MEDICREA INTERNATIONAL
A French corporation *(société anonyme)* with share capital of €2,034,172.80
Registered office: 5389, route de Strasbourg - Vancia- 69 140 Rillieux la Pape, France
393 175 807 RCS LYON

2016 REGISTRATION DOCUMENT

INCLUDING THE ANNUAL FINANCIAL REPORT
AND THE MANAGEMENT REPORT

The French version of this Registration Document was filed with the Autorité des Marchés Financiers (AMF) on November 10, 2017 under registration number R.17-072 in accordance with the AMF's General Regulations and in particular with Article 212-13. It can only be used for the purposes of a financial transaction if supplemented by an issue prospectus approved by the AMF.
This document has been prepared by the issuer and is the responsibility of the signatories.
The registration, in accordance with Article L. 621-8-1-I of the French Financial and Monetary Code, was granted after the AMF verified that the document is complete and comprehensible, and that the information contained therein is consistent. It does not imply that the AMF has verified the accounting and financial information presented herein.

Pursuant to Article 28 of Regulation EC N° 809/2004, the following information is included by reference in this Registration Document:

- The IFRS consolidated financial statements for the year ended December 31, 2015 and the relevant report of the Statutory Auditors included on pages 33 to 92 of the 2015 Annual Report;

- The IFRS consolidated financial statements for the year ended December 31, 2014 and the relevant report of the Statutory Auditors included on pages 36 to 92 of the 2014 Annual Report;

Copies of this Registration Document are available free of charge:
on request from MEDICREA's registered office: 5389, route de Strasbourg - Vancia- 69140 Rillieux la Pape, France, and on the company's website at www.medicrea.com

CONTENTS

“WE GOT YOUR BACK”

MEDICREA has always placed innovation at the heart of its strategy. We continue to build on our promise to (IM)PROVE, by extending our innovation beyond implants. The Company is working today to redefine the relationship between the manufacturer and surgeons.

A message from the Chairman and CEO

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

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

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

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

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

We are positioning ourselves as a valuable collaborative partner to surgeons from surgical planning onwards and we offer an unrivalled mix of innovative products and comprehensive pre- and post-

operative services. Improving is a never-ending process. We are working tirelessly to make surgery simpler, safer, quicker, and less invasive.

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

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

1. Overview of the Company and its operations

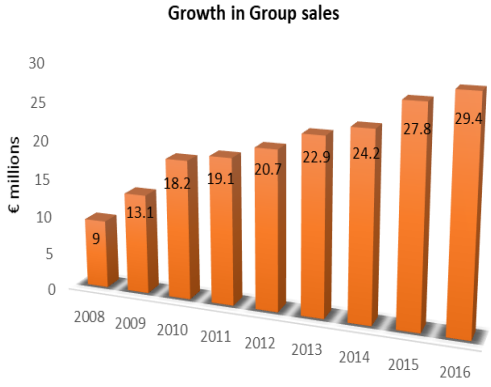
1.1. Selected financial information

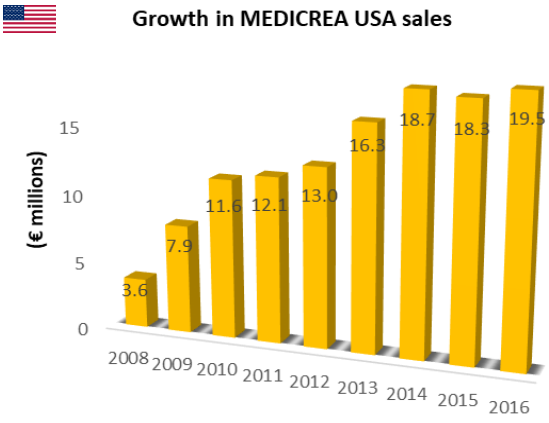
1.1.1. Key performance indicators and figures

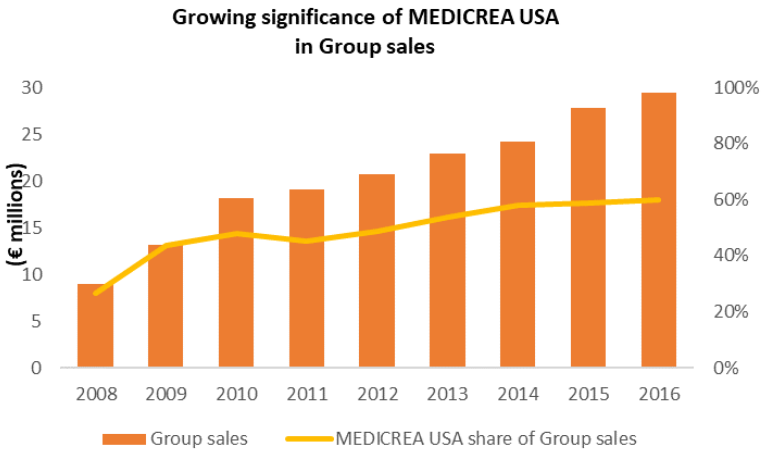
The selected financial information presented below is taken from the consolidated audited financial statements in accordance with International Financial Reporting Standards which are included in Section 4.1.

Sales

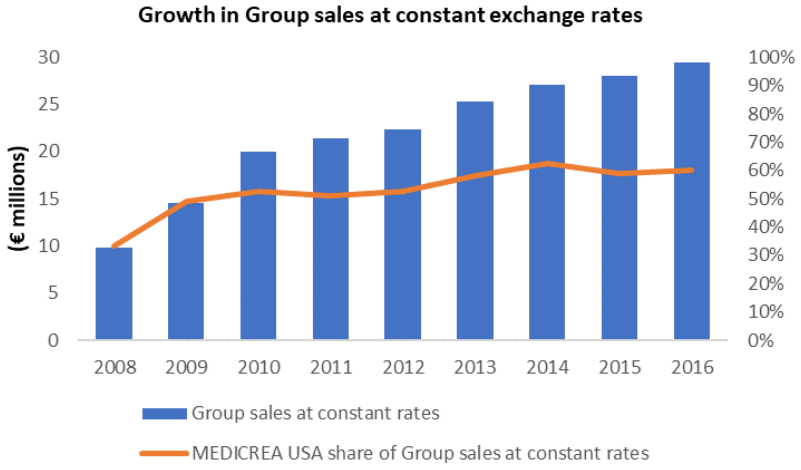
Change in sales







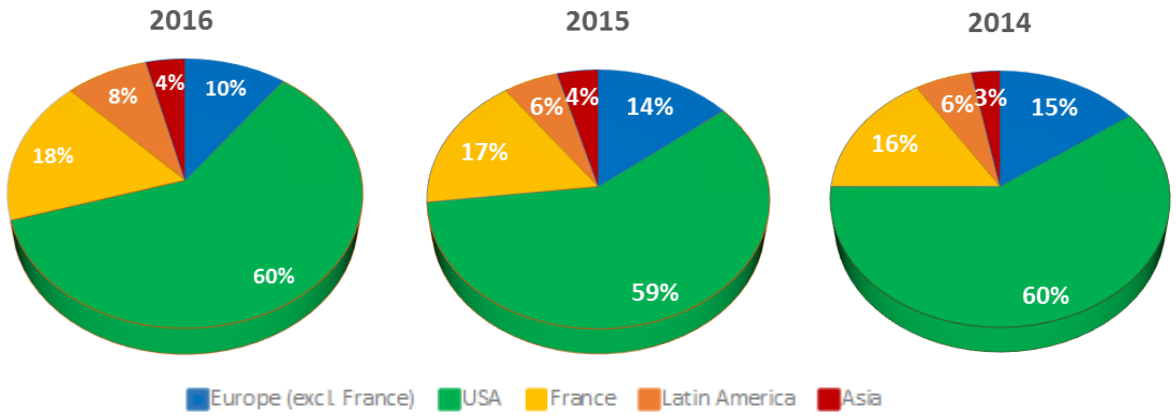
Based on a constant EUR/USD exchange rate of 1.10 for the 2008-2016 period, the growth in Group sales and the significance of the American subsidiary MEDICREA USA in these sales were as follows:



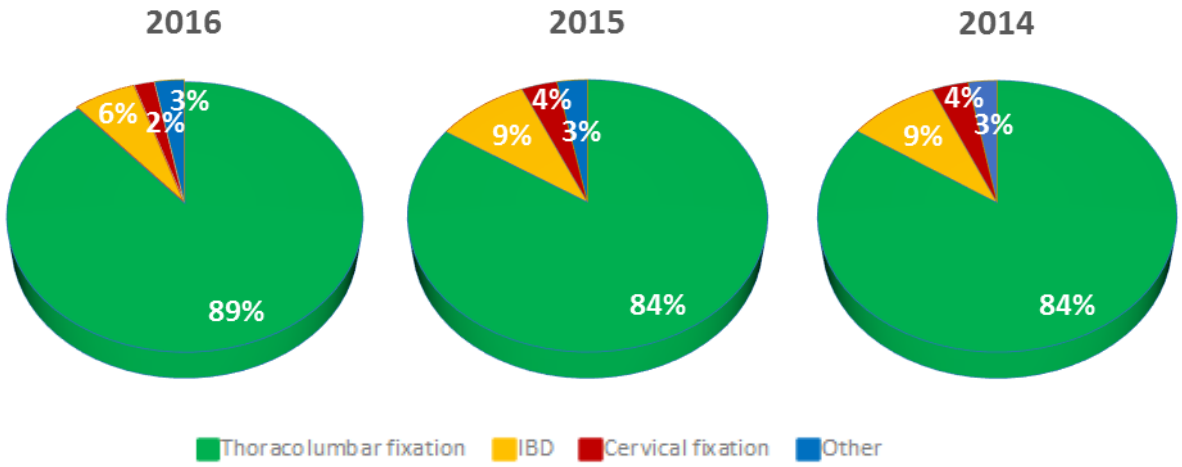
Currency fluctuations

MEDICREA generates a significant proportion of its sales (more than 60%) in foreign currencies (primarily in USD, and more marginally in GBP and PLN) and as a result is exposed to exchange rate fluctuations. In 2016, fluctuations in the EUR / USD exchange rate had no material effect on sales growth. Changes in average exchange rates are detailed in Paragraph 1.4.1.

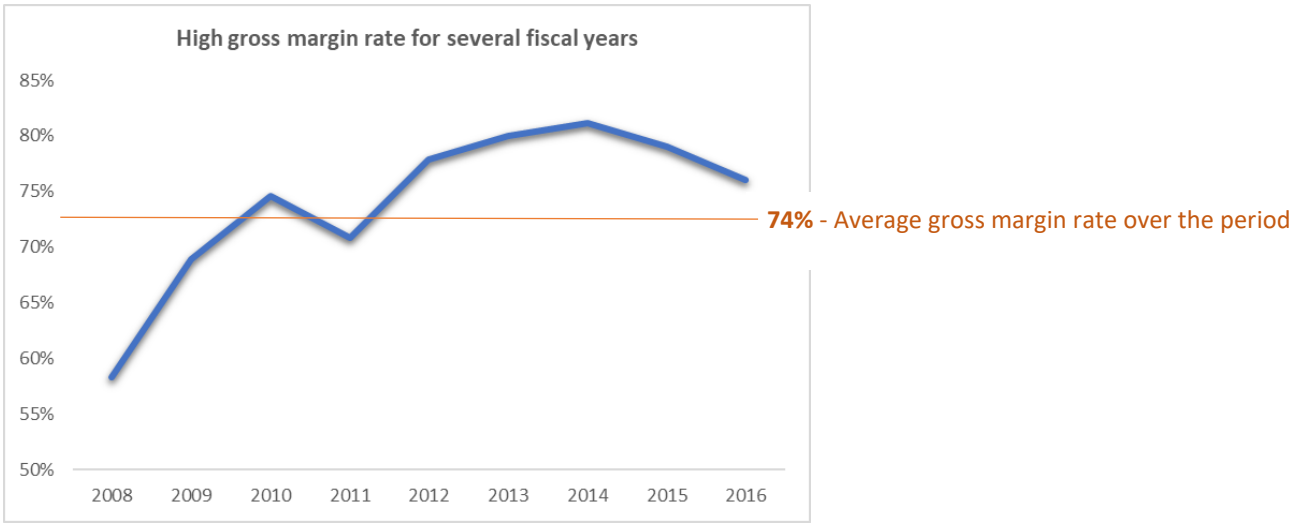
Sales by geographic region



Sales by product type



Gross margin



Research and Development

R&D is at the heart of the value creation strategy. The Group has made the extension of its range of products and developing innovative solutions a key priority and for several years has dedicated a significant amount of its financial resources to research and development activities. R&D spending has progressed as follows:

(€ K)	2016	2015	2014
R&D costs before amortization	2,833	2,511	1,893
Capitalized R&D costs over the fiscal year	(2,281)	(1,886)	(1,069)
Patents and similar rights, Computer licenses and software for the year	(163)	(83)	(122)
Total Capitalized R&D costs over the fiscal year*	(2,444)	(1,969)	(1,191)
Amortization charge of capitalized R&D costs	1,284	993	904
Amortization charge of Patents and similar rights, Computer licenses and software	382	425	311
Total Amortization charge of capitalized R&D costs	1,666	1,418	1,215
Research tax credit	(990)	(976)	(538)
Total R&D costs expensed for the year	1,064	984	1,380

** Investment flows*

Financial debt

(€ millions)	***H1 2017***	***H1 2016***	**2016**	**2015**	**2014**
Gross financial debt - short-term	*5.1*	*4.9*	3.7	3.4	3.1
Gross financial debt - long-term	*17.4*	*7.6*	18.5	7.5	4.3
Total gross financial debt (*)	*22.5*	*12.5*	22.2	10.8	7.4
Cash and cash equivalents	*(14.1)*	*(1.1)*	(8.1)	(2.2)	(1.2)
Net financial debt	*8.4*	*11.4*	14.2	8.6	6.2

(*): including conditional advances

In order to support its development, strengthen its cash position and increase its equity, the Group has carried out the following fundraising activities (specific characteristics are provided in Paragraph 1.4.4 of this Registration Document):

- €20 million in August 2016, consisting of bonds convertible into Company shares (€15 million) and a share capital increase (€5 million);

- A share capital increase of €13 million in June 2017.

1. Overview of the Company and its operations

Consolidated financial statements

Consolidated income statement

(€ millions)	*H1 2017*	*H1 2016*	2016	2015	2014
Sales	*14.7*	*14.8*	29.4	27.8	24.2
% change in sales at constant exchange rates	*-2.6%*	*+6.6%*	+5.4%	+3.3%	+6.0%
Gross margin	*10.7*	*12.0*	22.4	21.8	19.6
Gross margin as % of sales	*73%*	*81%*	*76%*	*79%*	*81%*
Operating income before other income and expenses from operations	*(3.6)*	*(1.5)*	(4.4)	(1.4)	(0.1)
Other operating income and expenses	*(0.2)*	*(1.2)*	(2.4)	(0.1)	(0.1)
Operating income before share-based payments	*(3.8)*	*(2.7)*	(6.8)	(1.5)	(0.2)
Operating income	*(4.1)*	*(2.7)*	(7.1)	(1.6)	(0.3)
Income before tax	*(5.5)*	*(2.9)*	(7.8)	(1.8)	(0.3)
Net income (Group share)	*(5.1)*	*(2.7)*	(7.6)	(1.5)	(1.0)
Earnings per share	*(0.50)*	*(0.30)*	(0.80)	(0.17)	(0.12)

Consolidated balance sheet

(€ millions)	*H1 2017*	*H1 2016*	2016	2015	2014
Goodwill	*2.6*	*2.6*	2.6	2.6	2.6
Intangible assets	*6.6*	*5.7*	6.1	4.9	4.0
Property, plant and equipment	*11.0*	*7.5*	10.1	7.0	5.5
Non-current financial assets	*0.8*	*0.6*	0.9	0.7	0.4
Deferred tax assets	*1.2*	*0.9*	1.0	0.7	(0.1)
Non-current assets	*22.2*	*17.3*	20.8	15.9	12.4
Trade receivables	*4.8*	*5.5*	5.2	4.7	4.4
Inventories	*9.0*	*7.8*	8.7	7.0	6.3
Trade payables	*(5.6)*	*(4.9)*	(6.0)	(4.1)	(4.2)
Other receivables / (payables)	*(1.0)*	*(1.7)*	(0.4)	0.3	(0.1)
Working capital requirement	*7.2*	*6.7*	7.5	7.9	6.5
as % of sales	*24%*	*23%*	26%	29%	27%
Shareholders' equity	*21.0*	*12.6*	14.1	15.2	12.7
Net financial debt	*8.4*	*11.4*	14.2	8.6	6.2
Capital employed	*29.4*	*24.0*	28.3	23.8	18.9

Cash flow statement

(€ millions)	*H1 2017*	*H1 2016*	2016	2015	2014
Self-financing capacity*	*(2.1)*	*0.2*	(1.2)	1.2	1.6
Change in WCR	*0.9*	*0.7*	(0.2)	(1.0)	0.2
Other	*0.0*	*0.0*	(0.1)	(0.1)	(0.2)
Cash flow from operating activities	*(1.2)*	*0.9*	(1.5)	0.1	1.6
Cash flow from investment activities	*(4.2)*	*(3.5)*	(9.2)	(5.9)	(5.2)
Cash flow from financing activities	*11.4*	*(0.2)*	16.2	6.9	2.8
Cash and cash equivalents - beginning of year	*7.3*	*1.8*	1.8	0.6	1.5
Cash and cash equivalents - end of year	*13.3*	*(1.0)*	7.3	1.8	0.6
Change in cash and cash equivalents	*6.0*	*(2.8)*	5.5	1.2	(0.9)

*****Self-financing capacity before payment of financial charges and collection of financial income

1.1.2. 2016 fiscal year highlights

The terms UNiD® ASI, UNiD® HUB, UNiD® LAB and UNiD® TEK used in this Registration Document are defined in the Glossary on page 374.

Sales

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

- The development of new and unique digital services for pre-operative planning and for pre- and post-operative analyses;
- A significant acceleration in the adoption rate of UNiD® patient-specific rods (up 106% compared with 2015) with more than 1,100 surgical procedures carried out at December 31, 2016 following the launch in France in September 2013 and the approval of this technology by the FDA in November 2014;
- The continued compilation of a growing clinical database, enriched daily using machine learning capabilities for the predictive modeling of the most appropriate patient-specific surgical strategies based on surgeon-specific techniques;
- Fundraising of €20 million in August 2016, from predominantly US investors;
- Appointment of Rick KIENZLE, co-founder of GLOBUS MEDICAL, as Chief Strategy and Business Development Officer, who also became a Company shareholder;
- Bringing the manufacturing facilities, the research and development center and all of the Group's support functions together under one roof at a new ultra-modern site in Lyon spanning 8,000 m^2;

- The continued development of titanium 3D printing manufacturing processes for personalized interbody cages and corpectomy implants, expected to be marketed in the United States and Europe in the second quarter of 2017;

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

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

Products and innovations

Medicrea has transformed itself into a company offering ground-breaking technologies for the treatment of spinal pathologies. It is seen as a pioneer in this market by combining health-system IT technologies with the design and manufacture of next-generation medical devices, and by prioritizing clinical results from a unique standpoint: improving the benefits of surgery for patients, and providing unrivaled operating comfort for surgeons.

This new approach, which relates to patient-specific implants designed using UNiD® ASI (Adaptive Spine Intelligence) technology, relies on compiling and analyzing clinical data using machine learning algorithms and predictive modeling functionalities, which for the first time have led to the treatment of spinal pathologies through the combination of scientific precision and the use of patient-specific and modular implants. This practice is becoming a standard of care for surgeons, with a very high loyalty rate once entrusting a few surgical cases to test the capabilities of this technology.

Organization

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

Richard KIENZLE, co-founder of the company GLOBUS MEDICAL, joined MEDICREA Group as Chief Commercial and Business Development Officer in the United States. He has more than 25 years' experience in sales management within companies operating on the medical device market, notably SYNTHES and US SURGICAL. His mission is to oversee the commercial expansion of MEDICREA's patient-specific UNiD® technology and personalized treatment modalities.

1. Overview of the Company and its operations

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

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

Gross margin

Gross margin, structurally close to 80%, fell by 3 points to 76% compared with 2015 due to the use of subcontracting from the second half to mitigate the shutdown in production at the La Rochelle factory and the gradual resumption of operations at the new Lyon site following receipt of the necessary certifications issued by the regulatory certification bodies after a successful certification audit in late 2016.

Operating income

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

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

Operating loss amounted to €6.8 million, versus €1.5 million at December 31, 2015. This deterioration did not translate into a similar decline in self-financing capacity, which decreased by only €2.4 million over the period, taking into account the impact of the non-monetary charges below:

- Depreciation of instrument sets made available to hospitals and capitalized R&D costs (€3 million)
- €0.9 million loss related to the recording under expenses of advances on royalties regularly paid since 2013 in connection with the development of a software platform.

Other financial items

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

1.1.3. Recent events

Sales for the first half of 2017

Group sales remained steady over the first half of 2017 compared to 2016 despite solid sales performance during the month of June, notably in the U.S. where sales increased 10% over the prior year period. The global breakdown of the Group's revenue demonstrates an ongoing growth trend in France, the Company's domestic direct sales market, where sales increased by 8% compared to the first half of 2016. Conversely in Brazil, the Company's historic leading export distribution market (excluding distribution subsidiaries and therefore the United States where the Group operates directly, with annual sales of approximately €2 million), the Company continued to face challenges related to the local economic situation and restricting regulatory factors leading to a 63% decrease in sales in H1 2017 compared to the same period of the previous year.
In April 2017, the Brazilian regulatory body, ANVISA, performed a long-awaited mandatory inspection of the Company's recently-opened combined headquarters and manufacturing facilities in France. Following the successful ANVISA inspection, activity with Brazil is expected to resume in early 2018.

Revenue generated by Medicrea's UNiD® ASI (Adaptive Spine Intelligence) systems technology for personalized spine continued to accelerate throughout the first half of 2017, particularly in the U.S. where a growth of 41% was seen compared to the first half of 2016. Since the Company FDA-cleared the first-ever personalized approach to spine surgery with patient-specific implants in November of 2014, the number of cases performed in the U.S. has now surpassed the total internationally and reached more than $15 million in cumulative sales at the end of the first half of 2017 for UNiD® TEK and associated Medicrea implants, particularly the patient-specific UNiD Rod used in conjunction with the Company's portfolio of PASS® spinal systems for degenerative and complex spinal indications.

As of the end of the first half of 2017, more than 1,500 UNiD® ASI surgeries have been performed worldwide with a record number of UNiD® TEK, patient-specific implants, manufactured and used in surgery during the month of June.

Sales for the third quarter of 2017

Sales totaled €6.4 million over the 3rd quarter, down 5% compared to the same period of 2016, adversely affected by the total lack of commercial activity in Brazil (the leading export market up to that point, excluding distribution subsidiaries) since the start of the fiscal year.

The regulatory certifications required to deliver the Medicrea implants, now fully manufactured in the new ultra-modern Lyon facilities, to the Brazilian market have been definitively obtained since the ANVISA audit, which confirmed the compliance of the equipment and soundness of the Company's quality system. This inability to deliver to the Brazilian market since the beginning of 2017 will generate a sales shortfall of almost €2 million over the full year 2017. Sales in Brazil will return to a normative level in 2018. In the United States, the momentum for adoption of UNiD™ ASI technology continues with the implantation of patient-specific UNiD™ Rods posting growth in excess of 42% over the 9 months to September 30, 2017 compared to the same period of 2016.

Products and innovations

Recently, the Company announced FDA clearance of the UNiD® HUB, a data-driven digital portal with surgical strategy and predictive modeling functionality, as well as the FDA clearance for and first U.S. Surgery with the PASS® TULIP top-loading fixation, presenting an elegant solution to surgeons trained on this system - the global standard for posterior fixation.

Financing

In June 2017, MEDICREA raised €13 million in the form of a share capital increase through the issue of ordinary shares without preferential subscription rights in favor of international funds and / or investment companies carrying out multinational financial transactions in several countries. The funds raised will enable MEDICREA:

1 / To accelerate the development, mainly in the United States, of the UNiD® ASI platform to enable the Company to strengthen its position as a pioneer for this technology and world leader in personalized spinal technology, which includes comprehensive analytical services and biomechanical expertise for the collection and modeling of clinical data and the realization of patient-specific spinal implants;
and
2 / To prepare for the commercialization of a new range of 3D-printed titanium interbody cages in the United States and Europe in preparation of pending regulatory clearances and sales agreements.

1.1.4. Stock market activity

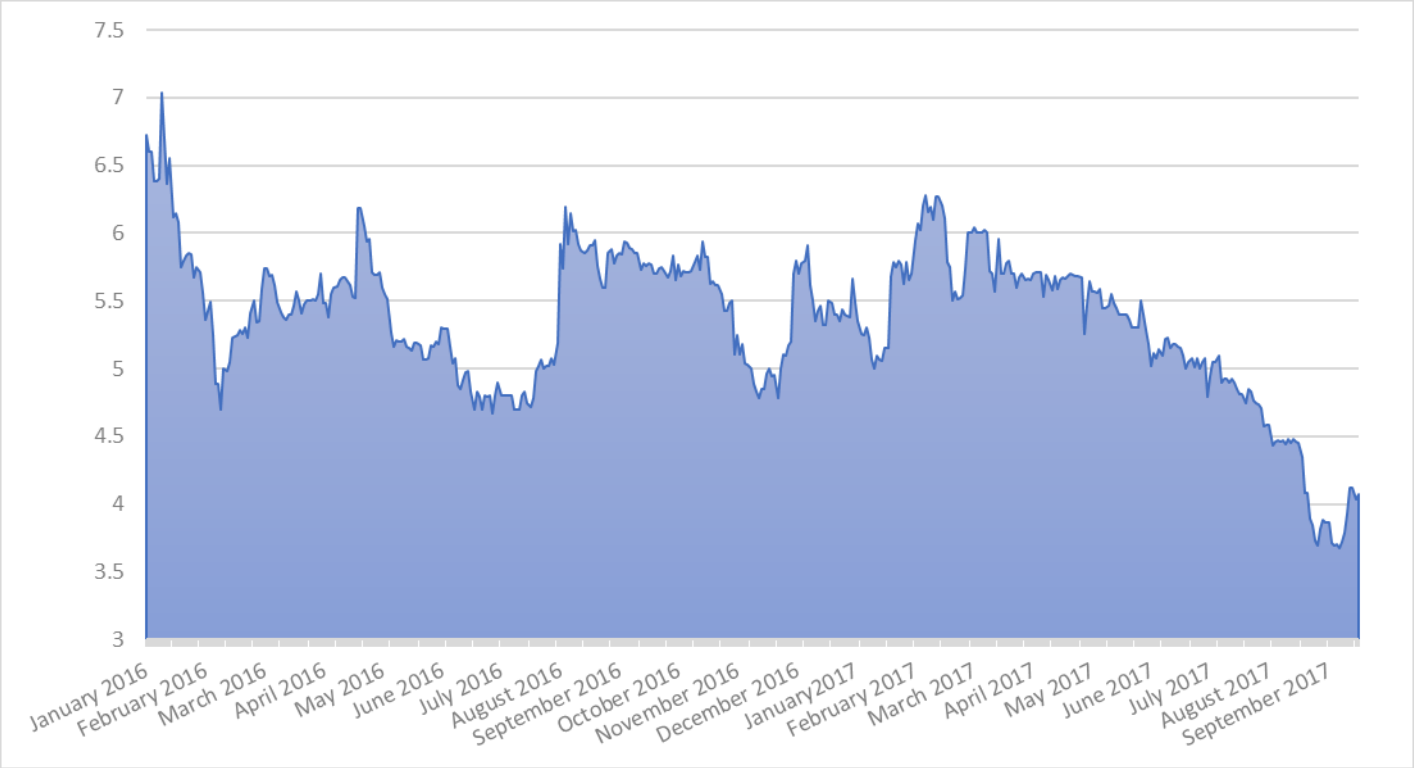
MEDICREA INTERNATIONAL has been listed on Euronext Growth Paris (previously Alternext) since June 26, 2006, under the ISIN code FR 004178572 and the ticker ALMED.

The share was launched at €7.94 and has been listed continuously since February 2007.

The MEDICREA share is eligible for the PEA-PME SME equity savings plan, in accordance with Decree n°2014-283 of March 4, 2014 published within the framework of the application of Article 70 of the 2014 Finance Act n° 2013-1278 of December 29, 2013, which defines the conditions for companies to be eligible for the PEA-PME SME savings plan. In this way, investors can add MEDICREA shares to their PEA-PME accounts, which are plans dedicated to small and medium value investments enjoying the same tax benefits as traditional PEA savings plans.

Stock market performance

Since January 1, 2016, the share price (closing price) has evolved as follows:



The main stock market indicators related to the MEDICREA share over the past three fiscal years are summarized in the table below *(source – Gilbert Dupont).*

	2016	**2015**	**2014**
Share price at 12/31	€ 5.40	€6.78	€8.70
Market capitalization at 12/31	€54 m	€61 m	€74 m
High price	€7.04	€9.34	€10.60
Low price	€4.33	€6.31	€7.05
Average price	€5.46	€7.75	€9.10
Year-on-year change at 12/31	(20.35)%	(22.07)%	(2.02)%
Number of transactions	6,465	8,776	20,512
Number of shares traded	1,937,451	1,638,981	3,609,057
Trading value	€10.6 m	€12.8 m	€32.5 m
Capital turnover rate	20.18%	18.76%	42.6%

Since January 1, 2014, the share price has evolved as follows on a monthly basis:

(€)	High price	Low price	Closing price	Average price	Trading volume
September 2017	4.36	3.28	4.07	3.77	144,493
August 2017	4.85	4.32	4.35	4.61	126,103
July 2017	5.10	4.67	4.81	4.97	61,743
June 2017	5.64	4.96	5.09	5.26	141,976
May 2017	5.77	5.14	5.40	5.52	141,318
April 2017	5.87	5.51	5.66	5.66	85,899
March 2017	6.05	5.50	5.70	5.85	238,511
February 2017	6.37	5.45	5.75	5.99	134,644
January 2017	5.9	4.96	5.75	5.42	447,947
2016	7.04	4.33	5.40	5.46	1,937,451
December 2016	5.96	4.78	5.40	5.60	566,602
November 2016	5.62	4.75	4.48	4.85	222,106
October 2016	6	5.54	5.62	5.74	127,943
September 2016	5.96	5.60	5.75	5.80	239,336
August 2016	6.2	5.00	5.60	5.84	109,235
July 2016	5.08	4.33	5.07	4.75	206,068
June 2016	5.3	4.50	4.80	4.87	55,364
May 2016	5.96	5.04	5.07	5.27	45,763
April 2016	6.47	5.29	5.94	5.88	64,553
March 2016	5.87	5.20	5.50	5.55	68,468
February 2016	5.86	4.43	5.50	5.17	103,942
January 2016	7.04	5.53	5.75	6.49	128,071
2015	9.34	6.31	6.78	7.75	1,638,981
December 2015	7.20	6.71	6.78	6.88	91,656
November 2015	7.62	6.40	7.15	7.05	268,070
October 2015	7.35	6.40	7.35	7.02	122,294
September 2015	7.2	6.31	6.50	6.69	122,276
August 2015	7.87	6.65	7.10	7.41	64,144
July 2015	8.45	7.20	7.87	7.75	149,251
June 2015	8.00	7.10	7.35	7.55	69,565
May 2015	8.20	7.50	8.00	7.96	57,669
April 2015	8.74	7.52	7.57	8.16	124,128
March 2015	8.90	8.46	8.65	8.75	125,523
February 2015	9.34	8.68	8.95	8.95	297,671
January 2015	9.25	8.57	8.04	9.04	146,734
2014	10.60	7.05	8.70	9.1	3,609,057
December 2014	8.90	8.07	8.70	8.61	90,141
November 2014	9.72	8.6	8.90	9.00	142,831
October 2014	9.45	8.36	8.85	8.82	157,718
September 2014	9.92	9.16	9.27	9.69	195,244
August 2014	10.27	9.05	9.86	9.76	125,684
July 2014	9.97	8.42	8.89	8.91	135,036
June 2014	10.60	9.25	9.75	10.18	357,646
May 2014	9.87	8.97	9.46	9.53	179,199
April 2014	9.39	8.51	9.13	9.10	947,472
March 2014	9.16	8.36	9.07	8.95	367,109
February 2014	9.08	7.65	8.95	8.43	475,046
January 2014	9.09	7.05	8.04	8.51	435,931

Liquidity contract and listing sponsor

In order to stimulate trading, the security has since May 2009 been covered by a contract operated in conjunction with the issuer by the brokerage firm Gilbert Dupont, renewable annually by tacit agreement and compliant with the French Financial Markets Association (AMAFI) ethics code.

At the end of the past three fiscal years, the liquidity account contained the following resources:

	Number of MEDICREA shares	Cash
12/31/2016	2,650	€18,362
12/31/2015	3,046	€20,428
12/31/2014	2,722	€23,817

The Company reports to the AMF on a monthly basis regarding the purchase and sale of securities under this contract, publishes half-year balance sheets and makes them available on its website.

Gilbert Dupont also acts as Listing Sponsor under an annual contract renewable by tacit agreement.

Financial analysis

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

Financial communication calendar

The following information has been or will be published in 2017/18:

2017 First Quarter Sales	April 13, 2017
2017 Half-Year Sales	July 11, 2017
2017 Half-Year Results	October 3, 2017
2017 Third Quarter Sales	October 12, 2017
2017 Annual Sales	January 11, 2018

1.2. Company presentation and development

1.2.1. Overview of operations

Sales

MEDICREA Group leads the design, integrated manufacture, and distribution of 30+ FDA approved implant technologies, utilized in over 120k spinal surgeries worldwide to date. Over the last few years, it has specialized in the integration of digital pre-operative planning and pre- and post-operative analysis services for the treatment of complex spine pathologies, developing a completely new approach centered on predictive medicine.

MEDICREA has more than 25 years' experience in the spinal column sector. Over the course of these years, the Group has developed a comprehensive range of standard implants that it has recently supplemented with a range of UNiD® patient-specific implants.

Thanks to its expertise in the field of new technologies and notably in the use of 3D printing, MEDICREA's objective is to produce, within a short timescale and at a low price, custom implants using the patient's specific data.

Mission

MEDICREA's mission is to offer long-term relief to patients undergoing spinal surgery.

MEDICREA places creativity and the power of invention above any other consideration by constantly improving its products and by proving it every day, in its relationships with surgeons, in operating theaters and in the day-to-day lives of patients.

This mission is built around the design and manufacture of new generation spinal implants, superior functionality and proven quality, for more effective and less invasive treatments across all spinal pathologies, with a view to restoring patients' quality of life over the long-term.

The range of spinal implants has been designed to treat spinal pathologies at every level, from cervical to lumbar vertebrae and the sacrum, irrespective of the cause, scoliosis, malformations, degenerative diseases, trauma and tumors and is adapted to all traditional and cutting-edge surgical procedures, such as minimally-invasive surgery for example.

MEDICREA enjoys the support of the most renowned surgeons, who are closely connected with the design of implants, and health agencies.

1. Overview of the Company and its operations

History

1990: Creation of MEDICREA, based in the Paris region and subsequently in La Rochelle. At the time, the company manufactures implants and instruments for orthopedic surgery.

1993: Creation of ORSCO INTERNATIONAL, spinal implant distribution company, in Lyon.

1997: First generation thoraco-lumbar fixation system PASSMED® receives CE marking.

2001: ORSCO INTERNATIONAL acquires a 46% stake in MEDICREA.

2002: Launch of an LBO alongside investors enabling the purchase of the balance of the shares in MEDICREA (then renamed MEDICREA TECHNOLOGIES) by ORSCO INTERNATIONAL, which subsequently became MEDICREA INTERNATIONAL.

2005: Creation of MEDICREA TECHNOLOGIES UK, in Cambridge.

2006: Landmark year with several major events:
- ⇨ MEDICREA IPO on Alternext (now Euronext Growth Paris);
- ⇨ Creation of MEDICREA USA Corporation, in New York;
- ⇨ Creation of MEDICREA EUROPE FRANCOPHONE, in Neyron;
- ⇨ CE marking of the PASS LP® thoraco-lumbar fixation system for major spine deformities.

2007: FDA clearance of the cervical compression staple C-JAWS®.

2008: FDA clearance of the PASS LP® system

2009: CE Marking of the cervical disc prosthesis GRANVIA-C®.

2010: The threshold of €15 million in annual sales is exceeded.

2011: CE Marking of the LigaPASS® system, and receipt of FDA clearance in 2012.

2012: The threshold of €20 million in annual sales is exceeded.

2013: CE Marking and FDA clearance of the PASS OCT® fixation system.
First fitting worldwide of the patient-specific rod, UNiD®, in Lyon.

2014: FDA clearance for UNiD® implants
FDA clearance for the cervical compression staple K-JAWS®.
First fitting worldwide of a lumbar interbody osteosynthesis fusion cage custom 3D-printed in PEKK.

2015: Creation of MEDICREA GmbH, in Germany.
Launch of the new generation of the LigaPASS® system.
Threshold of 500 UNiD® surgical procedures is passed.

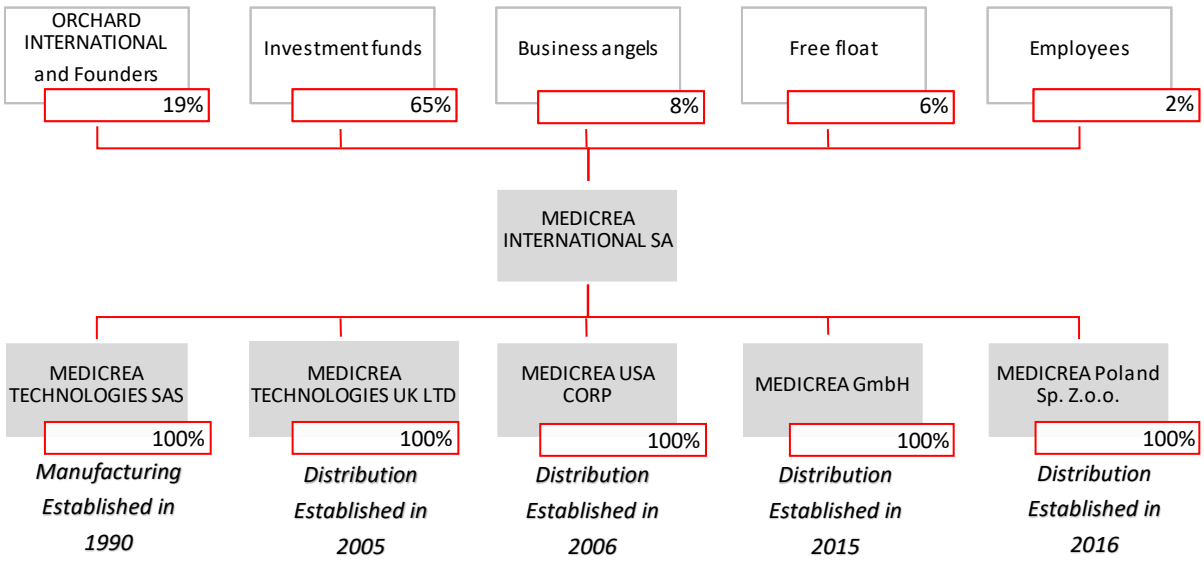
2016: FDA clearance granted for the UNiD® patient-specific cervical rod.
Historic fundraising of €20M mainly provided by American investors.
Relocation of the production factory from La Rochelle to Lyon.
Creation of MEDICREA Poland Sp. z.o.o, in Poland.
Threshold of 1,000 UNiD® surgical procedures is passed.

2017: FDA clearance for UNiD® HUB.
FDA clearance of the PASS Tulip® thoraco-lumbar fixation system.
The threshold of 1,700 UNiD® surgical procedures was passed in October.
Publication of a white paper showing a significant reduction in the frequency of rod breakage when adopting UNiD® technology.

1.2.2. Group organizational structure

Legal organization chart

The organization chart below is based on the share capital held by each shareholder, excluding potential share capital, at June 30, 2017.



MEDICREA INTERNATIONAL is owned by:

- ORCHARD INTERNATIONAL, principal shareholder (13.6%), and the founders of MEDICREA Group (5.44%). ORCHARD INTERNATIONAL is a holding company owned by founders Denys SOURNAC and Jean-Phillippe CAFFIERO
- Investments funds, in the amount of 65%. The main equity funds are Keren Finance (5.2%), Grandeur Peak Advisors (4.9%), OTC Asset Management (4.2%) and Amiral Gestion (3.8%);
- Business angels hold 8% of the share capital;
- Individual investors and employees hold 8% of the share capital.

MEDICREA Group is structured as follows:

- MEDICREA INTERNATIONAL – parent company based in Rillieux-la-Pape, close to Lyon – includes the following activities: executive management, research and development, follow-up of clinical and scientific studies, exclusive manufacturing of implants and instruments distributed directly and via its subsidiaries in France and export markets, marketing, as well as the administrative and finance functions for the Group's various entities;

- MEDICREA TECHNOLOGIES, based in Rillieux-la-Pape, operates an ancillary business repairing motors for surgical devices. MEDICREA TECHNOLOGIES is wholly owned by MEDICREA INTERNATIONAL;

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

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

- MEDICREA GmbH, based in Cologne, markets the Group's products in Germany. It is wholly owned by MEDICREA INTERNATIONAL.

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

The main financial information relating to the Group's companies at December 31, 2016 is detailed below:

Entities (€ K)	**Total share-holders' equity**	**Share capital owner-ship (%)**	**Book value of shares owned** Gross	Net	**Loans and advances granted and outstanding**	**Guaran-tees and sureties given by the Company**	**Net sales for last fiscal year**	**Net income for last fiscal year**	**Dividends paid to the parent company**
Parent company									
MEDICREA INTERNATIONAL SA	18,825						14,071	(10,806)	
French subsidiaries									
MEDICREA TECHNOLOGIES	3,342	100%	11,946	3,346	48	-	7,610	(1,249)	-
International subsidiaries									
MEDICREA TECHNOLOGIES UK	212	100%	2,465	665	310	-	522	(704)	-
MEDICREA USA	4,993	100%	7,395	7,395	6,706	-	17,656	(2,002)	-
MEDICREA GMBH	(892)	100%	100	100	1,036	-	69	(786)	-
MEDICREA POLAND	18	100%	47	47	-	-	-	(27)	-

Operations structure

In order to provide the distribution subsidiaries with high quality products as soon as possible and offer them the necessary support on a daily basis to best ensure their promotion, the parent company MEDICREA INTERNATIONAL is structured as follows:

1. Overview of the Company and its operations

The management team is made of up the following people:

Denys SOURNAC, Chairman of the Board of Directors and Chief Executive Officer

With a scientific and medical background, more than 30 years' experience in orthopedics, and specifically in the distribution of orthopedic equipment. Denys Sournac was behind the 2002 merger of MEDICREA Technologies and ORSCO International, which gave rise to MEDICREA Group in its current form.

Role: Development of MEDICREA, responsible for the Group's organization and management as well as its overall strategy.

Jean-Philippe CAFFIERO, Deputy Chief Executive Officer

Medical and scientific background, more than 30 years' experience in orthopedics.

Role: Development and coordination of the international distribution network

Rick KIENZLE, Chief Commercial and Business Development Officer

Co-founder of Globus Medical, Richard Kienzle has more than 25 years' experience in sales management within renowned companies on the medical device market.

Role: To coordinate MEDICREA's commercial development of services and of the personalized treatments which use UNiD® ASI technology.

Fabrice KILFIGER, Chief Financial Officer

Dual management and finance background with 25 years' experience in finance,

Role: Financial management and planning of the Group, coordination of the financial teams in France and internationally, in charge of relations with banks and market authorities, responsible for the financial information provided to the markets.

David RYAN, VP Product Development and Marketing

A Biomaterials and Biomechanics engineering graduate from the Université de Technologie de Compiègne (UTC). 15 years' experience in orthopedics.

Role: To design, develop and monitor products, working directly with opinion leading surgeons. Conducting clinical studies.

Thomas MOSNIER, Chief Scientific Officer

Holder of a PHD in engineering from ENSAM. 12 years' experience in research.

Role: To study and define innovation projects, in line with the Company's strategy, and to promote these projects, coordinate them and ensure their progress.

Nadège BOURDOIS, VP Human Resources and Legal Affairs

15 years' experience in human resources and legal affairs in the medical sector.

Role: Recruitment and managing the Company's human resources and legal and administrative affairs.

Pierre OLIVIER, Chief Executive Officer MEDICREA USA

25 years' experience in project management, primarily in the United States, and notably in the sales launches of new and innovative products.

Role: To develop MEDICREA USA and head up all operations in the United States.

1.2.3. Property, plant and equipment

MEDICREA does not own its real estate and therefore leases premises for its various subsidiaries, the main features of which are as follows:

	Address	Floor area	Annual rent ex-VAT	Lessor	Lease term	Start date	End date
MEDICREA INTERNATIONAL	5389 route de Strasbourg - Vancia 69140 Rillieux-la-Pape - France	7,783 m²	EUR 1,110,810	SCI MUTISERE	12 years	9/23/2016	9/22/2028
MEDICREA TECHNOLOGIES UK	Granary Barn, Park End, Swaffham Bulbeck, Cambridgeshire CB25 0NA - UK	170 m²	GBP 10,775	Rayner's Children Trust	3 years	1/1/2015	12/31/2017
MEDICREA GmbH	Robert-Perthel-Strasse 81A 50739 Köln - Germany	223 m²	EUR 34,122	Günther Kruse	5 years	11/1/2015	10/31/2020
MEDICREA USA	50 Greene street, 4th & 5th floor New York, NY10013 - USA	1,200 m²	USD 950,000	Grand Greene LLC	10 years	4/1/2016	3/31/2026
MEDICREA Poland	ul. Sienkiewicza 85/87 90-057 Łódź - Poland	66 m²	PLN 47,080	Projekt Orion Sp Z.o.o.	3 years	3/1/2017	2/28/2020

The lease for MEDICREA INTERNATIONAL's former premises in Neyron expired in October 2016. The lease for the La Rochelle manufacturing site has been terminated with effect from January 31, 2017. The move to the new buildings in Rillieux-la-Pape, of which the Company is also a tenant, took effect as of September 2016. The Group therefore centralized the operations of its three French subsidiaries on a single site for an annual rental charge of €1.1 million and having signed a 12-year rental commitment. The Company is no longer headquartered in Neyron but is now based at 5389 route de Strasbourg – Vancia, 69140 Rillieux-la-Pape.

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

The nature of the Company's activities carried out at these various facilities involves no significant risk to the environment.

1.3. Overview of operations

MEDICREA leads the design, integrated manufacture, and distribution of 30+ FDA cleared implant technologies, utilized in over 150k spinal surgeries worldwide to date. Operating in a $10 billion marketplace, MEDICREA is an SME with 175 employees worldwide, which includes 50 at its USA Corp. subsidiary in NYC.

The Group is based in Rillieux-la-Pape, near Lyon, France, where it has its own an implant and surgical instrument manufacturing facility, a manufacturing facility dedicated to the machining and development of 3D-printed, patient-specific implants, as well as five distribution subsidiaries in the US, UK, France, Germany and Poland.

MEDICREA has an extensive range of spinal implants designed to treat spinal pathologies at every level, from cervical to lumbar vertebrae and sacrum, irrespective of the cause, scoliosis, malformations, degenerative diseases, trauma and tumors and which are compatible with all traditional and cutting-edge surgical procedures, such as minimally-invasive surgery for example.

These implants are distributed across 3 product categories.

- The PASS range comprises a comprehensive construct system intended for fixation across multiple vertebrae in complex and degenerative spinal surgeries.
- The Thoraco-Lumbar range is made up of cages, bone graft extenders and plates for the thoracic and lumbar spine.
- The Cervical range is made up of cages, staples and disc prostheses for the cervical spine.

In 2016, the PASS range accounted for 88% of Group sales, with the PASSLP system alone – a major component of this range – representing 71% of sales. 60% of Group sales are generated in the United States.

The products comprising these ranges and their contribution to sales are detailed in Paragraph 1.3.1.

Responding to a shift in the healthcare system affecting the orthopedic world, with greater emphasis placed on the outcome of surgery than the implants directly, MEDICREA specialized in the development of analytical services and the manufacture of personalized implants for the surgical treatment of complex spinal pathologies based on a technology and software platform named UNiD® ASI (Adaptive Spine Intelligence).

The Company is seen as a genuine pioneer in this market by combining health-related IT technologies with the design and manufacture of medical devices, and by prioritizing clinical results from a unique standpoint: improving the benefits of surgery for patients by reducing complications, while generating cost savings at all levels by curtailing the time spent in the operating theater and lowering the risk of revision surgery.

This new approach relies on compiling and analyzing clinical data using machine learning algorithms and predictive modeling solutions, which for the first time have led to the treatment of spinal pathologies through the combination of scientific precision in pre-operative planning with patient-specific and modular implants.

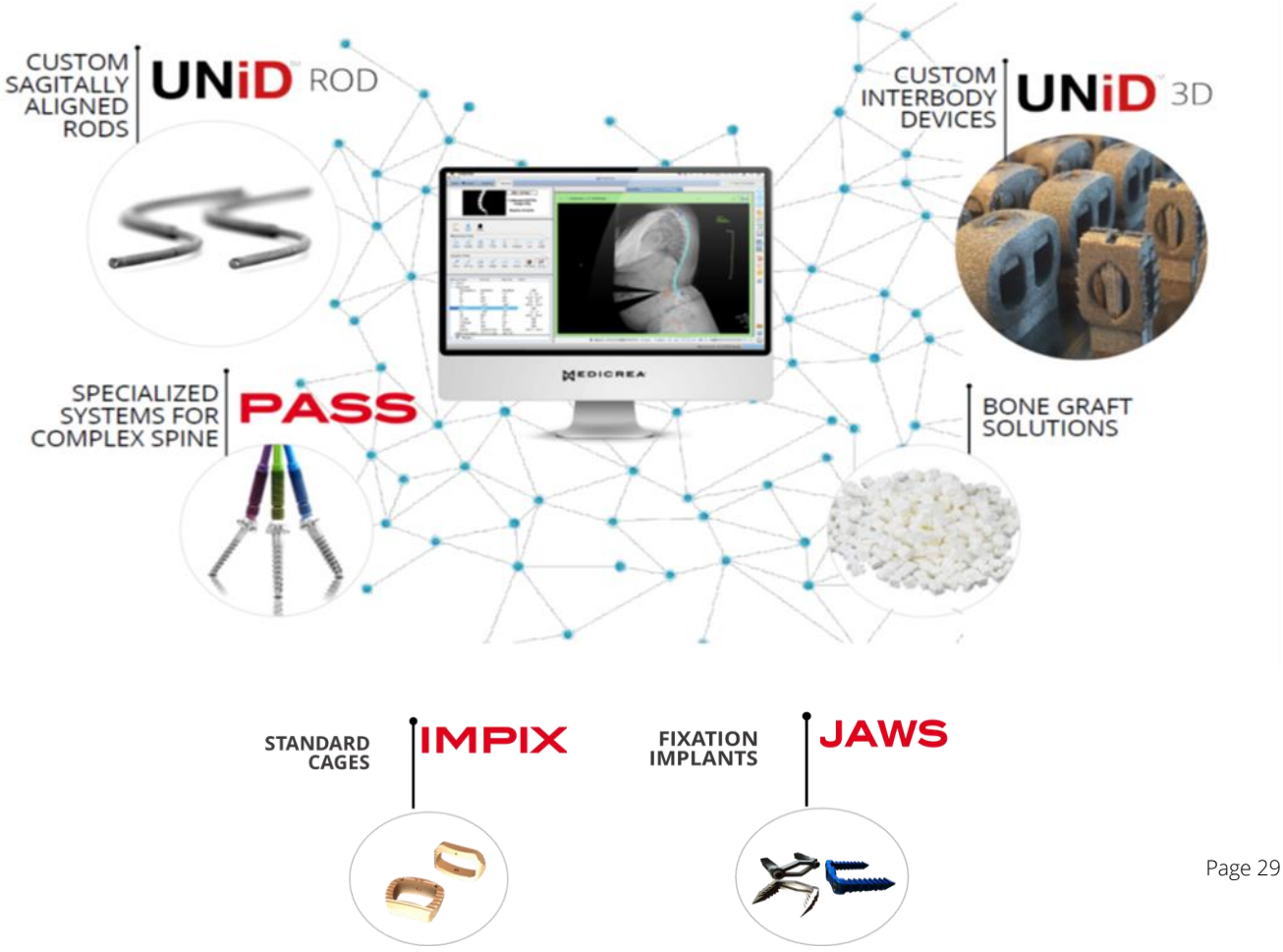
The proprietary UNiD® offer, which is grouped under the platform UNiD® ASI (Adaptive Spine Intelligence), is a complete solution that includes:

- UNiD® HUB, a digital portal designed to inject data science into surgical planning and facilitate the surgeon workflow by providing them with an online and mobile interface to monitor and manage patient cases with detailed analytical functions.
- UNiD® LAB, a real-time support unit, composed of expert biomedical engineers trained in medical imaging analysis and sagittal alignment research.
- UNiD® TEK, patient-specific products manufactured by the Company and currently comprised of patient-specific, pre-contoured rods used in conjunction with PASS systems and titanium 3D-printed cervical and lumbar intersomatic cages and vertebral body replacements.

The UNiD® ASI software, product and service offering is detailed in Paragraph 1.3.2.

1.3.1. A complete range of implants

MEDICREA offers a complete range of implants for the treatment of spinal pathologies (scoliosis, malformations, degenerative diseases, trauma and tumors), as shown below:



MEDICREA offers both "standard" implants, in several ranges:

and "patient-specific" implants grouped under the name UNiD®, and currently consisting of patient-specific, pre-contoured rods that are fitted in conjunction with the PASS range, and patient-specific 3D cages and vertebral body replacements. These patient-specific implants and the accompanying full range of services are described in Paragraph 1.3.2.

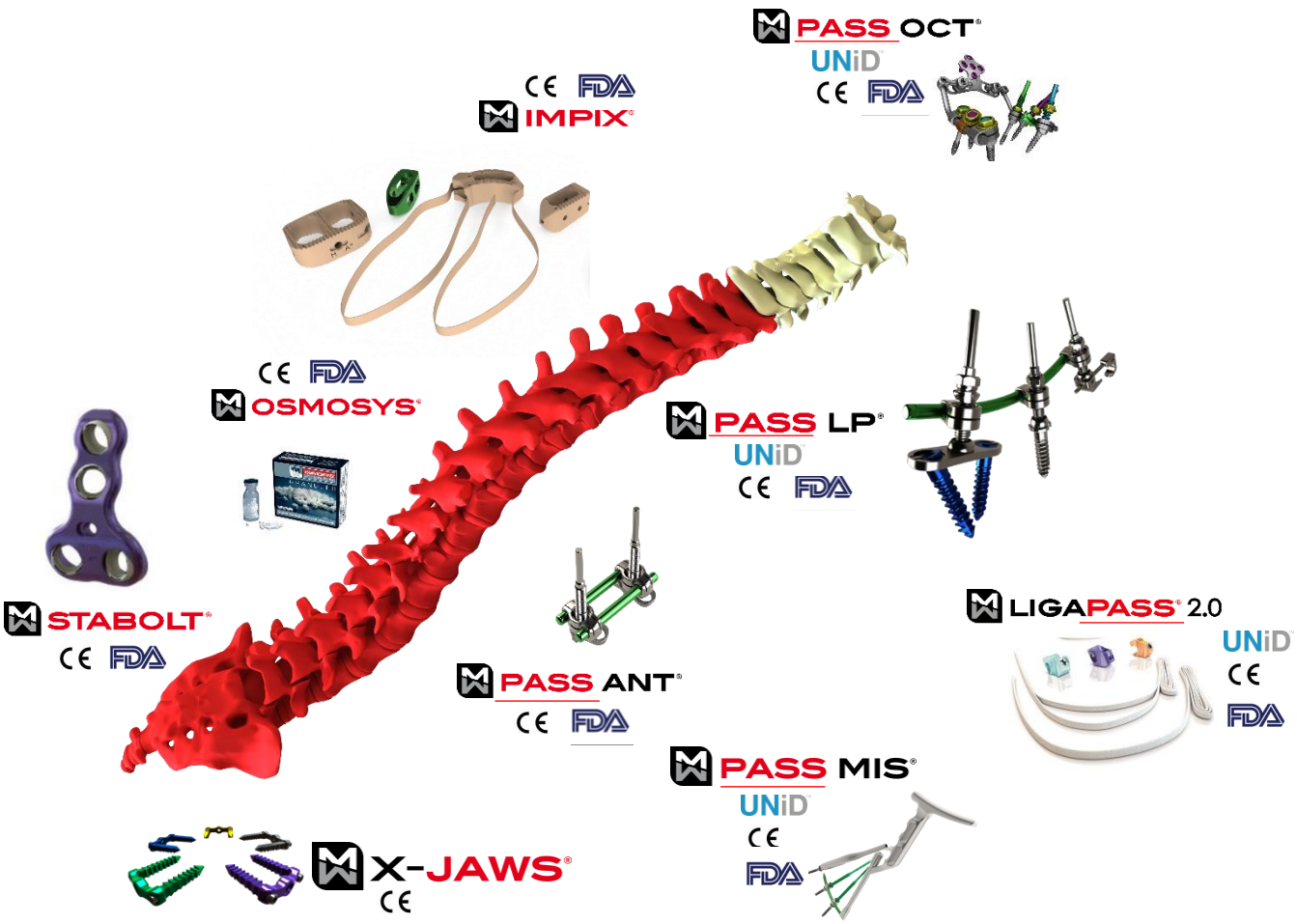
The "PASS" range provides a comprehensive construct system intended for fixation across multiple vertebrae in complex and degenerative spinal surgeries.

The "Thoraco-Lumbar" range is made up of cages, bone graft extenders and plates for the thoracic and lumbar spine.

The "Cervical" range is made up of cages, staples and disc prostheses for the cervical spine.

In 2016, the PASS range accounted for 88% of Group sales, with the PASSLP system alone, a major component of this range, representing 71% of sales.

Overview of MEDICREA's PASS range and Thoraco-Lumbar products



PASS *Products in the PASS range*

UNiD *Products compatible with UNiD® patient-specific rods*

CE *CE-marked products*

FDA *FDA-approved products*

A/ PASS® range

The PASS® (PolyAxial Spine System) range is characterized by a comprehensive and very versatile polyaxial spinal construct systems intended for fixation across multiple vertebrae. Its unique concept enables the rod to be connected to multiple anchorage points at a distance from the spine, minimizing the forces required to fix the spine through a unique surgical technique ('ST2R'), irrespective of the indication or the surgical approach.

Correction of the deformities is done via fusion surgery in the occipito-cervical, thoracic, lumbar or sacral region. During this surgery, several components are fitted: the main implant is the rod that will act as a support to the spinal column and pedicle screws, hooks or flexible bands used to fix the rod to the spine. The aim is to correct the spine 3-dimensionally in the frontal alignment, the axial alignment and the sagittal alignment (profile). The curvature of the rod according to a specific angle and shape, required for correcting the sagittal alignment, is key to the success of the patient's surgery and treatment, which led to the development of the patient-specific UNiD® rods (see Paragraph 1.3.2)

a. PASS LP®: MEDICREA's flagship product

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

It is made up of the most comprehensive range of polyaxial anchorages including screws, self-stable clamp hooks, sacral plates and iliac fixation. The PASS LP® combines the advantages of a top-loading fixation system with an offset placement of the rod, and offers simple solutions that are tailored to all situations, even the most complex cases.

The system offers numerous benefits:

- Connection to the spine at distance: the connection of the rod is facilitated as it is performed using anchorages with threaded extensions and flexible guides, without the need for complicated rod persuaders;
- Load distribution: the ST2R technique enables pressure to be distributed across the entire construct, and as such, correction is controlled precisely and gradually;
- Optimum safety: there is a lower risk of the device breaking or tearing away due to the reduced pressure at the interface with the bone due to the innovative design of the implants and the surgical technique;
- User-friendliness: use by the surgeon in the operating room is made easy through streamlined and multi-purpose instrumentation. One tray of implants and two of instruments allow all the indications to be covered.

The PASS LP® system represented 71% of the Group's sales in 2016. This system can be used in combination with UNiD® patient-specific rods. PASS LP® is CE-marked and FDA-approved.

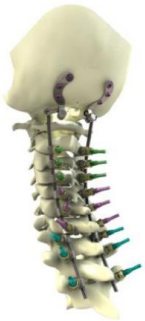
The LigaPASS® 2.0 range provides fixation systems using flexible bands in thoraco-lumbar posterior fixation, with a wide variety of connectors specifically tailored to meet clinical requirements. LigaPASS® offers the assurance of secure fixation no matter how complex the surgical case with the following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

- Stability comparable to that offered by a pedicle screw;
- Capacity to perform derotation / translation by following the ST2R technique;
- Optimum bone/implant contact surface;
- Secure technique with single and dual band options;
- Supplemental fixation for existing constructs;
- Ideal component for deformity and revision cases.

LigaPASS LP® represented 7% of the Group's sales in 2016. This system can be used in combination with UNiD® patient-specific rods. LigaPASS® is CE-marked and FDA-approved.

c. PASS OCT®

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

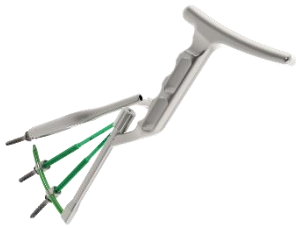


PASS OCT® was developed to promote the fusion of the occipito-cervical junction. The system is comprised of polyaxial screws and hooks, modular occipital plates, rods, and occipital rods and connectors.

PASS OCT® represented 2% of the Group's sales in 2016. This system can be used in combination with UNiD® patient-specific rods. PASS OCT® is CE-marked and FDA-approved.

d. PASS MIS®

PASS MIS® is a posterior stabilization system for a minimally-invasive percutaneous or "mini-open" approach.



The offset connection of the rod, which maintains access to the pedicle of fractured vertebrae, the realignment connectors and the monoaxial screws make the PASS MIS system a treatment solution that is particularly suitable for trauma cases. The PASS MIS system is also indicated for the treatment of degenerative and tumor related cases.

This system can also be used in combination with UNiD® patient-specific rods. PASS MIS® is CE-marked and FDA-approved.

e. PASS Anterior®

As an extension of the PASS LP® system, MEDICREA has developed a range of specific implants enabling surgery using an anterior approach. In this way, PASS Anterior® offers all the advantages of PASS LP®, high quality anchoring and polyaxiality, minimal profile and connection of the rod at distance from the spinal column for this type of fitting.

PASS Anterior® is CE-marked and FDA-approved.

B/ THORACO-LUMBAR range

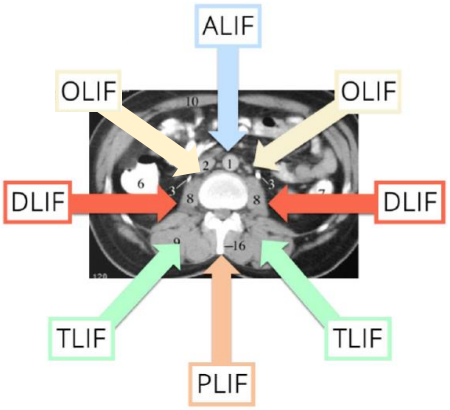
MEDICREA offers a wide range of implants for the thoracic and lumbar spine: interbody cages, lumbosacral plates and bone graft extenders.

a. IMPIX® Lumbar Cages

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

The types of IMPIX® cages include:

- ALIF (Anterior Lumbar Interbody Fusion), lumbar interbody fusion cage for anterior approach
- TLIF *Transforaminal Lumbar Interbody Fusion*, lumbar interbody fusion cage for a transforaminal approach
- DLIF / OLIF *(Direct Lateral / Oblique Lumbar Interbody Fusion)*, lumbar interbody fusion cage for a lateral / oblique approach
- PLIF (Posterior Lumbar Interbody Fusion), lumbar interbody fusion cage for a posterior approach



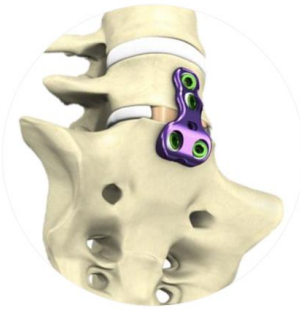
The IMPIX® lumbar cages are CE-marked and FDA-approved.

b. Non-compression lumbar staple X-JAWS®

X-JAWS® is a system designed for lumbar spine surgery that allows the stabilization of interbody fusion cages at this level.

The implant is CE marked.

c. STABOLT® anterior lumbosacral plate



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

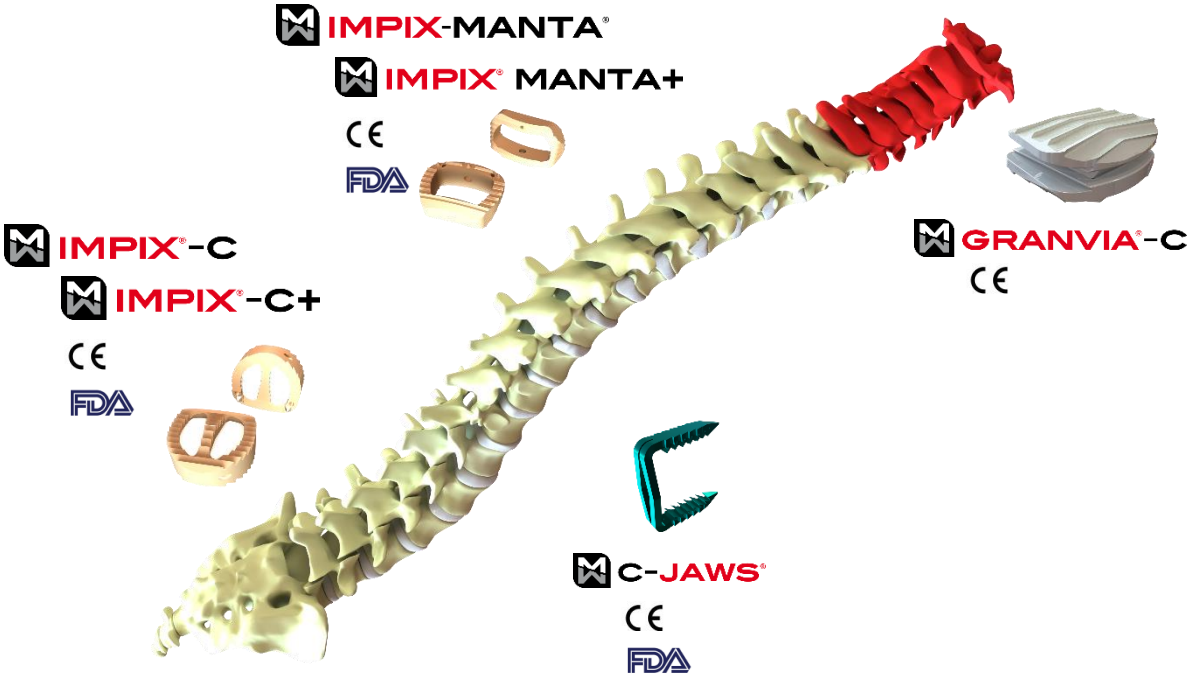
The implant is CE-marked and FDA-approved.

d. Osmosys®

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

Osmosys® is CE-marked and FDA-approved.

Overview of MEDICREA's cervical range and products



CE *CE-marked products*

FDA *FDA-approved products*

C/ CERVICAL range

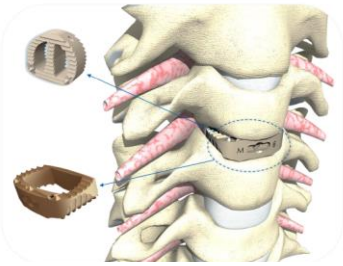
MEDICREA offers an extensive range of implants for the cervical spine:

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

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

- IMPIX-C® dome-shaped cages with a central bridge;
- IMPIX-MANTA® cages with a wide, beveled profile.

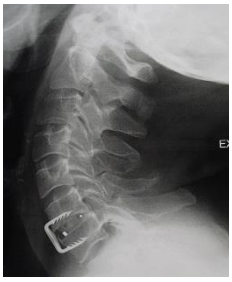
Both these ranges allow disc height and lordosis to be restored and offer very good stability within the intervertebral area. The cages are supplied sterile, with single-use instrumentation, and exist in a version pre-filled with a synthetic bone graft extender under the names IMPIX-C+® and IMPIX-MANTA+®.



More than 16,000 IMPIX® cervical cages have been implanted to date.

The IMPIX® cervical cages represented 5% of the Group's sales in 2016.
All standard cages are CE-marked and FDA-approved.

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



C-JAWS® is a unique cervical osteosynthesis system allowing interbody implants to be fully stabilized. The compression then applied by the staple stimulates and accelerates bone fusion. Easy to use, its insertion reduces operating time by up to 90% in comparison with a traditional cervical plate. Its principle of fixation by the compression of two adjacent vertebrae, around the interbody fusion cage, provides excellent stability thanks to the axial location of the compressive forces, in the vertebral bodies of the cervical spine.

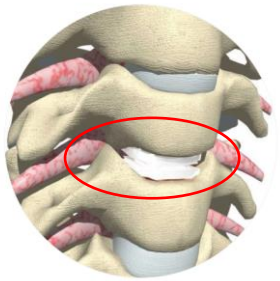
K-JAWS® is made up of a K-JAWS® staple and an IMPIX-C® interbody fusion cage. Like the C-JAWS, the K-JAWS® implant is less invasive and quicker to fit than any other cervical plate on the market.

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

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

GRANVIA®-c is the only cervical prosthesis on the market that fully respects the physiological differentiated centers of rotation in a cervical spine motion segment and is entirely designed in ceramic thereby meaning it is fully MRI compatible. The spinal column's natural mobility is preserved and shocks are absorbed by the integrated PEEK ring on the mobile core of the prosthesis. Highly wear-resistant, it is very easy for surgeons to use with single-use instrumentation.

GRANVIA®-c is CE-marked. It is not FDA-approved since this implant is currently in a specific category that would require very costly clinical trials and PMA (Premarket Approval) procedure.



1.3.2. UNiD® ASI, a personalized service and product range for patients

- *The shift in the healthcare system*

Personalized medicine is an innovative concept which is gradually becoming one of the biggest challenges in 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 for them personally.

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

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

Because of this approach, MEDICREA is neither restricted by nor economically dependent upon antiquated product revenue streams built on clinical assumptions or non-scientific historic norms. The Company is no longer dependent on legacy manufacturing methods and the industry's infamously bloated distribution organizations. The 20th century medical device commercial strategy of "standard sizes fit all" and "more is better" does not live in this approach to Spine.

In capturing a systems-based model for the iterative application of patient-specific spinal technology via UNiD® ASI (Adaptive 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.

The UNiD® LAB and its qualified Biomedical engineers work collaboratively with the Surgeons and Healthcare Providers to preoperatively simulate a wide range of surgical strategies and technologies. This science and collaboration materializes in the physical form of personalized implant solutions. The surgeons can pre-select or specifically design implants for each patient supported by scientifically sound preoperative work and big data.

1. Overview of the Company and its operations

The UNiD® ASI platform makes it possible for the Company to examine the most difficult clinical questions, deploy sophisticated IT technologies, design methods and proprietary manufacturing all in pursuit of cost reducing better outcomes.

- *Clinical issue*

Spinal deformities in adults are increasingly common globally and affect millions of patients. Not only do they impact daily function and self-esteem, but they can also become quite debilitating and cause serious pain. Originally reserved for serious pathologies, the term “deformity” now refers to an abnormality of the spino-pelvic alignment in the sagittal plane: degenerative indications in pediatric conditions such as adolescent idiopathic scoliosis or spondylolisthesis, and including a wide range of adult spinal deformities.

Keen to optimize post-operative spino-pelvic realignment, several authors have suggested mathematical formulae to help in surgical planning. Despite well-documented techniques, the correction following surgery has proved to be insufficient and can require further procedures in a significant number of patients.

From a practical viewpoint, there are two main reasons for the failure of the realignment: poor surgical planning and imprecise execution. An analysis shows that, even with the correct planning, in over 75% of cases, the correction achieved on the patients is insufficient. The shape of the implants applied in spinal fusions significantly impact the patient’s post-operative alignment. However, it almost impossible to select a standard implant or manually contour a rod to the appropriate curvature, which is what the surgeon must do in the operating room when using a traditional rod. Moreover, the available bending tools for traditional rods contribute to a reduction in the rod’s mechanical resistance, making it more susceptible to breakage.

During a meeting of specialist spinal surgeons, MEDICREA asked the participants to contour a traditional rod to a specific curve from a plan. The following picture shows the disparities in results and therefore the difficulty encountered by surgeons in the operating room on a daily basis:

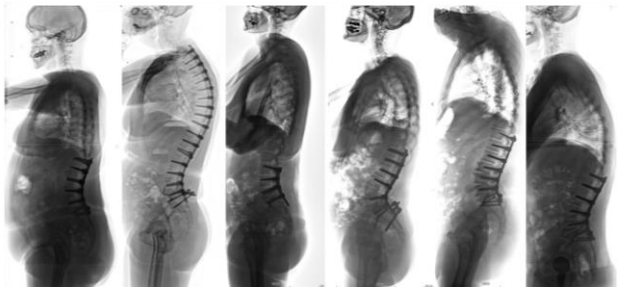
In order to address this problem, MEDICREA's research and development teams have worked to provide the most comprehensive solution possible and in this way have developed UNiD® patient-specific implants. These devices, beginning with the rods, are a unique and innovative solution, generated by a systems-based approach, and are perfectly tailored to the problems encountered during the procedure by surgeons.

Using specially developed software, the digital surgical planning service provided by MEDICREA's trained biomedical engineers simulates the sagittal parameters of the patient alongside the surgeon's operation strategy. Upon validation, MEDICREA receives the order from the surgeon and produces a patient-specific implant that is perfectly tailored for the case.

- *(R)evolution of practice*

EVERY PATIENT
IS UNIQUE

EVERY CORRECTION
MUST BE SPECIFIC



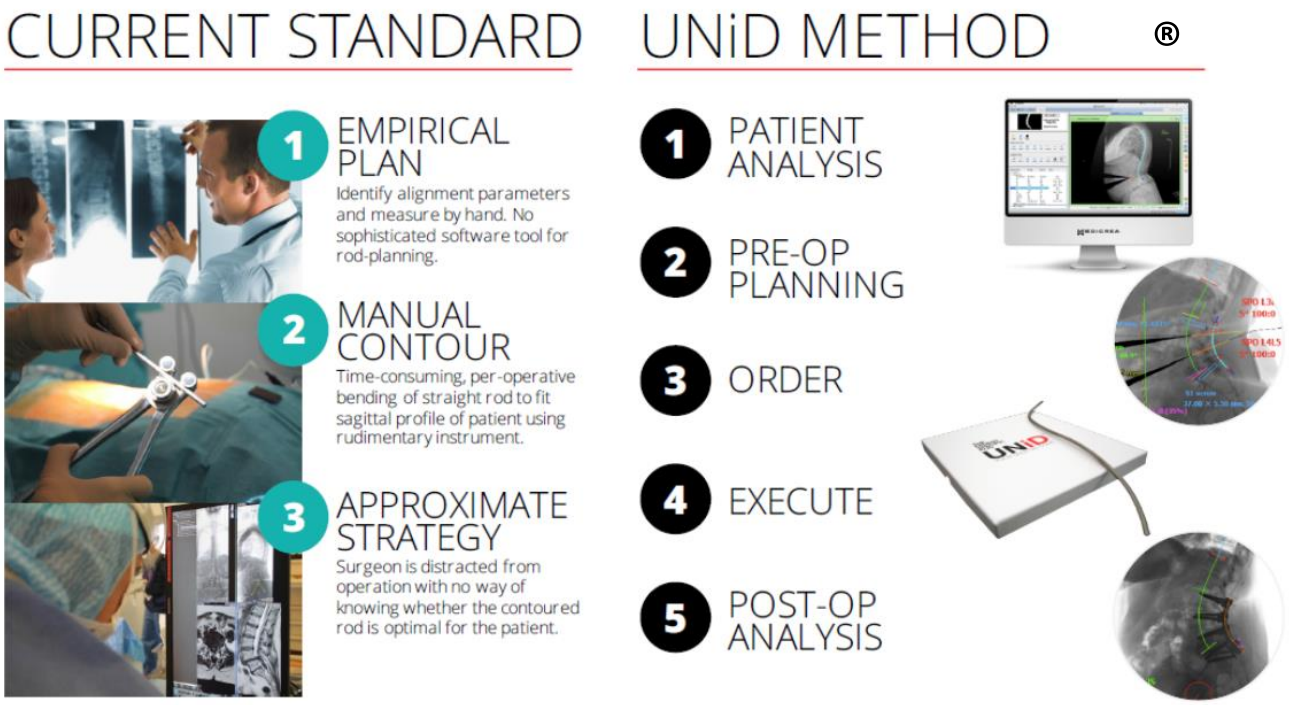
UNiD® ASI (Adaptive Spine Intelligence) is a comprehensive solution including a data-driven digital portal – UNiD® HUB, a real-time engineering support unit – UNiD® LAB, and patient-specific implant solutions – UNiD® TEK. UNiD® ASI allows surgeons to analyze, plan, design and order patient-specific implants ahead of surgery that enable them to fully realize their surgical plan and to precisely restore the optimal sagittal alignment specific to each patient. This technology means the final, manual and approximate step in spine surgery, which involves the surgeon trialing standard implant sizes or contouring the rods by hand in the operating room, can be eliminated.

The biomedical engineers of the UNiD® LAB are trained in the analysis of medical imaging (x-rays and scans), the scientific principles of sagittal balance and the latest clinical data relating to correction of the sagittal profile. They prepare a file for each surgery bringing together all the measurements resulting from the patient analysis and the defined planning that is submitted to the surgeon and the hospital staff concerned. These pre-operative documents can be recorded directly in the patient's medical file and are reviewed at the start of any surgical procedure in order to bring the entire surgical team in line with the pre-defined operating strategy.

After the operation, the UNiD® LAB uses post-operative imaging to conduct an analysis of the procedure, which is linked with a statistical analysis of all the patients operated on by the surgeon using UNiD®. By comparing these results to normative data, the UNiD® LAB enables the surgeon to constantly improve and refine their surgical strategies through the creation of a virtuous circle which contains the UNiD® ASI 7-step process:

The UNiD® HUB is a digital portal utilizing big data technologies for surgical planning and providing access to the Company's ASI (Adaptive Spine Intelligence) functionalities. It is designed to support the surgeon workflow, identify tendencies and correlations and build predictive modeling to drive intelligent strategic decisions and create personalized implant solutions for spinal surgery. The UNiD® HUB software also serves to enhance the existing proprietary IT utilized by MEDICREA's UNiD® ASI to create a seamless communication channel between the Company's UNiD® LAB biomedical engineers and Surgeon users to deliver patient-specific spinal implants manufactured by MEDICREA. The digital communication portal instantly creates a sticky, user-friendly environment for surgeons to track and manage their upcoming cases in both snapshot and detailed views, access their complete history with post-operative analyses and dialogue with a dedicated biomedical engineer in real time. Future functionalities will become available alongside the software's wider release.

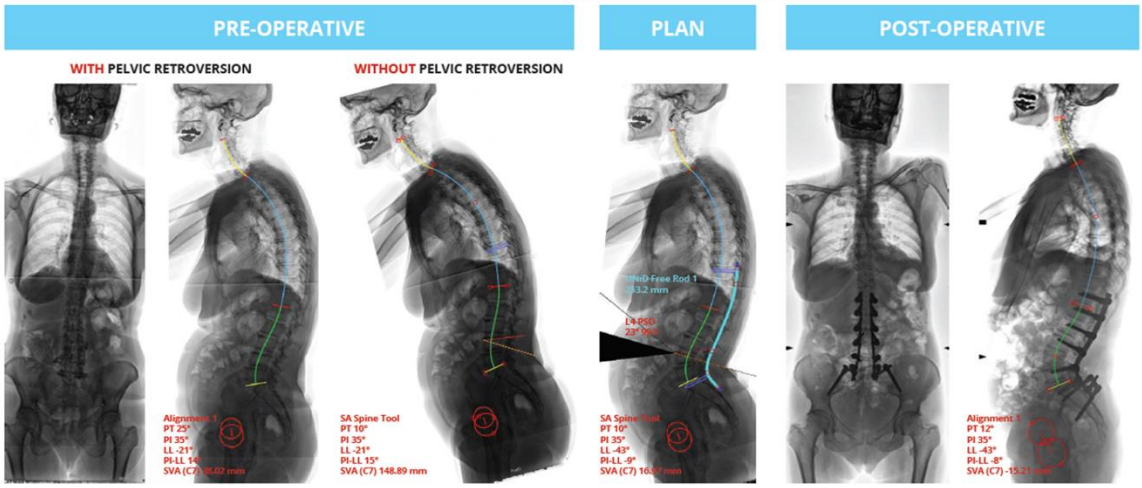
With UNiD®, the utility of surgical planning is totally changed. Surgeons can focus on analyzing and researching the most suitable solution for the patient rather than on the technical execution, as shown by the following comparison:



The illustration below shows the type of analysis carried out with UNiD® HUB and supplied by the UNiD® LAB to the surgeon. This report allows the surgeon to compare the pre-operative, planned and post-operative sagittal parameters in order to precisely gauge the result of the surgery and assess the success of the procedure.

SPINOPELVIC PARAMETERS	PRE-OPERATIVE	CASE PLAN	POST-OPERATIVE
Pelvic Tilt (PT,˚)	25	10	12
Pelvic Incidence (PI,˚)	35	35	35
Sacral Slope (SS,˚)	10	25	23
Lumbar Lordosis (LL,˚)	21	43	43
PI-LL (˚)	14	-9	-9
Thoracic Kyphosis (TK,˚)	42	42	42
T1 Pelvic Angle (TPA,˚)	21	6	6
Sagittal Vertical Alignment (SVA,mm)	38*	17	-15.2

Detail	Information
Surgery Date	2 / 2 / 2015
Levels	T10-Pelvis
Type of Rod	Standard
Rod Material	CoCr
Rod Diameter	6.0



UNiD® ASI's unique ability to collect, consolidate and analyze large quantities of anonymous clinical data collected throughout the world are helping to improve understanding of the rules that link clinical results with sagittal parameters and lead to a better understanding of the effectiveness of the different operating strategies employed by surgeons.

The importance of each patient's sagittal parameters in achieving good clinical results and in the restoration of a better quality of life has been demonstrated very clearly by leading research groups in the United States and France, which have resulted in numerous publications in international scientific literature. While this data has now been established, the majority of surgeons do not yet take into account the individual parameters of each patient undergoing an operation simply because no suitable solution was offered by the medical device industry before the introduction of UNiD® TEK patient-specific implants and related technology and services by MEDICREA, including UNiD® LAB and UNiD® HUB. Surgeons can now focus on the patient without compromise or approximation to their operating strategy.

- *Conclusive and promising clinical results*

In October 2017, MEDICREA presented the results of a white paper titled "Patient-Specific Rods show a reduction in rod breakage incidence". The paper shows that, relative to traditional manually-bent rods, patient-specific rods generated using MEDICREA's UNiD® ASI technology significantly reduce the incidence of postoperative rod breakage in adult complex spine surgical cases.

A study, authored by an international group of 11 complex spine surgeons from the U.S. and France, reviews a cohort of more than 450 Adult Spinal Deformity (ASD) patients with at least 1 year from the surgical implantation of patient-specific UNiD® Rods. This cohort includes more than 120 patients who additionally had pedicle subtraction osteotomy (PSO) performed.

The White Paper demonstrates the rate of rod fracture is considerably less in ASD patients implanted with UNiD® Rods, when compared to current literature, especially in those having undergone PSO. With a UNiD® Rod, breakage was detected in 2.2% of all ASD patients and in 4.7% of cases with a PSO performed. These rates decrease further when you remove patient-specific rods that were manually adjusted during the operation. In the current literature involving non-personalized spinal implants, overall rod breakage incidence is reported as high as 14.9% of patients following ASD surgery [3-5]. When a PSO is also performed, the rod fracture rate increases up to 22% and in these cases, 90% of failure is found to occur at, or adjacent to, the PSO level [3-4]. Furthermore, the time to failure is most often seen to occur within 10 months after surgery.

Rod Fracture Incidence	ASD Patients	ASD Patients with PSO	ASD Patients with no manual rod bending	ASD Patients with PSO and no manual rod bending
Standard Rod	14.9%	22.0%	--	--
Patient-specific UNiD® rod	2.2%	4.7%	1.8%	3.1%
Fracture Reduction with UNiD® Rod	- 85%	- 79%	- 88%	- 86%

Adult Spinal Deformity surgery is increasingly prevalent in an aging population and poses particular challenges with high complication rates that can lead to revision surgery in a reported 16.5% of cases [1] at a substantial cost to the healthcare system found to total around $80,000 per surgery [2]. Thus, avoiding revision surgery can provide a significant savings to the health care system.

References:

1 - Passias, P.G., et al., Predictors of Revision Surgical Procedure Excluding Wound Complications in Adult Spinal Deformity and Impact on Patient-Reported Outcomes and Satisfaction. J Bone Joint Surg Am, 2016;98:536-543.

2 - McCarthy IM, Hostin RA, Ames CP, et al. Total hospital costs of surgical treatment for adult spinal deformity: an extended follow-up study. Spine J. 2014.

3- Smith, J.S., et al., Prospective multicenter assessment of risk factors for rod fracture following surgery for adult spinal deformity. J Neurosurg Spine, 2014;21:994-1003.

4 - Barton, C., et al., Risk factors for rod fracture after posterior correction of adult spinal deformity with osteotomy: a retrospective case-series. Scoliosis, 2015:10-30.

5 - Hamilton, D.K., et al., The Fate of Adult Spinal Deformity (ASD) Patients Incurring Rod Fracture After Thoracolumbar Fusion. World Neurosurgery, 2017. In press.

- *A response to economic issues*

The UNiD® ASI solution is offered within a changing healthcare system, with several factors altering the market environment:

- Paying institutions and agencies are exerting mounting pressure to limit the rise in healthcare expenditure and to make savings. Faced with the increase in the number of spinal fusion operations, surgeons are being asked to adopt a systematic and sustainable treatment schedule. In order to initiate reimbursement of their fees, they must provide images of the results obtained and documents demonstrating the failure of non-surgical treatments during the months prior to the surgery in order to validate its necessity. The choice of implants is starting to increasingly depend on the strategic priorities of hospitals rather than the preference of surgeons for the devices used;

- In the United States, financial penalties are now applicable to corrective procedures. 62% of patients who have had spinal surgery suffer from poor post-operative sagittal alignment and 37% of them require corrective surgery in the long-term. These corrective procedures are more expensive than the initial surgery and also have a higher complication rate, hence the importance of reducing their number;

- Surgeons are increasingly concerned about their legal liability in relation to the success of operations.

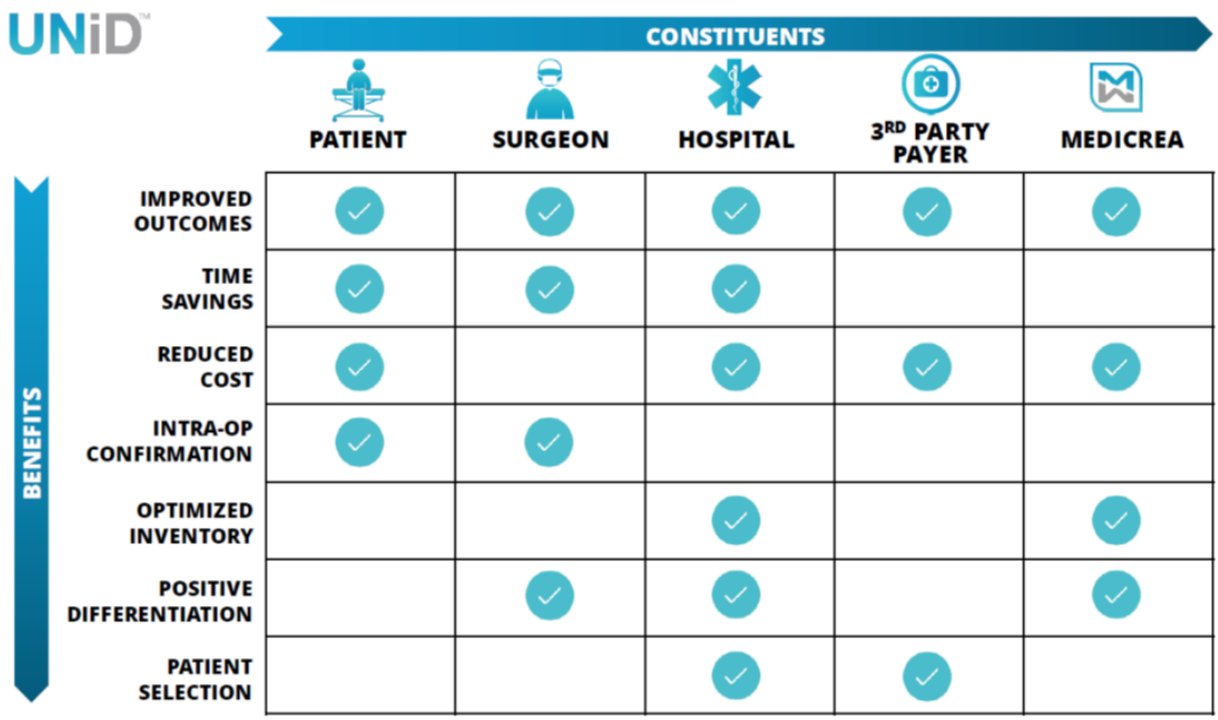
Within this context, the UNiD® patient-specific rods developed by MEDICREA offer a number of benefits:

- For the patient: They receive the most suitable treatment for their pathology. The chance of sagittal realignment is maximized, leading to a reduction in complications and the number of corrective procedures by approximately 80%;

- For the healthcare system: Two sources of savings have been identified. Firstly, the reduction in operating time by approximately 15 minutes on average with the removal of the manual contouring stage means that the cost of the surgery falls by approximately USD 1,500 (within the US healthcare system). Secondly, the reduction in the number of corrective procedures leads to a fall in expenditure: for example, readmission to hospital costs USD 80,000 in the United States;

- For the surgeon: They can focus on determining the best solution for treating the patient rather than on the issue of technical execution in the operating room.

The benefits inherent to this new technology are illustrated in the table below:



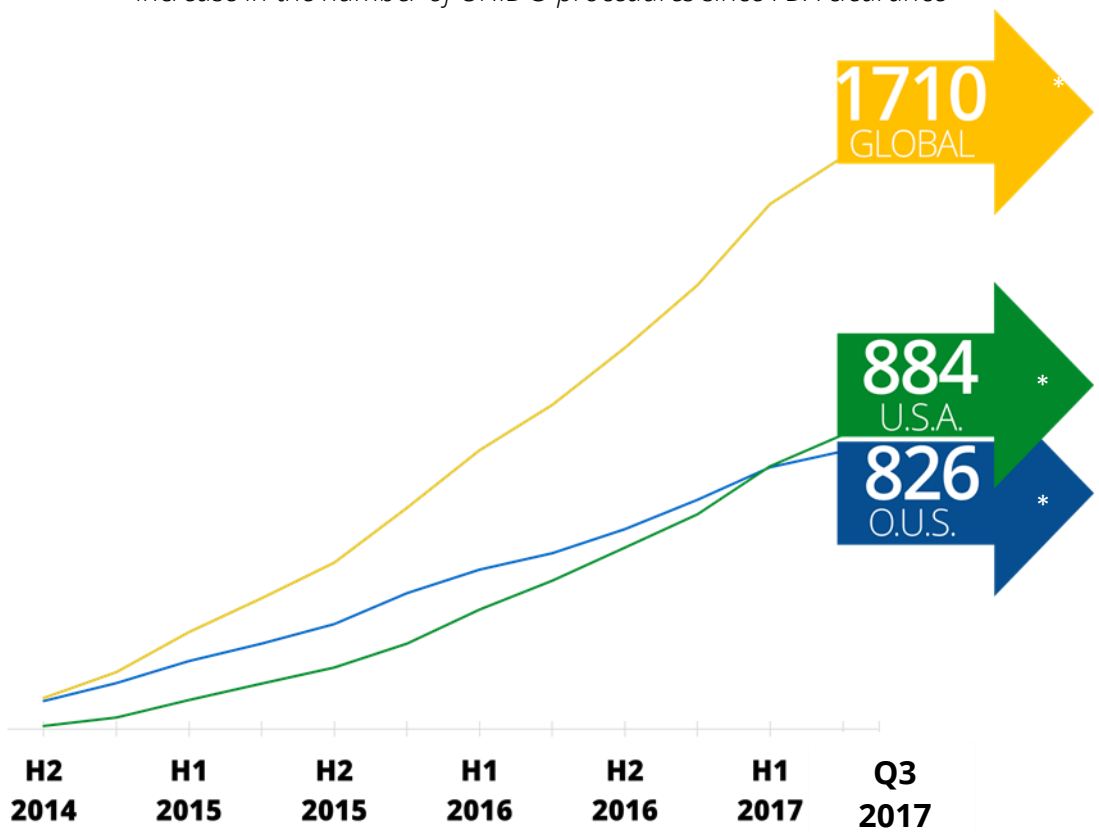
Because of the overwhelmingly positive results obtained and MEDICREA's confidence in the science behind UNiD® ASI technology, MEDICREA has taken the extra step to warranty each patient-specific implanted construct in the United States for the duration of the patient's life. This is a true testament to its belief that, by offering surgical planning services with a patient-specific device, MEDICREA is eliminating the inherent risks and associated costs to the healthcare system that are created by manually bending a rod during surgery.

The lifetime guarantee for UNiD® implants is an integral part of the services offered throughout the UNiD® ASI process. It 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.

- *Accelerated adoption*

At September 30, 2017, almost 1,700 UNiD® patient-specific rods had been implanted in patients in the US, France, Belgium, the UK, Germany, Spain, Malaysia, and Poland. UNiD® adoption by surgeons has been swift – since FDA clearance was secured on November 10, 2014, 884 surgical procedures have been carried out in the United States using a MEDICREA patient-specific rod. In France, almost 800 patients have received this particular implant. In total, more than 150 surgeons have already used UNiD® LAB services.

Increase in the number of UNiD® procedures since FDA clearance



* *Cumulative figure*

In France, UNiD® patient-specific rods are never sold alone. MEDICREA systematically offers its UNiD® ASI technology and UNiD® TEK patient-specific implants in combination with other implants (screws, hooks, etc.) from the PASS® range of fixation systems (PASS® LP, MIS and OCT in particular). This is due to low price levels that do not cover the additional costs generated by the development and production of a UNiD® patient-specific rod compared with a conventional rod.

In the United States, however, the use of MEDICREA's thoraco-lumbar fixation systems is encouraged during surgeries with UNiD® patient-specific rods, but the option is left to surgeons to use competitors' products. In 2016, 77% of the surgeries performed on the American market with UNiD® patient-specific rods also used the Company's thoraco-lumbar fixation implants.

In 2018, the Group plans to charge for the use of UNiD® LAB planning services in addition to the patient-specific implant itself.

- *Development outlook*

UNiD® ASI is a systems technology rather than a product, which enables the favorable replacement of traditional implants. Markets that value innovation strongly, such as the United States, accommodate patient-specific implant pricing to be set at a significantly higher amount than traditional implants with immediate time-saving and inventory efficiencies and long-term expectation of cost-savings in patient care.

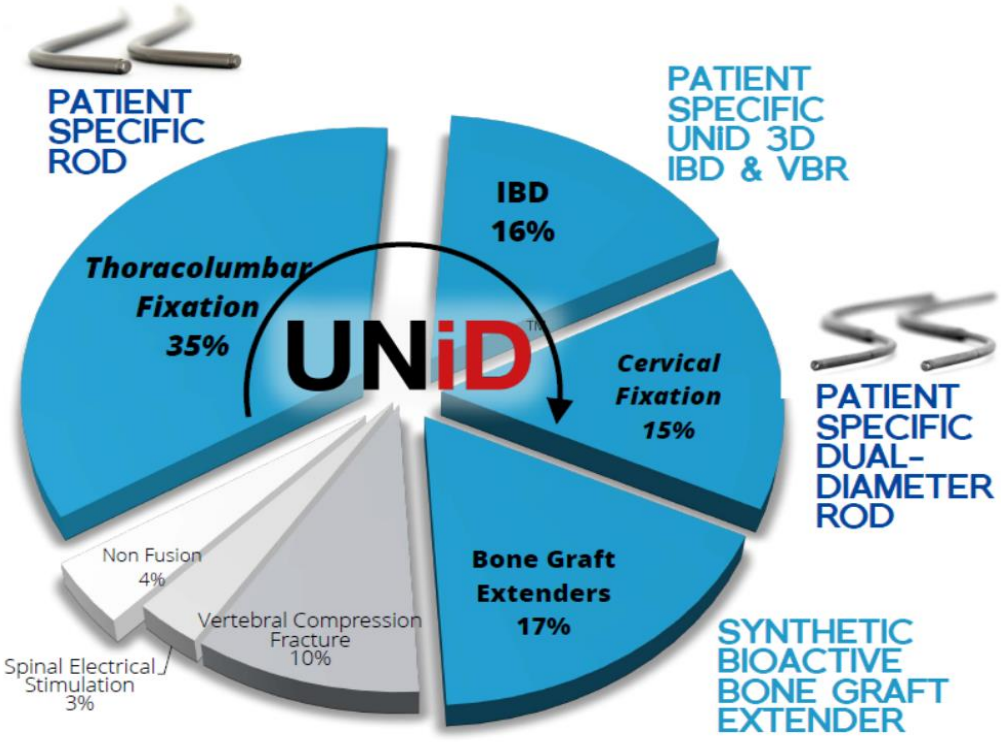
The initial pre-contoured patient-specific UNiD® rod is a universal implant available in the global market's two alloys (Titanium and Cobalt Chrome) and two standard diameters (5.5 and 6 mm). It is part of the range of implants that makes up the thoraco-lumbar fixation system, PASS LP®.

The UNiD® TEK range was first expanded following the marketing of the patient-specific UNiD® cervical rod used in combination with the PASS OCT® posterior stabilization system for the cervical spine. During a surgical procedure on the occipito-cervical junction of the spine, the shape of the rod directly influences the fixed position of the head and neck and radically changes the patient's posture and how they feel. Surgeons who do not use UNiD® Rods are obliged to manually and approximately alter the shape of the rod, a process made even more complicated with the rods that use two diameters, frequently used in this type of surgery, and for which no permanent tool exists to shape the connecting area between these two diameters.

MEDICREA has also designed and launched the very first UNiD® MIS patient-specific rod tailored specifically for minimally-invasive surgical procedures as a part of the PASS® MIS system.

Thanks to these new innovations, UNiD® Rod technology now covers the entire spinal column, from the cervical spine to the thoracic and lumbar spine and tailored to different types of surgery. The

patient-specific UNiD® rods offer a solution to the thoraco-lumbar and cervical fixation markets, which represent 50% of a total market estimated to be worth $10 billion, broken down as follows:



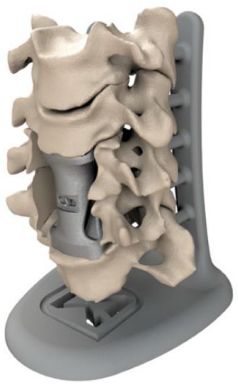
Also, among the implants offered for use in spinal surgery are interbody cages, whose role is to replace the damaged intervertebral disc in the cervical or lumbar region, and Vertebral Body Replacement ('VBR' or 'corpectomy') implants, whose role is to replace one or more vertebral bodies (at least one vertebra and two vertebral discs). These interbody devices represent 16% of the spinal market.

These two types of implant are now available on the market, in either titanium or PEEK (Polyether ether ketone), but only in standard sizes. The specific anatomy of the patient operated on is therefore only partially taken into account when the size is selected. Driven by the same objective as for the patient-specific UNiD® rods, namely providing a solution that is perfectly tailored to the uniqueness of every vertebral body, MEDICREA has been the first to develop and market 3D-printed patient-specific interbody devices in Europe.

To date, MEDICREA is the only company in the world that has succeeded in designing, producing and implanting interbody cages and corpectomy implants in several patients that were custom designed and produced from 3D printing technology. The first patient-specific cage manufactured in PEKK via a 3D printer was implanted on May 28, 2014 at Jean Mermoz Hospital in Lyon.

The patient-specific implant, designed from the 3D reconstruction of the patient's vertebral scans, is then adjusted to the anatomical parameters of the area to be operated on (morphology of the vertebral endplates and angulation of the spinal column), which offers two major benefits:

- A reconstruction of the spinal column taking the overall sagittal parameters into account;
- improved bone/implant contact through optimum support on the vertebral endplates reducing the risk of the implant subsiding.



MEDICREA's aim is to produce 3D-printed implants with a trabecular porous structure. Integration of the porosity will lead to ever closer replication of the specifics of the human body – the interior of vertebrae having sponge-like structure. Regrowth and therefore bone adhesion will thus be facilitated and patient recovery following the operation will be accelerated. The material used will be titanium as it is extremely well tolerated by the human body, already widely used in the manufacture of spinal implants, and preferred by surgeons.

As with the pre-contoured UNID® rods, MEDICREA will not only supply a product, but also an expert service that supports the surgeon in the design of the VBR or interbody cage, which is perfectly tailored to their patient using a specific software package and a process developed by the Company's research and development team.

The production of these implants at scale is not possible using traditional resources (machining, turning, etc.) and requires the use of an innovative technology: additive manufacturing, i.e. three-dimensional printing. This technology is the only one which enables:

- Specific shapes and pieces whose internal structure is porous;
- The shape to be changed for each production and therefore unique pieces to be produced without modification of the entire manufacturing process;
- Production within a very short space of time.

From an operational standpoint, this production technique should also enable implant inventory levels to be reduced. Production in smaller batches immediately becomes possible, rendering a buffer inventory unnecessary, and design modifications have no impact on production times and costs.

At the time of writing this Registration Document, MEDICREA has not yet obtained the regulatory authorizations permitting the marketing of patient-specific implants by 3D printing (FDA clearance and CE marking) but procedures are in progress and should be finalized shortly. Unlike MEDICREA, the certifying bodies do not have in-house experts who are proficient in this technology, which complicates discussions. Competitors already sell titanium cages manufactured using 3D printing technology, but they outsource them to third parties. MEDICREA wants to retain the technology in-house which makes the certification process more complex. A number of patient-specific, 3D-printed implants have already been implanted in Europe thanks to a special derogation procedure for the marketing of a non-CE marked product, which needs to be repeated for each implant sold.

By investing in the 3D printing of patient-specific implants, MEDICREA is leading the way in the utilization of the latest manufacturing technology. As such, the Group is bringing a totally innovative solution to the corpectomy implant market and aims to become a leader in this niche segment. It is also offering major developments to the much bigger interbody fusion cage market, notably with the provision of trabecular porous structures and surgeon-adaptive technology.

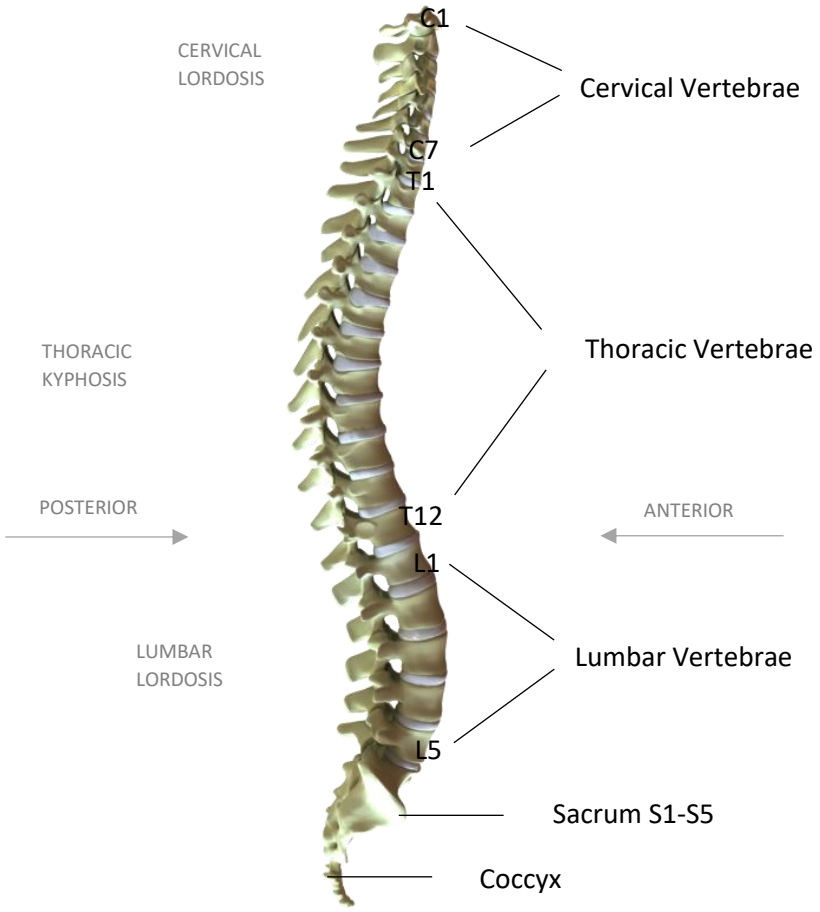
1.3.3. The spinal treatment market

1.3.1.1. The spine

The spine, or spinal column, is a skeletal structure made up of 33 vertebrae superimposed on one another. The spine begins at the base of the skull and extends to the pelvis. Its role is to maintain the upright position of a human and to protect the spinal cord which is located inside the spinal column.

The 33 vertebrae which make up the spinal column comprise five spinal sections:

- the cervical spine: section of the spine in the neck region made up of seven vertebrae (C1 to C7);
- The dorsal or thoracic spine: section of the spine in the thoracic cage region made up of 12 vertebrae around which revolve the ribs which form the thoracic cage (T1 to T12);
- The lumbar spine: section of the spine in the lumbar region made up of five vertebrae (L1 to L5);
- The five fused vertebrae of the sacrum: bone that connects with the ilium to form the pelvis and constitutes the posterior part of the pelvis (S1 to S5);
- The coccyx: bone formed when naturally atrophied vertebrae fuse, located at the bottom of the sacrum and made up of four fused caudal vertebrae.



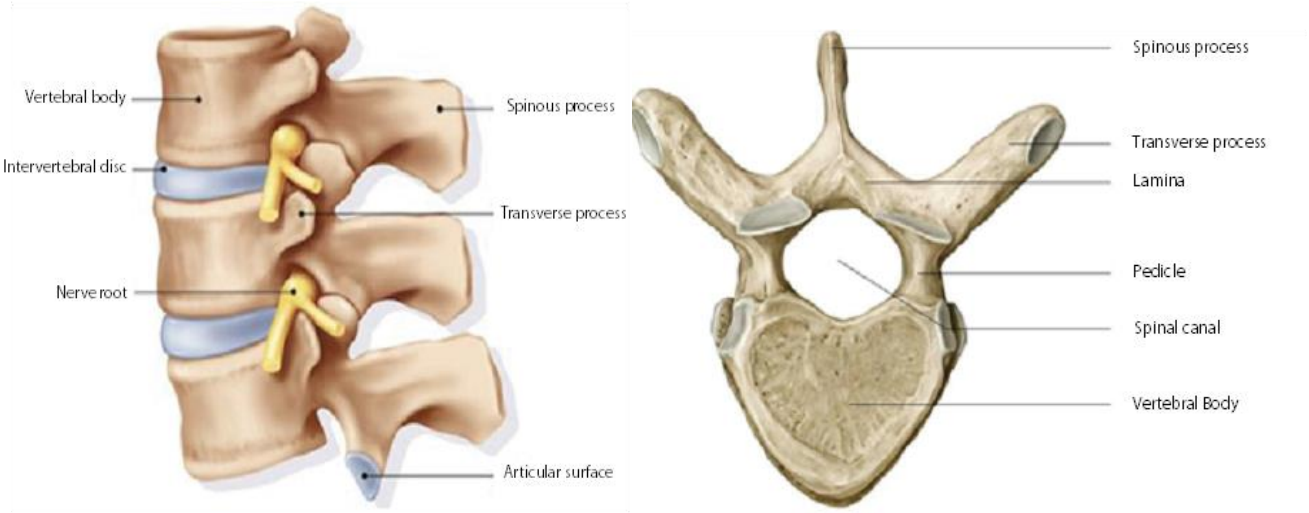
Sagittal view (profile) of the spine

The spine is naturally curved in order to ensure correct distribution of weight along the vertebral body and to enable an upright position with minimum muscle contraction and energy expenditure. The two types of curvature of the spine are lordosis, involving anterior convexity, and kyphosis, involving anterior concavity. Lordosis affects the cervical and lumbar levels, while kyphosis affects the thoracic level. Curvatures such as these can vary significantly from one person to another, although most healthy people have similar curvatures. Any significant magnification or defect in these curvatures can affect both posture and quality of life and be the cause of pain and disability.

In a healthy body, between each vertebra is located a disc made up of glycoproteins with a band of fairly thick cartilage that is fibrous in nature (annulus fibrosus), which surrounds a far softer central core that is elastic in nature called the nucleus pulposus, made up of 80% water and whose function, in normal circumstances, is to act as a hydraulic shock absorber. The job of intervertebral discs is to perform a cushioning and pressure distributing function for each movement of the spinal column, especially during strenuous efforts.

A vertebra is made up of a cylinder shaped vertebral body behind which a band called a posterior arch is fused. The vertebral bodies are therefore connected to one another by a disc, the posterior arches by two articular facets. There are therefore three “columns” for weight distribution – one anterior disc “column” and two posterior facet “columns”.

At the center of this structure, the stacked vertebrae make up the spinal canal, where the spinal cord is located and terminates at the first lumbar vertebra, giving rise to nerve roots known as the ponytail.



Although it can be distorted by bending, the spine must remain rigid. The vertebrae must be held together by ligaments, which are both strong and flexible, and which wrap around the entire spinal column, both in front and behind. This allows the various movements of the spinal column (forward flexion, lateral flexion known as inclination, backward flexion known as extension). Mobility primarily exists in the cervical and lumbar regions, and less so in the thoracic region. Moreover, numerous muscles are connected to the vertebrae, thereby ensuring their stability, mobility and conferring strength to the entire spinal system.

1. Overview of the Company and its operations

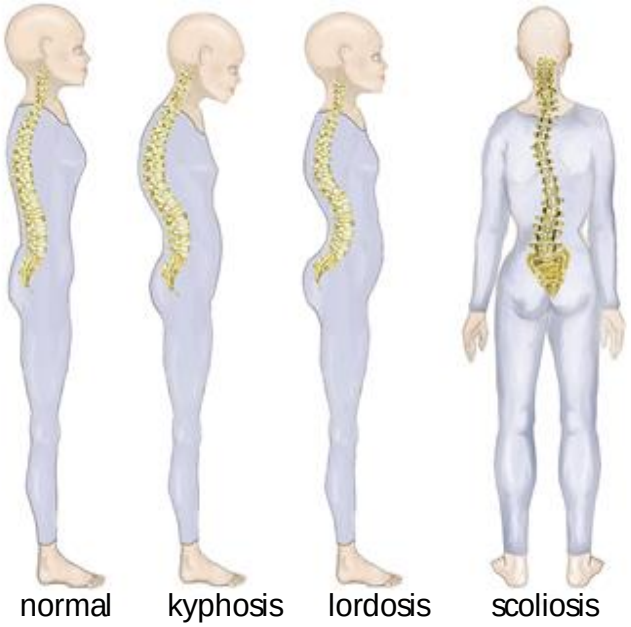
a. Spinal pathologies

In general, four major pathologies affect the spinal column:

- Deformities

These deformities constitute an imbalance in the general mapping of the spinal column. They are known as kyphosis when they are strictly related to the profile and scoliosis when they affect the front plane. The combination of both is common and known as kyphoscoliosis. These deformities can either appear during a child's growth (infantile and idiopathic scoliosis), or in elderly individuals due to arthritis or osteoporosis (degenerative scoliosis). These deformities may also be secondary to other pathologies – inflammatory diseases (ankylosing spondylitis), infectious diseases (vertebral tuberculosis), neurological damage (fetal distress, Friedreich's Ataxia) and polymalformative syndromes (myopathies, neurofibromatosis).

Illustration of spinal deformities



- Arthritic, also known as degenerative, pathologies

The spinal column goes through several stages of remodeling as a result of aging. The ligaments loosen and no longer play their supporting role. The intervertebral disc loses both moisture and its stability. Joints are the site of arthritis, producing growths (osteophytes) through contact with the cord and the roots.

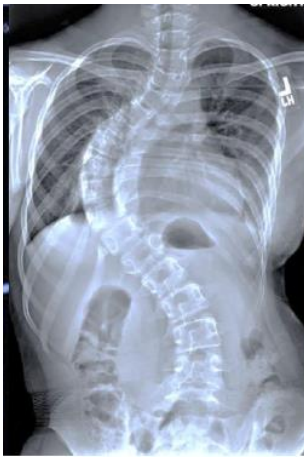
- Traumatic pathologies

Traumatic spinal pathology is very varied and can affect any part of the spine. It affects both young (sport and road accidents) and elderly individuals (osteoporosis) in equal measure. All these fractures are now well known and match numerous classifications according to their stability and neurological impact. Fractures often have serious consequences. They significantly change the balance of the spinal column (malunion) or cause neurological structure problems (paraplegia, tetraplegia, sphincter and bladder dysfunction).

- Tumor pathologies

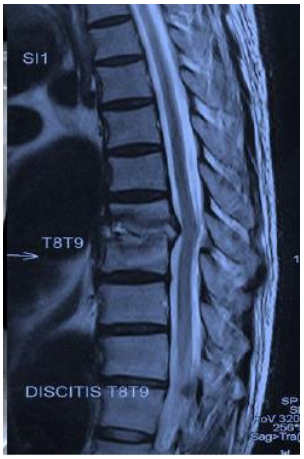
The spine is made up of connective and bone tissue, and is therefore not immune to primitive tumor pathologies (osteosarcoma, myeloma, etc.). Moreover, they are extremely common sites for secondary tumor locations (metastases). They result in multiple consequences, from the destruction of vertebrae to the compression of neurological structures.

Illustrations of spinal pathologies

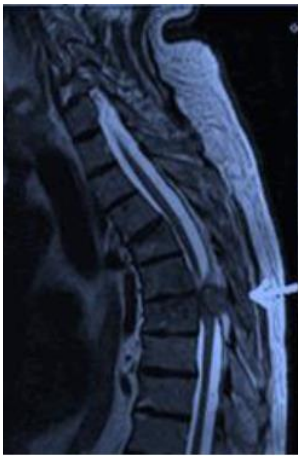


Deformity

Degenerative



Traumatic



Tumor

b. Medical treatment

In most cases, a patient consults a doctor in relation to spinal and/or neurological pain, loss of control or impaired physical performance.

The law requires that not only the future development of their spinal pathology but also the benefits, risks and constraints related to surgical or non-surgical treatment is disclosed to the patient. The therapist must clearly weigh up on a case-by-case basis the risk / benefit balance of the various options which will be offered to the patient.

Non-surgical treatment

In the case of vertebral deformities, in conjunction with functional rehabilitation, the practitioner uses orthotics, also called braces, with the aim of reducing the angular aggravation and relieving pain.

For vertebral tumors, or fractures, braces do not however constitute optimal treatment since the fracture of the cancerous vertebra can only be healed through external radiotherapy which is not always effective according to the type of tumor. Therefore, in certain cases, percutaneous cementing (injection of methyl methacrylate-type cement) is the correct indication in this context. This cementing or vertebroplasty technique was improved and renamed kyphoplasty. It involves re-inflating the vertebrae concerned using a balloon device and then stabilizing the simple lesion caused by the tumor or the fracture by using an injection of cement.

In addition to the medical analgesic therapeutic armory (WHO levels 1 to 3 i.e. exclusively morphine-based analgesics, including steroid-free and steroid-based anti-inflammatories), antidepressants, anxiolytics, anticonvulsants and muscle relaxants are also used. Over the long term, they can however cause side effects and be synonymous with addiction.

The place of physical medicines such as osteopathy is disputed. In specific indications, their efficacy is evident but it must also be ensured that serious progressive diseases for which physical medicines do not have significant therapeutic effect are not neglected. Lastly, functional re-education programs involving physiotherapists, occupational therapists, and physical and psychological trainers play a fundamental role in recovery and the prevention of relapses.

These treatments are considered before surgery, notably in the event that the patient is in poor health or their body mass index is too high.

Surgical treatment

If all the scientifically recognized decision-making criteria legitimizing a surgical procedure are brought together, an operation can be planned.

Surgery is recommended for children and adolescents in the event that a severe and progressive deformity is painful and cannot be treated with traditional solutions. In adults, surgery is the standard treatment for patients for whom the progressive deformity causes a sagittal imbalance.

Often synonymous with efficacy, surgery is also synonymous with taking risks. Surgical treatment comes down to two types of surgery – non-instrumented surgery and instrumented surgery.

- Non-instrumented surgery

Non-instrumented surgery means that no medical device remains implanted in the patient's spine following the surgical procedure.

The most significant in terms of the number of procedures, most often it involves releasing a cervical or lumbar nerve root and freeing the content of the medullary canal into one or more sections. This surgery is performed using a minimally-invasive approach so that the stability of the area already affected is not compromised, muscular damage is minimized and the risk of hemorrhage or infection is limited.

- Instrumented surgery

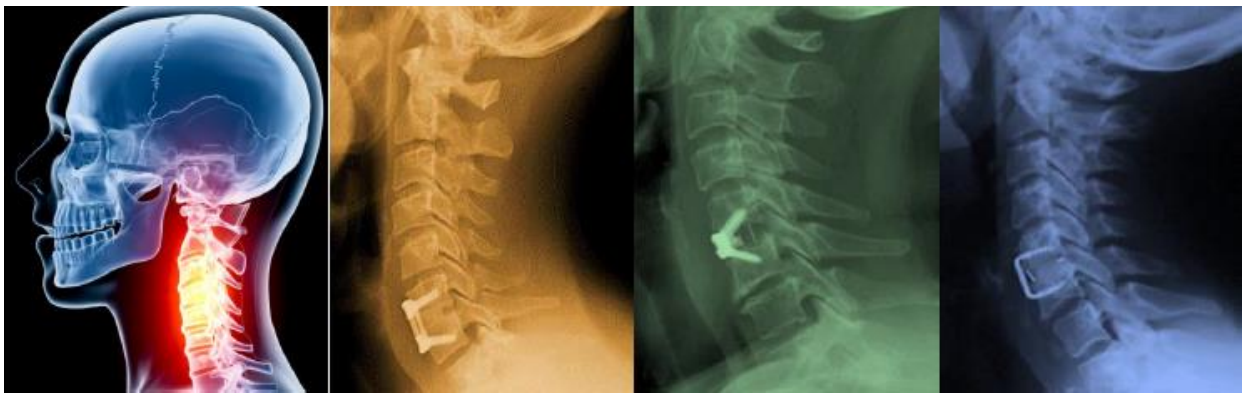
Cervical region:

The most common procedure is transdiscal root decompression which involves, via an anterior cervical approach, the removal of the disc and reconstruction, most often using an interbody cage to which a fixation can be added. This type of procedure has long been scientifically validated as effective and is characterized by a very low mortality rate.

More extensive anterior surgery for decompression and/or reconstruction in relation to extended compressions or tumors, uses cage type reconstructive implants and plate-based osteosynthesis, which are also recognized for their efficacy.

Posterior approach cervical surgery, which is far more invasive, is unavoidable when the compression is posterior and affects several levels of vertebrae, or if the tumor or degenerative pathology requires it. "Fusion" implants are used in this case. The efficacy of this type of procedure is proven, but it has a higher mortality rate.

Illustrations of cervically-fitted implants



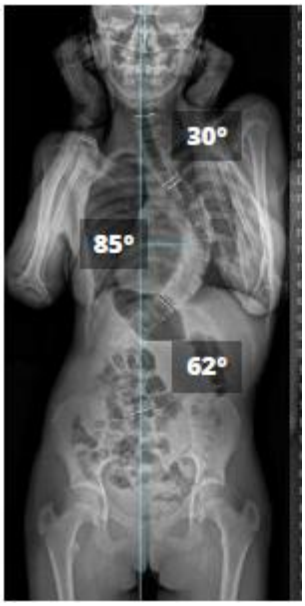
Thoracic, lumbar and lumbosacral regions:

The procedure is planned specifically for a patient's pathology, according to their clinical symptoms. Extremely thorough preparation for surgery is required to minimize the risk of complications and the operating strategy adopted will depend on the surgeon's routines and preferences.

The aim of surgery is to restore the spinal column to normal alignment in all three dimensions and to stabilize it thanks to constructs made up of implants fixed to the bone sections followed by a fusion of the affected vertebrae. Fusion implants are used in this case – vertebral reconstruction cages, osteosynthesis, rods, plates, pedicle screws and hooks enabling the spine to be supported and remodeled. In the event that the quality of the vertebra is not good, screw fitting can fail and cause a pedicle fracture. Other implants such as flexible bands are then used.

Fusion procedures often involve a single level. Nevertheless, degenerative and deformity based pathologies generally require implants to be fitted at several levels, way beyond the area of deformity, to ensure the spine's stability.

To correct frontal alignment (face on), two rods are fixed along the spine by screws and hooks. To correct sagittal alignment (in profile) and achieve the patient's specific spinal curvature, the rods are contoured before being implanted. This second stage is the most complex as, in the case of poor execution, the patient will not benefit from long-term relief.



Deformity before surgery

Correction of frontal alignment

Correction of sagittal alignment

Procedures on deformities, degenerative diseases, tumors and fractures are performed using the anterior, lateral or posterior route.

Most spinal pathologies affect the thoraco-lumbar and sacral spine, which explains why most innovation is focused on this area.

Two operating strategies exist: the so-called “fusion” strategy, which is well established and mainly used, and the “non-fusion” strategy, the use of which is increasing. However, combined “fusion / non-fusion” options exist, such as for example at the junction of a rigid construct with a healthy spinal column.

MEDICREA offers a wide range of implants and instruments to treat every spinal pathology using instrumented surgery, and works in both the fusion and non-fusion spinal segments.

1.3.1.2. History of spinal surgery

It was in 1960 that the first major event in spinal surgery took place, with the publication by Harrington of his first 19 cases of scoliosis operated on using instrumentation which performed traction on the concave deformity. It involved fixing hooks to the extremities of a ratcheting bar, which reduced the deformity and increased the rate of fusion while limiting both the time spent in plaster and post-operative confinement.

In 1961, the Frenchman R. Roy-Camille described the first “pedicle screw fixation”, meaning the rear fixing of the vertebra by means of a metal implant screwed from back to front in the entire vertebra. This finally offered the potential for stable vertebral segmental grip, without opening the medullary canal and without unstable hooks.

From 1973 to the early 1980s, devices and techniques evolved steadily but without any major innovation.

In 1983, the practice of spinal surgery changed decisively thanks to the presentation of the “Cotrel-Dubousset” (C.D.) procedure. These two French surgeons, in collaboration with the French company SOFAMOR, developed a new segmental and universal posterior vertebral instrumentation. All of today’s current systems are based on these principles in one way or another. It is by taking into account the three-dimensional aspect of the deformity, of the existence of strategic areas to be instrumented and by using the principle of derotation enabled by the two rods connected to the spine via pedicle screwed implants or specific hooks that this technique stands out.

Since then, despite developments in technologies in all areas, no major innovation had advanced spinal surgery prior to the development of UNiD® patient-specific implants.

1.3.1.3. The spinal surgery market

The market was estimated at more than $10.0 billion (€9 billion) in 2016. Representing 23% of the total orthopedic market, it is one of its most dynamic segments and is increasing once again following a period of virtual stability (2010-2013), with annual growth estimated at more than 5.5% until 2019 when it should reach $14 billion. The United States, where prices are significantly higher than in other geographic regions, represents the main market and accounts for almost 70% of sales.

Several factors favor the sustainable growth of the Healthcare sector generally and the momentum of the market for spinal surgery in particular.

Changing demographics are contributing to the development of spinal pathologies by:

- The aging of the population. Degenerative pathologies appear naturally with age and life expectancy has continued to rise in recent decades. These changes particularly affect developing countries where healthcare systems are being set up;
- Lifestyles that are changing – becoming more sedentary in particular - increase the likelihood of certain pathologies;
- The increase in cases of obesity. There is a correlation between being overweight (body mass index above 25) and joint problems, excess weight contributing to the crushing of discs and their accelerated aging.

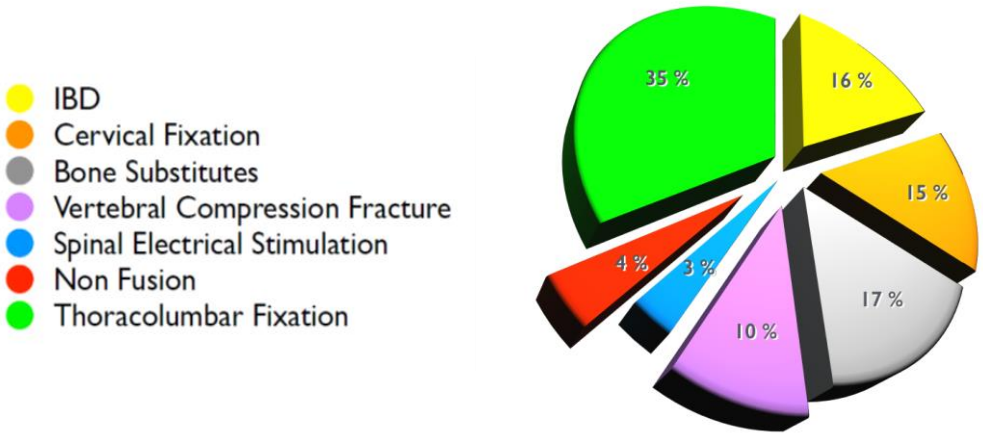
These changing demographics are combined with an access to healthcare in emerging countries of a middle class whose demands are increasing sharply. An ever-greater percentage of the population enjoys access to healthcare of a similar quality to western levels. The market share of these countries should therefore logically increase over the next few years and contribute to market growth.

Lastly, surgical treatment of spinal pathologies is changing:

- With an increasing share of instrumented operations (over 3 million worldwide in 2015), which should grow at a rate of 5% annually in the coming years;
- And the development of surgical procedures thanks to the reduction in operating times, the growth of minimally-invasive operating techniques and the advent of personalized medicine.

In the United States, demographic factors should develop in proportions that will support the growth of the market. The number of people over the age of 65 should reach 50 million in 2017. The number of obese Americans will be almost 100 million in 2017, according to a projection based on a relatively conservative annual growth assumption for this population of 2%.
(*Source: 2013 MILLENNIUM RESEARCH GROUP, INC.)*

The spinal treatment market breaks down as follows:



The surgery practiced to treat spinal column pathologies may be either non-instrumented or instrumented. Instrumented surgery employs two types of techniques:

- Spinal fusion

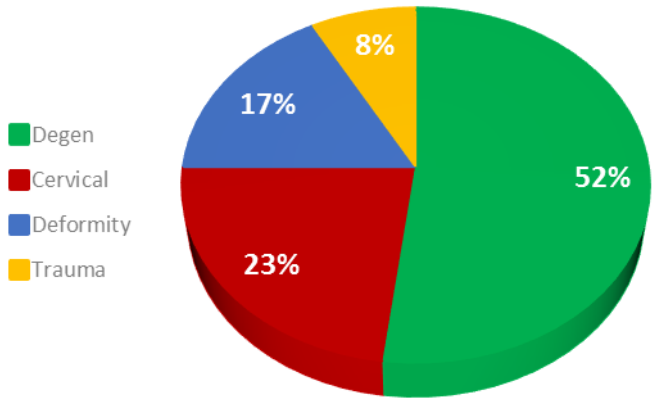
Spinal fusion involves correcting the unstable section of the spine by connecting the vertebrae to each other using implants (screws, rods, hooks) and in some cases removing the damaged cervical or lumbar discs to replace them with cages held between the vertebrae by plates.

Fusion implants allow the treatment of all spinal pathologies – deformities, degenerative pathologies, trauma-induced conditions and tumor pathologies.

Known as "fusion" products, they belong to four major categories:

- Thoraco-lumbar fixation implants, primarily represented by pedicle screw, sacral plate and hook fixation systems, connected by rods;
- Intervertebral cervical or lumbar interbody devices or "cages";
- Cervical fixation implants;
- Bone graft extenders used as a bone void filler and/or to facilitate fusion between the vertebrae.

The breakdown of the fusion market according to pathology is as follows: (source: Technavio Insights):



➢ Spinal non-fusion

Spinal non-fusion means a certain amount of mobility can be preserved by avoiding recourse to irreversible fusion of the vertebrae, notably in the event that the damaged intervertebral discs are replaced by artificial discs or prostheses.

Known as "non-fusion" products, they belong to four major categories:

- Lumbar disc prostheses;
- Posterior dynamic stabilization systems;
- Cervical disc prostheses;
- Tissue engineering (bio-artificial disc).

Fusion implants represent approximately 75% of sales within the spinal treatment market. The promising non-fusion segment represents a market share that is still limited (around 5%) but should see significant growth rates. Other technologies (vertebral stimulation, heat therapies, etc.) represent the remainder of the market, at about 20%.

1.3.1.4. Trends and market players

The spinal column market is highly concentrated: the leading eight companies, all American, control almost 80% of the global market (Medtronic, DePuy / Synthes, Stryker, Nuvasive, Globus Medical, Zimmer-Biomet, SeaSpine and Alphatec). These major players offer a wide range of products marketed throughout the world thanks to large sales forces. They are nevertheless facing erosion of their market share in favor of medium-sized competitors primarily focused on the United States (K2M, LDR – acquired in 2016 by Zimmer-Biomet, SeaSpine) and well-placed to penetrate specific

segments, or in favor of smaller independent companies, such as MEDICREA, that are making innovation the core of their strategy.
Companies at the forefront of spinal surgery are making the US a priority. Most of the market is located in North America since price levels are very high there. An implant whose basic reimbursement rate is set at €165 in France by Social Security may be sold for up to €1,000 in the United States.

Since 2010, the market, particularly in the US and Europe, has been suffering the after-effects of the financial and economic crisis, within a general context of reform of health policies specifically aimed at reducing the budgets of both public and private healthcare facilities. Pressure on prices orchestrated by hospitals, reductions of basic reimbursement rates made by governments, social security bodies, health insurance companies and funds, and the tightening up of certification procedures for medical devices have all impacted the development of the market. Manufacturers have also been asked to contribute via the introduction of specific taxes on sales of medical devices, such as in the United States until 2015 where a tax based on 2.3% of sales was used to finance health coverage for people on low incomes. Lastly, rules on the transparency of benefits granted to healthcare professionals have been strengthened with the coming into force of the Sunshine Act in the United States, the Loi Bertrand in France and similar directives in other countries.

Despite these temporarily detrimental factors, financial transactions have picked up again with the merging of several mid-sized players in the US, and several companies active in highly specialized sectors of the spinal column market going public (on NASDAQ and Euronext).

Major financial transactions

In January 2016, Nuvasive bought the company Ellipse for €420 million, representing almost 12 times Ellipse's 2015 sales. In June 2016, Nuvasive also bought Biotronic Neuro Network for approximately €85 million.

In June 2016, Zimmer Biomet purchased LDR for more than €850 million.

In July 2016, Globus Medical acquired Alphatec's international operations outside the US for €70 million.

Commercial distribution agreements and equity-based relationships between Mazor Robotics and Medtronic were also signed in May 2016.

The companies Spineway, Implanet, Vexim, SpineArt and K2M also completed share capital increases in 2016 ranging from €3 to €45 million.

A market dominated by US giants:

Medtronic:
Medtronic is one of the global leaders in the medical technology sector and is specialized in the research, design, manufacture and distribution of medical materials and equipment. The Group operates in the cardiac and vascular field, in the treatment of diabetes and also in restorative therapies, including spine related. Medtronic, which acquired Covidien in November 2014, achieved sales of €27 billion in 2016, including €2.5 billion for spine-related business.

DePuy / Synthes – Johnson & Johnson Group:
DePuy / Synthes is one of the global leaders in the manufacture of medical devices. In relation to the spine, it offers implants for both traditional and minimally-invasive surgery. Synthes was bought by the Johnson & Johnson Group in 2011 and merged with the company Depuy. DePuy / Synthes sales totaled approximately €8 billion for the 2016 fiscal year, including €3.4 billion in the category "Spine-related and other".

Nuvasive:
Nuvasive, founded in 1999, is a pure player specialized in medical devices for spinal column surgery. It achieved sales of €836 million in 2016, an increase of 18.4% in relation to the previous fiscal year following the acquisition of Ellipse.

Stryker:
Stryker, created in 1941, is one of the global leaders in the orthopedics market. This American company offers a wide range of implants for the spinal column. Stryker's total sales were almost €10 billion in 2016, including €700 million for spine-related activities.

Globus Medical:
Founded in 2003, Globus Medical is a company that produces and markets a comprehensive range of spinal implants. It achieved sales of approximately €490 million in 2016, an increase of 3.8% in relation to 2015.

Medium-sized companies including some experiencing rapid growth and others that are struggling to grow:

K2M:
K2M is an American company created in 2004. It designs, develops and markets implants for use in both complex and minimally-invasive spinal column surgery. K2M was floated on NASDAQ in May 2014. It generated sales of approximately €205 million in 2016, equating to an 9.5% increase in relation to the previous fiscal year.

LDR Médical:

LDR Médical is a French company created in 2000 specializing in the design, production and marketing of surgical implants exclusively for the treatment of spinal pathologies. Listed on NASDAQ since October 2013 and focusing on the United States, it was bought by Zimmer-Biomet in 2016. Prior to this takeover, LDR generated annual sales of approximately €150 million.

SeaSpine:

SeaSpine is a US company resulting from the 2015 conversion of Integra LifeSciences' Spinal business into a subsidiary. It is specialized in the surgical treatment of spinal pathologies. Seaspine achieved sales of €112 million in 2016, a decline of 3% in relation to the previous fiscal year.

Alphatec:

Alphatec is a US company created in 1990 specializing in the design, development and marketing of fusion implants for the treatment of spinal pathologies. In July 2016, Alphatec announced the sale of its international business to Globus Medical in order to focus solely on the US market. The company achieved sales of €105 million in 2016.

Several growing French companies:

Vexim

Created in 2006, Vexim is specialized in the creation and marketing of minimally-invasive solutions for the treatment of trauma-related spinal pathologies. Vexim markets SpineJack®, an implant that can restore a fractured vertebra to its original condition. The company achieved sales of €18.5 million in 2016.

Implanet

Founded in 2007, Implanet is a medical technology company that manufactures implants for use in orthopedic surgery. In relation to the spine, its JAZZ implant is intended for the treatment by ligamentoplasty of spinal pathologies requiring a vertebral fusion procedure. Implanet achieved sales of €7.8 million in 2016.

Spineway

Founded in 2005, Spineway designs and markets generic surgical implants and ancillary instruments for the treatment of serious spinal column pathologies. Its 2016 sales stood at €5.1 million.

Spineguard

Created in 2009, Spineguard designs, develops and markets single-use medical instruments intended to improve safety in back surgery. Its 2016 sales stood at €7.5 million.

Safe Orthopaedics:
Created in 2010, Safe Orthopaedics designs, manufactures and markets implants and instruments intended to improve safety in spinal column surgery using arthrodesis (fusion). The company provides a patented single-use sterile instrument technology. It achieved sales of €2.4 million in 2016.

Other medium sized European companies: Ulrich Medical, Signus (Germany), SpineArt (Switzerland)
Sources: financial communications of cited companies

1.3.1.5. Regulation of medical devices

Medical devices are subject to different regulations and registration procedures that are specific to each country. These regulations and procedures provide for the preparation of regulatory files for each device marketed collating all the technical elements describing the design and manufacture of the products. These files are prepared based on the requirements of each country, and more specifically on the European directive and the US regulations.

In Europe

The medical devices category is covered by European Directive 93/42/EEC, which sets the essential safety requirements and defines the ways in which compliance is assessed. The application of this directive results in the product being issued with CE marking, thereby authorizing its marketing.

The medical devices covered by Directive 93/42/EEC are divided into four classes according to the degree of risk to patients, as described below:

Class I	Low potential risk (reusable surgical instruments, non-invasive medical devices, temporary use invasive medical devices)
Class IIa	Moderate potential risk (invasive medical devices for short-term use, surgically invasive medical devices)
Class IIb	High potential risk (long-term implantable medical devices)
Class III	Critical potential risk (long-term implantable medical devices in contact with the heart, the central circulatory system or the central nervous system, resorbable implantable medical devices, breast implants, hip, knee and shoulder joint implants, etc.)

All marketed medical devices must be assessed in accordance with the provisions of the European directive according to the device's class. Medical devices specific to the spinal column fall under Classes I, IIa, IIb and III.
The assessment method is determined according to the requirements detailed below:

- The European requirements included in Annex VII of Directive 93/42/EEC for Class I devices;
- The European requirements included in Annex II (excluding Annex II.4) of Directive 93/42/EEC for Class IIa and IIb devices;
- The European requirements included in Annex II (including Annex II.4) of Directive 93/42/EEC for Class III devices.

More stringent conditions for the marketing authorization of products are being observed with a view to improving safety and transparency, with a number of initially class II spinal medical devices currently being moved to class III, which involves tighter requirements for manufacturers in terms of checks, traceability and regulatory monitoring. The new European regulation will also involve changes in clinical studies: obtaining the CE marking will be subject to pre-market clinical studies, whereas today reference to an equivalent product is sufficient, and post-market monitoring will be stepped up. All these regulatory changes have a significant impact on the human and financial resources to be allocated to the regulatory and clinical monitoring of products.

Moreover, in France, certain companies, including MEDICREA, are registered with the health authority ANSM as manufacturers of patient-specific medical devices. These devices are designed, manufactured and distributed in line with the essential requirements detailed in Annex I of European Directive 93/42/EEC and according to the specifications contained in Annex VIII relating to patient-specific devices.

In France, receiving CE marking is the first step toward registering the medical device on the *Liste des Produits et Prestations Remboursables (LPPR*, or LRPS - List of Reimbursable Products and Services) and being covered by health insurance. The LRPS is a list of medical devices for personal use and, if applicable, the service required for their correct usage. Inclusion on this list lasts for a period of five years, and is renewable.

Two registration procedures coexist:

- The general principle involves registration in the form of a generic description. This application procedure identifies a type of product according to its indications and technical specifications without mention of the brand or company name. If the product corresponds to the title of one of the LRPS's generic lines, the manufacturer labels its product according to this classification and it will be covered by Health Insurance according to the tariff set for the line. The product is not subject to a specific assessment but the initial registration must nevertheless be declared to the ANSM;

- The registration may be done in the form of a brand or trade name. This procedure is implemented in the case of products that are innovative or require specific monitoring (public health requirements, etc.). In this case, the manufacturer submits a reimbursement application, the product is assessed and a specific tariff may be set.

At European level, procedures are country specific.

In the United States

In the American market, the Code of Federal Regulation (CFR) - Title 21 - Food and Drugs governs the marketing of medical devices by setting the pre- and post-marketing requirements. These regulations are established by the FDA.

The marketing of products can, depending on the class of device in question, be subject to 510(K) Premarket Notification (for devices with an equivalent already on the US market) or PMA (Premarket Approval) (for products without equivalent) procedures, governed by the FDA-established regulations.

In recent years, the FDA has been tightening the conditions under which any new medical device can be marketed. The procedures can therefore be lengthy, expensive and require significant resource mobilization to successfully complete marketing authorization.

When the FDA has approved the marketing of the product, a reimbursement application must be submitted to the third-party payers (public organizations, private health insurance). The steps are as follows:

- Coverage: This term refers to the procedure and criteria that determine whether or not a product will be reimbursed. An application for coverage must be made if the medical procedure or technology is new. Clinical data must then be provided;
- Coding: Many codes are defined according to the product, the location of the medical procedure, the healthcare professional performing it and the equipment required. The coding that best matches the product concerned is then identified;
- Payment: Once the coverage has been approved and the code ascertained, the amount paid to the hospital for the product or the medical procedure is determined. This can be done in accordance with other similar products already on the market.

1.3.4. Development and marketing strategy

Pricing policy

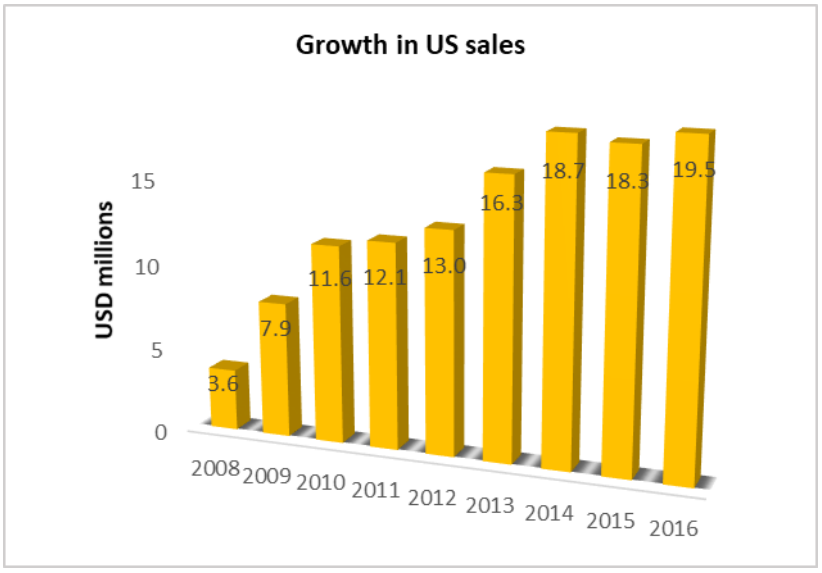
The Group markets instruments and implants for use in spinal surgery. As is the case for numerous medical devices, the price and whether they are covered by health insurance organizations are decisive factors when healthcare facilities choose the implants used. MEDICREA's pricing policy is therefore specific to each geographic region, and even to each country. It takes into account the market pricing level and the reimbursement rates applied by the health authorities or private insurance schemes in order to not jeopardize the product's listing. MEDICREA also aims to maximize its gross margin via this market specific pricing policy.

Priority market: the United States

Present on American soil since 2006 with the subsidiary MEDICREA USA, the Group has made the United States its priority market. This strategic choice is related to two factors:

- The US population is particularly affected by spinal pathologies by virtue of the proportion of older people and people suffering from obesity. Spinal column deformities affect almost 32% of the adult population and more than 60% of older people. The United States therefore represents almost 70% of the total spinal market;
- Price levels are far higher than in other markers (France in particular). Innovation, the heart of MEDICREA's everyday business, is particularly well rewarded there.

In the United States, sales exceeded $19.5 million in 2016, an increase of 7% in comparison reflecting continued growth since the subsidiary was established. They are primarily comprised of sales of the PASS LP® thoraco-lumbar fixation system and its various components for use in complex surgeries in adults and adolescents. MEDICREA USA is continuing its expansion in a market that has been subject to significant reforms since 2012 (price pressure, tightening up of reimbursement conditions, introduction of specific taxes on sales of medical devices, tightening of market authorization procedures for products) by posting some of the best growth in the sector over the last few years. The growth in MEDICREA sales in the United States is illustrated in the graph below.



MEDICREA markets its products in the United States both via a network of independent agents covering the entire country and by a direct sales force dedicated to looking after surgeons offering high potential. Direct sales represent almost 20% of MEDICREA USA's sales.

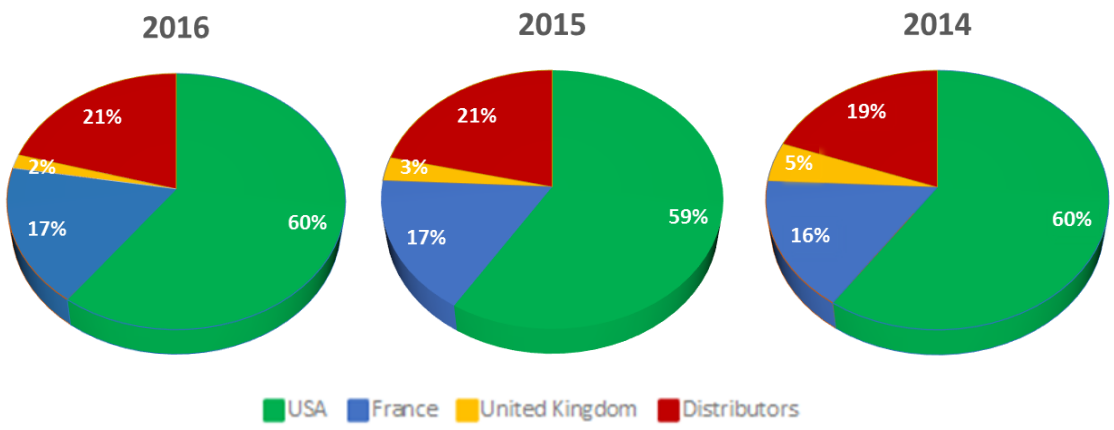
The marketing of UNiD® patient-specific rods and other patient-specific implants is a major factor in ensuring growth in MEDICREA's sales on the American market, where UNiD®'s potential is very significant: there are more than 350,000 operations per year during which UNiD® patient-specific rods could be used. Among these 350,000 procedures, more than 30,000 operations are referred to as complex and generate revenue of approximately USD 25,000 per case, representing a potential market of USD €750 million. Informing and training surgeons in relation to this innovation is the priority for sales teams since 2015. This strategy is beginning to bear fruit as the adoption of UNiD®

ASI technology and patient-specific rods is accelerating, with more than 750 fitted in the US by the end of June 2017.

In order to achieve the growth targets that MEDICREA has set itself over the coming years, the structure of the subsidiary and more specifically sales force numbers were strengthened in 2016 and this will continue over 2017, with the recruitment of technical sales representatives with expertise in the use of software and pre- and post-operative data analysis techniques. Rick Kienzle, joined MEDICREA USA in 2016, as Chief Commercial and Business Development Officer. His experience in the spinal sector, notably as a founder of Globus Medical, one of the leading companies in the market, should enable the US subsidiary to move to a new level in its development.

Distribution channels

MEDICREA distributes its products via four distribution subsidiaries (US, France, UK and Germany) and a new subsidiary in Poland created in December 2016, and uses distributors for the other markets in which the Company operates. The proportion of sales generated by the subsidiaries has stabilized at around 80% over the past two years.



Indirect sales

The Group distributes its products in more than 25 countries via an external distribution network made up of companies and exclusive independent distribution agents. The distributors buy the products from the Group and then sell them to their customers, made up of healthcare facilities.

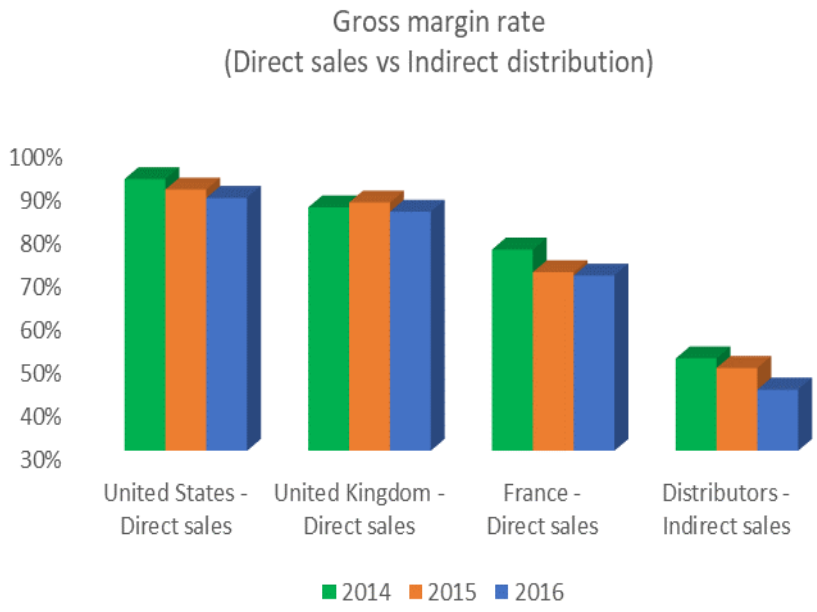
The contracts are mainly put in place for a term of three years. They determine the minimum quantity that the distributors agree to purchase over the term and set the purchase prices. Discounts and sliding scales can be applied depending on the volumes ordered.

Direct sales

Distribution by marketing subsidiaries allows the Group to control the entire supply chain, from on-site production in the new Rillieux-la-Pape site to delivery to customer healthcare facilities.

MEDICREA has been marketing its products in the United States since 2011 both via a network of independent agents covering the entire country and via a sales force dedicated to looking after surgeons offering high potential.

Opting for direct distribution without an intermediary allows the Group to optimize its gross margin, as the following graph shows:



Selling direct also means that the technical, medical and marketing messages conveyed to surgeons can be controlled.

Finally, the direct distribution of its products by MEDICREA is a key element in the roll-out of the UNiD® ASI strategy, making it possible to approach the surgeon directly via the UNiD® HUB through contacts with the UNiD® LAB.

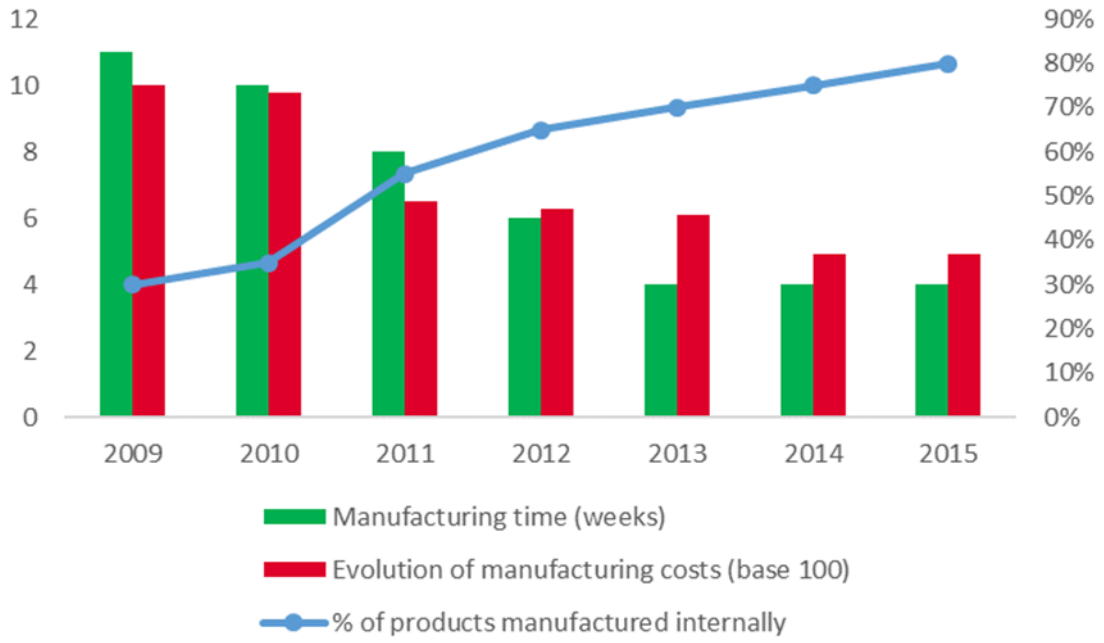
Insourcing production

In order to control its product manufacturing process and to improve the responsiveness by which it is characterized, MEDICREA is continually investing in the insourcing of its production. This strategy offers several benefits. Firstly, it means it can be free of the dependence inherent in the use of subcontracting. The Company is then entirely responsible for controlling production times and costs. Secondly, managing production cycles internally facilitates the optimization of inventories.

For MEDICREA, the insourcing of production activities goes hand in hand with automation of processes. It is the combination of these two elements that leads to a reduction in production costs, which thereby become more competitive than the sales prices of external suppliers.

The optimization of processes is characterized by the acquisition of latest generation high quality industrial equipment capable of large scale production, by the development of specific equipment to generate time savings on production lines and by improvements in programs to reduce the number of man and machine hours required.

Over the past 7 fiscal years to 2016, manufacturing times and production costs have been significantly reduced in this way (divided by 3 and halved respectively) when the percentage of products manufactured internally has more than doubled. These changes are shown in the graph below:



The 2016 fiscal year is an exception to this trend with an increase in production costs and the share of externally-manufactured products. MEDICREA used subcontracting from the second half of 2016 to mitigate the shutdown in production at the La Rochelle factory and the gradual resumption of operations at the new Lyon site following receipt of the necessary certifications issued by the regulatory certification bodies after a successful certification audit in late 2016.

Provision of instrument sets

For performance of surgery, the Group provides its customers with sets made up of implants and instruments necessary to handle and fit implants. In the markets managed by independent distributors, instruments are sold. On the markets where marketing is done direct (US, France, UK, Germany and Poland), they are held on consignment at healthcare facilities and are then covered by consignment contracts or are available in the form of loans according to hospitals' requirements. The instruments are recognized as property, plant and equipment. These investments are essential for ensuring the MEDICREA's activity expands and the number of user establishments and surgeons increases.

The growing use of its products led the Group to increase the number of sets deployed in the field and to renew the existing sets in order to offer surgeons instruments that are ever more innovative and tailored to their needs. In 2016, additional instrument sets were therefore provided to surgeons in the Group's various subsidiaries worth a total of €0.7 million net of disposals and the new German subsidiary's stock of sets was created.

The Group regularly analyzes the use of the sets in order to optimize their cost-effectiveness.

Training

The training of both the sales teams and healthcare professionals throughout the world is a priority for the Group. It is essential for MEDICREA to offer surgeons innovations but also to accompany them in the use of new techniques by providing them with high quality support. As part of the treatment of complex spinal column pathologies, surgeons are required to manage challenging situations; MEDICREA therefore seeks to ensure that all its employees who are in regular contact with surgeons have a comprehensive understanding of the challenges related to spinal surgery.

The Group has therefore created a Learning Center which is in charge of all the professional training programs. Its aim is to design and implement training courses on the treatment of complex pathologies of the spinal column, intended for sales teams. It operates on the principles of adult learning: the programs are not only made up of distance learning but also of on-site courses offering interactive exercises using role-play. The main aim of the Learning Center is for every sales representative interacting with healthcare establishments to learn how best to cater to surgeons' requirements.

The Group is also actively involved in the in-service training of surgeons with the aim of optimizing patient wellbeing and promoting the transmission of surgical best practices. In this way, it has created an international network of reference centers where visiting surgeons can communicate with their peers, discuss surgical techniques and instantly improve their knowledge within a clinical setting.

1.3.5. Research and development, patents and licenses

MEDICREA's research and development in a few figures

R&D is at the heart of the value creation strategy. The Group has made extending its range of products and developing innovative solutions a key priority and for several years has dedicated a significant amount of its financial resources to research and development activities. Spending, excluding patents and similar rights, has progressed as follows:

(€ K)	2016	2015	2014	2013	2012
R&D costs capitalized in balance sheet assets*	2,281	1,886	1,069	1,017	845
Expensed R&D costs	2,055	1,960	1,893	1,729	1,741
- of which amortization charge of R&D costs	(1,284)	(993)	(904)	(842)	(717)
TOTAL R&D COSTS	3,052	2,853	2,058	1,904	1,869
As % of sales	10%	10%	9%	8%	9%

*Amount of R&D capitalized over the year

MEDICREA has a comprehensive range of implants covering all spinal column pathologies: 41 patents have been filed since 2008 and 28 new product ranges have been developed. 48 FDA authorizations have been received since the company was first listed on the stock exchange in 2006.

In 2016, MEDICREA secured 7 FDA authorizations: UNiD® cervical rods (patient-specific cervical osteosynthesis rods), PASS Tulip® (screws and hooks), PASS XS®, LigaPASS XS ® and PASS OCT® (offset dominos and connectors). 379 new references have also been CE marked.

The Team

The R&D team represents a significant proportion of MEDICREA's workforce. It is made up of 20 people, including:

- 13 development engineers;
- 3 clinical affairs project managers and 1 clinical affairs – compliance project manager;
- 3 prototype designers.

These employees are organized into three centers of excellence:

- one team is dedicated to UNiD® patient-specific implants;
- one unit specializes in the manufacture of prototypes;
- one cell is in charge of developing innovative products and production processes.

Research and Development focus

The major strategic research and development focus for the Group is personalized medicine which prefigures the medical model for the 21st century. The Group's aim is to make the products and services allowing treatment that is perfectly tailored, and therefore specific and customized for each patient, available to surgeons, by committing to a complex process combining research and development with the industrial dimension and by using innovative technologies and manufacturing processes such as additive manufacturing via 3D printing.

Utilizing scientific knowledge of the sagittal balance, the understanding of spinal deformities, progress in imaging, increased analysis capabilities in relation to each patient and the advent of new manufacturing technologies based on digital files, the Group has become a pioneer in the field of patient-specific implants for the treatment of spinal column pathologies. The teams are working every day to assist surgeons in their strategy of personalized treatment for each patient by sharing

their expertise and their support in technical, clinical and logistical fields and by giving them access to new technologies.

During the 2016 fiscal year, MEDICREA invested heavily in the development of its complete UNID® ASI platform, which offers patient-specific implants for spinal surgery as well as related applications and services. The development of UNiD® HUB (digital portal and planning software) and strengthening of the UNiD® LAB teams (engineers) were the priorities for the R&D teams in order to provide ever more complete and high-performance services to surgeons. This trend will continue in 2017.

Paragraph 1.3.1. offers a detailed account of the Group's development and achievements in this area.

The Group is focusing its product development on the techniques known as vertebral "fusion" techniques which remain the benchmark standard in spinal surgery, by prioritizing the optimization of the prosthetic volume through the provision of minimally-invasive implants. However, so called "non-fusion" techniques represent significant development potential for the next few years. These technologies will allow both intervertebral disc and spinal pathologies to be treated at an earlier stage or prevented in order to preserve or extend their functionality. The Group believes that the "fusion" and "non-fusion" approaches are often complementary and seldom in competition with each other, and that the development of the vertebral implant market from "fusion" to "non-fusion" will be gradual. As such, the new "non-fusion" technologies which in all likelihood will see significant growth will be those that will allow surgeons to combine a vertebral "fusion" on the sections requiring it with a cushioned "non-fusioned" stabilization on the sections whose movement can be preserved.

Interaction with surgeons

Ever since its creation, MEDICREA has opted to involve surgeons in the development of its products in order to build close relationships with the scientific community. Integrated into the development teams, surgeons bring their expertise in terms of treating the pathologies with which they are faced and are involved in carrying out the validation testing of implants and instruments until they are finalized.

The Group constantly assesses the opportunity for partnerships with surgeons or companies that have developed technologies or projects relevant to thoracic and lumbar spinal surgery, and may acquire patents or businesses having led such developments. In this way, the idea for the first patient-specific osteosynthesis spinal rod (UNiD®) made specifically for each patient was born.
MEDICREA operates a policy of concluding agreements for the assignment of inventions and/or for the assignment of copyright with the surgeons appointed as inventors giving them the right to royalties on the revenues generated through the fitting of the products on which they have collaborated, with the exclusion from the calculation formulae of any fittings carried out by them.

Ongoing projects

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

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

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

- UNiD IB3D: patient-specific 3D-printed interbody fusion cage selected according to the pre-operative planning defined by the surgeon, associated with an assisted planning service

- AdapTEK IB3D: A range of interbody lumbar cages manufactured adapted to an individual surgeon's preference using the 3D printing process

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

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

- LIGAPASS XS: vertebral anchoring system using flexible bands and miniaturized LigaPASS connectors for adolescent idiopathic scoliosis indications

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

Prototyping activity

Initiated in late 2014, the transfer of the prototyping unit from the former La Rochelle site to the Neyron site was finalized in 2015. MEDICREA has invested in a fleet of suitable machinery (five new units were purchased for a total investment of €1.3 million) and taken on new employees, including a production manager and two experienced prototypists.
Interaction with the research and development team is facilitated due to its proximity to the new prototyping team. The implementation of this dedicated unit means that prototypes can be produced internally, reducing timeframes in comparison with the use of subcontracting. It also means that specific requests from surgeons can be satisfied within a few days by providing instruments that are personalized and tailored to their fitting techniques. Innovation is thus fostered thanks to great responsiveness.

Clinical studies

MEDICREA is investing in clinical studies. In 2016, several large-scale studies on the following products were ongoing or were completed:

- PASS LP® thoraco-lumbar fixation system:
    - Forward-looking multicentric international adult study aimed at correlating the correction of the spinal deformity with an improvement in quality of life (completed, report expected in the 4th quarter of 2017);
    - Forward-looking multicentric pediatric study in France aimed at correlating the correction of the scoliosis and it being maintained over time with the pathology's etiology (inclusions completed, patient monitoring ongoing);
    - Forward-looking multicentric (United States) pediatric study aimed at quantifying the derotation obtained by the ST2R technique via simultaneous translation on 2 rods, completed, analyses ongoing.

- GRANVIA® C cervical disc prosthesis: Forward-looking multicentric international study aimed at demonstrating the preservation of disc mobility after two years of follow-up as well as improved quality of life for patients (completed, study report available);

- LIGAPASS® ligament based fixation system: monocentric French study aimed at demonstrating the performance of sub-laminar bands in the adolescent neuromuscular scoliosis indication (inclusions completed, patient monitoring ongoing;

- PASS MIS® minimally-invasive polyaxial system:
    - Study in New Caledonia aimed at demonstrating the efficacy of the technique in the treatment of fractures using kyphoplasty (closure in progress);
    - Forward looking multicentric study in preparation aimed at studying the effectiveness and safety of the system after two years of monitoring (France and potentially Europe, inclusions ongoing);

- UNiD® osteosynthesis patient-specific rod:
    - Record began in France in 2014 and subsequently open to other centers, enabling the restoration of sagittal alignment thanks to patient-specific rods to be measured, as well as improvements in quality of life in the treatment of deformities in adults. (more than 470 eligible patients, approximately 150 patients included so far)
    - Several retrospective studies are ongoing to assess the relevance of using patient-specific rods for several indications: deformity, degenerative conditions, pediatrics, etc.

- C-JAWS cervical staple: retrospective French study aimed at assessing the effectiveness and safety of the implant in patients who have been operated on in several spinal regions.

- PASS OCT cervical osteosynthesis system: forward looking multicentric study in preparation aimed at studying the effectiveness and safety of the system after two years of monitoring (France and Europe, inclusions ongoing).

- UNiD VBR patient-specific corpectomy implant: register started in early March 2016 aimed at including the first 30 cervical cases and the first 30 lumbar cases in order to assess the effectiveness and safety of the implants (France, inclusions ongoing).

The Group has made the following publications available in relation to its products over the past three fiscal years:

Product	Date	Communication media	Name	Reference
LigaPASS	2014	Publication	Restoration of thoracic kyphosis by simultaneous translation on two rods for adolescent idiopathic scoliosis	Eur Spine J - 2014 - 23(Suppl 4): S438-S445
	2014	Publication	Surgical advances in the treatment of neuromuscular scoliosis	World J Orthop 2014 April 18; 5(2): 124-133
	2016		Safety and efficacy of sublaminar bands and Ponte osteotomies in rigid deformity: preliminary results in a prospective series of 20 neuromuscular scoliosis patients	J Pediatr Orthop B/December 2016
PASS LP	2014	Publication	Restoration of thoracic kyphosis by simultaneous translation on two rods for adolescent idiopathic scoliosis	Eur Spine J - 2014 - 23(Suppl 4): S438-S445
	2015	Poster	Adverse events in adult spinal deformity procedures	Eur Spine J 2015 Vol24 Sup6
UNiD Rods	2016	Publication	Early Experience and Initial Outcomes With Patient-Specific Spine Rods for Adult Spinal Deformity	Orthopedics March/april2016 Vol39 Issue 2
MANTA	2017	Publication	Porous silicon nitride spacers versus PEEK cages for anterior cervical discectomy and fusion: clinical and radiological results of a single-blinded randomized controlled trial	Eur Spine J. 2017 Apr 5. doi: 10.1007/s00586-017-5079-6
C-JAWS	2017	Publication	Anterior Cervical Discectomy and Fusion with a Compressive C-JAWS Staple	Acta Neurochir Suppl 2017 Vol 124 pp 149-153

Other publications and communications are planned, with the products concerned and the provisional dates listed below. They are provided for information purposes only and may be amended according to the progress of the clinical studies in particular.

Product	2017	2018	2019
PASS LP	x	x	x
LigaPASS	x		
UNiD 3D VBR	x	x	x
UNiD rods	x	x	x
Granvia		x	

MEDICREA will provide information about PASS LP directly or via surgeons and their teams. One of the MEDICREA's surgeon fitters thus plans to publish articles on severe scoliosis and derotation connectors. Communications are also planned at several conferences: SICOT, NASS and Eurospine.

Surgeons are currently preparing articles about UNiD® Rods, MEDICREA is going to draft whitepapers and oral communications are planned during EUROSPINE.

3 articles should be published in 2018 on the GRANVIA-C® product.

Other intellectual property

They mainly relate to patents for which the Group initially files an application in France. During a second phase, 12 months later, it registers international extensions under the Patent Cooperation Treaty (PCT). Finally, 18 months later, it files national extensions in the markets considered to be strategic for the development of the product concerned.

Patent applications are generally extended to the main European countries, the United States, Brazil, Japan and Australia.

The patents and patent applications owned and used by MEDICREA are aimed at accurately covering the product ranges that the Group has developed. They are directly used and to date no license has been granted in relation to the Company's intellectual property rights, with the exception of patents relating to C-JAWS®, which are also used by the company Integra Life Sciences in the manufacture of implants for bone fractures of the hand and foot.

The patents and patent applications covering the Group's products are summarized in the following tables:

Fusion Device range:

Family	Name	Application date	Country	Issue number
FUSION DEVICE	Anti-backward slippage screw in cage, offset sphere design	05/17/2010	Europe	EP2571434
			United States	US20130053967
			Australia	2011254256
			Brazil	BR 11 2012 028240-9/12
			Canada	CA2797811
	MANTA cervical cage	05/27/2009	Europe	EP2303194
			United States	US8506632
	TLIF impix	07/27/2009	France	FR 09 55238
		07/23/2010	United States	US 13/383,030
	Corpectomy implant	02/01/2012	Europe	EP 12 704314.9
			United States	US 13/982,794
	Accolade implant	11/05/2008	Europe	EP2211786
			United States	US8377137

1. Overview of the Company and its operations

Non-fusion device range:

Family	Name	Application date	Country	Issue number
NON-FUSION DEVICE	Ball and socket disc prosthesis	10/08/2013	Europe	EP 13 187656.7
	Cervical disc prosthesis	12/02/2008	Europe	EP2222251
			United States	US8246685
			Australia	2008334348
	GRANVIA-C disc prosthesis	03/25/2009	Europe	EP2259756
			United States	US8828083
			Australia	AU2009229316
			Brazil	(PCT/IB2009/051236)
			China	CN101980672
			Japan	JP5425178
	GRANVIA-L disc prostheis (Guiding)	10/17/2012	Europe	EP 12 790669.1
			United States	US 14/350,244
	TOFUA prosthesis	09/28/2012	Europe	EP 12 784341.5
			United States	US 14/344,832
	Growth rod	04/05/2012	Europe	EP 13723244.3
			United States	US 14/501,956

Osteosynthesis Plate range:

Family	Name	Application date	Country	Issue number
OSTEOSYNTHESIS PLATE	Plate with mobile lobes	04/27/2006	Europe	EP2010083
			United States	US8114139
	Lumbo-sacral plate	02/01/2012	Europe	EP 12 704313.1
			United States	US 13/979,386

Osteosynthesis Staple range:

Family	Name	Application date	Country	Issue number
OSTEOSYNTHESIS STAPLE	L-JAWS staple with expandable branches	09/22/2009	Europe	EP2326268
			United States	US8801786
	JAWS staple	05/10/2006	Europe	EP1890611
			United States	US20080167666
	X-JAWS lumbar staple	04/26/2010	Europe	EP2424469
			United States	US8956416
			Australia	AU2010243237
			Brazil	20110109311
	C-JAWS	08/04/2004	Europe	EP1504723
	Lamino JAWS	10/19/2011	Europe	EP 11 778982.6
			United States	US 13/879,654
			Japan	2013-535552

Cervical Osteosynthesis range:

Family	Name	Application date	Country	Issue number
CERVICAL OSTEOSYNTHESIS	Anchoring base with controlled articulation	07/20/2012	Europe	EP 12 758620.4
			United States	US 14/131,041
			Australia	AU2012288513
			Brazil	BR 112013031676 4
			Japan	JP 2014-522185

1. Overview of the Company and its operations

Dynamic Osteosynthesis Range:

Family	Name	Application date	Country	Issue number
DYNAMIC OSTEOSYNTHESIS	Dynamic design screw	01/21/2005	Europe	EP1708630
	Dynamic ring design screw	06/24/2004	Europe	EP1653873
			United States	US7731734

Thoraco-lumbar Osteosynthesis range:

Family	Name	Application date	Country	Issue number
THORACO-LUMBAR	Polyaxial bar	11/07/2000	United States	US7189236
OSTOESYNTHESIS		11/05/2001	Europe	EP1940304
	Vertebral rotation clip	06/24/2004	Europe	EP1638470
			United States	US7763054
		06/08/2010	United States	US 12/795,926
	Sacral anchoring connector	04/02/2013	Europe	EP 13723245.0
			United States	US 14/510,538
	Multiaxial iliax connector	04/17/2014	France	FR1453465
		04/10/2015	PCT	PCT/IB2015/052629
	PASS LP open connector	04/17/2014	France	FR1453464
		04/17/2015	PCT	PCT/IB2015/052822
	Ligament hook	05/27/2009	Europe	EP2278930
			United States	US8465527
	Clamp hook	11/05/2001	United States	US7033358
	LP clamp hook	03/25/2009	Europe	EP2259737
			United States	US8926673
	LigaPASS	06/13/2012	Europe	EP 12 731734.5
			United States	US 14/123,626
			Australia	AU2012275009
			Brazil	BR 11 2013 030066 3
	Single-locking LigaPASS	04/24/2015	France	FR1553858
	Extension equipment	06/24/2004	Europe	EP1638471
			United States	US7862593
		11/26/2010	United States	US 12/954,718
	Threaded anchor restoration equipment	04/19/2013	France	FR1353592
		04/10/2014	PCT	PCT/IB2014/060614
	Isthmic fracture treatment equipment	10/14/2013	France	FR1359987
		10/09/2014	United States	US 14/511,130
	MIS equipment	08/30/2011	Europe	11 764307.2
			United States	13/817,895
	Vertebra correcting method	10/13/2009	United States	US8308775
	PASS	06/03/1998	Japan	JP 11-501728
	PASS offset centers design	06/03/1998	United States	US6267765
	PASS setting design	06/03/1998	Europe	EP1415602
	PASS generation 2	06/24/2004	Europe	EP1638472
	Rod with eye	10/15/2014	France	FR1459906
				FR1459907
	Patient-specific rod	09/18/2013	France	FR1358988
		10/18/2013	France	FR1360208
		09/17/2014	PCT	PCT/IB2014/064586
		10/08/2014	PCT	PCT/IB2014/065150
	Disengageable screwdriver	11/05/2008	Europe	EP2219541
	Tulip head screw	04/24/2015	France	FR1553722

The Group owns all the patents necessary for the development of its activity. It is therefore not dependent on any external or structuring intellectual property that may be owned by a third party. As previously mentioned, MEDICREA operates a policy of concluding agreements for the assignment of inventions and/or for the assignment of copyright with the surgeons appointed as inventors for

products that they have helped to develop, and to register directly in its own name the corresponding patents.

No legal action for patent infringement is currently ongoing.

1.3.6. Investments

Investments during the fiscal year

Gross asset value over the past three years changed as follows:

(€ millions)	2016	2015	2014
Research & development costs	10.6	8.3	6.4
Patents and similar rights	3.7	3.6	3.5
Computer licenses and software	1.3	0.8	0.5
Brands	0.0	0.0	0.0
Intangible assets *	**15.6**	**12.8**	**10.4**
Buildings	0.0	0.1	0.0
Plant & equipment	6.5	5.8	3.9
Demonstration equipment	0.7	0.7	0.7
Instrument sets	5.8	5.1	4.6
Computer hardware and office equipment	1.7	1.1	1.0
Other non-current assets	3.7	1.4	1.2
Property, plant and equipment	**18.4**	**14.1**	**11.5**
Guarantees and deposits	0.8	0.5	0.3
Pledges	0.2	0.2	0.2
Non-current financial assets	**1.0**	**0.7**	**0.4**
Total gross values	**35.0**	**27.6**	**22.3**

* excluding goodwill

The changes can be explained as follows by major investment items:

Intangible assets – Research and development costs
As extensively detailed in the previous paragraph, research and development is a major investment item. R&D activity is structurally important and constitutes a key differentiator. Capitalized expenditure is amortized over five years.

Intangible assets - Licenses and software
The growth in the number of licenses and software packages is primarily linked to the development of a surgical planning software package and peripheral applications.

Property, plant and equipment – Instrument sets
For performance of surgery, the Group provides its customers with sets made up of instruments and implants. This equipment, which mainly concerns the United States and France, is kept in healthcare

facilities or is available in the form of loans. The instruments are recorded under property, plant and equipment and depreciated over a period of 3 years.

In 2016, the development of its operations led the Group to, firstly, renew the sets used by its customers and, secondly, increase the number of sets provided to hospitals to support the growth in the number of surgical procedures. As such, in France and in the US, investments in sets totaled €0.3 and €0.2 million respectively.

Property, plant and equipment – Plant and machinery

The Group is continuing to expand its machine base with an investment of €0.2 million in 2016 in an automatic contouring line intended for the manufacture of customized UNID® rods and €0.2 million in a compressor to supply the machinery on the new Rillieux-la-Pape site.

Property, plant and equipment – IT equipment

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

Property, plant and equipment – Other property, plant and equipment

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

Details of changes in property and amortization are provided in Section 4.1, Note 6 to the consolidated financial statements.

Ongoing investments

In 2017, the Group will continue to invest in industrial equipment to continue bringing the different productions stages of its products in-house or to renew existing equipment where necessary.

Upcoming investments

With the exception of the items detailed above, the Group has not made any significant firm investment commitments at the date of this Registration Document.

1.4. Analysis of and comments on the Group's activities during the fiscal year

1.4.1. Information on the Group's activities

2016 business activity and innovations

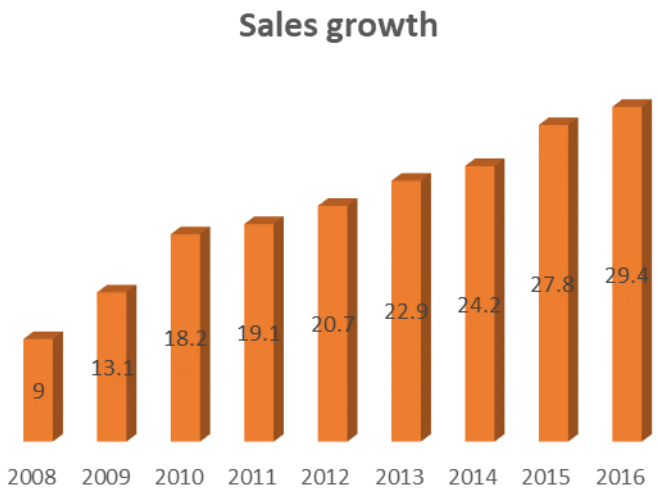
MEDICREA has transformed itself into a company offering ground-breaking technologies for the treatment of spinal pathologies. It is seen as a genuine pioneer in this market by combining health-related IT technologies with the design and manufacture of next generation medical devices, and by prioritizing clinical results from a unique standpoint: improving the benefits of surgery for patients, and providing unrivaled operating comfort for surgeons.

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

- The development of new and unique digital services for pre-operative planning and for pre- and post-operative analyses;
- Significant acceleration in the pace of adoption of UNiD® patient-specific rods;
- Fundraising of €20 million in August 2016, from predominantly US investors (specific characteristics of the transaction are provided in Paragraph 1.4.4 of this Registration Document);
- Bringing the production factory, the research and development center and all the Group's support functions together under one roof at a new ultra-modern site in Lyon spanning 8,000 m^2;
- The continued development of titanium 3D printing manufacturing processes for patient-specific interbody cages and corpectomy implants.

1. Overview of the Company and its operations

Analysis of sales for the year



MEDICREA continued its growth in 2016 with sales of €29.4 million, up 6% compared with 2015 with no significant exchange rate-related impact. Since 2008, the Company's sales have increased at an average annual rate of 17%.

The Group's growth was sustained and consistent throughout the fiscal year:

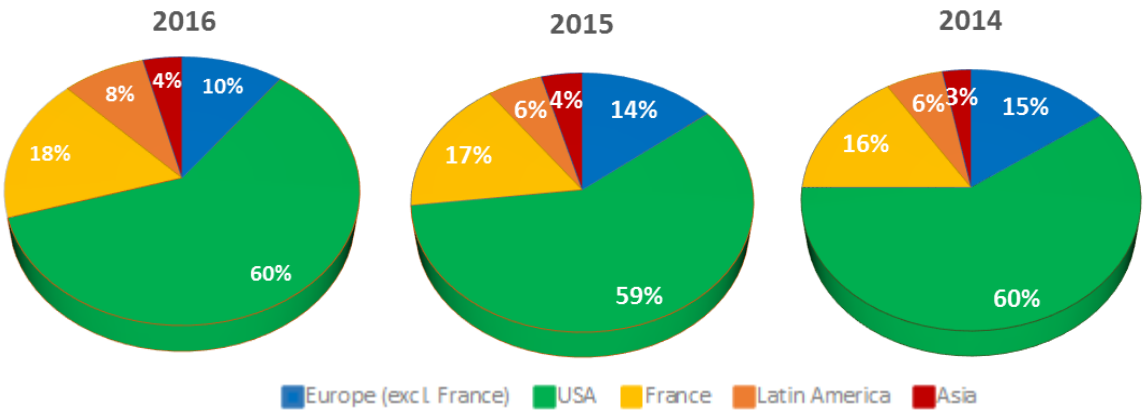
(€ millions)	*2017*	2016	2015	*2017 / 2016*	2016 / 2015
H1	*14.7*	14.8	13.8	*-1%*	+7%
H2		14.6	14.0		+4%
TOTAL		**29.4**	**27.8**		**+6%**

4th quarter sales increased 13% compared to the same period of 2015, in line with the accelerated adoption of Medicrea's patient-specific UNiD® technology, notably in the United States where for the entire year the number of surgeries performed with personalized rods implants have increased by 106% compared to 2015.

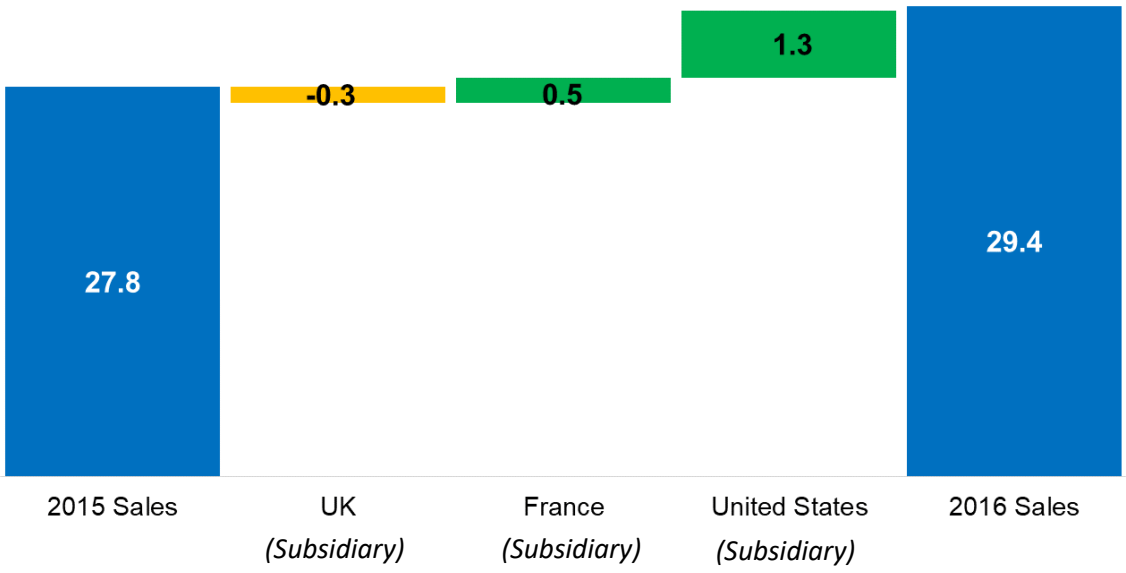
The 1,000th UNiD® Rod milestone was achieved in November 2016 (almost 1,100 surgeries performed by the end of the year) closely tracking the launch in the US of the company's Lifetime Warranty on UNiD® Rod constructs.

In 2016, the contribution to Group sales by the five distribution subsidiaries (in the United States, France, United Kingdom, Germany and Poland) was 80%, stable compared to 2015. Brazil and Belgium, the main countries covered by distributors, accounted for almost 7% and 3% of total sales respectively in 2016.

The following charts provide a breakdown of changes in the business by geographic region:

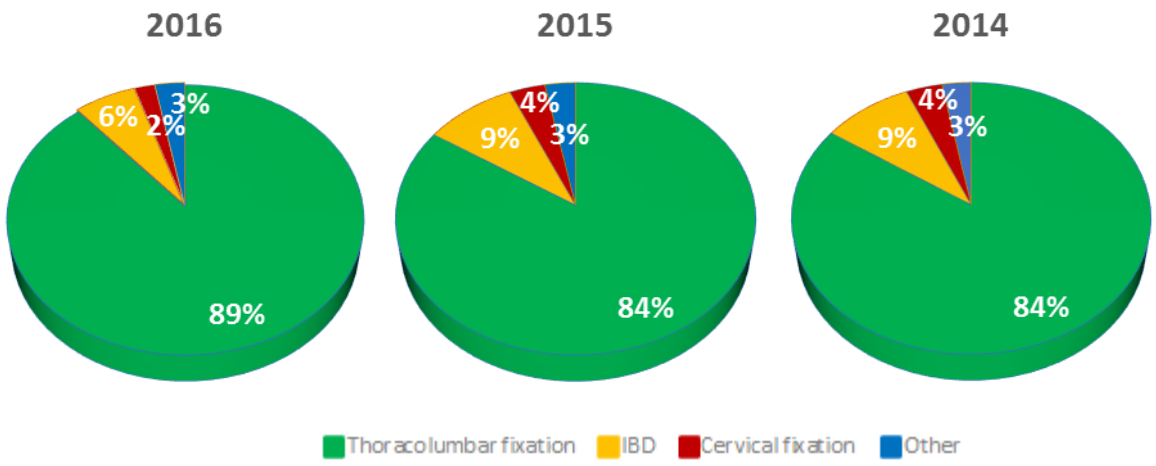


The United States and France are the most dynamic markets. The weighting of these two regions in global sales continued to increase and reached 78% of invoicing in 2016 compared with 76% in 2015. Given that the distribution business was stable, the subsidiaries contributed as shown below to changes in the Group's sales between 2015 and 2016 (€ millions):



Almost 90% of Group sales were generated by the PASS LP® thoraco-lumbar fixation system. These sales have been supplemented by a mini-invasive version, an implant allowing the fixing of rods on vertebrae using a lacing technique and an occipital-cervical fixation system.

By product, sales break down as follows, with UNiD sales included in the thoraco-lumbar fixation category:



(€ millions)	2016	2015	2014	*2016/2015*	*2015/2014*
Thoraco-lumbar fixation devices	26.1	23.4	20.5	*+11%*	*+14%*
Interbody devices	1.8	2.5	2.2	*-28%*	*+16%*
Cervical prostheses and fixation devices	0.6	1.0	0.9	*-39%*	*+13%*
Other	0.9	0.8	0.7	*+3%*	*+20%*
Total sales	**29.4**	**27.8**	**24.2**	***+6%***	***+15%***

MEDICREA generates a significant proportion of its sales in dollars. Unlike the previous fiscal year, in 2016 exchange rate fluctuations had no significant impact on sales growth. Over the last three years, movements in the average EUR/USD exchange rate were as follows:

	2016	2015	2014
Average EUR/USD exchange rate	1.106	1.115	1.335

A portion of the Group's sales is in Pounds Sterling and Polish Zloty, but these sales represent less than 5% of consolidated sales. Currency fluctuations between the Euro and the Pound Sterling and the Polish Zloty did not have a material impact on changes in the Group's 2016 sales.

1.4.2. Analysis of Group earnings and consolidated financial position

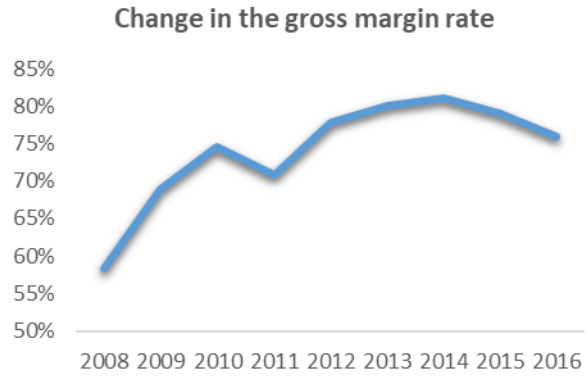
Income statement

(€ millions)	*H1 2017*	*H1 2016*	2016	2015	2014
Sales	*14.7*	*14.8*	29.4	27.8	24.2
% change in sales at constant exchange rates	*-2.6%*	*+6.6%*	+5.4%	+3.3%	+6.0%
Cost of sales	*(3.9)*	*(2.8)*	(6.9)	(6.0)	(4.6)
Gross margin	*10.8*	*12.0*	22.4	21.8	19.6
%	*73%*	*81%*	76%	79%	81%
Research & development costs	*(0.8)*	*(0.5)*	(1.1)	(1.0)	(1.4)
Sales & marketing expenses	*(7.9)*	*(8.2)*	(16.2)	(13.2)	(10.8)
Sales commissions	*(1.8)*	*(1.8)*	(3.4)	(3.1)	(2.6)
General and administrative expenses	*(3.9)*	*(3.0)*	(6.2)	(6.0)	(5.0)
Other operating income and expenses	*(0.2)*	*(1.2)*	(2.4)	(0.1)	(0.1)
Operating income before share-based payments	*(3.8)*	*(2.7)*	(6.8)	(1.5)	(0.2)
Operating income	*(4.1)*	*(2.7)*	(7.1)	(1.6)	(0.3)
Cost of net financial debt	*(1.1)*	*(0.2)*	(1.1)	(0.3)	(0.2)
Other financial income / (expenses)	*(0.3)*	*(0.1)*	0.4	0.1	(0.2)
Tax income / (expense)	*0.4*	*0.3*	0.3	0.3	(0.4)
Net income / (loss)	*(5.1)*	*(2.7)*	(7.6)	(1.5)	(1.0)
Earnings per share	*(0.50)*	*(0.30)*	(0.80)	(0.17)	(0.12)
EBITDA*	*0.3*	*0.6*	0.3	1.9	2.5

** EBITDA calculation detailed on page 93*

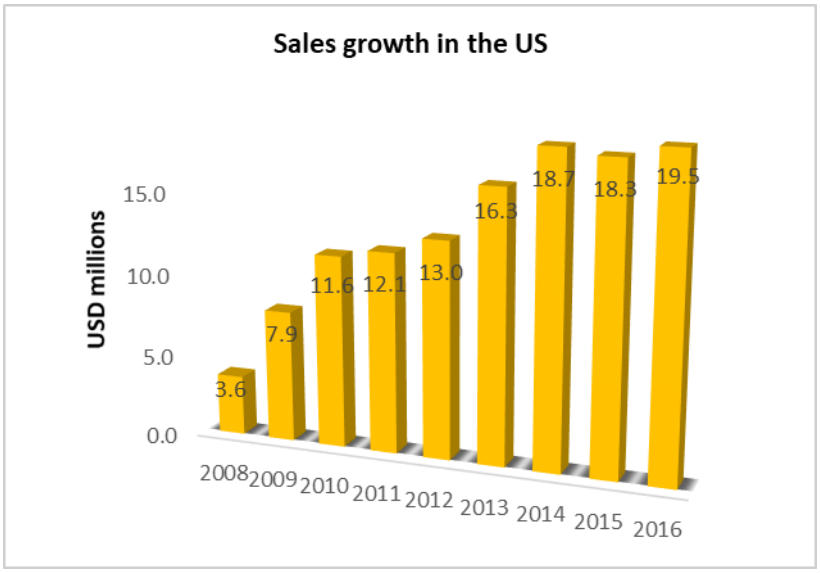
Net sales for 2016 totaled €29.4 million, an increase of 6% compared with the previous year. Changes in exchange rates had no material impact on year-to-year sales comparison.

Gross margin, structurally close to 80%, fell by 3 points to 76% due to the use of subcontracting from the second half to mitigate the shutdown in production at the La Rochelle factory and the gradual resumption of operations at the new Lyon site following receipt of the necessary certifications issued by the regulatory certification bodies after a successful certification audit in late 2016. The gross margin rate has changed as follows since 2008:



This high level of gross margin is a basic trend which is the result of two factors:

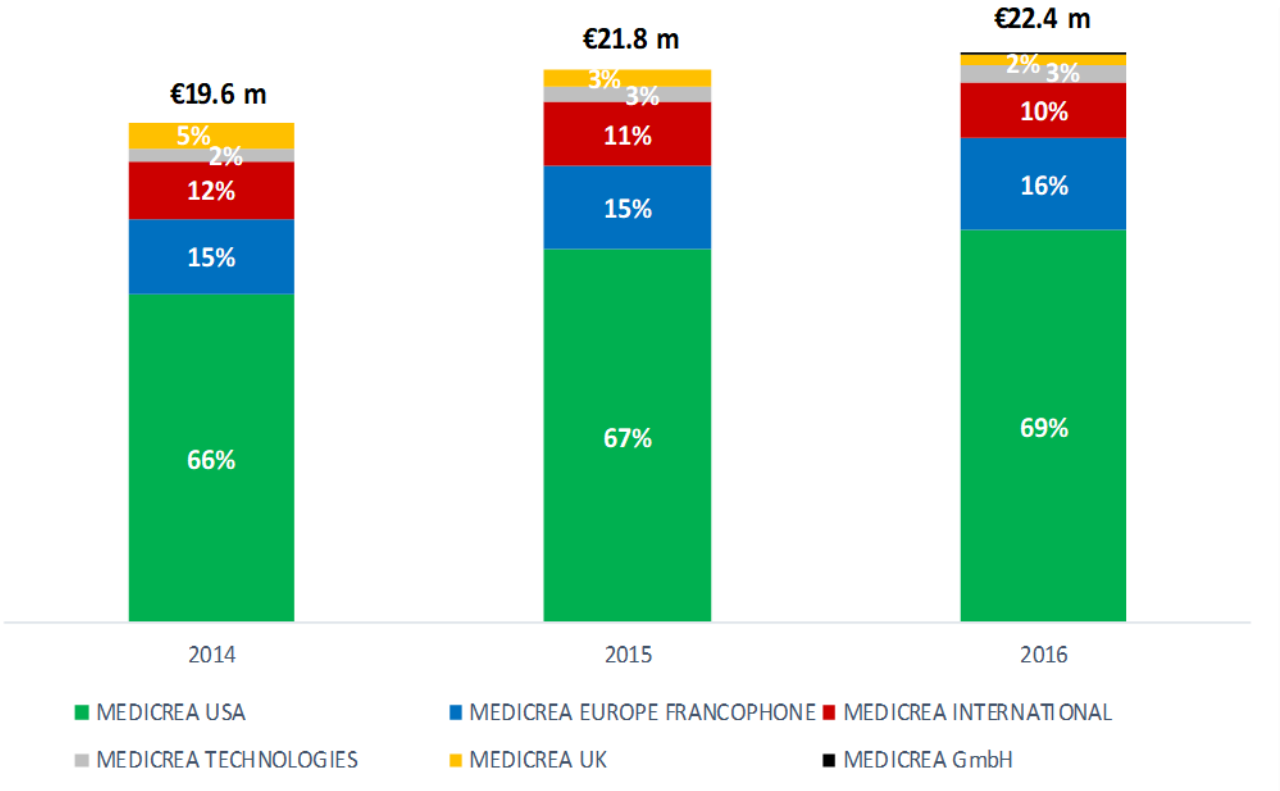
- The steady growth in sales in the United States where the selling price is significantly higher than on other markets, which had a direct impact on the margin generated, with a margin rate in excess of 90%.



- The continuing decrease in manufacturing costs made possible by the growing insourcing of production and by process automation which, together with insourcing, has facilitated production at costs lower than those proposed by sub-contractors. 2016 was an exception to the trend due to the temporary increase in the volume of implants sub-contracted.

Gross margin stood at €22.4 million, an increase of €0.6 million or 3% in relation to the previous year. Of this total margin, 69% was generated by MEDICREA USA, 16% by the FRANCE business and 10% by MEDICREA INTERNATIONAL's distribution business. MEDICREA USA's contribution to the Group's gross margin increased in line with the increase in sales in the United States.

Contribution of each subsidiary to the gross margin



The 2016 loss from recurring operations amounted to €6.8 million, versus a loss of €1.5 million in 2015, including non-recurring expenses of €2.4 million.

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

Payroll expenses (other than those relating to the manufacturing staff) totaled €12.7 million in 2016, up by 16% compared with the previous year. This increase was due to the larger workforce: 24 new employees joined the Group in 2016 representing a 23% rise compared to December 31, 2015.

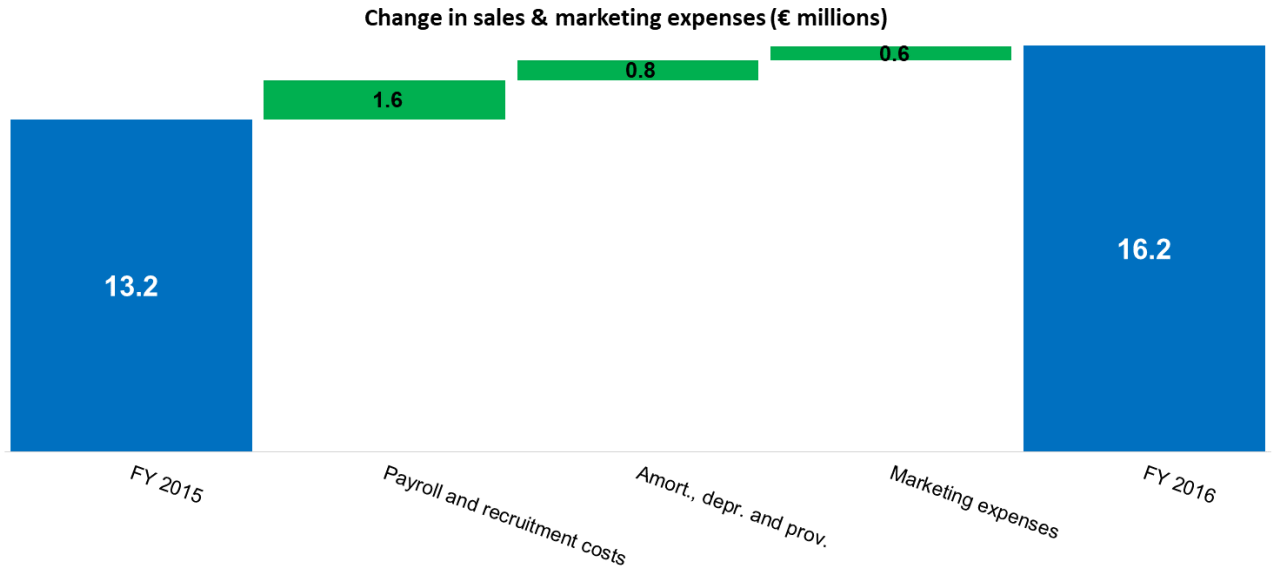
The following table provides a breakdown of the change in payroll expenses, excluding manufacturing staff, by type of expense:

(€ millions)	2016	2015	2014	2016/2015 Change	2016/2015 % change	2016/2015 Change in workforce	2016/2015 % change in workforce
Research and Development	1.5	1.4	1.0	*0.1*	*7%*	+2	11%
Sales & Marketing	8.5	6.9	5.7	*1.7*	*24%*	+23	38%
General & Administrative	2.6	2.6	2.3	*0.0*	*0%*	-1	-4%
Total payroll expenses	**12.7**	**10.9**	**9.0**	*1.8*	*16%*	**+24**	**+23%**

Research and development costs have increased steadily and constitute a significant element of the Group's expenditure. Expenses recognized during the year, after capitalizing those expenses that qualify to be capitalized (€2.4 million) and after deducting the Research Tax Credit (€1 million), totaled €1.1 million (€1 million in 2014) and were analyzed as follows:

(€ millions)	2016	2015	2014
R&D costs	**2.8**	**2.5**	**1.9**
Capitalized R&D costs	(2.4)	(2.0)	(1.2)
Amortization	1.7	1.4	1.2
Research tax credits	(1.0)	(1.0)	(0.5)
Total costs after capitalization and research tax credit	**1.1**	**1.0**	**1.4**

Sales and marketing expenses came to €16.2 million in 2016, up by €3 million compared with 2015. Payroll expenses represented 53% of these costs. The growth in the workforce accounted for €1.6 million in the overall increase in sales and marketing costs (23 additional people). Expenditure related to the development of the business (amortization of the instrument sets deployed in the field, transport, etc.) increased €0.8 million. Lastly, costs related to the intensification of marketing efforts grew by €0.6 million.



Sales commissions rose by €0.3 million to €3.4 million in 2016. They related mainly to MEDICREA USA. They are in proportion to that company's sales and are compensation for the marketing efforts

of the agents the Company appoints to represent it vis-à-vis hospitals and surgeons using the Group's products.

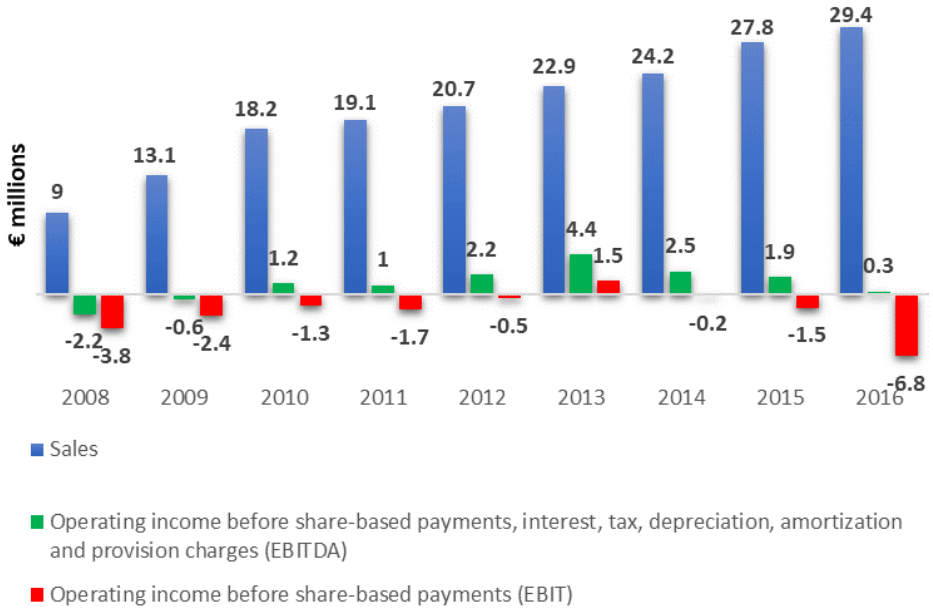
Administrative costs stood at €6.2 million in 2016, up €0.3 million in comparison with 2015, reflecting the costs linked to the new Vancia building (rental costs and amortization of fittings). Administrative employee costs were stable.

The larger workforce and intensified research and development and marketing investment in 2016 increased the operating breakeven point to quarterly sales of €9.4 million (compared with €7.3 million in 2015).

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

(€ millions)	*H1 2017*	*H1 2016*	2016	2015	2014
Operating income before share-based payments (EBIT)	*(3.8)*	*(2.7)*	(6.8)	(1.5)	(0.2)
Amortization, depreciation and provision charges	*4.1*	*3.3*	7.1	3.4	2.7
EBITDA	*0.3*	*0.6*	0.3	1.9	2.5

The main financial indicators have changed as follows since 2008:



Other non-recurring expenses totaling €2.4 million primarily comprise the cost of closing the La Rochelle factory and bringing operations under one roof at the new headquarters (€1.2 million), as well as a loss of €0.9 million related to the recognition in expenses of advances on fees paid regularly

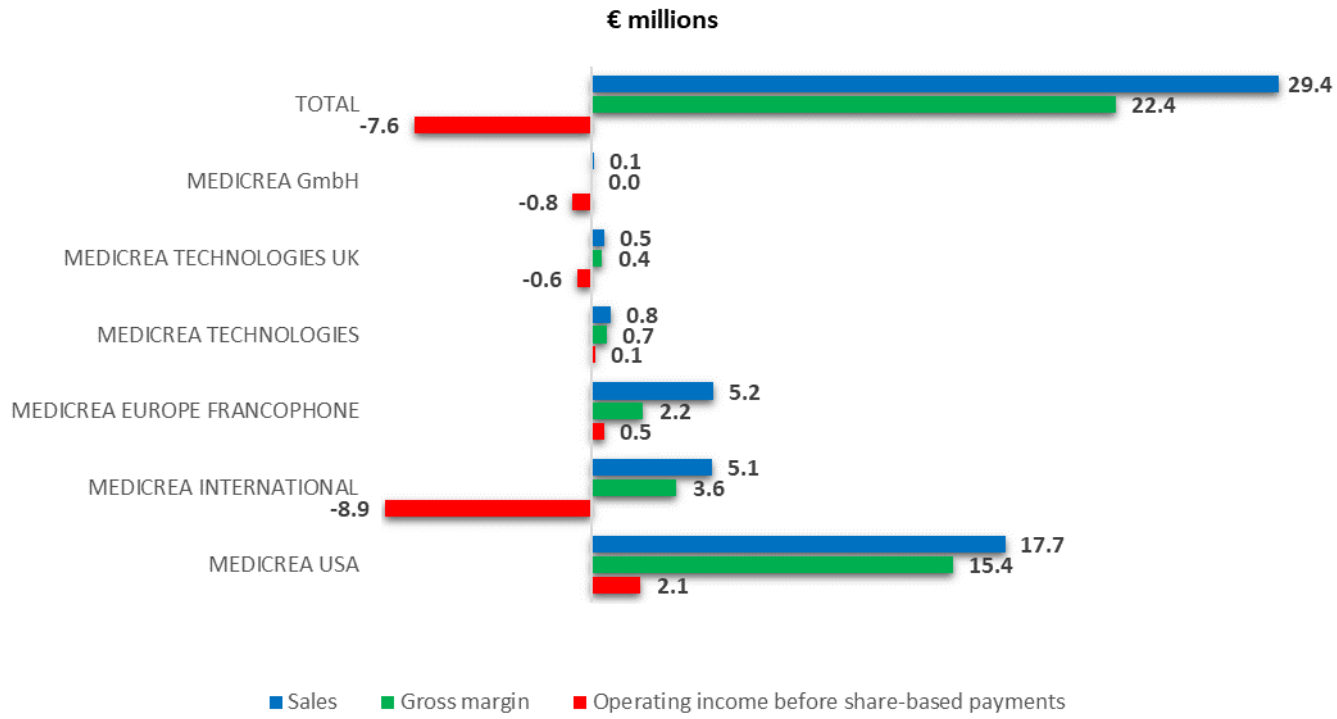
since 2013 as part of the development of a software platform, and which will not be able to be recovered quickly.

Cost of net financial debt was €1.1 million in 2016. It increased by €0.8 million following the implementation of a convertible bond loan of €15 million (detailed in Paragraph 1.4.4 of this Registration Document) for which the application of recognition rules defined under IAS 32, IAS 39 and IFRS 7 significantly increased financial expenses without any impact on cash. The average interest rate was 5.54% in 2016, compared with 3.93% in 2015.

As regards other financial income/expenses, the Group generated net income of €0.3 million in 2016, consisting mainly of exchange rate gains.

The Group made a consolidated net loss of €7.6 million after the recognition of a €0.3 million tax income. In 2015, it made a consolidated net loss of €1.5 million, including a tax income equal to that of 2016. An analysis of the tax rate is provided in Note 12 to the consolidated financial statements in Section 4.1. The Group does not yet pay any corporate tax and, for its fiscally-consolidated French subsidiaries, has substantial reserves of tax losses carried forward not recognized in its financial statements.

The contribution of all the subsidiaries to the Group's performance is shown in the following chart:



MEDICREA INTERNATIONAL, the parent company, bears all the costs of the central and support functions, which accounts for its significant negative contribution to operating income.

Financial position

The following table provides a breakdown of changes in the Group's assets during the last three years:

(€ millions)	*H1 2017*	*H1 2016*	2016	2015	2014
Non-current assets	*23.6*	*17.8*	22.2	16.3	13.1
Goodwill	*2.6*	*2.6*	2.6	2.6	2.6
Intangible assets	*6.6*	*5.7*	6.1	4.9	4.0
Property, plant and equipment	*11.0*	*7.5*	10.1	7.0	5.5
Non-current financial assets	*0.8*	*0.6*	0.9	0.7	0.4
Deferred tax assets	*2.6*	*1.4*	2.5	1.0	0.6
Current assets	*30.2*	*17.4*	25.4	16.8	14.2
Inventories	*9.0*	*7.8*	8.7	7.0	6.3
Trade and other receivables	*4.9*	*5.5*	5.2	4.7	4.4
Other current assets	*2.2*	*3.0*	3.5	2.9	2.3
Cash and cash equivalents	*14.1*	*1.1*	8.1	2.2	1.2
TOTAL ASSETS	*53.8*	*35.2*	47.7	33.1	27.3

Non-current assets

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

- goodwill totaling €2.6 million which related mainly to the acquisition by LBO of MEDICREA TECHNOLOGIES in 2002.
- intangible assets, consisting mainly of research and development costs, licenses and software, which increased by €1.2 million in 2016. A breakdown of expenditure on intangible assets is provided in Section 1.3.6. of this document;
- property, plant and equipment, which amounted to €10.1 million, an increase of €3.1 million compared with 2015 following the fitting out of the new headquarters and the expansion of MEDICREA USA's offices in New York. A breakdown of expenditure on property, plant and equipment is provided in Section 1.3.6. of this document;
- financial assets totaling €0.9 million;
- deferred tax assets totaling €2.5 million, up €1.5 million compared with 2015 due to consolidation adjustments.

Current assets

Current assets were €25.4 million at December 31, 2016 compared with €16.8 million in 2015. They comprised:

- net inventories totaling €8.7 million, which increased by €1.7 million during the year. The gross value of inventories grew 26% in comparison with 2015. To anticipate the shut-down of the La Rochelle plant in two stages, in August 2016 and in January 2017, together with the gradual start-up of the new site in Rillieux-la-Pape, which related to the need to obtain all of the mandatory regulatory classifications, the Group made significant use of sub-contractors during the 2nd half of 2016, in order to ensure continuity of service for all of its customers. This temporary situation drove inventory levels significantly upward, especially for finished and semi-finished goods;
- trade and other receivables, which totaled €5.1 million compared with €4.7 million in 2015. The average collection period was 53 days during the year ended December 31, 2016, compared with 58 days in 2015;
- other current assets which totaled €3.5 million, an increase of €0.6 million, and comprised tax receivables (Research Tax Credit, VAT receivable and Tax Credit for Competitiveness and Employment) of €2.3 million, prepaid expenses of €0.7 million and other receivables consisting mainly of advances and prepayments paid on orders totaling €0.4 million;
- cash and cash equivalents totaling €8.1million, an increase of €5.9 million as a result of the fundraising carried out in August 2016.

(€ millions)	*H1 2017*	*H1 2016*	2016	2015	2014
Shareholders' equity	*21.0*	*12.6*	14.1	15.2	12.6
Non-current liabilities	*19.6*	*8.7*	20.5	8.3	5.4
Conditional advances	*0.3*	*0.3*	0.3	0.4	0.5
Non-current provisions	*0.6*	*0.5*	0.5	0.5	0.3
Deferred tax assets	*1.4*	*0.5*	1.4	0.3	0.7
Long-term financial debt	*17.3*	*7.4*	18.3	7.2	3.9
Current liabilities	*13.2*	*13.9*	13.0	9.5	9.2
Current provisions	*0.4*	*1.1*	1.1	0.0	0.0
Short-term financial debt	*4.9*	*4.7*	3.6	3.3	3.0
Other current financial liabilities	-	-	-	0.0	0.0
Trade and other payables	*5.6*	*4.9*	6.0	4.1	4.2
Other current liabilities	*2.3*	*3.2*	2.3	2.1	2.0
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	*53.8*	*35.2*	47.6	33.1	27.3

Shareholders' equity

Shareholders' equity was €14.1 million at December 31, 2016 compared with €15.2 million at December 31, 2015. This change was the result of the share capital increase in August 2016 as well as the comprehensive income for the fiscal year.

Non-current liabilities

Non-current liabilities totaled €20.5 million compared with €8.3 million in 2015 and comprised:

- conditional advances granted by BPI in the amount of €0.3 million: the change as compared with 2015 was due to the gradual repayment of the advances;
- non-current provisions in the amount of €0.5 million. These provisions consisted primarily of the value of the rights acquired by the employees of the French subsidiaries in connection with retirement benefit schemes;
- deferred tax totaling €1.4 million;
- long-term financial debt in the amount of €18.3 million compared with €7.2 million in 2015. The increase in this item is connected with two bond issues completed during the 2016 fiscal year: a first for €1.15 million in February 2016 and a second for €15 million in August 2016.

Current liabilities

Current liabilities totaled €13 million at December 31, 2016, an increase of €3.5 million, and comprised:

- short-term financial debt in the amount of €3.6 million compared with €3.3 million in 2015. It comprised mainly bank loans, a bond loan, bank overdrafts and installments payable under finance leases;
- €6 million in trade payables, which grew in comparison to 2015 as a result of the extensive use of subcontracting within the context of the transfer of the production of the La Rochelle site to the new site at Rillieux-la-Pape;
- other current liabilities in the amount of €2.3 million, including social security liabilities of €1.7 million and tax liabilities of €0.3 million.

1.4.3. Foreseeable developments, future prospects and significant post-balance sheet events

Group sales remained steady over the first half of 2017 compared to the previous year despite solid performance during the month of June, notably in the U.S. where sales increased 10% over the prior year period. The global breakdown of the Group's revenue demonstrates an ongoing growth trend in France, the Company's domestic direct sales market, where sales increased by 8% compared to the first half of 2016. Conversely in Brazil, the Group's historic leading export distribution market (excluding distribution subsidiaries and therefore the United States where the Group operates directly), the Company continued to face challenges related to the local economic situation and restricting regulatory factors leading to a 63% decrease in sales in H1 2017 compared to the same period of the previous year. In April 2017, the Brazilian regulatory body, ANVISA, performed a long-awaited mandatory inspection of the Company's recently-opened combined headquarters and manufacturing facilities in France. Following the successful ANVISA inspection, activity with Brazil is expected to resume in early 2018.

Revenue generated by MEDICREA's UNiD® ASI systems technology for personalized spine continued to accelerate throughout the first half of 2017, particularly in the U.S. where a growth of 41% was seen compared to the first half of 2016. Since the Company FDA-cleared the first-ever personalized approach to spine surgery with patient-specific implants in November of 2014, the number of cases performed in the U.S. has now surpassed the total internationally and reached more than $15 million in cumulative sales at the end of the first half of 2017 for UNiD® TEK and associated Medicrea implants, particularly the patient-specific UNiD Rod used in conjunction with the Company's portfolio of PASS® spinal systems for degenerative and complex spinal indications.

As of the end of the first half of 2017, more than 1,500 UNiD® ASI surgeries have been performed worldwide with a record number of UNiD® TEK, patient-specific implants, manufactured and used in surgery during the month of June. The Company also performed the world's first personalized minimally-invasive spine surgery in the U.S. by developing and launching patient-specific UNiD® MIS Rod for minimally-invasive spine surgery.

The significant FDA clearances obtained in the first half of 2017 evidence the Company's focus of placing UNiD® ASI technology for Adaptive Spine Intelligence into the hands of surgeons. MEDICREA is creating easy-to-use compatible implant hardware and IT software systems that surgeons know and trust. The addition of PASS® TULIP will open new doors for the Company to gain market share for its patient-specific UNiD® Rod, by lowering the barrier to entry for the large number of surgeons trained on top-loading instrumentation."

Recently, the Company announced FDA clearance of the UNiD® HUB, a data-driven digital portal with surgical strategy and predictive modeling functionality, as well as the FDA clearance for and first U.S. Surgery with the PASS® TULIP top-loading fixation, presenting an elegant solution to surgeons trained on this system - the global standard for posterior fixation.

In June 2017, MEDICREA raised €13 million in the form of a share capital increase through the issue of ordinary shares without preferential subscription rights in favor of international funds and / or investment companies carrying out multinational financial transactions in several countries. The funds raised will enable MEDICREA:

1 / To accelerate the development, mainly in the United States, of the UNiD® ASI platform to enable the Company to strengthen its position as a pioneer for this technology and world leader in personalized spinal technology, which includes comprehensive analytical services and biomechanical expertise for the collection and modeling of clinical data and the realization of patient-specific spinal implants;
and
2 / To prepare for the commercialization of a new range of 3D-printed titanium interbody cages in the United States and Europe in preparation of pending regulatory clearances and sales agreements.

Sales totaled €6.4 million over the 3rd quarter, down 5% compared to the same period of 2016, adversely affected by the total lack of commercial activity in Brazil (the leading export market up to that point, excluding distribution subsidiaries) since the start of the fiscal year.

The regulatory certifications required to deliver the Medicrea implants, now fully manufactured in the new ultra-modern Lyon facilities, to the Brazilian market have been definitively obtained since the ANVISA audit, which confirmed the compliance of the equipment and soundness of the Company's quality system. This inability to deliver to the Brazilian market since the beginning of 2017 will generate a sales shortfall of almost €2 million over the full year 2017. Sales in Brazil will return to a normative level in 2018. In the United States, the momentum for adoption of UNiD™ ASI technology continues with the implantation of patient-specific UNiD™ Rods posting growth in excess of 42% over the 9 months to September 30, 2017 compared to the same period of 2016.

Since the start of the 2017 fiscal year, MEDICREA has published the following press releases:

- "Medicrea to Host Investor Meetings During the 35th Annual J.P. Morgan Healthcare Conference", January 6, 2017;
- "Medicrea Announces 510(k) Submission for FDA Clearance of Proprietary 3D-Printed Titanium Spinal Interbody Devices", January 9, 2017;
- "2016 Annual Results", March 30, 2017;
- "2017 First Quarter Sales", April 13, 2017;
- "Medicrea Receives FDA Clearance for the UNiD® HUB", June 16, 2017;
- "Medicrea Announces FDA Clearance and Initial Experience with PASS TULIP® Top-Loading Fixation", June 16, 2017;
- "MEDICREA Announces the Launch of a Share Capital Increase", June 16, 2017;

- "Medicrea Announces Capital Raise of € 13 Million Through a Successful Private Placement", June 19, 2017;
- "Medicrea Highlights UNiD® ASI Technology at State of Spine Surgery Think Tank 2017", June 23, 2017;
- "2017 First Half Sales", July 11, 2017;
- "Medicrea Announces World's First Minimally-Invasive Spine Surgery Using Patient-Specific Implants", July 31, 2017;
- "Medicrea Partners with Orthopaedic Surgeon in World's First 360-Degree Personalized Spine Surgery", September 26, 2017;
"MEDICREA Presents Patient-Specific UNiD™ Rod Clinical Results Showing Very Significant Reduction in Rod Breakage", October 2, 2017;
- "2017 Half Year Results", October 3, 2017;
- "Medicrea Showcases UNiD™ ASI Technology at Eurospine 2017", October 11, 2017.
- "2016 Third Quarter Sales", October 12, 2017.

There have been no significant changes in the Group's financial or commercial position since the last press release that need to be disclosed.

1.4.4. Cash and cash equivalents, financing and capital

2016 and 2017 fundraising transactions

During the fiscal years 2016 and 2017, MEDICREA carried out several fundraising transactions, the characteristics of which are as follows:

Implementation of a convertible bond loan in August 2016
The Company used the second resolution approved by the Extraordinary Shareholders' Meeting of December 18, 2015 to increase its share capital through the issue of any marketable securities within the framework of Article L. 225-138 of the French Commercial Code, with cancellation of preferential subscription rights in favor of categories of individuals meeting certain characteristics.

This loan mainly comprised convertible bonds, to mature in 4 years and at an interest rate of 6.75%.

The sole investor in the Convertible Bonds is a renowned US healthcare investor, Athyrium Capital Management. The nominal amount of the issuance is 15,000,000 euros represented by 2,400,000 Bonds each with a par value of €6.25. The Convertible Bonds will bear interest at an annual nominal rate of 6.75% payable on a quarterly basis in arrears and will be due August 12, 2020. Each Bond is convertible into new ordinary shares of the Company (at the initial conversion ratio of one share for one bond subject to adjustment) at a price per share amounting to €6.25, a 22.5% premium to the 5-day volume weighted average stock price prior to the transaction. The payment of all sums due in relation to the Convertible Bonds will be irrevocably and unconditionally guaranteed from

the issue date by Medicrea USA Corp. The terms of the convertible bonds include the following financial commitments: free cash flow of at least €3.5 million and gross financial debt, without deducting cash and excluding the bond issue itself, of less than €10 million. As part of this financing, MEDICREA USA has jointly and severally guaranteed the commitments made by MEDICREA INTERNATIONAL to Athyrium for the duration of the contract.

The Convertible Bonds were issued at par on August 12, 2016, the settlement and delivery date of the Bonds. The Convertible Bonds, issued as per the 2nd resolution of the extraordinary general shareholders meeting of MEDICREA of December 18, 2015, will not be admitted to trading. At the issue date, the potential dilution upon conversion of all of the Bonds was 19.3% taking into account the simultaneous equity private placement mentioned below.

Share capital increase of August 2016

The Company used the second resolution approved by the Extraordinary Shareholders' Meeting of December 18, 2015 to increase its share capital through the issue of any marketable securities within the framework of Article L. 225-138 of the French Commercial Code, with cancellation of preferential subscription rights in favor of categories of individuals meeting certain characteristics. MEDICREA issued 1,028,803 common shares with a nominal value of €0.16 at a price of €4.86, which represents a discount of 5% compared to the 3-day volume weighted average stock price prior to the transaction. The 1,028,803 shares represent the maximum number of shares to be issued as per the 12th resolution of the ordinary and extraordinary general shareholders meeting of MEDICREA of June 3, 2015. The participating eligible investors pursuant to Article L. 411 -2 II of the French Monetary and Financial Code include Medicrea's President and CEO, Denys Sournac, current Board members, the newly appointed Director and Executive Officer, Richard Kienzle, and various US and French investors. The new shares carry dividends rights and are listed on Euronext Growth Paris on the same quotation line as the existing shares, under ISIN code: FR0004178572 – ALMED. At the issue date, the potential dilution arising from the equity private placement taking into account the conversion of all the Bonds was 27.6%. The settlement is expected took place on August 12, 2016.

Share capital increase of June 2017

MEDICREA has carried out a capital increase in favor of a category of beneficiaries through an accelerated bookbuilding process. The Company issued 2,680,413 new shares with a par value of €0.16 per unit, at a unit price of €4.85, including issue premium, for a total amount of €13 million, representing 21.08% of the Company's share capital after the transaction. The transaction was implemented by decision of the Board of Directors on June 15, 2017 and the Chairman and Chief Executive Officer on June 16, 2017, pursuant to the 9th Resolution approved by the Combined Shareholders' Meeting of May 11, 2017, at a price representing a discount of 9.94% compared to the volume-weighted average of the last twenty trading days preceding the decision of the Chief Executive Officer (€5.35) and 4.53% compared to the closing price of June 16, 2017 (€5.08). The capital increase is carried out through the issuance of ordinary shares without preferential subscription rights in favor of a category of beneficiaries. The settlement of the new shares issued in connection with the capital increase and their admission to the Euronext Growth Paris exchange took place on June 22, 2017. The new shares bear current rights and are admitted to trading on the Euronext Growth Paris exchange.

Equity

Information about the Group's shareholders' equity is provided in the consolidated financial statements and in Note 14. to the consolidated financial statements in Section 4.1. of this document. Information about the shareholders' equity of the parent company MEDICREA INTERNATIONAL is provided in the parent company's financial statements and in Note 11 to the parent company's financial statements in Section 4.3. of this document.

Financing

Share capital

In August 2016, the Company completed by way of private placement for qualified investors and a limited circle of investors, within the scope of Article L. 411–2 of the French Monetary and Financial Code as modified by Order 2009–80 of January 22, 2009, a capital increase by issuing 1,028,803 new shares priced at €4.86, i.e. a total amount of €5 million.

Since its IPO in 2006, the Group has carried out the following fundraising transactions:

Date	Nature of transaction	Gross fundraising	Number of new ordinary shares issued
June 2006	Share capital increase by means of a public offering	€11,587,604	1,459,396
December 2007	Share capital increase	€7,000,002	1,166,667
November 2008	Share capital increase	€1,155,928	212,878
April 2009	Issue of new shares with share warrants	€1,176,000	245,000
May 2009	Issue of new shares with share warrants	€767,621	159,921
June 2009	Share capital increase	€621,942	103,657
December 2009	Share capital increase	€1,395,608	218,405
December 2009	Exercise of share warrants	€582,831	404,744
May 2010	Issue of bonds redeemable in new shares	€1,928,624	299,842
June 2010	Share capital increase	€594,740	92,351
November 2011	Issue of new shares with share warrants	€1,534,500	170,500
August 2012	Share capital increase	€762,000	76,200
June 2015	Share capital increase through private placement	€3,543,697	485,438
August 2016	Share capital increase through private placement	€4,999,983	€1,028,803
June 2017	Share capital increase through private placement	€13,000,003	€2,680,413
	Total	**€50,651,083**	**€8,804,215**

Repayable advances

BPI granted the Group advances for the development of innovative products repayable if the products are commercially successful. Two advances received in 2011 are to be repaid before the end of 2019 and totaling €317,500, in line with the repayment schedule below:

(€ K)	2017	2018	2019
Repayment of BPI advances	121	96	100

French Research tax credit (CIR)

The following table provides a breakdown of the tax credits in respect of research and development received by the Group during the last three fiscal years:

(€ K)	2016	2015	2014
Research Tax Credit	990	976	538

Financial debt

Gross financial debt was €22 million, up €12 million compared with 2015. The increase was primarily due to the issue in August 2016 of €15 million in convertible bonds, to mature in 4 years and at an interest rate of 6.75%. These bonds include a non-conversion premium amounting to 10% of its face value.

Gross financial debt was mainly comprised of:

- bonds of €15 million;
- fixed-rate bank loans totaling €4.8 million;
- commitments in respect of finance leases totaling €1.3 million;
- bank overdrafts totaling €0.5 million;
- factoring trade receivables totaling €0.3 million.

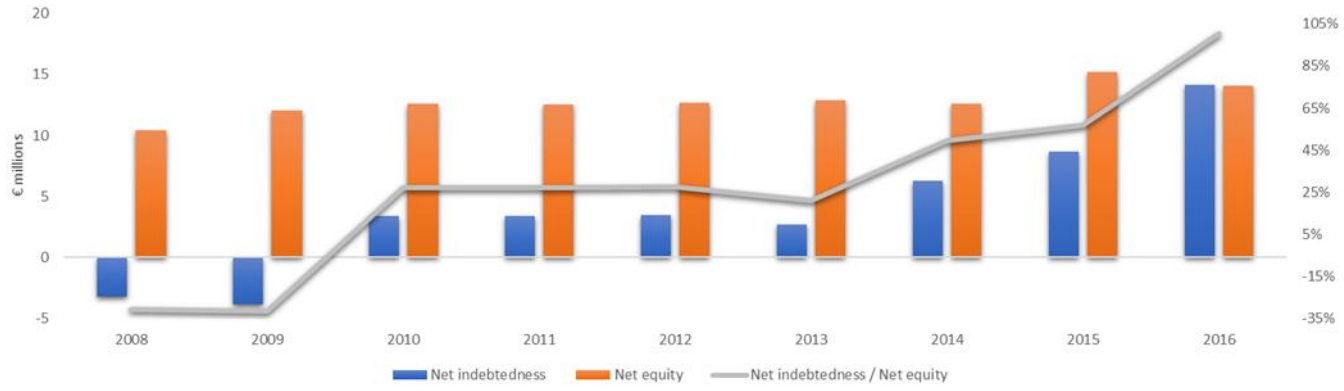
The maturities of financial liabilities at December 31, 2016 are broken down as follows:

- financial debt due in less than one year: €3.6 million, i.e. 16%;
- financial debt due in more than one year: €18.3 million, i.e. 84%;

As of December 31, 2016, net financial debt (after deducting cash) totaled €14.2 million compared with €8.6 million as of December 31, 2015. The amount of the net financial debt is calculated as follows:

(€ millions)	*H1 2017*	*H1 2016*	2016	2015	2014
Short-term financial debt	*4.9*	*4.7*	3.6	3.3	3.0
Long-term financial debt	*17.3*	*7.4*	18.3	7.2	3.9
Conditional advances	*0.3*	*0.4*	0.3	0.4	0.5
Cash and cash equivalents	*(14.1)*	*(1.1)*	(8.1)	(2.2)	(1.2)
Net financial debt	*8.4*	*11.4*	14.2	8.6	6.2

The gearing ratio (net financial debt/equity) as of December 31, 2016 represented 101% of consolidated shareholders' equity compared with 57% as of December 31, 2015. The growth in this ratio reflects the debt-financed investments made over this period, with in particular the fixtures and fittings for the Group's new headquarters as well as the extension work related to the offices of MEDICREA USA in New-York.



Cash and cash equivalents

Consolidated cash flow statement

(€ millions)	*H1 2017*	*H1 2016*	2016	2015	2014
Self-financing capacity	*(2.1)*	*0.2*	(1.2)	1.2	1.6
Change in WCR	*0.9*	*0.7*	(0.2)	(1.0)	0.2
Other	*0.0*	*0.0*	(0.1)	(0.1)	(0.2)
Cash flow from operating activities	*(1.2)*	*0.9*	(1.5)	0.1	1.6
Cash flow from investment activities	*(4.2)*	*(3.5)*	(9.2)	(5.9)	(5.2)
Cash flow from financing activities	*11.4*	*(0.2)*	16.2	6.9	2.8
Cash and cash equivalents - beginning of year	*7.3*	*1.8*	1.8	0.6	1.5
Cash and cash equivalents - end of year	*13.3*	*(1.0)*	7.3	1.8	0.6
Change in cash and cash equivalents	*6.0*	*(2.8)*	5.5	1.2	(0.9)

The Group's operating activities in 2016 generated net cash outflows of €0.3 million including a negative change in the working capital requirement of €0.4 million.

Net cash flows from investment activities represented net outflows of €9.2 million. and included, in particular:

- €3.2 million invested in fitting out the new headquarters and the expansion of the New York offices;
- €2.4 million: expenditure on intangible assets representing research and development costs and patent expenses;
- €0.6 million: expenditure on instrument sets and demonstration equipment;
- €0.6 million: acquisition of office and IT equipment in connection with the commissioning of the new headquarters;
- €0.4 million of investment in technical facilities;
- €0.4 million: purchase of licenses and software packages as part of the development of a surgical planning software package and peripheral applications.
-

Net cash flows from financing activities represented net inflows of €16.2 million and comprised:

- €16.5 million received after two bond loans were taken out in February and August 2016 as well as the setting up of bank loans for a total of €0,4 million;
- €5.1 million in cash raised following the share capital increase completed in August 2016;
- €2.3 million in loan repayments;
- €0.5 million: repayment of finance lease liabilities.

Information on any restrictions on the use of capital resources which had or could have had a significant influence, directly or indirectly, on Company operations

Nil

1.4.5. Major contracts

During the 2014 fiscal year, the Group launched, in cooperation with a US IT firm, the development of software making it possible, from X-ray analyses, to design patient-specific spinal implants, subsequently intended to be manufactured and marketed on an exclusive basis by MEDICREA for an initial period of four years until December 31, 2017. Contractual terms provide for the payment by MEDICREA of royalties on product sales ordered via the software. The parties have agreed to the annual payment, by MEDICREA, of $400,000 in advances on royalties for the entire term of the contract, i.e. until December 31, 2017. Royalties due by MEDICREA under the contract will be deducted, with no time limitation, from advances on royalties already received by the US partner. The IFRS treatment of these advances on royalties is described in Note 15.1.3. to the consolidated financial statements.

Given the in-house developments that have led to the creation of a proprietary software platform (UNiD HUB), this contract will not be renewed upon its expiry.

Apart from the existing agreements between ORCHARD INTERNATIONAL and MEDICREA INTERNATIONAL for the rebilling of the compensation paid to the corporate officers Denys SOURNAC (Chairman and Chief Executive Officer) and Jean Philippe CAFFIERO (Deputy Chief Executive Officer), details of which are provided in Section 2.2, there are no other material agreements in force, details of which would be required to be disclosed in accordance with section 22 of the General Regulations of the AMF.
The agreement concerning the rebilling of compensation paid to Denys SOURNAC has been renewed by tacit agreement, while the agreement concerning the rebilling of compensation paid to Jean Philippe CAFFIERO will end on December 31, 2017 and will not be renewed.

1.4.6. Information on dividends

The Company has not paid dividends over the past three fiscal years.

1.5. Risk factors

The Group conducted a review of the risks that could have a significant negative impact on its sales, financial position and results. Apart from unforeseen events resulting from instances of force majeure, the Group considers there are no significant risks other than those set out in the following paragraphs.

1.5.1. Specific risks associated with the Company's business

Competition risks

The highly competitive spinal surgery market is valued at more than USD 10 billion, and is very responsive to the introduction of innovative new technology by its participants. Surgeons already have a wide range of solutions available for treating back conditions, and MEDICREA believes it has developed a breakthrough innovation with the launch starting in 2014 of UNiD® patient-specific osteosynthesis rods, completed by a range of implants and instruments providing solutions for all spinal pathologies.

With UNiD® patient-specific rods, surgeons can establish a surgical strategy using a rod perfectly suited to the patient. This solution limits sagittal realignment failures, lessening the risk of rod breakage and thus reducing operating time. Although the Group considers this product and the associated UNiD® LAB and UNiD® HUB services to be highly innovative, it cannot guarantee, firstly, that other competing spinal surgery-specific technology is not being developed by another company to be introduced onto the market in the near future, and secondly, the speed at which the Group will be able to deploy its innovation and make it the global standard of spinal surgery.

Furthermore, the spinal implant market is mainly located in the United States, and is highly concentrated with about ten major players sharing almost 80% of the market. These large corporations benefit from competitive advantages such as:

- considerable financial resources allocated to product research and development, protection of intellectual and industrial property, and promotion of their products (sales force, marketing);
- important global distribution networks;
- a high profile and firmly established relations with specialized surgeons.

In addition, the growth and outlook for the spinal market are attracting new competitors and encouraging those already present to intensify their investment efforts.

MEDICREA deploys all the investments it believes necessary to be competitive in its market: R&D, industrial equipment, team strengthening, increased dialogue with surgeons, etc. However, the preceding issues could have a significant negative impact on the Group's business, financial position, and results.

Company commercial development risks

Surgeons' adoption of new products

The relationship between surgeons and manufacturer is key. The Group is highly attentive to health professionals to take better account of their product development requirements, thereby creating the improvements and innovations the market expects.

The Group's goal is to convince new surgeons of the interest of its products, but also have new products adopted by surgeons already using older ones. Convincing surgeons to adopt MEDICREA products requires:

- providing suitable implants and fitting instruments;
- training surgeons in surgical techniques;
- technical assistance.

Training in surgical techniques may take longer than expected and slow the sales process. Additionally, a lack of training of surgeons could have significant negative impacts as it may result in misuse, discomfort, or harm to patients, even liability claims against the Group.

To ensure surgeons adopt our products and to guarantee successful business development, MEDICREA offers high-quality training and permanent assistance to answer all questions on a daily basis.

Development of the distribution network

Direct sales
In order to control product distribution and optimize its gross margin, the Group intends to expand its direct sales strategy in some countries by creating new distribution subsidiaries (such as in Poland in 2016 for example). This strategy not only requires greater sales and marketing investment than for indirect sales, but its success also depends on the performance and experience of the sales teams deployed.

Indirect sales
To ensure product availability in countries where the Group does not have sales subsidiaries, MEDICREA has introduced an indirect sales network by signing distribution agreements with companies present in the target markets. The revenue generated by this activity represented almost 20% of the Group's total sales in 2016 and H1 2017.

The distribution contracts signed by MEDICREA have a reciprocal exclusivity clause and minimum annual sales quota clauses to be met.

Overall, the system of indirect sales keeps MEDICREA commercially dependent on these partners, particularly as regards the *intuitu personae* relationship these distributors or their sales representatives have with surgeons.

Additionally, these distributors may not do their job within the required time period or may not honor their commitments, particularly in terms of regulations and medical device vigilance. Thus, if a malfunction occurred with a distributor but the latter did not send information concerning real or potential incidents or accidents, MEDICREA's device vigilance procedures would be disrupted. A malfunction with a distributor could thus negatively affect the Company's business development.

Finally, a breach of contract for wrongdoing, at the initiative of either party, could lead to substantial damages being granted, generating an adverse effect on product distribution overall, which in turn would have a negative impact on financial position.

Risks associated with the importance of the PASS® range in sales

In 2016 and over H1 2017, the PASS® range accounted for approximately 80% of the Group's sales. MEDICREA continues to invest in its development and endeavors to promote its use by surgeons. The PASS® Range consists of several products (PASS LP®, Liga PASS®, PASS OCT®, Pass XS®, etc.) and numerous components (rods, screws, connectors, etc.) allowing surgeons to have all the implants they need to operate. Our PASS® technology solution is perfectly suited to correcting spinal deformities, whatever their cause (major deformities or degenerative), for both adults and adolescents. Its indications are thus very extensive in a major market: representing 35% of total sales, thoracolumbar fixations are the leading segment of the spinal surgery market. The PASS® range is a versatile and comprehensive system which, thanks to its unique concept, has a competitive advantage allowing it to ensure the Group's growth without any negative impact on sales and financial position.

Risks associated with the concentration of sales in the US market

In the 2016 fiscal year and H1 2017, the United States, the world's largest market for spinal surgery, accounted for 60% of MEDICREA's sales. The expansion of business in the US market is a key growth driver for the Group's sales in the coming years. MEDICREA products are distributed there by representatives, but also directly by a dedicated sales force. Sales teams have recently been strengthened, and investments in instrument sets and marketing actions substantially increased. More resources are being allocated for sales development in the United States; the Group considers that it has all the necessary assets to secure its business there and can cope with any potential adverse events. However, it is unable to guarantee that a higher concentration of sales in the US market would not have a significant negative impact on its business and financial position.

Risks associated with the procurement and cost of raw materials

Product manufacture requires purchasing specific materials such as titanium, cobalt chromium and PEEK which the Group must source from third parties. There are limited suppliers of these raw materials:

- it is therefore difficult for the Group to diversify its supply sources, particularly for PEEK, which could affect its ability to produce medical devices if supplies were lacking;
- the Group may thus be subject to unpredictable and uncontrollable market price changes, bearing in mind that procurement of such material is not covered by hedging contracts.

However, the risk would have a limited impact on profitability as raw material accounts for only a small part of manufactured products' cost price.

Supplier risks

Subcontractors may be used during product manufacturing processes. Even if the Group applies the strictest rules for both its internal and external production, it is unable to guarantee that its suppliers or subcontractors comply or will comply with applicable regulations at all times. Notified bodies, during certification or follow-up audits, or regulatory authorities, during an inspection or any other process, could pinpoint breaches to regulations or applicable standards, and request they be rectified by implementing corrective actions that could interrupt the manufacture and supply of the Group's products.

To limit such a risk, MEDICREA has opted to step up insourcing of the design, prototyping and implant manufacturing processes, thereby reducing the use of subcontractors.

The Group is not committed to guaranteed annual or multiannual purchase volumes with its suppliers.

Risks associated with the malfunction of industrial processes

MEDICREA's quality system includes procedures to detect any non-compliant products, internally or externally, in accordance with regulatory requirements. These procedures are integrated into a non-conformity management system known as CAPA (Corrective Action & Preventive Action) which allows for:

- identification and notification of non-conformities;
- recording of all cause and risk analysis investigations;
- processing of non-conformities;
- measuring the effectiveness of non-conformity corrective actions.

Non-conformities can be identified internally throughout design and manufacturing processes, as well as during inspections before a medical device is released, but also during (external or internal) audits or regulatory inspections, or even by clients.

Any incidents affecting patients and/or users are stipulated in the regulatory framework of medical device vigilance (Article R. 5212-1 of the French Code of Public Health), which describes how to report an incident to the competent authorities.

Each incident is analyzed using the CAPA system in order to reduce risks and prevent incidents recurring. The Company periodically conducts risk management reviews and assessments.

Pursuant to key recommendations in European Directive 93/42/EEC and standard NF EN ISO 13485, MEDICREA has documented risk management requirements throughout the product creation process, taking into account the following elements: Risk analysis – Risk assessment – Risk control – Post-production information.

The Quality Management System developed by MEDICREA is certified pursuant to standard NF EN ISO 13485. ISO 13485 specifies the rules and procedures that a manufacturer of medical devices must respect to meet worldwide quality management system requirements, and to supply effective and secure devices.

This system is based on:

- a Quality policy, which details the Company's organizational guidelines and goals;

- an organizational system in which the responsibilities, functions, and skills of each Company employee are defined;
- a documentary system, which allows regulated procedures, instructions, and work documents to be managed;
- a recording system which ensures the traceability of all the Company's activities.

The Quality Management System is described in the Quality Manual that defines the roadmap of all the Company's processes.

Additionally, in accordance with the medical device regulations specified in European Directive 93/42/EEC and the French Code of Public Health, MEDICREA has implemented a post-market monitoring strategy allowing it to continually refresh its knowledge of changes in medical device regulations (regulatory, scientific and commercial monitoring), analyze client feedback through complaints, and introduce post-market clinical follow-up.

Nevertheless, a lack of compliance with these standards could result in suspension or withdrawal of CE certification and other accreditation, thus preventing the product concerned from being sold.

Product liability risks

MEDICREA is exposed to the risk of third party liability claims, particularly due to its products. Claims or legal proceedings may be filed or brought against the Company by patients, healthcare professionals, regulatory authorities, or other third parties using or selling its products.

MEDICREA has never faced significant and serious complaints or allegations about its products from patients, surgeons, regulatory authorities, or any other third party.

Furthermore, in the United States the concept of medical risk is complex and specific risk coverage is required. The issue of 'product liability' is decisive there, and is subject to stringent methods adapted to the maturity of the market and the large number of claims, which explains the high cost of insurance policies.

At Group level MEDICREA has contracted product liability insurance, as well as specific policies suited to the markets where the Company operates, in the United States in particular, and considers the guarantees obtained are reasonable compared to the risks involved.

1.5.2. Legal and regulatory risks

Intellectual property risks

Protection not guaranteed by patents

The Company's commercial success depends on its ability to acquire, maintain and protect its patents and other intellectual property rights. Patent rights are constantly changing in the field of spinal surgery and are subject to uncertainties.

When a patent is filed, other patents may already have been filed but not yet published. Patent applications are generally not published until eighteen months after the priority applications and, in the United States, certain applications are not published before the patent is issued. Also in the United States, patents may be granted according to the date of invention, which does not automatically mean the patent is awarded to the first to file. Thus, the granting of a patent guarantees neither validity nor applicability, which can both be challenged by third parties.

As a result, the Company cannot guarantee:

- that pending patent applications will actually result in patents being issued;
- that patents issued by the Company will not be challenged by others or invalidated;
- that the extent of the protection conferred by patents is sufficient to protect it from its competitors;
- that its products are not infringing patents owned by others.

Legal action may be required to enforce intellectual and/or industrial property rights, protect trade secrets, or determine the validity and scope of industrial and/or intellectual property rights. A dispute could result in considerable expenses for MEDICREA and fail to offer adequate protection.

Developments or changes in the interpretation of laws governing intellectual property in Europe, the United States, or in other countries, may allow competitors to use the Company's inventions, and develop or sell its products or technology without financial compensation.

Moreover, the legislation of certain countries, particularly Asian and South American (China, Brazil, etc.), does not guarantee the same level of protection as that which exists in Europe or the United States, with the procedures and rules required to defend the Company's rights not necessarily existing in these countries.

Risk of infringement

The patents obtained by MEDICREA could be successfully infringed or bypassed by means of innovations or alterations. In order to prevent counterfeiting of its products, MEDICREA could have to engage in time-consuming and costly legal action. Protection regarding non-authorized use of intellectual property rights is difficult, and the Company cannot guarantee it would succeed in retaining it.

Similarly, any lawsuit brought against MEDICREA would incur substantial costs that could exceed its insurance coverage and would mobilize significant financial and human resources for its defense, possibly resulting in an adverse impact on its sales and financial position. If MEDICREA was sentenced in infringement proceedings, the Company may have to pay damages and royalties and/or be forced to remove the incriminated products from the market.

Insofar as MEDICREA's patents protect a large number of components, certain patents may cover derivative components that are protected by patents owned by others, and MEDICREA could have to pay royalties to use the components or be barred from using them.

Some inventions may only be published several months, or even years, after patent and inventions have been filed. As a result, MEDICREA is not certain that other companies have not already developed inventions covered by pending patent applications or have not been the first to file patent applications for these inventions; MEDICREA may have to obtain suitable licenses for these patents, interrupt or change certain activities or methods, or even develop or acquire alternative technology, which is liable to have a significant negative impact on the development of these products, future income generation, and general financial position.

To limit intellectual property risks MEDICREA has implemented continuous monitoring of this activity, especially patents filed by its competitors.

Regulatory environment risks

In France

The Group's products are classified as medical devices and thus fall under amended European Directive 93/42/EEC, which harmonizes the sale and free movement of MEDICREA products within the European Economic Area. This European Directive specifies essential safety requirements, and defines the compliance assessment methods for medical devices which lead not only to the affixing of the CE marking on the product but also its marketing authorization.

The CE marking is valid for 3 years and must be revalidated through regular audits by certifying bodies, subject to there having been no major alteration to the medical device. When these certificates are renewed, it is ascertained that there is continued compliance with the quality system, that European Directive requirements are met, risk management has been updated, and that any regulatory changes have been taken into account. A twofold risk should be taken into account here:

- the CE marking is not permanently acquired but is subject to revalidation. It may therefore be lost, which would mean product sales would be suspended;
- changes in regulations require the Company to be responsive and tailor resources and procedures to comply with them as soon as possible; this requires obtaining conformity certificates in time to ensure the continuity of product sales.

More stringent conditions for the marketing authorization of products are being observed with a view to improving safety and transparency, with many spinal medical devices initially of class II are gradually being moved to class III, which involves tighter requirements for manufacturers in terms of checks, traceability and regulatory monitoring. The new European regulation will also involve changes in clinical studies: obtaining the CE marking will be subject to pre-market clinical studies, whereas today reference to an equivalent product is sufficient, and post-market monitoring will be stepped up. This change in regulations also impacts products that already have CE marking.

Before 2016:

- Clinical evaluation could consist of demonstrating equivalence with a CE-marked product and research findings;
- Post-market monitoring was conducted by regular updating of clinical evaluation reports.

Since June 2016:

- Clinical evaluation can still be based on the principle of equivalence but is more complex;
- Post-market monitoring must be updated annually.

From 2020 onwards, the latest European regulations will be enforced for new products:

- Equivalence will no longer be sufficient, and clinical evaluation will require clinical studies to be conducted before receiving CE marking (meaning a 3- to 4-year interval);
- A consultation procedure will be initiated. A group of experts will issue a scientific opinion, and will have the ability to restrict the product's marketing: limited numbers of patients and validity period of the certificate, etc.;
- Post-market monitoring will have to be updated annually, throughout the product's life cycle.

As of 2022, all products already marked CE before application of the new regulation will require their own clinical data, and post-market clinical studies will have to have been conducted if necessary. Otherwise products will no longer be marked CE, or will see their indications limited.

Concerning the PASSLP thoraco-lumbar fixation system, including UNiD™ patient-specific implants, which together currently account for more than 70% of the Company's sales, MEDICREA already has all the clinical data on the main indications for deformities (complex scoliosis surgery). Data relevant to degenerative indications will be compiled from January 2018 onwards through a clinical study that will require one year of monitoring once the data has been obtained (late 2018). For the specific case of LigaPASS the Company already has all the clinical data regarding the most frequent pediatric indications, and is not necessarily seeking to extend collection of data to degenerative or trauma-induced indications, which account for an extremely small or even non-existent portion of sales.

As a result, the risk of losing CE marking on products that represent a major part of the Company's sales can be considered very low.

All these regulatory changes have a significant effect on resources to be allocated to regulatory and clinical product monitoring, i.e. human and financial resources to conduct pre-market clinical studies and post-market monitoring. In addition, the timeframe required to obtain CE marking for any new product will also increase.

In the United States

In the US market, all legislation pertaining to medical devices is grouped under the 'Code of Federal Regulation (CFR) Title 21 Food and Drug' which governs their sale by establishing the pre- and post-market requirements. These regulations are established by the FDA. According to the classification of the device concerned, the sale of products in this market can be subject to 510 (K) 'Pre-market notification' procedures, or to a PMA ('Premarket Approval') governed by FDA regulations.

The FDA authorization application process can be long and costly. Choosing the inappropriate procedure ('Premarket Notification' instead of 'Premarket approval' for example) could delay obtaining the required certificates and thus defer the launch of the Group's new products in its priority market.

MEDICREA's inability to comply with these regulations could result in injunctions, suspension of authorizations, or the loss of previously-acquired authorizations (an FDA authorization could also be withdrawn at a later date) as well as product recalls, prohibitions of sale, or seizures.

In other countries

MEDICREA has already been granted marketing authorizations in certain Asian, Latin American, African and Middle Eastern countries, and has begun proceedings to obtain authorizations in other countries where the Group operates. However, as is the case for France and the United States, previously-obtained authorizations could potentially be withdrawn, and authorization requests denied.

The Group's inability to acquire and maintain the market authorizations required for its products could have a significant negative impact on its activities, financial position and results.

Risks associated with changes to medical device reimbursement policies

The products sold by MEDICREA are reimbursable. When clients select which products to use they will be sensitive to price, and to whether or not surgery costs are reimbursed by health authorities or insurance companies. It is therefore essential that the Group obtain, firstly, coverage for its products, and secondly, a reimbursement rate as high as possible. Otherwise patients will not receive adequate reimbursement and surgeons could favor competitors' products, no longer using MEDICREA products.

In France, medical devices are registered on the LRPS (List of Reimbursable Products and Services) and are therefore covered by Social Security according to a predefined rate.

In the United States, government-run insurance programs exist (Medicare, Medicaid, etc.) but most Americans have private insurance, typically through their employer.

Whichever reimbursement system exists, over the last few years governments and other third-party payers have strived to actively reduce health expenditure or at least limit its increase. The medical device category is no exception: the coverage and reimbursement rates for these products are regularly revised downwards. The Group considers that the new measures aimed at regulating health reimbursement systems and further controlling expenditure could be integrated into governments' finance laws and legislative proposals in the coming years. The introduction of new taxes or an increase to existing taxes may also be considered.

The lack or inadequacy of reimbursements or coverage of Group products and the introduction of more restrictive reimbursement measures are liable to have a significant negative impact on the Company, its business, financial position, results, development, and prospects.

1.5.3. Other risks

Financial risks are not borne by the subsidiaries but are centralized as far as possible with the parent company. Assessment of these risks is carried out by means of detailed quarterly forecasts in particular, in order to incorporate all the new elements available. A business plan covering the next 3 years is also prepared once a year.

Monitoring of differences between forecasts and outturn allows identification of potential anomalies and risk zones, and enables necessary action to be taken.

Interest rate risk

At June 30, 2017, all loans carried a fixed rate. As a result, the Group is not exposed to the risk of changes in interest rates.

Foreign exchange risk

Most of the Group's procurement is undertaken in Euros, the foreign exchange risk on this part of the business is therefore very limited.

As hospital sales are made in USD by the American subsidiary, and in GBP by the British subsidiary, MEDICREA INTERNATIONAL has chosen to invoice both subsidiaries in local currencies. Subsidiaries are therefore not exposed to the risk of foreign exchange variation on their purchases. In accordance with the Group's risk management policy, MEDICREA INTERNATIONAL centralizes the exchange rate variation risk.

MEDICREA INTERNATIONAL is mainly sensitive to variations in the EUR/USD exchange rate, as almost 60% of the Group's sales are in America, and to a lesser extent variations in the EUR/GBP exchange rate, with less than 5% of sales generated by the British subsidiary. As one of MEDICREA's goals is to expand the US subsidiary's business, the exposure to EUR/USD variations is expected to increase. Insofar as possible, when the US subsidiary is able to settle its trade debts owed to the parent company, foreign exchange hedges are implemented to cover this risk.

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

During the 2016 fiscal year, the dollar has gone up by less than 1% since December 31, 2015 leading to a minimal impact on sales and operating income before share-based payments. A breakdown of these changes can be found in Note 13.

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

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

At June 30, 2017, the Group did not have any ongoing currency hedging.

The dollar has appreciated by approximately 3% since June 30, 2016, automatically increasing sales for the first half of 2017 by €0.2 million but with little impact on operating income before share-based payments. A breakdown of these changes can be found in Note 13.

A 15% appreciation of the dollar against the Euro, applied to H1 2017 data, would result in a €1.6 million increase in Group sales and an increase of approximately €0.1 million in operating income based on the results generated by the US subsidiary over H1 2017, as all its purchases and overheads are denominated in dollars.

Conversely, a 15% depreciation of the dollar against the euro, applied to H1 2017 data, would result in declines in both Group sales and Group operating income in the same proportions as those indicated above.

Liquidity risk

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

The financial resources secured following equity fundraising transactions totaling approximately €51 million in June 2017 (including the €13 million share capital increase completed in June 2017) have significantly reduced this liquidity risk and have given the Group the means to implement its expansion strategy, create new subsidiaries and launch new products.

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

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

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

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

Furthermore, the contract relating to the €15 million convertible bond issued in August 2016 specified that the Group must ensure that it has available cash of at least €3.5 million, and that its gross financial debt, without deducting cash or taking the actual bond loan into account, is less than €10 million. Both these conditions were fulfilled at December 31, 2016.
The dividend covenant is not applicable since the Group has never paid dividends.

In order to best manage this risk, the Group has implemented daily monitoring of its cash, and monthly updates of cash receipts and payments over 12 rolling months. This ensures it will always have enough liquidity to honor maturing liabilities and, if difficulties are anticipated, necessary action can be taken to secure its cash flow.

The breakdown of financial debt by maturity at December 31, 2016 is as follows:

(€ millions)	12.31.2016	Within 1 year	1 to 5 years	More than 5 years
Bond issues	15.0	0.4	14.6	-
Loans from credit institutions	4.8	2.0	2.8	0.0
Finance leases	1.2	0.4	0.9	-
Bank overdrafts	0.5	0.5	-	-
Factoring	0.3	0.3	-	-
Accrued bank interest	0.0	0.0	-	-
Accrued loan interest	0.0	0.0	-	-
Conditional advances	0.3	0.1	0.2	
Total	22.2	3.7	18.5	-

At June 30, 2017, financial debt was broken down as follows:

(€ millions)	06.30.2017	Within 1 year	1 to 5 years	More than 5 years
Bond issues	15.3	1.5	13.8	-
Loans from credit institutions	4.5	2.1	2.4	0.0
Finance leases	1.6	0.5	1.1	-
Bank overdrafts	0.5	0.5	-	-
Factoring	0.3	0.3	-	-
Accrued bank interest	0.0	0.0	-	-
Accrued loan interest	0.0	0.0	-	-
Conditional advances	0.3	0.1	0.2	
Total	22.5	5.0	17.5	-

The Group has conducted a specific review of its liquidity risk and believes it is in a position to meet its future maturities.

Financial debt can be analyzed as follows:

(€ millions)	*H1 2017*	*H1 2016*	2016	2015	2014
Gross financial debt - short-term	*5.1*	*4.9*	3.7	3.4	3.1
Gross financial debt - long-term	*17.4*	*7.6*	18.5	7.5	4.3
Total gross financial debt (*)	*22.5*	*12.5*	22.2	10.8	7.4
Cash and cash equivalents	*(14.1)*	*(1.1)*	(8.1)	(2.2)	(1.2)
Net financial debt	*8.4*	*11.4*	14.2	8.6	6.2

(*): including conditional advances

To strengthen its cash position and shareholders' equity, in August 2016 MEDICREA raised €20 million in financing, which consisted of €15 million in convertible bonds, held by Athyrium Capital Management, a US investor strongly regarded as a specialist in the sector, and €5 million in equity through a private placement, in which Denys SOURNAC, President and CEO, and Richard KIENZLE, co-founder of Globus who joined the MEDICREA Group at this time, participated in the amount of €0.9 million and €0.5 million respectively.

A further transaction to strengthen its equity took place in June 2017, in the form of a share capital increase through the issue of ordinary shares without preferential subscription rights in favor of international funds and / or investment companies carrying out multinational financial transactions in several countries, resulting in a €13 million fundraising.

A breakdown of these fundraising transactions is provided in Paragraph 1.4.4. of this Registration Document.

Credit risk

The Group monitors its customers' average payment period on a monthly basis. This ratio was 53 days at December 31, 2016 (48 days at June 30, 2017). For international customers not paying in advance, the Group puts in place coverage mechanisms, such as:

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

The Group has no significant exposure to credit risk, as can be seen in the table below:

(€)	*06.30.2017*	*06.30.2016*	12.31.2016	12.31.2015	12.31.2014
Gross trade receivables	*4,886,150*	*5,526,315*	5,195,604	4,779,599	4,392,691
Outstanding for more than 6 months	*33,284*	*87,493*	71,432	114,463	8,001
% of trade receivables	*0.68%*	*1.58%*	1.55%	2.39%	0.18%
Total provision for doubtful receivables	*27,341*	*47,988*	36,786	69,705	11,358
% of trade receivables	*0.56%*	*0.87%*	0.80%	1.46%	0.26%
Bad debt losses	*2,041*	*100*	13,757	3,719	70

Activation risk for the Warranty on UNiD products

As of November 2016 and exclusively for sales in the United States, the Group introduced a lifetime warranty relating to its customized technology UNiD®. It concerns 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, which can be activated in the event of a UNiD® rod breakage, covers all costs related to the use of the analysis services provided by the UNiD® LAB unit, as well as the replacement at no cost of UNiD® customized rods and any MEDICREA implants (screws, hooks, bolts, etc.) necessary for the treatment of patients requiring corrective surgery. It in no way covers the result of the operation, which is performed under the responsibility of the surgeon and his/her teams.

Although more than 1,500 UNiD® patient-specific rods have already been implanted as of June 30, 2017, no warranty claim has been filed against the Company. With UNiD® patient-specific rods, the breakage rate is substantially reduced compared with the 9% rate of standard rods. Therefore, the

possible risk of having to record a provision for guarantee is very low. On this basis, the Group did not recognize any provision in its financial statements at December 31, 2016 and, depending on the data collected in 2017, it will assess whether or not it is necessary to review this position for the next fiscal year.

1.5.4. Insurance and risk coverage

The Group, through an insurance policy adapted to the risks and challenges of its business, aims to protect its assets and staff from any significant negative impact which may occur due to identified risks.

MEDICREA's insurance program is twofold:

- MEDICREA INTERNATIONAL has taken out international insurance programs. Centralizing at parent-company level allows MEDICREA to obtain the best guarantees on the market by offering insurers a single point of contact. The guarantees obtained in this manner are coherent and consistent for the various subsidiaries worldwide;
- in addition, subsidiaries organize local insurance to comply with specific local regulations in each country where MEDICREA operates.

The main insurance policies taken out by MEDICREA are as follows:

- Property damage and operating losses;
- Third-party liability including:
    - *Product liability:* €15 million per year of insurance;
    - *Operational liability:* €10 million per year of insurance; Accidental environmental damage is also covered by this policy;
    - *Third-party liability of corporate representatives:* €4 million per year of insurance.
- Transported goods.

These policies have been taken out on the standard insurance market, without resorting to reinsurance or a captive company. Every year the Group reassesses the relevance of its policies and the associated amounts, depending on changes to regulations and identified risks.

1.5.5. Exceptional events and disputes

In the normal course of business, the Group may be involved in litigation, or be subject to fiscal and/or administrative checks.

The tax audit on MEDICREA INTERNATIONAL in progress on December 31, 2016 has not resulted in an adjustment being notified during the first half of 2017.

There are no other governmental, judicial or arbitration proceedings, including any proceedings of which the Company is aware, either pending or threatened, liable to have or have had in the past 12

months any significant effects on the financial condition or profitability of the Company and/or the Group.

2. Corporate governance

2.1. The Company's administration and management bodies

2.1.1. Composition of the Board of Directors

The composition of the Board of Directors is as follows:

Director	Position	Date last appointed	Term of office expires	Age at 12/31/16
Denys SOURNAC	Chairman and Chief Executive Officer	Shareholders' Meeting of June 25, 2014	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2019	53 years
Jean-Philippe CAFFIERO	Deputy CEO	Shareholders' Meeting of June 25, 2014	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2019	53 years
Richard KIENZLE	Chief Commercial and Business Development Officer	Shareholders' Meeting of May 11, 2017	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2022	54 years
Christophe BONNET	Independent Director	Shareholders' Meeting of June 25, 2014	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2019	52 years
Pierre BUREL	Independent Director	Shareholders' Meeting of June 25, 2014	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2019	73 years
Jean-Joseph MORENO	Independent Director	Shareholders' Meeting of June 25, 2014	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2019	74 years
François-Régis ORY	Independent Director	Shareholders' Meeting of June 3, 2015	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2020	57 years
Marc RECTON	Independent Director	Shareholders' Meeting of June 3, 2015	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2020	55 years

As of the date this Registration Document was filed, there were 9 members of the Board of Directors. There was no change in the composition of the Board in 2016, but a new director, Richard KIENZLE was appointed during the Extraordinary Shareholders' Meeting of May 11, 2017.

The directors referred to as "independent" meet the criteria for classification as independent specified in the MIDDLENEXT Code, on which MEDICREA bases its governance procedures (see Section 2.3. of this Registration Document). The independence of the members of the Board is thus characterized by the absence of any material financial, contractual or family relationship that could affect the independence of the Board member's judgment.

Information relating to them is provided below.

Denys SOURNAC, Chairman and Chief Executive Officer

A co-founder of MEDICREA, Denys SOURNAC has a scientific, medical and veterinary background and nearly 30 years' experience in the fields of orthopedics and the spinal column. He initiated the merger in 2002 of MEDICREA (which became MEDICREA TECHNOLOGIES) and ORSCO INTERNATIONAL (which became MEDICREA INTERNATIONAL), which gave rise to the MEDICREA Group in its current form, and is responsible for defining and implementing the Group's global strategy.

- First appointed on 03/29/2002 upon the conversion of the Company into an SA (French joint stock corporation)
- Last re-appointed at the Shareholders' Meeting of 06/25/2014
- Term of office to expire at the end of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2019

Business address: 5389, route de Strasbourg – Vancia – 69140 Rillieux-la-Pape, France

Other current appointments and duties:

Duties	Term of office	Address
Within MEDICREA Group		
MEDICREA TECHNOLOGIES	Chairman	5389, route de Strasbourg – 69140 Rillieux-la-Pape
Outside MEDICREA Group		
ORCHARD INTERNATIONAL	Chairman*	5389, route de Strasbourg – 69140 Rillieux-la-Pape
DENYS SOURNAC COMPANY	Manager	345, montée de Bellevue – 01600 Reyrieux
Les Chalets Z	Co-Manager	345, montée de Bellevue – 01600 Reyrieux
ID SOURNAC	Co-Manager	345, montée de Bellevue – 01600 Reyrieux
SNC BDB Gestion Marine	Co-Manager	345, montée de Bellevue – 01600 Reyrieux
SUM LAB	Co-Manager	345, montée de Bellevue – 01600 Reyrieux
IDS GESTION	Co-Manager	6, rue Adolphe – L 1116 Luxembourg
IDS KAP	Co-Manager	209 A, avenue Louise – B 1050 Bruxelles

* DS Company is Chair of Orchard International, represented by Denys SOURNAC

Appointments outside the Group having expired in the course of the last five years: Nil

Jean-Philippe CAFFIERO, Deputy CEO

A co-founder of MEDICREA, after studying medicine, Jean-Philippe CAFFIERO began his career with Howmedica before joining forces with Denys SOURNAC. He has nearly 30 years' experience in orthopedics, particularly in Asia, and is responsible for developing and coordinating MEDICREA's international distribution network.

- First appointed on 03/29/2002 upon the conversion of the Company into an SA (French joint stock corporation)
- Last re-appointed at the Shareholders' Meeting of 06/25/2014
- Term of office to expire at the end of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2019

Business address: 5389, route de Strasbourg – Vancia – 69140 Rillieux-la-Pape, France

Other current appointments and duties:

Duties	Term of office	Address
Outside MEDICREA Group		
ORCHARD INTERNATIONAL	CEO*	5389, route de Strasbourg – 69140 Rillieux-la-Pape
PLG Invest	Manager	12, rue de la Garenne – 69005 Lyon

* via PLG Invest

Appointments outside the Group having expired in the course of the last five years: Nil

Richard KIENZLE, Chief Commercial and Business Development Officer

Mr Richard Kienzle, also known as Rick, has been Chief Commercial & Business Development Officer at MEDICREA since August 2016. He is a Founder and served as the Executive Vice President Global Sales and Marketing of Globus Medical, Inc. (Ticker symbol GMED) from 2003 to 2011. His responsibilities included all global sales, marketing, training and commercial functions including the development of an exclusive national distribution network. Prior to Globus, he served for 5 years as Area Vice President at Synthes Spine where he was responsible for all sales and marketing functions. Mr Kienzle's experience also includes 8 prior years with United States Surgical Corp working side-by-side in the OR with surgeons of all surgical specialties, followed by a series of promotions and culminating as the National Business Director. Mr Kienzle received his Bachelor of Arts from Denison University. His mission is to oversee the commercial expansion of MEDICREA's patient-specific UNiD® technology and personalized treatment modalities.

- First appointed on 5/11/2017
- Term of office to expire at the end of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2022

Business address: 50, Greene Street, 4th & 5th Floor, 10013 New York – USA

Patrick BERTRAND, Independent Director

A graduate of France's Polytechnique engineering school, Patrick BERTRAND spent 22 years working for the Crédit Lyonnais Group, where he was notably in charge of the Auvergne Rhône Alpes region. He then became Chairman of the Mescatiss Group, which specializes in the fire-risk aspect of nuclear safety. He now runs Euro PJB group, a holding company of which he is the owner and which is involved in agricultural activities and industrial venture capital.

- First appointed on 03/29/2002 upon the conversion of the Company into an SA (French joint stock corporation)
- Last re-appointed at the Shareholders' Meeting of 06/25/2014
- Term of office to expire at the end of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2019

Business address: Montchalin, 38510 Courtenay

Other current appointments and duties:

Duties	Term of office	Address
SARL EURO-PJB	Manager	119, Boulevard Stalingrad – 69100 Villeurbanne
SCI PJB MONCHALIN	Manager	Montchalin – 38510 Courtenay
SCI LA TOUR ST JEAN	Manager	Montchalin – 38510 Courtenay
MARTINET SA	Director	24, rue du Limousin – 38297 Saint-Quentin Fallavier

Appointments outside the Group having expired in the course of the last five years:

Duties	Address	Term of office
SA IMMOBILIERE VALLEE DU RHONE	Director	140, avenue de l'industrie – 69140 Rillieux la Pape

Christophe BONNET, Independent Director

A graduate of the Ecole de Management de Lyon, Christophe BONNET was one of the founders of ORSCO INTERNATIONAL, which is now MEDICREA INTERNATIONAL. He no longer has any operational responsibilities within MEDICREA and has spent 12 years working in strategy and management consultancy. After previously working for Bossard Consultant, he is currently Secretary General and a partner of the consultancy firm Kea & Partners.

- First appointed on 03/29/2002 upon the conversion of the Company into an SA (French joint stock corporation)
- Last re-appointed at the Shareholders' Meeting of 06/25/2014
- Term of office to expire at the end of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2019

Business address: 12 rue Gardenat Lapostol, 92150 Suresnes

Other current appointments and duties:

Duties	Term of office	Address
SAS BORNE	Chairman	12, rue Gardénat Lapostol – 92150 Suresnes
SCI LES ESTABLES	Manager	12, rue Gardénat Lapostol – 92150 Suresnes

Appointments outside the Group having expired in the course of the last five years: Nil

Pierre BUREL, Independent Director

Pierre BUREL began his career as an entrepreneur by setting up BUREL TRAVAUX, a company involved in electrical engineering and telecommunications. At the same time, he also worked in the hotel sector. He was subsequently involved in the expansion of MEDICA France, a group of healthcare institutions which had 30 centers and 3,000 beds when it was sold in 2000. Pierre BUREL currently manages wineries.

Pierre BUREL was a director of MEDICREA INTERNATIONAL SA from 2002 to 2006, then a non-voting advisor from 2011 to 2014, before being reappointed as a director.

- First appointed on 03/29/2002 upon the conversion of the Company into an SA (French joint stock corporation)
- Re-appointed as a Director at the Shareholders' Meeting of 06/25/2014
- Term of office to expire at the end of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2019

Business address: Domaine de clapiers, 1800 chemin de Counillière, 83148 Bras

Other current appointments and duties:

Duties	Term of office	Address
SUD PARTICIPATION BUREL HOLDING	Manager	65A, route de Saint Maximin – 83149 Bras
SOGET	Manager	65A, route de Saint Maximin – 83149 Bras
RUMEX	Manager	65A, route de Saint Maximin – 83149 Bras
PETER'S	Manager	65A, route de Saint Maximin – 83149 Bras
SOCIETE HOTELIERE LA RESIDENCE	Manager	Saint Jean – 97133 Saint Barthélémy
ASPHODELE	Manager	65A, route de Saint Maximin – 83149 Bras
HYSOPE	Manager	65A, route de Saint Maximin – 83149 Bras
CHAMAN	Manager	65A, route de Saint Maximin – 83149 Bras
LES NOISETIERS	Manager	65A, route de Saint Maximin – 83149 Bras
SYCOMORE	Manager	65A, route de Saint Maximin – 83149 Bras
SAINT JEAN D'EST	Manager	65A, route de Saint Maximin – 83149 Bras
EGLANTINES	Manager	65A, route de Saint Maximin – 83149 Bras
COBAE	Manager	65A, route de Saint Maximin – 83149 Bras
BERGENIA	Manager	65A, route de Saint Maximin – 83149 Bras
LE ROYANNAIS	Manager	65A, route de Saint Maximin – 83149 Bras
XIMENIA	Manager	65A Route de Saint Maximin – 83149 Bras
ULMUS	Manager	65A, route de Saint Maximin – 83149 Bras
WISTARIA	Manager	65A, route de Saint Maximin – 83149 Bras
DAPHNEE	Manager	65A, route de Saint Maximin – 83149 Bras
FLORYAL	Manager	Saint Jean – 97133 Saint Barthélémy
VITIS	Manager	65A, route de Saint Maximin – 83149 Bras
HOTELLERIE DU SOLEIL	Manager	65A, route de Saint Maximin – 83149 Bras
HOTEL BON REPOS	Manager	65A, route de Saint Maximin – 83149 Bras
DOMAINE D AGOULT	Manager	La Grande Bastide – 83470 Ollières
SPB GESTION	Manager	65A, route de Saint Maximin – 83149 Bras
LE MAS DE LA MAROTTE	Manager	65A, route de Saint Maximin – 83149 Bras
THEAS	Manager	65A, route de Saint Maximin – 83149 Bras
LES DOMAINES DE PROVENCE	Manager	Route de Rians – 83470 Ollières
ABBAYE SAINT HILAIRE	Manager	Route de Rians – 83470 Ollières

Appointments outside the Group having expired in the course of the last five years: Nil

Jean-Joseph MORENO, Independent Director

Jean-Joseph MORENO initiated the setting up in France of a number of industrial companies (in the boiler-making and mechanical engineering sector), service companies and retail outlets. He has also founded a number of companies overseas, notably in Africa. He has held senior positions and sat on the boards of a number of administrative and management bodies including President of the Rhone branch of CGPME-URPMI and Vice-President of the national UTPMI-CGPME, Vice-President of CCI de Lyon and Vice-President of Expora, Member of the Rhône-Alpes Economic and Social Council and director and Deputy Vice-President of Olympique Lyonnais.

- First appointed on 03/29/2002 upon the conversion of the Company into an SA (French joint stock corporation)
- Last re-appointed at the Shareholders' Meeting of 06/25/2014
- Term of office to expire at the end of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2019

Business address: 298 Côte de Chanve, 69360 Solaize

Other current appointments and duties:

Duties	Term of office	Address
SCI MC	Manager	298, Cote de Chanvre – 69360 Solaize
SCI SAGITTAIRE	Manager	298, Cote de Chanvre – 69360 Solaize
SCI MORAY	Manager	3, Chemin des verzières – 69110 Sainte-Foy-lès-Lyon
SAS MORE INVESTMENTS	Chairman	298, Cote de Chanvre – 69360 Solaize
SAS MORE LOCK	Chairman	298, Cote de Chanvre – 69360 Solaize

Appointments outside the Group having expired in the course of the last five years: Nil

François-Régis ORY, Independent Director

The holder of a PhD in Pharmacy and a former intern at Hôpitaux de Lyon, François-Régis ORY was Scientific and Technical Director of SOFRADIM, which specializes in reinforcement surgical implants for parietal, vascular, urologic and gynecological surgery when he took the helm of that company in 1996 through an LBO. He then grouped together all SOFRADIM's activities (production and distribution) within Floréane Medical Implants, for which he instigated an IPO in June 1998 before selling it to the Tyco International Ltd Group in 2005.

- First appointed on 06/21/2007 (co-option)
- Last re-appointed at the Shareholders' Meeting of 6/3/2015
- Term of office to expire at the end of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2020

Business address: Chemin de la Ronze, 69480 Morancé

Other current appointments and duties:

Duties	Term of office	Address
L'AMELIANE	Chairman	14, chemin de la Pomme – 69160 Tassin
LA FLORENTIANE	Chairman	14, chemin de la Pomme – 69160 Tassin
LYPOLIANE	Chairman	14, chemin de la Pomme – 69160 Tassin
SCI DE CHANAS	Manager	14, chemin de la Pomme – 69160 Tassin
OLYMPIQUE LYONNAIS GROUPE	Director	350, avenue Jean Jaurès – 69007 Lyon
SCI L'AMAURY	Manager	600, chemin de la Ronze – 69480 Morance
SCI L'AMELAÏS	Manager	600, chemin de la Ronze – 69480 Morance
SOCIETE CIVILE FLORINE	Manager	14, chemin de la Pomme – 69160 Tassin
SWORD GROUP SE	Director	9, rue Charles de Gaulle – 69370 Saint Didier
ABM MEDICAL	Manager	2, rue Gabriel Bourdarias – 69200 Vénissieux
ABM ILE DE FRANCE	Manager	2, rue Gabriel Bourdarias – 69200 Vénissieux
ABM NORD	Manager	2, rue Gabriel Bourdarias – 69200 Vénissieux
ABM RHONE-ALPES	Manager	2, rue Gabriel Bourdarias – 69200 Vénissieux
ABM SUD	Manager	2, rue Gabriel Bourdarias – 69200 Vénissieux

Appointments outside the Group having expired in the course of the last five years: Nil

***Marc RECTON*, Independent Director**

After working for Union Financière de France and Compagnie France Finance Patrimoine, in 1990 Marc RECTON founded Marc Recton & Associés, an independent financial advisory company. Mr. RENTON is registered with the AMF as a Financial Investment Consultant. In 2003, he also founded ALAMA FINANCE, which specializes in investments in non-listed companies and in financial engineering for overseas companies.

- First appointed on 6/18/2003
- Last re-appointed at the Shareholders' Meeting of 6/3/2015
- Term of office to expire at the end of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2020

Business address: Le Pigeonnier de la Grande Bastide, 84360 Lauris

Other current appointments and duties:

Duties	Term of office	Address
MARC RECTON & ASSOCIES	Manager	72, Rue du Faubourg Saint Honoré – 75008 Paris
SC MR PIERRE 2	Manager	72, Rue du Faubourg Saint Honoré – 75008 Paris
SC MR PARTICIPATIONS 2	Manager	72, Rue du Faubourg Saint Honoré – 75008 Paris
SAS ALAMA LUXURY Paris	Manager	72, Rue du Faubourg Saint Honoré – 75008 Paris
SAS FINANCIERE GERARD FAIVRE	Manager	72, Rue du Faubourg Saint Honoré – 75008 Paris

Appointments outside the Group having expired in the course of the last five years: Nil

Duties	Term of office	Address
SC MR PIERRE 3	Manager	72, Rue du Faubourg Saint Honoré – 75008 Paris
SC MR PARTICIPATIONS 1	Manager	72, Rue du Faubourg Saint Honoré – 75008 Paris

The interests of senior executives and corporate officers in the Company's share capital changed as shown in the following table during the last three fiscal years:

	12.31.2016			12.31.2015			12.31.2014		
	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights
Executive corporate officers									
Orchard International (1)	1,727,490	17.22%	27.24%	1,727,490	19.22%	29.71%	1,727,490	20.33%	30.11%
Denys SOURNAC	463,732	4.62%	3.66%	246,089	2.74%	4.10%	246,089	2.90%	4.24%
Jean-Philippe CAFFIERO	246,089	2.45%	3.76%	270,547	3.01%	2.33%	202,054	2.38%	3.47%
Other directors									
Pierre BUREL (2)	194,587	1.94%	1.53%	91,707	1.02%	1.44%	91,707	1.08%	1.48%
Patrick BERTRAND (2)	113,968	1.14%	1.04%	93,392	1.04%	0.93%	93,392	1.10%	0.96%
François Régis ORY (2)	108,652	1.08%	0.86%	108,652	1.21%	0.93%	108,652	1.28%	0.97%
Christophe BONNET	52,128	0.52%	0.81%	52,128	0.58%	0.88%	52,128	0.61%	0.91%
Jean Joseph MORENO	22,900	0.23%	0.30%	22,900	0.25%	0.33%	22,900	0.27%	0.34%
Marc RECTON	18,752	0.19%	0.25%	18,752	0.21%	0.27%	18,752	0.22%	0.28%
Total	2,948,298	29.39%	39.45%	2,631,657	29.28%	40.92%	2,563,164	30.17%	42.76%

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

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

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

The share capital increase carried out in June 2017 generated dilution of 21.08%, resulting in the following changes in interests held by executive officers and corporate officers in the Company's share capital since December 31, 2016:

	06.30.2017				12.31.2016		
	Number of shares	% share capital	Number of voting rights	% voting rights	Number of shares	% share capital	% voting rights
Executive corporate officers							
Orchard International (1)	1,727,490	13.59%	3,454,980	22.51%	1,727,490	17.22%	27.24%
Denys SOURNAC	455,732	3.58%	455,732	2.97%	463,732	4.62%	3.66%
Jean-Philippe CAFFIERO	236,089	1.86%	456,978	2.98%	246,089	2.45%	3.76%
Other directors							
Pierre BUREL (2)	194,587	1.53%	194,587	1.27%	194,587	1.94%	1.53%
Patrick BERTRAND (2)	113,968	0.90%	131,348	0.86%	113,968	1.14%	1.04%
Rick KIENZLE	102,880	0.81%	102,880	0.67%			
François Régis ORY (2)	108,652	0.85%	108,652	0.71%	108,652	1.08%	0.86%
Christophe BONNET	52,128	0.41%	102,128	0.67%	52,128	0.52%	0.81%
Jean Joseph MORENO	22,900	0.18%	37,900	0.25%	22,900	0.23%	0.30%
Marc RECTON	18,752	0.15%	31,252	0.20%	18,752	0.19%	0.25%
Total	3,033,178	23.86%	5,076,437	33.07%	2,948,298	29.39%	39.45%

In accordance with the legal and regulatory requirements, a table is provided below which summarizes the transactions carried out in the Company's securities during the fiscal year 2016 by senior executives or by persons closely connected to them, prepared on the basis of information provided to the Company:

- Number of securities sold: 0
- Number of securities acquired: 0
- Number of securities subscribed: 316,641
  (persons concerned: Persons concerned: Denys SOURNAC, Pierre BUREL et Patrick Bertrand), as part of a share capital increase via private placement completed in August 2016 concerning a total of 1,028,803 shares
- Number of shares exchanged: 0

In the course of the last five years, no member of the Board of Directors of the Company:

- has been found guilty of fraud, or found guilty of any offence and/or subjected to any public official sanction by any statutory or regulatory authority;
- has been subjected to proceedings for bankruptcy, sequestration and/or liquidation as a senior executive or corporate officer;
- has been subjected to any impediment to act as a member of an issuer's administration, management or supervisory body;
- has been found guilty of any offence and/or subjected to any public official sanction by any statutory or regulatory authority (including by the designated professional organizations);

There are no family connections between the Directors.

The Company is not aware of any potential conflict of interest between the duties of any member of the Board of Directors as regards the issuer and their own private interests;

2.1.2. Operation of the Board of Directors

Operation of the Board of Directors – Articles of Incorporation

Articles 15, 16, 17 and 18 reproduced below of the Articles of Incorporation, in force on the date this Registration Document was drafted, deal with the operation of the Board of Directors:

Article 15 – Board of Directors

The Company is managed by a Board of Directors comprising a minimum of three members and a maximum of 18 members, subject to the exemption granted by law in the event of merger.

During the Company's lifetime, the directors are appointed, reappointed or removed from office by the Ordinary Shareholders' Meeting. They are always eligible for re-election.

The term of office of the directors is six years, expiring at the end of the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year just ended and held during the year in which their term of office expires.

Persons are ineligible for appointment as director if, having passed the age of 75, their appointment would increase to more than one half of the members of the Board the number of directors that had passed that age. Once this limit is exceeded, the oldest director is deemed to have resigned automatically at the end of the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year during which the limit is exceeded.

The directors may be individuals or corporate bodies. If they are corporate bodies, when appointed, they must appoint a permanent representative, who will be subject to the same conditions and obligations and will incur the same liabilities as if he were a director in his own name, without prejudice to the joint and several liability of the corporate body that he represents.

In the event of one or more vacancies on the Board of Directors, the Board may, between two Shareholders' Meetings, make provisional appointments in accordance with the conditions laid down by Article L225-24 of the French Commercial Code. The director appointed to replace another performs his duties for the remainder of his predecessor's term of office.

Directors who are individuals may not be members simultaneously of more than five Boards of Directors or Supervisory Boards of corporations that have their registered office on French territory, except as permitted by law.

A Company employee may be appointed a director only if his contract of employment corresponds to an actual position within the Company. The number of directors bound to the Company by contracts of employment may not exceed one-third of the directors in office.

Non-voting advisors:

The Ordinary Shareholders' Meeting may appoint, on the recommendation of the Board of Directors, one or more non-voting advisors, who can be individuals or corporate bodies, and who can be but do not need to be shareholders, the maximum number of which is set at five.

Their term of office is set at three years, expiring at the end of the Shareholders' Meeting called to approve the financial statements for the fiscal year just ended and held during the year in which their term of office expires.

Non-voting advisors whose terms of office have expired are eligible for re-election.

They may be removed from office at any time by the Ordinary Shareholders' Meeting.

Non-voting advisors attend meetings of the Board of Directors when they are invited to attend under the same conditions as the directors. They may also sit on committees set up by the Board of Directors, if asked to do so by the Board.

They are given all the documents provided to the directors. They are bound to respect the confidentiality of the Board's deliberations.

During the Board of Directors' deliberations, they may participate in an advisory capacity but are not entitled to vote.

Article 16 – Organization of the Board

The Board of Directors elects from amongst its members a Chairman who must be an individual, failing which the appointment is null and void. The Board determines the Chairman's compensation.

The Chairman is appointed for a term that may not exceed that of his term of office as a director. The Chairman is eligible for re-election. The Board may remove the Chairman from office at any time.

Persons are ineligible for appointment as Chairman if they are aged over 75. If the Chairman reaches this age while in office, he is deemed to resign automatically.

In the absence of the Chairman, meetings of the Board of Directors are chaired by the director specially elected for this purpose by the Board members attending the meeting; in the event of a tie, the oldest of the candidates will chair the meeting.

Article 17 – Board's deliberations

The Board of Directors meets as frequently as the Company's interests require, when convened by its Chairman. If the Board has not met for more than two months, at least one-third of the members of the Board of Directors may request that the Chairman call a meeting to consider a specific agenda.

If the Company is managed by a Chief Executive Officer, he may ask the Chairman of the Board of Directors to convene a meeting of the Board to consider a specific agenda.

In either of the above circumstances, the Chairman is bound by the requests made to him.

Meetings may be convened by any means, and may even be convened verbally.

Meetings are held at the registered office, or at any other location indicated in the notice of the meeting.

The Board's proceedings are only valid if at least one-half of the directors are present. Resolutions are passed by a majority of the members present or represented.

In the event of a tie, the Chairman has the casting vote.

If applicable, two members of the Works Council, appointed from amongst its members, attend all meetings of the Board of Directors in an advisory capacity.

An attendance register is kept and signed by those directors who attend the Board meeting either in person or by proxy.

In accordance with the Internal Regulations drawn up by the Board of Directors, for the purposes of calculating the quorum and the majority, those directors are deemed to be present who attend the meeting via videoconference pursuant to the prevailing regulations.

This provision does not apply as regards the adoption of the following resolutions:

- *The appointment, compensation or removal from office of the Chairman, Chief Executive Officer and Deputy Chief Executive Officers,*
- *The approval of the annual financial statements and consolidated financial statements and the drawing up of the management report and of the report on the Group's management.*

The Board of Directors' proceedings are recorded in minutes drawn up in accordance with the prevailing legislation and signed by the meeting chairman and by at least one director. If the meeting chairman is unable to sign the minutes, they are signed by at least two directors.

Copies or extracts of these minutes are certified by the Chairman of the Board of Directors, the Chief Executive Officer, a Deputy Chief Executive Officer, the director temporarily delegated to carry out the duties of the Chairman or a duly authorized representative.

Article 18 – Powers of the Board of Directors

The Board of Directors determines the policies governing the Company's activities and monitors their implementation. Within the limits of its corporate purpose and subject to the powers expressly attributed by law to shareholders' meetings, it deals with all matters concerning the efficient running of the Company and by its deliberations settles any issues concerning the Company.

The Board of Directors carries out the inspections and checks that it considers appropriate.

Each director is provided with the information needed to carry out his duties and may request any documents he deems appropriate.

In its relations with third parties, the Company is bound even by an action of the Board of Directors that is not consistent with its corporate purpose, unless it can prove that the third party knew that the action was not consistent with the corporate purpose or could not have been unaware thereof given the circumstances, mere publication of the Articles not being sufficient to constitute such proof.

Operation of the Board of Directors – Internal Regulations

In 2006, the Board of Directors implemented Internal Regulations, the aim of which was to set guidelines governing its operation, in particular:

Article 1 of the Board's Internal Regulations – Strategic policies

The Board of Directors takes all the decisions relating to the Company's major strategic, economic, corporate, financial and technological policies and ensures that they are implemented.

The Company's medium-term business policies are defined each year in a strategic plan, a draft of which is prepared and presented by the Chairman and adopted by the Board of Directors. The Chairman of the Board of Directors presents an annual budget drafted in accordance with these policies.

The Chairman is responsible for implementing the policies set out in the strategic plan. The Chairman must obtain the Board of Directors' authorization to commit the Company to investments or divestments where the value of the transaction exceeds €150,000 and the transaction concerned is a corporate acquisition or disposal or any other investment not in line with the Company's strategic policy.

The Chairman brings to the Board's attention any problem or, more generally, any issue that might affect the implementation of any part of the strategic plan.

Article 8 of the Board's Internal Regulations – Participation in Board of Directors' meetings by videoconference or other means of telecommunication

The Chairman ensures that means of telecommunication are available to Directors who reside away from head office or abroad, or are visiting there for legitimate reasons, in order for them to participate in Board of Directors' meetings. If the Board of Directors' meeting is not held at the Company's registered office, the Chairman takes necessary measures to ensure that Directors who have decided to attend the meeting there may participate using the aforementioned means of telecommunication. Directors participating in the meeting by means of telecommunication are deemed present for quorum and majority purposes. The specifications of the means of telecommunication used must comply with those laid down by prevailing legislation and regulations, otherwise the Directors concerned will be deemed not to be present, and in the absence of a quorum the Board meeting will have to be adjourned.

If applicable, the attendance register for Board Of Directors' meetings must indicate that Directors participated by means of telecommunication. The minutes of the Board of Directors' meeting must state the name of the Directors participating in the session by means of telecommunication. It must also report the possible occurrence of technical incidents affecting the means of telecommunication if said incident disrupts meeting proceedings. The foregoing provisions do not apply to the adoption of decisions as provided for under Articles L. 232-1 and L. 233-16 of the French Commercial Code, respectively pertaining to:

- preparation of annual financial statements and the management report;
- preparation of the Group's consolidated financial statements and management report, if applicable.

The Board of Director's work in 2016

In 2016, the Board of Directors met 7 times: The average attendance rate of Directors during the fiscal year was 77%.

2.1.3. Executive Management

The Company's executive management is the responsibility of:

- Denys SOURNAC, Chairman and Chief Executive Officer;
- Jean-Philippe CAFFIERO, Deputy Chief Executive Officer.

Article 19 reproduced below of the Articles of Incorporation, in force on the date this Registration Document was drafted, deals with the Company's executive management procedures.

Article 19 – Management of the Company

19.1 – Organizational principles

In accordance with the legislation, the Company's executive management is the responsibility of either the Chairman of the Board of Directors or another individual appointed by the Board of Directors with the title of Chief Executive Officer.

The choice between these two executive management methods is made by the Board of Directors, in accordance with the rules of majority laid down in Article 16, and the Board must inform the shareholders and third parties of the decision in the manner laid down in the regulations.

The option selected by the Board of Directors must be for a period of at least six years. At the end of this period, the Board of Directors must reconsider the Company's executive management methods.

A change in the executive management methods does not require a change to be made to the Articles of Incorporation.

19.2 – First option: the Chief Executive Officer is responsible for executive management

19.2.1 – Appointment – Removal from office

If the Board of Directors chooses to separate the functions of Chairman and Chief Executive Officer, it appoints the Chief Executive Officer, sets the term of his appointment, determines his compensation and, where relevant, the limits of his powers.

If the Chief Executive Officer is a director, his term of office as Chief Executive Officer may not exceed his term of office as a director.

To hold the office of Chief Executive Officer, the person concerned must be less than 70 years old. If the Chief Executive Office reaches this age during his term of office, he is deemed to have resigned automatically and a new Chief Executive Officer is appointed.

The Chief Executive Officer may be removed from office at any time by the Board of Directors. If the Chief Executive Officer is not also the Chairman of the Board of Directors, his removal from office may give rise to damages and interest, if there is no just cause for the removal.

19.2.2. – Powers of the Chief Executive Officer

The Chief Executive Officer is vested with the broadest powers to act in the Company's name in any circumstances. He exercises these powers within the limit of the Company's corporate purpose and subject to the powers that the law expressly reserves for shareholders' meetings and for the Board of Directors.

He represents the Company in its dealings with third parties. The Company is bound even by an action of the Chief Executive Officer that is not consistent with its corporate purpose, unless it can prove that the third party knew that the action was not consistent with the corporate purpose or could not have been unaware thereof given the circumstances, mere publication of the Articles not being sufficient to constitute such proof.

The provisions of the Articles of Incorporation or the decision of the Board of Directors limiting the powers of the Chief Executive Officer are not enforceable against third parties.

The Chief Executive Officer has the right to delegate part of his powers to as many representatives as he deems necessary.

19.2.3. – Powers of the Chairman of the Board of Directors

The Chairman of the Board of Directors represents the Board of Directors. He organizes and oversees its work, on which he reports to the Shareholders' Meeting. He monitors the smooth running of the Company's managing bodies and ensures, in particular, that the directors are in a position to perform their tasks.

19.3. – Second option: the Chairman of the Board of Directors is responsible for executive management

If the Board of Directors chooses not to separate the functions of Chairman and Chief Executive Officer, the Company's executive management is the responsibility of the Chairman of the Board of Directors who exercises, at the same time, all the powers defined in Articles 19.2.2 and 19.2.3 of the Articles of Incorporation.

However, in these circumstances, the removal from office of the Chairman with no just cause may not give rise to damages or interest.

19.4 – Deputy Chief Executive Officers

Upon the recommendation of the Chief Executive Officer or of the Chairman of the Board of Directors responsible for the Company's executive management, the Board of Directors may appoint one or more individuals responsible for assisting the Chief Executive Officer, to be known as Deputy Chief Executive Officers. The maximum number of Deputy Chief Executive Officers is set at five.

In conjunction with the Chief Executive Officer or the Chairman of the Board of Directors responsible for the Company's executive management, the Board of Directors sets the scope and duration of the powers granted to the Deputy Chief Executive Officers.

The Deputy Chief Executive Officers have the same powers as the Chief Executive Officer or the Chairman of the Board of Directors responsible for the Company's executive management vis-à-vis third parties.

The Deputy Chief Executive Officers must be individuals. They may be chosen from amongst the directors or from elsewhere.

Persons are ineligible for appointment as Deputy Chief Executive Officer if they are aged over 75. If a Deputy Chief Executive Officer reaches this age while in office, he is deemed to resign automatically.

Deputy Chief Executive Officers may be removed from office at any time by the Board of Directors, upon the recommendation of the Chief Executive Officer or of the Chairman of the Board of Directors responsible for the Company's executive management. Removal from office of a Deputy Chief Executive Officer may give rise to damages and interest, if there is no just cause for the removal.

If the Chief Executive Officer is prevented from carrying out his duties or his term of office ends due, in particular, to his death, resignation or removal from office, the Deputy Chief Executive Officer(s), unless decided otherwise by the Board, remain in office and retain their powers until a new Chief Executive Officer has been appointed.

If a Deputy Chief Executive Officer is a director, his term of office as Deputy Chief Executive Officer may not exceed his term of office as a director.

19.5 – Delegation of powers

The Board may appoint representatives, whether or not directors, to carry out permanent or temporary duties, delegate powers to them and set their compensation at an amount that it judges appropriate.

2.1.4. Specialized committees

There are three specialized committees. To the Company's knowledge, there is nothing that is likely to generate a conflict of interests between the duties of the members of the specialized committees vis-à-vis the Company and their private interests.

Management Committee

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

- Denys SOURNAC, Chairman and Chief Executive Officer;
- Rick KIENZLE, Chief Commercial and Business Development Officer;
- Nadège BOURDOIS, VP Human Resources and Legal;
- Fabrice KILFIGER, Chief Financial Officer;
- Thomas MOSNIER, Chief Scientific Officer;
- David RYAN, VP Product Development and Marketing;
- Pierre OLIVIER, Chief Executive Officer MEDICREA USA.

Ad Hoc Committee

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

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

Strategy Committee

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

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

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

2.2. Compensation and benefits of senior executives and directors

Article 20 below of the Articles of Incorporation, in force on the date this Registration Document was drafted, deals with this matter:

Article 20: Compensation of the directors, Chairman, Chief Executive Officer, Deputy Chief Executive Officers and representatives of the Board of Directors

1 – The Shareholders' Meeting may allocate to the directors by way of directors' fees an annual fixed sum, which is recognized as an operating expense and is maintained at that level until decided otherwise. The Board of Directors is free to allocate this compensation among its members.

2 – The compensation of the Chairman and that of the Chief Executive Officer and the Deputy Chief Executive Officers is set by the Board of Directors.

3 – The Board of Directors may also allocate, for tasks entrusted to directors, exceptional compensation that will be submitted for approval to the Ordinary Shareholders' Meeting.

The directors may not receive any compensation from the Company, permanent or not, other than that previously provided for, unless they have an employment contract with the Company, the terms of which are authorized by law.

Agreements

MEDICREA INTERNATIONAL has two executive corporate officers:

- Denys SOURNAC, Chairman and Chief Executive Officer of MEDICREA INTERNATIONAL;
- Jean-Philippe CAFFIERO, Deputy Chief Executive Officer of MEDICREA INTERNATIONAL.

Mr. SOURNAC is not an employee of MEDICREA INTERNATIONAL and is not compensated by the Company for his duties. The management holding company ORCHARD INTERNATIONAL, of which Mr. SOURNAC is Chairman, receives fees for the executive management duties of MEDICREA INTERNATIONAL provided by Mr. SOURNAC. These fees are paid via a service agreement between ORCHARD INTERNATIONAL and MEDICREA INTERNATIONAL.

In this regard, Mr. SOURNAC receives a fixed fee and may claim a variable fee depending on the achievement of certain targets, determined as to their principle and amount by the Board of Directors at its meeting on September 3, 2015, on the basis of the work carried out by the Ad Hoc Committee. The variable fee corresponds to 20% of the net profit generated by the Group before this variable remuneration is taken into account and to 5% of a milestone payment received by the Company as part of a significant transaction, for example a distribution agreement, or product or patent license agreement, etc.

Mr. CAFFIERO is not compensated for his duties as Deputy CEO. Mr CAFFIERO's export sales management services are invoiced by ORCHARD INTERNATINAL, of which he is the Chief Executive Officer, to MEDICREA INTERNATIONAL, under the terms of the service agreement between the two companies. Mr. CAFFIERO does not receive a variable fee.

The service agreement between ORCHARD INTERNATIONAL and MEDICREA INTERNATIONAL was implemented with effect from October 1, 2010 and has been amended four times since. Details of this agreement and its amendments are provided in the Statutory Auditors' Special Report on the Regulated Agreements included in Section 4.5. of this Registration Document.

The main services provided under this agreement are as follows:
- Strategic policies and negotiation of strategic contracts
- Coordination of the management team
- Organization and management of investor relations and financial communication
- Management of the social and wage policy

The compensation paid to Mr. SOURNAC and Mr. CAFFIERO is borne by ORCHARD INTERNATIONAL which rebills it to MEDICREA INTERNATIONAL under the terms of duly authorized and approved regulated agreements.

No service agreement binds the members of the management bodies to the issuer or to any of its subsidiaries.

The Statutory Auditors' Special Report on regulated agreements is set out in Section 4.5 of this Registration Document.

Compensation of executive corporate officers

The following tables have been prepared in accordance with appendix 2 of AMF position-recommendation no. 2014-14 (tables 1 to 7).

The fees detailed below are received by ORCHARD INTERNATIONAL of which Mr. SOURNAC is the Chairman and Mr. CAFFIERO the Chief Executive Officer.

Summary of Denys SOURNAC's compensation

(€)	2016	2015	2014
Compensation for the fiscal year	306,000	306,000	298,000
Multi-year variable compensation allocated during the year	-	-	-
Value of options allocated during the year	-	-	-
Value of free shares allocated	-	-	-
Total	306,000	306,000	298,000

Breakdown of Denys SOURNAC's compensation

	2016		2015		2014	
(€)	Amount due	Amount paid	Amount due	Amount paid	Amount due	Amount paid
Fixed compensation	300,000	270,000	300,000	300,000	292,000	292,000
Annual variable compensation	-	-	-	40,000	-	100,000
Multi-year variable compensation	-	-	-	-	-	-
Directors' fees	6,000	6,000	6,000	6,000	6,000	4,000
Benefits in kind	-	-	-	-	-	-
Total	306,000	276,000	306,000	346,000	298,000	396,000

Excluding the directors' fees, all the amounts relating to Mr. SOURNAC's compensation are rebilled by ORCHARD INTERNATIONAL to MEDICREA INTERNATIONAL.

Summary of Jean-Philippe CAFFIERO's compensation

(€)	2016	2015	2014
Compensation for the fiscal year	70,000	70,000	157,458
Multi-year variable compensation allocated during the year	-	-	-
Value of options allocated during the year	-	-	-
Value of free shares allocated	-	-	-
Total	70,000	70,000	157,458

Breakdown of Jean-Philippe CAFFIERO's compensation

	2016		2015		2014	
(€)	Amount due	Amount paid	Amount due	Amount paid	Amount due	Amount paid
Fixed compensation	64,000	51,200	64,000	64,000	151,458	151,458
Annual variable compensation	-	-	-	-	-	-
Multi-year variable compensation	-	-	-	-	-	-
Directors' fees	6,000	6,000	6,000	6,000	6,000	4,000
Benefits in kind	-	-	-	-	-	-
Total	70,000	57,200	70,000	70,000	157,458	155,458

Excluding the directors' fees, all the amounts relating to Mr. CAFFIERO's compensation are rebilled by ORCHARD INTERNATIONAL to MEDICREA INTERNATIONAL.

Breakdown of executive corporate officers' future compensation

	Employment contract		Supplementary pension scheme		Compensation or benefits due or likely to be due as a result of terminations or changes of office		Compensation relating to a non-compete clause	
	Yes	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
Denys Sournac		X		X		X		X
Jean Philippe Caffiero		X		X		X		X

Share subscription or purchase options awarded during the fiscal year to each executive corporate officer by the issuer and by any Group company
Nil

Share subscription or purchase options exercised during the fiscal year by each executive corporate officer
Nil

Shares awarded free of charge to each executive corporate officer
Nil

Shares awarded free of charge that have become available during the fiscal year for each executive corporate officer
Nil

ORCHARD INTERNATIONAL does not have any commitment to pay deferred compensation to Mr. SOURNAC or Mr. CAFFIERO, which would be liable to be rebilled to MEDICREA INTERNATIONAL if such compensation were to become payable.

Compensation of non-executive corporate officers

Directors' fees are paid to non-executive corporate officers and apportioned as follows:

	Amounts paid during the fiscal year		
(€)	**2016**	**2015**	**2014**
Patrick BERTRAND	6,000	6,000	4,000
Christophe BONNET	6,000	6,000	4,000
Pierre BUREL	6,000	6,000	0
Jean Joseph MORENO	6,000	6,000	4,000
François Régis ORY	6,000	6,000	4,000
Marc RECTON	6,000	6,000	4,000
Total	36,000	36,000	20,000

Amounts paid in 2016, in respect of the year ended December 31, 2015

Amounts paid in 2015, in respect of the year ended December 31, 2014
Amounts paid in 2014, in respect of the year ended December 31, 2013

A total amount of €56,000 was allocated in respect of directors' fees for the year ended December 31, 2016 (for all directors including the Chairman and Deputy Chief Executive Officer).

The non-executive corporate officers did not receive any compensation other than directors' fees during the last three fiscal years.

Stock subscription or purchase options – Free shares

The following tables have been prepared in accordance with appendix 2 of AMF position-recommendation no. 2014-14 (tables 8 to 10).

No corporate officer, acting as an executive or not, is concerned by the tables below.

Record of share subscription or purchase option allocations

Table 8 of the AMF position-recommendation No. 2014-14

Record of share subscription or purchase option allocations

Information about subscription or purchase options

Date of Shareholders' Meeting (granting the delegation)	**03/10/2006**	**06/25/2009**	**06/25/2009**	**06/25/2009**	**06/25/2009**	**06/14/2012**	**06/14/2012**	**06/25/2014**	**06/07/2016**	**06/07/2016**
Date of Board of Directors' meeting	**06/05/2008**	**06/25/2009**	**12/17/2009**	**06/17/2010**	**06/16/2011**	**12/17/2013**	**03/27/2014**	**09/03/2015**	**07/25/2016**	**09/19/2016**
Total number of shares that can be subscribed or purchased	25,215	99,200	15,000	112,800	95,500	10,000	30,000	12,000	400,000	6,500
of which: by the corporate officers	0	0	0	0	0	0	0	0	0	0
Start date for exercising the options	06/05/2008	06/25/2010	12/17/2009	06/17/2011	06/16/2012					
		7/23/2010*		7/15/2011*	7/15/2012*	1/17/2014*	4/28/2015*	10/3/2016*	8/22/2017*	10/17/2017*
Expiry date of options	06/04/2018	06/25/2016	12/17/2016	06/17/2017	06/16/2018					
		7/23/2016*		7/15/2017*	07/15/2018	1/17/2021*	4/28/2022*	10/3/2023*	8/22/2024*	10/17/2024*
Subscription or purchase price	€6	€6.16 / €6.56*	€6.32	€6.14 / €6.28*	€9.10 / €11.44*	€8.77	€9.10	€6.67	€5.43	€5.74
					One third exercisable each year					
Terms and conditions of exercise for plans with several tranches	All options to be exercisable by 06/05/2010	All options to be exercisable by 7/23/2012	All options to be exercisable by 12/17/2011	All options to be exercisable by 7/15/2013	All options to be exercisable by 7/15/2014	All options to be exercisable by 1/17/2017	All options to be exercisable by 4/28/2017	All options to be exercisable by 10/4/2018	All options to be exercisable by 8/22/2019	All options to be exercisable by 10/17/2019
Number of shares subscribed at December 31, 2016	4,167	7,480	13,000	12,874	-	-	-	-	-	-
Number of shares lapsed or canceled	15,456	91,720	2,000	40,800	49,000	-	-	-	-	-
Cumulative number of share subscription or purchase options outstanding at year-end	5,592	0	0	59,126	46,500	10,000	30,000	12,000	400,000	6,500

* Both the exercise price and the allocation dates differ for US employees; the latter is final 20 days after the date of the Board of Directors' meeting deciding the allocation

Share subscription or purchase options granted in 2016 to the top 10 employees who are not corporate officers, and options exercised by the latter

Table 9 of the AMF position-recommendation No. 2014-14

Share subscription or purchase options granted to the first ten beneficiary employees non-corporate officers, and options exercised by the latter	Total number of options allocated / shares subscribed or purchased	Weighted average price
Options granted during the fiscal year, by the issuer or any entity included in the allocation scope of the options, to the first ten beneficiary employees of the issuer or any issuer included in the said scope (aggregate information)	406,500	€ 5.43
Options held on the issuer and entities previously mentioned, exercised during the fiscal year by the ten beneficiary employees of the issuer or one of these entities with the highest numbers of options purchased or subscribed (aggregate information)	0	€ 0.00

Record of free share allocations

Table 10 of the AMF position-recommendation No. 2014-14

Date of Shareholders' Meeting (granting the delegation)	03/10/2006	06/25/2009	06/25/2009	06/16/2011	06/07/2016	06/07/2016	06/07/2016
Date of Board of Directors' meeting	06/05/2008	06/25/2009	06/17/2010	06/16/2011	08/22/2016	09/19/2016	09/19/2016
Total number of free shares allocated	17,163	43,150	45,135	3,500	22,000	9,000	41,990
of which allocated to the corporate officers	-	-	-	-	-	-	-
Vesting date of shares	06/05/2010	06/25/2011	06/17/2012	06/16/2013	08/22/2017	08/22/2018	08/22/2017
Date retention period ends	06/05/2012	06/25/2013	06/17/2014	06/16/2015	08/22/2018	09/19/2018	09/19/2018
Number of shares delivered at December 31, 2016	17,163	37,700	35,920	3,500	-	-	-
Cumulative number of shares lapsed or canceled	-	5,450	9,215	-	-	-	-
Free shares allocated in France and outstanding at year-end	-	-	-	-	22,000	9,000	41,990

2.3. Corporate governance

In view of its size and shareholder structure, the MEDICREA Group has elected to base its governance procedures on the MIDDLENEXT governance code. This code, which is aimed at small and midcap companies, was updated in September 2016. It is available in full at www.middlenext.com, defines a list of recommendations and points to be watched to ensure reasonable governance of companies of this size.

By basing its procedures on this code, the Group hopes to assess the relevance of its governance and also to ensure that the information disclosed is sufficient and correctly demonstrates its desire for transparency.

The Group's aim is to comply with all of the MIDDLENEXT recommendations. However, certain recommendations have not yet been applied in their entirety. In order to comply with the "apply or explain" principle of Article L.225-37 of the French Commercial Code, explanations about the non-application of certain recommendations and information about the actions taken to remedy the situation where relevant are provided in the following paragraphs.

A summary of the application of the recommendations of the MIDDLENEXT code is provided in the following table:

2. Corporate governance

		Recommendation	
Supervisory power		**Applied**	**Not applied**
R1	Director ethics	X	
R2	Conflicts of interest	X	
R3	Composition of the Board – Independent directors	X	
R4	Board member information	X	
R5	Board and committee meetings	X	
R6	Creation of committees	X	
R7	Introduction of the Board's Internal Regulations	X*	
R8	Choice of directors	X	
R9	Directors' terms of office	X	
R10	Directors' compensation	X	
R11	Introduction of Board evaluation	X*	
R12	Relationships with Shareholders		
Executive power			
R13	Definition and transparency of the compensation of executive corporate officers	X	
R14	Succession planning for executive officers		X
R15	Corporate officers and employment contracts	X	
R16	Golden handshakes	X	
R17	Supplementary retirement schemes	X	
R18	Stock options and bonus shares	X	
R19	Review of points to be watched	X	

* These recommendations are partially applied.

Comments and explanations on the application or not of the recommendations of the MIDDLENEXT code:

R1 Director ethics

The ethical rules with which the directors undertake to comply (notably confidentiality, independence and diligence) are clearly explained in the Board Internal Regulations. The directors have access to privileged information and have been provided with the rules to which they are subject in this regard.

R2 Conflicts of interest

The Board of Directors is currently not aware of any potential conflicts of interest.

R3 Composition of the Board – Independent directors

The Board of Directors is currently composed of 6 independent directors out of a total of 9 members. They are deemed to be independent according to the 5 criteria defined by the MIDDLENEXT code.

The composition of the Board of Directors and specialized committees is given in Paragraph 2.1. of this Registration Document.

R4 Board member information

The procedures for providing shareholders with information are set out in Article 7 of the Internal Regulations. It is also specified in Article 11 of these Internal Regulations that it is the directors' responsibility to "request all the additional information they deem useful."

R5 Board and committee meetings

Article 7 of the Internal Regulations established a framework for Board meetings. The number of meetings of the Board of Directors must be a minimum of four per year and minutes must be drawn up in respect of each meeting. In 2016, the Board of Directors met 7 times: The average attendance rate during the fiscal year was 77%.

R6 Creation of committees

The Board of Directors deemed it necessary to set up 3 specialized committees: the Ad Hoc Committee, the Strategy Committee and the Management Committee. The composition and terms of reference of each of these committees are detailed in Section 2.1.4 of this Registration Document. The Board of Directors may set up additional specific committees, if necessary, including an Audit Committee as specified in Articles 5 and 6 of its Internal Regulations.

R7 Introduction of Board Internal Regulations

The Board's Internal Regulations have existed since 2006 and comprise a part of the headings mentioned by the MIDDLENEXT Code. MEDICREA intends to add the missing sections to the Internal Regulations by means of an update.

The Board's Internal Regulations can be consulted in their entirety at the Company's registered office: 5389 route de Strasbourg – Vancia, 69140 Rillieux-la-Pape.

R8 Choice of directors

An information sheet on each candidate is available at the Company's registered office prior to the Shareholders' Meeting voting on the appointment of a Director. It summarizes the career path of each candidate.

R9 Directors' term of office

The term of office is six years, which corresponds to the maximum set by law. The dates of appointment and therefore the terms of office of directors are not all the same, de facto staggering the reappointment of directors.

R10 Directors' compensation

Each year, the Board of Directors decides on the allocation of the total annual directors' fee budget. Until now, directors' fees have always been divided equally between the directors.

R11 Introduction of Board evaluation

It is stated in Article 7 of the Internal Regulations: "The Board of Directors reviews its operation once a year". This evaluation is currently carried out informally but MEDICREA intends to formalize this review.

R12 Relationships with Shareholders

The Company's managers meet with the principal shareholders by participating in meetings with them throughout the year.

R13 Definition and transparency of the compensation of corporate officers

The Ad Hoc Committee, under the supervision of the Board of Directors, ensures compliance with these rules. The criteria used to determine the compensation paid to the executive directors comply with the MIDDLENEXT recommendations. The annual information provided to shareholders on the compensation received by the executive directors is drawn up in accordance with the applicable regulations.

R14 Succession planning for executive directors

To date, no succession plan for the founder executive directors has been defined.

R15 Corporate officers and employment contracts

The Group's two executive corporate officers do not also have an employment contract with the Group.

R16 Golden handshakes

There are no contractual provisions to pay golden handshakes to executive corporate directors who leave the Group.

R17 Supplementary retirement schemes

There are no supplementary retirement schemes for executive corporate officers.

R18 Stock options and bonus shares

No stock options or bonus shares have to date been allocated to the executive corporate officers.

R19 Review of points to be watched

Directors are aware of the Code's points to be watched and review them on a regular basis.

2.4. Chairman's report on corporate governance and Statutory Auditors' report on the Chairman's report

The Company is not obliged to draw up a report on its internal control pursuant to Article L225-37 of the French Commercial Code.

3. Corporate, environmental and social information

MEDICREA includes corporate, social and environmental issues that it has identified into its overall strategy as far as is possible. Given the sector and geographic regions in which the Group is developing, the preparation of certain assessments is considered more important than others in relation to Corporate Social Responsibility (CSR).

As part of the consideration of CSR issues and the expectations of the various parties involved in the development of its activity, MEDICREA has identified policies, principles and practices in order to interact with them as follows:

- With regard to employees, who are the Group's most significant resource: a Human Resources management policy intended to optimize working conditions, promote diversity and encourage skills development;

- With regard to suppliers and subcontractors: application of standards and procedures with the same requirements as those in force within the Group;

- With regard to customers and patients: the most stringent quality policy for the manufacture of products;

- With regard to local communities: maximum utilization of regional resources.

3.1. Methodology note

Scope

The information presented in this Section relates to the entire MEDICREA Group, that is to say the parent company and its five subsidiaries to date. Should this not be the case, the scope concerned is expressly stipulated.

Period

The period used for the calculation of indicators corresponds to the 2016 calendar year, unless otherwise stated.

Non-applicable indicators

Given the Group's activities and size, the following indicators are not considered to be relevant and are therefore not applicable:

- The amount of provisions and guarantees in relation to environmental risks;
- Land usage;
- Adapting to the consequences of climate change;
- Measures to preserve biodiversity.

3.2. Corporate information

Workforce

At December 31, 2016, the Group's total workforce was 169 people, 104 of whom were men (62%) and 65 women (38%). At December 31, 2015, the workforce was 140 people, meaning an increase of 21%.

Group total	**2016**		**2015**		**2014**	
Male	*104*	*62%*	*89*	*64%*	*80*	*63%*
Female	*65*	*38%*	*51*	*36%*	*48*	*38%*
TOTAL	**169**		**140**		**128**	

67% of employees are based in France, with the remaining being primarily located in the United States:

Group total	2016	2015	2014
France	*113*	*102*	*90*
of which: MEDICREA INTERNATIONAL	*85*	*61*	*48*
MEDICREA TECHNOLOGIES	*28*	*30*	*30*
MEDICREA EUROPE FRANCOPHONE	*0*	*11*	*12*
United States	*42*	*30*	*33*
UK	*7*	*6*	*5*
Germany	*5*	*2*	*0*
Poland	*2*	*0*	*0*
TOTAL	169	140	128

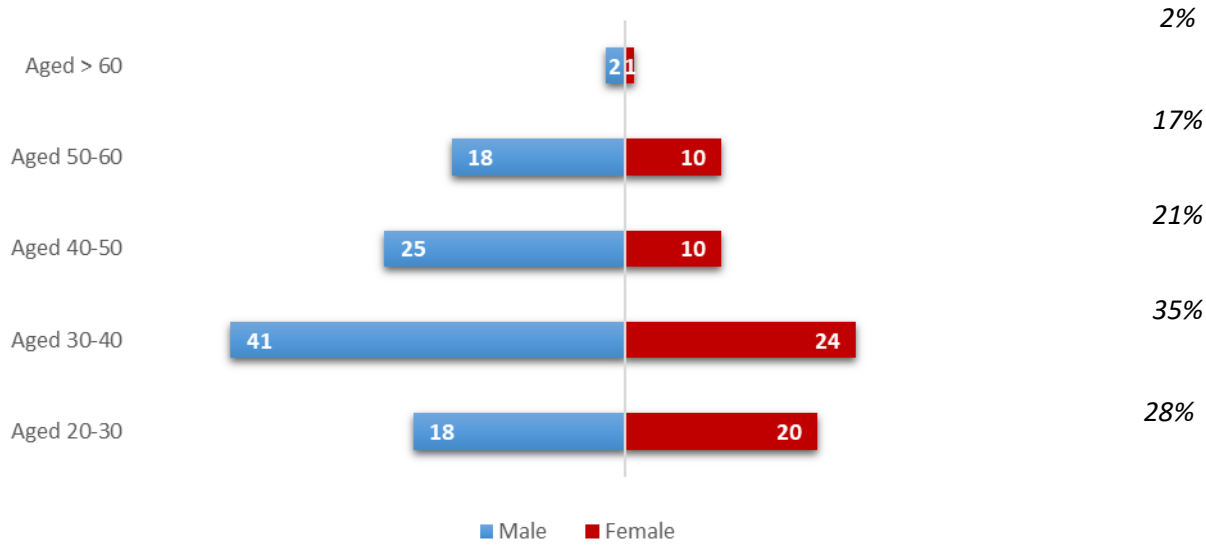
Of the 169 people who made up the workforce at the end of the 2016 fiscal year:

- 1 was employed on work-study contracts;
- 2 were employed on fixed term contracts;
- 166, or 98%, were employed on permanent contracts.

50 people were hired in 2016 and 24 left the Group (end of fixed-term contract, end of work/study training contracts and contract terminations). 26 positions have therefore been created, mainly within the US sales team and within the production team in anticipation of some employees refusing to transfer from La Rochelle to Lyon.

The average age of the workforce is 38.7 and 61% of staff are under the age of 40. The breakdown of staff by age range is as follows:

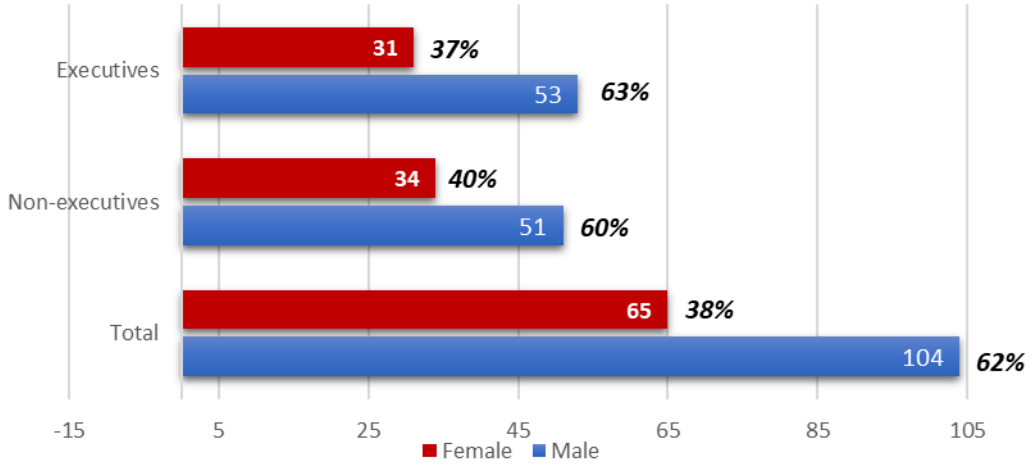
Breakdown of total staff:



The breakdown of staff by department is as follows:

Group total	2016	2015	2014	2016/2015		2015/2014	
Production	*41*	*36*	*27*	*+5*	*14%*	*+9*	*33%*
Research and development	*21*	*19*	*15*	*+2*	*11%*	*+4*	*27%*
Sales & marketing	*83*	*60*	*60*	*+23*	*38%*	*0*	*0%*
General & administrative	*24*	*25*	*26*	*-1*	*-4%*	*-1*	*-4%*
	169	**140**	**128**	***+29***	***21%***	***+12***	***9%***

50% of the workforce is made up of executives. The gender breakdown by category is as follows:



At December 31, 2016, the average length of service across all the French companies was 7 years 11 months. Given that of the 115 salaried individuals in France, 21 joined the Group during 2016, the workforce is stable and loyal. In the United States, taking into account a much more flexible and

reactive labor market, the average length of service is significantly lower with a higher rate of workforce renewal. The management team however is stable.

Employees constitute an essential resource for the Group, with payroll expenses representing one of the highest cost items. The strengthening of teams over the course of 2016 and previous years explains the increasing proportion of such expenditure. It includes salaries, bonuses and incentives as well as social security charges and contributions to welfare schemes and has increased as follows (before allocation of the Research Tax Credit relating to payroll expenses for research and development departments):

Group total	**2016**	**2015**	**2014**
Payroll expenses (€ millions)	*14.9*	*12.8*	*10.4*
as % of sales	*50.7%*	*46.1%*	*43.0%*
as % of operating expenses	*44.1%*	*43.7%*	*42.6%*

Organization of working time

Within the French subsidiaries:

- Non-executive managerial staff perform their roles based on an annual flat rate of days worked (214 days added to which is Solidarity Day);
- Non-managerial employees perform their roles based on a monthly schedule of 169 hours. MEDICREA INTERNATIONAL employees working on the basis of a 169-hour contract are therefore paid at a rate of 17.33 additional hours per month. Some work an additional 2 hours per week in exchange for recovery days (this mainly concerns workshop staff).
- 2 people work part time.

In the UK, working time is counted in the number of hours (35 or 37.5 hours per week depending on the position held).

In the US, employees' working time is defined in terms of the number of days or the number of hours depending on the position concerned.

Absenteeism

In 2016, two people were on sick leave for longer than two cumulative months over the year and one for longer than one month. Short-term work stoppages rose slightly, standing at around 7 days per employee on average (including maternity and paternity leave).

Employee development

The Group has implemented a Humans Resources management policy with the aim of recruiting and keeping the best profiles.

As such, the remuneration policy aims to recognize skills and encourage and reward the performance of everyone. Remuneration is comprised of a fixed portion and, for certain employees, a variable portion paid in return for the achievement of targets set at the start of the year.

Individual annual appraisals take place each year (between December and January). During these appraisals, the employee and their line manager review the year just ended and assess in particular the achievement of targets, and together set the targets for the coming year as part of the overall strategy of which each departmental manager is aware. During this appraisal, both the employee's workload and their organization of their work/life balance are reviewed. Since 2015, professional appraisals, made compulsory by the reform of ongoing vocational training have been set out formally and separately from annual appraisals. They nevertheless take place at the same time. There is a specific item on the training followed and new requirements. This may sometimes be addressed during interim individual appraisals, notably for new employees (six-month review) and people expressing problems in reaching their targets, to consider measures to put into place in order to achieve them.

Approximately €50,000 was spent on training in 2016. In addition to this amount, MEDICREA signed a comprehensive contract in 2016 with the training organization Intergros which gives it access to a certain number of "turnkey" training courses, the cost of which is fully financed by this organization. This signature of this contract has released an €8,000 grant. Furthermore, a large number of in-house training courses - adaptation to the workstation, importance of quality/regulatory issues in the medical devices sector, occupational safety - are organized for each new employee, but also serve as a refresher for existing staff members.

Training needs are identified during the individual annual appraisals, and additional requirements can be submitted to the Human Resources department during the course of the year. Allocation takes place according to the needs and priorities for the smooth operation of a department and of the Company in general. On average, 70% of the training program approved at the start of the year is carried out, since certain courses are sometimes cancelled by the organizations and others are replaced by more relevant courses during the year.

MEDICREA seeks to promote, where possible and when it contributes to the smooth operation of the Company, the development and mobility of its employees, both in geographic and operational terms. In this way, transfers from the US, UK or production subsidiaries toward the parent company, but also from the parent company toward the American subsidiary, have taken place in recent years. Changes in position have also been offered to employees with, for example, transfers from the Research and Development Department to the Quality Department, from the Clinical Affairs Department to the UNiD® unit or changes in responsibility within the same department.

Fighting discrimination

The Group's workforce includes employees of every age and makes no distinction in relation to gender. For example, in 2016, 2 people aged over 50 and 2 aged under 25 were taken on, and 57% of people recruited were male and 43% were female. MEDICREA contributes to the training of young people at different levels: by inviting high school students into the different departments for a few

days as part of their job shadowing formally set out in an intern agreement, by enabling students to join the corporate world through paid internships for specific one-off assignments lasting between four and six months or by using work based learning contracts the duration of which varies between one and two years. These temporary contracts are converted into fixed term or permanent contracts as soon as the company's requirements dictate.

Labor relations

MEDICREA INTERNATIONAL is governed by the collective agreement covering companies operating on a commission basis, brokers and companies involved in intra-community and import/export trade, while MEDICREA TECHNOLOGIES is governed by the agreement covering the metal industry.

In 2016, after the threshold of 50 employees for a period of 12 months over the last three years was exceeded, and following consultation with staff representatives, management informed staff of the election of a single employee representative body within MEDICREA INTERNATIONAL.

The sole employee representative body (French acronym: DUP) was elected on July 18, 2016. It is made up of 3 full members and 1 alternate member for the Supervisors, Engineers and Executives College and one full member and one alternate member for the Office Staff and Workers College. The DUP performs the roles of Staff Representatives (DP), Works Council (CE) and Health, Safety and Working Conditions Committee (CHSCT). Meetings take place on a bi-monthly basis, resulting in minutes which are displayed within the Company.

Labor relations are therefore based on Employee Representatives and the related employee representative bodies. With MEDICREA EUROPE FRANCOPHONE subjected to a merger-takeover on December 30, employees are now represented by MEDICREA INTERNATIONAL's sole employee representative body. The company MEDICREA TECHNOLOGIES, which now has 4 only employees, no longer enjoys the support of an employee representative body.

Gender equality

MEDICREA makes no distinction on the grounds of gender when recruiting staff. Salaries are offered in accordance with the position, profile and the experience of candidates. The same applies to salary increases which are dependent on individual performance.

Employment and integration of disabled workers

Despite its desire to integrate disabled workers into its operations and its new infrastructures being adapted to facilitate access for disabled persons (access, elevators and reserved parking spots), MEDICREA does not fully meet its legal obligation since only three disabled people are currently employed by the Company. Nevertheless, the Group also regularly uses work centers and sheltered employment services whenever possible in order to work with disabled workers as much as possible.

Safety

Given their configuration, the premises enable very high levels of safety to be ensured, particularly concerning the production facilities, the risks related to work related accidents to be reduced, and the operating conditions of the site to be optimized. A comprehensive risk management assessment has been prepared and is updated annually.

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

No work-related and/or commuting accident was recorded during the 2016 fiscal year.

In 2012, an illness of work-related origin was reported (related to certain movements and working positions), with the workstation of the person concerned being adjusted.

In late 2016, MEDICREA Group moved to its new premises located in Vancia, Rillieux-la-Pape. An initial portion of the La Rochelle production facility was transferred at the start of September 2016 and the Neyron site relocated to Vancia in early October 2016. The second transfer phase from La Rochelle to Vancia was completed in early February 2017.

During the move to the Vancia site, all employees received training on workstation safety and safety within the buildings.

Noise pollution and other forms of pollution related to the Company's business

Since occupation of the Vancia site only began in September, no diagnostics have yet been made in relation to quality of life in the workplace (concerning noise pollution and air quality in particular). These studies will be carried out in 2017 with the help of specialists within the occupational health body and Carsat (regional retirement and occupational health funds).

MEDICREA complies with the fundamental provisions of the International Labor Organization, which include:

- Respecting the freedom of association and the right to collective bargaining;
- Elimination of discrimination in relation to employment and occupation;
- Elimination of forced or compulsory labor;
- Effective abolition of child labor.

The Group has no employees in at risk countries where the International Labor Organization conventions may not be respected.

3.3. Environmental information

By virtue of its activity and size, MEDICREA believes it has very little impact on the maintenance of environmental quality. The Group does however endeavor to adopt behavior which contributes to sustainable development by implementing measures adapted to its structure.

Environmental risks

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

The La Rochelle site, operational until the end of January 2017, was governed by the legal entity MEDICREA TECHNOLOGIES and dedicated to the manufacture of medical devices, and was ISO 13485 and ISO 9001 certified. In 2010, ISO 13485 and ISO 9001 certifications as well as CE marking have been extended to include MEDICREA INTERNATIONAL. The Group has introduced a program of overseeing processes and of quality control inspections, specifically a set of operating procedures, and processes and specifications designed to ensure compliance with best practices in relation to the development and manufacture of products, and of monitoring the environmental impact.

Moreover, the legislative and regulatory provisions defined by ANSM, the European Commission, the FDA and the equivalent regulatory authorities in the other countries, provide a very strict framework for activities involving the design and manufacture of medical devices. They set the essential safety requirements and define the assessment and compliance procedures that are integrated into the quality management system. These very strict rules have implications at every level of the Group and help to strengthen the measures taken to keep the industrial assets in optimum condition for use and in compliance with the applicable standards.

Environmental standards

Waste management is a priority - for every inflow an outflow is planned:

- Titanium shavings, resulting from the implant production activity, are collected and resold;
- Metal filings and the sand used in sandblasting activities are collected and recycled;
- Cutting oils and acids used in particular during the anodizing stage are collected and recycled by subcontractors;

- Wastewater is not discharged into the usual channel. The site is equipped with a septic tank which is emptied on a regular basis;
- Wooden pallets are sold and boxes are thrown into specific recycling skips;
- Waste sorting is automatic;
- Recycling of paper used for administration activities is currently being implemented.

Energy consumption

Energy consumption by the La Rochelle production site has changed as follows:

La Rochelle site		**2016**	**2015**	**2014**	*2016/2015*	*2015/2014*
Water	*m3*	381	458	634	*-17%*	*-28%*
Gas	*kWh*	202,568	199,768	180,523	*1%*	*11%*
Electricity	*kWh*	452,267	421,949	368,746	*7%*	*14%*
Production (number of articles)		250,000	245,000	212,000	*2%*	*16%*

MEDICREA is committed to optimizing its energy use; this was supported by the renewal of industrial resources with the purchase of more productive machines and the optimization of production.

In general, MEDICREA routinely suggests simple measures to its employees to support sustainable development:

- Streamlining business travel and choosing the most environmentally friendly modes of transport when possible;
- Optimizing printing with the introduction of a print management system requiring employees to revalidate jobs in order to print them, thereby limiting the number of jobs printed by mistake;
- Lights switching off automatically.

3.4. Social information

Responsible purchasing

The Group uses subcontractors that are primarily located in France and gives priority to service providers that are geographically close to its La Rochelle and Neyron sites, and now to Vancia-Rillieux-la-Pape. Issues related to the use of subcontractors based in emerging markets, or suppliers who could use them, such as decent working conditions or the risk of "cascading liability" do not therefore affect MEDICREA.

With no controlled environment installations to date, the Group uses subcontractors for the ultra-clean processing and gamma irradiation sterilization of sterile products. It also externally manufactures a large proportion of its instrument range.

The use of subcontracting in manufacturing fulfils two objectives. Firstly, making use of service providers ensures that production is secured: in the event of a problem affecting internal resources, the Group is able to partially satisfy demand thanks to the external capacities. Secondly, subcontracting enables production to be adjusted to market demand by providing additional production capacities that can be mobilized quickly.

Subcontracting expenses have increased as follows:

Group total (€ millions)	2016	2015	2014
Components purchased	3.4	2.5	2.9

The Group works primarily with suppliers that employ responsible practices. A specific procedure for the management of these suppliers is freely available and details the measures in place to assess, select, qualify and monitor their performance.

Suppliers are categorized according to the services provided:

- A: suppliers of products and services that fall within the development of implantable medical devices;
- B: suppliers of raw or ancillary materials, consumables, etc.;
- C: suppliers of other products and services.

Category A and B suppliers are subject to both regular assessments and reviews, and performance indicators regarding compliance with quality standards and lead times are set on a monthly basis and audits are conducted every two years. Relationships with suppliers that are critical to the Group are covered by both purchase and quality agreements, which set the compliance requirements depending on the products concerned.

3. Corporate, environmental and social information

Business affairs and combatting corruption

MEDICREA generates most of its revenues in countries with a low risk of corruption. Trading relationships with distributors in countries where sales are indirect, i.e. internationally with the exception of France, the US, the UK, Germany and Poland are formally set out by contracts. The risk of abuse is therefore limited.

The healthcare sector provides a very specific framework for relationships between manufacturers and healthcare professionals, in particular through the Sunshine Act and the Bertrand Law, in force in the United States and France respectively.

In the United States, the Physician Payments Sunshine Act, commonly referred to as the Sunshine Act, is a 2010 law aimed at improving transparency regarding financial links between healthcare professionals and manufacturers of medical products, and updating potential conflicts of interest that could harm patient safety. Payments of any kind made by manufacturers to healthcare professionals since 2012 may be accessed on the Centers for Medicare & Medicaid Services' OpenPaymentsData website (https://www.cms.gov/openpayments/). Healthcare professionals can check this information prior to publication and potentially challenge it.

In France, Article 2 of Law n°2011-2012 of December 29, 2011, known as the Bertrand Law, relating to improvements in the safety of drugs and healthcare products, whose implementing decree was published in the Journal Officiel on May 22, 2013, established a new publication system for two categories of links existing between the companies producing or marketing products for health related purposes and certain of their partners, such as healthcare professionals, students planning to become healthcare professionals, organizations representing them, etc. The links concerned are firstly the agreements concluded between the companies and the different parties targeted by this law, and secondly, the benefits worth €10 or more inclusive of VAT that these same parties have received from the manufacturers.

In order to meet these obligations, MEDICREA publishes the contact details of the healthcare professionals, as well as the benefit type and amount awarded to them, on its website www.medicrea.com in the section "The company / Transparency regarding Relationships of Interest".

Health and Safety of patients

Operating in the healthcare sector, ensuring patient safety throughout the entire product design and production processes is therefore the top priority, and the Group's mindset can be summarized as follows:

"In the service of a genuine public health cause, that of spinal deformity, MEDICREA has, since its very beginning, adopted the most stringent and demanding quality approach. For MEDICREA, being a manufacturer of medical devices means playing an active role in changing the healthcare sector, which is

shown by the constant advances in Research, from development to implanting, through to post-operative follow-up to ensure patient safety and improvement in quality of life.

To support this transformation, MEDICREA's leadership has decided to insource the entire design, prototyping and manufacturing process for its implants and is committed to scrupulously complying with, and ensuring that all its employees and suppliers comply with, the current FDA "Quality System Regulation for Medical Devices", the European Directive (93/42/EEC) and ISO13485 standard. "

The Quality System and the procedures introduced by MEDICREA in order to respect the regulatory requirements for product compliance are detailed in Section 1.5.1. of this Registration Document.

3.5. Independent third-party body's report

MEDICREA INTERNATIONAL shares are listed on Euronext Growth Paris, which is not a regulated market.

None of the Group's companies generates net sales or a balance sheet total in excess of €100 million, and none of the Group's companies has an average permanent workforce of more than 500 employees.

As a result, MEDICREA is not required to have any information that may be published in relation to its corporate and environmental responsibility verified by an independent third-party body.

4. Financial statements at December 31, 2016 and June 30, 2017

4.1. Consolidated financial statements for the year ended December 31, 2016

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2016

1. CONSOLIDATED INCOME STATEMENT

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

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

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

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

3. CONSOLIDATED BALANCE SHEET

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

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

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

4. CONSOLIDATED CASH FLOW STATEMENT

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

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

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

5. CHANGE IN CONSOLIDATED SHAREHOLDERS' EQUITY

(€)	Number of shares	Share capital	Reserves	Shareholders' equity - Group share	Minority interests	Consolidated shareholders' equity
SHAREHOLDERS' EQUITY – 12.31.2014	**8,481,405**	**1,357,025**	**11,264,447**	**12,621,472**	**-**	**12,621,472**
Share capital increase	506,281	81,005	3,315,897	3,396,902	-	3,396,902
2015 comprehensive income	-	-	(804,052)	(804,052)	-	(804,052)
Stock options and free shares	-	-	45,218	45,218	-	45,218
Other movements	-	-	(21,664)	(21,664)	-	(21,664)
SHAREHOLDERS' EQUITY – 12.31.2015	**8,987,686**	**1,438,030**	**13,799,846**	**15,237,876**	**-**	**15,237,876**
Share capital increase	1,045,479	167,277	4,812,622	4,979,899	-	4,979,899
2015 comprehensive income	-	-	(7,595,760)	(7,595,760)	-	(7,595,760)
Stock options and free shares	-	-	283,434	283,434	-	283,434
Other movements	-	-	1,175,752	1,175,752	-	1,175,752
SHAREHOLDERS' EQUITY – 12.31.2016	**10,033,167**	**1,605,307**	**12,475,894**	**14,081,201**	**-**	**14,081,201**

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

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 Paris market, ISIN FR004178572, Ticker ALMED.

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

NOTE 1: ACCOUNTING PRINCIPLES

1.1 Accounting framework

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

These standards include:

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

The annual financial statements have been prepared in accordance with the going concern principle, assessed in light of the Group's capacity to meet its cash flow requirements over the next 12 months linked to its operations, its investments and the repayment of its short-term financial liabilities, while generating positive self-financing capacity and allocating sufficient financial resources.

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

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

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

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

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

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

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

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

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

Standards, amendments and interpretations	Application date (1)	Impact on the Group
IFRS 16 Leases	January 1, 2019	The IASB published IFRS 16 – Leases on January 13, 2016. IFRS 16 will replace IAS 17, as well as the related IFRIC and SIC interpretations, and will eliminate the difference in accounting treatment that was previously established between "operating leases" and "finance leases". Lessees must recognize all leases with a term of over one year, in the same way as the procedures currently provided for finance leases by IAS 17, and thus recognize an asset representing the right to use the leased asset in exchange for a liability representing the obligation to pay for that right. The Group carried out an assessment of all of its leases and of their main provisions likely to be concerned by the new standard during 2016, with the aim of providing an analysis of the impact of the application of this standard on the Group's financial statements as from 2017.

(1) Subject to adoption by the European Union

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

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

(1) Subject to adoption by the European Union

NOTE 2: SCOPE OF CONSOLIDATION

2.1 Consolidation method

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

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

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

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

2.2 Changes in consolidation scope

The consolidation scope includes the following entities:

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

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

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

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

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

2.3 Foreign currency translation

2.3.1 Translation of financial statements expressed in foreign currencies

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

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

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

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

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

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

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

2.3.2 Foreign currency transactions

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

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

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

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

2.4 Use of estimates by Management

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

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

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

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

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

NOTE 3: SEGMENT REPORTING

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

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

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

3.1 Breakdown of sales by geographic region

By geographic region, sales are analyzed as follows:

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

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

3.2 2016 income statement by geographic region

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

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

3.3 2015 income statement by geographic region

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

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

3.4 2016 balance sheet by geographic region

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

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

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

3.5 2015 balance sheet by geographic region

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

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

NOTE 4: OPERATIONAL DATA

4.1 Revenue

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

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

Sales comprise the value excluding tax of goods and services sold by consolidated entities as part of their ordinary activities, after elimination of intra-group sales.

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

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

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

4.2 Amortization, depreciation and impairment charges

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

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

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

Amortization and depreciation charges are analyzed as follows:

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

4.3 Royalties

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

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

4.4 Other operating income and expenses

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

The amount of other operating income and expense for the 2016 fiscal year included all of the expenses relating to transferring the Neyron and La Rochelle operations to the new site in Rillieux-la-Pape, the cost of shutting down the production unit in La Rochelle and the write-off of advances

paid to a software designer in connection with the development of a healthcare IT platform, which will not be recovered.

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

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

4.5 Operating income

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

NOTE 5: EMPLOYEE COSTS AND BENEFITS

5.1 Workforce

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

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

5.2 Pension plans and post-employment benefits

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

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

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

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

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

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

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

- retirement age: age at which an employee has acquired sufficient entitlements to obtain a full pension;
- social security rates: adjusted based on the employee and company status. On average, rates are 44% for executives and 41% for non-executives;
- rate of salary increase: 2%;
- departure mode: at the employee's initiative;
- life table: INSEE 2012-2014 by gender;
- annual mobility: based on category (executive and non-executive) and age, with a turnover rate of 0 after 50 years old;
- discount rate: 1.40%, based on the long-term yields of private sector euro-denominated AA-rated bonds (Corporate bonds AA10+) over a period equivalent to that of commitments, in accordance with IAS 19 and the ANC’s recommendation.

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

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

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

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

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

5.3 Long-service awards

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

5.4 Share-based payments

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

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

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

American employees for whom it is recognized over a four-year period, or two years for those allocated under the Macron Law.

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

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

5.4.1 Description of existing plans

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

- **Subscription options**

The main features of current option plans are as follows:

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

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

(1) Options are fully exercisable

(2) Any options that were not exercised have lapsed

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

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

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

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

- **Free shares**

186,274 shares have been allocated since 2008. These shares are vested on the beneficiary at the end of a two-year period for French employees and a four-year period for American employees (excluding those under the Macron scheme, which halved these periods). In view of the employee departures that occurred between the 2008 and 2016 fiscal years, the number of free shares allotted and vested amounted to 94,283, to which should be added 41,990 allotted free shares that will vest on September 19, 2017, and 31,000 allotted free shares that will vest on September 19, 2018, i.e. a total of 167,273 allotted free shares.

5.4.2 Change in the number of outstanding securities

Transactions in share-based payment instruments in the 2016 fiscal year are summarized as follows:

	Subscription options			Free shares		
	Number of options	Average residual contractual life	Average exercise price (€)	Number of shares	Average residual contractual life	
					France	United States
Balance at 12.31.15	**229,338**	**2.36**	**7.29**	-	-	-
- allocated	406,500	6.72	5.43	72,990	0.72	1.72
- canceled	(4,400)	-	6.81	-	-	-
- lapsed	(61,720)	-	6.16	-	-	-
- exercised	-	-	-	-	-	-
Balance at 12.31.16	**569,718**	**5.33**	**6.09**	**72,990**	**0.72**	**1.72**

For the 2015 fiscal year, these transactions can be summarized as follows:

	Subscription options			Free shares		
	Number of options	Average residual contractual life	Average exercise price (€)	Number of shares	Average residual contractual life	
					France	United States
Balance at 12.31.14	**240,212**	**2.89**	**7.21**	-	-	-
- allocated	12,000	6.67	6.67	-	-	-
- canceled	500	1.59	6.14	-	-	-
- lapsed	-	-	-	-	-	-
- exercised (1)	22,374	2.18	6.15	-	-	-
Balance at 12.31.15	**229,338**	**2.36**	**7.29**	-	-	-

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

5.4.3 Reflection of allocated instruments in the financial statements

The accounting impacts of allocated instruments are as follows:

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

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

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

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

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

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

- persistent disagreement over two successive fiscal years between the employee and the Group, if the employee has requested individual training leave from Fongecif;

- resignation or dismissal of the employee, if the latter requests their individual training right before the end of their notice period.

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

5.6 US Employee Stock Purchase Plan (ESPP)

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

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

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

5.7 Senior executives and corporate officers' compensation

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

Mr. SOURNAC is not an employee of MEDICREA INTERNATIONAL and is not compensated by the Company for his duties. The management holding company ORCHARD INTERNATIONAL receives fees for the services provided to MEDICREA Group by Mr. SOURNAC. These fees are paid via a service agreement between ORCHARD INTERNATIONAL and MEDICREA INTERNATIONAL. The value of services invoiced by ORCHARD to MEDICREA INTERNATIONAL for the 2016 fiscal year for work carried out by Mr. SOURNAC was €300,000 exclusive of tax (unchanged from 2015).

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

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

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

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

5.8 Employee costs analysis

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

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

(1): corresponds to non-capitalized employee costs

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

6.1 Goodwill

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

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

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

6.2 Non-current assets impairment tests

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

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

6.3 Intangible assets

Intangible assets include research and development costs, patents and trademarks, and software. Research and development costs are recorded in balance sheet assets when they meet all of the criteria of IAS 38. Capitalized costs are based on precise analytical monitoring, resulting in a breakdown of costs incurred by type and by project. These costs are maintained as assets as long as the Company retains substantially all the risks and rewards of ownership of the assets. Research and development costs are amortized on a straight-line basis over their expected useful lives, which correspond to the duration of expected future economic benefits. This period is usually 5 years.
Pursuant to IAS 23, borrowing costs allocated to the financing of research and development costs and recognized in intangible assets are considered as an element of the cost of these assets and are therefore capitalized.

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

6.4 Property, plant and equipment

In accordance with IAS 16, the cost of an item of property, plant and equipment comprises:

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

Property, plant and equipment is broken down if its components have different useful lives or if it provides benefits to the Group at a different pace that requires the use of different amortization rates and methods.

The depreciation periods applied by the Group are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

R&D costs capitalized for the fiscal year 2016 amounted to €2,281,231 compared with €1,886,300 in 2015. Total R&D costs expensed for the year are analyzed as follows:

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

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

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

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

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

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

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

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

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

6.7 Leases

6.7.1 Finance leases

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

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

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

Commitments are analyzed as follows:

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

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

6.7.2 Operating leases

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

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

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

The lease for MEDICREA INTERNATIONAL's former premises ended on October 31, 2016. The move to the new buildings, of which the Company is also a tenant, took effect as of the end of September 2016. The Group therefore centralized the operations of its three French subsidiaries on a single site for an annual rental charge of €1 million and having signed a 12-year rental commitment. The lease for the La Rochelle manufacturing site has been terminated with effect from January 31, 2017.

In the United States, the lease expiring at the end of March 2016 was renegotiated and renewed for a term of 10 years, the leased area being increased by an additional floor. The new annual rental charge, which will only take effect from 2017, is USD1 million for a 48-month rental commitment. In the event of early termination of the lease, the premises will be re-let easily as a result of their prime location in New York City.

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

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

6.8 Non-current financial assets

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

NOTE 7: INVENTORIES AND WORK IN PROGRESS

Raw material inventories are measured at their weighted average cost, including sourcing costs. Finished and semi-finished goods inventories are valued at cost, excluding sales and marketing expenses. Impairment is recognized when the probable realizable value of inventories is lower than book value.

Gross and net inventories are analyzed as follows:

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

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

Provisions for impairment by category of inventories are as follows:

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

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

NOTE 8: TRADE RECEIVABLES AND OTHER CURRENT ASSETS

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

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

Trade and other receivables are analyzed as follows:

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

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

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

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

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

NOTE 9: PROVISIONS AND CONTINGENT LIABILITIES

A provision is recognized when there is an actual obligation, legal or constructive, towards a third party resulting from a past event and existing irrespective of future actions, which will result in a probable cash outflow for the Group, the amount of which can be reliably measured.
Provisions are broken down between current and non-current liabilities according to due dates. When the liability settlement date exceeds one year, the amount of the provision is subject to a

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

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

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

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

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

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

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

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

NOTE 10: FINANCING AND FINANCIAL INSTRUMENTS

10.1 Net financial debt

10.1.1 Financial debt

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

Financial debt is analyzed as follows:

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

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

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

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

- a bond loan amounting to €1,150,000 in February 2016 at an interest rate of 7% (the interest is payable quarterly), which will be redeemed in full at the end of a two-year period;
- a bond convertible into the Company's shares amounting to €15 million in August 2016, at an interest rate of 6.75% (the interest is payable quarterly), which is redeemable in full at the end of a four-year period, and includes a non-conversion premium amounting to 10% of its face value. The sole investor in these convertible bonds is a leading US healthcare investor, ATHYRIUM CAPITAL MANAGEMENT. These bonds are convertible into new Company shares at a price of €6.25 per share. Certain commitments are attached to these financial instruments, and are described in Paragraph 10.3.3 – Liquidity risk. This convertible bond loan is recognized in accordance with IAS 32, IAS 39, and IFRS 7.

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

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

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

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

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

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

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

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

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

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

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

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

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

i. Conditional advances

Conditional advances mainly result from innovation grants awarded by BPI in the form of repayable advances. Their change compared with the previous year resulted from ongoing repayment plans. No new grants were awarded during the 2016 fiscal year.

ii. Cash and cash equivalents

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

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

Net cash and cash equivalents changed as follows:

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

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

iii. Cash flow statement

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

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

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

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

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

b. Fair value of financial instruments

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

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

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

i. Income statement disclosures

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

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

ii. Balance sheet disclosures

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

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

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

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

c. Risk management

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

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

i. Risks related to changes in raw material prices

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

ii. Credit risk

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

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

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

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

iii. Liquidity risks

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

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

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

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

- The ratio of consolidated net financial debt to consolidated shareholders' equity to be below 0.33 at December 31 of each year throughout the loan repayment period;
- The ratio of consolidated net financial debt to consolidated EBITDA to be below 3 at December 31 of each year throughout the loan repayment period;

- A ban on dividends if the consolidated net financial debt to consolidated shareholders' equity ratio at year-end is higher than 0.2 after taking account of any projected dividend payment.

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

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

iv. Foreign exchange risks

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

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

v. Interest rate risks

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

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

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

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

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

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

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

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

vii. Warranties on UNiD products

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

Since the launch of this lifetime warranty across the United States, no activation request has been recorded. On this basis, the Group did not recognize any provision in its financial statements at December 31, 2016 and, depending on the data collected in 2017, it will assess whether or not it is necessary to review its position for the next fiscal year.

d. Cost of net financial debt and other financial income and expenses

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

These items are analyzed as follows:

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

NOTE 11: TRADE PAYABLES AND OTHER CURRENT LIABILITIES

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

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

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

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

NOTE 12: CORPORATE TAX

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

The corporate tax expense corresponds to current tax adjusted for deferred taxes. The latter result from adjustments made to parent company financial statements, as well as temporary differences between accounting income and taxable income, in accordance with IAS 12.

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

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

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

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

a. Analysis of the corporate tax rate

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

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

b. Analysis of deferred taxation

Deferred tax assets and liabilities are analyzed as follows:

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

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

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

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

The Group has recognized the following tax losses:

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

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

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

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

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

Average exchange rates evolved as follows:

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

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

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

NOTE 14: SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

a. Shareholders' equity

14.1.3 Share capital

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

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

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

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

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

14.1.4 Preference shares

At the Shareholders' Meeting of December 17, 2014, it was decided to issue 100 preference shares to MMCO, a simplified joint stock company *(Société par Actions Simplifiée)* with share capital of €1,000, with its registered office at 5389 route de Strasbourg, 69140 Rillieux-la-Pape.

These preference shares will ultimately be convertible into ordinary shares of MEDICREA INTERNATIONAL, as determined by reference to the volume-weighted average price of the MEDICREA INTERNATIONAL share between September 17, 2018 and December 17, 2018, subject to the MEDICREA shares having reached significant and predefined performance levels during that period. The maximum number of ordinary shares that may be issued as a result of the conversion of all preference shares is 210,000, i.e. 2.1% of the Company's share capital at December 31, 2016. These preference shares do not grant voting rights or entitlement to dividends. They are not listed on Euronext Growth Paris.

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

14.1.5 Treasury shares

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

When sold, the cost price of the shares is calculated in accordance with the first in, first out (FIFO) method, except for shares held within the framework of option plans, which are calculated on a plan-by-plan basis in accordance with the weighted average price method.

Transfer proceeds are recognized directly in equity net of tax.

14.1.6 Change in shareholders' equity

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

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

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

14.1.7 Issue, buyback and redemption of debt and equity securities

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

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

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

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

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

14.1.8 Dividends paid during the fiscal year

Nil.

14.2 Earnings per share

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

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

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

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

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

NOTE 15: OTHER INFORMATION

15.1 Off-balance sheet commitments

15.1.1 Commitments given in relation to medium-term borrowings

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

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

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

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

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

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

15.1.3 Other commitments

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

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

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

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

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

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

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

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

15.3 Related-party disclosures

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

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

15.4 Statutory Auditors' fees

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

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

15.5 Post-balance sheet events

Nil.

4.2 Statutory Auditors' report on the consolidated financial statements

ODICEO ERNST & YOUNG et Autres

MEDICREA INTERNATIONAL

Fiscal year ended December 31, 2016

Statutory Auditors' Report
on the consolidated financial statements

4.2. Statutory Auditors' report on the annual consolidated financial statements for the year ended December 31, 2016

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

Statutory Auditor
Member of the Compagnie
régionale de Lyon

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

Statutory Auditor
Member of Compagnie
régionale de Versailles

Medicrea International

Fiscal year ended December 31, 2016

Statutory Auditors' report
on the consolidated financial statements

To the Shareholders,

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

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

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

I. Opinion on the consolidated financial statements

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

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

II. Justification of assessments

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

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

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

III. Specific verification

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

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

Villeurbanne and Lyon, April 28, 2017

The Statutory Auditors

ODICEO	ERNST & YOUNG et Autres
Alain Fayen	Nicolas Sabran

4.3 Parent company financial statements for the year ended December 31, 2016

PARENT COMPANY FINANCIAL STATEMENTS AT DECEMBER 31, 2016

1. INCOME STATEMENT

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

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

2. BALANCE SHEET

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

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

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

3. CASH FLOW STATEMENT

(€)	12.31.2016	12.31.2015
Net income / (loss)	**(10,805,933)**	**614,916**
Property, plant and equipment depreciation and intangible asset amortization	2,078,656	1,591,902
Provision charges	8,534,032	528,842
Proceeds from sale of non-current assets	216,095	40,994
Self-financing capacity	**22,850**	**2,776,654**
Change in inventories and work in progress	(2,975,005)	(1,048,229)
Change in trade receivables	2,278,857	(522,645)
Change in trade payables and liabilities relating to non-current assets	2,898,052	(508,077)
Change in other receivables and payables	(1,599,072)	(792,445)
Cash flow from working capital requirement	**602,132**	**(2,871,396)**
Net cash flow from operating activities	**624,982**	**(94,742)**
Acquisition of non-current assets	(6,710,186)	(3,594,042)
Disposal of non-current assets	-	21,700
Conditional advances received (repaid)	(86,250)	(51,250)
Other movements	219,933	21,719
Net cash flow from investment activities	**(6,576,503)**	**(3,601,873)**
Share capital increase	5,104,354	3,396,902
Proceeds from new borrowings	16,417,587	6,043,297
Repayment of borrowings	(2,197,198)	(2,547,814)
Increase / (decrease) in subsidiaries' current accounts	(6,816,188)	(2,985,522)
Other movements	(240,320)	11,442
Net cash flow from financing activities	**12,268,235**	**3,918,305**
Change in cash and cash equivalents	**6,316,714**	**221,690**
Cash and cash equivalents - beginning of year	**884,298**	**662,608**
Cash and cash equivalents - end of year	**7,201,012**	**884,298**

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

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

4. NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS AT DECEMBER 31, 2016

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

The parent company financial statements were approved by the Board of Directors on March 28, 2017.

NOTE 1: ACCOUNTING PRINCIPLES

1.1 Accounting framework

The annual financial statements of the parent company MEDICREA INTERNATIONAL have been prepared in accordance with applicable French accounting regulations. General accounting conventions have been applied, in accordance with the principle of prudence, pursuant to basic assumptions which are designed to provide a true and fair view of the company: going concern, consistency of accounting methods from one year to the next, independence of fiscal years. The going concern principle is assessed in light of the Company's capacity to meet its cash flow requirements over the next 12 months linked to its operations, its investments and the repayment of its financial liabilities, while generating positive self-financing capacity and allocating sufficient financial resources. Depending on the case, the basic method used for the valuation of items recognized in the balance sheet is the historical cost, the contribution cost or the revalued amount.

The accounting principles used in the preparation of the parent company financial statements for the year 2016 are identical to those applied the previous year.

The financial statements of MEDICREA INTERNATIONAL are presented in Euros.

1.2 Use of estimates by Management

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

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

When new events or situations indicate that the book value of certain items of property, plant and equipment, and intangible assets may not be recoverable, this value is compared to the recoverable amount estimated based on the value in use if the net fair value cannot be estimated reliably. If the

recoverable amount is less than the net book value of these assets, the latter is reduced to the recoverable value through the recognition of an impairment loss under operating expenses.

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

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

1.3 Foreign currency transactions

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

NOTE 2: OPERATIONAL DATA

2.1 Sales

Sales are recognized on the date the significant risks and rewards of ownership are transferred, which most frequently takes place when the products are shipped. In specific cases, the implants and instruments can be held on consignment at certain selected distributors. They are not invoiced on delivery and remain recognized as assets. Only implants that have been placed and/or broken or lost instruments are subsequently invoiced.

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

Sales are analyzed as follows:

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

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

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

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

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

2.2 Own work capitalized

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

2.3 Provision reversals and transfers of charges

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

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

2.4 Other revenue

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

2.5 Distinction between exceptional income and income from recurring operations

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

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

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

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

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

NOTE 3: EMPLOYEE COSTS AND BENEFITS

3.1 Workforce

The workforce can be analyzed by category as follows:

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

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

3.2 Pension plans and post-employment benefits

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

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

- retirement age: age at which an employee has acquired sufficient entitlements to obtain a full pension;
- social security rates: adjusted based on the employee and company status. On average, rates are 44% for executives and 42% for non-executives;
- rate of salary increase: 2%;
- departure mode: at the employee's initiative;
- life table: INSEE 2012-2014 by gender;
- annual mobility: based on category (executive and non-executive) and age, with a turnover rate of 0 after 50 years old;
- discount rate: 1.40%, based on the long-term yields of private sector euro-denominated AA-rated bonds (Corporate bonds AA10+) over a period equivalent to that of commitments, in accordance with the ANC's recommendation.

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

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

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

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

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

3.3 Seniority awards

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

3.4 Stock options and free shares

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

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

3.5 French Personal Training Account (PTA)

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

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

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

3.6 French tax credit for competitiveness and employment

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

A total of €81,325 was recognized in 2016 in relation to this tax credit, compared with €70,589 in 2015.

3.7 Senior executives and corporate officers' compensation

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

Mr. SOURNAC is not an employee of MEDICREA INTERNATIONAL and is not compensated by the Company for his duties. The management holding company ORCHARD INTERNATIONAL receives fees for the services provided to MEDICREA Group by Mr. SOURNAC. These fees are paid via a service agreement between ORCHARD INTERNATIONAL and MEDICREA INTERNATIONAL. The value of services invoiced by ORCHARD to MEDICREA INTERNATIONAL for the 2016 fiscal year for work carried out by Mr. SOURNAC was €300,000 exclusive of tax (unchanged from 2015).

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

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

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

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

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

4.1 Impairment testing of amortizable assets

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

4.2 Intangible assets

Intangible assets include research and development costs, patents and trademarks, and software. Research and development costs are amortized over five years when they meet all of the criteria required for their recognition as assets. Capitalized costs are based on precise analytical monitoring, resulting in a breakdown of costs incurred by type and by project. Patents, licenses and trademarks are amortized over 5 to 10 years, depending on their useful lives. Software is amortized over periods ranging from 1 to 3 years.

4.3 Property, plant and equipment

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

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

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

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

The depreciation periods applied by the Company are as follows:

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

4.4 Non-current financial assets and current accounts

Equity securities are valued at their historical acquisition cost and current accounts with subsidiaries at book value. Impairment is recognized when the recoverable value assessed in accordance with the following criteria is lower than the value recognized under assets :

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

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

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

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

Equity securities are broken down as follows:

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

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

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

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

4.5 Treasury shares

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

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

At December 31, 2016, treasury shares were analyzed as follows:

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

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

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

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

4.3. Parent company financial statements for the year ended December 31, 2016

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

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

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

The transfer column in the above analysis reflects the integration of MEDICREA EUROPE FRANCOPHONE's assets following its absorption by the Company in late 2016. The main changes in non-current assets resulting from this event are as follows:

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

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

R&D costs capitalized for the fiscal year 2016 amounted to €2,021,846 compared with €1,684,628 in 2015. Total R&D costs expensed for the year are analyzed as follows:

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

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

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

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

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

6 / To carry out the surgical procedures, the Company offers its customers sets comprising instruments and implants. This equipment is stored at healthcare facilities or is available on loan. The instruments are recorded under property, plant and equipment and depreciated over a period of 3 years. The development of the Company's business led it to increase and renew the assets used by its customers, notably in France especially as the cost of the instruments provided to hospitals and clinics are now borne in full by the Company following the absorption of its subsidiary MEDICREA EUROPE FRANCOPHONE. Fully-amortized instruments are taken off the books on a regular basis.

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

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

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

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

4.7 Leases

4.7.1 Finance leases

Non-current assets acquired through finance leases are recognized in the parent company financial statements under expenses for the year, according to the schedule set out in the contract. They concern software, technical facilities, equipment and tools and computer hardware. Their net value totaled €1,463,620 at December 31, 2016 compared with €1,125,890 at December 31, 2015 and were analyzed as follows:

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

Lease-financed commitments are analyzed as follows:

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

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

4.7.2 Operating leases

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

The lease for MEDICREA INTERNATIONAL's former premises ended on October 31, 2016. The move to the new buildings, of which the Company is also a tenant, took effect as of the end of September 2016. The French facilities have been brought together on a single site for an annual rental charge of €1 million and having signed a 12-year rental commitment.

Operating lease commitments can therefore be summarized as follows:

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

NOTE 5: INVENTORIES AND WORK IN PROGRESS

Raw material inventories are measured at their weighted average cost, including sourcing costs. Finished and semi-finished goods inventories are valued at cost, excluding sales and marketing expenses. Impairment is recognized when the probable realizable value of inventories is lower than book value.

Gross and net inventories are analyzed as follows:

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

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

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

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

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

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

NOTE 6: TRADE AND OTHER RECEIVABLES

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

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

Trade and other receivables are analyzed as follows:

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

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

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

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

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

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

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

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

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

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

The maturity dates of receivables are broken down as follows:

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

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

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

NOTE 7: PROVISIONS AND CONTINGENT LIABILITIES

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

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

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

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

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

NOTE 8: FINANCING AND FINANCIAL INSTRUMENTS

8.1 Net financial debt

8.1.1 Financial debt

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

Financial debt is analyzed as follows:

4.3. Parent company financial statements for the year ended December 31, 2016

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

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

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

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

- a bond loan amounting to €1,150,000 in February 2016 at an interest rate of 7% (the interest is payable quarterly), which will be redeemed in full at the end of a two-year period;
- a bond convertible into the Company's shares amounting to €15,000,000 in August 2016, at an interest rate of 6.75% (the interest is payable quarterly), which is redeemable in full at the end of a four-year period, and includes a non-conversion premium amounting to 10% of its face value. The sole investor in these convertible bonds is a leading US healthcare investor, ATHYRIUM CAPITAL MANAGEMENT. These bonds are convertible into new Company shares at a price of €6.25 per share;

Given the uncertain nature of the non-conversion premium, such premium (€1,500,000) was not recognized at December 31, 2016. However, pursuant to the principle of prudence, a provision for risks will be established as soon as the Company considers the conversion to not be acquired.

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

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

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

Financial debt with other Group entities are analyzed as follows:

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

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

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

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

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

8.1.2 Cash and cash equivalents

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

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

Net cash and cash equivalents changed as follows:

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

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

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

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

8.1.3 Hedge instruments

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

8.2 Net financial income / (expense)

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

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

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

The absorption of MEDICREA EUROPE FRANCOPHONE into the Company led to a certain number of accounting adjustments related to the removal of reciprocal undertakings and transactions.
The closure of the La Rochelle factory which fell under the legal entity MEDICREA TECHNOLOGIES, led the Company to recognize an additional provision of €8.6 million for the impairment of shares,

which explains most of the increase in net financial expense in 2016 in relation to the previous fiscal year.

NOTE 9: TRADE PAYABLES AND OTHER CURRENT LIABILITIES

Trade payables and other liabilities are analyzed as follows:

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

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

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

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

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

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

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

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

NOTE 10: CORPORATE TAX

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

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

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

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

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

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

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

Average exchange rates evolved as follows:

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

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

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

NOTE 12: SHAREHOLDERS' EQUITY

12.1Shareholders' equity

12.1.1 Share capital

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

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

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

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

12.1.2 Preference shares

At the Shareholders' Meeting of December 17, 2014, it was decided to issue 100 preference shares to MMCO, a simplified joint stock company *(Société par Actions Simplifiée)* with share capital of €1,000, with its registered office at 5389 route de Strasbourg, 69140 Rillieux-la-Pape.

These preference shares will ultimately be convertible into ordinary shares of MEDICREA INTERNATIONAL, as determined by reference to the volume-weighted average price of the MEDICREA INTERNATIONAL share between September 17, 2018 and December 17, 2018, subject to the MEDICREA shares having reached significant and predefined performance levels during that period. The maximum number of ordinary shares that may be issued as a result of the conversion of all preference shares is 210,000, i.e. 2.1% of the Company's share capital at December 31, 2016. These preference shares do not grant voting rights or entitlement to dividends. They are not listed on Euronext Growth Paris.

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

12.1.3 Change in shareholders' equity

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

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

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

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

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

12.1.4 Dividends paid during the fiscal year

Nil

12.1.5 Issue, buyback and redemption of debt and equity securities

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

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

- the second loan issued in August 2016, which is convertible into new ordinary shares in MEDICREA INTERNATIONAL, in an amount of €15,000,000, with a four-year maturity and at an

interest rate of 6.75%, was subscribed by ATHYRIUM CAPITAL MANAGEMENT, a leading US investor in the healthcare sector, and included a non-conversion premium of 10%.

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

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

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

NOTE 13: CONDITIONAL ADVANCES

Conditional advances mainly result from innovation grants awarded by BPI in the form of repayable advances. Their change compared with the previous year resulted from ongoing repayment plans. No new grants were awarded during the 2016 fiscal year.

NOTE 14: OTHER INFORMATION

14.1 Off-balance sheet commitments

14.1.1 Commitments given in relation to medium-term borrowings

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

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

A four-year bank loan of €1 million taken out in November 2014 is subject to certain clauses, including:

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

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

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

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

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

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

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

14.1.3 Other commitments

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

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

14.2 UNiD warranty

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

Since the launch of this lifetime warranty across the United States, no activation request has been recorded. On this basis, the Company did not recognize any provision in its financial statements at December 31, 2016 and, depending on the data collected in 2017, it will assess whether or not it is necessary to review its position for the next fiscal year.

14.3 Related-party disclosures

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

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

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

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

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

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

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

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

14.5 Statutory Auditors' fees

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

14.6 Post-balance sheet events

Nil.

14.7 Five-year financial summary

See the management report.

14.8 List of subsidiaries and equity investments

The amounts below are expressed in Euros.

Entities	Total shareholders' equity	Share capital ownership (%)	Book value of shares owned		Loans and advances granted and outstanding	Guarantees and sureties given by the Company	Net sales for last fiscal year	Net income for last fiscal year	Dividends paid to the parent company
			Gross	Net					
French subsidiaries									
MEDICREA TECHNOLOGIES	3,342,349	100%	11,946,000	3,346,000	48,274 (1)	-	7,610,484	(1,249,076)	-
International subsidiaries									
MEDICREA TECHNOLOGIES UK	212,349	100%	2,465,018	665,018	310,303	-	522,451	(703,810)	-
MEDICREA USA	4,992,732	100%	7,395,058	7,395,058	6,705,788	-	17,656,364	(2,002,404)	-
MEDICREA GMBH	(891,598)	100%	100,000	100,000	1,036,420	-	68,788	(785,968)	-
MEDICREA POLAND	18,412	100%	47,119	47,119	-	-	296	(27,234)	-

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

Non-tax-deductible expenses and charges

Pursuant to Article 223-IV and 223-V of the French General Taxation Code, the total of expenses and costs that cannot be deducted from earnings as referred to in Article 39-4 of the General Taxation Code, as well as the tax incurred in relation to said expenses and costs, were €104,516 and €34,835 respectively for the fiscal year ended December 31, 2016 (€88,078 and €29,356 respectively in relation to the previous year).

Breakdown of trade payables

Pursuant to the provisions of Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, information on supplier payment terms is as follows:

(€ K)		2016	2015	2014
Trade payables - not due (1)		2,429	998	2,201
Of which:	*within 30 days*	*816*	*941*	*1,127*
	within 30 to 60 days	*1,613*	*57*	*1,074*
	within more than 60 days	-	-	-
Trade payables - overdue (1)		3,006	1,848	802

(1) 54% of payables not due and 58% of payables overdue are intra-Group liabilities.

Five-year financial summary

(€ K)	2016	2015	2014	2013	2012
Share capital at year-end					
Share capital	1,605	1,438	1,357	1,355	1,353
Number of shares outstanding	10,033,167	8,987,688	8,481,405	8,467,505	8,458,005
Transactions and net income for the year					
Net sales	14,071	15,694	14,336	10,631	10,125
Income before tax, depreciation, amortization and provisions	44	1,637	(128)	299	(669)
Corporate tax	970	1,080	452	276	383
Employee profit sharing	-	-	-	-	-
Income after tax, depreciation, amortization and provisions	(10,806)	615	242	(930)	(2,661)
Dividends	-	-	-	-	-
Earnings per share (€)					
Income after tax, before depreciation, amortization and provisions	(0.01)	0.18	0.04	0.07	(0.31)
Income after tax, depreciation, amortization and provisions	(1.08)	0.07	0.03	(0.11)	(0.03)
Dividend per share	-	-	-	-	-
Workforce					
Average workforce size during the year	65	51	40	36	38
Total payroll for the year	3,489	3,076	2,330	1,811	1,808
Social security contributions for the year	1,442	1,247	971	802	783

4.4 Statutory Auditors' report on the parent company financial statements

ODICEO ERNST & YOUNG et Autres

MEDICREA INTERNATIONAL

Fiscal year ended December 31, 2016

Statutory Auditors' report
on the parent company financial statements

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

Statutory Auditor
Member of Compagnie
régionale de Lyon

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

Statutory Auditor
Member of Compagnie
régionale de Versailles

Medicrea International

Fiscal year ended December 31, 2016

Statutory Auditors' report
on the parent company financial statements

To the Shareholders,

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

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

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

I. Opinion on the parent company financial statements

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

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

II. Justification of assessments

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

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

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

III. Specific verification and information

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

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

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

Villeurbanne and Lyon, April 28, 2017

The Statutory Auditors

ODICEO	ERNST & YOUNG et Autres
Alain Fayen	Nicolas Sabran

4.5 Statutory Auditor's Special Report on regulated agreements

ODICEO ERNST & YOUNG et Autres

MEDICREA INTERNATIONAL

Shareholders' Meeting to approve the financial statements for the year ended December 31, 2016

Statutory Auditors' special report

on regulated agreements

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

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Statutory Auditor
Member of Compagnie
régionale de Versailles

Medicrea International

Shareholders' Meeting to approve the financial statements for the year ended December 31, 2016

Statutory Auditor's Special Report
on regulated agreements

To the Shareholders,

As Statutory Auditors of your Company, we hereby present our report on regulated agreements.

Our role is to provide you, on the basis of the information given to us, with the characteristics and essential terms and conditions of the agreements and commitments brought to our attention or which we may have discovered during the course of our audit, without having to issue an opinion on whether or not these agreements or commitments are useful or warranted or having to determine whether any other such agreements exist. Pursuant to the provisions of Article R. 225-31 of the French Commercial Code, it is your role to assess the interest in concluding these agreements, with a view to approving them.

It is also our role, if applicable, to inform you of disclosures required by Article R. 225-31 of the French Commercial Code relative to the implementation during the year just ended of agreements approved by the Shareholders' Meeting in prior years.

We have performed the due diligence we deemed necessary in the light of the professional standards of Compagnie Nationale des Commissaires aux Comptes relative to this assignment. Such due diligence consisted in verifying that the information we were given was consistent with the information disclosed in their source documents.

Agreements submitted for approval at the Shareholders' Meeting

In application of Article L. 225-40 of the French Commercial Code, we were advised that the following agreements received the prior authorization of your Board of Directors.

1. With Orchard International

Person concerned

Mr. Denys Sournac, Chairman and CEO of your Company and Manager of Orchard International via its holding company DS Company.

Mr. Jean-Philippe Caffiero, Deputy CEO of your Company and Manager of Orchard International via its holding company PLG Invest.

Nature, purpose, and terms and conditions

Your Board of Directors' meeting of September 19, 2016 authorized the sub-letting by your Company, as of October 7, 2016, of part of its premises to Orchard International on the basis of a Euro-for-Euro reinvoicing of the rent.

The rental amount recorded as income for 2016 totaled €18,312.

Grounds for relevance of the agreement for the Company

Your Board has justified this agreement in the following manner:

The terms and conditions of the sub-letting of part of the premises are identical to those of the main lease.

2. With DS Company

Person concerned

Mr. Denys Sournac, Chairman and CEO of your Company and Manager of DS Company.

Nature, purpose, and terms and conditions

Your Board of Directors' meeting of September 19, 2016 authorized the sub-letting by your Company, as of October 7, 2016, of part of its premises to DS Company on the basis of a Euro-for-Euro reinvoicing of the rent.

The rental amount recorded as income for 2016 totaled €8,452.

Grounds for relevance of the agreement for the Company

Your Board has justified this agreement in the following manner:

The terms and conditions of the sub-letting of part of the premises are identical to those of the main lease.

3. With Orchard International and DS Company

Persons concerned

Mr. Denys Sournac, Chairman and CEO of your Company and Manager of Orchard International via its holding company DS Company.

Mr. Jean-Philippe Caffiero, Deputy CEO of your Company and Manager of Orchard International via its holding company PLG Invest.

Nature, purpose, and terms and conditions

It should be noted that on September 30, 2010 your Board of Directors had – to replace the original agreement and its amendments, following in particular the transfer of managerial staff and executives to Orchard International – authorized the signing, between Orchard International (the service provider) and your company, of an agreement for the provision of market-making services and effective October 1, 2010, and its amendment (n° 1), for an annual consideration excluding VAT of €606,000 from December 1, 2010, in addition to variable fees of 10% of operating income within the limit of €140,000 excluding VAT.

On June 14, 2012, your Board of Directors had authorized your company to sign with Orchard International an amendment (n° 2) to the aforementioned agreement for the provision of management aand market-making services, with the annual fixed compensation being increased to €646,000 from July 1, 2012.

On September 13, 2012, your Board of Directors authorized your company to sign with Orchard International an amendment (n° 3) to the agreement for the provision of management and market-making services (see above), related to the rebilling to your company by Orchard International, on a Euro-for-Euro basis, of rent incurred by the latter under the sub-letting agreement concluded with your company.

On September 3, 2015, your Board of Directors authorized your company to sign with Orchard International a new amendment (n° 4) to the aforementioned agreement for the provision of management and market-making services. The fixed annual remuneration was changed to €528,000 as of January 1 2015, in addition to the variable "upfront" fees of 5% in the event of a significant distribution/licensing transaction, of 20% of the Group's net profit (where applicable) generated before both this variable remuneration and €1,000 per day of support in relation to specific assignments are taken into account. In 2015, the variable portion was not applied.

On September 19, 2016, your Board of Directors authorized your company to sign with Orchard International an amendment (n° 5) to the agreement for the provision of management and market-making services, pertaining to the change in the amount of rent invoiced to Orchard International and DS Company. As of October 7, 2016, the annual amount of this rent will be €46,160 excluding tax but including all charges.

Services invoiced for the year are expensed and totaled €530,895.

The rebilling of Orchard International and DS Company's rental charges under the sub-lease agreement counted in respect of the fiscal year are recorded under rental charges for the respective amounts of €18,312 and €8,452.

Grounds for relevance of the change to the agreement for the Company

Your Board has justified this agreement in the following manner:

With effect from October 7, 2016, these rental charges have been changed to take into account the transfer of these two companies to new premises located at 5,389 Route de Strasbourg, Vancia, 69480 Rillieux-la-Pape.

4. With ID Sournac

Person concerned

Mr. Denys Sournac, Chairman and CEO of your Company and Manager of ID Sournac.

Nature, purpose, and terms and conditions

Your Board of Directors' meeting of September 19, 2016 authorized the sub-letting by your Company, as of October 7, 2016, of part of its premises to ID Sournac on the basis of a Euro-for-Euro reinvoicing of the rent.

The rental amount recorded as income for 2016 totaled €4,315.

Grounds for relevance of the agreement for the Company

Your Board has justified this agreement in the following manner:

The terms and conditions of the sub-letting of part of the premises are identical to those of the main lease.

Agreements already approved at the Shareholders' Meeting

In application of Article R. 225-30 of the French Commercial Code, we were advised that the following agreement, which had already been approved by the Shareholders' Meeting during previous fiscal years, continued to apply during the fiscal year just ended.

With Sum Lab (which continued until October 7, 2016)

Person concerned

Mr. Denys Sournac, Chairman and CEO of your Company and Manager of Sum Lab.

Nature, purpose, and terms and conditions

Your Board of Directors' meeting of December 17, 2013 authorized the sub-letting by your Company, as of January 1, 2014, of part of the premises leased from Vétoquinol on a Euro-for-Euro basis.

The rental amount recorded as income for 2016 totaled €4,300.

Villeurbanne and Lyon, April 28, 2017

The Statutory Auditors

ODICEO — ERNST & YOUNG et Autres

Alain Fayen — Nicolas Sabran

4.6 Pro forma reporting

Nil

4.7 Unaudited 2017 half-year financial report

1 STATEMENT OF THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT

Rillieux-la-Pape-Vancia, October 20, 2017,

I certify that, to my knowledge, the financial statements for the half-year just ended have been prepared in accordance with applicable IFRS accounting standards and give a fair view of the assets, financial position and performance of the Company and of all companies included in the consolidation scope, and that the enclosed half-year report gives a true view of the major events that took place over the first six months of the fiscal year, their impact on the financial statements, the main transactions between related parties and a description of main risks and uncertainties for the remaining six months of the fiscal year.

Denys SOURNAC
Chairman and CEO of MEDICREA

2 HALF-YEAR BUSINESS REPORT

2.1 KEY FIGURES OF THE SIX MONTHS TO JUNE 30, 2017

(€ K)	06.30.2017	06.30.2016
SALES	14,696	14,844
OPERATING INCOME BEFORE SHARE-BASED PAYMENTS	(3,801)	(2,661)
NET INCOME/(LOSS) - GROUP SHARE	(5,121)	(2,671)
Earnings per share (€)	(0.50)	(0.30)
Earnings per share, diluted (€)	(0.50)	(0.30)
SHAREHOLDERS' EQUITY	21,049	12,569
NET FINANCIAL DEBT	8,370	11,389
Workforce	162	154

2.2 HIGHLIGHTS OF THE FIRST HALF OF 2017

Noteworthy events during the first half of 2017 are as follows:

- In January 2017, the Company completed the transfer of the factory from La Rochelle to its new Vancia site. The number of employees who also transferred was limited, which led to some operational disruptions with the new factory during the first half of the year, this was however offset by significant recruitment, and also by considerable temporary use of sub-contracting. The situation is gradually returning to normal.

- In January, Medicrea filed a 510(k) submission for FDA clearance of its proprietary 3D-printed titanium spinal interbody devices.

- In April 2017, the Brazilian regulatory body, ANVISA, performed an inspection audit of the Company's recently-opened manufacturing facilities in Rillieux-la-Pape-Vancia. The audit was successfully completed, and the products are currently being re-registered. The Company expects to recover normal activity in this major market by early 2018.

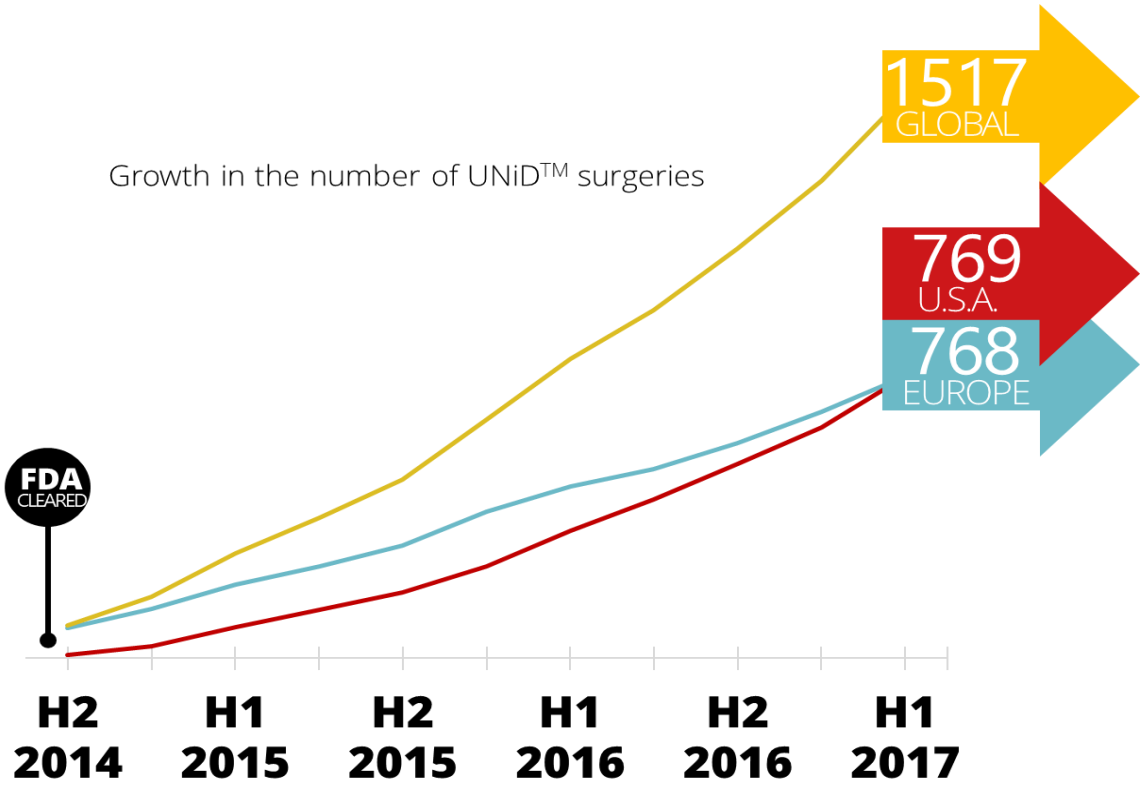
- In June,

- MEDICREA confirmed the extension of its portfolio of products for complex spinal pathologies with FDA clearance of its PASS ® TULIP top-loading posterior fixation system;

- The Company received FDA 510(k) clearance for surgical planning with UNiD™ HUB, its data-driven digital portal for the Company's ASI – Adaptive Spine Intelligence – which provide surgeons with surgical strategy and predictive modeling functionality;

- MEDICREA completed a €13 million share capital increase with qualified investors. The funds raised will be used to accelerate the development, mainly in the United States, of the UNiD™ ASI platform and to prepare for the commercialization of a new range of 3D-printed titanium interbody cages in the United States and Europe.

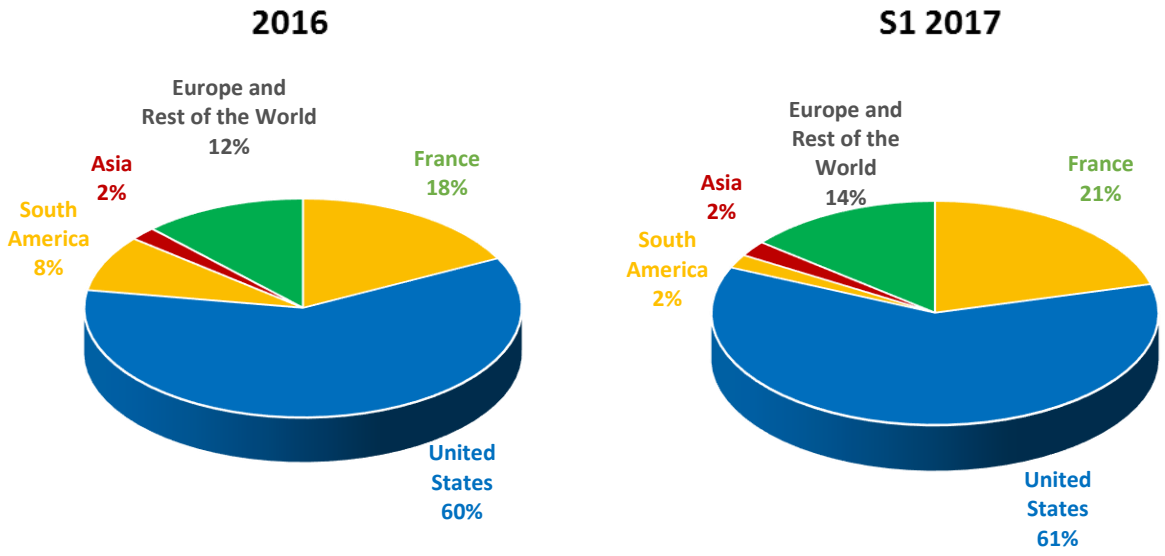
The number of patient-specific UNiD™ Rods implanted during the first-half of 2017 increased by 30% compared to the same period in 2016. In the U.S., this growth amounted to 42% for the same period. Spinal surgeons continue to increasingly adopt the UNiD™ ASI suite of services with preoperative planning expertise, as the following graph shows:



2.3 BUSINESS REVIEW

Group sales remained steady over the first half of 2017 compared to the previous year despite solid performance during the month of June, notably in the U.S. where sales increased 10% over the prior year period. The global breakdown of the Group's revenue demonstrates an ongoing growth trend in France, the Company's domestic direct sales market, where sales increased by 8% compared to the first half of 2016. In Brazil, the Company's historic leading export distribution market, the Company continued to face challenges related to local economic and regulatory factors leading to a 63% decrease in sales in the period compared to H1 2016. In April 2017, the Brazilian regulatory body ANVISA performed an inspection audit. Following the successful ANVISA inspection, activity with Brazil is expected to resume in early 2018.

At June 30, 2017, the contribution of the marketing subsidiaries to Group sales stood at 85%, up 5 percentage points in comparison with 2016. The following charts provide a breakdown of changes in the business by geographic region:



Revenue generated by MEDICREA's UNiD™ ASI systems technology for personalized spine continued to accelerate throughout the first half of 2017, particularly in the U.S. where a growth of 42% was seen compared to the first half of 2016. Since the Company FDA-cleared the first-ever personalized approach to spine surgery with patient-specific implants in November of 2014, the number of cases performed in the U.S. has now surpassed the total internationally and reached more than $15 million in cumulative sales at the end of the first half of 2017 for UNiD™ TEK and associated Medicrea implants, particularly the patient-specific UNiD Rod used in conjunction with the Company's portfolio of PASS® spinal systems for degenerative and complex spinal indications.

Gross margins for the first half of 2017 were 73%. Structurally high, gross margins were negatively impacted during the period due to the use of outsourcing as well as the temporary increase in costs associated with the relocation of the La Rochelle production site to Lyon. Gross margin improved over the second quarter and the recovery should continue over the second half of the fiscal year returning to usual normative levels in 2018.

Operating costs increased €0.8 million in comparison with the first half of 2016, linked to new building infrastructures coming into service in Lyon and New York, as well as the resources mobilized by the Group to develop its UNiD™ ASI products and services, notably the digital UNiD™ HUB accessible to surgeons for the planning of their patient-specific spinal surgeries.

Against this backdrop, the operating loss over the first half-year was €3.6 million affected by the temporary decline in the gross margin rate and the increase in certain structure costs.

The cost of financial debt increased by €1.2 million in comparison with the first half of 2016 primarily as a result of interest on the €15 million convertible bond loan issued in August 2016 and IFRS rules used to account for those financial instruments.

Under the combined effect of these factors, loss before tax amounted to €5.5 million, versus a loss of €2.9 million for the period ended June 30, 2016. Net loss was €5.1 million.

2.4 CHANGE IN FINANCIAL POSITION

Changes in the balance sheet structure are analyzed as follows:

(€ K)	06.30.2017	12.31.2016	06.30.2016
Non-current assets	20,992	19,737	16,476
Deferred tax assets	1,194	1,046	859
Operating working capital requirements	8,257	7,673	8,377
Non-operating working capital requirements	(1,024)	291	(1,754)
TOTAL	**29,419**	**28,246**	**23,958**
Shareholders' equity	21,049	14,081	12,569
Net financial debt	8,370	14,165	11,389
CAPITAL EMPLOYED	**29,419**	**28,246**	**23,958**

Non-current assets are made up of the net value of goodwill, intangible assets (research and development costs, patents and brands), property, plant and equipment and financial assets. Their change in comparison with December 31, 2016 was primarily due to the following factors:

- The capitalization of research and development costs over the period, patent-related expenditure as well as software and licenses related to the development of a surgical planning software package;

- The continued renewal and modernization of the installed base of machines with the acquisition of an automatic contouring machine for the manufacture of UNiD® patient-specific rods;

- The provision to hospitals of new sets of instruments, mainly intended for the US subsidiary;

- The purchase of fixtures and fittings for the Group's new headquarters.

A detailed analysis of the movements that took place over the half-year in the various intangible asset items in gross and net values is set out in Note 6, Paragraph 6.6 of the consolidated financial statements.

Deferred taxes are presented net of balances. They are mainly made up of consolidation adjustments and tax losses carried forward related to the US subsidiary, which the Group expects to be able to recover within a short time. Analysis of the tax rate is provided in Note 12, Paragraph 12.1 of the consolidated financial statements.

Operating working capital requirements are made up of trade receivables, plus inventories and less trade payables. Its increase compared to December 31, 2016 was mainly due to the launch of new products, a large proportion of which are still at the evaluation stage and which are contributing to the significant growth in inventories of finished products over the period.

The Group places specific importance on controlling working capital requirements particularly for inventories, given the distinctive characteristics of its activity necessitating the provision of numerous implants in different sizes to healthcare establishments. Multiple initiatives are underway to optimize the level of inventories but the growth phase in which the Group is involved makes it impossible to provide immediate tangible results.

The change is mainly due to the €13 million share capital increase carried out in June 2017, less the net loss for the six months to June 30, 2017.

Net financial debt fell by €5.8 million over H1 2017 due to the Group having bolstered its cash position with fundraising of €13 million in June 2017 via the issue of ordinary shares without preferential subscription rights in favor of international funds and / or investment companies.

The Group had available cash of €14.1 million at June 30, 2017.

2.5 RECENT EVENTS AND OUTLOOK FOR THE SECOND HALF-YEAR

Sales totaled €6.4 million over the 3rd quarter, down 5% compared to the same period of 2016, adversely affected by the lack of commercial activity in Brazil (the leading export market up to that point, excluding the distribution subsidiary) since the start of the fiscal year, and stagnating sales in the United States primarily in the degenerative spinal surgery segment.

The regulatory issues impacting the Brazilian market, which will generate a sales shortfall of almost €2 million over the full year 2017, are definitely resolved and sales will return to a normative level in 2018. In the United States, the momentum for adoption of UNiD™ ASI technology continues with fittings of patient-specific UNiD™ rods posting growth in excess of 40% over the nine months to September 30, 2017 compared to the same period of 2016.

Recent events

In July, the Company performed the world's first personalized minimally-invasive spine surgery in the U.S., utilizing its FDA-cleared patient-specific UNiD™ MIS Rod designed specifically for minimally-invasive spine surgery.

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

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

Outlook

During the second half of 2017, the Company will fast-track development of the UNiD™ portal and related new services by offering, via UNiD™ HUB, a new pre-surgery screw selection service.

In the fourth quarter of 2017, the Company should receive FDA clearance for several ranges of interbody cages 3D-printed in-house from powdered Titanium and expects to launch a customized screw planning capability within the UNiD™ HUB software platform.

2.6 RISK FACTORS

Risk factors are similar to those described in Chapter 7 of the Management Report, included in the 2016 Annual Report, and do not present any significant changes in the first half of 2017.

2.7 RELATED-PARTY TRANSACTIONS

Transactions between related parties are of the same type as those disclosed in Note 5.7 to the Consolidated financial statements contained in the 2016 Annual Report.

No agreements were signed with any executive or member of the Board of Directors during the first half of 2017.

3 CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2017

3.1 CONSOLIDATED INCOME STATEMENT

(€)	Notes	Total IFRS 06.30.2017	Total IFRS 06.30.2016
Sales	4.1	14,696,429	14,843,675
Cost of sales	4.2	(3,946,442)	(2,865,111)
Gross margin		10,749,987	11,978,564
Research & development costs		(789,442)	(523,647)
Sales & marketing expenses		(7,892,180)	(8,145,353)
Sales commissions		(1,752,432)	(1,812,970)
General and administrative expenses		(3,869,545)	(2,988,936)
Other operating income and expenses	4.4	(247,452)	(1,168,551)
Operating income before share-based payments		(3,801,064)	(2,660,893)
Share-based payments		(330,000)	(14,076)
Operating income after share-based payments		(4,131,564)	(2,674,969)
Cost of net financial debt	10.4	(1,114,374)	(186,216)
Other financial (expenses) / income	10.4	(302,979)	(63,272)
Tax (charge) / income	12.1	427,900	253,464
Consolidated net income/(loss)		(5,120,517)	(2,670,993)

Earnings per share	14.2	(0.50)	(0.30)
Diluted earnings per share	14.2	(0.50)	(0.30)

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

3.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€)	Notes	Total IFRS 06.30.2017	Total IFRS 06.30.2016
Attributable to the Group	2.3.1	(5,120,517)	(2,670,993)
Translation adjustment		43,205	(94,004)
Consolidated comprehensive income		(5,077,312)	(2,764,997)

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

3.3 CONSOLIDATED BALANCE SHEET

(€)	Notes	Total IFRS 06.30.2017	Total IFRS 12.31.2016	Total IFRS 06.30.2016
Goodwill	6.1	2,627,067	2,628,424	2,630,276
Intangible assets	6.6	6,611,538	6,071,368	5,679,416
Property, plant and equipment	6.6	10,993,720	10,099,217	7,520,225
Non-current financial assets	6.8	759,869	938,408	645,915
Deferred tax assets	12.2	2,552,445	2,454,025	1,354,559
Total non-current assets		**23,544,639**	**22,191,442**	**17,830,391**
Inventories	7	9,013,808	8,726,493	7,795,122
Trade receivables	8	4,858,809	5,158,818	5,478,327
Other current assets	8	2,230,322	3,511,477	2,997,600
Cash and cash equivalents	10.1.3	14,118,327	8,063,140	1,077,879
Total current assets		**30,221,266**	**25,459,928**	**17,348,928**
Total assets		**53,765,905**	**47,651,370**	**35,179,319**

(€)	Notes	Total IFRS 06.30.2017	Total IFRS 12.31.2016	Total IFRS 06.30.2016
Share capital	14	2,034,173	1,605,307	1,440,698
Issue, merger and contribution premiums	14	54,239,413	42,448,276	37,701,645
Consolidated reserves	14	(30,103,722)	(22,403,157)	(23,902,320)
Group net income/(loss) for the year	14	(5,120,517)	(7,569,225)	(2,670,993)
Total shareholders' equity		**21,049,347**	**14,081,201**	**12,569,030**
Conditional advances	10.1.2	258,750	317,500	362,500
Non-current provisions	9	561,225	513,842	501,156
Deferred tax assets	12.2	1,358,900	1,407,986	495,598
Long-term financial debt	10.1.1	17,292,974	18,308,727	7,369,545
Total non-current liabilities		**19,471,849**	**20,548,055**	**8,728,799**
Current provisions	9	360,717	1,124,676	1,044,110
Short-term financial debt	10.1.1	4,936,516	3,602,301	4,734,718
Trade payables	11	5,615,771	6,000,976	4,894,770
Other current liabilities	11	2,331,705	2,294,161	3,207,892
Total current liabilities		**13,244,709**	**13,022,114**	**13,881,490**
Total shareholders' equity and liabilities		**53,765,905**	**47,651,370**	**35,179,319**

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

3.4 CONSOLIDATED CASH FLOW STATEMENT

(€)	Total IFRS 06.30.2017	Total IFRS 12.31.2016	Total IFRS 06.30.2016
Consolidated net income/(loss)	**(5,120,517)**	**(7,569,225)**	**(2,670,993)**
Property, plant and equipment depreciation and intangible asset amortization	2,344,833	4,238,236	2,061,614
Provisions for impairment	(237,854)	1,768,380	1,207,300
Proceeds from sale of non-current assets	37,249	340,732	89,658
Share-based payments	330,000	283,434	14,076
Change in deferred taxes	(147,507)	(348,465)	(161,388)
Corporate tax	(440,000)	(990,327)	(528,084)
Cost of net financial debt	1,114,374	1,085,382	186,216
Self-financing capacity	**(2,119,422)**	**(1,191,853)**	**198,399**
Change in inventories and work in progress	(775,484)	(2,362,449)	(952,049)
Change in trade receivables	309,453	(416,004)	(746,716)
Change in trade payables and liabilities relating to non-current assets	(385,204)	1,945,005	838,798
Change in other receivables and payables	1,771,045	612,344	1,536,461
Cash flow from working capital requirement	**919,810**	**(221,104)**	**676,494**
Taxes paid / refunded	(12,343)	(45,309)	(4,058)
Net cash flow from operating activities	**(1,211,955)**	**(1,458,266)**	**870,835**
Acquisition of non-current assets	(4,747,318)	(9,094,944)	(3,507,490)
Disposal of non-current assets	543,790	-	-
Government grants received / (repaid)	(58,750)	(86,250)	(41,250)
Net cash flow from investment activities	**(4,262,278)**	**(9,181,194)**	**(3,548,740)**
Share capital increase	13,000,003	5,104,354	-
Proceeds from new borrowings	1,085,626	16,504,287	1,476,287
Repayment of borrowings	(1,270,455)	(2,849,794)	(1,399,040)
Interest paid	(666,890)	(750,257)	(173,782)
Other movements	(768,301)	(1,783,239)	(128,185)
Net cash flow from financing activities	**11,379,983**	**16,225,351**	**(224,720)**
Translation effect on cash and cash equivalents	30,469	349	22,083
Other movements	79,840	(124,373)	84,539
Change in cash and cash equivalents	**6,016,059**	**5,461,867**	**(2,796,003)**
Cash and cash equivalents - beginning of year	**7,253,382**	**1,791,515**	**1,791,515**
Cash and cash equivalents - end of year	**13,269,441**	**7,253,382**	**(1,004,488)**

Positive cash balances - beginning of year	8,063,140	2,168,215	2,168,215
Positive cash balances - end of year	14,118,327	8,063,140	1,077,879
Change in positive cash balances	**6,055,187**	**5,894,925**	**(1,090,336)**
Negative cash balances - beginning of year	(809,758)	(376,700)	(376,700)
Negative cash balances - end of year	(848,886)	(809,758)	(2,082,367)
Change in negative cash balances	**(39,128)**	**(433,058)**	**(1,705,667)**
Change in cash and cash equivalents	**6,016,059**	**5,461,867**	**(2,796,003)**

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 – 12.31.2015	**8,987,688**	**1,438,030**	**13,799,846**	**15,237,876**
Share capital increase	1,045,479	167,277	4,812,622	4,979,899
2016 comprehensive income	-	-	(7,595,760)	(7,595,760)
Stock options and free shares	-	-	283,434	283,434
Other movements	-	-	1,175,752	1,175,752
Shareholders' equity – 12.31.2016	**10,033,167**	**1,605,307**	**12,475,894**	**14,081,201**
Share capital increase	2,680,413	428,866	12,571,137	13,000,003
H1 2017 comprehensive income	-	-	(5,077,312)	(5,077,312)
Stock options and free shares	-	-	330,000	330,000
Other movements	-	-	(1,284,545)	(1,284,545)
Shareholders' equity – 06.30.2017	**12,713,580**	**2,034,173**	**19,015,174**	**21,049,347**

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.

The unaudited consolidated financial statements for the first six months of the 2017 fiscal year were approved by the Board of Directors on September 14, 2017. The press release relating to the first half-year results was published on October 3, 2017.

NOTE 1: ACCOUNTING PRINCIPLES

1.1 Accounting framework

The financial statements of MEDICREA Group for the first half of 2017 have been prepared in accordance with the IFRS (International Financial Reporting Standards) in force within the European Union, pursuant to European Regulation n° 1606/2002 of July 19, 2002, and available at http://ec.europa.eu/internal_market/accounting/ias/index_en.htm.

These standards include:

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

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, 2017 and not applied early by the Group

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

Standards, amendments and interpretations	Application date	Impact on the Group
IFRS 15 Revenue from contracts with customers	January 1, 2018	IFRS 15 will replace IAS 11, IAS 18 and the related IFRIC and SIC interpretations regarding the recognition of revenue from ordinary activities, and is introducing a new model for recognizing that revenue. Clarifications to the standard were published by the IASB on April 12, 2016 following the publication of the "IFRS 15 Clarification Survey" in July 2015; The European Union adopted IFRS 15 on September 22, 2016. The Group will finalize the assessments and quantification of any impact relating to the application of this new standard during the fiscal year 2017.

IFRS 9 Financial instruments	January 1, 2018	The IASB finalized its plan to replace IAS 39 – Financial Instruments on July 24, 2014, by publishing the full version of IFRS 9. That version introduces significant changes compared with the current IAS 39: - provisions relating to the classification and measurement of financial assets will now be based on the combined assessment of the management model for each asset portfolio and of the contractual terms of the financial assets; - meanwhile, the impairment model has abandoned the current approach based on incurred losses in favor of an approach based on expected losses; - the hedge component includes a number of significant advances that promote the convergence of the entity's accounting system and risk management policy. The Group is not expecting any significant impact on the classification and measurement of its financial assets, in view of the nature of its transactions and business activities.

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

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

Standards, amendments and interpretations	Application date (1)	Impact on the Group
IFRS 16 Leases	January 1, 2019	The IASB published IFRS 16 – Leases on January 13, 2016. IFRS 16 will replace IAS 17, as well as the related IFRIC and SIC interpretations, and will eliminate the difference in accounting treatment that was previously established between "operating leases" and "finance leases". Lessees must recognize all leases with a term of over one year, in the same way as the procedures currently provided for finance leases by IAS 17, and thus recognize an asset representing the right to use the leased asset in exchange for a liability representing the obligation to pay for that right. The Group carried out an assessment of all of its leases and of their main provisions likely to be concerned by the new standard during 2017, with the aim of providing an analysis of the impact of the application of this standard in the notes to the Group's annual financial statements for 2017.

(2) Subject to adoption by the European Union

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

Standards, amendments and interpretations		Application date (1)
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The IASB has deferred the initial application date to a date that remains to be specified.
Amendments to IAS 12	Income tax: recognition of deferred tax assets for unrealized losses	January 1, 2017
Amendments to IAS 7	Disclosure initiatives	January 1, 2017
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	January 1, 2018
Annual improvements to IFRS - 2014-2016 cycles	Various provisions	January 1, 2017 / January 1, 2018
IFRIC 22 interpretation	Foreign currency transactions and advance consideration	January 1, 2018
IFRIC 23 interpretation	Uncertainty over income tax treatments	January 1, 2019

(2) Subject to adoption by the European Union

NOTE 2: SCOPE OF CONSOLIDATION

2.1 Consolidation method

Consolidation is based on the statutory financial statements, prepared at June 30, 2017, of the various legal entities comprising the Group.

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

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

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

2.2 Changes in consolidation scope

The consolidation scope includes the following entities:

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

Control and interest percentages at June 30, 2017 are detailed in the table below:

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

2.3 Foreign currency translation

2.3.1 Translation of financial statements expressed in foreign currencies

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

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

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

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

Exchange differences arising from the application of these exchange rates are recorded in shareholders' equity under “translation adjustment” for the balance sheet portion and under cash-related exchange differences in the cash flow statement.

At June 30, 2017, the change in the translation adjustment recognized in Shareholders' equity is analyzed by currency as follows:

(€)	06.30.2017	06.30.2016
US Dollar	34,459	(57,830)
Pound Sterling	9,498	(36,174)
Zloty	(752)	-
Total	43,205	(94,004)

2.3.2 Foreign currency transactions

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

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

Foreign exchange gains and losses arising from the translation or elimination of intra-group transactions or receivables and liabilities denominated in currencies other than the entity's functional currency are recorded in the income statement unless they relate to long-term intra-group financing transactions which can be considered as transactions relating to equity. In the latter case, translation adjustments are recorded in shareholders' equity under "Translation adjustment".

2.4 Use of estimates by Management

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

Rapid changes in economic environments increase the difficulties of valuing and estimating certain assets and liabilities, as well as contingencies on business developments. The estimates made by management were based on information available to it at June 30, 2017, 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 June 30, 2017, the Group was not aware of any changes in estimates having a significant impact during the period.

NOTE 3: SEGMENT REPORTING

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

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

The different geographic regions are:

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

3.1 Breakdown of sales by geographic region

By geographic region, sales are analyzed as follows:

	06.30.2017		06.30.2016	
	(€)	(%)	(€)	(%)
France	3,067,444	21%	2,739,565	18%
United States	8,931,160	61%	9,017,535	61%
United Kingdom	269,268	2%	307,447	2%
Germany	122,570	1%	12,030	0%
Poland	38,933	0%	-	-
Rest of the world	2,267,054	15%	2,767,098	19%
of which Europe	1,361,101		*1,445,829*	
of which South America	*290,561*		*790,124*	
of which Asia	*326,502*		*310,941*	
of which Oceania	*103,911*		*42,592*	
of which Middle East and Africa	*184,979*		*177,612*	
Total	14,696,429	100%	14,843,675	100%

3.2 H1 2017 income statement by geographic region

(€)	France	United States	United Kingdom	Germany	Poland	Rest of the world	Total IFRS 06.30.2017
Sales	3,067,444	8,931,160	269,268	122,570	38,933	2,267,054	14,696,429
Cost of sales	(1,198,755)	(1,674,345)	(70,375)	(42,134)	(18,037)	(942,796)	(3,946,442)
Gross margin	1,868,689	7,256,816	198,893	80,435	20,896	1,324,258	10,749,987
Research & development costs	(659,651)	(129,791)	-	-	-	-	(789,442)
Sales & marketing expenses	(2,331,591)	(3,995,082)	(443,630)	(272,306)	(159,215)	(690,356)	(7,892,180)
Sales commissions	(100,235)	(1,623,279)	(3,424)	(1,559)	(495)	(23,440)	(1,752,432)
General and administrative expenses	(2,309,355)	(1,387,352)	(92,374)	(31,176)	(15,396)	(33,892)	(3,869,545)
Other operating income and expenses	(201,804)	-	-	(45,648)	-	-	(247,452)
Operating income before share-based payments	(3,733,947)	121,312	(340,535)	(270,254)	(154,210)	576,570	(3,801,064)
Share-based payments	(88,353)	(241,648)	-	-	-	-	(330,000)
Operating income after share-based payments	(3,822,300)	(120,336)	(340,535)	(270,254)	(154,210)	576,570	(4,131,564)
Cost of net financial debt	(1,049,656)	(62,462)	2,398	(3,875)	(82)	(697)	(1,114,374)
Other financial (expenses) / income	(293,998)	(13,254)	122	-		4,152	(302,979)
Tax (charge) / income	-	414,889	7,273	5,952	(214)	-	427,900
Consolidated net income/(loss)	(5,165,954)	218,837	(330,742)	(268,177)	(154,506)	580,025	(5,120,517)

3.3 H1 2016 income statement by geographic region

(€)	France	United States	United Kingdom	Germany	Rest of the world	Total IFRS 06.30.2016
Sales	**2,739,565**	**9,017,535**	**307,447**	**12,030**	**2,767,098**	**14,843,675**
Cost of sales	(619,522)	(951,904)	(36,935)	(2,549)	(1,254,201)	(2,865,111)
Gross margin	**2,120,043**	**8,065,631**	**270,512**	**9,481**	**1,512,897**	**11,978,564**
Research & development costs	(429,993)	(93,654)	-	-	-	(523,647)
Sales & marketing expenses	(2,288,841)	(4,158,881)	(400,949)	(383,231)	(913,451)	(8,145,353)
Sales commissions	(31,878)	(1,779,292)	-	-	(1,800)	(1,812,970)
General and administrative expenses	(2,009,250)	(811,582)	(109,247)	(47,100)	(11,757)	(2,988,936)
Other operating income and expenses	(1,152,951)	-	-	(15,600)		(1,168,551)
Operating income before share-based payments	**(3,792,870)**	**1,222,222**	**(239,684)**	**(436,450)**	**585,889**	**(2,660,893)**
Share-based payments	-	(14,076)	-	-	-	(14,076)
Operating income after share-based payments	**(3,792,870)**	**1,208,146**	**(239,684)**	**(436,450)**	**585,889**	**(2,674,969)**
Cost of net financial debt	(186,216)	-	-	-	-	(186,216)
Other financial (expenses) / income	(61,525)	(80)	(1,667)	-	-	(63,272)
Tax (charge) / income	17,511	230,953	5,267	(267)	-	253,464
Consolidated net income/(loss)	**(4,023,100)**	**1,439,019**	**(236,084)**	**(436,717)**	**585,889**	**(2,670,993)**

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 2017 balance sheet by geographic region

(€)	France	United States	United Kingdom	Germany	Poland	Rest of the world	Total IFRS 06.30.2017
Goodwill	2,627,067	-	-	-	-	-	2,627,067
Intangible assets	5,776,507	835,031	-	-	-	-	6,611,538
Property, plant and equipment	8,242,608	2,189,584	219,751	59,327	140,811	141,639	10,993,720
Non-current financial assets	434,817	300,115	-	20,070	4,867	-	759,869
Deferred tax assets	1,358,895	1,234,285	(39,238)	(1,258)	(239)	-	2,552,445
Total non-current assets	**18,439,894**	**4,559,015**	**180,513**	**78,139**	**145,439**	**141,639**	**23,544,639**
Inventories	7,756,296	1,029,096	90,068	54,529	83,819	-	9,013,808
Trade receivables	1,361,733	2,753,156	59,572	15,063	44,343	624,942	4,858,809
Other current assets	1,744,878	446,494	9,419	13,745	10,166	5,620	2,230,322
Cash and cash equivalents	13,738,929	353,531	4,657	12,771	8,439	-	14,118,327
Total current assets	**24,601,836**	**4,582,277**	**163,716**	**96,108**	**146,767**	**630,562**	**30,221,266**
Total assets	**43,041,730**	**9,141,292**	**344,229**	**174,247**	**292,206**	**772,201**	**53,765,905**

(€)	France	United States	United Kingdom	Germany	Poland	Rest of the world	Total IFRS 06.30.2017
Share capital	2,034,173	-	-	-	-	-	2,034,173
Issue, merger and contribution premiums	54,239,413	-	-	-	-	-	54,239,413
Consolidated reserves	(38,656,135)	7,175,522	500,512	385,541	328,572	162,266	(30,103,722)
Group net income/(loss) for the period	(5,165,954)	218,837	(330,742)	(268,177)	(154,506)	580,025	(5,120,517)
Total shareholders' equity	**12,451,497**	**7,394,359**	**169,770**	**117,364**	**174,066**	**742,291**	**21,049,347**
Conditional advances	258,750	-	-	-	-	-	258,750
Non-current provisions	561,225	-	-	-	-	-	561,225
Deferred tax assets	1,358,900	-	-	-	-	-	1,358,900
Long-term financial debt	17,292,974	-	-	-	-	-	17,292,974
Total non-current liabilities	**19,471,849**	**-**	**-**	**-**	**-**	**-**	**19,471,849**
Current provisions	360,717	-	-	-	-	-	360,717
Other current financial liabilities	4,936,286	-	-	230	-	-	4,936,516
Trade payables	3,989,084	1,432,268	124,251	38,665	2,188	29,315	5,615,771
Other current liabilities	1,832,297	314,665	50,208	17,988	115,952	595	2,331,705
Total current liabilities	**11,118,384**	**1,746,933**	**174,459**	**56,883**	**118,140**	**29,910**	**13,244,709**
Total shareholders' equity and liabilities	**43,041,730**	**9,141,292**	**344,229**	**174,247**	**292,206**	**772,201**	**53,765,905**

Unlike previous fiscal years and periods, the sectoral distribution of property, plant and equipment and inventories as of June 30, 2017 is now determined on the basis of the cost or production price of the assets concerned, thereby excluding any inter-company margin. The inventories and instruments (classified as property, plant and equipment) held by the subsidiaries thus show significant variations compared to previous sectoral distributions.

3.5 2016 balance sheet by geographic region

(€)	France	United States	United Kingdom	Germany	Rest of the world	Total IFRS 06.30.2016
Goodwill	2,630,276	-	-	-	-	2,630,276
Intangible assets	5,325,102	354,314	-	-	-	5,679,416
Property, plant and equipment	4,903,139	2,160,605	266,888	103,673	85,920	7,520,225
Non-current financial assets	317,350	308,495	-	20,070	-	645,915
Deferred tax assets	495,598	885,724	(26,496)	(267)	-	1,354,559
Total non-current assets	**13,671,465**	**3,709,138**	**240,392**	**123,476**	**85,920**	**17,830,391**
Inventories	548,843	6,707,329	416,055	122,895	-	7,795,122
Trade receivables	1,333,304	3,018,413	80,708	10,810	1,035,092	5,478,327
Other current assets	1,830,640	1,133,781	11,047	21,834	298	2,997,600
Cash and cash equivalents	535,724	476,686	52,702	12,767	-	1,077,879
Total current assets	**4,248,511**	**11,336,209**	**560,512**	**168,306**	**1,035,390**	**17,348,928**
Total assets	**17,919,976**	**15,045,347**	**800,904**	**291,782**	**1,121,310**	**35,179,319**

(€)	France	United States	United Kingdom	Germany	Rest of the world	Total IFRS 06.30.2016
Share capital	1,440,698	-	-	-	-	1,440,698
Issue, merger and contribution premiums	37,701,645	-	-	-	-	37,701,645
Consolidated reserves	(38,066,175)	12,221,240	865,247	631,613	445,755	(23,902,320)
Group net income/(loss) for the period	(4,023,100)	1,439,019	(236,084)	(436,717)	585,889	(2,670,993)
Total shareholders' equity	**(2,946,932)**	**13,660,259**	**629,163**	**194,896**	**1,031,644**	**12,569,030**
Conditional advances	362,500	-	-	-	-	362,500
Non-current provisions	501,156	-	-	-	-	501,156
Deferred tax assets	495,598	-	-	-	-	495,598
Long-term financial debt	7,369,545	-	-	-	-	7,369,545
Total non-current liabilities	**8,728,799**	**-**	**-**	**-**	**-**	**8,728,799**
Current provisions	1,044,110	-	-	-	-	1,044,110
Other current financial liabilities	4,734,603	-	-	115	-	4,734,718
Trade payables	3,670,371	989,222	113,227	76,822	45,128	4,894,770
Other current liabilities	2,689,025	395,866	58,514	19,949	44,538	3,207,892
Total current liabilities	**12,138,109**	**1,385,088**	**171,741**	**96,886**	**89,666**	**13,881,490**
Total shareholders' equity and liabilities	**17,919,976**	**15,045,347**	**800,904**	**291,782**	**1,121,310**	**35,179,319**

NOTE 4: OPERATIONAL DATA

4.1 Revenue

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

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

Sales comprise the value excluding tax of goods and services sold by consolidated entities as part of their ordinary activities, after elimination of intra-group sales.

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

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

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

4.2 Amortization, depreciation and impairment charges

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

Amortization and depreciation	06.30.2017	06.30.2016
Industrial and commercial property rights	115,407	109,176
Other intangible assets	799,526	683,950
Buildings	6,415	17,720
Plant, machinery and tools	1,038,705	1,022,048
Other property, plant and equipment	384,780	228,720
Total	**2,344,833**	**2,061,614**

Impairment	06.30.2017	06.30.2016
Inventories	488,168	175,572
Trade receivables	(9,445)	(21,717)
Total	**478,723**	**153,855**

Amortization and depreciation charges are analyzed as follows:

(€)	06.30.2017	06.30.2016
Cost of sales	243,791	250,085
Research & development and patent costs	919,583	793,126
Sales & marketing expenses	796,361	789,683
General and administrative expenses	385,098	228,720
Total	2,344,833	2,061,614

4.3 Royalties

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

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

4.4 Other operating income and expenses

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

The amount of other operating income and expenses for the first half of 2017 primarily includes redundancy costs as well as the restructuring expenses of the MEDICREA GMBH subsidiary. Those incurred during the 1st half of 2016 mainly consisted of expenditure for relocation from Neyron and La Rochelle to the new Vancia–Rillieux-la-Pape premises, operational since October 2017, and the costs of closing the La Rochelle production unit.

4.5 Operating income

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

NOTE 5: EMPLOYEE COSTS AND BENEFITS

5.1 Workforce

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

	06.30.2017	12.31.2016	06.30.2016
Executives	83	84	75
Supervisors - Employees	79	85	79
Total	162	169	154
of which France	*111*	*113*	*104*
of which United Kingdom	*6*	*7*	*7*
of which United States	*40*	*42*	*39*
of which Germany	*2*	*5*	*4*
of which Poland	*3*	*2*	*-*

5.2 Pension plans and post-employment benefits

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

Pursuant to IAS 19 revised, within the context of defined benefit plans, post-employment benefits and other long-term benefits are measured in accordance with the projected unit credit method based on parameters specific to each employee (age, occupational category), and assumptions specific to the company (collective agreement, staff turnover rate, future salary forecasts, life table).

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

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

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

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

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

- retirement age: age at which an employee has acquired sufficient entitlements to obtain a full pension;
- social security rates: adjusted based on the employee and company status. On average, rates are 44% for executives and 41% for non-executives;
- rate of salary increase: 2%;
- departure mode: at the employee's initiative;
- life table: INSEE 2012-2014 by gender;
- annual mobility: based on category (executive and non-executive) and age, with a turnover rate of 0 after 50 years old;
- discount rate: 1.40%, based on the long-term yields of private sector euro-denominated AA-rated bonds (Corporate bonds AA10+) over a period equivalent to that of commitments, in accordance with IAS 19 and the ANC's recommendation.

The provision for acquired rights was €572,393 at June 30, 2017, compared with €525,011 at December 31, 2016. Movements are analyzed as follows:

(€)	06.30.2017
Actuarial liability at 12.31.2016	525,011
Service cost in operating income	*43,747*
Net financial expense	*3,636*
Charge for the year in respect of defined benefit plans	47,383
Actuarial liability at 06.30.2017	572,394

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

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

5.3 Long-service awards

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

5.4 Share-based payments

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

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

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

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

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

5.4.1 Description of existing plans

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

- **Subscription options**

The main features of current option plans are as follows:

Allocation date (Date of Board of Directors' meeting)	06.05.08	06.16.11	12.17.13	03.27.14	07.25.16	09.19.16
Number of options allocated	25,215	95,500	10,000	30,000	400,000	6,500
Subscription price	€6	€9.10	€8.77	€9.10	-	-
	-	€11.44*	-	-	€5.43*	€5.74*
Vesting period	0-2 years (1)	1-3 years (1)	1-3 years (1)	1-3 years (1)	1-3 years (2)	1-3 years (3)
Options term	10 years	7 years	7 years	7 years	7 years	7 years

* 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.

(6) Options are fully exercisable

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

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

Exercise of the options is subject to the employee being employed by the Group at the exercise date. 567,215 options were allocated under plans still in effect on June 30, 2017, of which 69,456 were allocated to employees who left the Group at that date. In addition, 4,167 stock options have been exercised in 2014. The number of options that are still exercisable was therefore 493,592 at June 30, 2017.

- **Free shares**

186,274 shares have been allocated since 2008. These shares are vested on the beneficiary at the end of a two-year period for French employees and a four-year period for American employees (excluding those under the Macron scheme, which halved these periods). In view of the employee departures that occurred between since 2008, the number of free shares allotted and vested amounted to 94,283 at June 30, 2017, to which should be added 41,990 free shares allotted in 2016 that will vest on September 19, 2017, and 31,000 free shares allotted in 2016 that will vest on September 19, 2018, i.e. a total of 167,273 allotted free shares.

5.4.2 Change in the number of outstanding securities

Transactions in share-based payment instruments in the first half of 2017 are summarized as follows:

	Subscription options			Free shares		
	Number of options	Average residual contractual life	Average exercise price (€)	Number of shares	Average residual contractual life	
					France	United States
Balance at 12.31.16	569,718	5.33	6.09	72,990	0.72	1.72
- allocated	-	-	-	-	-	-
- canceled	(17,000)	0.59	7.38	-	-	-
- lapsed	(59,126)	-	6.14	-	-	-
- exercised	-	-	-	-	-	-
Balance at 06.30.17	493,592	4.72	6.04	72,990	0.22	1.22

5.4.3 Reflection of allocated instruments in the financial statements

The accounting impacts of allocated instruments are as follows:

Allocation date	Type	Number of outstanding securities	Exercise price (€)	Share price on the allocation date (€)	Dividend yield	Expected volatility	Risk-free rate	Fair value (€)	H1 2017 accounting charge (€ K)	Cost of plans since inception (€K)
06.05.2008	Option	9,759	6.00	5.73	0%	40%	4.44%	2.74	-	27
06.05.2008	Share	17,163	Free	5.73	0%	-	-	5.73	-	98
06.25.2009	Option	7,480	6.16	6.55	0%	40%	2.89%	2.63	-	21
06.25.2009	Share	35,700	Free	6.55	0%	-	-	6.55	-	234
12.17.2009	Option	13,000	6.32	5.96	0%	40%	2.54%	2.31	-	30
12.17.2009	Share	2,000	Free	5.96	0%	-	-	5.96	-	12
06.17.2010	Option	12,874	6.14	6.22	0%	40%	1.83%	2.44	-	32
06.17.2010	Share	35,920	Free	6.22	0%	-	-	6.22	-	224
06.16.2011	Option	21,500	9.10	9.40	0%	33%	2.37%	3.06	-	66
06.16.2011	Option	20,000	11.44	9.40	0%	33%	2.37%	4.78	-	96
06.16.2011	Share	3,500	Free	9.40	0%	-	-	9.40	-	33
12.17.2013	Option	10,000	8.77	8.88	0%	36%	2.69%	3.05	-	30
03.27.2014	Option	30,000	9.10	9.14	0%	35%	2.33%	3.01	1	89
07.25.2016	Option	400,000	5.43	5.87	0%	36%	- 0.31%	1.88	192	351
09.19.2016	Share	72,990	Free	5.85	0%	-	-	5.85	134	228
09.19.2016	Option	6,500	5.74	5.71	0%	36%	- 0.22%	1.67	3	5
TOTAL		698,386							330	1,576

This table does not take into account the 37,521 stock options that were exercised in 2014 and 2015 and the 120,846 stock options that lapsed on June 30, 2017 and which may no longer be exercised.

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

Number	06.30.17
Number of outstanding securities	698,386
Number of options exercised	(37,521)
Number of outstanding, unexercised securities	660,865
of which stock options allocated	*493,592*
of which of number of free shares allocated	*167,273*

5.5 French Personal Training Account (PTA)

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

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

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

5.6 US Employee Stock Purchase Plan (ESPP)

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

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

Since the implementation of this plan, 7 employees have subscribed to 14,178 shares (7,879 shares in 2016 at a price of USD4.32, and 6,299 shares in 2015 at a price of USD6.41). 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. The expenses relating to the administration of this plan (USD 14,862 in 2016) are borne by MEDICREA USA. This plan will be closed at the end of 2017.

5.7 Senior executives and corporate officers' compensation

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

Mr. SOURNAC is not an employee of MEDICREA INTERNATIONAL and is not compensated by the Company for his duties. The management holding company ORCHARD INTERNATIONAL receives fees for the services provided to MEDICREA Group by Mr. SOURNAC. These fees are paid via a service agreement between ORCHARD INTERNATIONAL and MEDICREA INTERNATIONAL. The value of services invoiced by ORCHARD to MEDICREA INTERNATIONAL for the first half of 2017 for work carried out by Mr. SOURNAC was €150,000 exclusive of tax (unchanged from 2016).

Mr. SOURNAC did not receive any direct or indirect compensation from the Company other than that mentioned above.

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

In the first half of 2017, ORCHARD INTERNATIONAL invoiced a total of €32,000 exclusive of tax (unchanged from 2016) to MEDICREA INTERNATIONAL for the sales management duties carried out by Mr. CAFFIERO.

Mr. CAFFIERO did not receive any direct or indirect compensation other than that mentioned above.

5.8 Employee costs analysis

Employee costs are analyzed as follows (excluding temporary staff costs), after taking account of the French competitiveness and employment tax credit of €71,636 for the first half of 2017 (€59,011 for the first half of 2016):

(€)	06.30.2017	06.30.2016
Cost of sales	1,210,291	1,217,360
Research & development costs	773,310	837,455
Share of capitalized expenses	(637,092)	(775,280)
Research & development costs (1)	136,218	62,175
Sales & marketing expenses	4,390,307	4,273,895
General and administrative expenses	1,314,309	1,209,432
Total	7,051,125	6,762,862

(1) : corresponds to non-capitalized employee costs

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

6.1 Goodwill

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

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

Pursuant to IAS 36, such goodwill is not amortized but is subject to impairment tests at least at each fiscal year end, by comparing total assets with their market value as represented by their market capitalization.

The market capitalization based on the MEDICREA share price was €65 million at June 30, 2017, compared with consolidated net worth of €21 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 three years.

6.4 Property, plant and equipment

In accordance with IAS 16, the cost of an item of property, plant and equipment comprises:

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

Property, plant and equipment is broken down if its components have different useful lives or if it provides benefits to the Group at a different pace that requires the use of different amortization rates and methods.

The depreciation periods applied by the Group are as follows:

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

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

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

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

6.5 Non-current assets, and amortization and depreciation charges of recent periods

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

Non-current assets – €	06.30.2017	12.31.2016	06.30.2016
Research & development costs	11,513,975	10,611,860	9,587,447
Patents and similar rights	3,788,214	3,688,144	3,633,397
Computer licenses and software	1,636,233	1,246,653	1,070,837
Brands	25,133	25,133	25,133
Intangible assets	**16,963,555**	**15,571,790**	**14,316,814**
Buildings	12,296	22,182	22,182
Plant & equipment	6,126,288	6,461,797	6,087,849
Demonstration equipment	701,749	658,189	616,468
Instrument sets	5,935,730	5,767,515	5,311,344
Computer hardware and office equipment	2,295,914	1,740,258	1,115,303
Other non-current assets	3,805,844	3,734,134	1,921,848
Property, plant and equipment	**18,877,821**	**18,384,075**	**15,074,994**
Guarantees and deposits	759,869	779,803	487,292
Pledges	-	158,605	158,623
Non-current financial assets	**759,869**	**938,408**	**645,915**
Total gross values	**36,601,245**	**34,894,273**	**30,037,723**

Amortization, depreciation and provisions – €	06.30.2017	12.31.2016	06.30.2016
Intangible asset amortization	10,352,017	9,500,422	8,637,398
Property, plant and equipment depreciation	7,884,101	8,284,858	7,554,769
Total amortization, depreciation and provisions	**18,236,118**	**17,785,280**	**16,192,167**
Total net values	**18,365,127**	**17,108,993**	**13,845,556**

Over the last 3 half-year periods, changes in non-current assets (excluding goodwill) were as follows:

Net non-current assets – €	06.30.2017	12.31.2016	06.30.2016
At January 1	17,108,993	12,601,150	12,601,150
Investments during the period	4,747,318	9,094,944	3,507,490
Disposals during the period	(739,646)	(378,400)	(123,886)
Amortization, depreciation and provision charges	(2,344,833)	(4,238,236)	(2,061,614)
Translation adjustment	(406,705)	29,535	(77,584)
At June 30	18,365,127	17,108,993	13,845,556

6.6 Change in non-current assets, and depreciation and amortization during H1 2017

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

Gross values (€)	01.01.2017	Translation adjustment	Acquisitions	Disposals	Other	06.30.2017
Research & development costs	10,611,860	(40,986)	943,101	-	-	11,513,975
Patents and similar rights	3,688,144	-	100,070	-	-	3,788,214
Computer licenses and software	1,246,653	(11,421)	460,272	40,780	(18,491)	1,636,233
Brands	25,133	-	-	-	-	25,133
Intangible assets	15,571,790	(52,407)	1,503,443	40,780	(18,491)	16,963,555
Buildings	22,182	-	-	9,886	-	12,296
Plant & equipment	6,461,797	(603)	340,066	658,963	(16,009)	6,126,288
Demonstration equipment	658,189	(27,369)	127,000	56,071	-	701,749
Instrument sets	5,767,515	(277,723)	1,014,774	568,836	-	5,935,730
Computer hardware and office equipment	1,740,258	(9,962)	452,844	355,649	468,423	2,295,914
Other non-current assets	3,734,134	(84,481)	1,304,324	679,710	(468,423)	3,805,844
Property, plant and equipment	18,384,075	(400,138)	3,239,008	2,329,115	(16,009)	18,877,821
Guarantees and deposits	779,803	(24,801)	4,867	-	-	759,869
Pledges	158,605	-	-	158,605	-	-
Non-current financial assets	938,408	(24,801)	4,867	158,605	-	759,869
Total gross values	34,894,273	(477,346)	4,747,318	2,528,500	(34,500)	36,601,245

Amortization and depreciation (€)	01.01.2017	Translation adjustment	Charges	Reversals	Other	06.30.2017
Research & development costs	6,207,287	(14,292)	717,918	-	-	6,910,913
Patents and similar rights	2,841,394	-	115,407	-	-	2,956,801
Computer licenses and software	426,608	(1,626)	81,609	12,921	(34,500)	459,170
Brands	25,133	-	-	-	-	25,133
Intangible assets	**9,500,422**	**(15,918)**	**914,934**	**12,921**	**(34,500)**	**10,352,017**
Buildings	22,182	-	6,415	24,201	-	4,396
Plant & equipment	2,654,797	(599)	254,046	587,705	(6,927)	2,313,612
Demonstration equipment	328,843	(2,909)	86,904	44,158	-	368,680
Instrument sets	3,478,850	(24,878)	697,754	511,825	-	3,639,901
Computer hardware and office equipment	845,608	(8,021)	146,434	103,159	220,109	1,100,971
Other non-current assets	954,578	(18,316)	238,346	504,885	(213,182)	456,541
Property, plant and equipment	**8,284,858**	**(54,723)**	**1,429,899**	**1,775,933**	-	**7,884,101**
Total amortization and depreciation	**17,785,280**	**(70,641)**	**2,344,833**	**1,788,854**	**(34,500)**	**18,236,118**

Net values (€)	01.01.2017	Translation adjustment	Increases	Decreases	Other	06.30.2017
Intangible assets	6,071,368	(36,489)	588,509	27,859	16,009	6,611,538
Property, plant and equipment	10,099,217	(345,415)	1,809,109	553,182	(16,009)	10,993,720
Non-current financial assets	938,408	(24,801)	4,867	158,605	-	759,869
Total net values	**17,108,993**	**(406,705)**	**2,402,485**	**739,646**	**-**	**18,365,127**

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 H1 2017 include:

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

R&D costs capitalized for the first half of 2017 amounted to €943,101 compared with €1,273,702 in H1 2016. Total R&D costs expensed for the year are analyzed as follows:

(€)	06.30.17	06.30.16
Research & development costs	2,172,543	2,325,433
of which amortization charge of capitalized R&D costs	*717,918*	*601,049*
Capitalization of R&D costs	(943,101)	(1,273,702)
Research tax credit	(440,000)	(528,084)
Total R&D costs expensed for the year	**789,442**	**523,647**

2/ Patent costs capitalized in H1 2017 amounted to €100,070, compared with €54,611 in respect of H1 2016. They primarily relate to customized osteosynthesis spinal rods (UNiD® rods), 3D-printed IMPIX lumbar cages, the thoraco-lumbar fixation system PASSLP® and its extensions and the LigaPASS® 2.0 system, an anchoring technology using a sub-laminar band for thoraco-lumbar spinal posterior fixation.

3/ The increase in licenses and software packages is primarily linked to the development of a surgical planning platform and applications, which will be operational in Q4 2017.

4/ The Group continued to expand its machine base with an investment of €0.3 million euros in various industrial equipment in the first half of 2017.

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

6 / To carry out the surgical procedures, the Group offers its customers sets comprising instruments and implants. This equipment is stored at healthcare facilities or is available on loan. The instruments are recorded under property, plant and equipment and depreciated over a period of 3 years. The development of the Group's activity requires it to increase and renew the assets used by its customers, particularly in the United States and in newly-created distribution subsidiaries. Fully-amortized instruments are taken off the books on a regular basis. During the first half of 2017, the Group assembled the portfolio of instrument sets for its Polish subsidiary, started renewing PASS LP® sets in France, and began rolling out the first PASS TULIP® sets in the United States.

7/ The increase of computer hardware and office equipment is mainly due to the renewal of equipment under finance lease contracts for €0.4 million, as well as the installation of video equipment at the Vancia site for €0.1 million.

8/ The growth in other property, plant and equipment is due to the completion of work at the new headquarters for €1.1 million as well as the end of work to extend MEDICREA USA's offices in New York for €0.2 million.

6.7 Leases

6.7.3 Finance leases

Property, plant and equipment acquired under finance leases concern software, technical facilities, equipment and tools and computer hardware. Their net value totaled €2,348,440 at June 30, 2017 compared with €1,961,587 at December 31, 2016 and were analyzed as follows:

(€)	06.30.2017	12.31.2016	06.30.2016
Software	21,700	21,700	21,700
Technical facilities and equipment	3,086,472	3,432,347	3,432,347
Computer hardware	953,422	397,519	397,519
Total gross values	**4,061,594**	**3,851,566**	**3,851,566**
Amortization - Software	11,272	7,655	4,039
Depreciation - technical facilities	1,331,462	1,527,265	1,417,567
Depreciation - computer hardware	370,420	355,059	330,281
Total amortization and depreciation	**1,713,154**	**1,889,979**	**1,751,887**
Total net values	**2,348,440**	**1,961,587**	**2,099,679**

The increase in net values seen at June 30, 2017 was mainly due to the renewal of IT hardware.

Financial debt corresponding to assets financed by these contracts totaled €1,584,907 at June 30, 2017 compared with €1,267,017 at December 31, 2016.

Commitments are analyzed as follows:

(€)	06.30.2017	12.31.2016	06.30.2016
Original value	4,061,594	3,851,566	3,851,566
Depreciation	(1,713,154)	(1,889,979)	(1,751,887)
Of which depreciation charges for the period	*(159,373)*	*(279,468)*	*(141,376)*
Net value	**2,348,440**	**1,961,587**	**2,099,679**
Lease payments			
Total payments from previous years (1)	1,539,540	1,034,543	1,034,543
Lease payments for the period (1)	268,660	504,997	255,813
Total	**1,808,200**	**1,539,540**	**1,290,356**
Future minimum lease payments			
Within 1 year	508,468	426,986	467,553
1 to 5 years	1,134,255	867,764	1,030,699
More than 5 years	9,165	-	47,200
Total	**1,651,888**	**1,294,750**	**1,545,452**
Residual values	**18,427**	**23,514**	**23,514**

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

6.7.4 Operating leases

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

Entities	2017 annual rent
MEDICREA INTERNATIONAL – Lyon	€1,110,810
MEDICREA TECHNOLOGIES UK – Cambridge	£11,000
MEDICREA USA – New York	$969,631
MEDICREA GMBH – Cologne	€11,179
MEDICREA POLAND – Warsaw	zł37,080

The lease for MEDICREA INTERNATIONAL's former premises ended on October 31, 2016. The move to the new buildings, of which the Company is also a tenant, took effect as of the end of September 2016. The Group therefore centralized the operations of its three French subsidiaries on a single site for an annual rental charge of €1 million and having signed a 12-year rental commitment. The lease for the La Rochelle manufacturing site has been terminated with effect from January 31, 2017.

In the United States, the lease expiring at the end of March 2016 was renegotiated and renewed for a term of 10 years, the leased area being increased by an additional floor. The new annual rental charge, which will only take effect from 2017, is USD1 million for a 48-month rental commitment. In the event of early termination of the lease, the premises will be re-let easily as a result of their prime location in New York City.

The rental lease for MEDICREA GMBH's offices was terminated during the first half of 2017 and all transactions relating to the German market are now handled directly by the headquarters in Lyon.

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

(€)	06.30.2017	Within 1 year	1 to 5 years	5 to 10 years	More than 10 years
Real estate and equipment rental	21,397,568	2,185,859	8,289,988	9,560,907	1,360,814

The Group carried out an assessment of all of its leases and of their main provisions likely to be concerned by the new standard "IFRS 16 – Leases" during 2017, with the aim of providing an analysis of its impacts in the notes to the Group's annual financial statements for 2017.

6.8 Non-current financial assets

These mainly comprise guarantees and deposits, and are not discounted due to the lack of known maturity and their low value. If applicable, impairment is recognized when their book value exceeds their recoverable value. The increase in deposits and guarantees in 2017 is directly related to the lease agreements for the Group's new real estate facilities.

NOTE 7: INVENTORIES AND WORK IN PROGRESS

Raw material inventories are measured at their weighted average cost, including sourcing costs. Finished and semi-finished goods inventories are valued at cost, excluding sales and marketing expenses. Impairment is recognized when the probable realizable value of inventories is lower than book value.

Gross and net inventories are analyzed as follows:

(€)	06.30.2017	12.31.2016	06.30.2016
Raw materials	575,959	570,525	484,973
Work-in-process	924,515	640,224	711,942
Semi-finished goods	1,519,461	1,029,521	725,705
Finished goods	9,170,356	9,174,538	8,081,788
Gross values	**12,190,291**	**11,414,808**	**10,004,408**
Provisions for impairment	(3,176,483)	(2,688,315)	(2,209,286)
Net values	**9,013,808**	**8,726,493**	**7,795,122**

The gross value of inventories grew 16% in comparison with June 30, 2016. To anticipate the shut-down of the historical La Rochelle plant and the gradual start-up of the new site in Rillieux-la-Pape, the Group significantly increased inventory levels in order to ensure continuity of service for all of its customers. The situation should gradually return to normal with better usage of available in-house production capacity as well as the introduction of a new management control system for sales forecasts and need calculations.

Provisions for impairment by category of inventories are as follows:

(€)	06.30.2017	12.31.2016	06.30.2016
Raw materials	87,061	53,962	13,237
Work-in-process	71,418	53,457	47,601
Semi-finished goods	-	-	104,313
Finished goods	3,018,004	2,580,896	2,044,135
Provisions for impairment	**3,176,483**	**2,688,315**	**2,209,286**

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

NOTE 8: TRADE RECEIVABLES AND OTHER CURRENT ASSETS

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

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

Trade and other receivables are analyzed as follows:

(€)	06.30.2017	12.31.2016	06.30.2016
Trade receivables - gross value	4,886,150	5,195,604	5,526,315
Provision for doubtful debts	(27,341)	(36,786)	(47,988)
Trade receivables	**4,858,809**	**5,158,818**	**5,478,327**
Social security receivables	9,027	10,677	28,038
Tax receivables	1,344,084	2,339,202	1,200,545
Other receivables	378,731	436,412	1,228,541
Prepaid expenses	498,480	725,186	540,476
Other current assets	**2,230,322**	**3,511,477**	**2,997,600**
Total receivables – gross values	**7,116,472**	**8,707,081**	**8,523,915**
Total receivables – net values	**7,089,131**	**8,670,295**	**8,475,927**

The average settlement period for trade receivables was 48 days at June 30, 2017, against 52 days at the previous year-end.

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

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

Other receivables mainly include advances and prepayments to suppliers. The decrease in the amount compared with June 30, 2016 is explained by the write-off in 2016 of advances paid in connection with a cooperation agreement signed with a US IT company (USD 1,200,000) and with an agreement involving the assignment of inventor's rights to a surgeon (USD 76,138).

NOTE 9: PROVISIONS AND CONTINGENT LIABILITIES

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

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

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

(€)	06.30.2017	12.31.2016	06.30.2016
Provisions for pensions and other employee benefits	572,394	525,011	508,266
Provisions for litigation	-	10,000	10,000
Provisions for charges	349,548	1,103,507	1,027,000
Total	**921,942**	**1,638,518**	**1,545,266**

Provisions for charges mainly consist of redundancy packages and the balance of restructuring and transfer costs for the La Rochelle production unit.

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

(€)	06.30.2017	12.31.2016	06.30.2016
At start of period	**1,638,518**	**491,821**	**491,821**
Provision charges	307,560	1,193,201	1,067,223
Provision reversals – used	(971,136)	(13,562)	(13,778)
Provision reversals – unused	(53,000)	(122,343)	-
Actuarial gains and losses	-	89,618	-
Translation adjustment	-	(217)	-
At end of period	**921,942**	**1,638,518**	**1,545,266**
Changes in operating income	*(125,478)*	*1,047,077*	*1,048,335*
Changes in net financial income/(expense)	*3,636*	*10,219*	*5,110*
Of which changes in non-recurring income	*(594,734)*	-	-

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

(€)	06.30.2017	Within 1 year	1 to 5 years	More than 5 years
Provisions for pensions and other	572,394	11,169	37,338	523,887
employee benefits	349,548	349,548	-	-
Provisions for charges	**921,942**	**360,717**	**37,338**	**523,887**
Total				

NOTE 10: FINANCING AND FINANCIAL INSTRUMENTS

10.1 Net financial debt

10.1.1 Financial debt

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

Financial debt is analyzed as follows:

(€)	06.30.2017	12.31.2016	06.30.2016
Bond issue	15,304,576	15,044,576	2,725,913
Loans from credit institutions	4,466,080	4,774,752	5,775,534
Operating leases	1,226,311	1,247,341	1,463,457
Finance leases	358,596	19,676	36,177
Bank overdrafts	500,800	500,000	1,688,244
Factoring	348,086	309,758	394,123
Accrued bank interest	5,456	5,926	7,728
Accrued loan interest	7,886	8,999	8,795
Other financial debt	11,699	-	4,292
Total	22,229,490	21,911,028	12,104,263

At June 30, 2017, all financial debt was taken out in Euros and at fixed rates.

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

The average interest rate for H1 2017 stood at 5.74% compared with 5.54% for 2016. This rate takes account of the commissions paid to BPI under the guarantees granted in relation to medium-term bank financing.

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

(€)	06.30.2017	Within 1 year	1 to 5 years	More than 5 years
Bond issue	15,304,576	1,552,523	13,752,053	-
Loans from credit institutions	4,466,080	2,036,352	2,426,250	3,478
Operating leases	1,226,311	398,528	827,783	-
Finance leases	358,596	75,186	274,319	9,091
Bank overdrafts	500,800	500,800	-	-
Factoring	348,086	348,086	-	-
Accrued bank interest	5,456	5,456	-	-
Accrued loan interest	7,886	7,886	-	-
Other financial debt	11,699	11,699	-	-
Total	22,229,490	4,936,516	17,280,405	12,569

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

10.1.2 Conditional advances

Conditional advances mainly result from innovation grants awarded by BPI in the form of repayable advances. Their change compared with the previous year resulted from ongoing repayment plans. No new grants were awarded during the first half of 2017.

10.1.3 Cash and cash equivalents

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

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

Net cash and cash equivalents changed as follows:

(€)	06.30.2017	12.31.2016	06.30.2016
Cash	14,118,327	8,063,140	1,077,879
Cash and cash equivalents	**14,118,327**	**8,063,140**	**1,077,879**
Bank overdrafts	(500,800)	(500,000)	(1,688,244)
Factoring	(348,086)	(309,758)	(394,123)
Net cash and cash equivalents	**13,269,441**	**7,253,382**	**(1,004,488)**

The increase in cash is due to the €13 million share capital increase carried out at the end of June 2017.

10.1.4 Cash flow statement

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

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

The cash flow statement is detailed in section 1.4 of the financial statements at June 30, 2017.

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

(€)	06.30.2017	12.31.2016	06.30.2016
Issue costs for the €15 million bond loan	-	1,550,120	-
Capital increase expenses charged as issue costs	780,000	94,928	-
Issue / repayment of other financial debt	(11,699)	138,191	117,610
Change in other financial assets and liabilities	-	-	10,575
Total	768,301	1,783,239	128,185

10.2 Fair value of financial instruments

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

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

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

10.2.1 Income statement disclosures

The following table presents the impact of financial assets and liabilities on the income statements for H1 2017 and H1 2016, as well as the breakdown of this impact according to the categories outlined in IAS 39.

	Designation of financial instruments	At 06.30.2017	At 06.30.2016
Investment income		**-**	**10**
Proceeds from sale of marketable securities	A	-	10
Finance costs		**(1,114,374)**	**(186,216)**
Interest charge	B	(1,114,374)	(186,216)
Other financial income		**39,495**	**16,226**
Interest income	B	-	563
Exchange gains	A	39,495	5,088
Changes in fair value of derivatives	A	-	10,575
Other financial expenses		**(342,474)**	**(79,508)**
Exchange losses	A	(342,474)	(79,508)

10.2.2 Balance sheet information

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

	At 06.30.2017			At 12.31.2016		
Sections	Designation of financial instruments	Net book value	Of which measured at fair value (1)	Designation of financial instruments	Net book value	Of which measured at fair value (1)
ASSETS (€)						
Trade receivables	C	4,858,809	4,858,809	C	5,158,818	5,158,818
Other current assets (2)	C	378,731	378,731	C	436,412	436,412
Cash and cash equivalents	A	14,118,327	14,118,327	A	8,063,140	8,063,140
LIABILITIES (€)						
Negative cash balances (3)	A	848,886	848,886	A	809,758	809,758
Current and non-current financial liabilities excluding negative cash balances	B	21,380,604	21,380,604	B	21,101,270	21,101,270
Trade payables	C	5,510,771	5,510,771	C	6,000,976	6,000,976
Other current liabilities (4)	C	323,983	323,983	C	291,031	291,031

(5) the net book value of assets and liabilities measured at cost or amortized cost is close to their fair value
(6) excluding tax and social security receivables, and accruals
(7) including bank overdrafts and factoring
(8) excluding tax and social security payables, and accruals
A: assets and liabilities at fair value through profit and loss
B : assets and liabilities measured at amortized cost
C: assets and liabilities measured at cost

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

10.3 Risk management

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

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

10.3.1 Risks related to changes in raw material prices

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.

10.3.2 Credit risk

The Group monitors its customers' average payment period on a monthly basis. This ratio was 48 days at June 30, 2017. For international customers not paying in advance, the Group puts in place coverage mechanisms, such as:

- an application for guarantee from Coface. At the end of June 2017, the maximum amount of trade receivables that may be guaranteed by Coface was €633,000;
- letters of credit (none were implemented at June 30, 2017).

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

(€)	06.30.2017	12.31.2016	06.30.2016
Gross trade receivables	4,886,150	5,195,604	5,526,315
Outstanding for more than 6 months	33,284	71,432	87,493
% of trade receivables	*0.68%*	1.55%	*1.58%*
Total provision for doubtful receivables	27,341	36,786	47,988
% of trade receivables	*0.56%*	0.80%	*0.87%*
Bad debt losses	2,041	13,757	100

10.3.3 Liquidity risks

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

The financial resources secured following equity fundraising transactions totaling approximately €47 million have significantly reduced this liquidity risk and have given the Group the means to implement its expansion strategy, create new subsidiaries and launch new products.

In June 2017, the Group completed a significant share capital increase of €13 million through the issue of 2,680,413 new shares, each with a par value of €0.16 and a share price of €4.85 including the issue premium. This financial transaction significantly reduced the short-term liquidity risk. It follows significant fundraising worth €20 million completed in August 2016, comprised of €15 million in convertible bonds, to mature after four years and at an interest rate of 6.75%, and a €5 million share capital increase via private placement.

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

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

At June 30, 2017, the consolidated net financial debt to consolidated shareholders’ equity ratio was 0.4 and the consolidated net financial debt to consolidated EBITDA ratio was higher than 3. Should this situation continue until December 31, 2017, the Group would take the appropriate steps with the financial institution concerned, as was the case in previous fiscal years, to obtain a waiver without there being any modification to the initial terms of the loans.

Furthermore, the contract relating to the €15,000,000 convertible bond issued in August 2016 specified that the Group must ensure that it has available cash of at least €3.5 million, and that its gross financial debt, without deducting cash or taking the actual bond loan into account, is less than €10 million. Both these conditions were fulfilled at June 30, 2017.

10.3.4 Foreign exchange risks

Most of the Group's supplies are denominated in Euros. Sales to US, UK and Polish subsidiaries are made in local currencies, the products then being sold in these markets in the country's 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 June 30, 2017, the Group did not have any ongoing currency hedging.

10.3.5 Interest rate risks

At June 30, 2017, all loans carried a fixed rate. As a result, the Group is not exposed to the risk of changes in interest rates.

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

The Group generated 61% of its H1 2017 consolidated sales in dollars through its subsidiary MEDICREA USA. This proportion should continue to increase over the coming years, with dollar-denominated sales that could potentially represent almost two-thirds of consolidated Group sales.

The US, UK and Polish subsidiaries are invoiced in their functional currency when they are able to settle its trade liabilities owed to the parent company, and foreign exchange hedges have been put in place on an ad-hoc basis to cover the risk of fluctuation in the corresponding currencies (mainly dollars).

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

The dollar has appreciated by approximately 3% since June 30, 2016, automatically increasing sales for the first half of 2017 by €0.2 million but with little impact on operating income before share-based payments. A breakdown of these changes can be found in Note 13.

A 15% appreciation of the dollar against the Euro, applied to H1 2017 data, would result in a €1.6 million increase in Group sales and an increase of approximately €0.1 million in operating income based on the results generated by the US subsidiary over H1 2017, as all its purchases and overheads are denominated in dollars.

Conversely, a 15% depreciation of the dollar against the euro, applied to H1 2017 data, would result in declines in both Group sales and Group operating income in the same proportions as those indicated above.

10.3.7 Warranties on UNiD products

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

Since the launch of this lifetime warranty across the United States, no activation request has been recorded. On this basis, the Group did not recognize any provision in its financial statements at June 30, 2017 and, depending on all the data collected in 2017, it will assess whether or not it is necessary to review its position at December 31, 2017.

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

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

These items are analyzed as follows:

(€)	06.30.2017	06.30.2016
Bond interest	1,043,100	83,299
Loan interest	41,366	72,567
Finance lease interest	22,868	19,227
BPI loan guarantee	4,445	6,351
Overdraft interest	2,005	4,667
Factoring interest	1,401	-
Other financial expenses / (income)	(811)	105
Cost of net financial debt	**1,114,374**	**186,216**
Foreign exchange gains / (losses)	(302,979)	(63,795)
Unrealized capital gains on marketable securities	-	513
Other financial income / (expenses)	-	10
Other financial income / (expenses)	**(302,979)**	**(63,272)**

NOTE 11: TRADE PAYABLES AND OTHER CURRENT LIABILITIES

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

(€)	06.30.2017	12.31.2016	06.30.2016
Trade payables	5,615,771	6,000,976	4,894,770
Social security liabilities	1,706,067	1,666,076	1,965,987
Tax liabilities	301,655	337,054	219,123
Other current liabilities	323,983	291,031	1,022,782
Other current liabilities	2,331,705	2,294,161	3,207,892
Total operating liabilities	7,947,476	8,295,137	8,102,662

At June 30, 2017, the maturity of all operating liabilities was less than one year.

Trade payables will gradually return to normal after a substantial increase in late 2016 due to extensive use of sub-contracting to offset the closure of the La Rochelle production plant and the gradual rramp-up of the new Rillieux-la-Pape site.

Other current liabilities remained stable compared with December 31, 2016 at €2.3 million.

NOTE 12: CORPORATE TAX

Since January 1, 2003, MEDICREA INTERNATIONAL and MEDICREA TECHNOLOGIES have been part of the same tax consolidation group, with MEDICREA INTERNATIONAL acting as parent company and being solely liable for corporate tax on the overall net income achieved by the Group. Savings resulting from the implementation of the tax consolidation agreement are retained by the parent company.

The corporate tax expense corresponds to current tax adjusted for deferred taxes. The latter result from adjustments made to parent company financial statements, as well as temporary differences between accounting income and taxable income, in accordance with IAS 12.

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

Deferred tax assets and liabilities are recognized as non-current assets and liabilities.
Tax credits and tax credits unclaimed in previous years are recorded in operating income in accordance with IAS 20.

The research tax credit was recognized as a €440,000 reduction in research and development costs at June 30, 2017 (€528,084 at June 30, 2016).

12.1 Analysis of the corporate tax rate

The Group's corporate tax charge for the year to June 30, 2017 is analyzed as follows:

(€)	06.30.2017	06.30.2016
Consolidated net income/(loss)	**(5,120,517)**	**(2,670,993)**
Corporate tax	427,900	253,464
Income before tax	**(5,548,417)**	**(2,924,457)**
Share-based payments	(330,000)	(14,076)
Taxable income	**(5,218,417)**	**(2,910,381)**
Adjustment to the research and employment and competitiveness tax credit	(511,636)	(587,095)
Taxable income after adjustments	**(5,730,053)**	**(3,497,476)**
Theoretical tax income / (charge) @33.33%	**1,909,826**	**1,165,709**
Difference in tax rates of other countries	(146,718)	(29,515)
Tax on permanent differences	481,031	(38,415)
Uncapitalized tax losses carried forward	(2,086,117)	(569,537)
Use of uncapitalized tax losses carried forward	-	118,102
Capping of deferred tax assets	196,474	(382,342)
Other	73,404	(10,538)
Recognized corporate tax income/ (charge)	**427,900**	**253,464**

12.2 Analysis of deferred taxation

Deferred tax assets and liabilities are analyzed as follows:

(€)	06.30.2017	12.31.2016	06.30.2015
Tax losses carried forward	1,690,819	1,285,690	1,084,205
Temporary tax differences	49,432	44,618	24,986
Consolidation restatements	812,194	1,123,717	245,368
Total deferred tax assets	**2,552,445**	**2,454,025**	**1,354,559**
Temporary tax differences	564,912	641,045	162,117
Consolidation restatements	793,988	766,941	333,481
Total deferred tax liabilities	**1,358,900**	**1,407,986**	**495,598**

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

Recoverability testing of tax losses carried forward, performed on a subsidiary-by-subsidiary basis, led to the non-recognition of tax losses generated by the French entities, MEDICREA TECHNOLOGIES UK and MEDICREA GMBH. Furthermore, for the same French entities, deferred tax assets related to consolidation restatements cannot exceed deferred tax liabilities.

Deferred tax assets not recognized in the balance sheet totaled €11.5 million at June 30, 2017, including €10.3 million of unrecognized tax losses carried forward and €1.2 million related to consolidation restatements.
The following tax losses can be used by the Group:

(€)	06.30.2017	of which capitalized	Corresponding deferred tax
MEDICREA INTERNATIONAL tax consolidation	28,268,905	-	-
MEDICREA UK	2,144,130	-	-
MEDICREA USA	6,038,641	6,038,641	1,690,819
MEDICREA GMBH	1,247,937	-	-
MEDICREA POLAND	134,863	-	-
Total available tax losses	**37,834,476**	**6,038,641**	**1,690,819**

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

(€)	06.30.2017
Tax losses carried forward at January 1, 2017	**1,285,690**
Capitalization of tax losses carried forward -	532,308
MEDICREA USA	(127,179)
Translation adjustment	**1,690,819**
Tax losses carried forward at June 30, 2017	

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

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

Average exchange rates evolved as follows:

Average conversion rate	06.30.2017	12.31.2016	06.30.2016
USD / EUR	1.07892	1.10605	1.11062
GBP / EUR	0.85737	0.81251	0.76958
PLN / EUR	4.27818	4.3622	-

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

(€)	06.30.2017 at the 2017 rate	06.30.2017 at the 2016 rate	Impact of exchange rate
Sales	14,680,574	14,476,301	204,273
Operating income after share-based payments	(4,071,564)	(4,107,737)	36,173

NOTE 14: SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

14.1 Shareholders' equity

14.1.1 Share capital

Following equity transactions carried out during the first half-year, share capital at June 30, 2017 totaled €12,713,580 and comprised of 2,034,172.80 shares with par value of €0.16 each. The number of authorized shares outstanding is as follows:

(€)	06.30.2017	12.31.2016	06.30.2016
Number of authorized shares	12,713,480	10,033,067	9,004,264
Number of preference shares	100	100	100
Number of shares issued and fully paid up	12,713,580	10,033,167	9,004,364
Par value (€)	0.16	0.16	0.16
Number of shares outstanding at end of period	12,713,480	10,033,067	9,004,264
Number of shares with double voting rights	2,637,246	2,650,743	2,673,803
Number of treasury shares held by the Group	-	-	-
Number of treasury shares held by the parent company	3,389	2,650	3,692

Transactions in the share capital of MEDICREA INTERNATIONAL over the period January 1, 2017 to June 30, 2017 are summarized as follows:

- At January 1, 2017, the share capital was €1,605,306.72, represented by 10,033,067 ordinary shares and 100 P preference shares.
- On June 22, 2017, the Board of Directors recognized the issue of 2,680,413 new shares as part of a share capital increase reserved for qualified investors.
- At June 30, 2017, the share capital was therefore €2,034,172.80, represented by 12,713,480 ordinary shares and 100 P preference shares.

14.1.2 Preference shares

At the Shareholders' Meeting of December 17, 2014, it was decided to issue 100 preference shares to MMCO, a simplified joint stock company *(Société par Actions Simplifiée)* with share capital of €1,000, with its registered office at 5389 route de Strasbourg, 69140 Rillieux-la-Pape.

These preference shares will ultimately be convertible into ordinary shares of MEDICREA INTERNATIONAL, as determined by reference to the volume-weighted average price of the MEDICREA INTERNATIONAL share between September 17, 2018 and December 17, 2018, subject to the MEDICREA shares having reached significant and predefined performance levels during that period. The maximum number of ordinary shares that may be issued as a result of the conversion of all preference shares is 210,000, i.e. 1.7% of the Company's share capital at June 30, 2017. These preference shares do not grant voting rights or entitlement to dividends. They are not listed on Euronext Growth Paris.

The conversion of the preference shares into ordinary shares would not have been possible during the first half of 2017 based solely on the performance of MEDICREA shares.

14.1.3 Treasury shares

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

When sold, the cost price of the shares is calculated in accordance with the first in, first out (FIFO) method, except for shares held within the framework of option plans, which are calculated on a plan-by-plan basis in accordance with the weighted average price method.

Transfer proceeds are recognized directly in equity net of tax.

14.1.4 Change in shareholders' equity

The change in shareholders' equity for the past two years is detailed in Note 1.5 to the financial statements at June 30, 2017. 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 June 30, 2017.

14.1.5 Issue, buyback and redemption of debt and equity securities

In June 2017, MEDICREA INTERNATIONAL issued 2,680,413 new shares with a par value of €0.16 per unit, at a unit price of €4.85, including issue premium, for a total amount of €13 million, representing 21.08% of the Company's share capital after the transaction.
As an indication, the participation of a shareholder holding 1% of the share capital of the Company prior to the issue became 0.79%.

Furthermore, at June 30, 2017, the Group redeemed 81 of the 200 convertible bonds issued to an institutional investor in April 2015, i.e. an amount of €0.8 million on the initial loan of €2 million, which matures in April 2020.

14.1.6 Dividends paid during the fiscal year

Nil.

14.2 Earnings per share

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

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

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

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

In accordance with IAS 33, and in order to avoid an accretive effect, the potential ordinary shares resulting from the allotted stock option plans (642,290 shares), the preference shares (210,000 shares) and the bonds potentially convertible into shares resulting from the issue of a €15,000,000 bond loan in August 2016 (2,400,000 shares) were not taken into consideration at June 30, 2017 when determining their potential dilutive effect.

NOTE 15: OTHER INFORMATION

15.1 Off-balance sheet commitments

15.1.1 Commitments given in relation to medium-term borrowings

(€)	06.30.2017	12.31.2016	06.30.2016
Pledges of business goodwill (1)	6,852,659	6,746,836	6,844,850
Financial instrument collateral	-	-	153,550
Joint and several guarantees	-	500,000	500,000
Cash collateral (2)	62,500	62,500	62,500

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

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

(€)	06.30.2017	12.31.2016	06.30.2016
Assignment of trade receivables – Dailly	500,000	500,000	500,000
Miscellaneous guarantees and sureties	-	-	307,239
BPI counter guarantee (1)	1,524,484	1,742,846	2,094,531

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

The total amount of overdrafts authorized but unconfirmed at June 30, 2017 was €782,600.

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

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

	06.30.2017			12.31.2016		
	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights
ORCHARD INTERNATIONAL (1)	1,727,490	13.59	22.51	1,727,490	17.22	27.24
Denys SOURNAC (2)	463,732	3.65	3.02	463,732	4.62	3.66
Jean Philippe CAFFIERO	236,089	1.86	2.98	246,089	2.45	3.76
Other Directors						
Pierre BUREL (2)	194,587	1.53	1.27	194,587	1.94	1.53
Patrick BERTRAND (2)	113,968	0.90	0.86	113,968	1.14	1.04
François Régis ORY (2)	108,652	0.85	0.71	108,652	1.08	0.86
Christophe BONNET	52,128	0.41	0.67	52,128	0.52	0.81
Jean Joseph MORENO	22,900	0.18	0.25	22,900	0.23	0.30
Marc RECTON	18,752	0.15	0.20	18,752	0.19	0.25
Total	**2,938,298**	**23.12%**	**32.47%**	**2,948,298**	**29.39%**	**39.45%**

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

- Société civile DENYS SOURNAC COMPANY	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

15.3 Related-party disclosures

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

(€)	Amount invoiced, excl. VAT H1 2017	Amount invoiced, excl. VAT H1 2016	Amount invoiced, excl. VAT H1 2015
Management services	150,000	150,000	146,000
Rebilling of employee costs	75,750	75,750	75,750
Rebilling of seconded executive's salary	32,000	32,000	32,000
Rebilling of seconded executive's expenses	-	4,391	-
Share of expenses	5,502	5,502	5,502
Rent and rental costs	22,310	10,149	10,241
Total	**285,562**	**277,792**	**269,493**

15.4 Post-balance sheet events

Nil

4. STOCK MARKET INFORMATION

MEDICREA INTERNATIONAL has been listed on Euronext Growth Paris since 26 June 2006, under the ISIN code FR004178572 and the ticker ALMED. The share was launched at €7.94 and has been listed continuously since February 2007.

The MEDICREA share is eligible for the 2015/16 PEA-PME SME equity savings plan, in accordance with Decree n°2014-283 of March 4, 2014 published within the framework of the application of Article 70 of the 2014 Finance Act n° 2013-1278 of December 29, 2013, which defines the conditions for companies to be eligible for the PEA-PME SME savings plan. In this way, investors can continue to add MEDICREA shares to their PEA-PME accounts, which are plans dedicated to small and medium value investments enjoying the same tax benefits as traditional PEA savings plans.

4.1 STOCK MARKET PERFORMANCE

Since January 1, 2017, the share price has evolved as follows:

4.2 TRADING STATISTICS

The key figures related to the MEDICREA share over the past three periods are summarized in the table below *(source Gilbert Dupont).*

	06.30.2017 6 months	12.31.2016 12 months	12.31.2015 12 months
Share price	€5.09	€ 5.40	€6.78
Market capitalization	€65 m	€54 m	€61 m
High price	€6.37	€7.04	€9.34
Low price	€4.96	€4.33	€6.31
Average price	€5.62	€5.46	€7.75
Period change	(5.74)%	(20.35)%	(22.07)%
Number of shares traded	1,190,295	1,937,451	1,638,981
Trading value	€6.7 m	€10.6 m	€12.8 m
Capital turnover rate	10.31%	20.18%	18.76%

4.3 SHAREHOLDING STRUCTURE

The free float represents more than two thirds of the Group's share capital and the shareholding structure broke down as follows at June 30, 2017, in percentage of share capital and voting rights:

	% share capital	% voting rights
Investment funds	**65.3%**	**56.3%**
Founders	**19.0%**	**28.5%**
Of which Denys Sournac and IDS KAP	*3.6%*	*3.0%*
Of which Jean-Philippe Caffiero	*1.9%*	*3.0%*
Of which ORCHARD INTERNATIONAL	*13.5%*	*22.5%*
Business angels	**8.1%**	**8.4%**
Employees	**1.5%**	**1.6%**
Public	**6.1%**	**5.2%**
TOTAL	**100.0%**	**100.0%**

4.4 FINANCIAL ANALYSIS AND INFORMATION SOURCES

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

All the press releases and financial documents are available on the Group's website at the following url: www.medicrea.com, as well as on the Euronext Growth site: www.euronext.com.

4.5 FINANCIAL COMMUNICATION CALENDAR

The following information has been or will be published in 2017/18:

2017 First Quarter Sales	April 13, 2017
2017 Half-Year Sales	July 11, 2017
2017 Half-Year Results	October 3, 2017
2017 Third Quarter Sales	October 12, 2017
2017 Annual Sales	January 11, 2018

5. Information about the Company and its share capital

5.1 Share capital

Share capital

On December 31, 2016, the share capital of MEDICREA INTERNATIONAL SA amounted to €1,605,306.72, divided into 10,033,167 shares with a par value of €0.16 each. The share capital consists of 10,033,067 authorized, issued and fully paid shares, and 100 P preference shares with special rights and attributes.

At the end of the last three fiscal years, the number of shares and the total share capital were as follows:

	Number of shares	Share capital
At 12/31/2016	10,033,167	€1,605,307
At 12/31/2015	8,987,688	€1,438,030
At 12/31/2014	8,481,405	€1,357,025

The change during the 2016 fiscal year follows on from:

- the recognition of 16,676 stock-options, exercised in July 2015 but not recorded at December 31, 2015;
- the issue of 1,028,803 new shares in August 2016 as part of a share capital increase reserved for qualified investors.

In August 2016, MEDICREA completed a €5 million share capital increase via private placement. 1,028,803 ordinary shares with a nominal value of €0.16 were issued at a price of €4.86, representing a discount of 5% compared to the 3-day volume weighted average Company stock price prior to the transaction. The dilution resulting from this capital increase, before the possible dilution caused by the conversion of all the bonds issued on the same date, was 10.3%.

In June 2017, MEDICREA completed a €13 million share capital increase via private placement. 2,680,413 ordinary shares, each with a par value of €0.16, were issued at a price of €4.85, representing a discount of 9.94% compared to the volume-weighted average price of the last 20 trading sessions preceding the decision of the Chairman and CEO (€5.35) and of 4.53% compared to the June 16, 2017 closing price (€5.08). This capital increase had a 21.08% diluting effect.

A complete breakdown of these transactions is provided in Paragraph 1.4.4. of this Registration Document;

As of the date of drafting this Registration Document, the share capital comprised 12,713,580 shares and totaled €2,034,173.

The number of shares and amount of share capital have changed as follows during the last three fiscal years:

Date	Nature of transaction	Number of shares issued	Par value	Share capital increase	Issue premium, per share	Total issue premium	Total number of free post-transaction	Share capital post-transaction
Position at 12/31/2012			€0.16				8,458,005	€1,353,281
17/06/2013	Issue of free shares	3,500	€0.16	€560			8,461,505	€1,353,841
25/06/2013	Issue of free shares	6,000	€0.16	€960			8,467,505	€1,354,801
12/18/2013 (shares created in January 2014)	Issue of free shares	2,000	€0.16	€320			8,469,505	€1,355,121
18/06/2014	Issue of free shares	11,800	€0.16	€1,888			8,481,305	€1,357,009
01/12/2014	Issue of preference shares	100	€0.16	€16			8,481,405	€1,357,025
02/04/2015	Exercise of stock options	20,845	€0.16	€3,335			8,502,250	€1,360,360
02/29/2015	Share capital increase	485,438	€0.16	€77,670	€7.14	€3,466,027	8,987,688	€1,438,030
04/04/2016	Exercise of stock options	16,676	€0.16	€2,668			9,004,364	€1,440,698
12/08/2016	Share capital increase	1,028,803	€0.16	€164,608	€4.70	€4,835,374	10,033,167	€1,605,307
19/06/2017	Share capital increase	2,680,413	€0.16	€428,866	€4.69	€12,571,137	12,713,580	€2,034,173
Position at 6/30/2017			€0.16				12,713,580	€2,034,173

Treasury shares

Nil

Shares with double voting rights

At December 31, 2016, the Company's share capital comprised 2,650,743 shares with double voting rights. The allocation conditions of these shares are explained in Chapter 5.3, paragraph *'Rights, privileges and restrictions applicable to each existing class of shares'.*

At June 30, 2017, the Company's share capital comprised 2,637,246 shares with double voting rights.

Shares not representing capital

Nil

Preference shares

On December 17, 2014 and under the terms Article L. 225-132 of the French Commercial Code, the Company's Shareholders' Meeting approved the issue of 100 preference shares to MMCO, a simplified joint stock company, equally owned by five senior executives of MEDICREA Group who are not corporate officers.

Following a 4-year period, i.e. on December 18, 2018, the preference shares allocated to MMCO will automatically be converted into new MEDICREA INTERNATIONAL ordinary shares, a number of shares all the more important if the listed market price of MEDICREA INTERNATIONAL shares is high and which will be determined by the volume-weighted average share price between September 17, 2018 and December 17, 2018.

The table below shows the number of MEDICREA INTERNATIONAL ordinary shares issued for 1 and 100 preference shares and the value of advantages granted to MMCO, based on different assumptions of market price at maturity:

Share price at maturity	Number of ordinary shares issued for 1 preference share	Number of ordinary shares issued for 100 preference shares	Value of the benefit granted for 100 preference shares
<€30	1	100	<€3,000
€30	1,667	166,700	5,000,000
€40	1,750	175,000	7,000,000
€50	1,800	180,000	9,000,000
€60	1,833	183,300	11,000,000
€70	1,857	185,700	13,000,000
€80	1,875	187,500	15,000,000
€90	2,000	200,000	18,000,000
€100	2,100	210,000	21,000,000
>€100	2,100	210,000	21,000,000

The maximum number of MEDICREA INTERNATIONAL ordinary shares that may be issued as a result of the conversion of all 100 preference shares is set at 210,000, i.e. 2.1% of the Company's share capital at December 31, 2016.

The evaluation of the number of ordinary shares that could result from the conversion of preference shares is random due to the inherent uncertainties of events, i.e. MEDICREA INTERNATIONAL's volume-weighted average share price between September 17, 2018 and December 17, 2018. The significance of this advantage should be qualified, since the conversion rate of 100 preference shares to ordinary shares could vary from 1 for 100 to 1 for 210,000. If MEDICREA INTERNATIONAL's share price is less than €30, the holder of a preference share will only recognize a minimum gain equal to the value of said share determined between September 17, 2018 and December 17, 2018, as described above. As an example, for a share priced at €20, the advantage granted to MMCO for 100 preference shares converted into MEDICREA INTERNATIONAL ordinary shares will therefore be

€2,900. For information, on June 30, 2017 the closing share price of MEDICREA INTERNATIONAL shares was €5.09.

At December 17, 2014, MEDICREA INTERNATIONAL estimated the unit price of a preference share at €1,545. The issue of 100 preference shares thus resulted in an overall subscription value of €154,500 for MMCO, contributed equally by all of the executive shareholders, i.e. €30,900 per person. This amount was determined using valuation work carried out by Kepler Corporate Finance, taking into account the specific attributes of these shares, and in particular the fact they do not confer voting rights nor bear dividends. Moreover, they are not listed on Euronext Growth Paris.

MEDICREA INTERNATIONAL has also assigned Orfis Baker Tilly, independent experts, to appraise the issue price set for the preference shares by analyzing the Company's evaluation method, as well as the valuation assumptions adopted. In their final report, the evaluators made no observations questioning the value of €154,500 of preference shares associated with the shares issued to MMCO.

Additionally, the independent consultants Segeco, commissioned to evaluate the special rights arising from the creation of 100 preference shares without shareholders' preferential subscription rights for MMCO, made no specific comments in its report to MEDICREA INTERNATIONAL shareholders.

The details of the minutes of the December 17, 2014 Shareholders' Meeting that decided:

- to create preference shares known as P with the special rights and attributes outlined below;
- to cancel the preferential subscription right reserved for Shareholders by Article L. 225-132 of the French Commercial Code upon issue of P preference shares to MMCO, a Simplified joint stock Company with capital of €1,000 whose registered office is located at NEYRON (01700) 14, Porte du Grand Lyon, registered with the Trade and Companies Register of BOURG-EN-BRESSE under number 808 324 115, for all one hundred (100) P preference shares to be issued;

- to approve the specific advantage resulting therefrom, granted to MMCO.

is given below:

1. Special rights attached to P preference shares

(i) Conversion right of P preference shares to Company ordinary shares:

(a) Each P preference share will be convertible into a number of ordinary Company shares (hereafter 'NAO') determined by reference to the volume-weighted average price of ordinary Company shares between September 17, 2018 and December 17, 2018 inclusive (hereafter 'Cf') by using the formula below.

The NAO will be thus be calculated as follows:

If Cf < €30: NAO = 1
If 30 ≤ Cf < 40: NAO = 50,000 / Cf
If 40 ≤ Cf < 50: NAO = 70,000 / Cf
If 50 ≤ Cf < 60: NAO = 90,000 / Cf
If 60 ≤ Cf < 70: NAO = 110,000 / Cf
If 70 ≤ Cf < 80: NAO = 130,000 / Cf
If 80 ≤ Cf < 90: NAO = 150,000 / Cf
If 90 ≤ Cf < 100: NAO = 180,000 / Cf
If 100 ≤ Cf: NAO = 210.000 / Cf

The maximum number of ordinary Company shares that may result from the conversion of all P preference shares is therefore fixed at 210,000, i.e. 2.5% of the Company's share capital at the date of the Shareholders' Meeting of December 2014.

(b) P preference shares will automatically be converted into ordinary Company shares four (4) years after issue.

(c) Upon occurrence of an event that could affect the share's liquidity (including, but not limited to, change of control, filing of a takeover bid or exchange offering relating to MEDICREA INTERNATIONAL stock, or a merger by absorption of the Company), the Shareholders' Meeting grants the Company's Board of Directors the right to authorize early conversion of P preference shares and, if necessary, to adjust the conversion formula shown below as follows:

NAO = FMV/Cfa

With:

FMV = Fair value of preference shares calculated by an independent expert and estimated based on a share price equal to Cfa and for a residual maturity on December 17, 2018.

Cfa = volume-weighted average price during the first day of trading after official announcement of the event

(d) The conversion of P preference shares into ordinary shares is automatic and irrevocable.

(e) Ordinary shares to be issued or allocated because of P preference share conversion must be done so for an ordinary share unit price equal to their par value.

(f) Ordinary shares resulting from conversion of P preference shares will be subject to all legal, statutory, and conventional provisions and will be exercisable with effect from their conversion date; they will therefore immediately have dividend entitlement as of that date.

(g) If the NAO does not correspond to a whole number, the holder of converted P preference shares will receive a number of ordinary shares immediately below.

(h) Ordinary shares resulting from the conversion of P preference shares will be issued or allocated by the Company to each holder of P preference shares who requests conversion; the corresponding price will be paid proportionally by each shareholder by incorporation of the share premium they paid when subscribing to the P preference shares (Company shareholders having decided at a Meeting to allocate a portion of the premium for such a purpose).

(i) Pursuant to the provisions of Article L. 225–132, the decision regarding the conversion of P preference shares into ordinary shares entails waiving shareholders' preferential rights to subscribe to shares resulting from the conversion.

(ii) Removal of voting rights:

P preference shares do not entitle their holder to voting rights in Company Ordinary Shareholders' Meetings.

Consequently, and pursuant to the provisions of Article L. 228–11 sub-paragraph 5 of the French Commercial Code, P preference shares are issued without voting rights; they are also deprived of their preferential rights to subscribe to any capital increase in cash, subject to the approval of Company Ordinary Shareholders' Meetings.

(iii) Restriction of dividend entitlement:

P preference shares are not entitled to dividends.

2. Terms and conditions pertaining to P preference shares

- P preference shares issued by the Company are exempt from listing on Euronext Growth Paris;

- The class of P preference share held by a shareholder is subject to a specific mention in Company Shareholders' individual accounts;

- As the rights attached to P preference shares are attached to P preference shares and not to their holders, the rights benefit the successive holders of the aforesaid P preference shares.

- In the event of capital increase in cash or marketable securities conferring entitlement to shares by conversion, exchange or any other manner (particularly in the context of consolidation or division of the par value of Company shares), the new shares obtained as a result of holding P preference shares will themselves be P preference shares;
- In the event of capital increase by incorporation of reserves, profits or premiums, the shares allocated pursuant to the rights attached to P preference shares will themselves be P preference shares;

- In the event of capital increase with waiver of preferential subscription rights, the Meeting will specify the class of newly issued shares;

- Pursuant to the provisions of Article L. 228–16 of the French Commercial Code, in the event of a change to the capital, the Extraordinary Shareholders' Meeting will determine the effects those procedures will have on the rights of holders of preference shares;

- Any merger or demerger will be forbidden without prior agreement by the holders of P preference shares on the specific exchange parity which takes into account their special rights;

- The provisions of Articles L. 228–98 and L. 228–99–2 of the French Commercial Code benefit the holders of P preference shares as if they were holders of marketable securities giving access to the capital;

- The Company may not create new P preference shares without the agreement of holders of P preference shares who attend a Special Meeting, pursuant to Article L. 225-99 of the French Commercial Code;

- The Company may not buy back P preference shares without the agreement of holders of P preference shares who attend a Special Meeting, pursuant to Article L. 225-99 of the French Commercial Code;

- The special rights attached to P preference shares may only be changed if this change is decided by the Extraordinary Shareholders' Meeting after prior approval by a Special Meeting of holders of P preference shares, in accordance with the law and regulations.

Shares held as part of a liquidity contract

Pursuant to the provisions of Article L. 225–211 sub-paragraph 2 of the French Commercial Code, and as part of the approval given by the Combined Shareholders' Meeting of June 7, 2016, the Company carried out the following transactions concerning its own shares during the fiscal year which ended on December 31, 2016:

- number of shares bought during the fiscal year:	146,787
- number of shares sold during the fiscal year:	147,183
- average price of the purchases:	€5.37
- average price of the sales:	€5.34
- trading fees:	Nil
- number of shares registered in the Company's name at December 31, 2016:	2,650
- value based on the purchase price:	€14,310
- par value of shares:	€0.16
- fraction of share capital represented:	Negligible

These transactions were conducted by the brokers Gilbert Dupont, an investment services provider, as part of the liquidity contract drawn up in accordance with the Ethics Code of the AMF. This market-making contract has been entered into since July 1, 2014 between the brokers Gilbert Dupont and MEDICREA INTERNATIONAL. It was previously managed by ORCHARD INTERNATIONAL. Additional information about the contract is given in Section 1.1.4. of this Registration Document.

Unissued authorized capital

In order to comply with the provisions of Article 225–100 of the French Commercial Code, the information pertaining to currently valid delegations of authority and powers granted by the Shareholders' Meeting to the Board of Directors and relating to capital increases as well as the use made of these powers during the 2016 and 2017 fiscal years is as follows:

5. Information about the Company and its share capital

Type of Shareholders' Meeting delegation	Meeting date	Resolution	Delegation period	Expiry of delegation	Method for setting the price	Cap	Implemen-tation	Maximum potential dilution based on share capital at 06/30/2017
Authorization in order to allocate share subscription or purchase options to employees and corporate officers of the Company and related companies	6/15/2017	9th resolution	26 months	8/15/2019		5 % of shares comprising the share capital on the day of allocation. Joint ceiling with the authorization in order to allocate free shares (see below)	406,500 performance-based stock options awarded in 2016 and 210,000 awarded on September 14,	
Authorization given to the Company to purchase and hold its own shares on the stock market as part of buyback by the Company of its own shares according to the provisions of Article L.225-209 of the French Commercial Code	6/15/2017	6th resolution	18 months	12/15/2018		10% of share capital	3,061 shares held at June 14, 2017	
Authorization in order to cancel shares purchased as part of buyback by the Company of its own shares according to the provisions of Article L. 225–209 of the French Commercial Code	6/15/2017	8th resolution	18 months	12/15/2018		10% of share capital	Nil	
Authorization in order to increase capital with waiver of preferential subscription rights in favor of members of a company savings plan via an employees' mutual fund belonging to the Company and companies in its Group within the meaning of Article L. 225-180	05/11/2017 06/15/2017	10th resolution 11th resolution	26 months	7/11/2019 8/15/2019		€40,000 nominal	Nil	
Change to overall ceilings	5/11/2017	12th resolution	See details following each delegation			Overall ceiling increased from €600,000 to €800,000 and from €15,000,000 to €25,000,000 for marketable securities		
Delegation of authority in order to decide one or more capital increase with maintenance of preferential subscription rights (Art. L225-129-2 and L228-91)	5/11/2017	5th resolution	26 months	7/11/2019		* €800,000 nominal / €25,000,000 for marketable securities	Nil	28.23%, deducted from overall ceilings
Delegation of authority in order to decide one or more capital increase via public offering with cancelation of preferential subscription rights (Articles L225-129-2, L225-135, L228-91 *et seq.*)	5/11/2017	6th resolution	26 months	11/07/2019	At least equal to the weighted average of the last 20 trading days with a max. discount of 10%	*€800,000 nominal / €25,000,000 for marketable securities	Nil	28.23%, deducted from overall ceilings
Delegation of authority in order to decide one or more capital increases with waiver of preferential subscription rights by offering referred to in Section II of Article 411-2 of the French Monetary and Financial Code as amended by Order 2009-80 of January 22, 2009 (Articles L225-136 of the French Commercial Code)	5/11/2017	7th resolution	26 months	7/11/2019	At least equal to the weighted average of the last 20 trading days with a max. discount of 10%	* €800,000 nominal / €25,000,000 for marketable securities		28.23% (max. 16.66% per year), deducted from overall ceilings
Authorization in order to increase the number of securities to issue in the event of oversubscription, not exceeding 15% of the initial issue	5/11/2017	8th resolution	26 months	7/11/2019		€800,000 nominal / €25,000,000 for marketable securities	Nil	
Authorization in order to allocate existing free shares or shares to be issued to employees and/or corporate officers of the Company and related companies; corresponding capital increase authorization in the event of allocation of shares to be issued	6/15/2017	10th resolution	26 months	8/15/2019		5 % of shares comprising the share capital on the day of allocation. Joint ceiling with the authorization in order to allocate share subscription or purchase options (see above)	72,990 Nil	
Authorization to be granted for the purpose of deciding to increase the share capital by issuing ordinary shares and/or marketable securities giving access to the share capital with cancelation of the preferential subscription right in favor of a category of named persons (Art L225-138) Category of persons defined as follows: international investment funds and/or companies (i.e.: that conduct financial transactions in several countries), active in the field of health and/or medical devices, and which will each participate in the transaction for an amount of no less than €100,000 or the equivalent of this amount in foreign currency (in accordance with the provisions of the General Regulations of the French financial markets authority);	5/11/2017	9th resolution	18 months	11/11/2018	At least equal to the weighted average of the last 20 trading days with a max. discount of 10%	€800,000 nominal / €25,000,000 Not deducted from overall ceilings	** Issue of 2,680,413 new shares in June 2017	15.42%. Not deducted from overall ceilings. 2 319 857 shares can still be issued under this resolution

* The nominal ceiling of €800,000 would correspond to the issue of 5,000,000 new shares
The share capital being made up of 12,713,580 shares at June 30, the maximum dilution is 28.23%

* The ceilings voted at these Shareholders' Meetings were increased by the Shareholders' Meeting of May 11, 2017
* The nominal ceiling of €600,000 would correspond to the issue of 3,750,000 new shares
* The nominal ceiling of €800,000 would correspond to the issue of 5,000,000 new shares

Based on a share capital made up of 12,713,580 shares at June 30, 2017, the maximum dilution (according to the delegations) is therefore 28.23%

** Use of the delegation granted on June 3, 2015: issue of 485,438 new shares in favor of the following list of subscribers (Art. L411-2of the French Monetary Code):

1/ Issue in June 2015 of 485,438 new shares in favor of the following subscribers:

Nova 2: 95,891 shares, representing 20% of all subscribed shares
Gestys Santé: 68,493 shares, representing 14% of all subscribed shares
IDS Kap Sarl: 68,493 shares, representing 14% of all subscribed shares
Other investors: 252,561 shares, representing 52% of all subscribed shares

2/ Issue in August 2016 of 1,028,803 new shares in favor of the following subscribers:

FIP and FCPI Capital Santé PME: 207,762 shares, representing 20% of all subscribed shares
IDS Kap Sarl: 185,185 shares, representing 18% of all subscribed shares
Sud Burel Participations: 102,880 shares, representing 10% of all subscribed shares
Dafna Capital Management LLC: 102,880 shares, representing 10% of all subscribed shares
Zeke LP: 102,880 shares, representing 10% of all subscribed shares
Rick Kienzle: 102,880 shares, representing 10% of all subscribed shares
Other investors: 224,336 shares, representing 22% of all subscribed shares

*** Use of the delegation granted on December 18, 2015 (in favor of a category of persons):

Issue in August 2016 of 2,400,000 CB in favor of Athyrium Opportunities II Acquisition LP.

**** Use of the delegation granted on May 11, 2017 (in favor of a category of persons):

Issue in June 2017 of 2,680,413 new shares in favor of the following subscribers:

Keren Finances: 660,244 shares, representing 25% of all subscribed shares
Amiral Gestion: 485,474 shares, representing 18% of all subscribed shares
Oddo Meriten: 466,055 shares, representing 17% of all subscribed shares
Portzamparc Gestion: 300,855 shares, representing 11% of all subscribed shares
Other investors: 767,607 shares, representing 29% of all subscribed shares

Potential share capital

Additional information on share subscription and purchase options and free shares is provided in Chapter 2.2. of this Registration Document (Tables 8 to 10 of AMF Position/Recommendation No. 2014-14 on executive compensation).

At December 31, 2016:

- the number of share subscription or purchase options not exercised is 569,718. Exercise of these options would give rise to 569,718 new shares.
- The applicability of conversion criteria to the 100 existing preference shares would result in the creation of a maximum of 210,000 new shares;
- The number of free shares whose vesting period has not expired is 72,990. Delivery of these shares would give rise to 72,990 new shares;
- Athyrium Capital Management subscribed to 2,400,000 convertible bonds in August 2016. Each of these bonds, which mature in August 2020, will be convertible into one new ordinary share in the Company at the initial ratio of one share for one bond at the price of €6.25 per share representing the average weighted share price over the five stock market trading days preceding the bond issue plus a premium of 22.5%. The conversion of all the convertible bonds issued in August 2016 by Athyrium would lead to the creation of 2,400,000 new shares. These bonds include a non-conversion premium amounting to 10% of its face value.

The resulting dilution would be as follows:

		Exercise of share subscription or purchase options	Conversion of preference shares	Free shares to be delivered	Conversion of Athyrium bonds
Number of shares at December 31, 2016	10,033,167				
Unlisted preference shares (not included in calculation)	100				
Number of shares outstanding at December 31, 2016	10,033,067				
Number of shares created		569,718	210,000	72,990	2,400,000
Dilution		5.4%	2.1%	0.7%	19.3%
Accumulated dilution		5.4%	7.2%	7.8%	24.5%

The capital increase carried out in August 2016 by issue of 1,028,803 new shares led to a dilution of 10.3%.

The capital increase carried out in June 2017 by issue of 2,680,413 new shares led to a dilution of 21.08%. At June 30 2017, the dilution resulting from the various factors listed above became as follows:

		Exercise of share subscription or purchase options	Conversion of preference shares	Free shares to be delivered	Conversion of Athyrium bonds
Number of shares at June 30, 2017	12,713,480				
Unlisted preference shares (not included in calculation)	100				
Number of shares outstanding at December 31, 2016	12,713,380				
Number of shares created		569,718	210,000	72,990	2,400,000
Dilution		4.3%	1.6%	0.6%	15.9%
Accumulated dilution		4.3%	5.8%	6.3%	20.4%

Additional information on stock options and free shares is provided in Note to the consolidated financial statements at December 31, 2016 in Chapter 4.1.

Pledged assets

As part of a loan granted to ORCHARD INTERNATIONAL by Banque Neuflize OBC to subscribe to capital or bond transactions concerning MEDICREA INTERNATIONAL, part of MEDICREA INTERNATIONAL's capital has been pledged:

Name of registered shareholder	Beneficiary	Start date of pledge	Expiry date of pledge	Condition for freeing shares	Number of shares pledged by the issuer	% of issuers' capital pledged
ORCHARD INTERNATIONAL	Banque Neuflize OBC	11/14/2011	07/31/2017	Full repayment of the principal, interest, fees, expenses and ancillary costs of the Guaranteed Bond	230,000	1.8%

The loan having been entirely repaid in July 2017, the pledge is in the process of being released.

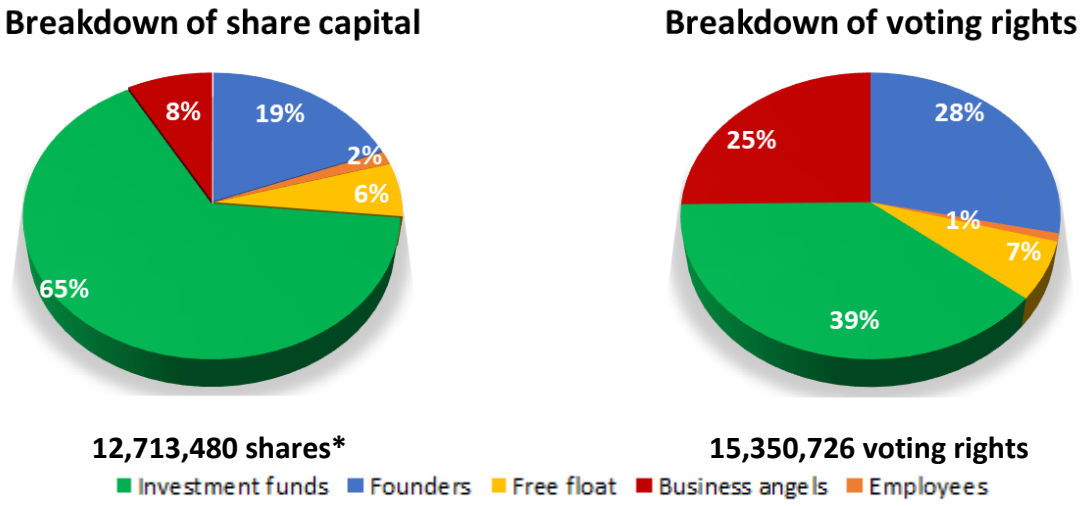
Information about the capital of any Group member that is the subject of an option or of a conditional or unconditional agreement to put it under option

Nil

5.2 Majority shareholders

Share capital ownership and voting rights

Based on information known to the Company, at June 30, 2017 MEDICREA INTERNATIONAL's share capital and voting rights were distributed as follows (excluding preference shares):



** Excluding preference shares*

The table below summarizes developments in share ownership over the last three years, and shows details of shareholders owning more than 5% of the share capital and/or voting rights at December 31 of each year:

	At 12.31.2016			At 12.31.2015			At 12.31.2014		
	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights
Founders	2,437,311	24.3%	34.7%	2,244,126	25.0%	36.1%	2,175,633	25.6%	37.8%
Orchard International (1)	1,727,490	*17.2%*	*27.2%*	1,727,490	*19.2%*	*29.7%*	1,727,490	*20.3%*	*30.1%*
Denys SOURNAC	463,732	*4.6%*	*3.7%*	270,547	*3.0%*	*2.3%*	202,054	*2.4%*	*3.5%*
Jean-Philippe CAFFIERO	246,089	*2.5%*	*3.8%*	246,089	*2.7%*	*4.1%*	246,089	*2.9%*	*4.2%*
Investment funds	5,627,524	56.1%	47.0%	4,908,961	54.6%	44.6%	4,291,848	50.5%	40.7%
Grandeur Peak Advisors	*625,568*	*6.2%*	*4.9%*	*625,568*	*7.0%*	*5.4%*	*533,030*	*6.3%*	*4.7%*
Lazard	*400,000*	*4.0%*	*3.2%*	*400,000*	*4.5%*	*3.4%*	*306,210*	*3.6%*	*5.1%*
Other (2)	*4,601,956*	*45.9%*	*38.9%*	*3,883,393*	*43.2%*	*35.8%*	*3,452,608*	*40.6%*	*30.8%*
Business angels (2)	926,167	9.2%	9.4%	801,497	8.9%	9.9%	806,497	9.5%	10.3%
Free float	954,494	9.5%	7.9%	945,433	10.5%	8.4%	1,088,485	12.8%	9.9%
Employees	87,571	0.9%	1.1%	87,571	1.0%	1.0%	133,989	1.6%	1.3%
TOTAL	**10,033,067**	**100%**	**100%**	**8,987,588**	**100%**	**100%**	**8,496,452**	**100%**	**100%**

(1) Shares held by Denys SOURNAC and Jean-Philippe CAFFIERO via the holding company ORCHARD INTERNATIONAL.

(2) Neither shareholder included in this category holds more than 5% of the capital and/or voting rights as of December 31, 2016

MEDICREA INTERNATIONAL's majority shareholder is the company ORCHARD INTERNATIONAL, whose share capital breaks down as follows on December 31, 2016:

- Société civile DS Company 58.37%
- Société civile PLG Invest 36.60%
- L'AMELIANE 4.87% (3)
- Christelle LYONNET 0.13%
- Denys SOURNAC 0.03%

(3) Company held by François-Régis ORY, Director of MEDICREA INTERNATIONAL

In June 2017, the Company issued 2,680,413 new shares, principally subscribed by the following investors: Keren Finance, Amiral gestion, Oddo Meriten, Portzamparc gestion, Cogefi and Vatel capital. Given that this capital increase had a 21.08% diluting effect, the shareholding structure had changed as follows at June 30, 2017:

	At 06.30.2017			At 12.31.2016		
	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights
Founders	2,419,311	19.0%	28.5%	2,437,311	24.3%	34.7%
Orchard International (1)	1,727,490	*13.6%*	*22.5%*	1,727,490	*17.2%*	*27.2%*
Denys SOURNAC	455,732	*3.6%*	*3.0%*	463,732	*4.6%*	*3.7%*
Jean-Philippe CAFFIERO	236,089	*1.9%*	*3.0%*	246,089	*2.5%*	*3.8%*
Investment funds	8,307,937	65.3%	56.3%	5,627,524	56.1%	47.0%
Keren Finance	*660,244*	*5.2%*	*4.3%*			
Grandeur Peak Advisors	*625,568*	*4.9%*	*4.1%*	*625,568*	*6.2%*	*4.9%*
Lazard	*400,000*	*3.1%*	*2.6%*	*400,000*	*4.0%*	*3.2%*
Other (2)	*6,622,125*	*52.1%*	*45.3%*	*4,601,956*	*45.9%*	*38.9%*
Business angels (2)	1,023,876	8.1%	8.4%	926,167	9.2%	9.4%
Public	775,710	6.1%	5.3%	954,494	9.5%	7.9%
Employees	186,646	1.5%	1.6%	87,571	0.9%	1.1%
TOTAL	12,713,480	100%	100%	10,033,067	100%	100%

(3) Shares held by Denys SOURNAC and Jean-Philippe CAFFIERO via the holding company ORCHARD INTERNATIONAL.

(4) Neither shareholder included in this category holds more than 5% of the capital and/or voting rights as of June 30, 2017

MEDICREA has used the so-called TPI procedure (identifiable bearer shares) with EUROCLEAR in order to obtain a complete analysis of its shareholding structure. As of September 30, 2017, the top 25 shareholders held 80% of the share capital, including:

- Founders: 18.9% of the share capital;
- Vatel: 6.3%;
- Cogefi: 6.09%;
- Keren Finances: 5.18%.

The following table presents the precise breakdown of share capital ownership at September 30, 2017 by number of shares and voting rights:

	At 09.30.2017		
	Number of shares	% share capital	% voting rights
Founders	2,409,311	18.9%	28.3%
Orchard International (1)	1,727,490	*13.6%*	*22.5%*
Denys SOURNAC	455,732	*3.6%*	*3.0%*
Jean-Philippe CAFFIERO	226,089	*1.8%*	*2.8%*
Investment funds	7,693,153	60.4%	52.0%
Vatel	*797,987*	*6.3%*	*5.2%*
COGEFI	*775,681*	*6.1%*	*5.1%*
Keren Finance	*660,244*	*5.2%*	*4.3%*
Amiral Gestion	*572,474*	*4.5%*	*3.7%*
Oddo Assets Management	*474,572*	*3.7%*	*3.1%*
Grandeur Peak Advisors	*439,029*	*3.4%*	*2.9%*
Lazard	*434,000*	*3.4%*	*2.6%*
ODYSSEE VENTURE	*374,934*	*2.9%*	*2.4%*
AMUNDI	*337,514*	*2.6%*	*2.2%*
PORTZAMPARC A.M	*310,855*	*2.4%*	*2.0%*
IXO P.E	*288,276*	*2.3%*	*3.8%*
SIGMA GESTION	*287,035*	*2.3%*	*1.9%*
OTC A.M	*268,808*	*2.1%*	*2.6%*
Other (2)	*1,671,744*	*13.1%*	*10.3%*
Business angels (2)	897,888	7.0%	7.5%
Public	1,616,370	12.7%	10.9%
Employees	129,848	1.0%	1.3%
TOTAL	12,746,570	100%	100%

Double voting rights

At December 31, 2016, 2,650,743 shares with double voting rights in Shareholders' Meetings are held by the companies and individuals listed below, and changes over the course of the last three fiscal years were as follows:

	At 12/31/2016	At 12/31/2015	At 12/31/2014
ORCHARD INTERNATIONAL	1,727,490	1,727,490	1,657,250
IXO Private Equity	288,276	265,054	265,054
Jean-Philippe CAFFIERO	230,889	230,889	230,889
Denys SOURNAC	-	-	188,000
Other shareholders	404,088	418,557	403,484
TOTAL	2,650,743	2,641,990	2,744,677

At June 30, 2017, 2,637,246 shares held double voting rights.

Theoretical voting rights and exercisable voting rights

At December 31, 2016, there was no discrepancy between the number of theoretical voting rights and the number of voting rights exercisable in Shareholders' Meetings.

Control of the issuer

The Company has chosen not to separate the roles of Chairman and Chief Executive Officer, both held by Mr Denys SOURNAC. However, measures have been taken to reduce the risk of improper control by the majority shareholder:

- the Board of Directors mainly consists of independent directors: they number 6 on an 9-member Board. This choice reflects a desire to provide another perspective on decisions made, as well as to regularly question Management about their strategic directions and project progress;
- the presence of a Deputy Chief Executive Officer also helps balance the control exercised by the Chief Executive Officer;
- finally, the ad hoc committee, which is responsible for defining and suggesting the amounts and conditions of the services provided by ORCHARD INTERNATIONAL - a company in which Denys SOURNAC and Jean-Philippe CAFFIERO both hold shares - is composed entirely of members independent of the Board of Directors.

Crossing thresholds

Pursuant to Article L. 233-13 of the French Commercial Code, and based on the information received pursuant to Articles L. 233-7 and L. 233-12 of said Code, the identity of shareholders directly or indirectly holding at the end of the fiscal year more than 5%, 10%, 15%, 20%, 25%, 33.33%, 50%, 66.66%, 90% and 95% of the authorized capital or voting rights at Shareholders' Meetings is hereby indicated.

	At 12.31.2016		At 12.31.2015		At 12.31.2014	
	% share capital	% voting rights	% share capital	% voting rights	% share capital	% voting rights
More than 5%	Grandeur Peak Advisors	Grandeur Peak Advisors	Grandeur Peak Advisors	Grandeur Peak Advisors	OTC Asset Management Grandeur Peak Advisors Odyssée Venture	IXO Private Equity
More than 15%	Orchard International		Orchard International			
More than 20%					Orchard International	
More than 25%		Orchard International		Orchard International		Orchard International

As of June 30, 2017, following the capital increase and issuance of 2,680,413 new shares, the company Keren Finance informed the Company and the Financial Markets Authority that they had crossed the threshold of holding 5% of the Company's share capital. As the company Grandeur Peak did not participate in this capital increase, it thus dropped below the 5% threshold. In addition, Caisse des Dépôts et Consignation confirmed to the Company that in 2017 it dropped below the 2% capital threshold.

Moreover, the articles provide that any natural person or legal entity, acting alone or jointly, who comes into possession, in whatever manner, within the meaning of article L. 233–10 of the French Commercial Code, directly or indirectly through one or more legal entities that it controls within the meaning of Article 233–3 I and II of the French Commercial Code, of a number of shares representing a fraction equal to 2% of the capital or voting rights at Meetings, must inform the Company of the total number of shares and voting rights they possess by registered letter with acknowledgment of receipt sent to the registered office of the Company, or by any equivalent means for shareholders or holders of securities residing outside of France, within fifteen days of exceeding one of these thresholds. This information is renewed every time each additional 2% fraction of the capital or voting rights is exceeded, without limitation.

Interest of executives and corporate officers

Details of the interests of the executives and corporate officers in the Company's share capital are given in Section 2.1.1.

Agreements likely to lead to a change of control

To the best of the Group's knowledge there are no agreements whose implementation, at a later date, could lead to a change in control.

Development of shareholdings since December 31, 2016

At the date of this document, the share capital is comprised of 12,713,580 shares, comprising 100 preference shares.

5.3 Articles of Incorporation and Bylaws

Corporate purpose of the Company (Article 2 of the Company's bylaws)

The Company's corporate purpose in all countries is:

- the direct or indirect use and marketing of all patented inventions,
- the production and marketing, in all forms, in France or internationally, on its own account or on behalf of others, of implants, instruments, and equipment for human surgery,
- the provision of all services relating to the activities described above,
- the acquisition of interests and holdings by any means, contributions, subscriptions, purchase of shares, of equities, bonds and all ownership rights in all businesses, companies, economic interest groups, companies created or to be created as well as the creation of all corporate groups. The provision of administrative, sales, or accounting services, and more generally all services useful to businesses.

Broadly speaking, any financial, sales, industrial, movable or immovable property transactions, directly or indirectly in connection with one of the aforesaid purposes or to any similar or related activities, likely to facilitate the development of the Company's net assets.

Provisions in the articles of incorporation and bylaws regarding members of administrative and management bodies

The provisions concerning the members of administrative and management bodies are explained in Sections 2.1.2 and 2.1.3 of this Registration Document respectively.

Rights, privileges, and restrictions attached to each class of existing shares

According to Article 13 of the bylaws,

1- Each share confers a right to a proportionate share of the capital it represents in the profits, share capital and residual.

Moreover, it confers the right to vote and be represented in Shareholders' Meetings, to information on the Company's operation, and to receive corporate documents at the times and in the conditions set out in the law and bylaws.

Double voting rights, taking into consideration the proportion of capital they represent, are allocated to all the registered shares, fully paid up, registered under the name of the same shareholder for at least four (4) years, as well as - in the event of capital increase by incorporation of reserves, profits, or premiums - to registered shares allocated freely to a shareholder on the basis of shares already held for which they were entitled by this right.

2 - Shareholders are not liable for corporate losses in excess of the amount of their contributions.

The rights and obligations attached to the share remain attached thereto irrespective of the transferee. Share ownership automatically entails acceptance of the Company's bylaws and decisions of the Shareholders' Meeting.

Shareholders who do not own the required number of shares whenever it will be necessary to hold a certain number of shares to exercise any right must make their own arrangements to form a grouping, and possibly purchase or sell the required number of shares.

The allocation of double voting rights was authorized by the Shareholders' Meeting of March 10, 2006.

The characteristics of the Preference Shares are provided in Chapter 5.3. of this Registration Document.

Shares required to change shareholders' rights

There are no provisions to change shareholders' rights other than those prescribed by law.

Conditions under which Annual Shareholders' Meetings and the Extraordinary Shareholders' Meetings are convened

According to Articles 23 and 24 of the bylaws:
Shareholders' Meetings are convened and deliberate pursuant to the conditions laid down by law. Shareholders' Meetings are convened either by the Board of Directors, or by the auditors, or by a legally appointed representative, pursuant to the conditions laid down by law. Furthermore, in the event of an emergency, the Works Council, if one exists, may petition the court for the appointment of a representative responsible for convening the Shareholders' Meeting.

Meetings are held at the registered office or at any other location indicated in the notice of the meeting. The notice of meeting is issued thirty-five days before the date of the meeting by publishing a notice in a legal gazette of the French administrative department where the registered office is located. Shareholders must also be notified to attend by ordinary mail or, upon request and at their own expense, by registered letter.

This notice may also be sent by electronic means implemented under the conditions of Article 120–1 of the Decree of March 23, 1967, to the address given by the shareholder.

If the Meeting has been unable to deliberate due to lack of the required quorum, the second Meeting - deferred if necessary - is convened with at least six days' notice in the same manner as the first meeting. The notices or letters of convocation of this second Meeting reproduce the date and agenda of the first. If the Meeting is adjourned by decision of the court, the judge may fix a different period.

5. Information about the Company and its share capital

The notices and letters of convocation must contain all the information required by law.

Any shareholder, irrespective of the number of shares that they hold, may participate in this Meeting.

If a shareholder does not attend the Meeting personally they may:

- either send the Company a proxy form without specifying a representative;
- or give a proxy form to another shareholder or to their spouse or partner in a civil solidarity agreement (Company Bylaws do not currently allow the option of being represented by any other natural person or legal entity of one's choice);
- or use and send the Company a postal voting form;

However, pursuant to regulatory provisions, the right to attend the Meeting, vote by post, or be represented, is subject to shareholders proving they are shareholders of record as evidenced by registration of securities in their name (or in the name of an intermediary registered on their behalf) by midnight (Paris time) on the second working day prior to the Shareholders Meeting:

- For holders of registered shares: by registering the shares in the Company's registered shares register;
- For holders of bearer shares: by filing at the Company's registered office a certificate of participation issued by an intermediary authorized to record the registration of securities, appended to the voting form or proxy form or to the admission card request.

A single postal voting form and proxy form will be made available to shareholders at the Company's registered office, or may be requested by registered letter with acknowledgement of receipt once the Meeting has been convened.

Any request received no later than six days before the date of the Meeting will be granted.

Postal votes will not be taken into account unless the duly completed and signed forms reach the Company's registered office at least three days prior to the Meeting.

Any shareholder who has already voted by post, sent a proxy form, requested their admission card or certificate of participation, will no longer be able to choose another method of participation in the Meeting.

No provision is made for electronic voting at each Meeting, and therefore no site referred to under Article R. 225-61 of the French Commercial Code has been equipped for this purpose.

Provision of the articles of incorporation and bylaws that could delay, defer or prevent a change of control

Nil

Conditions imposed by the articles of incorporation and bylaws governing changes in the capital, where such conditions are more stringent than is required by law.

Nil

5.4 Information and record of the Company's legal life

Legal form, registered office, and legislation governing the issuer

Since a decision taken by the Extraordinary Shareholders' Meeting on March 29, 2002, MEDICREA INTERNATIONAL is a public limited company governed by French law, with a Board of Directors subject to the provisions of Book II of the French Commercial Code and Decree No. 67–236 of March 23, 1967 regarding commercial companies; its registered office is located at:

5389 Route de Strasbourg - Vancia
69140 Rillieux-la-Pape, France
Tel: +33 4 72 01 87 87
Fax: +33 4 72 01 87 88
www.medicrea.com

Company's date of incorporation and duration

The Company was incorporated under the form of a Limited Liability Company by private deed dated November 25, 1993; several copies of the deed were filed with the Registry of the Commercial Court of Lyon on December 2, 1993. The incorporation was duly published in a legal gazette.

The Company was incorporated for 99 years from the date of its registration in the Trade and Companies Register, i.e. on December 2, 1993, and will thus expire on December 1, 2092 unless it is dissolved earlier or extended.

Location and number of Company registration

The Company is registered on the Trade and Companies Register of Lyon under number 393 175 807. Its company activity code (APE) is 4646Z.

Fiscal year

According to Article 31 of the bylaws, each fiscal year lasts twelve months, commencing on January 1 and ending on December 31.

Significant events in the Company's development

Key events in the Group's development are referred to in paragraph 1.2.1.

5.5 Information on equity holdings

Subsidiaries and equity holdings are listed in Section 1.2.2. of this Registration Document.

5.6 Regulated agreements

Regulated agreements are described in the Auditors' Special Report in Section 4.5 of this Registration Document.

Note 15.3 appended to the 2016 consolidated financial statements in Section 4.1 provides detailed figures for transactions with related parties.

5.7 Employees

At December 31, 2016, MEDICREA had 169 staff members. More detailed information concerning the workforce is given in Section 3.2 of this Registration Document.

At December 31, 2016, employees of the Company and related companies held a little over 0.87% of the Company's capital, including 0.55% via the company savings plan. Several schemes allow employees to purchase MEDICREA INTERNATIONAL shares.

Group savings plan

MEDICREA INTERNATIONAL has implemented a group savings plan (PEG) open to staff members having more than three months' employment. The fund is managed by Crédit du Nord. There was no capital increase reserved for employees during the 2016 fiscal year, consequently the Company did not pay any employer's matching contributions.

Options granted to employees – allocation of free shares

Pursuant to Article L. 225–184 of the French Commercial Code it is stipulated that,

On June 7, 2016, the Shareholders' Meeting of MEDICREA's shareholders authorized the Board of Directors, for a period of 26 months, to grant options entitling either 1) subscription to new Company shares to be issued as part of a capital increase, or 2) purchase of shares acquired by the Company under legal conditions;
- On December 18 2015, the Shareholders' Meeting of MEDICREA shareholders authorized the Board of Directors to allocate free existing shares or free shares to be issued for a period of 26 months.

Pursuant to the provisions of Articles 225–184 and 225–197–4 of the French Commercial Code, the Shareholders' Meeting must be informed of option and free share allocation plans by special reports.

406,500 stock options and 72,990 free shares were allocated in 2016 under this resolution.

Taking account of employee departures between 2008-2016 and the exercising of options, free shares and stock options allocated to employees totaled 167,273 and 569,718 respectively at December 31, 2016.

US Employee Stock Purchase Plan

A share purchase plan for employees has been set up since January 1, 2015. It is reserved for employees of the American subsidiary, MEDICREA USA, and allows them to purchase MEDICREA INTERNATIONAL parent company shares. This share purchase plan was implemented in compliance with United States law, and meets the 'Employee stock purchase plan' criteria outlined in paragraph 423 of the US Internal Revenue Code.

The plan operates as summarized below:

Period
The plan is established for 12 months, automatically renewable every year unless otherwise decided. The plan's first period corresponded to the 2015 calendar year.

Eligibility
May subscribe to the plan employees of the American subsidiary MEDICREA USA who have worked in the Group for at least 24 months as of December 31 of the year preceding the start of the plan. This criterion was altered by amendment of June 4, 2015 to require 12 months' presence and subsequently to three months' presence by a decision of the Board of Directors of December 18, 2015.

Operation
The employee confirms their participation in the plan by signing an agreement. Each month a specified amount will be deducted from their salary and transferred to a nominative account. The employee may make a one-off additional transfer of the amount of their choice between December 1 and 10 of the same year. During this period, the employee may decide whether or not to exercise the share purchase option. In the event they do exercise the option, a broker will purchase shares on the stock market before December 31.

The purchase price offered to the employee is 85% of the lowest share price between January 1 and November 30 of that year.

The employee may not exercise the entirety of the stock purchase option if they would thereby hold 1% or more of share capital or Company voting rights, or if it enabled them to acquire more than USD 25,000 of stock or in excess of 100,000 shares over the course of the year.

The employee may not sell or transfer their stock within 24 months of January 1 of the year of share purchase. Thus, if the employee purchased MEDICREA INTERNATIONAL shares by exercising their purchase option in December 2015, they may not sell or transfer such stock before January 1, 2017. This rule does not apply if an employee leaves, or in the event of merger/acquisition of the American subsidiary or the parent company.

7,879 shares were subscribed by 7 employees at a price of USD 4.32 in 2016 (6,299 shares had been subscribed by 7 employees at a price of USD 6.41 in 2015). The difference between the price actually

paid by the Company to acquire the options and the price paid by the employees is recorded as an expense in the fiscal year. The expenses relating to the administration of this plan, or USD 14,862 in 2016 (USD 17,918 in 2015) are borne by MEDICREA USA.

This plan will be closed at the end of 2017.

Preference shares

On December 17, 2014 and under the terms Article L. 225-132 of the French Commercial Code, the Company's Shareholders' Meeting approved the issue of 100 preference shares to MMCO, a simplified joint stock company, equally owned by five senior executives of MEDICREA Group who are not corporate officers.

6. Additional information

6.1 Persons responsible

Person responsible for the Registration Document and the Annual Financial Report

Denys SOURNAC
Chairman and Chief Executive Officer
Tel: +33 4 72 01 87 87
dsournac@medicrea.com

Statement of person responsible

I certify that, after taking all reasonable measures to this effect and to the best of my knowledge, the information set out in this Registration Document is accurate and contains no omission which could impair its meaning.

I certify that, to my knowledge, the financial statements for the half-year just ended have been prepared in accordance with applicable accounting standards and give a fair view of the assets, financial position and performance of the Company and of all companies included in the consolidation scope, and that the half-year report enclosed on page 274 gives a true view of the major events that took place over the first six months of the fiscal year, their impact on the financial statements, the main transactions between related parties and a description of main risks and uncertainties for the remaining six months of the fiscal year.

I have obtained an end-of-assignment letter from the Statutory Auditors stating that they have verified the information relating to the financial position and the financial statements presented in this Registration Document and that they have reviewed the entire Registration Document.

Denys SOURNAC
Chairman and Chief Executive Officer

Person responsible for financial information

Denys SOURNAC
Chairman and Chief Executive Officer
Tel: +33 4 72 01 87 87
dsournac@medicrea.com

Fabrice KILFIGER
Chief Financial Officer
Tel: +33 4 72 01 87 87
fkilfiger@medicrea.com

6.2 Statutory Auditors

Principal Statutory Auditors

Ernst & Young et Autres
Represented by Nicolas SABRAN
Tour Oxygène
10-12 boulevard Marius Vivier Merle
69393 Lyon Cedex 03
Member of the Compagnie régionale de Versailles

Date first appointed: Fiscal year ended December 31, 2007
Date of re-appointment: Shareholders' Meeting of June 20, 2013
Expiry date of appointment: Shareholders' Meeting for the 2018 fiscal year

ODICEO
115, boulevard de Stalingrad
Represented by Alain FAYEN
B.P. 52038
69616 Villeurbanne cedex
Member of the Compagnie régionale de Lyon

Date first appointed: Fiscal year ended December 31, 2014
Expiry date of appointment: Shareholders' Meeting for the 2019 fiscal year

Alternate Statutory Auditors

AUDITEX
129 rue Servient
69003 Lyon

Date first appointed: Fiscal year ended December 31, 2007
Date of re-appointment: Shareholders' Meeting of June 20, 2013
Expiry date of appointment: Shareholders' Meeting for the 2018 fiscal year

Jean-Pascal REY
115, boulevard de Stalingrad
B.P. 52038
69616 Villeurbanne cedex
Member of the Compagnie régionale de Lyon

Date first appointed: Fiscal year ended December 31, 2014
Expiry date of appointment: Shareholders' Meeting for the 2019 fiscal year

6. Additional information

Ernst & Young et Autres and Odicéo are Statutory Auditors of MEDICREA INTERNATIONAL SA. Odicéo is Statutory Auditor of MEDICREA TECHNOLOGIES SAS, a wholly-owned subsidiary of MEDICREA INTERNATIONAL.

6.3 Third-party information, statements by experts and declarations of interests

Nil

6.4 Documents available to the public

During the validity period of this Registration Document, the following documents (or copies thereof) may be consulted at the Company's registered office, 5389 route de Strasbourg – Vancia – 69140 Rillieux-la-Pape, or emailed free of charge upon request:

- The Company's Articles of Incorporation and Bylaws;
- Any reports, letters and other documents, historical financial information, valuations and statements made by experts at the Company's request;
- Historical financial information of the Company and its subsidiaries for each of the two years preceding the publication of this Registration Document.

Regulated information as defined by the AMF's General Regulations is available on the Company's website (www.medicrea.com) as well as on the AMF (www.amf-france.org) and Euronext (www.euronext.com) websites.

6.5 Cross-reference tables

6.5.1 Registration Document cross-reference table

The cross-reference table below identifies the main sections required under Regulation n° 809/2004 enacted pursuant to the Prospectus Directive and with reference to the pages of this Registration Document.

	Sections	Pages
1. PERSONS RESPONSIBLE		
1.1. Name and position of persons responsible	6.1.	363
1.2. Statement of persons responsible	6.1.	363
2. STATUTORY AUDITORS	6.2.	364
2.1. Name and address of the Statutory Auditors	6.2.	364
2.2. Change of Statutory Auditors	N/A	N/A
3. SELECTED FINANCIAL INFORMATION	1.1.	6
3.1. Selected historical financial information regarding the issuer	1.1.	6
3.2. Selected financial information for interim periods	1.1.	6
4. RISK FACTORS	1.5.	107
5. INFORMATION ABOUT THE ISSUER		
5.1. History and development of the issuer	5.4.	357
5.1.1. Legal and commercial name of the issuer	5.4.	357
5.1.2. Place of registration of the issuer and its registration number	5.4.	357
5.1.3. Date of incorporation and the length of life of the issuer	5.4.	357
5.1.4. Domicile and legal form of the issuer, the legislation under which the issuer operates, its country of incorporation, and the address and telephone number of its registered office	5.4.	357
5.1.5. Important events in the development of the issuer's business	1.2.1	20
5.2. Investments	1.3.6.	83
5.2.1 Principal investments	1.3.6	83
5.2.2. Principal investments in progress	1.3.6	83
5.2.3. Upcoming investments	1.3.6	83
6. BUSINESS OVERVIEW		
6.1. Main activities	1.3.	28
6.1.1. Principal investments in progress	1.3.	28
6.1.2. Significant new products and/or services introduced and the extent of their development	1.3.	28
6.2. Principal markets	1.3.	28
6.3. Exceptional events	1.5.5.	123
6.4. Extent to which the issuer is dependent on patents or licenses, industrial, commercial or financial contracts or new manufacturing processes	1.3.5	74
6.5. Basis for any statements made by the issuer regarding its competitive position	1.3.	28
7. ORGANIZATIONAL STRUCTURE		
7.1. Brief description of the Group	1.2.2.	23
7.2. List of significant subsidiaries	1.2.2.	23

8. PROPERTY, PLANT AND EQUIPMENT		
8.1. Major existing or planned property, plant and equipment	1.2.3.	26
8.2. Environmental issues that may influence the use of property, plant and equipment	1.2.3. / 3.3.	27/169
9. OPERATING AND FINANCIAL REVIEW		
9.1. Financial position	1.4.2.	89
9.2. Operating results	1.4.2.	89
9.2.1. Significant factors materially affecting the issuer's income from operations	1.4.2.	89
9.2.2. Explanation of changes reported in the financial statements	1.4.2.	89
9.2.3. Strategies or factors that have materially affected, or could materially affect the issuer's operations	1.4.2.	89
10. CAPITAL RESOURCES		
10.1. Issuer's capital	1.4.4.	100
10.2. Source and amount of cash flows	1.4.4.	104
10.3. Information regarding borrowing requirements and funding structure	1.4.4.	100
10.4. Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect, directly or indirectly, the Company's operations	1.4.4.	105
10.5. Information regarding the anticipated sources of funds needed to fulfil investment commitments made by Management and planned property, plant and equipment	1.4.4.	100
11. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES	1.3.5.	74
12. TREND INFORMATION	1.4.3.	98
12.1. Most significant recent trends since the end of the last fiscal year	1.4.3.	98
12.2. Trends likely to have a material effect on the issuer's prospects	1.4.3.	98
13. PROFIT FORECASTS OR ESTIMATES	N/A	N/A
14. ADMINISTRATIVE BODIES AND SENIOR MANAGEMENT		
14.1. Information about the Board of Directors and senior executives	2.1.	125
14.2. Conflicts of interest	2.1.	137
15. REMUNERATION AND BENEFITS		
15.1. Remuneration paid and benefits in kind	2.2.	147
15.2. Provisions or amounts recognized for pensions, retirement or similar benefits	2.2.	147
16. BOARD PRACTICES		
16.1. Expiration of the current term of office	2.1.1.	125
16.2. Service contracts between members of the Board of Directors and the Group	2.2.	147
16.3. Specialized committees	2.1.4.	145
16.4. Compliance with the applicable corporate governance regime	2.3.	154
17. EMPLOYEES		
17.1. Workforce size	5.7.	360
17.2. Profit-sharing and stock options	5.1.	335
17.3. Employee shareholding agreements	5.7.	360
18. MAJOR SHAREHOLDERS		
18.1. Shareholding structure	5.2.	347
18.2. Shareholders holding more than a given percentage of share capital or voting rights	5.2.	347

21.2.8 Conditions imposed by the articles of association, statutes, charter or bylaw governing changes in the capital, where such conditions are more stringent than is required by law	5.3.	356
22. MAJOR CONTRACTS	1.4.5.	105
23. THIRD-PARTY INFORMATION, STATEMENTS BY EXPERTS AND DECLARATIONS OF INTERESTS	6.3.	366
23.1. Statement or report attributed to a person acting as an expert	N/A	N/A
23.2. Confirmation that the information has been accurately reproduced	N/A	N/A
24. DOCUMENTS AVAILABLE TO THE PUBLIC	6.4.	367
25 INFORMATION ON EQUITY HOLDINGS	5.5.	358

6.5.2 Annual financial report cross-reference table

	Sections	Pages
1. Parent company financial statements	4.3.	231
2. Statutory Auditors' report on the parent company financial statements	4.4.	275
3. Consolidated financial statements	4.1.	175
4. Statutory Auditors' report on the consolidated financial statements	4.2.	231
5. Management Report	See page 373	
6. Statement of the person responsible for the Annual and Half-Year Financial Report	6.1.	363
7. Statutory Auditors' fees	4.1.	227

6.5.3 Cross-reference table with the management report required by the French Commercial Code

In order to facilitate the reading of the management report as required by the French Commercial Code, the following table below identifies in this Registration Document the significant information required under Articles L.225-100 and subsequent, L.232-1 and R.225-102 and subsequent of the French Commercial Code.

	Sections	Pages
1. Company position and operations		
Key performance indicators	1.1.1. / 1.4.3.	6 / 98
Report on and analysis of developments in the company's business, financial performance and financial position	1.4.	85
Post-balance sheet events and foreseeable developments	1.4.3.	98
Risk factors	1.5.	107
Research and Development	1.3.5.	74
Information on equity holdings	5.5.	358
2. Share capital		
Structure and changes and share capital *(including summary table of delegations currently in force granted by the Shareholders' Meeting in terms of share capital increases)*	5.1.	335
Shareholding *(including threshold crossings)*	5.2.	350
Dividends	1.4.6.	106
Employee shareholding	5.7.	360
Transactions carried out by the Company in its own shares	5.1.	335
Information liable to have an impact in the event of a public offering *(Article L.225-100-3 of the French Commercial Code)*	2.1.2. / 5.2. / 5.3.	137 / 347 / 353
3. Corporate governance		
Operation of the Board of Directors	2.1.2.	137
Choice of executive management organization	2.1.3.	143
Information on corporate officers	2.1.1	125
Corporate officers' compensation *(including agreements)*	2.2.	147
4. CSR - Corporate social responsibility and environmental information	3.	160
5. Information on MEDICREA INTERNATIONAL SA		
Non-tax deductible charges	4.3.	264
Information on supplier payment terms	4.3.	264
Five-year financial summary	4.3.	264
6. Chairman's report on corporate governance and internal control and risk management procedures	2.4.	159
7. Statutory Auditors' report on the Chairman's report	2.4.	159

6.6 Glossary

510(k): Authorization granted by the FDA to market a medical device in the United States.

ANSM: *Agence Nationale de Sécurité du Médicament et des Produits de Santé* – National Agency for the Safety of Medicines and Healthcare Products in France.

ALIF: *Anterior Lumbar Interbody Fusion*, lumbar interbody fusion cage for anterior approach.

Derotation: Procedure to correct a spinal rotation (found in scoliosis) by rotating corrector rods.

Net financial debt or debts: Financial debt and conditional advances less cash and cash equivalents.

DLIF / OLIF: *Direct Lateral / Oblique Lumbar Interbody Fusion*, lumbar interbody fusion cage for lateral approach / oblique approach.

EBIT: *Earnings Before Interest and Taxes.* Operating income before share-based payments

EBITDA: *Earnings Before Interest, Taxes, Depreciation, and Amortization.* Operating income before share-based payments, interest, taxes, depreciation, and amortization.

FDA: *Food and Drug Administration*, US food and drug agency.

GMED (LNE): Medical industry certification body, attached to the French Department of Commerce. G-MED refers to the Organization for the Assessment of Medical Devices and LNE refers to the National Metrology and Test Laboratory.

IFRS: *International Financial Reporting Standards*, international accounting guidelines.

Invasive: Refers to a procedure requiring an incision or the introduction of an instrument into the body.

LBO: *Leveraged Buy Out*, a legal and financial mechanism enabling the acquisition of a company with a limited equity contribution and a significant level of borrowing.

Lordosis: Anteriorly convex natural curvature of the cervical and lumbar regions of the spine.

LRPS: List of Reimbursable Products and Services.

CE Marking: CE marking was created under European legislation. It indicates a product's compliance with the EU requirements applicable to the manufacturer of the product. It must be affixed before a product can be marketed in Europe.

Minimally invasive: Surgical technique involving small incisions and the use of imaging, which limits surgical trauma and tissue damage.

Monoaxial: Used to describe an anchoring implant (screw, hook or sacral plate) the part of which that is connected to the rod is fixed prior to the entire device being locked (as opposed to Polyaxial).

WHO: World Health Organization.

Osteosynthesis: All the processes enabling fractures or mechanical problems to be treated using screws, staples, screwed plates, nails, pins, etc.

PEEK: Polyether ether ketone, polymer.

PEKK: Polyether ketone ketone, polymer.

PLIF: *Posterior Lumbar Interbody Fusion*, lumbar interbody fusion cage for posterior approach.

Polyaxial: As opposed to Monoaxial, describes an anchoring implant (screw, hook or sacral plate) the part of which that is connected to the rod is mobile prior to the device being locked.

Rachis: Spine.

CSR: Corporate Social Responsibility.

Sagittal: In profile.

Scoliosis: Three-dimensional deviation of the spine.

Idiopathic scoliosis: Scoliosis with no specific cause whose hereditary nature suggests it is probably genetic in origin. This deformity develops during adolescent growth.

Spondylolisthesis: Forward displacement of one section of the spine most often affecting the lumbosacral junction.

ST2R: Technique involving Simultaneous Translation on 2 Rods.

TLIF: *Trans Lumbar Interbody Fusion*, lumbar interbody fusion cage for transforaminal approach.

UNiD® ASI: *Adaptive Spine Intelligence.* Offering developed by MEDICREA for patient-specific spinal surgery. This term includes the products and services made available to surgeons by MEDICREA: HUB, LAB, and TEK.

UNiD® HUB: Digital portal enabling data-driven surgical planning and direct surgeon access to UNiD® ASI technology for the treatment of their patients

UNiD® LAB: Team of expert engineers who prepare a pre-operative file for each patient to ensure personalized spinal surgery and who also perform a post-operative analysis.

UNiD® TEK: Patient-specific implants, including pre-contoured rods and 3D-printed interbody cages and vertebral body replacements, designed according to surgeon plan and patient anatomy and manufactured prior to surgery.