MEDICREA
(IM)PROVE

# CONSOLIDATED FINANCIAL STATEMENTS
# IFRS STANDARDS

# AT DECEMBER 31, 2016

**Leading** personalized spine | medicrea.com

**CONTENTS**

## 1. ACTIVITY

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

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

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

## 2. FISCAL YEAR HIGHLIGHTS

The following are the highlights of the 2016 fiscal year:

### 2.1. Market and environment

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

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

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

### 2.2. Results and performance

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

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

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

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

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

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

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

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

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

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

### 2.3. Products

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

This new approach relies on compiling and analyzing clinical data using deep learning algorithms and predictive interpretation solutions, which for the first time have led to the treatment of spinal pathologies through the combination of scientific precision and the fitting of patient-specific and modular implants. It is becoming a matter of course for surgeons, with a very high loyalty rate once they agree to entrust the Company with a few surgical cases to test its capabilities.

### 2.4. Research & development

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

## 2.5. Organization

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

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

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

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

## 2.6. Financing

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

# 3. CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2016

## 3.1. CONSOLIDATED INCOME STATEMENT

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

| | | | |
|---|---|---|---|
| **Earnings per share** | **14.2** | **(0.80)** | **(0.17)** |
| **Diluted earnings per share** | **14.2** | **(0.80)** | **(0.17)** |

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

## 3.2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

## 3.3. CONSOLIDATED BALANCE SHEET

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

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

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

## 3.4. CONSOLIDATED CASH FLOW STATEMENT

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

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

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

## 3.5. CHANGE IN CONSOLIDATED SHAREHOLDERS' EQUITY

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

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

## 3.6. EXPLANATORY NOTES

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

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

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

## NOTE 1: ACCOUNTING PRINCIPLES

### 1.1 Accounting framework

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

These standards include:

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

The annual financial statements have been prepared in accordance with the going concern principle, assessed in light of the Group's capacity to meet its cash flow requirements over the next 12 months linked to its operations, its investments and the repayment of its short-term financial liabilities, while generating positive self-financing capacity and allocating sufficient financial resources.

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

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

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

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

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

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

| Standards, amendments and interpretations | Application date | Impact on the Group |
|---|---|---|
| IFRS 15<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; these clarifications are expected to be approved by the European Union in the near future.<br><br>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 first half of 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. |

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

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

| Standards, amendments and interpretations | Application date (1) | Impact on the Group |
|---|---|---|
| IFRS 16<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 2016, with the aim of providing an analysis of the impact of the application of this standard on the Group's financial statements as from 2017. |

(1) Subject to adoption by the European Union

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

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

(1) Subject to adoption by the European Union

## NOTE 2: SCOPE OF CONSOLIDATION

### 2.1 Consolidation method

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

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

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

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

### 2.2 Changes in consolidation scope

The consolidation scope includes the following entities:

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

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

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

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

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

## 2.3 Foreign currency translation

### 2.3.1 Translation of financial statements expressed in foreign currencies

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

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

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

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

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

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

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

### 2.3.2 Foreign currency transactions

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

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

Foreign exchange gains and losses arising from the translation or elimination of intra-group transactions or receivables and liabilities denominated in currencies other than the entity's functional currency are recorded in the income statement unless they relate to long-term intra-group financing transactions which can be considered as transactions relating to equity. In the latter case, translation adjustments are recorded in shareholders' equity under "Translation adjustment".

### 2.4 Use of estimates by Management

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

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

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

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

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

## NOTE 3: SEGMENT REPORTING

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

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

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

### 3.1 Breakdown of sales by geographic region

By geographic region, sales are analyzed as follows:

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

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

### 3.2 2016 income statement by geographic region

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

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

### 3.3 2015 income statement by geographic region

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

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

### 3.4 2016 balance sheet by geographic region

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

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

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

### 3.5 2015 balance sheet by geographic region

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

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

## NOTE 4: OPERATIONAL DATA

### 4.1 Revenue

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

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

Sales comprise the value excluding tax of goods and services sold by consolidated entities as part of their ordinary activities, after elimination of intra-group sales.

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

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

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

### 4.2 Amortization, depreciation and impairment charges

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

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

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

Amortization and depreciation charges are analyzed as follows:

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

## 4.3 Royalties

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

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

## 4.4 Other operating income and expenses

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

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

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

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

### 4.5 Operating income

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

## NOTE 5: EMPLOYEE COSTS AND BENEFITS

### 5.1 Workforce

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

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

### 5.2 Pension plans and post-employment benefits

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

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

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

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

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

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

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

- retirement age: age at which an employee has acquired sufficient entitlements to obtain a full pension;
- social security rates: adjusted based on the employee and company status. On average, rates are 44% for executives and 41% for non-executives;
- rate of salary increase: 2%;
- departure mode: at the employee’s initiative;
- life table: INSEE 2012-2014 by gender;
- annual mobility: based on category (executive and non-executive) and age, with a turnover rate of 0 after 50 years old;
- discount rate: 1.40%, based on the long-term yields of private sector euro-denominated AA-rated bonds (Corporate bonds AA10+) over a period equivalent to that of commitments, in accordance with IAS 19 and the ANC’s recommendation.

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

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

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

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

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

### 5.3 Long-service awards

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

### 5.4 Share-based payments

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

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

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

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

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

### 5.4.1 Description of existing plans

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

- **Subscription options**

The main features of current option plans are as follows:

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

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

(1) Options are fully exercisable

(2) Any options that were not exercised have lapsed

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

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

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

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

- **Free shares**

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

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

### 5.4.2 Change in the number of outstanding securities

Transactions in share-based payment instruments in the 2016 fiscal year are summarized as follows:

| | Subscription options | | | Free shares | | |
|---|---|---|---|---|---|---|
| | Number of options | Average residual contractual life | Average exercise price (€) | Number of shares | Average residual contractual life | |
| | | | | | France | United States |
| **Balance at 12.31.15** | **229,338** | **2.36** | **7.29** | - | - | - |
| - allocated | 406,500 | 6.72 | 5.43 | 72,990 | 0.72 | 1.72 |
| - canceled | (4,400) | - | 6.81 | - | - | - |
| - lapsed | (61,720) | - | 6.16 | - | - | - |
| - exercised | - | - | - | - | - | - |
| **Balance at 12.31.16** | **569,718** | **5.33** | **6.09** | **72,990** | **0.72** | **1.72** |

For the 2015 fiscal year, these transactions can be summarized as follows:

| | Subscription options | | | Free shares | | |
|---|---|---|---|---|---|---|
| | Number of options | Average residual contractual life | Average exercise price (€) | Number of shares | Average residual contractual life | |
| | | | | | France | United States |
| **Balance at 12.31.14** | **240,212** | **2.89** | **7.21** | - | - | - |
| - allocated | 12,000 | 6.67 | 6.67 | - | - | - |
| - canceled | 500 | 1.59 | 6.14 | - | - | - |
| - lapsed | - | - | - | - | - | - |
| - exercised (1) | 22,374 | 2.18 | 6.15 | - | - | - |
| **Balance at 12.31.15** | **229,338** | **2.36** | **7.29** | - | - | - |

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

### 5.4.3 Reflection of allocated instruments in the financial statements

The accounting impacts of allocated instruments are as follows:

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

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

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

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

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

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

- persistent disagreement over two successive fiscal years between the employee and the Group, if the employee has requested individual training leave from Fongecif;

- resignation or dismissal of the employee, if the latter requests their individual training right before the end of their notice period.

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

### 5.6 US Employee Stock Purchase Plan (ESPP)

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

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

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

### 5.7 Senior executives and corporate officers' compensation

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

Mr. SOURNAC is not an employee of MEDICREA INTERNATIONAL and is not compensated by the Company for his duties. The management holding company ORCHARD INTERNATIONAL receives fees for the services provided to MEDICREA Group by Mr. SOURNAC. These fees are paid via a service agreement between ORCHARD INTERNATIONAL and MEDICREA INTERNATIONAL. The value of services invoiced by ORCHARD to MEDICREA INTERNATIONAL for the 2016 fiscal year for work carried out by Mr. SOURNAC was €300,000 exclusive of tax (unchanged from 2015).

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

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

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

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

### 5.8 Employee costs analysis

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

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

(1): corresponds to non-capitalized employee costs

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

### 6.1 Goodwill

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

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

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

### 6.2 Non-current assets impairment tests

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

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

### 6.3 Intangible assets

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

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

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

### 6.4 Property, plant and equipment

In accordance with IAS 16, the cost of an item of property, plant and equipment comprises:

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

Property, plant and equipment is broken down if its components have different useful lives or if it provides benefits to the Group at a different pace that requires the use of different amortization rates and methods.

The depreciation periods applied by the Group are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

R&D costs capitalized for the fiscal year 2016 amounted to €2,281,231 compared with €1,886,300 in 2015. Total R&D costs expensed for the year are analyzed as follows:

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

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

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

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

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

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

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

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

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

## 6.7 Leases

### 6.7.1 Finance leases

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

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

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

Commitments are analyzed as follows:

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

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

### 6.7.2 Operating leases

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

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

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

The lease for MEDICREA INTERNATIONAL's former premises ended on October 31, 2016. The move to the new buildings, of which the Company is also a tenant, took effect as of the end of September 2016. The Group therefore centralized the operations of its three French subsidiaries on a single site for an annual rental charge of €1 million and having signed a 12-year rental commitment. The lease for the La Rochelle manufacturing site has been terminated with effect from January 31, 2017.

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

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

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

### 6.8 Non-current financial assets

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

## NOTE 7: INVENTORIES AND WORK IN PROGRESS

Raw material inventories are measured at their weighted average cost, including sourcing costs. Finished and semi-finished goods inventories are valued at cost, excluding sales and marketing expenses. Impairment is recognized when the probable realizable value of inventories is lower than book value.

Gross and net inventories are analyzed as follows:

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

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

Provisions for impairment by category of inventories are as follows:

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

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

## NOTE 8: TRADE RECEIVABLES AND OTHER CURRENT ASSETS

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

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

Trade and other receivables are analyzed as follows:

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

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

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

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

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

## NOTE 9: PROVISIONS AND CONTINGENT LIABILITIES

A provision is recognized when there is an actual obligation, legal or constructive, towards a third party resulting from a past event and existing irrespective of future actions, which will result in a probable cash outflow for the Group, the amount of which can be reliably measured.
Provisions are broken down between current and non-current liabilities according to due dates. When the liability settlement date exceeds one year, the amount of the provision is subject to a discount calculation, the effects of which are only recognized in net financial income/(expense) if the impact is material.

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

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

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

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

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

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

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

## NOTE 10: FINANCING AND FINANCIAL INSTRUMENTS

### 10.1 Net financial debt

#### 10.1.1 Financial debt

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

Financial debt is analyzed as follows:

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

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

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

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

- a bond loan amounting to €1,150,000 in February 2016 at an interest rate of 7% (the interest is payable quarterly), which will be redeemed in full at the end of a two-year period;
- a bond convertible into the Company's shares amounting to €15 million in August 2016, at an interest rate of 6.75% (the interest is payable quarterly), which is redeemable in full at the end of a four-year period, and includes a non-conversion premium amounting to 10% of its face value. The sole investor in these convertible bonds is a leading US healthcare investor, ATHYRIUM CAPITAL MANAGEMENT. These bonds are convertible into new Company shares at a price of €6.25 per share. Certain commitments are attached to these financial instruments, and are described in Paragraph 10.3.3 – Liquidity risk. This convertible bond loan is recognized in accordance with IAS 32, IAS 39, and IFRS 7.

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

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

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

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

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

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

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

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

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

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

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

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

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

### 10.1.2 Conditional advances

Conditional advances mainly result from innovation grants awarded by BPI in the form of repayable advances. Their change compared with the previous year resulted from ongoing repayment plans. No new grants were awarded during the 2016 fiscal year.

### 10.1.3 Cash and cash equivalents

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

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

Net cash and cash equivalents changed as follows:

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

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

### 10.1.4 Cash flow statement

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

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

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

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

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

## 10.2 Fair value of financial instruments

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

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

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

### 10.2.1 Income statement disclosures

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

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

### 10.2.2 Balance sheet disclosures

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

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

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

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

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

### 10.3 Risk management

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

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

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

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

### 10.3.2 Credit risk

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

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

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

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

### 10.3.3 Liquidity risks

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

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

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

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

- The ratio of consolidated net financial debt to consolidated shareholders' equity to be below 0.33 at December 31 of each year throughout the loan repayment period;

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

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

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

### 10.3.4 Foreign exchange risks

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

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

### 10.3.5 Interest rate risks

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

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

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

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

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

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

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

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

#### 10.3.7 Warranties on UNiD products

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

Since the launch of this lifetime warranty across the United States, no activation request has been recorded. On this basis, the Group did not recognize any provision in its financial statements at December 31, 2016 and, depending on the data collected in 2017, it will assess whether or not it is necessary to review its position for the next fiscal year.

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

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

These items are analyzed as follows:

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

## NOTE 11: TRADE PAYABLES AND OTHER CURRENT LIABILITIES

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

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

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

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

## NOTE 12: CORPORATE TAX

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

The corporate tax expense corresponds to current tax adjusted for deferred taxes. The latter result from adjustments made to parent company financial statements, as well as temporary differences between accounting income and taxable income, in accordance with IAS 12.

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

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

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

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

### 12.1 Analysis of the corporate tax rate

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

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

### 12.2 Analysis of deferred taxation

Deferred tax assets and liabilities are analyzed as follows:

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

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

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

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

The Group has recognized the following tax losses:

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

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

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

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

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

Average exchange rates evolved as follows:

| Average conversion rate | 2016 | 2015 |
|---|---|---|
| USD / EUR | 1.10605 | 1.11500 |

| | | |
|---|---|---|
| GBP / EUR | 0.81251 | 0.72794 |
| PLN / EUR | 4.3622 | - |

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

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

## NOTE 14: SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

### 14.1 Shareholders' equity

#### 14.1.1 Share capital

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

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

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

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

#### 14.1.2 Preference shares

At the Shareholders' Meeting of December 17, 2014, it was decided to issue 100 preference shares to MMCO, a simplified joint stock company *(Société par Actions Simplifiée)* with share capital of €1,000, with its registered office at 5389 route de Strasbourg, 69140 Rillieux-la-Pape.

These preference shares will ultimately be convertible into ordinary shares of MEDICREA INTERNATIONAL, as determined by reference to the volume-weighted average price of the MEDICREA INTERNATIONAL share between September 17, 2018 and December 17, 2018, subject to the MEDICREA shares having reached significant and predefined performance levels during that period. The maximum number of ordinary shares that may be issued as a result of the conversion of all preference shares is 210,000, i.e. 2.1% of the Company's share capital at December 31, 2016. These preference shares do not grant voting rights or entitlement to dividends. They are not listed on Alternext.

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

#### 14.1.3 Treasury shares

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

When sold, the cost price of the shares is calculated in accordance with the first in, first out (FIFO) method, except for shares held within the framework of option plans, which are calculated on a plan-by-plan basis in accordance with the weighted average price method.

Transfer proceeds are recognized directly in equity net of tax.

#### 14.1.4 Change in shareholders' equity

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

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

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

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

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

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

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

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

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

### 14.1.6 Dividends paid during the fiscal year

Nil.

## 14.2 Earnings per share

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

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

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

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

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

## NOTE 15: OTHER INFORMATION

### 15.1 Off-balance sheet commitments

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

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

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

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

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

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

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

### 15.1.3 Other commitments

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

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

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

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

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

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

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

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

## 15.3 Related-party disclosures

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

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

## 15.4 Statutory Auditors' fees

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

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

## 15.5 Post-balance sheet events

Nil.