FINANCIAL REPORT

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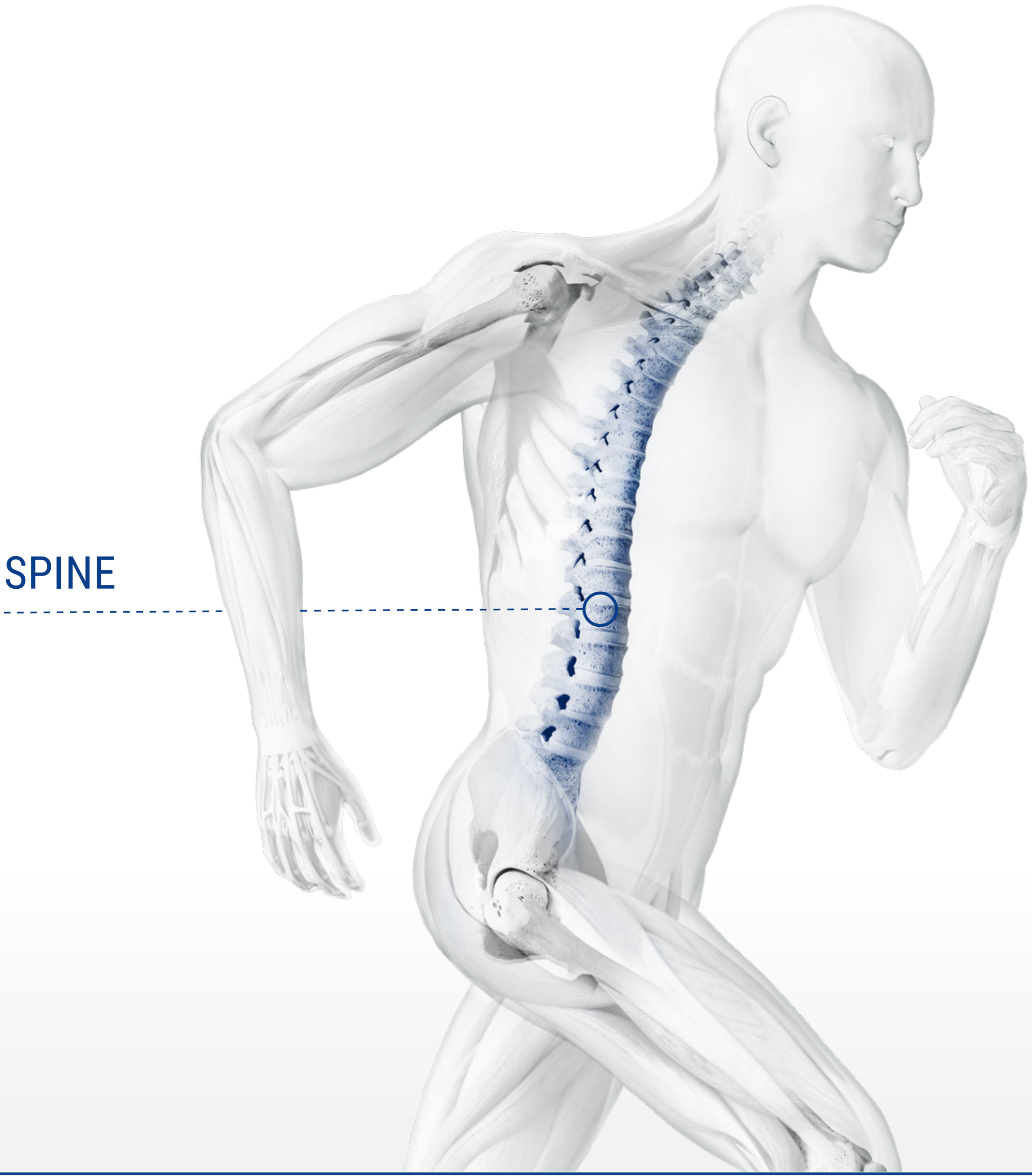


2019 AWARD

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 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)				
		Assets / Liabilities as FVTPL			
As at December 31, 2019 (Thousand Euro)	**Asset and Liabilities at amortised cost**	**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)					
		Assets / Liabilities as FVTPL			
As at December 31, 2018 (Thousand Euro)	**Asset and Liabilities at amortised cost**	**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 constru-ction	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 constru-ction**	**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.

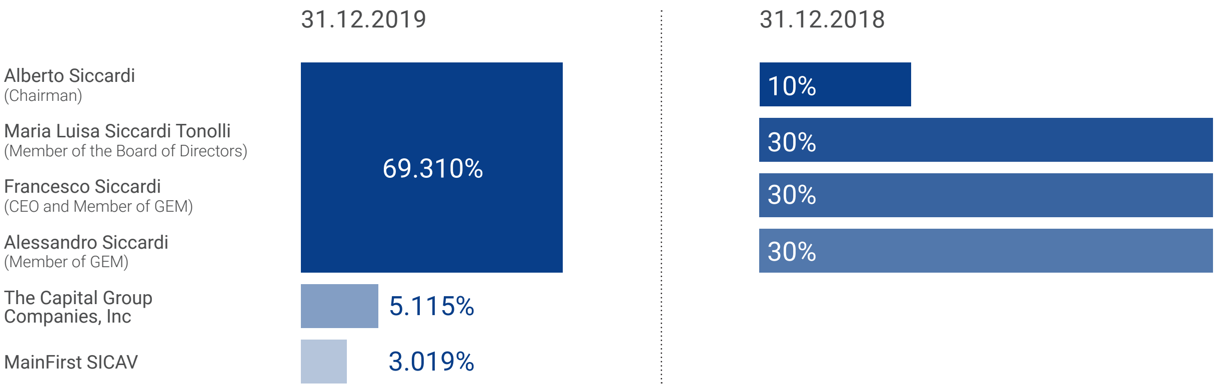
The named expert independent physician consultant provided a range of education services on our behalf, including training other surgeons, proctoring surgeries and demonstrating the efficacy of our AMIS technique for hip transplants, for which he was compensated at an hourly rate of approximately Euro 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.

Deloitte.

Medacta Group SA
Statutory Auditor’s Report
for the year ended
31 December 2019

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	Michele Castiglioni
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

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

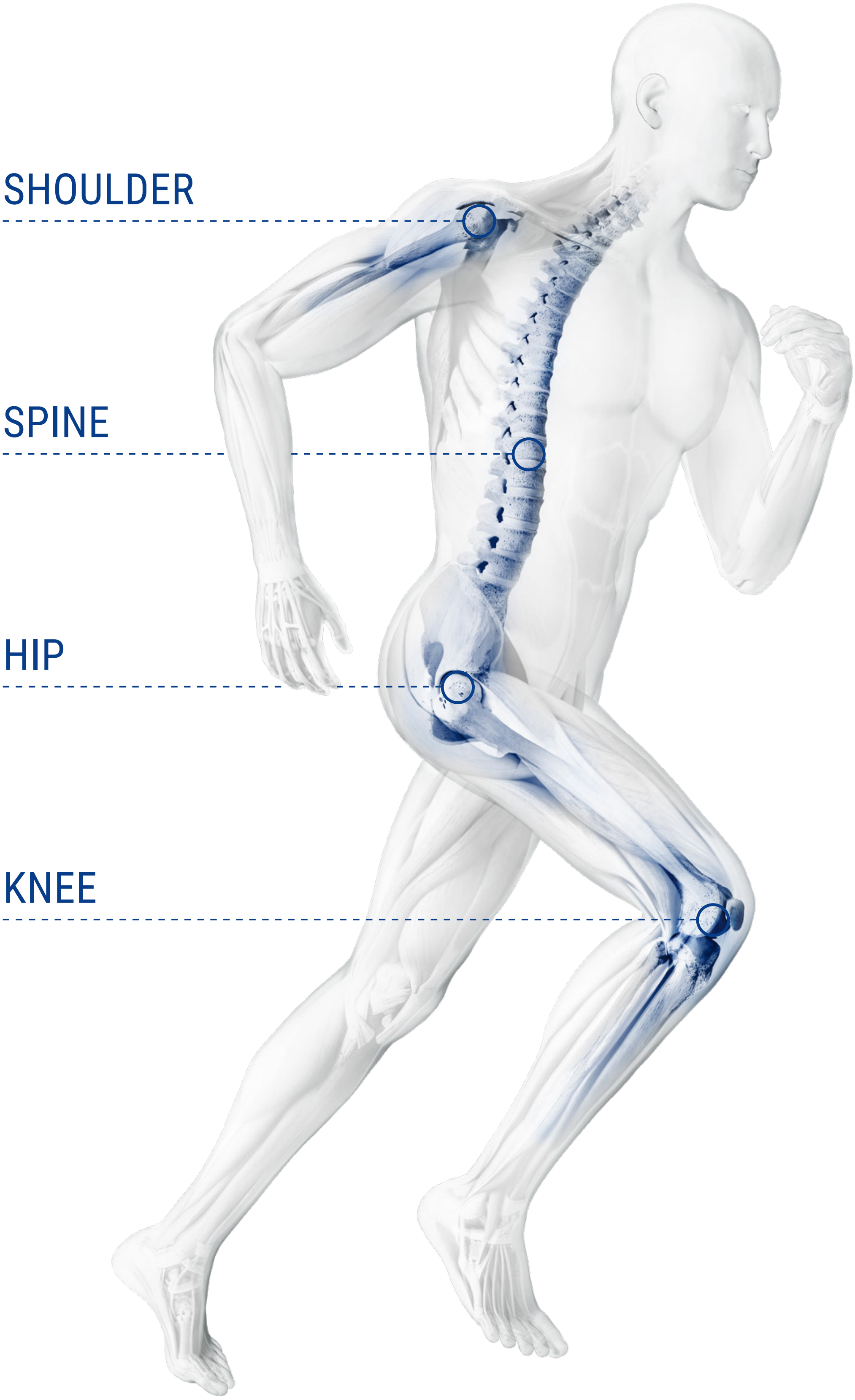
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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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