Medacta International

HALF-YEAR REPORT 2020

MEDACTA AT A GLANCE

Medacta is an international orthopedics company specializing in the design and production of innovative orthopedic products and the development of accompanying surgical techniques. Established in 1999 in Switzerland, Medacta's products and surgical techniques are characterized by innovation. Medacta is a pioneer in developing new offerings on the basis of minimally invasive surgical techniques, in particular its Anterior Minimally Invasive Surgery ("AMIS") technique for hip replacements. Medacta has leveraged its orthopedic expertise and comprehensive understanding of the human body to develop the sophisticated "MySolutions" technology, which offers surgeons highly personalized pre-operative planning and implant placement methodologies by creating advanced personalized kinematic models and 3D planning tools for use in hip, knee, shoulder and spine procedures. Medacta is headquartered in Castel San Pietro, Switzerland, and currently employs 1'126 people.

From minimally invasive surgery to
Personalized Medicine and beyond

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HIGHLIGHTS FIRST HALF 2020*

- Medacta's half-year 2020 revenue at Euro 134.8 million, down 11.1% over the prior year due to COVID-19 related deferrals of orthopedic elective surgeries;
- Good backlog recovery in June, July and August with double-digit growth but we remain very cautious about the second semester;
- Reported and Adjusted EBITDA margin respectively at 23.6% and 23.8%;
- Over 25 new products cleared. Innovation continued, culminating with the FDA clearance on our proprietary NextAR^{TM} Augmented Reality platform technology in July;
- Retained 100% of workforce;
- 2020 guidance remains withheld due to continuing uncertainty regarding impact of COVID-19.

REVENUE

EUR 134.8M

REPORTED GROWTH [1]

(11.1%)

(12.2%) before FX effects from prior year

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

ADJUSTED EBITDA [2] **

EUR 32.1M

[2] is calculated as EBITDA, adjusted for non-recurring items: IPO costs, one-time tax duty, provisions on litigation, extraordinary legal expenses etc.

ADJUSTED EBITDA MARGIN [3] **

23.8%

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

H1 2020 EPS [4]

0.48

[4] There is no effect of dilution, and diluted earnings per share equals basic earnings per share.

NUMBER OF EMPLOYEES

1'126

25 new jobs added in H1 2020

* **Alternative Performance Measures:** This section and other sections of this Half-Year Report, contain certain financial measures of historical performance that are not defined or specified by IFRS, such as "constant currency", "EBITDA", "Adjusted EBITDA" or "CORE EBITDA", "Adjusted and Normalized EBITDA", "Free Cash Flow", "Adjusted Free Cash Flow", "Adjusted and Normalized Free Cash Flow" "Net Debt" and "Leverage". Reconciliation of these measures as well as "CORE" financial measures is provided in the "Alternative Performance Measures" (APM) section of this Half-Year Report on page 10. These Alternative Performance Measures (APM) should be regarded as complementary information to, and not as a substitute for the IFRS performance measures. For definitions of APM, together with reconciliations to the most directly reconcilable IFRS line items, please refer section headed "Alternative Performance Measures" of this Half-Year report.

**In H1 2020 references to "Adjusted EBITDA" are the equivalent to "CORE" references and to "Adjusted and normalized EBITDA", only used in H1 2019 (i.e. Adjusted EBITDA, CORE EBITDA and Adjusted and normalized EBITDA are interchangeable). We did not recognize any normalization adjustments in 2020.

KEY FINANCIAL FIGURES

(Million Euro)	30.06.2020	30.06.2019
Revenues	134.8	151.6
Gross Profit	93.9	111.6
Alternative Performance Measures:		
EBITDA	31.9	33.5
EBITDA margin	23.6%	22.1%
Adjusted and normalized EBITDA*	32.1	48.4
Adjusted and normalized EBITDA margin*	23.8%	31.9%
Free Cash Flow	(7.9)	(11.4)
Adjusted and normalized Free Cash Flow**	(4.7)	3.5

(Million Euro)	30.06.2020	31.12.2019
Total Assets	427.8	412.6
Total Equity	135.3	123.2
Equity Ratio	31.6%	29.9%
Number of employees	1'126	1'101

* Adjusted for extraordinary legal expenses (Euro 1.7 million) and positive effect from the release of provisions on litigation (Euro 1.6 million). In this report we have changed the June 30, 2019 Adjusted and normalized EBITDA by removing the IFRS 16 normalization since moving forward it will not be necessary to provide any normalization with prior periods given the adoption since January 1, 2019. This normalization was used to enable investors to compare H1 2019 with H1 2018. In H1 2019, this change increased the depreciation of right-of use assets by Euro 1.4 million, improving the Adjusted and normalized EBITDA margin to 31.9% from the 31.0% reported in the 2019 Half-Year Report, corresponding to Euro 47 million.

** In the comparative period, the change in deleting the IFRS 16 normalization improved also the Adjusted and normalized Free Cash Flow by Euro 1.4 million. Please see the "Alternative Performance Measures" section for the reconciliation of the "Adjusted and normalized Free Cash Flow".

SHARE INFORMATION

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

NUMBER OF SHARES	30.06.2020
Share capital (in CHF)	2'000'000
Number of registered shares outstanding	20'000'000
Nominal value per registered share (in CHF)	0.10
Number of treasury shares	0

DATA PER SHARE	30.06.2020
High (in CHF) *for the period January - June 2020*	85.00
Low (in CHF) *for the period January - June 2020*	39.80
Closing price (in CHF)	75.10
Market capitalization (in CHF million)	1'502

LETTER TO SHAREHOLDERS

Dr. Alberto Siccardi

Ing. Francesco Siccardi

Dear shareholders,

In these unprecedented times, Medacta has been able to navigate the COVID-19 crisis, serving at its best healthcare professionals and patients, continuing innovating, protecting jobs, launching new key products and redesigning our marketing and medical education programs.

Despite COVID-19 restrictions, education continued through redesigned online Marketing and Medical Education Programs, with over 1'800 surgeons attending our marketing initiatives and education programs. R&D activity continued as planned, with clearance on over 25 new products among our business lines.

We are very proud of the way our employees have been able to face this extraordinary situation and it is thanks to their engagement and commitment that we are highly encouraged on the execution of our long-term business strategy.

REVENUE DOWN 11.1% OVER THE PRIOR YEAR WITH A GOOD BACKLOG RECOVERY RECOGNIZED IN JUNE WITH A DOUBLE-DIGIT GROWTH RATE

After closing the first quarter 2020 with a single digit growth, we registered for the first time in the company's history a negative growth rate in the second quarter, resulting in a decrease of revenue of 11.1% in the first semester compared to the same period last year, from Euro 151.6 million to Euro 134.8 million in H1 2020. Currency effects had a positive impact on reported results, mainly due to the development of the US dollar and the Swiss Franc against the Euro, with total negative sales growth of 12.2% at constant currency.

This reduction is due to the deferral of elective procedures from local governments and healthcare authorities worldwide to respond to the COVID-19 pandemic, which significantly impacted our operations and sales volume.

Overall, first semester 2020 recorded significant differences among product lines, in particular due to the different pre-COVID-19 momentums in sales growth. The decrease in the core business (Hip -17.5%, Knee -13.0% both at constant currency) reflects COVID-19 restrictions and lock-downs that affected almost all countries.

Spine (+11.9% at constant currency) and Extremities (+41.7% at constant currency) performances were heavily affected in the second part of the semester, however they were able to recognize positive performances in all geographies thanks to the strong momentum carried over into the beginning of 2020.

The revenue decline break-down by geographies is different primarily due to the different level of COVID-19 restrictions. Revenue in Europe had the largest decline (-17.3% at constant currency) within the key markets, with 'DACH' area countries (Germany, Austria, Switzerland) recording the smallest impact. North America was heavily affected as well (-14.3% at constant currency), with the deepest negative peak in April, but also the strongest acceleration in June among all Medacta's markets. APAC (+5.8% at constant currency) had the best overall performance thanks to strong pre-COVID-19 momentum, a limited COVID-19 impact in Japan and a short lock-down period in Australia. RoW (-28.4% at constant currency) was primarily affected by the situation in Latin America, South-Africa and Israel. New distributors in the Middle East and Eastern Europe areas have been established, expanding Medacta presence from 39 to 42 countries. Other new markets are in the pipeline to further expand the Distributors network.

LOWER GROSS PROFIT MARGIN AFFECTED BY LOWER REVENUE

Medacta reached Euro 93.9 million of Gross Profit, approximately 15.8% or Euro 17.6 million lower than the first semester of 2019. As a result of the decline in revenue during the lockdown months, the Gross Profit margin showed a reduction of 3.9%, from 73.6% to 69.7%, in comparison to the previous year, primarily due to the significant higher instruments depreciation and amortisation as a percentage of revenue. A minor impact was registered from the expected negative price trends in almost all markets.

RESILIENT PROFITABILITY AND ADJUSTED EBITDA MARGIN OF 23.8%[1]

Reported EBITDA was equal to 23.6%, and Adjusted EBITDA amounted to Euro 32.1 million (H1 2019: Euro 48.4 million), corresponding to a margin of 23.8% (H1 2019: 31.9%[2]). The negative 8.1% reduction in Adjusted EBITDA margin reflects by approximately 11% the COVID-19 impact on the topline, with the reduction in volumes and in Gross Profit margin. The loss of margin generated by the reduction in volumes was partially offset by Management discretionary initiatives in cost containment effort, deriving primarily from travels, events, freezing of new hires. Also, we obtained in some countries government grants for Euro 2.2 million, mainly related to short-term working subsidies.

TAX RATE REDUCTION, POSITIVE CONTRIBUTES TO MEDACTA'S HALF-YEAR EARNINGS

Net profit amounted to Euro 9.7 million, compared to Euro 11.3 million in the previous year. The net profit for the period had a positive contribution of Euro 0.4 million from income taxes, primarily due to the impact of the Swiss Tax Reform enacted at the beginning of 2020 that reduced the corporate tax rate applicable to the Swiss operating company. This allowed us to recognize in the 2020 half-year financials a positive impact deriving from the change in tax rate applicable to deferred tax assets and liabilities amounting to around Euro 2.3 million. In addition, the tax rate applicable to Medacta International S.A. for 2020 decreased from 18.6% to 17.3% and this resulted in lower current income tax in the half-year 2020.

SOLID BALANCE SHEET

Cash flow and financial performance is a priority of the company. Thanks to the performance delivered, Medacta's balance sheet remains robust, with total assets of Euro 427.8 million and an equity ratio of 31.6% at the end of the reporting period. The free cash flow generated in the first semester 2020 had a negative balance of Euro 7.9 million, after recognizing significant investments in new instruments, development projects to sustain the future growth, extraordinary legal expenses for Euro 1.7 million and investments for the new Rancate building for Euro 1.5 million. Total net debt as of 30 June 2020 amounted to Euro 115.2 million, versus committed lines for Euro 179 million.

COMMITMENT TO LONG-TERM VALUE CREATION

Innovation, medical education and healthcare sustainability remain fundamental pillars of our long-term value creation strategy. We maintained investments in R&D and accelerated our innovation process, culminated with the FDA clearance on our proprietary NextAR™ Augmented Reality platform technology in July. The NextAR™ TKA Application represents an important milestone on our healthcare sustainability pillar, through improved efficiency and precision in total knee replacements that deliver personalized planning, with low upfront capital investment required by clinics and hospitals, ultimately benefiting the healthcare system through OR efficiency and low cost per procedure.

Also, we continued educating our clients, and during the first semester, Medacta was able to redesign most of its Marketing and Medical Education Programs, implementing several online based initiatives, that allowed us to reach over 1'800 Surgeons.

OUTLOOK 2020

The double-digit growth of sales in June, July and August confirms that backlog recovery can occur quickly if conditions allow. Even if these performances are encouraging, speed and size of recovery in the second semester depend on the evolution of the COVID-19 crisis in key markets, which remain unpredictable due to stop-and-go and possible additional slow-down of activities. Given the inability to forecast future developments we are not able to provide a short-term outlook.

Overall, we believe that mid and long-term fundamentals have not changed and several activities are in place to regain full momentum in the second semester and beyond: we restarted the M.O.R.E. institute activities, we repristinated the hiring plans to expand sales force, we continued to focus on Ambulatory Surgery Centers (ASCs) in the US and we are planning the appropriate investments to support the expected reacceleration.

Sincerely,

Dr. Alberto Siccardi
Chairman of the Board of Directors

Ing. Francesco Siccardi
Chief Executive Officer

[1] **Alternative Performance Measures:** This section and other sections of this Half-Year Report, contain certain financial measures of historical performance that are not defined or specified by IFRS, such as "constant currency", "EBITDA", "Adjusted EBITDA" or "CORE EBITDA", "Adjusted and Normalized EBITDA", "Free Cash Flow", "Adjusted Free Cash Flow", "Adjusted and Normalized Free Cash Flow", "Net Debt" and "Leverage". Reconciliation of these measures as well as "CORE" financial measures is provided in the "Alternative Performance Measures" (APM) section of this Half-Year Report on page 10. These Alternative Performance Measures (APM) should be regarded as complementary information to, and not as a substitute for the IFRS performance measures. For definitions of APM, together with reconciliations to the most directly reconcilable IFRS line items, please refer section headed "Alternative Performance Measures" of this Half-Year report.

[2] We have changed the June 30, 2019 Adjusted and normalized EBITDA by removing the IFRS 16 normalization since moving forward it will not be necessary to provide any normalization with prior periods given the adoption since January 1, 2019. This normalization was used to enable investors to compare H1 2019 with H1 2018. In H1 2019, this change increased the depreciation of right-of use assets by Euro 1.4 million, improving the Adjusted and normalized EBITDA margin to 31.9% from the 31.0% reported in the 2019 Half-Year Report, corresponding to Euro 47 million.

ALTERNATIVE PERFORMANCE MEASURES

The financial information provided in the selected sections of the 2020 Half-Year Report, including “Highlights First Half 2020”, “Letter to shareholders” and elsewhere in this document, include certain Alternative Performance Measures (APMs) which are not accounting measures defined by IFRS. The Group believes that investor understanding of Medacta’s performance is enhanced by disclosing core measures of performance (i.e. CORE or Adjusted), since they exclude items which can vary significantly from year to year. Therefore, the CORE results exclude effects related, for example, to M&A transactions, restructuring, extraordinary legal expenses, one-time tax duty, exceptional pension-plan settlements and other one-time items that may vary significantly over periods. In addition to CORE results, we presented Normalized APMs in H1 2019 only to insure comparability with prior period and neutralize the impact of half-year phasing.

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

CORE RESULTS

The following tables provide the reconciliation of the CORE results with the Interim Condensed Consolidated Financial Statements as of June 30, 2020 and 2019.

2020 CORE RESULTS RECONCILIATION

June 30, 2020 (Thousand Euro)	IFRS	Provision on Litigation[1]	Legal costs[2]	CORE[3]
Revenues	134’808	-	-	134’808
Cost of Sales	(40’862)	-	-	(40’862)
GROSS PROFIT	**93’946**	**-**	**-**	**93’946**
Research and Development expenses	(3’265)	-	-	(3’265)
Sales and Marketing expenses	(54’404)	-	-	(54’404)
General and Administrative expenses	(22’992)	(1’555)	1’735	(22’812)
Other income	393	-	-	393
Other expenses	(562)	-	-	(562)
OPERATING PROFIT (EBIT)	**13’116**	**(1’555)**	**1’735**	**13’296**
OPERATING PROFIT (EBIT)	**13’116**	**(1’555)**	**1’735**	**13’296**
Depreciation and Amortisation	(18’756)	-	-	(18’756)
EBITDA	31’872	(1’555)	1’735	32’052
EBITDA MARGIN	**23.6%**			**23.8%**

[1] Income related to the partial release of the provision on litigation accrued in 2019, refer to note 6.8 "Litigations", paragraph Microport Matter.

[2] Legal costs incurred in H1 2020 on litigations.

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

2019 CORE RESULTS RECONCILIATION

June 30, 2019 (Thousand Euro)	IFRS	IPO costs[1]	Legal costs[2]	Stamp duty[3]	CORE[4]
Revenues	151’638	-	-	-	151’638
Cost of Sales	(40’059)	-	-	-	(40’059)
GROSS PROFIT	**111’579**	**-**	**-**	**-**	**111’579**
Research and Development expenses	(3’502)	-	-	-	(3’502)
Sales and Marketing expenses	(61’566)	-	361	-	(61’205)
General and Administrative expenses	(24’009)	2’823	1’076	-	(20’110)
Other income	1’172	-	-	-	1’172
Other expenses	(6’365)	-	-	5’715	(650)
OPERATING PROFIT (EBIT)	**17’309**	**2’823**	**1’437**	**5’715**	**27’284**

OPERATING PROFIT (EBIT)	**17’309**	**2’823**	**1’437**	**5’715**	**27’284**
Depreciation and Amortisation	(16’180)	-	-	-	(16’180)
EBITDA	33’489	2’823	1’437	5’715	43’464
EBITDA Margin	**22.1%**				**28.7%**

[1] IPO Costs incurred in H1 2019 reflect costs for professional services.
[2] Legal costs in H1 2019 refer to the expenses incurred by the Group on litigations.
[3] Stamp duty refers to the one-time tax duty incurred for the tax reorganization of the Group prior to the listing
[4] References to "adjusted" are the equivalent to "CORE" references (i.e. adjusted EBITDA and CORE EBITDA are interchangeable).

NORMALIZED RESULTS RECONCILIATION

In addition to the CORE ratios, we presented in H1 2019 Normalized Alternative Performance Measures to ensure comparability with prior periods. We did not identify any normalization for the June 30, 2020 results. Management assessed that due to the pervasive nature of COVID-19, it would not be appropriate to include new APMs since it might not provide reliable or useful information to the market.

The impact of IFRS 16 on Adjusted EBITDA and on Adjusted free cash flow was Normalized in the APM section of the 2019 Half-Year Report, however moving forward it will not be necessary to provide any normalization with prior periods, hence we decided that was clearer to provide only disclosure instead of a separate reconciliation table (see also "Highlights First Half 2020" notes under key financial figures).

June 30, 2019 (Thousand Euro)	CORE	9th M.O.R.E. Symposium in Lugano[1]	Normalized[2]
Revenues	151'638	-	151'638
Cost of Sales	(40'059)	-	(40'059)
GROSS PROFIT	**111'579**	**-**	**111'579**
Research and Development expenses	(3'502)	-	(3'502)
Sales and Marketing expenses	(61'205)	4'940	(56'265)
General and Administrative expenses	(20'110)	-	(20'110)
Other income	1'172	-	1'172
Other expenses	(650)	-	(650)
OPERATING PROFIT (EBIT)	**27'284**	**4'940**	**32'224**

OPERATING PROFIT (EBIT)	**27'284**	**4'940**	**32'224**
Depreciation and Amortisation	(16'180)	-	(16'180)
EBITDA	43'464	4'940	48'404
EBITDA MARGIN	**28.7%**		**31.9%**

[1] The 9th M.O.R.E. Symposium normalization, relates to the abnormal concentration of costs recognized in H1 2019 to set up the event, which are incremental compared to H1 2020.

[2] The 2019 Adjusted and Normalized EBITDA margin of 31.9%, reflected in the table, is different from the 31.0% published in the 2019 Half-Year report. The difference relates the impact from the adoption of the IFRS 16 as new standard. We deleted the IFRS 16 adjustment since moving forward it will not be necessary to provide any normalization with prior periods given the adoption in January 1, 2019. This change increased the depreciation of right-of use assets by Euro 1.4 million, improving the Adjusted and Normalized EBITDA margin to 31.9%.

ADJUSTED AND NORMALIZED FREE CASH FLOW RECONCILIATION

(Thousand Euro)	30.06.2020	30.06.2019
CASH FLOW FROM OPERATING ACTIVITIES (IFRS basis in accordance with IAS 7)	**12'511**	**14'814**
Adjustments for:		
IPO Costs	-	2'823
Legal costs	1'735	1'437
Stamp Duty	-	5'715
ADJUSTED CASH FLOW FROM OPERATING ACTIVITIES	**14'246**	**24'789**
Normalized for:		
Estimated incremental 9th M.O.R.E. Symposium in Lugano	-	4'940
ADJUSTED AND NORMALIZED CASH FLOW FROM OPERATING ACTIVITIES[1]	**14'246**	**29'729**
CASH FLOW FROM INVESTING ACTIVITIES (IFRS basis in accordance with IAS 7)	**(20'450)**	**(26'232)**
Adjustments for:		
Rancate investments	1'513	-
ADJUSTED AND NORMALIZED CASH FLOW FROM INVESTING ACTIVITIES[2]	**(18'937)**	**(26'232)**
ADJUSTED AND NORMALIZED FREE CASH FLOW	**(4'691)**	**3'497**

[1] We changed the June 30, 2019 Adjusted and Normalized Cash Flow from Operating Activities by deleting the IFRS 16 normalization since moving forward it will not be necessary to provide any normalization with prior periods given the adoption since January 1, 2019. The normalization impact in the June 30, 2019 Half-Year Report amounted to Euro 1'449 thousand.

[2] In the first half of 2020, Medacta invested Euro 1'513 thousand in creating new offices in our Rancate site. This investment is expected to be completed in the course of 2021.

KPI DEFINITIONS

CORE

In accordance with the directive of the SIX Swiss Exchange, the Group reports on alternative performance measures (APM), which facilitates the assessment of the underlying business performance but may differ from IFRS reported figures. The 'CORE' (i.e. adjusted) figures used in this document exclude effects related, for example, to M&A transactions, restructuring, extraordinary legal expenses, one-time tax duty, exceptional pension-plan settlements and other one-time items that may vary significantly over periods. A reconciliation table of the reported and CORE ratios with additional descriptions is provided on paragraph "Alternative Performance Measures" of this report.

EBITDA

EBITDA is a non-IFRS measure that represents profit or loss for the period before finance costs, finance income, income taxes, depreciation and amortisation. EBITDA margin is defined as EBITDA divided by revenues, expressed as a percentage. We define EBITDA as profit / (loss) for the period before net interest expense, income taxes, depreciation and amortisation.

ADJUSTED EBITDA (I.E. CORE EBITDA)

Represents EBITDA before additional specific items that are considered to hinder comparison of the trading performance of the Group's businesses either year-on-year or with other businesses. Management considers Adjusted EBITDA to be a key measure of financial performance and believes that this measure provides additional useful information for prospective investors on performance and is consistent with how the business performance is measured internally. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by revenue, expressed as a percentage.

ADJUSTED AND NORMALIZED EBITDA

Represents Adjusted EBITDA (i.e. CORE EBITDA) before additional specific items that are considered to normalize half-year phasing comparison of the performance of the Group's businesses either from one period to another or with other businesses. Management considers Adjusted and Normalized EBITDA to be a key measure of financial performance and believes that this measure provides additional useful information for prospective investors on performance and is consistent with how the business performance is measured internally. Adjusted and normalized EBITDA margin is calculated as Adjusted and normalized EBITDA divided by revenue, expressed as a percentage. We did not recognize any normalization adjustments in 2020.

CONSTANT CURRENCY

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

OPEX

Opex include the sum of Research and Development expenses, Sales and Marketing expenses, General and Administrative expenses, Other income and expenses.

EQUITY RATIO

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

NET TRADE WORKING CAPITAL

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

FREE CASH FLOW

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

NET DEBT

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

LEVERAGE

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

The NextAR™ TKA is the first application of a new platform technology, which will be extended to hip, shoulder and spine procedures, designed and engineered with artificial intelligence and machine learning that make pre-operative CT-based planning and analysis efficient and precise.

The NextAR™ TKA Application has the goal to improve efficiency and precision in total knee replacements and deliver personalized planning, with low upfront capital investment required by clinics and hospitals, as well as economic benefits to the healthcare system through OR efficiency and low cost per procedure. This new platform will be an optimal solution particularly for US Ambulatory Surgery Centers (ASCs), which provide same-day surgical care.

The augmented reality glasses provided with the NextAR™ Platform allow the surgeon to visualize surgical actions and information in real-time, directly on the operative field. This improves the user experience and helps the surgeon remain focused on the patient at all times.

The NextAR™ TKA Application, with a precise reconstruction of the patient bone morphology, allows direct tracking of the collateral ligaments and a 3D analysis of soft tissue behavior throughout the whole range of motion during surgery, bringing patient-specific ligament balancing to the next level.

In addition to advanced planning tools, Medacta has developed the NextAR™ TS, a revolutionary infrared single-use tracking system that has the potential to vastly improve surgery efficiency while helping surgeons execute pre-op plans.

The NextAR™ TKA works in conjunction with the Medacta GMK® Sphere Medially Stabilized Knee implant, which has been proven to facilitate restoration of natural patient-specific kinematics.

Proprietary single-use **Augmented Reality surgical platform**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2020

1. INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019

	Unaudited	Unaudited
(Thousand Euro)	**30.06.2020**	**30.06.2019**
Revenues	134'808	151'638
Cost of Sales	(40'862)	(40'059)
GROSS PROFIT	**93'946**	**111'579**
Research and Development expenses	(3'265)	(3'502)
Sales and Marketing expenses	(54'404)	(61'566)
General and Administrative expenses	(22'992)	(24'009)
Other income	393	1'172
Other expenses	(562)	(6'365)
OPERATING PROFIT(EBIT)	**13'116**	**17'309**
Financial income	1'775	1'227
Financial costs	(5'616)	(5'132)
PROFIT BEFORE TAXES	**9'275**	**13'404**
Income taxes	409	(2'108)
PROFIT FOR THE PERIOD	**9'684**	**11'296**

ATTRIBUTABLE TO		
Equity holders of the parent	9'684	11'296
Non-controlling interests	-	-
Basic earnings per share *	0.48	0.56

* In the periods ended June 30, 2020 and 2019, there is no effect of dilution, and diluted earnings per share equals basic earnings per share.

The selected explanatory notes are integral part of the Interim Condensed Consolidated Financial Statements.

2. INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019

(Thousand Euro)	Unaudited 30.06.2020	Unaudited 30.06.2019
PROFIT FOR THE PERIOD	**9'684**	**11'296**
OTHER COMPREHENSIVE INCOME		
Actuarial gain / (loss) from defined benefit plans	(345)	(973)
Tax effect on actuarial gain / (loss) from defined benefit plans	60	180
TOTAL ITEMS NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS	**(285)**	**(793)**
Currency translation differences	2'696	135
TOTAL ITEMS TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS	**2'696**	**135**
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX	**2'411**	**(658)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**12'095**	**10'638**
ATTRIBUTABLE TO		
Equity holders of the parent	12'095	10'638
Non-controlling interests	-	-

The selected explanatory notes are integral part of the Interim Condensed Consolidated Financial Statements.

3. INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE PERIODS ENDED JUNE 30, 2020 AND DECEMBER 31, 2019

ASSETS	Unaudited	Audited
(Thousand Euro)	**30.06.2020**	**31.12.2019**
Property, plant and equipment	139'808	135'350
Right-of-use assets	23'320	22'104
Goodwill and intangible assets	47'717	45'584
Other non-current financial assets	504	456
Deferred tax assets	24'162	21'283
TOTAL NON-CURRENT ASSETS	**235'511**	**224'777**
Inventories	112'200	101'634
Trade receivables	45'373	48'049
Other current financial assets	225	259
Other receivables and prepaid expenses	10'458	10'604
Cash and cash equivalents	23'985	27'241
TOTAL CURRENT ASSETS	**192'241**	**187'787**
TOTAL ASSETS	**427'752**	**412'564**

LIABILITIES AND EQUITY	Unaudited	Audited
(Thousand Euro)	**30.06.2020**	**31.12.2019**
Share capital	1'775	1'775
Capital contribution reserve	21'227	21'227
Retained earnings and other reserves	112'284	102'885
Foreign currency translation reserve	43	(2'653)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**135'329**	**123'234**
Non-controlling interests	-	-
EQUITY	**135'329**	**123'234**
Non-current financial liabilities	103'691	85'379
Other non-current liabilities	1'475	7'919
Non-current provisions	9'574	11'183
Retirement benefit obligation	12'121	11'142
Deferred tax liabilities	38'220	38'654
Non-current lease liabilities	14'875	14'539
TOTAL NON-CURRENT LIABILITIES	**179'956**	**168'816**
Trade payables	18'007	17'845
Other current liabilities	31'484	26'101
Current financial liabilities	35'545	47'505
Accrued expenses and deferred income	21'570	23'628
Current lease liabilities	5'861	5'435
TOTAL CURRENT LIABILITIES	**112'467**	**120'514**
TOTAL LIABILITIES	**292'423**	**289'330**
TOTAL LIABILITIES AND EQUITY	**427'752**	**412'564**

The selected explanatory notes are integral part of the Interim Condensed Consolidated Financial Statements.

4. INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019

	Attributable to equity holders of 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, 2020	**1'775**	**21'227**	**102'885**	**(2'653)**	**-**	**123'234**
Profit for the period	-	-	9'684	-	-	9'684
Actuarial gain / (loss) from defined benefit plans, net	-	-	(345)	-	-	(345)
Tax effect on actuarial gain / (loss)	-	-	60	-	-	60
Currency translation differences	-	-	-	2'696	-	2'696
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**9'399**	**2'696**	**-**	**12'095**
Capital increase	-	-	-	-	-	-
BALANCE JUNE 30, 2020	**1'775**	**21'227**	**112'284**	**43**	**-**	**135'329**

	Attributable to equity holders of 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, 2019	**1'775**	**-**	**93'033**	**(5'738)**	**-**	**89'070**
Profit for the period	-	-	11'296	-	-	11'296
Actuarial gain / (loss) from defined benefit plans, net	-	-	(973)	-	-	(973)
Tax effect on actuarial gain / (loss)	-	-	180	-	-	180
Currency translation differences	-	-	-	135	-	135
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**10'503**	**135**	**-**	**10'638**
Capital increase *	-	5'723	-	-	-	5'723
BALANCE JUNE 30, 2019	**1'775**	**5'723**	**103'536**	**(5'603)**	**-**	**105'431**

* Refer to the Medacta's Annual Report 2019 Note 6.16 "Medacta Group stockholder's equity" paragraph "Capital Contribution".

The selected explanatory notes are integral part of the Interim Condensed Consolidated Financial Statements.

5. INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019

(Thousand Euro)	Unaudited 30.06.2020	Unaudited 30.06.2019
PROFIT FOR THE PERIOD	**9'684**	**11'296**
Adjustments for:		
Income taxes	(409)	2'108
Depreciation, amortisation and impairment of tangible, intangible and right-of-use assets	18'756	16'180
(Gain) / loss on disposal of tangible and intangible assets	267	46
Foreign exchange result	659	3'072
Interest expenses	982	1'110
Income taxes paid	(1'825)	(2'738)
Interest paid **	(982)	(931)
(Increase) / decrease in trade receivables	2'599	(6'769)
(Increase) / decrease in other receivables and prepaid expenses	264	(5'255)
(Increase) / decrease in inventories	(9'733)	(9'510)
Increase / (decrease) in trade payables	(118)	3'157
Increase / (decrease) in other payables, accruals and provisions	(7'633)	3'048
CASH FLOW FROM OPERATING ACTIVITIES	**12'511**	**14'814**
Purchase of tangible assets	(17'065)	(22'558)
Purchase of intangible assets *	(4'722)	(5'411)
Proceeds from disposal of tangible assets	1'377	2'163
Cash consideration for acquisitions, net of cash acquired	-	(874)
Changes in financial assets	(40)	448
CASH FLOW FROM INVESTING ACTIVITIES	**(20'450)**	**(26'232)**
Proceeds from borrowings	4'540	-
Repayment of borrowings	(194)	(7'933)
Repayment of lease liabilities	(3'077)	(2'623)
Interest paid on lease liabilities **	-	(179)
Capital contribution ***	-	5'723
CASH FLOW FROM FINANCING ACTIVITIES	**1'269**	**(5'012)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(6'670)**	**(16'430)**
Cash and cash equivalents at the beginning of the period	27'241	33'710
Net effect of currency transaction on cash and cash equivalent	3'414	2'287
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**23'985**	**19'567**

* "Purchase of intangible assets" excludes unpaid acquisitions of intangible assets.

** "Interest paid on lease liabilities" as of June 30, 2019 included interest paid on lease liabilities, that were reclassified starting from December 31, 2019 in the line "Interest paid" in the "Cash flow from operating activities" section of the Consolidated Statement of Cash Flow, according to Medacta policy for the classification of interests.

*** Refer to the Medacta's Annual Report 2019 Note 6.16 "Medacta Group stockholder's equity" paragraph "Capital Contribution".

The selected explanatory notes are integral part of the Interim Condensed Consolidated Financial Statements.

6. SELECTED EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6.1 GENERAL INFORMATION

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.

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.

6.2 ACCOUNTING POLICIES

BASIS OF PREPARATION

These unaudited financial statements are the Interim Condensed Consolidated Financial Statements of Medacta Group SA and its subsidiaries for the six months period that ended June 30, 2020. These financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the Consolidated Financial Statements for the year that ended December 31, 2019. The Interim Condensed Consolidated Financial Statements were approved by the Board of Directors on September 4, 2020.

The principles and standards utilised in preparing these Interim Condensed Consolidated Financial Statements have been consistently applied through all periods presented.

IMPACT OF COVID-19

COVID-19 pandemic had a negative impact on Medacta's operations and sales volume in the first half of 2020 (see Note 6.4 "Segment information", paragraph "Analysis of revenue"). The pandemic presented new challenges to our business, while the risks and uncertainties described in the 2019 Annual Report remain valid, we implemented new actions to protect the health of our stakeholders, the overall profitability and our cash flow. The health and safety of our employees, customers and patients are number one priority for Medacta and we adopted all Government guidance and more (social distancing, hand sanitizer, daily temperature measurement, masks etc.) to assure the best in class protection. From a business perspective we implemented customized cost containment measures, including short time work wherever appropriate, marketing and medical education cost reduction, travel restrictions and pay cuts.

Despite the uncertainty about the future impact of COVID-19 on the cash flows and the results of the Group, 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.

Some of the financial institutions granted the deferral of payments originally due in 2020 to 2021. Those modifications were assessed under IFRS 9 to evaluate the need to derecognise the existing liability and recognise a new financial instrument, where the modification was assessed as "substantial". Based on a qualitative and quantitative assessment, the changes in contractual conditions were considered not significant, and no material impact was recognised as a gain or loss in the Profit or Loss of the half-year ended June 30, 2020.

Certain of the credit agreements, as of December 31, 2019, included 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 restrictions, 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. Some financial institutions, in consideration of the impacts of the COVID-19 pandemic, granted an increase in the requirements of the covenant based on the EBITDA ratio from 3.0x to 4.0x for the year 2020.

Following the COVID-19 pandemic, some governments of the countries where the Group operates decided to provide assistance in the form of subsidies or government grants to cover part of the cost of personnel incurred during the period in which the Group lost part of its profitability (see Note 6.6 "Government Grants").

Management assessed the list of internal and external indicators provided by IAS 36 and, even considering the impact of COVID-19 in the half-year economic performance, does not believe that as of June 30, 2020 there are observable indicators that Medacta assets' value may be impaired. External sources of information such as adverse effect on market interest rates, market capitalization and market development showed only temporary impact that we expect to be deferred in the years to come. The internal sources of information assessed, indicates that mid and long-term fundamentals on the expected economic performance have not changed. Nevertheless, for intangible assets with indefinite useful lives, we stressed the 2019 impairment test changing the 2020 revenue with our last forecasted information, and reducing the 2021-2023 revenue streams keeping the 2019 approved business plan growth rate. The stress scenario confirmed management's assessment on the absence of impairment indicators.

USE OF ESTIMATES AND JUDGEMENT

The preparation of financial statements requires management to make assumptions and estimates that affect the amounts reported for assets and liabilities and contingent assets and liabilities at the date of the financial statements as well as revenue and expenses reported. Actual results could differ from these estimates.

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 period in which the change occurs. The key sources of uncertainty that required management's estimation in the half-year ended June 30, 2020, consistently with the year ended December 31, 2019, were the following: intangible assets, including goodwill; deferred tax assets; valuation of inventories; pension plans.

In consideration of the COVID-19 pandemic, management have considered the following impacts in applying the Group's accounting policies:

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

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 or whenever there are indicators of impairment, in accordance with the accounting policy, whether any of the assets are impaired. 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.

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.

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.

In the half-year ended June 30, 2020, management have not changed the key assumptions underlying the methodology of calculation and, even considering the impact of lower sales in the period, there was no material impact on the inventory provision at June 30, 2020.

TRADE RECEIVABLES

The Group applies for trade receivables 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. The Group's assessed the impact of COVID-19 on the expected credit loss (ECL), considering any adjustments to the model for identified specific credit risks that could not be reflected in the ECL model. The assessment did not led to any material change to the allowance on trade receivables.

CHANGES IN ACCOUNTING POLICIES

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:

- Amendments to IFRS 3, "Definition of a business";
- Amendments to IAS 1 and IAS 8, "Definition of material";
- Amendments to IFRS 16, "COVID-19 Related Rent Concessions" (effective June 1, 2020). This amendment permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications.

These amendments are effective since January 1, 2020 but do not have an impact on the Interim Condensed Consolidated Financial Statements of the Group.

The following amendments have been published but are not yet effective:

- IFRS 10 "Consolidated Financial Statements" and IAS 28 (amendments) "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". Effective date of the amendments has yet to be set by the IASB;
- Amendments to IAS 1, "Classification of liabilities as current or non-current". Effective date, January 1, 2023;
- Amendments to IAS 37, "Changes in Onerous Contracts — Cost of Fulfilling a Contract". Effective date, January 1, 2022;
- Amendments to IAS 16, "Property, Plant and Equipment — Proceeds before Intended Use". Effective date, January 1, 2022;
- Amendments to IFRS 3, "Reference to the Conceptual Framework". Effective date, January 1, 2022.

The Group has not early adopted any of the listed amendments that have been issued but not yet effective.

EXCHANGE RATES USED TO TRANSLATE FINANCIAL STATEMENTS PREPARED IN CURRENCIES OTHER THAN EURO

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	
	H1 2020	**H1 2019**	**30.06.2020**	**31.12.2019**
CHF	0.9394	0.8873	0.9364	0.9200
GBP	1.1377	1.1455	1.0941	1.1801
AUD	0.5945	0.6261	0.6105	0.6262
USD	0.9054	0.8846	0.8913	0.8909
JPY	0.0084	0.0080	0.0082	0.0082
CAD	0.6612	0.6649	0.6513	0.6870
BYR 1'000	0.0377	0.0420	0.0369	0.0424

COMPOSITION OF THE GROUP

During the first six months of the financial year 2020 no changes have occurred in the Group structure. Entities included in the scope of consolidation are listed below:

Company	% of shares held June 2020	% of shares held June 2019	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
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 S.r.l. *	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	**

* Medacta Belgium changed its corporate name on January 2020 from "Sprl" to "S.r.l.".

** In December 2019, Swiss Medical Manufacturing Ooo, has been liquidated.

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.

SEASONALITY OF OPERATIONS

The Group operates in an industry where significant seasonal or cyclical variations in the total sales are not experienced during the financial year. Nevertheless COVID-19 had a negative impact on Medacta's operations and sales volume in the half-year 2020, given the extraordinary measures applied by local governments and healthcare authorities worldwide, including the deferral of elective procedures. This unprecedented situation will likely have a material impact on the weights of revenue and cost to be incurred in the H2 compared to the H1 2020.

6.3 FAIR VALUE MEASUREMENT AND CLASSIFICATION

The following table summarizes the financial instruments carried at fair value, by valuation method as at June 30, 2020 and 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.

Management considers that the carrying amounts of financial assets and financial liabilities recognised in the Interim Condensed Consolidated Financial Statements approximate their fair values. No changes in the valuation techniques of the items below have occurred since the last annual financial statements.

Carrying amount (based on measurement basis)						
	Asset and Liabilities at amortised cost	Assets / Liabilities as FVTPL				
As at June 30, 2020 (Thousand Euro)		Level 1	Level 2	Level 3	Total carrying amount	Fair Value
Other non-current financial assets	504	-	-	-	**504**	
Trade receivables	45'373	-	-	-	**45'373**	
Other current financial assets	-	-	225	-	**225**	
Cash and cash equivalents	23'985	-	-	-	**23'985**	
Non-current financial liabilities	103'691	-	-	-	**103'691**	
Other non-current liabilities	1'475	-	-	-	**1'475**	
Non-current lease liabilities	14'875	-	-	-	**14'875**	
Trade payables	18'007	-	-	-	**18'007**	
Other current liabilities	31'344	-	-	140	**31'484**	
Current financial liabilities	35'545	-	-	-	**35'545**	
Current lease liabilities	5'861	-	-	-	**5'861**	

Carrying amount (based on measurement basis)						
	Asset and Liabilities at amortised cost	Assets / Liabilities as FVTPL				
As at December 31, 2019 (Thousand Euro)		Level 1	Level 2	Level 3	Total carrying amount	Fair Value
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**	

The level 2 balance relates forward currency contracts (foreign exchange contracts, selling USD and buying CHF). The financial instruments have a duration between 1 and 12 months.

The level 3 balance in the other current liabilities relates to the fair value measurement of the contingent liability provided in the acquisition contract of Balgrist Card AG, occurred in 2018. The contingent consideration was recognised as part of the consideration transferred in exchange for the acquire, 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 140 thousand as of June 30, 2020 (Euro 138 thousand as of December 31, 2019). 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.

There were no transfers between level 1 and level 2 fair value measurements and no transfers into or out of level 3 fair value measurements during the six-month period ending June 30, 2020.

6.4 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 the first six month of 2020 and 2019 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 June 30, 2020.

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). 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.

	Unaudited 30.06.2020		Unaudited 30.06.2019	Audited 31.12.2019
SALES AND PROPERTY, PLANT AND EQUIPMENT (Thousand Euro)	Net sales	Property, plant and equipment	Net sales	Property, plant and equipment
Europe	59'289	105'670	70'587	111'479
North America	39'665	32'486	45'202	22'334
Asia Pacific	31'857	1'652	30'328	1'537
RoW	3'997	-	5'521	-
TOTAL CONSOLIDATED	**134'808**	**139'808**	**151'638**	**135'350**

ANALYSIS OF REVENUE

The following table presents revenue of the Group's product lines for the six months ended June 30, 2020 and 2019 respectively:

(Thousand Euro)	Unaudited 30.06.2020	Unaudited 30.06.2019
Hip	68'873	82'919
Knee	47'343	53'664
Shoulder	5'863	4'150
Spine	12'532	10'874
Sports Med	197	31
TOTAL	**134'808**	**151'638**

6.5 MEDACTA GROUP STOCKHOLDERS' EQUITY

SHARE CAPITAL

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

Medacta Group SA did not approve any dividend distribution in the course of the first six months of 2020.

EARNINGS PER SHARE

Basic earnings per share is calculated as the profit for the period attributable to equity holders of the parent divided by the weighted average number of outstanding shares of the Company. There is no effect of dilution, and diluted earnings per share equals basic earnings per share.

(Thousand Euro)	Unaudited 30.06.2020	Unaudited 30.06.2019
Profit for the year attributable to equity holders of the parent	9'684	11'296
Weighted average number of shares	20'000	20'000
TOTAL EARNINGS PER SHARE	**0.48**	**0.56**

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.

6.6 GOVERNMENT GRANTS

Following the COVID-19 pandemic, some governments of the countries where the Group operates decided to provide assistance to the Group's entities in the form of subsidies or government grants, mainly related to short-term working subsidies.

According to IAS 20, the Group recognised those government grants in the Interim Consolidated Profit or Loss as of June 30, 2020 if and when there was reasonable assurance that each entity would comply with the conditions attaching to the grant and that it would be received. The total amount of government grants recognised in the Interim Consolidated Profit or Loss was Euro 2'165 thousand, and it was allocated, applying the accounting policy of the Group, as a deduction of the underlying costs of personnel for which the subsidies were granted. The reduction of costs by function was distributed as follows: Cost of Sales for Euro 327 thousand, Research and Development expenses for Euro 178 thousand, Sales and Marketing expenses for Euro 1'154 thousand, General and Administrative expenses for Euro 506 thousand.

6.7 TAXES

The Group's Income taxes for the half-year period ended June 30, 2020 amount to a credit of Euro 409 thousand, mainly due to the positive impact of the reduction of the corporate tax rate applicable to the Swiss operating company Medacta International SA. As already disclosed in the 2019 Financial Report, 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. As a result, in estimating the effective annual tax rate, we did not include the impact of re-measuring the deferred tax balances of Medacta International S.A., as per Medacta's policy choice, it is reflected in the period of the event. This allowed us to recognize in H1 2020, a positive impact deriving from the change in tax rate applicable to deferred tax assets and liabilities amounting to around Euro 2.2 million. In addition, the tax rate applicable to Medacta International S.A. for 2020 decreased from 18.6% to 17.3% and this resulted in lower current income tax in the half-year 2020.

6.8 LITIGATIONS

MICROPORT MATTER

ARBITRATION

On April 27, 2020, the Arbitrator issued a "Final Award" which found ASD and Zurowski liable for breach of contract and awarded damages of approximately USD 8.7 million, plus interest, attorneys' fees, and costs of approximately USD 1.4 million. The Final Award is only against ASD and Zurowski. A judicial proceeding has been commenced in the United States District Court for the Western District of Tennessee, which will determine whether or not the Final Award can become an enforceable judgment. MicroPort has asked the Court to confirm the Final Award, while ASD and Zurowski have filed a motion seeking to vacate the Final Award.

In connection to this matter the Group, given the updated award, released the provision for approximately Euro 1.6 million.

COURT PROCEEDINGS

In a 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. On May 8, 2020, MicroPort voluntarily dismissed this lawsuit "without prejudice," meaning MicroPort retained the right to re-file its claims for at least 1 year from the date of dismissal. On June 12, 2020, MicroPort filed a new lawsuit in the United States District Court for the Middle District of Tennessee (the "Federal Lawsuit"). The Federal Lawsuit alleges the same, previously voluntarily dismissed, claims that Medacta USA tortuously interfered with the asset purchase agreement between MicroPort and ASD. MicroPort also alleges anew that Medacta USA has infringed on certain patents owned by MicroPort. The patent infringement allegations appear to concern specific patents owned by MicroPort that relate to MicroPort's "PATH" and "SUPERPATH" minimally invasive hip replacement surgical techniques. Medacta USA has not yet filed any initial pleading in the Federal Lawsuit. As such, Medacta USA not yet formally admitted or denied any allegations in the Federal Lawsuit, nor has it asserted any defences to the claims. Medacta USA continues to investigate all allegations and anticipates that it will deny many of the factual allegations made by MicroPort and anticipates that it will further deny all legal liability for the claims of MicroPort. Medacta USA filed an initial pleading on August 2020. The District Court presiding over the Federal Lawsuit has not established a trial date or any pre-trial schedule. At this stage of the Federal Lawsuit, we are unable to conclude on the likelihood of an unfavourable outcome against Medacta USA, we have not booked any provision.

PATENT MATTER - RSB SPINE, LLC V. MEDACTA USA, INC.

Medacta has responded to the complaint by asserting defenses that the patent claims are not infringed and are invalid. All patent claims asserted against Medacta are subject to invalidity reviews in IPRs pending before the Patent Trial and Appeals Board ("PTAB"). The PTAB's ruling on the validity of these claims is expected in May 2021. The district court litigation is stayed pending resolution of the IPRs before the PTAB.

The case is still pending and in connection with this matter, we have not made any provisions.

PATENT MATTER - CONFORMIS, INC. V. MEDACTA USA, INC.

Medacta has responded to the complaint by asserting defenses that the patent claims are not infringed and are invalid. The parties are currently engaged fact discovery, with claim construction proceedings to begin in August 2020 and conclude with a hearing in January 2021. Fact discovery is set to close in May 2021, and expert discovery is set to close in September 2021. Should the matter proceed past summary judgment, trial is expected to begin in February 2022.

The case is still pending and in the early phase of fact discovery in connection with this matter, we have not made any provisions.

ALLEGED CRIMINAL OFFENSES UNDER GERMAN LAW

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. The public prosecutor's office will be contacted again in order to request a termination of the proceedings.

6.9 RELATED PARTY TRANSACTIONS

Related parties primarily comprise members of Group Executive Management (GEM), members of the Board of Directors and significant shareholders.

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

In October 8, 2019 the Board of Directors of Medacta Group SA, 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 and after this deal Medacta did not recognize any transactions with Medacta for Life Foundation.

OTHER RELATED PARTY TRANSACTION (Thousand Euro)	**Unaudited 30.06.2020**	**Unaudited 30.06.2019**
Medacta for Life Foundation – Rent	-	66
TOTAL OTHER RELATED PARTY TRANSACTION	**-**	**66**

OTHER RELATED PARTY TRANSACTIONS

Niederer Kraft Frey Ltd, a law firm at which Mr. Philippe Weber is a partner, provided legal services to the Group. The fees for his professional services provided during the first six months 2020 are recognized in the General and Administrative expense line item for an amount equal to Euro 60 thousand.

Dr. Alberto Siccardi, Chairman of the Board of Directors of Medacta Group SA, on April 24, 2020 and April 27, 2020 purchased respectively 7'485 and 7'450 share units. Mr. Francesco Siccardi, CEO of Medacta Group SA, on April 21, 2020 and April 22, 2020 purchased respectively 7'886 and 7'776 share units.

6.10 ATYPICAL AND/OR UNUSUAL OPERATIONS

During the first six month of 2020, the Group did not carry out any atypical and/or unusual operations.

6.11 CONTINGENT LIABILITIES GUARANTEES AND COMMITMENTS

As of June 30, 2020, tangible fixed assets for a total amount of Euro 16'648 thousand (as of December 31, 2019: Euro 16'546 thousand) have been pledged as collateral for borrowing facilities.

The Group as of June 30, 2020 and as of December 31, 2019 had unused current credit lines of Euro 95'858 thousand and Euro 73'635 thousand, respectively.

6.12 SUBSEQUENT EVENTS

On August 19, 2020 the Council of State of the Canton Ticino, has decided that the Connection Tax will no enter in force before 2022 and will not have retroactive effect. In the Financial Statement as at June 30, 2020 there are provisions for Euro 785 thousand of which Euro 653 thousand as at December 31, 2019 and Euro 132 thousand set aside in 2020.

There have been no further events occurring after the reporting period which would have a material effect on the Medacta Group financials as at June 30, 2020.

7. DELOITTE REPORT ON THE REVIEW

Deloitte.

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To the Board of Directors of
Medacta Group SA, Castel San Pietro

Independent Auditor's report on Review of Interim Condensed Consolidated Financial Information

Introduction
We have reviewed the interim condensed consolidated financial information of Medacta Group SA, which comprises the interim consolidated statement of financial position as at 30 June 2020, the interim consolidated statement of profit or loss, the interim consolidated statement of comprehensive income, the interim consolidated statement of changes in equity, the interim consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes to the interim condensed financial Information (from page 17 to page 31).

Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information for the six-month ended 30 June 2020 are not prepared, in all material respects in accordance with IAS 34 –"Interim Financial Reporting".

Deloitte SA

Partner	Michele Castiglioni Manager
Licensed Audit Expert	Licensed Audit Expert
Lugano, 4 September 2020	

FINANCIAL CALENDAR

21 JANUARY 2021	31 MARCH 2021
PUBLICATION OF 2020 FULL YEAR UNAUDITED TOP-LINE FIGURES	PUBLICATION OF 2020 FULL YEAR RESULTS

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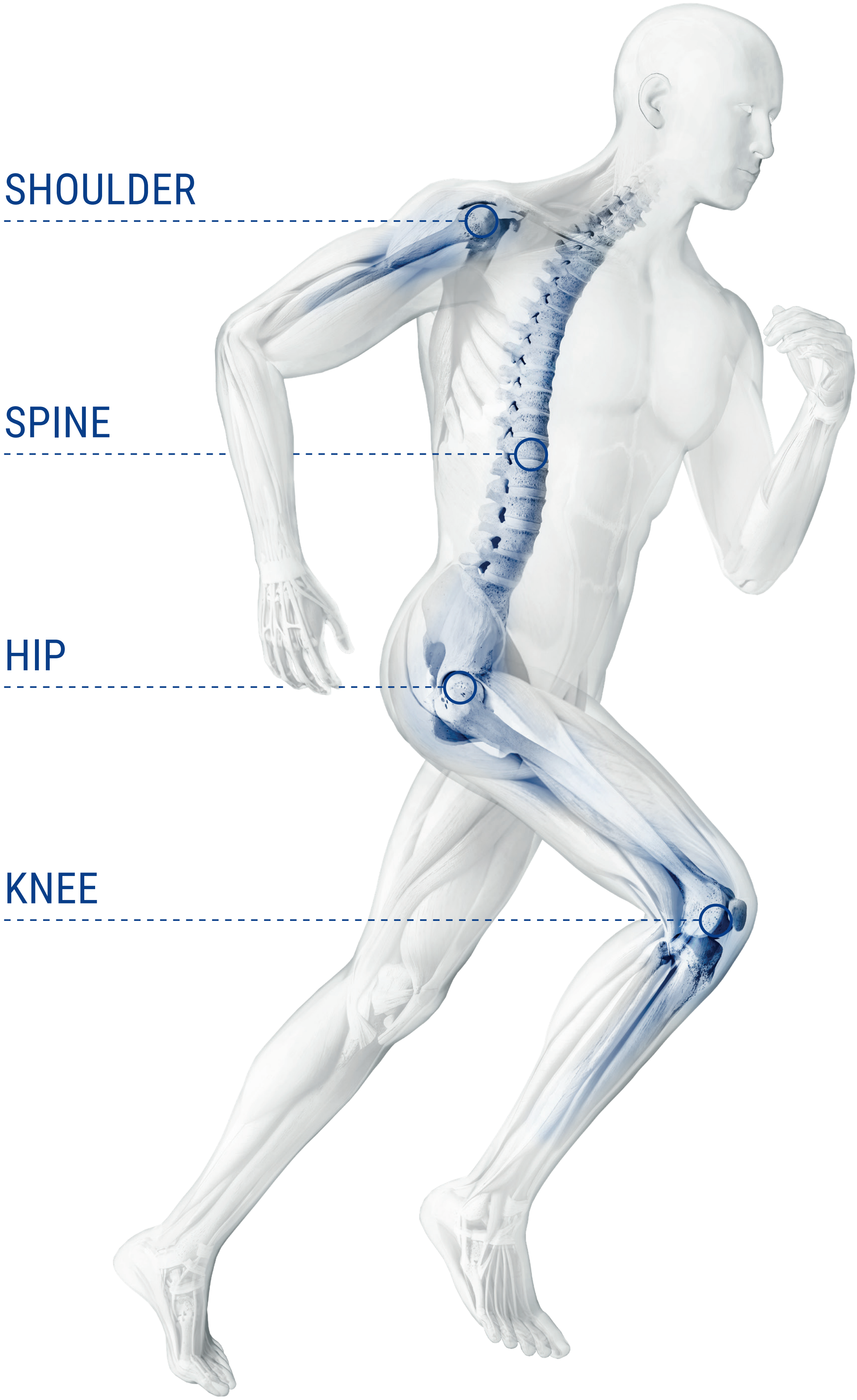
www.medacta.com/EN/home-investors-global

FORWARD-LOOKING INFORMATION DISCLAIMER

This Half-Year Report has been prepared by Medacta and includes forward-looking information and statements concerning the outlook for its business. These statements are based on current expectations, estimates and projections about the factors that may affect its future performance. These expectations, estimates and projections are generally identifiable by statements containing words such as 'expects,' 'believes,' 'estimates,' 'targets,' 'plans,' 'outlook' or similar expressions. Although Medacta believes that its expectations reflected in any such forward-looking statement are based upon reasonable assumptions, it can give no assurance that those expectations will be achieved.


SHOULDER
SPINE
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REDEFINING BETTER
IN ORTHOPAEDICS
AND SPINE SURGERY

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