# 2017
# HALF-YEAR FINANCIAL REPORT

medicrea.com | **leading** personalized spine

## 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.

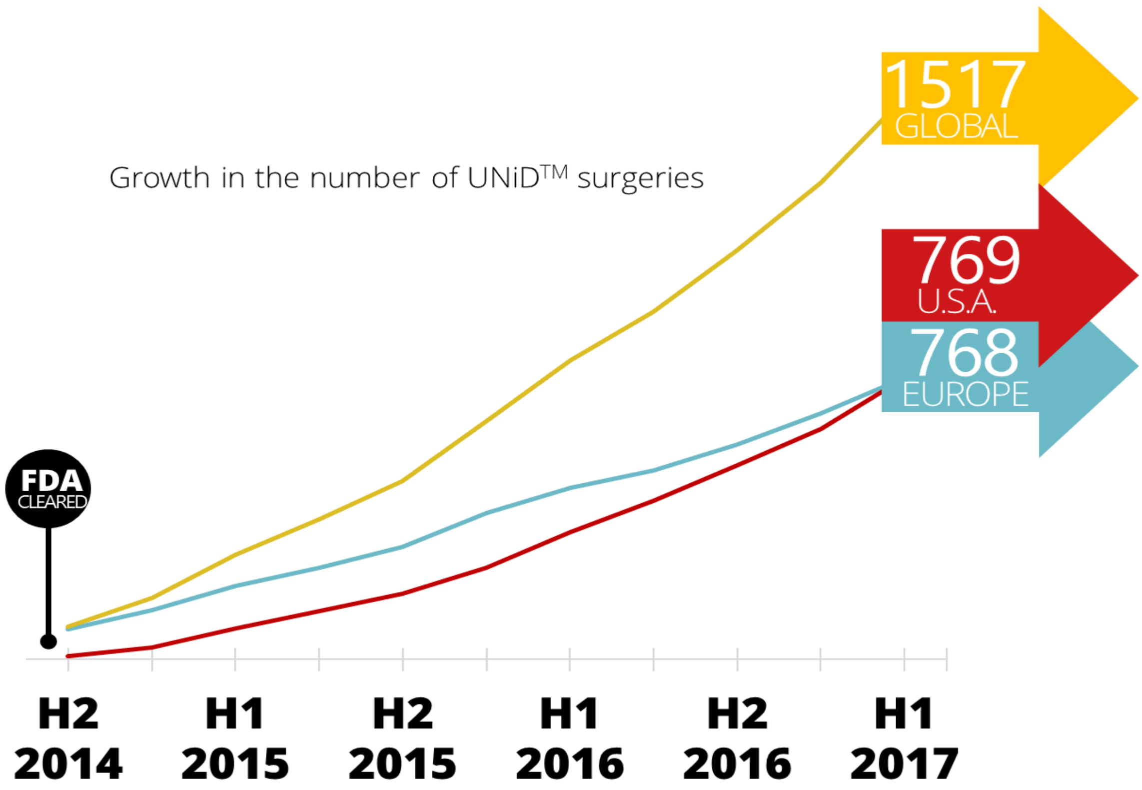
- In June,

- 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.

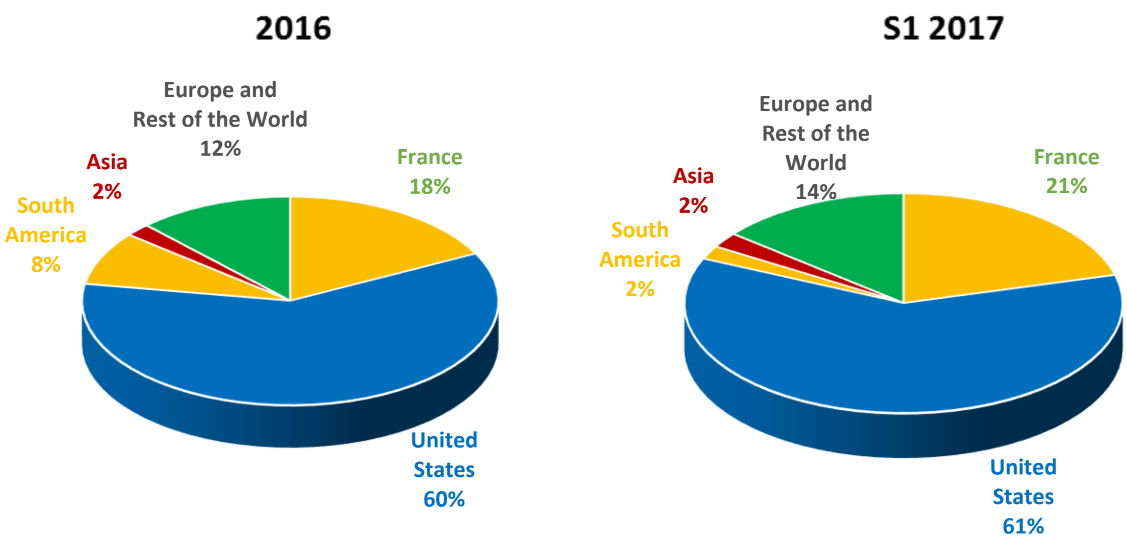
The number of patient-specific UNiD™ Rods implanted during the first-half of 2017 increased by 30% compared to the same period in 2016. In the U.S., this growth amounted to 42% for the same period. Spinal surgeons continue to increasingly adopt the UNiD™ ASI suite of services with preoperative planning 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 | | (5,120,517) | (2,670,993) |
| Translation adjustment | 2.3.1 | 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<br>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.<br><br>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<br>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:<br><br>- 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;<br>- meanwhile, the impairment model has abandoned the current approach based on incurred losses in favor of an approach based on expected losses;<br>- the hedge component includes a number of significant advances that promote the convergence of the entity's accounting system and risk management policy.<br><br>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<br>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.<br><br>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. |

(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 |
| IFRIC 23 interpretation | Uncertainty over income tax treatments | January 1, 2019 |

(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 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.

(1) Options are fully exercisable

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

(3) 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

### 6.7.1 Finance leases

Property, plant and equipment acquired under finance leases concern software, technical facilities, equipment and tools and computer hardware. Their net value totaled €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 |

(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 | 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 employee benefits | 572,394 | 11,169 | 37,338 | 523,887 |
| Provisions for charges | 349,548 | 349,548 | - | - |
| Total | 921,942 | 360,717 | 37,338 | 523,887 |

***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 |

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

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

## 10.3 Risk management

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

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

### 10.3.1 Risks related to changes in raw material prices

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 |
| | | | | | | |
| <u>Other Directors</u> | | | | | | |
| 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<br>6 months | 12.31.2016<br>12 months | 12.31.2015<br>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 |