Medacta International

ANNUAL REPORT 2019

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From minimally invasive surgery to

Personalized Medicine and beyond

Medacta International

MANAGEMENT REPORT

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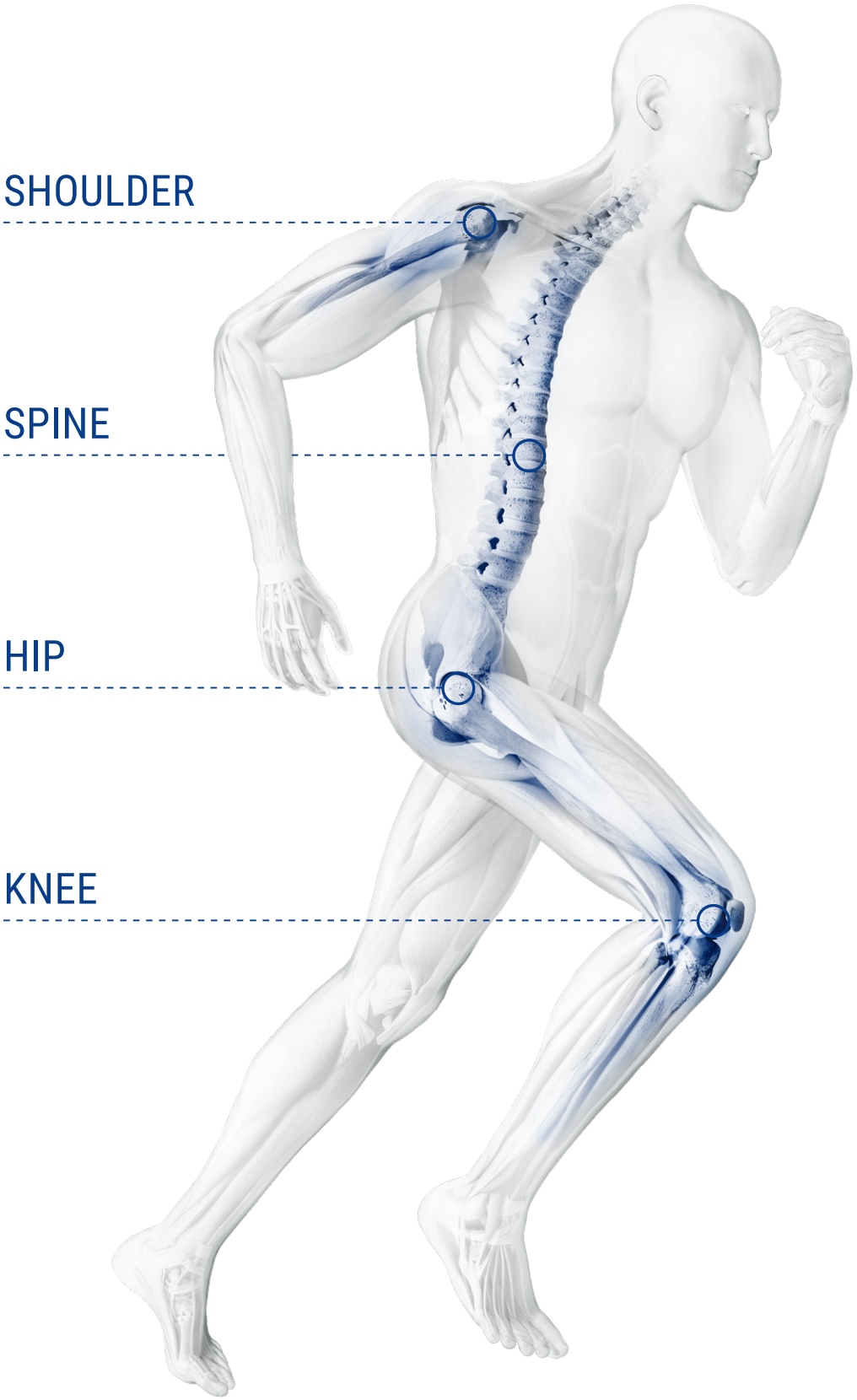
SHOULDER
SPINE
HIP
KNEE

2019 HIGHLIGHTS*

- Successful IPO at SIX Swiss Exchange;
- Celebration of the 20th year anniversary of Medacta through the successful 9th M.O.R.E. International Symposium in Lugano with roughly 1'500 attendees;
- Organic growth of 13.9%, significantly above the market and strong profitability equal to 29.5% of adjusted EBITDA margin (also called CORE EBITDA margin);
- Outlook FY 2020: Conscious of Covid-19 related uncertainties, Medacta withholds financial guidance for 2020. Mid and long-term fundamentals remain unchanged;
- Medacta has historically maintained a moderate net debt ratio. To protect our future cash flow and liquidity, the Board of Directors has proposed not to distribute a dividend for the financial year 2019.

REVENUE

EUR 310.6M

2019 REPORTED GROWTH [1]

13.9%

11.3% before FX effects from prior year

[1] Is calculated as the difference between the current and historical period results translated using the current period exchange rates.

ADJUSTED EBITDA [2]

EUR 91.5M

[2] Is calculated as EBITDA, adjusted for non-recurring items: IPO costs, one-time tax duty, Fidelity Bonus, provisions on litigations, extraordinary legal expenses and sale of non-strategic asset. (i.e., CORE EBITDA)

ADJUSTED EBITDA MARGIN [3]

29.5%

[3] Adjusted EBITDA margin, is calculated as adjusted EBITDA as a percentage of Revenue for the period.

2019 NUMBER OF EMPLOYEES

1'101

128 new jobs added in 2019

* **Alternative Performance Measures**: This section and other sections of this Annual Report, contain certain financial measures of historical performance that are not defined or specified by IFRS, such as "constant currency", "EBITDA", "Adjusted EBITDA" or "CORE EBITDA", "Free Cash Flow", "Adjusted Free Cash Flow", "Net Debt" and "Leverage". Reconciliation of these measures as well as "CORE" financial measures is provided in the "Alternative Performance Measures" (APM) section of this Annual Report. These Alternative Performance Measures (APM) should be regarded as complementary information to, and not as a substitute for the IFRS performance measures. For definitions of APM, together with reconciliations to the most directly reconcilable IFRS line items, please refer section headed "Alternative Performance Measures" of this Annual Report.

KEY FINANCIAL FIGURES

(Million Euro)	31.12.2019	31.12.2018
Revenues	310.6	272.6
Gross Profit	223.7	204.0
Alternative Performance Measures:		
EBITDA	53.3	86.3
Adjusted EBITDA*	91.5	87.9
Adjusted EBITDA margin*	29.5%	32.3%
Free Cash Flow	0.6	17.2
Adjusted Free Cash Flow**	22.3	33.2

(Million Euro)		
Total Assets	412.6	365.6
Total Equity	123.2	89.1
Equity Ratio	29.9%	24.4%
Number of employees	1'101	973

* Adjusted for IPO costs, one-time tax duty, Fidelity Bonus, provisions on litigations, extraordinary legal expenses, sale of non-strategic asset.
The reconciliation is provided in the "Alternative Performance Measures" section of the Management Report. IFRS 16 adoption starting from January 1, 2019 positively impacted our EBITDA, since lease expenses are classified in depreciation of right-of-use assets (Euro 2'964 thousand) and financial costs (Euro 191 thousand). In the comparative period, lease expenses were classified within "Opex" for a total amount of Euro 2'990 thousand.

** Please see the "Alternative Performance Measures" section of the Management Report for the reconciliation of the "Adjusted Free Cash Flow". IFRS 16 adoption starting from January 1, 2019 positively impacted our Free Cash Flow, since lease expenses are classified in depreciation of right-of-use assets (Euro 2'964 thousand). In the comparative period, lease expenses were classified within the "Cash Flow from operating activities" for a total amount of Euro 2'990 thousand.

SHARE INFORMATION

The registered shares of Medacta Group SA are traded on the International Reporting Standard of SIX Swiss Exchange and are part of the Swiss Performance Index.

NUMBER OF SHARES

Share capital (in CHF)	2'000'000
Number of registered shares outstanding	20'000'000
Nominal value per registered share (in CHF)	0.10
Number of treasury shares	0

DATA PER SHARE

(Swiss Francs)	
High (in CHF)	105.88
Low (in CHF)	67.70
Closing price (in CHF)	72.40
Market capitalization (in CHF million)	1'448

LETTER TO SHAREHOLDERS

MEDACTA EXPANDS FURTHER ACHIEVING STRONG REVENUE GROWTH AND PROFITABILITY

Dr. Alberto Siccardi

Ing. Francesco Siccardi

Dear shareholders,

First of all, we would like to take this opportunity to welcome all of you, our esteemed new shareholders, to the Medacta family.

2019 has been a truly important year for Medacta with several milestones achieved: Medacta conducted a successful Initial Public Offering (IPO) on the SIX Swiss Exchange, we celebrated Medacta's 20th anniversary and we have been recognized as one of the Fastest Growing Company in the orthopaedic industry (for the 2018 business year).

STRONG ORGANIC GROWTH IN ALL REGIONS AND BUSINESS LINES*

In 2019, Medacta continued to expand significantly faster than the orthopaedic market, achieving strong organic revenue growth and double-digit expansion. The Company's 2019 organic revenue equaled to EUR 310.6 million, with an increase of 13.9% over the prior year. We had a positive contribution from all product lines and a balanced geographic growth in all key markets. Currency development had a positive contribution on reporting results, mainly due to the development of the US dollar and Swiss Franc against the Euro, with total sales growth of 11.3% at constant currency.

Our core Joint product line contribution has been very successful. The Hip line continued to develop, achieving sales growth of 5.2% at constant currency and reported sales of EUR 163.9 million, and benefit from the AMIS technique. In the Knee product line, there was a strong growth of 13.2% at constant currency, with reported sales of EUR 111.7 million. The integrated proposal of innovative implants and instrumentation, MyKnee Patient-Matched Technology, the MIKA Platform for kinematic alignment and GMK Efficiency Single Use Instruments, sustained the strong Knee performance. The Spine product line showed a good acceleration in the second part of the year, closing the year with revenue growth an impressive 23.4% at constant currency and reported sales equal to EUR 25.3 million. The minimally invasive solution, MySpine MC Patient-Matched Technology, along with the successful refocus of the structure on the Medacta marketing approach, have been the key elements of this result. In 2019, the Shoulder product line was completed with the launch of our innovative Total Shoulder system, culminating in December with the FDA clearance on the MyShoulder. Thanks to our comprehensive product portfolio and to a successful deployment strategy, our shoulder product line was able to reach 147.4% growth rate at constant currency and reported revenue of EUR 9.7 million. Medacta achieved balanced geographic sales growth in all key markets. Europe registered 7.9% growth rate at constant currency and reported sales of EUR 136.1 million despite price pressure in some of our key countries. North America market realised an overall good performance showing 13.2% growth rate at constant currency and reported revenue of EUR 95.5 million. U.S. remains one of our strategic markets and a key focus for 2020. Asia Pacific delivered the strongest result among our geographic areas reaching 13.3% revenue growth at constant currency and EUR 66.9 million of reported revenue. This impressive result is attributable to a well-executed marketing strategy, capable of generating noticeable acceleration mainly in the second part of the year.

HIGH GROSS PROFIT PERFORMANCE*

The Gross Profit adjusted for the Fidelity Bonus for employees increased by 11.2%, from EUR 204.0 million in the previous year to EUR 226.9 million in the reporting period. The adjusted gross profit margin equal to 73.0%, decreased by 1.8% in comparison to the previous year, primarily due to expected price reductions in certain European countries, higher raw material prices, higher royalties and incremental depreciation given the investments made on new instruments to sustain future growth, not sufficiently counterbalanced by positive effects deriving from revenue geographic mix and product mix.

STRONG ADJUSTED EBITDA OF 29.5%*

The adjusted EBITDA amounted to EUR 91.5 million, 4.1% increase compared to a year ago. The adjustments, in the amount of EUR 38.2 million, include mainly one-time expenses associated with the IPO, extraordinary legal costs, stamp duty and accrued provisions on litigation. The adjusted EBITDA corresponds to a margin of 29.5% compared to 32.3% in 2018. The reduction in profitability was mainly due to the combined effect of expected increasing CORE business expenses and revenue growth below expectations. Higher costs were incurred particularly in association with the listing and the strengthening of corporate functions as well as in marketing and research activities.

SOLID BALANCE SHEET

Medacta's balance sheet remains robust, with total assets of EUR 412.6 million and an equity ratio of 29.9% at the end of the reporting period. The adjusted free cash flow generated in 2019 amounted to EUR 22.3 million after significant investments in new instruments and research and development to sustain the future growth of Medacta.

COMMITMENT TO LONG-TERM VALUE CREATION

Innovation, medical education and healthcare sustainability have been a focus for Medacta since inception, and remain fundamental pillars of our long-term value creation strategy:

- **Innovation**: This is the base of our fundamentals for our growth strategy which began with implants and minimally invasive techniques. That initial direction has evolved into personalized medicine, with the aim of providing customized solutions for every patient.
- **Education**: Our philosophy is that education is an indispensable tool for transforming innovation into measurable benefits for patients, surgeons and healthcare systems. With this mission in mind, in 2004 we created the M.O.R.E. Institute, in order to provide continuous support to healthcare professionals worldwide and facilitate the adoption and sharing of knowledge of both innovative surgical techniques and products.
- **Sustainability**: We design and develop our products and solutions with the aim of improving patient well-being and facilitating the work of medical professionals, healthcare administration and logistic staff. We are committed to developing product offerings that allow for cost reductions with significant benefits for healthcare sustainability.

COVID-19 IMPACT

We are constantly monitoring the impact of the Covid-19 and how the pandemic is affecting our business. The health and safety of our employees, customers and patients are our number one priority and Medacta is working very hard to assess and mitigate any risks, taking all the actions needed to limit the impact of the pandemic. Over 270 headquarters' employees have been working remotely since March 9, and we adopted all Government guidance and more, including social distancing, hand sanitizer, daily temperature measurement and masks, amongst others. As MedTech company compliant with Government requirements and thanks to the swiftly countermeasures taken by Management, our facilities in Ticino/Switzerland remain operational to date.

From a business perspective, starting from March 2020 we have seen a severe reduction of elective surgeries in several countries, including Italy, Switzerland, France, Australia and we anticipate more countries to follow. Marketing, Medical Education and other costs have been reduced substantially due to travel restrictions and we introduced cost containment measures, including short time work wherever appropriate. Also, we are using all the available Government supports, in Switzerland and in all the markets in which Medacta operates with its subsidiaries, to offset labour costs whenever possible.

To further protect our cash flow, the Board of Directors decided not to propose to the Annual General Meeting any distribution of dividend for the 2019 financial year.

OUTLOOK 2020

Sales for the first two months of 2020 were very strong and in line with management expectations recording constant currency growth in the low to mid-teens range. March was heavily affected by the Covid-19 impact reducing constant currency growth rate for Q1 to low single digit. Given the uncertainties brought by the widespread outbreak of Covid-19 and the inability to forecast the future development, we are not in a position to provide a short-term outlook. However, we expect, orthopaedic patients will generate waiting lists in different countries and, depending on the duration of the deferral of elective surgeries, in several of Medacta's markets, a recovery could start later in 2020 and partially in 2021. Overall, we do not believe that mid or long-term fundamentals have changed.

THANKS

We would like to thank all our employees for their exceptionally high level of commitment in the past financial year, our customers and partners for their very good cooperation and our shareholders for their trust.

Sincerely,

Dr. Alberto Siccardi
Chairman of the Board of Directors

Ing. Francesco Siccardi
Chief Executive Officer

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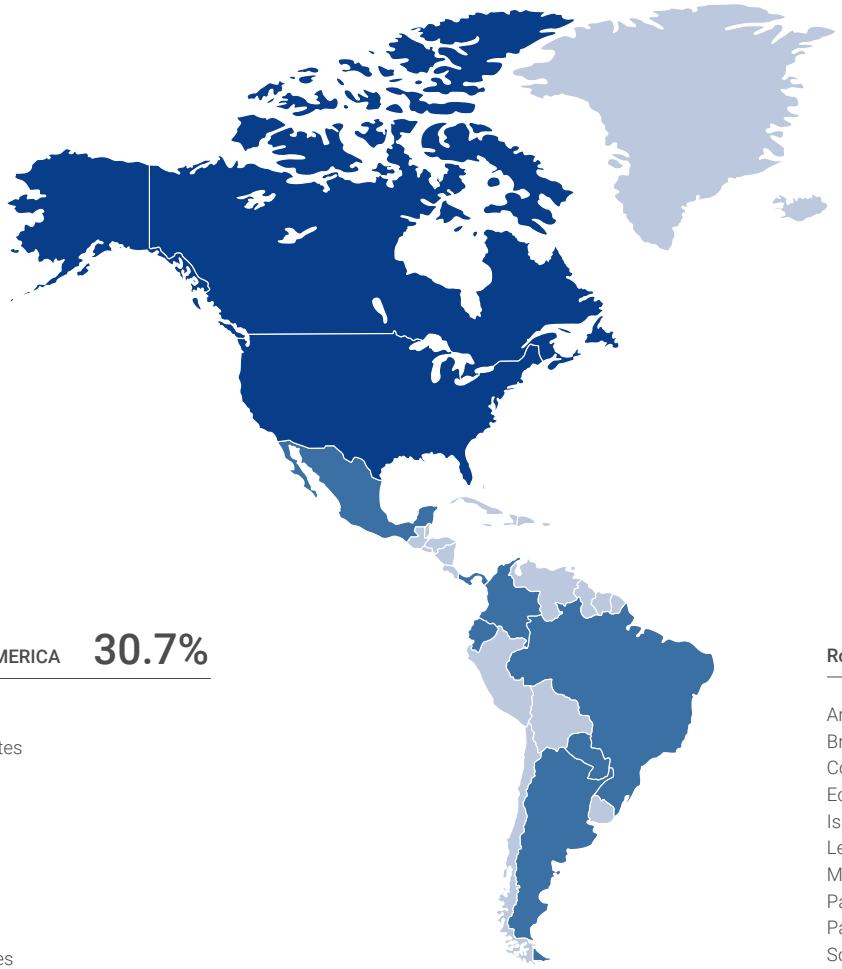
1. MANAGEMENT COMMENTARY*

CORPORATE INTRODUCTION

We are an international company specialized in the design and production of innovative orthopaedic products and the development of accompanying surgical techniques for joint replacement, spine surgery, and sports medicine. Established in 1999 in Switzerland, we have grown considerably from our origins as a manufacturer of hip and knee replacement products into a global business. We are currently active in targeted regions of countries that together represent approximately 90% of global orthopaedic revenue, according to Orthoworld.

Today, our primary focus is on our high-volume Hip and Knee business lines (which generated 53% and 36%, respectively, of our revenue in 2019), complemented by our new offerings in Shoulder, Spine and Sports Medicine ("Sportsmed") business lines. Our products and surgical techniques are supported by an extensive program of surgeon education and engagement initiatives, enabling our offerings to be used to the best advantage of both the patient and surgeon. All our products and surgical procedures are designed to improve patient well-being, facilitate the work of our customer surgeons and increase the sustainability of the healthcare system by improving efficiency while reducing healthcare costs. Our success to date is evidenced by our financial profile, with a constant currency revenue CAGR of 13.2% between 2016 and 2019 leading to revenue of EUR 310.6 million, an Adjusted EBIT margin of 18.6% and an Adjusted EBITDA margin of 29.5% for the year ended December 31, 2019.



NORTH AMERICA **30.7%**

Canada
United States

RoW **4%**

Argentina
Brazil
Colombia
Ecuador
Israel
Lebanon
Mexico
Panama
Paraguay
South Africa
Tunisia

■ Branches
■ Distributors

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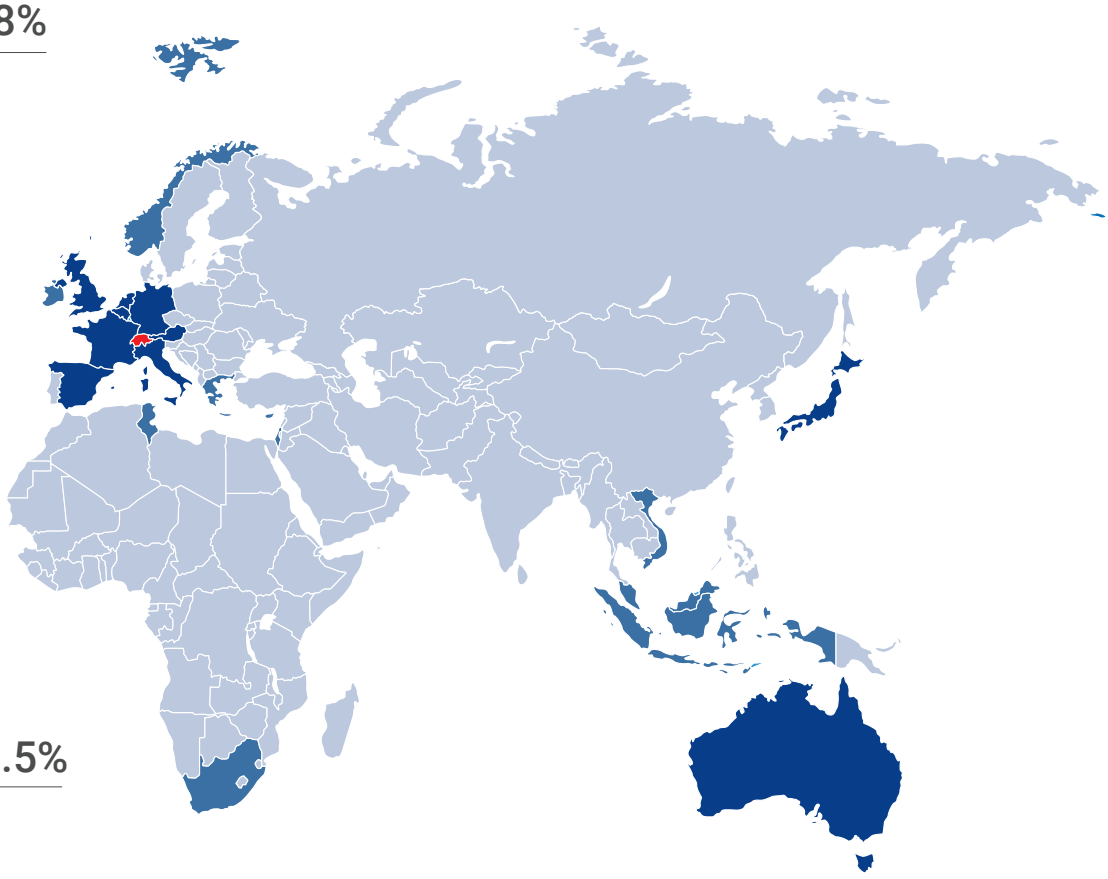
Our products and surgical techniques are characterized by innovation. We are a pioneer in developing new offerings on the basis of our minimally invasive surgical techniques, in particular our Anterior Minimally Invasive Surgery ("AMIS") technique for hip replacements, which involves an anterior approach to the hip and has been carried out in over 380'000 cases worldwide since 2004. We have leveraged our orthopaedic expertise and comprehensive understanding of the human body to develop sophisticated MySolutions technology, which enables us to offer surgeons highly personalized pre-operative planning and implant placement methodologies by creating advanced personalized kinematic models and 3D planning tools for use in hip, knee, shoulder and spine procedures.

We believe that education is an indispensable tool for transforming innovation into concrete benefits for patients, surgeons and healthcare systems. For our customer surgeons, we have introduced a range of training and technical support initiatives through our M.O.R.E. Institute. Since its founding in 2004, the M.O.R.E. Institute has become a global education platform tailored to the needs of the individual surgeon, with courses addressing each of our business lines and no limit on the number of interactions that customers can experience. We have introduced the MyPractice Development Plan to further support surgeons in their patient education efforts and improve patient understanding and experience of our products and techniques.

Our headquarters and well-invested and high-quality manufacturing facilities are in Castel San Pietro, Switzerland and Rancate, Switzerland, where we have approximately 600 employees in the aggregate. Our sales organization is spread over 12 branches and we serve 34 countries worldwide, with an international sales reach that extends to the attractive markets of Europe, North America and Asia Pacific, where we generated 43.8%, 30.7% and 21.5% of our revenue, respectively, for the year ended December 31, 2019. Our experienced salesforce are instrumental in achieving international acceptance and adoption of our products and techniques.

EUROPE **43.8%**

Austria
Belgium
Bulgaria
Cyprus
France
Germany
Greece
Ireland
Italy
Netherlands
Norway
Slovenia
Spain
Switzerland
United Kingdom



ASIA PACIFIC **21.5%**

Australia
Indonesia
Japan
Malaysia
New Zealand
Vietnam

Branches
Distributors

BUSINESS PERFORMANCE

SALES VOLUME, PRICING AND GEOGRAPHICAL MIX

Overall in 2019 we had a positive contribution from all business lines thanks to a good and stable growth in the core business Hip and Knee, a great performance in the Spine business given the strong acceleration experienced in the second semester and a successful deployment strategy in the Shoulder business followed by a fast expansion in new geographic areas.

We are very satisfied with the results of the 9th M.O.R.E. International Symposium which was able to attract about one thousand surgeons from all over the world, generating additional sales mainly in the second semester of 2019.

Our revenue increased by EUR 38.0 million, or 13.9%, from EUR 272.6 million in 2018 to EUR 310.6 million in 2019 on a reported currency basis (11.3% on a constant currency basis). The increase was largely due to higher levels of market penetration in existing territories, which in turn led to increased sales volumes of our hip, knee, spine and shoulder product offerings. Our higher levels of market penetration were supported by our expanded direct sales force, which grew through the addition of direct sales and agents. Our overall revenue growth was partially offset by negative pricing trends in certain key countries, namely France and Belgium, due to systematic revision of governmental reimbursement levels. In addition, the increase in reported revenue was partially due to an exchange rate tailwind effect. Specifically, during 2019, the EUR weakened against CHF USD and JPY (i.e., among our largest currency exposures) positively impacting revenue translated into EUR from our operations in those countries.

We monitor the development of our revenue by business line as summarized in the table below.

(Million Euro)	31.12.2019	% of total	31.12.2018	% of total	Reported Growth	Constant Currency Growth
Hip	163.9	52.8%	153.0	56.1%	7.1%	5.2%
Knee	111.7	35.9%	96.1	35.2%	16.2%	13.2%
Spine	25.3	8.1%	19.7	7.2%	28.3%	23.4%
Shoulder and Sportsmed	9.7	3.1%	3.8	1.4%	155.2%	147.4%
TOTAL REVENUES	**310.6**		**272.6**		**13.9%**	**11.3%**

Revenue from our hip products increased by EUR 10.9 million, or 7.1%, from EUR 153.0 million in 2018 to EUR 163.9 million in 2019 on a reported currency basis (5.2% on a constant currency basis). The revenue growth of our Hip business line was mainly driven by increased market penetration and expanded sales volumes across all our existing territories.

Revenue from our knee offerings increased by EUR 15.6 million, or 16.2%, from EUR 96.1 million in 2018 to EUR 111.7 million in 2019 on a reported currency basis (13.2% on a constant currency basis). The high revenue growth from our knee offerings reflects a very integrated proposal of innovative implants, personalised MIKA approach and GMK Efficiency Single Use Instrumentation which is key to our development strategy. The revenue growth from our Hip and Knee product lines was partially offset by a reduction in the national reimbursement level in France and Belgium.

Revenue from our Spine offerings increased by EUR 5.6 million, or 28.3%, from EUR 19.7 million in 2018 to EUR 25.3 million in 2019 on a reported currency basis (23.4% on a constant currency basis). Full year Spine performance results are good, with a great second semester (35% on a constant currency basis). The successful second semester was primarily due to the deployment of the MySpine MIS MC and the successful refining of the marketing approach.

Our other newer business lines, Shoulder and Sportsmed, reported an increase in revenue by EUR 5.9 million, or 155.2%, from EUR 3.8 million in 2018 to EUR 9.7 million in 2019 on a reported currency basis (147.4% on a constant currency basis). In 2019 we completed the Total Shoulder System, including FDA clearance for MyShoulder received only in December 2019. Thanks to our complete offering and our successful deployment strategy we were able to achieve a very positive result in all the key markets.

We also monitor the development of our revenue in key geographies based on the location of our customers as invoiced, as set forth in the table below.

(Million Euro)	31.12.2019	% of total	31.12.2018	% of total	Reported Growth	Constant Currency Growth
Europe	136.1	43.8%	124.9	45.8%	9.0%	7.9%
North America	95.5	30.7%	80.1	29.4%	19.2%	13.2%
Asia Pacific	66.9	21.5%	58.3	21.4%	14.9%	13.3%
RoW	12.1	4.0%	9.3	3.4%	30.2%	28.1%
TOTAL REVENUES	**310.6**		**272.6**		**13.9%**	**11.3%**

Revenue in Europe increased by EUR 11.2 million, or 9.0%, from EUR 124.9 million in 2018 to EUR 136.1 million in 2019 on a reported currency basis (7.9% on a constant currency basis). Our revenue growth was primarily driven by Italy and Germany. However, the Swiss and Austrian markets performed below our Group-wide average revenue growth rate at constant currency of 11.3%. Nevertheless, the increased penetration in our targeted European markets was supported by our expanded direct sales force. While our volume of product sales increased in Europe, the private market and governmental healthcare cost containment efforts in France and Belgium, partially offset our revenue growth. As a percentage of our total revenue, revenue generated in Europe was lower than the prior year at 43.8% in 2019 (as compared to 45.8% in 2018).

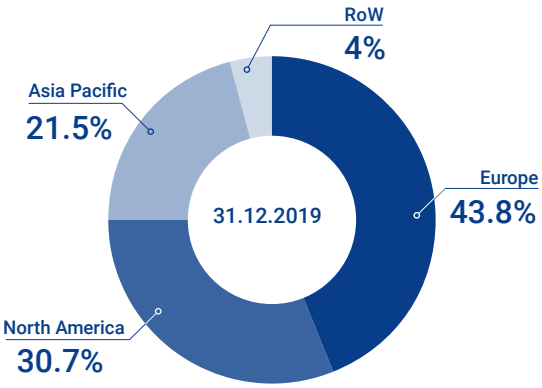
Revenue in North America increased by EUR 15.4 million, or 19.2%, from EUR 80.1 million in 2018 to EUR 95.5 million in 2019 on a reported currency basis (13.2% on a constant currency basis). The revenue generated in U.S., which represents almost all the revenue in this market, increased by EUR 15.5 million, or 19.6%, from EUR 79.2 million in 2018 to EUR 94.7 million in 2019 on a reported currency basis (13.6% on a constant currency basis). Our growth rate in 2019 in the U.S. outpaced our reported Group-wide average revenue growth rate of 6.3%. Our increased penetration in the U.S. market was supported by our expanded U.S. salesforce which added 13 additional personnel in 2019 and 10 agents in the joint product line. Our reported revenue in North America was partially sustained by a positive tailwind from the exchange rate. Specifically, in the course of 2019, the EUR weakened against the USD by an average of 5.3% (as compared to the average 2018 exchange rate), positively impacting revenue translated into EUR from our North America operations. The strong 2019 result, was partially affected by unusual delays in setting up new surgeons and in starting in new geographic areas which are expected to be recovered in the course of 2020. As a percentage of our total revenue, revenue from North America increased in 2019 to 30.7% (as compared to 29.4% in 2018).

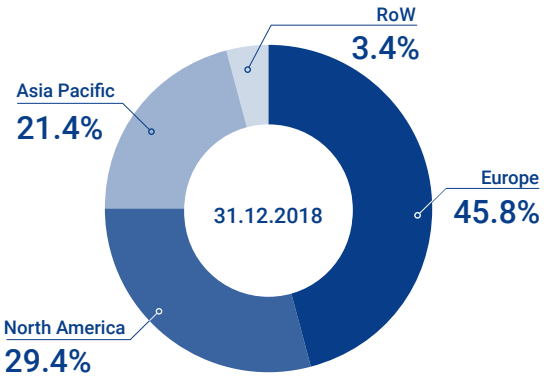
Revenue in Asia Pacific increased by EUR 8.6 million, or 14.8%, from EUR 58.3 million in 2018 to EUR 66.9 million in 2019 on a reported currency basis (13.3% on a constant currency basis). The increase was largely the result of expanded product sales and increased revenue generated in the Japanese market, which increased by EUR 5.0 million, or 26.2%. The Australian market contributed to this performance with an increase of EUR 3.6 million, or 9.7% (11.4% on a constant currency basis), thanks to a refined marketing strategy, which achieved a 17.7% constant currency growth during the second semester 2019. Our increased penetration of the Asia Pacific market was also supported by our expanded Asia Pacific direct sales force.

In addition, in the course of 2019, the EUR strengthened against the AUD by an average of 1.5% (as compared to the average 2018 exchange rate), negatively impacting revenue translated into EUR from our Australian operations. Revenue in Japan was favourably impacted by exchange rate fluctuations given that EUR weakened against the JPY by 6.5% (as compared to the average 2018 exchange rate). As a percentage of our total revenue, revenue from Asia Pacific remained largely stable at 21.5% in 2019 (as compared to 21.4% in 2018).

Revenue in RoW increased by EUR 2.8 million, or 30.1%, from EUR 9.3 million in 2018 to EUR 12.1 million in 2019 on a reported currency basis (28.1% on a constant currency basis). This area is covered by third-party distributors that we opportunistically engage in certain non-strategic markets. The strong growth in RoW is sustained by both new distributors started in new markets and expansion in markets already covered. In particular, in 2019 Medacta expanded into five new target regions with new distributors worldwide: Cyprus, Ecuador, Lebanon, Paraguay and Tunisia. As a percentage of our total revenue, revenue from RoW increased to 4.0% in 2019 (as compared to 3.4% in 2018).

The graphics below provide an overview of our revenue by geography for the year December 31, 2019 and 2018.



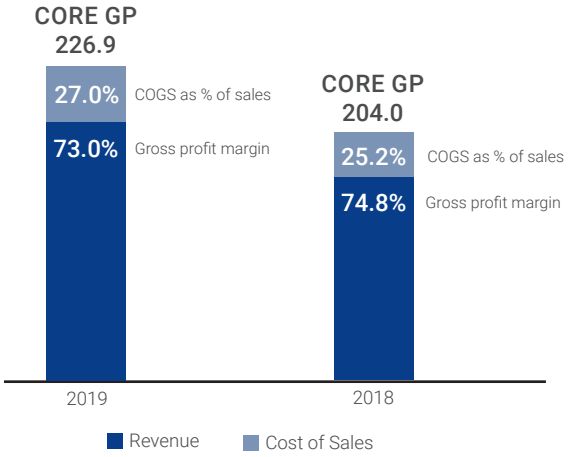


CORE COST OF SALES AND GROSS PROFIT

Our cost of sales normalized by the impact of the one-time Fidelity Bonus (i.e. our CORE Cost of Sales) increased by EUR 15.1 million, or 22.0%, from EUR (68.6) million in 2018 to EUR (83.7) million in 2019.

Overall, our CORE gross profit as a percentage of revenue decreased from 74.8% in 2018 to 73.0% in 2019. This decrease was mostly attributable to the combined effects of the higher CORE COGS and negative price trends in specific markets.

With regard to CORE COGS, we experienced a negative impact from depreciation and amortization that increased at a higher pace than revenue by 0.5%, an increase in royalties by 0.2% and a general increase in purchase price of certain row materials.



Depreciation and amortization costs increased mostly reflecting the incremental number of instrument sets manufactured (i.e., increased asset volume). The overall fluctuation in the depreciation of instruments sets was impacted by timing differences between investments made in new instruments and the related revenue generated by the use of the instruments, which is more significant for our newer product lines.

CORE EBIT PERFORMANCE*

(Thousand Euro)	31.12.2019	31.12.2018	Delta	Delta %
CORE Research and Development expenses	(6'495)	(3'933)	(2'562)	65.1%
CORE Sales and Marketing expenses	(120'901)	(104'957)	(15'944)	15.2%
CORE General and Administrative expenses	(41'761)	(32'865)	(8'896)	27.1%
CORE Other income	1'196	1'579	(383)	-24.3%
CORE Other expenses	(1'124)	(705)	(419)	59.5%
CORE OPERATING EXPENSES (OPEX)	**(169'085)**	**(140'881)**	**(28'204)**	**20.0%**
CORE OPERATING PROFIT (EBIT)	**57'811**	**63'099**	**(5'288)**	**-8.4%**

* For a reconciliation of our CORE results to our reported IFRS figures, please see the "Alternative Performance Measures" section of this report.

CORE Research and development expenses

Expensed research and development costs are mainly related to base research, depreciation and amortization expenses (including impairments), business expenses and other non-capitalized expenses. During 2019, we continued investing in research and development, and in particular in certain long-term research initiatives, to support our strategy of broadening our product portfolio. Our CORE research and development costs that were expensed increased by EUR 2.6 million, or 65.1%, from EUR (3.9) million in 2018 to EUR (6.5) million in 2019.

In 2019, depreciation increased by EUR 1.2 million, or 65%, following the completion of certain key projects, that were fully developed between the end of 2018 and the beginning of 2019. Also, the residual increase in costs is partially affected by the 2018 European grants received on research projects for approximately EUR 0.6 million that we did not obtained in 2019.

CORE Sales and marketing expenses

Our CORE sales and marketing expenses increased by EUR 15.9 million, or 15.2%, from EUR (105.0) million in 2018 to EUR (120.9) million in 2019. CORE Sales and marketing expenses as a percentage of total revenue slightly increased to 38.9% in 2019 from 38.5% in 2018.

This difference is attributable to the combined effect of the increase in congresses and marketing expenses by 1.8% weight on sales, given the 9th M.O.R.E. International Symposium, partially compensated for 1.3% by the reduction in other marketing initiatives.

CORE General and administrative expenses

Our CORE general and administrative expenses increased by EUR 8.9 million, or 27.1%, from EUR (32.9) million in 2018 to EUR (41.8) million in 2019, mainly due to an increase in costs associated with the listing. CORE general and administrative expenses as a percentage of total revenue increased to 13.4% in 2019 from 12.1% in 2018.

The 1.3% increase is primarily related to the increase in payroll costs equal to EUR 2.8 million or 0.9% given the staff hired in operations such as supply chain, quality assurance, IT and administration, the incremental costs of the Board of Directors for approximately EUR 0.6 million or 0.2% and incremental consulting and advising fees for legal, investor relations and auditing activities for approximately 0.3%.

CORE Other income and expenses

Our CORE other income decreased by EUR 0.4 million, or 24.3%, from EUR 1.6 million in 2018 to EUR 1.2 million in 2019 largely as a result of less profit on sale of tangible assets and reimbursement from insurance companies. Our other expenses increased by EUR 0.4 million, or 59.5%, from EUR (0.7) million in 2018 to EUR (1.1) million in 2019 due to an increase in miscellaneous expenses.

FINANCIAL INCOME AND COSTS

Our financial income increased by EUR 1.0 million, or 87.9%, from EUR 1.1 million in 2018 to EUR 2.1 million in 2019, mainly due to realized and non-realized gains on exchange rates in 2019 in the amount of EUR 2.0 million.

Our financial costs increased by EUR 3.5 million, or 76.1%, from EUR (4.6) million in 2018 to EUR (8.0) million in 2019 as a result of increased foreign exchange losses for EUR 2.6 million and increased interest expenses in the amount of EUR 0.9 million following the financial debt incurred in 2018 to finance the distribution of dividends.

INCOME TAXES

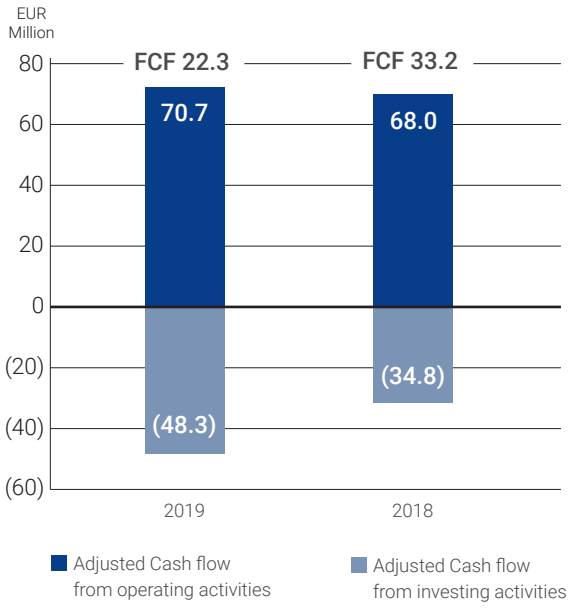
The reduction in the tax rate led to total reported taxes of EUR 1.8 million, reduced by EUR 10.5 million from EUR 12.3 million in the previous year. This difference is primarily attributable to the change in the tax rate of Medacta International from 19.5% to 18.6%, that caused a reduction in current taxes of the year, the reversal of deferred taxes for about EUR 1.7 million and the material reduction of the profit before tax given the impact of abnormals of around EUR 38.2 million.

FREE CASH FLOW

Adjusted for abnormals, Cash flow from operating activities was equal to around EUR 70.7 million, compared to EUR 68.0 million as of December 31, 2018. The adjusted cash flow from operating activities of EUR 70.7 million is composed by the reported cash flow from operating activities amounted to EUR 42.6 million, adjusted by abnormals for EUR 28.1 million. The increase from prior year is primarily driven by the increase in our adjusted profit.

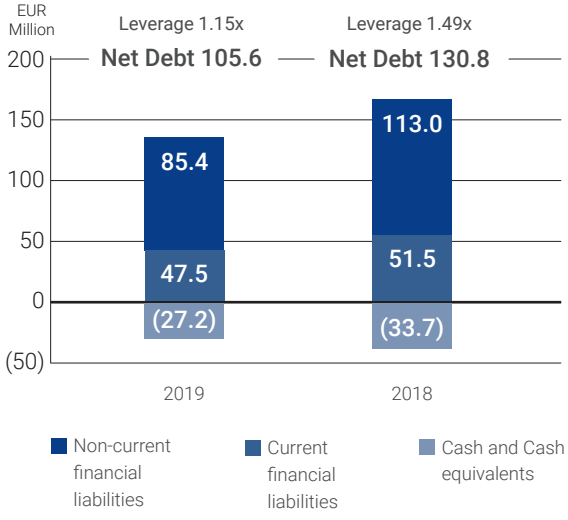
Reported cash flow from investing activities amounted to EUR 42.0 million, mainly reflecting investments in instruments and to the investments in the development of new implants and surgical instruments or of existing products to sustain the growth of the Group. In 2019 cash flow from investing activities has been adjusted due to the sale of non-strategic assets for approximately EUR 6.3 million, increasing the adjusted cash flow from investing activities to EUR 48.3 million. The previous year adjusted cash flow from investing activities equal to EUR 34.8 million was adjusted by the cash consideration paid for Rancate manufacturing plant of EUR 14.4 million.

The free Cash flow adjusted for the above mentioned effects, decreased from EUR 33.2 million in 2018 to EUR 22.3 million in 2019.



CAPITAL STRUCTURE

Group Net Debt in 2019 was equal to around EUR 105.6 million, compared to EUR 130.8 million as of December 31, 2018. This reduction is also reflected in our leverage that decreased from 1.49 in 2018 to 1.15 in 2019. The improvement in our capital structure is primarily due to the free cash flow generated during the year and the capital contribution from selling shareholders. Also, in 2019 the IFRS 16 adoption required the reclassification of finance leases in a separate line item (i.e. current and non-current lease liabilities). For this reason, our 2019 Net Debt is not including finance leases for EUR 9.4 million while in 2018 finance lease classified in Ned Debt were equal to EUR 8.8 million.



1.1 ALTERNATIVE PERFORMANCE MEASURES

The financial information provided in the selected sections of the 2019 Annual Report, including "Highlights Year 2019", "Letter to Shareholders", "Management Commentary" and elsewhere in this document, include certain Alternative Performance Measures (APMs) which are not accounting measures defined by IFRS. The Group believes that investor understanding of Medacta's performance is enhanced by disclosing core measures of performance (i.e. CORE or Adjusted), since they exclude items which can vary significantly from year to year. Therefore, the CORE results exclude effects related, for example, to M&A transactions, restructuring, extraordinary legal expenses, one-time tax duty, exceptional pension-plan settlements and other one-time items that may vary significantly over periods.

These APMs should not be considered as alternatives to the Group's Consolidated Financial results based on IFRS. These APMs may not be comparable to similarly titled measures disclosed by other companies. The definitions of the main KPI disclosed in the Annual Report are reported at the end of this section.

CORE RESULTS

The following tables provide the reconciliation of the CORE results with the Consolidated Financial Statements as of December 31, 2019 and 2018. The impact of IFRS 16* and the 9th MORE Symposium in Lugano** on Adjusted EBITDA and on Adjusted free cash flow was normalized in the APM section of the 2019 Half-Year report, however moving forward it will not be necessary to provide any normalization with prior periods, hence we decided that was clearer to provide only disclosure instead of a separate reconciliation table (see also "2019 Highlights" notes under key financial figures).

2019 CORE RESULTS RECONCILIATION

(Thousand Euro)	IFRS	IPO costs[1]	Stamp duty[2]	Fidelity Bonus[3]	Provisions on litigation[4]	Legal costs[5]	Sale of non-strategic asset[6]	CORE[7]
Revenues	310'623	-	-	-	-	-	-	310'623
Cost of Sales	(86'926)	-	-	3'199	-	-	-	(83'727)
GROSS PROFIT	**223'697**	**-**	**-**	**3'199**	**-**	**-**	**-**	**226'896**
Research and Development expenses	(7'641)	-	-	1'146	-	-	-	(6'495)
Sales and Marketing expenses	(127'087)	-	-	6'186	-	-	-	(120'901)
General and Administrative expenses	(63'940)	2'775	-	4'748	10'576	4'080	-	(41'761)
Other income	1'592	-	-	-	-	-	(396)	1'196
Other expenses	(7'008)	-	5'884	-	-	-	-	(1'124)
OPERATING PROFIT (EBIT)	**19'613**	**2'775**	**5'884**	**15'279**	**10'576**	**4'080**	**(396)**	**57'811**

OPERATING PROFIT (EBIT)	**19'613**	**2'775**	**5'884**	**15'279**	**10'576**	**4'080**	**(396)**	**57'811**
Depreciation and Amortisation	(33'733)	-	-	-	-	-	-	(33'733)
EBITDA	53'346	2'775	5'884	15'279	10'576	4'080	(396)	91'544
EBITDA MARGIN	**17.2%**							**29.5%**

[1] IPO Costs incurred in 2019, refer to paragraph "Initial public offering" of the Notes to the Consolidated Financial Statements.

[2] Stamp duty cost, refer to note 6.24 "Information on the Consolidated Statement of Profit or Loss", paragraph "Other income / (expenses)" of the Notes to the Consolidated Financial Statements.

[3] Fidelity Bonus to Medacta's employees, refer to Note 6.24 "Information on the Consolidated Statement of Profit or Loss".

[4] Provisions on litigation, refer to Note 6.25 "Litigations", paragraph "Microport Matter". No such similar provision was made in the financial year 2018.

[5] Legal costs incurred in 2019 on litigations, refer to Note 6.25 "Litigations".

[6] Gain from the sale of a non-strategic portion of the building in Castel San Pietro. Refer to Note 6.24 "Information on the Consolidated Statement of Profit or Loss".

[7] References to "adjusted" are the equivalent to "CORE" references (i.e., adjusted EBITDA and CORE EBITDA are interchangeable).

[*] IFRS 16 adoption starting from January 1, 2019 positively impacted our EBITDA, since lease expenses are classified in depreciation of right-of-use assets (Euro 2'964 thousand) and financial costs (Euro 191 thousand). In the comparative period, lease expenses were classified within "Opex" for a total amount of Euro 2'990 thousand.

[**] The 9th M.O.R.E Symposium normalization in our 2019 Half-Year report, related to the abnormal concentration of costs recognized in H1 2019 which were incremental compared to prior period. We have not adjusted our full year 2019 financials for these costs.

2018 CORE RESULTS RECONCILIATION

(Thousand Euro)	IFRS	IPO costs[8]	IFRS conversion[9]	CORE[10]
Revenues	272'610	-	-	272'610
Cost of Sales	(68'630)	-	-	(68'630)
GROSS PROFIT	**203'980**	**-**	**-**	**203'980**
Research and Development expenses	(3'933)	-	-	(3'933)
Sales and Marketing expenses	(104'957)	-	-	(104'957)
General and Administrative expenses	(34'454)	644	945	(32'865)
Other income	1'579	-	-	1'579
Other expenses	(705)	-	-	(705)
OPERATING PROFIT (EBIT)	**61'510**	**644**	**945**	**63'099**

OPERATING PROFIT (EBIT)	**61'510**	**644**	**945**	**63'099**
Depreciation and Amortisation	(24'837)	-	-	(24'837)
EBITDA	86'347	644	945	87'936
EBITDA MARGIN	**31.7%**			**32.3%**

[8] IPO Costs incurred in 2018 reflect costs of financial, legal and other advisors in preparation of the Offering Memorandum.

[9] IFRS conversion costs reflect costs of accounting and tax advisors related to the first time adoption of IFRS, as well as the audited restatements of historical financials in accordance with IFRS.

[10] References to "adjusted" are the equivalent to "CORE" references (i.e., adjusted EBITDA and CORE EBITDA are interchangeable).

ADJUSTED FREE CASH FLOW RECONCILIATION

(Thousand Euro)	31.12.2019	31.12.2018
CASH FLOW FROM OPERATING ACTIVITIES (IFRS BASIS IN ACCORDANCE WITH IAS 7)	**42'635**	**66'408**
Adjustments for:		
IPO Costs	2'775	644
Stamp Duty	5'884	-
Fidelity Bonus	15'279	-
Legal costs	4'080	-
IFRS conversion	-	945
ADJUSTED CASH FLOW FROM OPERATING ACTIVITIES	**70'653**	**67'997**

CASH FLOW FROM INVESTING ACTIVITIES (IFRS BASIS IN ACCORDANCE WITH IAS 7)	**(42'041)**	**(49'224)**
Normalized for:		
Rancate investments	-	14'423
Sale of non-strategic asset	(6'302)	-
ADJUSTED CASH FLOW FROM INVESTING ACTIVITIES	**(48'343)**	**(34'801)**
ADJUSTED FREE CASH FLOW[11]	**22'310**	**33'196**

[11] IFRS 16 adoption starting from January 1, 2019 positively impacted our Free cash flow, since lease expenses are classified in depreciation of right-of-use assets (Euro 2'964 thousand). In the comparative period, lease expenses were classified within "Opex" for a total amount of Euro 2'990 thousand.

KPI DEFINITIONS

CORE

In accordance with the new directive of the Swiss Stock Exchange, the Group adopted the reporting of alternative performance measures (APM), which facilitates the assessment of the underlying business performance but may differ from IFRS reported figures. The 'CORE' (i.e. adjusted) figures used in this document exclude one-time M&A transactions, restructuring expenses, amortization and impairment of goodwill and acquisition-related intangible assets. A reconciliation table of the reported and CORE ratios with additional descriptions is provided on paragraph 1.1 "Alternative Performance Measures" of this report.

EBITDA

EBITDA is a non-IFRS measure that represents profit or loss for the period before finance costs, finance income, income taxes, depreciation and amortization. EBITDA margin is defined as EBITDA divided by revenues, expressed as a percentage. We define EBITDA as profit / (loss) for the period before net interest expense, income taxes, depreciation and amortization. Adjusted EBITDA (i.e. CORE EBITDA) represents EBITDA before additional specific items that are considered to hinder comparison of the trading performance of the Group's businesses either year-on-year or with other businesses. Management considers Adjusted EBITDA to be a key measure of financial performance and believes that this measure provides additional useful information for prospective investors on performance and is consistent with how the business performance is measured internally. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by revenue, expressed as a percentage.

CONSTANT CURRENCY

The Group has presented certain information that it refers to as "constant currency", which is a non-IFRS financial measure and represents the total change between periods excluding the effect of changes in foreign currency exchange rates. The Group believes that the reconciliations of changes in constant currency provide useful supplementary information to investors in light of fluctuations in foreign currency exchange rates. Furthermore, the Group believes that constant currency measures provide additional useful information on the Group's operational performance and is consistent with how the business performance is measured internally. In calculating constant currency figures, the current period amount is translated at the foreign currency exchange rate used for the previous period to get a more comparable amount.

OPEX

Opex include the sum of Research and Development expenses, Sales and Marketing expenses, General and Administrative expenses, Other income and expenses. In the Management Report commentary "CORE" operative expenses are adjusted for specific items (reconciled in the tables above) in order to enhance the understanding of the Group's performance.

EQUITY RATIO

The equity ratio is calculated dividing Total Equity by Total Assets.

NET TRADE WORKING CAPITAL

Net Trade Working Capital is capital invested in the Group's operating activities. The variation in Net Trade Working Capital is an indicator of the operational efficiency of the Group. Net Trade Working Capital is the sum of trade receivables, trade payables and inventory.

FREE CASH FLOW

Free Cash flow is used to assess the Group's ability to generate the cash needed to conduct and maintain our operations. It also provides an indication of the Group's ability to generate cash to fund dividend payments, repay debt and to undertake merger and acquisition activities. Free Cash flow (post investing activities) is calculated as IFRS cash flow from operating activities plus IFRS cash flow from investing activities. The adjusted free cash flow is calculated as free cash flow adjusted for certain non-recurring items that management believes are not indicative of operational performance.

NET DEBT

Net Debt is used as a metric to indicate the overall debt situation of the Group and is measured by netting the non-current and current financial liabilities with our cash and cash equivalents.

LEVERAGE

Leverage ratio is used to assess our ability to meet our financial obligations and is calculated as Net Debt divided by EBITDA adjusted.

2. MEDACTA GROUP IN BRIEF

Medacta was established in 1999 by Alberto Siccardi, our founder, chairman and former CEO, whose own journey as a patient convinced him of the importance of pioneering a new approach to joint replacement. In 2000, we established our headquarters, manufacturing facility and research and development site at Castel San Pietro, Switzerland. During the early years, we predominately sold total knee and total hip replacement implants in selected European markets. The first hip replacement procedure using our innovative AMIS technique was carried out in 2004, and has since been performed in over 380'000 cases. In 2004 we created the M.O.R.E. Institute to educate and engage with our customer surgeons, initially with a focus on how to optimally employ the AMIS technique. Following our initial success with our Hip business line, the first knee replacement using our GMK Primary System was performed in 2006. Subsequently, we expanded our efforts to the development of personalized patient solutions, and the first knee surgery using our patient-specific MySolutions technology took place in 2009.

In 2009, we expanded into the spine segment of the orthopaedics market. Our team of engineers collaborated with expert international surgeons to develop specific and innovative solutions for the treatment of various degenerative spine conditions and spine deformities. In 2010, the first of our spine products was implanted in the U.S. To complete our portfolio, in 2016 we made the strategic decision to invest in a new Sportsmed business line, with our team of engineers developing specific and innovative products for the treatment of ligament, tendon and muscular injuries of the knee, hip and shoulder, supported by an international team of surgeons specialized in sports medicine.

In 2019, the year of our 20th anniversary, we became a publicly listed company, officially entering the SIX Swiss Exchange. The 9th M.O.R.E. International Symposium that we held in Lugano, Switzerland, was the perfect occasion to celebrate these milestones.

2.1 VISION

Our vision to improve the care and well-being of orthopaedic and spine surgery patients around the world stems from our experience and passion. Our surgical innovations and surgeon education programs focus on getting patients back to their healthy, active lifestyles. While we strive for this goal, we maintain a high regard for sustainability, always considering the environmental and societal impact of the products we create.

2.2 MISSION

Our mission is to transform the patient experience by advancing surgical approaches, implants and instruments through responsible innovation. Our innovation began with minimally invasive techniques and has evolved into personalized solutions. Today, we continue to improve our knowledge of the human body, employ cutting-edge technologies such as 3D printing, invest in medical education, research and development and collaborate with surgeons and universities worldwide.

Medacta is a unique company in its field:
it is founded by a patient

April 4, 2019

MEDACTA OFFICIALLY ENTERS THE SIX SWISS EXCHANGE

Medacta becomes a publicly listed company

The issued share capital of Medacta Group SA comprises 20'000'000 registered shares with a nominal value of CHF 0.10 per share. In the base offering, 5'700'000 existing shares were offered by members of the Siccardi family.

The total market capitalization was CHF 2.08 billion, based on the opening price of CHF 104.00 per share.

A new chapter in the history of Medacta

The stock exchange listing underscores the successful development of Medacta since its founding in 1999. As a publicly listed company, Medacta has now the possibility to further increase its awareness and visibility with investors and other stakeholders – such as surgeons and scientists – around the world.

The company's foundation for future success remains unchanged: redefining the experience for people needing joint replacement, spine surgery and soft tissue repair through surgeon medical education and innovation, leading to better results for both surgeons and patients as well as the healthcare system at large.

Maria Luisa Siccardi Tonolli (Member of the Board of Directors), Alessandro Siccardi (Supply Chain Director and Member of the Group Executive Management), Francesco Siccardi (CEO and Member of the Group Executive Management), Alberto Siccardi (Chairman of the Board of Directors), from left to right.

3. ASSETS TO COMPETE

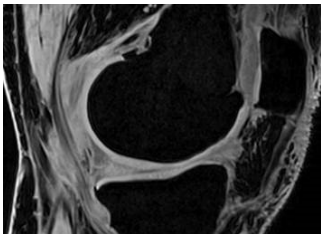
The orthopaedics market is characterized by continuous technological changes, frequent new product introductions and evolving industry standards resulting from technological advances and scientific discoveries. Our assets to compete in such a complex environment are: innovation, education and healthcare sustainability.

3.1 INNOVATION

Innovation is of paramount importance at Medacta and is expressed in the originality of our surgical techniques and products. Innovation is the foundation of all our projects and the basis of our growth strategy.

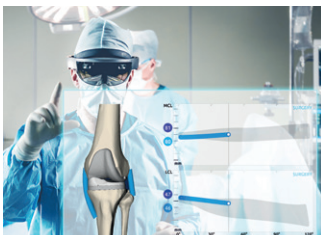
PILLARS

Our innovation is based on three pillars: a complete and profound knowledge of the human body, continuous investments in long-term and short-term research and development (R&D) and the adoption of cutting-edge technologies.



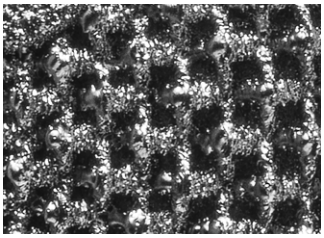
COMPLETE AND PROFOUND KNOWLEDGE OF THE HUMAN BODY

Technology has always been one of our core priorities where we have dedicated significant resources leading to developments such as the MyBody Database, which consists of over 90'000 CT, MRI and biomechanical models to optimize implant design and positioning as well as computer assisted/application-based systems in connection with surgical planning and navigation. The MyBody database was crucial in allowing us to leverage our orthopaedic expertise and comprehensive understanding of the human body and to develop our sophisticated MySolutions technology.



RESEARCH AND DEVELOPMENT

Our R&D team is divided into three business units: Joint, Spine and Sportsmed. We have a range of research resources available in-house, including the MyBody database, 3D printing capabilities and facilities for prototype development. To reduce infection and patient remittance rates we have expanded our research and development focus to surface technology with the development of antibacterial treatment for our implant portfolio. We also engage external laboratories, in particular University laboratories, to assist us in carrying out research on specific projects. We also have a proprietary augmented reality surgical navigation system: NextAR. We believe that this system will be a performing solution that provides efficiency and precision in computer-assisted surgery, with low upfront capital investment required by clinics and hospitals as well as economic benefits to the healthcare system through increased utilization rates and low cost per procedure. Another innovative development in the field of robotics is our robotic leg positioner for use in AMIS procedures that enhances surgeon precision and control during surgery.



CUTTING-EDGE TECHNOLOGIES

The development of our product pipeline is further supported by our research into and development of big data, cutting-edge manufacturing, smart robotics, navigation and surface technology, which together are driving our next generation of product offerings. We developed a three-dimensional advanced biomaterial, 3DMetal, for use in our knee and hip implants. 3DMetal is based on 3D printing technology of the proven Ti6Al4V alloy that enables direct structural connection with the bone. The architecture of the outer surfaces consists of interconnecting pores and resembles cancellous bone. We are also further developing our manufacturing capabilities through the use of 3D printing, which facilitates better implant fixation and increases production speed and efficiency at lower costs.

MINIMALLY INVASIVE TECHNIQUES

Since our foundation, having recognized that minimally invasive surgery offers a range of benefits for patients, surgeons and healthcare systems (including short hospitalization, reduced post-operative pain, immediate post-operative muscle tone preservation, reduced risk of dislocation and short rehabilitation time), we have developed new offerings on the basis of minimally invasive techniques. For example, we introduced the AMIS technique for hip replacements which – together with our range of targeted AMIS education initiatives, dedicated implants and instruments, and complementary services and tools – offer a holistic approach to hip procedures and improved patient outcomes. With over 380'000 procedures performed worldwide since its introduction in 2004, AMIS represents an easily reproducible technique that delivers significant benefits to patient well-being while optimizing costs and efficiency for the surgeon. In addition to our AMIS technique, we offer a range of minimally invasive products for the Knee (MyKnee, GMK Efficiency) and Spine (MySpine MC, M.U.S.T. MIS, MectaLIF Anterior) business lines.

PERSONALIZED SOLUTIONS

Our innovation also extends to our sophisticated MySolutions technology, which enables us to offer surgeons highly personalized preoperative planning and implant placement methodologies by creating advanced patient-personalized kinematic models and 3D planning tools. Originally designed as MyKnee to address an unmet need for better implant positioning in the total knee replacement market, MySolutions can now also be used in hip (MyHip), shoulder (MyShoulder) and spine (MySpine) procedures. Our MySolutions technology has resulted in significant advantages to the patient and has been widely adopted by our customer surgeons. For example, MyKnee procedures accounted for approximately 45% of total knee replacement procedures carried out using Medacta products in 2019.

M.O.R.E. EXCELLENCE CLINICAL PROGRAM

One of our main strategies has been and will continue to be the responsible introduction of innovative products to the market, which we achieve through extensive research and development followed by limited market release and continued post-marketing surveillance. For the years ended December 31, 2019 and 2018, we dedicated 5.2% and 4.4% of our revenue, respectively, to our research and development initiatives. In addition, we capitalized EUR 8.5 million and 7.9 million for the years ended December 31, 2019 and 2018, respectively.

The M.O.R.E. Excellence Clinical Program enables us to responsibly introduce innovative products to the marketplace by defining the steps and milestones applicable to Medacta products ahead of their full release following the receipt of initial regulatory approvals (e.g., receipt of the CE mark in Europe). Under this program, we typically release new products on a restricted basis to conduct voluntary clinical programs in order to further document their efficacy. Driven by an internal risk analysis, the duration and scope of each of our clinical programs can vary depending on a number of factors, including the degree of innovation behind the relevant product, the specific indications of the device and the possible adverse events described in scientific literature. As a recent illustrative example, our GMK Sphere knee implant was fully released to the market only after a controlled program in which over 3'000 cases were evaluated during a period of more than three years. To the extent possible, our clinical programs follow the guidelines recommended by independent organizations, such as the Orthopaedic Data Evaluation Panel or the Beyond Compliance Program.

Following the full market release of our products, we continuously monitor and assess the performance of our implants by way of our post-marketing surveillance program, which channels all reports of adverse events to a dedicated group of internal experts. These experts, in consultation with other internal or external experts and resources (as needed), assess each event and issue a specific report with a comprehensive analysis of the known elements to enable each adverse event to be fully understood and the risks carefully evaluated.

Moreover we sponsor, support and participate in clinical post-marketing studies conducted by leading international experts to continuously improve our knowledge and understanding.

M.O.R.E. Excellence
CLINICAL PROGRAM

3.2 EDUCATION

We believe that education is an indispensable tool for transforming innovation into concrete benefits for patients, surgeons and healthcare systems. For our customer surgeons, we have introduced a range of training and technical support initiatives through our M.O.R.E. Institute. Since its founding in 2004, the M.O.R.E. Institute has become a global education platform tailored to the needs of the individual surgeon, with courses addressing each of our business lines. We provide our customer surgeons with personalized, structured and accessible education on our technologies and procedures, which increases surgeon loyalty and ensures that our offerings are used to the best advantage of the patient and surgeon. We also provide our customer surgeons with ongoing support and proctoring as they master the use of our technologies and procedures, and create an interactive and supportive community in which they can learn and share experiences with other surgeons. Our educational initiatives result in high levels of ongoing customer engagement: for example, in 2019, approximately 1'250 surgeons attended educational events and participated in more than 750 surgeon-to-surgeon visits.

Our systematic approach to customer development through education is a key factor of our success, allowing us to cultivate a strong partnership between us and our customer surgeons and facilitating the widespread adoption of our products and surgical techniques. We believe that our customer engagement and education initiatives contribute significantly to our customer retention and surgeons' acceptance and use of our offerings. We believe that our close partnership with surgeons benefits us in developing and refining our product and techniques. As a result of our focus on customer engagement, we remain continuously connected to surgeons and have the opportunity to keep up-to-date with and influence the latest advancements in the orthopaedics field.

We dedicate considerable resources to developing and cultivating our relationships with our customer surgeons.

There is a learning process involved for surgeons to become proficient in the use of our products, and it is critical to the success of our commercialization efforts that enough surgeons are educated and trained in the use of our products. As we increase the scale of our business, we expect to continue to dedicate significant resources to our customer engagement and education initiatives.

With the M.O.R.E. Institute
the Surgeon is never alone

3.3 HEALTHCARE SUSTAINABILITY

All our products and surgical procedures are designed to improve patient well-being, facilitate the work of our customer surgeons and increase the sustainability of the healthcare system by improving efficiency while reducing surgical costs.

Our AMIS technique with its dedicated instrumentation (such as the AMIS Mobile Leg Positioner) is meant to streamline, simplify and facilitate reproducibility of the anterior approach. MyKnee, our first offering using our MySolutions technology, allows to execute the pre-operative 3D planning based on CT or MRI images of the patient's knee, with potential benefits for both the surgeon and the patient. Moreover, we have developed single-use instrumentation for total knee implants (i.e., the GMK Efficiency system), which we believe offers several benefits in terms of infrastructure and personnel costs to hospitals and, in particular, outpatient surgical settings. In addition, such single-use instrument sets have a positive impact on our operating cash flow, since the production of these instruments is classified as inventory (as opposed to capital expenditures) and, thus, the return on the investment is realized quicker.

April 11-13, 2019

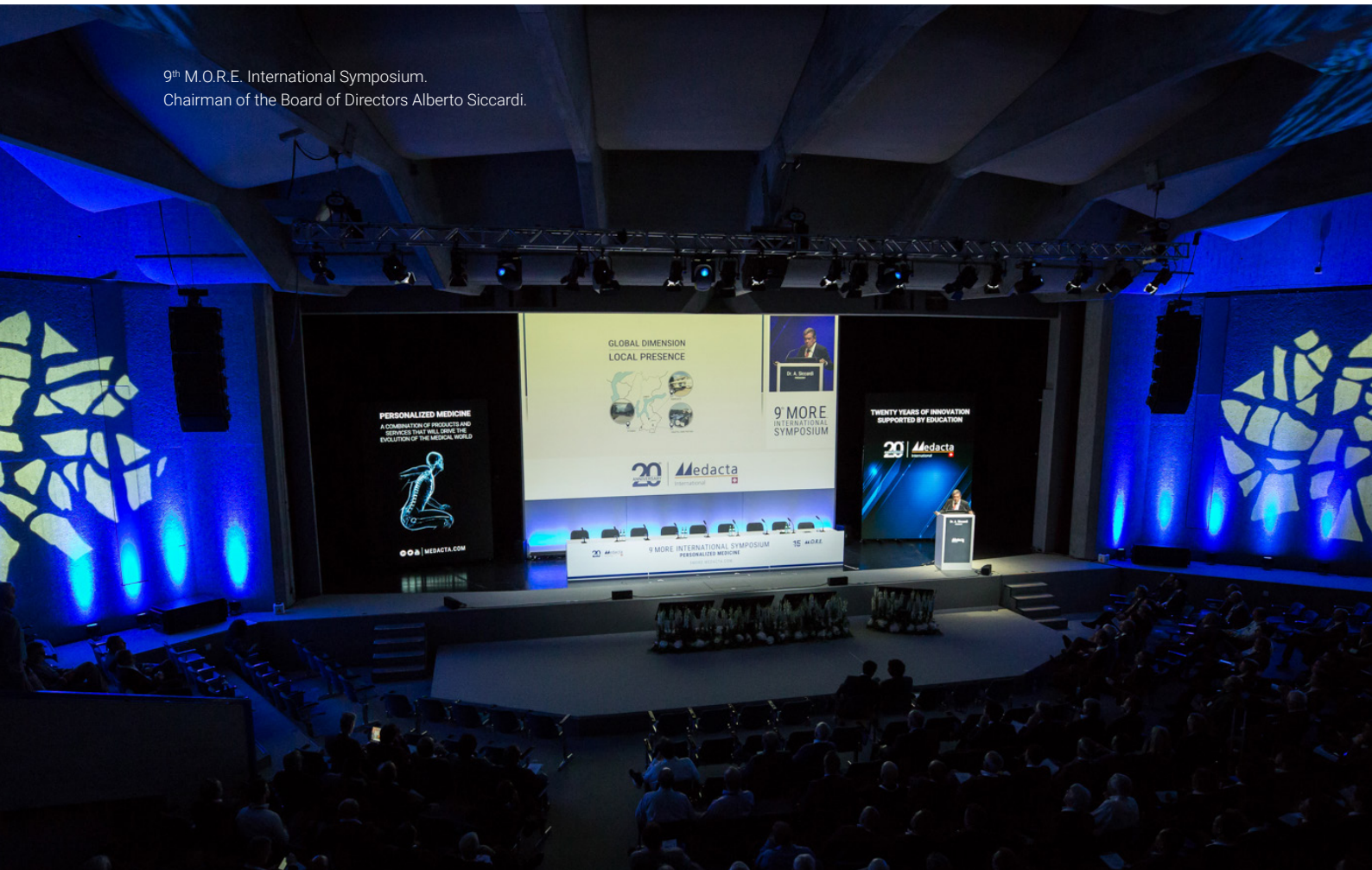
20 YEARS OF INNOVATION SUPPORTED BY EDUCATION AT THE 9TH M.O.R.E. INTERNATIONAL SYMPOSIUM

From April 11 to April 13 Medacta's 9th M.O.R.E. International Symposium was held in Lugano, Switzerland. The congress highlighted the growing trend of personalized medicine and the impact of customizable tools and patient-matched solutions in various orthopaedic disciplines.

Medacta and the M.O.R.E. Institute welcomed approximately 1'500 attendees from all over the world. Besides joint and spine sessions, the symposium – for the first time – included sessions focused on shoulder, knee and hip treatments for sports medicine. More than 130 orthopaedic experts presented at the meeting, including keynote speakers Bernhard Jost (Switzerland) and Douglas Padgett (U.S.) for joint; Matthias Zumstein (Switzerland) for sports medicine; and Paul Heini (Switzerland) and Klaus Radermacher (Germany) for spine.

"As we launch into our 20th year, we reinforce that Medacta was built on the belief that innovation and continuous surgeon education can and will improve a patient's experience in orthopaedics and positively impact overall healthcare sustainability", said Francesco Siccardi, CEO of Medacta. *"We are thrilled to host orthopaedic surgeons from all over the world as we seek to amplify international discourse concerning personalized solutions for patients seeking pain relief in all areas of orthopaedic care."*

During the 9th M.O.R.E. International Symposium, Medacta also celebrated the 15th anniversary of the M.O.R.E. Institute.



9th M.O.R.E. International Symposium.
Chairman of the Board of Directors Alberto Siccardi.

4. PRODUCTS AND BUSINESS LINES

4.1 OVERVIEW

We have grown considerably since our foundation, largely driven by our attractive product mix. The cornerstone of our business has been our activities in the Hip and Knee business lines, where we have an established presence.

More recently, we have leveraged the know-how we gained from the Hip and Knee business lines to develop new products and techniques in our nascent Spine, Shoulder and Sportsmed business lines in order to offer surgeons and patients the benefit of Medacta design, innovation and training across a wider range of orthopaedic indications.

We are pioneers in developing new and innovative products and surgical techniques that we believe differentiate us from our competitors. To broaden and further expand our product portfolio, our pipeline consists of a range of new products and product enhancements focused on personalized medicine, across all of our business lines. We are also actively developing our revision offerings (i.e., replacement of existing implants that wear out over time and/or upon implant failure), which currently only focuses on products for knee revision procedures, with the aim of introducing hip revision offerings by 2020 and shoulder revision offerings by 2021.

4.2 JOINT PRODUCTS AND TECHNOLOGIES

Our joint business unit is composed of three business lines: Hip, Knee and Shoulder, with the first two contributing 52.8% and 35.9%, respectively, to our revenues for the year ended December 31, 2019.

HIP

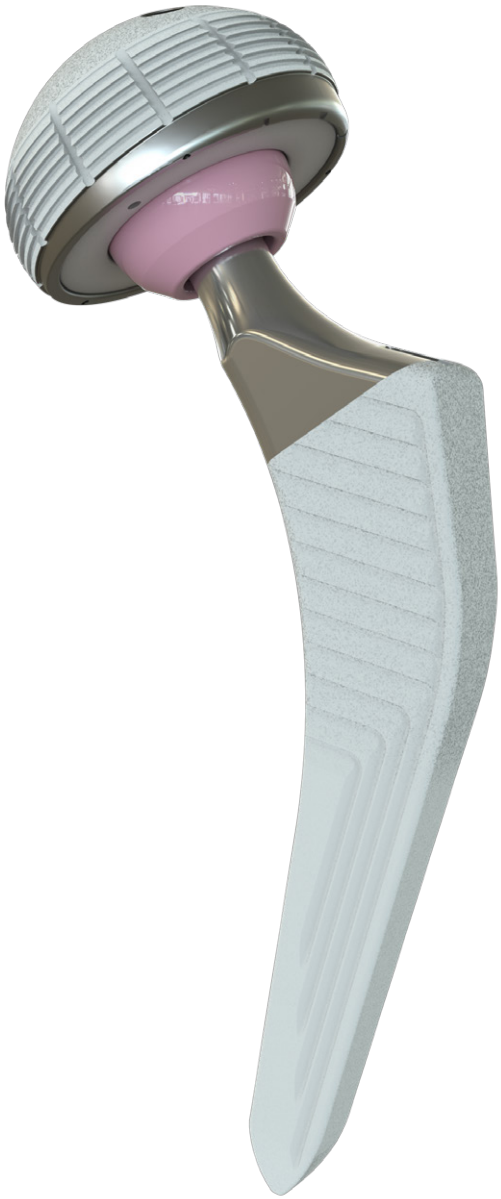
Since our founding in 1999, we have focused on developing new and improved products, technologies and methodologies for the hip segment of the orthopaedics market. In the intervening 20 years, we have become a pioneer in developing new offerings for hip replacement patients on the basis of our minimally invasive surgical techniques, supported by our extensive surgeon training and education initiatives.

In 2004, we developed the innovative AMIS technique for hip implants in conjunction with an international group of expert surgeons. With over 380'000 procedures performed worldwide since its introduction, the AMIS technique is a surgical technique involving an anterior approach to the hip. The anterior approach addresses issues that arise with alternative forms of hip replacement, including soft tissue damage, pain and long recovery times, dislocations and patient dissatisfaction.

By following both an intermuscular and an internervous path, the AMIS technique potentially reduces the risk of damage to periarticular structures and can improve overall patient outcomes.

Our AMIS technique is complemented by a unique package of supporting products, including dedicated implants, specially-designed instruments and the AMIS Mobile Leg Positioner, as well as a dedicated and trained sales force. To optimize and standardize the implementation of the AMIS technique, we have developed a highly structured surgeon training protocol, the AMIS Education Program, which we believe has contributed to making the AMIS technique a preferential and easily reproducible primary total hip replacement surgical method for surgeons worldwide.

To further improve patient outcomes and ease of use of our implants, we have also developed the MyHip solution as part of our patient-specific MySolutions technology. The MyHip 3D printed patient-specifc guides allow for more accurate positioning and sizing of the hip implant. They are produced by our engineers using in-house laser sintering technology following surgeon approval of a 3D preoperative plan. Besides MyHip cutting guides, we have developed MyHip Planner, which is a surgeon-operated CT-based software whose output is a patient-specific preoperative plan. MyHip Planner can evaluate the effects of different implant choices and positioning options on the patient's hip joint biomechanics, show them to the surgeon and hence enrich the basis for a decision on surgical strategies. Finally, our MyHip Verifier is a navigational software that uses intra-operative C-arm images to assist the surgeon in evaluating the horizontal and vertical leg offsets without compromising the surgical workflow. MyHip cutting guides, MyHip Planner and MyHip Verifier can be used alongside the AMIS technique as effective tools to optimize implant selection and positioning.



Versafitcup and AMIStem-P

HIP PORTFOLIO

We offer a wide portfolio of implants for total hip replacements. Our hip implants can be used for primary procedures (i.e., first-time hip replacements) as well as revision procedures (i.e., repeat hip replacements), and have been designed to reach the highest standards of implant performance. We offer hip implants that are femoral (i.e., that mimic the anatomy of the femur) and acetabular (i.e., that mimic the anatomy of the acetabulum, which is the socket that the femoral head fits into). Our hip implants can be divided into those fixed with cement and those fixed without. The majority of our implants are cementless, relying on biological fixation of the bone to a porous surface coating on the implant. Our cemented implants use acrylic cement to quickly establish solid attachment.

Our hip implants can be used with a variety of surgical techniques. However, we encourage all surgeons using our hip implants to apply the AMIS technique to optimize patient outcomes. Currently, all of the products in our hip implant range are suitable for use with the AMIS technique.

Special instrumentation is required for procedures involving our hip implants. In collaboration with expert surgeons, we have developed a range of instruments that are designed to reduce errors and the learning curve associated with using our implants and surgical techniques.

KNEE

We have developed a range of knee replacement techniques, implants and instruments. We believe that our offerings in the Knee business line provide surgeons with an innovative, effective approach to total, partial and revision knee replacements. In 2009, we introduced MyKnee as our first offering using our MySolutions technology. MyKnee technology allows the surgeon to realize their preoperative 3D planning based on CT or MRI images of the patient's knee. This is then translated into a personalized 3D-printed placement and positioning guide to be used during the surgery. The MyKnee procedure has been used in approximately 80'000 procedures since 2009. Currently, approximately 45% of all total knee replacements using Medacta products use MyKnee technology.

In addition to MyKnee, we have developed a comprehensive platform for kinematic alignment. The Medacta Individualized Kinematic Alignment (MIKA) platform includes a particularly suitable implant for kinematic alignment (our GMK Sphere) supported by dedicated technologies and a dedicated M.O.R.E. Education Program.

KNEE PORTFOLIO

We offer a range of knee implants that cover a broad spectrum of knee replacement procedures, from total and partial knee implant systems to revision knee implant systems. Combined with our innovative surgical techniques and instrumentation, our knee implants potentially offer better reproduction of natural knee movement and can result in improved patient outcomes (e.g., greater strength when ascending or descending stairs, superior single-leg weight-bearing capacity and more stable flexion), increased efficiency for the surgeon and reduced costs per surgery.

Our GMK Efficiency system is a complete set of single-use instruments for use with GMK Sphere and GMK Primary implants. This system has been used in approximately 25% of total knee replacements that use Medacta technologies. The GMK Efficiency system requires no additional preoperative sterilization and is therefore efficient and cost-effective, optimizing logistics for the surgeon and eliminating any delays as a result of unavailable or non-sterile equipment. It also has the potential to reduce infection risk because of its single-use nature. For continual environmental responsibility, we completely offset the total amount of CO_2 connected to GMK Efficiency. Through active support for environmental sustainability projects initiated by Swiss Climate, Medacta GMK Efficiency instrumentation was rewarded with the "CO_2 neutral" certificate.

GMK Efficiency system is also available as part of our Efficiency KneePack, which contains all the components needed to implant the GMK Sphere implant by way of MyKnee and is delivered sterile in a single, lightweight box. In 2019 we launched the GMK UltiMate Efficiency instrumentation, which combines all the advantages of modern metal instrumentation with the logistical benefits of a single-use set. Our other knee implants are also accompanied by specific, dedicated instruments. The GMK UNI has been conceived to be soft tissue friendly; both implant and instrumentation are designed to fit muscle sparing surgical approaches and the implants are efficiently organized in two trays.

Finally, our knee revision offerings consist of GMK Revision and GMK Hinge, which have been designed to preserve the joint functionality without dramatically altering its anatomy and kinematics, even in cases of severe ligament instability or massive bone defects.

KINEMATIC ALIGNMENT

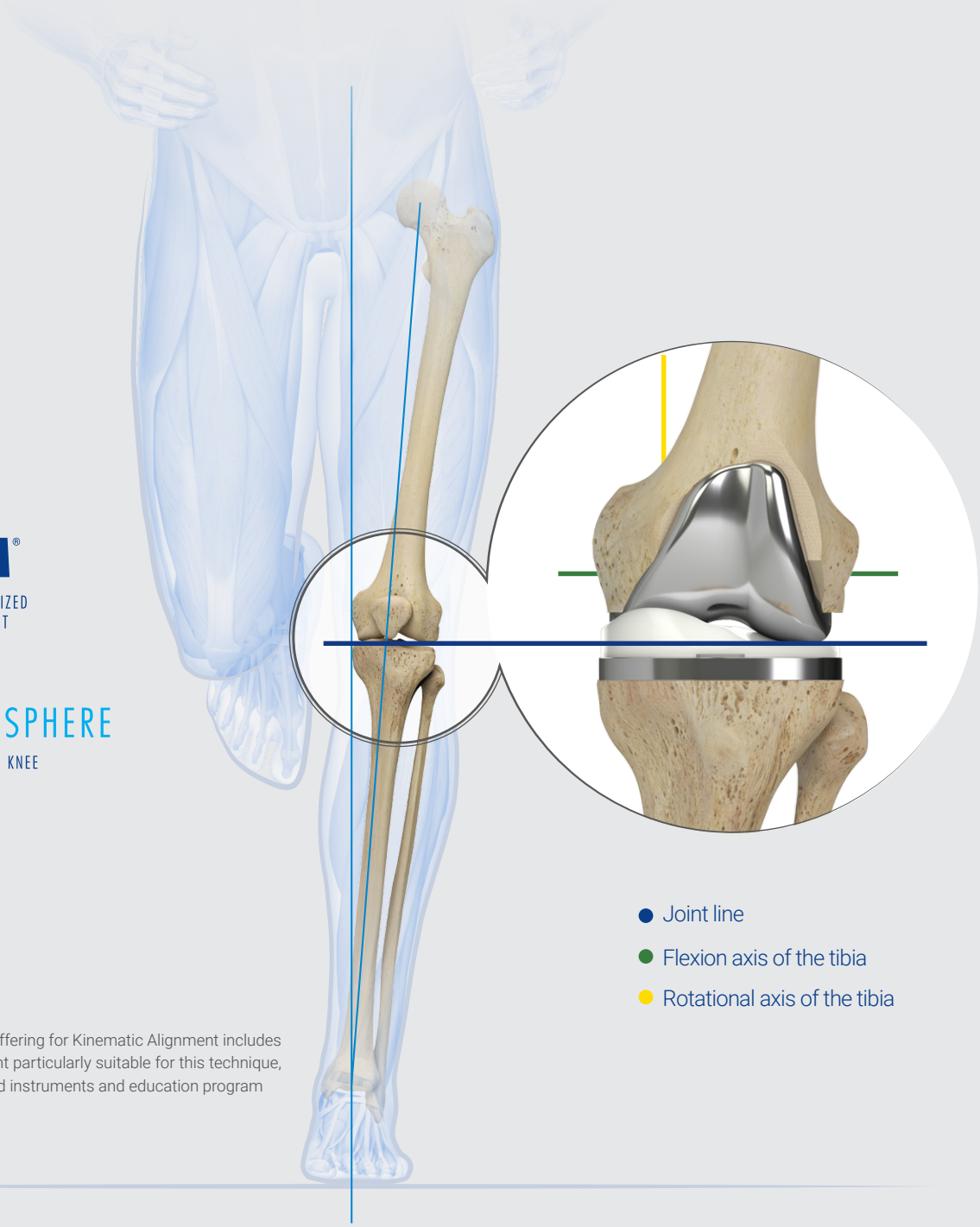
The Medacta Individualized Kinematic Alignment (MIKA) platform is an alternative to traditional mechanical alignment in total knee replacements, and aims to restore knee function by resurfacing the tibia and the femur to their normal or pre-arthritic state, while causing minimum damage to the surrounding tissues and ligaments.

It operates by custom-positioning the knee implant to the native joint line of the knee as it was in its pre-arthritic state.

Medacta's unique offering includes the GMK Sphere, a total knee implant particularly suitable for kinematic alignment. Only one year after the launch of MIKA, it is estimated that around 25% of all GMK Sphere surgeries are carried out with the kinematic alignment.

MIKA®
MEDACTA INDIVIDUALIZED KINEMATIC ALIGNMENT

GMK® SPHERE
MEDIALLY STABILIZED KNEE



Medacta's unique offering for Kinematic Alignment includes a Total Knee Implant particularly suitable for this technique, as well as dedicated instruments and education program

SHOULDER

In 2016, we decided to enter the shoulder market, leveraging the know-how we gained from the Hip and Knee business lines to develop new products and techniques in the Shoulder business line.

SHOULDER PORTFOLIO

Our offering within the Shoulder business line is the Medacta Shoulder System, which was introduced in 2016 and is FDA-approved, CE-marked and approved by MHLW for use in Japan. The Medacta Shoulder System is an innovative modular system designed with the support of a group of international expert surgeons that offers a range of options for shoulder replacement. This innovative implant has been designed to enhance shoulder mobility and improve patient well-being. Its innovative configuration means that it can be used in the two main types of shoulder replacement procedures:

- total anatomic shoulder replacements (where the humeral head is replaced with a metallic head assembled on a metallic stem and the glenoid is replaced with a plastic component); and
- reverse shoulder replacements (where the metallic ball is attached to the glenoid while the socket is on the humeral side).

Because of the modular design of the Medacta Shoulder System, it is possible to convert a total shoulder replacement into a reverse shoulder replacement without needing to revise all the components of the implant. This is aimed at avoiding full revisions of the shoulder implant if disease progression requires conversion to reverse. In addition, the Medacta Shoulder System offers various sizes and an adjustable offset, meaning it can be optimized for the individual patient.

The Medacta Shoulder System is complemented by our patient-specific MyShoulder technology, which is FDA-approved, CE-marked and approved by MHLW for use in Japan. MyShoulder allows the surgeon to realize their preoperative 3D plan based on CT images of the patient's shoulder. This is then translated into a 3D-printed resection guide to be used during the surgery.

In addition to the Medacta Shoulder System, we are developing a portfolio of revision products that we expect to start launching in 2021.

A GROWING SHOULDER BUSINESS LINE

In 2019 Medacta introduced the MyShoulder Placement Guides for shoulder arthroplasty in Japan and the United States, following approval from the Japanese Ministry of Health, Labour and Welfare (MHLW) and the U.S. Food and Drug Administration (FDA).

These patient-specific, 3D-Printed solutions work in conjunction with the Medacta Shoulder System and associated instrumentation to create an accurate and reproducible implant placement specific to each patient's individual anatomy. It is composed by two guides and a WebPlanner.

The WebPlanner allows the surgeon to carry out a precise pre-operative planning. The two guides, a humeral cutting guide and a glenoid pin guide, assist the surgeon optimizing the precision and reducing the surgery time.

The MyShoulder platform is part of the sophisticated MySolutions technology: highly personalized pre-operative planning and implant placement methodologies for use not only in shoulder procedures, but also in hip (MyHip), knee (MyKnee) and spine (MySpine) procedures.

MyShoulder®
PATIENT MATCHED TECHNOLOGY
IN SHOULDER SURGERY

WHY CHOOSE MYSHOULDER?

- Accurate implant positioning and sizing
- Complete 3D preoperative planning
- Complete in-house technology: the MyShoulder process is performed entirely by Medacta
- A personal MyShoulder technician
- Only 3 weeks lead time

MyShoulder and preoperative interface

4.3 SPINE PRODUCTS AND TECHNOLOGIES

Our development of products for the profitable and fast-moving spine market started in 2009, when our engineers collaborated with a team of expert international surgeons to develop solutions for the treatment of various degenerative spine conditions and spine deformities. Our current comprehensive range of spine products, devices and instruments complement one another, creating a single-system approach for most spine stabilization applications. Within our spine offering, we have leveraged our expertise both in minimally invasive techniques and in personalized, patient-specific technologies to offer optimum results to patients. Our spine products are FDA-approved and CE-marked, and are also approved for use in Japan and Australia.

Building on our proprietary MySolutions technology, we have developed MySpine to be used with our product offerings within the spine segment. MySpine offers surgeons a patient-specific 3D-printed pedicle screw placement guide, resulting in accurate positioning of the screws, reduced X-ray dosage and reduced time and cost.

In addition, we offer MySpine MC which is a patient-specific 3D-printed solution for surgeries that use the midline cortical approach. It allows posterior lumbar fusion to be carried out in a minimally invasive, muscle-sparing way, resulting in shorter operating times and a substantial reduction of both radiation exposure and financial cost compared to free hand open lumbar fusion surgery. The goal of MySpine MC is to combine a successful fusion rate with increased predictability of clinical outcomes.

SPINE PORTFOLIO

We have developed a portfolio of spine products that includes implants and accompanying instruments. Our spine systems are designed to address degenerative spine conditions and other spinal deformities, such as scoliosis. Our spine products include pedicle screw system and intervertebral cages and are made of titanium alloy, cobalt chrome alloy, polyether ether ketone (PEEK) and titanium-coated PEEK material. They are available in a variety of heights, angles and footprints that allows the patient's anatomy to be taken into account, resulting in variable anatomic shaping.

MYSPINE MC WINS MEDTECH BREAKTHROUGH AWARD FOR ORTHOPAEDICS AND SURGICAL INNOVATION

MySpine MC platform has been recognized as 2019 "Best Healthcare Navigation / Robotics Solution" by MedTech Breakthrough.

MySpine MC is a patient-specific 3D-Printed solution for surgeries that use the midline cortical approach, which allows posterior lumbar fusion to be carried out in a minimally invasive, muscle-sparing way. Medacta's Midline Minimally Invasive Surgery (MIS) procedure provides high accuracy in screw positioning and robust posterior fixation through a minimally invasive, muscle sparing surgery. Short operating times, low per-case costs and a limited requirement for radiation exposure are further significant advantages of this technique.

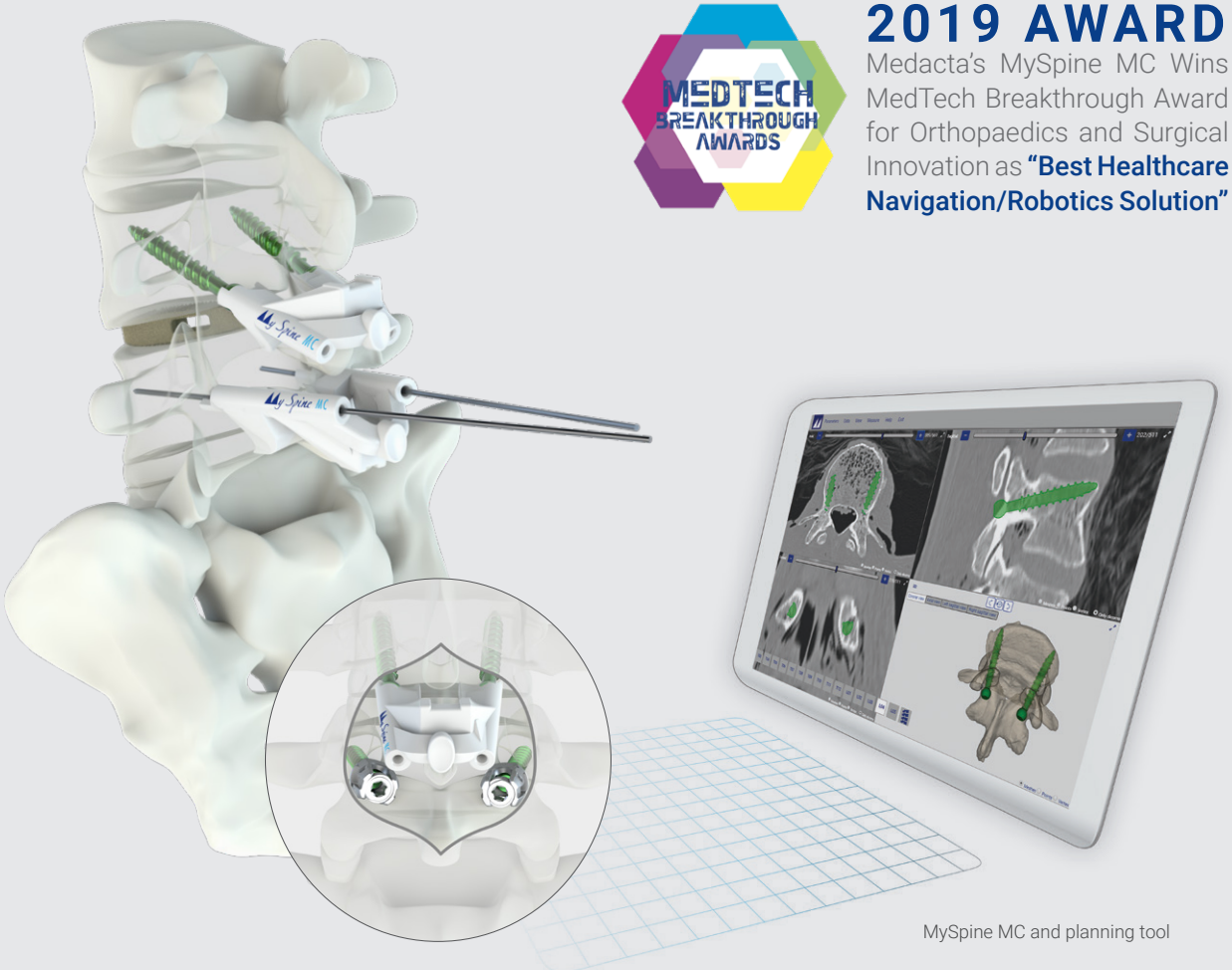
"We are honored to have MySpine MC recognized by MedTech Breakthrough as one of this year's most innovative medical technologies", said Francesco Siccardi, CEO of Medacta. *"MySpine MC combines Medacta's expertise in 3D planning tools with its industry-leading patient-matched guides to create a seamless, start-to-finish platform perfect for orthopaedic surgeons looking to enter the personalized spine surgery space in the outpatient or inpatient setting."*

MySpine MC was selected from more than 3'500 nominations MedTech Breakthrough received across its range of categories. The awards are focused on bringing public recognition to innovations disrupting the international health and medical industry.

MySpine® MC
PATIENT MATCHED TECHNOLOGY
IN SPINE SURGERY

MEDTECH BREAKTHROUGH AWARDS

2019 AWARD
Medacta's MySpine MC Wins MedTech Breakthrough Award for Orthopaedics and Surgical Innovation as **"Best Healthcare Navigation/Robotics Solution"**



MySpine MC and planning tool

4.4 SPORTSMED PRODUCTS AND TECHNOLOGIES

In our newly-developed Sportsmed business line, launched in 2016, our engineers are working to create specific and innovative products for the treatment of ligament, tendon and muscular injuries of the knee, hip and shoulder, supported by an international team of sports medicine surgeons. The aim of our Sportsmed business line is to design minimally invasive procedures in order to allow patients to return quickly to daily activities.

SPORTSMED PORTFOLIO

The Medacta Anatomic Ribbon Surgery (M-ARS) is an innovative surgical technique that we have developed to reconstruct the anterior cruciate ligament (ACL), supported by specific instruments and dedicated extra-articular implants. We launched M-ARS in 2017 as a surgical package that includes dedicated instruments and implants to reconstruct the ACL. It is designed to distribute forces in a more natural, anatomical way. Due to the high tendon-bone interface, it is intended to offer fast integration with little risk of necrosis of the graft and an advanced healing path.

In addition to our M-ARS offering, in 2019 we launched MectaScrew PEEK Interference Screws for cruciate ligament re-fixation. Furthermore, we launched MectaLock PEEK for shoulder and hip labral repair and we are planning to launch our first rotator cuff anchors (MectaLock TI and MectaTap) and MectaQTH instruments to facilitate quadriceps tendon graft harvesting.

In the U.S. we have launched our MectaFlip Intra Articular Hip Expander and are planning to introduce the FastShuttle Suture Passer to manage sutures in arthroscopic shoulder procedures.

MEDACTA ENTERS U.S. AND AUSTRALIAN SPORTS MEDICINE MARKET

Medacta's MectaLock PEEK Suture Anchor and MectaScrew PEEK Interference Screw received clearance from the U.S. Food and Drug Administration (FDA) and obtained the Australian Therapeutic Goods Administration (TGA) registration in July 2019.

"Medacta is known for developing personalized orthopaedic surgery solutions and providing a high level of support to the surgeons who adopt them", said Francesco Siccardi, CEO of Medacta. *"We look forward to applying our expertise to this new area, the next natural market for Medacta to enter following the success of our surgeon- and patient-friendly solutions across hip, knee, shoulder and spine"*.

The MectaLock PEEK Suture Anchor is an implantable device used for soft tissue re-fixation in acetabular labral repairs in the hip and glenoid labrum repairs in the shoulder. The portfolio is complete and comprehensive, to accommodate different patient anatomies and surgeon preferences.

The MectaScrew PEEK Interference Screw is indicated for reconstructive treatment of ruptured anterior and posterior cruciate ligaments with auto- and allografts.

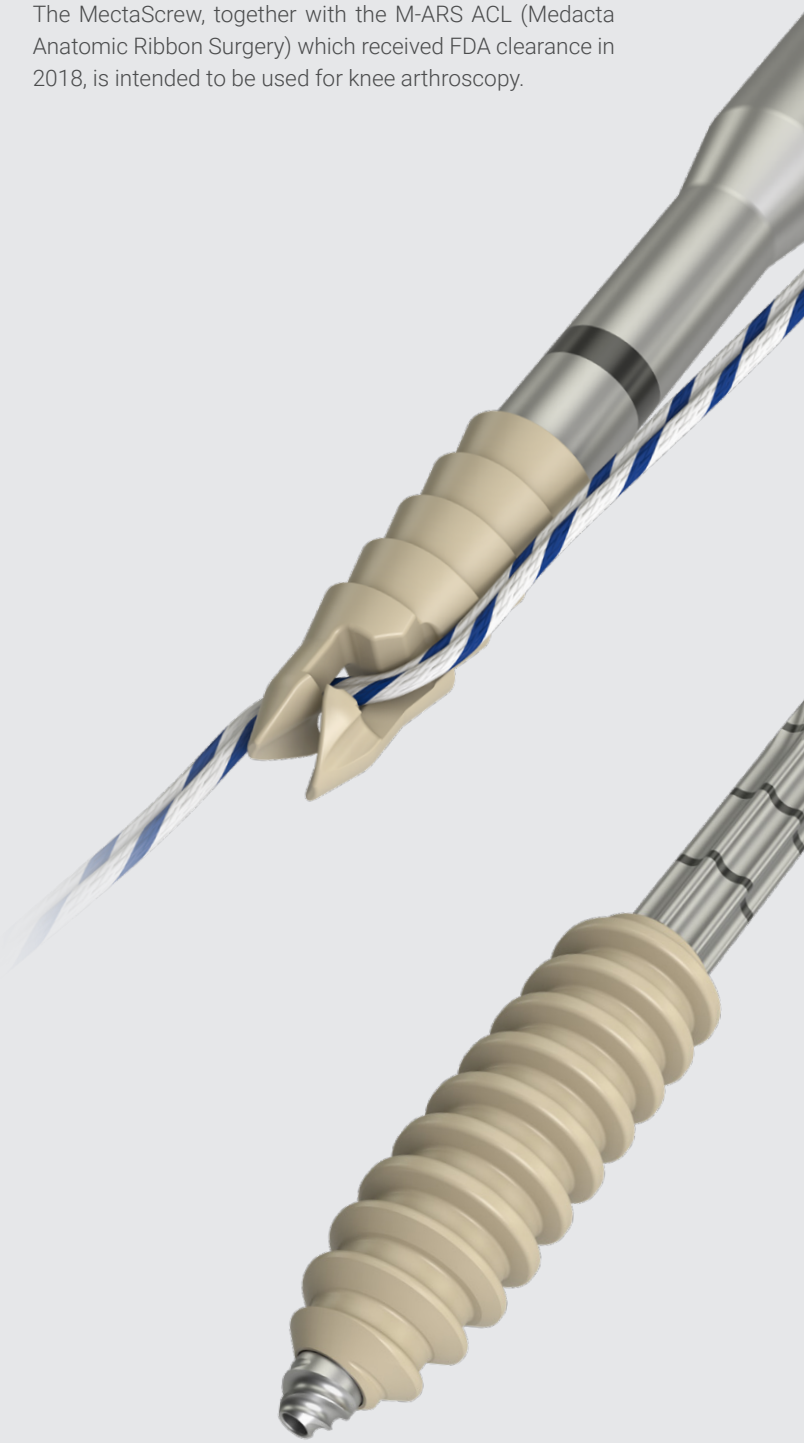
The MectaScrew, together with the M-ARS ACL (Medacta Anatomic Ribbon Surgery) which received FDA clearance in 2018, is intended to be used for knee arthroscopy.

MectaLock PEEK

J-LOCK PEEK SUTURE ANCHOR

MectaScrew PEEK

PEEK INTERFERENCE SCREW



Medacta's MectaLock PEEK Suture Anchor and MectaScrew PEEK Interference Screw

M.O.R.E.
INSTITUTE

The surgeon is never alone
when discovering new technologies

Medacta International

CORPORATE GOVERNANCE REPORT

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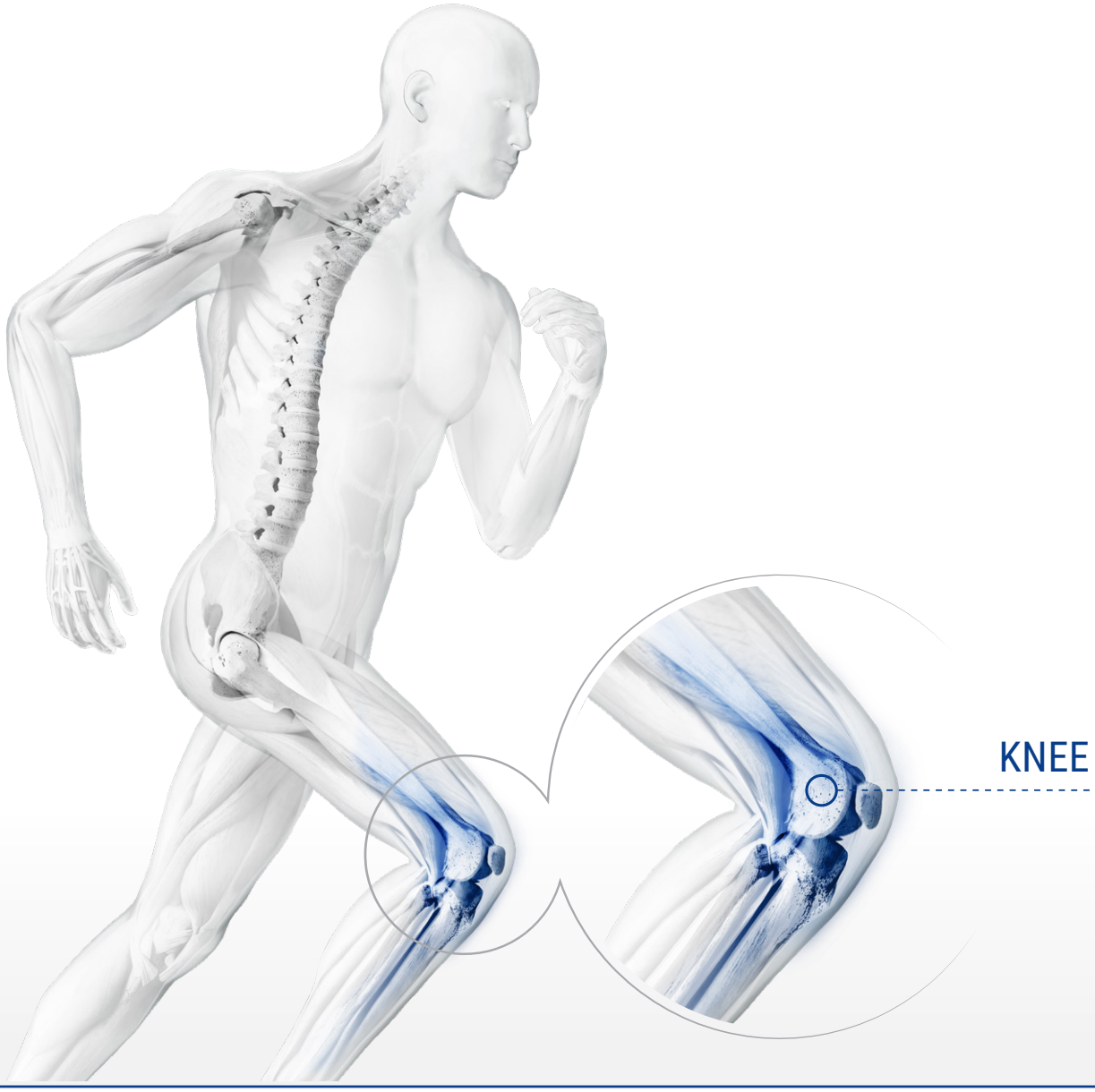

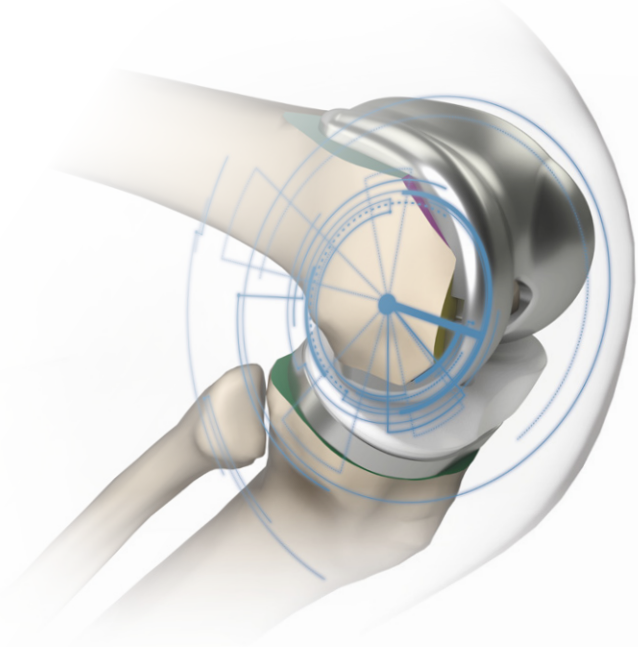

MAKA®

MEDACTA INDIVIDUALIZED
KINEMATIC ALIGNMENT

A comprehensive platform for Kinematic Alignment

Medacta is committed to build value and trust with all the stakeholders. Good corporate governance is an essential element of Medacta's values.

Medacta's corporate governance principles and rules are set out in the Articles of Association, the Organizational Regulations, the Corporate Compliance System including the MedTech Europe Industry Code of Conduct, the Charters of the Board Committees and internal policies on quality, IT, privacy as well as employee regulations. Further, we take into account the recommendations of the Swiss Code of Best Practice for Corporate Governance. The Group's corporate governance disclosures described in this report are in compliance with the Directive on Information relating to Corporate Governance published by the SIX Exchange Regulation.

1. GROUP STRUCTURE AND SHAREHOLDERS

1.1 GROUP STRUCTURE

ORGANIZATIONAL GROUP STRUCTURE

Medacta Group SA ("Company"), Strada Regina 34, 6874 Castel San Pietro, Switzerland, the ultimate parent company of the Group, is as a stock corporation under the laws of Switzerland and is listed on the SIX Swiss Exchange (valor number: 46'852'522, ISIN: CH0468525222, SIX ticker symbol: MOVE, LEI: 506700P2PFU3A3DROC14). The market capitalization of the Company as per December 31, 2019 was CHF 1.45 billion.

Our headquarters and production facilities are located in Castel San Pietro, Switzerland and Rancate, Switzerland, where we have approximately 600 employees in the aggregate. The Group Executive Management is based at our headquarters in Castel San Pietro, Switzerland and they are responsible for executing the decisions of the Board of Directors and implementing the strategy of the Group. The Extended Group Management, which comprises our Head of Research and Development, Global Marketing Director, Technical Director, Head of Commercial and Europe, Vice President Spine and Vice President Extremities and Sportsmed are also based at our headquarters and under the supervision of the CEO, save for the Technical Director who reports directly to the Supply Chain Director. The Head of Commercial and Europe is responsible for the regional Directors who oversee and manage our 12 international branches. Our international branches are responsible for overseeing our salesforce, which consists of direct sales representatives and marketing employees, independent agents, and distributors in 22 countries. For an overview of our worldwide locations, see Section 6.1 "Consolidation Principles, Composition of the Group and Significant Accounting Policies" of the Financial Report.

GROUP COMPANIES

No other company controlled by Medacta Group SA is listed on a stock exchange.

On December 31, 2019, Medacta Group SA directly or indirectly held 100% of the capital and voting rights in all unlisted consolidated Group companies disclosed in the Financial Report section of this Annual Report under note 6.1 "Consolidation Principles, Composition of the Group and Significant Accounting Policies" to the Financial Report.

SIGNIFICANT SHAREHOLDERS

To the best of our knowledge, the table below shows shareholders and shareholder groups owning or representing more than 3% of the voting rights of Medacta as of December 31, 2019.

Beneficial owner / persons that can exercise the voting rights at their own discretion [1]	Domicile/ Registered Office	Country	Direct Shareholders [2]	Number of shares	Percentage of voting rights
• Alberto Siccardi [3]	Sonvico - Lugano	Switzerland	-	13'861'528	69.31%
• Maria Luisa Siccardi Tonolli [3]	Cadro - Lugano	Switzerland	-		
• Francesco Siccardi [3]	Vico Morcote	Switzerland	-		
• Alessandro Siccardi [3]	Lugano	Switzerland	-		
• The Capital Group Companies, Inc [4]	Los Angeles	USA	Capital Research and Management Company	1'022'928	5.12%
• MainFirst SICAV [5]	Senningerberg	Luxembourg	-	603'875	3.02%

[1] Regarding collective investment schemes, the beneficial owner corresponds to the licensee.
[2] Regarding collective investment schemes, the direct shareholder corresponds to the collective investment scheme.
[3] The Family shareholders comprise a group acting in concert within the meaning of art. 120 et seq. FMIA and its implementing ordinances. See SIX shareholder notification dated May 3, 2019, processed by SIX on May 8, 2019 in relation to (i) the lock-up undertaking with the Managers of the IPO until 31 December 2020 and (ii) the shareholders agreement. See also "Shareholders' Agreement" (below). As a single person, Dr. Alberto Siccardi owns 10.1% of shares and voting rights while Ms. Maria Luisa Siccardi Tonolli, Francesco Siccardi and Alessandro Siccardi own 19.7% of shares and voting rights each.
[4] The ultimate beneficial owner who has the discretionary power to exercise directly or indirectly the voting rights is The Capital Group Companies, Inc as derived from the latest shareholder notification dated April 17, 2019, processed by SIX on April 24, 2019.
[5] The ultimate beneficial owner who has the discretionary power to exercise the voting rights is MainFirst SICAV as derived from the latest shareholder notification dated April 30, 2019, processed by SIX on May 7, 2019.

As post balance sheet event, on March 25, 2020 we received two notifications from significant shareholders. The Capital Group Companies, Inc., reduced his position from 5.11% to 0.86% while Artisan Partners Limited Partnership (beneficial owner; Milwaukee, USA), become a significant shareholder holding 5.24% of shares. Information on disclosure notifications during the year under review concerning the significant shareholders may be found on the website of the Disclosure Office of the SIX Swiss Exchange.

SHAREHOLDERS' AGREEMENT

Alberto Siccardi, Maria Luisa Siccardi Tonolli, Francesco Siccardi and Alessandro Siccardi (collectively, the "Family shareholders") have entered into a shareholders' agreement regarding, *inter alia*, (i) the uniform exercise of voting rights in the shareholders' meeting of the Company, (ii) the right of representation on the Board of Directors of the Company, (iii) principles regarding dividends distributed by the Company, (iv) transfer restrictions applicable to Family shares (as defined in the Shareholders' Agreement) and (v) purchase options regarding the Family shares.

1.2 CROSS-SHAREHOLDINGS

The Group does not have, and has not entered into, any cross-shareholdings with other companies relating to equity or voting rights.

2. CAPITAL STRUCTURE

2.1 CAPITAL

The share capital of the Company as of December 31, 2019 amounted to CHF 2'000'000 and is divided into 20'000'000 registered shares with a nominal value of CHF 0.10 each. The share capital is fully paid-up.

2.2 AUTHORISED AND CONDITIONAL CAPITAL

Medacta Group SA has no authorized share capital and no category of shares other than registered shares.

Article 3A of the Articles of Association includes conditional share capital for equity-linked rights (employee benefit plans) and provides for the increase in the nominal share capital of the Company in the amount of CHF 50'000 through the issuance of up to 500'000 fully paid up registered shares with a nominal value of CHF 0.10 each, which equates to 2.5 % of the existing share capital.

The terms and conditions for the allocation and exercise of the equity-linked rights to eligible officers and employees are to be determined by the Board of Directors. The shares may be issued at a price below the market price. The acquisition of registered shares based on Article 3A and every subsequent transfer of these registered shares is subject to the transfer restrictions pursuant to Article 5 of the Articles of Association.

2.3 CHANGES IN CAPITAL

On December 12, 2018, the Company acquired by way of contribution in kind 4'016 registered shares of Medacta Holding SA at their nominal value of CHF 25.64 each, at a total nominal value of CHF 102'970.24, accepted by the Company for CHF 102'970.24 (contribution in kind agreement of December 12, 2018) together with CHF 97'029.76 in cash, both made by Alberto Siccardi and fully accounted to the share capital, against issuance of 2'000'000 registered shares at a nominal value of CHF 0.10 each, for a total nominal value of CHF 200'000.

2.4 SHARES AND PARTICIPATION CERTIFICATES

Medacta Group SA has no other categories of shares other than one category of registered shares entitled to one vote each and dividends (if any).

The Company issues its shares only as uncertificated securities, within the meaning of article 973c of the Swiss Code of Obligations and enters them into the main register of SIS and, consequently, constitutes them as book-entry securities within the meaning of the Swiss Federal Intermediated Securities Act (FISA).

2.5 DIVIDEND-RIGHT CERTIFICATES

Medacta Group SA did not issue any dividend-right certificates.

2.6 LIMITATIONS ON TRANSFERABILITY AND NOMINEE REGISTRATIONS

The Company keeps a Share Register of the registered shares in which the owners/usufructuaries are entered with their name (for legal entities the company name), domicile, address and citizenship (for legal entities the legal domicile).

According to article 5 para. 3 of the Articles of Association, persons not expressly declaring themselves to be holding the shares for their own account in their application for entry in the Share Register or upon request by the Company ("Nominees") are entered in the Share Register with voting rights without further inquiry up to a maximum of 3.0% of the share capital outstanding at that time. Above this limit, registered shares held by Nominees shall be entered in the Share Register with voting rights only if in its application for registration, or thereafter upon request by the Company, the Nominee discloses the names, addresses and shareholdings of the persons for whose account the Nominee is holding 0.5% or more of the share capital outstanding at that time and provided that the disclosure requirements stipulated by the Act on Financial Market Infrastructure (FMIA) are complied with. The Board of Directors has the right to conclude agreements with Nominees concerning their disclosure requirements.

According to article 5 para. 4 of the Articles of Association, the described limit for registration also applies to the acquisition of registered shares, which are subscribed for or acquired by way of exercising any subscription, acquisition, option or convertible rights arising from shares or any other securities issued by the Company or third parties. For purposes of the aforementioned registration restrictions, legal entities or partnerships or other associations or joint ownership arrangements which are linked through capital ownership or voting rights, through common management or in a like manner, as well as individuals, legal entities or partnerships (especially syndicates) which act in concert with the intent to circumvent the entry restriction, are considered as one shareholder or Nominee.

The Company issues its registered shares only as uncertified securities (*Wertrechte*) and registers them as book-entry securities (in terms of the Book-Entry Securities Act). Uncertified securities may only be transferred by way of assignment provided that they are not registered as book-entry securities. In order to be valid, the assignment must be reported to the Company, which may refuse the entry of the assignee in the Share Register in accordance with Article 5 of the Articles of Association. The transfer restrictions according to Article 5 are not affected by these regulations. For as long as the shares are in uncertificated form and registered as book-entry securities, any transfer and collateralization of shares has to be made in accordance with the FISA. The transfer of book-entry securities or the granting of security rights on book-entry securities by way of assignment is excluded.

The Company may in special cases approve exceptions to the above restrictions. In 2019, no such exemptions were granted.

The procedure and condition for the easement or abolition of the restrictions of the transferability of the registered shares in the Articles of Association require resolution of a shareholders' meeting passed by at least two thirds of the represented share votes and an absolute majority of the par value of represented shares is required to ease or abolish the restrictions on the transferability of registered shares (see Article 13 of the Articles of Association).

The Company's Share Register is administered by ShareCommService AG, Europastrasse 29, 8152 Glattbrugg, Switzerland.

2.7 CONVERTIBLE BONDS AND OPTIONS

As of December 31, 2019, neither Medacta Group SA, nor any of its subsidiaries, had issued or outstanding any convertible bonds or options convertible into shares of the Company.

3. BOARD OF DIRECTORS

The Board of Directors plays a central role in the strategic guidance of the Group as well as supervising the overall business activities and management.

Accordingly, Board candidates are carefully selected to ensure that they are qualified and committed members, characterized by diversity of backgrounds as well as experience and expertise relevant for the specific role they play on the Board of Directors. In addition, because the current Chairman formerly served as Chief Executive Officer of Medacta International SA, the Board of Directors also has a Lead Independent Director.

The description of the role of the Lead Independent Director is available into Section 3.5 "Internal Organizational Structure" of this Corporate Governance Report.

Philippe Weber, Maria Luisa Siccardi Tonolli, Alberto Siccardi and Victor Balli (from left to right).

3.1 MEMBERS OF THE BOARD OF DIRECTORS

As of December 31, 2019, the Board of Directors consisted of four Members (including the Chairman and the Lead Independent Director), three of whom are non-executive Directors. Marco Gadola joined as Member of the Board with effect from January 1, 2020, but he has decided not to stand for re-election at the forthcoming annual general meeting.

The table below outlines the name, year of birth, position, committee memberships and year of appointment of the Members of the Board.

Name	Year of birth	Position	Committee Membership	Year of Appointment
Alberto Siccardi	1944	Chairman	RemCo	2018 [1]
Maria Luisa Siccardi Tonolli	1975	Member	ARC	2018 [2]
Victor Balli	1957	Member; Lead Independent Director	ARC (Chairman)	2019
Philippe Weber	1965	Member	RemCo (Chairman)	2019
Marco Gadola	1963	Member	ARC, RemCo	2019 [3]

RemCo = Remuneration Committee
ARC = Audit and Risk Committee

[1] Founder and Chairman of the Board of Directors of Medacta International since 1999

[2] Member of the Board of Directors of Medacta International from 2003 until 2014

[3] Appointed member of the Board of Directors with effect as of January 1, 2020, Mr. Marco Gadola will not stand for re-election to the Board of Directors of Medacta Group SA at the forthcoming annual general meeting scheduled for May 19, 2020.

ALBERTO SICCARDI,

Swiss and Italian, Executive, Chairman of the Board

Other main activities in 2019: Mr. Siccardi further serves as Chairman of Surgical Practice Resource Group SA, Lugano since 2015 and as Chairman of the Medacta for Life Foundation, Castel San Pietro since 2011. He is Chairman of Verve SA, Castel San Pietro and a Board Member of Machi Holding SA, ALLES Holding SA and 2A Holding SA, Castel San Pietro since 2019. In addition, according to Mr. Siccardi's mandate agreement, from time to time, he provides certain bespoke consultancy services to the Company. For example, in 2019 he rendered services in the HR management. Mr. Siccardi decided voluntarily to offer the aforementioned services free of charge.

Career Highlights: Mr. Siccardi served as CEO of Medacta International since founding Medacta in 1999 until November 2018 and as Chairman of the Company since March 2019. Prior to founding Medacta, Mr. Siccardi's family owned Bieffe Medital SPA, an Italian company operating in the medical device industry. Mr. Siccardi successfully developed and expanded Bieffe Medital internationally as CEO and then subsequently sold the business to Baxter Group in 1997.

Qualifications: Mr. Siccardi has a degree in Pharmacy from the University of Turin (1969) and a Master's Degree in Business Administration (MBA) from SDA Bocconi School of Management in Milan (with distinction).

Key attributes for the Board: Mr. Siccardi represents continuity, solidity and credibility among the various stakeholders. As founder and major shareholder of Medacta, Mr. Siccardi chairs the Board of Directors with his expertise and in-depth knowledge of the orthopaedics products.

MARIA LUISA SICCARDI TONOLLI,

Swiss and Italian, Non-executive, Member of the Board

Other main activities in 2019: Ms. Siccardi Tonolli has served as the Head of the Siccardi Family Office since 2002. Ms. Siccardi Tonolli also serves as a Member of the Board of Directors of Surgical Practice Resource Group SA, Lugano since 2015, as President of Machi Holding SA , Castel San Pietro since 2019, as Vice-President and Member of the Board of Directors of Medacta for Life Foundation, Castel San Pietro since 2011 and as Member of the Board of Directors of Verve SA, Castel San Pietro since 2001.

Career Highlights: Ms. Siccardi Tonolli joined Medacta International SA in 2002 and served as a Member of its Board of Directors from 2003 until 2014. In early 2018, Ms. Siccardi Tonolli was re-elected as Member of the Board of Directors of Medacta International SA, and then elected to the Board of the Company upon its incorporation in 2018. Ms. Siccardi Tonolli has served in various finance, controlling and treasury roles at the Group, including as Head of Strategic and Corporate Finance from 2003 until 2014 and then as Vice President Finance / Treasury Supervisor from 2011 until April 1, 2019. Since the IPO, Ms. Siccardi Tonolli has exclusively served as a Member of the Board of Directors. Ms. Siccardi Tonolli is also a real estate expert. She served as a Member of the Board of Verve SA for approximately 18 years, an international real estate company domiciled in Switzerland.

Qualifications: Ms. Siccardi Tonolli holds a Master of Science (MSc) in Business Administration from Bocconi University, Milan (2000) and has completed various professional training courses.

Key attributes for the Board: As a major shareholder of Medacta Group, Ms. Siccardi Tonolli contributes with her experience in the field of finance, controlling and treasury.

VICTOR BALLI,

Swiss, Non-executive, Member of the Board; Lead Independent Director

Other main activities in 2019: Member of the Board of Directors and Member of the compensation committee and the audit committee of Givaudan SA, Vernier since 2016; Member of the Board of Directors and the Chairman of the audit committee of KWS Saat SE, Germany since 2017; Since 2018 Member of the Board of Directors of the Swiss Federal Audit Oversight Authority in Bern (Revisionsaufsichtsbehörde, FAOA), Member of the Board of Directors and of the audit committee of Louis Dreyfus Company Holdings B.V., Netherlands; Since 2019, Member of the Board of Directors of Hemro AG, Bachenbülach.); Member of the Board of Directors and of the audit committee of SIKA AG, Baar since 2019.

Career Highlights: Mr. Balli was Chief Financial Officer of Barry Callebaut AG, Zurich, the largest global supplier of cocoa and chocolate products from 2007 to 2018. From 1996 to 2006, he was a director at Niantic Group, which represents the investment holding of Dr. Andreas Jacobs, and served in various executive and Board functions at subsidiaries of Niantic Group during that period. Mr. Balli served as Member of the Board of Directors and Chairman of the audit committee of Ceva Logistics AG, Baar from 2018 to 2019.

Qualifications: Mr. Balli holds a Master's degree in Economics from the University of St. Gallen (HSG) in St. Gallen (1984) and a Master of Science (MSc) in Chemical Engineering from the Swiss Federal Institute of Technology (ETH) in Zurich (1981). He has further completed various management courses at INSEAD, Fontainebleau France and INSEAD, Singapore.

Key attributes for the Board: In addition to his Board and executive experience in other companies, Mr. Balli has a strong track record in general management, finance and corporate finance.

PHILIPPE WEBER,

Swiss, Non-executive, Member of the Board

Other main activities in 2019: Chairman of the board of directors and managing partner of Niederer Kraft Frey AG, Zurich since 2015; Company Secretary of CLS Group Holdings AG, Lucerne since 2002; Non-Executive Director of EDAG Engineering Group AG, Arbon since 2015; Member of Board of Directors of Newron Suisse SA, Zurich since 2007, NorthStar Holding AG, Roggwil (Thurgau) (since 2018), and of Banca del Ceresio SA, Lugano since 2017. Elected to the Board of Directors of Leonteq AG at the shareholders meeting held on 31 March 2020. During the course of 2019, Mr. Weber's law firm Niederer Kraft Frey AG also provided certain legal services to the Company following the IPO. For example, guidance on ad hoc publicity requirements as well as other compliance aspects for public companies under Swiss law. For the amounts paid for such services rendered, see Section 8 "Related Party Compensation" of the Remuneration Report, enclosed in this Annual Report.

Career Highlights: Mr. Weber joined Niederer Kraft Frey AG (NKF) in 1994 and became a partner in 2002. Since 2015, he has served as the managing partner of NKF. From 1990 to 1992, he was a research assistant at the University of Zurich before joining the foreign affairs committees of the two chambers of the Swiss parliament as a legal clerk in 1992/1993.

Qualifications: Mr. Weber holds a PhD in law (summa cum laude) from the University of Zurich (1995) and an LL.M. (with distinction) from the European University Institute (EUI) in Fiesole, Italy in 1995. He is an attorney-at-law admitted to the Swiss bar.

Key attributes for the Board: Mr. Weber has vast experience in high profile corporate/M&A, capital markets and banking transactions as well as corporate governance. He complements the Board with his extensive knowledge and experience with regards to legal and corporate matters as well as Board Member in various other companies.

MEMBER OF THE BOARD WITH EFFECT FROM JANUARY 1, 2020

MARCO GADOLA,

Swiss, Non-executive, Member of the Board with effect from January 1, 2020.

Other main activities in 2019: CEO Straumann Group, Chairman of the Board of Calida Group; Member of the Board of Directors of Mettler Toledo; Panel Member of the Swiss-American Chamber of Commerce; Elected to the Board of Directors DKSH AG with effect from January 1, 2020 and nominated to become Chairman of DKSH at the shareholders meeting to be held in May 2020. Since 2018, he has been a Member of the Board of Directors of AVAG Anlage und Verwaltungs AG, Basel. The Board of Directors of Medartis Holding AG, proposed Mr. Gadola for election as Board member at the Annual General Meeting that will be held on 17 April 2020.

Career Highlights: From 2008 to 2013, he was Chief Financial Officer and Regional Chief Executive Officer Asia/Pacific at Panalpina. He also served as Chief Financial Officer and responsible IT and operations at the Swiss-based international food group Hero. Since 2013, he served as the Chief Executive Officer of Straumann Group (a leading company in the dental market) and announced his resignation at the end of 2019. Following his resignation as CEO at the end of 2019, he plans to stand for election to the Board of Straumann Group at their shareholders meeting in 2020.

Qualifications: Mr. Gadola holds a Master's degree in Business Administration from the University of Basel (1987). He also completed the Accelerated Management Development Program at the London School of Economics (LSE) and at the International Institute for Management Development (IMD) in Lausanne.

Key attributes for the Board: In addition to his board experience in other companies, Marco Gadola has a strong track record in general management, corporate finance, marketing, distribution and leadership gained from his career in the Med-Tech industry.

As communicated in the press release published on March 18, 2020, Mr. Marco Gadola will not stand for re-election to the Board of Directors of Medacta Group SA at the forthcoming annual general meeting scheduled for May 19, 2020.

ALLOCATION OF TASKS WITHIN THE BOARD OF DIRECTORS

Medacta aims to have a well-balanced Board of Directors with individuals who bring a variety of perspectives, backgrounds and skills. Accordingly, Board candidates have been carefully selected to ensure a collective set of important skills/traits. In addition, the Board of Directors carries out an annual self-assessment that will be completed at the Board of Director's meeting that shall approve the annual financial statements in April 2020, such assessment will strive to identify strengths and areas of improvement.

The matrix below summarizes the updated set of skills/traits grouped into thirteen categories.

Board of Directors - Competence Matrix	Alberto Siccardi	Maria Luisa Siccardi Tonolli	Victor Balli	Philippe Weber	Marco Gadola [1]
Executive experience	✔	✔	✔	✔	✔
Finance, audit, risk management	✔	✔	✔		✔
Compliance, regulatory, legal	✔		✔	✔	✔
Capital markets, M&A	✔	✔	✔	✔	✔
Core industry experience (medical device)	✔	✔			✔
Transferable expertise in related industries			✔		
Functional experience	✔	✔			✔
International business experience	✔	✔	✔		✔
Digitalization, Technology	✔	✔			✔
Strategy, business, transformation	✔	✔	✔	✔	✔
HR, Compensation	✔			✔	✔
Board Governance	✔	✔	✔	✔	✔
Sustainability	✔	✔	✔		✔

[1] As communicated in the press release published on March 18, 2020, Mr. Marco Gadola will not stand for re-election to the Board of Directors of Medacta Group SA at the forthcoming annual general meeting scheduled for May 19, 2020.

3.2 OTHER ACTIVITIES AND VESTED INTERESTS

Except as disclosed in the biographies of the Members of the Board of Directors, and as outlined below, no further activities or interests are carried out outside of the Group.

The matrix below summarizes the mandates currently covered by the Board Members:

Member of the Board	Enterprise	No profit organization/ No commercial entities	Location	Function
Alberto Siccardi	Surgical Practice Resource Group SA		CH	Chairman
		Medacta For Life Foundation	CH	Chairman
	Verve SA		CH	Chairman
	Machi Holding SA		CH	Board Member
	ALLES Holding SA		CH	Board Member
	2A Holding SA		CH	Board Member
Maria Luisa Siccardi Tonolli	Surgical Practice Resource Group SA		CH	Board Member
	Verve SA		CH	Board Member
		Medacta For Life Foundation	CH	Vice-President and Board Member
		Machi Holding SA	CH	President
Victor Balli	Givaudan SA		CH	Board Member
	KWS Saat SE		DE	Board Member
		Swiss Federal Audit Oversight Authority in Bern	CH	Board Member
	Louis Dreyfus Company Holdings B.V.		NL	Board Member
	Hemro AG		CH	Board Member
	SIKA AG		CH	Board Member
Philippe Weber	Niederer Kraft Frey AG		CH	Chairman
	CLS Group Holdings AG		CH	Company Secretary
	EDAG Engineering Group AG		CH	Board Member
	Newron Suisse SA		CH	Board Member
	NorthStar Holding AG		CH	Board Member
	Leonteq AG		CH	Board Member
	Banca del Ceresio SA		CH	Board Member
Marco Gadola	Calida Group		CH	Chairman
	Mettler Toledo		CH	Board Member
	Straumann		CH	Chairman
		Swiss-American Chamber of Commerce	CH	Panel Member
	DKSH		CH	Chairman
	AVAG Anlage und Verwaltungs AG		CH	Board Member (from 1.1.2020 onwards)

3.3 PERMITTED ADDITIONAL ACTIVITIES PURSUANT TO OAEC

As required by the Swiss Ordinance against Excessive Compensation in Listed Companies ("OaEC") and in the interest of good governance, the Articles of Association limit the number of functions in superior management or administrative bodies of legal units other than the Company or its subsidiaries which Members of the Board are allowed to hold at one time.

According to article 23 of the Articles of Association, the Members of the Board of Directors may have the following other functions in the superior management or administrative bodies of legal units obliged to register themselves in a Swiss Commercial Register or a foreign equivalent thereof and which are not controlled by the Company, do not control the Company or do not constitute pension funds insuring employees of the Group:

- up to five (respectively, the Chairman of the Board of Directors up to four) mandates as Member of the Board of Directors or any other superior management or administrative body of publicly traded companies pursuant to Article 727 para. 1 number 1 CO; and, in addition,
- up to 10 mandates as Member of the Board of Directors or any other superior management or administrative body of companies pursuant to Article 727 para. 1 number 2 CO; and, in addition,
- up to 20 mandates as Member of the Board of Directors or any other superior management or administrative body of legal entities that do not meet the above-mentioned criteria; and, in addition,
- up to 20 mandates in associations, charity foundations and employee assistance foundations.

With respect to the additional activities of the Members of the Board of Directors, mandates in companies that are under uniform control or the same beneficial ownership are deemed one mandate.

All Members of the Board of Directors are within the limits of external mandates stipulated by the Articles of Association.

3.4 ELECTIONS AND TERMS OF OFFICE

In accordance with the Swiss Law, all Members of the Board of Directors, including the Chairman, are elected, and may only be removed, by a shareholders' resolution. The term of office for a Member of the Board of Directors is one year, subject to the possibility of re-election. In this context, a year means the time period between one annual shareholders' meeting and the next one or, if a Member is elected at an extraordinary shareholders' meeting, between such extraordinary shareholders' meeting and the next annual shareholders' meeting.

The Board of Directors appoints the Secretary who does not need to be a shareholder or Member of the Board of Directors.

If the office of the Chairman of the Board of Directors is vacant, the Board of Directors appoints a substitute for the time period until the conclusion of the next annual shareholders' meeting that must be a Member of the Board of Directors.

At the annual shareholders' meeting 2020, all Members of the Board of Directors will stand for re-election, except Mr. Gadola who was appointed with effect as of January 1, 2020, and no new Board Members will be proposed.

For information on the elections and terms of office of the Members of the Remuneration Committee and the Independent Proxy, see section 3.5 "Internal Organizational Structure" and section 10 "Indipendent Proxy", respectively.

3.5 INTERNAL ORGANIZATIONAL STRUCTURE

ALLOCATION OF TASKS WITHIN THE BOARD OF DIRECTORS

The internal organizational structure of the Board of Directors is set forth in the Organizational Regulations of Medacta Group SA, that determines the executive bodies of the Company and the Group, defines their responsibilities and competences regarding the management of the Company and of the Group, and regulates the functioning and cooperation of the various bodies in the Group management. The current Chairman of the Board is Alberto Siccardi.

To operate effectively and allow in-depth focus in specific areas, the Board of Directors has two standing Board Committees: an Audit and Risk Committee and a Remuneration Committee (each, a "Committee"), described in greater detail below.

The Committees have no decision-making authority of their own and the Board remains ultimately responsible for the tasks delegated to the Committees by law, the Articles of Association, the Organizational Regulations or other internal regulations.

In addition, the Board of Directors has delegated the day-to-day and operational activities of the Company and the Group as a whole to the Group Executive Management under the leadership of the CEO, subject to the duties and powers reserved to the Board by Swiss law, the Articles of Association and the Organizational Regulations. The Group Executive Management is directly supervised by the Board of Directors and its Committees.

At least annually, the Board reviews its own performance, as well as the performance of each of the Committees and the Group Executive Management. Such assessment seeks to determine whether the Board, the Committees and the Group Executive Management function effectively and efficiently. This annual review will be finalized during the approval of the Consolidated Financial Statements 2019.

TASKS OF THE LEAD INDEPENDENT DIRECTOR

The Board of Directors has also elected a Lead Independent Director that, among other things, chairs meetings of the Board or the annual/extraordinary shareholders' meeting if the Chairman is required to abstain from the deliberation and decision-taking in case the following items are on the agenda: (i) assessment of the work of the Chairman; (ii) decision of the Board on the request to the annual/extraordinary shareholders' meeting for the re-election or not of the Chairman; (iii) decision about the compensation of the Chairman; and (iv) any other matters in which the Chairman has a conflict of interest. The Lead Independent Director is entitled to call a meeting of the Board whenever he deems fit. If the Chairman is indisposed, the Lead Independent Director shall take the chair at the meetings of the Board and the General Meeting.

Victor Balli is currently serving as the Company's Lead Independent Director.

WORKING METHODS OF THE BOARD OF DIRECTORS

Meetings of the Board are held as often as the business requires, but as a general rule at least four times per year, and are convened by the Chairman if and when the need arises or whenever a Board Member or the CEO, indicating the reasons, so requests in writing. If the Chairman does not comply with such request within 14 days, the Lead Independent Director may be entitled to call the meeting.

Notice of meetings is given at least five business days prior to the meeting and it sets forth the time, place and agenda of the meeting so that Board Members may have a reasonable understanding of the business intended to be conducted at the meeting. Board Members are provided with all necessary supporting materials at least five business days prior to the meeting.

The Chairman, or in his absence the Lead Independent Director, or in the absence of both, a Board Member designated by the attending Board Members, chairs the meeting.

Each Board Member must disclose to the Chairman and the CEO, respectively, regarding any conflict of interest arising or relating to any matter to be discussed at the meeting of the Board as soon as the Board Member becomes aware of its potential existence. The Chairman (or, if applicable, the Lead Independent Director) may decide upon appropriate measures to avoid any interference of such conflict of interests with the decision-making of the Company.

In principle (and as set forth by the Organizational Regulations), the CEO and the other Members of the Group Executive Management attend the meetings of the Board as guests without the right to vote. Other Members of the management of the group are expected to participate at meetings of the Board if specific issues falling within the responsibility of that management Member are on the agenda. The Chairman decides if and which persons outside the Board is entitled to attend meetings of the Board.

In order to pass resolutions, not less than a majority of the Board Members must be participating in the meeting (whether in person, by phone or videoconference). The Board may pass its resolutions with the majority of the votes cast (simple majority). Abstentions count as votes uncast. In case of a tie of votes, the Chairman has the casting vote.

The minutes are signed by the Chairman (or by other Board Member that chaired the meeting) and the Secretary. Board resolutions may also be passed by means of circular resolutions, by letter, facsimile or pdf-document (e-mail) provided that no Board Member requests within five days of receipt of the proposed resolution either by phone, facsimile or e-mail the deliberation to take place in a meeting. Board resolutions by means of circular resolutions require the affirmative vote of the majority of the Board Members.

The Secretary prepares the agenda for each Board meeting, keeps the Board minutes, and assists the Board, the Chairman and the Lead Independent Director to coordinate and fulfil their duties and assignments. The Secretary is responsible for keeping the Company's official corporate documents and records.

For more details about informational duties of the Committees, see sub-headings "Audit and Risk Committee" and "Remuneration Committee".

BOARD OF DIRECTORS MEETINGS 2019

In 2019, the Board of Directors met ten times for an average duration of three hours and adopted a Circular Resolution on December 10, 2019. The CEO along with the other Members of the Group Executive Management attended seven Board meetings in 2019.

The following table outlines the dates and the attendees of each meeting of the Board of Directors:

Date	Attendees	Other Attendees
11.02.2019	Board of Directors (All)	None
08.03.2019	Board of Directors (All)	None
21.03.2019	Board of Directors (All)	None
21.03.2019	Board of Directors (All) Donato Cortesi (Secretary) Daniel Muller (Deputy Secretary)	Group Executive Management; Marco Gadola (designated Board Member from January 1, 2020); Luigi Tonolli (Assistant Treasury Supervisor).
21.03.2019	Board of Directors (All) Donato Cortesi (Secretary)	Group Executive Management.
24.05.2019	Board of Directors (All) Donato Cortesi (Secretary)	Group Executive Management.
02.09.2019	Board of Directors (All) Daniel Müller (Deputy Secretary)	Group Executive Management. Marco Gadola (designated Board Member from January 1, 2020); Luigi Tonolli (Assistant Treasury Supervisor).
08.10.2019	Board of Directors (All) Donato Cortesi (Secretary) Daniel Müller (Deputy Secretary)	Group Executive Management.
05.12.2019	Board of Directors (All) Donato Cortesi (Secretary) Daniel Müller(Deputy Secretary)	Group Executive Management; Marco Gadola (designated Board Member from January 1, 2020); Antonio Di Brino, Group Head of Finance.
20.12.2019	Board of Directors (All) Donato Cortesi (Secretary) Daniel Müller (Deputy Secretary)	Group Executive Management.

The key topics of the Board of Directors in 2019 included, among other things:

- Company's initial public offering (IPO) on the SIX Swiss Exchange;
- Consolidated annual financial statements 2018;
- Forecast for full year 2019;
- Board meetings calendar 2019/2020;
- Corporate Governance, powers and signatures;
- Remuneration of the Board and the Group Executive Management;
- Adoption of new internal regulations;
- First quarter and first-half 2019 performance review;
- Extraordinary business matters, such as the sale of non-strategic real estate property;
- Long Term Incentive Plan;
- Roadshow feedback and plan;
- Appointment of Investors' Relation Manager;
- Extraordinary Fidelity Bonus for all employees;
- Share performance;
- Guidance Revision;
- Year-to-date results (sales) and year-end forecast 2019;
- Information from the Audit and Risk Committee;
- Budget 2020;
- Discussion on mid-term business plan and guidance;
- Shareholders' meeting updates;
- Investor relation and communication 2020 (press releases, roadshow plan);
- Compliance and internal control system; and
- Personnel issues/Information from the Remuneration Committee.

COMMITTEES AND WORKING METHODS OF THE COMMITTEES

Subject to the provisions of the Articles of Association, the Committees generally comprise at least two Members of the Board of Directors. Each Committee has its own charter governing its duties and responsibilities.

The Committees have no decision-making authority of their own and the Board remains ultimately responsible for the tasks delegated to the Committees by law, the Articles of Association, the Organizational Regulations or other internal regulations.

The Committees keep the Chairman informed on a regular basis about all important strategic issues, transactions as well as any business situations and/or developments within their scope of responsibilities and duties. The Chairman monitors such informational duty of the Committees. The Chairman reports to the Board on information received from the Committees. In addition, the Chairman immediately informs the other Board Members of any extraordinary situation regarding the Company or the Group of which the Chairman may become aware. The Chairman of each Committee provides the full Board of Directors at their meeting with an overview of key topics discussed at the most recent Committee meeting. In addition, the signed minutes from each Committee meeting are circulated to the full Board once available for their review.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee assists the Board of Directors in fulfilling its responsibilities defined by applicable law, the Articles of Association, the Organizational Regulations and the Audit and Risk Committee Charter with respect to matters involving the financial and risk management aspects of governance of the Company and the Group.

The Audit and Risk Committee consists of at least two Members of the Board of Directors. The Members of the Audit and Risk Committee are appointed by the Board of Directors. At least one member, including the chairman, of the Audit and Risk Committee is independent. Members of the Audit and Risk Committee must have the necessary qualifications and skills and possess financial literacy and keep themselves up to date regarding risk management best practices.

The Members of the Audit and Risk Committee are Victor Balli (Chairman) and Maria Luisa Siccardi Tonolli.

The Audit and Risk Committee meets at such frequency as it deems necessary to fulfill its duties, normally ahead of ordinary Board of Directors meetings and at least four times per year. Additional meetings may be held and may be convened at the request of either the Board of Directors or any Audit and Risk Committee member, or upon request of the Compliance Officer. For more details about the role of the Compliance Officer, see sub-heading 3.8 "Compliance and Quality Assurance" of this report.

The Secretary prepares the agenda for each meeting, keeps the minutes, and assists the Audit and Risk Committee and the Chairman to coordinate and fulfil their duties and assignments.

The minutes are signed by the Chairman of the Audit and Risk Committee and the Secretary and are made available to the full Board thereafter. The resolutions may also be passed by means of circular resolutions, by letter, facsimile or pdf-document (e-mail) provided that no Member requests within five days of receipt of the proposed resolution either by phone, facsimile or e-mail the deliberation to take place in a meeting. Resolutions by means of circular resolutions require the affirmative vote of the majority of the members.

In particular, the Audit and Risk Committee has the following duties:

- assessing the adequacy and effectiveness of the Group's internal and prudential systems and controls in respect of both financial and non-financial risks, including the risk of fraud, the Company's and the Group's compliance with legal obligations, workplace health and safety, environmental, insurance and other regulatory requirements and relevant compliance matters, as well as with policies issued by the Company, including through discussions with and reviewing reports from the external auditor, internal officers (including, in particular, the Compliance Officer) and management and through the consideration of and adaptation to major legislative and regulatory developments with significant impact on the Group, local management's procedures to comply with local laws, and the Company's and the Group's system to handle external and internal complaints;
- evaluating the external auditors, regarding the fulfillment of the necessary qualifications and independence according to the applicable legal provisions, and making proposals to the Board concerning the choice of the external auditors;
- assessing the work performed by the external auditors and approving the budget for auditing fees;
- reviewing the external audit reports with the external auditors, and issuing the necessary applications and recommendations to the Board;
- pre-approving any necessary non-audit specific services provided by the external auditors;
- examining, reviewing and approving the Company's accounting policies and changes thereto, as well as monitoring compliance with such accounting policies;
- reviewing the interim financial statements and annual audited financial statements (including material items not shown on the annual balance sheet) of the Company and the Group with the external auditor and the relevant Members of the Group Executive Management as well as issuing the necessary applications and recommendations to the Board prior to the publication of the financial statements; thereby the Audit and Risk Committee shall review (including the review from the external auditors): (A) the Company's selection or application of accounting principles and the adequacy and effectiveness of internal control over financial reporting, (B) significant financial reporting issues and judgments applied by management, (C) effects of significant regulatory and accounting initiatives, and (D) the completeness and clarity of the disclosures in the financial statements;
- reviewing and approving all related-party transactions required to be disclosed;
- reviewing and discussing earnings press releases, as well as financial information and earnings guidance provided to analysts, the investment community and rating agencies;
- reviewing and discussing with management and the external auditor any deficiencies in internal control, including internal control over financial reporting, as well as management's respective remediation measures and their implementation;
- approving the Company's Group treasury policy, and reviewing the Company's funding strategy and position, as well as the Company's liquidity risk management, foreign exchange risk management, interest risk management and counterparty credit risk management processes;
- reviewing the Company's tax planning and tax compliance processes, including the design and implementation of transfer pricing guidelines;
- reviewing the status of material legal proceedings that the Company is party to, including measures taken by management to protect the interests of the Company;
- reviewing the Company's insurance programs;
- reviewing the Company's enterprise risk management system, management's assessment of the Company's major risks, as well as evaluating the respective measures taken by the Group;
- reviewing of the Group's short-term incentive and long-term incentive targets, calculations and adjustments; and
- generally assessing the yearly business expenses of the Members of the Group Executive Management.

Due to the IPO in April 2019, the Audit and Risk Committee met twice for an average duration of two hours in 2019. The key topics included, among other things:

- half-year 2019 performance review;
- business matters;
- update on the organizational and IPO costs;
- bonus for employees;
- year-to-date results (sales) and year-end forecast 2019;
- review of the Annual Report 2019;
- report from the auditors including audit plan;
- budget 2020 and mid-term guidance (3-year business plan);
- compliance internal control and risk factors;
- US capital structure;
- update on material legal proceedings; and
- update on transfer pricing project.

The following table outlines the dates and the attendees of each meeting:

Date	Attendees	Other Attendees
02.09.2019	Audit and Risk Committee (All)	Corrado Farsetta (CFO)
	Daniel Müller (Deputy Secretary)	Deloitte SA
19.12.2019	Audit and Risk Committee (All)	Alberto Siccardi, President of the Board
	Daniel Müller (Deputy Secretary)	Corrado Farsetta (CFO)
		Deloitte SA

REMUNERATION COMMITTEE

The function of the Remuneration Committee is to support the Board of Directors in remuneration matters by exercising the duties assigned to it under the Articles of Association, the Organization Regulations and the Remuneration Committee Charter with respect to matters involving the compensation aspects of the Company and the Group.

The Remuneration Committee consists of at least two Members of the Board of Directors who are elected by the shareholders' meeting. The Chairman of the Remuneration Committee is independent and is appointed by the Board of Directors. The term of office of the Members of the Remuneration Committee is one year. In this context, a year means the time period between one annual shareholders' meeting and the next one or, if a Member is elected at an extraordinary shareholders' meeting, between such extraordinary shareholders' meeting and the next annual shareholders' meeting. Re-election is possible.

The Remuneration Committee consists of two Members, Alberto Siccardi and Philippe Weber (Chairman).

The Remuneration Committee meets at such frequency as it deems necessary to fulfill its duties, normally ahead of ordinary Board meetings and at least four times per year. Additional meetings may be held and may be convened at the request of either the Board of Directors or any Remuneration Committee Member.

The Secretary prepares the agenda for each meeting, keeps the minutes, and assists the Remuneration Committee and the Chairman to coordinate and fulfil their duties and assignments.

The minutes are signed by the Chairman of the Remuneration Committee and the Secretary and are made available to the full Board thereafter. The resolutions may also be passed by means of circular resolutions, by letter, facsimile or pdf-document (e-mail) provided that no Member requests within five days of receipt of the proposed resolution either by phone, facsimile or e-mail the deliberation to take place in a meeting. Resolutions by means of circular resolutions require the affirmative vote of the majority of the members.

In particular, the Remuneration Committee has the following duties:

- making proposals to the full Board of Directors regarding the compensation scheme of the Group pursuant to the principles set forth in articles 25 and 26 of the Articles of Association;
- making proposals to the full Board of Directors regarding the determination of compensation-related targets for the Group Executive Management;
- making proposals to the full Board of Directors regarding the approval of the individual compensation of the Chairman of the Board of Directors, the other Members of the Board of Directors as well as the maximum aggregate compensation of the CEO;
- making proposals to the full Board of Directors regarding the individual compensation (fixed and variable compensation) of the other Members of the Group Executive Management as well as their further terms of employment and titles;
- making proposals to the full Board of Directors regarding amendments to the Articles of Association with respect to the compensation scheme for Members of the Group Executive Management;
- making proposals to the full Board of Directors regarding mandates pursuant to article 23 of the Articles of Association and further additional occupation of the Members of the Group Executive Management; and
- undertaking further duties and responsibilities as provided for in the Articles of Association, the Organizational Regulations or law.

Due to the IPO in April 2019, the Remuneration Committee met three times for an average duration of one hour and half in 2019.

The key topics included, among other things:

- Determination of KPI targets for the Short-Term Incentive Plan of the Group Executive Management;
- Group Executive Management remuneration;
- Terms of employment and titles of the Group Executive Management;
- Long Term Incentive Plan (LTIP):
  - designing of the LTIP structure;
  - LTIP review;
- Special Fidelity Bonus;
- Remuneration Report:
  - structure of the Remuneration Report;
  - Remuneration Report review; and
- Group Executive Management remuneration benchmarking against worldwide MedTech industry and Swiss MedTech and Healthcare Industry.

The following table reports the dates and the attendees of each meeting:

Date	Attendees	Other Attendees
21.03.2019	Remuneration Committee (All)	None
	Donato Cortesi (Secretary)	
	Daniel Müller (Deputy Secretary)	
02.09.2019	Remuneration Committee (All)	Francesco Siccardi (CEO)
	Donato Cortesi (Secretary)	Marco Gadola (designated Board Member from January 1, 2020)
	Daniel Müller (Deputy Secretary)	Luigi Tonolli (Assistant Treasury Supervisor)
		Daniel Müller (Deputy Secretary)
19.12.2019	Remuneration Committee (All)	Francesco Siccardi (CEO)
	Donato Cortesi (Secretary)	Marco Gadola (designated Board Member from January 1, 2020)
	Daniel Müller (Deputy Secretary)	Luigi Tonolli (Assistant Treasury Supervisor)

3.6 AREAS OF RESPONSIBILITY

The Board constitutes the highest executive body of Medacta with the ultimate strategic direction of the Company as well as the oversight of management. This includes determining the strategy of the Group as well as the appointment and dismissal of the Members of the Group Executive Management. Its responsibilities, duties and competencies and the procedural principles by which it is governed are specified by law, the Articles of Association and Organizational Regulations.

The Board may take decisions on all matters that are not expressly reserved to the shareholders' meeting or to another corporate body by law, by the Articles of Association or these Organizational Regulations.

Save to the extent expressly stated otherwise in the Organizational Regulations, the Articles of Association or mandatory law, the responsibility and authority necessary or appropriate to carry out the day-to-day and operational activities of the Company and the Group as a whole is delegated to the Group Executive Management under the leadership of the CEO.

Subject to mandatory law and the Articles of Association, the Board may delegate further responsibilities to the Audit and Risk Committee and the Remuneration Committee, single Board Members or the Group Executive Management from time to time.

The Board has the following non-transferable and inalienable rights and duties as set forth by law:

- overall management and issuing of related directives;
- determine the organization, in particular, to adopt, regularly revisit and amend these Organizational Regulations;
- organization of the accounting, financial control and financial planning systems as required for the overall management;
- appoint and dismiss the Members of the Group Executive Management and to grant all forms of signing authorities;
- overall supervision of the persons entrusted with management, in particular with regard to compliance with law, the Articles of Association, these Organizational Regulations and further directives;
- review and approve the annual report and the proposed dividend;
- preparation for the general meetings and implementation of related shareholder resolutions;
- notification of the court in the event that the Company is over-indebted;
- pass resolutions regarding the increase of share capital to the extent that this is within the authority of the Board (Art. 651 para. 4 CO) as well as the adoption of the capital increase and the amendments to the Articles of Association entailed therewith; and
- pass resolutions regarding agreements in respect of mergers, de-mergers, transformations or transfers of assets and liabilities in accordance with the Swiss Merger Act.

In addition to the matters referred to above, the Remuneration Committee provides the Board of Directors with:

- a yearly report on the activities of the Remuneration Committee;
- a report on individual remuneration amounts paid, including a breakdown of remuneration elements;
- a review of the remuneration process on an annual basis; and
- any other extraordinary remuneration related matters as deemed appropriate.

3.7 INFORMATION AND CONTROL INSTRUMENTS VIS-À-VIS THE GROUP EXECUTIVE MANAGEMENT

The Board of Directors has different information instruments in place to oversee, monitor and control the implementation of the Group's strategy as well as the execution of the responsibilities delegated to the Group Executive Management.

The Group Executive Management reports regularly to the Board of Directors and its Committees. The CEO regularly informs the Board of Directors on the status of current business matters and financial results, presents relevant strategic initiatives as well as major business transactions.

According to Section 6.6 of the Organizational Regulations, the CFO, in cooperation with the CEO, ensures good financial governance, overseeing all financial planning, budgeting (short- and mid-term), reporting and risk management activities. Furthermore, the CFO leads the implementation of systems and procedures to seek to ensure compliance with regulatory requirements for financial information, reporting, disclosure requirements, and internal control.

On a quarterly basis, the Board of Directors receives a financial report with the profit and loss statement, the balance sheet, and the cash flow statement, as well as a summary of the business performance, updates on various initiatives and outlook. Telephone conferences are held, as required, between Board Members and the Group Executive Management. Furthermore, each Member of the Board of Directors may request information on all matters concerning the Group at any time.

The Board of Directors is also responsible for the Group's internal control system, which provides the ultimate oversight for Medacta's strategy, operations and finances. The internal control system of Medacta is structured to ensure the correct disclosure and adequate coverage of control over all Group activities, with particular attention on areas considered potentially at risk, such as risk management process throughout the entire lifecycle of Medacta medical devices and financial reporting risks associated to external requirements. Each Board Member is entitled to request information concerning all affairs of the Company and the Group reasonably necessary to fulfil their fiduciary duties.

In addition, Medacta has developed, implemented and maintains quality management systems that meet all relevant medical device industry standards and are certified according to ISO 13485 (the global standard for medical device quality systems) ensuring high quality products, processes and related customer support. As of December 31, 2019, our quality function comprised 11 quality assurance professionals, who are responsible for ensuring our corporate activities are conducted under compliant, effective, and well-documented processes, and 27 quality control professionals, who are responsible for ensuring all components and associated processes fully conform with the specified requirements.

3.8 COMPLIANCE AND QUALITY ASSURANCE

According to the Organizational Regulations, the CEO designated a Group compliance officer ("Compliance Officer") who is responsible to develop and maintain compliance policies, promote a culture of responsibility, conduct risk analyses, identify remediation needs, and provide training, and take other steps to assist the Group in meeting its legal, regulatory and ethical obligations. The Compliance Officer also acts as the data protection officer of the Group. The Compliance Officer reports to the CEO. However, the Compliance Officer has direct access to the Audit and Risk Committee and reports to the Audit and Risk Committee whenever requested by the Audit and Risk Committee or if there exists a significant compliance or risk issue that involves or implicates a member of the Group Executive Management which the Compliance Officer believes cannot be or has not been appropriately addressed by, or directly implicates, the CEO.

According to the Organizational Regulations, the CEO designated a head of quality assurance ("Quality Director") who reports to the CEO. The Quality Director heads the Group's quality control and assurance team responsible for setting, reviewing, monitoring, revising and implementing the Group's quality management and control systems and programs to meet the relevant medical device industry standards and ensure high quality products, processes and related customer support.

4. GROUP EXECUTIVE MANAGEMENT

The Board of Directors has delegated the day-to-day and operational activities of the Company and the Group as a whole to the Group Executive Management under the leadership of the CEO, subject to the duties and powers reserved to the Board by Swiss law, the Articles of Association and the Organizational Regulations. Under the leadership of the CEO, the Group Executive Management is responsible to ensure the execution of the decisions of the Board and to implement the strategy of the Group in accordance with the law, the Articles of Association, the Organizational Regulations and the resolutions of the extraordinary/annual shareholders' meeting. The Group Executive Management is directly supervised by the Board of Directors and its Committees.

Corrado Farsetta, Francesco Siccardi and Alessandro Siccardi (from left to right).

4.1 MEMBERS OF THE GROUP EXECUTIVE MANAGEMENT

The Group Executive Management is headed by the CEO and currently comprises three Members, specifically the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Supply Chain Director (SCD).

Pursuant to the Organizational Regulations, the CEO may be appointed and removed by the Board of Directors. The other Group Executive Management Members are appointed and removed by the Board of Directors in consultation with the CEO (except in cases of appointment or removal of the CEO).

The table below outlines the name, year of birth, year of appointment and position of the Members of our Group Executive Management:

Name	Year of birth	Year of Appointment	Position
Francesco Siccardi	1977	2018 [1]	CEO
Corrado Farsetta	1968	2011 [2]	CFO
Alessandro Siccardi	1986	2016 [3]	SCD

[1] Appointed CEO as of November 1, 2018
[2] Appointed CFO of Medacta International in 2011
[3] Appointed SCD of Medacta International in 2016

FRANCESCO SICCARDI,

Swiss and Italian, CEO, Member of the Group Executive Management.

Other main activities: Member of the Board of Directors of Surgical Practice Resource Group SA, Lugano since 2015 and of Medacta for Life Foundation, Castel San Pietro since 2011. He further serves on the Board of various Medacta Group companies internationally. He has a diverse portfolio of interests in smaller private companies, of which he serves as either Member of the Board of Directors or President.

Career highlights: Mr. Siccardi joined Medacta International in 2002 and served as a Member of its Board of Directors since 2003. He then served on the Board of the Company from its incorporation until March 21, 2019. Following the retirement of the Company's Chairman, Mr. Siccardi was appointed Chief Executive Officer as of November 1, 2018. Prior to becoming CEO, he served as Executive Vice President and Medical Affairs Manager (from 2013 to 2014) and as Executive Vice President (from 2014 to 2018).

Qualifications: Mr. Siccardi holds a Master of Science (MSc) in Biomedical Engineering from the Polytechnic University of Milan (2002). He also completed the Executive Program for Growing Companies (EPGC) at Stanford Business School Executive Education in Stanford, California, USA (2009).

CORRADO FARSETTA,

Italian, CFO, Member of the Group Executive Management.

Career highlights: Mr. Farsetta was appointed as Chief Financial Officer of Medacta International in 2011. Prior to becoming CFO, Mr. Farsetta served as Group Controller (from 2008–2011). From 2006 to 2007, Mr. Farsetta was Group Controller of Sympak Group and Senior Manager of TGrow Management Consulting from 1999 to 2005. He has further served as Controller of Air Liquide (from 1995 to 1999) and as Controller of Lamberti S.p.A. (from 1994 to 1995). He further serves on the Board of various Medacta Group companies internationally.

Qualifications: Mr. Farsetta holds a Master of Science (MSc) in Business Administration from Bocconi University, Milan (1993). He also completed post degree program on Value Based Management from SDA Bocconi School of Management, Milan.

ALESSANDRO SICCARDI,

Swiss, Supply Chain Director, Member of the Group Executive Management.

Other main activities: Mr. Siccardi is a Member of the Board of Directors of Surgical Practice Resource Group SA since 2015, Member of the Board of Directors of the Medacta for Life foundation since 2011 and he is President of 2A Holding SA since 2019. He further serves on the Board of Medacta International SA and Medacta Holding SA.

Career highlights: Mr. Siccardi joined Medacta International in 2011 and served as a Member of its Board of Directors since 2013. He then served on the Board of the Company from its incorporation until March 21, 2019. Mr. Siccardi was appointed Supply Chain Director of Medacta International in 2016. Prior to becoming SCD, Mr. Siccardi previously served as International Area Director (from 2012 to 2016) and as Marketing Assistant (from 2011 to 2012).

Qualifications: In 2015 Mr. Siccardi attended the Program for Management Development (PSM) at the SDA Bocconi School of Management, Milan with a focus on general management, marketing and sales strategies. He is also currently attending a Supply Chain Course at the SDA Bocconi School of Management, Milan.

The employment agreements of the Members of the Group Executive Management are in principle concluded for an indefinite period. If the Board of Directors considers a fixed term appropriate, such fixed term shall not exceed one year. With respect to employment agreements entered into for an indefinite period, the maximum notice period must not exceed 12 months.

The Group Executive Management is supported by further Members of management who form part of the Extended Group Management.

4.2 OTHER ACTIVITIES AND VESTED INTERESTS

Except as disclosed in the biographies of the Members of the Group Executive Management, no further activities or interests are carried out outside of Medacta.

4.3 PERMITTED ADDITIONAL ACTIVITIES PURSUANT TO OAEC

As required by the OaEC and in the interest of good governance, the Articles of Association limit the number of functions in superior management or administrative bodies of legal units other than the Company or its subsidiaries which Members of the Group Executive Management are allowed to hold at one time.

According to article 23 of our Articles of Association, with the approval of the Remuneration Committee, the Members of the Group Executive Management may have the following other functions in the superior management or administrative bodies of legal entities obliged to register themselves in a Swiss commercial register or a foreign equivalent thereof and which are not controlled by the Company, do not control the Company or do not constitute pension funds insuring employees of the Group:

- up to one mandate as Member of a Board of Directors or any other superior management or administrative body of a publicly traded company pursuant to Article 727 para. 1 number 1 CO; and, in addition,
- up to 10 mandates as Member of the Board of Directors or any other superior management or administrative body of other legal entities that do not meet the above-mentioned criteria.

With respect to the additional activities of the Members of the Group Executive Management, mandates in companies that are under uniform control or the same beneficial ownership are deemed one mandate.

All Members are within the limits of external mandates stipulated by the Articles of Association.

4.4 MANAGEMENT CONTRACTS

The Board of Directors and the Group Executive Management conduct business directly and have not delegated any management powers to persons or companies outside the Group.

5. COMPENSATION, SHAREHOLDINGS AND LOANS

Information related to compensation, shareholdings and loans are disclosed in the Remuneration Report of this Annual Report on section 4 "Remuneration Framework For Board Of Directors" and 5 "Remuneration Framework For Group Executive Management".

6. SHAREHOLDERS' PARTICIPATION RIGHTS

6.1 VOTING RIGHTS RESTRICTIONS AND REPRESENTATION

Voting rights may be exercised only after a shareholder has been registered in the Share Register as a shareholder with voting rights up to a specific qualifying day designated by the Board of Directors.

Persons acquiring registered shares shall on application be entered in the Share Register without limitation as shareholders with voting rights, provided they expressly declare themselves to have acquired the said shares in their own name and for their own account and comply with the disclosure requirements stipulated by the Federal Act on Financial Market Infrastructure (FMIA).

Entry in the Share Register as a shareholder with voting rights is subject to the approval of the Company. Entry into the Share Register of registered shares as shareholder with voting rights may be refused based on the grounds set forth in article 5 para. 3, 4 and 5 of the Articles of Association.

Until an acquirer becomes a shareholder with voting rights for the shares, she/he may neither exercise the voting rights connected with the shares nor other rights associated with the voting rights. If the Company does not refuse to register the acquirer as shareholder with voting rights within 20 calendar days upon receipt of the application, the acquirer is deemed to be a shareholder with voting rights. Non-recognized acquirers are entered in the Share Register as shareholders without voting rights. The corresponding shares will be considered as not represented in the shareholders' meeting.

The Company may in special cases approve exceptions to the above restrictions. After due consultation with the persons concerned, the Company is further authorized to delete entries in the Share Register as shareholder with voting rights with retroactive effect if they were effected on the basis of false information or if the respective person does not provide the information pursuant to article 5 para. 3 of the Articles of Association. The concerned person has to be immediately informed about the deletion. In 2019, no such exemptions were granted.

Each shareholder may be represented by the Independent Proxy or any other person who needs not be a shareholder. The Board of Directors determines the requirements regarding proxies and voting instructions. The Articles of Association do not contain any further specific requirements on the issue of instructions to the independent proxy or for the electronic participation at shareholders' meetings; thus, these topics are governed by Swiss law.

In shareholders' meetings, each shareholder has equal rights, including equal voting rights. According to the Articles of Association, each share is entitled to one vote (provided that its holder or usufructuary has been duly entered into the Share Register as a shareholder with voting rights on or before the relevant qualifying date).

Under Swiss laws, the procedure and condition for abolishing voting rights restrictions in the Articles of Association requirement resolution of a shareholders' meeting passed by at least two thirds of the represented share votes and an absolute majority of the par value of represented shares.

For information on certain limitations on transferability and nominee registrations, please refer to the information provided under the sub-heading 2.6 "Limitations on Transferability and Nominee Registrations" of this Report.

6.2 QUORUMS

The Articles of Association do not stipulate any resolutions of the shareholders' meeting that can only be passed by a majority greater than that required by Swiss law. Pursuant to article 11 of the Articles of Association, shareholders' resolutions generally require the approval of a simple majority of the votes cast at the shareholders' meeting (with abstentions, empty or invalid votes not being taken into account for the calculation of the required majority).

Article13 of the Articles of Association and applicable Swiss legal provisions (in particular section 704 of the Swiss Code of Obligations) that stipulate a different majority are reserved.

6.3 CONVOCATION OF THE GENERAL MEETING OF SHAREHOLDERS

Under Swiss law, an annual shareholders' meeting must be held within six months after the end of a company's preceding financial year. Shareholders' meetings may be convened by the Board of Directors or, if necessary, by Company's statutory auditors or liquidators. According to article 7 para. 3 of the Articles of Association, the Board of Directors is further required to convene an extraordinary shareholders' meeting within two months if requested in writing by one or more shareholder(s) representing in aggregate at least 5% of the Company's share capital registered in the commercial register setting forth the items to be discussed and the proposals to be decided upon.

A shareholders' meeting is convened by publishing a notice of such meeting in the Swiss Official Gazette of Commerce at least 20 calendar days before the date of the meeting. To the extent the post and/or e-mail addresses of the shareholders are known, notice shall be sent simultaneously by post and/or e-mail. The notice shall state the day, time and place of the meeting, the agenda, the proposals of the Board of Directors and the proposals of the shareholders who have requested the shareholders' meeting or that an item be included on the agenda.

6.4 INCLUSION OF ITEMS ON THE AGENDA

The Board of Directors states the items on the agenda.

Registered shareholders with voting rights individually or jointly representing at least 5% of the share capital of the Company may demand that items be included on the agenda. Such demands have to be submitted to the Chairman of the Board of Directors at least 45 calendar days before the date of the annual shareholders' meeting and shall be in writing, specifying the item and the proposals.

No resolutions may be passed on motions concerning agenda items which have not been duly announced apart from those exceptions permitted by law.

6.5 ENTRIES IN THE SHARE REGISTER

Voting rights may be exercised only after a shareholder has been registered in the Share Register as a shareholder with voting rights up to a specific qualifying day designated by the Board of Directors (the "Record Date").

There are no statutory rules concerning deadlines for entry in the Share Register. However, for organizational reasons, the Share Register is closed several days before the annual shareholders' meeting. The respective Record Date for inscriptions in the Share Register is announced in the invitation to the annual general shareholders' meeting.

For information on certain limitations on transferability and nominee registrations, please refer to the information provided under the sub-heading 2.6 "Limitations on Transferability and Nominee Registrations" of this Report. For information on share voting rights, please refer to the information under the sub-heading 6.1 "Voting Rights Restrictions and Representation" of this Report.

7. CHANGE OF CONTROL AND DEFENSE MEASURES

7.1 MANDATORY BID RULES

Pursuant to the applicable provisions of FMIA, any person that acquires shares of a company whose shares are listed on a Swiss stock exchange, whether directly or indirectly or acting in concert with third parties, and, as a result, exceeds the threshold of $33^1/_3$% of the voting rights (whether exercisable or not) of such company, must submit a public tender offer to acquire all of the listed shares of such company. A company's articles of association may either waive this requirement entirely ("opting-out") or raise the relevant threshold to up to 49% ("opting- up").

The Articles of Association (Art. 32) include an opting-out provision and thereby exempt shareholders from the duty to make a mandatory public tender offer pursuant to article 135 FMIA. As a result, any shareholder or group of shareholders exceeding the threshold of $33^1/_3$% of the voting rights (whether exercisable or not) of the Company is/are not required to make a mandatory tender offer to the other shareholders. Differently from other companies listed in Switzerland which have no opting-out clause (and no opting-up clause), upon such shareholder or group of shareholders reaching or exceeding the threshold of $33^1/_3$% of the voting rights (whether exercisable or not) of the Company, the shareholders will neither benefit from the option to sell their shares in a mandatory tender offer nor from minority shareholder protection rules related to such mandatory tender offers.

7.2 CHANGES OF CONTROL

There is no change of control clauses included in agreements and schemes benefiting members of the Board of Directors or the Group Executive Management or other management of the Group.

8. AUDITORS

The annual shareholders' meeting elects the Group's external auditors on annual basis. Deloitte SA, domiciled in via Ferruccio Pelli 1, 6901 Lugano Switzerland, has served as the Group's auditor since its foundation on November 28, 2018 and was previously the auditor of Medacta International SA since January 21, 2009. On March 8, 2019, Deloitte SA was reappointed as Group and statutory auditor of the Company at the shareholder's meeting. The auditor in charge is changed every seven years in accordance with Swiss law. The current auditor in charge is Fabien Lussu, Swiss Certified Public Accountant, who has been carrying out this function since 2018.

The Board of Directors monitors compliance and proposes the election of the external auditor to the annual shareholders' meeting. In accordance to the Organizational Regulations, the Audit and Risk Committee oversees the integrity of the Company's and Group's financial statements, the effectiveness of the internal control over financial reporting of the Company and the Group, the compliance by the Company and the Group with legal and regulatory requirements, annually (or more often as required) reviews the independent auditor's qualification and independence, the performance of the Company's and Group's external auditors, and the effectiveness of the Company's and Group's risk management, compliance and quality assurance systems and processes. Deloitte SA presents to the Audit and Risk Committee, on an annual basis, a detailed report on the results of the audit of the consolidated financial statements, the findings on significant accounting and reporting matters, and findings on the internal control system. The results and findings of this report are also discussed in detail with the CFO. During 2019, Audit and Risk Committee meetings were held with representatives of the external auditor. For more information regarding the Audit and Risk Committee and their meetings which included the auditors, please refer to the information under the heading Board of Directors meetings 2019 (sub-heading 3.5 "Internal Organizational Structure"). Audit fees are ultimately approved by the Audit and Risk Committee.

The worldwide fees paid to the auditors are outlined in the table below:

Worldwide fees (EUR thousand)	December 31, 2019	December 31, 2018
Audit fees	**375**	**526**
Annual audit fees	375	320
Audit fees - First Time Adoption	-	206
Audit related fees	**199**	**-**
IPO - Comfort letters	199	-
Non-audit related fees	**68**	**416**
Advisory services*	30	392
Other Services	38	24
Total	**641**	**942**

* The Advisory services are primarily related to the IPO.

9. INFORMATION POLICY

The Company releases its financial results in the form of an annual report. Its annual report is published in print and electronic form within four months of the December 31 balance sheet date. In addition, results for the first half of each fiscal year are released in electronic form within three months of the June 30 balance sheet date. The Company's annual report and half year results will be announced via press releases and media and investor conferences in person via telephone.

Copies of all information and documents pertaining to press releases, media conferences, investor updates and presentations at analyst and investor presentation conferences can be downloaded from the Company's website or obtained from the Company upon request at Medacta Group SA, Strada Regina 34, 6874 Castel San Pietro, Switzerland (phone: +41 91 696 6060; email: investor.relations@medacta.ch). Below are certain relevant weblinks:

The Company's website:	http://www.medacta.com
E-mail distribution list (push system):	http://www.medacta.com/EN/investors
Ad-hoc messages (pull system):	http://www.medacta.com/EN/investors
Financial reports:	http://www.medacta.com/EN/investors
Corporate calendar:	http://www.medacta.com/EN/investors

10. INDEPENDENT PROXY

Pursuant to the OaEC and our Articles of Association, the annual shareholders' meeting elects the Independent Proxy for a term ending at the conclusion of the next annual shareholders' meeting. Re-election is possible.

Fulvio Pelli, Lugano, was elected as the Independent Proxy of the Company on March 21, 2019.

Medacta International

REMUNERATION REPORT

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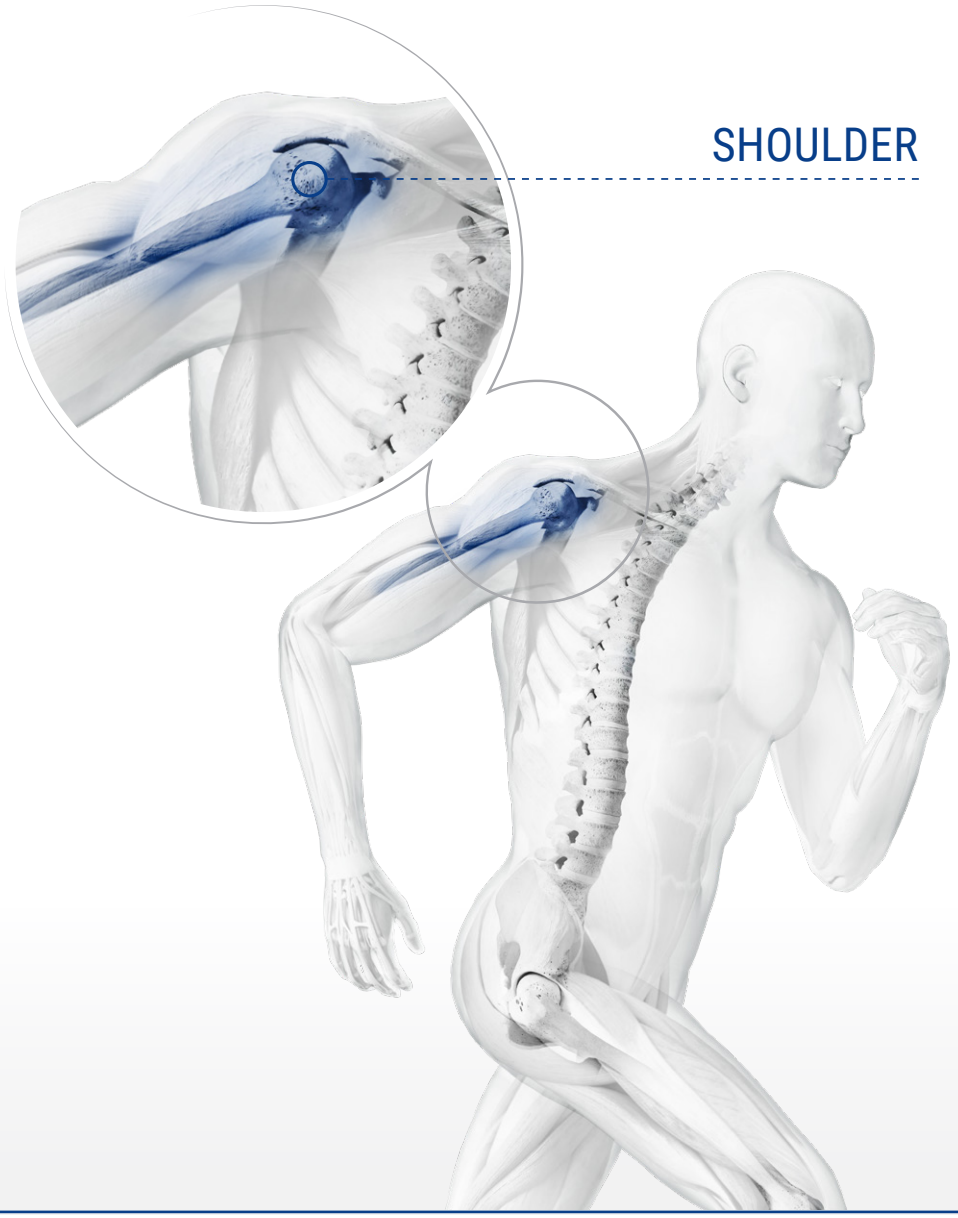


MEDACTA SHOULDER SYSTEM

Complete, Convertible, Innovative

The Medacta Shoulder System is a modular solution that features a broad range of options, including wide-ranging sizes, adjustable offset and innovative configurations both in the anatomic and in the reverse configuration.

LETTER BY THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholders,

We are pleased to introduce Medacta's Remuneration Report for the Financial Year ended December 31, 2019. The present Remuneration Report describes Medacta's remuneration principles and elements of compensation system, the responsibilities and procedures involved in determining the compensation of Members of the Board of Directors and Group Executive Management, the forms of compensation, criteria used to set fixed and variable compensation and how the performance results impacted the variable incentive payments to the Group Executive Management.

To recognize the important achievements reached in Medacta's twenty years of operation culminating with the successful listing on April 4, 2019 on the SIX Swiss Exchange, in November 2019 the Board of Directors along with the Remuneration Committee and the Group Executive Management decided to pay a one-time discretionary Special 20-Year Anniversary Fidelity Bonus ("Special Fidelity Bonus") to each and all Medacta employees. All the relevant cash needs associated with this special bonus were covered by a voluntary cash contribution to Medacta Group from the Siccardi family, as majority shareholders.

In 2019, our global workforce expanded 13,2% and our total expenditure on compensation, benefits and social costs increased in average by approximately 16,8%, excluding the Special Fidelity Bonus. Compensation per employee increased by 3,2%, given the higher number of experienced staff hired during the year to sustain the growth and strengthen the organization after the initial public offering. To reflect our new status as a listed company, we reviewed and adapted our compensation system in consultation with external experts, including HCM International Ltd., which were mandated to advise on risk and finance matters and to support in the creation of a competitive compensation system that is in line with the interests of our stakeholders. As a consequence of this process, the Remuneration Committee designed and agreed in principle upon the cornerstones and key pillars of a long-term incentive plan for our Group Executive Management, selected key managers and employees to the Board of Directors. The purpose of the plan will be to provide the Group Executive Management, selected key managers and employees of Medacta with an opportunity to become shareholders of the company and hence align their interests to those of Medacta's other shareholders, to participate in the future long-term success and prosperity of the Group, and to enhance and reward loyalty of the employees. However, in light of the recent COVID-19 developments and accompanying uncertainties, the timeline for the implementation of the plan has been postponed to a later date.

People and the #beMedacta culture, as described in the Sustainability Report 2018, are the most valuable assets to our continuing success. To support and nurture this culture, it is essential that our compensation system reflects and rewards similar values. That is why further discussions within the Remuneration Committee and the Board of Directors will focus on the medium- to long-term evolution of remuneration at Medacta. For the coming year, we expect to continue our focus on the structure of our variable incentive plans, particularly with respect to maintaining and further strengthening the strong link between pay and performance.

In accordance with the Articles of Association, at the annual shareholders' meeting in May 2020, we will ask for approval of the maximum aggregate remuneration amount to be awarded to the Board of Directors for the period until the next annual shareholders' meeting in 2021. In addition, the shareholders' meeting will be asked to approve (i) the maximum overall fixed compensation of the Group Executive Management in 2021, (ii) the maximum overall variable short-term compensation for the Group Executive Management for the work performed in 2019, and (iii) the maximum overall variable long-term compensation of the Group Executive Management that may be allocated in 2021 (if the long-term incentive plan is ultimately adopted). Finally, the annual shareholders' meeting will cast a consultative vote on this Remuneration Report.

We encourage and pursue open and regular dialogue with our shareholders and their representatives as we continue to evolve our remuneration system.

On behalf of the Board of Directors and the Remuneration Committee, I would like to thank our shareholders for their commitment and achievements.

Philippe Weber
Chairman of the Remuneration Committee

1. INTRODUCTION

This is our first Remuneration Report after the successful listing on April 4, 2019 on the SIX Swiss Exchange in Zurich. This Remuneration Report is in compliance with the requirements of the Ordinance Against Excessive Compensation in Publicly Listed Companies ("OaEC"), Medacta's Articles of Association and, with respect to compensation disclosure, to the SIX Exchange Regulation Directive on Corporate Governance and to the Swiss Code of Best Practice for Corporate Governance. We structured this report by first describing the Remuneration Governance of the Group followed by the Remuneration philosophy and principles and the Compensation Framework for Board of Directors and Group Executive Management. We conclude with reporting the Ownership of Shares and Options, the Other compensation-related information under the OAEC (Audited), the Related Party Compensation and the Report of the statutory auditor on the Remuneration Report.

2. REMUNERATION GOVERNANCE

The remuneration landscape at Medacta is mainly determined by the Remuneration Committee as well as the Board of Directors and by the shareholders of Medacta. The overall responsibility for the implementation of the statutory remuneration principles and the remuneration principles set out in the Company's Articles of Association lies with the Board of Directors. However, as illustrated in the table below, the Remuneration Committee serves in an advisory capacity for remuneration matters while the Board of Directors retains the ultimate decision authority, all within the limits set by the the Annual General Meeting ("AGM"), which approves the maximum aggregate amounts of remuneration for the Board of Directors and the Group Executive Management ("GEM") at each shareholders' meeting.

	Proposes	Reviews	Approves
Remuneration Principles (Article of Association)	Remuneration Committee	Board	AGM
Remuneration Report	Remuneration Committee	Board	Board*
Maximum aggregate amount of remuneration for the Board	Remuneration Committee	Board	General Meeting
Individual remuneration of Board Members	Remuneration Committee		Board
Maximum aggregate amount of remuneration for GEM	Remuneration Committee	Board	General Meeting
Maximum aggregate amount of remuneration of the CEO	Remuneration Committee		Board
Individual remuneration of other GEM Members	Remuneration Committee		Board

* AGM has a consultive vote

Medacta's Organizational Regulations including the Charter of the Remuneration Committee as well as the Articles of Association describe and define the roles and responsibilities of the Remuneration Committee and the Board of Directors. Furthermore, these documents contain the principles for the remuneration framework at Medacta. In addition, the Articles of Association provide for a supplementary amount available for newly appointed or promoted Members of the Group Executive Management after the AGM has approved the maximum aggregate amount of remuneration for the Group Executive Management.

The compensation principles outlined below are derived from the Articles of Association:

- **Approval by the shareholders' meeting (Art. 12):** the annual shareholders' meeting votes separately and bindingly on the proposals by the Board of Directors regarding (a) the maximum aggregate amount of the compensation of the Board of Directors for the term of office until the next shareholders' meeting and (b) (i) the maximum overall fixed compensation of the Group Executive Management in the subsequent business year, (ii) the maximum overall variable short-term compensation for the Group Executive Management for the work performed in the previous business year, and (iii) the maximum overall variable long-term compensation of the Group Executive Management that may be allocated in the subsequent business year.
- **Board of Directors (Art. 25):** the compensation may consist of a fixed base fee (including a lump sum compensation for expenses) paid in cash and/or awarded in shares (depending on the function in the Board of Directors, the number of committee activities and the functions in the committees). In exceptional cases, the Members of the Board of Directors may be awarded performance-related compensation.
- **Group Executive Management (Art. 26):** the compensation of the Members of the Group Executive Management may consist of a fixed compensation paid in cash (which consists of a base salary and can also contain other compensation elements and benefits); a variable short-term compensation paid in cash and/or shares; and variable long-term compensation paid in shares or equity-linked rights.
- **Short-term variable compensation and long-term compensation plans (Art. 26):** the short-term variable compensation is paid in cash and/or shares and depends on the level of achievement of specific pre-defined targets for a one year performance period; the long-term compensation plan will apply once approved by the Board of Directors and intends to incentivize Members of the Group Executive Management, selected key managers and employees to support the long-term performance of the Company and creation of shareholder value.
- **No loans and credits (Art. 28):** Medacta shall not grant loans, credits, pension benefits other than from occupational pension funds or securities to the Members of the Board of Directors or the Group Executive Management[1].
- **Agreements related to compensation and maximum contract terms (Art. 24):** the employment agreements of the Members of the Group Executive Management shall in principle be concluded for an indefinite period. If the Board of Directors considers a fixed term appropriate, such fixed term shall not exceed one year. With respect to employment agreements entered into for an indefinite period, the maximum notice period shall not exceed 12 months. Non-competition agreements for the time following termination of an employment contract and the associated compensation are permitted to the extent that this is justified from a business perspective. The compensation for such a non-competition obligation may not exceed in total the average of the (fixed) compensation paid to the respective member of the Group Executive Management during the last three years.
- **Additional compensation for new Members of the Group Executive Management (Art. 29):** if newly appointed or promoted Members of the Group Executive Management take office after the annual shareholders' meeting has approved the aggregate maximum amount of compensation of the Members of the Group Executive Management for the next business year, such newly appointed or promoted Members may receive an aggregate compensation in each case of up to 30% of the last aggregate amount of compensation for the Group Executive Management approved by the annual shareholders' meeting.
- **Additional services by Members of the Board of Directors (Art. 25)**: the members of the Board of Directors providing consulting services to the Company or other group companies in a function other than as Members of the Board of Directors may be compensated in cash according to standard market rates subject to approval by the annual shareholders' meeting.

[1] Advance payments of fees for lawyers, court fees and similar costs relating to the defense against corporate liability claims up to a maximum amount of CHF 1'000'000 are not subject to this provision

2.1 ROLE AND ACTIVITIES OF THE REMUNERATION COMMITTEE

Medacta's Remuneration Committee is comprised of a minimum of two Members of the Board of Directors who are elected annually and individually by the AGM for a one-year period until the next AGM. The Chairman of the Remuneration Committee is appointed by the Board of Directors and is independent. At the Extraordinary General Meeting 2019 ("EGM"), Philippe Weber and Alberto Siccardi were confirmed as Members of the Remuneration Committee, and Philippe Weber was subsequently approved as the Chairman of the Remuneration Committee.

In general, the purpose of the Remuneration Committee is to advise and assist the Board of Directors with regards to compensation-related matters of Medacta with a focus on setting guidelines on remuneration for both Members of the Board of Directors and the Group Executive Management. As a core responsibility, the Remuneration Committee makes proposals annually (or more often as required) to the Board of Directors related to the compensation package of the Members of the Group Executive Management and Board of Directors. For a more detailed overview of the members, working methods and main duties and responsibilities of the Remuneration Committee, as well as details regarding their meetings held in 2019, please refer to the sub-heading entitled "Remuneration Committee" in the Corporate Governance Report (section 3.5 "Internal Organizational Structure"), included this Annual Report.

The Remuneration Committee meets at such frequency as it deems necessary to fulfill its duties, normally ahead of ordinary Board meetings and at least four times per year. Given that the Company was listed on SIX Swiss Exchange in April 2019, the Remuneration Committee met three times in 2019 for an average duration of one hour and a half.

The Chairman of the Remuneration Committee reports to the Board of Directors at the Board meetings following each Remuneration Committee meeting, ensuring that the Board of Directors is kept informed in a timely and appropriate manner of all material matters within the Remuneration Committee's area of responsibility. Additional meetings may be held and may be convened at the request of either the Board of Directors or any Remuneration Committee member. The Remuneration Committee may invite to meetings and shall communicate periodically with the CEO, the CFO and the Head HR, as well as such other persons as the Remuneration Committee deems appropriate, also including external advisors. During Financial Year 2019 (also "FY 2019"), the Remuneration Committee appointed HCM International Ltd. as external independent advisor on remuneration matters. Furthermore, the Remuneration Committee regularly holds private sessions with Members of the Group Executive Management, except on those meetings or the part of meetings in which their own performance or remuneration is discussed.

In accordance with the Article 19 of the Articles of Association and the Remuneration Committee Charter, the Remuneration Committee discussed the following topics during 2019:

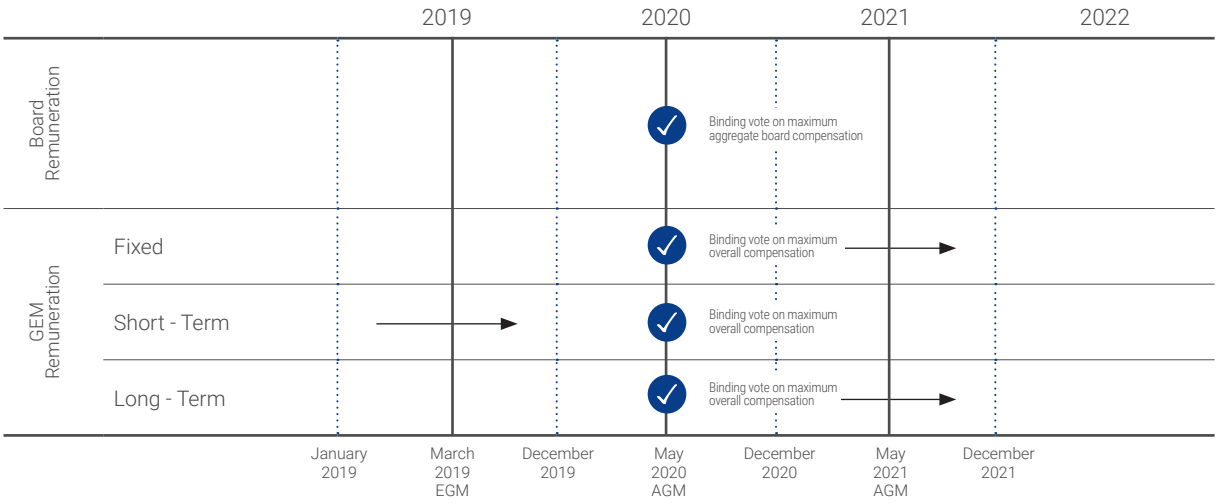
Topic	April	September	December
Determination of KPI targets for the Short-Term Incentive Plan of the Group Executive Management	✔		
Group Executive Management remuneration		✔	
Terms of employment and titles of the Group Executive Management		✔	
Long Term Incentive Plan (LTIP): - designing of the LTIP structure - LTIP review		✔	✔
Special Fidelity Bonus		✔	
Remuneration Report: - structure of the Remuneration Report - Remuneration Report review		✔	✔
Group Executive Management remuneration benchmarking against worldwide MedTech industry and Swiss MedTech and Healthcare Industry			✔

2.2 ROLE AND ACTIVITIES OF THE SHAREHOLDERS REGARDING THE AGM

The Board of Directors will submit five separate remuneration-related resolutions for shareholder approval at the AGM 2020 (as illustrated in Exhibit below):

- The maximum aggregate amount of remuneration of the Board of Directors for the term of office until the next annual shareholders' meeting (i.e., until the next annual shareholders' meeting in 2021);
- The maximum overall fixed remuneration of the Group Executive Management to be paid for the Financial Year ending December 31, 2021;
- The maximum overall variable short-term remuneration for the Group Executive Management that may be paid or allocated for the business year ended December 31, 2019;
- The maximum overall variable long-term remuneration of the Group Executive Management that may be allocated in for the business year ending December 31, 2021 (if a long-term incentive plan is ultimately adopted);
- The amount of remuneration to members of the Board of Directors for consulting services to the Company or other group companies in a function other than as members of the Board of Directors, until the next annual shareholders' meeting (i.e., until the next annual shareholders' meeting in 2021).

In addition, the Board of Directors will submit this Remuneration Report to a separate consultative vote for the shareholders at the AGM 2020.



The Board of Directors may present to the annual shareholders' meeting deviating or additional proposals for approval in relation to the same or different time periods.

If the shareholders' meeting does not approve the amount of the proposed fixed and variable compensation, as the case may be, the Board of Directors may either submit new proposals at the same shareholders' meeting, convene a new extraordinary shareholders' meeting and make new proposals for approval or may submit the proposals regarding compensation for retrospective approval at the next annual shareholders' meeting.

At the Extraordinary General Meeting ("EGM") 2019, the Board of Directors submitted five separate remuneration-related proposals, which were all approved by the shareholders:

- The maximum aggregate amount of remuneration for the Members of the Board of Directors for the term from the EGM 2019 until the AGM 2020: CHF 1 million;
- The maximum overall fixed remuneration of the Group Executive Management to be paid for the Financial Year ending December 31, 2019: CHF 1.2 million;
- The maximum overall fixed remuneration of the Group Executive Management to be paid for the Financial Year ending December 31, 2020: CHF 1.5 million;
- The maximum overall variable long-term remuneration of the Group Executive Management to be allocated in the Financial Year ending December 31, 2020: CHF 1 million;
- The maximum aggregate amount for services covered by article 25(3) of the Articles of Association (Consulting Services) for the period until the AGM 2020: CHF 1.5 million.

3. REMUNERATION PHILOSOPHY AND PRINCIPLES

Medacta's Remuneration Committee gives careful consideration to the remuneration framework for the Members of the Board of Directors and the Group Executive Management. In order to reflect their different roles, the remuneration of the Board of Directors and the Group Executive Management are designed according to different standards and considerations.

Medacta's remuneration landscape is designed to support the Company's strategic plans and to provide a balance between motivating the Members of the Board of Directors and the Group Executive Management to deliver on the near- and medium-term objectives of the Group and to strive for future long-term success and prosperity of Medacta at the same time. Medacta's remuneration framework aims to attract, engage and retain the best talent within the MedTech Industry as well as to reward loyalty of the employees and, thus, to enhance the value of the Group for the benefit of shareholders.

As a core responsibility, the Remuneration Committee reviews the compensation packages of the Members of the Group Executive Management and Board of Directors annually (or more often as required) and proposes to the Board of Directors any adjustments for proposal to the annual shareholders' meeting.

In addition, and with regards to the Group's listing in Switzerland and global scale of business, the Remuneration Committee follows the Swiss governance and compensation landscape while also considering trends across the globe. Conclusively, the aim is to design the remuneration framework taking into account best market practices, alignment with shareholders, and pay-for-performance considerations in order to promote the long-term success of Medacta.

As a base for this work the Remuneration Committee assesses compensation packages in similar companies. To carry out the compensation benchmark the following two groups of companies were analysed:

- Listed companies in the worldwide MedTech Industry as well as worldwide players in Healthcare with a similar size (in terms of employees and / or revenue)[2]; and
- Companies in the Swiss MedTech industry or Healthcare industry with around 250 to 2'000 employees, with an international scope[3].

The assessment revealed that the Group Executive Management salaries are in line with both the worldwide and Swiss MedTech and Healthcare industry, considering our market and size.

3.1 AGREEMENTS RELATED TO COMPENSATION FOR MEMBERS OF THE BOARD OF DIRECTORS AND THE GROUP EXECUTIVE MANAGEMENT

According to article 24 of the Articles of Association, mandate agreements of the Members of the Board of Directors have a fixed term until the conclusion of the next annual shareholders' meeting. Early termination or removal remains reserved.

The employment agreements of the Members of the Group Executive Management are in principle concluded for an indefinite period. If the Board of Directors considers a fixed term appropriate, such fixed term shall not exceed one year. With respect to employment agreements entered into for an indefinite period, the maximum notice period does not exceed 12 months.

Non-competition agreements for the time following termination of an employment contract and the associated compensation are permitted to the extent that this is justified from a business perspective. The compensation for such a non-competition obligation may not exceed in total the average of the fixed compensation paid to the respective member of the Group Executive Management during the last three years. The Group Executive Management agreements contain non-competition clauses. In accordance with Art. 24 of the Articles of Association, the compensation for such non-competition obligation does not exceed in total the average of the fixed compensation paid to the respective Group Executive Management Member during the last three years.

[2] Johnson & Johnson, Smith & Nephew, Zimmer Biomet, Stryker, Globus Medical, based on information disclosed on the publicly available annual reports for 2018

[3] Straumann, Sonova, Medartis, Tecan, Ypsomed, based on information disclosed on the publicly available annual reports for 2018

4. REMUNERATION FRAMEWORK FOR BOARD OF DIRECTORS

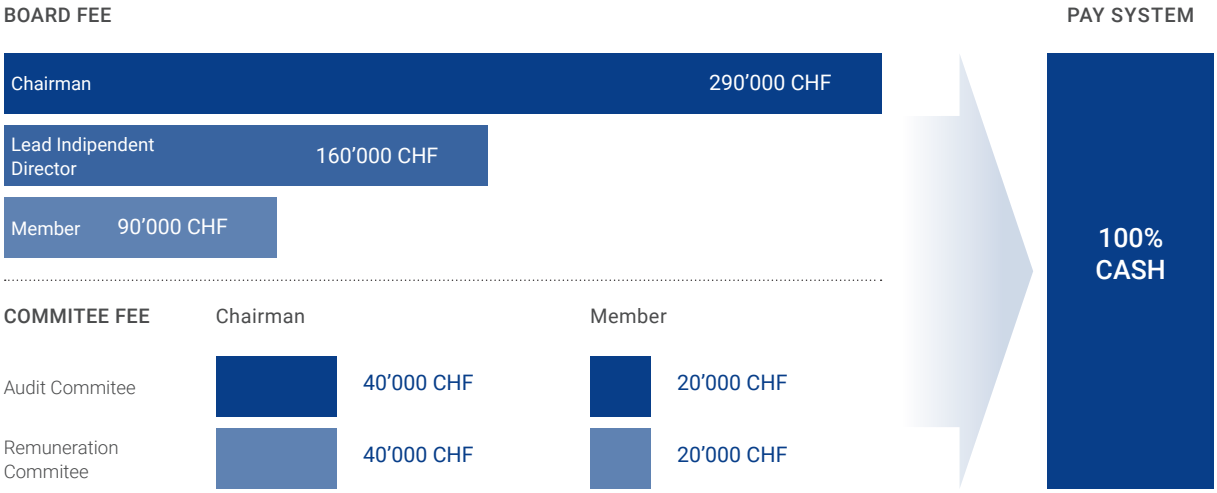
4.1 REMUNERATION APPROACH

According to article 25 of the Articles of Association, the compensation of the Members of the Board of Directors is determined by the full Board of Directors based on the proposal of the Remuneration Committee and subject to and within the limits of the aggregate amounts approved by the annual shareholders' meeting.

In order to highlight the independent role of the Members of the Board of Directors in performing their supervisory duties, the entire remuneration of the Board in Financial Year 2019 is fixed and does not include any performance-related component.

The remuneration for the Members of the Board of Directors relates to their term of office, which starts with their election at the AGM and ends at the subsequent AGM. The remuneration consists of a fixed annual base fee and fixed fees for membership in Board Committees, reflecting the time commitment as well as the obligations and responsibilities of the roles, paid in four equal quarterly instalments. The individual sum of the annual base fee and, where applicable, fixed fees for membership in Board Committees are paid in cash. For the term until the AGM 2020, consistent with the shareholder approval, Board members were paid a fixed annual base fee of CHF 90 thousand, with the Chairman receiving CHF 290 thousand. For membership in a Board Committee, Members were paid a fixed fee of CHF 20 thousand, with the respective chairpersons receiving CHF 40 thousand. In addition, in recognition of the extra time commitment associated with the role, the Lead Independent Director received an additional allowance of CHF 70 thousand (for a total amount CHF 160 thousand).

The fees paid for the Financial Year 2019 (as indicated on the table in section 4.2 "Remuneration Awarded 2019") reflect the pro rata amount paid to members of the Board of Directors during the period April 1, 2019 to December 31, 2019.



Members of the Board of Directors are entitled to a reimbursement for the expenses incurred in connection with their Board duties. Furthermore, remuneration of the Members of the Board is subject to social security contributions and is not pensionable. No additional remuneration components such as attendance fees are awarded to the Members of the Board of Directors.

In addition, in accordance with article 25 para. 3 of the Articles of Association, the Members of the Board of Directors providing consulting services to the Company or other Group Companies in a function other than as Members of the Board of Directors may be compensated in cash according to standard market rates, subject to approval by the annual shareholders' meeting.

4.2 REMUNERATION AWARDED 2019 (AUDITED)

For the term from the EGM 2019 until the AGM 2020, Medacta's shareholders approved a maximum aggregate amount of remuneration for the Board of Directors of CHF 1 million. Total remuneration awarded to the Board of Directors during Financial Year 2019 amounted to CHF 627 thousand and represents remuneration for services rendered from the EGM 2019 until December 31, 2019. Thus, the amounts actually paid in 2019 remain within the limits of the amount approved by the shareholders for the same period.

A conclusive assessment for the entire period (up to the AGM 2020) will be included in the Remuneration Report 2020.

The following table shows remuneration paid to the Members of the Board of Directors from the EGM 2019 till December 31, 2019:

CHF	Role within the Board	Fixed Board fee	Committee fees	Expenses*	Social security contribution	Sub-total	Shares	Total
Alberto Siccardi**	Chairman	217'500	15'000	12'000	17'250	261'750	-	261'750
Maria Luisa Siccardi Tonolli**	Member	67'500	15'000	6'075	7'210	95'785	-	95'785
Victor Balli	Member	120'000	30'000	504	12'965	163'469	-	163'469
Philippe A. Weber	Member	67'500	30'000	-	8'580	106'080	-	106'080
TOTAL ALL MEMBERS* **		**472'500**	**90'000**	**18'579**	**46'005**	**627'084**	**-**	**627'084**

* Out-of-pocket expenses incurred by the Board of Directors are duly reimbursed by the Company with the exception of Dr. Alberto Siccardi and Ms. Maria Luisa Siccardi Tonolli, who are reimbursed with an annual lump-sum of CHF 16 thousand and CHF 8 thousand, respectively (the amounts reported in the table above are pro-quota on nine months).
** In 2019 Mr. Siccardi rendered services in the HR management. but he decided voluntarily to offer the aforementioned services free of charge. In 2019, Maria Luisa Siccardi Tonolli received no consultancy fees as no services were rendered during the reporting period. Since the IPO, Ms. Siccardi Tonolli has exclusively served as a member of the Board of Directors.
*** Marco Gadola became a Board Member effective January 1, 2020. He did not receive any remuneration in FY 2019.

In addition, with reference to article 25 para. 3 of the Articles of Association, for the period from the EGM 2019 until December 31, 2019, Niederer Kraft Frey AG, where Philippe Weber is the Managing Partner and that, amongst others, acted as legal adviser to Medacta in the IPO, received fees in the amount of CHF 746 thousand. The payments pursuant to article 25 para. 3 of the Articles of Association were approved at the EGM 2019. See Section 8 for Related Party Compensation.

4.3 LOANS AND CREDITS

In accordance with Article 28 of Articles of Association, no loans or credits were granted to current or former Members of the Board of Directors or to persons closely associated with current or former members of the Board of Directors. No such loans or credits were outstanding at December 31, 2019.

In addition, no compensation, which was not at market terms or standards, was paid or granted to persons closely associated with current or former Members of the Board of Directors.

For the related party transactions, refer to sub-heading 6.26 "Related Party Transactions" of the Financial Report included in this Annual Report.

5. REMUNERATION FRAMEWORK FOR GROUP EXECUTIVE MANAGEMENT

5.1 REMUNERATION APPROACH

Pursuant to article 26 of the Articles of Association, the compensation of the Members of the Group Executive Management is determined by the Board of Directors based on the proposal of the Remuneration Committee and subject to and within the limits of the aggregate amounts approved by the annual shareholders' meeting.

The remuneration of the Group Executive Management is comprised of three main components:

- Fixed remuneration including an annual base salary and additional benefits (including benefits-in-kind and pension contributions);
- Variable short-term remuneration;
- Variable long-term remuneration (LTIP).

In November 2019, to recognize the important achievements reached in its twenty years of operation culminating with the successful listing on April 4, 2019 on the SIX Swiss Exchange, the Board of Directors along with the Remuneration Committee and the Group Executive Management decided to pay a one-time discretionary Special Fidelity Bonus to each and all Medacta employees (except for the CEO Francesco Siccardi and the Supply Chain Director Alessandro Siccardi because of their status as principal shareholders of the Company). The total one-time Special Fidelity Bonus of approximately EUR 15.6 million was paid out in November 2019. The methodology chosen to calculate this Special Fidelity Bonus includes, but is not limited to, the number of years of employment with the Group and remuneration during Financial Year 2018.

The Siccardi family, as majority shareholders, decided to make a voluntary cash contribution to Medacta Group to cover all the relevant cash needs associated with the Special Fidelity Bonus.

FIXED COMPENSATION

ANNUAL BASE SALARY

The annual base salary is the main fixed remuneration component paid to Members of the Group Executive Management. It is paid in cash in thirteen equal monthly instalments. The level of base salary is determined considering the following factors:

- scope and responsibilities of the role;
- qualifications and experience required to perform the role;
- market value of the role in the location in which Medacta competes for talent;
- skills and expertise of the individual in the role.

The annual base salaries of the Members of the Group Executive Management are reviewed on a yearly basis considering the above-mentioned factors and adjustments are made according to alterations in the factors under assessment as well as to market developments.

BENEFITS AND PENSION

Members of the Group Executive Management participate in the Company's benefits plans, which mainly consist of retirement, insurance and health care plans designed to provide a reasonable level of protection for the employees and their dependents in the event of retirement, illness/accident, disability or death. Medacta's pension benefits under Swiss contracts meet the legal requirements of the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) and are in line with what other international Healthcare companies offer.

Other benefits may include a car and phone allowance and other fringe benefits that, if any, would be disclosed in the remuneration table included in sub-heading 5.2 "Remuneration Awarded 2019 (Audited)" of this Report. Out-of-pocket expenses incurred by Members of the Group Executive Management in connection with their employment services for Medacta are duly reimbursed by the Company in accordance with the applicable regulations and are not considered to be remuneration subject to approval and, hence, are not further considered in the remuneration tables.

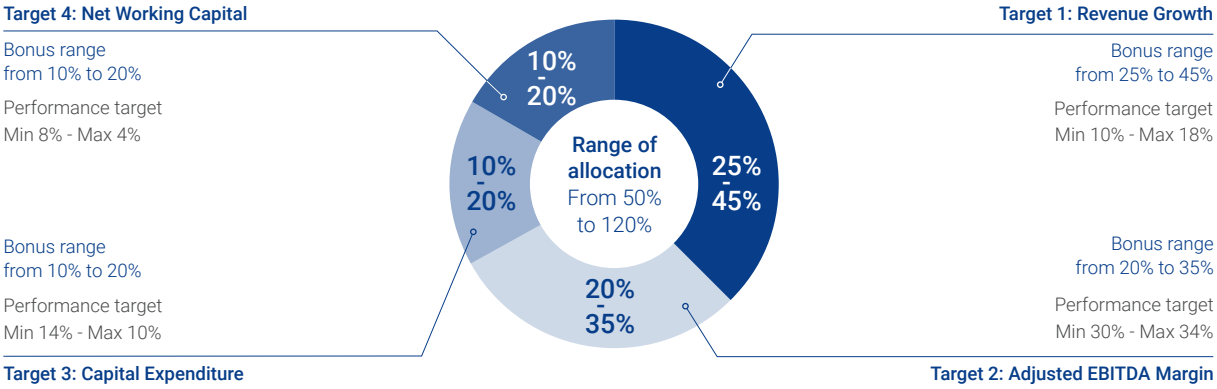
SHORT-TERM VARIABLE REMUNERATION

The short-term variable compensation is an annual incentive plan intended to compensate the Group Executive Management for achieving the short-term business strategy, based on company performance achievements and financial targets. In accordance with Art. 26 of the Articles of Association, the short-term variable compensation is paid in cash and depends on the level of achievement of specific pre-defined targets for a one-year performance period.

The short-term variable compensation of the Group Executive Management is determined based on the reaching of four financial targets: Revenue Growth, Adjusted EBITDA Margin, Capital Expenditure and Net Working Capital. The financial targets are weighted differently for each member of the Group Executive Management, taking into account position and level of responsibility. Revenue Growth target is between 10% and 18% and weights respectively 45% and 30% to 40% of the CEO and other members of the Group Executive Management bonus, Adjusted EBITDA Margin target is between 30% and 34% and weights respectively 35% and 20% to 30% of the CEO and other members of the Group Executive Management bonus, Capital Expenditure target is between 14% and 10% and weights respectively 10% and 16% to 20% of the CEO and other members of the Group Executive Management bonus and Net Working Capital target is between 8% and 4% and weights respectively 10% and 16% to 20% of the CEO and other members of the Group Executive Management bonus. In addition, approximately 20% of the short-term variable compensation of the CFO is determined at the discretion of the Board of Directors, based on the quality of the performance of the CFO duties.

Upon proposal by the Remuneration Committee, the Board of Directors is responsible for the selection and weighting of performance targets as well as determining what the maximum short-term compensation can comprise. For FY 2019, the short-term variable remuneration, for the Group Executive Management represents 86% of the base salary annualized. The CEO's short-term variable remuneration represents a maximum of 182% of the base salary annualized and for other Members of the Group Executive Management on average 35%. This puts a material portion of the GEM's remuneration at risk in alignment with shareholders' interests.

The variable short-term compensation for the Members of the Group Executive Management for the financial year 2019 was determined by the Board of Directors upon recommendation from the Remuneration Committee on the basis of the below described base and maximum amounts, criteria, weightings and other principles.



In order to calibrate the target achievement curve for one plan cycle, a target achievement level is identified in accordance with the overall business plan and the budget for the respective year. Minimum and maximum performance achievement levels are defined considering, amongst other metrics, the previous year's performance level.

The reaching of the above financial targets is determined by the Board of Directors based on the audited consolidated financial statements of Medacta Group SA for the financial year on December 31, 2019.

Regarding targets 1 and 2: in the event the actual result is (a) below the minimum target, then the respective bonus portion is CHF 0; (b) within the target range linear progression from 0 to maximum bonus; (c) above maximum target maximum bonus. In relation to targets 3 and 4: in the event the actual result is (a) above the minimum target the respective bonus portion is CHF 0; (b) within the target range linear progression from 0 to maximum bonus; (c) below maximum target maximum bonus.

As mentioned above, at the discretion of the Board of Directors upon recommendation of the CEO and the Remuneration Committee, it would be possible to raise or to lower the CFO's variable components based on the quality of performance of CFO duties as set in the Organizational Regulations.

The qualitative performance represents 20% of the CFO's short-term compensation and is primarily based on the performance of:

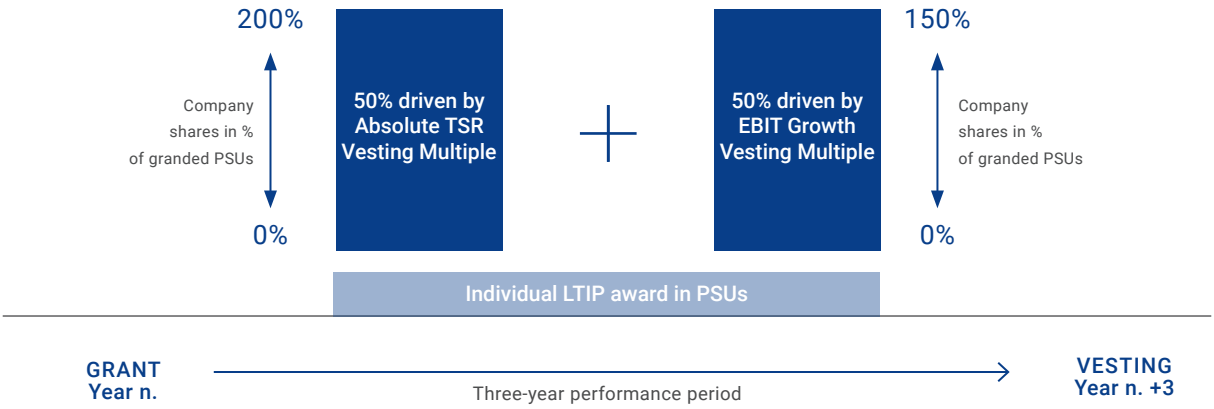
- defining and implementing the finance strategy of the Group;
- monitoring financial performance against targets, reports the results to the Audit and Risk Committee and the Board of Directors and endorsing these reports in all material respects as to their completeness, reliability and accuracy; and
- having responsibility for ensuring good financial governance.

For Financial Year 2019, all of the four approved minimum performance thresholds were exceeded, and the targets were achieved at different levels within their respective target achievement curve. This resulted in an overall proposed payout to the AGM 2020 for the CEO of CHF 550 thousand (see section 2.2. "Role and Activities of the Shareholders regarding the AGM" of this Remuneration Report) and an overall proposed payout of CHF 135 thousand for the other Members of the Group Executive Management, upon approval by the AGM 2020.

OUTLOOK: LONG-TERM VARIABLE REMUNERATION

In order to reflect the recent changes in ownership structure with Medacta's new positioning as a listed company, reshaping the role and responsibilities of the Members of the Group Executive Management, in accordance with Art. 26 of the Articles of Association, a share-based long-term incentive plan (LTIP) was developed during Financial Year 2019. In light of the recent COVID-19 developments and accompanying uncertainties, the timeline for the LTIP's implementation has been postponed to a later date. While the cornerstones and key pillars of the LTIP have been agreed in principle by the Remuneration Committee, once implemented the LTIP may include certain adjustments or refinements as compared to the summary provided in this Annual Report. Once implemented, the details of the LTIP will be appropriately communicated.

Currently, it is contemplated that members of the Group Executive Management, other selected key managers and employees will be eligible to participate in the LTIP. The LTIP is designed to provide Members of the Group Executive Management, other selected key managers and employees an opportunity to become shareholders of the Company, to participate in the future long-term success and prosperity of the Group, and to enhance and reward loyalty of the employees. Furthermore, the LTIP is intended to attract, motivate, and retain participants of the plan, and thus, to enhance the value of the Group for the benefit of shareholders.



Once implemented, the LTIP will be an incentive plan measured over a rolling three-year performance period with the purpose of fostering long-term value creation for the Group. Eligible plan participants will be granted a certain number of Performance Share Units (PSUs), which represent a contingent entitlement to receive Medacta shares in the future. The number of granted PSUs will depend on the individual LTIP grant level, individually determined by the Board of Directors each year based on the individual's performance, the position, complexity of the function, and level of responsibility. The individual LTIP grant can never exceed 40% of base salary of any participant. After a three-year performance period, the number of vested PSUs is expected to vary between 0% and 175% of granted PSUs. For the Group Executive Management, it is expected that the number of vested PSUs will be based on the achievement of the following two equally weighted LTIP performance measures:

- Three-year Absolute Total Shareholders Returned ("TSR");
- Three-year EBIT Growth.

The performance targets for each grant will be approved by the Board of Directors, following a proposal by the Remuneration Committee. To determine the overall vesting multiple, the target achievement for each performance measure will be assessed individually, these are expected to range from 0% to 150% for the EBIT Growth vesting multiple and from 0% to 200% for the Absolute TSR vesting multiple. The two target achievements will then be combined according to the equal weightings. This means that a low performance in one performance measure could be balanced by a higher performance in the other performance measure. Overall, the combined vesting multiple is expected to never exceed 175%.

If the performance of both performance measures lies below the respective minimum performance threshold, the resulting combined vesting multiple will be 0% and consequently no PSUs vest. Other circumstances under which no PSUs vest include various forfeiture clauses in case of termination of employment during the performance period of the LTIP.

The remuneration of the Group Executive Management is not subject to any claw back provision.

5.2 REMUNERATION AWARDED 2019 (AUDITED)

COMPENSATION MIX

The Remuneration Committee ensures that the Group Executive Management remuneration focuses on pay-for-performance and anchors the strategy of the Group by delivering a substantial portion of remuneration in the form of variable and performance-related incentives. Overall, total variable remuneration of the CEO for the financial year 2019 amounted to 58% of his total remuneration, while other Members of the Group Executive Management's total variable remuneration for the financial year 2019 ranged from 10% to 20% of the total remuneration.

Medacta Group SA became a publicly listed company in April 2019. Therefore, the remuneration for services before April 2019 were not subject to approval by the annual shareholders' meeting 2019. Before appointment as Members of the Group Executive Management, they served as Senior Management for companies of the Group.

The total aggregate amount approved by the annual shareholders' meeting 2019 for the fixed compensation of the Group Executive Management for the Financial Year 2019 amounts to CHF 1.2 million. The sum of the total fixed compensation paid to the Group Executive Management (including the CEO) for the relevant period from April 1, 2019 to December 31, 2019 amounts to CHF 594 thousand. It is thus within the limits of the amount approved by the annual shareholders' meeting for the same period.

Variable compensation for the Members of the Group Executive Management includes the annual short-term incentive (STI). The total aggregate amount for 2019 proposed by the Board of Directors to the AGM for the entire Group Executive Management (including CEO) will be CHF 685 thousand. The limit of the STI for the Group Executive Management will be decided at the annual shareholders' meeting.

During Financial Year 2019, the Group Executive Management consisted of three Members, all of them being Members of the Group Executive Management during the entire period. During FY19, the Group Executive Management did not receive any form of equity compensation as no such plans were in place and no IPO-related payments took place. In addition, during the course of the financial year 2019, there were no changes to the base salary of the Group Executive Management.

The following table shows the total aggregate remuneration, including the proposed short-term compensation, for the Members of the Group Executive Management and the highest amount for an individual member (i.e. the CEO), for the period from April 1, 2019 to December 31, 2019.

CHF	Fixed Compensation*	Proposed variable short-term compensation***	Variable long-term compensation	Special Bonus****	Expenses*****	Pension & social security contribution	Total
Francesco Siccardi (CEO)	268'125	550'000	-	-	16'650	80'248	915'023
Other members of the Group Executive Management	326'089	135'000**	-	321'978	-	74'574	857'641
Total all members of the Group Executive Management	**594'214**	**685'000**	**-**	**321'978**	**16'650**	**154'822**	**1'772'664**

* Before appointment to the Group Executive Management, the members served as senior management to other Group companies and, thus, their previous salary for January 2019 - March 2019 was accounted for separately.
** As part of the proposed variable short-term compensation, we recongized CHF 45 thousand related to the CFO compensation for holding an additional role as IR, pending the planned appointment of a new head of IR.
*** Proposal by the Board of Directors to the AGM 2020. The amount has not been calculated pro-rata and relates to the short- term compensation for the full year performance of the Group Executive Management.
****The special bonus relates to amounts paid to the CFO in connection with (i) the Special 20 Year Anniversary Fidelity Bonus and (ii) the settlment of previously accured amounts under a pre-IPO long term incentive plan with Medacta International (i.e., a subsidiary of the Company which previously employed the CFO).
*****Out-of-pocket expenses, including car lease, incurred by Mr. Francesco Siccardi are duly reimbursed with an annual lump-sum of CHF 22 thousand (the amounts reported in the table above are pro-quota on nine months).

5.3 LOANS AND CREDITS

In accordance with Article 28 of the Articles of Association, no loans or credits were granted to current or former Members of the Group Executive Management or to persons closely associated with current or former Members of the Group Executive Management. No such loans or credits were outstanding at December 31, 2019.

In addition, no compensation, which was not at market terms or standards, was paid or granted to persons closely associated with current or former Members of the Group Executive Management.

For the related party transactions, refer to sub-heading 6.26 "Related Party Transactions" of the Financial Report included in this Annual Report.

6. OWNERSHIP OF SHARES AND OPTIONS

Other than Alberto Siccardi (Chairman), Maria Luisa Siccardi Tonolli (Board Member), Francesco Siccardi (CEO) and Alessandro Siccardi (Supply Chain Director), no other members of the Board of Directors or Group Executive Management own Shares in the Company. Please also refer to the table under the sub-heading 1.1 "Group Structure" of the Corporate Governance Report, included in this Annual Report for their respective shareholdings. As of December 31, 2019, there were not outstanding options to acquire shares in the Company.

7. OTHER REMUNERATION-RELATED INFORMATION UNDER THE OAEC (AUDITED)

For the reporting period, no compensation other than described herein was paid or granted to members of the Board of Directors and the Group Executive Management. No compensation was paid or granted to former members of the Board of Directors or Group Executive Management in 2019.

8. RELATED PARTY COMPENSATION

Members of the Board of Directors and of the Group Executive Management who have received consultancy fees for services rendered are reported in the 2019 Financial Statements of Medacta Group SA (sub-heading 6.26 "Related Party Transactions"), enclosed in this Annual Report. For the Remuneration paid to the Board of Directors, refer to sub-heading 4.2 "Remuneration Awarded 2019 (AUDITED)" of this Remuneration Report.

9. REPORT OF THE STATUTORY AUDITOR ON THE REMUNERATION REPORT

Deloitte.

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6901 Lugano
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Report of the Statutory Auditor

To the General Meeting of
Medacta Group SA, Castel San Pietro

We have audited the remuneration report of Medacta Group SA for the year ended 31 December 2019. Our audit is limited to the information provided in the sections 4.2 and 5.2 labeled "audited" on pages 78, 82 and 83 in accordance with the articles 14 to 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance).

Responsibility of the Board of Directors
The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility
Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Deloitte.

MEDACTA GROUP SA
Report of the statutory auditor in relation to the remuneration report as of December 31, 2019

Opinion
In our opinion, the remuneration report for the year ended 31 December 2019 of Medacta Group SA complies with Swiss law and articles 14 – 16 of the Ordinance.

Deloitte SA

Fabien Lussu
Licensed audit expert
Auditor in Charge

Michele Castiglioni
Licensed audit expert

Lugano, 03 April 2020
FL/MC/di

Medacta International

FINANCIAL REPORT

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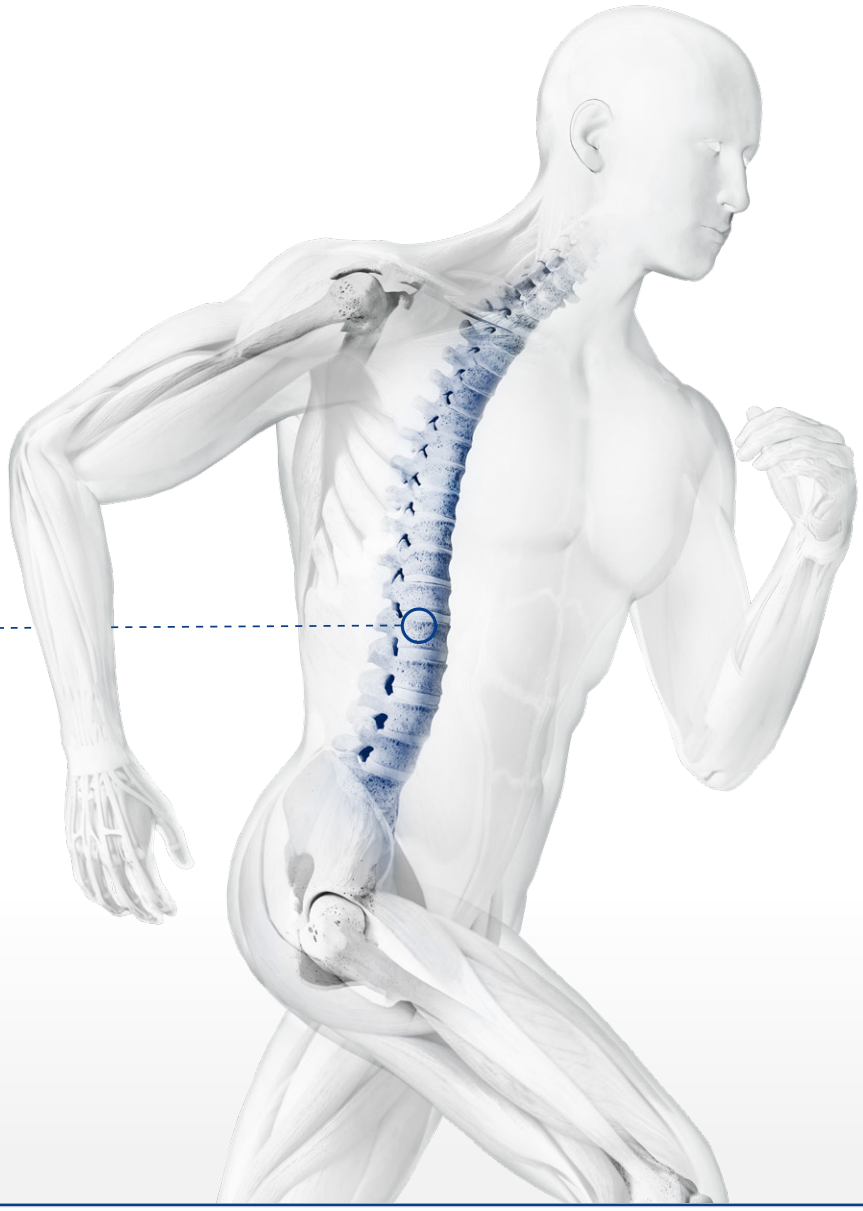
SPINE



2019 AWARD

Medacta's MySpine MC Wins MedTech Breakthrough Award for Orthopaedics and Surgical Innovation as **"Best Healthcare Navigation/Robotics Solution"**

MySpine® MC

PATIENT MATCHED TECHNOLOGY
IN SPINE SURGERY

Minimally Invasive
Patient-Matched
Solutions

MySpine MC is a 3D-printed patient-matched solution in the midline cortical approach.

1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Thousand Euro)	Notes	31.12.2019	31.12.2018
Revenues	6.24	310'623	272'610
Cost of Sales		(86'926)	(68'630)
GROSS PROFIT		**223'697**	**203'980**
Research and Development expenses	6.24	(7'641)	(3'933)
Sales and Marketing expenses		(127'087)	(104'957)
General and Administrative expenses	6.24	(63'940)	(34'454)
Other income	6.24	1'592	1'579
Other expenses	6.24	(7'008)	(705)
OPERATING PROFIT(EBIT)		**19'613**	**61'510**
Financial income	6.24	2'059	1'096
Financial costs	6.24	(8'040)	(4'566)
PROFIT BEFORE TAXES		**13'632**	**58'040**
Income taxes	6.11	(1'773)	(12'287)
PROFIT FOR THE YEAR		**11'859**	**45'753**
ATTRIBUTABLE TO			
Equity holders of the parent	6.27	11'859	45'753
Non-controlling interests		-	-
Basic earnings per share *	6.27	0.59	2.29

* In the years ended December 31, 2019 and 2018, there is no effect of dilution, and diluted earnings per share equals basic earnings per share.

The Notes are an integral part of the Consolidated Financial Statements

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Thousand Euro)	Notes	31.12.2019	31.12.2018
PROFIT FOR THE YEAR		**11'859**	**45'753**
OTHER COMPREHENSIVE INCOME			
Actuarial gain / (loss) from defined benefit plans	6.20	(2'466)	1'953
Tax effect on actuarial gain / (loss) from defined benefit plans		459	(381)
TOTAL ITEMS NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**(2'007)**	**1'572**
Currency translation differences		3'085	6'512
TOTAL ITEMS TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**3'085**	**6'512**
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**1'078**	**8'084**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**12'937**	**53'837**
ATTRIBUTABLE TO			
Equity holders of the parent		12'937	53'837
Non-controlling interests		-	-

The Notes are an integral part of the Consolidated Financial Statements

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

ASSETS

(Thousand Euro)	Notes	31.12.2019	31.12.2018
Property, plant and equipment	6.7	135'350	132'908
Right-of-use assets	6.8	22'104	
Goodwill and intangible assets	6.9	45'584	39'995
Other non-current financial assets	6.10	456	765
Deferred tax assets	6.11	21'283	17'306
TOTAL NON-CURRENT ASSETS		**224'777**	**190'974**
Inventories	6.12	101'634	89'228
Trade receivables	6.13	48'049	44'093
Other current financial assets	6.10	259	240
Other receivables and prepaid expenses	6.14	10'604	7'351
Cash and cash equivalents	6.15	27'241	33'710
TOTAL CURRENT ASSETS		**187'787**	**174'622**
TOTAL ASSETS		**412'564**	**365'596**

LIABILITIES AND EQUITY

(Thousand Euro)	Notes	31.12.2019	31.12.2018
Share capital	6.16	1'775	1'775
Capital contribution reserve	6.16	21'227	
Retained earnings and other reserves	6.16	102'885	93'033
Foreign currency translation reserve	6.16	(2'653)	(5'738)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**123'234**	**89'070**
Non-controlling interests		-	-
EQUITY		**123'234**	**89'070**
Non-current financial liabilities	6.17	85'379	113'015
Other non-current liabilities	6.19	7'919	10'499
Non-current provisions	6.18	11'183	417
Retirement benefit obligation	6.20	11'142	7'252
Deferred tax liabilities	6.11	38'654	31'283
Non-current lease liabilities	6.8	14'539	
TOTAL NON-CURRENT LIABILITIES		**168'816**	**162'466**
Trade payables	6.21	17'845	20'051
Other current liabilities	6.22	26'101	22'638
Current financial liabilities	6.17	47'505	51'476
Accrued expenses and deferred income	6.23	23'628	19'895
Current lease liabilities	6.8	5'435	
TOTAL CURRENT LIABILITIES		**120'514**	**114'060**
TOTAL LIABILITIES		**289'330**	**276'526**
TOTAL LIABILITIES AND EQUITY		**412'564**	**365'596**

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Attributable to equity holders of Medacta Holding SA and from November 30, 2018 to Medacta Group SA

(Thousand Euro)	Share capital	Capital Contribution Reserve	Retained earnings and other reserves	Translation adjustment	Non-controlling interests	Total equity
BALANCE JANUARY 1, 2018	**992**	**-**	**112'928**	**(12'250)**	**-**	**101'670**
Profit for the year	-	-	45'753	-	-	45'753
Actuarial gain / (loss) from defined benefit plans, net	-	-	1'953	-	-	1'953
Tax effect on actuarial gain / (loss)	-	-	(381)	-	-	(381)
Currency translation differences	-	-	-	6'512	-	6'512
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**47'325**	**6'512**	**-**	**53'837**
Dividend paid *	-	-	(65'247)	-	-	(65'247)
Adjustments due to change in Parent Co. **	(992)	-	(1'973)	-	-	(2'965)
Medacta Group SA Share capital **	1'775	-	-	-	-	1'775
BALANCE DECEMBER 31, 2018	**1'775**	**-**	**93'033**	**(5'738)**	**-**	**89'070**
BALANCE JANUARY 1, 2019	**1'775**	**-**	**93'033**	**(5'738)**	**-**	**89'070**
Profit for the year	-	-	11'859	-	-	11'859
Actuarial gain / (loss) from defined benefit plans, net	-	-	(2'466)	-	-	(2'466)
Tax effect on actuarial gain / (loss)	-	-	459	-	-	459
Currency translation differences	-	-	-	3'085	-	3'085
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**9'852**	**3'085**	**-**	**12'937**
Dividend paid	-	-	-	-	-	-
Capital increase ***	-	21'227	-	-	-	21'227
BALANCE DECEMBER 31, 2019	**1'775**	**21'227**	**102'885**	**(2'653)**	**-**	**123'234**

* Dividend distributed by Medacta Holding SA before the change of the parent company. Please refer to Note 6.16 "Medacta Group stockholder's equity", paragraph "Dividend" for additional disclosure.

** The change in Parent Company transaction is described in Note 6 "Notes to the Consolidated Financial Statements for the years ended December 31, 2019 and 2018", "General information" paragraph.

*** Refer to Note 6.16 "Medacta Group stockholder's equity" paragraph "Capital Contribution".

The Notes are an integral part of the Consolidated Financial Statements

5. CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Thousand Euro)	Notes	31.12.2019	31.12.2018
PROFIT FOR THE YEAR		**11'859**	**45'753**
Adjustments for:			
Income tax expenses	6.11	1'773	12'287
Depreciation, amortisation and impairment of tangible, intangible and right-of-use assets	6.24	33'733	24'837
(Gain) / loss on disposal of tangible and intangible assets		159	(662)
Foreign exchange result		3'552	292
Interest expenses		2'262	
Income taxes paid		(3'186)	(4'005)
Interest paid		(2'262)	
Increase in trade receivables		(3'207)	(6'482)
(Increase) / decrease in other receivables and prepaid expenses		(2'888)	(2'435)
Increase in inventories		(11'681)	(9'000)
Increase / (decrease) in trade payables		(2'807)	2'119
Increase in other payables, accruals and provisions		15'328	3'704
CASH FLOW FROM OPERATING ACTIVITIES		**42'635**	**66'408**
Purchase of tangible assets	6.7	(41'474)	(45'153)
Purchase of intangible assets *		(10'084)	(9'980)
Proceeds from disposal of tangible assets **		9'979	2'419
Cash consideration for acquisitions, net of cash acquired	6.5	(875)	(7'901)
Changes in financial assets		413	11'391
CASH FLOW FROM INVESTING ACTIVITIES		**(42'041)**	**(49'224)**
Proceeds from borrowings		-	86'306
Repayment of borrowings	6.17	(26'524)	(28'928)
Repayment of lease liabilities ***	6.8	(5'680)	(2'339)
Dividends paid by Parent Company	6.16	-	(65'247)
Capital contribution	6.16	21'227	
Adjustments due to change in Parent Company		-	691
CASH FLOW FROM FINANCING ACTIVITIES		**(10'977)**	**(9'517)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(10'383)**	**7'667**
Cash and cash equivalents at the beginning of the financial year	6.15	33'710	25'117
Net effect of currency transaction on cash and cash equivalent		3'914	926
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	6.15	**27'241**	**33'710**

* "Purchase of intangible assets" excludes unpaid acquisitions of intangible assets (see Note 6.17 "Financial liabilities").

** "Proceeds from disposal of tangible assets" excludes Euro 322 thousand related to a non-cash transaction (see Note 6.26 "Related party transaction" paragraph "Other related party transaction").

*** "Repayment of lease liabilities" as at December 31, 2018 included only payment of finance lease according to IAS 17. As at December 31, 2019, includes all payments for lease liabilities according to IFRS 16: payments for leasing previously classified as finance and operating leases under IAS 17 amount to Euro 2'739 thousand and Euro 2'941 thousand, respectively."

The Notes are an integral part of the Consolidated Financial Statements

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

GENERAL INFORMATION

Medacta Holding SA has been registered in the Commercial Register of the Canton Ticino since July 1, 2015 and is a limited company incorporated and domiciled in Canton Ticino. Medacta Holding SA represented the parent company of the Group until November 30, 2018.

On November 30, 2018, following a pre-initial public offering restructuring, the Group changed the parent company from Medacta Holding SA to Medacta Group SA. Medacta Group SA was constituted from the merge of the three vehicles (2A Holding SA, ALLES Holding SA and Machi Holding SA) that controlled each a 30% minority interest on behalf of the ultimate controlling parties with significant influence over the Group.

Medacta Group SA (referred to hereafter as the "Company" or together with its subsidiaries the "Group") has been registered in the Commercial Register of the Canton Ticino since November 30, 2018 and is a limited company incorporated and domiciled in Canton Ticino. The registered office is Strada Regina 34, 6874 Castel San Pietro, Ticino, Switzerland.

On December 12, 2018 Medacta Group SA approved a capital increase in kind, through the incorporation of 10% minority interest in Medacta Holding SA from Dr. Alberto Siccardi. Following the completion of this transaction, Medacta Group SA owned 100% investment in Medacta Holding SA.

Under IFRS 3, a combination involving entities or businesses under common control is a combination in which all of the combining entities are ultimately controlled by the same parties both before and after the business combination, and that control is not transitory. The ultimate shareholders of 2A Holding SA, ALLES Holding SA, Machi Holding SA and Dr. Alberto Siccardi entered into a shareholder agreement to control Medacta Holding SA before the constitution of Medacta Group SA. Hence, Medacta Group SA was constituted in a transaction considered under common control, since the combining entities are ultimately controlled by the same parties both before and after the combination. Medacta Group SA applied the transaction retrospectively to January 1, 2017. Due to the nature of the transaction the only change in financial year 2018 was in relation to the Group share capital, which consisted of the share capital of Medacta Group SA instead of Medacta Holding SA.

The Company Shares are publicly traded and listed on the Six Swiss Exchange in Zurich.

The Group operates globally to develop, manufacture and distribute orthopedic and neurosurgical medical devices. The Group was founded in 1999 with a vision of redefining better through innovation for people needing joint replacement and spine surgery. The Group has a financial year ending December 31.

INITIAL PUBLIC OFFERING

On April 4, 2019 the Company completed an Initial Public Offering ("IPO") whereby its shares began trading on the SIX Swiss Exchange. In connection with the IPO, the Company's shareholders sold an aggregate of 5'700'000 shares of common stock.

On May 3, 2019 the Joint Global Coordinators have partially exercised the over-allotment of 438'472 option granted in connection with the IPO. A total of 6'138'472 existing shares have been sold in the IPO increasing the free float to 30.7%, with the Siccardi Family holding 69.3% of Medacta's share capital. The total placement volume amounts to CHF 589 million.

In conjunction with the IPO, the Company incurred CHF 3'082 thousand (Euro 2'775 thousand) of costs for professional services. These fees have been expensed as incurred and recognised by the Group in the General and Administrative expense line item (refer to Note 6.24 "Information on the Consolidated Statement of Profit or Loss" and to Note 6.26 "Related Party Transactions" paragraph "IPO costs" for additional disclosure).

STATEMENT OF COMPLIANCE

The Consolidated Financial Statements as of December 31, 2019 have been prepared in accordance with the International Financial Reporting Standards (hereinafter also "IFRS") as issued by the International Accounting Standards Board ("IASB").

The principles and standards utilized in preparing these Consolidated Financial Statements have been consistently applied through all periods presented, with the exception of the new standards and interpretations that are effective for reporting periods beginning on January 1, 2020 as disclosed in Note 6.2 "New accounting and international financial reporting standards".

These Consolidated Financial Statements are composed of a Consolidated Statement of Profit or Loss, a Consolidated Statement of Comprehensive Income, a Consolidated Statement of Financial Position, a Consolidated Statement of Changes in Equity, a Consolidated Statement of Cash Flows and related Notes to the Consolidated Financial Statements.

The Group presents its Consolidated Profit or Loss using the function of expense method. The Group presents current and non-current Assets and current and non-current Liabilities as separate classifications in its Consolidated Statement of Financial Position. This presentation of the Consolidated Statement of Profit or Loss and of Consolidated Statement of Financial Position is believed to provide the most relevant information. The Consolidated Statement of Cash Flows were prepared and presented utilising the indirect method.

The Consolidated Statement of Cash Flows includes actual inflows and outflows of cash and cash equivalents only; accordingly, it excludes all transactions that do not directly affect cash receipts and payments. The reason for excluding non-cash transactions in the Statement of Cash Flows and placing them within disclosures keeps the statement's primary focus on cash flows from operating, investing, and financing activities in the original state so that users of financial statements can fully understand the importance of what this financial statement does. Examples of non-cash transactions, as mentioned in IAS 7 are: "the acquisition of assets either by assuming directly related liabilities or by means of a lease; the acquisition of an entity by means of an equity issue; and the conversion of debt to equity".

BASIS OF MEASUREMENT

These Consolidated Financial Statements have been prepared using the historical cost convention, with the exception of certain financial assets and liabilities for which measurement at fair value is required (see Note 6.4 "Fair value measurement and classification").

These Consolidated Financial Statements have been prepared on a going concern basis. The Directors believe that there are no financial or other indicators presenting material uncertainties that may cast significant doubt upon the Group's ability to meet its obligations in the foreseeable future and in particular in the next 12 months.

PRESENTATION CURRENCY

Items included in the financial statement of each Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The Group's presentation currency is the Euro, and all values are rounded to the nearest thousand except where otherwise indicated.

USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions which influence the value of assets and liabilities in the Consolidated Statement of Financial Position and recognition of revenue and expenses in the Consolidated Statement of Profit or Loss, and the disclosures included in the Notes to the Consolidated Financial Statements.

The most significant accounting principles which require a higher degree of judgment from management are described below.

- Leases – Due to the application of IFRS 16, judgement is required to determine the lease term. Management considers all circumstances and facts that create an economic incentive to exercise an extension or termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment.

Estimates are based on historical experience and other factors. The resulting accounting estimates could differ from the related actual results. Estimates are periodically reviewed and the effects of each change are reflected in the Consolidated

Financial Statements in the year in which the change occurs. The key sources of estimation uncertainty are the following:

- Intangible Assets, including Goodwill – The Group has intangible assets mainly represented by capitalised development costs, trademarks and customer lists acquired through business combination. Capitalised development costs are reviewed on a regular basis and the Group determines annually, in accordance with the accounting policy, whether any of the assets are impaired. For the impairment tests, estimates are made on the expected future cash flows from the use of the asset or cash-generating unit. The actual cash flows could vary significantly from these estimates. A sensitivity analysis was performed to review the impact of reasonably possible changes in key assumptions (see Note 6.9 "Goodwill and intangible assets" paragraph "Impairment test for intangible assets").
- Deferred tax assets – The consolidated balance sheet includes deferred tax assets related to deductible differences and, in certain cases, tax losses carried forward, provided that their utilization has been determined to be probable. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods. Estimates of future taxable income are subject to change due to both markets related and government related uncertainties, as well as Medacta's own future decisions.
- Valuation of inventories – Inventories which are obsolete are periodically evaluated and written down in the case that their net realizable value is lower than their carrying amount. Write-downs are calculated on the basis of management assumptions and judgements which are derived from experience and historical results.
- Pension plans – The Group participates in pension plans in various countries. The present value of pension liabilities is determined using actuarial techniques and certain assumptions. These assumptions include the discount rate, the expected return on plan assets, the rates of future compensation increase and rates related to mortality and resignations. Any change in the above-mentioned assumptions could result in significant effects on the employee benefit liabilities. The sensitivity analysis related to the changes in the assumptions is reported in Note 6.20 "Retirement benefit obligations".

6.1 CONSOLIDATION PRINCIPLES, COMPOSITION OF THE GROUP AND SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION PRINCIPLES

SUBSIDIARIES

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed, or has the rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Changes in the ownership interest of a subsidiary that do not result in a loss of control will be accounted for as an equity transaction. Hence, neither goodwill nor any gain or loss will result.

In business combinations achieved in stages, the Group remeasures its previously held equity investment in the acquiree at its acquisition date fair value and recognises the resulting gain or loss in the Consolidated Statement of Profit or Loss as "Other net income/(expenses)".

BUSINESS COMBINATIONS

The Group uses the acquisition method of accounting to account for business combinations.

The consideration transferred for the acquisition of a subsidiary is measured as the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at either fair value or the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity investment in the acquiree over the fair value of the Group's share of the identifiable assets acquired and liabilities and contingent liabilities assumed is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the Group makes a new assessment of the identifiable assets and liabilities and contingent liabilities assumed and any residual difference is recognised directly in the Consolidated Statement of Profit or Loss.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

The Consolidated Financial Statements include the consolidated financial information of the Medacta Group entities. All intercompany balances and transactions within the consolidated financials are eliminated. Unrealised gains and losses arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. The Group accounts for the elimination of the unrealised profits resulting from intercompany transactions. These transactions relate to the sales from the Group entities which have not been realised externally.

TRANSLATION OF THE FINANCIAL STATEMENTS OF FOREIGN COMPANIES

The Group records transactions denominated in foreign currency in accordance with IAS 21—The Effect of Changes in Foreign Exchange Rates.

The results and Financial Position of all the Group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each Statement of Financial Position are translated at the closing rate;
- Income and expenses for each Statement of Profit or Loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- All resulting exchange differences are recorded in Other Comprehensive Income in equity.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The exchange rates used in translating the results of foreign operations are reported in the Exchange Rates Attachment to the Notes to the Consolidated Financial Statements (refer to Note 6.31 "Exchange rates used to translate financial statements prepared in currencies other than Euro").

COMPOSITION OF THE GROUP

Entities included in the scope of consolidation are listed below:

Company	% of shares held December 2019	% of shares held December 2018	Registered office	Registered Capital	Consolidation Method
Medacta Group S.A.*	N/A	N/A	Castel San Pietro (CH)	2'000'000 CHF	Parent company
Medacta Holding S.A.	100%	100%	Castel San Pietro (CH)	1'026'000 CHF	Full Consolidation (Former Parent Company until November 30, 2018)
Medacta International S.A.	100%	100%	Castel San Pietro (CH)	1'000'000 CHF	Full Consolidation
Medacta Australia PTY Ltd	100%	100%	Lane Cove (AU)	4 AUD	Full Consolidation
Medacta Austria GmbH	100%	100%	Eugendorf (AT)	35'000 EUR	Full Consolidation
Medacta Belgium Sprl	100%	100%	Nivelles (BE)	18'550 EUR	Full Consolidation
Medacta Canada Inc.	100%	100%	Kitchener (CA)	100 CAD	Full Consolidation
Medacta España S.L.	100%	100%	Burjassot (ES)	3'000 EUR	Full Consolidation
Medacta France SAS	100%	100%	Villeneuve la Garenne (FR)	37'000 EUR	Full Consolidation
Medacta Germany GmbH	100%	100%	Göppingen (DE)	25'000 EUR	Full Consolidation
Medacta Italia S.r.l.	100%	100%	Milan (IT)	2'600'000 EUR	Full Consolidation
Medacta Japan Co. Ltd	100%	100%	Tokyo (JP)	25'000'000 JPY	Full Consolidation
Medacta UK Ltd	100%	100%	Hinckley (UK)	29'994 GBP	Full Consolidation
Medacta USA, Inc.	100%	100%	Franklin - Tennessee (US)	50'000 USD	Full Consolidation
Swiss Medical Manufacturing Ooo	0%	100%	Minsk (BY)	929'000'000 BYR	**

* Refer to Note 6 "Notes to the Consolidated Financial Statements for the years ended December 31, 2019 and 2018", paragraph "General information" for a description of the change in Parent Company transaction.

** In December 2019, Swiss Medical Manufacturing Ooo, has been liquidated. The economic effects of the liquidation have been recognized in the Consolidated Statement of Profit or Loss.

The percentages of shares held, reported in the above table, represent both the shares of the capital and the votes held. The ultimate parent company is Medacta Group SA. The Group has neither associated companies nor joint arrangements. The registered offices for each entity represents the subsidiary's main place of administration.

SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENT

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less and are measured at amortised cost. Cash and cash equivalent is considered to have low credit risk since is deposited in bank institutions with over BBB+ rating and therefore not subject to impairment assessment.

INVENTORIES

Inventories of raw material are stated at the lower of the acquisition cost, determined via "first in, first out" (FIFO) methodology, and net realizable value.

Inventories of finished goods and work in progress are valued at the lower of production cost, including the acquisition price of the raw materials and consumables, the costs directly attributable to the product in question and a proportion of the costs indirectly attributable to the production in question, and net realizable value.

The net realizable value represents the estimated sales price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provisions for write-downs for raw materials, work in process and finished goods which are considered obsolete or slow moving are determined by taking into account their expected future utilization and their net realizable value. The Group also considers other reasons that the cost of inventories may not be recoverable such as damage, obsolescence, declines in selling price or allocation to marketing purpose. The cost of inventories may not be recoverable if the estimated costs of completion or the estimated costs incurred to make the sale would be greater than the net realisable value.

In addition, when the Group performs its assessment of the net realizable value at the end of each reporting period, it considers whether the circumstances that previously caused inventories to be written-down no longer exist or whether there is clear evidence of an increase in net realizable value because of changed economic circumstances and, if necessary, reverses the amount of the write-down so that the new carrying amount is the lower of the cost and the revised net realizable value.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at historical cost. Historical cost includes expenditures that are directly attributable to the acquisition of the items. After initial recognition, property, plant and equipment is carried at cost less accumulated depreciation, calculated from the date the asset is available for use and any accumulated impairment loss. The depreciable amount of the items of property, plant and equipment, measured as the difference between their historical cost and their residual value, is allocated on a straight-line basis over their estimated useful lives as follows:

Useful lives

- Buildings 40 years
- Plants 10 years
- Machinery 15 years
- Instruments 6 years
- Other fixtures and fitting, tool and equipment 5-8 years

Depreciation is not accounted for land or assets under construction.

Depreciation is recorded in the Consolidated Statement of Profit or Loss by function in "Cost of Sales", "Research and Development expenses", "Sales and Marketing expenses" and "General and Administrative expenses". Instruments depreciation is recorded in "Cost of Sales".

Depreciation ceases when property, plant and equipment is classified as held for sale, in compliance with IFRS 5—Non-Current Assets Held for Sale and Discontinued Operations.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Repair and maintenance costs are charged to the Consolidated Statement of Profit or Loss during the financial period in which they are incurred.

The net carrying amount of the items of property, plant and equipment is assessed, in the case of impairment indicators, at each reporting date. The Group would record a write-down of the net carrying amount if it is higher than the recoverable amount.

Assets' useful lives are assessed at each reporting date.

Upon disposal or when no future economic benefits are expected from the use of an item of property, plant and equipment, its carrying amount is derecognised. The gain or loss arising from derecognition is included in the Consolidated Statement of Profit or Loss.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

LEASES

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the Consolidated Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the Consolidated Statement of Financial Position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Property, plant and equipment" policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in Profit or Loss.

INTANGIBLE ASSETS (INCLUDING GOODWILL)

Intangible assets are non-monetary assets which are separately identifiable, have no physical nature, are under the company's control and are able to generate future economic benefits. Such assets are recognised at acquisition cost and/or production cost, including all costs directly attributable to make the assets available for use, net of accumulated amortisation and any impairment. Amortisation of intangible assets (excluding goodwill) commences when the asset is available for use and is calculated on a straight-line basis over the asset's estimated useful life.

Goodwill

Goodwill represents the difference between the cost incurred for acquiring a controlling interest (in a business) and the fair value of the assets acquired and liabilities assumed at the acquisition date. Goodwill is not amortised but is tested for impairment at least annually to identify any impairment losses. This test is carried out with reference to the cash-generating unit ("CGU") or group of CGUs to which goodwill is allocated and monitored. Reductions in the value of goodwill are recognised if the recoverable amount of goodwill is less than its carrying amount. Recoverable amount is defined as the higher of the fair value of the CGU or group of CGUs, less costs to sell and the related value in use. An impairment loss recognised against goodwill cannot be reversed in a subsequent period. If an impairment loss identified by the impairment test is higher than the value of goodwill allocated to that CGU or group of CGUs, the residual difference is allocated to the other assets included in the CGU or group of CGUs in proportion to their carrying amount.

Research and Development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;

- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditures which fulfil these criteria are limited to the development of new prosthesis and/or surgical instruments as well as costs related to the development of existing products in the pipeline which require significant improvements. All other development costs are expensed as incurred. In addition to the internal costs (direct personnel and other operating costs, depreciation on Research and Development equipment and allocated occupancy costs), total costs also include externally contracted development work. Such capitalised intangibles are recognised at cost less accumulated amortisation and impairment losses. The estimated useful lifetime of development projects is 5 years applying the straight-line method.

Amortisation of Development is recorded in the Consolidated Statement of Profit or Loss in line "Research and Development expenses".

Trademarks, concessions, patents and other intangible assets

Assets, including distribution networks and franchise agreements acquired in a business combination, are recognised at fair value at the acquisition date. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives.

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised over the expected life of the customer relationship and it is recorded in the Consolidated Statement of Profit or Loss in line "Sales and Marketing expenses".

All intangible assets are subject to impairment tests, as required by IAS 36—Impairment of Assets, if there are indicators that the assets may be impaired, with the exception of intangible assets in progress that are tested for impairment at least once a year.

Trademarks are amortised on a straight-line basis over periods of 5 years. Distributor network and contractual customer relationships (Customer Lists) are amortised on a straight-line basis or on an accelerated basis (projecting diminishing cash flows) over periods of 15 years. Other intangible assets are amortised on a straight-line basis over periods of 5 years.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

Goodwill is not subject to amortisation but is tested at least annually for impairment. All other assets within the scope of IAS 36 are tested for impairment whenever there are indicators that those assets may be impaired. If such indicators exist, the assets' net carrying amount is compared to their estimated recoverable amount. An impairment loss is recognised if the carrying amount is higher than the recoverable amount.

For the purposes of assessing impairment, property, plant and equipment, right-of-use assets and intangible assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-Generating Unit or CGU). Intangible assets with a definite useful life are reviewed at each reporting date to assess whether there is an indication that an impairment loss recognised in prior periods may no longer exist or has decreased. If such an indication exists, the loss is reversed and the carrying amount of the asset is increased to its recoverable amount, which may not exceed the carrying amount that would have been determined if no impairment loss had been recorded.

The reversal of an impairment loss is recorded in the Consolidated Statement of Profit or Loss. The impairment loss incurred on goodwill cannot be reversed.

Property, plant and equipment, right-of-use assets and finite-life intangible assets are analysed at each reporting date for any evidence of impairment. If such evidence is identified, the recoverable amount of these assets is estimated, and any impairment loss related to carrying amount is recognised in Profit or Loss. The recoverable amount is the higher of the fair value of an asset, less selling costs and its value in use, where the latter is the present value of the estimated future cash flows of the asset. The recoverable amount of an asset which does not generate largely independent cash flows is determined in relation to the cash-generating unit to which the asset belongs. In calculating an asset's value in use, the expected future cash flows are discounted using a discount rate reflecting current market assessments of the time value of money, in relation to the period of the investment and the specific risks associated with the asset. An impairment loss

is recognised in the Profit or Loss when the asset's carrying amount exceeds its recoverable amount. If the reasons for impairment cease to exist, the asset's carrying amount is restored with the resulting increase recognised through Profit or Loss; however, the carrying amount may not exceed the net carrying amount that this asset would have had if no impairment had been recognised and the asset had been depreciated/amortised instead.

Goodwill and intangible assets with indefinite life are tested annually for impairment or whenever there are impairment indicators. Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill and intangible assets with indefinite life relate. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets for development costs are tested whenever there is an indicator of impairment. Medacta Group on a quarterly basis performs an assessment on the existence of impairment indicators. If an impairment loss is identified, it is recognised in the Consolidated Statement of Profit or Loss. The Group performs its annual impairment test of development costs on September 30. Medacta usually applies the value in use method for its impairment assessment. The estimates used are highly sensitive and depend on assumptions specific to the nature of the Group's activities with regard to: amount and timing of expected cash flows, long-term sales forecasts, sales erosion from competitors, outcome of research and development activities, amount and timing of projected costs to develop in-process research and development in commercially viable products, tax rates, discount rates.

FINANCIAL INSTRUMENTS

Financial assets (classification)

Financial assets are initially measured at fair value. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVTOCI and FVTPL. The classification of financial assets under IFRS 9 is based on the business model within which a financial asset is managed and its contractual cash flow characteristics. The Group is subject to two principal classifications:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in Profit or Loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method;
- Fair value through Profit or Loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through Profit or Loss.

Trade receivables

Trade receivables are stated at amortised cost, less expected credit losses.

The Group writes-off the trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

Trade receivables do not contain any significant financing element as of December 31, 2019 and 2018.

Impairments of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model.

The expected credit loss model requires the Group to account for expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

With respect to IFRS 9, the Group recognises a loss allowance for expected credit losses on:

- Other non-current financial assets;
- Trade receivables.

For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime expected credit loss. The Group determines the expected credit losses in these items by using a provision matrix on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current condition and estimates of future economic condition.

For all other assets, the Group recognises lifetime expected credit losses when there is a significant increase in credit risk since initial recognition. If, on other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the allowance for these financial instruments an amount equal to 12 months expected credit loss.

In assessing whether the financial credit risk of the instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical and forward-looking information. In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in Profit or Loss.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

The Group entered into several forward contracts during the years 2019 and 2018, selling USD and buying CHF. None of these contracts were designated in hedge relationships. These Instruments have a duration between 1 and 12 months.

Financial derivatives with a positive fair value are recorded in other current financial assets and those with a negative fair value in other current financial liabilities. Fair value changes of financial derivatives are booked as financial income/(costs) into the Consolidated Statement of Profit or Loss (refer to Note 6.24 "Information on the Consolidated Statement of Profit or Loss").

Trade payables and other current liabilities

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less from the reporting date. If not, they are presented as non-current liabilities.

Trade payables are initially recognised at the fair value. Subsequent measurement is made using the amortised cost using the effective interest rate method.

Borrowings

Borrowings from banks and other financial institutions are initially recorded at fair value. Subsequent measurement is made using the amortised cost using the effective interest rate method.

Borrowings from banks and other financial institutions are classified among current liabilities, unless the Group has an unconditional right to defer their payment for at least 12 months after the reporting date.

Borrowings from banks and other financial institutions are removed from the Statement of Financial Position when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES / TAXES (P&L)

Income taxes include all taxes based on the taxable profits of the Group. Current and deferred taxes are recognised as a benefit or expenses and are included in the Consolidated Statement of Profit or Loss for the period, except tax arising from:

- A transaction or event which is recognised, in the same or a different period, either in Other Comprehensive Income/ (Loss) or directly in equity;
- A business combination.

Income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

Income tax expenses comprise current and deferred income tax.

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be received from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Tax expenses are recognised in the Consolidated Statement of Profit or Loss, except to the extent that they relate to items recognised in Other Comprehensive Income ("OCI") or directly in equity.

In this case, taxes are also recognised in OCI or directly in equity, respectively.

Management periodically takes positions in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate, based on the amounts expected to be paid to the tax authorities. Interest and penalties associated with these positions are included in "Income taxes" within the Consolidated Statement of Profit or Loss.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred taxes are determined using tax rates (and laws) that have been enacted or substantially enacted as of the reporting date and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable Profit or Loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax assets to be utilized. The recoverability of deferred tax assets is dependent on the Group's ability to generate sufficient future taxable income in the period in which it is assumed that the deductible temporary differences reverse and tax losses carried forward can be utilized. In making this assessment the Group considers future taxable income arising on the most recent budgets and plans, prepared by using the same criteria described for testing the impairment of assets and goodwill. Moreover, the Group estimates the impact of the reversal of taxable temporary differences on earnings and it also considers the period over which these assets could be recovered.

The above-mentioned estimates and assumptions are subject to uncertainty especially as it relates to future performance or tax rates applicable. Therefore, changes in current estimates due to unanticipated events could have a significant impact on the Consolidated Financial Statements.

RETIREMENT BENEFIT OBLIGATIONS

Pension obligations

Most employees are covered by post-employment plans sponsored by corresponding Group companies in the Medacta Group. Such plans are mainly defined contribution plans (future benefits are determined by reference to the amount of contributions paid) and are generally administered by autonomous pension funds or independent insurance companies. These pension plans are financed through employer and employee contributions. The Group's contributions to defined contribution plans are charged to the Profit or Loss in the year to which they relate.

The Group also has defined benefit pension plans. Accounting and reporting of these plans are based on annual actuarial valuations. Defined benefit obligations and service costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the Profit or Loss to spread the regular cost over the service lives of employees participating in these plans. The pension obligation is measured as the present value of the estimated future outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Service costs from defined benefit plans are charged to the appropriate Profit or Loss heading within the operating results.

A single net interest component is calculated by applying the discount rate to the net defined benefit asset or liability. The net interest component is recognised in the Profit or Loss in the financial result.

Actuarial gains and losses, resulting from changes in actuarial assumptions and differences between assumptions and actual experiences, are recognised in the period in which they occur in "Other Comprehensive Income" in equity.

Short-term employee benefits

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Other non-current benefits

Other non-current benefits mainly comprise length of service compensation benefits in certain Group companies. Contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are recorded in Other Comprehensive Income (OCI) as remeasurements of employee benefits;
- If contributions are linked to services, they reduce service costs.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

All performance obligations are recognised at a point in time. Revenue from the sale of goods is recognised when all of the following conditions have been satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership of the goods;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group;
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Medacta applies IFRS 15 – Revenue from contracts with customers – in its IFRS Consolidates Financial Statements. The Group offers mainly to its customers the following type of contracts:

- Sale of prosthesis to external distributors and direct sale to customers. Medacta sells to distributors in countries where Medacta has no presence of its own. In this scenario the performance obligation is to deliver the products ordered by clients and revenue is recognised at a point in time when control transfers to the customer.
- Distribution of instruments, i.e. orthopedic and neurosurgical medical devices directly to hospitals and clinics when an order is processed. In this business model both prosthesis and surgical instruments are shipped before surgery is planned. Revenue is recognised at a point in time when control transfers to the customer which is at the point when the surgery is being performed. At this point there is a "contract for sale" of the prosthetics after a purchase order is submitted. The performance obligation is satisfied at the point that surgery is performed and hence all revenue should be recognised at that point. This is when Medacta effectively transfer control to the customer.
  Sales of prothesis based on reported use. In the case of large hospitals and clinics, Medacta supplies prosthesis along with instruments in consignment stock, to meet demand for surgery. Medacta recognises revenue at a point in time when the hospitals are utilising the prosthesis and the instruments, i.e. when surgery occurs.
  The sale of the prosthesis and the distribution of surgery instruments are interrelated and therefore not distinct in the context of the contract. There is only one performance obligation being the sale of the prosthesis and the supply of the surgery instruments. Controls of the instruments are not transferred to the customer.

Sales commissions are contract costs and are recorded in the Consolidated Statement of Profit or Loss at the point in time when related revenues are recognised.

The transaction price may comprise both fixed and variable components. Products are, in most transactions sold at pre-defined fixed prices, however in some contracts a volume discount is agreed based on specific targets. Revenue is recognised, as soon as the performance obligation is satisfied, at the transaction price identified.

On a monthly basis, revenue is adjusted by the estimated volume discounts to be applied to individual customers based on achievement of set sales targets; Medacta applies the "most likely amount" method in order to estimate the variable considerations.

6.2 NEW ACCOUNTING AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE EFFECTIVE FOR REPORTING PERIODS BEGINNING ON JANUARY 1, 2019

IFRS 16 Leases (effective January 1, 2019)

The new standard replaces IAS 17 and introduces a single, on-balance sheet accounting model for lessees and sets out the principles for the recognition, measurement, presentation and disclosure of leases. Under IAS 17 the Group classified as operating leases all the contracts in which a significant portion of the risks and rewards of ownership are retained by the lessor. Lease contracts where lessees bear substantially all the risks and rewards of ownership were classified as finance leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the Consolidated Statement of Profit or Loss on a straight-line basis over the lease term. Finance leases were capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Group applies the definition of a lease to all lease contracts entered into or modified on or after January 1, 2019.

The Group applied the cumulative catch-up method for the transition, which requires the recognition of the cumulative effect of initially applying IFRS 16, as of January 1, 2019 to the retained earnings and not restate prior years. The Group used different practical expedients permitted by IFRS 16. In accordance with Appendix C par. C8(b)(i), it has elected to measure the right-of-use asset an amount equal to lease liability, adjusted by the amount of any prepaid or accrued lease payments related to that lease recognised in the Consolidated Statement of Financial Position immediately before the date of initial application. Since the Group recognised the right-of-use assets at the amount equal to the lease liabilities (as per IFRS 16C8(b)), there was no impact to the retained earnings. The Group elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease. Also, the Group made use of the practical expedient available on transition to IFRS 16 not to reassess weather a contract is or contain a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or modified before January 1, 2019.

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities for leases previously classified as operating leases, which were off-balance sheet under IAS 17. Applying IFRS 16 the Group:

- Recognises right-of-use assets and lease liabilities in the Consolidated Statement of Financial Positions, initially measured at the present value of future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the Consolidated Statement of Profit or Loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Consolidated Statement of Cash Flows.

The Group determines the lease term considering both, the non-cancellable term of the lease and any periods covered by an option to extend if its reasonably certain to be exercised and an option to terminate if its reasonably certain not to be exercised. The Group applies judgment in evaluating whether it is reasonable certain to exercise contract options. Options (extension/termination) on lease contracts are considered on a case by case basis following the assessment performed by local subsidiary's management.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at the rate implicit in the lease. If the rate cannot be readily determined, the Group uses its incremental borrowing rate. The incremental borrowing rates used for IFRS 16 purposes have been defined based on the underlying countries and asset classes related risks.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis of its estimated useful life and the lease term. Right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets.

When applying IFRS 16, the Group made the following changes in presentation:

- In the Consolidated Statement of Financial Position, additional line items to reflect the right-of-use assets, the non-current and the current lease liabilities;
- In the Consolidated Statement of Cash Flows, the line item "Repayment of lease liabilities" includes repayments of lease liabilities and it is presented within financing activities. Interest paid on lease liabilities are presented within operating activities, as permitted by IAS 7 and per Group policy choice.

All the transition impacts on the balance sheet are shown in the table below:

(Thousand Euro)	31.12.2018	Application of IFRS 16	01.01.2019
Property, Plant and Equipment	132'908	(10'701)	**122'207**
Right-of-use assets	-	20'799	**20'799**
Non-current financial liabilities	(113'015)	6'136	**(106'879)**
Non-current lease liabilities	-	(14'045)	**(14'045)**
Current financial liabilities	(51'476)	2'620	**(48'856)**
Current lease liabilities	-	(4'910)	**(4'910)**
Other non-current and current liabilities	(112'035)	101	**(111'934)**

IFRS 16 adoption required the transfer of asset recognised for finance lease contracts under IAS 17 from Property, Plant and Equipment to right-of-use assets, for an amount Euro 10'701 thousand. Also, all finance lease liabilities have been reclassified from current and non-current financial liabilities to lease liabilities for an amount respectively equal to Euro 2'620 thousand and Euro 6'136 thousand. The other impacts on right-of-use assets and lease liabilities relate the valuation of operating lease contracts under the new IFRS 16 accounting rule. The incremental borrowing rates used for IFRS 16 purposes have been defined based on the risk-free rates of the underlying countries, a company specific adjustment and an asset class weighted average incremental borrowing rate. The weighted average incremental borrowing rates as at January 1, 2019 were 1.8% for the asset class land and building, 1.3% for motor vehicles and 2.0% for IT Equipment.

The table below provides the reconciliation between the disclosure for operating lease commitments reported under IAS 17 at December 31, 2018 and IFRS 16 presentation:

(Thousand Euro)	
OPERATING LEASE COMMITMENTS (UNDISCOUNTED) AS REPORTED AT DECEMBER 31, 2018, APPLYING IAS 17	**8'152**
Exemption of commitments for short-term leases and low value assets	(55)
Adjustment for extension options reasonably certain to be exercised	2'917
Discount impact using country and asset specific incremental borrowing rates	(815)
ADDITION OF LEASE LIABILITIES AS OF JANUARY 1, 2019	**10'199**
Former Finance lease liabilities as reported at December 31, 2018 applying IAS 17	8'756
LEASE LIABILITIES RECOGNISED ON JANUARY 1, 2019	**18'955**

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through Other Comprehensive Income) even in the case of negative compensation payments. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the "solely payments of principal and interest" (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI. The adoption of this amendment did not have any impact for the Group.

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations and IAS 12 Income Taxes (effective January 1, 2019)

IAS 12 Income Taxes - The amendments clarify that an entity should recognise the income tax consequences of dividends in Profit or Loss, Other Comprehensive Income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits. The adoption of this amendment did not have any material impact as of December 31, 2019.

IFRS 3 Business Combinations - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation. The adoption of this amendment did not have any material impact as of December 31, 2019.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in Other Comprehensive Income. The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)). The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after January 1, 2019. The adoption of this amendment did not have any material impact as of December 31, 2019.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as a group;
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

    - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings;
    - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after January 1, 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively. The Interpretation did not have any material impact as of December 31, 2019, confirming the current practices of the Group.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE EFFECTIVE FOR REPORTING PERIODS BEGINNING ON AND AFTER JANUARY 1, 2020 AND NOT YET ADOPTED BY THE GROUP.

The following standards and amendments to existing standards, which are relevant to the Group, have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2020 or later periods, and the Group has not adopted them early:

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's Profit or Loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's Profit or Loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's Consolidated Financial Statements in future periods should such transactions arise.

Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Additional guidance is provided, that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020, with early application permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's Consolidated Financial Statements in future periods should such transactions arise.

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably' be expected to influence. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on March 29, 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework. The amendments, where they actually are updates, are effective for annual periods beginning on or after January 1, 2020, with early application permitted. The directors of the Company anticipate that the application of these amendments may in the future affect the application of IFRS on the Group's Consolidated Financial Statements in situation where no standard applies to a particular transaction or event.

6.3 FINANCIAL RISKS MANAGEMENT

The Board of Directors is responsible for the Group's internal control system, which provides the ultimate oversight for Medacta's strategy, operation and finances.

The internal control system of Medacta is structured to ensure the correct disclosure and adequate coverage of control over all Group activities, with particular attention on areas considered potentially at risk. Each Board Member is entitled to request information concerning all affairs of the Company and the Group reasonably necessary to fulfil his fiduciary duties.

The risk management strategy of the Group aims to stabilize the results of the Group by minimizing the potential effects due to volatility in financial markets.

The Group uses derivative financial instruments to mitigate exchange rate risks.

According to the Organizational Regulations, the CFO, in cooperation with the CEO, ensures good financial governance, overseeing all financial planning, budgeting (short- and midterm), reporting and risk management activities. Furthermore, the CFO leads the implementation of systems and procedures to seek to ensure compliance with regulatory requirements for financial information, reporting, disclosure requirements, and internal control.

Liquidity risk is managed centrally for the whole Group including necessities of foreign subsidiaries.

The assets of the Group are exposed to different types of financial risk:

- Market risk (which includes exchange rate risks and cash flow uncertainty);
- Credit risk;
- Liquidity risk.

MARKET RISK

EXCHANGE RATE RISK

The Group operates internationally and is, therefore, exposed to exchange rate risk related to the various currencies with which the Group operates. Trade receivable are the most significant amount in foreign currency and Medacta used foreign currency denominated debt to manage this exposure.

Additionally, a foreign currency transaction risk exists in relation to future commercial transactions which are denominated in a currency other than the functional currency.

The Group only enters into foreign exchange contracts, selling USD and buying CHF.

The financial instruments have a duration between 1 and 12 months. These financial instruments are not designated in hedging relationships.

As of December 31, 2019, forward currency contracts with a nominal value of USD 30'000 thousand (2018: USD 30'000 thousand) and positive fair value of Euro 259 thousand (2018: negative fair value of Euro 562 thousand) were open. Financial derivatives with a positive fair value are recorded in other current financial assets and those with a negative fair value in other current financial liabilities. Fair value changes of financial derivatives are booked as financial income/(costs) into the Consolidated Statement of Profit or Loss (refer to Note 6.24 "Information on the Consolidated Statement of Profit or Loss").

Furthermore, the Group uses Euro as presentation currency and holds net assets in different functional currencies, hence is exposed to foreign currency translation risk. This risk is not hedged.

The following table demonstrates the sensitivity to a reasonable possible currency rate change of the Group's Profit before taxes and of the Group's Equity, with all other variables held constant.

The sensitivity analysis considers major foreign currency risk exposures.

EXCHANGE RATES SENSITIVITY

(Thousand Euro)

Currency	Increase / (Decrease)	Profit Before Taxes	Equity
CHF/EUR	10%	(12'589)	8
USD/EUR	10%	9'850	(11'423)
AUD/EUR	10%	346	(706)
JPY/EUR	10%	947	(742)
CHF/EUR	(10%)	12'589	(8)
USD/EUR	(10%)	(9'850)	11'423
AUD/EUR	(10%)	(346)	706
JPY/EUR	(10%)	(947)	742

The sensitivity on Profit Before Taxes and Equity to an increase/(decrease) of the USD currency reported in the table above does not consider the balances in foreign currency of Medacta International SA, mainly related to financial debts and derivative financial assets (liabilities), that would partially compensate the effects reported above.

An increase of 10% in the USD/EUR currency exchange rate would lead to an estimated additional impact on Profit Before Taxes equal to negative Euro 4'330 thousand. A decrease of 10% in the USD/EUR currency exchange rate would lead to an estimated additional impact on Profit Before Taxes equal to positive Euro 4'330 thousand.

INTEREST RATE RISK

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's current interest-bearing assets and current and non-current debts with floating interest rates. No hedging activities (such as interest rate swaps) were conducted during the 2019 and 2018 closing periods.

The Group has only limited exposure to interest rate changes. The most substantial interest exposure on assets relates to cash and cash equivalents. On liabilities the most significant risk relates to the bank loans with variable rate.

The following table shows the sensitivity to interest rate changes, with all other variables held constant, of the Group's Profit or Loss and Equity:

INTEREST RATE SENSIVITY - IMPACT ON PROFIT OR LOSS

(Thousand Euro)

	50 basis points increase
As at December 2018	(781)
As at December 2019	(747)

CREDIT RISK

Credit risk exists in relation to trade receivables, cash and deposits in banks.

The Group performs recurring credit checks on its receivables. Due to the customer diversity there is no single credit limit for all customers, however the Group assesses its customers taking into account their Financial Position, past experience, and other factors.

Due to the fragmented customer base (no single customer balance is greater than 5% of total trade accounts receivable), the Group is not exposed to any significant concentration risk. The same applies to loans to third parties. Core banking relations are maintained with at least "BBB+" rated (S&P) financial Institutions.

The Group does not expect any significant losses either from receivables or from other financial assets. Low credit risk of internal default is defined based on review of Financial Position of counterparties including review of the industry.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
Impaired	There is evidence indicating the asset is credit-impaired for the amount >90 days past due	Lifetime ECL- credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written-off

The tables below detail the credit quality of the Group's financial assets and other items, as well as the Group's maximum exposure to credit risk by credit risk rating grades:

December 31, 2019 (Thousand Euro)	Note	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables	6.13	N/A	*	Lifetime ECL (simplified approach)	48'713	(664)	48'049

December 31, 2018 (Thousand Euro)	Note	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables	6.13	N/A	*	Lifetime ECL (simplified approach)	44'698	(605)	44'093

* For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

LIQUIDITY RISK

The management of the liquidity risk which originates from the normal operations of the Group involves the maintenance of an adequate level of cash and cash equivalents as well as financial resources through an adequate amount of credit lines.

The Group aims to grow further and wants to remain flexible in making time-sensitive investment decisions. This overall objective is included in the asset allocation strategy. A rolling forecast based on the expected cash flows is conducted and updated regularly to monitor and control liquidity.

The following tables include a summary, by maturity date, as at December 31, 2019 and 2018.

The reported balances are contractual and undiscounted figures.

As at December 31, 2019 (Thousand Euro)	**Up to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
Trade payables	17'845	-	-	**17'845**
Financial accrued expenses	8'691	-	-	**8'691**
Current financial liabilities *	47'505	-	-	**47'505**
Non-current financial liabilities *	-	71'241	14'138	**85'379**
Current lease liabilities *	5'435	-	-	**5'435**
Non-current lease liabilities *	-	11'736	3'373	**15'109**
Interest on financial debt	1'769	6'173	2'120	**10'062**
Net derivative financial (assets)/liabilities	(259)	-	-	**(259)**
Gross outflows	*26'568*	-	-	***26'568***
Gross inflows	*(26'827)*	-	-	***(26'827)***

As at December 31, 2018 (Thousand Euro)	**Up to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
Trade payables	20'051	-	-	**20'051**
Other current liabilities	467	-	-	**467**
Financial accrued expenses	7'311	-	-	**7'311**
Current financial liabilities *	51'476	-	-	**51'476**
Non-current financial liabilities *	-	88'795	24'220	**113'015**
Interest on financial debt	2'077	7'281	4'009	**13'367**
Net derivative financial (assets)/liabilities	562	-	-	**562**
Gross outflows	*25'133*	-	-	***25'133***
Gross inflows	*(24'571)*	-	-	***(24'571)***

* As disclosed in Note 6.17 "Financial liabilities", at December 31,2018 Current/Non-current financial liabilities included leasing liabilities for finance lease contracts. At December 31, 2019 these are classified within Current/Non-current lease liabilities.

6.4 FAIR VALUE MEASUREMENT AND CLASSIFICATION

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). That definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, use the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

The following tables show the carrying amounts and fair values of financial assets and liabilities by category of financial instrument in the Consolidated Financial Position. The fair value hierarchy level is shown for those financial assets and liabilities that are carried at fair value in the balance sheet.

Financial instruments held by the Group are measured at amortised costs. Their fair value usually approximates the carrying value.

The following table summarizes the financial instruments carried at fair value, by valuation method as at December 31, 2019. The different levels have been defined as follows:

- Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date;
- Level 2: The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques are based on observable market data, where applicable. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2;
- Level 3: If a significant amount of inputs is not based on observable market data the instrument is included in level 3. For this level other techniques, such as discounted cash flow analysis, are used to determine fair value.

Carrying amount (based on measurement basis)

As at December 31, 2019 (Thousand Euro)	**Asset and Liabilities at amortised cost**	**Assets / Liabilities as FVTPL**			
		Level 1	**Level 2**	**Level 3**	**Total**
Other non-current financial assets	456	-	-	-	**456**
Trade receivables	48'049	-	-	-	**48'049**
Other current financial assets	-	-	259	-	**259**
Cash and cash equivalents	27'241	-	-	-	**27'241**
Non-current financial liabilities *	85'379	-	-	-	**85'379**
Other non-current liabilities	7'919	-	-	-	**7'919**
Non-current lease liabilities *	14'539	-	-	-	**14'539**
Trade payables	17'845	-	-	-	**17'845**
Other current liabilities	25'963		-	138	**26'101**
Current financial liabilities *	47'505	-	-	-	**47'505**
Current lease liabilities *	5'435	-	-	-	**5'435**

* As disclosed in Note 6.17 "Financial liabilities", at December 31,2018 Current/Non-current financial liabilities included leasing liabilities for finance lease contracts. At December 31, 2019 these are classified within Current/Non-current lease liabilities.

Carrying amount (based on measurement basis)					
As at December 31, 2018 (Thousand Euro)	**Asset and Liabilities at amortised cost**	**Assets / Liabilities as FVTPL**			
		Level 1	**Level 2**	**Level 3**	**Total**
Other non-current financial assets	765	-	-	-	**765**
Trade receivables	44'093	-	-	-	**44'093**
Other current financial assets *	240	-	-	-	**240**
Cash and cash equivalents	33'710	-	-	-	**33'710**
Non-current financial liabilities	113'015	-	-	-	**113'015**
Other non-current liabilities	10'499	-	-	-	**10'499**
Trade payables	20'051	-	-	-	**20'051**
Other current liabilities	22'638	-	-	-	**22'638**
Current financial liabilities	50'740	-	562	174	**51'476**

* Other current assets for approximately Euro 240 thousand, represents the escrow account related to Vivamed GmbH acquisition. This amount was collected on January 9, 2019. Refer to Note 6.10 "Other financial assets".

The level 2 balance relates to forward currency contracts (Foreign exchange contracts, selling USD and buying CHF; the financial instruments have a duration between 1 and 12 months) described in Note 6.3 "Financial risks management", "Exchange rate risk" section.

The level 3 balance relates to the fair value measurement of a contingent liability provided in the acquisition contract of Balgrist Card, AG described in Note 6.5 "Business combinations". The contingent consideration was recognised as part of the consideration transferred in exchange for the acquiree, measured at its acquisition-date fair value. Management valued that the fair value of the contingent consideration is equal to CHF 150 thousand, corresponding to Euro 138 thousand as of December 31, 2019 (CHF 200 thousand, Euro 174 thousand as of December 31, 2018). The valuation model utilized to value the level 3 contingent liability is a discounting cash flow model. To assess the probability that the contingent events will occur has been performed an internal valuation from the technical IT development department.

6.5 BUSINESS COMBINATIONS

During 2019 no business combination transaction occurred.

TRANSACTIONS IN 2018

BALGRIST CARD AG

As of October 1, 2018, the Medacta Group completed the acquisition of 100% of Balgrist Card AG, Switzerland.

In particular, Medacta International SA acquired 100% of the share capital of the Swiss Company.

Balgrist Card AG is a competence center for Computer Assisted Surgery located in the University Hospital Balgrist in Zurich. In calendar year 2017 sales were Euro 0.5 million with a net loss of Euro 0.1 million.

With merger agreement dated December 14, 2018 and resolution of the same day adopted by the shareholders meeting of Medacta International SA and Balgrist Card AG, Balgrist Card AG merged with Medacta International SA by dissolution without liquidation by absorption. The above described merge had retroactive accounting and tax effect as of October 1, 2018.

The acquisition of Balgrist Card AG represents a business combination transaction recognised in accordance with IFRS 3 —Business combinations.

At the date of acquisition of control, the individual identifiable assets and liabilities were recorded at their fair value. The completion of the transaction entailed acquisition costs to third parties of approximately Euro 0.1 million.

(Thousand Euro)	
Acquisition value 100% (A)	558
Total net identifiable assets (B)	558
GOODWILL (C=A-B)	**-**
Cash paid (D)	558
Acquiree net cash (E)	62
CASH FLOW ABSORBED BY THE ACQUISITION (F=E-D)	**(496)**

The purchase price for the shares shall be CHF 729 thousand, and paid as follows:

- CHF 429 thousand (equivalent to Euro 377 thousand as of October 1, 2018) at effective date as instructed by Balgrist Beteilingungs AG;
- CHF 150 thousand (equivalent to Euro 138 thousand as of December 2019) shall be paid when automation works;
- CHF 50 thousand (equivalent to Euro 46 thousand as of December 2019) shall be paid if the patent is granted by the European PTO;
- CHF 100 thousand (equivalent to Euro 92 thousand as of December 2019) shall be paid if the company comes to an agreement with one of the major insurance companies in Switzerland relating to reimbursement of MyOsteotomy.

The contingent consideration was recognised as part of the consideration transferred in exchange for the acquiree, measured at its acquisition date fair value. Based on Management valuation the fair value of the contingent consideration was equal to CHF 200 thousand (Euro 174 thousand as of December 2018).

Management evaluated that based on the information available at the reporting date is improbable that the Swiss insurance companies recognise the MyOsteotomy as part of the reimbursement products. As of December 2019, the technical IT development department assessed that patenting the MyOsteotomy product became not probable, hence the residual fair value of the contingent consideration is now equal to CHF 150 thousand (Euro 138 thousand).

The fair values of the assets acquired are as follows:

(Thousand Euro)	**Fair Value**
Cash and cash equivalents	62
Trade receivables	-
Other receivables	6
Prepaid expenses	2
TOTAL CURRENT ASSETS	**70**
Tangible assets	-
Intangible assets	668
TOTAL NON-CURRENT ASSETS	**668**
TOTAL IDENTIFIABLE ASSETS (G)	**738**
Trade payables	-
Other payables	32
Tax accruals	16
TOTAL CURRENT LIABILITIES	**48**
Deferred tax liabilities	132
Provisions	-
TOTAL NON-CURRENT LIABILITIES	**132**
TOTAL IDENTIFIABLE LIABILITIES (H)	**180**
TOTAL NET IDENTIFIABLE ASSETS (B=G-H)	**558**

Recognised acquisition-related intangible assets for Balgrist Card AG largely contain software. For acquisition-related intangibles the lifetimes assigned is 5 years. On these intangibles deferred taxes have been recognised.

Acquisition-related transaction costs have been expensed and are included in the line "General and administration" in 2018.

ASD "ADVANCED SURGICAL DEVICES" GROUP OF ASSETS ACQUISITION

As of July 30, 2018, Medacta USA Inc. completed the acquisition of ASD "Advanced Surgical Devices" for USD 1.5 million through an Asset Purchase Agreement. Management assessed that the Asset Purchase Agreement meets the definition of a business as provided by the IFRS 3, since Medacta Group acquired employees, intellectual properties, customer lists and specific assets capable of creating outputs in the distribution business.

In July 2018, on the closing date, the Group paid USD 500 thousand related to the acquisition of ASD. The remaining USD 1 million were paid on February 5, 2019 including interest for approximately 2% from the closing date till the actual payment date.

The Group first consolidated the subsidiary in 2018 as the Group started controlling ASD as of August 1, 2018. ASD managed the distribution of Medacta's implants in the US market along with the distributions of implants from other competitors and employed 11 staff. In calendar year 2017 sales were USD 2.1 million.

From August 1, 2018, ASD assets as provided by the agreement, became part of the scope of consolidation and were consolidated on a line-by-line basis in accordance with IFRS 10 — Consolidated Financial Statements.

In accordance with IFRS 3—Business Combinations, the fair values of identifiable assets and liabilities have been determined in order to define the Goodwill at the acquisition date. The completion of the transaction entailed acquisition costs to third parties of approximately USD 100 thousand.

(Thousand Euro)	
Acquisition value 100% (A)	1'312
Total net identifiable assets (B)	1'312
GOODWILL (C=A-B)	**-**
Cash paid (D)	1'312
Acquiree net cash (E)	-
CASH FLOW ABSORBED BY THE ACQUISITION (F=E-D)	**(1'312)**

The payment of the total price has been agreed as follow:

- USD 500 thousand (equivalent to Euro 426 thousand as of July 2018) paid in July 2018;
- USD 1'036 thousand (equivalent to Euro 875 thousand as of February 2019) paid in February 2019.

The fair values of the assets acquired are as follows:

(Thousand Euro)	Fair Value
Cash and cash equivalents	-
Trade receivables	-
Inventory	-
TOTAL CURRENT ASSETS	**-**
Tangible assets	-
Customer list	1'636
TOTAL NON-CURRENT ASSETS	**1'636**
TOTAL IDENTIFIABLE ASSETS (G)	**1'636**
Trade payables	-
Tax accruals	-
TOTAL CURRENT LIABILITIES	**-**
Deferred tax liabilities	324
TOTAL NON-CURRENT LIABILITIES	**324**
TOTAL IDENTIFIABLE LIABILITIES (H)	**324**
TOTAL NET IDENTIFIABLE ASSETS (B=G-H)	**1'312**

Recognised acquisition-related intangible assets for ASD largely contain customer relationships (Euro 1.6 million).

For acquisition-related intangibles the lifetimes assigned is 15 years. On these intangibles deferred taxes have been recognised.

Acquisition-related transaction costs have been expensed and are included in the line "General and administration". There are no variable purchase price components resulting from the acquisition.

6.6 SEGMENT INFORMATION

The Group has only one operating segment.

The criteria applied to identify the operating segments are consistent with the way the Group is managed. In particular, the segment reporting reflects the internal organizational and management structure used within the Group as well as the internal management reporting reviewed regularly by the Chief Operating Decision Maker (CODM), who has been identified as the Chief Executive Officer Francesco Siccardi.

Therefore, Medacta constitutes with only one segment which is represented by the whole group itself. In 2019 and 2018 no single customer represents 10% or more of the total Group revenues. Resource allocation and performance assessment are performed at Group level and not at single-component level.

The operating segments subject to disclosure are consistent with the organization model adopted by the Group during the financial year as at December 31, 2019.

INFORMATION BY GEOGRAPHIC AREA

The Group operates in Europe, North America (which includes the United States of America and Canada), Asia-Pacific (which includes Australia, New Zealand, China, Hong Kong, Singapore and Japan) and Rest of the World (RoW) area (which includes all other geographic locations, including the Middle East). In 2019 Medacta expanded in five new target regions with new distributors worldwide: Cyprus, Ecuador, Lebanon, Paraguay and Tunisia. This expansion in new markets contributed to sustain the acceleration in the RoW area. Sales are attributed to geographic areas based on the customer's location, whereas property, plant and equipment based on the geographic area where legal entities are located. The Group did not report other non-current assets by geographic area since the cost to develop the information would be excessive and will not provide any material value to the reader.

SALES AND PROPERTY, PLANT AND EQUIPMENT (Thousand Euro)	31.12.2019 Net sales	31.12.2019 Property, plant and equipment	31.12.2018 Net sales	31.12.2018 Property, plant and equipment
Europe *	136'095	111'479	124'903	112'953
North America **	95'508	22'334	80'148	18'720
Asia Pacific ***	66'935	1'537	58'274	1'235
RoW	12'085	-	9'285	-
TOTAL CONSOLIDATED	**310'623**	**135'350**	**272'610**	**132'908**

* Property, plant and equipment located in Switzerland represented 75.5% and 79.5% of the Group's total property, plant and equipment as at December 31, 2019 and 2018, respectively. Net sales recorded in Switzerland were Euro 35'129 thousand and Euro 32'133 thousand as at December 31, 2019 and 2018, respectively.
** Property, plant and equipment located in the United States represented 16.5% and 14.1% of the Group's total property, plant and equipment as at December 31, 2019 and 2018, respectively. Net sales recorded in the United States were Euro 94'706 thousand and Euro 79'179 thousand as at December 31, 2019 and 2018, respectively.
*** Property, plant and equipment located in the Australia represented 0.6% and 0.5% of the Group's total property, plant and equipment as at December 31, 2019 and 2018, respectively. Net sales recorded in the Australia were Euro 40'492 thousand and Euro 36'914 thousand as at December 31, 2019 and 2018, respectively.

6.7 PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT **December 31, 2019** (Thousand Euro)	Land	Buildings	Plants & Machinery	Instruments	Other fixtures and fitting, tool and equipment	Assets under construction	Total
HISTORICAL COST							
BALANCE DECEMBER 31, 2018	**8'442**	**38'517**	**33'272**	**128'749**	**17'649**	**9**	**226'638**
IFRS 16 adoption *	-	-	(13'797)	-	(2'417)	-	(16'214)
BALANCE JANUARY 1, 2019	**8'442**	**38'517**	**19'475**	**128'749**	**15'232**	**9**	**210'424**
Additions	-	433	2'551	35'870	2'590	30	41'474
Disposals	(1'376)	(4'514)	(1'189)	(4'971)	(634)	-	(12'684)
Transfers **	-	-	1'836	151	241	-	2'228
Exchange differences	311	1'416	782	4'009	487	(7)	6'998
BALANCE DECEMBER 31, 2019	**7'377**	**35'852**	**23'455**	**163'808**	**17'916**	**32**	**248'440**
ACCUMULATED DEPRECIATION							
BALANCE DECEMBER 31, 2018	**-**	**(2'086)**	**(14'011)**	**(65'842)**	**(11'791)**	**-**	**(93'730)**
IFRS 16 adoption *	-	-	3'755	-	1'758	-	5'513
BALANCE JANUARY 1, 2019	**-**	**(2'086)**	**(10'256)**	**(65'842)**	**(10'033)**	**-**	**(88'217)**
Depreciation of the year and impairment loss	-	(1'118)	(1'308)	(19'024)	(1'756)	-	(23'206)
Disposals	-	325	340	1'224	359	-	2'248
Transfers	-	-	(736)	-	(426)	-	(1'162)
Exchange differences	-	(95)	(411)	(1'910)	(337)	-	(2'753)
BALANCE DECEMBER 31, 2019	**-**	**(2'974)**	**(12'371)**	**(85'552)**	**(12'193)**	**-**	**(113'090)**
NET BOOK VALUE							
BALANCE DECEMBER 31, 2018	**8'442**	**36'431**	**19'261**	**62'908**	**5'857**	**9**	**132'908**
IFRS 16 adoption *	-	-	(10'042)	-	(659)	-	(10'701)
BALANCE JANUARY 1, 2019	**8'442**	**36'431**	**9'219**	**62'908**	**5'198**	**9**	**122'207**
BALANCE DECEMBER 31, 2019	**7'377**	**32'878**	**11'084**	**78'256**	**5'723**	**32**	**135'350**

* Refer to Note 6.2 "New accounting and international financial reporting standards" for the transition impacts of IFRS 16.
** The total balance of "Transfers" refers to the reclass from right-of-use assets to property plant and equipment due to the purchase of the leased assets.

PROPERTY, PLANT AND EQUIPMENT

December 31, 2018 (Thousand Euro)	Land	Buildings	Plants & Machinery	Other fixtures and fitting, tool and equipment *	Assets under construction	Total
HISTORICAL COST						
BALANCE JANUARY 1, 2018	**8'130**	**18'717**	**27'534**	**118'567**	**2'632**	**175'580**
Acquisitions	-	-	-	-	-	-
Additions	-	16'001	4'367	28'719	-	49'087
Disposals	-	-	(370)	(5'290)	-	(5'660)
Transfers	-	2'675	583	(583)	(2'675)	-
Exchange differences	312	1'124	1'158	4'985	52	7'631
BALANCE DECEMBER 31, 2018	**8'442**	**38'517**	**33'272**	**146'398**	**9**	**226'638**
ACCUMULATED DEPRECIATION						
BALANCE JANUARY 1, 2018		**(1'142)**	**(11'702)**	**(61'211)**	**-**	**(74'055)**
Acquisitions	-	-	-	-	-	-
Depreciation of the year and impairment loss	-	(869)	(2'052)	(17'335)	-	(20'256)
Disposals	-	-	233	3'324	-	3'557
Transfers	-	-	-	-	-	
Exchange differences	-	(75)	(490)	(2'411)	-	(2'976)
BALANCE DECEMBER 31, 2018	**-**	**(2'086)**	**(14'011)**	**(77'633)**	**-**	**(93'730)**
NET BOOK VALUE						
BALANCE JANUARY 1, 2018	**8'130**	**17'575**	**15'832**	**57'356**	**2'632**	**101'525**
BALANCE DECEMBER 31, 2018	**8'442**	**36'431**	**19'261**	**68'765**	**9**	**132'908**

* As at December 31, 2018 "Other fixtures and fittings, tool and equipment" equal to Euro 68'765 thousand included the netbook value of both "Instruments" for Euro 62'908 thousand and "Other tool and equipment" for Euro 5'857 thousand.

Other fixture and fitting, tools and equipment mainly consist in surgical instruments. The net book value of machinery and equipment under finance lease as at December 31, 2018 amounted Euro 10'701 thousand.

As at December 31, 2019, tangible fixed assets for a total amount of Euro 16'546 thousand (2018: Euro 18'392 thousand) have been pledged as collateral for borrowing facilities.

Disposals of Land and Building in 2019 include the sale of a building in Castel San Pietro. The disposal was completed on December 12, 2019. The building was depreciated until October 8, 2019, date on which the operation met the criteria for the classification of the assets as held for sale. At that date, the net book value of the assets amounted Euro 6'122 thousand: Land for Euro 1'376 thousand, Building for Euro 4'189 thousand, Plant and Machinery for Euro 365 thousand Other fixture and fitting, tool and equipment for Euro 192 thousand. The positive net result of the sale was classified in the Consolidated Statements of Profit or Loss within the line "Other income" (see also Note 6.24 "Information on the Consolidated Statement of Profit or Loss"). Since the operation occurred with a related party as defined by IAS 24, additional disclosure was provided also in Note 6.26 "Related party transactions".

During the years 2019 and 2018 no impairment losses have been recognised on property, plant and equipment.

6.8 LEASES

As disclosed in Note 6.2 "New accounting and international financial reporting standards", the Group first adopted IFRS 16 as of January 1, 2019.

RIGHT-OF-USE ASSETS

The table below shows the movement of right-of-use assets for the period ended December 31, 2019:

(Thousand Euro)	Land and Building	Motor vehicles	ITC Equipment	Plant and Machinery	Other tool and equipment	Total
HISTORICAL COST						
BALANCE ON DECEMBER 31, 2018 *	-	-	-	13'797	2'417	16'214
IFRS 16 adoption **	8'024	2'103	72	-	-	**10'199**
Incentives received	(101)	-	-	-	-	**(101)**
BALANCE JANUARY 1, 2019	**7'923**	**2'103**	**72**	**13'797**	**2'417**	**26'312**
Additions	1'831	1'287	71	3'028	-	**6'217**
Disposals	(20)	-	-	-	-	**(20)**
Transfers ***	-	-	-	(1'797)	(431)	**(2'228)**
Exchange differences	114	28	(5)	534	79	**750**
BALANCE DECEMBER 31, 2019	**9'848**	**3'418**	**138**	**15'562**	**2'065**	**31'031**
ACCUMULATED DEPRECIATION						
BALANCE ON DECEMBER 31, 2018 *	-	-	-	(3'755)	(1'758)	(5'513)
IFRS 16 adoption **	-	-	-	-	-	-
BALANCE JANUARY 1, 2019	-	-	-	**(3'755)**	**(1'758)**	**(5'513)**
Depreciation	(1'747)	(1'172)	(45)	(1'006)	(403)	**(4'373)**
Disposals	-	-	-	-	-	-
Transfers ***	-	-	-	730	431	**1'161**
Exchange differences	4	2	-	(144)	(64)	**(202)**
BALANCE DECEMBER 31, 2019	**(1'743)**	**(1'170)**	**(45)**	**(4'175)**	**(1'794)**	**(8'927)**
NET BOOK VALUE						
BALANCE JANUARY 1, 2019	**7'923**	**2'103**	**72**	**10'042**	**659**	**20'799**
BALANCE DECEMBER 31, 2019	**8'105**	**2'248**	**93**	**11'387**	**271**	**22'104**

* As at December 31, 2018 "Land and Buildings", "Motor vehicles" and "ITC Equipment" were accounted as operating lease in accordance to IAS 17.

** Refer to Note 6.2 "New accounting and international financial reporting standards" for the transition impacts of IFRS 16.

*** The total balance of "Transfers" refers to the reclass from right-of-use assets to property plant and equipment due to the redemption.

The Group leases several assets. The average lease term is 6 years for building, plant and machinery and other tool and equipment, 4 years for motor vehicles and ITC equipment.

The Group has options to purchase certain manufacturing equipment for a nominal amount at the end of the lease term. The Group's obligations are secured by the lessors' title to the leased assets for such leases.

LEASE LIABILITIES

Total lease liabilities amount to 19'974 thousand Euro as at December 31, 2019, thereof Euro 5'435 thousand current and Euro 14'539 thousand non-current.

The table below shows the movement of lease liabilities for the period ended December 31, 2019:

(Thousand Euro)	
FINANCE LEASE LIABILITIES AS REPORTED AT DECEMBER 31, 2018 APPLYING IAS 17	**(8'756)**
Right-of-use assets and lease liabilities recognized at January,1 2019 applying IFRS 16	(10'199)
BALANCE ON JANUARY 1, 2019	**(18'955)**
Additions	(6'217)
Modification, termination, expiration	20
Repayment of lease liabilities	5'680
Exchange differences	(502)
BALANCE ON DECEMBER 31, 2019	**(19'974)**

The incremental borrowing rates used for IFRS 16 purposes have been defined based on the risk-free rates of the underlying countries, a company specific adjustment and an asset class weighted average incremental borrowing rate for the financial year 2019.

The weighted average incremental borrowing rates are 1.9% for the asset class land and building, 1.1% for motor vehicles and 1.4% for IT Equipment.

AMOUNTS RECOGNISED IN PROFIT OR LOSS

During the year ended December 31, 2019 Medacta Group recognised the following amounts in the Consolidated Statement of Profit or Loss:

(Thousand Euro)	**31.12.2019**
Depreciation charge of right-of-use assets	(4'373)
Interest expense (included in financial costs)	(340)
Expense relating to short-term leases	(84)
Expense relating to leases of low-value assets that are not short-term leases	(22)

The total cash outflow for leases including short-term leases and low-value-assets in 2019 amount to Euro 6'126 thousand.

As at December 31, 2018, according to IAS 17, the Group recognised total operating lease expenses for Euro 2'990 thousand and future rent commitments amounted to Euro 8'152 thousand.

6.9 GOODWILL AND INTANGIBLE ASSETS

INTANGIBLE FIXED ASSETS

December 31, 2019 (Thousand Euro)	Development	Customer Lists	Goodwill	Other intangible assets	Total
HISTORICAL COST					
BALANCE JANUARY 1, 2019	**28'511**	**15'747**	**59**	**16'835**	**61'152**
Additions	8'655	-	-	2'147	10'802
Disposals	(143)*	-	-	(11)	(154)
Exchange differences	1'382	29	-	582	1'993
BALANCE DECEMBER 31, 2019	**38'405**	**15'776**	**59**	**19'553**	**73'793**
ACCUMULATED AMORTISATION					
BALANCE JANUARY 1, 2019	**(7'666)**	**(1'997)**	**-**	**(11'494)**	**(21'157)**
Amortization of the year	(2'287)	(1'055)	-	(2'141)	(5'483)
Impairment loss	(670)	-	-	-	(670)
Disposals	-	-	-	2	2
Exchange differences	(511)	-	-	(390)	(901)
BALANCE DECEMBER 31, 2019	**(11'134)**	**(3'052)**	**-**	**(14'023)**	**(28'209)**
NET BOOK VALUE					
BALANCE JANUARY 1, 2019	**20'845**	**13'750**	**59**	**5'341**	**39'995**
BALANCE DECEMBER 31, 2019	**27'271**	**12'724**	**59**	**5'530**	**45'584**

* The disposals of Development projects relate to the write-off of projects failed or abandoned that do not meet the requirements provided by IAS 38 and Medacta accounting policy.

INTANGIBLE FIXED ASSETS

December 31, 2018 (Thousand Euro)	Development	Customer Lists	Goodwill	Other intangible assets	Total
HISTORICAL COST					
BALANCE JANUARY 1, 2018	**19'655**	**14'160**	**59**	**13'976**	**47'850**
Acquisitions	-	1'636	-	307	1'943
Additions	7'942	-	-	2'046	9'988
Disposals	(11)	-	-	-	(11)
Exchange differences	925	(49)	-	506	1'382
BALANCE DECEMBER 31, 2018	**28'511**	**15'747**	**59**	**16'835**	**61'152**
ACCUMULATED AMORTISATION					
BALANCE JANUARY 1, 2018	**(5'548)**	**(944)**	**-**	**(9'451)**	**(15'943)**
Acquisitions	-	-	-	-	-
Amortization of the year	(1'547)	(1'050)	-	(1'730)	(4'327)
Impairment loss	(265)	-	-	-	(265)
Disposals	1	-	-	-	1
Exchange differences	(307)	(3)	-	(313)	(623)
BALANCE DECEMBER 31, 2018	**(7'666)**	**(1'997)**	**-**	**(11'494)**	**(21'157)**
NET BOOK VALUE					
BALANCE JANUARY 1, 2018	**14'107**	**13'216**	**59**	**4'525**	**31'907**
BALANCE DECEMBER 31, 2018	**20'845**	**13'750**	**59**	**5'341**	**39'995**

Development mainly consist of cost incurred for the development of new products or modification of existing products in the pipeline. The Group capitalizes internal payroll cost starting from 2016, if these costs are attributable to a specific development project that is expected to generate probable future economic benefits. Research costs are directly recognised as costs in the Profit or Loss.

Other intangible assets mainly consist of costs occurred by the deposit and renewal of trademarks and licences to distribute products in our pipeline in different markets.

Customer lists relate to business combinations occurred in 2018 and 2017. In particular they relate to the acquisition of Medacare GmbH and Vivamed GmbH in 2017. The increase of 2018 relates with the acquisition of ASD "Advanced Surgical Devices" (refer to Note 6.5 "Business combinations").

In 2018, the "Other intangible assets" category included the software acquired in the Balgrist Card AG business combination. For further details, refer to Note 6.5 "Business combinations".

IMPAIRMENT TEST FOR INTANGIBLE ASSETS

During the year 2019, a loss for impairment amounting Euro 670 thousand was recognised.

As described in Note 6.1 "Consolidation principles, composition of the Group and significant accounting policies" paragraph "Significant accounting policies", on a quarterly basis management performed an assessment of the existence of impairment indicators for intangible assets (development projects), recognising in Profit or Loss any impairment loss identified. On the basis of the quarterly analysis performed, a loss for impairment amounting Euro 525 thousand was recognised.

For the purpose of the annual impairment test, performed on data as of September 30, 2019, In-Process Research and Development projects (IPR&D) were allocated to cash-generating-units (CGU), corresponding to Product Families. 41 Product Families were tested for impairment through the estimation of the value in use of the IPR&D projects allocated to each CGU. The impairment test led to an impairment of the carrying amount of one development project, amounting to Euro 145 thousand.

The discount rate applied in the valuation model, amounting to 7.4%, considers the Group's weighted average cost of capital, adjusted to approximate the weighted average cost of capital of a comparable market participant.

The value in use was reviewed for the possible impact of reasonably possible changes in key assumptions:

- An increase of 2.0% in the discount rate would lead to an additional impairment loss amounting Euro 90 thousand;
- A decrease of 25.0% in forecasted revenues would lead to an additional impairment loss amounting Euro 385 thousand.

Note 6.1 "Consolidation principles, composition of the Group and significant accounting policies" provides additional disclosure on how the Group performs the impairment testing.

6.10 OTHER FINANCIAL ASSETS

Other non-current financial assets are comprised of the following items:

(Thousand Euro)	31.12.2019	31.12.2018
Escrow account	-	240
Rent deposit	456	765
Forward Currency Contracts	259	
TOTAL OTHER FINANCIAL ASSETS	**715**	**1'005**
Current	259	240
Non-Current	456	765
Expected credit loss	-	-

Forward Currency Contracts, amounting Euro 259 thousand at December 31, 2019, is related to the positive fair value of derivative financial instruments. At December 31, 2018 the fair value of financial instruments was negative for Euro 562 thousand and classified in the line "Current Financial Liabilities".

The "Escrow account" amounting approximately Euro 240 thousand at December 31, 2018, represented the account related to Vivamed GmbH acquisition where the agent deposited the residual balance left after the transaction was completed. This amount was collected by Medacta International SA on January 15, 2019.

6.11 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES / INCOME TAXES (P&L)

INCOME TAXES

(Thousand Euro)	31.12.2019	31.12.2018
Income taxes	(1'894)	13'446
Deferred income taxes	3'667	(1'159)
TOTAL INCOME TAXES	**1'773**	**12'287**

Current income tax consists of taxes paid or due on the results of the individual companies for the financial year in accordance with local regulation as well as charges and credits from previous year. The positive 2019 balance of Income taxes equal to Euro 1'894 thousand is mainly effected by the reclassification of deferred taxes recognised in 2018, deducted in 2019 as current income taxes after the preparation of the local Medacta International 2018 tax return.

RECONCILIATION OF TAX EXPENSE

(Thousand Euro)	31.12.2019	31.12.2018
Profit before taxes	13'632	58'040
EXPECTED TAX RATE	**18.6%**	**19.5%**
TAX AT EXPECTED AVERAGE RATE	**2'536**	**11'323**
+ / - EFFECTS OF		
Expenses not subject to tax, net	863	595
Revenues not subjected to tax, net	(94)	(247)
Effects from previous periods	(37)	-
Changes of unrecognised loss carryforwards / deferred tax assets	-	1'065
Local actual tax rate different to Group's expected average tax rate	308	(41)
Change in tax rates on deferred tax balances	(1'746)	(279)
Other	(57)	(144)
TOTAL INCOME TAXES	**1'773**	**12'287**
Effective income tax rate (in %)	13.0%	21.1%

The Group's expected tax rate represents the tax rate of the Swiss operating Company Medacta International SA, production entity of the Group. Deferred taxes also mainly relate to temporary differences generated by the Swiss Company. Therefore, the applicable Group tax rate for 2019 is 13.0% and for 2018 was 21.1%.

Starting from January 1, 2020, the ordinary corporate income tax rates applied by most cantons in Switzerland has been reduced according to the Tax Reform enacted at the beginning of 2020. The Group tax rate for 2020 decreased from 18.6% to 17.5% and this will result in lower current income tax starting from the next fiscal year.

IAS 12 Income Taxes requires deferred tax assets and liabilities to be measured at the amounts expected to be paid or recovered, referring to tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Considering that the measures of these changes have been enacted only after the balance sheet date, the mentioned change to the Group income tax rate has not led to any increases (decreases) in reported amounts for the existing deferred tax assets and liabilities.

The group has not recognised deferred tax liabilities in respect of unremitted earnings that are considered indefinitely invested in foreign subsidiaries.

As at December 31, 2019, those unremitted earnings retained by consolidated entities amount to Euro 1'711 thousand (2018: Euro 7'599 thousand).

DEFERRED INCOME TAXES

The Group recognises in the Consolidated Financial Statements as of December 31, 2019 the gross amounts of Deferred tax assets and Deferred tax liabilities, respectively amounting to Euro 28'845 thousand and to Euro 46'216 thousand.

Deferred tax assets are mainly related to our US subsidiary. Even if some extraordinary effects could have impacted the profitability of Medacta USA in 2019, the Group considers the amount of deferred taxes recoverable. The recoverability is based on the estimated future profits that are expected to be generated by the subsidiary, also considering that the current federal tax legislation does not provide any temporal limit to the future utilization.

As of December 31, 2019, the amount of Deferred tax liabilities net of the Deferred tax assets, where the offsetting is allowed according to IAS 12 (par 74), is as follows:

NET DEFERRED TAXES

(Thousand Euro)	31.12.2019	31.12.2018
Net deferred tax assets	21'283	17'306
Net deferred tax liabilities	(38'654)	(31'283)
TOTAL NET DEFERRED TAXES	**(17'371)**	**(13'977)**

The amount netted between deferred tax asset and deferred tax liabilities is equal to Euro 7'562 thousand. For a better comprehension of deferred tax assets and liabilities, the schemes below show the respectively gross amounts.

The movement in deferred income tax assets and liabilities is as follows:

DEFERRED TAX ASSETS

as at December 31, 2019 (Thousand Euro)	Property, plant and equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax losses carried forward	Total
BALANCE JANUARY 1, 2019	**-**	**-**	**20'674**	**1'452**	**22'126**
Deferred taxes recognised in the income statement	-	-	5'393	-	5'393
Deferred taxes recognize in OCI	-	-	459	-	459
Exchange differences	-	-	861	6	867
BALANCE DECEMBER 31, 2019	**-**	**-**	**27'387**	**1'458**	**28'845**

DEFERRED TAX ASSETS

as at December 31, 2018 (Thousand Euro)	Property, plant and equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax losses carried forward	Total
BALANCE JANUARY 1, 2018	**-**	**-**	**13'633**	**1'274**	**14'907**
Deferred taxes recognised in the income statement	-	-	7'049	129	7'178
Deferred taxes recognize in OCI	-	-	(41)	-	(41)
Exchange differences	-	-	33	49	82
BALANCE DECEMBER 31, 2018	**-**	**-**	**20'674**	**1'452**	**22'126**

As per December 31, 2019 and 2018, there were no unrecognised tax losses carried forward.

DEFERRED TAX LIABILITIES

as at December 31, 2019 (Thousand Euro)	Property, plant and equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax losses carried forward	Total
BALANCE JANUARY 1, 2019	**3'929**	**4'622**	**27'552**	**-**	**36'103**
Changes through business combinations	-	-	-	-	-
Deferred taxes recognised in the income statement	(164)	1'048	8'176	-	9'060
Deferred taxes recognize in OCI	-	-	-	-	-
Exchange differences	-	-	1'053	-	1'053
BALANCE DECEMBER 31, 2019	**3'765**	**5'670**	**36'781**	**-**	**46'216**

DEFERRED TAX LIABILITIES

as at December 31, 2018 (Thousand Euro)	Property, plant and equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax losses carried forward	Total
BALANCE JANUARY 1, 2018	**3'887**	**3'097**	**21'779**	**-**	**28'763**
Changes through business combinations	-	453	-	-	453
Deferred taxes recognised in the income statement	42	988	4'989	-	6'019
Deferred taxes recognize in OCI	-	-	-	-	-
Exchange differences	-	84	784	-	868
BALANCE DECEMBER 31, 2018	**3'929**	**4'622**	**27'552**	**-**	**36'103**

6.12 INVENTORIES

Inventories are composed of the following items:

INVENTORIES

(Thousand Euro)	31.12.2019	31.12.2018
Raw materials	15'172	13'030
Work in progress and semifinished goods	10'296	10'914
Finished goods	84'789	73'768
Inventory reserve	(8'623)	(8'484)
TOTAL INVENTORIES	**101'634**	**89'228**

Inventory reserve includes value adjustments for slow moving, phase out and obsolete stock.

The movements in the inventory reserve are as follows:

INVENTORIES RESERVE

(Thousand Euro)	31.12.2019	31.12.2018
BALANCE AS AT JANUARY 1	**8'484**	**8'492**
Provision	350	215
Utilization	(485)	(257)
Translation difference	274	34
BALANCE AS AT DECEMBER 31	**8'623**	**8'484**

6.13 TRADE RECEIVABLES

(Thousand Euro)	31.12.2019	31.12.2018
Trade receivable, gross	48'713	44'698
Loss allowance on trade receivables	(664)	(605)
TOTAL TRADE RECEIVABLES	**48'049**	**44'093**

Trade receivables are recognised at amortised cost. The Group expected credit losses are based on historical credit loss experience, adjusted as appropriate to reflect current condition and estimates of future economic condition. On that base the amount of the expected loss is recognised in the income statement. The aging of trade receivables, past due but not impaired, are as follows:

December 31, 2019 (Thousand Euro)	Not past due	Total past due	0-30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 360 days
Total trade receivables, gross	**34'298**	**14'415**	8'006	2'383	994	1'283	646	1'103
Expected credit loss	**(38)**	**(626)**	(22)	(28)	(20)	(54)	(147)	(355)

December 31, 2018 (Thousand Euro)	Not past due	Total past due	0-30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 360 days
Total trade receivables, gross	**28'181**	**16'517**	9'850	3'422	1'146	986	495	618
Expected credit loss	**(47)**	**(558)**	(26)	(39)	(28)	(48)	(75)	(342)

The following table summarizes the movements in the provision for doubtful receivables:

PROVISION FOR DOUBTFUL RECEIVABLES

(Thousand Euro)	31.12.2019	31.12.2018
BALANCE AS AT JANUARY 1	**(605)**	**(276)**
Change in loss allowance due to new trade	(200)	(326)
Trade receivable derecognised due to settlement	138	1
Accounts written off during the year as uncollectible	-	-
Exchange differences	3	(4)
TOTAL PROVISION	**(664)**	**(605)**

6.14 OTHER RECEIVABLES AND PREPAID EXPENSES

(Thousand Euro)	31.12.2019	31.12.2018
Other receivables	7'417	4'156
Prepaid expenses	3'187	3'195
TOTAL OTHER RECEIVABLES AND PREPAID EXPENSES	**10'604**	**7'351**

Other receivables are mainly represented by VAT credits and prepaid expenses are mainly composed by operating expenditures incurred during the relevant financial year but relating to a subsequent business year.

6.15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following items:

Bank accounts and term deposits are mainly denominated in CHF, EUR and USD. For details of the movements in cash and cash equivalents refer to the Consolidated Statement of Cash Flows. During 2019 the Group did not entered into non-cash investing or financing activities.

(Thousand Euro)	31.12.2019	31.12.2018
Cash on hand	941	132
Current bank accounts	26'300	33'578
TOTAL CASH AND CASH EQUIVALENTS	**27'241**	**33'710**

6.16 MEDACTA GROUP STOCKHOLDERS' EQUITY

SHARE CAPITAL

On November 30, 2018, following a pre-initial public offering restructuring, the Group changed the parent company from Medacta Holding SA to Medacta Group SA. The subscribed capital of Medacta Holding SA amounts to CHF 1'026 thousand equivalent to Euro 992 thousand.

On December 12, 2018 Medacta Group SA approved a capital increase in kind, through the incorporation of 10% minority interest in Medacta Holding SA from Dr. Alberto Siccardi. Following the completion of this transaction, Medacta Group SA owned 100% investment in Medacta Holding SA.

The subscribed capital of Medacta Group SA amounts to CHF 2'000 thousand equivalent to Euro 1'775 thousand and is divided into 20'000 thousand nominal shares fully paid-up with a nominal value of CHF 0.10 each.

All issued ordinary share give the same voting and dividend rights. Also, all the issued shares by Medacta Group SA are authorized and fully paid by the ultimate shareholders.

DIVIDEND

On June 8, 2018, the ordinary shareholders meeting of Medacta Holding SA approved to distribute a dividend for CHF 75'500 thousand equivalent to Euro 65'247 thousand. The approved dividend has been paid on July 5, 2018.

Medacta Group SA did not approve any dividend distribution in the course of the 2019.

CAPITAL CONTRIBUTION

As described in Note 6.26 "Related party transactions" paragraph "Capital contribution", during 2019 the Family's shareholders decided to make two voluntary capital contributions: Euro 5'667 thousand following the one-time tax duty incurred by Medacta Group SA; Euro 15'560 thousand following the payment of a "Fidelity Bonus" to employees.

FOREIGN CURRENCY TRANSLATION RESERVE

Currency translation differences are generated by the translation into Euro of Financial Statements of subsidiaries prepared in currencies other than Euro.

RETAINED EARNINGS

These include subsidiaries' earnings that have not been distributed as dividends and the amount of consolidated companies' equities in excess of the corresponding carrying amounts of equity investments.

6.17 FINANCIAL LIABILITIES

At December 31, 2018, Financial liabilities included lease liabilities related to finance lease contracts. Starting from January 1, 2019, because of the adoption of IFRS 16 (Note 6.2 "New accounting and international financial reporting standards"), these liabilities were reclassified from current and non-current financial liabilities to lease liabilities in the Consolidated Statement of Financial Position.

At December 31, 2019, "Other financial liabilities" refers to the contractual liability for the acquisition of an exclusive right to use and develop a technology for a total amount of Euro 708 thousand of which Euro 356 thousand classified in "Other current financial liabilities" and Euro 352 thousand in "Other non-current financial liabilities". The cost of the contract has been capitalized as an intangible asset in "Development" line item.

Following tables summarize the composition of Financial liabilities:

FINANCIAL LIABILITIES

(Thousand Euro)	31.12.2019	31.12.2018
Bank loan	132'176	154'121
Leasing liabilities	-	8'756
Other financial liabilities	708	1'614
TOTAL FINANCIAL LIABILITIES	**132'884**	**164'491**
There of current	47'505	51'476
There of non-current	85'379	113'015

FINANCIAL LIABILITIES

(Thousand Euro)	31.12.2019	Till 1 year	1-5 years	Over 5 years
Bank loans, current	47'149	47'149	-	-
Other current financial liabilities	-	-	-	-
Other current financial liabilities	356	356	-	-
TOTAL FINANCIAL LIABILITIES, CURRENT	**47'505**	**47'505**	**-**	**-**
Bank loans, non-current	85'027	-	70'889	14'138
Other non-current financial liabilities	352	-	352	-
TOTAL FINANCIAL LIABILITIES, NON-CURRENT	**85'379**	**-**	**71'241**	**14'138**
TOTAL FINANCIAL LIABILITIES	**132'884**	**47'505**	**71'241**	**14'138**
Total secured bank loans	16'546			
Total non-secured bank loans	115'630			

FINANCIAL LIABILITIES

(Thousand Euro)	31.12.2018	Till 1 year	1-5 years	Over 5 years
Bank loans, current	47'242	47'242	-	-
Leasing liabilities, current	2'620	2'620	-	-
Other current financial liabilities	1'614	1'614	-	-
TOTAL FINANCIAL LIABILITIES, CURRENT	**51'476**	**51'476**	**-**	**-**
Bank loans, non-current	106'879	-	83'215	23'664
Leasing liabilities, non-current	6'136	-	5'580	556
TOTAL FINANCIAL LIABILITIES, NON-CURRENT	**113'015**	**-**	**88'795**	**24'220**
TOTAL FINANCIAL LIABILITIES	**164'491**	**51'476**	**88'795**	**24'220**
Total secured bank loans	18'392			
Total non-secured bank loans	135'729			

Bank loans reflect credit and loan facilities with third party financial institutions and are recognised at amortised cost using the effective interest method. The interest rates on these facilities are floating and based on LIBOR + Spread of between 0.85% and 1.05%.

Certain of the credit agreements include financial covenants requiring Medacta International SA to maintain a debt to EBITDA ratio of no more than 3.0x (as defined in the relevant agreement), a pari passu clause, and various negative covenants restricting, among other things (and typically subject to certain exceptions): the incurrence of further indebtedness, the granting of security for indebtedness, and the consummation of certain acquisitions, disposals or re-organizations. Each agreement provides for an extraordinary termination right in case of a transfer of a certain amount of unlisted shares of Medacta (change of control), including in certain cases where the Selling Shareholders combined hold less than 50% of the Shares.

As at December 31, 2019 and 2018, the Group had unused current credit lines of Euro 73'635 thousand and Euro 67'274 thousand, respectively.

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Thousand Euro)	Non-current financial debts	Current financial debts	Total
BALANCE DECEMBER 31, 2018	**113'015**	**51'476**	**164'491**
IFRS 16 adoption *	(6'137)	(2'619)	(8'756)
BALANCE JANUARY 1, 2019	**106'878**	**48'857**	**155'735**
Increase in financial debts	352	356	708
Repayment of financial debts **	-	(27'399)	(27'399)
Changes in current financial debts	-	(184)	(184)
Change in fair values and other changes	-	(562)	(562)
Reclass from non-current to current	(25'211)	25'211	-
Currency translation differences	3'360	1'226	4'586
BALANCE DECEMBER 31, 2019	**85'379**	**47'505**	**132'884**

* Refer to Note 6.2 "New accounting and international financial reporting standards" for the transition impacts of IFRS 16.

** "Repayment of financial debts" includes both the lines of Consolidated Statement of Cash Flows "Repayment of borrowing" and "Cash consideration for acquisition, net of cash aquired"

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Thousand Euro)	Non-current financial debts	Current financial debts	Total
BALANCE JANUARY 1, 2018	**55'868**	**41'899**	**97'767**
Increase in financial debts	65'366	26'404	91'770
Repayment of financial debts	(11'589)	(19'678)	(31'267)
Changes in current financial debts	-	1'052	1'052
Change in fair values and other changes	-	-	-
Reclass from non-current to current	-	-	-
Currency translation differences	3'370	1'799	5'169
BALANCE DECEMBER 31, 2018	**113'015**	**51'476**	**164'491**

6.18 NON-CURRENT PROVISIONS

Non-current provisions include the provision for legal claims and accrual for indemnity to agents. The line "Increases" includes Euro 10'576 thousand related to the accrual for the litigation with MicroPort Orthopedics Inc. booked after the interim award of the arbitrator dated February 14, 2020 (see Note 6.25 "Litigations", paragraph "MicroPort matter"). The provision has not been discounted, since the net effect of discounting the expected future cash flows and the interests bearing on the liability based on the interim award is not material.

The movements are as follows:

(Thousand Euro)	31.12.2019	31.12.2018
BALANCE JANUARY 1	**417**	**336**
Increases	10'831	82
Decreases	(35)	(1)
Exchange differences	(30)	-
BALANCE DECEMBER 31	**11'183**	**417**
Thereof non-current	11'183	417

6.19 OTHER NON-CURRENT LIABILITIES

Other non-current liabilities include liabilities to tax authorities to be paid after one year and within 5 years.

(Thousand Euro)	31.12.2019	31.12.2018
Liabilities to tax authorities	7'898	10'162
Other	21	337
TOTAL OTHER NON-CURRENT LIABILITIES	**7'919**	**10'499**

6.20 RETIREMENT BENEFIT OBLIGATIONS

DEFINED CONTRIBUTION PLANS

Medacta's retirement plans include defined contribution pension plans in most of the countries where the Group operates. The employer's contributions amounting to Euro 4'467 thousand in the year ended December 31, 2019 (2018: Euro 3'832 thousand) are recognised directly in the income statement.

DEFINED BENEFIT PLANS

Medacta Group's retirement plans include defined benefit pension plans for all qualifying employees in Switzerland and Italy. These plans are determined by local regulations using independent actuarial valuations according to IAS 19. Medacta Group's major defined benefit plan is located in Switzerland.

The following table summarizes the total retirement benefit obligation at December 31, 2019 and 2018:

AMOUNT RECOGNISED IN THE BALANCE SHEET

(Thousand Euro)	31.12.2019	31.12.2018
Defined benefit plan Switzerland	8'454	5'108
Defined benefit plan Italy	396	369
OTHER NON-CURRENT EMPLOYEE BENEFITS		
Retention plan Switzerland	1'568	1'402
French collective conventions	230	201
Retention plan Australia	274	62
Retention plan Japan	220	110
RETIREMENT BENEFIT OBLIGATIONS	**11'142**	**7'252**

PENSION PLANS IN SWITZERLAND

The current pension arrangement for employees in Switzerland is made through a plan governed by the Swiss Federal Occupational Old Age, Survivors and Disability Pension Act (BVG). The plan of Medacta's Swiss companies is administered by a separate legal foundation, which is funded by regular employer and employee contributions defined in the pension fund rules. The Swiss pension plan contains a cash balance benefit which is, in essence, contribution-based with certain minimum guarantees. Due to these minimum guarantees, the Swiss plan is treated as a defined benefit plan for the purposes of these IFRS financial statements. The plan is invested in a diversified range of assets in accordance with the investment strategy and the common criteria of an asset and liability management. A potential under-funding may be remedied by various measures such as increasing employer and employee contributions or reducing prospective benefits. Medacta pension plan is a cash balance plan where contributions are expressed as a percentage of the pensionable salary. The pension plan guarantees the amount accrued on the members' savings accounts, as well as a minimum interest on those savings accounts.

As at December 31, 2019, 575 employees (2018: 494 employees) and 2 beneficiaries (2018: 3 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 21.0 years (2018: 19.5 years).

The plan contains a cash balance benefit formula. Under Swiss law, the collective foundation guarantees the vested benefit amount as confirmed annually to members. Interest may be added to member balances at the discretion of the collective foundation. At retirement date, members have the right to take their retirement benefit as a lump sum, an annuity or part as a lump sum with the balance converted to a fixed annuity at the rates defined in the rules of the collective foundation.

The result of the Swiss benefit plan is summarised below:

AMOUNT RECOGNISED IN THE BALANCE SHEET

(Thousand Euro)	31.12.2019	31.12.2018
Present value of defined benefit obligation	(28'956)	(22'063)
Fair value of plan assets	20'502	16'955
RETIREMENT BENEFIT OBLIGATIONS	**(8'454)**	**(5'108)**

REMEASUREMENT RECOGNISED IN EQUITY

(Thousand Euro)	31.12.2019	31.12.2018
BALANCE JANUARY 1	**(81)**	**1'845**
Actuarial (gain) / loss on defined benefit obligation	3'051	(1'004)
Return on plan assets excl. interest income	(585)	(950)
Exchange differences	51	28
BALANCE DECEMBER 31	**2'436**	**(81)**

COMPONENTS OF ACTUARIAL GAIN / (LOSSES) RECOGNISED IN OCI

(Thousand Euro)	31.12.2019	31.12.2018
Changes in financial assumptions	3'234	(577)
Changes in demogr. assumptions	-	(320)
Experience adjustments	(183)	(106)
Return on plan assets excl. interest income	(585)	(951)
ACTUARIAL GAIN / (LOSS) FROM DEFINED BENEFIT PLANS	**2'466**	**(1'954)**

The changes in financial assumptions relate to the decrease in the discount rate (0.2% at December 31, 2019 compared to 1.0% at December 31, 2018) and in the interest rate on retirement savings capital (0.5% at December 31, 2019 compared to 1.0% at December 31, 2018).

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

(Thousand Euro)	31.12.2019	31.12.2018
Current service cost	1'832	1'394
Past service cost	-	369
Participants' contributions	(1'272)	(1'190)
Administration cost	11	10
Net interest cost	55	45
TOTAL EMPLOYEE BENEFIT EXPENSES	**626**	**628**

The amounts recognised in the Consolidated Profit or Loss have been charged to:

- Cost of sales Euro 213 thousand (2018: Euro 176 thousand);
- Research and Development Euro 78 thousand (2018: Euro 75 thousand);
- Sales and Marketing expenses Euro 144 thousand (2018: Euro 170 thousand);
- General and Administrative expenses Euro 191 thousand (2018: Euro 207 thousand).

MOVEMENT IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS

(Thousand Euro)	31.12.2019	31.12.2018
BALANCE JANUARY 1	**22'063**	**19'661**
Interest cost	233	147
Current service cost	1'832	1'394
Contribution by plan participants	1'212	1'190
Benefits deposited/(paid), net	466	(496)
Past service cost	-	369
Administration cost	11	10
Actuarial loss on obligation	3'051	(1'004)
Other*	(852)	
Exchange differences	940	792
PRESENT VALUE OF OBLIGATIONS AT END OF PERIOD	**28'956**	**22'063**

* Some pensioners (beneficiaries of retirement related pensions starting on January 1,2019 or before) remain in the previous full insurance contract, and they are continued to be paid by the insurer.

PLAN ASSETS

Plan assets are composed of the retirement assets, the mathematical reserve for annuities and the account balances of the AXA-Winterthur:

PLAN ASSETS

(Thousand Euro)	31.12.2019	31.12.2018
Cash and cash equivalents	984	814
Equity instruments	533	441
Debt instruments (e.g. bonds)	14'741	12'191
Real estate	3'178	2'628
Others	1'066	881
TOTAL	**20'502**	**16'955**

MOVEMENT IN THE FAIR VALUE OF THE PLAN ASSETS

(Thousand Euro)	31.12.2019	31.12.2018
BALANCE JANUARY 1	**16'955**	**13'438**
Interest income on plan asset	178	102
Employer's contributions paid	1'272	1'190
Participants' contributions	1'212	1'190
Benefits deposited/(paid), net	466	(496)
Return on plan assets excluding interest income	585	950
Other*	(852)	
Exchange differences	686	581
FAIR VALUE OF PLAN ASSETS AT END OF PERIOD	**20'502**	**16'955**

* Some pensioners (beneficiaries of retirement related pensions starting on January 1,2019 or before) remain in the previous full insurance contract, and they are continued to be paid by the insurer.

The principal actuarial assumptions are as follows:

	31.12.2019	31.12.2018
Discount rate	0.2%	1.0%
Future salary increase	1.0%	1.0%
Interest rate on retirement saving capital *	0.5%	1.0%
Demography	BVG2015GT	BVG2015GT

* Medacta is applying risk sharing.

The following sensitivity analysis shows how the present value of the benefit obligation for the Swiss retirement benefit plan would change if one of the principal actuarial assumptions were changed.

For the analysis, changes in the assumptions were considered separately and no interdependencies were taken into account.

SENSITIVITY ANALYSIS – IMPACT ON DEFINED BENEFIT OBLIGATION

(Thousand Euro)	31.12.2019	31.12.2018
DISCOUNT RATE		
Discount rate + 0.25%	27'507	21'081
Discount rate - 0.25%	30'543	23'135
SALARY GROWTH		
Salary growth + 0.25%	29'301	22'291
Salary growth - 0.25%	28'613	21'831
INTEREST RATE GROWTH		
Interest rate growth + 0.25%	29'519	22'471
Interest rate growth - 0.25%	28'411	21'668
LIFE EXPECTANCY		
Life expectancy + 1 year	29'440	22'372
Life expectancy - 1 year	28'474	21'753

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out at December 31, 2019 by AXA Pension Solutions AG.

To determine the present value of the defined benefit obligation and the related current service cost and, where applicable, past service cost, the Projected Unit Credit Method has been used.

This method is based on the amount of working years at the date of the actuarial valuation and considers the future by including:

- A discount rate;
- The salary development and leaving probability up to the beginning of the benefit payment;
- Inflation adjustments for the years after the first payment for recurring benefits.

The plan in Switzerland typically expose the Group to actuarial risks such as: interest rate risk, longevity risk and salary risk.

The maturity profile of the defined benefit obligation consists in a weighted average duration of 21 years.

The Group expects to make a contribution of Euro 1.5 million to the defined benefit plans during the next financial year 2020.

INTEREST RATE RISK

The rate used to discount post-employment benefit obligations has been determined by reference to market yields at the balance sheet date on high quality corporate bonds.

A decrease in the bond interest rate will increase the plan liability.

LONGEVITY RISK

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants, both during and after their employment.

An increase in the life expectancy of the plan participants will increase the plan's liability.

SALARY RISK

Salary increase is Company specific. The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants.

As such, an increase in the salary of the plan participants will increase the plan's liability.

OTHER NON-CURRENT EMPLOYEE BENEFITS

Medacta has programs in Switzerland, France, Australia and Japan which are dependent on length of years of service.

These programs are classified as other non-current payments due to employees and amounted to Euro 2'082 thousand at December 31, 2019 (2018: Euro 1'775 thousand).

6.21 TRADE PAYABLES

Accounts payable of Euro 17'845 thousand (2018: Euro 20'051 thousand) mainly consist of commercial payables due within 12 months. The decrease is primarily due to timing of payments made by the Group.

6.22 OTHER CURRENT LIABILITIES

OTHER CURRENT LIABILITIES

(Thousand Euro)	31.12.2019	31.12.2018
Current accruals	25'813	22'171
Other current liabilities	288	467
TOTAL OTHER CURRENT LIABILITIES	**26'101**	**22'638**

Current accruals are composed as follows:

CURRENT ACCRUALS

(Thousand Euro)	31.12.2019	31.12.2018
Liabilities to social security	3'013	1'353
Liabilities to tax authorities	22'800	20'818
TOTAL CURRENT ACCRUALS	**25'813**	**22'171**

Other current liabilities are composed as follows:

OTHER CURRENT LIABILITIES

(Thousand Euro)	31.12.2019	31.12.2018
Contract Liabilities	-	202
Other debts versus employees	245	39
Other	43	226
TOTAL OTHER CURRENT LIABILITIES	**288**	**467**

6.23 ACCRUED EXPENSES AND DEFERRED INCOME

(Thousand Euro)	31.12.2019	31.12.2018
Consulting fees	3'566	3'204
Royalties and commissions due	5'125	4'107
Accrued vacation expenses	3'394	3'009
Accrued bonuses	8'550	6'945
Other	2'774	2'475
Assurances	219	155
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**23'628**	**19'895**

6.24 INFORMATION ON THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

ANALYSIS OF REVENUE

The following table presents revenue of the Group's product lines for the years ended December 31, 2019 and 2018 respectively:

(Thousand Euro)	31.12.2019	31.12.2018
Joint	285'301	252'908
Hip	*163'954*	*153'039*
Knee	*111'657*	*96'060*
Shoulder	*9'690*	*3'809*
Spine	25'265	19'691
Sports Med	57	11
TOTAL	**310'623**	**272'610**

ANALISYS OF EXPENSES

PERSONNEL EXPENSES

Personnel expenses as at December 31, 2019 and 2018 are as follows:

PERSONNEL COSTS

(Thousand Euro)	31.12.2019	31.12.2018
Wages and salaries	88'837	65'727
Social security costs	10'824	7'992
Other costs	8'596	6'375
TOTAL PERSONNEL COSTS	**108'257**	**80'094**

The recognition of the personnel expenses by function is as follows:

PERSONNEL COSTS BY FUNCTION

(Thousand Euro)	31.12.2019	31.12.2018
Cost of Sales	15'818	10'163
Research and Development expenses	3'144	1'664
Sales and Marketing expenses	57'821	46'712
General and Administrative expenses	31'474	21'555
TOTAL PERSONNEL COSTS BY FUNCTION	**108'257**	**80'094**
AVERAGE NR OF EMPLOYEES DURING THE YEAR	**1'037**	**933**

In 2019, "Total personnel costs" include the Fidelity Bonus for a total amount of Euro 14'740 thousand (without considering Euro 539 thousand related to bonus provided to consulting personnel) of which Euro 3'199 thousand in line "Cost of Sales", Euro 1'146 thousand in "Research and Development expenses", Euro 6'186 thousand in "Sales and Marketing expenses" and Euro 4'209 thousand in "General and Administrative expenses".

DEPRECIATION, AMORTISATION AND IMPAIRMENT

Depreciation, Amortisation, at December 31, 2019 and 2018 are as follows:

DEPRECIATION, AMORTISATION AND IMPAIRMENT BY FUNCTION

(Thousand Euro)	31.12.2019	31.12.2018
Cost of Sales	23'905	19'579
Research and Development expenses	2'991	1'813
Sales and Marketing expenses	3'559	1'798
General and Administrative expenses	3'278	1'647
TOTAL DEPRECIATION AND AMORTISATION BY FUNCTION	**33'733**	**24'837**

GENERAL AND ADMINISTRATIVE EXPENSES

General and Administrative expenses as at December 31, 2019 and 2018 are composed of the following expense categories:

GENERAL AND ADMINISTRATIVE EXPENSES

(Thousand Euro)	31.12.2019	31.12.2018
Personnel expenses	31'474	21'555
Depreciation and amortisation	3'278	1'647
Consulting expenses	9'826	3'006
Business expenses (i.e insurance, rents and maintenance)	6'038	5'802
Other costs and taxes	12'498	1'581
Travel and accomodation	715	472
Other	111	391
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE	**63'940**	**34'454**

"Personnel expenses" include the cost for the Fidelity Bonus for Euro 4'209 thousand paid in November 2019.

"Consulting expenses" include: approximately Euro 4'080 thousand of legal expenses, mainly related to MicroPort matter, Euro 2'775 thousand costs related to the Initial Public Offering, Euro 539 thousand related to the Fidelity Bonus paid to consulting personnel.

"Other costs and taxes" include the accrual of the provision for litigation with MicroPort, as better described in Note 6.25 "Litigations", paragraph "MicroPort matter" for Euro 10'576 thousand.

RESEARCH AND DEVELOPMENT EXPENSES

Medacta development activities mainly consist in designing and testing new products.

Research and development costs that are not eligible for capitalization have been expensed in the period incurred and they are recognised in Research and Development expenses along with amortisation and impairment, for a total amount in 2019 of Euro 7'641 thousand (Euro 3'933 thousand in 2018).

Development costs eligible for capitalization amounts to Euro 8'655 thousand in 2019 and Euro 7'942 thousand in 2018.

OTHER INCOME / (EXPENSES)

Other income amount to Euro 1'592 thousand as of December 31, 2019 (2018: Euro 1'579 thousand). Other income includes:

- Euro 670 thousand, related to the gain from the sale of tangible assets, of which around Euro 396 thousand related to the net result of the sale of the building in Castel San Pietro (as reported in Note 6.7 "Property, plant and equipment" and Note 6.26 "Related party transactions");
- Euro 230 thousand income from rent of premises.

Other expenses amount to Euro 7'008 thousand as of December 31, 2019 (2018: Euro 705 thousand). Other expenses includes:

- Euro 5'884 thousand, the costs incurred for a one-time tax duty related to the tax reorganization of the Group prior to the listing (for further disclosure refer to Note 6.26 "Related party transaction" paragraph "Capital contribution");
- Euro 687 thousand expenses related to losses from disposal of tangible assets.

FINANCIAL INCOME/(COSTS)

FINANCIAL INCOME

(Thousand Euro)	31.12.2019	31.12.2018
Other financial income	-	-
Interest income loans and receivables	46	217
Foreign exchange profit *	2'013	879
TOTAL FINANCIAL INCOME	**2'059**	**1'096**

* "Foreign exchange profit" include both realized and unrealized exchange income

FINANCIAL (COSTS)

(Thousand Euro)	31.12.2019	31.12.2018
Interest on loans and borrowings *	(3'019)	(2'101)
Gain/(loss) on revaluation of financial instruments at fair value through profit or loss	(226)	(562)
Foreign exchange losses **	(4'455)	(1'903)
Interest Expense – Leases ***	(340)	
TOTAL FINANCIAL (COSTS)	**(8'040)**	**(4'566)**
TOTAL FINANCIAL INCOME/(COSTS), NET	**(5'981)**	**(3'470)**

* "Interest on loans and borrowings" include also bank commissions and other interest expenses (Euro 1'097 thousand in 2019).

** "Foreign exchange losses" include both realized and unrealized exchange losses.

*** "Interest on loans and borrowings" as at December 31, 2018 included "Interest Expense – Leases".

6.25 LITIGATIONS

MICROPORT MATTER

ARBITRATION

In a pending arbitration (the "Arbitration"), commenced with the American Arbitration Association on or about July 30, 2018 in Memphis Tennessee, the Group is defending Advanced Surgical Devices ("ASD") and Mr. Zurowski pursuant to an indemnification agreement incident to an asset purchase agreement by which the Company acquired assets from ASD. Like Medacta, the claimant in the Arbitration, MicroPort Orthopedics, Inc. ("MicroPort"), is a manufacturer of medical devices. The respondent, ASD, led by its principal, Mr. Zurowski, is a company that sells and distributes medical devices. MicroPort's demand for arbitration alleges that ASD and Mr. Zurowski breached a separate asset purchase agreement, as well as a distribution agreement, between ASD and MicroPort by, among other things, terminating those agreements, according to MicroPort, without right.

A hearing was held in the Arbitration in November 2019. On February 14, 2020, the Arbitrator issued an "Interim Award," which found ASD and Zurowski liable for breach of contract. The Interim Award assessed damages at approximately USD 9.7 million, plus interest. The Interim Award also determined that MicroPort is entitled to reasonable attorneys' fees in an amount still to be determined. The Interim Award is not yet final. The Interim Award is also only issued against ASD and Zurowski.

The Group is considering all available options with respect to the Interim Award, which, upon becoming final, will be subject to appeal and/or a motion to vacate filed in a judicial forum.

In connection with this matter the Group in agreement with what prescribed by IAS 37 recognized a provision of approximately Euro 10.6 million, see Note 6.18 "Non-Current Provisions" for more information.

COURT PROCEEDINGS

In a separate proceeding (the "Court Proceeding") commenced on or about July 27, 2018 in the Chancery Court of Shelby County, Tennessee for the 13th judicial district (the "Court Proceedings"), MicroPort Orthopedics, Inc. ("MicroPort") filed a complaint that alleges that Medacta USA tortuously interfered with the asset purchase agreement between MicroPort and a distributor of orthopedic medical devices, Advanced Surgical Devices ("ASD"), by, among other things, inducing ASD to breach that agreement. In connection with a parallel arbitration proceeding (discussed in the preceding paragraphs) that MicroPort commenced against ASD and its principal, William Zurowski, much discovery has occurred in connection with the Court Proceeding. Although an interim award of approximately USD 9.7 million, plus interest and legal fees, was awarded to MicroPort against ASD and Zurowski in the Arbitration, Medacta USA denies many of the factual allegations made by MicroPort and denies any legal liability for the claims of MicroPort. The Chancery Court presiding over the Court Proceedings has not established a trial or pre-trial schedule. At this stage of the Court Proceedings, we are unable to conclude that the likelihood of an unfavorable outcome against Medacta USA is either "probable" or "remote", and accordingly express no opinion as to the outcome of the Court Proceedings.

PATENT MATTER - RSB SPINE, LLC V. MEDACTA USA, INC.

On December 13, 2018, RSB filed a patent infringement complaint alleging Medacta's MectaLIF Anterior Stand Alone – Flush implant infringes two patents directed to spinal implants. RSB is seeking monetary damages and a permanent injunction. Medacta has responded to the complaint by asserting defenses that the patent claims are not infringed and are invalid. The parties are currently engaged in claim construction briefing, and the claim construction hearing is expected to occur on June 19, 2020. Fact discovery is set to close on September 19, 2020, and expert discovery is set to close on March 12, 2021. Should the matter proceed past summary judgment, trial is expected to begin on September 27, 2021. Medacta has also filed petitions for Inter Partes Review before the Patent Trial and Appeals Board challenging the validity of the patents. The PTAB has not yet ruled on whether or not it will institute the reviews.

The case is still pending and in the early phase of fact discovery in connection with this matter, we have not made any provisions.

PATENT MATTER - CONFORMIS, INC. V. MEDACTA USA, INC.

On August 29, 2019, Conformis filed a patent infringement complaint in the District of Delaware (USA) alleging that Medacta's MyKnee, MyHip, and MyShoulder products infringe four patents directed to spinal implants. Conformis is seeking monetary damages. Medacta's response to the complaint was filed on December 2, 2019, and as a result, the MyHip product has been dismissed from the case. No case schedule has been entered by the Court and there are no other upcoming deadlines. Medacta believes the accused products do not infringe the patents-in-suit and that these patents are invalid.

ALLEGED CRIMINAL OFFENSES UNDER GERMAN LAW

On March 28, 2019, German law enforcement officers served a search warrant to gather evidence concerning alleged criminal offenses under German law by various parties, including one of our expert independent physician consultants in Germany, the former CEO of a local clinic where our products are and were sold, the co-CEO of Medacta Germany GmbH in Göppingen, Germany ("Medacta Germany"), our CEO and, we believe based on the contents of the search warrant, representatives of various other public and private orthopedic device supply companies in Germany. As part of this preliminary investigation (*Ermittlungsverfahren*), the offices of Medacta Germany and the home of the co-CEO of Medacta Germany were searched by law enforcement officers.

The named expert independent physician consultant provided a range of education services on our behalf, including training other surgeons, proctoring surgeries and demonstrating the efficacy of our AMIS technique for hip transplants, for which he was compensated at an hourly rate of approximately Euro 160 to Euro 200 per hour, on average. The allegations against the named individuals concern anti-corruption offenses under German law that are purported to have occurred between January 9, 2013 and December 22, 2017, during which time: (i) the named clinic purchased Medacta products; and (ii) the named physician consultant received total compensation of approximately Euro 90'000 in aggregate over the five year

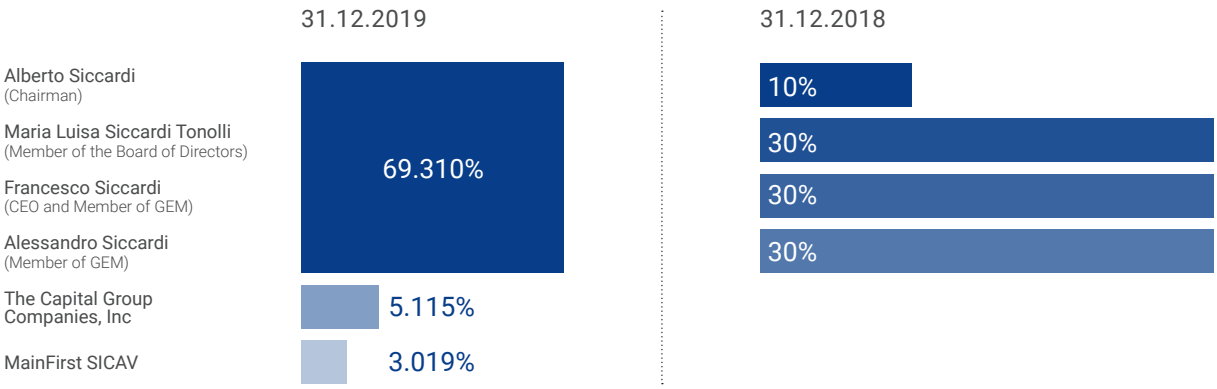
period from one of our affiliates and/or independent sales agents under physician consultancy agreements as well as the reimbursement or cover of certain travel expenses linked to his consultancy services. Specifically, the search warrants relate to allegations that the physician consultant unlawfully influenced or attempted to influence procurement decisions at the clinic in order to increase the purchase of orthopedic products, including Medacta products, in exchange for payments received or promised, including from Medacta. We believe that the allegations are unfounded and, if necessary, will vigorously defend our position and the positions of our employees and representatives.

Medacta entered into the physician consultancy agreements with the consultant for legitimate purposes and has maintained readily accessible written documentation relating to the training and educational activities he performed in return for the compensation and reimbursement of certain travel expenses he received. However, the outcome of an investigation of this nature, and any resulting liability, is inherently difficult to predict, in particular at such an initial stage. On August 2, 2019 we submitted to the public prosecutor's office in Neuruppin a request to discontinue the proceedings pursuant to § 170 ara. 2 StPO. In connection with this matter, we have not made any provisions. At the end of 2019, the public prosecutor's office had granted supplementary access to the files. However, following their review, no additional statement was submitted. Instead, the public prosecutor's office will be contacted again later in 2020 in order to request a termination of the proceedings.

6.26 RELATED PARTY TRANSACTIONS

Related parties primarily comprise members of Group Executive Management (GEM), members of the Board of Directors and significant shareholders.

The following shareholders hold a participation of more than 3% of the issued share capital of the Group's ultimate parent Medacta Group SA:



Transactions with related parties are carried out at arm's length. Details of transactions between the Group and its related parties are disclosed below.

OPERATING TRANSACTIONS

The Group rented to the Medacta for Life Foundation a building in Castel San Pietro for its activities. Medacta for Life Foundation was founded in 2011 and the My Baby nursery school was opened. The school was initially created to welcome Medacta employees' children but later opened its doors to local families with the aim of providing support to parents and promoting the return of women to work after having a baby.

In 2015 the school's educational services expanded with the opening of the My Child pre-school. In 2017 it became My School Ticino, a bilingual school with a wide range of curricular and extracurricular educational activities. In 2018 the school's educational services further expanded with the opening of My Kid primary school. The following year My School Ticino launched My Languages, a language school open to both adult and children, with private and group tuition. The school nowadays accommodates in total nearly 150 children aged 0-10 years, offering a high-quality service to both Medacta employees' families and local families.

The amounts received from Medacta for Life Foundation for rents are as follows:

OTHER RELATED PARTY TRANSACTION

(Thousand Euro)	31.12.2019	31.12.2018
Medacta for Life Foundation – Rent	86	84
TOTAL OTHER RELATED PARTY TRANSACTION	**86**	**84**

The Board of Directors of Medacta, on October 8, 2019 decided to proceed with the sale to Verve SA of the building previously rented to Medacta for Life Foundation. Verve SA is a related party since it is owned by the Siccardi Family. The sale was completed on December 12, 2019.

According to IFRS 5 "Non-current assets held for sale and discontinued operations" the operation met the criteria for the classification of the building as held for sale on October 8, 2019. At that date, the sale was considered highly probable, the buyer already identified, the market price determined, and the completion of the operation was expected within end of the year 2019. The Board of Directors appointed three independent experts of real estate valuation, in order to determine the market price and compare it with the balance sheet carrying amount at the date of the reclassification as held for sale. The asset was depreciated until that date.

On October 8, 2019, the net book value of the asset reclassified as held for sale amounted Euro 6'122 thousand. The disposal was completed on December 12, 2019, for an amount of CHF 7'000 thousand (Euro 6'302 thousand) plus the recharge of CHF 88 thousand (Euro 79 thousand) related to minor investments incurred until the date of disposal. As at December 31, 2019 Verve SA paid the entire amount of CHF 7'088 thousand (Euro 6'381 thousand) of which CHF 350 thousand (Euro 322 thousand) have been deposited to the bank account of the Cantonal Tax Authority (Ufficio esazione e condoni, Repubblica e Cantone Ticino, Depositi utili immobiliari, Bellinzona) to guarantee any potential tax liability related to this transaction.The positive net result of the sale was classified in the Consolidated Statement of Profit or Loss within the line "Other income" (see also Note 6.24 "Information on the Consolidated Statement of Profit or Loss" paragraph "Other income/(expenses)").

IPO COSTS

As mentioned under Note 6 paragraph "Initial Public Offering", the costs related to the IPO are recorded as expenses in the consolidated Profit or Loss in the General and Administrative expenses line item. During the IPO process the Selling shareholders also incurred some costs amounting to CHF 3'229 thousand (Euro 2'907 thousand) and these costs were paid by Medacta on behalf of the Selling shareholders. The Selling shareholders paid this amount back to Medacta.

CAPITAL CONTRIBUTION

In October 2019 Medacta decided to pay a 20 Year Anniversary Fidelity Bonus of around Euro 15.6 million. The majority shareholders of Medacta, the Siccardi Family, decided to make a voluntary cash contribution to Medacta Group to cover all the relevant cash needs associated with this special bonus, in the form of capital contribution (see Consolidated Statement of Changes in Equity). The contribution from the Family's shareholders has been settled on November 20, 2019.

Subsequent to the IPO, Medacta Group SA incurred a one-time tax duty (considered in the Consolidated Statement of Profit or Loss as "Other expenses") of Euro 5.7 million (approx. 0.25% to 0.4% of the total market capitalization) related to the tax reorganization of the Group prior to the listing. This amount has been fully reimbursed to the company by the Selling shareholders in the form of capital contribution on April 29, 2019 (see Consolidated Statement of Changes in Equity).

OTHER RELATED PARTY TRANSACTIONS

Mr. Philippe Weber became member of the Board of Directors of Medacta Group SA on March 21, 2019. Niederer Kraft Frey Ltd, a law firm at which Mr. Philippe Weber is the managing partner for services rendered before and after the IPO, provided legal services to the Group, during the IPO-process, based on a consultant mandate ended after the listing. The fees for his professional services are recognised in the General and Administrative expense line item for an amount equal to Euro 979 thousand, out of which Euro 507 thousand have been reimbursed by the Selling shareholders.

Mr. Balli became member of the Board of Directors of Medacta Group SA on March 21, 2019. On December 23, 2019 purchased 1'500 shares of Medacta Group SA.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The following table shows the compensation of Key Management Personnel recognised in Profit or Loss in line with the Group's accounting policies.

(Thousand Euro)	31.12.2019	31.12.2018
Fees, salaries and other short-term benefits	1'690	2'791
Post-employment pension and medical benefits	181	329
Special Fidelity Bonus	289	
TOTAL COMPENSATION OF KEY MANAGEMENT PERSONNEL	**2'160**	**3'120**

On April 4, 2019 Medacta shares were traded for the first time on the SIX Swiss Exchange. Given the listing, Medacta made a restructuring of the Group Executive Management. The new executive team composition is described in section 4 "Group Executive Management" of the corporate governance report.

Key Management Personnel comprises of the Board of Directors and the Group Executive Management (GEM). The compensation of the GEM consists of a fixed portion and variable portion, which depends on the course of business and individual performance.

6.27 EARNINGS PER SHARE

Basic earnings per share is calculated as the profit for the year attributable to equity holders of the parent.

(Thousand Euro)	31.12.2019	31.12.2018
Profit for the year attributable to equity holders of the parent	11'859	45'753
Weighted average number of shares	20'000	20'000
TOTAL EARNINGS PER SHARE	**0.59**	**2.29**

6.28 ATYPICAL AND/OR UNUSUAL OPERATIONS

The Group did not carry out any atypical and/or unusual operations.

6.29 CONTINGENT LIABILITIES

As of December 31, 2019, tangible fixed assets for a total amount of Euro 16'546 thousand (2018: Euro 18'392 thousand) have been pledged as collateral for borrowing facilities.

The Group as of December 31, 2019 and 2018 had unused current credit lines of Euro 73'635 thousand and Euro 67''274 thousand, respectively.

6.30 SUBSEQUENT EVENTS

The uncertainties brought by the COVID-19 combined to the continued evolving situation, does not allow us to have a full assessment of its impact on our future results. However, given the encouraging first months of the year and the professional capabilities of our leadership team to manage through the challenges, we are confident that mid- or long-term fundamentals are not impaired. We continue to closely monitor the situation and will provide more information when available.

On February 14, 2020, the Arbitrator issued an "Interim Award" related to a litigation with MicroPort. For additional information, see Note 6.25 "Litigation" paragraph "MicroPort matter".

6.31 EXCHANGE RATES USED TO TRANSLATE FINANCIAL STATEMENTS PREPARED IN CURRENCIES OTHER THAN EURO

EXCHANGE RATES

Items included in the financial statement of each Group's entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Group's presentation currency is the Euro, and all values are rounded to the nearest thousand except where otherwise indicated.

	Average		Closing	
	2019	2018	31.12.2019	31.12.2018
CHF	0.9003	0.8685	0.9200	0.8874
GBP	1.1420	1.1283	1.1801	1.1141
AUD	0.6217	0.6314	0.6262	0.6158
USD	0.8934	0.8482	0.8909	0.8748
JPY	0.0082	0.0077	0.0082	0.0080
CAD	0.6745	0.6523	0.6870	0.6405
BYR 1'000	0.0427	0.0414	0.0424	0.0404

7. AUDIT REPORT – CONSOLIDATED FINANCIAL STATEMENTS

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Statutory Auditor's Report

To the General Meeting of
Medacta Group SA, Castel San Pietro

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Medacta Group SA and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 90 to 147) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion
We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our Audit Approach

Summary	
Key audit matters	Based on our audit scoping, we identified the following key audit matters: - Development projects - Existence of inventory - Existence of instruments
Materiality	Based on our professional judgement, we determined materiality for the Group as a whole to be EUR 3.080 million.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Development projects

Key audit matter	How the scope of our audit responded to the key audit matter
As described in Note 6.9 to the consolidated financial statements, the intangible assets balance amounts to EUR 46 million, including development projects capitalized at 31 December 2019 amounting to EUR 27 million. The Group distinguishes between research costs, which are recognized in the statement of profit or loss as incurred, and development costs, which are capitalized provided that the technical and commercial feasibility of the asset has been established, the related costs can be measured reliably and it can reasonably be expected that the costs will be recovered in the future. The costs relating to projects for which the development phase has been completed as of the reporting date, are amortised over the useful life of the related products. Projects which are still in early phases of development as of the reporting date, are not amortised as they are considered as being intangible assets with indefinite useful life at this point in time ("In Progress Development Projects"). Development Projects are allocated to Product Families based on their purpose. Capitalization of Development Projects requires the Group to apply judgement in order to evaluate whether the development expenditure incurred qualifies for recognition as an asset in accordance with IFRS. Whenever there are indications of impairment, and at least once a year in the case of "In Progress Development Projects", the Group tests these assets for impairment. For the impairment test of "In Progress Development Projects", the Group applies judgements and defines assumptions in areas such as revenue growth, estimates in connection with the "costs to complete", and WACC. For these projects, the test is done at the level of the Product Families. Due to the significant amount of costs capitalized and the judgements applied by the Group, we consider the capitalization and measurement of development costs to be a key audit matter in our audit.	We evaluated the design and implementation of controls relevant to the development process. We evaluated the design and implementation of control relevant to the impairment process. We performed tests of details, using statistical sampling method, of the projects capitalized during the year. We obtained technical information relating to the selected projects in order to verify whether the costs qualified as development costs. We analyzed the evidence obtained to evaluate the usefulness of the assets for the Group, and we inquired about the Group's intention to complete these projects. We furthermore inquired about the Group's assessment of the future economic benefits, and its intention to use or sell the products. In addition, we checked whether a sample of costs were eligible for capitalization and whether the amounts were capitalized accurately, verifying the supporting evidence such as invoices from suppliers and internal hours. We have involved internal valuation specialists to assist us in reviewing the valuation model (i.e. validity of the methodology and its application, completeness, and mathematical accuracy) and validating the WACC applied. In addition, we have challenged the Group's judgements and assumptions used in its impairment model. We assessed the adequacy and completeness of the disclosures included by the Group in the accompanying consolidated financial statements (Notes 6.9).

Existence of inventory

Key audit matter	How the scope of our audit responded to the key audit matter
As described in Note 6.12 to the consolidated financial statements, the balance of inventory amounts to EUR 102 million as of 31 December 2019. Inventory is mainly composed of prosthesis and implants. The inventory is held in warehouses and in consignment at the premises of Medacta's customers to ensure continuity of supply. Given the high level of the inventory balance in relation to the Group's total assets, and the number of locations in which inventory is located, we consider the existence of inventory to be a key audit matter in our audit.	We assessed the Group's process for inventory, including stock-taking procedures which are done for both, inventory located at Medacta's premises and in consignment. We evaluated the design and implementation of key controls in connection with the existence of inventory. We have performed operating effectiveness testing on controls over the recording of sales transactions (three-way-match). We have performed physical inventory counts for items selected through statistical sampling methods. Our work was performed in Switzerland, Austria, France, Australia, USA, and Italy. This work covered also inventory in consignment. For these locations, we have also participated in the stock-taking procedures performed by the Group. We compared the results of our own work with the results of the counts performed by the Group. We assessed the adequacy and completeness of the disclosures included by the Group in the accompanying consolidated financial statements (Notes 6.12).

Existence of instruments

Key audit matter	How the scope of our audit responded to the key audit matter
As described in Note 6.7 to the consolidated financial statements, the balance of property, plant and equipment amount to EUR 135 million as at 31 December 2019, including instruments for a net balance of EUR 78 million. The instruments are held in warehouses and at Medacta's customers premises to ensure continuity of supply. Given the high level of the instruments balance in relation to the Group's total assets, and the number of locations in which instruments are consigned, we consider the existence of instruments to be a key audit matter in our audit.	We assessed the Group's process for instruments, including stock-taking procedures which are done for both, instruments located at Medacta's premises and in consignment. We evaluated the design and implementation of key controls in connection with the existence of instruments. We have performed physical instruments counts for items selected through statistical sampling methods. Our work was performed in Switzerland, Austria, France, Australia, and USA. This work covered also instruments in consignment. We assessed the adequacy and completeness of the disclosures included by the Group in the accompanying consolidated financial statements (Notes 6.7).

Our application of materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be EUR 3.080 million, which is 6% of adjusted profit before taxes, and 3% of equity. The profit before taxes of EUR 13.632 million has been adjusted for non-recurring and one-time expenses in the amount of EUR 38.198 million. We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of EUR 0.154 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on 10 locations. 4 of these were subject to a full audit, whilst the remaining 6 were subject to an audit of specified account balances where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's

operations for those locations. These 10 locations represent the principal business units and account for 98% of the Group's total assets, 98% of the Group's revenue and 61% of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the 10 locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from EUR 0.308 million to EUR 1.950 million.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Other Information in the Annual Report
The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies.This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Deloitte SA

Fabien Lussu
Licensed Audit Expert
Auditor in Charge

Michele Castiglioni
Licensed Audit Expert

Lugano, 3 April 2020
FL/MC/di

8. STATUTORY FINANCIAL STATEMENTS MEDACTA GROUP SA, CASTEL SAN PIETRO

BALANCE SHEET

ASSETS

(Swiss Francs)	Notes	31.12.2019	31.12.2018
Cash and cash equivalents		1'536'204	778'131
Short-Term receivables towards group companies	8.3.1	3'208'793	-
Accrued income and prepaid expenses	8.3.2	10'020'353	25'000'000
TOTAL CURRENT ASSETS		**14'765'350**	**25'778'131**
Investment in subsidiaries	8.3.3	135'510'490	135'510'490
Long-Term loans towards group companies	8.3.4	36'750'000	-
TOTAL NON-CURRENT ASSETS		**172'260'490**	**135'510'490**
TOTAL ASSETS		**187'025'840**	**161'288'621**

LIABILITIES AND EQUITY

(Swiss Francs)	Notes	31.12.2019	31.12.2018
Account payables		369'198	-
Deferred income and accrued expenses		889'060	119'055
Provisions		91'045	48'045
Short-term liabilities towards Group companies	8.3.5	553'747	-
TOTAL CURRENT LIABILITIES		**1'903'050**	**167'100**
Long-term interests-bearing liabilities towards Group companies	8.3.6	-	2'001'189
TOTAL NON-CURRENT LIABILITIES		**-**	**2'001'189**
Share capital	8.3.7	2'000'000	2'000'000
General capital reserve		131'000'000	131'168'955
General legal capital contribution reserve	8.3.8	23'520'000	-
General legal reserve from earnings		1'000'000	1'000'000
Retained earnings brought forward		25'120'332	-
Profit of the year		2'482'458	24'951'377
TOTAL SHAREHOLDER'S EQUITY		**185'122'790**	**159'120'332**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**187'025'840**	**161'288'621**

INCOME STATEMENT

(Swiss Francs)	Notes	31.12.2019	31.12.2018 *
Dividend income	8.3.9	10'000'000	25'000'000
Interest Income		108'309	-
Other Revenues	8.3.10	4'027'111	-
TOTAL REVENUE		**14'135'420**	**25'000'000**
Personnel costs		(2'052'724)	-
Legal and administrative expenses	8.3.11	(2'918'194)	(38'330)
Stamp duty costs	8.3.12	(6'535'980)	-
Other expenses		(85'581)	-
TOTAL OPERATING COSTS		**(11'592'479)**	**(38'330)**
OPERATING PROFIT		**2'542'941**	**24'961'670**
Interest and expenses towards group companies		(13'419)	-
Other financial costs		(4'064)	(1'293)
TOTAL FINANCIAL INCOME / (COSTS)		**(17'483)**	**(1'293)**
PROFIT BEFORE TAXES		**2'525'458**	**24'960'377**
Taxes	8.3.13	(43'000)	(9'000)
PROFIT OF THE PERIOD		**2'482'458**	**24'951'377**

* As described in Note 8.1, the 2018 Profit or Loss recognises only one month of transactions, from November 30, 2018 to December 31, 2018.

NOTES

8.1 GENERAL INFORMATION

Medacta Group SA (the "Company") has been registered in the Commercial Register of the Canton Ticino, Switzerland since November 30, 2018, with legal office in Castel San Pietro and with a share capital of CHF 2'000'000. The 2018 Medacta Group SA Profit or Loss is therefore recognising only one month of transactions, from November 30, 2018 to December 31, 2018. The company went public on April 4, 2019 and is listed at the Swiss Stock Exchange SIX.

The activity of the Company is to indirectly or directly acquire, hold and manage investments in domestic and foreign companies, in particular controlling investments in industrial and trading companies active in the field of orthopedics, the management and sustainable development of these investment companies within a group of companies as well as the provision of financial and organizational means for the management of a group of companies. The Company may acquire, mortgage, utilize and sell real estate properties and intellectual property rights in Switzerland and abroad as well as incorporate and finance subsidiaries and branches. The Company may engage in all kinds of commercial and financial transactions that are beneficial for the realisation of its purpose, in particular provide and take out loans, issue bonds, provide suretyships and guarantees, provide collateral as well as make investments in all marketable investment classes.

Medacta Group SA, controlling company of Medacta Group, prepares Consolidated Financial Statements for the Group in accordance with the International Financial Reporting Standards (IFRS), in compliance with articles 963 and following of the Swiss Code of Obligations (CO), subject to ordinary audit as per Swiss Law.

Furthermore, as the Company issues a consolidated Financial Statement under IFRS, the Company is and will be exempt from additional disclosure requirements for larger companies in accordance with Art. 961d para 1 CO.

8.2 ACCOUNTING PRINCIPLES

These Financial Statements have been prepared in compliance with the Swiss Code of Obligations (CO).

TRANSLATION OF FOREIGN CURRENCIES

The receivables and payables in foreign currencies are translated into Swiss Francs at the exchange rate prevailing at the balance sheet date.

During the year, the transactions in foreign currencies are translated into Swiss Francs at the exchange rate prevailing in the month of the transaction.

Unrealized foreign exchange gains are deferred in the Balance Sheet whereas unrealized foreign exchange losses are recognized in the Income Statement. Realized foreign exchange gains and losses are recorded in the Income Statement.

RELATED PARTIES

Related parties include direct and indirect subsidiaries, associated and controlled companies and the members of the Board of Directors as well as the Shareholders of the Company. All transactions with those related parties are carried out at market conditions (at arm's length principle).

INVESTMENT IN SUBSIDIARIES

The investment in subsidiaries are evaluated at acquisition costs, adjusted for impairment losses if any.

TAXES

Taxes are accrued for on the basis of the annual profit and the taxable capital at the balance sheet date.

INCOME AND COSTS

The income and costs are recorded in accordance with the economic competence.

The dividends of the fiscal period have been recorded according to the principle of simultaneous registration of dividends.

Furthermore, the principles of realization, of prudence, of imparity and of continuity are applied.

USE OF ESTIMATES AND JUDGEMENTS BY THE MANAGEMENT

The annual Financial Statements prepared in conformity with the Swiss Code of Obligations (CO) require the use of accounting estimates and assumptions by the management, based on historical experience and other factors (such as anticipation of results and future events, where appropriate and based on all circumstances and in compliance with the accounting principles of reference). Being the case of estimates, the relevant effects, when they occur, could differ from such estimates and expectations.

The main Financial Statements positions based on estimates and assumptions by the management are the following:

- Investment in subsidiaries;
- Deferred income and accrued expenses;
- Taxes.

8.3 INFORMATION, SPLIT AND EXPLANATIONS WITH REGARD TO ITEMS OF THE BALANCE SHEET AND THE INCOME STATEMENT

8.3.1 SHORT-TERM RECEIVABLES TOWARDS GROUP COMPANIES

The Company has short-term receivables towards Medacta Holding SA for CHF 75'501 and towards Medacta International SA for CHF 3'133'292.

8.3.2 ACCRUED INCOME AND PREPAID EXPENSES

This position includes the dividend of CHF 10'000'000 from Medacta Holding SA referred to the result of the year 2019 (simultaneous registration of dividend).

8.3.3 INVESTMENT IN SUBSIDIARIES

The investment in subsidiaries consist of:

- Direct investment in subsidiaries:

Company	% of shares held December 2019 and 2018	Registered office	Country	Share Capital	31.12.2019
Medacta Holding S.A.	100%	Castel San Pietro	Switzerland	1'026'000 CHF	135'510'490 CHF

- Indirect investment in subsidiaries:

Company	% of shares held December 2019	% of shares held December 2018	Registered office	Country	Registered Capital
Medacta International SA	N/A	N/A	Castel San Pietro	Switzerland	1'000'000 CHF
Medacta Australia PTY. Ltd	100%	100%	Lane Cove	Australia	4 AUD
Medacta Austria GmbH	100%	100%	Eugendorf	Austria	35'000 EUR
Medacta Belgium SPRL	100%	100%	Nivelles	Belgium	18'550 EUR
Medacta Canada Inc.	100%	100%	Kitchener	Canada	100 CAD
Medacta España SL	100%	100%	Burjassot	Spain	3'000 EUR
Medacta France SAS	100%	100%	Villeneuve La Garenne	France	37'000 EUR
Medacta Germany GmbH	100%	100%	Göppingen	Germany	25'000 EUR
Medacta Italia Srl	100%	100%	Milan	Italy	2'600'000 EUR
Medacta Japan Co., Ltd	100%	100%	Tokyo	Japan	25'000'000 JPY
Medacta UK Ltd	100%	100%	Hinckley	UK	29'994 GBP
Medacta USA, Inc.	100%	100%	Franklin - Tennessee	USA	50'000 USD
Swiss Medical Manufacturing Ooo	0%*	100%	Minsk	Belarus	929'000'000 BYR

* In December 2019, Swiss Medical Manufacturing Ooo, has been liquidated.

The participation held in the capital of the direct and indirect investment in subsidiaries corresponds to the relevant voting rights.

8.3.4 LONG-TERM LOANS TOWARDS GROUP COMPANIES
This position refers to interest-bearing loans towards Medacta International SA.

8.3.5 SHORT-TERM LIABILITIES TOWARDS GROUP COMPANIES
The position refers to short-term liabilities towards Medacta International SA.

8.3.6 LONG-TERM LIABILITIES TOWARDS GROUP COMPANIES
The Company has no more long-term interest-bearing liabilities towards Group companies as at 31.12.2019.

8.3.7 SHARE CAPITAL
The share capital amounts to CHF 2'000'000 and is divided into 20'000'000 registered shares with a nominal value of CHF 0.10 each.

8.3.8 GENERAL LEGAL CAPITAL CONTRIBUTION RESERVE
The general legal capital contribution reserve was made up through cash contributions of CHF 6'450'000 and CHF 17'070'000 paid in 2019 by the majority shareholders to the company for a total amount of CHF 23'520'000. Tax rulings have been received by Swiss federal tax authorities in order that these cash contributions can be recognized as qualifying capital contribution reserves (Kapitaleinlagereserve KER) in the sense of Swiss federal anticipatory (withholding) tax law. The final formal approval will only be released by federal tax authorities after the approval of the present financial statements by the annual general meeting of the company.

8.3.9 DIVIDEND INCOME
Dividend income accrued as of December 31, 2019 for CHF 10'000'000 refers to the dividend of the fiscal year 2019 of the subsidiary Medacta Holding SA (simultaneous registration of dividend).

This dividend has not been cashed in as of the balance sheet date.

8.3.10 OTHER REVENUES
Other revenues equal to CHF 4'027'105 as of December 31, 2019, relates primarily the re-billing of IPO costs to both Family's shareholders for an amount equal to CHF 1'319'529 and to Group's subsidiaries for an amount of CHF 2'707'576, which includes payroll expenses to ensure that the costs will be incurred to the relevant parties following the accuracy assertion.

8.3.11 LEGAL AND ADMINISTRATIVE EXPENSES
2019 audit fees of the standalone and consolidated financial statements amount to CHF 242'688. In connection with the IPO process, the audit related fees are equal to CHF 225'554.

8.3.12 STAMP DUTY COSTS
Stamp duty costs for CHF 6'535'980 are related to duty paid to the Swiss federal tax authorities for both, the listing of the Company, given the tax rulings agreed in connection with the reorganization of the company and to the capital contribution made by the majority shareholders mentioned in paragraph 8.3.8 "General legal capital contribution reserve".

8.3.13 TAXES
The Company is subject to direct taxes on the profit and on the capital. Taxes of CHF 43'000 for the period entirely refer to the capital tax.

8.4 OTHER INFORMATION NOT RESULTING FROM THE BALANCE SHEET OR THE INCOME STATEMENT

8.4.1 NET RELEASE OF REPLACEMENT RESERVES AND OTHER HIDDEN RESERVES
During the fiscal period no release or use of replacement reserves or other hidden reserves has taken place.

8.4.2 OWN SHARES

As of December 31, 2019, neither the Company nor the subsidiaries owned or held own shares of the Company and there were no changes in the ownership of own shares during the fiscal period.

8.4.3 RESIDUAL AMOUNT OF LIABILITIES RESULTING FROM LEASE COMMITMENTS

The Company has no leasing contracts in force.

8.4.4 LIABILITIES TOWARDS PENSION INSTITUTIONS

The Company has liabilities towards pension institutions of CHF 59 as of December 31, 2019

8.4.5 COLLATERALS, GUARANTEE LIABILITIES AND CONSTITUTION OF PLEDGES IN FAVOUR OF THIRD PARTIES

The Company has not constituted collaterals, guarantees or pledges in favour of third parties.

8.4.6 ASSETS USED TO SECURE OWN LIABILITIES

The company has not constituted pledges or collaterals on own assets to secure own liabilities.

8.4.7 CONTINGENT LIABILITIES

There are no contingent liabilities as at the balance sheet date.

8.4.8 SUBSCRIPTION OR OPTION RIGHTS

As of December 31, 2019, the Company neither owns nor has released subscription or option rights on its proper shares or on the shares of other group companies.

8.4.9 IMPORTANT SUBSEQUENT BALANCE SHEET DATE EVENTS

The uncertainties brought by the COVID-19 combined to the continued evolving situation, does not allow us to have a full assessment of its impact on our future results. However, given the encouraging first months of the year and the professional capabilities of our leadership team to manage through the challenges, we are confident that mid- or long-term fundamentals are not impaired. We continue to closely monitor the situation and will provide more information when available.

9. PROPOSAL OF THE BOARD OF DIRECTORS WITH REGARD TO THE APPROPRIATION OF THE AVAILABLE RETAINED EARNINGS

As of December 31, 2019, the available retained earnings are as follows:

(Swiss Francs)	**31.12.2019**
Retained earnings brought forward	25'120'332
Profit of the year	2'482'458
AVAILABLE RETAINED EANINGS	**27'602'790**

The Board of Directors proposes the following appropriation of the available retained earnings:

(Swiss Francs)	
Retained earnings to bring forward	27'602'790
TOTAL AVAILABLE RETAINED EARNINGS	**27'602'790**

10. AUDIT REPORT – MEDACTA GROUP SA FINANCIAL STATEMENTS

Deloitte.

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Statutory Auditor's Report

To the General Meeting of
Medacta Group SA, Castel San Pietro

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Medacta Group SA, which comprise the balance sheet as at 31 December 2019, and the income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 154 to 160) as at 31 December 2019 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion
We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Investments and Loans

Key audit matter	How the scope of our audit responded to the key audit matter
As described in Notes 8.3.3, and 8.3.4 to the standalone financial statements, investments in and loans to subsidiaries amount to CHF 172 million, or 92% of total assets, as of 31 December 2019. The Company assesses the valuation of its investments and loans and determines potential impairments on an individual basis, in accordance with the Swiss Code of Obligations. Due to the significance of the carrying amounts of the investments and loans, and due to the judgement involved in the determination of potential impairments, this matter was considered a key audit matter in our audit.	We have assessed the appropriateness of the Company's accounting policy for the valuation of investments and loans. We challenged the assessment of impairment indicators made by the Company. We compared the carrying amount of the investments and loans with the equity balances of the relevant entities. We assessed the adequacy and completeness of the related disclosure in Notes 8.3.3 and 8.3.4 to the standalone financial statements.

Responsibility of the Board of Directors for the Financial Statements
The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies.This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

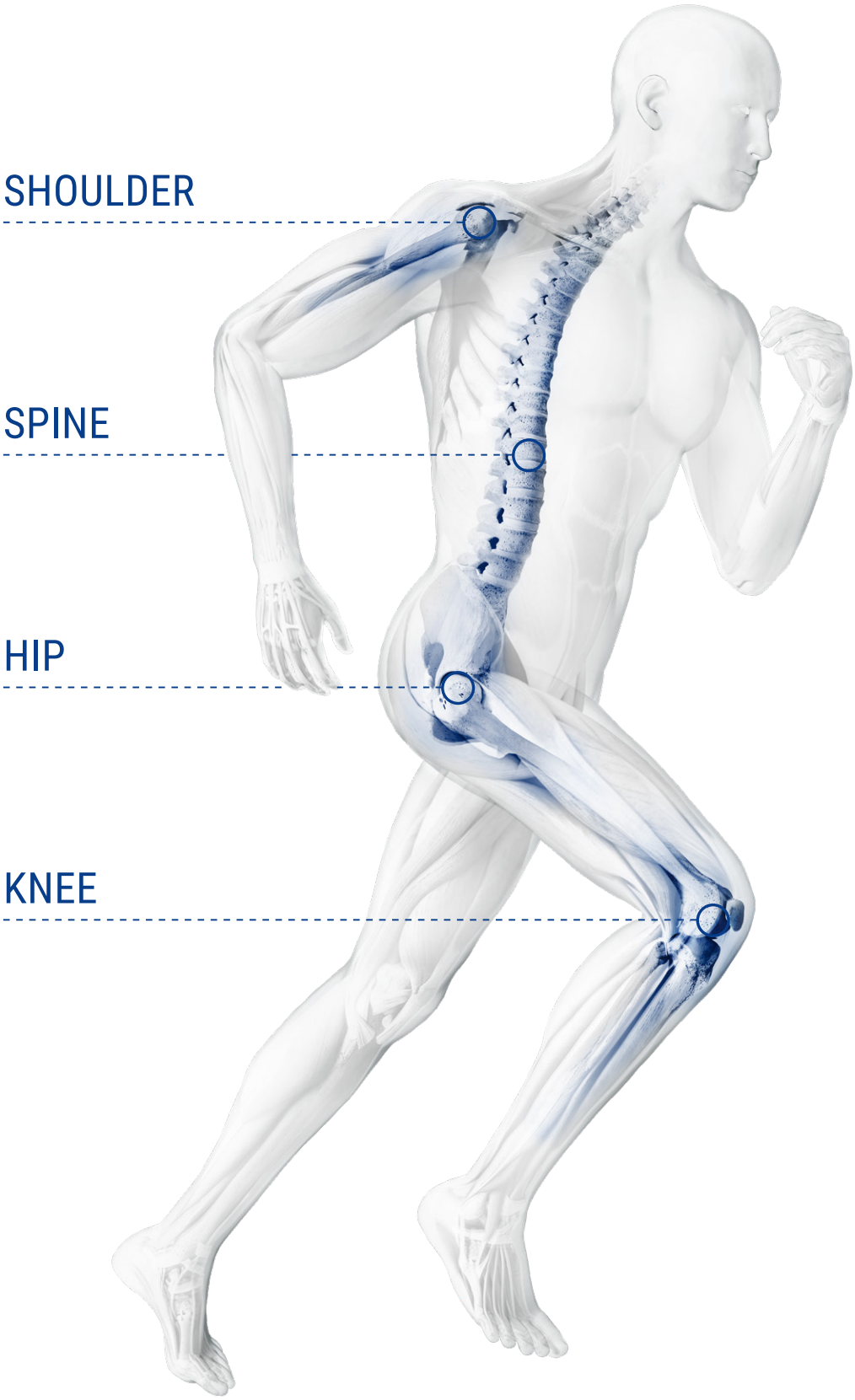
We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Deloitte SA

Fabien Lussu
Licensed Audit Expert
Auditor in Charge

Michele Castiglioni
Licensed Audit Expert

Lugano, 03 April 2020
FL/MC/di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Medacta International

ADDITIONAL INFORMATION FOR INVESTORS

FINANCIAL CALENDAR

19 MAY
2020

ANNUAL
GENERAL MEETING

22 JULY
2020

PUBLICATION OF 2020
HALF-YEAR UNAUDITED
TOP-LINE FIGURES

07 SEPTEMBER
2020

PUBLICATION
OF 2020 HALF-YEAR
RESULTS

21 JANUARY
2021

PUBLICATION OF 2020
FULL YEAR UNAUDITED
TOP-LINE FIGURES

31 MARCH
2021

PUBLICATION OF 2020
FULL YEAR RESULTS

CONTACTS

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Discover more

www.medacta.com/EN/home-investors-global

FORWARD-LOOKING INFORMATION DISCLAIMER

This annual report has been prepared by Medacta and includes forward-looking information and statements concerning the outlook for our business. These statements are based on current expectations, estimates and projections about the factors that may affect our future performance. These expectations, estimates and projections are generally identifiable by statements containing words such as 'expects,' 'believes,' 'estimates,' 'targets,' 'plans,' 'outlook' or similar expressions.

There are numerous risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from the forward- looking information and statements made in this annual report. Currently, it is very difficult to provide a meaningful prediction on how the Swiss governmental action in response to the ongoing outbreak of a novel coronavirus disease (COVID-19) will affect the Medacta's operations and how long such measures will remain in place. The COVID-19 outbreak has caused, and may continue to cause, economic instability and a significant decrease of total economic output in the affected areas and globally. The impact of the COVID-19 outbreak on the general economic environment in the markets in which Medacta operates remain uncertain and could be significant. In addition, other important factors that could cause such differences include: changes in the global economic conditions and the economic conditions of the regions and markets in which the Group operates; changes in healthcare regulations (in particular with regard to medical devices); the development of our customer base; the competitive environment in which the Group operates; manufacturing or logistics disruptions; the impact of fluctuations in foreign exchange rates; and such other factors as may be discussed from time to time. Although we believe that our expectations reflected in any such forward-looking statement are based upon reasonable assumptions, we can give no assurance that those expectations will be achieved.

REDEFINING BETTER
IN ORTHOPAEDICS
AND SPINE SURGERY

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