 25% of the local market. MEDICREA holds a 51% majority stake in MEDICREA BELGIUM and plans to transition the entity to a fully-owned Medicrea subsidiary over the next years.

In June, the distribution subsidiary MEDICREA AUSTRALIA was created in association with a local distributor specializing in the spinal field, in order to market the Group's products in Australia and New Zealand. Australia is the world's third largest market after the United States and Japan. MEDICREA holds a 51% majority stake in MEDICREA AUSTRALIA and plans to transition the entity to a fully-owned Medicrea subsidiary over the next years.

In August, the subsidiary MEDICREA TECHNOLOGIES UK, which marketed the Group's products in the UK, was mothballed with the distribution of MEDICREA products now managed by an independent distributor.

In December, the Group also ended its ancillary business involving the repair of motors for surgical devices.

2.5. STOCK MARKET INFORMATION

In August 2018, the Company was admitted to the OTCQX Best Market in the United States under the tickers MRNTY and MRNTF. The Company made the decision to be listed on this market to enable American shareholders who do not want to purchase shares through a European market to purchase them directly in the U.S. The MRNTY ticker represents ADRs (American Depositary Receipts) and the MRNTF ticker represents ordinary shares in the Company. Each ADR represents one of the Company's ordinary shares trading on Euronext Growth. From now on, this listing in an American marketplace will allow institutional and private investors in the United States to buy and sell both ADRs and ordinary shares in the Company in dollars.

2.6. FINANCING

In July 2018 the Company issued 1,127,936 new shares with share warrants attached (ABSA) with a par value of €0.16 per unit, at a unit price of €2.734, including issue premium, for a total amount of €3.1 million.

Each new share issued comes with one share warrant (BSA), for a total issuance of 1,127,936 share warrants. Two share warrants grant the right to subscribe to one new MEDICREA share at an exercise price of €3. The BSAs shall be exercisable for a period of 3 years after their issuance.

The number of shares issued may be increased to 1,691,904, i.e. a maximum amount of €4.8 million, in the event that all of the share warrants are exercised; €3.1 million was collected in July 2018.

In November 2018, the Company completed a $30 million note issue fully subscribed by Perceptive Advisors, a leading US investment fund in the healthcare field. In conjunction with the senior secured notes, Medicrea has issued to Perceptive Advisors warrants for the Company's new ordinary shares.

The refinancing facility consists of senior secured and guaranteed notes, governed by New-York law with coupon based on the greater of Three-Month LIBOR or 2.5% plus a margin of 8.5%. The notes, which are due to mature on November 27, 2022, are secured on the securities of MEDICREA USA Corp, a wholly-owned subsidiary of MEDICREA INTERNATIONAL, as well as by pledges on certain assets and receivables of the Group.

Perceptive Advisors subscribed free of charge for 1,000,000 warrants not listed on Euronext Growth.

One warrant entitles its holder to subscribe to one new MEDICREA International ordinary share, at an exercise price of €2.19, corresponding to the volume-weighted average of the share prices of the last 10 trading days prior to the fixing of the subscription price, decreased by a 10% discount. The BSAs shall be exercisable for a period of seven years after their issuance.

Subscription of these notes was accompanied by the early redemption of €15 million in outstanding convertible debt taken out with US fund Athyrium in August 2016 and early repayment of €1.6 million in outstanding bank borrowing previously secured on goodwill.

The table below presents the potential cumulative dilution of the share capital in the event that all outstanding warrants, options, and other securities that have the potential to be converted into ordinary shares are exercised (including all the warrants issued since 2017, the stocks options and the potential free allocations of shares):

	Before the November 2018 placement	Exercise of the December 2017 warrants	Exercise of share warrants July 2018	Exercise of the November 2018 warrants	Exercise of stock options	Allocation of free shares	After the placement following conversion of all of the instruments
Number of ordinary shares	16,219,847						
Number of ordinary shares added if warrants / options are fully exercised		1,168,170	563,968	1,000,000	1,350,000	792,000	4,874,138
Exercise or conversion price	-	€3.15	€3	€2.19	€3.16[1]	-	-
Accumulated potential dilution	-	6.72%	9.65%	14.42%	20.11%	23.11%	23.11%

[1] Average stock option exercise price

3. IFRS CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2018

3.1. CONSOLIDATED INCOME STATEMENT

(€)	Notes	12.31.2018	12.31.2017
Sales	**3.1 & 4.5**	**32,279,021**	**27,147,831**
Cost of sales		(9,282,951)	(7,315,629)
Gross margin		**22,996,070**	**19,832,202**
as % of sales		***71.2%***	***73.1%***
Research & development costs	**4.6**	(3,066,690)	(2,016,880)
Sales & marketing expenses	**4 & 5**	(16,532,462)	(15,240,309)
Sales commissions		(3,716,778)	(2,776,366)
General and administrative expenses	**4 & 5**	(7,469,161)	(7,399,468)
Other operating income and expenses	**4.9.2**	(561,038)	(924,110)
Operating income before share-based payments		**(8,350,059)**	**(8,524,931)**
Share-based payments	**5.5.3**	(728,078)	(287,338)
Operating income after share-based payments	**4.9.1**	**(9,078,137)**	**(8,812,269)**
Cost of net financial debt	**8.3.1**	(2,428,171)	(2,248,952)
Other financial (expenses) / income	**8.3.2**	166,002	(170,728)
Tax (charge) / income	**9.1**	(469,822)	504,657
Consolidated net income/(loss)		**(11,810,128)**	**(10,727,292)**
Earnings per share	**10.2**	**(0.76)**	**(0.93)**
Diluted earnings per share	**10.2**	**(0.76)**	**(0.93)**

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

3.2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€)	12.31.2018	12.31.2017
Consolidated net income/(loss)	**(11,810,128)**	**(10,727,292)**
Translation adjustment	80,818	(782,854)
Total comprehensive income	**(11,729,310)**	**(11,510,146)**

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

3.3. CONSOLIDATED BALANCE SHEET

(€)	Notes	12.31.2018	12.31.2017
Goodwill	6.1	12,131,603	2,626,620
Intangible assets	6.6	8,098,712	7,882,753
Property, plant and equipment	6.6	10,353,786	10,771,748
Non-current financial assets	6.6	650,629	686,518
Deferred tax assets	9.3	2,122,210	2,044,496
Total non-current assets		**33,356,940**	**24,012,135**
Inventories	4.2	9,662,145	9,812,700
Trade receivables	4.3	5,361,252	3,973,135
Other current assets	4.3	2,480,928	2,215,133
Cash and cash equivalents	8.1.5	10,802,725	11,980,693
Total current assets		**28,307,050**	**27,981,661**
Total assets		**61,663,990**	**51,993,796**

(€)	Notes	12.31.2018	12.31.2017
Share capital	10.1	2,595,176	2,413,266
Issue, merger and contribution premiums	10.1	26,450,274	60,567,352
Consolidated reserves	10.1	(2,308,227)	(30,463,815)
Net income/(loss) for the year	10.1	(11,810,128)	(10,727,292)
Total shareholders' equity		**14,927,095**	**21,789,511**
Conditional advances	8.2	100,000	196,250
Non-current provisions	7.1	621,868	574,567
Deferred tax assets	9.3	669,701	859,695
Long-term financial debt	8.1.4	31,730,339	16,738,955
Other non-current liabilities	4.4	174,672	-
Total non-current liabilities		**33,296,580**	**18,369,467**
Current provisions	7.1	122,299	225,675
Short-term financial debt	8.1	4,854,331	4,387,378
Trade payables	4.4	4,803,155	4,672,856
Other current liabilities	4.4	3,660,530	2,548,909
Total current liabilities		**13,440,315**	**11,834,818**
Total shareholders' equity and liabilities		**61,663,990**	**51,993,796**

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

3.4. CONSOLIDATED CASH FLOW STATEMENT

(€)	Notes	12.31.2018	12.31.2017
Consolidated net income/(loss)		**(11,810,128)**	**(10,727,292)**
Property, plant and equipment depreciation and intangible asset amortization		6,033,656	4,996,876
Provision charges / (reversals)		153,896	(98,238)
Proceeds from sale of non-current assets		226,581	56,212
Share-based payments		728,078	287,338
Change in deferred taxes		(267,708)	(138,764)
Corporate tax		(274,309)	(897,375)
Cost of net financial debt		2,428,171	2,248,952
Self-financing capacity		**(2,781,763)**	**(4,272,291)**
Change in inventories and work in progress		14,161	(1,832,886)
Change in trade receivables		(1,461,694)	1,192,322
Change in trade payables		130,300	(1,328,120)
Change in other receivables and payables		1,562,230	2,463,918
Cash flow from working capital requirement		**244,997**	**495,234**
Taxes paid / refunded		(267,424)	(15,447)
Net cash flow from operating activities		**(2,804,190)**	**(3,792,504)**
Acquisition of non-current assets		(5,604,295)	(8,132,598)
Disposal of non-current assets		220,097	662,432
Impact of changes in scope		106,836	-
Government grants received / (repaid)		(96,250)	(121,250)
Other movements		77,009	-
Net cash flow from investment activities		**(5,296,603)**	**(7,591,416)**
Share capital increase		3,083,777	20,216,961
Proceeds from new borrowings	**8.1.2**	27,400,800	492,020
Repayment of borrowings	**8.1.2**	(20,185,922)	(2,977,473)
Interest paid		(1,429,672)	(1,301,818)
Other movements	**8.1.6**	(1,797,153)	(1,276,760)
Net cash flow from financing activities		**7,071,830**	**15,152,930**
Translation effect on cash and cash equivalents		(117,247)	48,581
Other movements		72,647	21,258
Change in cash and cash equivalents		**(1,073,563)**	**3,838,849**
Cash and cash equivalents - beginning of year		**11,092,231**	**7,253,382**
Cash and cash equivalents - end of year		**10,018,668**	**11,092,231**
Positive cash balances - beginning of year		11,980,693	8,063,140
Positive cash balances - end of year		10,802,725	11,980,693
Change in positive cash balances		**(1,177,968)**	**3,917,553**
Negative cash balances - beginning of year		(888,462)	(809,758)
Negative cash balances - end of year		(784,056)	(888,462)
Change in negative cash balances		**104,405**	**(78,704)**
Change in cash and cash equivalents		**(1,073,563)**	**3,838,849**

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	Consolidated shareholders' equity
Shareholders' equity at 12.31.2016	**10,033,167**	**1,605,307**	**12,475,894**	**14,081,201**
Share capital increase	5,049,744	807,959	18,113,797	18,921,756
2017 comprehensive income	-	-	(11,510,146)	(11,510,146)
Stock options and free shares	-	-	287,338	287,338
Other movements	-	-	9,362	9,362
Shareholders' equity at 12.31.2017	**15,082,911**	**2,413,266**	**19,376,245**	**21,789,511**
Share capital increase	1,136,936	181,910	2,509,894	2,691,804
2018 comprehensive income	-	-	(11,729,310)	(11,729,310)
Stock options and free shares	-	-	728,078	728,078
Other movements	-	-	1,447,012	1,447,012
Shareholders' equity at 12.31.2018	**16,219,847**	**2,595,176**	**12,331,919**	**14,927,095**

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 Euronext Growth market, ISIN FR004178572, Ticker ALMED. Since August 2018, the Company's shares have also been traded on the US market via the OTCQX Best Market platform under the tickers MRNTF and MRNTY.

The consolidated financial statements for the 2018 fiscal year were approved by the Board of Directors on March 20, 2019. They will be submitted for approval at the Shareholders' General Meeting of June 3, 2019.

NOTE 1: ACCOUNTING PRINCIPLES

1.1 Accounting framework

The financial statements of MEDICREA Group for the year ended December 31, 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS published by the International Accounting Standards Board (IASB) and approved by the European Union pursuant to European Regulation n° 1606/2002 of July 19, 2002, and available at ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002/law-details_fr

These standards include:

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

1.1.1 Standards, amendments and interpretations adopted by the European Union, the application of which is mandatory for reporting periods starting on or after January 1, 2018

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

Standards, amendments and interpretations	**IFRS 9 - Financial Instruments** Standard applicable from January 1, 2018
Introduction and general principles	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 IAS 39: - provisions relating to the classification and measurement of financial assets are now 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 approach based on incurred losses in favor of an approach based on expected credit losses; - the hedge component includes a number of significant advances that promote the convergence of the implementation methods of hedge accounting and the Group's risk management policy.
Impact on the Group	The Group has not identified any significant change in the classification and measurement of its financial assets in view of the nature of its transactions. A detailed analysis of the impairment model for financial assets was carried out, with a particular focus on trade receivables. In view of its customer typology and the risk observed in previous years, the Group has not identified any significant changes in its accounting treatment of impairment.
Application by the Group	The Group has applied IFRS 9 since January 1, 2018. This has not resulted in any material impact on its annual consolidated financial statements for the year ended December 31, 2018.

Standards, amendments and interpretations	**IFRS 15 – Revenue from Contracts with Customers** Standard applicable from January 1, 2018
Introduction and general principles	On May 28, 2014, the IASB published a standard regarding the recognition of revenue from ordinary activities, under which revenue must be recognized when control of the goods or services sold is transferred, in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. IFRS 15 and the related guidance, published by the IASB on April 12, 2016, replace the standards IAS 11 and IAS 18 and the related IFRIC and SIC interpretations.
Impact on the Group	The Group selected the main transactions and contracts that are representative of its activities. These were then analyzed using the five-step model framework required by the standard in order to identify any areas of judgement and potential changes caused by application of the standard. This analysis did not identify any impact on the presentation of Group sales or of the Group's income statement.
Application by the Group	The Group has applied IFRS 15 since January 1, 2018. This has not resulted in any material impact on its annual consolidated financial statements for the year ended December 31, 2018.

The IASB has also published the following standards, amendments, and interpretations, which have been adopted by the European Union and whose application is mandatory from January 1, 2018:

Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions
IFRIC 22 interpretation	Foreign Currency Transactions and Advance Consideration
Annual improvements to IFRS 2014-2016 cycle	Various provisions

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

1.1.2 Standards, amendments and interpretations adopted by the European Union, the application of which is mandatory for reporting periods starting on or after January 1, 2018 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	**IFRS 16 – Leases** Standard applicable from January 1, 2019
Introduction and general principles	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 previously existed between "operating leases" and "finance leases". Lessees must recognize all leases with a term of over one year in accordance with 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.
Impact on the Group	The Group identified all of its lease agreements and their key provisions. If the Group had opted for early adoption of IFRS 16 and applied it as of January 1, 2018, this would have resulted in the following impact on the consolidated financial statements at December 31, 2018:

- The following items would have been recognized on the balance sheet:

	12.31.2018			
(€ millions)	**Gross value**	**Depr.**	**Net value**	**Financial liability**
Buildings	19.6	(4.4)	15.2	16.3
Motor vehicles	0.7	(0.4)	0.3	0.3
Total	**20.3**	**(4.8)**	**15.5**	**16.6**

- The following changes to income (expenses) would have been shown in the income statement:

(€ millions)	**12.31.2018**
Rental charges	2.2
Interest charge	(0.5)
Amortization and depreciation charges	(2.0)
Net income (expense)	**(0.3)**

- As regards performance indicators, EBITDA (earnings before interest, tax, depreciation and amortization) would have increased by €2.2 million.

Application by the Group	The Group will use the full retrospective approach.

The IASB has also published amendments to IFRS 9 in relation to prepayment features, to be applied from January 1, 2019. The Group does not expect any material impact on the consolidated financial statements as a result.

1.1.3 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)**
Amendments to IAS 28	Investments in Associates and Joint Ventures.	January 1, 2019
IFRIC 23 interpretation	Uncertainty over Income Tax Treatments.	January 1, 2019
Annual improvements to IFRS 2015-2017 cycle	Various provisions	January 1, 2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
Revised Conceptual Framework for Financial Reporting	Amendment to References to the Conceptual Framework in IFRS Standards	January 1, 2019

(1) Subject to adoption by the European Union

1.2 Preparation bases

The consolidated financial statements have been prepared in Euros in accordance with the going concern principle, as described in Note 8.5.3 "Liquidity risks", assessed based on the Group's capacity to meet, over the next 12 months preceding the date of preparation of the financial statements, cash flow requirements linked to its operations, its investments and the repayment of its short-term financial liabilities, thanks to a positive self-financing capacity and/or allocating sufficient financial resources.

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 made based on information available to it at December 31, 2018, 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, 2018, the Group was not aware of any changes in estimates having a significant impact during the period.

NOTE 2: SCOPE OF CONSOLIDATION

2.1 Consolidation method

Consolidation is based on the statutory financial statements, prepared at December 31, 2018, 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).

The results of purchased subsidiaries are consolidated as from the date when control is exercised.

2.2 Foreign currency translation

2.2.1 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 exchange rates are recorded in shareholders’ equity under “translation adjustment” and under cash-related exchange differences in the cash flow statement.

2.2.2 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 in the income statement.

Some loans and borrowings denominated in foreign currencies are considered, in substance, as forming an integral part of the net investment in a subsidiary where the functional currency is not the euro, and if their redemption is neither planned nor likely in the foreseeable future. The exchange rate differences relating to these loans and borrowings are recognized in translation differences in other items of comprehensive income, at their amount net of tax. This specific treatment applies until the date when the net investment is finally disposed of, or until the time when the partial or full redemption of these loans and borrowings becomes highly likely.

As from the date when the net investment is declassified, the translation differences generated are subsequently recognized in other financial income and expense in the consolidated income statement. The translation differences previously recognized in other items of comprehensive income are only recycled through profit and loss on the date of the partial or full disposal of the subsidiary. The Group reviews whether the full or partial redemption of the borrowings and loans amounts to the partial or full deconsolidation of the subsidiary on a case-by-case basis.

2.3 Business combinations

Business combinations are accounted for using the acquisition method:

- the cost of an acquisition is measured at the fair value of the consideration transferred, including any contingent consideration, on the date on which control is obtained. Any subsequent changes in the fair value of contingent consideration are recognized through profit or loss or in other comprehensive income, in accordance with applicable standards;
- the difference between the consideration transferred and the fair value of the identifiable assets acquired and liabilities assumed at the date on which control is obtained represents goodwill, recognized as an asset.

Adjustments to the fair value of identifiable assets acquired and liabilities assumed that have been recorded on a provisional basis (due to ongoing expert assessments or additional analyses) are recognized as retrospective adjustments to goodwill if they take place within a period of one year from the acquisition date or if they result from facts and circumstances that were in existence at the acquisition date. Following this period, any effects are recognized directly through profit or loss, as with any other change in an estimate.

In a business combination involving the acquisition of an interest of less than 100%, non-controlling interests in the acquiree are measured at either:

- their fair value, leading to the recognition of the goodwill attributable to these non-controlling interests (full goodwill method); or
- their proportionate share in the acquiree's identifiable net assets, leading to the recognition of a goodwill only for the share acquired (partial goodwill method).

The costs directly related to the acquisition are recorded under "Other income and expenses" in the period they are incurred. Any contingent consideration in relation to a business combination is measured at fair value at the acquisition date, even if its realization is not considered probable. After the acquisition date, changes in the estimated fair value of contingent consideration will result in an adjustment to goodwill only if they take place during the measurement period (no more than one year from the acquisition date) or if they result from facts or circumstances that were in existence at the acquisition date. In all other cases, the change is recognized through profit or loss or in other comprehensive income in accordance with the relevant IFRS.

In a business combination achieved in stages, the interest held previously by the Group in the company acquired is remeasured, at the time that control of this company is obtained, at fair value through the income statement. In order to determine goodwill at the date of obtaining control, the fair value of the consideration transferred (for example, the price paid) is increased by the fair value of the Group's previously held interest. The amount previously recognized in other comprehensive income in relation to the interest held before control was obtained is reclassified to profit or loss.

2.4 Changes in consolidation scope

The consolidation scope includes the following entities:

- MEDICREA INTERNATIONAL (Group parent company);
- MEDICREA USA;
- MEDICREA TECHNOLOGIES UK;
- MEDICREA GMBH;
- MEDICREA POLAND;
- MEDICREA BELGIUM;
- MEDICREA AUSTRALIA.

In February 2018 the Group created MEDICREA BELGIUM, a limited company under Belgian law with capital of €200,000 and its registered office in Houwaart, in partnership with the company Motion Medical, which up until that time had distributed MEDICREA's products in Belgium. The Group holds a 51% majority stake in MEDICREA BELGIUM and will gradually transition the entity to a fully-owned Medicrea subsidiary over the next years. A shareholders' agreement was signed to this effect containing corresponding purchase and sale commitments for the 49% stake held by Motion Medical at December 31, 2018 to take place in stages over the period 2019-2022 as follows:

- In 2019, purchase of 12.25% of shares on the basis of 10 X 2018 EBITDA (*) of MEDICREA BELGIUM;

- In 2020, purchase of 12.25% of shares on the basis of 10 X 2019 EBITDA (*) of MEDICREA BELGIUM;
- In 2021, purchase of 12.25% of shares on the basis of 10 X 2020 EBITDA (*) of MEDICREA BELGIUM;
- In 2022, purchase of 12.25% of shares on the basis of 10 X 2021 EBITDA (*) of MEDICREA BELGIUM;

At December 31, 2018, the fair value of the commitment to buy 49% of the capital of MEDICREA BELGIUM was measured at €8.9 million on the basis of 2018 performance and 2019, 2020 and 2021 EBITDA (*) forecasts available at that date and using a discount rate of 1.6%.

In June 2018, the Group created MEDICREA AUSTRALIA, an Australian company with capital of A$300,000 and its registered office in Brisbane, in a joint venture with the company National Surgical, a distributor of medical devices in Australia. The Group holds a 51% majority stake in MEDICREA AUSTRALIA and will gradually transition the entity to a fully-owned Medicrea subsidiary over the next years. A shareholders' agreement was signed to this effect containing corresponding purchase and sale commitments for the 49% stake held by National Surgical at December 31, 2018 to take place in stages over the period 2021-2024 as follows:

- In 2021, purchase of 12.25% of shares on the basis of 7 X the share of 2020 EBITDA (*) of MEDICREA AUSTRALIA;
- In 2022, purchase of 12.25% of shares on the basis of 7 X the share of 2021 EBITDA (*) of MEDICREA AUSTRALIA;
- In 2023, purchase of 12.25% of shares on the basis of 7 X the share of 2022 EBITDA (*) of MEDICREA AUSTRALIA;
- In 2024, purchase of 12.25% of shares on the basis of 7 X the share of 2023 EBITDA (*) of MEDICREA AUSTRALIA;

At December 31, 2018, the fair value of the commitment to buy 49% of the capital of MEDICREA AUSTRALIA was measured at €0.7 million on the basis of 2020, 2021, 2022 and 2023 EBITDA (*) forecasts available at that date and using a discount rate of 1.6%.

(*) Operating income before interest, depreciation, amortization and impairment

The Group ceased its activities in the UK from September 1, 2018, and mothballed its subsidiary MEDICREA TECHNOLOGIES UK, leading to the redundancy of all staff and the closure of its distribution center in Cambridge.

The Group is now represented in the UK by an independent distributor. All costs relating to the closure of MEDICREA TECHNOLOGIES UK have been recognized in full in the consolidated financial statements at December 31, 2018 (see section 4.9.2).

Control and interest percentages at December 31, 2018 are detailed in the table below:

	Registered office:	% control	% interest
MEDICREA INTERNATIONAL	Rillieux-la-Pape, FR	Parent company	
MEDICREA USA	New-York, USA	100%	100%
MEDICREA TECHNOLOGIES UK	Swaffam Bulbeck, UK	100%	100%
MEDICREA GMBH	Cologne, GER	100%	100%
MEDICREA POLAND	Łódź, PL	100%	100%
MEDICREA BELGIUM	Houwaart, BE	51%	100%
MEDICREA AUSTRALIA	Brisbane, AU	51%	100%

MEDICREA INTERNATIONAL's majority shareholding in the companies MEDICREA BELGIUM and MEDICREA AUSTRALIA, which as detailed above will be accompanied by the staged purchase over time of the entire capital held by the minority shareholders of these two companies, has been treated as a single transaction for accounting purposes, based on the following factors:

- the two transactions (majority shareholding and commitment to buy minority interests) were concluded simultaneously;
- the economic effect of these two transactions should be viewed as the effect of a single transaction;
- the realization of one of the transactions is conditional on the realization of the other;
- each of the transactions can only be justified financially if it is considered in conjunction with the other transaction.

Therefore, in the Group's annual financial statements at December 31, 2018, 100% of the companies MEDICREA BELGIUM and MEDICREA AUSTRALIA has been consolidated even though the control percentage of MEDICREA INTERNATIONAL in these subsidiaries is 51%. Commitments to buy out non-controlling interests in MEDICREA BELGIUM and MEDICREA AUSTRALIA are recognized in other financial liabilities.

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;
- Belgium;
- Australia;
- Rest of the world.

3.1 Breakdown of sales by geographic region

By geographic region, sales are analyzed as follows:

	12.31.2018		12.31.2017	
	(€)	**(%)**	**(€)**	**(%)**
	6,080,368	19%	5,965,523	22%
	15,566,697	48%	16,000,915	59%
	168,442	1%	467,935	2%
	-	0%	121,164	0%
	292,140	1%	121,114	0%
	5,064,349	16%	-	-
	218,205	1%	-	-
Rest of the world	4,888,820	14%	4,471,180	17%
of which Europe	*2,477,114*		*2,618,606*	
of which South America	*1,034,365*		*449,032*	
of which Asia	*864,468*		*686,252*	
of which Oceania	*172,097*		*159,694*	
of which Middle East and Africa	*340,776*		*557,596*	
Total	**32,279,021**	**100%**	**27,147,831**	**100%**

Sales for 2018 amounted to 32.3 million euros, representing a growth of 22% at constant exchange rates compared to 2017. All historical markets (United States, France, export distribution) grew versus the previous year and the new subsidiaries (particularly Belgium and Australia) are now contributing significantly to Group revenue.

Nearly 3,200 UNiD™ personalized surgeries have been performed to date, of which 1,250 were performed only over the past year, an increase of 53% versus 2017.

3.2 2018 income statement by geographic region

(€)								Rest of the world	Total 12.31.2018
Sales	**6,080,368**	**15,566,697**	**168,442**	**-**	**292,140**	**5,064,349**	**218,205**	**4,888,820**	**32,279,021**
Cost of sales	(2,499,926)	(2,769,024)	(39,940)	-	(122,613)	(1,721,398)	(29,592)	(2,100,458)	(9,282,951)
Gross margin	**3,580,442**	**12,797,673**	**128,502**	**-**	**169,527**	**3,342,951**	**188,613**	**2,788,362**	**22,996,070**
Research & development costs	(2,519,346)	(542,323)	(217)	-	(760)	(1,928)	(945)	(1,171)	(3,066,690)
Sales & marketing expenses	(4,360,961)	(8,706,878)	(117,719)	(4,623)	(546,963)	(1,277,046)	(89,757)	(1,428,515)	(16,532,462)
Sales commissions	(97,485)	(3,532,228)	-	-	-	-	(87,065)	-	(3,716,778)
General and administrative expenses	(4,842,161)	(2,161,462)	(96,224)	(11,196)	(38,828)	(116,517)	(25,557)	(177,216)	(7,469,161)
Other operating income and expenses	(61,123)	(154,845)	(254,695)	(1,430)	-	(653)	-	(88,292)	(561,038)
Operating income before share-based payments	**(8,300,634)**	**(2,300,063)**	**(340,353)**	**(17,249)**	**(417,024)**	**1,946,807**	**(14,711)**	**1,093,168**	**(8,350,059)**
Share-based payments	(368,574)	(359,504)	-	-	-	-	-	-	(728,078)
Operating income after share-based payments	**(8,669,208)**	**(2,659,567)**	**(340,353)**	**(17,249)**	**(417,024)**	**1,946,807**	**(14,711)**	**1,093,168**	**(9,078,137)**
Cost of net financial debt	(2,166,072)	(197,586)	(12,790)	(8,404)	(4,939)	(36,005)	-	(2,375)	(2,428,171)
Other financial (expenses) / income	166,291	-	-	-	(29)	986	-	(1,246)	166,002
Tax (charge) / income	-	174,286	6,153	-	(3,191)	(645,417)	(1,653)	-	(469,822)
Consolidated net income/(loss)	**(10,668,989)**	**(2,682,867)**	**(346,990)**	**(25,653)**	**(425,183)**	**1,266,371**	**(16,364)**	**1,089,547**	**(11,810,128)**

3.3 2017 income statement by geographic region

(€)						Rest of the world	Total 12.31.2017
Sales	**5,965,523**	**16,000,915**	**467,935**	**121,164**	**121,114**	**4,471,180**	**27,147,831**
Cost of sales	(2,300,267)	(2,864,924)	(110,087)	(40,445)	(47,134)	(1,952,772)	(7,315,629)
Gross margin	**3,665,256**	**13,135,991**	**357,848**	**80,719**	**73,980**	**2,518,408**	**19,832,202**
Research & development costs	(1,700,356)	(314,774)	(450)	-	(109)	(1,191)	(2,016,880)
Sales & marketing expenses	(4,853,888)	(7,496,267)	(755,062)	(331,041)	(357,372)	(1,446,679)	(15,240,309)
Sales commissions	(96,109)	(2,678,995)	-	-	-	(1,262)	(2,776,366)
General and administrative expenses	(4,566,604)	(2,431,480)	(184,505)	(43,927)	(36,974)	(135,978)	(7,399,468)
Other operating income and expenses	(356,962)	(416,291)	(89,334)	(61,523)	-	-	(924,110)
Operating income before share-based payments	**(7,908,663)**	**(201,816)**	**(671,503)**	**(355,772)**	**(320,475)**	**933,298**	**(8,524,931)**
Share-based payments	(166,731)	(120,607)	-	-	-	-	(287,338)
Operating income after share-based payments	**(8,075,394)**	**(322,423)**	**(671,503)**	**(355,772)**	**(320,475)**	**933,298**	**(8,812,269)**
Cost of net financial debt	(2,123,316)	(120,964)	(648)	(8,336)	(1,403)	5,715	(2,248,952)
Other financial (expenses) / income	(147,269)	(31,207)	846	-	1,050	5,852	(170,728)
Tax (charge) / income	-	456,152	41,977	7,211	(683)	-	504,657
Consolidated net income/(loss)	**(10,345,979)**	**(18,442)**	**(629,328)**	**(356,897)**	**(321,511)**	**944,865**	**(10,727,292)**

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 2018 balance sheet by geographic region

(€)								Rest of the world	Total 12.31.2018
Goodwill	12,131,603	-	-	-	-	-	-	-	12,131,603
Intangible assets	6,956,142	1,142,570	-	-	-	-	-	-	8,098,712
Property, plant and equipment	7,832,418	1,651,502	53,211	13,190	219,622	268,781	107,394	207,668	10,353,786
Non-current financial assets	342,921	299,119	-	-	8,589	-	-	-	650,629
Deferred tax assets	669,688	1,491,440	-	-	(5,244)	(32,258)	(1,416)	-	2,122,210
Total non-current assets	**27,932,772**	**4,584,631**	**53,211**	**13,190**	**222,967**	**236,523**	**105,978**	**207,668**	**33,356,940**
Inventories	7,798,134	1,341,624	12,718	-	133,830	295,126	80,713	-	9,662,145
Trade receivables	1,143,358	2,565,781	-	10,879	71,676	550,529	77,822	941,207	5,361,252
Other current assets	2,150,252	298,402	10,281	1,240	8,088	5,618	7,047	-	2,480,928
Cash and cash equivalents	8,157,588	574,234	13,900	18,041	28,803	1,983,138	27,021	-	10,802,725
Total current assets	**19,249,332**	**4,780,041**	**36,899**	**30,160**	**242,397**	**2,834,411**	**192,603**	**941,207**	**28,307,050**
Total assets	**47,182,104**	**9,364,672**	**90,110**	**43,350**	**465,364**	**3,070,934**	**298,581**	**1,148,875**	**61,663,990**

(€)								Rest of the world	Total 12.31.2018
Share capital	2,595,176	-	-	-	-	-	-	-	2,595,176
Issue, merger and contribution premiums	26,450,274	-	-	-	-	-	-	-	26,450,274
Consolidated reserves	(14,278,745)	(9,863,105)	401,107	48,075	828,903	526,110	258,376	44,842	(2,308,227)
Group net income/(loss) for the period	(10,668,989)	(2,682,867)	(346,990)	(25,653)	(425,183)	1,266,371	(16,364)	1,089,547	(11,810,128)
Total shareholders' equity	**4,097,716**	**7,180,238**	**54,117**	**22,422**	**403,720**	**1,792,481**	**242,012**	**1,134,389**	**14,927,095**
Conditional advances	100,000	-	-	-	-	-	-	-	100,000
Non-current provisions	621,868	-	-	-	-	-	-	-	621,868
Deferred tax assets	669,701	-	-	-	-	-	-	-	669,701
Long-term financial debt	31,730,339	-	-	-	-	-	-	-	31,730,339
Other non-current liabilities	-	174,672	-	-	-	-	-	-	174,672
Total non-current liabilities	**33,121,908**	**174,672**	**-**	**-**	**-**	**-**	**-**	**-**	**33,296,580**
Current provisions	122,299	-	-	-	-	-	-	-	122,299
Other current financial liabilities	4,854,155	-	61	115	-	-	-	-	4,854,331
Trade payables	2,693,753	1,729,030	35,932	11,119	5,332	263,985	51,618	12,386	4,803,155
Other current liabilities	2,292,273	280,732	-	9,694	56,312	1,014,468	4,951	2,100	3,660,530
Total current liabilities	**9,962,480**	**2,009,762**	**35,993**	**20,928**	**61,644**	**1,278,453**	**56,569**	**14,486**	**13,440,315**
Total shareholders' equity and liabilities	**47,182,104**	**9,364,672**	**90,110**	**43,350**	**465,364**	**3,070,934**	**298,581**	**1,148,875**	**61,663,990**

3.5 2017 balance sheet by geographic region

(€)						Rest of the world	Total 12.31.2017
Goodwill	2,626,620	-	-	-	-	-	2,626,620
Intangible assets	6,751,890	1,130,863	-	-	-	-	7,882,753
Property, plant and equipment	8,430,426	1,854,338	142,081	-	208,813	136,090	10,771,748
Non-current financial assets	374,990	285,576	-	20,070	5,882	-	686,518
Deferred tax assets	859,685	1,191,166	(5,704)	-	(651)	-	2,044,496
Total non-current assets	**19,043,611**	**4,461,943**	**136,377**	**20,070**	**214,044**	**136,090**	**24,012,135**
Inventories	8,400,742	1,115,799	117,691	-	178,468	-	9,812,700
Trade receivables	1,309,859	1,693,532	103,628	8,634	47,929	809,553	3,973,135
Other current assets	2,053,841	135,450	4,015	11,602	7,137	3,088	2,215,133
Cash and cash equivalents	11,676,845	267,532	-	11,673	24,643	-	11,980,693
Total current assets	**23,441,287**	**3,212,313**	**225,334**	**31,909**	**258,177**	**812,641**	**27,981,661**
Total assets	**42,484,898**	**7,674,256**	**361,711**	**51,979**	**472,221**	**948,731**	**51,993,796**

(€)						Rest of the world	Total 12.31.2017
Share capital	2,413,266	-	-	-	-	-	2,413,266
Issue, merger and contribution premiums	60,567,352	-	-	-	-	-	60,567,352
Consolidated reserves	(38,347,310)	6,007,490	821,956	334,646	750,553	(31,150)	(30,463,815)
Group net income/(loss) for the period	(10,345,979)	(18,442)	(629,328)	(356,897)	(321,511)	944,865	(10,727,292)
Total shareholders' equity	**14,287,329**	**5,989,048**	**192,628**	**(22,251)**	**429,042**	**913,715**	**21,789,511**
Conditional advances	196,250	-	-	-	-	-	196,250
Non-current provisions	574,567	-	-	-	-	-	574,567
Deferred tax assets	859,695	-	-	-	-	-	859,695
Long-term financial debt	16,738,955	-	-	-	-	-	16,738,955
Total non-current liabilities	**18,369,467**	**-**	**-**	**-**	**-**	**-**	**18,369,467**
Current provisions	137,761	-	87,914	-	-	-	225,675
Other current financial liabilities	4,383,979	-	3,284	115	-	-	4,387,378
Trade payables	3,392,734	1,132,761	42,179	69,715	9,826	25,641	4,672,856
Other current liabilities	1,913,628	552,447	35,706	4,400	33,353	9,375	2,548,909
Total current liabilities	**9,828,102**	**1,685,208**	**169,083**	**74,230**	**43,179**	**35,016**	**11,834,818**
Total shareholders' equity and liabilities	**42,484,898**	**7,674,256**	**361,711**	**51,979**	**472,221**	**948,731**	**51,993,796**

NOTE 4: OPERATIONAL DATA

4.1 Key operating performance indicators

The performance indicators used by the Group are as follows:

- sales;
- operating income before depreciation, amortization and impairment;
- operating income after depreciation, amortization and impairment.

4.2 Inventories

Raw material inventories are measured at their weighted average cost, including sourcing costs.

Finished and semi-finished goods and work-in-progress 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:

	12.31.2018			**12.31.2017**		
(€)	**Gross values**	**Impairment**	**Net values**	**Gross values**	**Impairment**	**Net values**
Raw materials	378,569	(46,798)	331,771	494,979	(26,379)	468,600
Work-in-process	441,059	(51,948)	389,111	1,072,507	(87,336)	985,171
Semi-finished goods	1,651,784	(420,996)	1,230,788	1,891,621	(157,507)	1,734,114
Finished goods	10,762,121	(3,051,646)	7,710,475	9,788,587	(3,163,772)	6,624,815
Total	**13,233,533**	**(3,571,388)**	**9,662,145**	**13,247,694**	**(3,434,994)**	**9,812,700**

The total gross value of inventories was stable in comparison with 2017 and declined by 4% at constant consolidation scope. The €0.9 million increase in finished goods results from new products becoming available, notably all the components of the PASS TULIP range. The €0.6 million reduction in work-in-process reflects the normalization of operations at the Rillieux-la-Pape plant.

Impairment charges accounted for 27% of the average gross amounts at December 31, 2018, compared with 26% at December 31, 2017,

4.3 Trade receivables and other assets

Trade receivables are current financial assets, which are initially recorded at their fair value, and subsequently at amortized cost, less any impairment charges. The fair value of trade receivables is considered to be their face value, in view of the payment terms, which are usually shorter than 3 months.

Trade receivables may be the subject of an impairment charge, where applicable. Following the application of IFRS 9, from now on trade receivables shall be subject to a loss allowance for impairment at the time of initial recognition, based on an assessment of expected credit losses at maturity. The loss allowance is subsequently revised depending on the increase in risk of non-recovery, where applicable. Indications of impairment that may lead the Group to such a revision include the existence of unresolved disputes, the maturity of receivables, or significant financial difficulties on the part of the debtor.

Trade receivables may be discounted, or assigned to banks as part of recurring or one-off transactions. A review is then performed at the time of these transactions, in accordance with the principles established by IAS 39 regarding the derecognition of financial investments, in order to value the transfer of the risks and rewards incident to ownership of these receivables, including the credit risk, late-payment risk, and dilution risk. If this review highlights not only the contractual transfer of the right to receive the cash flows linked to the assigned receivables, but also the transfer of virtually all of the risks and rewards, the trade receivables are then derecognized from the consolidated statement of financial position, and all of the rights created or retained at the time of the transfer are recognized, where applicable.

In the opposite situation, which is usually the case for the Group, trade receivables continue to be recognized in the consolidated statement of financial position, and a financial liability is recognized for the assigned amount.

Trade and other receivables are analyzed as follows:

	12.31.2018			**12.31.2017**		
(€)	**Gross values**	**Impairment**	**Net values**	**Gross values**	**Impairment**	**Net values**
Trade receivables	**5,464,975**	**(103,723)**	**5,361,252**	**4,003,281**	**(30,146)**	**3,973,135**
Social security receivables	5,571	-	5,571	4,714	-	4,714
Tax receivables	1,537,202	-	1,537,202	1,690,479	-	1,690,479
Other receivables	160,460	-	160,460	295,598	-	295,598
Prepaid expenses	777,695	-	777,695	224,342	-	224,342
Other assets	**2,480,928**	**-**	**2,480,928**	**2,215,133**	**-**	**2,215,133**
Total	**7,945,903**	**(103,723)**	**7,842,180**	**6,218,414**	**(30,146)**	**6,188,268**
of which due in less than one year	*7,945,903*	*(103,723)*	*7,842,180*	*6,218,414*	*(30,146)*	*6,188,268*
Average days sales outstanding		**59 days**			**55 days**	

Of the €1.2 million increase in trade receivables, €0.6 million is the result of changes in scope, with the remainder arising from a one-off deterioration in the average time taken to recover receivables (notably in the US market), which lengthened from 55 days at December 31, 2017 to 59 days at December 31, 2018.

Tax receivables primarily include the research tax credit, the employment competitiveness tax credit and VAT to be claimed back.

The €0.5 million change in prepaid expenses is explained by the recognition of rent invoices relating to the 1st quarter of 2019 in December 2018, while the rent invoices relating to the 1st quarter of 2018 were not received during the 2017 fiscal year.

4.4 Trade payables and other liabilities

Changes in trade payables and other liabilities were as follows:

(€)	12.31.2018	12.31.2017
Trade payables	**4,803,155**	**4,672,856**
Social security liabilities	2,024,395	1,871,207
Tax liabilities	712,937	237,931
Other liabilities	1,097,870	439,771
Other liabilities	**3,835,202**	**2,548,909**
Total	**8,638,357**	**7,221,765**
of which due in less than one year	*8,463,685*	*6,971,619*

The increase in trade payables is a result of changes in scope and seasonal effects.

Tax liabilities in 2018 consisted of €0.5 million in corporate income tax in respect of MEDICREA BELGIUM.

The €0.7 million increase in "Other liabilities" is mainly a result of changes in scope.

4.5 Revenue

IFRS 15 – "Revenue from Contracts with Customers" bases the recognition of revenue on the transfer of control, while IAS 18 – "Revenue" based it on the transfer of risks and rewards. In most cases within the Group, the transfer of control takes place at the same time as the transfer of risks, namely when products are dispatched. But in certain 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 potentially 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.

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.

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

4.6 Research & development costs

4.6.1 Capitalized development costs

The innovation process may be broken down between a research activity and a development activity. Research is the activity that enables scientific knowledge or new techniques to be acquired. Development is the application of the research results, with a view to creating products prior to beginning to produce them commercially.

The costs linked to research are expensed during the fiscal year in which they are incurred.

Meanwhile, development expenses are capitalized, if the Group is in a position to demonstrate:

- its intention, as well as its financial and technical capacity to bring the development project to term;
- that the intangible asset will generate future economic benefits with a value that it is higher than its net book value;
- and that the cost of this intangible asset can be measured reliably.

Capitalized development expenses are amortized over a maximum period of 5 years.

The development expenses capitalized during the fiscal year are entered in the following balance sheet items:

(€)	**12.31.2018**	**12.31.2017**
Research & development costs	1,471,093	1,891,664
Patent costs	219,004	229,847
Software	230,964	816,032
Total	**1,921,061**	**2,937,543**

4.6.2 Research and development costs recognized in the income statement

Expensed research and development costs consist of the expenses over the period that have not been capitalized, and of additions to the amortization charges for capitalized R&D expenses. They are reduced by the amount of the French research tax credit.

In France, the research tax credit, which is calculated on the basis of certain research expenses relating to projects considered as “eligible”, is repaid by the State regardless of the entity’s situation in terms of corporation tax: if the company that receives the research tax credit is liable for tax, this credit is deducted from the tax payable; otherwise, it is repaid by the State. Accordingly, the research tax credit, or any other similar tax arrangement that may exist in other foreign jurisdictions, does not fall within the scope of application of IAS 12 – Income Taxes, and is recognized as a deduction to the research and development costs taken to operating income at the rate at which the financed costs are recognized as expenses. The United States also has a research tax credit system; unlike in France, however, the resulting credit can only be applied to corporate income tax for which the company is liable. Given that the US operation has yet to report a profit, the research tax credit is not recognized in the financial statements of MEDICREA USA Corp.

Total R&D costs expensed for the year are analyzed as follows:

(€)	12.31.2018	12.31.2017
Research & development costs	3,356,490	3,810,600
Capitalized research & development costs	(1,921,061)	(2,937,543)
Amortization charge of capitalized research and development costs	2,518,962	2,041,198
Research tax credit	(887,701)	(897,375)
Total	**3,066,690**	**2,016,880**

4.7 Amortization, depreciation and impairment charges

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

Amortization and depreciation	12.31.2018	12.31.2017
Industrial and commercial property rights	329,559	301,568
Other intangible assets	2,232,970	1,728,574
Buildings	16	6,424
Plant, machinery and tools, instruments	2,742,532	2,219,605
Other property, plant and equipment	728,579	740,705
Total	**6,033,656**	**4,996,876**

The rules and principles relating to the recognition of non-current assets, and of the depreciation and amortization, and impairment charges that concern those assets are reviewed in detail in Note 6.

Impairment	12.31.2018	12.31.2017
Inventories	136,394	746,679
Trade receivables	73,577	(6,640)
Total	**209,971**	**740,039**

Amortization and depreciation charges are analyzed as follows:

(€)	**12.31.2018**	**12.31.2017**
Cost of sales	640,651	380,626
Research & development and patent costs	2,518,962	2,041,198
Sales & marketing expenses	2,052,883	1,745,501
General and administrative expenses	779,801	773,992
Other operating income and expenses	41,359	55,559
Total	**6,033,656**	**4,996,876**

4.8 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.

4.9 Operating income and other income and expenses from operations

4.9.1 Operating income

Operating income includes all income and expenses other than:

- interest income and expenses;
- other financial income / expenses;
- corporate tax.

4.9.2 Other income and expenses

To make understanding the income statement and the Group's financial performance easier, unusual items that are significant on the level of the consolidated entity are identified on the operating income line entitled "Other income and expenses".

Other income and expenses are analyzed as follows:

(€)	12.31.2018	12.31.2017
Closure of MEDICREA TECHNOLOGIES UK	(292,772)	-
Lawyers' fees	(112,685)	(416,291)
Closure of the repair center	(102,279)	-
Expenses incurred when searching for funding	(50,000)	-
Disputes with employees	37,081	(372,944)
Balance of 2017 restructuring costs	-	(14,585)
Other	(40,383)	(28,600)
Total	**(561,038)**	**(924,110)**

The Group ceased its activities in the UK from September 1, 2018, and mothballed its subsidiary MEDICREA TECHNOLOGIES UK, leading to the redundancy of all staff and the closure of its Cambridge distribution center. The Group is now represented in the UK by an independent distributor.

The costs of closing this subsidiary include costs for staff redundancies, termination of lease agreements for premises and termination of the main ongoing contracts, as well as the write-off of the net book value of assets that will not be recovered by the Group.

The lawyers' fees relate to the court proceedings initiated against K2M by MEDICREA USA, as well as to the defense costs incurred as part of an investigation launched by the US Department of Justice (DOJ).

The Group also ended its ancillary activity repairing motors for surgical devices as of December 31, 2018, following the decision of its longstanding partner to entrust this to a company located in a different European country.

The costs of closing down this business primarily relate to staff redundancy costs.

The expenses incurred when searching for funding relate to projects that were not completed.

4.10 Impact of exchange differences on sales and operating income

Average exchange rates evolved as follows:

Average conversion rates	12.31.2018	12.31.2017
USD / EUR	1.18384	1.12493
GBP / EUR	0.88535	0.87313
PLN / EUR	4.25803	4.26218
AUD / EUR	1.5817	1.47279

The impact of currency fluctuations on the comparability of the 2017 and 2018 financial statements is as follows:

(€)	12.31.2018 at the 12.31.2018 rate	12.31.2018 at the 12.31.2017 rate	Impact of exchange rates
Sales	32,279,021	33,114,543	(835,522)
Operating income after share-based payments	(9,078,137)	(9,154,208)	76,071

NOTE 5: EMPLOYEE COSTS AND BENEFITS

5.1 Workforce

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

	12.31.2018			12.31.2017		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Executives	56	37	93	50	34	84
Supervisors - Employees	42	44	86	51	37	88
Total	**98**	**81**	**179**	**101**	**71**	**172**
	*69*	*56*	*125*	*74*	*52*	*126*
	*20*	*17*	*37*	*23*	*14*	*37*
	-	-	-	*4*	*2*	*6*
	-	*5*	*5*	-	*3*	*3*
	9	2	11	-	-	-
	-	1	1	-	-	-

5.2 Employee benefits

Employee benefits are measured in accordance with IAS 19 revised, which has applied since January 1, 2014. They break down between short-term benefits and long-term benefits.

The Group's employees receive short-term benefits such as paid leave, bonuses and other benefits (other than termination allowances), which are payable within the 12-month period following the end of the period during which they performed the corresponding services.

These benefits are recognized in current payables, and are expensed during the fiscal year in which the service is provided by the employee.

Long-term benefits cover two categories of employee benefits:

- post-retirement benefits, which specifically include retirement allowances, supplementary pensions, and the covering of certain medical expenses for retirees or early retirees;
- other long-term benefits (during employment), which primarily cover long-service awards.

The various benefits offered to each employee depend on the local legislation, arrangements, or agreements in effect at each Group company. These benefits can be characterized in two ways:

- so-called defined contribution schemes, which do not imply any future commitment, since the employer's obligation is limited to the regular payment of contributions; these benefits are expensed on the basis of the requests for contributions;

- so-called defined benefit schemes, via which the employer guarantees a future level of benefits. An obligation (see Note 6.3) is then recorded under liabilities in the financial statement.

The income statement sets out personnel expenses according to their intended purpose. These expenses specifically include the following items:

(€)	**12.31.2018**	**12.31.2017**
Wages and salaries, and temporary staff	12,337,772	11,402,201
Social security costs	3,761,981	3,478,891
French tax credit for competitiveness and employment	(169,751)	(161,667)
Pension expenses for defined contribution schemes	103,343	87,492
Capitalized research and development costs (1)	(1,133,000)	(1,257,475)
Total	**14,900,345**	**13,549,442**

(1): for the salaries and expenses component only

In France, the Group receives the Competitiveness and Employment Tax Credit (CICE), which is calculated on the basis of the compensation paid to employees. This tax credit is repaid by the State, regardless of the entity's situation in terms of corporation tax. This means that it does not fall within the scope of application of IAS 12 – Income Taxes. The CICE is recognized as a deduction to personnel expense in operating income. It will not apply to subsequent fiscal years beyond 2018.

Employee costs are broken down as follows:

(€)	**12.31.2018**	**12.31.2017**
Cost of sales	3,062,977	2,539,950
Research & development costs (1)	613,644	340,976
of which salaries and employer contributions	*1,746,644*	*1,598,451*
of which share of capitalized costs	*(1,133,000)*	*(1,257,475)*
Sales & marketing expenses	8,509,394	7,909,373
General and administrative expenses	2,714,330	2,759,143
Total	**14,900,345**	**13,549,442**

(1): corresponds to non-capitalized employee costs

The overall increase in employee costs of €1.4 million is primarily attributable to the company MEDICREA BELGIUM entering the scope of consolidation, generating €0.8 million in marketing expenses and €0.1 million in additional administrative expenses.

5.3 Pension plans and similar 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).

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 (Import/Export) is the subject of a provision recognized in current liabilities for the portion due within one year, and in non-current liabilities for the balance. The corresponding commitment is measured annually based on the specific features 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 44.5% for executives and 37% 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: 1.60%, 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 Revised and the ANC’s recommendation.

The provision for acquired rights was €639,367 at December 31, 2018, compared with €600,328 at December 31, 2017. Movements are analyzed as follows:

(€)	**12.31.2018**	**12.31.2017**
Actuarial liability at the start of the period	600,328	525,011
Service cost in operating income	*103,343*	*87,492*
Net financial expense	*7,637*	*7,272*
Charge for the year in respect of defined benefit plans	**110,980**	**94,764**
Actuarial gains and losses	(71,941)	(19,447)
Actuarial liability at the balance sheet date	**639,367**	**600,328**

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.

5.4 Long-service awards

No provision is established for commitments related to long-service awards, since the applicable collective agreement does not provide for any specific provision in that regard.

5.5 Share-based payments

Certain employees and/or corporate officers of the MEDICREA Group receive compensation in equity instruments, the payment of which is based on shares. This compensation takes the form of free share allocation plans or of stock option plans. Almost all of the costs relating to these plans are expensed.

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 is recognized over one year, except for American employees for whom it is recognized over a two-year period.

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.

At the Shareholders' Meetings of March 10, 2006, June 25, 2009, June 14, 2012, June 25, 2014, June 3, 2015, December 18, 2015, June 7, 2016, June 15, 2017, November 8, 2017, and May 17, 2018, the authority to allocate share subscription or purchase options and to allocate free shares was delegated to the Board of Directors. At the Board of Directors' meetings of June 5, 2008, June 25, 2009, December 17, 2009, June 17, 2010, June 16, 2011, December 17, 2013, March 27, 2014, September 3, 2015, July 25, 2016, September 19, 2016, September 14, 2017, December 22, 2017, February 8, 2018, July 27, 2018 and December 20, 2018 share subscription options and/or free shares were allocated.

5.5.1 Share purchase option plans

The characteristic features of these share purchase plans authorized by the Shareholders' Meeting were as follows at December 31, 2018:

Year the plan was arranged	Number of options authorized	Number of options canceled / lapsed	Number of options exercised	Number of shares not yet vested	Exercise price (€)	Year unexercised options will lapse
2008	20,723	16,556	4,167	-	-	-
2009	53,480	33,000	20,480	-	-	-
2010	112,800	99,926	12,874	-	-	-
2011	95,500	95,500	-	-	-	-
2013	10,000	10,000	-	-	-	-
2014	30,000	-	-	30,000	9.10	2021
2015	12,000	12,000	-	-	-	-
2016	406,500	406,500	-	-	-	-
2017	210,000	50,000	-	160,000	3.95 / 4.11 *	2024
2017	450,000	25,000	-	425,000	2.85 *	2024
2018	570,000	-	-	570,000	2.96 / 3.21 *	2025
2018	100,000	-	-	100,000	2.73	2025
2018	65,000	-	-	65,000	2.38	2025
Total	**2,136,003**	**748,482**	**37,521**	**1,350,000**		

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

5.5.1 Free share plans

The characteristic features of these free share plans authorized by the Shareholders' Meeting were as follows at December 31, 2018:

Year the plan was arranged	Number of free shares authorized	Number of free shares canceled	Number of free shares vested	Number of shares to be allocated	Year vested (1)
2008	18,099	936	17,163	-	2010 / 2012
2009	45,800	8,100	37,700	-	2011 / 2013
2010	45,885	9,965	35,920	-	2012 / 2014
2011	3,500	-	3,500	-	2013
2016	72,990	31,000	41,990	-	2017 / 2018
2018	5,000	-	-	5,000	2019
2018	787,000	-	-	787,000	2019 / 2020
Total	**978,274**	**50,001**	**136,273**	**792,000**	

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

5.5.2 Change in stock purchase option and free share plans

Transactions in share-based payment instruments over the last two fiscal years are summarized as follows as at December 31, 2018:

	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 12.31.16	**569,718**	**5.33**	**6.09**	**72,990**	**0.72**	**1.72**
- allocated	660,000	6.89	3.00	-	-	-
- canceled	(464,000)	5.64	5.75	(9,000)	-	-
- lapsed	(16,592)	-	6.14	-	-	-
- exercised	-	-	-	(32,990)	-	-
Balance at 12.31.17	**706,592**	**6.58**	**3.67**	**31,000**	**-**	**0.72**
- allocated	735,000	3.40	2.93	792,000	0.97	1.97
- canceled	(75,000)	3.97	3.69	(22,000)	-	-
- lapsed	(16,592)	-	8.06	-	-	-
- exercised	-	-	-	(9,000)	-	0.72
Balance at 12.31.2018	**1,350,000**	**6.01**	**3.16**	**792,000**	**0.97**	**1.97**

5.5.3 Reflection of allocated instruments in the financial statements

The expenses relating to the share-based payment instruments allocated since the outset break down 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 (€)	2018 accounting charge (€ K)	Cost of plans since inception (€K)
06.05.2008	Option	4,167	6.00	5.73	0%	40%	4.44%	2.74	-	69
06.05.2008	Share	17,163	Free	5.73	0%	-	-	5.73	-	97
25.06.2009	Option	7,480	6.16	6.55	0%	40%	2.89%	2.63	-	262
25.06.2009	Share	35,700	Free	6.55	0%	-	-	6.55	-	267
12.17.2009	Option	13,000	6.32	5.96	0%	40%	2.54%	2.31	-	33
12.17.2009	Share	2,000	Free	5.96	0%	-	-	5.96	-	12
06.17.2010	Option	12,874	6.14	6.22	0%	40%	1.83%	2.44	-	247
06.17.2010	Share	35,920	Free	6.22	0%	-	-	6.22	-	263
06.16.2011	Option	-	9.10	9.40	0%	33%	2.37%	3.06	-	244
06.16.2011	Share	3,500	Free	9.40	0%	-	-	9.40	-	33
12.17.2013	Option	-	8.77	8.88	0%	36%	2.69%	3.05	-	30
27.03.2014	Option	30,000	9.10	9.14	0%	35%	2.33%	3.01	-	91
09.03.2015	Option	-	6.67	6.48	0%	33%	0.37%	1.77	-	15
25.07.2016	Option	-	5.43	5.87	0%	35%	- 0.24%	1.85	-	160
08.22.2016	Share	-	Free	5.87	0%	-	-	5.87	-	83
09.19.2016	Option	-	5.74	5.71	0%	36%	- 0.25%	1.66	-	7
09.19.2016	Share	41,990	Free	5.85	0%	-	-	5.85	19	260
09.14.2017	Option	160,000	3.95	3.86	0%	34%	- 0.01%	1.07	86	114
09.14.2017	Option	-	4.11	4.61	0%	34%	- 0.01%	1.50	-	13
12.22.2017	Option	425,000	2.85	2.79	0%	35%	0.11%	0.78	197	205
02.08.2018	Option	410,000	2.96	3.19	0%	35%	0.37%	1.03	270	270
02.08.2018	Option	160,000	3.21	3.18	0%	35%	0.37%	0.93	80	80
27.07.2018	Share	5,000	Free	2.99	0%	-	-	2.99	6	6
27.07.2018	Option	100,000	2.73	2.56	0%	35%	0.19%	0.70	18	18
12.20.2018	Share	697,000	Free	2.26	0%	-	-	2.26	48	48
12.20.2018	Share	90,000	Free	2.26	0%	-	-	2.26	3	3
12.20.2018	Option	65,000	2.38	2.38	0%	37%	0.15%	0.74	1	1
Total		**2,315,794**							**728**	**2,931**

This table does not take account of the 37,521 stock options exercised in 2014 and 2015.

5.6 US Employee Stock Purchase Plan (ESPP)

A stock purchase plan reserved for MEDICREA USA 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 on January 1 and November 30;
- These shares must be retained for 12 months before they can be sold or transferred.

Since the implementation of this plan, employees have subscribed to 35,628 shares (18,147 shares in 2018 at a price of $2.67, 3,303 shares in 2017 at a price of $3.45, 7,879 shares in 2016 at a price of $4.32 and 6,299 shares in 2015 at a price of $6.41). 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 ($9,941 in 2018). The expenses relating to the administration of this plan ($12,850 in 2018) are borne by MEDICREA USA.

5.7 French Personal Training Account (PTA)

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

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

The 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.

5.8 Senior executives and corporate officers' compensation

MEDICREA INTERNATIONAL has four executive corporate officers. They are Denys SOURNAC, Chairman and Chief Executive Officer of MEDICREA INTERNATIONAL, and Fabrice KILFIGER and David RYAN, Deputy Chief Executive Officers of MEDICREA INTERNATIONAL. Mr. CAFFIERO has not carried out any operational duties at the Group since January 1, 2018, but remains a Director 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.

5.8.1 Compensation paid or awarded in 2018

Compensation paid or awarded during 2018 is as follows:

Denys SOURNAC – Chairman and Chief Executive Officer

	2018		2017	
Compensation (€)	**Amount due**	**Amount paid**	**Amount due**	**Amount paid**
Gross fixed compensation (1)	300,000	300,000	300,000	300,000
Gross variable compensation	-	-	-	-
Directors' fees	8,000	8,000	8,000	7,000
Benefits in kind	-	-	-	-
Total	**308,000**	**308,000**	**308,000**	**307,000**

(1) Services invoiced by ORCHARD INTERNATIONAL

Fabrice KILFIGER – Deputy CEO and Chief Financial Officer

	2018		2017	
Compensation (€)	**Amount due**	**Amount paid**	**Amount due**	**Amount paid**
Gross fixed compensation	197,164	197,164	187,780	187,780
Gross variable compensation	-	15,000 (1)	15,000	15,000 (1)
Directors' fees	-	-	-	-
Benefits in kind (2)	11,460	11,460	10,443	10,443
Total	**208,624**	**223,624**	**213,223**	**213,223**

(1) Compensation for the previous fiscal year
(2) Benefits in kind: company car

David RYAN – Deputy CEO and Chief Operating Officer

	2018		2017	
Compensation (€)	**Amount due**	**Amount paid**	**Amount due**	**Amount paid**
Gross fixed compensation	199,500	199,500	175,370	175,370
Gross variable compensation	-	30,000 (1)	30,000	25,000 (1)
Directors' fees	-	-	-	-
Benefits in kind (2)	8,004	8,004	7,257	7,257
Total	**207,504**	**237,504**	**212,627**	**207,627**

(1) Compensation for the previous fiscal year
(2) Benefits in kind: company car

5.8.2 Options allocated and exercised in 2018

Options allocated during 2018 are as follows:

Beneficiaries	Company granting the options	Date options granted by Board of Directors	Number of options	Year unexercised options will lapse	Exercise price (€)
Fabrice KILFIGER	MEDICREA INTERNATIONAL	2/8/2018	160,000	2025	2.96
David RYAN	MEDICREA INTERNATIONAL	2/8/2018	60,000	2025	2.96

No options were exercised during the 2018 fiscal year by the executive corporate officers of the Company.

A history of options awarded as of December 31, 2018 is as follows:

Fabrice KILFIGER

Date of Board of Directors' meeting	06.05.08	06.25.09	06.17.10	2/8/2018
Number of options allocated	4,167	20,000	10,000	160,000
Year unexercised options will lapse	2018	2016	2017	2025
Exercise price (€)	6.00	6.16	6.14	2.96
Number of options exercised	4,167	11,354	-	-
Number of options canceled / lapsed	-	8,646	10,000	-
Number of shares not yet vested	-	-	-	160,000

David RYAN

Date of Board of Directors' meeting	06/05/2008	06/25/2009	06/17/2010	09/14/2017	02/8/2018
Number of options allocated	3,542	15,000	5,000	100,000	60,000
Year unexercised options will lapse	2018	2016	2017	2024	2025
Exercise price (€)	6.00	6.16	6.14	3.95	2.96
Number of options exercised	-	-	-	-	-
Number of options canceled / lapsed	3,542	15,000	5,000	-	-
Number of shares not yet vested	-	-	-	100,000	60,000

5.8.3 Free shares allocated in 2018

Free shares allocated during 2018 are as follows:

Beneficiaries	Company awarding free shares	Date of Board meeting at which free shares were awarded	Number of free shares	Delivery date	Valuation of free shares (1) (€)
Denys SOURNAC	MEDICREA INTERNATIONAL	12/20/2018	300,000	2019	2.26
Fabrice KILFIGER	MEDICREA INTERNATIONAL	12/20/2018	90,000	2019	2.26
David RYAN	MEDICREA INTERNATIONAL	12/20/2018	90,000	2019	2.26

(1) Based on the method used for the consolidated financial statements

A history of free shares awarded as of December 31, 2018 is as follows:

Denys SOURNAC

Date of Board of Directors' meeting	12/20/2018
Number of shares allocated	300,000
Delivery date of free shares	2019
Valuation of free shares - € (1)	2.26

(1) Based on the method used for the consolidated financial statements

Fabrice KILFIGER

Date of Board of Directors' meeting	06/05/2008	6/25/2009	6/17/2010	9/19/2016	12/20/2018
Number of shares allocated	2,778	7,500	2,500	9,000	90,000
Delivery date of free shares	2010	2011	2012	2018	2019
Valuation of free shares - € (1)	5.73	6.55	6.22	5.85	2.26

(1) Based on the method used for the consolidated financial statements

David RYAN

Date of Board of Directors' meeting	06/05/2008	6/25/2009	6/17/2010	6/16/2011	9/19/2016	12/20/2018
Number of shares allocated	2,361	6,000	2,500	3,000	9,000	90,000
Delivery date of free shares	2010	2011	2012	2013	2018	2019
Valuation of free shares - € (1)	5.73	6.55	6.22	9.40	5.85	2.26

(1) Based on the method used for the consolidated financial statements

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

6.1 Goodwill

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

Goodwill is analyzed as follows:

(€)	12.31.2018	12.31.2017
Acquisition of MEDICREA BELGIUM	8,758,164	-
Acquisition of MEDICREA TECHNOLOGIES (*)	2,364,277	2,364,277
Acquisition of MEDICREA AUSTRALIA	747,226	-
Acquisition of MEDICREA EUROPE FRANCOPHONE (*)	212,573	212,573
Acquisition of MEDICREA TECHNOLOGIES UK	49,363	49,770
Total	**12,131,603**	**2,626,620**

(*): merged into MEDICREA INTERNATIONAL

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 (combined into a single CGU) with their market value as represented by their market capitalization.

Goodwill in relation to the interest held in MEDICREA BELGIUM takes into account a commitment to buy shares from minority shareholders of €8.9 million, calculated on the basis of EBITDA forecasts available as of December 31, 2018, using a discount rate of 1.6%. Goodwill in relation to the interest held in MEDICREA AUSTRALIA takes into account a commitment to buy shares from minority shareholders of €0.7 million, calculated on the basis of EBITDA forecasts available as of December 31, 2018 and commercial operations being launched in Q4 2018, and using a discount rate of 1.6%.

The market capitalization based on the MEDICREA share price was €37.1 million at December 31, 2018, compared with consolidated shareholders' equity of €14.9 million at the same date.

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. 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 five years.

6.4 Property, plant and equipment

Property, plant and equipment items that are purchased separately are initially valued at their historical cost, in accordance with IAS 16. This cost includes the expenses that are directly related to the purchase of the asset, and the estimated cost of the obligation to return part of the asset to working order, where applicable.

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.

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

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

Property, plant and equipment is the subject of an impairment test, in accordance with the method set out in Note 6.2.

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

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

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

6.5 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.

6.6 Non-current assets, and amortization and depreciation charges of the last two years

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

Non-current assets – €	**12.31.2018**	**12.31.2017**
Research & development costs	14,086,800	12,438,508
Patents and similar rights	4,687,565	4,468,561
Computer licenses and software	3,274,269	2,404,187
Brands	25,133	25,133
Intangible assets	**22,073,767**	**19,336,389**
Buildings	-	4,525
Technical facilities and equipment	6,123,091	6,148,968
Demonstration equipment	836,436	658,830
Instrument sets	7,821,310	6,401,042
Computer hardware and office equipment	2,312,627	2,492,148
Other non-current assets	4,141,303	3,916,801
Property, plant and equipment	**21,234,767**	**19,622,314**
Guarantees and deposits	650,629	686,518
Non-current financial assets	**650,629**	**686,518**
Total gross values	**43,959,163**	**39,645,221**

Amortization, depreciation and provisions – €	**12.31.2018**	**12.31.2017**

Intangible asset amortization	13,975,055	11,453,636
Property, plant and equipment depreciation	10,880,981	8,850,566
Total amortization, depreciation and provisions	**24,856,036**	**20,304,202**
Total net values	**19,103,127**	**19,341,019**

Over a 2-year period, changes in non-current assets (excluding goodwill) were as follows:

Net non-current assets – €	**12.31.2018**	**12.31.2017**
At the start of the period	**19,341,019**	**17,108,993**
Investments during the period	6,061,665	8,789,073
Disposals during the period	(523,686)	(940,869)
Amortization, depreciation and provision charges	(6,033,656)	(4,996,876)
Change in consolidation scope	59,314	-
Translation adjustment	198,471	(619,302)
At the end of the period	**19,103,127**	**19,341,019**

6.7 Change in non-current assets, and depreciation and amortization in 2018

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

Gross values (€)	**01.01.2018**	Translation adjustment	Acquisitions	Disposals	Other	**12.31.2018**
Research & development costs	12,438,508	22,449	1,625,843	-	-	14,086,800
Patents and similar rights	4,468,561	-	219,004	-	-	4,687,565
Computer licenses and software	2,404,187	44,032	891,017	64,967	-	3,274,269
Brands	25,133	-	-	-	-	25,133
Intangible assets	**19,336,389**	**66,481**	**2,735,864**	**64,967**	**-**	**22,073,767**
Buildings	4,525	-	-	4,525	-	-
Technical facilities and equipment	6,148,968	330	490,524	516,731	-	6,123,091
Demonstration equipment	658,830	13,127	331,759	167,280	-	836,436
Instrument sets	6,401,042	127,428	2,239,729	1,130,253	183,364	7,821,310
Computer hardware and office	2,492,148	9,935	161,696	247,954	(103,198)	2,312,627
equipment	3,916,801	51,393	74,346	18,266	117,029	4,141,303
Other non-current assets	**19,622,314**	**202,213**	**3,298,054**	**2,085,009**	**197,195**	**21,234,767**
Property, plant and equipment						
Guarantees and deposits	686,518	13,373	27,747	77,009	-	650,629
Non-current financial assets	**686,518**	**13,373**	**27,747**	**77,009**	**-**	**650,629**
Total gross values	**39,645,221**	**282,067**	**6,061,665**	**2,226,985**	**197,195**	**43,959,163**

Amortization and depreciation (€)	**01.01.2018**	Translation adjustment	Charges	Reversals	Other	**12.31.2018**
Research & development costs	7,675,359	14,121	1,690,566	-	-	9,380,046
Patents and similar rights	3,142,962	-	329,559	-	-	3,472,521
Computer licenses and software	610,182	9,737	542,403	64,967	-	1,097,355
Brands	25,133	-	-	-	-	25,133
Intangible assets	**11,453,636**	**23,858**	**2,562,528**	**64,967**	**-**	**13,975,055**
Buildings	4,405	-	16	4,421	-	-
Technical facilities and equipment	2,558,758	330	694,139	306,332	-	2,946,895
Demonstration equipment	379,491	3,319	221,429	105,663	(8,945)	489,631
Instrument sets	4,037,861	30,690	1,826,964	982,923	136,095	5,048,687
Computer hardware and office	1,272,715	7,756	328,232	236,699	10,731	1,382,735
equipment	597,336	17,643	400,348	2,294	-	1,013,033
Other non-current assets	**8,850,566**	**59,738**	**3,471,128**	**1,638,332**	**137,881**	**10,880,981**
Property, plant and equipment						
Total amortization and depreciation	**20,304,202**	**83,596**	**6,033,656**	**1,703,299**	**137,881**	**24,856,036**

Net values (€)	**01.01.2018**	Translation adjustment	Increases	Decreases	Other	**12.31.2018**
Intangible assets	7,882,753	42,623	173,336	-	-	8,098,712
Property, plant and equipment	10,771,748	142,475	(173,074)	446,677	59,314	10,353,786
Non-current financial assets	686,518	13,373	27,747	77,009	-	650,629
Total net values	**19,341,019**	**198,471**	**28,009**	**523,686**	**59,314**	**19,103,127**

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 2018 fiscal year include:

- The continued development of the software platform and the range of UNiD ™ services with the integration of new services for the use of pre-, inter- and post-operative data and for analytical learning for personalized spinal surgery;
- The in-house development of a new range of 3D-printed titanium implants, comprised of standard and patient-specific interbody cages as well as patient-specific corpectomy implants;
- The finalization of the PASS TULIP® top-loading screw range and the development of a next generation generic tulip screw.

R&D costs capitalized for the fiscal year 2018 amounted to €1,625,843 compared with €1,891,664 in 2017.

2 / Patent costs capitalized in 2018 amounted to €219,004, compared with €780,417 in respect of the previous year. Of these, 75% relate to patient-specific spinal osteosynthesis rods (UNiD® rods). In 2017, it included the purchase of three patents from Dr Paul McAfee, which protect an innovative technique that helps to ascertain the physiological height of the intervertebral space by using the anatomy of the patient to accurately select the appropriate interbody device.

3/ The increase in the licenses and software item is primarily due to the development of the UNiD ™ HUB, a proprietary surgical planning software package, which relies on data-driven technologies, and was commissioned following approval by the FDA at the time of the NASS Conference in late October 2017.

4/ The Group continued to expand its machine base with an investment of €0.5 million in 2018, mainly related to the purchase of a 5-axle machining center.

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 in line with the entry / exit 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-depreciated instruments are taken off the books on a regular basis.

7/ The main reason for the increase in the computer hardware and office equipment item is the renewal of equipment under operating leases.

8/ The increase in other non-current assets is mainly due to expenditure for head office fixtures and fittings.

6.8 Leases

6.8.1 Finance leases and operating leases

Finance leases and operating leases that transfer substantially all the risks and rewards incidental to ownership of the asset to the Group are recognized as follows:

- the corresponding assets are entered as property, plant and equipment or intangible assets as soon as the lease agreement is signed, in an amount equivalent to the fair value of the leased asset, and are amortized over their likely useful life;
- the resulting financial commitments are shown in financial debt;
- the payments relating to the lease are broken down between financial expense and amortization of the debt.

Non-current assets acquired via finance leases and operating leases are broken down as follows:

	12.31.2018				12.31.2017			
(€)	**Gross value**	**Depr.**	**Net value**	**Financial liability**	**Gross value**	**Depr.**	**Net value**	**Financial liability**
Software	21,700	(21,700)	-	-	21,700	(14,888)	6,812	6,919
Technical facilities and equipment	3,374,252	(1,641,825)	1,732,427	930,028	3,108,569	(1,424,482)	1,684,087	848,911
Computer hardware	883,590	(391,006)	492,584	464,804	962,273	(407,287)	554,986	538,183
Total	**4,279,542**	**(2,054,531)**	**2,225,011**	**1,394,832**	**4,092,542**	**(1,846,657)**	**2,245,885**	**1,394,013**

Acquisitions in 2018 financed through finance leases or operating leases consisted of a five-axis machining center (€436k) and IT equipment (€81k).

Finance lease and operating lease commitments are analyzed as follows:

(€)	12.31.2018	12.31.2017
Lease payments		
Total payments from previous years (1)	1,164,129	1,425,166
Lease payments for the year (1)	556,104	525,252
Total	**1,720,233**	**1,950,418**
Future minimum lease payments		
Within 1 year	586,675	494,797
1 to 5 years	822,581	949,841
More than 5 years	-	-
Total	**1,409,256**	**1,444,638**
Residual values	**21,846**	**19,532**

(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.

6.8.2 Operating leases

Leases under which the lessor retains substantially all the risks and rewards incidental to ownership of the leased asset are treated as operating leases. The payments made in relation to operating lease agreements are recognized as operating expenses on a straight-line basis, until the expiry of the agreement.

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

Entities	Annual rent	Lease term
MEDICREA INTERNATIONAL, Rillieux-la-Pape, FR	EUR 1,131,878	12 years from September 23, 2016
MEDICREA USA, New-York, US	USD 987,767	10 years from April 1, 2016
MEDICREA TECHNOLOGIES UK, Swaffam Bulbeck, UK	GBP 8,800	Lease terminated
MEDICREA GMBH, Cologne, DE	EUR 14,591	Lease terminated
MEDICREA POLAND, Łódź, PL	PLN 49,059	3 years from March 1, 2017
MEDICREA BELGIUM, Houwaart, BE	EUR 14,547	9 years from September 1, 2015

The lease agreement for the offices of MEDICREA TECHNOLOGIES UK was terminated in August 2018; the Group is now represented in the UK by an independent distributor.

The lease agreement for the offices of MEDICREA GMBH was terminated and ended in May 2018. The Group is now represented in Germany by an independent distributor.

Future operating lease commitments can therefore be summarized as follows:

(€)		**12.31.2018**			**12.31.2017**	
	Real estate	**Other**	**Total**	**Real estate**	**Other**	**Total**
Within 1 year	2,055,781	175,759	2,231,540	1,962,921	168,559	2,131,480
1 to 5 years	7,444,539	103,881	7,548,420	8,071,679	136,347	8,208,026
5 to 10 years	8,959,807	-	8,959,807	8,974,850	-	8,974,850
More than 10 years	-	-	-	834,690	-	834,690
Total	**18,460,127**	**279,640**	**18,739,767**	**19,844,140**	**304,906**	**20,149,046**

The impacts at December 31, 2018 of early application of the new IFRS 16 on leases are detailed in Section 1.1.2.

NOTE 7: PROVISIONS AND CONTINGENT LIABILITIES

7.1 Provision charges

A provision is recorded as soon as:

- the Group has a legal, contractual, or implicit obligation resulting from a past event;
- it is likely that an outflow of resources representing economic benefits will be required in order to settle the obligation;
- the amount of the obligation can be measured reliably.

The provisions are measured pursuant to IAS 37, by taking into account the most likely scenarios at the balance sheet date.

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:

(€)	Provisions for pensions	Provisions for litigation	Other provisions	Total
Provisions at January 1, 2018	**600,328**	**177,914**	**22,000**	**800,242**
Charges	110,980	10,000	4,800	125,780
Used during the year	-	(42,648)	(3,500)	(46,148)
Reversals	-	(44,549)	(18,500)	(63,049)
Actuarial gains and losses	(71,941)	-	-	(71,941)
Translation adjustment	-	(717)	-	(717)
Provisions at December 31, 2018	**639,367**	**100,000**	**4,800**	**744,167**
of which due in less than one year	*17,499*	*100,000*	*4,800*	*122,299*
of which due between one and five years	*21,015*	-	-	*21,015*
of which due in more than five years	*600,853*	-	-	*600,853*

Provisions for litigation relate to pay disputes that have not been settled as of December 31, 2018.

7.2 Contingent liabilities

A contingent liability is:

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

These contingent liabilities were not recognized in the Group's financial statements as of December 31, 2018.

The contingent liabilities identified at December 31, 2018 were as follows:

- 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™ patient-specific rods and any MEDICREA implants necessary for the treatment of patients requiring corrective surgery.

  Since the launch of this warranty, no activation request has been recorded. On this basis, the Group did not recognize any provision in its financial statements at December 31, 2018 and, depending on all the data collected in 2019, it will assess whether or not it is necessary to review this position at December 31, 2019.

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

- Two royalties contracts concluded with two American surgeons provide for the possibility of the surgeons terminating the contracts in the event of a change of control of MEDICREA Group and demanding payment of compensation of $1 million each.

- Since July 2017, MEDICREA USA has been the subject of a civil investigation conducted by the American Department of Justice (DOJ) under the Sunshine Act, which defines the rules under which healthcare professionals should declare benefits in relation to their participation in conferences, trade shows, meetings, etc. With the support of a specialist law office, the Company has provided a number of reports and items in order to demonstrate its complete compliance with the obligations to which it was subject. Having been silent since February 2018, during the last quarter of 2018 the DOJ communicated the results of its initial investigations that are, at the very least, questionable. Over the course of the first quarter of 2019, the Company, through its lawyers, presented and provided information demonstrating that the findings of the American administration were not based on any evidence. Following these exchanges, the DOJ submitted a fresh request to examine the emails exchanged between individuals employed by the Company and by MEDICREA INTERNATIONAL during the period covered by the investigations. The Company has agreed to provide all such information. At the date on which this document has been prepared, it is not possible to estimate, in the unlikely event that the ruling goes against the Company, the potential amount of the liability involved.

NOTE 8: FINANCING AND FINANCIAL INSTRUMENTS

8.1 Net financial debt

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

In November 2018, the Group completed a $30 million note issue fully subscribed by Perceptive Advisors, a leading US investment fund in the healthcare field. The refinancing facility consists of senior secured and guaranteed notes, governed by New-York law with coupon based on the greater of Three-Month LIBOR or 2.5% plus a margin of 8.5%. The notes are due to mature in November 2022. The note issue was accompanied by the issuance of 1 million unlisted warrants subscribed free of charge by Perceptive Advisors, entitling the holder to subscribe for 1 million new MEDICREA shares at an exercise price of €2.19. The warrants are exercisable for a period of seven years from issuance.

With this transaction, the Group has retired all of its outstanding €15 million convertible debt with Athyrium Capital Management, and repaid other outstanding debt secured by goodwill pledges for a total amount of €1.6 million.

Commitments to buy out non-controlling interests in MEDICREA BELGIUM (€8.9 million) and MEDICREA AUSTRALIA (€0.7 million) are recognized in other financial liabilities.

The Group's net financial debt at December 31, 2018 is analyzed as follows:

(€)	12.31.2018			12.31.2017		
	Non-current	**Current**	**Total**	**Non-current**	**Current**	**Total**
Long-term financial debt	31,730,339	4,063,686	35,794,025	16,738,955	3,494,313	20,233,268
Short-term and bank loans	-	790,645	790,645	-	893,065	893,065
Gross financial debt	**31,730,339**	**4,854,331**	**36,584,670**	**16,738,955**	**4,387,378**	**21,126,333**
Cash and cash equivalents	-	(10,802,725)	(10,802,725)	-	(11,980,693)	(11,980,693)
Net financial debt	**31,730,339**	**(5,948,394)**	**25,781,945**	**16,738,955**	**(7,593,315)**	**9,145,640**

8.1.1 Analysis of long-term 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.

At December 31, 2018, financial liabilities as a whole can be analyzed as follows:

(€)	**12.31.2018**	**12.31.2017**
Bond issues	23,458,680	15,601,568
Loans from credit institutions	1,315,997	3,218,398
Operating leases	1,077,989	1,039,433
Finance leases	316,843	354,580
Accrued loan interest	591	7,590
Other financial debt	9,623,925	11,699
Total	**35,794,025**	**20,233,268**
of which fixed-rate financial debt	*12,916,679*	*20,233,268*
of which variable rate financial debt	*22,877,346*	-

The note issues are broken down as follows:

(€)	**12.31.2018**	**12.31.2017**
Bond loan – November 2018 (1)	22,877,346	-
Convertible bond loan – August 2016 (2)	-	13,457,885
Bond loan – February 2016 (3)	-	1,150,000
Bond loan – April 2015	581,334	993,683
Total	**23,458,680**	**15,601,568**

(1) As explained in Note 8.1, the Group issued notes totaling $30 million. Converting these using the exchange rate at December 31, 2018 gives a total value of €26,200,800. The note issue was accompanied by the issuance of 1 million unlisted warrants subscribed free of charge by Perceptive Advisors, entitling the holder to subscribe for 1 million new Medicrea shares at an exercise price of €2.19. In accordance with IAS 32, which covers equity instruments, the warrants have been measured at a fair value of €2 million and recognized as a deduction against the underlying financial liability.

In view of these factors, the bond loan was broken down into a debt component of €24,156,817 and an equity component of €2,043,983 pursuant to the so-called split-accounting method (IAS 32).

The same principle was applied to the issue costs for the loan, which amounted to €1,410,486 in total, and resulted in those costs being broken down into a debt component of €1,301,596, amortized over the lifetime of the underlying loan in accordance with the effective interest rate method, and an equity component of €108,890.

The associated IFRS restatements may be summarized as follows:

(€)	**12.31.2018**
At January 1, 2018	-
Bond loan issue	26,200,800
IFRS restatements to warrants	(2,043,983)
IFRS restatements to note issuance costs	(1,301,596)
Loan issue costs restatement amortization for the period	22,125
At December 31, 2018	**22,877,346**

At December 31, 2018, the $30 million note issue was not hedged against foreign exchange or interest rate risk given the Group's difficulties in arranging a cross-currency swap with its partner banks.

(2) The Company redeemed the €15 million convertible note issue subscribed in August 2016 by Athyrium Capital Management, leading to the following items being recognized:

(€)	**12.31.2018**
At January 1, 2018	13,457,885
Loan amortization	664,489
Amortization of issue costs	316,898
Loan redemption	(15,000,000)
IFRS restatements reversed through equity	560,728
At December 31, 2018	**-**

(3) The bond loan of €1.15 million was repaid in full during the fiscal year.

8.1.2 Change in long-term financial debt

Changes in long-term financial liabilities can be analyzed as follows:

(€)	**12.31.2017**	**Cash movements**		**Non-cash movements**	**12.31.2018**
		Issues	**Redeemed**		
Bond issues	15,601,568	26,200,800	(16,562,349)	(1,781,339)	23,458,680
Loans from credit institutions	3,218,398	1,200,000	(3,107,707)	5,306	1,315,997
Operating leases	1,039,433	-	(410,686)	449,242	1,077,989
Finance leases	354,580	-	(105,180)	67,443	316,843
Accrued loan interest	7,590	-	-	(6,999)	591
Other	11,699	-	-	9,612,226	9,623,925
Long-term borrowings	**20,233,268**	**27,400,800**	**(20,185,922)**	**8,345,879**	**35,794,025**
Short-term borrowings (1)	**893,065**	**-**	**(3,284)**	**(99,136)**	**790,645**
Total	**21,126,333**	**27,400,800**	**(20,189,206)**	**8,246,743**	**36,584,670**

(1) Short-term borrowings correspond to current bank overdrafts, and factoring, as well as to accrued bank interest, as detailed in Section 8.1.4.

This change is due to repayments made during the 2017 fiscal year in accordance with existing repayment schedules, the $30 million note issue and the subscription of two new bank loans totaling $1.2 million. The $30 million note issue also made possible early redemption of the €15 million convertible note issue subscribed by Athyrium Capital Management in August 2016, as well as early repayment of other bank loans totaling €1.6 million.

Non-cash changes totaling €8.2 million are mainly the result of IFRS adjustments linked to the following:

- liabilities on buyouts of non-controlling interests: + €9.6 million;
- note issues: - €1.7 million;
- capitalization of new finance leases and operating leases: + €0.5 million.

8.1.3 Maturity of long-term financial debt

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

(€)	12.31.2018	Within 1 year	1 to 5 years	More than 5 years
Bond issues	23,458,680	432,540	23,026,140	-
Loans from credit institutions	1,315,997	362,767	863,230	90,000
Operating leases	1,077,989	438,962	639,027	-
Finance leases	316,843	116,826	200,017	-
Accrued loan interest	591	591	-	-
Other	9,623,925	2,712,000	6,900,226	11,699
Total	**35,794,025**	**4,063,686**	**31,628,640**	**101,699**

Securities granted in relation to certain Group assets to guarantee borrowings, as well as early repayment clauses and covenants are detailed in Note 8.5.3 "Liquidity risks".

8.1.4 Analysis of short-term financial debt

A factoring agreement relating to export trade receivables was arranged in 2016. In France, the Group finances its trade receivable item via a short-term cash facility treated as a bank overdraft.

At December 31, 2018, all short-term financial debt was taken out in Euros and at fixed rates, and is analyzed as follows:

(€)	12.31.2018	12.31.2017
Bank overdrafts	500,000	503,284
Factoring	284,057	385,178
Accrued bank interest	6,588	4,603
Total	**790,645**	**893,065**

8.1.5 Analysis of cash and cash equivalents

Cash and cash equivalents include cash and money market investments that are immediately available and with an insignificant risk of changes in value over time.

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.

Cash and cash equivalents changed as follows:

(€)	**12.31.2018**	**12.31.2017**
Cash	10,802,725	11,980,693
Cash and cash equivalents	**10,802,725**	**11,980,693**

8.1.6 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 included in Section 3.4 of the notes to the financial statements at December 31, 2018.

The other changes in net cash flows from financing activities are detailed as follows:

(€)	**12.31.2018**	**12.31.2017**
Issue costs for the €30 million bond loan	(1,410,486)	-
Capital increase expenses charged as issue costs	(391,973)	(1,295,204)
Loan issue costs	5,306	6,745
Other financial loans	-	11,699
Total	**1,797,153**	**(1,276,760)**

8.1.7 Average debt rate

The average debt rate evolved as follows:

	12.31.2018	**12.31.2017**
Euro (EUR)	6.86%	5.80%

The high level of the average interest rate on the debt is due to interest on the bond loans, for which the interest rates are significantly higher than those of conventional bank financing. The average interest rate on the debt worked out at 3.67% excluding the bond loans.

8.2 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 2018 fiscal year.

8.3 Financial income and expenses

Financial income and expenses consist of the interest income and expense relating to the cost of the net financial debt, as well as of other financial income and expenses.

8.3.1 Cost of net financial debt

The cost of net financial debt corresponds to the interest paid on the financial debt less the interest received on cash investments.

These items are analyzed as follows:

(€)	12.31.2018	12.31.2017
Bond interest	(2,280,850)	(2,123,849)
Loan interest	(51,026)	(65,876)
Finance lease interest	(46,248)	(45,064)
BPI loan guarantee	(26,238)	(8,211)
Overdraft interest	(11,160)	(3,396)
Factoring interest	(2,871)	(2,556)
Other	(9,778)	-
Cost of net financial debt	**(2,428,171)**	**(2,248,952)**

8.3.2 Other financial income and expenses

Other financial income and expenses primarily include the gains and losses on foreign exchange transactions.

These items are analyzed as follows:

(€)	12.31.2018	12.31.2017
Foreign exchange gains / (losses)	166,002	(179,060)
Income from cash investments	-	8,332
Other financial income / (expenses)	**166,002**	**(170,728)**

Foreign exchange gains and losses in fiscal year 2018 are broken down as follows:

(€)	12.31.2018
Revaluation of $30 million note issue using the exchange rate at December 31, 2018	230,956
Revaluation of bank balances using the exchange rate at December 31, 2018	(31,899)
Creation of dollar-denominated term deposits	(33,055)
Other financial income / (expenses)	**166,002**

8.4 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 occasionally 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.

8.4.1 Balance sheet disclosures

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

Sections	At 12.31.2018			At 12.31.2017		
	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**	5,361,252	5,361,252	**C**	3,973,135	3,973,135
Other current assets (2)	**C**	160,460	160,460	**C**	295,598	295,598
Cash and cash equivalents	**A**	10,802,725	10,802,725	**A**	11,980,693	11,980,693
Liabilities (€)						
Negative cash balances (3)	**A**	790,645	790,645	**A**	893,065	893,065
Current and non-current financial liabilities excluding negative cash balances	**B**	35,794,025	35,794,025	**B**	20,233,268	20,233,268
Trade payables	**C**	4,803,155	4,803,155	**C**	4,672,856	4,672,856
Other current and non-current liabilities (4)	**C**	1,097,870	1,097,870	**C**	439,771	439,771

(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.

8.4.2 Income statement disclosures

The following table presents the impact of financial assets and liabilities on the income statements for the 2018 and 2017 fiscal years, as well as the breakdown of this impact according to the categories outlined in IAS 39:

	Designation of financial instruments	**At 12.31.2018**	**At 12.31.2017**
Investment income		**-**	**8,332**
Proceeds from sale of marketable securities	**A**	-	8,332
Finance costs		**(2,428,171)**	**(2,248,952)**
Interest charge	**B**	(2,428,171)	(2,248,952)
Other financial income		**248,181**	**-**
Exchange gains	**A**	248,181	-
Other financial expenses		**(82,179)**	**(179,060)**
Exchange losses	**A**	(82,179)	(179,060)

8.5 Risk management policy

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.

8.5.1 Risks related to changes in raw material prices

Implant production requires purchasing materials such as titanium, cobalt chromium, and polymers tolerated by the human body, particularly 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 (between 5 and 10%).

8.5.2 Credit risks

The Group monitors its customers' average payment period on a monthly basis. This ratio was 59 days at December 31, 2018. For international customers other than healthcare institutions not paying in advance or likely to present a risk of non-payment, the Group puts in place hedging mechanisms such as the following:

- an application for guarantee from Coface. At the end of December 2018, the maximum amount of trade receivables that may be guaranteed by Coface was €613,000;
- documentary credits (one such arrangement was in place at December 31, 2018 in the amount of €26,670)

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

(€)	12.31.2018	12.31.2017
Gross trade receivables	5,464,975	4,003,281
Outstanding for more than 6 months	107,981	37,412
% of trade receivables	1.98%	0.93%
Total provision for doubtful receivables	103,723	30,146
% of trade receivables	1.90%	0.75%
Bad debt losses	22,751	4,537

8.5.3 Liquidity risks

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

The financial resources secured following fundraising transactions total approximately €76 million and USD 30 million, as detailed in the table below:

Date	Nature	Amount (€)	Amount (USD)
June 2006	Share capital increase by means of a public offering	11,587,604	
December 2007	Share capital increase	7,000,002	
November 2008	Share capital increase	1,155,928	
April 2009	Issue of new shares with share warrants	1,176,000	
May 2009	Issue of new shares with share warrants	767,621	
June 2009	Share capital increase	621,942	
December 2009	Share capital increase	1,395,608	
December 2009	Exercise of share warrants	582,831	
May 2010	Issue of bonds redeemable in new shares	1,928,624	
June 2010	Share capital increase	594,740	
November 2011	Issue of new shares with share warrants	1,534,500	
August 2012	Share capital increase	762,000	
June 2015	Share capital increase through private placement	3,543,697	
August 2016	Issue of bonds convertible into new shares	15,000,000	
August 2016	Share capital increase through private placement	4,999,983	
June 2017	Share capital increase through private placement	13,000,003	
December 2017	Issue of new shares with share warrants	7,216,957	
July 2018	Issue of new shares with share warrants	3,083,777	
November 2018	Issue of bonds and share warrants		30,000,000
Total		**75,951,817**	**30,000,000**

These fund-raising transactions totaling have significantly reduced this liquidity risk and have given the Group the necessary resources to implement its expansion strategy, create new subsidiaries, launch new products and develop innovative technologies, particularly in the field of personalized medicine.

8.5.4 Foreign exchange risks

Most of the Group's supplies are denominated in Euros. Sales to US, Australian and Polish 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, 2018, to hedge its dollar-denominated term deposits, the Group entered into currency hedging contracts consisting of forward sales of dollars for euros for a total amount of €3 million.

8.5.5 Interest rate risks

At December 31, 2018, all borrowings were at fixed rates with the exception of a $30 million note issue completed in November 2017, maturing in four years and bearing interest at 8.5% plus the higher of 3-month USD LIBOR and 2.5%. The Group plans to simultaneously hedge foreign exchange and interest rate risk on this borrowing through a cross-currency swap and is currently in talks with its partner banks in this regard. No final hedging agreement had yet been put in place at the balance sheet date.

8.5.6 Risk of changes in exchange rates

The Group generated 48% of its 2018 consolidated sales in dollars through its subsidiary MEDICREA USA (59% in 2017). The reduction in this percentage is explained by the significant contribution to total sales made by MEDICREA BELGIUM sales, a new subsidiary created in 2018.

The US, Polish, Polish and Australian subsidiaries are invoiced in their functional currency when they are able to settle their trade liabilities, 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.

In 2018, the US dollar depreciated by more than 12% compared to the average rate of 2017. This generated a negative impact of €0.8 million on 2018 sales. A breakdown of these changes can be found in Note 4.10.

A 15% appreciation of the US dollar against the euro, applied to data from the 2018 fiscal year, would result in an increase to Group sales of €2.4 million and a negative impact of €0.3 million on operating income.

Conversely, a 15% depreciation of the dollar against the euro, applied to 2018 data, would result in a decline in Group sales and an increase in operating income in the same proportions as those indicated above.

8.6 Off-balance sheet commitments related to Group financing

8.6.1 Commitments given in relation to medium-term borrowings

(€)	**12.31.2018**	**12.31.2017**
Pledges of business goodwill (1)	26,483,051	5,644,801
Pledge of equipment	1,098,976	1,098,976
Cash collateral (2)	55,000	62,500

(1) Pledges on goodwill to secure the $30 million note issue completed in November 2018
(2) Holdbacks retained by BPI as cash collateral for loans totaling €1,250,000

The agreement associated with the $30 million note issue subscribed by Perceptive Advisors in November 2018 stipulates that the Group must ensure that it always has available cash of at least $2.5 million and that, at the end of each calendar quarter, revenue for the previous 12 months must meet the minimum revenue criteria (€26 million at December 31, 2018). Both these conditions were fulfilled at December 31, 2018.

In addition to these commitments, Perceptive Advisors is the beneficiary of pledges on the goodwill of MEDICREA INTERNATIONAL in the amount of €26,483,051 as well as on certain assets of MEDICREA INTERNATIONAL and its subsidiary MEDICREA USA, broken down as follows:

- debt subordination agreement between the Group's various subsidiaries;
- pledge on all the securities of MEDICREA USA Corp held by MEDICREA INTERNATIONAL;
- guarantee that MEDICREA USA Corp will repay the borrowing should MEDICREA INTERNATIONAL default;
- pledge on patents, brands and other intellectual property held by MEDICREA INTERNATIONAL in favor of Perceptive Advisors;
- first-ranking pledge on all bank balances held by MEDICREA INTERNATIONAL in favor of Perceptive Advisors;
- first-ranking pledge on all trade and intercompany receivables of MEDICREA INTERNATIONAL in favor of Perceptive Advisors;
- first-ranking pledge on inventories of finished products held by MEDICREA INTERNATIONAL in favor of Perceptive Advisors.

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

(€)	**12.31.2018**	**12.31.2017**
Assignment of trade receivables	500,000	500,000
BPI counter guarantee (1)	-	1,008,729

(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, 2018 was €245,000.

NOTE 9: CORPORATE TAX

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 €887,701 reduction in research and development costs for 2018 (€897,375 in 2017).

9.1 Analysis of the corporate tax rate

(€)	**12.31.2018**	**12.31.2017**
Current tax	(613,392)	-
Deferred tax	143,571	504,658
Corporate income tax (expense)/income	**(469,822)**	**504,658**

9.2 Analysis of the corporate tax rate

The Group's corporate tax charge for the year to December 31, 2018 is analyzed as follows:

(€)	**12.31.2018**	**12.31.2017**
Consolidated net income/(loss)	**(11,810,128)**	**(10,727,292)**
Corporate tax	(469,822)	504,656
Income before tax	**(11,340,306)**	**(11,231,948)**
Share-based payments	(728,078)	(287,338)
Taxable income	**(10,612,228)**	**(10,944,610)**
Adjustment to the research and employment and competitiveness tax	(1,057,452)	(1,059,042)
credit	**(11,669,680)**	**(12,003,652)**
Taxable income excluding adjustments	**3,267,510**	**3,361,023**
Theoretical tax income / (charge) @28%	(551,511)	(309,175)
Difference in tax rates of other countries	6,049	574,590
Tax on permanent differences	(2,872,947)	(3,390,094)
Uncapitalized tax losses carried forward	(24,624)	(445,426)
Correction of previous tax charges	(244,321)	643,366
Capping of deferred tax assets	(49,978)	70,373
Other	**(469,822)**	**504,657**
Recognized corporate tax income/ (charge)		

9.3 Analysis of deferred taxation

Deferred tax assets and liabilities are analyzed as follows:

(€)	**12.31.2018**	**12.31.2017**
Tax losses carried forward	1,593,004	1,475,985
Temporary tax differences	74,121	9,935
Consolidation restatements	455,085	558,576
Total deferred tax assets	**2,122,210**	**2,044,496**
Temporary tax differences	163,828	209,017
Consolidation restatements	505,873	650,678
Total deferred tax liabilities	**669,701**	**859,695**

Recoverability testing of tax losses carried forward, performed on a subsidiary-by-subsidiary basis, led to the non-recognition of tax losses generated by the Group over the 2018 fiscal year. Furthermore, for the parent company, deferred tax assets related to consolidation restatements cannot exceed deferred tax liabilities.

Deferred tax assets not recognized in the balance sheet totaled €14.5 million at December 31, 2018, including €13.3 million of unrecognized tax losses carried forward and €1.2 million related to consolidation restatements.

The Group has recognized the following tax losses:

(€)	**12.31.2018**	**of which capitalized**	**Corresponding deferred tax**
MEDICREA INTERNATIONAL	41,083,577	-	-
MEDICREA UK	2,544,082	-	-
MEDICREA USA	11,313,230	7,585,731	1,593,004
MEDICREA GMBH	1,347,287	-	-
MEDICREA POLAND	884,707	-	-
Total available tax losses	**57,172,883**	**7,585,731**	**1,593,004**

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

(€)	**12.31.2018**
Tax losses carried forward at January 1, 2018	**1,475,985**
Correction of previously capitalized tax loss carryforwards – MEDICREA	45,479
USA	71,540
Translation adjustment	**1,593,004**
Tax losses carried forward at December 31, 2018	

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

NOTE 10: SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

10.1 Shareholders' equity

10.1.1 Changes in share capital

Following equity transactions carried out during the fiscal year, share capital at December 31, 2018 totaled €2,595,175.52 and was comprised of 16,219,847 shares with par value of €0.16 each. The number of authorized shares outstanding is as follows:

(€)	12.31.2018	12.31.2017
Number of authorized shares	16,219,847	15,082,811
Number of preference shares	-	100
Number of shares issued and fully paid up	16,219,847	15,082,911
Par value (€)	0.16	0.16
Number of shares outstanding at end of period	16,219,847	15,082,811
Number of shares with double voting rights	2,785,108	2,594,120
Number of treasury shares held by the parent company	4,756	4,438

Transactions in the share capital of MEDICREA INTERNATIONAL over the 2018 fiscal year are summarized as follows:

- At January 1, 2018, the share capital was €2,413,265.76, represented by 15,082,811 ordinary shares and 100 P preference shares.
- On July 9, 2018, the Board of Directors recognized the issue of 1,127,936 new shares with share warrant attached (ABSA) as part of a share capital increase reserved for qualified US investors.
- 9,000 new shares were issued on September 19, 2018, and corresponded to the delivery to French and US employees of the free shares allocated by the Board of Directors' meeting of September 19, 2016.
- On December 17, 2018, the deadline for converting preference shares in MMCO, 100 "P" preference shares were converted into 100 ordinary shares.
- At December 31, 2018, the share capital was therefore €2,595,175.52, represented by 16,219,847 ordinary shares and 100 P preference shares.

10.1.2 Share warrants (BSAs)

The characteristics of warrants exercisable at December 31, 2018 are summarized as follows:

Allocation date	12.22.2017	07.09.2018	27.11.2018
Maturity	3 years	3 years	7 years
Number of warrants	2,336,341	1,127,936	1,000,000
Number of ordinary shares obtained if all warrants exercised	1,168,170	563,968	1,000,000
Exercise price	€3.15	€ 3	€ 2.19

These warrants meet the definition of equity instruments in light of IAS 32 (under the "fixed for fixed" rule). They are recognized in equity at their transaction price and not subsequently revalued.

The December 2017 and July 2018 warrants, created to coincide with increases in the share capital, did not give rise to any additional amounts being recognized in the Group's consolidated financial statements at December 31, 2018. The November 2018 warrants, created to coincide with a note issue, were valued at €2 million and recognized as a deduction against the underlying financial liability.

10.1.3 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 were 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 in the Company that may be issued as a result of the conversion of all preference shares was 210,000.

On December 17, 2018, the deadline for converting preference shares in MMCO, 100 "P" preference shares were converted into 100 ordinary shares.

10.1.4 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.

10.1.5 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, 2018. 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, 2018.

Other movements at December 31, 2018 are analyzed as follows:

(€)	12.31.2018	12.31.2017
Warrant whose underlying security is the $30 million note issue	2,043,983	-
Issue costs for the €30 million bond loan	(108,890)	-
Unwinding of IFRS restatement linked to August 2016 convertible note issue	(560,728)	-
Actuarial gains and losses relating to retirement allowances	71,941	19,446
Treasury shares	669	(10,064)
Other	37	(20)
Total	**1,447,012**	**9,362**

10.1.6 Issue, buyback and redemption of debt and equity securities

Share capital increase of July 2018

MEDICREA INTERNATIONAL issued over the period 1,127,936 new shares with share warrants attached (ABSA) with a par value of €0.16 per unit, at a unit price of €2.734, including issue premium, for a total amount of €3.1 million, representing 7.47% of the Company's share capital after the transaction. The number of shares issued may be increased to 1,691,904, i.e. a maximum amount of €4.8 million, in the event that all of the share warrants (BSAs) are exercised.

Each new share issued comes with one BSA, for a total issuance of 1,127,936 BSAs. Two share warrants grant the right to subscribe to one new MEDICREA share at an exercise price of €3. The BSAs shall be exercisable for a period of 3 years after their issuance.

Convertible bond loan – April 2015

Over the year to December 31, 2018 the Group redeemed 142 of the 200 convertible bonds subscribed by an institutional investor in April 2015, i.e. an amount of €1.4 million on the initial loan of €2 million maturing in April 2020.

Bond loan – November 2018

In November 2018, the Group completed a $30 million note issue fully subscribed by Perceptive Advisors, a leading US investment fund in the healthcare field. In conjunction with the senior secured notes, Medicrea has issued to Perceptive Advisors warrants for the Company's new ordinary shares.

The refinancing facility consists of senior secured and guaranteed notes, governed by New-York law with coupon based on the greater of Three-Month LIBOR or 2.5% plus a margin of 8.5%. The notes, which are due to mature on November 27, 2022, are secured on the securities of MEDICREA USA Corp, a wholly-owned subsidiary of MEDICREA INTERNATIONAL, as well as pledges on certain assets and receivables of the Group.

Perceptive Advisors subscribed free of charge for 1,000,000 warrants not listed on Euronext Growth.

One warrant entitles its holder to subscribe to one new MEDICREA International ordinary share, at an exercise price of € 2.19, corresponding to the volume-weighted average of the share prices of the last 10 trading days prior to the fixing of the subscription price, decreased by a 10% discount. The BSAs shall be exercisable for a period of seven years after their issuance.

The table below presents the potential cumulative dilution of the share capital in the event that all outstanding warrants, options, and other securities that have the potential to be converted into ordinary shares are exercised (including all the warrants issued since 2017, the stocks options and the potential free allocations of shares):

	Before the November 2018 placement	Exercise of the December 2017 warrants	Exercise of share warrants July 2018	Exercise of the November 2018 warrants	Exercise of stock options	Allocation of free shares	After the placement following conversion of all of the instruments
Number of ordinary shares	16,219,847						
Number of ordinary shares added if warrants / options are fully exercised		1,168,170	563,968	1,000,000	1,350,000	792,000	4,874,138
Exercise or conversion price	-	€3.15	€ 3	€ 2.19	€3.16[1]	-	-
Accumulated potential dilution	-	6.72%	9.65%	14.42%	20.11%	23.11%	23.11%

[1] Average stock option exercise price

10.1.7 Dividends paid during the fiscal year

Nil.

10.2 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 are treated as dilutive if, and only if, their conversion into ordinary shares would decrease earnings per share or increase the loss per share.

In accordance with IAS 33, and in order to avoid an accretive effect, the potential ordinary shares resulting from the allotted stock option and free share plans (2,142,000 shares) and the share warrants (2,732,138 shares) were not taken into consideration at December 31, 2018 when determining the dilutive effect.

NOTE 11: OTHER INFORMATION

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

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

	12.31.2018			12.31.2017		
	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights
ORCHARD INTERNATIONAL (1)	1,727,490	10.65	18.17	1,727,490	11.45	19.55
Denys SOURNAC (2)	607,533	3.75	4.18	457,488	3.03	2.59
Jean Philippe CAFFIERO	216,089	1.33	2.19	216,089	1.43	2.36
David RYAN	24,148	0.15	0.21	15,148	0.10	0.09
Fabrice KILFIGER	9,300	0.06	0.05	300	0.00	0.00
Other Directors						
Pierre BUREL (2)	194,587	1.20	1.02	194,587	1.29	1.10
Patrick BERTRAND (2)	113,968	0.70	0.69	113,968	0.76	0.74
François Régis ORY (2)	108,652	0.67	0.57	108,652	0.72	0.61
Rick KIENZLE	102,880	0.63	0.54	102,880	0.68	0.58
Christophe BONNET	52,128	0.32	0.44	52,128	0.35	0.48
Pierre OLIVIER	27,000	0.17	0.14	18,000	0.12	0.10
Jean Joseph MORENO	22,000	0.14	0.23	22,000	0.15	0.21
Marc RECTON	18,752	0.12	0.16	18,752	0.12	0.18
Total	**3,224,527**	**19.89%**	**28.59%**	**3,047,482**	**20.20%**	**28.59%**

(1): Shares held by the holding company, ORCHARD INTERNATIONAL. The following table provides details of ORCHARD INTERNATIONAL's shareholding structure as of December 31, 2018:

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

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

11.2 Related-party disclosures

As mentioned in Section 5.8 above, ORCHARD INTERNATIONAL invoices MEDICREA INTERNATIONAL for various services, the amounts of which changed over the last two periods as follows:

(€)	2018 amount invoiced, excl. VAT	2017 amount invoiced, excl. VAT
Management services	300,000	300,000
Rebilling of employee costs	47,490	151,500
Rebilling of seconded executive's salary	-	64,000
Share of expenses	6,780	11,004
Rent and rental costs	37,407	45,508
Total	**391,677**	**572,012**

Rebilling of employee costs in relation to two employees as well as expenses for office space ceased at the end of the first quarter of 2018, with the corresponding costs being generated directly at MEDICREA INTERNATIONAL level from then onwards.

11.3 Statutory Auditors' fees

The fees paid to the Group's Statutory Auditors for the 2018 fiscal year and shown in the consolidated income statement are as follows:

	EY		ODICÉO	
Amount (excl. VAT)	**2018**	2017	**2018**	2017
Audit				
Audit, certification, review of individual and parent company financial statements	77,644	64,630	24,154	32,054
Services other than the certification of the financial statements	11,061	6,072	5,500	6,036
Total fees	**88,705**	**70,702**	**29,654**	**38,090**

11.4 Post balance sheet events

There are no post balance sheet events to report.