IFRS CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2017

Leading personalized spine | medicrea.com

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 Non-current	 Current	 Total	12.31.2016 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:

(€)	**12.31.2016**	**Cash movements**		**Non-cash movements**	**12.31.2017**
		Issues	**Redeemed**		
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.

	At 12.31.2017			At 12.31.2016		
Sections	**Designation of financial instruments**	**Net book value**	**Of which measured at fair value** (1)	**Designation of financial instruments**	**Net book value**	**Of which measured** at fair value (1)
Assets (€)						
Trade receivables	**C**	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	(1,059,042)	(1,121,677)
credit	**(12,003,652)**	**(8,670,714)**
Taxable income excluding adjustments	**3,361,023**	**2,889,949**
Theoretical tax income / (charge) @28%	(309,175)	(188,684)
Difference in tax rates of other countries	574,590	(350,210)
Tax on permanent differences	(3,390,094)	(1,995,445)
Uncapitalized tax losses carried forward	(445,426)	(140,429)
Correction of corporate tax rates	643,366	510,074
Capping of deferred tax assets	70,373	(462,009)
Other	**504,657**	**263,246**
Recognized corporate tax income/ (charge)		

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.