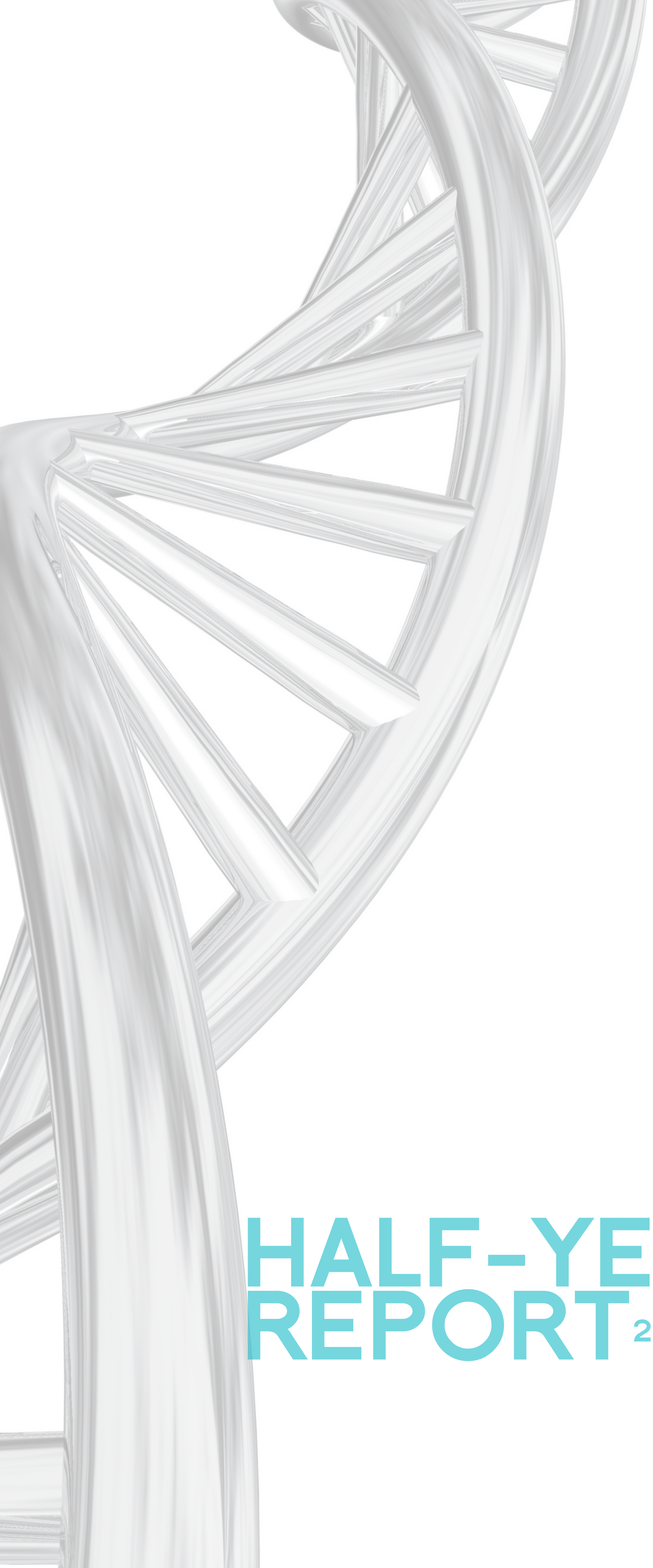
leading personalized spine

HALF-YEAR REPORT 2018

MEDICREA®
(IM)PROVE

HALF-YEAR REPORT 2018

CONTENTS



HALF-YEAR REPORT 2018

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

MEDICREA leads the design, integrated manufacture, and distribution of 30+ FDA approved implant technologies, utilized in over 150k spinal surgeries worldwide to date. Operating in a $10 billion marketplace, MEDICREA is an SME with 200 employees worldwide, which includes 50 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 an implant and surgical instrument manufacturing facility, an ultra-modern manufacturing facility dedicated to the machining and development of 3D-printed, patient-specific implants, as well as distribution subsidiaries in the US, France, Belgium, Poland and Australia.

1 STATEMENT OF THE PERSON RESPONSIBLE

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1 STATEMENT OF THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT

Rillieux-la-Pape-Vancia, October 30, 2018,

I certify that, to my knowledge, the financial statements for the half-year just ended have been prepared in accordance with applicable IFRS accounting standards and give a fair view of the assets, financial position and performance of the Company and of all companies included in the consolidation scope, and that the enclosed half-year report gives a true view of the major events that took place over the first six months of the fiscal year, their impact on the financial statements, the main transactions between related parties and a description of main risks and uncertainties for the remaining six months of the fiscal year.

Denys SOURNAC
Chairman and CEO of MEDICREA

2 BUSINESS REPORT

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2 HALF-YEAR BUSINESS REPORT

2.1 KEY FIGURES OF THE SIX MONTHS TO JUNE 30, 2018

(€ K)	06.30.2018	06.30.2017
SALES	16,919	14,696
OPERATING INCOME BEFORE SHARE-BASED PAYMENTS	(5,030)	(3,801)
NET INCOME/(LOSS) - GROUP SHARE	(6,500)	(5,121)
Earnings per share (€)	(0.43)	(0.50)
Earnings per share, diluted (€)	(0.43)	(0.50)
SHAREHOLDERS' EQUITY	15,666	21,049
Gross financial debt	20,962	22,488
Cash and cash equivalents	(5,157)	(14,118)
NET FINANCIAL DEBT	15,680	8,370
Workforce	194	162

2.2 HIGHLIGHTS OF THE FIRST HALF OF 2018

Noteworthy events during the first half of 2018 are as follows:

- At the beginning of the year, Medicrea received FDA clearance for its 3D-printed titanium cages, produced at its ultra-modern additive manufacturing facility, and the first surgery procedures using these implants were carried out;

- In February, the distribution subsidiary Medicrea Belgium was created through a joint venture with the Group's existing distributor in the Belgian market;

- In June, the distribution subsidiary Medicrea Australia was created through a joint venture with a local distributor specializing in the spine. Australia is world's third largest market after the United States and Japan;

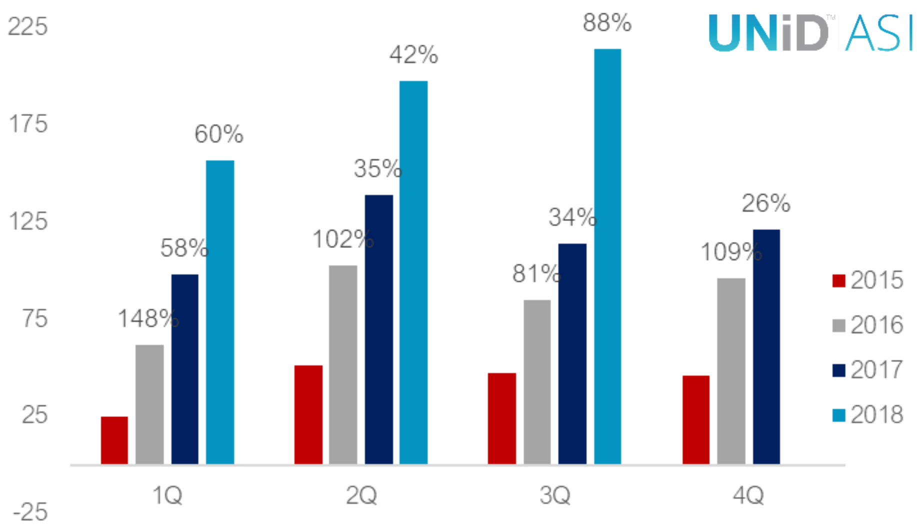
- In May, the Group received FDA clearance for its patient-specific, 3D-printed titanium interbody cages. With this world-first clearance, Medicrea is able to digitally plan, manufacture in-house and supply a 3D-printed device in the United States that has been optimized to follow each patient's unique spinal anatomy using the Company's proprietary AI-driven UNiD technology.

Early in 2018, the Group saw strong growth in the use of its UNiD ASI™ preoperative planning services and patient-specific implants, which confirms that surgeons are interested in this technology as well as the relevance of Medicrea's strategy.

Medicrea's UNiD ASI™ technology is therefore becoming popular with a growing number of surgeons who are incorporating it into their day-to-day practice: as of the publication date of this report, more than 2,850 patients have been operated on using personalized implants, and the number of patient-specific UNiD ASI™ procedures carried out in the United States has grown by 62% over the year to September 30, 2018 compared to the same period in 2017.

The graph below shows the growth in the number of UNiD ASI™ procedures carried out in the United States compared to the corresponding quarters in previous years. This clearly illustrates the acceleration in growth since the start of the 2018 fiscal year.

Growth in number of UNiD ASI™ surgical procedures carried out in the United States compared to the corresponding quarters of previous years



2.3 BUSINESS REVIEW

Sales for the first half of 2018 totaled €16.9 million, up 22% at constant exchange rate compared with the first half of 2017. Second quarter sales reached €8.8 million, a new historic performance following the previous record of €8.2 million in the first quarter of 2018.

The month of June 2018 shows the best performance of the year with:

- Sales for an amount of €3.4 million, reflecting the resumption of strong growth from the very beginning of 2018;

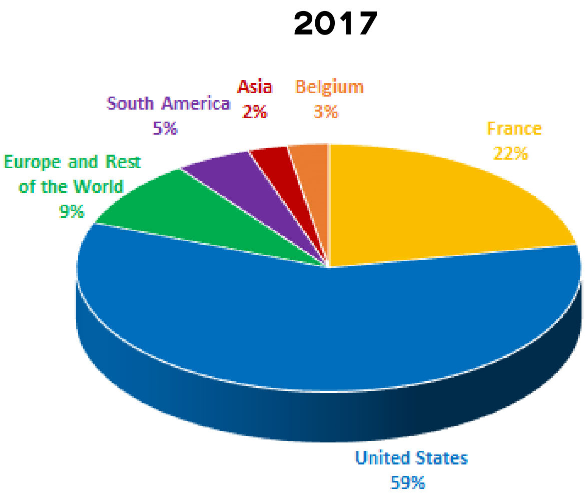
- Record number of 116 patient-specific UNiD® Rod surgeries performed for the month of June, confirming the adoption of personalized UNID ASI™ services and implants by a growing number of surgeons. Over the year to June 30, 2018, a total of 2,500 UNiD® patient-specific surgeries have been performed since the launch of this technology associated with service expertise delivered by the UNiD Lab™.

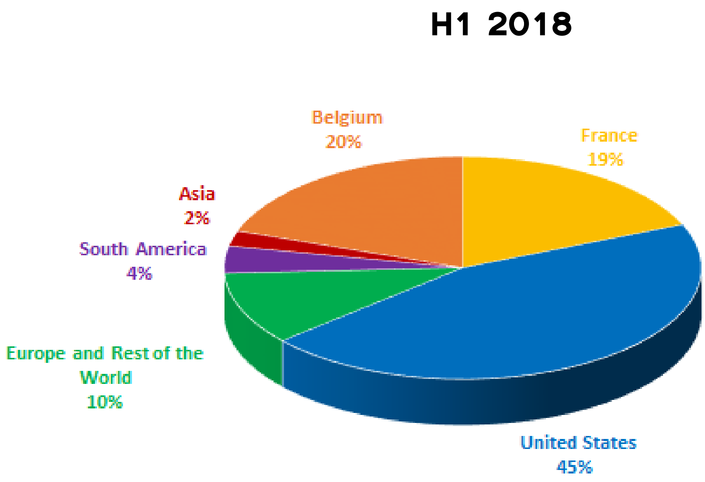
In the United States, patient-specific UNID® surgeries are reported to be up 50% in the first half of 2018 compared to the same period in 2017. The reorganization of the sales force at the end of 2017 aimed at refocusing efforts on the UNiD ASI™ platform is starting to bear fruit. The UNiD ASI™ activity represents more than 60% of total sales for the US subsidiary.

Outside of the United States, sales with international distributors grew by 40% following the opening of new countries and the resumption of invoicing in Brazil. The new Belgian subsidiary, Medicrea Belgium, which was incorporated in February 2018, contributed significantly to the half-year turnover, as hospitals are now billed directly. In France, the Company is also continuing its market share gains with a 3% growth in sales. Medicrea is now also active on the Australian market with a distribution subsidiary operating since June that is expected to represent a significant source of additional revenue in the medium term given the attractive pricing sustained by the local market for premium products.

At June 30, 2018, the contribution of the marketing subsidiaries to Group sales stood at 85%, stable in comparison with 2017. However, the contribution of the United States and France to Group sales is changing rapidly due to the creation of the Belgian subsidiary.

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





Gross margin, down in comparison with the first half of 2017, was impacted by a number of factors related to the current economic environment: the unfavorable currency effect of the dollar/euro conversion, a different mix of sales in comparison with the same period of 2017 and a one-off adjustment of inventory, mainly related to inventory discrepancies. The reduction in the level of sub-contracting expected in the second half should enable an appreciable improvement in gross margin.

Operating expenses increased €1.8 million as a result of the investments made in Research & Development to complete the range of UNiD ASI™ software products and services, and the integration of the marketing and administrative expenses of the newly-created subsidiaries.

The operating loss for the first half-year stood at €4.6 million and the loss before tax, after taking into account the cost of net financial debt, was €6.5 million.

2.4 CHANGE IN FINANCIAL POSITION

Changes in the balance sheet structure are analyzed as follows:

(€ K)	06.30.2018	12.31.2017	06.30.2017
Non-current assets	27,822	21,968	20,992
Deferred tax assets	1,700	1,185	1,194
Operating working capital requirements	11,096	9,113	8,257
Non-operating working capital requirements	(9,147)	(1,134)	(1,024)
TOTAL	31,471	31,132	29,419
Shareholders' equity	15,666	21,790	21,049
Net financial debt	15,805	9,342	8,370
CAPITAL EMPLOYED	31,471	31,132	29,419

Non-current assets are made up of the net value of goodwill, intangible assets (research and development costs, patents and brands), property, plant and equipment and financial assets. Their change in comparison with December 31, 2017 was primarily due to the following factors:

- A marked increase in goodwill (up €5.8 million) as a result of the Group's acquisition of a stake in Medicrea Belgium with a commitment to buy the shares held by minority shareholders;

- The capitalization of research and development costs over the period, patent-related expenditure and continued work to improve and develop a surgical planning software package;

- The continued renewal and modernization of the machine base with the acquisition of a 5-axis machining center;

- The provision to hospitals of new sets of instruments.

A detailed analysis of the movements that took place over the half-year in the various intangible asset items in gross and net values is set out in Note 6, Paragraph 6.7 of the consolidated financial statements.

Deferred taxes are presented net of balances. They are mainly made up of consolidation adjustments and tax losses carried forward related to the US subsidiary, which the Group expects to be able to recover within a short time. Analysis of the tax rate is provided in Note 9, Paragraph 9.1 of the consolidated financial statements.

Operating working capital requirements are made up of trade receivables, plus inventories and less trade payables. The increase in requirements compared to December 31, 2017 is primarily linked to an increase in trade receivables due to changes in the scope of consolidation.

The Group places specific importance on controlling working capital requirements particularly for inventories, given the distinctive characteristics of its activity necessitating the provision of numerous implants in different sizes to healthcare establishments. Multiple initiatives are underway to optimize the level of inventories but the growth phase in which the Group is involved makes it impossible to provide immediate tangible results.

Non-operating working capital requirements have increased significantly in light of the commitment to buy the shares held by minority shareholders in MEDICREA Belgium.

Changes in shareholders' equity are primarily attributable to the net loss amount as of June 30, 2018.

Net financial debt is up by €6.5 million during the first half of 2018 as a result of movements in the Group's cash position.

As of June 30, 2018, the Group had cash of €5.1 million, strengthened by the capital increase of €3.1 million carried out at the start of July.

2.5 RECENT EVENTS AND OUTLOOK FOR THE SECOND HALF-YEAR

Sales amounted to €7.3 million for the third quarter of 2018, up 14% compared to the third quarter last year, and totaled 24.2 million euros at the end of September, up 19% at constant exchange rates compared to the same period of 2017.

In the USA, the use of UNiD™ patient-specific services and implants has increased significantly in recent months. In the third quarter of 2018, the number of personalized UNiD™ surgeries increased by 90%, bringing the cumulative increase to 62% since the beginning of 2018.

Medicrea has returned to the path of sustained growth since the beginning of the year as anticipated, with an acceleration especially in UNiD™ surgeries in the United States.

The number of UNiD™ surgeries in the United States is growing strongly, but another important indicator seems even more promising: 16 new US surgeons have integrated the personalized UNiD™ approach to their activity by performing their first patient-specific surgery over the third quarter of 2018. This demonstrates the relevance of the solution offered by Medicrea, which will gradually become the reference by replacing the traditional approach of spine surgery.

Recent events

Medicrea continues to consolidate its presence and visibility on the US territory:

- In July 2018, 4 US-based institutional investors participated in a capital increase worth €3.1 million through the issue of ordinary shares with share warrants attached (€4.8 million in the event of all the share warrants being exercised);

- Since August 28, 2018, securities in the Company have been listed on the US OTCQX Best Market ("OTCQX"). In addition to trading on the Euronext-Growth market, this listing will give Medicrea the opportunity to increase its visibility within the US and grow its investor base.

Outlook

Science communication around patient-specific UNiD ASI™ solutions is increasing and a growing number of publications focus on the application of UNiD ASI™ in treatment of complex spine deformities, both for idiopathic scoliosis in adolescents and for the adult population.

The milestone of 3,000 surgeries performed with UNiD ASI™ patient-specific implants is expected to be reached by the end of 2018. Medicrea now has a unique database, enriched continuously and allowing more accurate predictive modeling. In a market that commoditizes implants and prioritizes the optimization of clinical outcomes for the well-being of patients, the UNiD ASI™ planning solutions set a new standard that the Group must rely on to offer all of its services and products in order to accelerate the development of its revenue.

2.6 RISK FACTORS

The risk factors are of the same nature as those described in Chapter 1.5 of the 2017 Registration Document and in Note 8.5 of the Consolidated Interim Financial Statements as of June 30, 2018.

2.7 RELATED-PARTY TRANSACTIONS

Transactions between related parties are of the same type as those disclosed in Note 5.8 to the Consolidated financial statements contained in the 2017 Annual Report.

No new agreements were signed with any executive or member of the Board of Directors during the first half of 2018.

3 CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018

1. IFRS CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2018

1.1. CONSOLIDATED INCOME STATEMENT

(€)	Notes	06.30.2018	06.30.2017
Sales	3.1 & 4.5	16,919,174	14,696,429
Cost of sales		(5,411,131)	(3,946,442)
Gross margin		11,508,043	10,749,987
as % of sales		*68.0%*	*73.1%*
Research & development costs	4.6	(1,454,549)	(789,442)
Sales & marketing expenses	4 & 5	(8,804,818)	(7,892,180)
Sales commissions		(1,799,752)	(1,752,432)
General and administrative expenses	4 & 5	(4,031,955)	(3,869,545)
Other operating income and expenses	4.9.2	(447,105)	(247,452)
Operating income before share-based payments		(5,030,136)	(3,801,064)
Share-based payments	5.5.4	(407,000)	(330,000)
Operating income after share-based payments	4.9.1	(5,437,136)	(4,131,064)
Cost of net financial debt	8.3.1	(1,112,280)	(1,114,374)
Other financial (expenses) / income	8.3.2	2,200	(302,979)
Tax (charge) / income	9.1	47,409	427,900
Consolidated net income/(loss)		(6,499,807)	(5,120,517)
Earnings per share	10.2	(0.43)	(0.50)
Diluted earnings per share	10.2	(0.43)	(0.50)

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

1.2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€)	06.30.2018	06.30.2017
Consolidated net income/(loss)	(6,499,807)	(5,120,517)
Translation adjustment	82,755	43,205
Total comprehensive income	(6,417,052)	(5,077,312)

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

1.3. CONSOLIDATED BALANCE SHEET

(€)	Notes	06.30.2018	12.31.2017	06.30.2017
Goodwill	6.1	8,420,350	2,626,620	2,627,067
Intangible assets	6.6	8,084,846	7,882,753	6,611,538
Property, plant and equipment	6.6	10,637,051	10,771,748	10,993,720
Non-current financial assets	6.6	679,552	686,518	759,869
Deferred tax assets	9.2	2,435,704	2,044,496	2,552,445
Total non-current assets		30,257,503	24,012,135	23,544,639
Inventories	4.2	10,326,993	9,812,700	9,013,808
Trade receivables	4.3	7,169,581	3,973,135	4,858,809
Other current assets	4.3	1,764,715	2,215,133	2,230,322
Cash and cash equivalents	8.1.5	5,157,376	11,980,693	14,118,327
Total current assets		24,418,665	27,981,661	30,221,266
Total assets		54,676,168	51,993,796	53,765,905

(€)	Notes	06.30.2018	12.31.2017	06.30.2017
Share capital	10.1	2,413,266	2,413,266	2,034,173
Issue, merger and contribution premiums	10.1	60,454,729	60,567,352	54,239,413
Consolidated reserves	10.1	(40,702,360)	(30,463,815)	(30,103,722)
Net income/(loss) for the year	10.1	(6,499,807)	(10,727,292)	(5,120,517)
Total shareholders’ equity		15,665,828	21,789,511	21,049,347
Conditional advances	8.2	140,000	196,250	258,750
Non-current provisions	7.1	630,057	574,567	561,225
Deferred tax assets	9.2	734,731	859,695	1,358,900
Long-term financial debt	8.1	17,330,819	16,738,955	17,292,974
Other non-current liabilities	4.4	6,157,834	-	-
Total non-current liabilities		24,993,441	18,369,467	19,471,849
Current provisions	7.1	516,412	225,675	360,717
Short-term financial debt	8.1	3,491,666	4,387,378	4,936,516
Trade payables	4.4	6,400,666	4,672,856	5,615,771
Other current liabilities	4.4	3,608,155	2,548,909	2,331,705
Total current liabilities		14,016,899	11,834,818	13,244,709
Total shareholders’ equity and liabilities		54,676,168	51,993,796	53,765,905

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

1.4. CONSOLIDATED CASH FLOW STATEMENT

(€)	Notes	06.30.2018	12.31.2017	06.30.2017
Consolidated net income/(loss)		(6,499,807)	(10,727,292)	(5,120,517)
Property, plant and equipment depreciation and intangible asset amortization		2,972,905	4,996,876	2,344,833
Provision charges / (reversals)		518,367	(98,238)	(237,854)
Proceeds from sale of non-current assets		78,043	56,212	37,249
Share-based payments		407,000	287,338	330,000
Change in deferred taxes		(516,171)	(138,764)	(147,507)
Corporate tax		(125,991)	(897,375)	(440,000)
Cost of net financial debt		1,112,280	2,248,952	1,114,374
Self-financing capacity		(2,053,374)	(4,272,291)	(2,119,422)
Change in inventories and work in progress		(590,451)	(1,832,886)	(775,484)
Change in trade receivables		(3,292,429)	1,192,322	309,453
Change in trade payables		1,727,812	(1,328,120)	(385,204)
Change in other receivables and payables		7,810,446	2,463,918	1,771,045
Cash flow from working capital requirement		5,655,378	495,234	919,810
Taxes paid / refunded		(16,958)	(15,447)	(12,343)
Net cash flow from operating activities		3,585,046	(3,792,504)	(1,211,955)
Acquisition of non-current assets		(3,198,494)	(8,132,598)	(4,747,318)
Disposal of non-current assets		190,018	662,432	543,790
Impact of changes in scope		(5,793,664)	-	-
Government grants received / (repaid)		(56,250)	(121,250)	(58,750)
Other movements		30,662	-	-
Net cash flow from investment activities		(8,827,728)	(7,591,416)	(4,262,278)
Share capital increase		-	20,216,961	13,000,003
Proceeds from new borrowings	8.1.2	1,200,000	492,020	1,085,626
Repayment of borrowings	8.1.2	(2,436,331)	(2,977,473)	(1,270,455)
Interest paid		(599,608)	(1,301,818)	(666,890)
Other movements	8.1.6	(109,627)	(1,276,760)	(768,301)
Net cash flow from financing activities		(1,945,566)	15,152,930	11,379,983
Translation effect on cash and cash equivalents		(35,439)	48,581	30,469
Other movements		(1,007)	21,258	79,840
Change in cash and cash equivalents		(7,224,694)	3,838,849	6,016,059
Cash and cash equivalents - beginning of year		11,092,231	7,253,382	7,253,382
Cash and cash equivalents - end of year		3,867,537	11,092,231	13,269,441
Positive cash balances - beginning of year		11,980,693	8,063,140	8,063,140
Positive cash balances - end of year		5,157,376	11,980,693	14,118,327
Change in positive cash balances		(6,823,317)	3,917,553	6,055,187
Negative cash balances - beginning of year		(888,462)	(809,758)	(809,758)
Negative cash balances - end of year		(1,289,839)	(888,462)	(848,886)
Change in negative cash balances		(401,377)	(78,704)	(39,128)
Change in cash and cash equivalents		(7,224,694)	3,838,849	6,016,059

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

1.5. CHANGE IN CONSOLIDATED SHAREHOLDERS' EQUITY

(€)	Number of shares	Share capital	Reserves	Consolidated shareholders' equity
Shareholders' equity at 12.31.2016	8,987,688	1,438,030	13,799,846	15,237,876
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
Share capital increase	-	-	(112,624)	(112,624)
H1 2018 comprehensive income	-	-	(6,417,052)	(6,417,052)
Stock options and free shares	-	-	407,000	407,000
Other movements	-	-	(1,007)	(1,007)
Shareholders' equity at 06.30.2018	15,082,911	2,413,266	13,252,562	15,665,828

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

1.6. 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. Since August 28, 2018, the Company's shares have also been traded on OTCQX Best Market under the tickers MRNTF and MRNTY.

The unaudited consolidated financial statements for the first six months of the 2018 fiscal year were approved by the Board of Directors on September 12, 2018. The press release relating to the first half-year results was published on September 19, 2018.

NOTE 1: ACCOUNTING PRINCIPLES

1.1 Accounting framework

The financial statements of MEDICREA Group for the first half of 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS published by the International Accounting Standards Board (IASB) and approved by the European Union pursuant to European Regulation n° 1606/2002 of July 19, 2002, and available at ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002/law-details_fr

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, 2018

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

Standards, amendments and interpretations	IFRS 9 - Financial Instruments Standard applicable from January 1, 2018
Introduction and general principles	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 IAS 39: - provisions relating to the classification and measurement of financial assets are now 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 approach based on incurred losses in favor of an approach based on expected credit losses; - the hedge component includes a number of significant advances that promote the convergence of the implementation methods of hedge accounting and the Group's risk management policy.
Impact on the Group	The Group has not identified any significant change in the classification and measurement of its financial assets in view of the nature of its transactions. A detailed analysis of the impairment model for financial assets was carried out, with a particular focus on trade receivables. In view of its customer typology and the risk observed in previous years, the Group has not identified any significant changes in its accounting treatment of impairment. Lastly, the Group did not have any ongoing currency hedging at June 30, 2018 and December 31, 2017.
Application by the Group	The Group has applied IFRS 9 since January 1, 2018. This has not resulted in any material impact on its consolidated interim financial statements.

Standards, amendments and interpretations	IFRS 15 – Revenue from Contracts with Customers Standard applicable from January 1, 2018
Introduction and general principles	On May 28, 2014, the IASB published a standard regarding the recognition of revenue from ordinary activities, under which revenue must be recognized when control of the goods or services sold is transferred, in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. IFRS 15 and the related guidance, published by the IASB on April 12, 2016, replace the standards IAS 11 and IAS 18 and the related IFRIC and SIC interpretations.
Impact on the Group	The Group selected the main transactions and contracts that are representative of its activities. These were then analyzed using the five-step model framework required by the standard in order to identify any areas of judgement and potential changes caused by application of the standard. This analysis did not identify any impact on the presentation of Group sales or of the Group's income statement.
Application by the Group	The Group has applied IFRS 15 since January 1, 2018. This has not resulted in any material impact on its consolidated interim financial statements.

The IASB has also published the following standards, amendments, and interpretations, which have been adopted by the European Union and whose application is mandatory from January 1, 2018:

Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions
IFRIC 22 interpretation	Foreign Currency Transactions and Advance Consideration
Annual improvements to IFRS 2014-2016 cycle	Various provisions

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, 2018 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	IFRS 16 – Leases Standard applicable from January 1, 2019
Introduction and general principles	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 previously existed between "operating leases" and "finance leases". Lessees must recognize all leases with a term of over one year in accordance with 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.
Impact on the Group	The Group identified all of its lease agreements and their key provisions. If the Group had opted for early adoption of IFRS 16 and applied it as of January 1, 2018, this would have resulted in the following impact on the interim financial statements as of June 30, 2018: - a €16.4 million increase in net non-current assets on the balance sheet (including €15.9 million on the "Buildings" line), and a €17.4 million increase in financial debt; - an additional expense of €0.1 million in the income statement; - a €1.1 million increase in EBITDA.
Application by the Group	The Group has not yet determined the transition arrangements for application of this standard.

The IASB has also published amendments to IFRS 9 in relation to prepayment features, to be applied from January 1, 2019. The Group does not anticipate any material impact on the consolidated financial statements as a result.

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)
Amendments to IAS 28	Investments in Associates and Joint Ventures.	January 1, 2019
IFRIC 23 interpretation	Uncertainty over Income Tax Treatments.	January 1, 2019
Annual improvements to IFRS 2015-2017 cycle	Various provisions	January 1, 2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
Revised Conceptual Framework for Financial Reporting	Amendment to References to the Conceptual Framework in IFRS Standards	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, 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 through a positive self-financing capacity and/or generating 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 June 30, 2018, after taking account of events subsequent to that period in accordance with IAS 10. These assumptions, estimates and judgments made on the basis of information or situations existing at the date of preparation of the financial statements, may prove different from subsequent actual events.

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

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

At June 30, 2018, 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 June 30, 2018, 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 Business combinations

Business combinations are accounted for using the acquisition method:

- the cost of an acquisition is measured at the fair value of the consideration transferred, including any contingent consideration, on the date on which control is obtained. Any subsequent changes in the fair value of contingent consideration are recognized through profit or loss or in other comprehensive income, in accordance with applicable standards;
- the difference between the consideration transferred and the fair value of the identifiable assets acquired and liabilities assumed at the date on which control is obtained represents goodwill, recognized as an asset.

Adjustments to the fair value of identifiable assets acquired and liabilities assumed that have been recorded on a provisional basis (due to ongoing expert assessments or additional analyses) are recognized as retrospective adjustments to goodwill if they take place within a period of one year from the acquisition date or if they result from facts and circumstances that were in existence at the acquisition date. Following this period, any effects are recognized directly through profit or loss, as with any other change in an estimate.

In a business combination involving the acquisition of an interest of less than 100%, non-controlling interests in the acquiree are measured at either:

- their fair value, leading to the recognition of the goodwill attributable to these non-controlling interests (full goodwill method); or
- their proportionate share in the acquiree's identifiable net assets, leading to the recognition of a goodwill only for the share acquired (partial goodwill method).

The costs directly related to the acquisition are recorded under "Other income and expenses" in the period they are incurred. Any contingent consideration in relation to a business combination is measured at fair value at the acquisition date, even if its realization is not considered probable. After the acquisition date, changes in the estimated fair value of contingent consideration will result in an adjustment to goodwill only if they take place during the measurement period (no more than one year from the acquisition date) or if they result from facts or circumstances that were in existence at the acquisition date. In all other cases, the change is recognized through profit or loss or in other comprehensive income in accordance with the relevant IFRS.

In a business combination achieved in stages, the interest held previously by the Group in the company acquired is remeasured, at the time that control of this company is obtained, at fair value through the income statement. In order to determine goodwill at the date of obtaining control, the fair value of the consideration transferred (for example, the price paid) is increased by the fair value of the Group's previously held interest. The amount previously recognized in other comprehensive income in relation to the interest held before control was obtained is reclassified to profit or loss.

2.4 Changes in consolidation scope

The consolidation scope includes the following entities:

- MEDICREA INTERNATIONAL (Group parent company);
- MEDICREA USA;
- MEDICREA TECHNOLOGIES UK;
- MEDICREA GMBH;
- MEDICREA POLAND;
- MEDICREA BELGIUM;
- MEDICREA AUSTRALIA.

In February 2018 the Group created MEDICREA BELGIUM, a limited company under Belgian law with capital of €200,000 and its registered office in Houwaart in Belgium, as a joint venture with the company Motion Medical, which up until that time had distributed MEDICREA's products in Belgium. The Group holds a 51% majority stake in MEDICREA BELGIUM and will gradually transition the entity to a fully-owned Medicrea subsidiary over the next years. A shareholders' agreement was signed to this effect containing corresponding purchase and sale commitments for the 49% stake currently held by Motion Medical, to take place in stages over the period 2019-2022 as follows:

- In 2019, purchase of 12.25% of shares on the basis of 10 X 2018 EBITDA of MEDICREA BELGIUM;
- In 2020, purchase of 12.25% of shares on the basis of 10 X 2018 EBITDA of MEDICREA BELGIUM;
- In 2021, purchase of 12.25% of shares on the basis of 10 X 2018 EBITDA of MEDICREA BELGIUM;
- In 2022, purchase of 12.25% of shares on the basis of 10 X 2018 EBITDA of MEDICREA BELGIUM;

As of June 30, 2018, the fair value of the commitment to buy 49% of the capital of MEDICREA BELGIUM was measured at €5.9 million on the basis of EBITDA forecasts available at that date and using a discount rate of 1.3%.

In June 2018 the Group created MEDICREA AUSTRALIA, an Australian company with capital of A$300,000 and its registered office in Brisbane, in a joint venture with the company National Surgical, a distributor of medical devices in Australia. The Group holds a 51% majority stake in MEDICREA AUSTRALIA and will gradually transition the entity to a fully-owned Medicrea subsidiary over the next years. A shareholders' agreement was signed to this effect containing corresponding purchase and sale commitments for the 49% stake currently held by National Surgical, to take place in stages over the period 2021-2024 as follows:

- In 2021, purchase of 12.25% of shares on the basis of 7 X the share of 2020 EBITDA of MEDICREA AUSTRALIA;
- In 2022, purchase of 12.25% of shares on the basis of 7 X the share of 2020 EBITDA of MEDICREA AUSTRALIA;
- In 2023, purchase of 12.25% of shares on the basis of 7 X the share of 2020 EBITDA of MEDICREA AUSTRALIA;
- In 2024, purchase of 12.25% of shares on the basis of 7 X the share of 2020 EBITDA of MEDICREA AUSTRALIA;

As of June 30, 2018, the fair value of the commitment to buy 49% of the capital of MEDICREA AUSTRALIA had not yet been measured, due to a lack of sufficiently precise financial information available at that date. The fair value of this commitment shall be determined as of December 31, 2018, notably after taking into account the first six months of activity of MEDICREA AUSTRALIA.

The Group ceased its activities in the UK from September 1, 2018, and mothballed its subsidiary MEDICREA TECHNOLOGIES UK, leading to the redundancy of all staff and the closure of its distribution center in Cambridge. Going forward, the Group will now be represented in the UK by an independent UK distributor. All costs relating to the closure of MEDICREA TECHNOLOGIES UK have been provided for in full in the consolidated financial statements as of June 30, 2018.

Control and interest percentages at June 30, 2018 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%
MEDICREA BELGIUM		Houwaart, BE	51%	100%
MEDICREA AUSTRALIA		Brisbane, AU	51%	100%

MEDICREA INTERNATIONAL's majority shareholding in the companies MEDICREA BELGIUM and MEDICREA AUSTRALIA, which as detailed above will be accompanied by the staged purchase over time of the entire capital held by the minority shareholders of these two companies, has been treated as a single transaction for accounting purposes, based on the following factors:

- the two transactions (majority shareholding and commitment to buy minority interests) were concluded simultaneously;
- the economic effect of these two transactions should be viewed as the effect of a single transaction;
- the realization of one of the transactions is conditional on the realization of the other;
- each of the transactions can only be justified financially if it is considered in conjunction with the other transaction.

Therefore, in the Group's interim financial statements as of June 30, 2018, 100% of the companies MEDICREA BELGIUM and MEDICREA AUSTRALIA has been consolidated even though the control percentage of MEDICREA INTERNATIONAL in these subsidiaries is 51%. The commitment to buy the minority shares in the company MEDICREA BELGIUM has been reported under other liabilities; the commitment to buy the minority shares in the company MEDICREA AUSTRALIA will be recognized in the same way as of December 31, 2018, on the basis of financial data that will have been quantified and established accurately by that time.

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;
- Belgium;
- Australia (inactive before 30 June 2018);
- Rest of the world.

3.1 Breakdown of sales by geographic region

By geographic region, sales are analyzed as follows:

	06.30.2018		06.30.2017	
	(€)	(%)	(€)	(%)
	3,154,727	19%	3,067,444	21%
	7,608,376	45%	8,931,160	61%
	113,772	1%	269,268	2%
	-	-	122,570	1%
	124,929	1%	38,933	0%
	3,321,066	20%	-	-
Rest of the world	2,596,304	14%	2,267,054	15%
of which Europe	*1,303,177*		1,361,101	
of which South America	*664,044*		*290,561*	
of which Asia	*379,130*		*326,502*	
of which Oceania	*109,402*		*103,911*	
of which Middle East and Africa	*140,551*		*184,979*	
Total	16,919,174	100%	14,696,429	100%

Sales for the first half of 2018 totaled €16.9 million, up 22% at constant exchange rate compared with the first half of 2017. Second quarter sales reached €8.8 million, a new historic performance following the previous record of €8.2 million in the first quarter of 2018.

In the United States, patient-specific UNID® surgeries are reported to be up 50% in the first half of 2018 compared to the same period in 2017. The reorganization of the sales force at the end of 2017 aimed at refocusing efforts on the UNiD ASI™ platform is starting to bear fruit. The UNiD ASI™ activity represents more than 60% of total sales for the US subsidiary.

Outside of the United States, sales with international distributors grew by 40% following the opening of new countries and the resumption of invoicing in Brazil. The new Belgian subsidiary, MEDICREA BELGIUM, which was incorporated in February 2018, contributed significantly to the half-year turnover, as hospitals are now billed directly. In France, the Company is also continuing its market share gains with a 3% growth in sales. MEDICREA is now also active on the Australian market with a distribution subsidiary operating since June that is expected to represent a significant source of additional revenue in the medium term given the attractive pricing sustained by the local market for premium products.

3.2 H1 2018 income statement by geographic region

(€)							Rest of the world	Total 06.30.2018
Sales	3,154,727	7,608,376	113,772	-	124,929	3,321,066	2,596,304	16,919,174
Cost of sales	(1,375,995)	(1,613,076)	(30,151)	-	(53,190)	(1,145,949)	(1,192,770)	(5,411,131)
Gross margin	1,778,732	5,995,300	83,621	-	71,739	2,175,117	1,403,534	11,508,043
Research & development costs	(1,165,040)	(288,496)	-	-	(136)	(32)	(845)	(1,454,549)
Sales & marketing expenses	(2,484,930)	(4,312,592)	(226,710)	(3,423)	(253,751)	(631,088)	(892,324)	(8,804,818)
Sales commissions	(53,619)	(1,727,702)	-	-	-	-	(18,431)	(1,799,752)
General and administrative expenses	(2,491,714)	(1,084,351)	(82,503)	(4,584)	(19,268)	(250,343)	(99,192)	(4,031,955)
Other operating income and expenses	(75,989)	(112,501)	(257,894)	(721)	-	-	-	(447,105)
Operating income before share-based payments	(4,492,560)	(1,530,342)	(483,486)	(8,728)	(201,416)	1,293,654	392,742	(5,030,136)
Share-based payments	(157,132)	(249,868)	-	-	-	-	-	(407,000)
Operating income after share-based payments	(4,649,692)	(1,780,210)	(483,486)	(8,728)	(201,416)	1,293,654	392,742	(5,437,136)
Cost of net financial debt	(998,492)	(90,479)	(5,859)	(4,108)	(2,438)	(9,580)	(1,324)	(1,112,280)
Other financial (expenses) / income	5,132	-	-	-	(26)	-	(2,906)	2,200
Tax (charge) / income	-	447,909	(22,177)	-	(2,792)	(382,009)	6,478	47,409
Consolidated net income/(loss)	(5,643,052)	(1,422,780)	(511,522)	(12,836)	(206,672)	902,065	394,990	(6,499,807)

3.3 **H1 2017 income statement by geographic region**

(€)						Rest of the world	Total 06.30.2017
Sales	3,067,444	8,931,160	269,268	122,570	38,933	2,267,054	14,696,429
Cost of sales	(1,198,755)	(1,674,345)	(70,375)	(42,134)	(18,037)	(942,796)	(3,946,442)
Gross margin	1,868,689	7,256,816	198,893	80,435	20,896	1,324,258	10,749,987
Research & development costs	(659,651)	(129,791)	-	-	-	-	(789,442)
Sales & marketing expenses	(2,331,591)	(3,995,082)	(443,630)	(272,306)	(159,215)	(690,356)	(7,892,180)
Sales commissions	(100,235)	(1,623,279)	(3,424)	(1,559)	(495)	(23,440)	(1,752,432)
General and administrative expenses	(2,309,355)	(1,387,352)	(92,374)	(31,176)	(15,396)	(33,892)	(3,869,545)
Other operating income and expenses	(201,804)	-	-	(45,648)	-	-	(247,452)
Operating income before share-based payments	(3,733,947)	121,312	(340,535)	(270,254)	(154,210)	576,570	(3,801,064)
Share-based payments	(88,353)	(241,648)	-	-	-	-	(330,000)
Operating income after share-based payments	(3,822,300)	(120,336)	(340,535)	(270,254)	(154,210)	576,570	(4,131,564)
Cost of net financial debt	(1,049,656)	(62,462)	2,398	(3,875)	(82)	(697)	(1,114,374)
Other financial (expenses) / income	(293,998)	(13,254)	122	-		4,152	(302,979)
Tax (charge) / income	-	414,889	7,273	5,952	(214)	-	427,900
Consolidated net income/(loss)	(5,165,954)	218,837	(330,742)	(268,177)	(154,506)	580,025	(5,120,517)

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 2018 balance sheet by geographic region

(€)							Rest of the world	Total 06.30.2018
Goodwill	8,420,350	-	-	-	-	-	-	8,420,350
Intangible assets	6,921,109	1,163,737	-	-	-	-	-	8,084,846
Property, plant and equipment	7,961,938	1,937,314	105,588	5,687	274,599	79,212	272,713	10,637,051
Non-current financial assets	359,990	293,782	-	20,070	5,710	-	-	679,552
Deferred tax assets	734,723	1,729,202	(27,566)	-	(7,069)	-	6,414	2,435,704
Total non-current assets	24,398,110	5,124,035	78,022	25,757	273,240	79,212	279,127	30,257,503
Inventories	8,637,549	1,054,628	101,686	-	197,931	279,169	56,030	10,326,993
Trade receivables	1,409,063	2,565,918	55,706	10,754	59,409	2,037,114	1,031,617	7,169,581
Other current assets	1,520,946	164,497	50,075	15,218	9,879	-	4,100	1,764,715
Cash and cash equivalents	3,759,845	708,169	9,528	1,150	8,591	670,093	-	5,157,376
Total current assets	15,327,403	4,493,212	216,995	27,122	275,810	2,986,376	1,091,747	24,418,665
Total assets	39,725,513	9,617,247	295,017	52,879	549,050	3,065,588	1,370,874	54,676,168

(€)							Rest of the world	Total 06.30.2018
Share capital	2,413,266	-	-	-	-	-	-	2,413,266
Issue, merger and contribution premiums	60,454,729	-	-	-	-	-	-	60,454,729
Consolidated reserves	(51,167,986)	8,635,632	390,346	43,983	708,439	(93,611)	780,837	(40,702,360)
Group net income/(loss) for the period	(5,643,052)	(1,422,780)	(511,522)	(12,836)	(206,672)	902,065	394,990	(6,499,807)
Total shareholders' equity	6,056,957	7,212,852	(121,176)	31,147	501,767	808,454	1,175,827	15,665,828
Conditional advances	140,000	-	-	-	-	-	-	140,000
Non-current provisions	630,057	-	-	-	-	-	-	630,057
Deferred tax assets	734,731	-	-	-	-	-	-	734,731
Long-term financial debt	17,330,819	-	-	-	-	-	-	17,330,819
Other non-current liabilities	5,900,500	257,334	-	-	-	-	-	6,157,834
Total non-current liabilities	24,736,107	257,334	-	-	-	-	-	24,993,441
Current provisions	234,261	-	282,151	-	-	-	-	516,412
Other current financial liabilities	2,941,551	-	-	115	-	550,000	-	3,491,666
Trade payables	3,898,348	1,512,270	110,903	9,030	7,576	669,674	192,865	6,400,666
Other current liabilities	1,858,289	634,791	23,139	12,587	39,707	1,037,460	2,182	3,608,155
Total current liabilities	8,932,449	2,147,061	416,193	21,732	47,283	2,257,134	195,047	14,016,899
Total shareholders' equity and liabilities	39,725,513	9,617,247	295,017	52,879	549,050	3,065,588	1,370,874	54,676,168

3.5 2017 balance sheet by geographic region

(€)						Rest of the world	Total 06.30.2017
Goodwill	2,627,067	-	-	-	-	-	2,627,067
Intangible assets	5,776,507	835,031	-	-	-	-	6,611,538
Property, plant and equipment	8,242,608	2,189,584	219,751	59,327	140,811	141,639	10,993,720
Non-current financial assets	434,817	300,115	-	20,070	4,867	-	759,869
Deferred tax assets	1,358,895	1,234,285	(39,238)	(1,258)	(239)	-	2,552,445
Total non-current assets	18,439,894	4,559,015	180,513	78,139	145,439	141,639	23,544,639
Inventories	7,756,296	1,029,096	90,068	54,529	83,819	-	9,013,808
Trade receivables	1,361,733	2,753,156	59,572	15,063	44,343	624,942	4,858,809
Other current assets	1,744,878	446,494	9,419	13,745	10,166	5,620	2,230,322
Cash and cash equivalents	13,738,929	353,531	4,657	12,771	8,439	-	14,118,327
Total current assets	24,601,836	4,582,277	163,716	96,108	146,767	630,562	30,221,266
Total assets	43,041,730	9,141,292	344,229	174,247	292,206	772,201	53,765,905

(€)						Rest of the world	Total 06.30.2017
Share capital	2,034,173	-	-	-	-	-	2,034,173
Issue, merger and contribution premiums	54,239,413	-	-	-	-	-	54,239,413
Consolidated reserves	(38,656,135)	7,175,522	500,512	385,541	328,572	162,266	(30,103,722)
Group net income/(loss) for the period	(5,165,954)	218,837	(330,742)	(268,177)	(154,506)	580,025	(5,120,517)
Total shareholders' equity	12,451,497	7,394,359	169,770	117,364	174,066	742,291	21,049,347
Conditional advances	258,750	-	-	-	-	-	258,750
Non-current provisions	561,225	-	-	-	-	-	561,225
Deferred tax assets	1,358,900	-	-	-	-	-	1,358,900
Long-term financial debt	17,292,974	-	-	-	-	-	17,292,974
Total non-current liabilities	19,471,849	-	-	-	-	-	19,471,849
Current provisions	360,717	-	-	-	-	-	360,717
Other current financial liabilities	4,936,286	-	-	230	-	-	4,936,516
Trade payables	3,989,084	1,432,268	124,251	38,665	2,188	29,315	5,615,771
Other current liabilities	1,832,297	314,665	50,208	17,988	115,952	595	2,331,705
Total current liabilities	11,118,384	1,746,933	174,459	56,883	118,140	29,910	13,244,709
Total shareholders' equity and liabilities	43,041,730	9,141,292	344,229	174,247	292,206	772,201	53,765,905

NOTE 4: OPERATIONAL DATA

4.1 Key operating performance

The performance indicators used by the Group are as follows:

- sales;
- operating income before depreciation, amortization and impairment;
- operating income after depreciation, amortization and impairment.

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:

	06.30.2018			12.31.2017	06.30.2017
(€)	Gross values	Impairment	Net values	Net values	Net values
Raw materials	395,548	(83,358)	312,190	468,600	488,898
Work-in-process	570,707	(81,256)	489,451	985,171	853,097
Semi-finished goods	1,849,012	(513,335)	1,335,677	1,734,114	1,519,461
Finished goods	11,022,877	(2,833,202)	8,189,675	6,624,815	6,152,352
Total	**13,838,144**	**(3,511,151)**	**10,326,993**	**9,812,700**	**9,013,808**

The gross value of inventories grew 4.5% in comparison with 2017 and 1.9% at constant consolidation scope. The majority of the increase relates to the finished goods category, as a result of the completion of new implants, notably all the components of the PASS TULIP range. The reduction in work-in-process reflects the normalization of operations at the new plant in Vancia.

Impairment charges accounted for 25% of the average gross amounts at June 30, 2018, compared with 26% at December 31, 2017, in line with the increase in inventories.

4.3 Trade receivables and other 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. Following the application of IFRS 9, from now on trade receivables shall be subject to a loss allowance for impairment at the time of initial recognition, based on an assessment of expected credit losses at maturity. The loss allowance is subsequently revised depending on the increase in risk of non-recovery, where applicable. Indications of impairment that may lead the Group to such a revision include the existence of unresolved disputes, the maturity of receivables, or significant financial difficulties on the part of the debtor.

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 rewards incident 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 rewards, 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:

	06.30.2018			12.31.2017	06.30.2017
(€)	Gross values	Impairment	Net values	Net values	Net values
Trade receivables	7,295,710	(126,129)	7,169,581	3,973,135	4,858,809
Social security receivables	5,516	-	5,516	4,714	9,027
Tax receivables	1,229,026	-	1,229,026	1,690,479	1,344,084
Other receivables	173,615	-	173,615	295,598	378,731
Prepaid expenses	356,558	-	356,558	224,342	498,480
Other assets	1,764,715	-	1,764,715	2,215,133	2,230,322
Total	9,060,425	(126,129)	8,934,296	6,188,268	7,089,131
of which due in less than one year	*9,060,425*	*(126,129)*	*8,934,296*	*6,188,268*	*7,089,131*
Average days sales outstanding		56 days		55 days	48 days

The increase in trade receivables amounts to €3.2 million, of which €2.1 million is attributable to changes in consolidation scope and the remainder is due to seasonality, with the month of June 2018 representing just over 20% of sales in the first half of 2018.

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

4.4 Trade payables and other liabilities

Changes in trade payables and other liabilities were as follows:

(€)	06.30.2018	12.31.2017	06.30.2017
Trade payables	6,400,666	4,672,856	5,615,771
Social security liabilities	2,262,640	1,871,207	1,706,067
Tax liabilities	592,628	237,931	301,655
Other liabilities	6,910,721	439,771	323,983
Other liabilities	9,765,989	2,548,909	2,331,705
Total	16,166,655	7,221,765	7,947,476
of which due in less than one year	*10,008,821*	*6,971,619*	*7,947,476*

Of the increase in trade payables of €1.7 million, €0.7 million is attributable to changes in consolidation scope and the remainder to seasonality effects.

The change in other liabilities of €7.3 million is primarily due to the commitment to buy minority shares in MEDICREA BELGIUM (€5.9 million) and to changes in consolidation scope (€1 million).

4.5 Revenue

IFRS 15 – "Revenue from Contracts with Customers" bases the recognition of revenue on the transfer of control, while IAS 18 – "Revenue" based it on the transfer of risks and rewards. In most cases within the Group, the transfer of control takes place at the same time as the transfer of risks, namely when products are dispatched. But 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.

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.

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

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 fiscal 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:

(€)	06.30.2018	12.31.2017	06.30.2017
Research & development costs	883,296	1,891,664	943,101
Patent costs	104,972	229,847	100,070
Software	108,414	816,032	377,992
Total	1,096,682	2,937,543	1,421,163

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:

(€)	06.30.2018	12.31.2017	06.30.2017
Research & development costs	1,781,532	3,810,600	1,731,022
Capitalized research & development costs	(1,096,682)	(2,937,543)	(1,421,163)
Amortization charge of capitalized research and development costs	1,277,699	2,041,198	919,583
Research tax credit	(508,000)	(897,375)	(440,000)
Total	1,454,549	2,016,880	789,442

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	06.30.2018	06.30.2017
Industrial and commercial property rights	180,861	115,407
Other intangible assets	1,118,834	799,526
Buildings	8	6,415
Plant, machinery and tools, instruments	1,316,172	1,038,705
Other property, plant and equipment	357,030	384,780
Total	2,972,905	2,344,833

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	06.30.2018	06.30.2017
Inventories	76,157	488,168
Trade receivables	95,983	(9,445)
Total	172,140	478,723

Amortization and depreciation charges are analyzed as follows:

(€)	06.30.2018	06.30.2017
Cost of sales	317,558	243,791
Research & development and patent costs	1,277,699	919,583
Sales & marketing expenses	975,556	796,361
General and administrative expenses	383,844	385,098
Other operating income and expenses	18,248	-
Total	2,972,905	2,344,833

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 financial 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:

(€)	06.30.2018	06.30.2017
Closure of MEDICREA TECHNOLOGIES UK	(302,242)	-
Lawyers' fees	(70,128)	(14,276)
Expenses incurred when searching for funding	(50,000)	-
Disposal of non-current assets	(25,449)	-
Disputes with employees	48,047	(212,394)
Balance of 2017 restructuring costs	-	(15,102)
Other	(47,333)	(5,680)
Total	(447,105)	(247,452)

The Group ceased its activities in the UK from September 1, 2018, and mothballed its subsidiary MEDICREA TECHNOLOGIES UK, leading to the redundancy of all staff and the closure of its distribution center in Cambridge. Going forward, the Group will now be represented in the UK by an independent UK distributor.

The costs of closing this subsidiary, recognized as of 30 June, 2018, include costs for staff redundancies, termination of lease agreements for premises and termination of the main ongoing contracts, as well as recognition of the net book value of assets that will not be taken over by the Group.

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).

The expenses incurred when searching for funding relate to projects that were not completed.

4.10 Impact of exchange differences on sales and operating income

Average exchange rates evolved as follows:

Average conversion rates	06.30.2018	12.31.2017	06.30.2017
USD / EUR	1.21272	1.12493	1.07892
GBP / EUR	0.88030	0.87313	0.85737
PLN / EUR	4.20803	4.26218	4.27818
AUD / EUR	1.56338	1.47279	1.43685

The impact of currency fluctuations on the comparability of the half-year financial statements for 2017 and 2018 is as follows:

(€)	06.30.2018 at the 06.30.2018 rate	06.30.2018 at the 06.30.2017 rate	Impact of exchange rates
Sales	16,919,174	17,871,924	(952,750)
Operating income after share-based payments	(5,437,136)	(5,429,514)	(7,622)

NOTE 5: EMPLOYEE COSTS AND BENEFITS

5.1 Workforce

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

	06.30.2018			12.31.2017			06.30.2017		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Executives	60	38	98	50	34	84	51	32	83
Supervisors - Employees	53	43	96	51	37	88	46	33	79
Total	113	81	194	101	71	172	97	65	162
	75	*57*	*132*	*74*	*52*	*126*	*67*	*44*	*111*
	24	*15*	*39*	*23*	*14*	*37*	*25*	*15*	*40*
	3	*2*	*5*	*4*	*2*	*6*	*4*	*2*	*6*
	-	-	-	-	-	-	*1*	*1*	*2*
	-	*5*	*5*	-	*3*	*3*	-	*3*	*3*
	11	2	13	-	-	-	-	-	-

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 they 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 6.3) 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:

(€)	06.30.2018	06.30.2017
Wages and salaries, and temporary staff	6,690,033	5,931,621
Social security costs	2,017,203	1,784,485
French tax credit for competitiveness and employment	(78,244)	(71,636)
Pension expenses for defined contribution schemes	51,672	43,747
Capitalized research and development costs (1)	(727,253)	(637,092)
Total	7,953,411	7,051,125

(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:

(€)	06.30.2018	06.30.2017
Cost of sales	1,630,990	1,210,291
Research & development costs (1)	241,064	136,218
of which salaries and employer contributions	*968,317*	*773,310*
of which share of capitalized costs	*(727,253)*	*(637,092)*
Sales & marketing expenses	4,362,201	4,390,307
General and administrative expenses	1,719,156	1,314,309
Total	7,953,411	7,051,125

(1): corresponds to non-capitalized employee costs

The overall increase in employee costs of €0.9 million is primarily attributable to the company MEDICREA BELGIUM entering the scope of consolidation, generating €0.4 million in marketing expenses and €0.2 million in additional administrative expenses.

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 Revised and the ANC's recommendation.

The provision for acquired rights was €655,818 at June 30, 2018, compared with €600,328 at December 31, 2017. Movements are analyzed as follows:

(€)	06.30.2018	12.31.2017	06.30.2017
Actuarial liability at the start of the period	600,328	525,011	525,011
Service cost in operating income	*51,672*	*87,492*	*43,747*
Net financial expense	*3,818*	*7,272*	*3,636*
Charge for the year in respect of defined benefit plans	55,490	94,764	47,383
Actuarial gains and losses	-	(19,447)	-
Actuarial liability at the balance sheet date	655,818	600,328	572,394

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

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

5.4 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, November 8, 2017, and May 17, 2018, 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, September 14, 2017, December 22, 2017, and February 8, 2018, 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 June 30, 2018:

Year the plan was arranged	Number of options authorized	Number of options canceled / lapsed	Number of options exercised	Number of shares not yet vested	Exercise price (€)	Year unexercised options will lapse
2008	20,723	16,556	4,167	-	-	-
2009	53,480	33,000	20,480	-	-	-
2010	112,800	99,926	12,874	-	-	-
2011	95,500	95,500	-	-	-	-
2013	10,000	10,000	-	-	-	-
2014	30,000	-	-	30,000	9.10	2021
2015	12,000	12,000	-	-	-	-
2016	406,500	406,500	-	-	-	-
2017	660,000	-	-	660,000	3.95 / 4.11 * / 2.85 *	2024
2018	570,000	-	-	570,000	2.96 / 3.21 *	2025
Total	1,971,003	673,482	37,521	1,260,000		

* 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 June 30, 2018:

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	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 first half of 2018 are summarized as follows:

	Subscription options			Free shares		
	Number of options	Average residual contractual life	Average exercise price (€)	Number of shares	Average residual contractual life	
					France	United States
Balance at 12.31.16	569,718	5.33	6.09	72,990	0.72	1.72
- allocated	660,000	6.89	3.00	-	-	-
- canceled	(464,000)	5.64	5.75	(9,000)	-	-
- lapsed	(16,592)	-	6.14	-	-	-
- exercised	-	-	-	(32,990)	-	-
Balance at 12.31.17	706,592	6.58	3.67	31,000	-	0.72
- allocated	570,000	6.61	3.03	-	-	-
- canceled	-	-	-	-	-	-
- lapsed	(16,592)	-	8.06	-	-	-
- exercised	-	-	-	-	-	-
Balance at 06.30.2018	1,260,000	6.40	3.27	31,000	-	0.22

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 (€)	H1 2018 accounting charge (€ K)	Cost of plans since inception (€K)
06.05.2008	Option	4,167	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	-	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	-	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	21	104
09.19.2016	Share	41,990	Free	5.85	0%	-	-	5.85	10	252
09.14.2017	Option	160,000	3.95	3.86	0%	34%	-0.01%	1.07	43	71
09.14.2017	Option	50,000	4.11	4.61	0%	34%	-0.01%	1.50	19	32
12.22.2017	Option	450,000	2.85	2.66	0%	35%	0.11%	1.39	160	168
02.08.2018	Option	410,000	2.96	3.19	0%	35%	0.37%	1.03	114	114
02.08.2018	Option	160,000	3.21	3.19	0%	35%	0.37%	0.93	40	40
Total		1,455,794							407	2,612

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 (an estimated USD 13,000 in 2018) 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 four executive corporate officers. They are Denys SOURNAC, Chairman and Chief Executive Officer of MEDICREA INTERNATIONAL, and Fabrice KILFIGER and David RYAN, Deputy Chief Executive Officers of MEDICREA 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. 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.

5.8.1 Compensation paid or awarded during the first half of 2018

Compensation paid or awarded during the first half of 2018 is as follows:

Denys SOURNAC – Chairman and Chief Executive Officer

	Amounts due in relation to		Amounts paid in relation to	
Compensation (€)	H1 2018	H1 2017	H1 2018	H1 2017
Gross fixed compensation (1)	150,000	150,000	150,000	150,000
Gross variable compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits in kind	-	-	-	-
Total	150,000	150,000	150,000	150,000

(1) Services invoiced by ORCHARD INTERNATIONAL

Fabrice KILFIGER – Deputy CEO and Chief Financial Officer

	Amounts due in relation to		Amounts paid in relation to	
Compensation (€)	H1 2018	H1 2017	H1 2018	H1 2017
Gross fixed compensation	98,582	93,890	98,582	93,890
Gross variable compensation	7,500	7,500	15,000 (1)	15,000 (1)
Directors' fees	-	-	-	-
Benefits in kind (2)	5,730	4,713	5,730	4,713
Total	111,812	106,103	119,312	113,603

(1) Compensation for the previous fiscal year
(2) Benefits in kind: company car

David RYAN – Deputy CEO and Chief Operating Officer

	Amounts due in relation to		Amounts paid in relation to	
Compensation (€)	H1 2018	H1 2017	H1 2018	H1 2017
Gross fixed compensation	99,750	80,370	99,750	80,370
Gross variable compensation	15,000	15,000	30,000 (1)	25,000 (1)
Directors' fees	-	-	-	-
Benefits in kind (2)	4,002	3,255	4,002	3,255
Total	118,752	98,625	133,752	108,625

(1) Compensation for the previous fiscal year
(2) Benefits in kind: company car

5.8.2 **Options granted and exercised during the first half of 2018**

Options granted during the first half of 2018 were as follows:

Beneficiaries	Company granting the options	Date options granted by Board of Directors	Number of options	Exercise price (€)
Fabrice KILFIGER	MEDICREA INTERNATIONAL	02/08/2018	160,000	2.96
David RYAN	MEDICREA INTERNATIONAL	02/08/2018	60,000	2.96

Options granted during the first half of 2017 were as follows:

Beneficiaries	Company granting the options	Date options granted by Board of Directors	Number of options	Exercise price (€)
David RYAN	MEDICREA INTERNATIONAL	09/14/2017	100,000	3.95

No options were exercised during the first half of 2018 by the executive corporate officers of the Company. Nor were any exercised during the first half of 2017.

5.8.3 **Free shares granted during the first half of 2018**

No free shares were granted during the first half of 2018 to executive corporate officers of the Company. Nor were any granted during the first half of 2017.

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 is analyzed as follows:

(€)	06.30.2018	12.31.2017
Acquisition of MEDICREA BELGIUM	5,793,664	-
Acquisition of MEDICREA TECHNOLOGIES	2,364,277	2,364,277
Acquisition of MEDICREA EUROPE FRANCOPHONE	212,573	212,573
Acquisition of MEDICREA TECHNOLOGIES UK	49,836	49,770
Total	8,420,350	2,626,620

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.

Goodwill in relation to the interest held in MEDICREA BELGIUM takes into account a commitment to buy shares from minority shareholders of €5.9 million, calculated on the basis of EBITDA forecasts available as of June 30, 2018, using a discount rate of 1.3%.

The market capitalization based on the MEDICREA share price was €40.3 million at June 30, 2018, compared with consolidated net worth of €15.7 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 – €	06.30.2018	12.31.2017	06.30.2017
Research & development costs	13,335,407	12,438,508	11,513,975
Patents and similar rights	4,573,533	4,468,561	3,788,214
Computer licenses and software	2,877,733	2,404,187	1,636,233
Brands	25,133	25,133	25,133
Intangible assets	**20,811,806**	**19,336,389**	**16,963,555**
Buildings	4,525	4,525	12,296
Technical facilities and equipment	6,305,316	6,148,968	6,126,288
Demonstration equipment	697,884	658,830	701,749
Instrument sets	6,976,274	6,401,042	5,935,730
Computer hardware and office equipment	2,417,468	2,492,148	2,295,914
Other non-current assets	4,102,058	3,916,801	3,805,844
Property, plant and equipment	**20,503,525**	**19,622,314**	**18,877,821**
Guarantees and deposits	679,552	686,518	759,869
Non-current financial assets	**679,552**	**686,518**	**759,869**
Total gross values	**41,994,883**	**39,645,221**	**36,601,245**

Amortization, depreciation and provisions – €	06.30.2018	12.31.2017	06.30.2017
Intangible asset amortization	12,726,960	11,453,636	10,352,017
Property, plant and equipment depreciation	9,866,474	8,850,566	7,884,101
Total amortization, depreciation and provisions	**22,593,434**	**20,304,202**	**18,236,118**
Total net values	**19,401,449**	**19,341,019**	**18,365,127**

Over the last 3 periods, changes in non-current assets (excluding goodwill) were as follows:

Net non-current assets – €	06.30.2018	12.31.2017	06.30.2017
At the start of the period	19,341,019	17,108,993	17,108,993
Investments during the period	3,150,441	8,789,073	4,747,318
Disposals during the period	(298,723)	(940,869)	(739,646)
Amortization, depreciation and provision charges	(2,972,905)	(4,996,876)	(2,344,833)
Change in consolidation scope	63,490	-	-
Translation adjustment	118,127	(619,302)	(406,705)
At the end of the period	19,401,449	19,341,019	18,365,127

6.7 Change in non-current assets, and depreciation and amortization during H1 2018

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

Gross values (€)	01.01.2018	Translation adjustment	Acquisitions	Disposals	Other	06.30.2018
Research & development costs	12,438,508	13,603	883,296	-	-	13,335,407
Patents and similar rights	4,468,561	-	104,972	-	-	4,573,533
Computer licenses and software	2,404,187	26,936	487,307	40,697	-	2,877,733
Brands	25,133	-	-	-	-	25,133
Intangible assets	19,336,389	40,539	1,475,575	40,697	-	20,811,806
Buildings	4,525	-	-	-	-	4,525
Technical facilities and equipment	6,148,968	200	467,148	311,000	-	6,305,316
Demonstration equipment	658,830	8,005	143,381	121,362	9,030	697,884
Instrument sets	6,401,042	70,954	954,155	622,799	172,922	6,976,274
Computer hardware and office equipment	2,492,148	6,198	57,340	35,020	(103,198)	2,417,468
Other non-current assets	3,916,801	31,141	37,087	-	117,029	4,102,058
Property, plant and equipment	19,622,314	116,498	1,659,111	1,090,181	195,783	20,503,525
Guarantees and deposits	686,518	7,941	15,755	30,662	-	679,552
Non-current financial assets	686,518	7,941	15,755	30,662	-	679,552
Total gross values	39,645,221	164,978	3,150,441	1,161,540	195,783	41,994,883

Amortization and depreciation (€)	01.01.2018	Translation adjustment	Charges	Reversals	Other	06.30.2018
Research & development costs	7,675,359	8,486	815,547	-	-	8,499,392
Patents and similar rights	3,142,962	-	180,861	-	-	3,323,823
Computer licenses and software	610,182	5,839	303,288	40,697	-	878,612
Brands	25,133	-	-	-	-	25,133
Intangible assets	11,453,636	14,325	1,299,696	40,697	-	12,726,960
Buildings	4,405	-	8	-	-	4,413
Technical facilities and equipment	2,558,758	200	345,295	96,452	-	2,807,801
Demonstration equipment	379,491	1,785	102,407	84,061	-	399,622
Instrument sets	4,037,861	15,273	868,469	607,501	121,953	4,436,055
Computer hardware and office	1,272,715	4,523	156,463	34,106	10,340	1,409,935
equipment	597,336	10,745	200,567	-	-	808,648
Other non-current assets	8,850,566	32,526	1,673,209	822,120	132,293	9,866,474
Property, plant and equipment						
Total amortization and depreciation	20,304,202	46,851	2,972,905	862,817	132,293	22,593,434

Net values (€)	01.01.2018	Translation adjustment	Increases	Decreases	Other	06.30.2018
Intangible assets	7,882,753	26,214	175,879	-	-	8,084,846
Property, plant and equipment	10,771,748	83,972	(14,098)	268,061	63,490	10,637,051
Non-current financial assets	686,518	7,941	15,755	30,662	-	679,552
Total net values	19,341,019	118,127	177,536	298,723	63,490	19,401,449

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

1 / Research and development activity is structurally important and is a key differentiating factor for the Group. The main costs incurred in H1 2018 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 first half of 2018 amounted to €883,296 compared with €943,101 in H1 2017.

2/ Patent costs capitalized in H1 2018 amounted to €104,972, compared with €100,070 in respect of H1 2017. Of these, 84% relate to patient-specific spinal osteosynthesis rods (UNiD® rods).

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 data-driven 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 €0.5 million euros in the first half of 2018, mainly related to the purchase of a 5-axle machining center.

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 main reason for the increase in the computer hardware and office equipment item is the renewal of equipment under operating leases.

8/ The increase in other non-current assets is mainly due to expenditure for head office maintenance.

9/ The increase in guarantees and deposits relates primarily to a guarantee given to BPI for a bank loan, while the decrease is due to reimbursing the security deposit for the former premises in La Rochelle.

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:

	06.30.2018				12.31.2017		06.30.2017	
(€)	Gross value	Depr.	Net value	Financial liability	Net value	Financial liability	Net value	Financial liability
Software	21,700	(18,505)	3,195	3,261	6,812	6,919	10,428	10,559
Technical facilities and equipment	3,108,569	(1,611,618)	1,496,951	688,053	1,684,087	848,911	1,755,010	1,001,811
Computer hardware	977,709	(474,050)	503,659	481,990	554,986	538,183	583,002	572,537
Total	4,107,978	(2,104,173)	2,003,805	1,173,304	2,245,885	1,394,013	2,348,440	1,584,907

The acquisitions during the first half of 2018 financed by finance leases and operating leases primarily include computer hardware of €15,000.

Finance lease and operating lease commitments are analyzed as follows:

(€)	06.30.2018	12.31.2017	06.30.2017
Lease payments			
Total payments from previous years (1)	1,950,418	1,425,166	1,539,540
Lease payments for the year (1)	258,066	525,252	268,660
Total	2,208,484	1,950,418	1,808,200
Future minimum lease payments			
Within 1 year	479,002	494,797	508,468
1 to 5 years	723,379	949,841	1,134,255
More than 5 years	-	-	9,165
Total	1,202,381	1,444,638	1,651,888
Residual values	19,532	19,532	18,427

(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:

Entities		Annual rent	Lease term
	MEDICREA INTERNATIONAL, Rillieux-la-Pape, FR	€1,125,975	12 years from September 23, 2016
	MEDICREA USA, New-York, US	USD 987,767	10 years from April 1, 2016
	MEDICREA TECHNOLOGIES UK, Swaffam Bulbeck, UK	GBP 8,800	Terminated lease
	MEDICREA GMBH, Cologne, DE	€14,591	Terminated lease
	MEDICREA POLAND, Łódź, PL	PLN 48,858	3 years from March 1, 2017
	MEDICREA BELGIUM, Houwaart, BE	€14,400	9 years from September 1, 2015

The lease agreement for the offices of MEDICREA TECHNOLOGIES UK was terminated and ended in August 2018; going forward, the Group will now be represented in the UK by an independent UK distributor.

The lease agreement for the offices of MEDICREA GMBH was terminated and ended in May 2018. The Group is now represented in Germany by an independent German distributor.

Future operating lease commitments can therefore be summarized as follows:

(€)	06.30.2018			12.31.2017	06.30.2017
	Real estate	Other	Total	Total	Total
Within 1 year	2,003,180	296,630	2,299,810	2,131,480	2,185,859
1 to 5 years	7,285,048	225,916	7,510,964	8,208,026	8,289,988
5 to 10 years	9,552,348	-	9,552,348	8,974,850	9,560,907
More than 10 years	278,230	-	278,230	834,690	1,360,814
Total	19,118,806	522,546	19,641,352	20,149,046	21,397,568

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, 2018	**600,328**	**177,914**	**22,000**	**800,242**
Charges	55,490	100,000	283,994	439,484
Used during the year	-	(43,337)	(3,500)	(46,837)
Reversals	-	(45,269)	-	(45,269)
Translation adjustment	-	692	(1,843)	(1,151)
Provisions at June 30, 2018	**655,818**	**190,000**	**300,651**	**1,146,469**
of which due in less than one year	*25,761*	*190,000*	*300,651*	*516,412*
of which due between one and five years	*57,473*	-	-	*57,473*
of which due in more than five years	*572,584*	-	-	*572,584*

Provisions for litigation relate to pay disputes that have not been settled as of June 30, 2018.

Other provisions essentially relate to expenses for the closure of the company MEDICREA TECHNOLOGIES UK. These expenses, recognized as of June 30, 2018, include costs for staff redundancies, termination of the lease for the premises and termination of the main ongoing contracts as well as recognition of the net book value of assets that will not be taken over by the Group.

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.

These contingent liabilities were not recognized in the Group's financial statements as of June 30, 2018.

The contingent liabilities identified at June 30, 2018 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 June 30, 2018 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, less any royalty paid out, will be made to Doctor McAfee in the event that MEDICREA INTERNATIONAL is bought out by another company followed by termination of the agreement.

- Two royalties contracts concluded with two American surgeons provide for the possibility of the surgeons terminating the contracts in the event of a change of control of MEDICREA Group and demanding payment of compensation of $1 million each.

NOTE 8: FINANCING AND FINANCIAL INSTRUMENTS

8.1 Net financial debt

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

The Group's net financial debt at June 30, 2018 is analyzed as follows:

(€)	06.30.2018 Non-current	06.30.2018 Current	06.30.2018 Total	12.31.2017 Non-current	12.31.2017 Current	12.31.2017 Total
Long-term financial debt	17,330,819	2,201,827	19,532,646	16,738,955	3,494,313	20,233,268
Short-term and bank loans	-	1,289,839	1,289,839	-	893,065	893,065
Gross financial debt	17,330,819	3,491,666	20,822,485	16,738,955	4,387,378	21,126,333
Cash and cash equivalents	-	(5,157,376)	(5,157,376)	-	(11,980,693)	(11,980,693)
Net financial debt	17,330,819	(1,665,710)	15,665,109	16,738,955	(7,593,315)	9,145,640

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 June 30, 2018, all long-term financial debt was taken out in Euros and at fixed rates, and is analyzed as follows:

(€)	06.30.2018	12.31.2017	06.30.2017
Bond issues	14,756,406	15,601,568	15,304,576
Loans from credit institutions	3,578,731	3,218,398	4,466,080
Operating leases	850,225	1,039,433	1,226,311
Finance leases	323,079	354,580	358,596
Accrued loan interest	12,506	7,590	7,886
Other	11,699	11,699	11,699
Total	19,532,646	20,233,268	21,095,344

The bond loans broke down as follows:

(€)	06.30.2018	12.31.2017	06.30.2017
Convertible bond loan – August 2016 (1)	13,966,420	13,457,885	12,962,066
Bond loan – February 2016	-	1,150,000	1,150,000
Bond loan – April 2015	789,986	993,683	1,192,510
Total	14,756,406	15,601,568	15,304,576

(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 June 30, 2018:

(€)	06.30.2018	12.31.2017	06.30.2017
Convertible bond loan	15,000,000	15,000,000	15,000,000
Equity component of the bond loan	(1,438,635)	(1,438,635)	(1,438,635)
Loan issue costs	(1,550,120)	(1,550,120)	(1,550,120)
Equity component of the issue costs	148,671	148,671	148,671
Amortization of the restatement of the bond loan	1,223,169	878,844	543,129
Amortization of the restatement of the issue costs	583,335	419,125	259,021
Total	13,966,420	13,457,885	12,962,066

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

(€)	06.30.2018
At January 1, 2018	13,457,885
Bond loan restatement amortization for the period	344,325
Issue costs restatement amortization for the period	164,210
At June 30, 2018	13,966,420

8.1.2 Change in long-term financial debt

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

(€)	12.31.2017	Cash movements: Issues	Cash movements: Redeemed	Non-cash movements	06.30.2018
Bond issues	15,601,568	-	(1,353,697)	508,535	14,756,406
Loans from credit institutions	3,218,398	1,200,000	(842,664)	2,997	3,578,731
Operating leases	1,039,433	-	(189,208)	-	850,225
Finance leases	354,580	-	(46,937)	15,436	323,079
Accrued loan interest	7,590	-	-	4,916	12,506
Other	11,699	-	-	-	11,699
Long-term borrowings	20,233,268	1,200,000	(2,432,506)	531,884	19,532,646
Short-term borrowings (1)	893,065	-	(149,164)	545,938	1,289,839
Total	21,126,333	1,200,000	(2,581,670)	1,077,822	20,822,485

(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 first half of 2018 within the framework of existing amortization schedules and to the two new contracts that were taken out for a total of €1.2 million and bearing interest rates ranging between 2% and 5% over periods of 4 to 7 years, to refinance bonds that have expired and finance the development of the proprietary UNiD ™ HUB surgical planification software.

The "non-cash" changes primarily include the change in the IFRS restatements on the €15 million convertible bond loan, as previously explained, the recognition of factored trade receivables, the transfer of risks and rewards of which has not yet taken place, and the capitalization of a new finance lease agreement.

8.1.3 Maturity of long-term financial debt

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

(€)	06.30.2018	Within 1 year	1 to 5 years	More than 5 years
Bond issues	14,756,406	422,354	14,334,052	-
Loans from credit institutions	3,578,731	1,322,918	2,135,813	120,000
Operating leases	850,225	347,079	503,146	-
Finance leases	323,079	96,970	226,109	-
Accrued loan interest	12,506	12,506	-	-
Other	11,699	-	-	11,699
Total	19,532,646	2,201,827	17,199,120	131,699

Securities granted in relation to certain Group assets to guarantee borrowings, as well as early repayment clauses and covenants are detailed in Note 8.5.3 "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 June 30, 2018, all short-term financial debt was taken out in Euros and at fixed rates, and is analyzed as follows:

(€)	06.30.2018	12.31.2017	06.30.2017
Bank overdrafts	1,050,000	503,284	500,800
Factoring	236,014	385,178	348,086
Accrued bank interest	3,825	4,603	5,456
Total	1,289,839	893,065	854,342

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:

(€)	06.30.2018	12.31.2017	06.30.2017
Cash	5,157,376	11,980,693	14,118,327
Cash and cash equivalents	5,157,376	11,980,693	14,118,327

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 half-year financial statements at June 30, 2018.

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

(€)	06.30.2018	12.31.2017	06.30.2017
Capital increase expenses charged as issue costs	112,624	1,295,204	780,000
Loan issue costs	(2,997)	(6,745)	-
Other financial loans	-	(11,699)	(11,699)
Total	109,627	1,276,760	1,783,239

8.1.7 Average debt rate

The average debt rate evolved as follows:

	06.30.2018	12.31.2017	06.30.2017
Euro (EUR)	5.89%	5.80%	5.74%

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 2.94% 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 first half of 2018.

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:

(€)	06.30.2018	06.30.2017
Bond interest	(1,056,836)	(1,043,100)
Loan interest	(22,674)	(41,366)
Finance lease interest	(23,704)	(22,868)
Overdraft interest	(6,224)	(2,005)
BPI loan guarantee	(5,658)	(4,445)
Factoring interest	(1,324)	(1,401)
Other	4,140	811
Cost of net financial debt	(1,112,280)	(1,114,374)

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:

(€)	06.30.2018	06.30.2017
Foreign exchange gains / (losses)	2,200	(302,979)
Other financial income / (expenses)	2,200	(302,979)

8.4 Fair value of financial instruments

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

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

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

8.4.1 Balance sheet disclosures

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

Sections	At 06.30.2018			At 12.31.2017		
	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	7,169,581	7,169,581	C	3,973,135	3,973,135
Other current assets (2)	C	173,615	173,615	C	295,598	295,598
Cash and cash equivalents	A	5,157,376	5,157,376	A	11,980,693	11,980,693
Liabilities (€)						
Negative cash balances (3)	A	1,289,839	1,289,839	A	893,065	893,065
Current and non-current financial liabilities excluding negative cash balances	B	19,532,646	19,532,646	B	20,233,268	20,233,268
Trade payables	C	6,400,666	6,400,666	C	4,672,856	4,672,856
Other current and non-current liabilities (4)	C	6,910,721	6,910,721	C	439,771	439,771

(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 2018 and 2017 first-half years, as well as the breakdown of this impact according to the categories outlined in IAS 39:

	Designation of financial instruments	At 06.30.2018	At 06.30.2017
Finance costs		**(1,112,280)**	**(1,114,374)**
Interest charge	B	(1,112,280)	(1,114,374)
Other financial income		**2,200**	**39,495**
Exchange gains	A	2,200	39,495
Other financial expenses		**-**	**(342,474)**
Exchange losses	A	-	(342,474)

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 risks

The Group monitors its customers' average payment period on a monthly basis. This ratio was 56 days at June 30, 2018. For international customers not paying in advance, the Group puts in place coverage mechanisms, such as:

- an application for guarantee from Coface. At the end of June 2018, the maximum amount of trade receivables that may be guaranteed by Coface was €603,000;
- letters of credit (none at June 30, 2018).

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

(€)	06.30.2018	12.31.2017	06.30.2017
Gross trade receivables	7,295,710	4,003,281	4,886,150
Outstanding for more than 6 months	140,168	37,412	33,284
% of trade receivables	1.92%	0.93%	*0.68%*
Total provision for doubtful receivables	126,129	30,146	27,341
% of trade receivables	1.73%	0.75%	*0.56%*
Bad debt losses	0	4,537	2,041

8.5.3 Liquidity risks

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

The financial resources secured following fundraising transactions total approximately €72.9 million, as detailed in the table below:

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

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

The contract relating to the €15,000,000 convertible bond issued in August 2016 specified that the Group must ensure that it has available cash of at least €3.5 million, and that its gross financial debt, without deducting cash or taking the actual bond loan into account, is less than €10 million. Both these conditions were fulfilled at June 30, 2018.

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 June 30, 2018, the Group did not have any ongoing currency hedging.

8.5.5 Interest rate risks

At June 30, 2018, 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 45% of its H1 2018 consolidated sales in dollars through its subsidiary MEDICREA USA (61% in H1 2017). The reduction in this percentage is explained by the contribution to total sales made by MEDICREA BELGIUM sales since February 2018.

The US, UK, Polish and Australian 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.

During the first half of 2018, the dollar depreciated by more than 12% compared to the first half of 2017. This generated a negative impact on sales of almost €1 million between the first half of 2018 and the first half of 2017. A breakdown of these changes can be found in Note 4.10.

A 15% appreciation of the dollar against the euro, applied to data from the first half of 2018, would result in an increase to Group sales of €1.2 million, but would have no significant impact on operating income.

Conversely, a 15% depreciation of the dollar against the euro, applied to H1 2018 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

(€)	06.30.2018	12.31.2017	06.30.2017
Pledges of business goodwill (1)	7,778,777	6,743,777	6,852,659
Cash collateral (2)	70,000	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

(€)	06.30.2018	12.31.2017	06.30.2017
Assignment of trade receivables	500,000	500,000	500,000
BPI counter guarantee (1)	1,520,220	1,008,729	1,524,484

(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 June 30, 2018 was €245,000.

NOTE 9: CORPORATE TAX

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

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

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

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

The research tax credit was recognized as a €508,000 reduction in research and development costs at June 30, 2018 (€440,000 at June 30, 2017).

9.1 Analysis of the corporate tax rate

The Group's corporate tax charge for the year to June 30, 2018 is analyzed as follows:

(€)	06.30.2018	06.30.2017
Consolidated net income/(loss)	(6,499,807)	(5,120,517)
Corporate tax	47,409	427,900
Income before tax	(6,547,216)	(5,548,417)
Share-based payments	(407,000)	(330,000)
Taxable income	(6,140,216)	(5,218,417)
Adjustment to the research and employment and competitiveness tax	(586,244)	(511,636)
credit	(6,726,460)	(5,730,053)
Taxable income excluding adjustments	1,883,409	1,909,826
Theoretical tax income / (charge) @28%		
	(310,510)	(146,718)
Difference in tax rates of other countries	(15,227)	481,031
Tax on permanent differences	(1,178,390)	(2,086,117)
Uncapitalized tax losses carried forward	(23,629)	-
Correction of corporate tax rates	(321,417)	196,474
Capping of deferred tax assets	13,173	73,404
Other		
	47,409	427,900
Recognized corporate tax income/ (charge)		

9.2 Analysis of deferred taxation

Deferred tax assets and liabilities are analyzed as follows:

(€)	06.30.2018	12.31.2017	06.30.2017
Tax losses carried forward	1,995,483	1,475,985	1,690,819
Temporary tax differences	39,693	9,935	49,432
Consolidation restatements	400,528	558,576	812,194
Total deferred tax assets	2,435,704	2,044,496	2,552,445
Temporary tax differences	171,873	209,017	564,912
Consolidation restatements	562,858	650,678	793,988
Total deferred tax liabilities	734,731	859,695	1,358,900

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 and Australian subsidiaries. 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 €12.8 million at June 30, 2018, including €11.7 million of unrecognized tax losses carried forward and €1.1 million related to consolidation restatements.

The Group has recognized the following tax losses:

(€)	06.30.2018	of which capitalized	Corresponding deferred tax
MEDICREA INTERNATIONAL	38,134,092	-	-
MEDICREA UK	2,521,568	-	-
MEDICREA USA	9,480,305	9,480,305	1,990,864
MEDICREA GMBH	1,330,116	-	-
MEDICREA POLAND	613,200	-	-
MEDICREA AUSTRALIA	16,495	16,495	4,619
Total available tax losses	52,095,776	9,496,800	1,995,483

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

(€)	06.30.2018
Tax losses carried forward at January 1, 2018	1,475,985
Capitalized tax losses carried forward - MEDICREA USA	454,186
Capitalized tax losses carried forward - MEDICREA AUSTRALIA	4,664
Translation adjustment	60,648
Tax losses carried forward at June 30, 2018	1,995,483

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

Share capital at June 30, 2018 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:

(€)	06.30.2018	12.31.2017	06.30.2017
Number of authorized shares	15,082,811	15,082,811	12,713,480
Number of preference shares	100	100	100
Number of shares issued and fully paid up	15,082,911	15,082,911	12,713,580
Par value (€)	0.16	0.16	0.16
Number of shares outstanding at end of period	15,082,811	15,082,811	12,713,480
Number of shares with double voting rights	2,597,579	2,594,120	2,637,246
Number of treasury shares held by the parent company	5,470	4,438	3,389

There were no transactions on the Company's share capital during the first half of 2018.

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 June 30, 2018. 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 duringH1 2018, 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 June 30, 2018. Translation adjustments related to the consolidation of foreign subsidiaries' financial statements in Euros are included in the "Reserves" column, since their values have no material impact on the financial statements at June 30, 2018.

Other movements at June 30, 2018 are analyzed as follows:

(€)	06.30.2018	12.31.2017
Actuarial gains and losses relating to retirement allowances	-	19,446
Treasury shares	(1,654)	(10,064)
Other	647	(20)
Total	**(1,007)**	**9,362**

10.1.5 Issue, buyback and redemption of debt and equity securities

Convertible bonds

Over the year to June 30, 2018 the Group redeemed a cumulative 121 of the 200 convertible bonds issued to an institutional investor in April 2015, i.e. an amount of €1.2 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 are treated as dilutive if, and only if, their conversion into ordinary shares would decrease earnings per share or increase the loss per share.

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 (1,291,000 shares), the preference shares (210,000 shares) and the bonds potentially convertible into shares resulting from the issue of a €15,000,000 bond loan in August 2016 (2,400,000 shares) were not taken into consideration at June 30, 2018 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:

	06.30.2018			12.31.2017		
	Number of shares	% share capital	% voting rights	Number of shares	% share capital	% voting rights
ORCHARD INTERNATIONAL (1)	1,727,490	11.45	19.54	1,727,490	11.45	19.55
Denys SOURNAC (2)	607,533	4.03	3.44	457,488	3.03	2.59
Jean Philippe CAFFIERO	216,089	1.43	2.36	216,089	1.43	2.36
<u>Other Directors</u>						
Pierre BUREL (2)	194,587	1.29	1.10	194,587	1.29	1.10
Patrick BERTRAND (2)	113,968	0.76	0.74	113,968	0.76	0.74
François Régis ORY (2)	108,652	0.72	0.61	108,652	0.72	0.61
Rick KIENZLE	102,880	0.68	0.58	102,880	0.68	0.58
Christophe BONNET	52,128	0.35	0.48	52,128	0.35	0.48
Jean Joseph MORENO	22,000	0.15	0.21	22,000	0.15	0.21
Marc RECTON	18,752	0.12	0.18	18,752	0.12	0.18
Total	3,164,079	20.98%	29.24%	3,014,034	19.98%	28.40%

(1): Shares held by the holding company, ORCHARD INTERNATIONAL. The following table provides details of ORCHARD INTERNATIONAL's shareholding structure as of June 30, 2018:

- 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

11.2 Related-party disclosures

As mentioned in Section 5.8 above, ORCHARD INTERNATIONAL invoices MEDICREA INTERNATIONAL for various services, the amounts of which changed over the last two periods as follows:

(€)	Amount invoiced, excl. VAT H1 2018	Amount invoiced, excl. VAT H1 2017
Management services	150,000	150,000
Rebilling of employee costs	47,490	75,750
Rebilling of seconded executive's salary	-	32,000
Share of expenses	6,780	5,502
Rent and rental costs	37,529	22,310
Total	241,799	285,562

Rebilling of employee costs in relation to two employees as well as expenses for office space ceased at the end of the first quarter of 2018, with the corresponding costs being generated directly by MEDICREA INTERNATIONAL from then onwards.

11.3 Post-balance sheet events

In July 2018, MEDICREA INTERNATIONAL carried out a €3 million capital increase in favor of 4 US-based international institutional investors.

This fund raising concerns a total of 1,127,936 ordinary shares with warrants attached ("ABSA") issued at a unit price of €2.734 (including issue premium), i. e. a gross amount of €3,083,777. The number of shares issued may be increased to 1,691,904, i.e. a total maximum gross amount of €4,775,681, in the event that all of the share warrants are exercised.

This fund raising, whose main goal is to accelerate the development of new services within the UNiD™ HUB, also allows the Company to maintain liquid assets above €3.5 million in conformity with existing contractual covenants.

4 STOCK MARKET INFORMATION

MEDICREA
(IM)PROVE

MEDICREA INTERNATIONAL has been listed on Alternext Paris since 26 June 2006, under the ISIN code FR004178572 and the ticker ALMED. The share was launched at €7.94 and has been listed continuously since February 2007.

The MEDICREA share is eligible for the 2015/16 PEA-PME SME equity savings plan, in accordance with Decree n°2014-283 of March 4, 2014 published within the framework of the application of Article 70 of the 2014 Finance Act n° 2013-1278 of December 29, 2013, which defines the conditions for companies to be eligible for the PEA-PME SME savings plan. In this way, investors can continue to add MEDICREA shares to their PEA-PME accounts, which are plans dedicated to small and medium value investments enjoying the same tax benefits as traditional PEA savings plans.

1. STOCK MARKET LISTING

On August 28, 2018, the Company was admitted to the OTCQX Best Market in the United States under the tickers MRNTY and MRNTF. The Company made the decision to be listed on this market to enable American shareholders who do not want to purchase shares through a European market to purchase them directly in the U.S. The MRNTY ticker represents ADRs (American Depositary Receipts) and the MRNTF ticker represents ordinary shares in the Company. Each ADR represents one of the Company's ordinary shares trading on Euronext Growth. From now on, this listing in an American marketplace will allow institutional and private investors in the United States to buy and sell both ADRs and ordinary shares in the Company in dollars.

2. STOCK MARKET PERFORMANCE

Since January 1, 2018, the share price has evolved as follows:

3. TRADING STATISTICS

The key figures related to the MEDICREA share over the past three periods are summarized in the table below.

	06.30.2018 6 months	12.31.2017 12 months	12.31.2016 12 months
Share price	€2.67	€3.00	€5.40
Market capitalization	€40.3 m	€45 m	€54 m
High price	€3.56	€6.37	€7.04
Low price	€2.34	€2.86	€4.33
Average price	€2.99	€4.51	€5.46
Period change	(11)%	(44.4)%	(20.35)%
Number of shares traded	3,951,589	3,000,160	1,937,451
Trading value	€11.8 m	€13.5 m	€10.6 m
Capital turnover rate	26.2%	19.9%	20.18%

4. SHAREHOLDING STRUCTURE

The free float represents more than two thirds of the Group's share capital and the shareholding structure broke down as follows at June 30, 2018, in percentage of share capital and voting rights:

	% share capital	% voting rights
Investment funds	68.98%	60.77%
Founders	16.91%	25.34%
Of which Denys Sournac and IDS KAP/IDSCO	*4.03%*	*3.44%*
Of which Jean-Philippe Caffiero	*1.43%*	*2.36%*
Of which ORCHARD	*11.45%*	*19.54%*
Business angels	5.73%	6.32%
Employees	1.01%	1.16%
Free float	7.37%	6.41%
TOTAL	100.00%	100.00%

5. FINANCIAL ANALYSIS AND INFORMATION SOURCES

The brokerage firms Euroland company track the share.

All the press releases and financial documents are available on the Group's website at the following url: www.medicrea.com, as well as on the Euronext Growth site: www.euronext.com.

6. FINANCIAL COMMUNICATION CALENDAR

The following information has been or will be published in 2018/2019:

2018 First Quarter Sales	Thursday, April 5, 2018
2018 Half-Year Sales	Thursday, July 5, 2018
2018 Half-Year Results	Tuesday, September 18, 2018
2018 Third Quarter Sales	Thursday, October 11, 2018
2018 Annual Sales	Tuesday, January 15, 2019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