ANNUAL REPORT 2017

MEDICREA®

MEDICREA®

ANNUAL REPORT 2017

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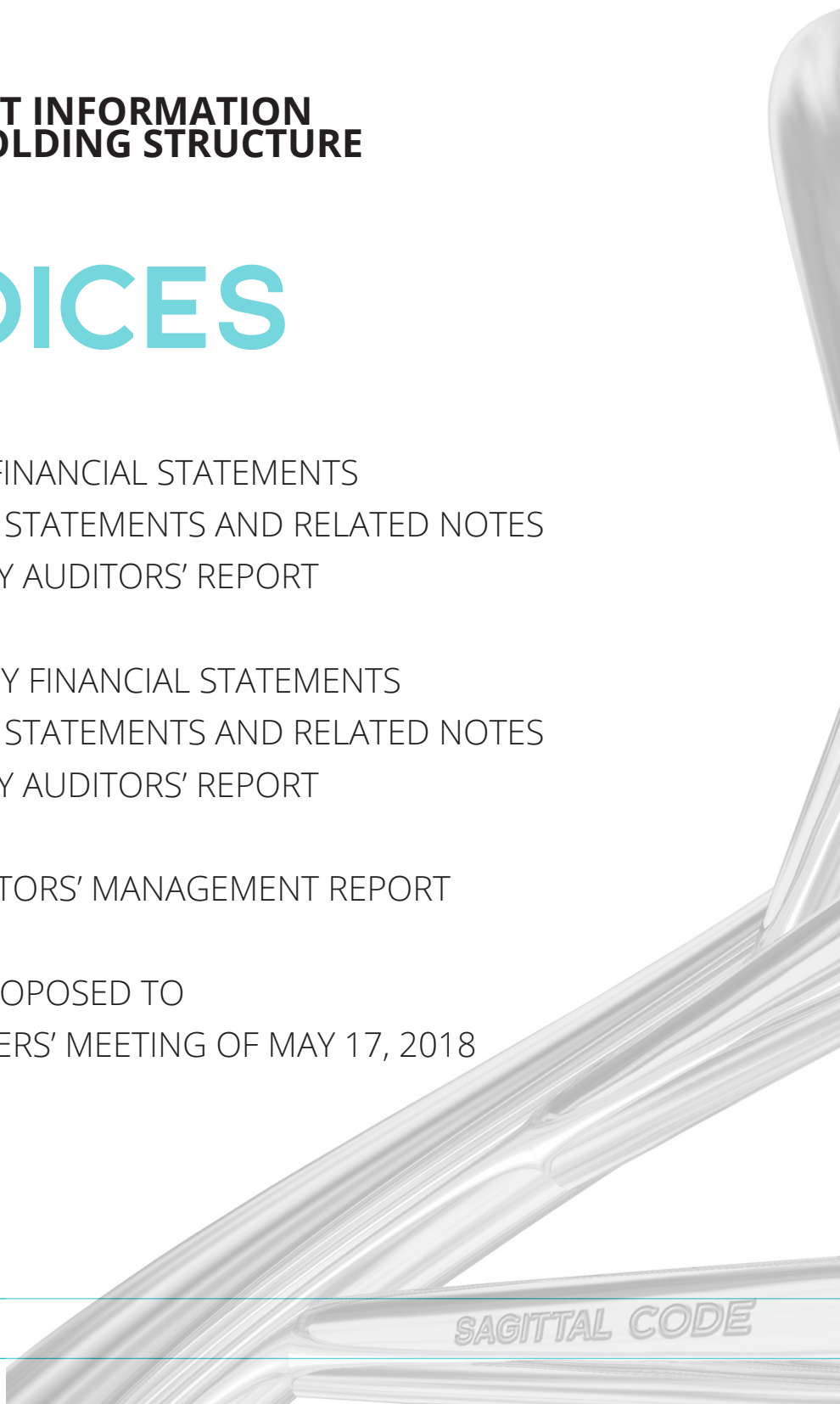
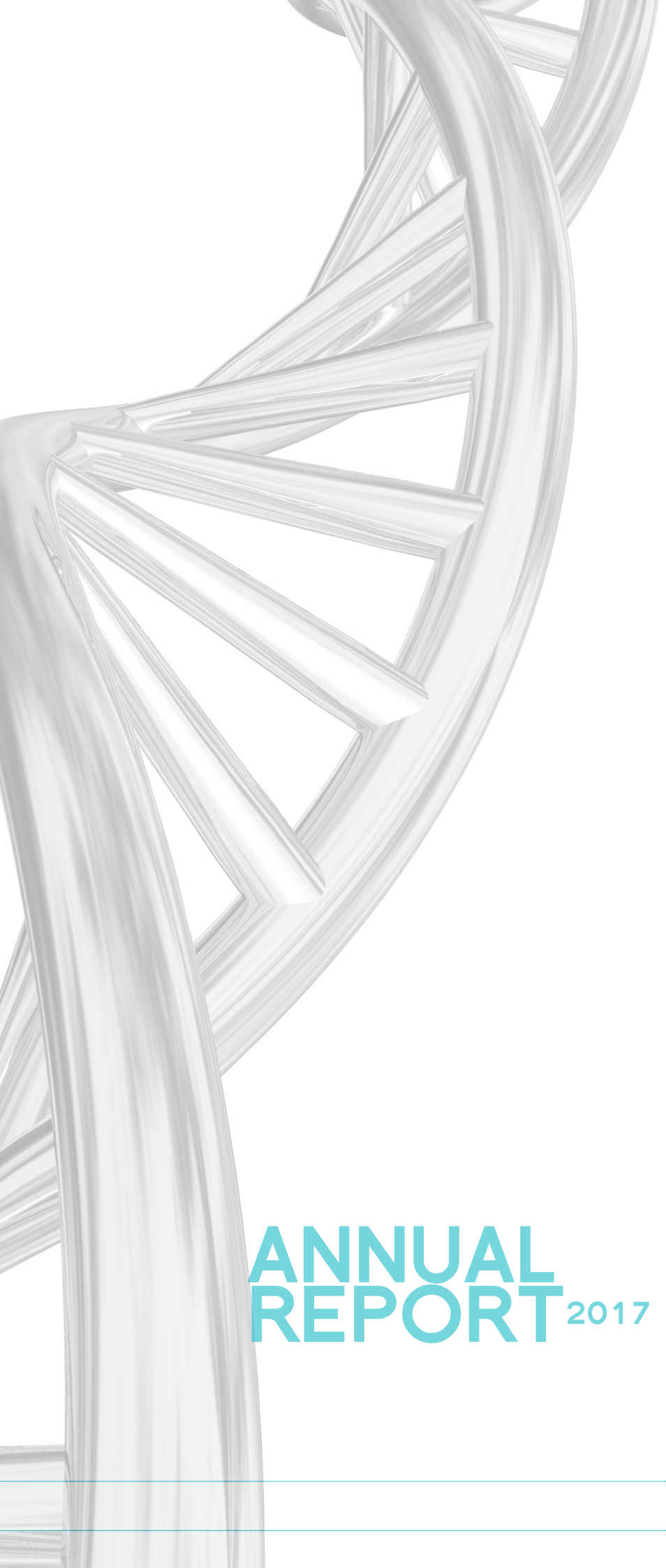
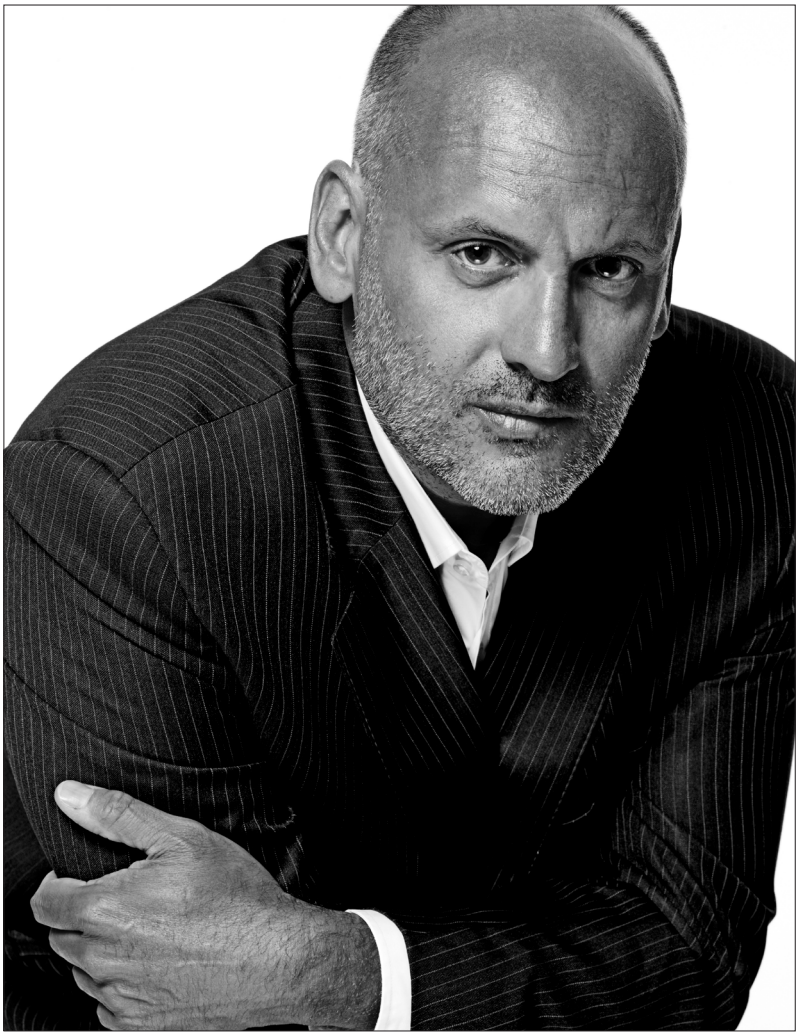




ANNUAL REPORT 2017

DREAM IT
DO IT

photo Stéphane de Bourgies



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

CHAIRMAN'S MESSAGE

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

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

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

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

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

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

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

Denys SOURNAC


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

Medicrea is the industry's first full-service spine company focused on data-driven surgical planning and personalized implant offerings. Its aims is to improve the efficiencies of spine surgery for patients, and providing unrivalled operating comfort for surgeons.

Medicrea is at the confluence of healthcare IT, next-generation medical device design and manufacturing with proprietary Adaptive Spine Intelligence (UNiD® ASI) technology.

MEDICREA®

1 OVERVIEW

MEDICREA®

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 150k spinal surgeries to date. The Group has an ultra-modern manufacturing facility in Lyon, France housing the development and machining of 3D-printed patient-specific implants, as well as distribution subsidiaries in the United States, the United Kingdom, Poland, and since February 2018 in Belgium.

MEDICREA operates on a spinal surgery market worth approximately $10 billion. This market has been heavily affected by healthcare policy reforms in Europe as well as in the United States, aimed in particular at reducing the budgets of both state -run and private healthcare facilities. Pressure on prices orchestrated by hospitals, reductions of basic reimbursement rates made by governments, social security bodies, health insurance companies and funds, and the tightening up of certification procedures for medical devices all impact the development of the market.

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

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

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

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

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

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

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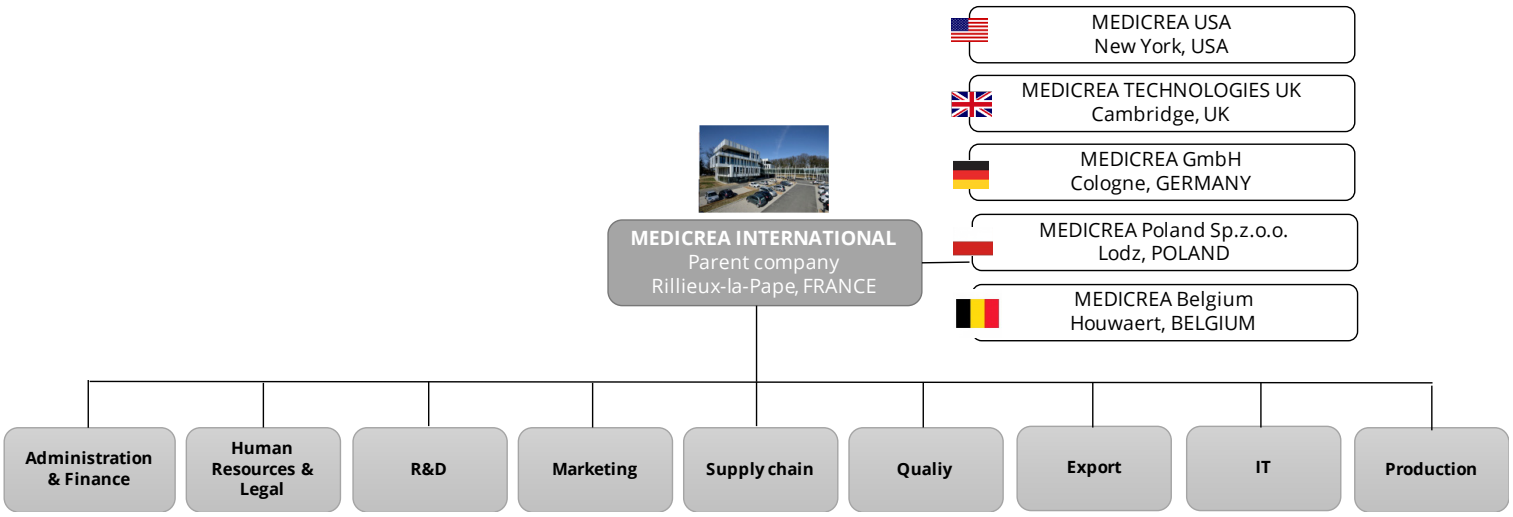
THE GROUP AT A GLANCE

A. ORGANIZATION



B. HISTORY

MEDICREA® TODAY

2017 FDA approval for 3D-printed titanium interbody devices
FDA approval for the UNiD Hub, a data-driven digital portal
2000 + surgical procedures carried out using UNiD(TM) customized rods.

2016 MEDICREA launches a lifetime warranty for customized UNiD implantable devices in the United States

2015 MEDICREA reaches 30 product ranges with FDA clearances

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

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

2008 PASS LP® posterior thoracolumbar system is FDA cleared

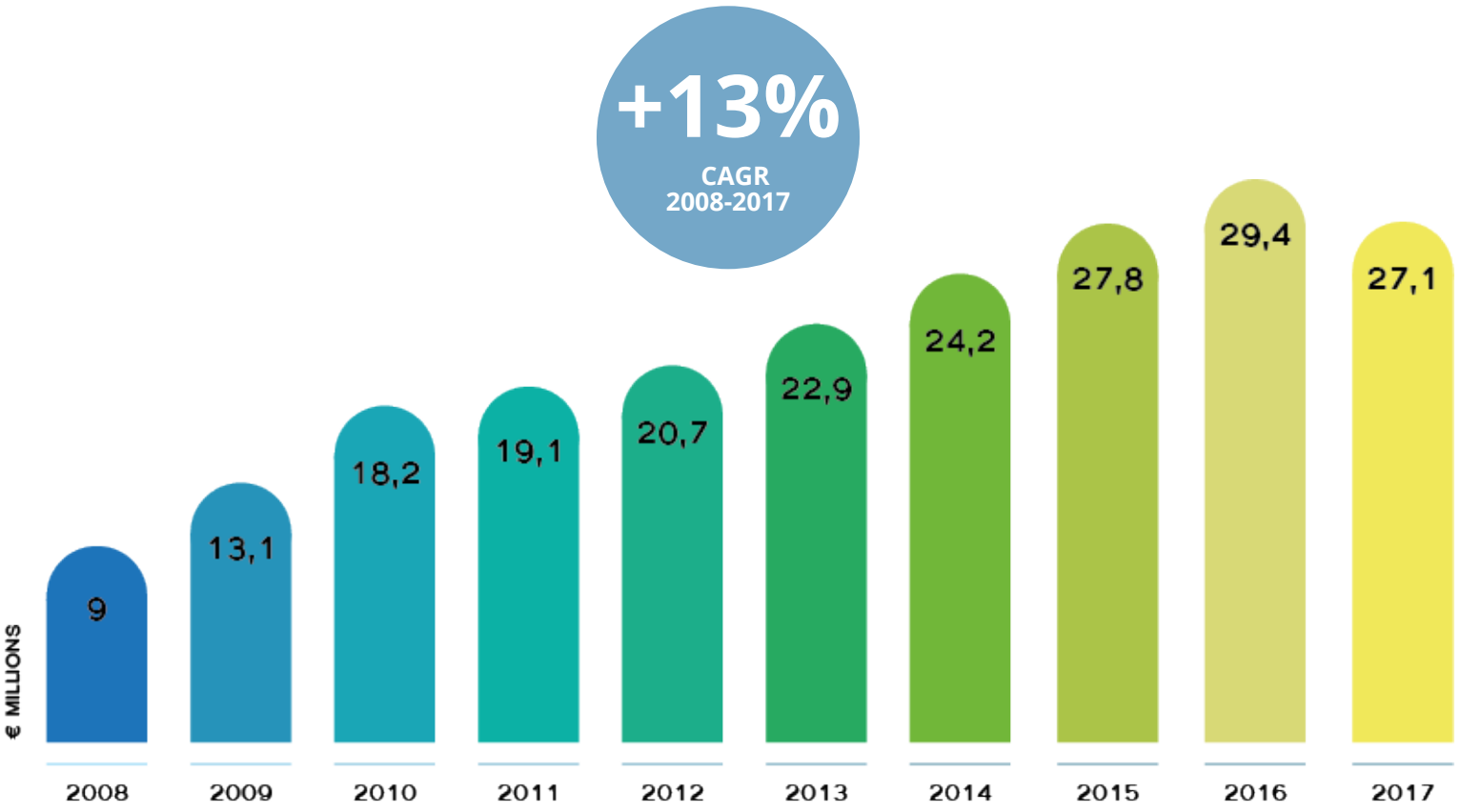
2007 MEDICREA USA direct sales subsidiary is founded

2006 MEDICREA IPO on Euronext Paris

2002 MEDICREA is founded by Denys Sournac

leading personalized spine

C. DEVELOPMENTS



D. ACHIEVEMENTS

UNiD®:
- Range of implants and services for personalized spinal surgery
- 2,000 surgical procedures carried out to the end of December 2017
- Unid Hub software platform available to surgeons
- Lifetime warranty for UNiD customized implantable devices in the United States
- Growing interest of surgeons and patients in this personalized treatment

Extensive range:
- Range of 3D intersomatic cages printed in titanium
- Range incorporating over 20 products
- New top loaping fixation system
- Treatment of degenerative, traumatic and tumor pathologies and of major deformities
- Sustained development program

International presence:
- 85% of sales are for export
- 4 sales subsidiaries, including one new entity in Belgium, opened early 2018
- Distribution in 30 countries

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

R&D:
- R&D effort represents almost 15% of sales
- 13 development engineers
- Healthy portfolio of patents

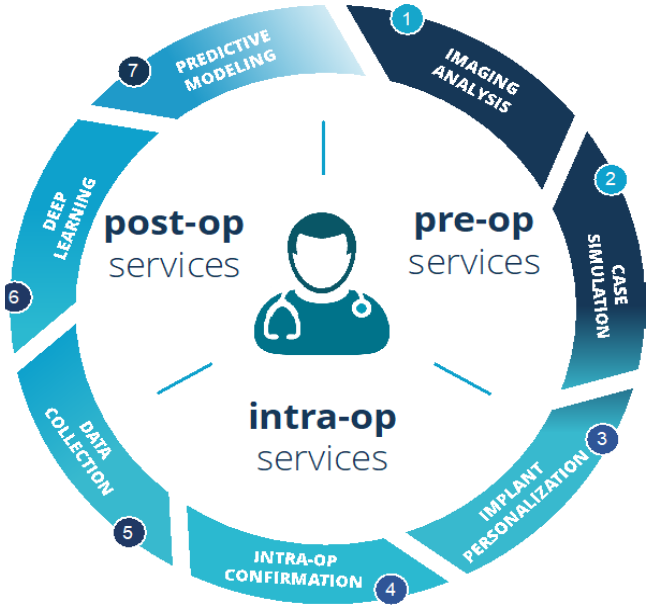
E. INNOVATIONS

Personalized medicine is a line of research now present in all area of health. Better understanding the pathologies of each patient thanks to increasingly accurate diagnostic testing means that patients can be guided toward using a specific treatment, and to avoid others, all in relation to identical clinical symptoms. For the first time, each patient is considered to be unique and can receive the treatment with the best chance of being effective.

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

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

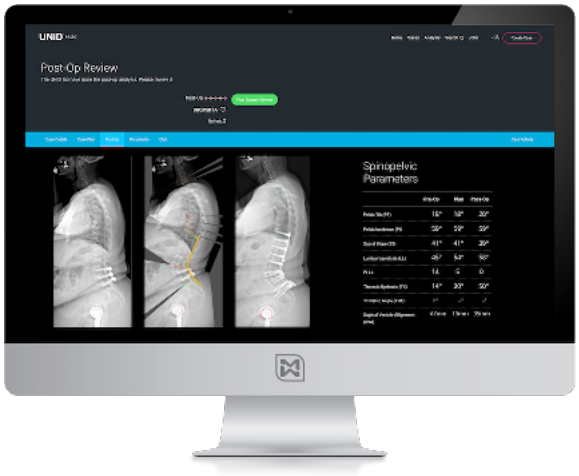
MEDICREA decided to integrate this personalized medicine policy with a patient-specific approach. In capturing a systems-based model for the iterative application of patient-specific spinal technology via UNiD™ ASI, MEDICREA is leveraging proprietary, industry-leading data sets as the means to answer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

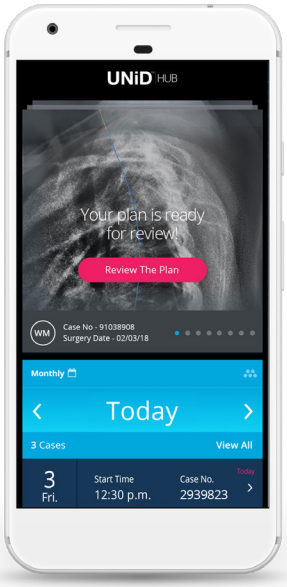


The UNiD Lab and its highly-trained Bio-Medical engineers work collaboratively with the Surgeons and Health Care Providers to preoperatively simulate a wide range of surgical strategies and technologies. This science and collaboration materializes in the physical form of personalized implant solutions.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

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

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





F. PRODUCT RANGES

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

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

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

1. CERVICAL

CERVICAL range

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

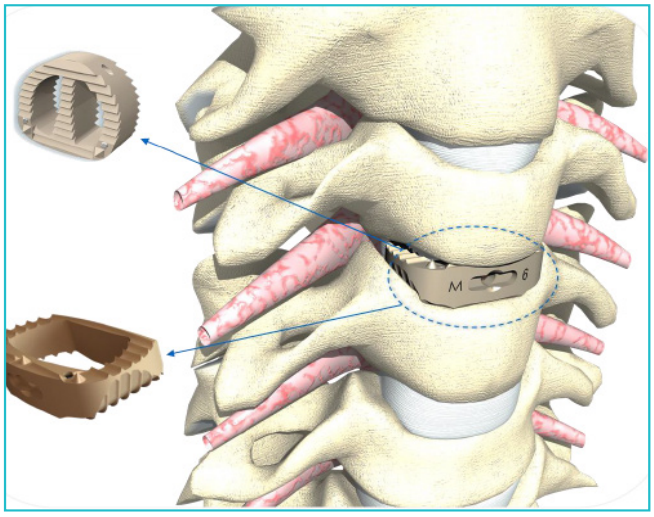
a. IMPIX-C® and IMPIX MANTA® Cervical Cages

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

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

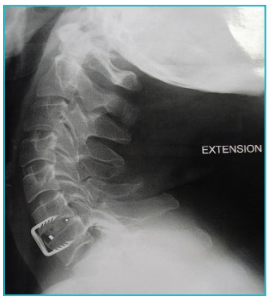
Both these ranges allow disc height and lordosis to be restored and offer very good stability within the intervertebral area. The cages are supplied sterile, with single-use instrumentation, and exist in a version pre-filled with a synthetic bone substitute under the names IMPIX-C+® and IMPIX-MANTA+®.

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



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

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



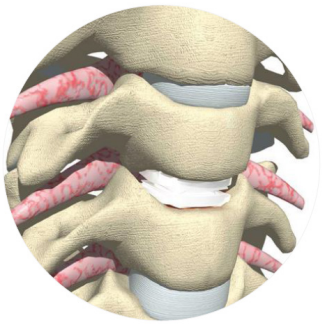
K-JAWS® is made up of a C-JAWS® staple and an IMPIX-C®interbody fusion cage. The K-JAWS® implant is less invasive and quicker to fit than any other cervical plate on the market. Its principle of fixation by the compression of two adjacent vertebrae, around the previously inserted interbody fusion cage,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

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

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

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

GRANVIA® C is CE-marked.



2. LUMBAR AND THORACO-LUMBAR

PASS® range

The PASS® range is characterized by a comprehensive and very versatile polyaxial spinal system, known as Low Profile. Its unique concept enables the rod to be connected at a distance from the spine, minimizing the strain applied and the pressure thanks to a unique surgical technique, irrespective of the indication or the surgical approach. Since 2017, the PASS® range also offers a top-loading fixation system.

a. PASS LP®: MEDICREA's flagship product

The PASS LP® range represented 69% of the Group's sales in 2017.

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

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

The product offers numerous benefits:

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

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

b. PASS® Tulip: new top-loading posterior fixation system

Top-loading fastening systems are the worldwide standard for posterior instrumentation in the treatment of spinal pathologies. By offering this type of system, MEDICREA can now address all surgeons, regardless of their practices and preferences in terms of instrumentation.

PASS® TULIP components are fully compatible with the PASS LP® to provide a unique hybrid approach to complex surgeries.

The PASS TULIP® allows surgeons used to top-loading instrumentation to access UNiD™ ASI technology developed by MEDICREA.

The PASS® Tulip fixation system was launched in 2017 in the group's various markets. It is CE marked and FDA approved.

c. LigaPASS®

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

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

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

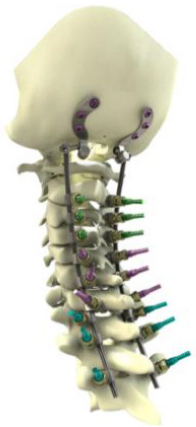
LigaPASS® and LigaPASS® XS are CE-marked and FDA-approved.

d. PASS OCT®

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

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

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



e. PASS MIS®

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

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

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

f. PASS Antérieur®

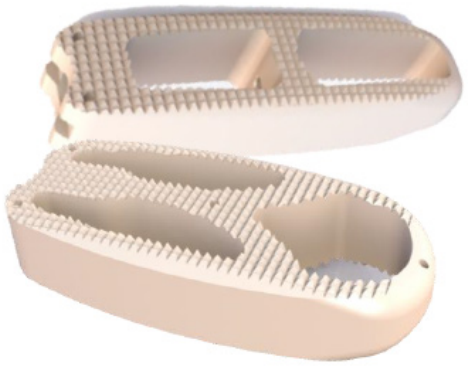
As an extension of the PASS LP® system, MEDICREA has also developed a range of specific implants enabling surgery using an anterior approach. In this way, PASS Antérieur® offers all the advantages of PASS LP®, high quality anchoring and polyaxiality, minimal profile and connection of the rod at distance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

THORACO-LOMBAR range

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

a. IMPIX® Lumbar Cages

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



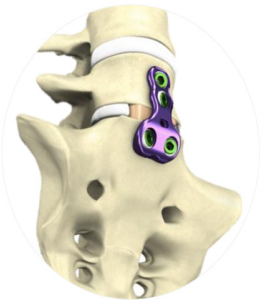
The types of IMPIX® cages include:

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

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

b. STABOLT® anterior lumbosacral plate

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



The implant is CE-marked and FDA-approved.

c. Osmosys®

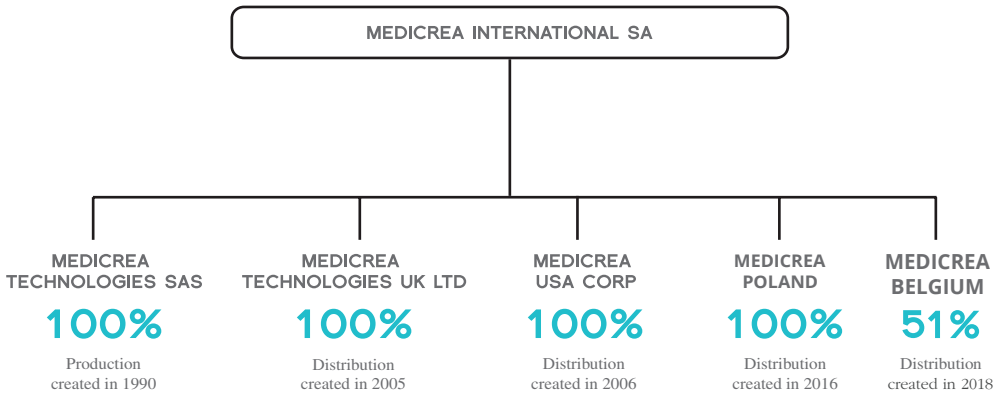
Osmosys® is a highly macroporous bone substitute made up of 60% HAP (hydroxyapatite) for its excellent mechanical properties and 40% βTCP (tricalcium phosphate) for good resorption.

Osmosys® is CE-marked and FDA-approved.

3 GOVERNANCE

1. LEGAL STRUCTURE

At December 31, 2017, MEDICREA Group was structured as follows:



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

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

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

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

- MEDICREA Belgium based near Brussels, has been marketing the Group's products in Belgium since february 2018 and other products for spine surgery. It is owned by MEDICREA INTERNATIONAL at 51%.

2. MANAGEMENT BODIES

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

Board of Directors

It safeguards the interests of the Company and its shareholders and ensures that the decisions taken are implemented by the leadership team. The guiding principles for the Board's operation are set by rules adopted in October 2006. It met 8 times during the 2017 financial year, with an 72% attendance rate among its directors.

At December 31, 2017, the Board was made up of the following members:
Denys SOURNAC, Chairman and Chief Executive Officer
Jean Philippe CAFFIERO, Deputy Chief Executive Officer
Rick KIENZLE, Director
Patrick BERTRAND, Director
Christophe BONNET, Director
Pierre BUREL, Director
Jean Joseph MORENO, Director
François Régis ORY, Director
Marc RECTON, Director

The total attendance fees paid to members of the Board of Directors in 2017, in respect of 2016, stood at €56,000 excluding the €9,800 "forfait social" (corporate social contribution) paid directly by the Company.

Ad Hoc Committee

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

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

Strategic Committee

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

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

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

Management Committee

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

Denys SOURNAC, Chairman and Chief Executive Officer
Nadège BOURDOIS, VP Human Resources and Legal
Fabrice KILFIGER, Chief Financial Officer
Thomas MOSNIER, Chief Scientific Officer
David RYAN, VP Product Development and Marketing
Pierre OLIVIER, Chief Executive Officer of Medicrea USA.

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STOCK MARKET INFORMATION AND SHAREHOLDING STRUCTURE

MEDICREA®

1. STOCK MARKET INFORMATION

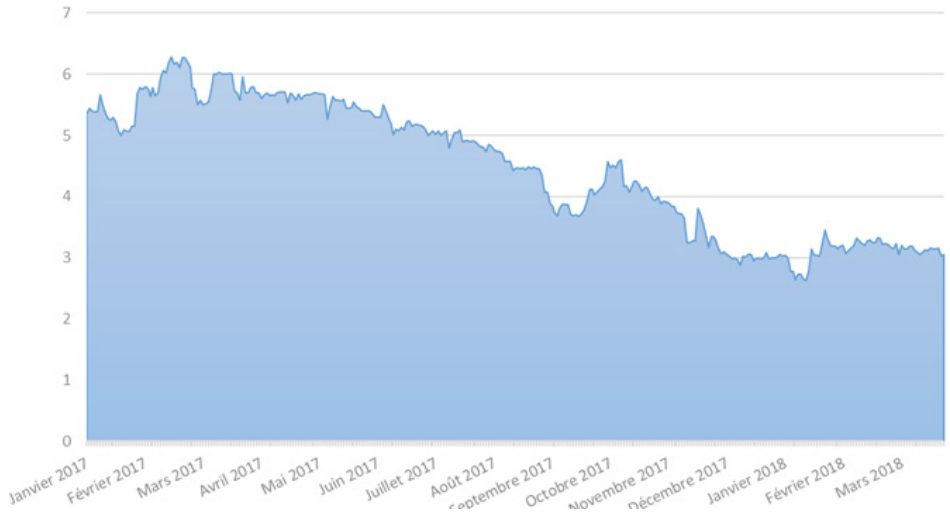
MEDICREA has been listed on Euronext Growth d'Euronext Paris since June 26, 2006, ISIN Code FR 0004178572, Ticker ALMED. The share was launched at €7.94 and has been listed continuously since February 2007.

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

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

	12.31.2017	12.31.2016	12.31.2015
Number of shares at December 31	15 082 811	10,033,067	8,987,588
High price	6,37	7.04	9.34
Low price	2,86	4.33	6.31
Average price for the period	4,51	5.46	7.75
Price at December 31	3,00	5.40	6.78
Market capitalization at December 31	45 M€	€54 m	€61 m
Number of transactions		6,465	8,776
Trading volume	3,000,160	1,937,451	1,638,981
Capital turnover rate	19,9 %	20.18%	18.2%

Changes in the share price during 2017 were as follows:



2. SHAREHOLDING STRUCTURE

The shareholding of the Company is characterized by the following factors:
- 2,500 shareholders in total;
- The leading shareholder is made up of the founding executives who together hold 16% of the share capital;
- The second largest shareholder, represented by an investment fund, holds 9% of the share capital;
- The 10 leading shareholders together hold approximately 60% of the share capital. 80% of the share capital is held by 25 shareholders.

3. LIQUIDITY CONTRACT AND LISTING SPONSOR

In order to stimulate trading, the security has been covered by a market-making contract entered into with the brokerage firm Gilbert Dupont since 2009 and transferred to Louis Capital Markets on November 1, 2017. This contract is renewable annually by tacit agreement and and compliant with the French Financial Markets Association (AMAFI).

Gilbert Dupont acts as Listing Sponsor.

4. FINANCIAL ANALYSIS

The brokerage firms Euroland company track the share.

5. 2018 FINANCIAL COMMUNICATION CALENDAR

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

2017 annual results & 2018 First Quarter Sales	Thursday April 5, 2018
Annual Shareholders' Meeting	Thursday May 17, 2018
2018 Half-Year Sales	Thursday July 12,2018
2018 Half-Year Results	Tuesday September 18, 2018
2018 Third Quarter Sales	Thursday October 11, 2018
2018 Annual Sales	Tuesday January 15, 2019

6. INFORMATION AND DOCUMENTATION SOURCES

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

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

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

The Euronext growth www.euronext.com provides all the regulated and mandatory financial information published by the Company

Person responsible for information

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

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APPENDICES

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- STATUTORY AUDITORS' REPORT

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IFRS CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2017

CONTENTS

1. ACTIVITY

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

MEDICREA leads the design, integrated manufacture, and distribution of 30+ FDA approved implant technologies, utilized in over 150k spinal surgeries worldwide to date. Operating in a $10 billion marketplace, MEDICREA is an SME with 170 employees worldwide, which includes 37 at its USA Corp. subsidiary in NYC.

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

The Group is based in Rillieux-la-Pape, near Lyon, France, where it has its own state-of-the-art implant and surgical instrument manufacturing facility, a manufacturing facility dedicated to the machining and development of 3D-printed, patient-specific implants, as well as four distribution subsidiaries in the US, UK and Poland, and Belgium since February 2018.

2. FISCAL YEAR HIGHLIGHTS

The following are the highlights of the 2017 fiscal year:

2.1. MARKET AND ENVIRONMENT

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

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

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

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

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

2.2. RESULTS AND PERFORMANCE

Sales reached a total of €27.1 million in 2017, a decline of 8% compared to 2016. Despite a 15% increase in sales on the French market, two factors put pressure on the development of the business activities:

- First, the need to reregister all of the Group's products with the Brazilian Healthcare Authorities, which resulted in no invoices in Brazil in 2017 (compared with the €2 million invoiced the previous year);

- Second, the reorganization of the sales force carried out in the United States, in order to focus marketing efforts on the development of the UNiD ASI™ patient-specific implant technology, which temporarily affected the level of the subsidiary's sales, including standard implants. However, this strategy is expected to pay off in the medium term with a 36% increase in the number of UNiD™ surgeries in 2017.

The gross margin, which is structurally high, amounted to 73%, a fall of 3 points compared with the previous fiscal year, as a result of significant use of sub-contracting, and of the temporary duplication of some positions as part of the transfer of the La Rochelle production site to the new site in Lyon. However, the gross margin ratio improved during the second half, and the trend is expected to continue in 2018.

Operating costs increased €0.6 million in comparison with 2016, linked to new building infrastructures coming into service in Lyon and New York, as well as the resources mobilized by the Group both in terms of R&D and sales and marketing efforts to promote its UNiD™ ASI products and services, notably the digital UNiD™ HUB accessible to surgeons for the planning of their patient-specific spinal surgeries.

In view of these factors, the operating loss before non-recurrent expenses was €7.6 million compared with a loss of €4.5 million in the previous year.

Other non-recurring expenses, which amounted to €0.9 million, primarily included the costs relating to the court case that the Group launched against K2M Spine, Inc., and to the investigation conducted by the US Department of Justice (DOJ), details of which are provided in Paragraph 2.6. Expenses were also incurred as part of the restructuring of the MEDICREA GMBH subsidiary, and of the reorganization of a portion of MEDICREA INTERNATIONAL's Management Committee.

The cost of net financial debt increased by €1.2 million, following the arrangement of a €15 million bond loan in August 2016, the interest on which applied through the entire 2017 fiscal year, compared with five months during the previous year.

Loss before tax amounted to €11.2 million, versus a loss of €7.8 million for the year ended December 31, 2016.

The Group had available cash of €12 million at December 31, 2017.

2.3. PRODUCT PORTFOLIO AND RESEARCH AND DEVELOPMENT

MEDICREA is the first company in the spinal industry to offer a complete set of surgical planning services based on data and patient-specific implants. Over the course of 2017, the Company continued its expansion along this strategic axis and the fiscal year was marked by several major achievements.

UNiD™ osteosynthesis patient-specific rods

The Company expanded its range of UNiD™ patient-specific rods by offering a new implant tailored to minimally invasive percutaneous surgery. The first surgical procedure using a UNiD™ MIS patient-specific rod was thus performed in the United States in July 2017.

The Company also received FDA 510(k) clearance in August 2017 for surgical planning with UNiD™ HUB, its data-driven digital portal which provide surgeons with surgical strategy and predictive modeling functionality.

Lastly, in October 2017 MEDICREA published a major scientific white paper which shows that, relative to manually bent rods, patient-specific rods generated using Medicrea's UNiD™ ASI technology greatly reduce the incidence of postoperative rod breakage in adult complex spine surgical cases.

Patient-specific, 3D-printed interbody cages

The systematic approach to spinal column disorders implemented by MEDICREA, through its engineering services and in-house 3D printing resources, makes the Company a unique player and enables it to collaborate closely with surgeons to develop interbody devices that match their technical and clinical preferences.

In order to provide 3D printed, patient-specific interbody implants most suitable for both the patient's pathology and the surgeon's preferences, MEDICREA acquired three patents from Dr. Paul McAfee of University of Maryland St. Joseph's Medical Center, United States, relating to a methodology to measure anatomical parameters and to design the interbody devices used in spinal surgery. These three patents protect an innovative technique that helps to ascertain the physiological height of the intervertebral space by using the anatomy of the patient to accurately select the appropriate interbody device. As such, they enable MEDICREA to strengthen its UNiD™ ASI platform.

In September 2017, the research and development work of the MEDICREA teams came to fruition in the operating room. In September 2017, the Company announced the world's first 360-degree personalized spine surgery in London, U.K., which was completed utilizing a bespoke combination of patient-specific interbody cages and rods, manufactured in-house at the Company's new united production and headquarters campus in Lyon and generated by its proprietary UNiD™ ASI systems technology.

November 2017 marked a major step for the Group when MEDICREA announced it had secured FDA approval for its IB3D range of 3D-printed titanium interbody cages and the launch of AdapTEK, its adaptive technology meeting the specific needs of each surgeon. The first IB3D cages were fitted in the United States in January 2018.

Other products in the range

MEDICREA confirmed in June 2017 the extension of its portfolio of standard products for complex spinal pathologies with FDA clearance of its PASS® TULIP top-loading posterior fixation system. Fixation systems of this type are the global gold standard and the availability of this new product will allow the Group to reach a greater number of surgeons and offer them UNiD ASI™ technology regardless of their preferences in terms of instruments.

2.4. ORGANIZATION

In January 2017, the Group completed the transfer of the factory from La Rochelle to its new Rillieux-la-Pape site. The number of employees who wanted to move to this new site was very low, which resulted in significant disruption to the organizational structure and operation of the new plant during the 1st half of 2017, and in the significant use of sub-contractors on a temporary basis. The situation gradually returned to normal over the 2nd half of the fiscal year.

The Group decided to change its distribution strategy in Germany in June 2017 and mothballed its MEDICREA GmbH subsidiary, which had been launched in 2016. All the transactions relating to the German market are now handled directly from the Head Office in Rillieux-la-Pape.

MEDICREA hired a new Sales Director and a Director of the UNiD ASI™ Platform in the United States in October 2017, as part of the implementation of its new commercial development model.

In November 2017, MEDICREA TECHNOLOGIES was dissolved without liquidation and absorbed by MEDICREA INTERNATIONAL. This decision was taken with a view to simplifying and rationalizing business flows.

Lastly, the Group entered into a partnership with its historical Belgian distributor in February 2018, by purchasing a 51% interest in a company newly founded for that purpose, called MEDICREA BELGIUM.

2.5. FINANCING

MEDICREA performed two capital increases with qualified French and US investors in June and December 2017, in an overall amount of over €20 million. The terms and conditions of these capital increases are explained in detail in Section 10.1.5 of this document. The funds raised will be used to accelerate the development, mainly in the United States, of the UNiD™ ASI platform, to prepare for the commercialization of a new range of 3D-printed titanium interbody cages in the United States and Europe, and to continue extending the distribution network by setting up marketing subsidiaries.

2.6. LEGAL

The Company and its American subsidiary were involved in two sets of legal proceedings in 2017:

Over the course of the fiscal year, the US Department of Justice (DOJ) opened an investigation to verify MEDICREA's compliance with applicable regulations regarding the transparency of the benefits granted to healthcare professionals, within the context of the Sunshine Act. The investigations carried out confirmed that the Company did comply with the obligations to which it was subject and the case is assumed to have been closed.

In November 2017, MEDICREA USA Inc. filed a lawsuit against K2M Spine, Inc., a rival company within the spinal market, and against several other individuals, before the New York District Court. These proceedings were initiated in response to the unlawful activities committed by K2M and these other persons during the fiscal year just ended.

MEDICREA has revolutionized spinal surgery with its innovative UNID™ technology, which is the first and only osteosynthesis patient-specific rod to date to have been approved in the United States and wanted to assert its rights in order to protect the Company, which is the leader in this market.

In February 2018, the New York District Court declared it did not have jurisdiction to hear this case, although it did recognize the merits of the complaint lodged by MEDICREA. The Company has decided not to pursue this matter for the time being.

3. IFRS CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2017

3.1. IFRS CONSOLIDATED INCOME STATEMENT

(€)	Notes	12.31.2017	12.31.2016
Sales	**3.1 & 4.5**	**27,147,831**	**29,375,426**
Cost of sales		(7,315,629)	(6,941,264)
Gross margin		**19,832,202**	**22,434,162**
as % of sales		***73.1%***	***76.4%***
Research & development costs	**4.6**	(2,016,880)	(1,064,366)
Sales & marketing expenses	**4 & 5**	(15,240,309)	(16,164,574)
Sales commissions		(2,776,366)	(3,426,172)
General and administrative expenses	**4 & 5**	(7,399,468)	(6,223,950)
Other operating income and expenses	**4.9.2**	(924,110)	(2,377,170)
Operating income before share-based payments		**(8,524,931)**	**(6,822,070)**
Share-based payments	**5.5.4**	(287,338)	(283,434)
Operating income after share-based payments	**4.9.1**	**(8,812,269)**	**(7,105,504)**
Cost of net financial debt	**8.3.1**	(2,248,952)	(1,085,382)
Other financial (expenses) / income	**8.3.2**	(170,728)	358,415
Tax (charge) / income	**9.1**	504,657	263,246
Consolidated net income/(loss)		**(10,727,292)**	**(7,569,225)**
Earnings per share	**10.2**	**(0.93)**	**(0.80)**
Diluted earnings per share	**10.2**	**(0.93)**	**(0.80)**

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

3.2. IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€)	12.31.2017	12.31.2016
Consolidated net income/(loss)	**(10,727,292)**	**(7,569,225)**
Translation adjustment	(782,854)	(26,535)
Total comprehensive income	**(11,510,146)**	**(7,595,760)**

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

3.3. IFRS CONSOLIDATED BALANCE SHEET

(€)	Notes	12.31.2017	12.31.2016
Goodwill	**6.1**	2,626,620	2,628,424
Intangible assets	**6.6**	7,882,753	6,071,368
Property, plant and equipment	**6.6**	10,771,748	10,099,217
Non-current financial assets	**6.6**	686,518	938,408
Deferred tax assets	**9.2**	2,044,496	2,454,025
Total non-current assets		**24,012,135**	**22,191,442**
Inventories	**4.2**	9,812,700	8,726,493
Trade receivables	**4.3**	3,973,135	5,158,818
Other current assets	**4.3**	2,215,133	3,511,477
Cash and cash equivalents	**8.1.5**	11,980,693	8,063,140
Total current assets		**27,981,661**	**25,459,928**
Total assets		**51,993,796**	**47,651,370**

(€)	Notes	12.31.2017	12.31.2016
Share capital	**10.1**	2,413,266	1,605,307
Issue, merger and contribution premiums	**10.1**	60,567,352	42,448,276
Consolidated reserves	**10.1**	(30,463,815)	(22,403,157)
Net income/(loss) for the year	**10.1**	(10,727,292)	(7,569,225)
Total shareholders' equity		**21,789,511**	**14,081,201**
Conditional advances	**8.2**	196,250	317,500
Non-current provisions	**7.1**	574,567	513,842
Deferred tax assets	**9.2**	859,695	1,407,986
Long-term financial debt	**8.1**	16,738,955	18,308,727
Total non-current liabilities		**18,369,467**	**20,548,055**
Current provisions	**7.1**	225,675	1,124,676
Short-term financial debt	**8.1**	4,387,378	3,602,301
Trade payables	**4.4**	4,672,856	6,000,976
Other current liabilities	**4.4**	2,548,909	2,294,161
Total current liabilities		**11,834,818**	**13,022,114**
Total shareholders' equity and liabilities		**51,993,796**	**47,651,370**

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

3.4. IFRS CONSOLIDATED CASH FLOW STATEMENT

(€)	Notes	12.31.2017	12.31.2016
Consolidated net income/(loss)		**(10,727,292)**	**(7,569,225)**
Property, plant and equipment depreciation and intangible asset amortization		4,996,876	4,238,236
Provision charges / (reversals)		(98,238)	1,768,380
Proceeds from sale of non-current assets		56,212	340,732
Share-based payments		287,338	283,434
Change in deferred taxes		(138,764)	(348,465)
Corporate tax		(897,375)	(990,327)
Cost of net financial debt		2,248,952	1,085,382
Self-financing capacity		**(4,272,291)**	**(1,191,853)**
Change in inventories and work in progress		(1,832,886)	(2,362,449)
Change in trade receivables		1,192,322	(416,004)
Change in trade payables		(1,328,120)	1,945,005
Change in other receivables and payables		2,463,918	612,344
Cash flow from working capital requirement		**495,234**	**(221,104)**
Taxes paid / refunded		(15,447)	(45,309)
Net cash flow from operating activities		**(3,792,504)**	**(1,458,266)**
Acquisition of non-current assets		(8,132,598)	(9,094,944)
Disposal of non-current assets		662,432	-
Government grants received / (repaid)		(121,250)	(86,250)
Net cash flow from investment activities		**(7,591,416)**	**(9,181,194)**
Share capital increase		20,216,961	5,104,354
Proceeds from new borrowings	**8.1.2**	492,020	16,504,287
Repayment of borrowings	**8.1.2**	(2,977,473)	(2,849,794)
Interest paid		(1,301,818)	(750,257)
Other movements	**8.1.6**	(1,276,760)	(1,783,239)
Net cash flow from financing activities		**15,152,930**	**16,225,351**
Translation effect on cash and cash equivalents		48,581	349
Other movements		21,258	(124,373)
Change in cash and cash equivalents		**3,838,849**	**5,461,867**
Cash and cash equivalents - beginning of year		**7,253,382**	**1,791,515**
Cash and cash equivalents - end of year		**11,092,231**	**7,253,382**
Positive cash balances - beginning of year		8,063,140	2,168,215
Positive cash balances - end of year		11,980,693	8,063,140
Change in positive cash balances		**3,917,553**	**5,894,925**
Negative cash balances - beginning of year		(809,758)	(376,700)
Negative cash balances - end of year		(888,462)	(809,758)
Change in negative cash balances		**(78,704)**	**(433,058)**
Change in cash and cash equivalents		**3,838,849**	**5,461,867**

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

3.5. IFRS CHANGE IN CONSOLIDATED SHAREHOLDERS' EQUITY

(€)	Number of shares	Share capital	Reserves	Consolidated shareholders' equity
Shareholders' equity at 12.31.2015	**8,987,688**	**1,438,030**	**13,799,846**	**15,237,876**
Share capital increase	1,045,479	167,277	4,812,622	4,979,899
2016 comprehensive income	-	-	(7,595,760)	(7,595,760)
Stock options and free shares	-	-	283,434	283,434
Other movements	-	-	1,175,752	1,175,752
Shareholders' equity at 12.31.2016	**10,033,167**	**1,605,307**	**12,475,894**	**14,081,201**
Share capital increase	5,049,744	807,959	18,113,797	18,921,756
2017 comprehensive income	-	-	(11,510,146)	(11,510,146)
Stock options and free shares	-	-	287,338	287,338
Other movements	-	-	9,362	9,362
Shareholders' equity at 12.31.2017	**15,082,911**	**2,413,266**	**19,376,245**	**21,789,511**

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

3.6. EXPLANATORY NOTES

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

MEDICREA is listed on the Euronext Growth market, ISIN FR004178572, Ticker ALMED.

The consolidated financial statements for the 2017 fiscal year were approved by the Board of Directors on April 4, 2018. They will be submitted for approval at the Shareholders' General Meeting of May 17, 2018.

NOTE 1: ACCOUNTING PRINCIPLES

1.1 Accounting framework

The financial statements of MEDICREA Group at December 31, 2017 have been prepared in accordance with the IFRS (International Financial Reporting Standards) in force within the European Union, pursuant to European Regulation n° 1606/2002 of July 19, 2002, and available at 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 Reporting Interpretation Committee) interpretations.

1.1.1 Standards, amendments and interpretations adopted by the European Union, the application of which is mandatory for reporting periods starting on or after January 1, 2017

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

Standards, amendments and interpretations	Scope	Application date
IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses	Clarification of procedure to ascertain the existence of future taxable profits	January 1, 2017
IAS 7 Statement of Cash Flows	Additional disclosures on changes in financial debt on the balance sheet (non-cash movements in particular)	January 1, 2017
IFRS 12 Disclosure of Interests in Other Entities	Note – The disclosures required under the terms of the standard also applies to the investments classified as follows, subject to exceptions: - "held for sale"; - "held for distribution to shareholders" - and "discontinued operations", in accordance with IFRS 5.	January 1, 2017

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

1.1.2 Standards, amendments and interpretations adopted by the European Union, the application of which is mandatory for reporting periods starting on or after January 1, 2017 and not applied early by the Group

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

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

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

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

Standards, amendments and interpretations	**Application date (1)**	**Impact on the Group**
IFRS 16 Leases	January 1, 2019	The IASB published IFRS 16 – Leases on January 13, 2016. IFRS 16 will replace IAS 17, as well as the related IFRIC and SIC interpretations, and will eliminate the difference in accounting treatment that was previously established between "operating leases" and "finance leases". Lessees must recognize all leases with a term of over one year, in the same way as the procedures currently provided for finance leases by IAS 17, and thus recognize an asset representing the right to use the leased asset in exchange for a liability representing the obligation to pay for that right. **The Group has identified all of the lease agreements likely to be concerned by the new standard. If the Group had applied IFRS 16 to the consolidated financial statements for the year ended December 31, 2017 in advance, this would have resulted:** - **in a €16.8 million increase in net non-current assets on the balance sheet (including €16.6 million on the "Buildings" line), and in a €17.6 million increase in financial debt;** - **in an additional expense of €0.3 million in the income statement.** - **in a €2.2 million increase in EBITDA.** **The application method for this standard had not yet been established by the Group at December 31, 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	**Scope**	**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 IFRS 2	Classification and measurement of share-based payment transactions	January 1, 2018
Annual improvements to IFRS - 2014-2016 cycles	Various provisions	January 1, 2018
IFRIC 22 interpretation	Foreign currency transactions and advance consideration	January 1, 2018
IFRIC 23 interpretation	Recognition and Measurement of Uncertain Tax Positions	January 1, 2019

(1) Subject to adoption by the European Union

1.2 Preparation bases

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

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

Rapid changes in economic environments increase the difficulties of valuing and estimating certain assets and liabilities, as well as contingencies on business developments. The estimates made by management were made based on information available to it at December 31, 2017, after taking account of events subsequent to that period in accordance with IAS 10. These assumptions, estimates and judgments made on the basis of information or situations existing at the date of preparation of the financial statements, may prove different from subsequent actual events.

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

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

At December 31, 2017, the Group was not aware of any changes in estimates having a significant impact during the period.

NOTE 2: SCOPE OF CONSOLIDATION

2.1 Consolidation method

Consolidation is based on the statutory financial statements, prepared at December 31, 2017, of the various legal entities comprising the Group.

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

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

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

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

2.2 Foreign currency translation

2.2.1 Translation of financial statements expressed in foreign currencies

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

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

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

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

Exchange differences arising from the application of these exchange rates are recorded in shareholders' equity under "translation adjustment" for the balance sheet portion and under cash-related exchange differences in the cash flow statement.

2.2.2 Foreign currency transactions

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

Differences arising from the translation of foreign currency transactions are generally recognized in the income statement.

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

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

2.3 Changes in consolidation scope

The consolidation scope includes the following entities:

- MEDICREA INTERNATIONAL (Group parent company);
- MEDICREA TECHNOLOGIES (company wound up on November 30, 2017 via the contribution of all its assets and liabilities to MEDICREA INTERNATIONAL);
- MEDICREA USA;
- MEDICREA TECHNOLOGIES UK;
- MEDICREA GMBH;
- MEDICREA POLAND.

Control and interest percentages at December 31, 2017 are detailed in the table below:

		Registered office:	% control	% interest
MEDICREA USA		New-York, USA	100%	100%
MEDICREA TECHNOLOGIES UK		Swaffam Bulbeck, UK	100%	100%
MEDICREA GMBH		Cologne, GER	100%	100%
MEDICREA POLAND		Łódź, PL	100%	100%

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:

	12.31.2017		12.31.2016	
	(€)	(%)	(€)	(%)
	5,965,523	22%	5,143,923	18%
	16,000,915	59%	17,646,708	60%
	467,935	2%	522,451	2%
	121,164	0%	66,428	0%
	121,114	0%	296	0%
Rest of the world	4,471,180	17%	5,995,620	20%
of which Europe	*2,618,606*		*2,408,134*	
of which South America	*449,032*		*2,442,467*	
of which Asia	*686,252*		*579,074*	
of which Oceania	*159,694*		*157,747*	
of which Middle East & Africa	*557,596*		*408,198*	
Total	**27,147,831**	**100%**	**29,375,426**	**100%**

The Group reported varied commercial performance depending on the geographic area (destination area):

- In France, under stable market conditions, MEDICREA achieved sales of almost €6 million in 2017, up 15% compared to 2016, driven by the adoption of its UNiD™ ASI technology by a growing number of surgeons;

- Following the need to regain registration for all products in the range with the Brazilian health authorities and obtain validation of the new Rillieux-la-Pape manufacturing facility, no sales were made in this market during 2017 (sales of €2 million in 2016). Since the authorizations were secured in December 2017, the activity should quickly return to a normative level. Excluding Brazil, the distribution business grew by 6%, generating sales of €3.6 million.

- In the United States, the Group's primary market, the commercial efforts in 2017 focused exclusively on the development of the UNiD™ ASI patient-specific implant technology and resulted in a 36% increase in the number of surgeries performed (472) compared to 2016, generating a revenue of $8.3 million ($7.2 million in 2016). Overall, sales in the U.S. were down 8% due to a downswing in the traditional implant sales activity with historic products.

3.2 2017 IFRS income statement by segment

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

3.3 2016 IFRS income statement by segment

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

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

3.4 2017 IFRS balance sheet by segment

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

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

Unlike previous fiscal years and periods, the sectoral distribution of property, plant and equipment and inventories as of December 31, 2017 is now determined on the basis of the cost or production price of the assets concerned, thereby excluding any inter-company margin. The inventories and instruments (classified as property, plant and equipment) held by the subsidiaries thus show significant variations compared to previous sectoral distributions.

3.5 2016 IFRS balance sheet by segment

(€)					Rest of the world	Total 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**

(€)					Rest of the world	Total 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**

NOTE 4: OPERATIONAL DATA

4.1 Key operating performance indicators

The performance indicators used by the Group are as follows:

- sales;
- operating income before interest, depreciation, amortization and impairment;
- working capital requirements (WCR) expressed as a % of sales.

4.2 Inventories

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

Finished and semi-finished goods and work-in-progress inventories are valued at cost, excluding sales and marketing expenses.

Impairment is recognized when the probable realizable value of inventories is lower than book value.

Gross and net inventories are analyzed as follows:

	12.31.2017			12.31.2016		
(€)	**Gross values**	**Impairment**	**Net values**	**Gross values**	**Impairment**	**Net values**
Raw materials	494,979	(26,379)	468,600	570,525	(53,962)	516,563
Work-in-process	1,072,507	(87,336)	985,171	640,224	(53,457)	586,767
Semi-finished goods	1,891,621	(157,507)	1,734,114	1,029,521	-	1,029,521
Finished goods	9,788,587	(3,163,772)	6,624,815	9,174,538	(2,580,896)	6,593,642
Total	**13,247,694**	**(3,434,994)**	**9,812,700**	**11,414,808**	**(2,688,315)**	**8,726,493**

The gross value of inventories grew 16% in comparison with 2016. The Group experienced a major industrial reorganization in 2017, due to the transfer of its production plant from La Rochelle to Rillieux-la-Pape, which resulted in a large number of organizational changes and to the significant use of sub-contractors on a temporary basis. These factors, combined with a decrease in sales due to the economic environment, had an adverse effect on inventories. The Group has taken these problems into account, and a new industrial and logistics organizational structure based on managing the inventories on a pull-flow principle is currently being introduced, and is expected to produce its initial beneficial effects as from the 2nd quarter of 2018.

Impairment charges accounted for 26% of the average gross amounts at December 31, 2017, compared with 24% at December 31, 2016. €0.5 million of the €0.7 million increase in these charges relates to an increase in the inventory level, while the remainder relates to the inventory mix.

4.3 Trade receivables and other current assets

Trade receivables are current financial assets, which are initially recorded at their fair value, and subsequently at amortized cost, less any impairment charges. The fair value of trade receivables is

considered to be their face value, in view of the payment terms, which are usually shorter than 3 months.

Trade receivables may be the subject of an impairment charge, where applicable. Impairment charges are recorded where it becomes probable that the receivable will not be paid, and it is possible to reasonably estimate the amount of the loss. Impairment charges are measured by taking into account the track record of losses on receivables, the date of the receivables, and a detailed estimate of the risks. They are recorded in operating income, or in other financial income and expensed if they relate to the risk of the debtor becoming insolvent.

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

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

Trade and other receivables are analyzed as follows:

	12.31.2017			12.31.2016		
(€)	**Gross values**	**Impairment**	**Net values**	**Gross values**	**Impairment**	**Net values**
Trade receivables	**4,003,281**	**(30,146)**	**3,973,135**	**5,195,604**	**(36,786)**	**5,158,818**
Social security receivables	4,714	-	4,714	10,677	-	10,677
Tax receivables	1,690,479	-	1,690,479	2,339,202	-	2,339,202
Other receivables	295,598	-	295,598	436,412	-	436,412
Prepaid expenses	224,342	-	224,342	725,186	-	725,186
Other current assets	**2,215,133**	**-**	**2,215,133**	**3,511,477**	**-**	**3,511,477**
Total current assets	**6,218,414**	**(30,146)**	**6,188,268**	**8,707,081**	**(36,786)**	**8,670,295**
Average days sales outstanding		**55 days**			**53 days**	

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

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

The €0.5 million change in prepaid expenses is explained by the recording of rent invoices relating to the 1st quarter of 2017 in December 2016, while the rent invoices relating to the 1st quarter of 2018 were not received during the fiscal year.

4.4 Trade payables and other current liabilities

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

(€)	12.31.2017	12.31.2016
Trade payables	**4,672,856**	**6,000,976**
Social security liabilities	1,871,207	1,666,076
Tax liabilities	237,931	337,054
Other liabilities	439,771	291,031
Other current liabilities	**2,548,909**	**2,294,161**
Total current liabilities	**7,221,765**	**8,295,137**
of which due in less than one year	*6,971,619*	*8,295,137*

Trade payables gradually returned to normal after a substantial increase in late 2016 due to extensive use of sub-contracting to offset the closure of the La Rochelle production plant and the gradual ramp-up of the new Rillieux-la-Pape site.

The change in other current liabilities is linked to the increase in the headcount and payroll during the 2017 fiscal year.

4.5 Revenue

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

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

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

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

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

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

4.6 Research & development costs

4.6.1 Capitalized development costs

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

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

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

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

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

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

(€)	12.31.2017	12.31.2016
Research & development costs	1,891,664	2,215,210
Patent costs	229,847	109,358
Software	816,032	120,221
Total	**2,937,543**	**2,444,789**

4.6.2 Research and development costs recognized in the income statement

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

In France, the research tax credit, which is calculated on the basis of certain research expenses relating to projects considered as "eligible", is repaid by the State regardless of the entity's situation in terms of corporation tax: if the company that receives the research tax credit is liable for tax, this credit is deducted from the tax payable; otherwise, it is repaid by the State. Accordingly, the research tax credit, or any other similar tax arrangement that may exist in other foreign jurisdictions, does not fall within the scope of application of IAS 12 – Income Taxes, and is recognized as a deduction to the

research and development costs taken to operating income at the rate at which the financed costs are recognized as expenses.

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

(€)	12.31.2017	12.31.2016
Research & development costs	3,810,600	2,833,186
Capitalized research & development costs	(2,937,543)	(2,444,789)
Amortization charge of capitalized research and development costs	2,041,198	1,666,296
Research tax credit	(897,375)	(990,327)
Total	**2,016,880**	**1,064,366**

4.7 Amortization, depreciation and impairment charges

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

Amortization and depreciation	12.31.2017	12.31.2016
Industrial and commercial property rights	301,568	388,384
Other intangible assets	1,728,574	1,284,317
Buildings	6,424	17,720
Plant, machinery and tools, instruments	2,219,605	2,152,314
Other property, plant and equipment	740,705	395,501
Total	**4,996,876**	**4,238,236**

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

Impairment	12.31.2017	12.31.2016
Inventories	746,679	654,601
Trade receivables	(6,640)	(32,919)
Total	**740,039**	**621,682**

Amortization and depreciation charges are analyzed as follows:

(€)	12.31.2017	12.31.2016
Cost of sales	380,626	399,193
Research & development and patent costs	2,041,198	1,666,296
Sales & marketing expenses	1,745,501	1,670,137
General and administrative expenses	773,992	412,668
Other operating income and expenses	55,559	89,942
Total	**4,996,876**	**4,238,236**

4.8 Royalties

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

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

4.9 Operating income and other income and expenses from operations

4.9.1 Operating income

Operating income includes all income and expenses other than:

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

4.9.2 Other income and expenses

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

Other income and expenses are analyzed as follows:

(€)	12.31.2017
Lawyers' fees	416,291
Disputes with employees	372,944
Settlement of charges for previous fiscal years	91,690
Balance of restructuring costs	14,585
Other	28,600
Total	**924,110**

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

Other income and expenses for the 2016 fiscal year mainly consisted of expenditure for relocation from Neyron and La Rochelle to the new Rillieux-la-Pape premises, and the costs of closing the La Rochelle production unit.

4.10 Impact of exchange differences on sales and operating income

Average exchange rates evolved as follows:

Average conversion rates	12.31.2017	12.31.2016
USD / EUR	1.12493	1.10605
GBP / EUR	0.87313	0.81251
PLN / EUR	4.26218	4.3622

The impact of currency fluctuations on the comparability of the financial statements for the 2016 and 2017 fiscal years is as follows:

(€)	12.31.2017 at 2017 rates	12.31.2017 at 2016 rates	Impact of exchange rates
Sales	27,147,831	27,453,098	(305,267)
Operating income after share-based payments	(8,812,269)	(8,816,247)	3,978

NOTE 5: EMPLOYEE COSTS AND BENEFITS

5.1 Workforce

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

	12.31.2017			12.31.2016		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Executives	50	34	84	53	31	84
Supervisors - Employees	51	37	88	51	34	85
Total	**101**	**71**	**172**	**104**	**65**	**169**
	74	*52*	*126*	*69*	*44*	*113*
	23	*14*	*37*	*28*	*14*	*42*
	4	*2*	*6*	*5*	*2*	*7*
	-	-	-	*2*	*3*	*5*
	-	*3*	*3*	-	*2*	*2*

5.2 Employee benefits

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

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

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

Long-term benefits cover two categories of employee benefits:

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

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

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

- so-called defined benefit schemes, via which the employer guarantees a future level of benefits. An obligation (see Note 5.3) is then recorded under liabilities in the financial statement.

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

(€)	12.31.2017	12.31.2016
Wages and salaries, and temporary staff	11,402,201	11,551,898
Social security costs	3,478,891	3,217,241
French tax credit for competitiveness and employment	(161,667)	(134,080)
Pension expenses for defined contribution schemes	87,492	(42,869)
Capitalized research and development costs (1)	(1,257,475)	(1,486,558)
Total	**13,549,442**	**13,105,632**

(1): for the salaries and expenses component only

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

Employee costs are broken down as follows:

(€)	12.31.2017	12.31.2016
Cost of sales	2,539,950	2,256,701
Research & development costs (1)	340,976	61,027
of which salaries and employer contributions	*1,598,451*	*1,547,585*
of which share of capitalized costs	*(1,257,475)*	*(1,486,558)*
Sales & marketing expenses	7,909,373	8,500,790
General and administrative expenses	2,759,143	2,287,114
Total	**13,549,442**	**13,105,632**

(1): corresponds to non-capitalized employee costs

5.3 Pension plans and similar benefits

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

Pursuant to IAS 19 revised, within the context of defined benefit plans, post-employment benefits and other long-term benefits are measured in accordance with the projected unit credit method

based on parameters specific to each employee (age, occupational category), and assumptions specific to the company (collective agreement, staff turnover rate, future salary forecasts, life table).

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

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

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

The Group does not finance its commitments through payments to external funds. The servicing of retirement benefits as provided for by the collective agreements applicable to MEDICREA INTERNATIONAL (Import/Export) is the subject of a provision recognized in current liabilities for the portion due within one year, and in non-current liabilities for the balance. The corresponding commitment is measured annually based on the specific features and external factors, which are summarized as follows:

- retirement age: age at which an employee has acquired sufficient entitlements to obtain a full pension;
- social security rates: adjusted based on the employee and company status. On average, rates are 46% 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: 1.30%, 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 €600,328 at December 31, 2017, compared with €525,011 at December 31, 2016. Movements are analyzed as follows:

(€)	12.31.2017	12.31.2016
Actuarial liability at 12.31.2016	525,011	468,043
Service cost in operating income	*87,492*	*(42,869)*
Net financial expense	*7,272*	*10,219*
Charge for the year in respect of defined benefit plans	**94,764**	**(32,650)**
Actuarial gains and losses	(19,447)	89,618
Actuarial liability at 12.31.2017	**600,328**	**525,011**

The sensitivity of the results to changes in the discount rate is as follows:

Discount rate	12.31.2017
1.05%	629,396
1.30%	600,328
1.55%	572,954

The sensitivity of the results to changes in the rate of salary increases is as follows:

Rate of salary increases	12.31.2017
Assumptions -1%	499,666
Assumptions	600,328
Assumptions +1%	725,606

The benefits that must be paid for retirement allowances over the next 10 years are estimated as follows:

(€ K)	12.31.2017
2018	26
2019	14
2020	7
2021	3
2022	33
2023/2027	36
Total	**119**

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

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

5.4 Long-service awards

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

5.5 Share-based payments

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

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

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

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

5.5.1 Share purchase option plans

The characteristic features of the share purchase option plans intended for the MEDICREA Group's employees, and which have been authorized by the Shareholders Meeting, were as follows at December 31, 2017:

Year the plan was arranged	Number of options authorized	Number of options canceled	Number of options exercised	Number of shares not yet vested at 12/31/2017	Exercise price (€)	Year unexercised options will lapse
2008	20,723	10,964	4,167	5,592	6	2018
2009	53,480	33,000	20,480	-	-	-
2010	112,800	99,926	12,874	-	-	-
2011	95,500	84,500	-	11,000	9.10 / 11.44 *	2018
2013	10,000	10,000	-	-	8.77	2020
2014	30,000	-	-	30,000	9.10	2021
2015	12,000	12,000	-	-	-	-
2016	406,500	406,500	-	-	5.43 * / 5.74 *	2023
2017	660,000	-	-	660,000	4.19 / 4.11 * / 2.92 *	2024
Total	**1,401,003**	**656,890**	**37,521**	**706,592**		

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

5.5.2 Free share plans

The characteristic features of these free share plans authorized by the Shareholders' Meeting were as follows at December 31, 2017:

Year the plan was arranged	Number of free shares authorized	Number of free shares canceled	Number of free shares vested	Number of shares to be allocated at 12/31/2017	Year vested (1)
2008	18,099	936	17,163	-	2010 / 2012
2009	45,800	8,100	37,700	-	2011 / 2013
2010	45,885	9,965	35,920	-	2012 / 2014
2011	3,500	-	3,500	-	2013
2016	72,990	9,000	32,990	31,000	2017 / 2018
Total	**186,274**	**28,001**	**127,273**	**31,000**	

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

5.5.3 Change in stock purchase option and free share plans

Transactions in share-based payment instruments in the 2017 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	4.74	5.43	72,990	0.72	1.72
- canceled	(4,400)	0.77	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**
- allocated	660,000	6.89	3.00	-	-	-
- canceled	(464,000)	5.64	5.75	(9,000)	-	-
- lapsed	(59,126)	-	6.14	-	-	-
- exercised	-	-	-	(32,990)	-	-
Balance at 12.31.17	**706,592**	**6.58**	**3.67**	**31,000**	**-**	**0.72**

5.5.4 Reflection of allocated instruments in the financial statements

The expenses relating to the instruments allocated since the outset break down as follows:

Allocation date	Type	Number of outstanding securities	Exercise price (€)	Share price on the allocation date (€)	Dividend yield	Expected volatility	Risk-free rate	Fair value (€)	2017 accounting charge (€ K)	Cost of plans since inception (€K)
06.05.2008	Option	9,759	6.00	5.73	0%	40%	4.44%	2.74	-	69
06.05.2008	Share	17,163	Free	5.73	0%	-	-	5.73	-	97
06.25.2009	Option	7,480	6.16	6.55	0%	40%	2.89%	2.63	-	262
06.25.2009	Share	35,700	Free	6.55	0%	-	-	6.55	-	267
12.17.2009	Option	13,000	6.32	5.96	0%	40%	2.54%	2.31	-	33
12.17.2009	Share	2,000	Free	5.96	0%	-	-	5.96	-	12
06.17.2010	Option	12,874	6.14	6.22	0%	40%	1.83%	2.44	-	247
06.17.2010	Share	35,920	Free	6.22	0%	-	-	6.22	-	264
06.16.2011	Option	11,000	9.10	9.40	0%	33%	2.37%	3.06	-	87
06.16.2011	Share	3,500	Free	9.40	0%	-	-	9.40	-	33
03.27.2014	Option	30,000	9.10	9.14	0%	35%	2.33%	3.01	3	91
09.03.2015	Option	-	6.67	6.48	0%	33%	0.37%	1.77	-	14
07.25.2016	Option	-	5.43	5.87	0%	36%	-0.31%	1.88	-	161
08.22.2016	Share	22,000	Free	5.87	0%	-	-	5.87	65	83
09.19.2016	Share	41,990	Free	5.85	0%	-	-	5.85	165	242
09.14.2017	Option	160,000	4.19	3.86	0%	34%	- 0.01%	0.99	28	28
09.14.2017	Option	50,000	4.11	4.61	0%	34%	- 0.01%	1.50	13	13
12.21.2017	Option	450,000	2.92	2.66	0%	35%	0.11%	1.35	8	8
Total		**902,386**							**287**	**2,205**

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

5.6 US Employee Stock Purchase Plan (ESPP)

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

Since the implementation of this plan, 7 employees have subscribed to 17,481 shares (3,303 shares in 2017 at a price of $3.45, 7,879 shares in 2016 at a price of $4.32 and 6,299 shares in 2015 at a price of $6.41). The difference between the price actually paid by the Company to acquire the options and the price paid by the employees is recorded as an expense in the fiscal year ($2,015 in 2017). The expenses relating to the administration of this plan (USD 12,730 in 2017) are borne by MEDICREA USA.

5.7 French Personal Training Account (PTA)

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

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

The Group's annual contribution in respect of the PTA (0.2% of French companies' payroll costs) is paid to *Organismes Paritaires Collecteurs Agréés* (OPCAs), which in turn finance the future training programs carried out under this framework.

5.8 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 2017 fiscal year for work carried out by Mr. SOURNAC was €300,000 exclusive of tax (unchanged from 2016).

Mr. SOURNAC did not receive any direct or indirect compensation from the Company other than that mentioned above, excluding Directors' fees of €7,000 in 2017 (€6,000 in 2016).

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 2017, ORCHARD INTERNATIONAL invoiced a total of €64,000 exclusive of tax (unchanged from 2016) to MEDICREA INTERNATIONAL for the sales management duties carried out by Mr. CAFFIERO. It is specified that Mr. CAFFIERO reduced his activities at the Group as from January 1, 2015, which therefore resulted in a significant decrease in the amount of the services invoiced by ORCHARD INTERNATIONAL. Mr. CAFFIERO has not carried out any operational duties at the Group since January 1, 2018, but retains his office as a Director of MEDICREA INTERNATIONAL.

Mr. CAFFIERO did not receive any direct or indirect remuneration other than those mentioned above, excluding Directors' fees of €7,000 in 2017 (€6,000 in 2016).

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 €45.2 million at December 31, 2017, compared with consolidated net worth of €21.8 million at the same date.

6.2 Non-current assets impairment tests

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

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

6.3 Intangible assets

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

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

Patents, licenses and trademarks are amortized over 5 to 10 years, depending on their useful lives.

Software is amortized over periods ranging from one to five years.

6.4 Property, plant and equipment

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

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

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

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

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

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

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

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

6.5 Non-current financial assets

These mainly comprise guarantees and deposits, and are not discounted due to the lack of known maturity and their low value. If applicable, impairment is recognized when their book value exceeds their recoverable value.

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

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

Non-current assets – €	**12.31.2017**	**12.31.2016**
Research & development costs	12,438,508	10,611,860
Patents and similar rights	4,468,561	3,688,144
Computer licenses and software	2,404,187	1,246,653
Brands	25,133	25,133
Intangible assets	**19,336,389**	**15,571,790**
Buildings	4,525	22,182
Technical facilities and equipment	6,148,968	6,461,797
Demonstration equipment	658,830	658,189
Instrument sets	6,401,042	5,767,515
Computer hardware and office equipment	2,492,148	1,740,258
Other non-current assets	3,916,801	3,734,134
Property, plant and equipment	**19,622,314**	**18,384,075**
Guarantees and deposits	686,518	779,803
Pledges	-	158,605
Non-current financial assets	**686,518**	**938,408**
Total gross values	**39,645,221**	**34,894,273**

Amortization, depreciation and provisions – €	**12.31.2017**	**12.31.2016**
Intangible asset amortization	11,453,636	9,500,422
Property, plant and equipment depreciation	8,850,566	8,284,858
Total amortization, depreciation and provisions	**20,304,202**	**17,785,280**
Total net values	**19,341,019**	**17,108,993**

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

Net non-current assets – €	**12.31.2017**	**12.31.2016**
At January 1	**17,108,993**	**12,601,150**
Investments during the period	8,789,073	9,094,944
Disposals during the period	(940,869)	(378,400)
Amortization, depreciation and provision charges	(4,996,876)	(4,238,236)
Translation adjustment	(619,302)	29,535
At December 31	**19,341,019**	**17,108,993**

6.7 Change in non-current assets, and depreciation and amortization during 2017

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

Gross values (€)	**01.01.2017**	Translation adjustment	Acquisitions	Disposals	Other	**12.31.2017**
Research & development costs	10,611,860	(65,016)	1,891,664	-	-	12,438,508
Patents and similar rights	3,688,144	-	780,417	-	-	4,468,561
Computer licenses and software	1,246,653	(17,832)	1,248,127	54,271	(18,490)	2,404,187
Brands	25,133	-	-	-	-	25,133
Intangible assets	**15,571,790**	**(82,848)**	**3,920,208**	**54,271**	**(18,490)**	**19,336,389**
Buildings	22,182	-	-	17,657	-	4,525
Technical facilities and equipment	6,461,797	(959)	389,145	685,005	(16,010)	6,148,968
Demonstration equipment	658,189	(43,183)	233,159	189,335	-	658,830
Instrument sets	5,767,515	(438,087)	2,048,205	976,591	-	6,401,042
Computer hardware and office equipment	1,740,258	(15,572)	705,834	387,282	448,910	2,492,148
Other non-current assets	3,734,134	(134,011)	1,482,849	717,261	(448,910)	3,916,801
Property, plant and equipment	**18,384,075**	**(631,812)**	**4,859,192**	**2,973,131**	**(16,010)**	**19,622,314**
Guarantees and deposits	779,803	(39,338)	9,673	63,620	-	686,518
Pledges	158,605	-	-	158,605	-	-
Non-current financial assets	**938,408**	**(39,338)**	**9,673**	**222,225**	**-**	**686,518**
Total gross values	**34,894,273**	**(753,998)**	**8,789,073**	**3,249,627**	**(34,500)**	**39,645,221**

Amortization and depreciation (€)	**01.01.2017**	Translation adjustment	Charges	Reversals	Other	**12.31.2017**
Research & development costs	6,207,287	(24,270)	1,492,343	-	(1)	7,675,359
Patents and similar rights	2,841,394	-	301,568	-	-	3,142,962
Computer licenses and software	426,608	(5,361)	236,231	17,035	(30,261)	610,182
Brands	25,133	-	-	-	-	25,133
Intangible assets	**9,500,422**	**(29,631)**	**2,030,142**	**17,035**	**(30,262)**	**11,453,636**
Buildings	22,182	-	6,424	24,201	-	4,405
Technical facilities and equipment	2,654,797	(957)	516,015	599,259	(11,838)	2,558,758
Demonstration equipment	328,843	(6,333)	214,906	157,925	-	379,491
Instrument sets	3,478,850	(52,799)	1,488,684	876,872	(2)	4,037,861
Computer hardware and office equipment	845,608	(13,016)	317,679	124,794	247,238	1,272,715
Other non-current assets	954,578	(31,960)	423,026	508,672	(239,636)	597,336
Property, plant and equipment	**8,284,858**	**(105,065)**	**2,966,734**	**2,291,723**	**(4,238)**	**8,850,566**
Total amortization and depreciation	**17,785,280**	**(134,696)**	**4,996,876**	**2,308,758**	**(34,500)**	**20,304,202**

Net values (€)	**01.01.2017**	Translation adjustment	Increases	Decreases	Other	**12.31.2017**
Intangible assets	6,071,368	(53,217)	1,890,066	37,236	11,772	7,882,753
Property, plant and equipment	10,099,217	(526,747)	1,892,458	681,408	(11,772)	10,771,748
Non-current financial assets	938,408	(39,338)	9,673	222,225	-	686,518
Total net values	**17,108,993**	**(619,302)**	**3,792,197**	**940,869**	-	**19,341,019**

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 2017 fiscal year include:

- Continued development of the UNiD™ platform and service offering 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 2017 amounted to €1,891,664 compared with €2,281,231 in 2016.

2 / Patent costs capitalized in 2017 amounted to €780,417, compared with €109,358 in respect of the previous year. €0.6 million of these costs relates to the purchase of three patents from Dr Paul McAfee, which protect an innovative technique that helps to ascertain the physiological height of the intervertebral space by using the anatomy of the patient to accurately select the appropriate interbody device.

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

4/ The Group continued to expand its machine base with an investment of €0.3 million euros in various industrial equipment in 2017.

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

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

7/ The increase of computer hardware and office equipment is mainly due to the renewal of equipment under finance lease contracts for €0.4 million, as well as the installation of video equipment at the new Rillieux-la-Pape headquarters for €0.2 million.

8/ The growth in other property, plant and equipment is due to the completion of installation work at the new headquarters for €1.2 million as well as work to extend MEDICREA USA's offices in New York for €0.2 million.

9/ The decrease in deposits and guarantees is linked to the repayment of the security deposit on the former premises in Neyron.

6.8 Leases

6.8.1 Finance leases and operating leases

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

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

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

	12.31.2017				12.31.2016			
(€)	**Gross value**	**Depr.**	**Net value**	**Financial liability**	**Gross value**	**Depr.**	**Net value**	**Financial liability**
Software	21,700	(14,888)	6,812	6,919	21,700	(7,655)	14,045	14,159
Technical facilities and equipment	3,108,569	(1,424,482)	1,684,087	848,911	3,432,347	(1,527,265)	1,905,082	1,214,933
Computer hardware	962,273	(407,287)	554,986	538,183	397,519	(355,059)	42,460	37,925
Total	**4,092,542**	**(1,846,657)**	**2,245,885**	**1,394,013**	**3,851,566**	**(1,889,979)**	**1,961,587**	**1,267,017**

2017 fiscal year acquisitions financed by finance leases and operating leases primarily include the video surveillance equipment for the new site at Rillieux-la-Pape, in an amount of €0.2 million, together with miscellaneous TV, video, and IT equipment amounting to €0.4 million.

Finance lease and operating lease commitments are analyzed as follows:

(€)	12.31.2017	12.31.2016
Lease payments		
Total payments from previous years (1)	1,425,166	1,034,543
Lease payments for the year (1)	525,252	504,997
Total	**1,950,418**	**1,539,540**
Future minimum lease payments		
Within 1 year	494,797	426,986
1 to 5 years	949,841	867,764
More than 5 years	-	-
Total	**1,444,638**	**1,294,750**
Residual values	**19,532**	**23,514**

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

6.8.2 Operating leases

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

Operating leases mainly include annual rent payable in respect of buildings used for operational purposes and are analyzed as follows for 2017:

Entities	
MEDICREA INTERNATIONAL, Rillieux-la-Pape, FR	€1,114,890
MEDICREA USA, New-York, US	$966,031
MEDICREA TECHNOLOGIES UK, Swaffam Bulbeck, UK	£11,000
MEDICREA GMBH, Cologne, DE	€10,707
MEDICREA POLAND, Łódź, PL	zł31,000

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 €1.1 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 is approximately $1 million. In the event of early termination of the lease, the premises will be re-let easily as a result of their prime location in New York City.

The rental lease for MEDICREA GMBH's offices was terminated during the first half of 2017 and all transactions relating to the German market are now handled directly by the headquarters in Rillieux-la-Pape.

Future operating lease commitments can therefore be summarized as follows:

(€)	**12.31.2017**			**12.31.2016**
	Real estate	**Other**	**Total**	**Total**
Within 1 year	1,962,921	168,559	2,131,480	2,205,512
1 to 5 years	8,071,679	136,347	8,208,026	8,189,313
5 to 10 years	8,974,850	-	8,974,850	10,015,611
More than 10 years	834,690	-	834,690	3,038,580
Total	**19,844,140**	**304,906**	**20,149,046**	**23,449,016**

NOTE 7: PROVISIONS AND CONTINGENT LIABILITIES

7.1 Provision charges

A provision is recorded as soon as:

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

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

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

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

(€)	Provisions for pensions	Provisions for litigation	Other provisions	Total
Provisions at January 1, 2017	**525,011**	**10,000**	**1,103,507**	**1,638,518**
Charges	94,764	179,334	18,500	292,598
Used during the year	-	-	(1,057,007)	(1,057,007)
Reversals	-	(10,000)	(43,000)	(53,000)
Actuarial gains and losses	(19,447)	-	-	(19,447)
Translation adjustment	-	(1,420)	-	(1,420)
Provisions at December 31, 2017	**600,328**	**177,914**	**22,000**	**800,242**
of which due in less than one year	*25,761*	*177,914*	*22,000*	*225,675*
of which due between one and five years	*57,473*	-	-	*57,473*
of which due in more than five years	*517,094*	-	-	*517,094*

7.2 Contingent liabilities

In contrast to the definition of a provision provided above, a contingent liability is:

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

The contingent liabilities identified at December 31, 2017 were as follows:

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

  Since the launch of this 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, 2017 and, depending on all the data collected in 2018, it will assess whether or not it is necessary to review its position at December 31, 2018.

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

NOTE 8: FINANCING AND FINANCIAL INSTRUMENTS

8.1 Net financial debt

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

The Group's net financial debt at December 31, 2017 is analyzed as follows:

	12.31.2017			12.31.2016		
(€)	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Long-term financial debt	16,738,955	3,494,313	20,233,268	18,308,727	2,786,617	21,095,344
Short-term and bank loans	-	893,065	893,065	-	815,684	815,684
Gross financial debt	**16,738,955**	**4,387,378**	**21,126,333**	**18,308,727**	**3,602,301**	**21,911,028**
Cash and cash equivalents	-	(11,980,693)	(11,980,693)	-	(8,063,140)	(8,063,140)
Net financial debt	**16,738,955**	**(7,593,315)**	**9,145,640**	**18,308,727**	**(4,460,839)**	**13,847,888**

8.1.1 Analysis of long-term financial debt

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

At December 31, 2017, all long-term financial debt was taken out in Euros and at fixed rates, and is analyzed as follows:

(€)	**12.31.2017**	**12.31.2016**
Bond issues	15,601,568	15,044,576
Loans from credit institutions	3,218,398	4,774,752
Operating leases	1,039,433	1,247,341
Finance leases	354,580	19,676
Accrued loan interest	7,590	8,999
Other	11,699	-
Total	**20,233,268**	**21,095,344**

The bond loans broke down as follows:

(€)	**12.31.2017**	**12.31.2016**
Convertible bond loan – August 2016 (1)	13,457,885	12,508,018
Bond loan – February 2016	1,150,000	1,150,000
Bond loan – April 2015	993,683	1,386,558
Total	**15,601,568**	**15,044,576**

(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 issued in August 2016 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, 2017:

(€)	12.31.2017	12.31.2016
Convertible bond loan	15,000,000	15,000,000
Equity component of the bond loan	(1,438,635)	(1,438,635)
Loan issue costs	(1,550,120)	(1,550,120)
Equity component of the issue costs	148,671	148,671
Amortization of the restatement of the bond loan	878,844	235,697
Amortization of the restatement of the issue costs	419,125	112,405
Total	**13,457,885**	**12,508,018**

The change in the IFRS restatements on this convertible bond loan was as follows:

(€)	12.31.2017
At January 1, 2017	12,508,018
Bond loan restatement amortization for the period	643,147
Issue costs restatement amortization for the period	306,720
At December 31, 2017	**13,457,885**

8.1.2 Change in long-term financial debt

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

		Cash movements		Non-cash movements	
(€)	12.31.2016	Issues	Redeemed		12.31.2017
Bond issues	15,044,576	-	(392,875)	949,867	15,601,568
Loans from credit institutions	4,774,752	492,020	(2,055,119)	6,745	3,218,398
Operating leases	1,247,341	-	(450,945)	243,037	1,039,433
Finance leases	19,676	-	(78,534)	413,438	354,580
Accrued loan interest	8,999	-	-	(1,409)	7,590
Other	-	11,699	-	-	11,699
Long-term borrowings	**21,095,344**	**503,719**	**(2,977,473)**	**1,611,678**	**20,233,268**
Short-term borrowings (1)	**815,684**	**77,381**	**-**	**-**	**893,065**
Total	**21,911,028**	**581,100**	**(2,977,473)**	**1,611,678**	**21,126,333**

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

The change is related to repayments made during the 2017 fiscal year within the framework of existing amortization schedules and to the three new contracts that were taken out for a total of €0.5 million and bearing interest rates ranging between 0.75% and 0.8% over periods of 3 to 5 years, to finance various industrial equipment.

The "non-cash" changes primarily include the change in the IFRS restatements on the €15 million convertible bond loan, as previously explained, and the capitalization of the new operating lease and finance lease agreements.

8.1.3 Maturity of long-term financial debt

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

(€)	12.31.2017	Within 1 year	1 to 5 years	More than 5 years
Bond issues	15,601,568	1,562,349	14,039,219	-
Loans from credit institutions	3,218,398	1,470,553	1,747,845	-
Operating leases	1,039,433	365,012	674,421	-
Finance leases	354,580	88,809	265,771	-
Accrued loan interest	7,590	7,590	-	-
Other	11,699	-	-	11,699
Total	**20,233,268**	**3,494,313**	**16,727,256**	**11,699**

Securities granted in relation to certain Group assets to guarantee borrowings, as well as early repayment clauses and covenants are detailed in Note 8.3.3 "Liquidity risks".

8.1.4 Analysis of short-term financial debt

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

At December 31, 2017, all short-term financial debt was taken out in Euros and at fixed rates, and is analyzed as follows:

(€)	12.31.2017	12.31.2016
Bank overdrafts	503,284	500,000
Factoring	385,178	309,758
Accrued bank interest	4,603	5,926
Total	**893,065**	**815,684**

8.1.5 Analysis of cash and cash equivalents

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

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

Cash and cash equivalents changed as follows:

(€)	12.31.2017	12.31.2016
Cash	11,980,693	8,063,140
Cash and cash equivalents	**11,980,693**	**8,063,140**

The strengthening of the net cash position was primarily due to the gross fundraising of €20.2 million, before issue costs, completed by the Group in June and December 2017.

8.1.6 Cash flow statement

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

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

The cash flow statement for the past two years is detailed in Section 3.4 of the financial statements at December 31, 2017.

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

(€)	12.31.2017	12.31.2016
Loan issue costs	(6,745)	1,550,120
Other financial loans	(11,699)	138,191
Capital increase expenses charged as issue costs	1,295,204	94,928
Total	**1,276,760**	**1,783,239**

8.1.7 Average debt rate

The average debt rate evolved as follows:

	12.31.2017	12.31.2016

Euro (EUR)	5.80%	5.54%

The high level of the average interest rate on the debt is primarily explained by the payments on the bond loans, for which the rates are higher than those charged in the case of conventional bank financing. The average interest rate on the debt worked out at 2.93% excluding the bond loans.

8.2 Conditional advances

Conditional advances mainly result from innovation grants awarded by BPI in the form of repayable advances.

Their change compared with the previous year resulted from ongoing repayment plans. No new grants were awarded during the 2017 fiscal year.

8.3 Financial income and expenses

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

8.3.1 Cost of net financial debt

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

These items are analyzed as follows:

(€)	**12.31.2017**	**12.31.2016**
Bond interest	(2,123,849)	(907,573)
Loan interest	(65,876)	(117,141)
Finance lease interest	(45,064)	(35,995)
BPI loan guarantee	(8,211)	(11,643)
Overdraft interest	(3,396)	(8,199)
Factoring interest	(2,556)	(1,618)
Interest on current accounts	-	(3,212)
Cost of net financial debt	**(2,248,952)**	**(1,085,382)**

8.3.2 Other financial income and expenses

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

These items are analyzed as follows:

Foreign exchange gains / (losses)	(179,060)	351,940
Income from cash investments	8,332	5,447
Other financial income / (expenses)	-	1,027
Other financial income / (expenses)	**(170,728)**	**358,415**

8.4 Fair value of financial instruments

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

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

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

8.4.1 Balance sheet disclosures

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

Sections	At 12.31.2017			At 12.31.2016		
	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**	3,973,135	3,973,135	**C**	5,158,818	5,158,818
Other current assets (2)	**C**	295,598	295,598	**C**	436,412	436,412
Cash and cash equivalents	**A**	11,980,693	11,980,693	**A**	8,063,140	8,063,140
Liabilities (€)						
Negative cash balances (3)	**A**	893,065	893,065	**A**	815,684	815,684
Current and non-current financial liabilities excluding negative cash balances	**B**	20,233,268	20,233,268	**B**	21,095,344	21,095,344
Trade payables	**C**	4,672,856	4,672,856	**C**	6,000,976	6,000,976
Other current liabilities (4)	**C**	439,771	439,771	**C**	291,031	291,031

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

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

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

8.4.2 Income statement disclosures

The following table presents the impact of financial assets and liabilities on the income statements for the 2017 and 2016 fiscal years, as well as the breakdown of this impact according to the categories outlined in IAS 39:

	Designation of financial instruments	**At 12.31.2017**	**At 12.31.2016**
Investment income		**8,332**	**5,447**
Proceeds from sale of marketable securities	**A**	8,332	5,447
Finance costs		**(2,248,952)**	**(1,085,382)**
Interest charge	**B**	(2,248,952)	(1,085,382)
Other financial income		**-**	**533,674**
Other revenue	**A**	-	1,028
Exchange gains	**A**	-	522,071
Changes in fair value of derivatives	**A**	-	10,575
Other financial expenses		**(179,060)**	**(180,706)**
Exchange losses	**A**	(179,060)	(180,706)

8.5 Risk management policy

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

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

8.5.1 Risks related to changes in raw material prices

Implant production requires purchasing materials such as titanium, cobalt chromium, and polymers tolerated by the human body, particularly PEEK (Polyether Ether Ketone). As suppliers of these raw materials are few in number, the Group is subject to changes in market price which are difficult to predict or control, and which could have a negative impact on financial performance. Purchases of these materials are not the subject of hedging contracts. They account for a small part of the cost price of products manufactured (between 5 and 10%).

8.5.2 Credit risk

The Group monitors its customers' average payment period on a monthly basis. This ratio was 55 days at December 31, 2017. For international customers not paying in advance, the Group puts in place coverage mechanisms, such as:

- an application for guarantee from Coface. At the end of December 2017, the maximum amount of trade receivables that may be guaranteed by Coface was €603,000;
- letters of credit (€25,300 at December 31, 2017).

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

(€)	12.31.2017	12.31.2016
Gross trade receivables	4,003,281	5,195,604
Outstanding for more than 6 months	37,412	71,432
% of trade receivables	0.93%	1.37%
Total provision for doubtful receivables	30,146	36,786
% of trade receivables	0.75%	0.71%
Bad debt losses	4,537	13,757

8.5.3 Liquidity risks

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

The financial resources obtained following fundraising transactions totaled €72.9 million overall, as detailed in the table below:

Date	Nature	Amount (€)
June 2006	Share capital increase by means of a public offering	11,587,604
December 2007	Share capital increase	7,000,002
November 2008	Share capital increase	1,155,928
April 2009	Issue of new shares with share warrants	1,176,000
May 2009	Issue of new shares with share warrants	767,621
June 2009	Share capital increase	621,942
December 2009	Share capital increase	1,395,608
December 2009	Exercise of share warrants	582,831
May 2010	Issue of bonds redeemable in new shares	1,928,624
June 2010	Share capital increase	594,740
November 2011	Issue of new shares with share warrants	1,534,500
August 2012	Share capital increase	762,000
June 2015	Share capital increase through private placement	3,543,697
August 2016	Issue of bonds convertible into new shares	15,000,000
August 2016	Share capital increase through private placement	4,999,983
June 2017	Share capital increase through private placement	13,000,003
December 2017	Issue of new shares with share warrants	7,216,957
Total		**72,868,040**

These fund-raising transactions totaling have significantly reduced this liquidity risk and have given the Group the necessary resources to implement its expansion strategy, create new subsidiaries and launch new products.

The Group performed a €13 million capital increase in June 2017, by issuing 2,680,430 new shares with a par value of €0.16 each at a price of €4.85 per share, including the issue premium, as well as a second transaction amounting to €7.2 million in December 2017 by issuing 2,336,341 new shares with share warrants with a par value of €0.16 each at a price of €3.089 per share, including the issue premium. The number of shares issued may be increased to 3,504,510, i.e. a total maximum gross amount of €10.9 million, in the event that all of the share warrants are exercised.

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.

The remaining amount to be repaid on both of these loans at December 31, 2017 was €0.4 million over 2018; as a result, these commitments no longer raise any problems for the Group, which has furthermore obtained a waiver from the bank concerned, without any amendments to the initial terms of the loans, and at no additional cost.

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, 2017.

The cash flow forecasts for the 12 months following the approval of the financial statements take into account strong growth in business volumes linked to the setting up of two new distribution subsidiaries (Belgium and Australia), and to the development of sales of implants in the UNiD range (patient-specific rods and 3D-printed titanium cages) in the United States, as well as the successful outcome of the discussions that have been ongoing since the beginning of the fiscal year, and are aimed at raising additional funds (budget of €5 million) in the form of debt or equity in the second or third quarter of 2018.

In view of the financing proposals received to date, the Company has not identified any factors that enable it to believe that this additional financing may not be arranged within the timeframes required to comply with the covenants of the agreement relating to the €15 million convertible bond loan mentioned previously.

The factors mentioned above, together with the assumption of a successful outcome for the financing or fundraising program currently under review, enable the consolidated financial statements for the year ended December 31, 2017 to be prepared in accordance with the principle of the Group remaining a going concern for the next 12 months.

8.5.4 Foreign exchange risks

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

At December 31, 2017, the Group did not have any ongoing currency hedging.

8.5.5 Interest rate risks

At December 31, 2017, all loans carried a fixed rate. As a result, the Group is not exposed to the risk of changes in interest rates.

8.5.6 Risk of changes in exchange rates

The Group generated 59% of its 2017 consolidated sales in dollars through its subsidiary MEDICREA USA. This proportion should increase over the coming years, with dollar-denominated sales that could potentially represent almost two-thirds of consolidated Group sales.

The US, UK and Polish subsidiaries are invoiced in their functional currency when they are able to settle its trade liabilities owed to the parent company, and foreign exchange hedges have been put in place on an ad-hoc basis to cover the risk of fluctuation in the corresponding currencies (mainly dollars).

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

In 2017, the dollar has gone up by less than 2% since December 31, 2016 and had little impact on sales and operating income before share-based payments. A breakdown of these changes can be found in Note 4.11.

A 15% appreciation of the dollar against the Euro, applied to 2017 data, would result in a €2.4 million increase in Group sales and an increase of approximately €0.2 million in operating income based on the results generated by the US subsidiary over the fiscal year 2017, as all its purchases and overheads are denominated in dollars.

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

8.6 Off-balance sheet commitments related to Group financing

8.6.1 Commitments given in relation to medium-term borrowings

(€)	12.31.2017	12.31.2016
Pledges of business goodwill (1)	6,743,777	6,746,836
Joint and several guarantees	-	500,000
Cash collateral (2)	62,500	62,500

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

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

(€)	12.31.2017	12.31.2016
Assignment of trade receivables	500,000	500,000
BPI counter guarantee (1)	1,008,729	1,742,846

(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, 2017 was €780,000.

NOTE 9: CORPORATE TAX

MEDICREA TECHNOLOGIES, which was wholly owned and had been consolidated since 2003, was wound up with no liquidation process and absorbed by MEDICREA INTERNATIONAL on November 30, 2017, which resulted in the automatic termination of the tax consolidation scope at January 1, 2017.

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 €897,375 reduction in research and development costs for 2017 (€990,327 in 2016).

9.1 Analysis of the corporate tax rate

The Group's corporate tax charge for the year to December 31, 2017 is analyzed as follows:

(€)	12.31.2017	12.31.2016
Consolidated net income/(loss)	**(10,727,292)**	**(7,569,225)**
Corporate tax	504,656	263,246
Income before tax	**(11,231,948)**	**(7,832,471)**
Share-based payments	(287,338)	(283,434)
Taxable income	**(10,944,610)**	**(7,549,037)**
Adjustment to the research and employment and competitiveness tax credit	(1,059,042)	(1,121,677)
Taxable income excluding adjustments	**(12,003,652)**	**(8,670,714)**
Theoretical tax income / (charge) @28%	**3,361,023**	**2,889,949**
Difference in tax rates of other countries	(309,175)	(188,684)
Tax on permanent differences	574,590	(350,210)
Uncapitalized tax losses carried forward	(3,390,094)	(1,995,445)
Correction of corporate tax rates	(445,426)	(140,429)
Capping of deferred tax assets	643,366	510,074
Other	70,373	(462,009)
Recognized corporate tax income/ (charge)	**504,657**	**263,246**

9.2 Analysis of deferred taxation

Deferred tax assets and liabilities are analyzed as follows:

(€)	12.31.2017	12.31.2016
Tax losses carried forward	1,475,985	1,285,690
Temporary tax differences	9,935	44,618
Consolidation restatements	558,576	1,123,717
Total deferred tax assets	**2,044,496**	**2,454,025**
Temporary tax differences	209,017	641,045
Consolidation restatements	650,678	766,941
Total deferred tax liabilities	**859,695**	**1,407,986**

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 the parent company, deferred tax assets related to consolidation restatements cannot exceed deferred tax liabilities.

Deferred tax assets not recognized in the balance sheet totaled €11.2 million at December 31, 2017, including €10.4 million of unrecognized tax losses carried forward and €0.8 million related to consolidation restatements.

The Group has recognized the following tax losses:

(€)	12.31.2017	of which capitalized	Corresponding deferred tax
MEDICREA INTERNATIONAL	33,878,939	-	-
MEDICREA UK	2,198,899	-	-
MEDICREA USA	7,028,502	7,028,502	1,475,985
MEDICREA GMBH	1,317,279	-	-
MEDICREA POLAND	412,946	-	-
Total available tax losses	**44,836,565**	**7,028,502**	**1,475,985**

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

(€)	12.31.2017
Tax losses carried forward at January 1, 2017	**1,285,690**
Capitalized tax losses carried forward - MEDICREA USA	628,462
Change in the corporate tax rate	(282,508)
Translation adjustment	(155,659)
Tax losses carried forward at December 31, 2017	**1,475,985**

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

NOTE 10: SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

10.1 Shareholders' equity

10.1.1 Changes in share capital

Following equity transactions carried out during the fiscal year, share capital at December 31, 2017 totaled €2,413,265.76 and comprised of 15,082,911 shares with par value of €0.16 each. The number of authorized shares outstanding is as follows:

(€)	12.31.2017	12.31.2016
Number of authorized shares	15,082,811	10,033,067
Number of preference shares	100	100
Number of shares issued and fully paid up	15,082,911	10,033,167
Par value (€)	0.16	0.16
Number of shares outstanding at end of period	15,082,811	10,033,067
Number of shares with double voting rights	2,594,120	2,650,743
Number of treasury shares held by the parent company	4,438	2,650

Transactions in the share capital of MEDICREA INTERNATIONAL over the 2017 fiscal year are summarized as follows:

- At January 1, 2017, the share capital was €1,605,306.72, represented by 10,033,067 ordinary shares and 100 P preference shares.
- On June 22, 2017, the Board of Directors recognized the issue of 2,680,413 new shares as part of a share capital increase reserved for qualified investors.
- 32,990 new shares were issued on September 19, 2017, and corresponded to the delivery to French employees of the free shares allocated by the Board of Directors' meeting of September 19, 2016.
- On December 22, 2017, the Board of Directors recognized the issue of 2,336,341 new shares with share warrant attached (ABSA) as part of a share capital increase reserved for qualified US investors.
- At December 31, 2017, the share capital was therefore €2,413,265.76, represented by 15,082,811 ordinary shares and 100 P preference shares.

10.1.2 Preference shares

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

These preference shares will ultimately be convertible into ordinary shares of MEDICREA INTERNATIONAL, as determined by reference to the volume-weighted average price of the MEDICREA INTERNATIONAL share between September 17, 2018 and December 17, 2018, subject to the MEDICREA shares having reached significant and predefined performance levels during that period. The maximum number of ordinary shares that may be issued as a result of the conversion of all preference shares is 210,000, i.e. 1.4% of the Company's share capital at December 31, 2017.

These preference shares do not grant voting rights or entitlement to dividends. They are not listed on Euronext Growth Paris.

The conversion of the preference shares into ordinary shares would not have been possible based solely on the MEDICREA share price during the 2017 fiscal year, since the performance criteria differed significantly from the share price.

10.1.3 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.

10.1.4 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, 2017. Translation adjustments related to the consolidation of foreign subsidiaries' financial statements in Euros are included in the "Reserves" column, since their values have no material impact on the financial statements at December 31, 2017.

Other movements at December 31, 2017 are analyzed as follows:

(€)	12.31.2017	12.31.2016
Actuarial gains and losses relating to retirement allowances	19,446	(89,618)
Current account translation differences	-	(13,941)
Treasury shares	(10,064)	(2,065)
Change in goodwill	-	(8,589)
Bond loan recognized in equity	-	1,438,635
Bond loan issue costs	-	(148,670)
Other	(20)	-
Total	**9,362**	**1,175,752**

10.1.5 Issue, buyback and redemption of debt and equity securities

Share capital increase of June 2017

MEDICREA INTERNATIONAL issued 2,680,413 new shares with a par value of €0.16 per unit, at a unit price of €4.85, including issue premium, for a total amount of €13 million, representing 21.08% of the Company's share capital after the transaction. As an indication, the participation of a shareholder holding 1% of the share capital of the Company prior to the issue became 0.79%.

Share capital increase of December 2017

MEDICREA INTERNATIONAL issued 2,336,341 new shares with share warrants attached (ABSA) with a par value of €0.16 per unit, at a unit price of €3.089, including issue premium, for a total amount of €7.2 million, representing 15.49% of the Company's share capital after the transaction. The number of shares issued may be increased to 3,504,510, i.e. a maximum amount of €10.9 million, in the event that all of the share warrants are exercised, which would represent 18.85% of the Company's share capital post-transaction.

For information, a shareholder holding 1% of the share capital of the Company prior to the issue would hold 0.78% after exercising all their share warrants.

Each new share issues comes with a share warrant, i.e. a total of 2,336,341 issued share warrants. Two share warrants grant the right to subscribe to one new MEDICREA share at an exercise price of €3.15. The share warrants may be exercised for a period of 3 years as from their issue date.

Convertible bonds

Furthermore, over the year to December 31, 2017 the Group redeemed a cumulative 101 of the 200 convertible bonds issued to an institutional investor in April 2015, i.e. an amount of €1 million on the initial loan of €2 million, which matures in April 2020.

10.1.6 Dividends paid during the fiscal year

Nil.

10.2 Earnings per share

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

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

- share subscription options to be exercised at a future date;
- free share allocations;
- the number of treasury shares held at year-end;

- any other instrument giving deferred access to the Company's share capital.

Potential new ordinary shares 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 and free share plans (774,092 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, 2017 when determining their potential dilutive effect.

NOTE 11: OTHER INFORMATION

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

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

	12.31.2017			12.31.2016		
	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights
ORCHARD INTERNATIONAL (1)	1,727,490	11.45	19.55	1,727,490	17.22	27.24
Denys SOURNAC (2) (3)	457,488	3.03	2.59	455,732	4.55	3.60
Jean Philippe CAFFIERO	216,089	1.43	2.36	246,089	2.45	3.76
Other Directors						
Pierre BUREL (2)	194,587	1.29	1.10	194,587	1.94	1.53
Patrick BERTRAND (2)	113,968	0.76	0.74	113,968	1.14	1.04
François Régis ORY (2)	108,652	0.72	0.61	108,652	1.08	0.86
Rick KIENZLE	102,880	0.68	0.58	-	-	-
Christophe BONNET	52,128	0.35	0.48	52,128	0.52	0.81
Jean Joseph MORENO	22,000	0.15	0.21	22,900	0.23	0.30
Marc RECTON	18,752	0.12	0.18	18,752	0.19	0.25
Total	**3,014,034**	**19.98%**	**28.40%**	**2,940,298**	**29.32%**	**39.39%**

(1): Shares held by the holding company, ORCHARD INTERNATIONAL. The following table provides details of ORCHARD INTERNATIONAL's shareholding structure as of December 31, 2017:

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

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

(3): After adjusting for 8,000 shares allocated to Denys SOURNAC in error at 12.31.2016.

11.2 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 two fiscal years as follows:

(€)	**2017 amount invoiced, excl. VAT**	**2016 amount invoiced, excl. VAT**
Management services	300,000	300,000
Rebilling of employee costs	151,500	151,500
Rebilling of seconded executive's salary	64,000	64,000
Rebilling of seconded executive's expenses	-	4,391
Share of expenses	11,004	11,004
Rent and rental costs	45,508	26,764
Total	**572,012**	**557,659**

11.3 Statutory Auditors' fees

The fees paid to the Group's Statutory Auditors shown in the consolidated income statement are as follows:

	EY		ODICÉO	
Amount (excl. VAT)	**2017**	**2016**	**2017**	**2016**
Audit				
Audit, certification, review of individual and consolidated financial statements	64,630	66,400	32,054	41,400
Services other than the certification of the financial statements	6,072	6,400	6,036	8,950
Total fees	**70,702**	**72,800**	**38,090**	**50,350**

11.4 Post-balance sheet events

The Group announced in March 2018 the signing of a joint-venture agreement with Motion Medical, MEDICREA's existing distribution partner in Belgium, and the creation of MEDICREA BELGIUM to accelerate the adoption of the Group's products and technologies in this market.

The Group holds a 51% majority stake in MEDICREA BELGIUM and plans to transition the entity to a fully-owned Medicrea subsidiary over the next years. All revenue generated through the sale of MEDICREA products in Belgium will be aggregated in Medicrea's group consolidated figures and reported effective from February 2018.

Medicrea International

Fiscal year ended December 31, 2017

Statutory Auditors' report on the consolidated financial statements

ODICEO
115, boulevard de Stalingrad
C.S. 52038
69616 Villeurbanne Cedex
French corporation *(société anonyme)*
with share capital of €275,000
430 130 393 R.C.S. Lyon

Statutory Auditor
Member of Compagnie
régionale de Lyon

ERNST & YOUNG et Autres
Tour Oxygène
10-12, boulevard Marius Vivier Merle
69393 Lyon Cedex 03
Corporation with variable capital
(S.A.S. à capital variable)
438 476 913 R.C.S. Nanterre

Statutory Auditor
Member of Compagnie
régionale de Versailles

Medicrea International

Fiscal year ended December 31, 2017

Statutory Auditors' report on the consolidated financial statements

To the Shareholders' Meeting of Medicrea International,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying consolidated financial statements of Medicrea International for the year ended December 31, 2017.

In our opinion, the consolidated financial statements provide a true and fair view of the assets and liabilities and of the financial position of the Group at 31 December 2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

Audit framework

We have performed our audit in accordance with professional standards applicable in France. We believe our audit provides a reasonable basis for our opinion.

Our responsibilities under those standards are further described herein in the section "Statutory Auditors' responsibilities for the audit of the consolidated financial statements" of this report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any services prohibited by the French Code of Ethics for Statutory Auditors.

Justification of assessments

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters which, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. Accordingly, we do not provide any opinions on specific items of the consolidated financial statements.

Notes 6 and 9 to the consolidated financial statements describe the valuation, recognition and impairment rules applied to goodwill, intangible assets and deferred tax. As part of our assessment of the accounting principles adopted by your Group, we have verified the appropriateness of the above-specified accounting methods and information disclosed in the notes to the consolidated financial statements and we have assured ourselves of their correct application.

Verification of information pertaining to the Group included in the Management Report

As required by law, we have also verified, in accordance with professional standards applicable in France, the information on the Group provided in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Management and individuals responsible for corporate governance in relation to the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or that it will cease to operate.

The consolidated financial statements have been approved by the Board of Directors.

Statutory Auditors' responsibilities for the audit of the consolidated financial statements

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions that users take on the basis of these parent company financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the Company or the quality of management of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit. Furthermore, the Statutory Auditor:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the consolidated financial statements;

- Assesses the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;

- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Villeurbanne and Lyon, April 20, 2018

The Statutory Auditors

ODICEO	ERNST & YOUNG et Autres
Sylvain Boccon-Gibod	Nicolas Sabran

MEDICREA INTERNATIONAL
PARENT COMPANY FINANCIAL STATEMENTS

AT DECEMBER 31, 2017

CONTENTS

1. ACTIVITY

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

MEDICREA leads the design, integrated manufacture, and distribution of 30+ FDA approved implant technologies, utilized in over 150k spinal surgeries worldwide to date. Operating in a $10 billion marketplace, MEDICREA is an SME with 170 employees worldwide, which includes 37 at its USA Corp. subsidiary in NYC.

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

The Company is based in Rillieux-la-Pape, near Lyon, France, where it has its own state-of-the-art implant and surgical instrument manufacturing facility, a manufacturing facility dedicated to the machining and development of 3D-printed, patient-specific implants, as well as four distribution subsidiaries in the US, UK and Poland, and Belgium since February 2018.

2. FISCAL YEAR HIGHLIGHTS

The following are the highlights of the 2017 fiscal year:

2.2. MARKET AND ENVIRONMENT

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

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

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

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

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

2.3. RESULTS AND PERFORMANCE

The sales generated with the Company's marketing subsidiaries decreased by around 30% compared with the previous fiscal year due to the effect of the transfer of all the assets and liabilities of MEDICREA EUROPE FRANCOPHONE in late 2016, and of MEDICREA TECHNOLOGIES in late 2017, and as a result of the mothballing of MEDICREA GMBH during 2017.

The sales generated with international distributors, public and private hospitals in France, and the customers of the repair center, which reflect MEDICREA INTERNATIONAL's direct marketing activities, increased by 13% although the trends were mixed depending on the geographical regions:

- In France, under stable market conditions, MEDICREA INTERNATIONAL achieved sales of €6 million in 2017, up 15% compared to the 2016 performance of MEDICREA EUROPE FRANCOPHONE, driven by the adoption of its UNiD™ ASI technology by a growing number of surgeons.

- In export markets and with distributors, and following the need to regain registration for all products in the range with the Brazilian health authorities and obtain validation of the new manufacturing facility, no sales were made in this market during 2017 (sales of €2 million in 2016). Since the authorizations were re-issued in December, the activity should return to a normative level from 2018. Excluding Brazil, the distribution business grew by 6%, generating sales of €3.6 million.

Other operating revenues totaled €6.5 million, versus €2.5 million in 2016. They mainly consist of finished products and work in progress (€3.4 million), and research and development expenditure, as well as patent costs recorded as own work capitalized and transferred to the assets side of the balance sheet (€2.1 million). The structurally high level of this item reflects the research and development efforts the Company has undertaken in recent years.

The gross management margin (which includes the subcontracting recorded in the parent company financial statements under "other external purchases and charges") stood at 53% of sales in 2017, against 51% in 2016. Gross margin was negatively impacted in 2017 due to the use of outsourcing as well as the temporary increase in costs associated with the relocation of the La Rochelle production site to the new Rillieux-la-Pape campus.

The 2017 payroll grew significantly in comparison with the previous fiscal year (up 65%). The change in headcount primarily reflects the consolidation of the Group's French business activities at a single site, and within the same company.

Amortization and depreciation charges grew €1.3 million in correlation with the significant investments made by the Company in recent fiscal years, notably research and development costs, and fixtures and fittings at the new headquarters, which have been in service since the 4th quarter of 2016. Provision charges, down €0.6 million in relation to the previous fiscal year, primarily relate to the impairment of implant inventory.

Taking into consideration the points specified above, 2017 operating loss was €6.9 million, compared with an operating loss of €3.1 million in 2016.

The net financial loss amounted to €4.7 million, primarily due to the €1.2 million cost of debt, €2.6 million in impairment charges on equity investments and current accounts (mothballing of MEDICREA GMBH and problems encountered by MEDICREA TECHNOLOGIES UK), and to negative currency effects amounting to €1 million.

Ultimately, after a research tax credit of €0.9 million was taken into account, a net loss of €10.7 million was recorded, against a net loss of €10.8 million in 2016.

2.4. PRODUCT PORTFOLIO AND RESEARCH AND DEVELOPMENT

MEDICREA is the first company in the spinal industry to offer a complete set of surgical planning services based on data and patient-specific implants. Over the course of 2017, the Company continued its expansion along this strategic axis and the fiscal year was marked by several major achievements.

UNiD™ osteosynthesis patient-specific rods

The Company expanded its range of UNiD™ patient-specific rods by offering a new implant tailored to minimally invasive percutaneous surgery. The first surgical procedure using a UNiD™ MIS patient-specific rod was thus performed in the United States in July 2017.

The Company also received FDA 510(k) clearance in August 2017 for surgical planning with UNiD™ HUB, its data-driven digital portal which provide surgeons with surgical strategy and predictive modeling functionality.

Lastly, in October 2017 MEDICREA published a major scientific white paper which shows that, relative to manually bent rods, patient-specific rods generated using Medicrea's UNiD™ ASI technology greatly reduce the incidence of postoperative rod breakage in adult complex spine surgical cases.

Patient-specific, 3D-printed interbody cages

The systematic approach to spinal column disorders implemented by MEDICREA, through its engineering services and in-house 3D printing resources, makes the Company a unique player and enables it to collaborate closely with surgeons to develop interbody devices that match their technical and clinical preferences.

In order to provide 3D printed, patient-specific interbody implants most suitable for both the patient's pathology and the surgeon's preferences, MEDICREA INTERNATIONAL acquired three patents from Dr. Paul McAfee of University of Maryland St. Joseph's Medical Center, United States, relating to a methodology to measure anatomical parameters and to design the interbody devices used in spinal surgery. These three patents protect an innovative technique that helps to ascertain the physiological height of the intervertebral space by using the anatomy of the patient to accurately select the appropriate interbody device. As such, they enable MEDICREA to strengthen its UNiD™ ASI platform.

In September 2017, the research and development work of the MEDICREA teams came to fruition in the operating room. In September 2017, the Company announced the world's first 360-degree personalized spine surgery in London, U.K., which was completed utilizing a bespoke combination of patient-specific interbody cages and rods, manufactured in-house at the Company's new united production and headquarters campus in Lyon and generated by its proprietary UNiD™ ASI systems technology.

November 2017 marked a major step for the Company, when MEDICREA announced it had secured FDA approval for its IB3D range of 3D-printed titanium interbody cages and the launch of AdapTEK, its adaptive technology meeting the specific needs of each surgeon. The first IB3D cages were fitted in the United States in January 2018.

Other products in the range

MEDICREA confirmed in June 2017 the extension of its portfolio of standard products for complex spinal pathologies with FDA clearance of its PASS® TULIP top-loading posterior fixation system. Fixation systems of this type are the global gold standard and the availability of this new product will allow the Group to reach a greater number of surgeons and offer them UNiD ASI™ technology regardless of their preferences in terms of instruments.

2.5. ORGANIZATION

In January 2017, the Company completed the transfer of the factory from La Rochelle to its new Rillieux-la-Pape site. The number of employees who wanted to move to this new site was very low, which resulted in significant disruption to the organizational structure and operation of the new plant during the 1st half of 2017, and in the significant use of sub-contractors on a temporary basis. The situation gradually returned to normal over the 2nd half of the fiscal year.

The Company decided to change its distribution strategy in Germany in June 2017 and mothballed its MEDICREA GmbH subsidiary, which had been launched in 2016. All the transactions relating to the German market are now handled directly from the Head Office in Rillieux-la-Pape.

In November 2017, MEDICREA TECHNOLOGIES was dissolved without liquidation and absorbed by MEDICREA INTERNATIONAL. This decision was taken with a view to simplifying and rationalizing business flows.

Lastly, the Company entered into a partnership with its historical Belgian distributor in February 2018, by purchasing a 51% interest in a company newly founded for that purpose, called MEDICREA BELGIUM.

2.6. FINANCING

MEDICREA performed two capital increases with qualified French and US investors in June and December 2017, in an overall amount of over €20 million. The terms and conditions of these capital increases are explained in detail in Section 8.1 of this document. The funds raised will be used to accelerate the development, mainly in the United States, of the UNiD™ ASI platform, to prepare for the commercialization of a new range of 3D-printed titanium interbody cages in the United States and Europe, and to continue extending the distribution network by setting up marketing subsidiaries.

3. PARENT COMPANY FINANCIAL STATEMENTS AT DECEMBER 31, 2017

3.1 INCOME STATEMENT

(€)	Notes	12.31.2017	12.31.2016
Sales	**2.4**	15,933,004	14,071,050
Finished products and work in progress	**2.6**	3,420,986	289,672
Own work capitalized	**2.5**	2,066,842	2,131,204
Operating grants		12,817	5,562
Provision reversals and transfers of charges	**2.7**	353,307	64,709
Other revenue		16,183	31,607
Operating revenues		**21,803,139**	**16,593,804**
Purchases consumed, subcontracting and other supplies		(7,309,023)	(3,663,887)
Other external purchases and charges		(7,779,621)	(6,486,362)
Taxes and duties		(564,375)	(234,949)
Wages and salaries		(5,730,151)	(3,489,325)
Social security costs		(2,403,316)	(1,441,946)
Amortization and depreciation charges		(3,424,244)	(2,078,656)
Provision charges		(897,628)	(1,524,940)
Other expenses		(625,518)	(752,303)
Operating expenses		**(28,733,876)**	**(19,672,368)**
Operating income		**(6,930,737)**	**(3,078,564)**
Financial income		281,506	2,134,220
Financial expenses		(5,015,234)	(9,672,317)
Net financial income / (expense)	**6.3**	**(4,733,728)**	**(7,538,097)**
Income/(loss) before tax		**(11,664,465)**	**(10,616,661)**
Exceptional income		682,431	12,002
Exceptional expenses		(596,911)	(1,171,328)
Net exceptional income/(expense)	**2.9**	**85,520**	**(1,159,326)**
Corporate tax	**7**	897,375	970,054
Net income / (loss)		**(10,681,570)**	**(10,805,933)**

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

3.2 BALANCE SHEET

(€)	Notes	12.31.2017 Gross	12.31.2017 Depr. amort. & prov.	12.31.2017 Net	12.31.2016 Net
Intangible assets	**4.6**	17,557,219	10,905,978	6,651,241	5,400,305
Property, plant and equipment	**4.6**	9,878,459	3,708,597	6,169,862	4,841,756
Non-current financial assets	**4.6**	10,396,494	2,565,018	7,831,476	12,019,264
Non-current assets		**37,832,172**	**17,179,593**	**20,652,579**	**22,261,325**
Inventories	**2.1**	12,284,436	3,331,149	8,953,287	5,978,650
Trade receivables	**2.2**	3,390,636	30,146	3,360,490	2,412,861
Other receivables	**2.2**	11,827,970	1,824,440	10,003,530	12,210,660
Cash and cash equivalents	**6.1.5**	11,676,846	-	11,676,846	7,701,012
Current assets		**39,179,888**	**5,185,735**	**33,994,153**	**28,303,183**
Total assets		**77,012,060**	**22,365,328**	**54,646,732**	**50,564,508**

(€)	Notes	12.31.2017 Net	12.31.2016 Net
Share capital		2,413,266	1,605,307
Reserves		35,333,873	28,026,008
Net income for the year		(10,681,570)	(10,805,933)
Shareholders' equity	**8.3**	**27,065,569**	**18,825,382**
Conditional advances	**6.2**	196,250	317,500
Other equity		**196,250**	**317,500**
Long-term financial debt	**6.1.1**	17,346,185	19,810,775
Non-current liabilities		**17,346,185**	**19,810,775**
Provisions for liabilities and charges	**5.1**	139,094	276,059
Short-term financial debt	**6.1.2**	3,544,980	2,715,808
Group and associates	**6.1**	-	1,021,046
Trade payables	**2.3**	3,956,359	6,074,036
Other liabilities	**2.3**	2,398,295	1,523,902
Current liabilities		**10,038,728**	**11,610,851**
Total shareholders' equity and liabilities		**54,646,732**	**50,564,508**

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

3.3 CASH FLOW STATEMENT

(€)	12.31.2017	12.31.2016
Net income / (loss)	**(10,681,570)**	**(10,805,933)**
Property, plant and equipment depreciation and intangible asset amortization	3,032,043	2,078,656
Provision charges	3,548,681	8,534,032
Proceeds from sale of non-current assets	4,850	216,095
Merger premium	(65,746)	-
Self-financing capacity	**(4,161,742)**	**22,850**
Change in inventories and work in progress	(3,634,948)	(2,975,005)
Change in trade receivables	(845,601)	2,278,857
Change in trade payables	(2,274,220)	2,898,052
Change in other receivables and payables	4,279,085	(1,599,772)
Cash flow from working capital requirement	**(2,475,684)**	**602,132**
Net cash flow from operating activities	**(6,637,426)**	**624,982**
Acquisition of non-current assets	(6,132,747)	(6,710,186)
Disposal of non-current assets	587,594	-
Conditional advances received (repaid)	(121,250)	(86,250)
Other movements	177,131	219,933
Net cash flow from investment activities	**(5,489,272)**	**(6,576,503)**
Share capital increase	20,216,960	5,104,354
Proceeds from new borrowings	492,020	16,417,587
Repayment of borrowings	(2,301,898)	(2,197,198)
Increase / (decrease) in subsidiaries' current accounts	(1,021,046)	(6,816,188)
Other movements	(1,283,504)	(240,320)
Net cash flow from financing activities	**16,102,532**	**12,268,235**
Change in cash and cash equivalents	**3,975,834**	**6,316,714**
Cash and cash equivalents - beginning of year	**7,201,012**	**884,298**
Cash and cash equivalents - end of year	**11,176,846**	**7,201,012**
Positive cash balances - beginning of year	7,701,012	884,298
Positive cash balances - end of year	11,676,846	7,701,012
Change in positive cash balances	**3,975,834**	**6,816,714**
Negative cash balances - beginning of year	500,000	-
Negative cash balances - end of year	500,000	500,000
Change in negative cash balances	**-**	**500,000**
Change in cash and cash equivalents	**3,975,834**	**6,316,714**

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

3.4 NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS AT DECEMBER 31, 2017

The notes form an integral part of the financial statements prepared in accordance with the legal and regulatory requirements applicable in France.

The parent company financial statements were approved by the Board of Directors on April 4, 2018.

NOTE 1: ACCOUNTING PRINCIPLES

1.1 Preparation bases

MEDICREA INTERNATIONAL's financial statements are prepared in euros, in compliance with ANC Regulation No. 2014-03 of 5 June 2014, and in accordance with the going concern principle, as set out in Note 6.4.2. "Covenants" are assessed in light of the Company's capacity to meet – over the 12 months following the date of preparation of the financial statements – its cash flow requirements 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. Depending on the case, the basic method used for the valuation of items recognized in the balance sheet is the historical cost, the contribution cost or the revalued amount. The accounting principles used in the preparation of the parent company financial statements for the year 2017 are identical to those applied the previous year.

The preparation of the financial statements requires the drawing up of estimates and assumptions likely to have an impact on the Company's assets and liabilities, as well as on those of its subsidiaries and equity investments.

The estimates and assumptions used are reviewed on an ongoing basis. Due to the uncertainty inherent to any valuation process, it is possible that the amounts shown in future financial statements may differ from the amounts currently estimated.

At December 31, 2017, the Company was not aware of any changes in estimates having a significant impact during the period.

1.2 Conversion of foreign currency-denominated items

Foreign currency-denominated transactions are converted at the exchange rate in effect at the time of the transaction, or at the rate of the currency hedge arranged, where applicable.

Foreign currency-denominated assets and liabilities are converted at the closing exchange rate, or maintained at the rate of the hedge assigned to them.

The difference resulting from the conversion of foreign currency-denominated liabilities and receivables at the closing exchange rate is taken to the balance sheet under "accruals", where applicable. In the event of an unrealized currency loss at the balance-sheet date, a provision is recorded for the amount of the unhedged risk.

NOTE 2: OPERATIONAL DATA

2.1 Inventories

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:

	12.31.2017			12.31.2016		
(€)	**Gross values**	**Impairment**	**Net values**	**Gross values**	**Impairment**	**Net values**
Raw materials	494,979	(26,379)	468,600	263,928	(53,962)	209,966
Work-in-process	1,072,507	(87,336)	985,171	76,113	(19,111)	57,002
Semi-finished goods	1,891,621	(157,507)	1,734,114	261,715	-	261,715
Finished goods	8,825,329	(3,059,927)	5,765,402	7,976,999	(2,527,032)	5,449,967
Total	**12,284,436**	**(3,331,149)**	**8,953,287**	**8,578,755**	**(2,600,105)**	**5,978,650**

MEDICREA INTERNATIONAL now carries out all of the production operations on a stand-alone basis, which partially explains the significant increase in raw material inventories, work-in-progress, and semi-finished goods compared with the previous fiscal year. It centrally manages its inventories of finished goods intended for supply to marketing subsidiaries and to fulfill the needs of independent distributors.

The gross value of inventories grew 43% in comparison with 2016. The Company experienced a major industrial reorganization due to the transfer of its production plant from La Rochelle to Rillieux-la-Pape, which resulted in a large number of organizational changes and to the significant use of sub-contractors on a temporary basis. These factors, combined with a decrease in sales of the Company's distribution subsidiaries due to the economic environment (mainly in the United States), had an adverse effect on inventories. The Company has taken these problems into account, and a new industrial and logistics organizational structure based on managing the inventories on a pull-flow principle is currently being introduced, and is expected to produce its initial beneficial effects as from the 2nd quarter of 2018.

Impairment charges accounted for 27% of the average gross amounts at December 31, 2017, compared with 30% at December 31, 2016. The €0.7 million increase in these charges is linked to the increase in finished and semi-finished goods.

2.2 Trade and other receivables

Trade and other receivables are recorded at their nominal value.

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

The Company factors some of its receivables based on its cash flow requirements. The value of invoicing subject to factoring at year-end, which as a result no longer appears in trade receivables at that date, is disclosed in off-balance sheet commitments.

Trade and other receivables are analyzed as follows:

	12.31.2017			12.31.2016		
(€)	**Gross values**	**Impairment**	**Net values**	**Gross values**	**Impairment**	**Net values**
Trade receivables	**3,390,636**	**(30,146)**	**3,360,490**	**2,449,647**	**(36,786)**	**2,412,861**
Social security receivables	2,200	-	2,200	2,200	-	2,200
Tax receivables	1,701,476	-	1,701,476	1,811,769	-	1,811,769
Intra-Group current accounts	8,623,591	(1,824,440)	6,799,151	8,052,511	-	8,052,511
Other receivables	1,234,757	-	1,234,757	1,622,101	-	1,622,101
Advances and prepayments to	80,184	-	80,184	251,777	-	251,777
suppliers	158,668	-	158,668	460,548	-	460,548
Prepaid expenses	27,094	-	27,094	9,754	-	9,754
Asset translation adjustment	**11,827,970**	**(1,824,440)**	**10,003,530**	**12,210,660**	**-**	**12,210,660**
Other receivables						
Total current assets	**15,218,606**	**(1,854,586)**	**13,364,020**	**14,660,307**	**(36,786)**	**14,623,521**
Average days sales outstanding		**67 days**			**43 days**	

The change in trade receivables between 2017 and 2016 is analyzed as follows:

(€)	**12.31.2017**	**12.31.2016**
MEDICREA USA	1,520,922	203
MEDICREA POLAND	64,337	24,997
MEDICREA TECHNOLOGIES UK	10,792	-
MEDICREA GMBH	-	77,481
MEDICREA TECHNOLOGIES	-	55,488
Intra-Group receivables	**1,596,051**	**158,169**
Non-Group receivables	1,794,585	2,291,478
Total trade receivables	**3,390,636**	**2,449,647**

The €0.9 million increase in trade receivables breaks down between a €1.4 million increase in Group receivables as a result of the transfer of all of the receivables held against MEDICREA USA to the current account at December 31, 2016, and a €0.5 million decrease in non-Group receivables resulting from the absence of invoices for any products on the Brazilian market since the beginning of 2017.

Following the absorption of the company MEDICREA TECHNOLOGIES, since November 30, 2017 non-Group receivables have included invoices due by repair center customers.

Trade receivables deemed highly unlikely to be collected are the subject of a provision for impairment for their full amount exclusive of VAT.

Tax receivables include the research tax credit of €897,375 and the competitiveness and employment tax credit of €161,667. Other tax receivables primarily include VAT to be recovered.
At December 31, 2017, intra-Group current accounts were broken down as follows:

	12.31.2017			12.31.2016		
(€)	**Gross values**	**Impairment**	**Net values**	**Gross values**	**Impairment**	**Net values**
MEDICREA USA current account	6,053,968	-	6,053,968	6,705,788	-	6,705,788
MEDICREA GMBH current account	1,229,795	1,229,795	-	1,036,420	-	1,036,420
MEDICREA POLAND current account	745,183	-	745,183	-	-	-
MEDICREA TECHNOLOGIES UK current account	594,645	594,645	-	310,303	-	310,303
Total intra-Group current accounts	**8,623,591**	**1,824,440**	**6,799,151**	**8,052,511**	**-**	**8,052,511**

The discounting of future cash flows generated by the subsidiaries at December 31, 2017 resulted in a provision of €1.8 million being recognized in relation to MEDICREA TECHNOLOGIES UK and MEDICREA GMBH current accounts.

The maturity dates of receivables are broken down as follows:

(€)	**12.31.2017**	**Within 1 year**	**1 to 5 years**	**More than 5 years**
Other non-current financial assets	389,300	66,810	40,000	282,490
Trade receivables	3,390,636	3,390,636	**-**	**-**
Social security receivables	2,200	2,200	**-**	-
Tax receivables	1,701,476	1,701,476	**-**	**-**
Intra-Group current accounts	8,623,591	-	8,623,591	**-**
Other receivables	1,234,757	1,234,757	**-**	**-**
Advances and prepayments to suppliers	80,184	80,184	-	**-**
Prepaid expenses	158,668	158,668	**-**	**-**
Total	**15,580,812**	**6,634,731**	**8,663,591**	**282,490**

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

(€)	**12.31.2017**	**12.31.2016**
Trade receivables	39,123	119,622
Other receivables	55,243	59,328
Total	**94,366**	**178,950**

2.3 Trade payables and other liabilities

Trade payables and other liabilities are analyzed as follows:

(€)	**12.31.2017**	**12.31.2016**
Trade payables	**3,956,359**	**6,074,036**
Social security liabilities	1,621,583	1,002,862
Tax liabilities	300,124	120,101
Other liabilities	435,477	169,568
Customer advances and prepayments	29,436	117,669
Translation adjustment liability	11,675	113,702
Total other liabilities	**2,398,295**	**1,523,902**
Total current liabilities	**6,354,654**	**7,597,938**
of which due in less than one year	*6,104,508*	*7,597,938*

The change in trade payables between 2017 and 2016 is analyzed as follows:

(€)	12.31.2017	12.31.2016
MEDICREA TECHNOLOGIES UK	19,209	-
MEDICREA USA	15,560	-
MEDICREA TECHNOLOGIES	-	2,800,502
Intra-Group liabilities	**34,769**	**2,800,502**
Non-Group liabilities	3,921,590	3,273,534
Total	**3,956,359**	**6,074,036**

Since the transfer of the La Rochelle plant to Rillieux-la-Pape, trade payables are now carried directly by the Company, which previously used to obtain supplies from its MEDICREA TECHNOLOGIES production subsidiary. The decrease of around €2 million in overall trade payables compared with 2016 is linked to the fall in business volumes over the 2017 fiscal year, to the high level of trade payables over the last quarter of 2016, as part of the major orders delivered during the same period (primarily in Brazil), and more generally to better observance of due dates for settling invoices.

The liability translation adjustment at December 31, 2017 mainly comprised the translation of Group receivables denominated in foreign currencies (see section 2.2).

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

(€)	12.31.2017	12.31.2016
Financial debt	12,078	8,642
Trade payables	751,191	639,687
Social security liabilities	1,203,368	717,034
Tax liabilities	290,055	90,684
Other liabilities	72,000	58,355
Total	**2,328,692**	**1,514,402**

2.4 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 Company delivers directly to healthcare institutions (e.g. in the French market), implants and instruments are held on consignment. They are not invoiced on delivery and remain recognized as assets. Only implants that have been placed and/or broken or lost instruments are subsequently invoiced.

Regular inventories of medical devices held on consignment are made, either directly on site, or after the assets are returned to and reviewed by the Company, and any necessary accounting adjustments are recognized in the financial statements.

Sales are analyzed as follows:

	12.31.2017			12.31.2016		
(€)	**France**	**Exports**	**Total**	**France**	**Exports**	**Total**
Merchandise sales	5,918,594	9,685,029	15,603,623	687,067	12,814,172	13,501,239
Provision of services	174,358	155,023	329,381	407,299	162,512	569,811
Total sales	**6,092,952**	**9,840,052**	**15,933,004**	**1,094,366**	**12,976,684**	**14,071,050**

The change in sales between 2017 and 2016 is analyzed as follows:

(€)	**2017**	**2016**	**Change**
MEDICREA USA	5,619,069	7,348,225	(24)%
MEDICREA POLAND	656,182	24,997	N/S
MEDICREA TECHNOLOGIES	160,585	941,587	(83)%
MEDICREA TECHNOLOGIES UK	(17,401)	161,856	(111)%
MEDICREA GMBH	(168,768)	364,421	(146)%
MEDICREA EUROPE FRANCOPHONE	-	106,307	(100)%
Total intra-Group sales and rebillings	**6,249,667**	**8,947,393**	**(30)%**
Private and public hospitals - France	5,962,073	-	+ 100%
Export distributors	3,590,990	5,082,746	(29)%
Repair center	76,444	-	+ 100%
Other	53,830	40,911	+ 32%
Total external sales and rebillings	**9,683,337**	**5,123,657**	**+ 89%**
Net sales	**15,933,004**	**14,071,050**	**+ 13%**

The sales generated with the Company's marketing subsidiaries decreased by around 30% compared with the previous fiscal year due to the effect of the transfer of all the assets and liabilities of MEDICREA EUROPE FRANCOPHONE in late 2016, the relocation of the manufacturing facility from La Rochelle to Rillieux-la-Pape in January 2017, and the inventories recovered from MEDICREA USA and MEDICREA GMBH.

The sales generated with international distributors, public and private hospitals in France, and the customers of the repair center since the transfer of all the assets and liabilities of MEDICREA TECHNOLOGIES in November 2017, which reflects MEDICREA INTERNATIONAL's direct marketing activities, increased by 13% although the trends were mixed depending on the geographical regions:

- In France, under stable market conditions, MEDICREA INTERNATIONAL achieved sales of almost €6 million in 2017, up 15% compared to the prior year performance of MEDICREA EUROPE FRANCOPHONE (merged into MEDICREA INTERNATIONAL in December 2016), driven by the adoption of its UNiD™ ASI technology by a growing number of surgeons;

- In export markets, following the need to regain registration for all products in the range with the Brazilian health authorities and obtain validation of the new Rillieux-la-Pape manufacturing facility, no sales were made in this market during 2017 (sales of €2 million in 2016). Since the authorizations were secured in December 2017, the activity should quickly return to a normative level in 2018. Excluding Brazil, the distribution business grew by 6%, generating sales of €3.6 million.

2.5 Own work capitalized

Own word capitalized stood at €2.1 million, and was stable compared with the 2016 fiscal year. It includes the capitalization of R&D expenses and of expenditure on patents, and reflects the Company's sustained innovation efforts.

2.6 Finished products and work-in-progress

The €3.1 million increase in finished products and work-in-progress compared with 2016 was mainly due to the transfer of the production plant from La Rochelle to Rillieux-la-Pape, which resulted in a large number of organizational changes and to the significant use of sub-contractors on a temporary basis. These factors, combined with a decrease in sales of the Company's distribution subsidiaries due to the economic environment (mainly in the United States), had an adverse effect on inventories.

2.7 Provision reversals and transfers of charges

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

(€)	12.31.2017	12.31.2016
Provision for liabilities and charges	182,706	-
Inventory impairment	67,248	-
Provision for bad debts	10,911	7,600
Transfers of charges	92,442	57,109
Provision reversals and transfers of charges	**353,307**	**64,709**

The reversals of provisions for liabilities and charges are primarily explained by the impairment of MEDICREA TECHNOLOGIES' inventory, which was recorded in the Company's financial statements at the end of December 2016, and was reversed when the inventory was transferred in January 2017. They also include the transfer allowances paid to the employees of the La Rochelle plant who relocated to the new Rillieux-la-Pape site. A provision for these allowances was recorded at the end of 2016, and was reversed when they were paid during the 2017 fiscal year.

2.8 Other revenue

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

2.9 Distinction between exceptional income and income from recurring operations

Income from recurring operations is derived from activities in which the Company is involved in the course of its business and related activities that are either incidental to or are an extension of its ordinary business, including the disposal and write-off of instruments and equipment.

Exceptional items result from unusual events or transactions that are distinct from the ordinary business and which are not expected to recur frequently and regularly.

Exceptional income for the 2017 fiscal year primarily includes the balance of the transfer allowances relating to the relocation of employees from the La Rochelle plant to the Rillieux-la-Pape campus.

2.10 Impact of exchange differences on sales and operating income

Average exchange rates evolved as follows:

Average conversion rates	12.31.2017	12.31.2016
USD / EUR	1.12493	1.10605
GBP / EUR	0.87313	0.81251
PLN / EUR	4.26218	4.3622

The impact of currency fluctuations on the comparability of the financial statements for the 2016 and 2017 fiscal years is as follows:

(€)	12.31.2017 at 2017 rates	12.31.2017 at 2016 rates	Impact of exchange rates
Sales	15,933,004	16,018,039	(85,035)
Operating income	(6,930,737)	(6,960,912)	30,175

NOTE 3: EMPLOYEE COSTS AND BENEFITS

3.1 Workforce

The workforce can be analyzed by category as follows:

	12.31.2017	12.31.2016
Executives	66	46
Supervisors - Employees	60	27
Total	**126**	**73**

The change in the headcount primarily reflects the consolidation of all of the organizations based in France within MEDICREA INTERNATIONAL, following the contribution transactions.

3.2 Pension plans and post-employment benefits

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

No payment is made to an insurance company or any provision established to service retirement benefits provided for by the collective agreement applicable to MEDICREA INTERNATIONAL (Import / Export). The corresponding commitment is however assessed annually based on the following features:

- retirement age: age at which an employee has acquired sufficient entitlements to obtain a full pension;
- social security rates: adjusted based on the employee and company status. On average, rates are 46% 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: 1.30%, based on the long-term yields of private sector euro-denominated AA-rated bonds (Corporate bonds AA10+) over a period equivalent to that of commitments, in accordance with the ANC's recommendation.

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

The value of acquired rights was €600,328 at December 31, 2017, compared with €513,368 at December 31, 2016. Movements are analyzed as follows:

(€)	12.31.2017	12.31.2016
Actuarial liability at 12.31.2016	513,368	256,964
Service cost in operating income	*86,922*	*66,328*
Net financial expense	*7,187*	*5,653*
Charge for the year in respect of defined benefit plans	**94,109**	**71,981**
Actuarial gains and losses	(19,447)	90,041
Change in consolidation scope	12,298	94,382
Actuarial liability at 12.31.2017	**600,328**	**513,368**

The transfer of the production workforce from the La Rochelle plant to MEDICREA INTERNATIONAL at December 31, 2016 had been anticipated in order to calculate the actuarial commitment. Following the transfer of all assets and liabilities of MEDICREA TECHNOLOGIES to MEDICREA INTERNATIONAL as of November 30, 2017, the repair center employees also joined MEDICREA INTERNATIONAL's workforce. The impact of this transfer appears under "Change in consolidation scope".

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

3.3 Seniority awards

No provision is established for seniority award commitments. Applicable collective agreements do not provide for any specific provisions in this regard.

3.4 Share-based payments

Employees of the MEDICREA Group receive compensation in equity instruments, the payment of which is based on shares. This compensation takes the form of free share allocation plans or of stock option plans. Almost all of the costs relating to these plans have been recognized in the financial statements of MEDICREA.

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

3.4.1 Share purchase option plans

No provision has been recorded in relation to these plans in accordance with the provisions of Article 624-6 of the French General Chart of Accounts.

The characteristic features of the share purchase option plans intended for the Company's employees, and which have been authorized by the Shareholders Meeting, were as follows at December 31, 2017:

Year the plan was arranged	Number of options authorized	Number of options canceled	Number of options exercised	Number of shares not yet vested at 12/31/2017	Exercise price (€)	Year unexercised options will lapse
2008	20,723	10,964	4,167	5,592	6	2018
2009	53,480	33,000	20,480	-	-	-
2010	112,800	99,926	12,874	-	-	-
2011	95,500	84,500	-	11,000	9.10 / 11.44 *	2018
2013	10,000	10,000	-	-	8.77	2020
2014	30,000	-	-	30,000	9.10	2021
2015	12,000	12,000	-	-	-	-
2016	406,500	406,500	-	-	5.43 * / 5.74 *	2023
2017	660,000	-	-	660,000	4.19 / 4.11 * / 2.92 *	2024
Total	**1,401,003**	**656,890**	**37,521**	**706,592**		

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

3.4.2 Free share plans

No provision has been recorded in relation to these plans in accordance with the provisions of Article 624-6 of the French General Chart of Accounts.

The characteristic features of these free share plans authorized by the Shareholders' Meeting were as follows at December 31, 2017:

Year the plan was arranged	Number of free shares authorized	Number of free shares canceled	Number of free shares vested	Number of shares to be allocated at 12/31/2017	Year vested (1)
2008	18,099	936	17,163	-	2010 / 2012
2009	45,800	8,100	37,700	-	2011 / 2013
2010	45,885	9,965	35,920	-	2012 / 2014
2011	3,500	-	3,500	-	2013
2016	72,990	9,000	32,990	31,000	2017 / 2018
Total	**186,274**	**28,001**	**127,273**	**31,000**	

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

3.4.3 Change in stock purchase option and free share plans

Transactions in share-based payment instruments in the 2017 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	4.74	5.43	72,990	0.72	1.72
- canceled	(4,400)	0.77	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**
- allocated	660,000	6.89	3.00	**-**	**-**	**-**
- canceled	(464,000)	5.64	5.75	(9,000)	-	**-**
- lapsed	(59,126)	-	6.14	**-**	**-**	**-**
- exercised	-	-	-	(32,990)	-	-
Balance at 12.31.17	**706,592**	**6.58**	**3.67**	**31,000**	**-**	**0.72**

3.5 French Personal Training Account (PTA)

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

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

The Company's annual contribution in respect of the PTA (0.2% of payroll costs) is paid to *Organismes Paritaires Collecteurs Agréés* (OPCAs), which in turn finance the future training programs carried out under this framework.

3.6 French tax credit for competitiveness and employment

The tax credit for competitiveness and employment is recognized as a reduction of employee costs as the corresponding compensation costs are incurred. Its purpose is to improve the Company's competitiveness and assist it in its efforts related to investments, innovation, training, recruitment, environmental and energy transition, and replenishment of working capital.

A total of €161,667 was recognized in 2017 in relation to this tax credit, compared with €81,325 in 2016. This increase is explained by the consolidation of the French workforce within a single organizational structure.

3.7 Senior executives and corporate officers' compensation

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

Mr. SOURNAC is not an employee of MEDICREA INTERNATIONAL and is not compensated by the Company for his duties. The management holding company ORCHARD INTERNATIONAL receives fees for the services provided to MEDICREA INTERNATIONAL 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 2017 fiscal year for work carried out by Mr. SOURNAC was €300,000 exclusive of tax (unchanged from 2016).

Mr. SOURNAC did not receive any direct or indirect compensation from the Company other than that mentioned above, excluding Directors' fees of €7,000 in 2017 (€6,000 in 2016).

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 2017, ORCHARD INTERNATIONAL invoiced a total of €64,000 exclusive of tax (unchanged from 2016) to MEDICREA INTERNATIONAL for the sales management duties carried out by Mr. CAFFIERO. It is specified that Mr. CAFFIERO reduced his activities at MEDICREA INTERNATIONAL as from January 1, 2015, which therefore resulted in a significant decrease in the amount of the services invoiced by ORCHARD INTERNATIONAL. Mr. CAFFIERO has not carried out any operational duties at MEDICREA INTERNATIONAL since January 1, 2018, but retains his office as a Director of MEDICREA INTERNATIONAL.

Mr. CAFFIERO did not receive any direct or indirect remuneration other than those mentioned above, excluding Directors' fees of €7,000 in 2017 (€6,000 in 2016).

NOTE 4: INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, AND FINANCIAL ASSETS

4.1 Impairment testing of amortizable assets

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

4.2 Intangible assets

Intangible assets include research and development costs, patents and trademarks, and software. Research and development costs are amortized over five years when they meet all of the criteria required for their recognition as assets. Capitalized costs are based on precise analytical monitoring, resulting in a breakdown of costs incurred by type and by project. Patents, licenses and trademarks are amortized over 5 to 10 years, depending on their useful lives. Software is amortized over periods ranging from 1 to 5 years.

4.3 Property, plant and equipment

Property, plant and equipment are valued using the historical cost method. The cost of an item of property, plant and equipment comprises:

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

Property, plant and equipment is broken down if their components have different useful lives or if they provide benefits to the Company at a different pace that requires the use of different amortization rates and methods.

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

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

Property, plant and equipment is the subject of an impairment test, in accordance with the method set out in Note 4.1.

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

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

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

4.4 Non-current financial assets and current accounts

Equity securities are valued at their historical acquisition cost and current accounts with subsidiaries at book value.

Impairment is recognized when the recoverable value assessed in accordance with the following criteria is lower than the value recognized under assets:

- value in use determined based on the net asset value of the subsidiary and its profitability prospects;
- value by reference to recent transactions involving companies operating in the same industry;
- value by reference to the discounted future cash flows generated by the subsidiary.

However, impairment is only recognized when the subsidiary has reached a normal operational level following its launch phase in the case of a start-up, or following the integration phase in the case of an acquisition.

The scope of the subsidiaries and interest percentages are detailed in the table below:

		Registered office	% control
MEDICREA USA		New-York, USA	100%
MEDICREA TECHNOLOGIES UK		Swaffam Bulbeck, UK	100%
MEDICREA GMBH		Cologne, GER	100%
MEDICREA POLAND		Łódź, PL	100%

Equity securities are broken down as follows:

	12.31.2017			12.31.2016		
(€)	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
MEDICREA USA	7,395,058	-	7,395,058	7,395,058	-	7,395,058
MEDICREA TECHNOLOGIES UK	2,465,018	(2,465,018)	-	2,465,018	(1,800,000)	665,018
MEDICREA GMBH	100,000	(100,000)	-	100,000	-	100,000
MEDICREA POLAND	47,118	-	47,118	47,118	-	47,118
MEDICREA TECHNOLOGIES	-	-	-	11,946,000	(8,600,000)	3,346,000
Total	**10,007,194**	**(2,565,018)**	**7,442,176**	**21,953,194**	**(10,400,000)**	**11,553,194**

MEDICREA TECHNOLOGIES was wound up with no liquidation process on November 30, 2017 via a decision of MEDICREA INTERNATIONAL, its sole shareholder.

The discounting of future cash flows generated by the subsidiaries at December 31, 2017 resulted in an additional provision of €0.8 million being recognized in relation to MEDICREA TECHNOLOGIES UK and MEDICREA GMBH shares.

4.5 Treasury shares

The MEDICREA shares held by the Company are recognized at acquisition cost irrespective of the reason they are held.

When sold, the cost price of the shares is calculated in accordance with the first in, first out (FIFO) method, except for shares held within the framework of option plans, which are calculated on a plan-by-plan basis in accordance with the weighted average price method. Capital gains and losses on disposals are recorded in net financial income / (expense).

At December 31, 2017, treasury shares were analyzed as follows:

	2017		2016	
(€)	**Number**	**Amount**	**Number**	**Amount**
Liquidity contract	4,438	14,310	2,650	14,054
Total number of MEDICREA shares	**4,438**	**14,310**	**2,650**	**14,054**

4.6 Change in non-current assets, and depreciation and amortization during FY 2017

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

Gross values (€)	**01.01.2017**	Acquisitions	Disposals	TUP (2)	**12.31.2017**
Research & development costs	9,831,312	1,836,995	-	-	11,668,307
Patents and similar rights	2,271,310	780,417	-	1,416,833	4,468,560
Computer licenses and software	963,580	461,253	54,271	24,656	1,395,218
Brands	25,133	-	-	-	25,133
Domain name	-	-	-	1	1
Intangible assets	**13,091,335**	**3,078,665**	**54,271**	**1,441,490**	**17,557,219**
Buildings	-	-	-	157	157
Technical facilities and equipment	1,801,078	642,372	26,042	52,983	2,470,391
Demonstration equipment	377,683	96,620	104,407	-	369,896
Instrument sets	2,499,701	943,659	403,134	-	3,040,226
Computer hardware and office equipment	1,114,805	247,054	269,377	1,539	1,094,021
Other non-current assets	2,034,582	1,120,330	262,540	11,396	2,903,768
Property, plant and equipment	**7,827,849**	**3,050,035**	**1,065,500**	**66,075**	**9,878,459**
Equity securities	21,953,194	-	-	(11,946,000)	10,007,194
Receivables from investments	48,274	-	48,274	-	-
Treasury shares (1)	14,054	256	-	-	14,310
Guarantees and deposits	403,742	3,791	92,651	60,108	374,990
Non-current financial assets	**22,419,264**	**4,047**	**140,925**	**(11,885,892)**	**10,396,494**
Total gross values	**43,338,448**	**6,132,747**	**1,260,696**	**(10,378,327)**	**37,832,172**

Amortization and depreciation (€)	**01.01.2017**	Charges	Reversals	TUP (2)	**12.31.2017**
Research & development costs	5,890,700	1,355,819	-	-	7,246,519
Patents and similar rights	1,470,314	296,375	-	1,376,273	3,142,962
Computer licenses and software	304,883	178,971	17,037	24,546	491,364
Brands	25,133	-	-	-	25,133
Domain name	-	-	-	1	1
Intangible assets	**7,691,030**	**1,831,165**	**17,037**	**1,400,820**	**10,905,978**
Buildings	-	1	-	36	37
Technical facilities and equipment	246,902	275,690	11,554	30,679	541,717
Demonstration equipment	224,424	102,265	104,407	-	222,282
Instrument sets	1,935,652	450,835	365,730	-	2,020,757
Computer hardware and office equipment	503,400	152,577	20,478	144	635,643
Other non-current assets	75,715	219,510	8,121	1,057	288,161
Property, plant and equipment	**2,986,093**	**1,200,878**	**510,290**	**31,916**	**3,708,597**
Equity securities	10,400,000	765,018	-	(8,600,000)	2,565,018
Non-current financial assets	**10,400,000**	**765,018**	**-**	**(8,600,000)**	**2,565,018**
Total amort., depr. and impairment	**21,077,123**	**3,797,061**	**527,327**	**(7,167,264)**	**17,179,593**

Net values (€)	**01.01.2017**	Increases	Decreases	TUP (2)	**12.31.2017**
Intangible assets	5,400,305	1,247,500	37,234	40,670	6,651,241
Property, plant and equipment	4,841,756	1,849,157	555,210	34,159	6,169,862
Non-current financial assets	12,019,264	(760,971)	140,925	(3,285,892)	7,831,476
Total net values	**22,261,325**	**2,335,686**	**733,369**	**(3,211,063)**	**20,652,579**

(1) cash held via the liquidity contract is included in cash and cash equivalents.
(2) The transfer (TUP) column in the above analysis reflects the integration of MEDICREA TECHNOLOGIES's assets following its absorption by the Company in late 2017.

The main changes in non-current assets resulting from this event are as follows:

1 / Research and development activity is structurally important and is a key differentiating factor for the Company. The main costs incurred in the 2017 fiscal year include:

- Continued development of the UNiD™ platform and service offering 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 2017 amounted to €1,836,995 compared with €2,021,846 in 2016.

2 / Patent costs capitalized in 2017 amounted to €780,417, compared with €109,358 in respect of the previous year. €0.6 million of these costs relates to the purchase of three patents from Dr Paul McAfee, which protect an innovative technique that helps to ascertain the physiological height of the intervertebral space by using the anatomy of the patient to accurately select the appropriate interbody device.

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

4/ The Company continued to expand its machine base with an investment of €0.3 million euros in various industrial equipment in 2017 and bought back a number of machines of the La Rochelle manufacturing facility from MEDICREA TECHNOLOGIES.

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

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

7/ The increase in the IT and office equipment item is primarily explained by the installation of video equipment at the new headquarters in Rillieux-la-Pape.

8/ The growth in other property, plant and equipment is due to the completion of installation work at the new headquarters for €1.1 million.

9/ Non-current financial assets include equity securities, treasury shares held as part of a liquidity contract, receivables from investments and guarantees paid.

4.7 Leases

4.7.1 Finance leases

Non-current assets acquired through finance leases are recognized in the parent company financial statements under expenses for the year (lease payments), according to the schedules set out in the contract. They are broken down as follows:

	12.31.2017			12.31.2016		
(€)	**Gross values**	**Amort./depr.**	**Net values**	**Gross values**	**Amort./depr.**	**Net values**
Software	21,700	(14,888)	6,812	21,700	(7,655)	14,045
Technical facilities and equipment	3,108,569	(1,424,482)	1,684,087	3,432,347	(1,527,265)	1,905,082
Computer hardware	962,273	(407,287)	554,986	397,519	(355,059)	42,460
Total	**4,092,542**	**(1,846,657)**	**2,245,885**	**3,851,566**	**(1,889,979)**	**1,961,587**

Lease-financed commitments are analyzed as follows:

(€)	**12.31.2017**	**12.31.2016**
Lease payments		
Total payments from previous years (1)	1,425,166	1,034,543
Lease payments for the year (1)	525,252	504,997
Total	**1,950,418**	**1,539,540**
Future minimum lease payments		
Within 1 year	494,797	426,986
1 to 5 years	949,841	867,764
More than 5 years	-	-
Total	**1,444,638**	**1,294,750**
Residual values	**19,532**	**23,514**

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

4.7.2 Operating leases

Certain items of equipment (mainly photocopiers and computer hardware) are lease-financed over periods of 3 to 5 years.

The lease for MEDICREA INTERNATIONAL's former premises in Neyron 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. Following the transfer of the La Rochelle plant to Rillieux-la-Pape early in 2017, the French facilities have been brought together on a single site for an annual rental charge of €1.1 million and having signed a 12-year rental commitment.

Operating lease commitments can therefore be summarized as follows:

(€)	12.31.2017	12.31.2016
Within 1 year	1,263,912	1,107,702
1 to 5 years	4,563,160	3,858,272
5 to 10 years	5,564,600	4,737,650
More than 10 years	834,690	2,835,581
Total	**12,226,362**	**12,539,205**

NOTE 5: PROVISIONS AND CONTINGENT LIABILITIES

5.1 Provisions

A provision is recognized when there is an actual obligation, legal or constructive, towards a third party resulting from a past event and existing irrespective of future actions, which will result in a probable cash outflow for the Company, the amount of which can be reliably measured.

Provisions are broken down as follows:

(€)	Provisions for salary disputes	Provisions for charges	Provisions for currency risk	Total
Provisions at January 1, 2017	**10,000**	**256,305**	**9,754**	**276,059**
Charges	90,000	18,500	27,094	135,594
Used during the year	-	(216,787)	(9,754)	(226,541)
Reversals	(10,000)	(43,000)	-	(53,000)
Change in consolidation scope	-	6,982	-	6,982
Provisions at December 31, 2017	**90,000**	**22,000**	**27,094**	**139,094**
of which due in less than one year	*90,000*	*22,000*	*27,094*	*139,094*

5.2 Contingent liabilities

In contrast to the definition of a provision provided above, a contingent liability is:

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

The contingent liabilities identified at December 31, 2017 were as follows:

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

  Since the launch of this lifetime warranty across the United States, no activation request has been recorded. On this basis, the Company did not recognize any provision in its financial statements at December 31, 2017 and, depending on all the data collected in 2018, it will assess whether or not it is necessary to review its position at December 31, 2018.

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

NOTE 6: FINANCING AND FINANCIAL INSTRUMENTS

6.1 Net financial debt

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

The Company's net financial debt at December 31, 2017 is analyzed as follows:

	12.31.2017			12.31.2016		
(€)	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Long-term financial debt	17,346,185	3,040,492	20,386,677	19,810,775	3,232,078	23,042,853
Short-term and bank loans	-	504,488	504,488	-	504,776	504,776
Gross financial debt	**17,346,185**	**3,544,980**	**20,891,165**	**19,810,775**	**3,736,854**	**23,547,629**
Cash and cash equivalents	-	(11,676,846)	(11,676,846)	-	(7,101,012)	(7,101,012)
Net financial debt	**17,346,185**	**(8,131,866)**	**9,214,319**	**19,810,775**	**(3,364,158)**	**16,446,617**

The decrease in net financial debt is linked to the capital increases performed in 2017.

6.1.1 Analysis of long-term financial debt

Financial debt is recognized at its face value.

At December 31, 2017, all long-term financial debt was taken out in Euros and at fixed rates, and is analyzed as follows:

(€)	**12.31.2017**	**12.31.2016**
Bond issues	17,143,683	17,536,558
Loans from credit institutions	3,235,404	4,476,607
Accrued loan interest	7,590	8,642
Non-Group financial debt	**20,386,677**	**22,021,807**
Group and associates	-	1,021,046
Total	**20,386,677**	**23,042,853**

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

(€)	12.31.2017	12.31.2016
Convertible bond loan – August 2016	15,000,000	15,000,000
Bond loan – February 2016	1,150,000	1,150,000
Bond loan – April 2015	993,683	1,386,558
Total	**17,143,683**	**17,536,558**

- The Company issued a €2 million bond loan bearing interest at a rate of 6% (interest payable monthly) in April 2015, which is redeemable on a monthly basis in accordance with a schedule that runs until April 2020.

- The Company issued a €1.2 million bond loan bearing interest at a rate of 7% (interest payable quarterly) in February 2016, which was fully redeemed in February 2018.

- In August 2016, the Company issued a bond convertible into MEDICREA INTERNATIONAL 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;

  Given the uncertain nature of the non-conversion premium, such premium (€1,500,000) was not recognized. However, pursuant to the principle of prudence, a provision for risks will be established as soon as the Company considers the conversion to not be acquired.

6.1.2 Changes in financial liabilities

Changes in financial liabilities can be analyzed as follows:

(€)	12.31.2016	Cash movements		Change in consolidation scope	12.31.2017
		Proceeds from new borrowings	Repayment of borrowings		
Long-term borrowings	22,021,807	492,020	(2,300,783)	161,934	20,374,978
Short-term borrowings	504,776	-	(1,115)	827	504,488
Other	-	11,699	-	-	11,699
Group and associates	1,021,046	-	(1,021,046)	-	-
Total	**23,547,629**	**503,719**	**(3,322,944)**	**162,761**	**20,891,165**

The change is related to repayments made during the 2017 fiscal year within the framework of existing amortization schedules and to the three new contracts that were taken out for a total of €0.5 million and bearing interest rates ranging between 0.75% and 0.8% over periods of 3 to 5 years, to finance various industrial equipment.

The "Change in consolidation scope" column results from the impact of the transfer of all assets and liabilities of MEDICREA TECHNOLOGIES to MEDICREA INTERNATIONAL.

6.1.3 Maturity of long-term financial debt

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

(€)	12.31.2017	Within 1 year	1 to 5 years	More than 5 years
Bond issues	17,143,683	1,562,349	15,581,334	-
Loans from credit institutions	3,223,705	1,470,553	1,753,152	-
Accrued loan interest	7,590	7,590	-	-
Other	11,699	-	-	11,699
Total	**20,386,677**	**3,040,492**	**17,334,486**	**11,699**

6.1.4 Analysis of short-term financial debt

In France, the Company finances its trade receivable item via a short-term cash facility treated as a bank overdraft.

At December 31, 2017, all short-term financial debt was taken out in Euros and at fixed rates, and is analyzed as follows:

(€)	12.31.2017	12.31.2016
Bank overdrafts	500,000	500,000
Accrued bank interest	4,488	4,776
Total	**504,488**	**504,776**

Bank overdrafts of €500,000 correspond to a cash facility guaranteed by amounts invoiced to French healthcare facilities.

6.1.5 Analysis of cash and cash equivalents

Cash and cash equivalents include cash and money market investments that are immediately available and with an insignificant risk of changes in value over time. The latter consist primarily of money market funds (SICAV) and cash held as collateral for financing obtained from other sources.

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

Net cash and cash equivalents changed as follows:

(€)	12.31.2017	12.31.2016
Cash	11,676,846	7,547,462
Marketable securities	-	153,550
Cash and cash equivalents	**11,676,846**	**7,701,012**

The strengthening of the net cash position was primarily due to the gross fundraising of €20.2 million, before issue costs, completed by the Company in June and December 2017.

The cash flow statement for the period January 1, 2017 to December 31, 2017 highlights cash usage over the fiscal year. The other changes in net cash flows from financing activities are detailed as follows:

(€)	**12.31.2017**
Security deposits for sub-leases	11,699
Capital increase expenses charged as issue costs	(1,295,203)
Total	**(1,283,504)**

6.1.6 Average debt rate

The average debt rate evolved as follows:

	12.31.2017	**12.31.2016**
Euro (EUR)	5.80%	5.79%

The high level of the average interest rate on the debt is primarily explained by the payments on the bond loans, for which the rates are higher than those charged in the case of conventional bank financing. The average interest rate on the debt worked out at 2.93% excluding the bond loans.

6.1.7 Hedge instruments

Most of the Company's supplies are denominated in Euros. Sales to UK subsidiaries are made in their functional currencies, the products then being sold in these markets in the country's currency. As a result, subsidiaries are not exposed to an exchange rate risk on purchases but MEDICREA INTERNATIONAL is exposed to an exchange risk on part of its sales, which it hedges against as opportunities arise using forward sales transactions.

At December 31, 2017, the Company did not have any ongoing currency hedging.

6.2 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 2017 fiscal year.

6.3 Net financial income / (expense)

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

(€)	12.31.2017	12.31.2016
Cost of net financial debt	(1,161,831)	(724,259)
Net exchange gain / (loss)	(1,026,017)	377,634
Capital gain / (loss) on disposal of marketable securities	(4,828)	(8,863)
Loss resulting from the transfer of all assets and liabilities of MEDICREA TECHNOLOGIES	65,746	-
Loss resulting from the transfer of all assets and liabilities of MEDICREA EUROPE FRANCOPHONE	-	(118,398)
Charges to provisions for exchange losses	(27,094)	(9,754)
Reversal of provisions for exchange losses	9,754	5,543
Charges to provisions for impairment of MEDICREA TECHNOLOGIES UK securities	(665,018)	-
Charges to provisions for impairment of MEDICREA GMBH securities	(100,000)	-
Charges to provisions for impairment of MEDICREA TECHNOLOGIES securities	-	(8,600,000)
Charges to provisions for impairment of the MEDICREA TECHNOLOGIES UK current account	(594,645)	-
Charges to provisions for impairment of the MEDICREA GMBH current account	(1,229,795)	-
Reversal of provisions for impairment of the MEDICREA EUROPE FRANCOPHONE current account	-	1,540,000
Net financial income / (expense)	**(4,733,728)**	**(7,538,097)**

The net exchange loss of €1 million was primarily due to the exchange rate differences recorded when payments were made by MEDICREA USA.

The absorption of MEDICREA TECHNOLOGIES by the Company gave rise to the recognition of a merger premium of €65,746.

The discounting of future cash flows generated by the subsidiaries at December 31, 2017 resulted in an additional provision of €0.8 million being recognized in relation to MEDICREA TECHNOLOGIES UK and MEDICREA GMBH shares and €1.8 million on their current accounts.

6.4 Off-balance sheet commitments related to financing

6.4.1 Commitments given in relation to medium-term borrowings

(€)	12.31.2017	12.31.2016
Pledges of business goodwill (1)	6,743,777	6,171,836
Joint and several guarantees	-	500,000
Cash collateral (2)	62,500	62,500

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

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

(€)	12.31.2017	12.31.2016
Assignment of trade receivables – Dailly	500,000	500,000
BPI counter guarantee (1)	1,008,729	1,703,846

(1) Counter-guarantees granted to MEDICREA INTERNATIONAL by BPI as part of medium-term financing

The total amount of overdrafts authorized but unconfirmed at December 31, 2017 was €800,000.

6.4.2 Covenants

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.

The remaining amount to be repaid on both of these loans at December 31, 2017 was €0.4 million over 2018; as a result, these commitments no longer raise any problems for the Company, which has furthermore obtained a waiver from the bank concerned, without any amendments to the initial terms of the loans, and at no additional cost.

The contract relating to the €15,000,000 convertible bond issued in August 2016 specified that the Company 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, 2017.

The cash flow forecasts for the 12 months following the approval of the financial statements take into account strong growth in business volumes linked to the setting up of two new distribution subsidiaries (Belgium and Australia), and to the development of sales of implants in the UNiD range (patient-specific rods and 3D-printed titanium cages) in the United States, as well as the successful outcome of the discussions that have been ongoing since the beginning of the fiscal year, and are aimed at raising additional funds (budget of €5 million) in the form of debt or equity in the second or third quarter of 2018.

In view of the financing proposals received to date, the Company has not identified any factors that enable it to believe that this additional financing may not be arranged within the timeframes required to comply with the covenants of the agreement relating to the €15 million convertible bond loan mentioned previously.

The factors mentioned above, together with the assumption of a successful outcome for the financing or fundraising program currently under review, enable the parent company financial statements for the year ended December 31, 2017 to be prepared in accordance with the principle of the Company remaining a going concern for the next 12 months.

NOTE 7: CORPORATE TAX

MEDICREA TECHNOLOGIES, which was wholly owned and had been consolidated since 2003, was wound up with no liquidation process and absorbed by MEDICREA INTERNATIONAL on November 30, 2017, which resulted in the automatic termination of the tax consolidation scope at January 1, 2017.

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

(€)	12.31.2017	12.31.2016
Research tax credit	(897,375)	(970,054)
Corporate tax charge / (income)	**(897,375)**	**(970,054)**

Temporarily non-deductible expenses totaled €93,632 for the year to December 31, 2017, compared with a negative amount of €2,645 for the year to December 31, 2016.

MEDICREA INTERNATIONAL had cumulative losses of €33,878,939 at December 31, 2017.

NOTE 8: SHAREHOLDERS' EQUITY

8.1 Share capital

Following equity transactions carried out during the fiscal year, share capital at December 31, 2017 totaled €2,413,265.76 and comprised of 15,082,911 shares with par value of €0.16 each. The number of authorized shares outstanding is as follows:

(€)	12.31.2017	12.31.2016
Number of authorized shares	15,082,811	10,033,067
Number of preference shares	100	100
Number of shares issued and fully paid up	15,082,911	10,033,167
Par value (€)	0.16	0.16
Number of shares outstanding at end of period	15,082,811	10,033,067
Number of shares with double voting rights	2,594,120	2,650,743
Number of treasury shares held by the parent company	4,438	2,650

Transactions in the share capital of MEDICREA INTERNATIONAL over the 2017 fiscal year are summarized as follows:

- At January 1, 2017, the share capital was €1,605,306.72, represented by 10,033,067 ordinary shares and 100 P preference shares.
- On June 22, 2017, the Board of Directors recognized the issue of 2,680,413 new shares as part of a share capital increase reserved for qualified investors.
- 32,990 new shares were issued on September 19, 2017, and corresponded to the delivery to French employees of the free shares allocated by the Board of Directors' meeting of September 19, 2016.
- On December 22, 2017, the Board of Directors recognized the issue of 2,336,341 new shares with share warrant attached (ABSA) as part of a share capital increase reserved for qualified US investors.

- At December 31, 2017, the share capital was therefore €2,413,265.76, represented by 15,082,811 ordinary shares and 100 P preference shares.

8.2 Preference shares

At the Shareholders' Meeting of December 17, 2014, it was decided to issue 100 preference shares to MMCO, a simplified joint stock company *(Société par Actions Simplifiée)* with share capital of €1,000, with its registered office at 5389 route de Strasbourg, 69140 Rillieux-la-Pape.
These preference shares will ultimately be convertible into ordinary shares of MEDICREA INTERNATIONAL, as determined by reference to the volume-weighted average price of the MEDICREA INTERNATIONAL share between September 17, 2018 and December 17, 2018, subject to the MEDICREA shares having reached significant and predefined performance levels during that period. The maximum number of ordinary shares that may be issued as a result of the conversion of all preference shares is 210,000, i.e. 1.4% of the Company's share capital at December 31, 2017. These preference shares do not grant voting rights or entitlement to dividends. They are not listed on Euronext Growth Paris.

The conversion of the preference shares into ordinary shares would not have been possible based solely on the MEDICREA share price during the 2017 fiscal year, since the performance criteria differed significantly from the share price.

8.3 Change in shareholders' equity

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

(€)	01.01.2017	Increase	Decrease	12.31.2017
Share capital	1,605,307	807,959	-	2,413,266
Merger premium	2,738,619	-	-	2,738,619
Issue premium	42,658,256	19,414,280	-	62,072,536
Allocation of share capital increase-related	(2,948,599)	-	(1,295,203)	(4,243,802)
costs	19,360	-	-	19,360
Legal reserve	41,767	-	(3,207)	38,560
Reserve for own shares	208,270	-	-	208,270
Statutory reserves	449,244	9,606	(11,678)	447,172
Other reserves	(15,140,909)	-	(10,805,933)	(25,946,842)
Retained earnings	-	-	(10,681,570)	(10,681,570)
Net loss for fiscal year 2017	(10,805,933)	10,805,933	-	-
Net loss for fiscal year 2016	**18,825,382**	**31,037,778**	**(22,797,591)**	**27,065,569**
Shareholders' equity				

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

(€)	2017	2016
Balance at January 1	**39,709,657**	**34,897,035**
Share capital increase in cash	19,414,280	4,937,077
Sub-total	**59,123,937**	**39,834,112**
Allocation of share capital increase-related costs	(1,295,203)	(124,455)
Balance at December 31	**57,828,734**	**39,709,657**

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

8.4 Dividends paid during the fiscal year

Nil

8.5 Issue, buyback and redemption of debt and equity securities

Share capital increase of June 2017

MEDICREA INTERNATIONAL issued 2,680,413 new shares with a par value of €0.16 per unit, at a unit price of €4.85, including issue premium, for a total amount of €13 million, representing 21.08% of the Company's share capital after the transaction. As an indication, the participation of a shareholder holding 1% of the share capital of the Company prior to the issue became 0.79%.

Share capital increase of December 2017

MEDICREA INTERNATIONAL issued 2,336,341 new shares with share warrants attached (ABSA) with a par value of €0.16 per unit, at a unit price of €3.089, including issue premium, for a total amount of €7.2 million, representing 15.49% of the Company's share capital after the transaction. The number of shares issued may be increased to 3,504,510, i.e. a maximum amount of €10.9 million, in the event that all of the share warrants are exercised, which would represent 18.85% of the Company's share capital post-transaction.

For information, a shareholder holding 1% of the share capital of the Company prior to the issue would hold 0.78% after exercising all their share warrants.

Each new share issues comes with a share warrant, i.e. a total of 2,336,341 issued share warrants. Two share warrants grant the right to subscribe to one new MEDICREA share at an exercise price of €3.15. The share warrants may be exercised for a period of 3 years as from their issue date.

Convertible bonds

Furthermore, over the year to December 31, 2017 the Company redeemed a cumulative 101 of the 200 convertible bonds issued to an institutional investor in April 2015, i.e. an amount of €1 million on the initial loan of €2 million, which matures in April 2020.

NOTE 9: OTHER INFORMATION

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

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

	12.31.2017			12.31.2016		
	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights
ORCHARD INTERNATIONAL (1)	1,727,490	11.45	19.55	1,727,490	17.22	27.24
Denys SOURNAC (2) (3)	457,488	3.03	2.59	455,732	4.55	3.60
Jean Philippe CAFFIERO	216,089	1.43	2.36	246,089	2.45	3.76
Other Directors						
Pierre BUREL (2)	194,587	1.29	1.10	194,587	1.94	1.53
Patrick BERTRAND (2)	113,968	0.76	0.74	113,968	1.14	1.04
François Régis ORY (2)	108,652	0.72	0.61	108,652	1.08	0.86
Rick KIENZLE	102,880	0.68	0.58	-	-	-
Christophe BONNET	52,128	0.35	0.48	52,128	0.52	0.81
Jean Joseph MORENO	22,000	0.15	0.21	22,900	0.23	0.30
Marc RECTON	18,752	0.12	0.18	18,752	0.19	0.25
Total	**3,014,034**	**19.98%**	**28.40%**	**2,940,298**	**29.32%**	**39.39%**

(1): Shares held by the holding company, ORCHARD INTERNATIONAL. The following table provides details of ORCHARD INTERNATIONAL's shareholding structure as of December 31, 2017:

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

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

(3): After adjusting for 8,000 shares allocated to Denys SOURNAC in error at 12.31.2016.

9.2 Related-party disclosures

As mentioned in Section 3.7 above, ORCHARD INTERNATIONAL invoices MEDICREA INTERNATIONAL for various services, the amounts of which changed over the last two fiscal years as follows:

(€)	**2017 amount invoiced, excl. VAT**	**2016 amount invoiced, excl. VAT**
Management services	300,000	300,000
Rebilling of employee costs	151,500	151,500
Rebilling of seconded executive's salary	64,000	64,000
Rebilling of seconded executive's expenses	-	4,391
Share of expenses	11,004	11,004
Rent and rental costs	45,508	26,764
Total	**572,012**	**557,659**

9.3 Other commitments

The following table sums up the Company's other commitments:

(€)	**12.31.2017**	**12.31.2016**
Assignment of trade receivables	385,178	309,758

9.4 Statutory Auditors' fees

The fees paid to the Group's Statutory Auditors shown in the parent company income statement are as follows:

	EY		ODICÉO	
Amount (excl. VAT)	**2017**	2016	**2017**	2016
Audit				
Audit, certification, review of individual and parent company financial statements	41,688	44,900	31,042	29,300
Services other than the certification of the financial statements	6,072	6,400	6,036	8,950
Total fees	**47,760**	**51,300**	**37,078**	**38,250**

9.5 Post-balance sheet events

Nil.

9.6 Five-year financial summary

See the management report.

9.7 List of subsidiaries and equity investments

The amounts below are expressed in Euros.

Entities	Total shareholders' equity	Share capital ownership (%)	Book value of shares owned		Loans and advances granted and outstanding	Guarantees and sureties given by the Company	Net sales for last fiscal year	Net income for last fiscal year	Dividends paid to the parent company
			Gross	Net					
International subsidiaries									
MEDICREA TECHNOLOGIES UK	(195,037)	100%	2,465,018	-	594,645	-	467,935	(406,413)	-
MEDICREA USA	447,279	100%	7,395,058	7,395,058	6,053,968	-	16,000,915	(4,201,519)	-
MEDICREA GMBH	(1,222,554)	100%	100,000	-	1,229,795	-	121,164	(330,957)	-
MEDICREA POLAND	(208,798)	100%	47,119	47,119	745,183	-	121,114	(223,676)	-

Medicrea International

Fiscal year ended December 31, 2017

Statutory Auditors' report on the parent company financial statements

ODICEO
115, boulevard de Stalingrad
C.S. 52038
69616 Villeurbanne Cedex
French corporation *(société anonyme)*
with share capital of €275,000
430 130 393 R.C.S. Lyon

Statutory Auditor
Member of Compagnie
régionale de Lyon

ERNST & YOUNG et Autres
Tour Oxygène
10-12, boulevard Marius Vivier Merle
69393 Lyon Cedex 03
Corporation with variable capital
(S.A.S. à capital variable)
438 476 913 R.C.S. Nanterre

Statutory Auditor
Member of Compagnie
régionale de Versailles

Medicrea International

Fiscal year ended December 31, 2017

Statutory Auditors' report on the parent company financial statements

To the Shareholders' Meeting of Medicrea International,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying parent company financial statements of Medicrea International for the year ended December 31, 2017.

In our opinion, the parent company financial statements provide a true and fair view of the assets and liabilities and of the financial position of the Company at December 31, 2017 and of the results of its operations for the year then ended in accordance with French accounting principles and methods.

Basis for opinion

Audit framework

We have performed our audit in accordance with professional standards applicable in France. We believe our audit provides a reasonable basis for our opinion.

Our responsibilities under those standards are further described herein in the section "Statutory Auditors' responsibilities for the audit of the parent company financial statements" of this report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any services prohibited by the French Code of Ethics for Statutory Auditors.

Justification of assessments

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters which, in our professional judgment, were of most significance in our audit of the parent company financial statements of the current period.

These matters were addressed in the context of our audit of the parent company financial statements as a whole, and in forming our opinion thereon. Accordingly, we do not provide any opinions on specific items of the parent company financial statements.

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

Verification of the management report and of other documents sent to the shareholders

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

- **Information provided regarding the financial position and the parent financial statements in the management report and in the other documents sent to shareholders**

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

- **Report on corporate governance**

We hereby certify that the information required by Article L. 225-37-4 of the French Commercial Code is included in the Board of Director’s report on corporate governance.

- **Other information**

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

Management and individuals responsible for corporate governance in relation to the parent company financial statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with French accounting principles and methods, and for such internal control as Management determines is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or that it will cease to operate.

The parent company financial statements have been approved by the Board of Directors.

Statutory Auditors' responsibilities for the audit of the parent company financial statements

Our role is to issue a report on the parent company financial statements. Our objective is to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions that users take on the basis of these parent company financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the Company or the quality of management of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit. Furthermore, the Statutory Auditor:

- Identifies and assesses the risks of material misstatement of the parent company financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the parent company financial statements;

- Assesses the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the parent company financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;

- Evaluates the overall presentation of the parent company financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Villeurbanne and Lyon, April 20, 2018

The Statutory Auditors

ODICEO	ERNST & YOUNG et Autres
Sylvain Boccon-Gibod	Nicolas Sabran

BOARD OF DIRECTORS' MANAGEMENT REPORT

AT DECEMBER 31, 2017

Leading personalized spine | medicrea.com

MEDICREA INTERNATIONAL

A French corporation *(société anonyme)* with share capital of €2,413,265.76
Registered office: 5389, route de Strasbourg – 69140 RILLIEUX-LA-PAPE
393 175 807 RCS LYON

BOARD OF DIRECTORS' REPORT ON THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017 SUBMITTED TO THE COMBINED SHAREHOLDERS' MEETING OF MAY 17, 2018

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

MEDICREA leads the design, integrated manufacture, and distribution of 30+ FDA approved implant technologies, utilized in over 150k spinal surgeries worldwide to date. Operating in a $10 billion marketplace, MEDICREA is an SME with 170 employees worldwide, which includes 37 at its USA Corp. subsidiary in NYC.

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

The Group is based in Rillieux-la-Pape, near Lyon, France, where it has its own a state-of-the-art implant and surgical instrument manufacturing facility, a manufacturing facility dedicated to the machining and development of 3D-printed, patient-specific implants, as well as four distribution subsidiaries in the US, UK and Poland, and Belgium since February 2018.

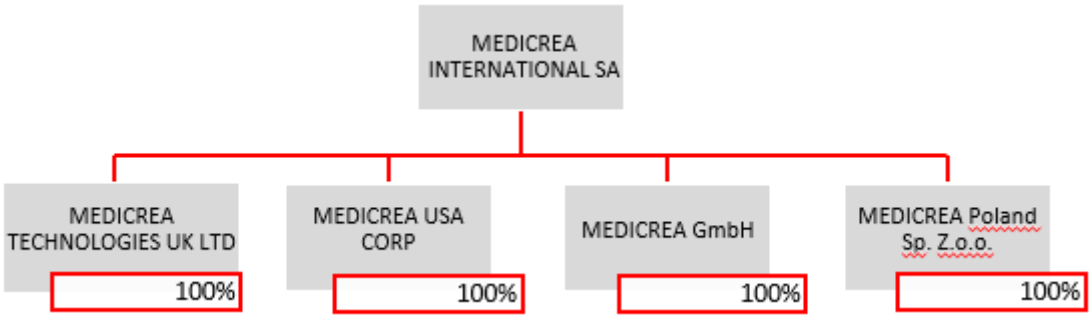
In accordance with the Law and the Bylaws, this Report contains a summary of the position and activity of MEDICREA Group and of the company MEDICREA INTERNATIONAL during the fiscal year ended December 31, 2017. The annual consolidated and parent company financial statements for the fiscal year are subject to the approval of the Shareholders' Meeting.

1. INFORMATION ABOUT THE GROUP

1.1. Group scope

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

At December 31, 2017, MEDICREA Group was structured as follows:



MEDICREA TECHNOLOGIES SAS was wound up with no liquidation process on November 30, 2017 via a decision of the sole shareholder, and merged into MEDICREA INTERNATIONAL.

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

1.2. Situation and development of activity over the fiscal year just ended

The following are the highlights of the 2017 fiscal year:

1.2.1 Market and environment

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

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

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

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

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

1.2.2 Results and performance

Sales reached a total of €27.1 million in 2017, a decline of 6% compared to 2016. Despite a 15% increase in sales on the French market, two factors put pressure on the development of the business activities:

- First, the need to reregister all of the Group's products with the Brazilian Healthcare Authorities, which resulted in no invoices in Brazil in 2017 (compared with the €2 million invoiced the previous year);

- Second, the reorganization of the sales force carried out in the United States, in order to focus marketing efforts on the development of the UNiD ASI™ patient-specific implant technology, which temporarily affected the level of the subsidiary's sales, including standard implants. However, this strategy is expected to pay off in the medium term with a 36% increase in the number of UNiD™ surgeries in 2017.

The gross margin, which is structurally high, amounted to 73%, a fall of 3 points compared with the previous fiscal year, as a result of significant use of sub-contracting, and of the temporary duplication of some positions as part of the transfer of the La Rochelle production site to the new site in Lyon. However, the gross margin ratio improved during the second half, and the trend is expected to continue in 2018.

Operating costs increased €0.6 million in comparison with 2016, linked to new building infrastructures coming into service in Lyon and New York, as well as the resources mobilized by the Group both in terms of R&D and sales and marketing efforts to promote its UNiD™ ASI products and services, notably the digital UNiD™ HUB accessible to surgeons for the planning of their patient-specific spinal surgeries.

In view of these factors, the operating loss before non-recurring expenses was €7.6 million compared with a loss of €4.5 million in the previous year.

Other non-recurring expenses, which amounted to €0.9 million, primarily included the costs relating to the court case that the Group launched against K2M Spine, Inc., and to the investigation conducted by the US Department of Justice (DOJ). Expenses were also incurred as part of the restructuring of the MEDICREA GMBH subsidiary, and of the reorganization of a portion of MEDICREA INTERNATIONAL's Management Committee.

The cost of net financial debt increased by €1.2 million, following the arrangement of a €15 million bond loan in August 2016, the interest on which applied through the entire 2017 fiscal year, compared with five months during the previous year.

Loss before tax amounted to €11.2 million, versus a loss of €7.8 million for the year ended December 31, 2016.

The Group had available cash of €12 million at December 31, 2017.

1.2.3 Product portfolio and research and development

MEDICREA is the first company in the spinal industry to offer a complete set of surgical planning services based on data and patient-specific implants. Over the course of 2017, the Company continued its expansion along this strategic axis and the fiscal year was marked by several major achievements.

UNiD™ osteosynthesis patient-specific rods

The Company expanded its range of UNiD™ patient-specific rods by offering a new implant tailored to minimally invasive percutaneous surgery. The first surgical procedure using a UNiD™ MIS patient-specific rod was thus performed in the United States in July 2017.

The Company also received FDA 510(k) clearance in August 2017 for surgical planning with UNiD™ HUB, its data-driven digital portal which provide surgeons with surgical strategy and predictive modeling functionality.

Lastly, in October 2017 MEDICREA published a major scientific white paper which shows that, relative to manually bent rods, patient-specific rods generated using Medicrea's UNiD™ ASI technology greatly reduce the incidence of postoperative rod breakage in adult complex spine surgical cases.

Patient-specific, 3D-printed interbody cages

The systematic approach to spinal column disorders implemented by MEDICREA, through its engineering services and in-house 3D printing resources, makes the Company a unique player and enables it to collaborate closely with surgeons to develop interbody devices that match their technical and clinical preferences.

In order to provide 3D printed, patient-specific interbody implants most suitable for both the patient's pathology and the surgeon's preferences, MEDICREA acquired three patents from Dr. Paul McAfee of University of Maryland St. Joseph's Medical Center, United States, relating to a methodology to measure anatomical parameters and to design the interbody devices used in spinal surgery. These three patents protect an innovative technique that helps to ascertain the physiological height of the intervertebral space by using the anatomy of the patient to accurately select the appropriate interbody device. As such, they enable MEDICREA to strengthen its UNiD™ ASI platform.

In September 2017, the research and development work of the MEDICREA teams came to fruition in the operating room. In September 2017, the Company announced the world's first 360-degree personalized spine surgery in London, U.K., which was completed utilizing a bespoke combination of patient-specific interbody cages and rods, manufactured in-house at the Company's new united production and headquarters campus in Lyon and generated by its proprietary UNiD™ ASI systems technology.

November 2017 marked a major step for the Group when MEDICREA announced it had secured FDA approval for its IB3D range of 3D-printed titanium interbody cages and the launch of AdapTEK, its adaptive technology meeting the specific needs of each surgeon. The first IB3D cages were fitted in the United States in January 2018.

Other products in the range

MEDICREA confirmed in June 2017 the extension of its portfolio of standard products for complex spinal pathologies with FDA clearance of its PASS® TULIP top-loading posterior fixation system. Fixation systems of this type are the global gold standard and the availability of this new product will allow the Group to reach a greater number of surgeons and offer them UNiD ASI™ technology regardless of their preferences in terms of instruments.

1.2.4 Organization

In January 2017, the Group completed the transfer of the factory from La Rochelle to its new Rillieux-la-Pape site. The number of employees who wanted to move to this new site was very low, which resulted in significant disruption to the organizational structure and operation of the new plant during the 1st half of 2017, and in the significant use of sub-contractors on a temporary basis. The situation gradually returned to normal over the 2nd half of the fiscal year.

The Group decided to change its distribution strategy in Germany in June 2017 and mothballed its MEDICREA GmbH subsidiary, which had been launched in 2016. All the transactions relating to the German market are now handled directly from the Head Office in Rillieux-la-Pape.

MEDICREA hired a new Sales Director and a Director of the UNiD ASI™ Platform in the United States in October 2017, as part of the implementation of its new commercial development model.

In November 2017, MEDICREA TECHNOLOGIES was dissolved without liquidation and absorbed by MEDICREA INTERNATIONAL. This decision was taken with a view to simplifying and rationalizing business flows.

Lastly, the Group entered into a partnership with its historical Belgian distributor in February 2018, by purchasing a 51% interest in a company newly founded for that purpose, called MEDICREA BELGIUM.

1.2.5 Financing

MEDICREA performed two capital increases with qualified French and US investors in June and December 2017, in an overall amount of over €20 million. The funds raised will be used to accelerate the development, mainly in the United States, of the UNiD™ ASI platform, to prepare for the commercialization of a new range of 3D-printed titanium interbody cages in the United States and Europe, and to continue extending the distribution network by setting up marketing subsidiaries.

1.2.6 Legal action

The Company and its American subsidiary were involved in two sets of legal proceedings in 2017:

Over the course of the fiscal year, the US Department of Justice (DOJ) opened an investigation to verify MEDICREA's compliance with applicable regulations regarding the transparency of the benefits granted to healthcare professionals, within the context of the Sunshine Act. The investigations carried out confirmed that the Company did comply with the obligations to which it was subject and the case is assumed to have been closed.

In November 2017, MEDICREA USA Inc. filed a lawsuit against K2M Spine, Inc., a rival company within the spinal market, and against several other individuals, before the New York District Court. These proceedings were initiated in response to the unlawful activities committed by K2M and these other persons during the financial year just ended.

MEDICREA has revolutionized spinal surgery with its innovative UNID™ technology, which is the first and only osteosynthesis patient-specific rod to date to have been approved in the United States and wanted to assert its rights in order to protect the Company, which is the leader in this market.

In February 2018, the New York District Court declared it did not have jurisdiction to hear this case, although it did recognize the merits of the complaint lodged by MEDICREA. The Company has decided not to pursue this matter for the time being.

2. REVIEW OF THE FINANCIAL STATEMENTS

The financial statements of MEDICREA Group at December 31, 2017 have been prepared in accordance with IFRS (International Financial Reporting Standards) in force within the European Union, pursuant to European Regulation n° 1606/2002 of July 19, 2002, and available at http://ec.europa.eu/internal_market/accounting/ias/index_en.htm.

The summarized financial statements are as follows:

2.1. Consolidated income statements (IFRS)

(€ K)	**12.31.2017**	**12.31.2016**
Sales	**27,148**	**29,375**
Cost of sales	(7,316)	(6,941)
Gross margin	**19,832**	**22,434**
Research & development costs	(2,017)	(1,064)
Sales & marketing expenses	(15,240)	(16,165)
Sales commissions	(2,776)	(3,426)
General and administrative expenses	(7,400)	(6,224)
Other operating income and expenses	(924)	(2,377)
Operating income before share-based payments	**(8,525)**	**(6,822)**
Share-based payments	(287)	(283)
Operating income after share-based payments	**(8,812)**	**(7,105)**
Cost of net financial debt	(2,249)	(1,085)
Other financial (expenses) / income	(171)	358
Tax (charge) / income	505	263
Consolidated net income/(loss)	**(10,727)**	**(7,569)**

2.2. IFRS consolidated balance sheet

(€ K)	**12.31.2017**	**12.31.2016**
Goodwill	2,627	2,629
Intangible assets	7,883	6,071
Property, plant and equipment	10,772	10,099
Non-current financial assets	686	938
Deferred tax assets	2,044	2,454
Total non-current assets	**24,012**	**22,191**
Inventories	9,813	8,727
Trade receivables	3,973	5,159
Other current assets	2,215	3,511
Cash and cash equivalents	11,981	8,063
Total current assets	**27,982**	**25,460**
Total assets	**51,994**	**47,651**

(€ K)	**12.31.2017**	**12.31.2016**
Share capital	2,413	1,605
Issue, merger and contribution premiums	60,567	42,448
Consolidated reserves	(30,463)	(22,403)
Group net income/(loss) for the year	(10,727)	(7,569)
Total shareholders' equity	**21,790**	**14,081**
Conditional advances	196	317
Non-current provisions	574	514
Deferred tax assets	860	1,408
Long-term financial debt	16,739	18,309
Total non-current liabilities	**18,369**	**20,548**
Current provisions	226	1,125
Short-term financial debt	4,387	3,602
Trade payables	4,673	6,001
Other current liabilities	2,549	2,294
Total current liabilities	**11,835**	**13,022**
Total shareholders' equity and liabilities	**51,994**	**47,651**

2.3. Comments on the consolidated income statement

The Group reported varied commercial performance over the 2017 fiscal year depending on the geographic area:

- In France, under stable market conditions, MEDICREA achieved sales of 6 million euros, up 15% compared to 2016 driven by the adoption of its UNiD™ ASI technology by a growing number of surgeons.

- Following the need to regain registration for all products in the range with the Brazilian health authorities and obtain validation of the new manufacturing facility, no sales were made in this market during 2017 (sales of 2 million euros in 2016). Since the authorizations were re-issued in December, the activity should return to a normative level from 2018. Excluding Brazil, the distribution business grew by 6%, generating sales of €3.6 million.

- In the United States, the Group's primary market, the commercial efforts in 2017 focused exclusively on the development of the UNiD™ ASI patient-specific implant technology and resulted in a 36% increase in the number of surgeries performed (472) compared to 2016, generating a revenue of $8.3 million ($7.2 million in 2016). Overall, sales in the U.S. were down 8% due to a downswing in the traditional sales activity with historic products, whose development no longer represent a strategic objective.

Gross margin was 73% over the 2017 fiscal year compared with 76% over the previous fiscal year. Structurally high, gross margin was negatively impacted during the period due to the use of outsourcing as well as the temporary increase in costs associated with the relocation of the La Rochelle production site to the new Rillieux-la-Pape campus. Gross margin should return to the usual normative level in 2018.

Operating costs decreased €0.9 million in comparison with 2016, following an increase of €0.8 million in the first half of 2017 linked to new building infrastructures coming into service in Rillieux-la-Pape and New York and to the resources mobilized by the Group to develop its UNiD™ ASI products and services, notably the digital portal UNiD™ Hub being made accessible to surgeons for the planning of their patient-specific spinal surgeries.

Within this context, operating loss for the 2017 fiscal year stood at €8.5 million, impacted by the temporary shortfall in sales recorded with Brazil and the temporary decrease in the gross margin rate.

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

Movements in exchange rates had no significant impact on operating revenue.

The cost of financial debt increased by €1.2 million in comparison with the 2016 fiscal year, primarily as a result of interest on the €15 million bond loan convertible into shares issued in August 2016 and IFRS rules used to account for those financial instruments.
Taking into account these factors and after recognition of the deferred tax charges primarily related to the capitalization of losses carried forward of the US subsidiary, there was a net loss of €10.7 million. The

Group does not pay any corporate tax and, for its fiscally-consolidated French subsidiaries, has substantial reserves of tax losses carried forward not recognized in its financial statements.

In accordance with the presentation method selected during the transition to IFRS, the research tax credit is recognized as a deduction from research and development expenditure (€0.9 million in 2017 compared with €1 million in 2016).

2.4. Comments on the consolidated balance sheet

Total assets were €52 million, an increase of €4.3 million compared with the previous fiscal year.

Non-current assets, which increased by €1.8 million, represented 46% of total assets.

Intangible assets grew €1.8 million due to continued research and development work in general, the purchase of three patents from Dr Paul McAfee, which protect an innovative technique that helps to ascertain the physiological height of the intervertebral space by using the anatomy of the patient, and the development of UNiD ™ HUB, a proprietary, data-driven surgical planning software package, which was implemented in October 2017

The €0.6 million increase in property, plant and equipment was primarily due to the completion of installation and development works involving video and IT equipment at the new headquarters in Rillieux-la-Pape and MEDICREA USA's offices in New York.

The €0.4 million decrease in deferred tax assets was directly related to consolidation adjustments and changes to tax regulations concerning the US subsidiary.

Within current assets, net inventories increased by €1.1 million in comparison with 2016, after taking into account a €0.7 million increase in impairment provision. The Group experienced a major industrial reorganization in 2017, due to the transfer of its production plant from La Rochelle to Rillieux-la-Pape, which resulted in a large number of organizational changes and to the significant use of sub-contractors on a temporary basis. These factors, combined with a decrease in sales due to the economic environment, had an adverse effect on inventories. The Group has taken these problems into account, and a new industrial and logistics organizational structure based on managing the inventories on a pull-flow principle is currently being introduced, and is expected to produce its initial beneficial effects as from the 2nd quarter of 2018. Impairment charges accounted for 26% of the average gross amounts at December 31, 2017, compared with 24% at December 31, 2016.

Trade receivables decreased due to lower sales and good control of average days sales outstanding, which was 55 days at December 31, 2017, compared with 53 days one year earlier.

The €1.3 million reduction in other current assets was due to lower tax receivables still to be recovered and by a fiscal year cut-off effect related to the recognition of rents.

The strengthening of the net cash position is directly related to the share capital increase completed in December 2017.

Shareholders' equity stood at €21.8 million at the end of 2017. The change in relation to 2016 was due to the share capital increases completed in 2017 and the recognition of a net loss over the fiscal year.

Provisions include retirement severance payments as well as various liabilities for salary disputes.

Gross financial debt stood at €21 million, €1 million lower than in 2016 as a result of repayments made during the 2017 fiscal year under existing amortization schedules, and IFRS recognition procedures for the €15 million bond loan taken out in August 2016.

The fall in deferred tax liabilities was mainly related to consolidation adjustments.

Trade payables returned to a normative level and stood at €4.7 million, down €1.3 million in relation to the previous fiscal year as a result of the extensive use of subcontracting in late 2016, to offset the effects of the closure, in two stages, of the La Rochelle factory, and the gradual ramp-up of the workload at the new site in Rillieux-la-Pape.

Other current liabilities totaled €2.5 million at the end of 2017, relatively stable compared with 2016 and mainly comprised of tax and social security liabilities.

3. DEVELOPMENT AND FUTURE PROSPECTS

MEDICREA started the 2018 fiscal year with fresh momentum. Sales for the first quarter of 2018 totaled €8.2 million, up 25% at constant exchange rate compared with the first quarter of 2017.

In the United States, following a mixed 2017 fiscal year the reorganization of the sales force is starting to bear fruit with a visible impact in the first quarter of 2018 on the evolution of the activity. In dollars, sales amounted to $4.4 million, an increase of 7% compared to the first quarter of 2017. Driven by the increase in the number of personalized surgeries (up 60%), the revenue generated by the UNiD ASI™ technology platform increased by 40% compared to the first quarter of the previous year and now represents 55% of total sales.

Outside of the United States, revenue jumped by 45%, supported by continued gains in market share in France where MEDICREA has become a leading player, and the launch of a new distribution subsidiary in Belgium in February 2018.

MEDICREA is developing its business by opening new markets, both through new distribution agreements and the launch of newly-formed marketing subsidiaries.

In February 2018, MEDICREA signed a joint venture agreement with its historical distributor in Belgium. As such, MEDICREA INTERNATIONAL owns a 51% stake in a newly created company, MEDICREA BELGIUM, which now distributes the Group's products on the Belgian market. Over the next 4 years, MEDICREA INTERNATIONAL will gradually increase its investment in MEDICREA BELGIUM with the aim of owning its subsidiary in full by the end of 2022.

Using a very similar model, the subsidiary MEDICREA AUSTRALIA was created in April 2018. As a result, the Group has established itself in a rapidly growing market which is also one of the most profitable in the world.

The Group is expanding its product portfolio with the marketing in the United States of internally 3D-printed titanium interbody cages since January 2018, and over the course of the fiscal year will provide new solutions and services for personalized spinal surgery.

4. INFORMATION RELATING TO SUBSIDIARIES AND INVESTMENTS

The corporate results of the subsidiaries and significant comments on activity over the 2017 fiscal year are presented below:

4.1. MEDICREA INTERNATIONAL SA

Information about the company MEDICREA INTERNATIONAL SA is identical to that provided in Paragraph 9 of this Report.

4.2. MEDICREA TECHNOLOGIES SAS

MEDICREA TECHNOLOGIES was wound up with no liquidation process on November 30, 2017 and merged into MEDICREA INTERNATIONAL. MEDICREA TECHNOLOGIES' 2017 fiscal year, before the transfer of its assets to MEDICREA INTERNATIONAL, therefore includes 11 months to be compared with a 12-month fiscal year in 2016.

(€ K)	**2017 (11 months)**	**2016**	**2015**
Sales	3,024	7,610	7,806
Operating income	8	(71)	330
Net financial income / (expense)	11	4	8
Net exceptional income/(expense)	50	(1,202)	31
Net income / (loss)	69	(1,249)	265
Workforce size (excluding trainees)	-	28	30

The change in sales between 2017 and 2016 is analyzed by customer as follows:

(€ K)	**2017 (11 months)**	**2016**	**Change**
MEDICREA INTERNATIONAL	2,233	6,792	-67%
Repair center	790	788	+0%
Other	1	30	N/S
Sales	**3,024**	**7,610**	**-60%**

The 2017 and 2016 fiscal years are different in terms of duration and type of activity, with the Group's entire production having been transferred to MEDICREA INTERNATIONAL in its Rillieux-la-Pape factory in January 2017. 2017 sales made through MEDICREA INTERNATIONAL are primarily comprised of the sale of inventories of raw materials and semi-finished products that were still held by MEDICREA TECHNOLOGIES at the end of the transfer. Sales from February to November 2017 were made exclusively through the repair center.

4.3. MEDICREA USA CORP

(€ K)	2017	2016	2015
EUR/USD exchange rate	1.125	1.106	1.115
Sales	16,001	17,656	16,342
Operating income	(4,080)	(2,016)	(1,486)
Net financial income / (expense)	(121)	14	3
Net income / (loss)	(4,201)	(2,002)	(1,634)
Workforce size (excluding trainees)	37	42	30

Sales for the 2017 fiscal year fell 9.4% (7.8% at constant exchange rates). This decrease was due to the concentration of marketing efforts on developing the UNiD™ ASI patient-specific implant technology to the detriment of the traditional business. As such, teams have been mobilized to roll out solutions and services that enable surgeons to offer patients completely personalized treatment solutions. This refocusing effort had a visible impact on the number of UNiD™ patient specific procedures carried out in 2017, which grew by 36% in comparison with 2016 and generated revenue of €8.3 million.

In dollars, operating costs stood at $14.4 million compared to $15.3 million in 2016, representing a fall of $0.9 million, despite the strategic recruitments in late 2017 of a new Executive Vice-President of Sales and a new Executive Vice-President of the UNiD™ ASI platform.

Against this backdrop of strategic shift, the operating loss was €4.2 million in 2017, compared with a loss of €2 million for the previous fiscal year.

4.4. MEDICREA TECHNOLOGIES UK LTD

(€ K)	2017	2016	2015
EUR/GBP exchange rate	0.873	0.813	0.728
Sales	468	522	833
Operating income	(486)	(784)	(333)
Net income / (loss)	(406)	(703)	(229)
Workforce size (excluding trainees)	6	7	6

The 2017 fiscal year fell short of Group expectations and the potential of the UK market. Despite a large and innovative product portfolio, MEDICREA was unable to convert new surgeons and actually saw its revenue fall 4% in the local currency. A new sales structure was implemented at the start of 2018. The Group hopes to rediscover positive momentum in the UK from the 2nd half-year thanks to a more honed strategy of targeting hospitals.

4.5. MEDICREA GMBH

(€ K)	2017	2016	2015
Sales	121	66	-
Operating income	(323)	(782)	(206)
Net income / (loss)	(331)	(786)	(206)
Workforce size (excluding trainees)	-	5	2

The Company, which was created in 2015, did not achieve the development objectives the Group was expecting. Since then, the Company has been mothballed and the German operations are now being conducted via a new distributor.

4.6. MEDICREA POLAND

(€ K)	2017	2016
EUR/PLN exchange rate	4.262	4.362
Sales	121	0
Operating income	(222)	(27)
Net income / (loss)	(224)	(27)
Workforce size (excluding trainees)	3	2

MEDICREA POLAND's 2017 fiscal year was marked by the launch of the subsidiary with the recruitment of two sales representatives responsible for promoting MEDICREA products within strategic hospitals in the country. A third person has also been hired to oversee day-to-day administrative and logistics management with the primary task of bidding for various tenders.

The development strategy has been paying off since the first fiscal year, with sales of €121K generated as a result of 13 hospitals listing the Group's products. 8 tenders were secured from leading hospitals in 2017 and will have a significant impact on sales growth in 2018. The sales team will also be strengthened in order to intensify presence on the ground and further target healthcare facilities.

5. RESEARCH AND DEVELOPMENT ACTIVITIES

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

(€ K)	2017	2016	2015	2014	2013
Capitalized R&D costs	1,892	2,281	1,886	1,069	1,017
Expensed R&D costs (1)	2,914	2,055	1,960	1,893	1,729
- of which amortization charge of R&D costs	(1,492)	(1,284)	(993)	(904)	(842)

(1): before allocation of the Research Tax Credit

In June 2017, MEDICREA confirmed the extension of its portfolio of products for complex spinal pathologies with FDA clearance of its PASS ® TULIP top-loading posterior fixation system. The Company also received FDA 510(k) clearance for surgical planning with UNiD™ HUB, its data-driven digital portal for the Company's ASI – Adaptive Spine Intelligence – which provide surgeons with surgical strategy and predictive modeling functionality.

In November 2017, MEDICREA secured FDA approval for its IB3D range of 3D-printed titanium interbody cages and launched AdapTEK, its adaptive technology meeting the specific needs of each surgeon.

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 by surgeons and patients alike.

6. SOCIAL AND ENVIRONMENTAL INFORMATION

6.1. Corporate information

At December 31 2017, the Group's workforce comprised 172 employees, including 2 part-time, 1 on a skills-training contract and 1 on an apprenticeship, as well as several interns for whom contracts are signed throughout the year.

126 people are employed in France, 37 work for the US subsidiary, 6 for the UK subsidiary and 3 for the Polish subsidiary. The German subsidiary no longer employs any staff.

The average gross salary for the 2017 fiscal year stood at €5,719 (€6,010 in 2016). Excluding the remuneration of employees of the US subsidiary, the average gross salary was €4,778 (€4,471 in 2016).

The gender breakdown by staff category is as follows:

	12.31.2017			12.31.2016		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Executives	50	34	84	53	31	84
Supervisors - Employees	51	37	88	51	34	85
Total	**101**	**71**	**172**	**104**	**65**	**169**

6.1.1 Training

Payments made to collecting bodies for continuous in-service training amounted to €128,689 in 2017 (€62,900 in 2016) for the French companies, amounts that were used in full to train Group employees and were higher than the legal training obligation.

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

6.1.2 Safety

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

A comprehensive risk management assessment has been prepared and is updated annually.
By virtue of its medical device design and manufacturing operations, the Group is also subject to Public Health Code regulations.

6.1.3 Staff retention

Employees of MEDICREA INTERNATIONAL have access to a Group Savings Plan, thereby entitling them to subscribe for Company shares. potentially supplemented by an employer contribution of 50% on the occasion of any share capital increase. There was no share capital increase reserved for employees during the 2017 fiscal year.

In addition, in 2017 the Board of Directors made use of the delegation granted to it by the Shareholders' Meeting of June 15, 2017 and November 8, 2017 by allocating 160,000 and 500,000 share subscription options to French and American employees, respectively.

Since MEDICREA INTERNATIONAL is in a tax loss situation, mechanisms for legal employee profit-sharing do not apply.

6.1.4 Subcontracting

As part of its manufacturing business, the Group relies on a network of qualified subcontractors and currently has no facilities in controlled environments such as cleanrooms. The ultra-clean processing and the sterilization using gamma irradiation of sterile products are also subcontracted. The use of subcontracting increased sharply in relation to the previous fiscal year following the transfer and two-step shut down of the La Rochelle production unit, and the need to continue to guarantee supplies to customers and to ensure their requirements were met. In early 2017, the new site at Rillieux La Pape secured the necessary certification to operate the factory. Purchases of components during the 2017 fiscal year totaled €3 million (€3.4 million in 2016).

6.2. Environmental information

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

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

Moreover, the legislative and regulatory provisions defined by ANSM (French National Drug Safety Authority), the European Commission, the FDA and regulatory and health authorities in the other countries where the Group markets its products, provide a very strict framework for activities involving the design and manufacture of medical devices. They set the essential safety requirements and define the assessment and compliance procedures that are integrated into the quality management system. These very strict rules have implications at every level of the Group and help to strengthen the measures taken to keep the industrial assets in optimum condition for use and in compliance with the applicable standards.

7. RISKS

7.1. Risks associated with the Company's business

The spinal surgery market is highly competitive. Powerful players have extensive distribution networks enabling them to sell standard products from their ranges and restrict market access for smaller companies seeking to distribute their innovations.

This market is also highly concentrated, for the most part localized to the US, with 10 leading players who share approximately 80% of the global market, and who enjoy considerable financial resources to conduct ambitious research and development programs for new products and ensure their future commercialization, as well as firmly established relations with both surgeons and healthcare facilities.

7.2. Regulatory environment risks

The products manufactured and distributed by the Group are subject to strict and increasingly stringent regulations. Medical devices can only be marketed in Europe if they bear the CE mark which guarantees compliance with the essential health and safety requirements defined by regulations. Marketing of the products in countries other than those in the European Union also necessarily involves specific procedures for obtaining the authorizations required, notably in the United States, a priority country for the development of the Group's operations. In this way, the US market is governed by the regulations laid down by the Food and Drug Administration (FDA). The marketing of medical devices on this market may, according to device class, be subject to 510K procedures or pre-authorization applications required by the FDA (PMA). These authorization application processes can be long and costly. FDA authorizations may also be subsequently suspended, and the FDA may require product recalls, prohibit sales or seize products. These draconian measures are often related to serious problems identified when the products are used (case of vigilance) or following inspections of companies.

The departments in charge of quality assurance have been continually strengthened since 2012, notably in relation to the monitoring of international standards and to regulatory requirements.

Two certification audits were successfully completed by LNE/G-MED (Group for the Assessment of Medical Devices) in October 2016 and March 2017 for the renewal of CE certification, and by the FDA (Food and Drug Administration) in February 2017 for the marketing of implants in the United States. These audits specifically confirmed the level of expertise in the various skills used within the Group, with areas for further improvement, in particular in the field of formally setting out "good practices".

7.3. Risks associated with the malfunction of industrial processes

The Group's quality assurance system includes procedures intended to detect any non-compliant products, internally or externally, in accordance with regulatory requirements. These procedures are integrated into a non-conformity management system known as CAPA (Corrective Action & Preventive Action). This system enables 1) a case of non-compliance to be identified and declared, 2) all the investigations related to analyzing the causes and risks to be recorded, 3) any non-compliance to be addressed and 4) the effectiveness of the action taken to rectify the instance of non-compliance to be measured.

Non-conformities can be identified internally throughout the design process, as part of the manufacturing of medical devices, during pre-release/release inspections, during (external or internal) audits or regulatory inspections, or reported by end users or customers.

In addition, any incidents affecting patients and/or users are stipulated in the regulatory framework of medical device vigilance, which describes how to report an issue to the competent authorities.

Every incident is analyzed using the CAPA system in order to reduce risks and prevent issues recurring. Risk management reviews are implemented within the Company to detect and assess any problem.

All these procedures to record and analyze defective or potentially defective products therefore allow MEDICREA Group to continually improve in order to reduce product related risks wherever possible. Nevertheless, a lack of compliance with applicable standards could result in suspension or withdrawal of CE certification and other accreditation delivered by a competent health authority, thus preventing the product concerned from being sold.

7.4. Intellectual property risks

The Group's commercial success depends on its ability to acquire, maintain and protect its patents and other intellectual property rights. In the field of medical devices for spinal column surgery, patent law continues to evolve and is subject to uncertainties. When a patent is filed, other patents may already have been filed but not yet published.

Thus, the granting of a patent guarantees neither validity nor applicability, which can both be challenged by third parties.

As a result, the Group cannot guarantee:

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

Moreover, the trend in the medical and surgical equipment industry is towards an increase in disputes and litigation in the field of industrial and intellectual property. Consequently, any action brought against the Group could result in substantial costs and have a significant impact on the development of its business.

7.5. Litigation risk

The Group believes that the provisions allocated to cover the disputes or litigation known at the year-end are sufficient to avoid its consolidated net worth being materially affected in the event of an unfavorable outcome.

7.6. Risks related to changes in raw material prices

Implant manufacture requires purchasing specific materials such as titanium, cobalt chromium and PEEK. As suppliers of these raw materials are few in number, the Group is subject to changes in market price which are difficult to predict or control, and which could have a negative impact on its financial performance.

Purchases of these materials are not the subject of hedging contracts. They account for a relatively small part of the cost price of products manufactured (approx. 5%). As such, fluctuations, both upward and downward, in the price of these raw materials would only have a limited impact on the Group's profitability.

7.7. Risks associated with changes to medical device reimbursement policies

Against a backdrop of low economic growth in most global regions, governments and other third party payers (private health insurance cover, healthcare management organizations) are actively working to contain healthcare costs by limiting and/or reducing cover and the reimbursement rate for medical devices and surgical procedures. It is likely that new measures aimed at regulating health reimbursement systems and controlling healthcare spending (especially in France and the rest of Europe) could be integrated into governments' finance laws and legislative proposals in the coming years.

7.8. Liquidity risks

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

The financial resources secured following fundraising transactions total approximately €72.9 million, as detailed in the table below:

Date	Nature	Amount (€)
June 2006	Share capital increase by means of a public offering	11,587,604
December 2007	Share capital increase	7,000,002
November 2008	Share capital increase	1,155,928
April 2009	Issue of new shares with share warrants	1,176,000
May 2009	Issue of new shares with share warrants	767,621
June 2009	Share capital increase	621,942
December 2009	Share capital increase	1,395,608
December 2009	Exercise of share warrants	582,831
May 2010	Issue of bonds redeemable in new shares	1,928,624
June 2010	Share capital increase	594,740
November 2011	Issue of new shares with share warrants	1,534,500
August 2012	Share capital increase	762,000
June 2015	Share capital increase through private placement	3,543,697
August 2016	Issue of bonds convertible into new shares	15,000,000
August 2016	Share capital increase through private placement	4,999,983
June 2017	Share capital increase through private placement	13,000,003
December 2017	Issue of new shares with share warrants	7,216,957
Total		**72,868,040**

These fund-raising transactions totaling have significantly reduced this liquidity risk and have given the Group the necessary resources to implement its expansion strategy, create new subsidiaries and launch new products.

7.9. Foreign exchange risks

Most of the Group's supplies are denominated in Euros. Sales to US, UK and Polish subsidiaries are made in local currencies, the products then being sold in these markets in the country's functional currency. As a result, subsidiaries are not exposed to an exchange rate risk on purchases but MEDICREA INTERNATIONAL, the Group's parent company, is exposed to an exchange risk on part of its foreign currency-denominated sales, which it hedges against as opportunities arise, mostly by setting up forward sales transactions.

7.10. Interest rate risks

At December 31, 2017, all loans carried a fixed rate.

7.11. Share risks

Any available cash surpluses are exclusively invested in risk-free marketable securities or open-ended mutual funds (SICAV).

7.12. Inflation risks

Group companies do not operate in states with hyper-inflationary economies.

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

The Group generated 59% of its 2017 consolidated sales in dollars through its subsidiary MEDICREA USA. This proportion should increase over the coming years, with dollar-denominated sales that could potentially represent almost two-thirds of consolidated Group sales.

The US, UK and Polish subsidiaries are invoiced in their functional currency when they are able to settle its trade liabilities owed to the parent company, and foreign exchange hedges have been put in place to cover the risk of fluctuation in the corresponding currencies (mainly dollars).

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

In 2017, the dollar has gone up by less than 2% compared to the 2016 average rate and had no material impact on sales and operating income before share-based payments.

A 15% appreciation of the dollar against the Euro, applied to 2017 data, would result in a €2.4 million increase in Group sales and an increase of approximately €0.2 million in operating income based on the results generated by the US subsidiary over the fiscal year 2017, as all its purchases and overheads are denominated in dollars.

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

7.14. Warranties on UNiD products

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

Since the launch of this lifetime warranty across the United States, no activation request has been recorded. On this basis, the Group did not recognize any provision in its financial statements at December 31, 2017 and, depending on all the data collected in 2018, it will assess whether or not it is necessary to review its position at December 31, 2018.

8. SIGNIFICANT EVENTS THAT OCCURRED BETWEEN THE YEAR-END AND THE DATE OF THE REPORT

No significant event has occurred since the end of the fiscal year other than the creation of MEDICREA BELGIUM mentioned in Paragraph 3.

9. INFORMATION ON THE PARENT COMPANY

9.1. Situation and development of activity over the fiscal year just ended

Details pertaining to the overall background and economic context are provided in paragraph 1 of the Board of Directors' report on the Group.

MEDICREA INTERNATIONAL's financial statements at December 31, 2017 have been prepared pursuant to French generally accepted accounting principles.

The summarized financial statements are as follows:

9.1.1 Income statement

(€ K)	**12.31.2017**	**12.31.2016**
Sales	15,933	14,071
Finished products and work in progress	3,421	290
Own work capitalized	2,067	2,131
Operating grants	13	5
Provision reversals and transfers of charges	353	65
Other revenue	16	32
Operating revenues	**21,803**	**16,594**
Purchases consumed, subcontracting and other supplies	(7,309)	(3,664)
Other external purchases and charges	(7,780)	(6,486)
Taxes and duties	(564)	(235)
Wages and salaries	(5,730)	(3,489)
Social security costs	(2,403)	(1,442)
Amortization and depreciation charges	(3,424)	(2,079)
Provision charges	(898)	(1,525)
Other expenses	(626)	(753)
Operating expenses	**(28,734)**	**(19,673)**
Operating income	**(6,931)**	**(3,079)**
Financial income	282	2,134
Financial expenses	(5,015)	(9,672)
Net financial income / (expense)	**(4,733)**	**(7,538)**
Income/(loss) before tax	**(11,664)**	**(10,617)**
Exceptional income	682	12
Exceptional expenses	(597)	(1,171)
Net exceptional income/(expense)	**85**	**(1,159)**
Corporate tax	897	970
Net income / (loss)	**(10,682)**	**(10,806)**

9.1.2 Balance sheet

(€ K)	**12.31.2017**	**12.31.2016**
Intangible assets	6,651	5,400
Property, plant and equipment	6,170	4,842
Non-current financial assets	7,831	12,019
Non-current assets	**20,652**	**22,261**
Inventories	8,953	5,979
Trade receivables	3,360	2,413
Other receivables	10,004	12,211
Cash and cash equivalents	11,677	7,701
Current assets	**33,994**	**28,304**
Total assets	**54,646**	**50,565**

(€ K)	**12.31.2017**	**12.31.2016**
Share capital	2,413	1,605
Reserves	35,335	28,026
Net income for the year	(10,682)	(10,806)
Shareholders' equity	**27,066**	**18,825**
Conditional advances	196	318
Other equity	**196**	**318**
Long-term financial debt	17,346	19,811
Non-current liabilities	**17,346**	**19,811**
Provisions for liabilities and charges	139	276
Short-term financial debt	3,545	2,716
Group and associates	-	1,021
Trade payables	3,956	6,074
Other liabilities	2,398	1,524
Current liabilities	**10,038**	**11,611**
Total shareholders' equity and liabilities	**54,646**	**50,565**

9.1.3 Comments on the income statement

MEDICREA INTERNATIONAL is the parent company of MEDICREA Group. It markets its products through a network of distribution subsidiaries and via independent distributors in more than thirty countries.

MEDICREA USA, MEDICREA TECHNOLOGIES UK, and MEDICREA POLAND buy directly and solely from MEDICREA INTERNATIONAL. MEDICREA EUROPE FRANCOPHONE, a subsidiary that distributed the products on the French market, was absorbed into MEDICREA INTERNATIONAL in late 2016 via the transfer of all assets and liabilities in order to simplify the business structure.

Until January 2017, MEDICREA INTERNATIONAL acquired the vast majority of its production purchases from its subsidiary MEDICREA TECHNOLOGIES, which owned the La Rochelle factory. The latter was gradually relocated over the course of the 2016 and 2017 fiscal years to the new Rillieux-la-Pape site, which now houses all the Group's operations in France. The La Rochelle factory was permanently closed in January 2017 and MEDICREA TECHNOLOGIES was absorbed via the transfer of all its assets and liabilities to MEDICREA INTERNATIONAL on November 30, 2017 in order to streamline the organizational structure. MEDICREA INTERNATIONAL secured all the necessary regulatory certifications authorizing it to manufacture on its new site, thereby becoming a manufacturer of medical devices for the spinal column in its own right.

The change in sales between 2017 and 2016 is analyzed by customer as follows:

(€)	**2017**	**2016**	**Change**
MEDICREA USA	5,619,069	7,348,225	(24)%
MEDICREA POLAND	656,182	24,997	N/S
MEDICREA TECHNOLOGIES	160,585	941,587	(83)%
MEDICREA TECHNOLOGIES UK	(17,401)	161,856	(111)%
MEDICREA GMBH	(168,768)	364,421	(146)%
MEDICREA EUROPE FRANCOPHONE	-	106,307	(100)%
Total intra-Group sales and rebillings	**6,249,667**	**8,947,393**	**(30)%**
Public hospitals	3,961,527	-	+ 100%
Distributors	3,590,990	5,082,746	(29)%
Private hospitals	2,000,546	-	+ 100%
Repair center	76,444	-	+ 100%
Other	53,830	40,911	+ 32%
Net sales	**15,933,004**	**14,071,050**	**+ 13%**

Sales made via the Company's subsidiaries fell by almost 30% in comparison with the previous fiscal year due to both the transfer of assets and liabilities completed in late 2016 with MEDICREA EUROPE FRANCOPHONE and late 2017 with MEDICREA TECHNOLOGIES, and the mothballing effect related to the subsidiary MEDICREA GMBH during 2017.

The sales generated with international distributors, public and private hospitals in France, and the customers of the repair center, which reflect MEDICREA INTERNATIONAL's direct marketing activities, increased by 13% although the trends were mixed depending on the geographical regions:

In France, under stable market conditions, MEDICREA INTERNATIONAL achieved sales of €6 million in 2017, up 15% compared to the 2016 performance of MEDICREA EUROPE FRANCOPHONE, driven by the adoption of its UNiD™ ASI technology by a growing number of surgeons.
In export markets and with distributors, and following the need to regain registration for all products in the range with the Brazilian health authorities and obtain validation of the new manufacturing facility, no sales were made in this market during 2017 (sales of €2 million in 2016). Since the authorizations were re-issued in December, the activity should return to a normative level from 2018. Excluding Brazil, the distribution business grew by 6%, generating sales of 3.6 million euros.

In France, under stable market conditions, MEDICREA INTERNATIONAL achieved sales of €6 million in 2017, up 15% compared to the 2016 performance of MEDICREA EUROPE FRANCOPHONE, driven by the adoption of its UNiD™ ASI technology by a growing number of surgeons.

The 2017 payroll grew significantly in comparison with the previous fiscal year (up 65%). The change in headcount primarily reflects the consolidation of the Group's French business activities at a single site, and within the same company.

Amortization and depreciation charges grew €1.3 million in correlation with the significant investments made by the Company in recent fiscal years, notably research and development, and fixtures and fittings at the new headquarters, which have been in service since the 4th quarter of 2016. Net provision charges were down €0.6 million in relation to the previous fiscal year, taking account of the reversal of implant inventory impairment recognized in 2017.

Taking into consideration the points specified above, 2017 operating loss was €6.9 million, compared with an operating loss of €3.1 million in 2016.

The net financial expense was €4.7 million due to the €1.2 million cost of financial debt, €2.6 million of equity security and current account impairment (mothballing of MEDICREA GMBH and difficulties of MEDICREA TECHNOLOGIES UK), and €1 million of negative exchange rate effects.

Ultimately, after a research tax credit of €0.9 million was taken into account, a net loss of €10.7 million was recorded, against a net loss of €10.8 million in 2016.

9.1.4 Comments on the balance sheet

Total assets were €55 million, an increase of €4 million compared with the end of 2016.

Non-current assets represented 38% of total assets, compared with 44% in 2016. The main changes related to the effects of the transfer of MEDICREA TECHNOLOGIES' assets and liabilities to MEDICREA INTERNATIONAL for a total negative amount of €3.2 million, the capitalization of research and development costs for the period for a gross amount of €1.8 million, the acquisition of 3 patents for €0.6 million, the relocation of the manufacturing facility from the La Rochelle factory to the new complex in Rillieux-la-Pape for an overall amount of €0.6 million, the completion of fixtures and fittings at the new headquarters for €1 million as well as the write-down of all the MEDICREA TECHNOLOGIES UK and MEDICREA GMBH shares for €0.8 million.

Inventories rose 50% in comparison with the previous fiscal year primarily as a result of the recovery of the MEDICREA TECHNOLOGIES inventories following its absorption.

The €0.9 million increase in trade receivables breaks down between a €1.4 million increase in Group receivables as a result of the transfer of all of the receivables held against the US subsidiary MEDICREA USA to the current account at December 31, 2016, and a €0.5 million decrease in non-Group receivables primarily due to the temporary shortfall in sales made with Brazil.

Other liabilities fell by €2.2 million after recognition of the write-down of all the current accounts of the subsidiaries MEDICREA TECHNOLOGIES UK and MEDICREA GMBH.

The strengthening of the net cash position is related to the share capital increase completed in December 2017 to qualified US investors.

Shareholders' equity was €27.1 million at the end of 2017, up €8.3 million compared with 2016. This change was due to the share capital increases completed in June and December 2017 for an overall net amount of €19 million following deduction of costs on the issue premium, offset by the loss of €10.7 million over the 2017 fiscal year.

Financial debt fell €1.6 million due to the repayments made during the fiscal year as part of existing amortization schedules.

Other current liabilities (excluding financial debt and inter-group current accounts) stood at €6.5 million, down €1.4 million in relation to December 31, 2016 and mainly due to the fall in trade payables which, having grown significantly at the end of last year given the temporary use of subcontracting, returned for a more normative level.

Pursuant to the provisions of Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, information on supplier and customer payment terms is as follows:

	Article D. 441 I. – 1°: Invoices received, unpaid at December 31, 2017					
Trade payables	**0 days**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 days or more**	**Total 1 day or more**
(A) Late payment ranges						
Number of invoices concerned	**505**					**333**
Total value of invoices concerned exc. VAT	**€1,044,732**	€1,262,238	€331,500	€30,693	€151,595	**€1,776,026**
% of total value of purchases exc. VAT over the fiscal year	**7%**	**8%**	**3%**	**0%**	**1%**	**12%**
(B) Invoices excluded from (A) relating to contested or unrecorded trade payables						
Number of invoices excluded	**0**					**0**
Total value of invoices excluded exc. VAT	**0**					**0**
(C) Payment terms used						
Payment terms used for calculating late payments	**Contractual terms**					

	Article D. 441 I. – 2°: Invoices issued, unpaid at December 31, 2017					
Trade receivables	**0 days**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 days or more**	**Total 1 day or more**
(A) Late payment ranges						
Number of invoices concerned	**1,146**					**315**
Total value of invoices concerned exc. VAT	**€2,879,936**	€25,757	€65,203	€24,249	€28,585	**€373,794**
% of sales exc. VAT for the year	**18%**	**2%**	**0%**	**0%**	**0%**	**2%**
(B) Invoices excluded from (A) relating to contested or unrecorded trade receivables						
Number of invoices excluded	**14**					
Total value of invoices excluded exc. VAT	**€30,145**					
(C) Payment terms used						
Payment terms used for calculating late payments	**Contractual terms**					

9.2. Development and future prospects

Company growth is directly related to that of the Group, the main trends of which are summarized in paragraph 2 of the Board of Directors' report on the Group.

9.3. Information relating to subsidiaries and investments

Information pertaining to subsidiaries and equity investments is identical to that provided in paragraph 4 of the Board of Directors' report on the Group.

9.4. Research and development activities

Progress in research and development is discussed in paragraph 5 of the Board of Directors' report on the Group.

9.5. Stock market performance

The share has been covered by a market-making contract in partnership with Louis Capital Markets UK LLP since November 2017. The market-making contract was previously managed by the company Gilbert Dupont. The share is listed on Euronext Growth, under the ISIN code FR004178572 and the ticker ALMED.

Major stock market data is analyzed as follows:

	2017	2016	2015
Number of shares at December 31	15,082,811	10,033,067	8,987,588
High price	6.37	7.04	9.34
Low price	2.86	4.33	6.31
Average price for the period	4.51	5.46	7.75
Share price at 12/31	3.00	5.40	6.78
Market capitalization at 12/31	€45,248,433	€54,178,562	€60,935,847
Trading volume	3,000,160	1,937,451	1,638,981
Capital turnover rate	19.9%	20.18%	18.2%

9.6. Report on own share transactions carried out by the Company during the year

Pursuant to the provisions of Article L. 225–211 sub-paragraph 2 of the French Commercial Code, and as part of the authorizations given by the Combined Shareholders' Meetings of June 7, 2016 and June 15, 2017, the Company carried out the following transactions concerning its own shares during the fiscal year ended on December 31, 2017:

- number of shares bought during the fiscal year:	115,632
- number of shares sold during the fiscal year:	113,844
- average price of the purchases:	€5.01
- average price of the sales:	€5.00
- trading fees:	Nil
- number of shares registered in the Company's name at December 31, 2017:	4,438
- value based on the purchase price:	€13,314
- par value of shares:	€0.16
- fraction of share capital represented:	Negligible

These transactions were conducted by the brokers Gilbert Dupont until October 31, 2017, and from November 1, 2017 by Louis Capital Markets, two investment services providers, as part of the liquidity contract drawn up in accordance with the Ethics Code of the AMF.

9.7. Senior executives' threshold crossings, holdings, treasury shares and securities transactions

9.7.1. Information pertaining to the share capital and threshold crossings

Pursuant to the provisions of Article L. 233-13 of the French Commercial Code, and based on the information received pursuant to Articles L. 233-7 and L. 233-12 of said Code, we hereby disclose, as of December 31, 2017:

- the identity of shareholders who directly or indirectly hold more than 5%, 10%, 15%, 20%, 25%, 33.33%, 50%, 66.66%, 90% and 95% of the authorized share capital or voting rights at Shareholders' Meetings.

Furthermore, it should be noted that the statutory provisions impose an obligation to inform if an increase or decrease in the equity holding threshold of 2% of the capital or voting rights is exceeded; this information is renewed every time each additional 2% fraction of the capital or voting rights is exceeded.

	At 12.31.2017		**At 12.31.2016**	
	% share capital	% voting rights	% share capital	% voting rights
More than 5%	Armistice Capital Master Fund Keren Finance Vatel	Armistice Capital Master Fund	Grandeur Peak Advisors	Grandeur Peak Advisors
More than 10%	Orchard International			
More than 15%		Orchard International	Orchard International	
More than 25%				Orchard International

In January 2018, the company Stonespine Capital Management LLC declared it had crossed the threshold of owning 5% of the Company share capital.

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

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

	12.31.2017			**12.31.2016**		
	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights
ORCHARD INTERNATIONAL (1)	1,727,490	11.45	19.55	1,727,490	17.22	27.24
Denys SOURNAC (2) (3)	457,488	3.03	2.59	455,732	4.55	3.60
Jean Philippe CAFFIERO	216,089	1.43	2.36	246,089	2.45	3.76
Other Directors						
Pierre BUREL (2)	194,587	1.29	1.10	194,587	1.94	1.53
Patrick BERTRAND (2)	113,968	0.76	0.74	113,968	1.14	1.04
François Régis ORY (2)	108,652	0.72	0.61	108,652	1.08	0.86
Rick KIENZLE	102,880	0.68	0.58	-	-	-
Christophe BONNET	52,128	0.35	0.48	52,128	0.52	0.81
Jean Joseph MORENO	22,000	0.15	0.21	22,900	0.23	0.30
Marc RECTON	18,752	0.12	0.18	18,752	0.19	0.25
Total	**3,014,034**	**19.98%**	**28.40%**	**2,940,298**	**29.32%**	**39.39%**

(1): Shares held by the holding company, ORCHARD INTERNATIONAL. The following table provides details of ORCHARD INTERNATIONAL's shareholding structure as of December 31, 2017:

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

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

(3): After adjusting for 8,000 shares allocated to Denys SOURNAC in error at 12.31.2016.

9.7.3. Share capital and treasury shares

At December 31, 2017, the Company held 4,468 of its own shares as part of the share's liquidity and market-making contract on the stock market.

At December 31, 2017, share capital totaled €2,413,265.76, and comprised 15,082,911 shares as follows:

- 15,082,811 ordinary shares;
- 100 unlisted preference shares.

Pursuant to the provisions of Article L. 225-211 sub-paragraph 2 of the French Commercial Code and in accordance with the authorizations granted by the Combined Shareholders' Meeting of June 7, 2016 and the Combined Shareholders' Meeting of June 15, 2017, the Company bought back some of its own shares during the year ended December 31, 2017, as described in point 9.6 above.

9.7.4. Securities transactions by senior executives and executive equivalents during the fiscal year

In accordance with the legal and regulatory requirements, we provide a table hereafter which summarizes the transactions carried out in the Company's securities during the fiscal year 2017 by senior executives or by persons closely connected to them, prepared on the basis of information provided to us:

-	Number of securities sold:	30,000
-	Number of securities acquired:	1,756
-	Number of securities subscribed:	0
-	Number of shares exchanged:	0

9.7.5. Employee shareholding

Pursuant to the provisions of Article L. 225-102 of the French Commercial Code, the number of shares of the Company's capital held by employees at the last day of the fiscal year is reported annually, as well as the proportion of share capital represented on December 31, 2017 by shares held by company personnel and personnel of related companies within the meaning of Article L. 225-180 of the French Commercial Code under a company savings plan and a company investment trust.

At December 31, 2017, employees of the Company and related companies held 0.87% of the Company's capital, including less than 0.01% via the company savings plan.

9.7.6. Group savings plan

MEDICREA INTERNATIONAL has implemented a group savings plan (PEG) open to staff members having more than three months' employment. The fund is managed by Crédit du Nord.

There was no capital increase reserved for employees during the 2017 fiscal year, consequently the Company did not pay any employer's matching contributions.

9.7.7. Stock subscription or purchase options – Allocation of free shares

In accordance with the provisions of Article L.225-184 of the French Commercial Code, the Shareholders' Meeting was informed, via a special report, of the stock-option plans implemented.

Pursuant to the provisions of Article L. 225-197-4 Paragraph 1 of the French Commercial Code, the Shareholders' Meeting was informed, via a special report, of the allocations of free shares completed over the course of the fiscal year.

Pursuant to the provisions of Articles L. 225–184 and L. 225-197-4 of the French Commercial Code, a special report on stock subscription or purchase options and a special report on the allocation of free shares will be made available to shareholders.

660,000 stock-options were allocated during the fiscal year ended December 31, 2017. No allocation of free shares took place.

Taking into account the employees who left between the 2008 and 2017 fiscal years, the exercise of options and the plans that have lapsed, the free shares (including free shares allocated but whose retention period has not yet expired) and stock options allocated to employees stood at 158,273 and 706,592 respectively at December 31, 2017.

9.8. Agreements referred to in articles l. 225-38 *et seq.* of the French Commercial Code

The Statutory Auditors will read their report, which states that no new agreement was approved by the Board of Directors in relation to the fiscal year ended December 31, 2017, and details the agreements approved in respect of previous fiscal years that remained in force during the fiscal year, including in particular the agreement concluded with ORCHARD INTERNATIONAL for the amount of €572,012 (€557,659 in 2016).

9.9. Approval of share subscription or purchase option plans

We remind you that the Shareholders' Meeting of June 15, 2017 and the Shareholders' Meeting of November 8, 2017 authorized the Board of Directors, pursuant to the provisions of Articles L225-177 and subsequent of the French Commercial Code, to grant share purchase and/or subscription options in the Company.

Article 422 of the US Internal Revenue Code requires, in order to allow the issue of the Incentive Stock Options provided for in the 2017 and 12-2017 plans for the benefit of employees resident in the United States for tax purposes, that said plans be approved by the Shareholders' Meeting within a period of 12 months from their adoption by the Board of Directors. We therefore propose that you adopt said plans.

9.10. Proposed appointment of a new director

We propose that you appoint, with effect from the Combined Shareholders' Meeting of May 17, 2018, Pierre OLIVIER, born April 7, 1966 in Saint Adresse (Department 76), residing at 626 San Luis Road, Berkeley CA, 94707, USA, to the role of new Director, for a term of 6 years, that is to say until the end of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2023.

9.11. Social and environmental information

The very nature of MEDICREA INTERNATIONAL's activities is unlikely to present significant risks to the environment, as described in paragraph 7. "Risks" of this report.

9.12. Proposed allocation of 2017 income

It is requested that the financial statements be approved as presented (balance sheet, income statement and notes), showing a net loss of €10,681,570.45 for the fiscal year of December 31, 2017, which the Board of Directors proposes at the Shareholders' Meeting to allocate it in its entirety to Retained Losses.

9.13. Dividends paid

Pursuant to the provisions of Article 243 bis of the French General Taxation Code, please note that no dividend has been paid in the last three fiscal years.

9.14. Five-year financial summary

Pursuant to the provisions of Article R. 225-102 of the French Commercial Code, a summary of the Company's earnings over each of the last five fiscal years is appended in Note 2.

9.15. Non-deductible expenses referred to in Articles 39-4 and 223 of the French General Taxation Code

Pursuant to Article 223-IV and 223-V of the French General Taxation Code, the total of expenses and costs that cannot be deducted from earnings as referred to in Article 39-4 of the General Taxation Code, as well as the tax incurred in relation to said expenses and costs, were €164,418 and €46,037 respectively for the fiscal year ended December 31, 2017 (€104,516 and €34,835 respectively in relation to the previous year).

9.16. Significant events that occurred between the year-end and the date of the report

No significant event, other than the creation of MEDICREA BELGIUM referred to in Paragraph 3 of the Group Management Report, has occurred since the end of the fiscal year.

9.17. Authorizations granted to the Board of Directors by the Shareholders' Meeting

a) Renewal of the authorization granted to the Company to purchase its own shares on the stock market

It is proposed to authorize the Company to trade its own shares on the stock market, pursuant to the provisions of Article L. 225-209 of the French Commercial Code, and subject to compliance with legal and regulatory requirements applicable at the time of its implementation, for the sole purpose of, and by order of priority:

- To ensure the stimulation of the secondary market or the liquidity of the MEDICREA INTERNATIONAL share via an investment services provider acting in complete independence under

a liquidity contract in compliance with the AMAFI (French financial markets association) Code of Ethics recognized by the French Financial Markets Authority;
- Ensure the hedging of stock option purchase plans and/or free share allocation plans (or similar plans) for the benefit of Group employees and/or corporate officers;
- To reduce the share capital of the Company through the cancellation of shares within legal limits;
- To retain the purchased shares and subsequently exchange them or use them in payment as part of mergers and acquisitions;
- To implement any market practice that is or may be admitted by the market authorities.

No other use of this share buyback program is considered.

The transactions conducted as part of the buyback program would be carried out pursuant to applicable regulations.

A background document would be distributed according to applicable regulations, stating:

- the maximum number of shares to be acquired: no more than 10% of share capital (including shares already held) of which 5% of share capital if they are shares purchased by the Company to retain and subsequently deliver as payment or in exchange as part of a merger or acquisition transaction;
- the maximum purchase price per share, subject to adjustments relating to any transactions affecting the Company's capital, set at €25 (excluding acquisition costs).

The theoretical maximum amount for the implementation of this program would be €37,707,277.50, financed either by own resources or by the use of short- or medium-term external funding.

Shares could be bought back by any appropriate method, including through acquisition of blocks of securities on one or more occasions, and including while a public tender offer is in progress.

The authorization would be valid from the date of the Annual Shareholders' Meeting called to approve the financial statements at December 31, 2017 and for a period of eighteen months.

If this resolution is adopted, the Board of Directors should report annually on the use of this authorization.

A request is also made to authorize the Board of Directors, for a period of 18 months, with the option to sub-delegate, to cancel at its sole discretion, in one or more transactions, no more than 10% of the capital calculated on the day of the cancellation decision and after deducting any shares canceled during the preceding 24 months, any shares that the Company holds or may hold as a result of repurchases made under the terms of its buyback program and to reduce the share capital proportionately pursuant to applicable regulations. The Board of Directors would therefore have the powers required to take all necessary measures.

b) Proposal to delegate powers to / authorize the Board of Directors to increase the share capital

In particular in order to:

- Strengthen MEDICREA's positioning as the specialist and leader in planned spinal surgery and the overall 3D analysis of the specific balance of each patient;
- Accelerate the digital transformation of all Group companies through the development, integration and distribution of a new UNID proprietary platform;
- Strengthen the teams and the resources for analyzing the clinical data collected by the UNID LAB in order to hone the capabilities of the predictive model and the relevance of the Company's proprietary algorithms identifying the most appropriate implants for each patient;
- Strengthen the Group's foothold in the United States, increase MEDICREA's presence in the main centers specializing in spinal surgery by developing sales teams and the local manufacture of certain patient-specific implants;
- Continue to integrate new manufacturing technologies (3D printing);
- Increase efforts to bring key production and sterile packaging operations back in-house;
- Explore all opportunities relating to acquisitions or tactical or strategic partnerships concerning the products, technologies and patents;
- Accelerate the development of the Group's distribution subsidiaries.

It is proposed to decide on the principle of an increase in share capital with delegation of authority to be granted to the Board of Directors in order to enable the Company, if required, to subsequently tap the financial market and therefore take any development opportunity.

As such, the following is proposed:

1. **To grant the Board of Directors (10th and 11th resolutions), for a period of twenty-six months, a delegation of authority in order to increase the share capital, either by the issue of ordinary shares or of any marketable securities conferring access, with or without retention of the preferential subscription right of shareholders, to the share capital and/or granting entitlement to the allocation of:**

- Existing or new debt securities in the Company and/or a company that holds, either directly or indirectly, more than half its share capital or of which it holds either directly or indirectly more than half of the share capital;
- Existing or new debt securities in the Company and/or a company of which it holds, either directly or indirectly, less than half its share capital or of which less than half of the capital is indirectly held by this company.

The total amount of share capital increases that may be realized now and/or in the future, may not exceed a nominal amount of eight hundred thousand (800,000) euros. The amount of the share capital increases would count towards the Overall Ceiling I mentioned hereafter.

The total amount of marketable securities whose primary security is a debt, notably a bond security, that may be issued in this way may not exceed a nominal amount of twenty-five million (25,000,000) euros or the exchange value of this amount in other currencies. The amount of issues of marketable securities would count towards the Overall Ceiling II mentioned hereafter.

The issue price of the shares that would be issued without preferential subscription rights would be at least equal to the weighted average price quoted over the last ten trading sessions preceding its determination, with the possible application of a deduction of up to 10%.

2. **To grant to the Board of Directors (12th resolution), for a period of twenty-six months, a delegation of authority in order to increase the share capital by the issue of ordinary shares and/or marketable securities conferring access to the share capital of the Company or granting entitlement to the allocation of debt securities with waiver of the preferential subscription right of shareholders within the context of an offer referred to in Article L.411-2 II of the French Monetary and Financial Code.**

The total nominal amount of the share capital increases which may be realized in this way immediately and/or in the future may not exceed 20% of the share capital per annum at the date of the decision of the Board of Directors and the amount of the share capital increases provided for in said delegation shall be deducted from the above-mentioned delegation.

The total nominal amount of marketable securities in the form of receivables giving access to the share capital and likely to be issued in this way may not exceed a nominal amount of twenty-five million (25,000,000) euros or the equivalent value of this amount in other currencies, at the date of the decision regarding the issue, with this amount being deducted from the **Overall Ceiling II** provided for below;

The issue price of the shares would be at least equal to the weighted average price quoted over the last ten trading sessions preceding its determination, with the possible application of a deduction of up to 10%.

3. **to delegate to the Board of Directors (13th resolution), for a period of twenty-six months, the authority to increase the number of securities to be issued as part of one of the share capital increases listed above, in the event of oversubscription, and all under the conditions set out by Article L.225-135-1 of the French Commercial Code and within the limit of Overall Ceilings I and II referred to above.**

4. **to delegate to the Board of Directors (14th resolution), pour for a period of eighteen (18) months, the power to decide on one or more share capital increases via the issue of ordinary shares in the Company or any marketable securities conferring access by any means, immediately and/or in the future, to existing or new ordinary shares in the Company with waiver of the preferential subscription right in favor of a category of individuals meeting specified characteristics pursuant to Article L. 225-138 of the French Commercial Code**.

The total amount of share capital increases that may be completed under the terms of this delegation immediately and/or in the future, may not exceed a nominal amount of eight hundred thousand (800,000) euros. The amount of the share capital increases would not count towards the Overall Ceiling I mentioned hereafter.

The total amount of issues of compound marketable securities whose primary component is a debt, notably a bond, security, may not exceed a nominal amount of twenty-five million (25,000,000) euros. The amount of issues of marketable securities would not count towards the Overall Ceiling II mentioned hereafter.

To allow the entry of new financial partners, the preferential subscription rights of Shareholders to shares or marketable securities covered by this transaction would be canceled and the right to subscribe would be reserved for by a category of individuals defined as follows: International investment funds and/or companies (i.e.: that conduct financial transactions in several countries), active in the field of health and/or medical devices, and which will each participate in the transaction for an amount of no less than one hundred thousand (100,000) euros (in accordance with Article 211-2.3° of the General Regulations of the French financial markets authority).

The issue price of the shares would be at least equal to the weighted average price quoted over the last ten trading sessions preceding its determination, with the possible application of a deduction of up to 10%.

5. **to grant to the Board of Directors (17th and 18th resolutions), for a period of twenty-six months, the authority to complete a share capital increase reserved for all employees in the Company and companies within its Group and to waive the preferential subscription right of shareholders in favor of said employees.**

It is specified that pursuant to the provisions of Article L. 225-129-6 of the French Commercial Code, the Shareholders' Meeting must rule on a draft resolution to conduct a capital increase under the conditions provided for in Articles L. 3332-18 *et seq.* of the French Labor Code:

The total nominal amount of the share capital increases that may be completed in this way under the terms of the delegation may not exceed forty thousand (40,000) euros. The amount of the share capital increases would count towards the Overall Ceiling I mentioned hereafter.

6. <u>to decide (19th resolution):</u>

- that the nominal amount of the capital increases likely to be performed immediately and/or in the future pursuant to the delegations granted to the Board of Directors by this Shareholders' Meeting cannot exceed eight hundred thousand (800,000) euros ("**Overall Ceiling I**");
- that the total nominal amount (i) of the marketable securities representing the receivables conferring entitlement by any means, either immediately or in the future to the share capital and which may be issued under the delegations granted to the Board of Directors (Resolutions 11, 12, 13 and 18) may not exceed a twenty-five million (25,000,000) euros or the equivalent of this amount in other currencies, on the date of the decision to issue them and (ii) shares to be issued as a result of the issue of the compound marketable securities may not exceed a nominal amount of eight hundred thousand (800,000) euros ("**Overall Ceiling II**").

The par value of the shares to be issued in order to protect the rights of the holders of marketable securities or other securities granting access to the Company's share capital and/or issued by a Subsidiary or a parent company as part of the delegations of authority granted to the Board of Directors shall be added to these ceilings, where applicable, in accordance with the law and with the contractual specifications providing for other adjustment cases, where applicable.

c) Authorization to be granted to the Board of Directors (15th resolution) to allocate free shares to Group employees and executive corporate officers

It should be noted that the Combined Shareholders' Meeting of November 8, 2017 authorized the Board of Directors to grant free Company shares to Group employees and executive corporate officers for a period of twenty-six months.

Although this delegation has not yet expired, it seemed appropriate to renew it in order to benefit from new and more advantageous provisions in relation to the employer contributions applicable to this scheme.

Pursuant to the provisions of Articles L. 225-177 *et seq.* of the French Commercial Code, it is suggested that you:

- Authorize the Board of Directors, for a period of 26 months from this Shareholders' Meeting, to allocate, in one or more instalments and at its sole discretion, either existing free shares in the Company resulting from the purchase made by it or free shares to be issued via a share capital increase, in favor of employed members of staff or corporate officers that it selects from the employees and executive corporate officers of the Company and of French or international companies related to it within the meaning of Article L. 225-197-2 I of the French Commercial Code subject to the legal and regulatory provisions in force at the time of its implementation;
- Decide that the cumulative total number of shares issuing (i) both from the free allocation of shares resulting from this authorization, be they existing shares or shares to be issued, and (ii) from the exercise of the purchase and/or subscription options provided for hereafter, may not exceed an overall number equal to 7.5% of the total number of shares comprising the share capital of the Company at the date of allocation;
- Decide that the allocation of shares to their beneficiaries will be definitive at the end of a minimum vesting period of one year;
- Decide that the duration of the vesting period will end early, in the event of the incapacity of the beneficiary falling into the second or third categories provided for in Article L. 341-4 of the French Social Security Code;
- Decide that at the end of the above-mentioned vesting period, the beneficiaries, having definitively become the owners of the shares allocated to them free of charge by the Board of Directors, may only transfer said shares at the end of a retention period whose duration will be determined by the Board of Directors, but which may under no circumstances be less than one year;
- Decide that, for beneficiaries not resident in France for tax purposes, the Board of Directors may annul the above-mentioned retention period provided that the vesting period lasts a minimum of two years;
- Decide that the shares acquired, under this authorization, shall be in registered form;
- Note that, regarding the shares to be issued, (i) this authorization will entail, at the end of the vesting period, a share capital increase by capitalization of reserves, profits or issue premiums in favor of the recipients of said shares and the corresponding waiver by the Shareholders in favor of the beneficiaries of the allocations to the portion of reserves, profits and premiums thus capitalized, (ii) this authorization would automatically entail, in favor of the beneficiaries of said shares, waiver by the shareholders of their preferential subscription right;
- The amount of the share capital increase would not count towards the aforementioned **Overall Ceiling I**.

The Shareholders' Meeting would, for a period of 26 months, delegate full authority to the Board of Directors, who may further delegate to the Chairman and CEO, acting subject to the above conditions, in particular to:

- Implement this authorization;
- Set the terms and conditions and where necessary the criteria for the allocation of the shares;

- Decide on the number of shares to be allocated free of charge;
- Determine the identity of the beneficiaries, the number of shares allocated free of charge to each of them and the procedures for the allocation of shares;
- Agree on any clauses prohibiting the immediate resale of some or all of the shares in the event of allocation to corporate officers;
- In the case of the allocation of shares to be issued, set the amount and nature of the reserves, profits and premiums to be capitalized;
- Record the share capital increase or increases carried out pursuant to this authorization, and amend the Bylaws accordingly;
- and more generally do whatever is necessary.

d) Authorization to be granted to the Board of Directors (16th resolution) to allocate share purchase and/or subscription options to the Group's employees or executive corporate officers

It should be noted that the Combined Shareholders' Meeting of November 8, 2017 authorized the Board of Directors to grant Company share subscription and/or purchase options for a period of twenty-six months.

Although this delegation has not yet expired, it seemed appropriate, as a result of the proposed renewal of the delegation related to the free allocation of shares, to ensure the expiry dates are the same as a result of their shared ceilings.

As a result, it is proposed pursuant to the provisions of Articles L. 225-177 *et seq*. of the French Commercial Code, we suggest authorizing the Board of Directors to grant, on one or more occasions and at its sole discretion, to Company and Group employees and/or executive corporate officers, share purchase and/or subscription options for Company-issued stock within a specific period and subject to certain conditions.

Implementation

The options would include subscriptions to new shares or the purchase of existing shares. Subscription option beneficiaries could subscribe to shares that would be issued as and when options are granted, which would result in capital increases.

Under this authorization and under previous authorizations:

- The total number of subscriptions granted and not yet exercised may not confer the right to subscribe to a quantity of shares exceeding one third of the share capital;
- The total number of these purchase options may not exceed 10% of the total number of shares issued by the Company, the Company not being authorized to hold more than 10% of its own shares.

In any event, the cumulative total number of shares resulting from both (i) the exercise of purchase and/or subscription options that would be granted in respect of this authorization, and (ii) the aforementioned allocation of free shares may not exceed an overall number equal to 7.5% of the total number of shares comprising Company stock at the date of allocation.

Beneficiaries

The beneficiaries of these options may be all or some of the employees or executive corporate officers of the Company and the Group's companies (within the meaning of Article L 225-180 of the French Commercial Code), subject to legal and regulatory provisions applicable at the time of its implementation.

Pursuant to the law, beneficiaries holding more than 10% of the share capital may not be granted options.

We suggest you grant full powers to the Board of Directors in order to determine the beneficiaries of these options.

Price

Pursuant to Article L. 225-177 of the French Commercial Code, the purchase and/or subscription share price would be determined on the day on which the option is granted by the Board of Directors, in accordance with the objective methods applicable to the valuation of shares which takes account, applying a specific weighting, of the Company's net asset position, profitability and business prospects, on a consolidated basis, in the manner determined by the Combined Shareholders' Meeting based on the Statutory Auditors' report.

We therefore suggest determining the method of price calculation as follows: equal to the weighted average of the last 20 trading days prior to the day the option would be granted.

Period of validity

The authorization for the Board of Directors to grant options would be given for 26 months as of the Shareholders' Meeting.

In the absence of specific plan stipulations, the options allocated would be exercisable for a maximum period of 7 years.

The authorization granted by the Shareholders' Meeting would outweigh, in favor of the beneficiaries of the subscription options, any explicit waiver by shareholders of their preferential subscription rights to shares that would be issued as and when the subscription options are exercised.

Capital increase resulting from exercise of share subscription

The capital increase arising from the exercise of share subscription options would be definitively carried out due to the sole fact of the option exercise declaration, accompanied by the subscription form and payment in cash or by offsetting against receivables of an equivalent amount.

The amount of the share capital increase resulting from the exercise of options would not count towards the aforementioned **Overall Ceiling I**.

At the first meeting following fiscal year-end, the Board of Directors would record, if applicable, the number and amount of shares issued during the year, would make the necessary amendments to the Bylaws, and carry out the publication formalities.

Pursuant to the provisions of Article L. 225-184 of the French Commercial Code, each year the Board of Directors would inform shareholders in a special report at the Ordinary Shareholders' Meeting of transactions carried out under this authorization.

Other conditions

Shares acquired or subscribed to in conjunction with the preceding provisions should be registered and would bear rights immediately. For an equivalent par value, they would be entitled to the same dividend as what could be distributed to other shares bearing the same rights.

The Shareholders' Meeting would give full authority to the Board of Directors, who may further delegate such authority to the Chief Executive Officer, to set the other terms under which the options would be granted, such as the beneficiaries, the maximum number of options exercisable by the beneficiary, the exact purchase and/or subscription option price, the opening date and terms of exercise of the options and, more broadly, to establish the rules of the option plan with all restrictions, particularly the exercise and/or retention of shares, and specific conditions pertaining to these options that it would deem appropriate, and generally do whatever is required to implement said authorization and its consequences.

9.18. Statutory Auditors' report

The Statutory Auditors have prepared the following reports, made available to shareholders for review:

- Report on the parent company financial statements
- Report on the consolidated financial statements
- Special report on the agreements mentioned by Articles L. 225-38 *et seq.* of the French Commercial Code;
- Report on corporate governance;
- Certification regarding the information provided pursuant to Article L225-115 4° of the French Commercial Code relating to the total amount of remuneration paid to the highest paid individuals.

The Statutory Auditors have also prepared the following reports, which will be made available to shareholders 15 days prior to the Shareholders' Meeting of May 17, 2018:

- Special report on the cancellation of securities acquired under the Company's program to buy back its own shares;
- Special report on the allocation of stock purchase or subscription options;
- Special report on the allocation of free shares to employees and/or executive corporate officers of the Company and the Group;
- Report on the issue of various marketable securities with or without preferential subscription right;
- Report on the share capital increase reserved for members of a company savings plan.

Appendix 1

List of subsidiaries and equity investments

Entities	Total shareholders' equity	Share capital ownership (%)	Book value of shares owned		Loans and advances granted and outstanding	Guarantees and sureties given by the Company	Net sales for last fiscal year	Net income for last fiscal year	Dividends paid to the parent company
			Gross	Net					
International subsidiaries									
MEDICREA	(195,037)	100%	2,465,018	-	594,645	-	467,935	(406,413)	-
TECHNOLOGIES UK	447,279	100%	7,395,058	7,395,058	6,053,968	-	16,000,915	(4,201,519)	-
MEDICREA USA	(1,222,554)	100%	100,000	-	1,229,795	-	121,164	(330,957)	-
MEDICREA GMBH	(208,798)	100%	47,119	47,119	745,183	-	121,114	(223,676)	-
MEDICREA POLAND									

Appendix 2

Five-year financial summary

(€)	2017	2016	2015	2014	2013
Share capital at year-end					
Share capital	2,413,266	1,605,307	1,438,030	1,357,025	1,355,121
Number of shares outstanding	15,082,911	10,033,167	8,987,688	8,481,405	8,467,505
Transactions and net income for the year					
Net sales	15,933,004	14,071,050	15,693,735	14,335,814	10,630,773
Income before tax, depreciation, amortization and provisions	(4,996,660)	43,546	1,637,488	(127,773)	298,936
Corporate tax	897,375	970,054	1,080,418	451,516	275,905
Employee profit sharing	-	-	-	-	-
Income after tax, depreciation, amortization and provisions	(10,681,569)	(10,805,933)	614,916	241,888	(929,753)
Dividends	-	-	-	-	-
Net earnings per share					
Income after tax, before depreciation, amortization and provisions	(0.27)	(0.01)	0.18	0.04	0.07
Income after tax, depreciation, amortization and provisions	(0.71)	(1.08)	0.07	0.03	(0.11)
Dividend per share	-	-	-	-	-
Workforce					
Average workforce size during the year	107	65	51	40	36
Total payroll for the year	5,730,151	3,489,325	3,076,459	2,329,736	1,810,750
Social security contributions for the year	2,403,316	1,441,946	1,247,209	970,525	801,705

REPORT ON CORPORATE GOVERNANCE

AT DECEMBER 31, 2017

Leading personalized spine | medicrea.com

MEDICREA INTERNATIONAL
A French corporation *(société anonyme)* with share capital of €2,413,265.76
Registered office: 5389, route de Strasbourg – 69140 RILLIEUX-LA-PAPE
393 175 807 RCS LYON

REPORT ON CORPORATE GOVERNANCE FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017 SUBMITTED TO THE COMBINED SHAREHOLDERS' MEETING OF MAY 17, 2018

To the Shareholders,

We hereby report on:

- the composition and conditions of preparation and organization of the Board of Directors' work;
- the operation of the Board of Directors;
- information on corporate officers;
- agreements concluded between a Director or Major Shareholder and a subsidiary;
- limitations of the powers of the Board of Directors;
- delegations related to share capital increases;
- procedures relating to the participation of shareholders in Shareholders' Meetings.

In view of its size and shareholder structure, the MEDICREA Group has elected to base its governance procedures on the MIDDLENEXT governance code. This governance code is accessible on the MiddleNext website (www.middlenext.com).

I. COMPOSITION AND CONDITIONS OF PREPARATION AND ORGANIZATION OF THE BOARD'S WORK

1.1. Exercise of General Management – Limitation of powers

The Board of Directors has voted for and not challenged the roles of Chairman of the Board of Directors and Chief Executive Officer, held concurrently by Denys SOURNAC, not believing this to alter the balance within the Board of Directors.

Article 1 of the Rules of Procedure adopted by the Board of Directors stipulates that the Chairman cannot make binding agreements on behalf of the Company without the prior authorization of the Board of Directors in relation to investments or disinvestments involving an amount in excess of €150,000 per transaction that are not in line with the Company's strategic priorities.

1.2. Composition of the Board of Directors

The Board of Directors is comprised of 9 Directors:

Director	Position	Date last appointed	Term of office expires
Denys SOURNAC	Chairman and Chief Executive Officer	Shareholders' Meeting of June 25, 2014	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2019
Jean-Philippe CAFFIERO	Deputy CEO	Shareholders' Meeting of June 25, 2014	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2019
Richard KIENZLE	Director	Shareholders' Meeting of May 11, 2017	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2022
Patrick BERTRAND	Director	Shareholders' Meeting of June 25, 2014	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2019
Christophe BONNET	Independent Director	Shareholders' Meeting of June 25, 2014	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2019
Pierre BUREL	Director	Shareholders' Meeting of June 25, 2014	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2019
Jean-Joseph MORENO	Director	Shareholders' Meeting of June 25, 2014	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2019
François-Régis ORY	Independent Director	Shareholders' Meeting of June 3, 2015	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2020
Marc RECTON	Independent Director	Shareholders' Meeting of June 3, 2015	Shareholders' Meeting to approve the financial statements for the year ended December 31, 2020

The Board of Directors is made up of 9 members. A new director, Richard KIENZLE, was appointed at the Extraordinary Shareholders' Meeting of May 11, 2017.

During the fiscal year, the Shareholders' Meeting appointed a non-voting advisor, who, in accordance with the Bylaws, is invited to each meeting of the Board and receives the same information as the directors. This person has an advisory role and no right to vote.

There is no requirement to hold shares to be appointed as a director, however, all Company directors currently hold shares in the Company.

At December 31, 2017, there were no employee-directors.

The directors referred to as "independent" meet the criteria for classification as independent specified in the MIDDLENEXT Code, on which MEDICREA bases its governance procedures. The independence of the members of the Board is thus characterized by the absence of any material

financial, contractual or family relationship that could affect the independence of the Board member's judgment.

1.3. Conditions of preparation and organization of the Board of Directors' work

1.3.1. Average notice for convening the Board

Each year, the Board of Directors determines the schedule of meetings for the coming year upon proposal by its Chairman. The Board meets once a quarter for the exclusive purposes of managing routine business. The Board can convene additional meetings should the interests of the Company so require. In addition to the purely legal decisions that are taken by the Board, it also deliberates in relation all decisions concerning the Company's major strategic, financial, corporate and technological priorities and monitors their implementation, for which the Chairman is responsible.

Although the Bylaws allow for the Board to be convened by any means, including orally, it is systematically convened by email a minimum of three days before the date of the meeting. Documents enabling the Directors to make a decision in full knowledge of the facts are provided to them. The Statutory Auditors have been invited on a regular basis to meetings dealing with financial and/or accounting matters in accordance with the provisions of Article L225-35 of the French Commercial Code.

1.3.2. Attendance of Directors

The average attendance rate at Board Meetings is 72%.

1.3.3. Chairing Board Meetings

All 8 meetings of the Board of Directors that were held over the course of the fiscal year were presided over by its Chairman.

1.3.4. Video-conferencing

The Rules of Procedure give Directors the option of participating in Board Meetings via videoconference or any other means of telecommunication.

The Chairman ensures that means of telecommunication are available to Directors who reside away from head office or abroad, or are visiting there for legitimate reasons, in order for them to participate in Board of Directors' meetings.

The foregoing provisions do not apply to the adoption of decisions as provided for under Articles L. 232-1 and L. 233-16 of the French Commercial Code, respectively pertaining to:

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

If the Board of Directors' meeting is not held at the Company's registered office, the Chairman takes necessary measures to ensure that Directors who have decided to attend the meeting there may participate using the aforementioned means of telecommunication.

This method of participation via videoconferencing was used throughout the year, notably as a result of the attendance of a Director and a non-voting advisor who are both Americans.

1.3.6. Information provided to Directors

In addition to the agenda for each Board Meeting, each Director receives documents enabling them to make an informed decision in full knowledge of the facts in relation to the matters in question.

At each Board Meeting, the Chairman informs the Board members of the main facts and significant events relating to the life of the Company and its subsidiaries that have arisen since the date of the last Board Meeting.

1.4 Operation of the Board of Directors

The MiddleNext Code sets out a list of recommendations and matters for attention to ensure the correct governance for companies of this size.

A summary of the application of the recommendations of the MIDDLENEXT code is provided in the following table:

		Recommendation	
Supervisory power		**Applied**	**Not applied**
R1	Director ethics	X	
R2	Conflicts of interest	X	
R3	Composition of the Board – Independent directors	X	
R4	Board member information	X	
R5	Board and committee meetings	X	
R6	Creation of committees	X	
R7	Introduction of Board Rules of Procedure	X*	
R8	Choice of directors	X	
R9	Directors' terms of office	X	
R10	Directors' compensation	X	
R11	Introduction of Board evaluation	X*	
R12	Relationships with Shareholders		

Executive power

R13	Definition and transparency of the compensation of executive corporate officers	X	
R14	Succession planning for executive officers		X
R15	Corporate officers and employment contracts	X	
R16	Golden handshakes	X	
R17	Supplementary retirement schemes	X	
R18	Stock options and bonus shares	X	
R19	Review of points to be watched	X	

* These recommendations are partially applied.

Comments and explanations on the application or not of the recommendations of the MIDDLENEXT code:

R1 Director ethics

The ethical rules with which the directors undertake to comply (notably confidentiality, independence and diligence) are clearly explained in the Board Rules of Procedure.

Every Director is required to inform the Chairman of any situation involving them that is likely to create a conflict of interests with the Company or one of its subsidiaries. It is the responsibility of the Director concerned, at the end of this process, to act appropriately, in line with applicable legislation.

The Directors have access to privileged information and have been provided with the rules to which they are subject in this regard.

Members of the Board of Directors provide the Chairman with the information that will enable him to notify the Financial Markets Authority of the transactions they have conducted involving the Company's securities.

Members of the Board of Directors shall, in accordance with the law, refrain from conducting either directly or indirectly any transaction involving Company securities when they are in possession of any information likely, when it is made public, to have a significant impact on the share price. Moreover, they shall refrain from taking any action for the two (2) trading days after this information has been made public via a press release.

R2 Conflicts of interest

The Board of Directors is currently not aware of any potential conflicts of interest.

R3 Composition of the Board – Independent directors

The Board of Directors is currently composed of 6 independent directors out of a total of 9 members. They are deemed to be independent according to the 5 criteria defined by the MIDDLENEXT code.

R4 Board member information

The procedures for providing Directors with information are set out in Article 7 of the Rules of Procedure. It is also specified in Article 11 of these Rules of Procedure that it is the Directors' responsibility to "request all the additional information they deem useful."

R5 Board and committee meetings

Article 7 of the Rules of Procedure established a framework for Board meetings. The number of meetings of the Board of Directors must be a minimum of four per year and minutes must be drawn up in respect of each meeting.

R6 Creation of committees

The Board of Directors deemed it necessary to set up 3 specialized committees: the Ad Hoc Committee, the Strategy Committee and the Management Committee. The Board of Directors may set up additional specific committees, if necessary, including an Audit Committee as specified in Articles 5 and 6 of its Rules of Procedure.

R7 Introduction of Board Rules of Procedure

The Board's Rules of Procedure can be consulted in their entirety at the Company's registered office: 5389 route de Strasbourg – Vancia, 69140 Rillieux-la-Pape.

R8 Choice of Directors

An information sheet on each candidate is available at the Company's registered office prior to the Shareholders' Meeting voting on the appointment of a Director. It summarizes the career path of each candidate.

R9 Directors' term of office

The term of office is six years, which corresponds to the maximum set by law. The dates of appointment and therefore the terms of office of Directors are not all the same, de facto staggering the reappointment of Directors.

R10 Directors' compensation

Each year, the Board of Directors decides on the allocation of the total annual directors' fee budget. Until now, directors' fees have always been divided equally between the Directors.

R11 Introduction of Board evaluation

It is stated in Article 7 of the Rules of Procedure: "The Board of Directors reviews its operation once a year". This evaluation is currently carried out informally but the Company intends to formalize this review.

R12 Relationships with Shareholders

The Company's managers meet with the principal shareholders by participating in meetings with them throughout the year.

R13 Definition and transparency of the compensation of corporate officers

The Ad Hoc Committee, under the supervision of the Board of Directors, ensures compliance with these rules. The criteria used to determine the compensation paid to the executive directors comply

with the MIDDLENEXT recommendations. The annual information provided to shareholders on the compensation received by the executive directors is drawn up in accordance with the applicable regulations.

R14 Succession planning for executive directors
To date, no succession plan for the founder executive directors has been defined.

R15 Corporate officers and employment contracts
The two executive corporate officers do not also have an employment contract with the Group.

R16 Golden handshakes
There are no contractual provisions to pay golden handshakes to executive corporate directors who leave the Group.

R17 Supplementary retirement schemes
There are no supplementary retirement schemes for executive corporate officers.

R18 Stock options and bonus shares
Stock options and bonus shares have never been allocated to the executive corporate officers.

R19 Review of points to be watched
Directors are aware of the Code's points to be watched and review them on a regular basis.

II. *INFORMATION ON CORPORATE OFFICERS*

In order to satisfy the provisions of Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code, in Appendix 1 we provide you with a list of all the terms of office and roles exercised in any company by each of the Directors of the Company during the fiscal year, prepared based on the information provided by each individual concerned.

III. *AGREEMENTS CONCLUDED BETWEEN A DIRECTOR OR MAJOR SHAREHOLDER AND A SUBSIDIARY*

Nil

IV. *DELEGATIONS RELATED TO SHARE CAPITAL INCREASES*

Pursuant to the provisions of Article L. 225-37--4 of the French Commercial Code, you will find in Appendix 2 to this report information pertaining to:

- currently valid delegations of authority and powers relating to capital increases, granted by the Shareholders' Meeting to the Board of Directors,
- any use made during the fiscal year of the above-mentioned delegations.

V. *PROCEDURES RELATING TO THE PARTICIPATION OF SHAREHOLDERS IN SHAREHOLDERS' MEETINGS*

Shareholders' Meetings are convened and deliberate pursuant to the conditions laid down by law.

Collective decisions of shareholders are taken by Ordinary, Extraordinary or Special Shareholders' Meetings depending on the type of decisions they are being called upon to make.
Special Shareholders' Meetings are called for the holders of shares of a given category to decide on any changes to the rights attached to shares in this category. These meetings are convened and deliberate under the same conditions as Extraordinary Shareholders' Meetings.

The deliberations of Shareholders' Meetings are binding on all shareholders.

This report approved by the Board of Directors on April 4, 2018.

APPENDIX 1

LIST OF ALL APPOINTMENTS AND DUTIES CARRIED OUT BY EACH CORPORATE OFFICER DURING THE FISCAL YEAR ENDED 12.31.2017

Denys SOURNAC:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Chairman	Managing
IDS COMPANY	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Co-Manager	Director
LES CHALETS Z	345, montée de Bellevue – 01600 Reyrieux	Co-Manager	Nil
BDB GESTION MARINE	345, montée de Bellevue – 01600 Reyrieux	Co-Manager	Nil
SUM LAB	345, montée de Bellevue – 01600 Reyrieux	Co-Manager	Nil
IDS GESTION	6, rue Adolphe – L 1116 Luxembourg	Category A Co-Manager	Nil
IDS KAP	209 A, avenue Louise – B 1050 Bruxelles	Category A Co-Manager	Nil
			Nil

Jean-Philippe CAFFIERO:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director and Deputy	Nil
PLG INVEST	12, rue de la Garenne – 69005 Lyon	Managing Director	Nil
		Manager	

Christophe BONNET:

Company name	Headquarters	Terms of office	Duties
SAS BORNE	12, rue Gardénat Lapostol – 92150 Suresnes	Chairman	Nil
SCI LES ESTABLES	12, rue Gardénat Lapostol – 92150 Suresnes	Manager	Nil
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director	Nil

Patrick BERTRAND:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director	Nil
SARL EURO-PJB	119, boulevard Stalingrad – 69100 Villeurbanne	Manager	Nil
SCI PJB MONTCHALIN	Montchalin – 38510 Courtenay	Manager	Nil
SCI LA TOUR ST JEAN	Montchalin – 38510 Courtenay	Manager	Nil
MARTINET SA	24, rue du Limousin – 38070 Saint Quentin Fallavier	Director	Nil

Jean-Joseph MORENO:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director	Nil
SCI MC	298, cote de Chanvre – 69360 Solaize	Manager	Nil
SCI SAGITTAIRE	298, cote de Chanvre – 69360 Solaize	Manager	Nil
SCI MORAY	3, chemin des Verzières – 69110 Saint Foy Les Lyon	Manager	Nil
SAS MORE INVESTMENTS	298, cote de Chanvre – 69360 Solaize	Chairman	Nil
SAS MORE LOCK	298, cote de Chanvre – 69360 Solaize	Chairman	Nil

Marc RECTON:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director	Nil
MARC RECTON & ASSOCIES	la grande bastide, chemin du vallon. 84360 Lauris	Manager	Nil
SC MR PIERRE 2	la grande bastide, chemin du vallon. 84360 Lauris	Manager	Nil
SC MR PARTICIPATIONS 2	la grande bastide, chemin du vallon. 84360 Lauris	Manager	Nil
SAS ALAMA LUXURY Paris	la grande bastide, chemin du vallon. 84360 Lauris	Chairman	Nil
SAS ALAMA LUXURY Paris 2	la grande bastide, chemin du vallon. 84360 Lauris	Chairman	Nil
SAS FINANCIERE GERARD FAIVRE	29 Rue de Bassano 75008 Paris	Chairman of the Management Committee	

Pierre BUREL:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director	Nil
SPB HOLDING		Manager	Nil
SOGET	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
RUMEX	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
PETER'S	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
SOCIETE HOTELIERE LA	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
RESIDENCE	Pointe Milou – 97 133 Saint Barthélémy	Manager	Nil
ASPHODELE	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
CHAMAN	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
LES NOISETIERS	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
SYCOMORE	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
SAINT JEAN D'EST	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
EGLANTINES	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
COBAE	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
BERGENIA	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
LE ROYANNAIS	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
XIMENIA	65A Route de Saint Maximin – 83149 Bras	Manager	Nil
ULMUS	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
WISTARIA	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
DAPHNEE	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
FLORYAL	Saint Jean – 97,133 Saint Barthélémy	Manager	Nil
VITIS	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
HOTELLERIE DU SOLEIL	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
HOTEL BON REPOS	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
SPB GESTION	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
ABBAYE SAINT HILAIRE	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
TERROIR ET PATRIMOINE	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
INVESTISSEMENT	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
JEHANNE DE VILLEMARTIN	65A, route de Saint Maximin – 83149 Bras	Manager	Nil
SCI CHATEAU DE VILLEMARTIN	Domaine de Villemartin – 11300 Gaja et Villedieu	Manager	Nil
LES CHENES PROMOTION	886 Avenue dr Jacques Arnaud – 74190 Passy		

François Régis ORY:

Company name	Headquarters	Terms of office	Duties
MEDICREA INTERNATIONAL	5389, route de Strasbourg – 69140 Rillieux-la-Pape	Director	Nil
L'AMELIANE	14, chemin de la Pomme – 69160 Tassin	Chairman	Nil
LA FLORENTIANE	14, chemin de la Pomme – 69160 Tassin	Chairman	Nil
LYPOLIANE	14, chemin de la Pomme – 69160 Tassin	Chairman	Nil
SCI DE CHANAS	14, chemin de la Pomme – 69160 Tassin	Manager	Nil
SCI L'AMAURY	600, chemin de la Ronze – 69480 Morance	Manager	Nil
SCI L'AMELAÏS	600, chemin de la Ronze – 69480 Morance	Manager	Nil
SOCIETE CIVILE FLORINE	14, chemin de la Pomme – 69160 Tassin	Manager	Nil
SWORD GROUP SE	9, rue Charles de Gaulle – 69370 Saint Didier	Director	Nil
ABM MEDICAL	2, rue Gabriel Bourdarias – 69200 Vénissieux	Manager	Nil
ABM ILE DE FRANCE	2, rue Gabriel Bourdarias – 69200 Vénissieux	Manager	Nil
ABM NORD	2, rue Gabriel Bourdarias – 69200 Vénissieux	Manager	Nil
ABM RHONE-ALPES	2, rue Gabriel Bourdarias – 69200 Vénissieux	Manager	Nil
ABM SUD	2, rue Gabriel Bourdarias – 69200 Vénissieux	Manager	Nil

APPENDIX 2

DELEGATIONS OF AUTHORITY AND POWERS GRANTED TO THE BOARD OF DIRECTORS BY THE SHAREHOLDERS' MEETING

In order to comply with the provisions of Article 225-37-4 of the French Commercial Code, we hereby report on the information pertaining to currently valid delegations of authority and powers granted by the Shareholders' Meeting to the Board of Directors and relating to capital increases as well as on the use made of the aforementioned delegations during the fiscal year.

Type of Shareholders' Meeting delegation	Meeting date	Resolutions	Delegation period	Expiry of delegation	Methods for setting the price	Caps	2017 implementation
Authorization in order to increase capital with waiver of preferential subscription rights in favor of members of a company savings plan via an employees' mutual fund belonging to the Company and companies in its Group within the meaning of Article L. 225-180	05/11/2017 06/15/2017	10th resolution 11th resolution	26 months	7/11/2019 8/15/2019		€40,000 nominal	Nil
Delegation of authority in order to decide one or more capital increase with maintenance of preferential subscription rights (Art. L225-129-2 and L228-91)	06/03/2015 5/11/2017	10th resolution 5th resolution	26 months	8/3/2017 7/11/2019		€800,000 nominal / €25,000,000 for marketable securities	Nil
Delegation of authority in order to decide one or more capital increase via public offering with cancelation of preferential subscription rights (Articles L225-129-2, L225-135, L228-91 *et seq*.)	06/03/2015 5/11/2017	10th resolution 6th resolution	26 months	8/3/2017 7/11/2019	At least equal to the weighted average of the last 20 trading days with a maximum discount of 10%	€800,000 nominal / €25,000,000 for marketable securities	Nil

Delegation of authority in order to decide one or more capital increases with waiver of preferential subscription rights by offering referred to in Section II of Article 411-2 of the French Monetary and Financial Code as amended by Order 2009-80 of January 22, 2009 (Articles L225-136 of the French Commercial Code)	6/3/2015	12th resolution	26 months	August 2, 2017	Legal provisions	€600,000 nominal / €15,000,000 for marketable securities	
	5/11/2017	7th resolution	26 months	July 11, 2019	At least equal to the weighted average of the last 20 trading days with a maximum discount of 10%	€800,000 nominal / €25,000,000 for marketable securities	Issue of 1,620,736 ABSA* in December 2017 at a price of €3.089 each
Authorization in order to increase the number of securities to issue in the event of oversubscription, not exceeding 15% of the initial issue	5/11/2017	8th resolution	26 months	July 11, 2019		€800,000 nominal / €25,000,000 for marketable securities	Nil

Type of Shareholders' Meeting delegation		Meeting date	Resolution	Delegation period	Expiry of delegation	Methods for setting the price	Caps	2017 implementation
Authorization to be granted for the purpose of deciding to increase the share capital by issuing ordinary shares and/or marketable securities giving access to the share capital with cancelation of the preferential subscription right in favor of a category of named persons (Art L225-138)	Category of persons defined as follows: international investment funds and/or companies (i.e.: that conduct financial transactions in several countries), primarily American (i.e. from the United States of America), active in the field of health and/or medical devices, and which will each participate in the transaction for an amount of no less than €500,000 or the equivalent of this amount in foreign currency (in accordance with the provisions of the General Regulations of the French financial markets authority);	12/18/2015	2nd resolution	18 months	June 18, 2017	At least equal to the weighted average of the last 3 trading days with a maximum discount of 10%	€600,000 nominal / €15,000,000 Not deducted from overall ceilings	Nil

	Category of persons defined as follows: international investment funds and/or companies (i.e.: that conduct financial transactions in several countries), active in the field of health and/or medical devices, and which will each participate in the transaction for an amount of no less than €100,000 or the equivalent of this amount in foreign currency (in accordance with the provisions of the General Regulations of the French financial markets authority);	May 11, 2017	9th resolution	18 months	November 11, 2018	At least equal to the weighted average of the last 20 trading days with a maximum discount of 10%	€800,000 nominal / €25,000,000 Not deducted from overall ceilings	Issue of 2,680,413 new shares in June 2017 at a price of €4.85 each Issue of 715,605 ABSA* at a price of €3.089 each

* 2 share warrants will give the right to subscribe for one Company share at a price of €3.15

MEDICREA INTERNATIONAL

French corporation (Société Anonyme) with share capital of 2,413,265.76 euros
Registered head office: 5389 Route de Strasbourg - Vancia (69140) RILLIEUX LA PAPE

393 175 807 RCS LYON

NOTICE OF A COMBINED GENERAL MEETING OF SHAREHOLDERS

The shareholders are convened at a Combined General Meeting on May 17, 2018, at 2:30 pm, at the head office, for the purpose of deliberating on the following agenda:

Resolutions falling within the competence of the Ordinary General Assembly:

- Presentation of the Board of Directors' report on the management of the Company and the Group ;
- Reading of the Statutory Auditors' report on the parent company and consolidated financial statements for the year ended December 31, 2017;
- Approval of the parent company and consolidated financial statements for the year ended December 31, 2017 and discharge to the Directors;
- Allocation of net income;
- Reading of the special report of the Statutory Auditors on the agreements referred to in Article L. 225-38 and following of the Commercial Code ; no new agreement concluded during the year 2017;
- Approval of the Stock Option and / or Share Purchase Plan adopted by the Board of Directors on September 14, 2017 and December 22, 2017
- Appointment of a new Director
- Authorization granted to the Company to purchase and hold its own shares in accordance to article L.225-209 of the French Commercial Code
- Powers to carry out formalities.

Resolutions falling within the competence of the Extraordinary General Assembly:

- Reading of the special report of the Statutory Auditors on the cancellation of shares;
- Authorization to be granted to the Board of Directors to cancel the shares held by the Company as part of the Company's purchase program of its own shares;
- Reading of the special report of the Statutory Auditors on the delegations to the Board of Directors to issue all securities with or without preferential subscription rights;
- Delegation of authority to be granted to the Board of Directors to decide to increase the share capital of the company by issuing all securities, retaining pre-emptive rights;
- Delegation of authority to be granted to the Board of Directors to decide to increase share capital by issuing ordinary shares and/or marketable securities giving access to the Company's capital or entitlement to the allocation of debt securities, with removal of pre-emptive rights;
- Delegation of authority to be granted to the Board of Directors to decide to increase share capital by issuing ordinary shares and/or marketable securities giving access to the Company's capital or entitlement to the allocation of debt securities, with removal

of pre-emptive rights as part of an offering provided for in paragraph II of article L. 411-2 of the French Monetary and Financial Code;

- Delegation of authority to be granted to the Board of Directors to decide to increase the number of shares to be issued as part of a capital increase in the event of excess demand for subscription, all under the conditions of Article L.225-135-1 of the French Commercial Code;
- Reading of the Statutory Auditors' special report on the delegation to the Board of Directors of the power to proceed to the issue of all securities with cancellation of the preferential subscription right for the benefit of categories of persons meeting certain characteristics in accordance with provisions of Article L.225-138 of the French Commercial Code;
- Delegation of authority to be granted to the Board of Directors to decide to increase share capital by issuing ordinary shares and/or marketable securities giving access to the Company's capital or entitlement to the allocation of debt securities, with removal of pre-emptive rights under article 225-138 of the French Commercial Code (reserved for a category of entities)
- Reading of the special report of the Statutory Auditors on the authorization to award free shares that are existing or to be issued;
- Authorization to be granted to the Board of Directors to award free existing shares or shares to be issued; with waiving of the preferential subscription right of Shareholders for the benefit of the salaried employees and / or executive officers of the Company and the French and foreign companies associated with it
- Reading of the special report of the Statutory Auditors on the granting of stock options and / or subscription of shares;
- Authorization to be granted to the Board of Directors to proceed with the allocation of share purchase or subscription options for the benefit of the employees and / or executive officers of the Company and French and foreign companies linked to it;
- Reading of the special report of the Statutory Auditors on the removal of the preferential subscription right to the capital increase reserved for the benefit of the members of a company savings plan;
- Delegation of authority to be conferred on the Board of Directors to increase the share capital with cancellation of the preferential subscription right for the benefit of members of a company savings plan, with delegation to the Board of Directors to effect the issue and to determine its terms and conditions;
- Cancellation of the preferential subscription right of Shareholders for the benefit of members of a company savings plan through an FCPE (or other plan to members of which Article L.3332-18 of the Labor Code would allow to reserve a capital increase under equivalent conditions) of the Company and the companies of its Group within the meaning of Article L.225-180 of the French Commercial Code. ;
- Setting global limits as part of delegations of increasing the share capital.

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Ordinary Resolutions

FIRST RESOLUTION

Approval of the parent company financial statements

The Shareholders' Meeting, after submission of the Board of Directors' report and after reading the Statutory Auditors' report on the parent company financial statements for the year

ended December 31, 2017, approves the financial statements as they were submitted, as well as the transactions recorded in these statements or summarized in these reports.

The Shareholders' Meeting also approves the total amount of non-deductible expenses and costs from profits liable to corporate tax totaling €164,418, as well as the tax payable due to said expenses and costs amounting to €46,037.

Consequently, it discharges the Directors from any liability in the performance of their duties for the fiscal year.

SECOND RESOLUTION

Allocation of net income

The Shareholders' Meeting, based on the proposal by the Board of Directors, resolves to carry forward to "Retained earnings" the entire net loss for the fiscal year, totaling €10,681,570.45.

Pursuant to the provisions of Article 243 bis of the French General Taxation Code, please note that no dividend has been paid in the last three fiscal years.

THIRD RESOLUTION

Regulated agreements

The Shareholders' Meeting, after hearing the special report of the Statutory Auditors on the agreements falling under Articles L. 225-38 *et seq.* of the French Commercial Code takes note that no new agreement has been concluded during the year and acknowledges the continuation of agreements authorized in previous years and mentioned in said report.

FOURTH RESOLUTION

Approval of the consolidated financial statements

The Shareholders' Meeting, after submission of the Board of Directors' report including the Group's management report and after reading the Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2017, approves the consolidated financial statements as they were submitted as well as the transactions recorded in these statements or summarized in these reports.

FIFTH RESOLUTION

Approval of the Stock Option and / or Share Purchase Plan adopted by the Board of Directors on September 14, 2017 and December 22, 2017

The Shareholders' Meeting, having taken note of the report of the Board of Directors and of Article 422 of the U.S. Internal Revenue Code relating to the allocation of "incentive stock options" for the benefit of US tax resident beneficiaries provided for in the Stock option and / or share purchase option Plan adopted by the Board of Directors at its meeting of September 14, 2017 (the "2017 Stock Option Plan") and the Stock Option and / or Share Purchase Plan adopted by the Board of Directors at its meeting of December 22, 2017 ("12 -2017 Stock-option plan "), approves said Option Plan.

SIXTH RESOLUTION

Appointment of a new Director

Having acknowledged the Board of Directors' report, the Shareholder Meeting appoints with immediate effect:

– **Mr. Pierre OLIVIER**
Born on April 7th, 1966 in Saint Adresse (76)
Residing at 626 San Luis Road, Berkeley CA – 94 707 USA

as Director for a six-year term, until the end of the Ordinary Annual Shareholder Meeting held in 2024, called to approve the accounts of the financial period ending on 31 December 2023.

SEVENTH RESOLUTION

Authorization granted to the Company to purchase and hold its own shares

The Shareholders' Meeting, upon proposal by the Board of Directors, decides, in accordance with Article L. 225-209 of the French Commercial Code, and subject to compliance with statutory and regulatory provisions applicable at the time of intervention, to authorize the Company to purchase and hold its own shares, up to no more than 10% of the share capital, for the sole purpose of, and by order of priority:

- to ensure the animation of the secondary market or the liquidity of the MEDICREA INTERNATIONAL share by an investment services provider acting independently under a liquidity contract in accordance with the AMAFI Code of Ethics recognized by the Autorité des Marchés Financiers;
- to ensure the coverage of stock option plans and / or bonus share plans (or similar plans) for the benefit of the Group's employees and / or corporate officers to proceed with the reduction of capital of the Company by cancellation of shares within the legal limits;
- to reduce the Company's capital by canceling shares within the legal limits;
- to keep the purchased shares and to postpone them later to the exchange, or as payment in the context of possible acquisitions;
- to implement any market practice admitted or to be accepted by the market authorities.

The transactions conducted as part of the buyback program will be carried out pursuant to applicable regulations.

Share purchases made under this authorization will be implemented within the following price limit, subject to adjustments relating to any transactions affecting the Company's capital: the maximum purchase price cannot exceed €25 (excluding acquisition costs) per share with a par value of €0.16.

The theoretical maximum amount for the implementation of this program is €37.707.277,50, financed either by own resources or by the use of short- or medium-term external funding.

Shares can be bought back by any appropriate method, including through acquisition of blocks of securities on one or more occasions, and including while a public tender offer is in progress within the limits authorized by stock market regulations.

In the event of capital transactions, in particular by incorporation of reserves and free allocations, division or consolidation of securities, the above prices will be adjusted accordingly.

To this end, full authority is granted to the Board of Directors who may further delegate to the Chairman and CEO the authority to place all stock market orders, enter into all agreements, in particular with a view to keeping records of share purchases and sales, make all declarations to the AMF and any other organizations; carry out all other formalities and, more generally, do all that is necessary.

This authorization is granted until the date of the next Shareholders' Meeting called to approve the financial statements, within the statutory limit of eighteen months as of this day.

Every year the Board of Directors shall inform the Ordinary General Meeting of transactions carried out pursuant to this authorization.

EIGHTH RESOLUTION

Powers to carry out formalities

The Shareholders' Meeting grants full authority to the bearer of originals, copies or extracts of these minutes in order to accomplish all necessary filing and other formalities.

Extraordinary resolutions

NINTH RESOLUTION

Authorization to be granted to the Board of Directors to cancel the shares held by the Company as part of the share buyback program

The Shareholders' Meeting, after reviewing the Board of Directors' report and after reading the Statutory Auditors' special report and subject to approval of the 6th resolution submitted to this Shareholders' Meeting, authorizes the Board of Directors, who may further delegate to the Chairman and CEO, to:

- cancel the shares held by the Company or acquired by it as part of the share buyback program, within the limit of 10% of the share capital per twenty-four-month period;
- make a corresponding reduction in the share capital by the amount of the canceled shares;
- amend the bylaws accordingly, and more generally do whatever is necessary.

This authorization is hereby granted for eighteen months as of the date of this Meeting.

TENTH RESOLUTION

Delegation of authority to be granted to the Board of Directors to decide to increase share capital by issuing ordinary shares and/or marketable securities

giving access to the Company's capital or entitlement to the allocation of debt securities, retaining pre-emptive rights

Having acknowledged the Board of Directors' report and the Auditor's special report, in compliance with the provisions of articles L. 225-129-2 and L. 228-91 et seq. of the French Commercial Code, the Shareholder Meeting:

– delegates authority to the Board of Directors to decide one or more increases in share capital, retaining the pre-emptive right of Shareholders, in the proportions and on the dates it establishes, by issuing (including through the free allocation of warrants), in France and/or abroad, in euros, shares in the Company and any marketable securities, which may be subscribed either in cash or by offsetting debts, issued free of charge or in exchange for payment, giving access by any means, immediately or at a later date, to:
(i) existing shares or shares to be issued by the Company and/or a company that directly or indirectly owns more than half of its share capital or in which the Company directly or indirectly owns more than half of the share capital, subject to authorisation from an Extraordinary Shareholder Meeting of the company in which the rights are exercised only in cases where the shares have yet to be issued. These marketable securities may give entitlement to the allocation of debt securities and be denominated in any currency or monetary units pegged to a basket of currencies;

and/or

(ii) existing shares of the Company and/or a company in which it directly or indirectly owns less than half of its share capital or where less than half of share capital is directly or indirectly owned by this company. These marketable securities may give entitlement to the allocation of debt securities and be denominated in any currency or monetary units pegged to a basket of currencies;

– decides that the delegation hereby granted to the Board of Directors remains valid for a period of twenty-six months as from the date of this Meeting;

– decides that the total par amount of the share capital increases that may potentially be immediately performed may not exceed eight hundred thousand (800,000) euros, with it being stipulated that this amount shall be charged to the global ceiling specified in the 19th resolution ("**Global Ceiling I**"), to which must be added, if applicable, the additional par amount of shares to be issued, in accordance with the law and any contractual stipulations specifying other cases of adjustment, to preserve the rights of bearers of marketable securities conferring entitlement to shares;

– also decides that the total par amount of marketable securities issued with a primary security that is a debt security, particularly a bond, may not exceed twenty-five million (25,000,000) euros or the equivalent of this amount in other currencies. This amount shall be charged to the global ceiling specified in the 19th resolution ("**Global Ceiling II**"), with it being stipulated that this amount is autonomous and separate from the amount of debt securities specified in articles L. 228-40 and L. 228-92 para. 3 of the French Commercial Code, for which the issuing shall be decided or authorised by the Board of Directors pursuant to the provisions of article L. 228-4 of the French Commercial Code or the articles of association;

- decides that Shareholders have, in proportion to the value of their shares, a pre-emptive subscription right to marketable securities in existing stock issued under this resolution and decides that the Board of Directors may introduce a subscription right for excess amounts;

- acknowledges that this delegation automatically waives, to the benefit of the holders of any marketable securities that may be issued giving access, immediately or at a later date, to shares in the Company, Shareholder pre-emptive rights to shares to which said marketable securities may grant them entitlement;

- decides that if subscriptions to existing stock and, if applicable, to excess stock, have not absorbed a share or marketable security issue in full, as defined above, the Board may, under the terms set out in article L. 225-134 of the French Commercial Code decide one of the following; to restrict the issue to the number of subscriptions received, providing this equals at least three quarters of the decided issue, to distribute non-subscribed securities at its discretion and/or to offer all or part of the non-subscribed securities to the public;

- decides that the Board of Directors may, if appropriate, charge the costs, taxes and fees resulting from the issues provided for in this resolution to the amount of the corresponding premiums and deduct from such amount the necessary amounts for the legal reserve;

- decides that the Board of Directors shall, according to law, have full powers, with the option to sub delegate powers to the General Director subject to conditions stipulated by law, to implement this delegation, in particular to establish the conditions of issue, subscription and payment for shares and marketable securities, preserve the rights of holders of securities, suspend, if necessary, the exercise of rights attached to said marketable securities for a maximum period of three months, record the completion of the issues specified in this resolution and perform the corresponding amendments to the articles of association;

- acknowledges that this delegation cancels and supersedes any prior delegation with the same purpose.

ELEVENTH RESOLUTION

Delegation of authority to be granted to the Board of Directors to decide to increase share capital by issuing ordinary shares and/or marketable securities giving access to the Company's capital or entitlement to the allocation of debt securities, with removal of pre-emptive rights

Having acknowledged the Board of Directors' report and the Auditor's special report, in compliance with the provisions of articles L. 225-129-2, L. 225-135 and L. 228-91 et seq. of the French Commercial Code, the Shareholder Meeting:

- delegates authority to the Board of Directors to decide one or more increases in share capital in the proportions and on the dates it establishes, by issuing in France and/or abroad, by way of public offering, in euros, shares in the Company and any marketable securities, which may be subscribed either in cash or by offsetting debts, issued free of charge or in exchange for payment, giving access by any means, immediately or at a later date, to:

(i) existing shares or shares to be issued by the Company and/or a company that directly or indirectly owns more than half of its share capital or in which the Company directly or indirectly owns more than half of the share capital, subject to authorisation from an Extraordinary Shareholder Meeting of the company in which the rights are exercised only in cases where the shares have yet to be issued. These marketable securities may give entitlement to the allocation of debt securities and be denominated in any currency or monetary units pegged to a basket of currencies;

and/or

(ii) existing shares of the Company and/or a company in which it directly or indirectly owns less than half of its share capital or where less than half of share capital is directly or indirectly owned by this company. These marketable securities may give entitlement to the allocation of debt securities and be denominated in any currency or monetary units pegged to a basket of currencies;

- decides that the delegation hereby granted to the Board of Directors remains valid for a period of twenty-six months as from the date of this Meeting;

- decides to remove the pre-emptive right of Shareholders to said shares or securities and grant the Board of Directors the power to introduce a priority subscription right to existing stock to the benefit of Shareholders and, potentially, to excess shares, pursuant to the provisions of articles L. 225-135 the French Commercial Code, with it being stipulated that non-subscribed securities shall therefore be placed through a public offering in France and/or abroad and/or on the international market;

- decides that the total par amount of the share capital increases that may potentially be immediately performed may not exceed eight hundred thousand (800,000) euros, with it being stipulated that this amount shall be charged to the **Global Ceiling I** specified in the 19th resolution, to which must be added, if applicable, the additional par amount of shares to be issued, in accordance with the law and any contractual stipulations specifying other cases of adjustment, to preserve the rights of bearers of marketable securities conferring entitlement to shares;

- decides that the share issue price shall be at least equal to the weighted average of the stock market price of the ten most recent stock exchange sessions preceding its determination, with a maximum 10% reduction as required;

- also decides that the total par amount of marketable securities issued with a primary security that is a debt security, particularly a bond, may not exceed twenty-five million (25,000,000) euros or the equivalent of this amount. This amount shall be charged to the **Global Ceiling II** specified in the 19th resolution, with it being stipulated that this amount is autonomous and separate from the amount of debt securities specified in articles L. 228-40 and L. 228-92 para. 3 of the French Commercial Code, for which the issuing shall be decided or authorised by the Board of Directors pursuant to the provisions of article L. 228-40 of the French Commercial Code or the articles of association;

- acknowledges that this delegation automatically waives, to the benefit of the holders of any marketable securities that may be issued giving access, immediately or at a later date, to shares in the Company, Shareholder pre-emptive rights to shares to which said marketable securities may grant them entitlement;

- decides that the amount paid or due to the Company for each share issued or to be issued, after taking into consideration, in the event of the issue of detachable share subscription or allotment warrants, the issue price of such warrants, shall be greater than or equal to the minimum price imposed by legal and/or regulatory provisions on the date of issue;

- decides that the conversion, redemption or more generally transformation into shares of each marketable security giving access to the capital will be such, taking account of the par value of said marketable securities, that the quantity of shares issued and the amount received by the Company for each share is at least equal to the minimum subscription price defined for the issuing of shares in this same resolution;

- decides that the Board of Directors may, if appropriate, charge the costs, taxes and fees resulting from the issues provided for in this resolution to the amount of the corresponding premiums and deduct from such amount the necessary amounts for the legal reserve;

- decides that the Board of Directors shall, according to law, have full powers, with the option to sub delegate powers to the General Director subject to conditions stipulated by law, to implement this delegation, in particular to establish the conditions of issue, subscription and payment for shares and marketable securities, preserve the rights of holders of securities, suspend, if necessary, the exercise of rights attached to said marketable securities for a maximum period of three months, record the completion of the issues specified in this resolution and perform the corresponding amendments to the articles of association;

- acknowledges that this delegation cancels and supersedes any prior delegation with the same purpose.

TWELFTH RESOLUTION

Delegation of authority to be granted to the Board of Directors to decide to increase share capital by issuing ordinary shares and/or marketable securities giving access to the Company's capital or entitlement to the allocation of debt securities, with removal of pre-emptive rights as part of an offering provided for in paragraph II of article L. 411-2 of the French Monetary and Financial Code

Having acknowledged the Board of Directors' report and the Auditor's special report, in compliance with the provisions of articles L. 225-129-2, L. 225-135, L. 225-136 and L. 228-91 et seq. of the French Commercial Code and article L. 411-2 of the French Monetary and Financial Code, the Shareholder Meeting:

- delegates authority to the Board of Directors to decide one or more increases in share capital in the proportions and on the dates it establishes, by issuing in France and/or abroad, as part of an offering provided for in paragraph II of article L. 411-2 of the French Monetary and Financial Code, in euros, shares in the Company and any marketable securities giving access by any means, immediately or at a later date, to existing shares or shares to be issued by the Company or by a company in which the

Company directly or indirectly owns more than half of the share capital, subject to authorisation from an Extraordinary Shareholder Meeting of the company in which the rights are exercised, with removal of Shareholder pre-emptive rights, which may be subscribed either in cash or by offsetting debts, with said marketable securities potentially creating entitlement to the allocation of debt securities, be denominated in any currency or monetary units pegged to a basket of currencies;

- decides that the delegation hereby granted to the Board of Directors remains valid for a period of twenty-six months as from the date of this Meeting;

- decides to remove the Shareholder pre-emptive rights from these shares or securities;

- decides that the share issue price shall be at least equal to the weighted average of the stock market price of the ten most recent stock exchange sessions preceding its determination, with a maximum 10% reduction as required.

- the total par amount of share capital increases that may potentially be performed immediately and/or at a later date cannot exceed 20% of the share capital per year, with it being stipulated that this 20% cap may be calculated at any time, applying to adjusted capital according to operations affecting it after this Meeting and not taking into account the par amount of the capital that may potentially be increased through the exercise of all rights and marketable securities already issued, for which exercise is deferred, and that the amount of capital increases provided for in this resolution is charged to the **Global Ceiling I** specified in the 19th resolution;

- in addition decides that the total par amounts of marketable debt securities giving access to capital that may potentially therefore be issued may not exceed twenty-five million (25,000,000) euros or the equivalent of this amount on the date of deciding the issuance, with this amount being charged to the **Global Ceiling II** specified in the 12th resolution;

- acknowledges that this delegation automatically waives, to the benefit of the holders of any marketable securities that may be issued giving access, immediately or at a later date, to shares in the Company, Shareholder pre-emptive rights to shares to which said marketable securities may grant them entitlement;

- decides that the amount paid or due to the Company for each share issued or to be issued, after taking into consideration, in the event of the issue of detachable share subscription or allotment warrants, the issue price of such warrants, shall be greater than or equal to the minimum price imposed by legal and/or regulatory provisions on the date of issue;

- decides that the conversion, redemption or more generally transformation into shares of each marketable security giving access to the capital will be such, taking account of the par value of said marketable securities, that the quantity of shares issued and the amount received by the Company for each share is at least equal to the minimum subscription price defined for the issuing of shares in this same resolution;

- decides that the Board of Directors may, if appropriate, charge the costs, taxes and fees resulting from the issues provided for in this resolution to the amount of the corresponding premiums and deduct from such amount the necessary amounts for the legal reserve;

– decides that the Board of Directors shall, according to law, have full powers, with the option to sub delegate powers to the General Director subject to conditions stipulated by law, to implement this delegation, in particular to establish the conditions of issue, subscription and payment for shares and marketable securities, preserve the rights of holders of securities, suspend, if necessary, the exercise of rights attached to said marketable securities for a maximum period of three months, record the completion of the issues specified in this resolution and perform the corresponding amendments to the articles of association;

– acknowledges that this delegation cancels and supersedes any prior delegation with the same purpose.

THIRTEENTH RESOLUTION

Delegation of authority to be granted to the Board of Directors to decide to increase the number of share, securities and/or marketable securities giving access to the Company's capital or entitlement to the allocation of debt securities to be issued in the case of capital increase

Having acknowledged the Board of Directors' report and the Auditor's report, in compliance with the provisions of articles L. 225-135-1 of the French Commercial Code, the Shareholder Meeting authorises the Board of Directors, in the event of the 10th, 11th and 12th resolutions being adopted, for a period of twenty-six months as of the date of the Meeting, to increase, in compliance with article R. 225-118 of the French Commercial Code or any other applicable provision, following its sole decisions within the ceiling specified in the resolution by virtue of which the initial issuing is decided and within the limit of **Global Ceiling I** and **Global Ceiling II** specified in the 19th resolution within 30 days of the closure of subscription to the initial issue and limited to 15% of the initial issue and at the same price as that decided for the initial issue, the number of shares, securities or marketable securities to be issued in the case of a share capital increase of the Company with or without pre-emptive rights for Shareholders, decided pursuant to the 10th, 11th and 12th resolutions.

The Shareholder Meeting acknowledges that the limit specified in the first paragraph of section I of article L. 225-134 of the French Commercial Code shall then be increased in the same proportions.

The Shareholder Meeting also acknowledges that this delegation cancels and supersedes any prior delegation with the same purpose.

FOURTEENTH RESOLUTION

Delegation of authority to be granted to the Board of Directors to decide to increase share capital by issuing ordinary shares and/or marketable securities giving access to the Company's capital or entitlement to the allocation of debt securities, with removal of pre-emptive rights under article 225-138 of the French Commercial Code (reserved for a category of entities)

Having acknowledged the Board of Directors' report and the Auditor's special report, in compliance with legal provisions, the Shareholder Meeting:

- delegates authority to the Board of Directors to decide one or more increases in share capital by issuing in France or abroad, in euros, ordinary shares in the Company or any marketable securities giving access by any means, immediately or at a later date, to existing ordinary shares or ordinary shares to be issued by the Company or by a company that directly or indirectly owns more than half of its share capital or in which the Company directly or indirectly owns more than half of the share capital, which may be subscribed either in cash or by offsetting debts. These marketable securities may also be denominated in foreign currencies or in any monetary unit pegged to a basket of currencies;

- decides that the total of share capital increases that may potentially be performed under this delegation immediately or at a later date may not exceed eight hundred thousand (800,000) euros in par value, with it being stipulated that this amount shall not be charged to the global ceiling specified in the 19th resolution ("**Global Ceiling I**");

- decides that the total amount (i) of marketable debt securities giving access to capital by any means, immediately or at a later date, that may potentially be issued by virtue of this resolution may not exceed twenty-five million (25,000,000) euros par value or the equivalent of this amount in other currencies, on the date of deciding the issuance, and (ii) shares to be issued subsequent to the issue of hybrid marketable securities may not exceed eight hundred thousand (800,000) euros in par value and shall not be charged to the global ceiling specified in the 19th resolution ("**Global Ceiling II**");

- decides to remove the Shareholder pre-emptive right to shares or marketable securities specified in this resolution and to reserve the right to subscribe to a category of entities defined as follows: International investment funds and/or companies (i.e. conducting financial transactions in a number of countries), operating in the sector of health and/or medical devices and which each place at least one hundred thousand (100,000) euros, or the equivalent in foreign currencies, in the operation (in compliance with the provisions of article 211-2 3) of the General Regulations of the Financial Markets Authority (AMF);

- decides that the Board of Directors shall establish the precise list of beneficiaries for each use of this delegation, within the category of beneficiaries stipulated in the above paragraph for which pre-emptive rights have been removed and shall set the characteristics, amount and terms for any issuance, together with the payment terms securities issued;

- decides that the share issue price shall be at least equal to the weighted average of the stock market price of the twenty most recent stock exchange sessions preceding its determination, with a maximum 10% reduction as required;

- decides that the Board of Directors may if necessary charge any expenses involved in performance of the issuances concerned to the issue premiums;

- decides that the Board of Directors shall have full powers, with the option of sub-delegation, for the purpose of implementing this delegation, in particular establishing the characteristics of the marketable securities issued and, more generally, taking any measures and performing any formalities required for successfully concluding each capital increase, declaring the completion and making the required changes to the articles of association.

The delegation hereby granted to the Board of Directors remains valid for a period of eighteen months as from the date of this Meeting;

FIFTEENTH RESOLUTION

Authorization to be granted to the Board of Directors for a period of 26 months, to award free existing shares or shares to be issued; with waiver of the preferential subscription right of Shareholders

The Shareholders' Meeting, having read the Board of Directors' Report and the Statutory Auditors' Special Report and in accordance with the provisions of Articles L. 225-197-1 *et seq*. of the French Commercial Code:

- Authorizes the Board of Directors, for a period of 26 months from this Shareholders' Meeting, to allocate, in one or more instalments and at its sole discretion, either existing free shares in the Company resulting from the purchase made by it or free shares to be issued via a share capital increase, in favor of employed members of staff or corporate officers that it selects from the employees and executive corporate officers of the Company and of French or international companies related to it within the meaning of Article L. 225-197-2 I of the French Commercial Code;

- Decides that the cumulative total number of shares issuing (i) both from the allocation of free shares resulting from this authorization, and (ii) from the exercise of the purchase and/or subscription options provided for under the16th resolution of this Shareholders' Meeting may not exceed an overall number equal to 7,5% of the total number of shares comprising the share capital of the Company at the date of allocation;

- Decides that the allocation of the shares to their beneficiaries will become definitive at the end of a vesting period set by the Board of Directors, it being understood that this duration may not be less than one year, and that said shares shall be retained for a minimum period set by the Board of Directors, it being understood that this period may not be less than one year.

- Decides that the duration of the vesting period will end early in the event of the incapacity of the beneficiary falling into the second or third categories provided for in Article L. 341-4 of the French Social Security Code;

- Decides that, for beneficiaries not resident in France for tax purposes, where the legal and regulatory provisions in force at the date of its decision so authorize it, the Board of Directors may annul the above-mentioned retention period provided that the vesting period is at least as long as the cumulative vesting and retention periods set by the legal and regulatory provisions in force at the date of the decision of the Board of Directors;

- Decide that the shares acquired under this authorization shall be held in registered form;

- Notes that, regarding the shares to be issued, (i) this authorization will entail, at the end of the vesting period, a share capital increase by capitalization of reserves, profits or issue premiums in favor of the recipients of said shares and the corresponding waiver by the Shareholders in favor of the beneficiaries of the allocations to the portion of reserves, profits and premiums thus capitalized, (ii) this authorization would automatically entail, in favor of the beneficiaries of said shares, waiver by the Shareholders of their

preferential subscription right. It is specified that said share capital increase will not count towards the global ceiling specified in 19th resolution ("**Overall Ceiling I**").

The Shareholders' Meeting grants full authority to the Board of Directors, who may further delegate to the Chairman and CEO, acting subject to the above conditions, in particular to:

- Implement this authorization;
- Set the terms and conditions and where necessary the criteria for the allocation of the shares;
- Decide on the number of shares to be allocated free of charge;
- Determine the identity of the beneficiaries, the number of shares allocated free of charge to each of them and the procedures for the allocation of shares;
- Agree on any clauses prohibiting the immediate resale of some or all of the shares in the event of allocation to corporate officers;
- In the case of the allocation of shares to be issued, set the amount and nature of the reserves, profits and premiums to be capitalized;
- Record the share capital increase or increases carried out pursuant to this authorization, and amend the Bylaws accordingly;
- and more generally do whatever is necessary.

SIXTEENTH RESOLUTION

Authorization to be granted to the Board of Directors
to proceed with the allocation of share purchase or subscription options

The Shareholders' Meeting, after reviewing the Board of Directors' report, and after reading the Statutory Auditors' special report, authorizes the Board of Directors, pursuant to the provisions of Articles L. 225-177 *et seq.* of the French Commercial Code, to grant, on one or more occasions and at its sole discretion, Company share purchase and/or subscription options in favor of all or some employees and/or executive corporate officers of the Company and French or foreign companies related to it under the conditions referred to in Article L. 225-180 of the French Commercial Code, in the following conditions:

1° - Period during which the Meeting's authorization must be used by the Board:

This authorization, which may hereby be used by the Board of Directors on one or more occasions, is given by the Shareholders' Meeting for a period of 26 months as of this date.

2° - Period during which the options must be exercised by the beneficiaries:

As the maximum period during which the options may be exercised is freely set by the Meeting, pursuant to the provisions of Article L. 225-183, sub-paragraph 1 of the French Commercial Code, the Shareholders' Meeting decides that the options may be exercised during a period not exceeding 7 years, which shall start from the date the options were allocated, subject to restrictions that could be applied by the Board of Directors regarding the exercise period of said options.

The authorization granted by the Shareholders' Meeting would outweigh, in favor of the beneficiaries of the options, any explicit waiver by shareholders of their preferential subscription rights to subscription shares that will be issued as and when the subscription options are exercised.

3° - Determination of pricing terms:

The Shareholders' Meeting recalls that pursuant to current statutory provisions and in particular those of Article L. 225-177 of the French Commercial Code, the price of share purchase and/or subscription by beneficiaries is determined by the Board of Directors on the day the options are allocated and in accordance with objective methods applicable to the valuation of shares which takes account, applying a specific weighting, of the Company's net asset position, profitability and business prospects, on a consolidated basis.

Accordingly, the Shareholders' Meeting decides that the purchase and/or subscription price of shares by beneficiaries will be determined by the Board of Directors, on the date the options are allocated, as follows: equal to the weighted average of the last twenty trading days prior to the day the option is allocated.

4° - Total amount of options allocated:

The Shareholders' Meeting decides that the cumulative total number of shares resulting from both (i) the exercise of purchase and/or subscription options thus granted in respect of this authorization, and (ii) the allocation of free shares under the 15th resolution of this Shareholders' Meeting may not exceed an overall number equal to 7,5% of the total number of shares comprising Company stock at the date of allocation.

5° - Capital increase resulting from exercise of share subscription

The capital increase arising from the exercise of share subscription options will be definitively carried out due to the sole fact of the option exercise declaration, accompanied by the subscription form and payment in cash or by offsetting against receivables of an equivalent amount.

It is specified that the amount of said share capital increase, resulting from the exercise of subscription options will not count towards the global ceiling specified in 19th resolution ("**Overall Ceiling I**").
At the first meeting following fiscal year-end the Board of Directors will record, if applicable, the number and amount of shares issued during the year, will amend the bylaws as necessary, and carry out the publication formalities.

6° - Entitlement:

Shares acquired or subscribed in conjunction with the preceding provisions are required to be registered and will bear rights immediately. Consequently, for the same par value they will be entitled to the same dividend that could be distributed to other shares carrying the same rights.

7° - Powers:

The Shareholders' Meeting gives full authority to the Board of Directors, who may further delegate to the Chairman and CEO, acting subject to the above conditions, to:

- state the other conditions under which the options will be granted, such as the beneficiaries, the maximum number of options exercisable by each beneficiary, the price of the options available pursuant to the terms determined by the Shareholders' Meeting, the opening date, and the terms of exercise of the options;
- and, more generally, to hereby establish or amend the rules of the option plan with all the restrictions, in particular concerning the exercise period of the options and/or retention of the shares, and the specific conditions pertaining to said options that it deems appropriate and generally do whatever is required to implement said authorization and its consequences.

The Shareholders' Meeting also authorizes the Chairman and CEO to acquire, on behalf of the Company, the shares required for the allocation of share purchase options.

SEVENTEENTH RESOLUTION

Delegation of authority to be granted to the Board of Directors to proceed with a share capital increase reserved for employees of the Company and companies within its Group

The Shareholders' Meeting, after reviewing the Board of Directors' report and after reading the Statutory Auditors' special report, and by applying the provisions of Article L. 225-129-6 of the French Commercial Code, authorizes the Board of Directors from this day forward and for a period of twenty-six (26) months, full powers to proceed at its sole discretion with one or more share capital increases in accordance with the provisions of Article L. 3332-18 *et seq.* of the French Labor Code, at the dates that it will determine, to a maximum aggregate nominal amount of forty thousand (40.000) euros reserved for members of a company savings plan via an employees' mutual fund (FCPE) (or any other members' plan for which Article L. 3332-18 of the French Labor Code would allow the reservation of a capital increase on equivalent terms) belonging to the Company and its Group companies within the meaning of Article L. 225-180 of the French Commercial Code, it being specified that this amount will be deducted from the global ceiling specified in 19th resolution ("**Overall Ceiling I**").

The price will be determined pursuant to the law, in particular according to objective share price valuation methods. The subscription price can neither exceed the purchase price thus determined, nor be less than 20% thereof (30% if the period of unavailability under the plan pursuant to Articles L. 3332-25 and L. 3332-26 of the French Labor Code is at least 10 years); it being noted that the Board of Directors is entitled to reduce such discount if it deems appropriate, particularly in the event members of a company savings plan are offered securities on the international market and/or abroad in order to meet the requirements of applicable local legislation.

The Shareholders' Meeting hereby grants full authority to the Board of Directors, who may further delegate to the Chairman and CEO, within limits it specifies, to the CEO or Deputy CEO, to implement this delegation, and in particular to decide to increase capital pursuant to the above-mentioned conditions, to determine the terms, in particular setting the share issue price within the limits stipulated by law and this Shareholders' Meeting, to determine the dates of subscription opening and closing, and more generally to finalize all transactions contributing to this increase, and to amend the Bylaws accordingly.

The Shareholders' Meeting hereby acknowledges that this delegation invalidates any prior delegation having the same purpose.

EIGHTEENTH RESOLUTION

Cancellation of shareholders' preferential subscription rights for the benefit of employees of the Company and its Group's companies

The Shareholders' Meeting, after reviewing the Board of Directors' report and after reading the Statutory Auditors' special report, decides to waive the preferential subscription rights of holders of ordinary shares or securities giving access to ordinary shares to be issued as part of the delegation under the 11th resolution above, in favor of members of a company savings plan via an employees' mutual fund (FCPE) (or any other members' plan for which the provisions of the Labor Code would allow the reservation of a capital increase on equivalent terms) of the Company and its Group companies within the meaning of Article L. 225-180 of the French Commercial Code.

NINETEENTH RESOLUTION

Global limit of authorisations

Having acknowledged the Board of Directors' report and the Auditor's special report, in compliance with the provisions of articles L. 225-129-2 of the French Commercial Code, the Shareholder Meeting:

- decides that the amount of capital increases that may potentially be performed immediately, by virtue of the 10th, 11th, 12th and 17th resolutions of this Meeting, may not exceed eight hundred thousand (800,000) euros in par value ("**Global Ceiling I**");

- also decides that the total par amounts of marketable debt securities giving access by any means to capital, immediately or at a later date, that may potentially be issued by virtue of the 10th, 11th, 12th and 17th resolutions of this Meeting, may not exceed twenty-five million (25,000,000) euros in par value or the equivalent in other currencies, on the date of deciding the issuance and (ii) the shares to be issued as a consequence of issuing hybrid marketable securities may not exceed eight hundred thousand (800,000) euros in par value ("**Global Ceiling II**").

The following shall be added to the ceilings, if appropriate; the par value of shares to be issued to preserve, in accordance with the law and, if applicable, contractual stipulations specifying other cases of adjustment, the rights of holders of marketable securities or other securities giving access to the capital of the Company and/or issued by a Subsidiary and/or a parent company under the delegations of authority granted by the Board of Directors.

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Any shareholder, regardless of the number of shares he owns, may take part in this meeting.

By failing to personally attend this meeting, shareholders may:

- send the company a proxy without indication of agent;
- to hand a power of attorney to another shareholder or to their spouse or to the partner with whom he has entered into a civil solidarity pact (the statutes of the company do not provide, for the moment, for the possibility of being represented by any other person physical or moral of choice);
- use and send to the company a postal voting form.

However, in accordance with the provisions of the regulations, only shareholders entitled to such share by the registration of the securities in their name (or in the name of the Company) may attend the meeting, vote by mail or be represented by proxy. intermediary registered on their behalf) on the 2nd working day preceding the General Assembly at midnight (Paris time):

- With regard to holders of registered shares: by the entry in the account of the shares in the register of registered shares of the Company;
- For holders of bearer shares: by filing at the Company's registered office, a participation certificate issued by an authorized intermediary recording the accounting registration of the securities, attached to the voting or proxy form or at the request of admission card.

A single postal voting and power of attorney form will be available to shareholders at the registered office of the Company or may be requested by registered letter with acknowledgment of receipt from the date of convening the meeting.

All applications received will be accepted no later than six days before the date of the meeting.

Votes by correspondence will only be taken into consideration if the forms, duly completed and signed, are received at the registered office of the company at least three days before the date of the meeting.

Any shareholder who has already voted by mail, sent a proxy, asked for an admission card or a certificate of participation, will no longer be able to choose another method of participation in the meeting.

Requests for the inclusion of items or draft resolutions on the agenda of the Shareholders' Meeting presented by shareholders fulfilling the legal requirements must be sent to the company, for the attention of Mr. Denys SOURNAC, by LR .AR, from the date of publication of this notice and up to 25 days before the meeting without being able to be sent more than 20 days after the date of publication of this notice.

Requests for the registration of draft resolutions should be accompanied by the text of the draft resolutions and possibly a brief statement of reasons as well as a certificate of registration in account justifying the holding of the minimum capital required.

Requests for the inclusion of items on the agenda must be motivated and accompanied by the certificate of registration in account justifying the holding of the minimum capital required.

It is also recalled that the examination by the general meeting of points or resolutions that will be presented is subject to transmission by interested parties, no later than the second working

day preceding the general meeting at midnight, Paris time , a new certificate justifying the accounting registration of their securities under the same conditions as those indicated above.

In accordance with Article R. 225-84 of the French Commercial Code, any shareholder may ask written questions to the company as from the date of this insertion. These questions must be addressed to the company, to the attention of Mr Denys SOURNAC, Chairman and Chief Executive Officer, by LR.AR, no later than the 4th working day preceding the date of the general meeting. They must be accompanied by a certificate of registration either in the registered accounts kept by the company or in the bearer share accounts kept by the authorized intermediary.

For this meeting, there is no provision for voting by electronic means of telecommunication and therefore no site referred to in Article R. 225-61 of the Code of Commerce will be established for this purpose.

In accordance with the law, all the documents which must be communicated to the general meetings will be held, within the legal deadlines, at the disposal of the shareholders at the registered office or on the website of the Company www.medicrea.com or transmitted on simple request addressed to the society.

Board of directors


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