



FINANCIAL REPORT

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Next-generation Augmented Reality surgical platform based on proprietary single use technology, improving efficiency and accuracy in computer-assisted surgery with a low upfront capital investment and low cost per procedure.

NextAR is the latest addition to Medacta's MySolutions platform, providing personalized solutions that will support the surgeon to take care of patients as individuals. Together with our comprehensive implant portfolio and surgical techniques, MySolutions empowers Medacta's holistic approach to personalized medicine.

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SMART DELIVERY TOOLS

COMPACT AND INTEGRATED SYSTEM

NextAR TS innovative single-use tracking system adds intelligence to surgery and enhances O.R. logistics with its compact and integrated design replacing bulky external detection systems.



1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| (Thousand Euro) | Notes | 31.12.2020 | 31.12.2019 |
|-------------------------------------|--------|----------------|----------------|
| Revenues | 6.23.1 | 302'492 | 310'623 |
| Cost of Sales | | (88'236) | (86'926) |
| GROSS PROFIT | | 214'256 | 223'697 |
| Research and Development expenses | 6.23.2 | (6'829) | (7'641) |
| Sales and Marketing expenses | | (110'069) | (127'087) |
| General and Administrative expenses | 6.23.2 | (47'472) | (63'940) |
| Other income | 6.23.3 | 1'809 | 1'592 |
| Other expenses | 6.23.3 | (2'252) | (7'008) |
| OPERATING PROFIT(EBIT) | | 49'443 | 19'613 |
| Financial income | 6.23.4 | 4'957 | 2'059 |
| Financial costs | 6.23.4 | (14'468) | (8'040) |
| PROFIT BEFORE TAXES | | 39'932 | 13'632 |
| Income taxes | 6.10 | (2'841) | (1'773) |
| PROFIT FOR THE YEAR | | 37'091 | 11'859 |
| ATTRIBUTABLE TO | | | |
| Equity holders of the parent | 6.26 | 37'091 | 11'859 |
| Non-controlling interests | | - | - |
| Basic earnings per share * | 6.26 | 1.85 | 0.59 |

* In the years ended December 31, 2020 and 2019, there is no effect of dilution, and diluted earnings per share equals basic earnings per share.

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| (Thousand Euro) | Notes | 31.12.2020 | 31.12.2019 |
|---|-------|---------------|----------------|
| PROFIT FOR THE YEAR | | 37'091 | 11'859 |
| OTHER COMPREHENSIVE INCOME | | | |
| Remeasurements of defined benefit obligations | 6.19 | (686) | (2'466) |
| Tax effect on remeasurements of defined benefit obligations | | 119 | 459 |
| TOTAL ITEMS NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS | | (567) | (2'007) |
| Currency translation differences | | 4'959 | 3'085 |
| TOTAL ITEMS TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS | | 4'959 | 3'085 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX | | 4'392 | 1'078 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 41'483 | 12'937 |
| ATTRIBUTABLE TO | | | |
| Equity holders of the parent | | 41'483 | 12'937 |
| 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, 2020 AND 2019

ASSETS

| (Thousand Euro) | Notes | 31.12.2020 | 31.12.2019 |
|--|-------|----------------|----------------|
| Property, plant and equipment | 6.6 | 131'642 | 135'350 |
| Right-of-use assets | 6.7 | 21'722 | 22'104 |
| Goodwill and intangible assets | 6.8 | 48'797 | 45'584 |
| Other non-current financial assets | 6.9 | 488 | 456 |
| Deferred tax assets | 6.10 | 21'588 | 21'283 |
| TOTAL NON-CURRENT ASSETS | | 224'237 | 224'777 |
| Inventories | 6.11 | 114'187 | 101'634 |
| Trade receivables | 6.12 | 45'782 | 48'049 |
| Other current financial assets | 6.9 | 1'297 | 259 |
| Other receivables and prepaid expenses | 6.13 | 8'364 | 10'604 |
| Cash and cash equivalents | 6.14 | 48'068 | 27'241 |
| TOTAL CURRENT ASSETS | | 217'698 | 187'787 |
| TOTAL ASSETS | | 441'935 | 412'564 |

LIABILITIES AND EQUITY

| (Thousand Euro) | Notes | 31.12.2020 | 31.12.2019 |
|--|-------|----------------|----------------|
| Share capital | 6.15 | 1'775 | 1'775 |
| Capital contribution reserve | 6.15 | 21'227 | 21'227 |
| Retained earnings and other reserves | 6.15 | 139'409 | 102'885 |
| Foreign currency translation reserve | 6.15 | 2'306 | (2'653) |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | 164'717 | 123'234 |
| Non-controlling interests | | - | - |
| EQUITY | | 164'717 | 123'234 |
| Non-current financial liabilities | 6.16 | 65'044 | 85'379 |
| Other non-current liabilities | 6.18 | 3'197 | 7'919 |
| Non-current provisions | 6.17 | 1'237 | 11'183 |
| Retirement benefit obligation | 6.19 | 13'023 | 11'142 |
| Deferred tax liabilities | 6.10 | 36'269 | 38'654 |
| Non-current lease liabilities | 6.7 | 13'642 | 14'539 |
| TOTAL NON-CURRENT LIABILITIES | | 132'412 | 168'816 |
| Trade payables | 6.20 | 16'477 | 17'845 |
| Other current liabilities | 6.21 | 24'329 | 26'101 |
| Current financial liabilities | 6.16 | 66'339 | 47'505 |
| Current provisions | 6.17 | 8'399 | - |
| Accrued expenses and deferred income | 6.22 | 23'861 | 23'628 |
| Current lease liabilities | 6.7 | 5'401 | 5'435 |
| TOTAL CURRENT LIABILITIES | | 144'806 | 120'514 |
| TOTAL LIABILITIES | | 277'218 | 289'330 |
| TOTAL LIABILITIES AND EQUITY | | 441'935 | 412'564 |

The Notes are an integral part of the Consolidated Financial Statements

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 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 year | - | - | 37'091 | - | - | 37'091 |
| Remeasurements of defined benefit obligations | - | - | (686) | - | - | (686) |
| Tax effect on remeasurements of defined benefit obligations | - | - | 119 | - | - | 119 |
| Currency translation differences | - | - | - | 4'959 | - | 4'959 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | - | - | 36'524 | 4'959 | - | 41'483 |
| Capital increase | - | - | - | - | - | - |
| BALANCE DECEMBER 31, 2020 | 1'775 | 21'227 | 139'409 | 2'306 | - | 164'717 |

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 year | - | - | 11'859 | - | - | 11'859 |
| Remeasurements of defined benefit obligations | - | - | (2'466) | - | - | (2'466) |
| Tax effect on remeasurements of defined benefit obligations | - | - | 459 | - | - | 459 |
| Currency translation differences | - | - | - | 3'085 | - | 3'085 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | - | - | 9'852 | 3'085 | - | 12'937 |
| Capital increase * | - | 21'227 | - | - | - | 21'227 |
| BALANCE DECEMBER 31, 2019 | 1'775 | 21'227 | 102'885 | (2'653) | - | 123'234 |

* Refer to Note 6.15 "Medacta Group stockholder's equity" paragraph "Capital Contribution".

5. CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| (Thousand Euro) | Notes | 31.12.2020 | 31.12.2019 |
|---|--------------------------|-----------------|-----------------|
| PROFIT FOR THE YEAR | | 37'091 | 11'859 |
| Adjustments for: | | | |
| Income taxes | 6.10 | 2'841 | 1'773 |
| Depreciation, amortisation and impairment of tangible, intangible and right-of-use assets | 6.23.2 | 37'016 | 33'733 |
| (Gain) / loss on disposal of tangible and intangible assets | | 1'140 | 159 |
| Foreign exchange result | | 5'003 | 3'552 |
| Interest expenses | 6.23.4 | 1'880 | 2'262 |
| Change in Provisions and Retirement benefit obligations * | 5.11; 6.12 ; 6.17 ; 6.19 | 1'545 | 11'074 |
| Income taxes paid | | (8'501) | (3'186) |
| Interest paid | | (1'880) | (2'262) |
| (Increase) / decrease in trade receivables | | 718 | (3'269) |
| (Increase) / decrease in other receivables and prepaid expenses | | 2'117 | (2'888) |
| (Increase) / decrease in inventories | | (13'487) | (11'546) |
| Increase / (decrease) in trade payables | | (1'387) | (2'807) |
| Increase / (decrease) in other liabilities and accruals | | (4'504) | 4'181 |
| CASH FLOW FROM OPERATING ACTIVITIES | | 59'592 | 42'635 |
| Purchase of tangible assets | 6.6 | (27'285) | (41'474) |
| Purchase of intangible assets ** | | (10'093) | (10'084) |
| Proceeds from disposal of tangible assets *** | | 3'217 | 9'979 |
| Cash consideration for acquisitions, net of cash acquired | | - | (875) |
| Changes in financial assets | | (32) | 413 |
| CASH FLOW FROM INVESTING ACTIVITIES | | (34'193) | (42'041) |
| Proceeds from borrowings | 6.16 | 4'344 | - |
| Repayment of borrowings | 6.16 | (4'389) | (26'524) |
| Repayment of lease liabilities | 6.7 | (5'981) | (5'680) |
| Capital contribution **** | 6.15 | - | 21'227 |
| CASH FLOW FROM FINANCING ACTIVITIES | | (6'026) | (10'977) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 19'373 | (10'383) |
| Cash and cash equivalents at the beginning of the year | 6.14 | 27'241 | 33'710 |
| Net effect of currency transaction on cash and cash equivalent | | 1'454 | 3'914 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 6.14 | 48'068 | 27'241 |

* "Change in Provisions and Retirement benefit obligations" includes non-monetary movements that, as of December 31, 2019, were presented within the line items: "(Increase) / decrease in trade receivables" amounting in 2019 to Euro (3'207) thousand; "(Increase) / decrease in inventories" amounting in 2019 to Euro (11'681) thousand; "Increase in other payables, accruals and provisions" amounting in 2019 to Euro 15'328 thousand.

** "Purchase of intangible assets" excludes unpaid acquisitions of intangible assets (see Note 6.16 "Financial liabilities" paragraph "Reconciliation of liabilities arising from financing activities").

*** As at December 31, 2019, "Proceeds from disposal of tangible assets" excluded Euro 322 thousand related to a non-cash transaction (see Note 6.6 "Property plant and equipment").

**** Refer to Note 6.15 "Medacta Group stockholder's equity" paragraph "Capital Contribution".

The Notes are an integral part of the Consolidated Financial Statements

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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.

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 Siccadi Family holding 69.3% of Medacta's share capital. The total placement volume amounts to CHF 589 million.

In conjunction with the IPO, in 2019 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 6.23 "Information on the Consolidated Statement of Profit or Loss" for additional disclosure). The Group did not incur any IPO cost in 2020.

The Group operates globally to develop, manufacture and distribute orthopedic and spinal surgery 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.

STATEMENT OF COMPLIANCE

The Consolidated Financial Statements as of December 31, 2020 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, 2021 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 the 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 the Consolidated Statement of Financial Position is believed to provide the most relevant information. The Consolidated Statement of Cash Flows were prepared and presented utilizing 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 (see also considerations reported in paragraph "Impact of COVID-19").

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.

IMPACT OF COVID-19

COVID-19 pandemic had a negative impact on Medacta's operations and sales volumes in 2020 (see Note 6.23 "Information on the Consolidated Statement of Profit or Loss", 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 the unprecedented measures adopted by governments and health care authorities in response to the pandemic caused the deferral of elective procedures and social contact restrictions which have had, in the first semester, a significant negative impact on Medacta's operations and financial results. This resulted in net sales declines of 11.1% in the first semester of 2020, when compared to the same prior year period. However, in the following months, backlog recovery and continued acquisition of market share allowed Medacta to largely compensate the first half sales decrease, although it was limited by further restrictions from the pandemic resurgence starting at the end of October. As a result, our 2020 net sales declined by 2.6% when compared to the same prior year period (2.1% in constant currency). To respond to the pandemic and soften the financial impact in our business we implemented customized cost containment measures, including short time work wherever appropriate, marketing and medical education cost reduction, travel restrictions and pay cuts. These measures allowed the Group to maintain a high level of profitability, with 29.1% of Adjusted EBITDA margin reached in 2020, and an adequate financial profile having improved our Adjusted Free Cash Flow to Euro 31.9 million (from Euro 22.3 million in 2019).

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 year ended December 31, 2020.

As disclosed in Note 6.16 "Financial liabilities", 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 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. The accounting treatment is described in Note 6.1 "Consolidation principles, composition of the Group and significant accounting policies" paragraph "Government Grants". Total amount recognised in 2020 Profit or Loss is disclosed in Note 6.23 "Information on the Consolidated Statement of Profit or Loss" paragraph "Personnel expenses".

The Group has also 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 lead to any material change to the allowance on trade receivables (see Note 6.12 "Trade receivable").

Intangible assets with indefinite useful lives were tested for impairment at September 30, 2020. Impairment review has been undertaken by comparing the expected recoverable value of the asset to the carrying value. The recoverable amounts are based on cash flow projections using the Group's base case scenario, which was reviewed and approved by the Board. Additionally, severe downside sensitivity analyses have been undertaken on the base case scenario. No impairments were identified as a result of the impairment reviews and sensitivity analyses undertaken. Nevertheless, for all the non-current assets held by the Group at December 31, 2020, Management assessed any indicators of impairment as a result of COVID-19. In assessing the list of internal and external indicators provided by IAS 36 and, even considering the impact of COVID-19 in the year-end economic performance, Management does not believe that as of December 31, 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.

USE OF ESTIMATES AND JUDGEMENTS

The preparation of the 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:

- Impairment test for intangible assets – The Group has intangible assets mainly represented by internal capitalized development costs, trademarks and customer lists acquired through business combination. Capitalized development costs are reviewed on a regular basis and the Group determines annually, in accordance with the accounting policy, whether any of the assets should be tested for impairment. In-process development capitalized costs are tested for impairment at least annually. 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. As previously stated, COVID-19 pandemic had a negative impact on Medacta's operations and sales volume in 2020. It is possible that further underperformance may occur in 2021, depending on evolution of the pandemic and on the response of local governments and healthcare authorities worldwide. A sensitivity analysis was performed to review the impact of reasonably possible changes in key assumptions (see Note 6.8 "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. As of December 31, 2020, management have not changed the key assumptions underlying the methodology of calculation and, even considering the impact of lower sales, there was no material impact on the inventory provision at December 31, 2020.
- 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 6.19 “Retirement benefit obligations”.
- Legal and other contingencies – the Group is involved in various ongoing proceedings, legal actions and claims subject to a significant degree of estimation. Provision is recognised for lost contingencies when it is considered probable that an adverse outcome will occur and the amount of the loss can be reasonably estimated. Management, in making its estimates, takes into account the advice of internal and external legal counsel. The recognised provisions are reviewed regularly and balances are updated where necessary to reflect developments in the disputes. See Note 6.24 “Litigations” for further details.

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 income” or “Other 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 Note 6.30 "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 2020 | % of shares held December 2019 | Registered office | Registered Capital | Consolidation Method |
|---------------------------|--------------------------------------|--------------------------------------|----------------------------|--------------------|----------------------|
| Medacta Group SA | N/A | N/A | Castel San Pietro (CH) | 2'000'000 CHF | Parent company |
| Medacta Holding SA | 100% | 100% | Castel San Pietro (CH) | 1'026'010 CHF | Full Consolidation |
| Medacta International SA | 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) | 50'050'000 USD | Full Consolidation |

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

** As of October 30, 2020 Medacta USA Inc registered capital increased by USD 50'000'000 (Registered capital as of December 31, 2019 was USD 50'000). The increase was realized through the forgiveness of trade and financial receivables by the controlling Company, Medacta International SA

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 represent 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 it 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 are 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.

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 capitalized 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 in-process development projects 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 in-process development projects at 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, 2020 and 2019.

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 2020 and 2019, 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 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 6.23 "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.

Remeasurements of defined benefit obligations, 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 sales 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 spinal surgery 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 prosthesis 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 utilizing 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. Control of the instruments is 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.

GOVERNMENT GRANTS

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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. The total amount of government grants was recognised in the Consolidated Profit or Loss, applying the accounting policy of the Group, as a deduction of the underlying costs of personnel for which the subsidies were granted (see Note 6.23 “Information on the Consolidated Statement of Profit or Loss”, paragraph “Analysis of expenses - Personnel expenses”).

6.2 NEW ACCOUNTING AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE EFFECTIVE FOR REPORTING PERIODS BEGINNING ON JANUARY 1, 2020

IMPACT OF THE INITIAL APPLICATION OF COVID-19-RELATED RENT CONCESSIONS AMENDMENT TO IFRS 16 (EFFECTIVE JUNE 1, 2020)

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief

to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021);
- There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Group has applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

The amendment did not have any material impact on the Consolidated Financial Statements of the Group.

AMENDMENTS TO REFERENCES TO THE CONCEPTUAL FRAMEWORK IN IFRS STANDARDS

The Group has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. 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 IASB 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 Standards which are amended are 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.

The adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7 PHASE 1 (EFFECTIVE JANUARY 1, 2020)

In September 2019, the IASB issued Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39 and IFRS 7). The Group has adopted the amendments for the first time in the current year. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

AMENDMENTS TO IFRS 3 DEFINITION OF A BUSINESS

The Group has adopted the amendments to IFRS 3 for the first time in the current year. 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. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance 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 January 1, 2020.

The adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

AMENDMENTS TO IAS 1 AND IAS 8 DEFINITION OF MATERIAL

The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments 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 adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE EFFECTIVE FOR REPORTING PERIODS BEGINNING ON AND AFTER JANUARY 1, 2021 AND NOT YET ADOPTED BY THE GROUP

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. Effective date of the amendments has not been set yet by the IASB.
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current. Effective date January 1, 2023.
- Amendments to IFRS 3 Reference to the Conceptual Framework. 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 9, IAS 39 and IFRS 7 phase 2 (effective January 1, 2021)
- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract. Effective date January 1, 2022.
- Annual Improvements to IFRS Standards 2018-2020 Cycle:
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards (effective date January 1, 2022), IFRS 9 Financial Instruments (effective date January 1, 2022) and IFRS 16 Leases (no effective date is stated).

The Group has not early adopted any of the listed amendments that have been issued but not yet effective. The future adoption of the above amendments is not expected to have any material impact on the disclosures or on the amounts reported in the financial statements.

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, 2020, forward currency contracts with a nominal value of USD 30'000 thousand (2019: USD 30'000 thousand) and positive fair value of Euro 1'297 thousand (2019: positive fair value of Euro 259 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 6.23 "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

As at December 31, 2020

(Thousand Euro)

| Currency | Increase / (Decrease) | Profit Before Taxes | Equity |
|----------|--------------------------|------------------------|----------|
| CHF/EUR | 10% | (6'850) | (3'147) |
| USD/EUR | 10% | 7'102 | (11'174) |
| AUD/EUR | 10% | 317 | (675) |
| JPY/EUR | 10% | 944 | (802) |
| CHF/EUR | (10%) | 6'850 | 3'147 |
| USD/EUR | (10%) | (7'102) | 11'174 |
| AUD/EUR | (10%) | (317) | 675 |
| JPY/EUR | (10%) | (944) | 802 |

As at December 31, 2019

(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 5'023 thousand (negative Euro 4'330 thousand in 2019). 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 5'023 thousand (positive Euro 4'330 thousand in 2019).

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 2020 and 2019 closing periods.

The Group has only limited exposure to interest rate changes. The most substantial interest risk exposure on liabilities 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 2019 | (747) |
| As at December 2020 | (662) |

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.

Trade receivables balance at the end of the year is equal to Euro 45'782 thousand, out of which Euro 4'562 thousand are due from a single customer. Apart from this, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Concentration of credit risk related to largest trade customer did not exceed 15% of gross monetary assets at any time during the year. Concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at any time during the year. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. The same applies to loans to third parties. Core banking relations are maintained with at least "BBB+" rated (S&P) financial Institutions.

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

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

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

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

| December 31, 2020 (Thousand Euro) | Note | External credit rating | Internal credit rating | 12m or lifetime ECL | Gross carrying amount | Loss allowance | Net carrying amount |
|---|-------------|-----------------------------------|-----------------------------------|------------------------------------|--------------------------------------|---------------------------|--------------------------------|
| Trade receivables | 6.12 | N/A | * | Lifetime ECL (simplified approach) | 46'770 | (988) | 45'782 |

| 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 | 6.12 | N/A | * | Lifetime ECL (simplified approach) | 48'713 | (664) | 48'049 |

* 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 of December 31, 2020 and 2019.

The reported balances are contractual and undiscounted figures.

| As at December 31, 2020 (Thousand Euro) | Up to 1 year | 1 year to 5 years | More than 5 years | Total |
|---|-------------------------|------------------------------|------------------------------|------------------------|
| Trade payables | 16'477 | - | - | 16'477 |
| Financial accrued expenses | 8'592 | - | - | 8'592 |
| Current financial liabilities | 66'347 | - | - | 66'347 |
| Non-current financial liabilities | - | 57'942 | 7'102 | 65'044 |
| Current lease liabilities | 5'558 | - | - | 5'558 |
| Non-current lease liabilities | - | 11'292 | 2'880 | 14'172 |
| Interest on financial debt | 1'492 | 5'208 | 1'088 | 7'788 |
| Net derivative financial (assets)/liabilities | (1'297) | - | - | (1'297) |
| <i>Gross outflows</i> | <i>25'617</i> | <i>-</i> | <i>-</i> | <i>25'617</i> |
| <i>Gross inflows</i> | <i>(26'914)</i> | <i>-</i> | <i>-</i> | <i>(26'914)</i> |

| 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) |
| <i>Gross outflows</i> | <i>26'568</i> | <i>-</i> | <i>-</i> | <i>26'568</i> |
| <i>Gross inflows</i> | <i>(26'827)</i> | <i>-</i> | <i>-</i> | <i>(26'827)</i> |

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 amount, in which case the column "Fair Value" in the table below is left empty.

The following tables summarize the financial instruments carried at fair value, by valuation method as of December 31, 2020 and 2019.

The different levels have been defined as follows:

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

| Carrying amount (based on measurement basis) | | | | | | |
|--|---|-------------------------------|---------|---------|--------------------------|------------|
| As at December 31, 2020 (Thousand Euro) | Asset and Liabilities at amortised cost | Assets / Liabilities as FVTPL | | | Total carrying amount | Fair Value |
| | | Level 1 | Level 2 | Level 3 | | |
| Other non-current financial assets | 488 | - | - | - | 488 | - |
| Trade receivables | 45'782 | - | - | - | 45'782 | - |
| Other current financial assets | - | - | 1'297 | - | 1'297 | - |
| Cash and cash equivalents | 48'068 | - | - | - | 48'068 | - |
| Non-current financial liabilities | 65'044 | - | - | - | 65'044 | - |
| Other non-current liabilities | 3'197 | - | - | - | 3'197 | - |
| Non-current lease liabilities | 13'642 | - | - | - | 13'642 | - |
| Trade payables | 16'477 | - | - | - | 16'477 | - |
| Other current liabilities | 24'190 | - | - | 139 | 24'329 | - |
| Current financial liabilities | 66'339 | - | - | - | 66'339 | - |
| Current lease liabilities | 5'401 | - | - | - | 5'401 | - |

Carrying amount (based on measurement basis)

| As at December 31, 2019 (Thousand Euro) | Asset and Liabilities at amortised cost | Assets / Liabilities as FVTPL | | | Total carrying amount | Fair Value |
|---|--|--------------------------------------|----------------|----------------|----------------------------------|-------------------|
| | | Level 1 | Level 2 | Level 3 | | |
| 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 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 consideration 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 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 139 thousand as of December 31, 2020 (CHF 150 thousand, Euro 138 thousand as of December 31, 2019). The valuation model utilized to value the contingent consideration is a discounting cash flow model. To assess the probability that the contingent events will occur, an internal evaluation has been performed by the technical IT department responsible for the development of this technology.

6.5 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 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 of December 31, 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, Indonesia, Japan, Malaysia, New Zealand, Taiwan, Vietnam) 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.

| | 31.12.2020 | | 31.12.2019 | |
|--|----------------|----------------------------------|----------------|----------------------------------|
| SALES AND PROPERTY, PLANT AND EQUIPMENT (Thousand Euro) | Net sales | Property, plant and equipment | Net sales | Property, plant and equipment |
| Europe * | 129'273 | 110'002 | 136'095 | 111'479 |
| North America ** | 92'721 | 19'743 | 95'508 | 22'334 |
| Asia Pacific *** | 71'992 | 1'897 | 66'935 | 1'537 |
| RoW | 8'506 | - | 12'085 | - |
| TOTAL CONSOLIDATED | 302'492 | 131'642 | 310'623 | 135'350 |

* Property, plant and equipment located in Switzerland represented 77.4% and 75.5% of the Group's total property, plant and equipment as at December 31, 2020 and 2019, respectively. Net sales recorded in Switzerland were Euro 36'112 thousand and Euro 35'129 thousand as at December 31, 2020 and 2019, respectively.

** Property, plant and equipment located in the United States represented 15.0% and 16.5% of the Group's total property, plant and equipment as at December 31, 2020 and 2019, respectively. Net sales recorded in the United States were Euro 92'226 thousand and Euro 94'706 thousand as at December 31, 2020 and 2019, respectively.

*** Property, plant and equipment located in Australia represented 0.8% and 0.6% of the Group's total property, plant and equipment as at December 31, 2020 and 2019, respectively. Net sales recorded in Australia were Euro 41'236 thousand and Euro 40'492 thousand as at December 31, 2020 and 2019, respectively.

6.6 PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT

December 31, 2020
(Thousand Euro)

| | Land | Buildings | Plants & Machinery | Instruments | Other fixtures and fitting, tool and equipment | Assets under constru- ction | Total |
|--|------|-----------|-----------------------|-------------|---|--------------------------------------|-------|
|--|------|-----------|-----------------------|-------------|---|--------------------------------------|-------|

HISTORICAL COST

| | | | | | | | |
|----------------------------------|--------------|---------------|---------------|----------------|---------------|--------------|----------------|
| BALANCE JANUARY 1, 2020 | 7'377 | 35'852 | 23'455 | 163'808 | 17'916 | 32 | 248'440 |
| Additions | - | 242 | 584 | 21'642 | 1'407 | 3'410 | 27'285 |
| Disposals | - | - | (100) | (9'352) | (242) | - | (9'694) |
| Transfers * | - | - | 1'373 | (290) | 2'358 | (10) | 3'431 |
| Exchange differences | 43 | 204 | 98 | (3'675) | (141) | (146) | (3'616) |
| BALANCE DECEMBER 31, 2020 | 7'420 | 36'298 | 25'410 | 172'133 | 21'298 | 3'287 | 265'846 |

ACCUMULATED DEPRECIATION

| | | | | | | | |
|--|----------|----------------|-----------------|-----------------|-----------------|----------|------------------|
| BALANCE JANUARY 1, 2020 | - | (2'974) | (12'371) | (85'552) | (12'193) | - | (113'090) |
| Depreciation of the year and impairment loss | - | (916) | (1'595) | (21'227) | (2'069) | - | (25'807) |
| Disposals | - | - | 121 | 5'147 | 147 | - | 5'415 |
| Transfers * | - | - | (568) | 160 | (2'216) | - | (2'624) |
| Exchange differences | - | (8) | (36) | 1'855 | 91 | - | 1'902 |
| BALANCE DECEMBER 31, 2020 | - | (3'898) | (14'449) | (99'617) | (16'240) | - | (134'204) |

NET BOOK VALUE

| | | | | | | | |
|----------------------------------|--------------|---------------|---------------|---------------|--------------|--------------|----------------|
| BALANCE JANUARY 1, 2020 | 7'377 | 32'878 | 11'084 | 78'256 | 5'723 | 32 | 135'350 |
| BALANCE DECEMBER 31, 2020 | 7'420 | 32'400 | 10'961 | 72'516 | 5'058 | 3'287 | 131'642 |

* 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, 2019
(Thousand Euro)

| | Land | Buildings | Plants & Machinery | Instruments | Other fixtures and fitting, tool and equipment | Assets under constru- ction | Total |
|--|--------------|----------------|-----------------------|-----------------|---|--------------------------------------|------------------|
| HISTORICAL COST | | | | | | | |
| 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 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 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 |

* 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.

Additions for the period ended 2020 equal to Euro 27'285 thousand (Euro 41'474 thousand in 2019) are primarily related to investments made on instruments equal to Euro 21'642 thousand (Euro 35'870 thousand in 2019).

As of December 31, 2020, tangible fixed assets for a total amount of Euro 16'312 thousand (2019: Euro 16'546 thousand) have been pledged as collateral for borrowing facilities.

In 2019 disposals of Land and Building include the sale of a building in Castel San Pietro. 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 (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 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 of 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".

During the years 2020 and 2019 no impairment losses have been recognised on property, plant and equipment.

6.7 LEASES

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, 2020:

| December 31, 2020 (Thousand Euro) | Land and Building | Motor vehicles | ITC Equipment | Plant and Machinery | Other tool and equipment | Total |
|---|------------------------------|---------------------------|--------------------------|--------------------------------|---|-----------------|
| HISTORICAL COST | | | | | | |
| BALANCE JANUARY 1, 2020 | 9'848 | 3'418 | 138 | 15'562 | 2'065 | 31'031 |
| Additions | 978 | 1'570 | 31 | 2'726 | - | 5'305 |
| Disposals | (51) | (507) | (7) | - | - | (565) |
| Transfers * | - | - | - | (1'373) | (2'058) | (3'431) |
| Exchange differences | (290) | (25) | (3) | 76 | 32 | (210) |
| BALANCE DECEMBER 31, 2020 | 10'485 | 4'456 | 159 | 16'991 | 39 | 32'130 |
| ACCUMULATED DEPRECIATION | | | | | | |
| BALANCE JANUARY 1, 2020 | (1'743) | (1'170) | (45) | (4'175) | (1'794) | (8'927) |
| Depreciation | (1'756) | (1'395) | (52) | (1'218) | (266) | (4'687) |
| Disposals | 51 | 503 | 7 | - | - | 561 |
| Transfers * | - | - | - | 568 | 2'056 | 2'624 |
| Exchange differences | 55 | 11 | 1 | (18) | (28) | 21 |
| BALANCE DECEMBER 31, 2020 | (3'393) | (2'051) | (89) | (4'843) | (32) | (10'408) |
| NET BOOK VALUE | | | | | | |
| BALANCE JANUARY 1, 2020 | 8'105 | 2'248 | 93 | 11'387 | 271 | 22'104 |
| BALANCE DECEMBER 31, 2020 | 7'092 | 2'405 | 70 | 12'148 | 7 | 21'722 |

* The total balance included in "Transfers" refers to the re-classification from "Right-of-Use Assets" to "Property, plant and Equipment" after the leased assets were acquired.

| 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 7 years for building, plant and machinery and other tool and equipment, 4 years for motor vehicles and 5 years 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 Euro 19'043 thousand as of December 31, 2020 (Euro 19'974 thousand in 2019), thereof Euro 5'401 thousand current (Euro 5'435 thousand in 2019) and Euro 13'642 thousand non-current (Euro 14'539 thousand in 2019). Maturity analysis of undiscounted lease liabilities less unearned interests is reported in the table below:

| as at December 31, 2020 (Thousand Euro) | Up to 1 year | 1 year to 5 years | More than 5 years | Less: unearned interests | Total |
|--|-----------------|----------------------|----------------------|-----------------------------|---------------|
| Lease liabilities | 5'558 | 11'292 | 2'880 | (687) | 19'043 |

| as at December 31, 2019 (Thousand Euro) | Up to 1 year | 1 year to 5 years | More than 5 years | Less: unearned interests | Total |
|--|-----------------|----------------------|----------------------|-----------------------------|---------------|
| Lease liabilities | 5'435 | 11'736 | 3'373 | (570) | 19'974 |

The table below shows the movement of lease liabilities for the period ended December 31, 2020:

(Thousand Euro)

| | |
|---------------------------------------|-----------------|
| BALANCE ON JANUARY 1, 2020 | (19'974) |
| Additions | (5'305) |
| Modification, termination, expiration | 4 |
| Repayment of lease liabilities | 5'981 |
| Exchange differences | 251 |
| BALANCE ON DECEMBER 31, 2020 | (19'043) |

(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.

AMOUNTS RECOGNISED IN PROFIT OR LOSS

Medacta Group recognised the following amounts in the Consolidated Statement of Profit or Loss as of December 31, 2020 and 2019:

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|---|------------|------------|
| Depreciation charge of right-of-use assets | (4'690) | (4'373) |
| Interest expense (included in financial costs) | (345) | (340) |
| Expense relating to short-term leases | (83) | (84) |
| Expense relating to leases of low-value assets that are not short-term leases | (39) | (22) |

The total cash outflow for leases including short-term leases and low-value-assets in 2020 amount to Euro 6'448 thousand (Euro 6'126 thousand in 2019).

6.8 GOODWILL AND INTANGIBLE ASSETS

INTANGIBLE FIXED ASSETS

December 31, 2020
(Thousand Euro)

| | Development Costs | Customer Lists | Goodwill | Other intangible assets | Total |
|----------------------------------|----------------------|-------------------|-----------|-------------------------------|---------------|
| HISTORICAL COST | | | | | |
| BALANCE JANUARY 1, 2020 | 38'405 | 15'776 | 59 | 19'553 | 73'793 |
| Additions | 7'800 | - | - | 2'002 | 9'802 |
| Disposals | (96)* | - | - | (51) | (147) |
| Exchange differences | (50) | (135) | - | 37 | (148) |
| BALANCE DECEMBER 31, 2020 | 46'059 | 15'641 | 59 | 21'541 | 83'300 |

ACCUMULATED AMORTISATION

| | | | | | |
|----------------------------------|-----------------|----------------|----------|-----------------|-----------------|
| BALANCE JANUARY 1, 2020 | (11'134) | (3'052) | - | (14'023) | (28'209) |
| Amortization of the year | (3'204) | (1'053) | - | (2'253) | (6'510) |
| Impairment loss | (12) | - | - | - | (12) |
| Disposals | - | - | - | 51 | 51 |
| Exchange differences | 185 | 7 | - | (14) | 178 |
| BALANCE DECEMBER 31, 2020 | (14'165) | (4'098) | - | (16'240) | (34'503) |

NET BOOK VALUE

| | | | | | |
|----------------------------------|---------------|---------------|-----------|--------------|---------------|
| BALANCE JANUARY 1, 2020 | 27'271 | 12'724 | 59 | 5'530 | 45'584 |
| BALANCE DECEMBER 31, 2020 | 31'894 | 11'543 | 59 | 5'301 | 48'797 |

* 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, 2019
(Thousand Euro)

| | Development Costs | 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.

Development mainly consists of cost incurred for the development of new products or modification of existing products in the pipeline. The Group capitalizes internal payroll cost, 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 recognised to deposit and renew trademarks, software, patents and licences to distribute products.

Customer lists relate to business combinations occurred in 2018 and 2017. In particular they relate to the acquisition of ASD "Advanced Surgical Devices" in 2018 and Medacare GmbH and Vivamed GmbH in 2017.

IMPAIRMENT TEST FOR INTANGIBLE ASSETS

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 performs an assessment of the existence of impairment indicators for intangible assets (development projects). Any impairment loss or any loss relating the disposal of in progress development projects are recognised in Profit or Loss. Based on the quarterly analysis performed during the year, Medacta recognised a loss for impairment amounting Euro 12 thousand in 2020 (Euro 525 thousand in 2019), and losses for the derecognition of projects amounting as of December 31, 2020 to Euro 96 thousand (Euro 143 in 2019).

For the purpose of the annual impairment test, performed on data as of September 30, 2020, In-Process Research and Development projects (IPR&D) for a total amount of Euro 14'388 thousand, were allocated to cash-generating-units (CGU) corresponding to Product Families. 38 Product Families were tested for impairment through the estimation of the value in use of the IPR&D projects allocated to each CGU, none of which is significant in comparison to the total carrying amount of IPR&D. The impairment test did not lead to any impairment loss of the carrying amount of the development projects (in 2019, an impairment loss amounting to Euro 145 thousand was recognised on one project).

The discount rate applied in the valuation model, amounting to 6.9%, 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 eventual 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 277 thousand;
- A decrease of 25.0% in forecasted revenues would lead to an additional impairment loss amounting Euro 1'299 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.

6.9 OTHER FINANCIAL ASSETS

Other non-current financial assets are comprised of the following items:

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|-------------------------------------|--------------|------------|
| Forward Currency Contracts | 1'297 | 259 |
| Rent deposit | 488 | 456 |
| TOTAL OTHER FINANCIAL ASSETS | 1'785 | 715 |
| Current | 1'297 | 259 |
| Non-Current | 488 | 456 |
| Expected credit loss | - | - |

Forward Currency Contracts, amounting Euro 1'297 thousand at December 31, 2020, is related to the positive fair value of derivative financial instruments (Euro 259 thousand in 2019).

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

INCOME TAXES

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|---------------------------|--------------|--------------|
| Current income taxes | 7'183 | (1'894) |
| Deferred income taxes | (4'342) | 3'667 |
| TOTAL INCOME TAXES | 2'841 | 1'773 |

Current income taxes consist 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 amount of current income taxes recognised in 2019 was an income equal to Euro 1'894 thousand, mainly due to the reclassification of deferred taxes recognised in 2018 and deducted in 2019 as current income taxes after the preparation of the local Medacta International 2018 tax return.

RECONCILIATION OF TAX EXPENSE

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|--------------|--------------|
| Profit before taxes | 39'932 | 13'632 |
| AVERAGE TAX RATE | 18.2% | 20.6% |
| TAX AT AVERAGE TAX RATE | 7'277 | 2'807 |
| Patent Box deduction | (2'267) | |
| AVERAGE TAX RATE NET OF DEDUCTIONS | 12.5% | 20.6% |
| + / - EFFECTS OF | | |
| Expenses not subject to tax, net | 461 | 863 |
| Revenues not subjected to tax, net | (70) | (94) |
| Effects from previous years | 46 | (37) |
| Changes of unrecognised loss carryforwards / deferred tax assets | - | - |
| Change in tax rates on deferred tax balances | (2'623) | (1'746) |
| Other | 17 | (20) |
| TOTAL INCOME TAXES | 2'841 | 1'773 |
| EFFECTIVE INCOME TAX RATE (%) | 7.1% | 13.0% |

The Group's average tax rate is calculated as the weighted average tax rate applicable to the profits in the countries where Medacta Group operates. Management believes that the "average tax rate" reported in the disclosure above provides the most meaningful information to the users of the financial statements. Deferred taxes relate to temporary differences generated by the companies of the Group. Therefore, the disclosure of the reconciliation of tax expense was changed and also the comparative period, the year ended December 31, 2019, was restated. Therefore, the applicable Group tax rate for 2020 is 18.2% and for 2019 was 20.6%. Moreover, in 2020 the Swiss tax reform provided the possibility to obtain a special tax deduction from taxable profits for qualifying profits arising from patent rights ("Patent Box deduction"). During 2020, Medacta decided to use this possibility and the Patent Box deduction had a positive impact in 2020 amounting around Euro 2.3 million, lowering the effective tax rate by about 5.7 percentage points.

In addition, 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 tax rate applicable for Medacta International SA decreased from 18.6% to 17.3%. This deduction had a positive impact on deferred tax liabilities (and assets) previously recognised at the higher tax rate, amounting around Euro 2.6 million.

The group has not recognised deferred tax liabilities in respect of unremitted earnings that are considered indefinitely invested in foreign subsidiaries.

As of December 31, 2020, those unremitted earnings retained by consolidated entities amount to Euro 569 thousand (2019: Euro 1'711 thousand).

DEFERRED INCOME TAXES

The Group recognises in the Consolidated Financial Statements as of December 31, 2020 the gross amounts of Deferred tax assets and Deferred tax liabilities, respectively amounting to Euro 29'741 thousand and to Euro 44'422 thousand.

Deferred tax assets are mainly related to our US subsidiary. 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, 2020, 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) | 31.12.2020 | 31.12.2019 |
|---------------------------------|-----------------|-----------------|
| Net deferred tax assets | 21'588 | 21'283 |
| Net deferred tax liabilities | (36'269) | (38'654) |
| TOTAL NET DEFERRED TAXES | (14'681) | (17'371) |

The amount netted between deferred tax asset and deferred tax liabilities is equal to Euro 8'153 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, 2020 (Thousand Euro) | Property, plant and equipment | Intangible assets | Inventories, receivables, provisions and other liabilities | Tax losses carried forward | Total |
|---|----------------------------------|----------------------|---|-------------------------------|---------------|
| BALANCE JANUARY 1, 2020 | 1'719 | - | 25'644 | 1'482 | 28'845 |
| Deferred taxes recognised in the income statement | - | - | 2'696 | 196 | 2'892 |
| Deferred taxes recognize in OCI | - | - | 119 | - | 119 |
| Exchange differences | - | - | (2'008) | (107) | (2'115) |
| BALANCE DECEMBER 31, 2020 | 1'719 | - | 26'451 | 1'571 | 29'741 |

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 | 1'430 | - | 19'285 | 1'411 | 22'126 |
| Deferred taxes recognised in the income statement | 289 | - | 5'039 | 65 | 5'393 |
| Deferred taxes recognize in OCI | - | - | 459 | - | 459 |
| Exchange differences | - | - | 861 | 6 | 867 |
| BALANCE DECEMBER 31, 2019 | 1'719 | - | 25'644 | 1'482 | 28'845 |

As per December 31, 2020 and 2019, there were no unrecognised tax losses carried forward.

DEFERRED TAX LIABILITIES

| as at December 31, 2020 (Thousand Euro) | Property, plant and equipment | Intangible assets | Inventories, receivables, provisions and other liabilities | Tax losses carried forward | Total |
|---|----------------------------------|----------------------|---|-------------------------------|---------------|
| BALANCE JANUARY 1, 2020 | 20'714 | 7'907 | 17'595 | - | 46'216 |
| Deferred taxes recognised in the income statement | 933 | (2'490) | 107 | - | (1'450) |
| Deferred taxes recognize in OCI | - | - | - | - | - |
| Exchange differences | (459) | 15 | 100 | - | (344) |
| BALANCE DECEMBER 31, 2020 | 21'188 | 5'432 | 17'802 | - | 44'422 |

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 | 20'071 | 5'479 | 10'553 | - | 36'103 |
| Deferred taxes recognised in the income statement | 158 | 2'380 | 6'522 | - | 9'060 |
| Deferred taxes recognize in OCI | - | - | - | - | - |
| Exchange differences | 485 | 48 | 520 | - | 1'053 |
| BALANCE DECEMBER 31, 2019 | 20'714 | 7'907 | 17'595 | - | 46'216 |

6.11 INVENTORIES

Inventories are composed of the following items:

INVENTORIES

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|---|----------------|----------------|
| Raw materials | 15'214 | 13'877 |
| Work in progress and semifinished goods | 11'164 | 10'296 |
| Finished goods | 87'809 | 77'461 |
| TOTAL INVENTORIES | 114'187 | 101'634 |

The cost of inventories recognised in "Cost of sales" as of December 31, 2020 includes Euro 1'808 thousand (Euro 350 thousand in 2019) in respect of write-downs of inventory to net realisable value for slow moving, phase out and obsolete stock, and has been reduced by Euro 829 thousand (Euro 485 thousand in 2019) in respect of the reversal of such write-downs.

6.12 TRADE RECEIVABLES

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|-------------------------------------|---------------|---------------|
| Trade receivable, gross | 46'770 | 48'713 |
| Loss allowance on trade receivables | (988) | (664) |
| TOTAL TRADE RECEIVABLES | 45'782 | 48'049 |

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, 2020 (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 | 35'124 | 11'646 | 7'095 | 1'331 | 633 | 942 | 639 | 1'006 |
| Expected credit loss | (38) | (950) | (14) | (10) | (12) | (29) | (59) | (826) |

| 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) |

The following table summarizes the movements in the loss allowance for expected credit losses:

LOSS ALLOWANCE FOR EXPECTED CREDIT LOSSES

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|-------------------|-------------------|
| BALANCE AS AT JANUARY 1 | (664) | (605) |
| Change in loss allowance due to new trade | (350) | (200) |
| Trade receivable derecognised due to settlement | - | 138 |
| Accounts written off during the year as uncollectible | - | - |
| Exchange differences | 26 | 3 |
| TOTAL LOSS ALLOWANCE FOR EXPECTED CREDIT LOSSES | (988) | (664) |

6.13 OTHER RECEIVABLES AND PREPAID EXPENSES

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|---|-------------------|-------------------|
| Other receivables | 5'415 | 7'417 |
| Prepaid expenses | 2'949 | 3'187 |
| TOTAL OTHER RECEIVABLES AND PREPAID EXPENSES | 8'364 | 10'604 |

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.

6.14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following items:

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|-------------------|-------------------|
| Cash on hand | 25 | 26 |
| Current bank accounts | 48'043 | 27'102 |
| TOTAL CASH AND CASH EQUIVALENTS | 48'068 | 27'241 |

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 2020 and 2019 the Group did not enter into non-cash investing or financing activities.

6.15 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 2020 and 2019.

CAPITAL CONTRIBUTION

In 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.

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.

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. The contribution from the Family's shareholders has been settled on November 20, 2019.

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.

6.16 FINANCIAL LIABILITIES

At December 31, 2020, "Other financial liabilities" refers to the contractual liabilities for the acquisition of exclusive rights to use and develop technologies for a total amount of Euro 425 thousand (Euro 708 thousand in 2019). This amount is entirely classified in "Other current financial liabilities" as of December 31, 2020, while in 2019 Euro 356 thousand were classified in "Other current financial liabilities" and Euro 352 thousand in "Other non-current financial liabilities". The cost of the contracts has been capitalized as intangible assets in "Development" line item.

Following tables summarize the composition of Financial liabilities:

FINANCIAL LIABILITIES

(Thousand Euro)

| | 31.12.2020 | 31.12.2019 |
|---|----------------|----------------|
| Bank loans, current | 65'914 | 47'149 |
| Other current financial liabilities | 425 | 356 |
| TOTAL FINANCIAL LIABILITIES, CURRENT | 66'339 | 47'505 |
| Bank loans, non-current | 65'044 | 85'027 |
| Other non-current financial liabilities | - | 352 |
| TOTAL FINANCIAL LIABILITIES, NON-CURRENT | 65'044 | 85'379 |
| TOTAL FINANCIAL LIABILITIES | 131'383 | 132'884 |
| Total secured bank loans | 16'312 | 16'546 |
| Total non-secured bank loans | 114'646 | 115'630 |

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 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. As disclosed in "Impact of COVID-19" paragraph, 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.

As of December 31, 2020 and 2019, the Group had unused current credit lines of Euro 98'610 thousand and Euro 73'635 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 JANUARY 1, 2020 | 85'379 | 47'505 | 132'884 |
| Increase in financial debts * | - | 4'464 | 4'464 |
| Repayment of financial debts ** | - | (4'820) | (4'820) |
| Changes in current financial debts | - | - | - |
| Change in fair values and other changes | - | - | - |
| Reclass from non-current to current | (20'949) | 20'949 | - |
| Currency translation differences | 614 | (1'759) | (1'145) |
| BALANCE DECEMBER 31, 2020 | 65'044 | 66'339 | 131'383 |

* "Increase in financial debts" includes proceeds from borrowings amounting to Euro 4'344 thousand and Euro 120 thousand related to the acquisition of development intangible assets recognised as a non-cash increase in financial debts.

** "Repayment of financial debts" includes repayment of borrowings for Euro 4'389 thousand and Euro 431 thousand related to the repayment of contractual liabilities for the acquisition of development intangible assets classified in the Consolidated Statement of Cash Flow in "Purchase of intangible assets" within cash flow from investing activities.

RECONCILIATION OF LIABILITIES ARISING
FROM FINANCING ACTIVITIES
(Thousand Euro)

| | Non-current financial debts | Current financial debts | Total |
|---|--------------------------------|----------------------------|----------------|
| 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 |

* "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 acquired"

6.17 PROVISIONS

Provisions include the provision for legal claims and accrual for indemnity to agents. The 2020 "increases" line is primarily related to the accrual made on patent litigations for Euro 663 thousand.

Current provision includes Euro 8'399 thousand for the litigation with MicroPort Orthopedics Inc. In 2020 the Group released Euro 1.5 million of the provision recognised in 2019, due to the final award issued on April 27, 2020 (see Note 6.24 "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) | 31.12.2020 | 31.12.2019 |
|----------------------------|---------------|---------------|
| BALANCE JANUARY 1 | 11'183 | 417 |
| Increases | 785 | 10'831 |
| Decreases | (1'562) | (35) |
| Exchange differences | (770) | (30) |
| BALANCE DECEMBER 31 | 9'636 | 11'183 |
| Thereof current | 8'399 | - |
| Thereof non-current | 1'237 | 11'183 |

6.18 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) | 31.12.2020 | 31.12.2019 |
|--|--------------|--------------|
| Liabilities to tax authorities | 3'193 | 7'898 |
| Other | 4 | 21 |
| TOTAL OTHER NON-CURRENT LIABILITIES | 3'197 | 7'919 |

6.19 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 4'568 thousand in the year ended December 31, 2020 (2019: Euro 4'467 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, 2020 and 2019:

AMOUNT RECOGNISED IN THE BALANCE SHEET

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|---------------|---------------|
| Defined benefit plan Switzerland | 10'107 | 8'454 |
| Defined benefit plan Italy | 387 | 396 |
| OTHER NON-CURRENT EMPLOYEE BENEFITS | | |
| Retention plan Switzerland | 1'415 | 1'568 |
| French collective conventions | 255 | 230 |
| Retention plan Australia | 401 | 274 |
| Retention plan Austria | 68 | - |
| Retention plan Japan | 390 | 220 |
| RETIREMENT BENEFIT OBLIGATIONS | 13'023 | 11'142 |

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 of December 31, 2020, 620 employees (2019: 575 employees) and 2 beneficiaries (2019: 2 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 20.7 years (2019: 21.0 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) | 31.12.2020 | 31.12.2019 |
|--|-----------------|----------------|
| Present value of defined benefit obligations | (34'002) | (28'956) |
| Fair value of plan assets | 23'895 | 20'502 |
| RETIREMENT BENEFIT OBLIGATIONS | (10'107) | (8'454) |

REMEASUREMENT RECOGNISED IN EQUITY

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|--------------|--------------|
| BALANCE JANUARY 1 | 2'436 | (81) |
| Remeasurement of defined benefit obligations | 1'017 | 3'051 |
| Return on plan assets excl. interest income | (331) | (585) |
| Exchange differences | 8 | 51 |
| BALANCE DECEMBER 31 | 3'130 | 2'436 |

COMPONENTS OF REMEASUREMENT OF DEFINED BENEFIT PLANS RECOGNISED IN OCI

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|---|------------|--------------|
| Changes in financial assumptions | - | 3'234 |
| Changes in demogr. assumptions | - | - |
| Experience adjustments | 1'017 | (183) |
| Return on plan assets excl. interest income | (331) | (585) |
| REMEASUREMENT OF DEFINED BENEFIT PLANS | 686 | 2'466 |

In 2020, "Experience adjustments" is mainly due to the combined effect of increase in workforce and higher insured salary and retirement assets.

In 2019 "Changes in financial assumptions" were related to the decrease in the discount rate compared to prior year and in the interest rate on retirement savings capital. In 2020, the discount rate (0.2% at December 31, 2020) and the interest rate on retirement savings capital (0.5% at December 31, 2020) are unchanged compared to 2019 rates.

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|------------|------------|
| Current service cost | 2'281 | 1'832 |
| Past service cost | - | - |
| Participants' contributions | (1'380) | (1'272) |
| Administration cost | 15 | 11 |
| Net interest cost | 18 | 55 |
| TOTAL EMPLOYEE BENEFIT EXPENSES | 934 | 626 |

The amounts recognised in the Consolidated Profit or Loss have been charged to:

- Cost of sales Euro 319 thousand (2019: Euro 213 thousand);
- Research and Development Euro 118 thousand (2019: Euro 78 thousand);
- Sales and Marketing expenses Euro 209 thousand (2019: Euro 144 thousand);
- General and Administrative expenses Euro 270 thousand (2019: Euro 191 thousand).

MOVEMENT IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|---------------|---------------|
| BALANCE JANUARY 1 | 28'956 | 22'063 |
| Interest cost | 63 | 233 |
| Current service cost | 2'281 | 1'832 |
| Contribution by plan participants | 1'296 | 1'212 |
| Benefits deposited/(paid), net | 256 | 466 |
| Past service cost | - | - |
| Administration cost | 15 | 11 |
| Actuarial loss on obligation | 1'017 | 3'051 |
| Other* | - | (852) |
| Exchange differences | 118 | 940 |
| PRESENT VALUE OF OBLIGATIONS AT END OF YEAR | 34'002 | 28'956 |

* Some pensioners (beneficiaries of retirement related pensions starting on January 1, 2019 or before) remained 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) | 31.12.2020 | 31.12.2019 |
|-------------------------------|---------------|---------------|
| Cash and cash equivalents | 648 | 984 |
| Equity instruments | 7'240 | 533 |
| Debt instruments (e.g. bonds) | 9'914 | 14'741 |
| Real estate | 5'340 | 3'178 |
| Others | 753 | 1'066 |
| TOTAL | 23'895 | 20'502 |

MOVEMENT IN THE FAIR VALUE OF THE PLAN ASSETS

(Thousand Euro)

| | 31.12.2020 | 31.12.2019 |
|---|---------------|---------------|
| BALANCE JANUARY 1 | 20'502 | 16'955 |
| Interest income on plan asset | 45 | 178 |
| Employer's contributions paid | 1'380 | 1'272 |
| Participants' contributions | 1'296 | 1'212 |
| Benefits deposited/(paid), net | 256 | 466 |
| Return on plan assets excluding interest income | 332 | 585 |
| Other* | - | (852) |
| Exchange differences | 84 | 686 |
| FAIR VALUE OF PLAN ASSETS AT END OF YEAR | 23'895 | 20'502 |

* Some pensioners (beneficiaries of retirement related pensions starting on January 1, 2019 or before) remained in the previous full insurance contract, and they are continued to be paid by the insurer.

The principal actuarial assumptions are as follows:

| | 31.12.2020 | 31.12.2019 |
|--|------------|------------|
| Discount rate | 0.2% | 0.2% |
| Future salary increase | 1.0% | 1.0% |
| Interest rate on retirement saving capital * | 0.5% | 0.5% |
| 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)

| | 31.12.2020 | 31.12.2019 |
|------------------------------|------------|------------|
| DISCOUNT RATE | | |
| Discount rate + 0.25% | 32'319 | 27'507 |
| Discount rate - 0.25% | 35'842 | 30'543 |
| SALARY GROWTH | | |
| Salary growth + 0.25% | 34'391 | 29'301 |
| Salary growth - 0.25% | 33'621 | 28'613 |
| INTEREST RATE GROWTH | | |
| Interest rate growth + 0.25% | 34'655 | 29'519 |
| Interest rate growth - 0.25% | 33'370 | 28'411 |
| LIFE EXPECTANCY | | |
| Life expectancy + 1 year | 34'586 | 29'440 |
| Life expectancy - 1 year | 33'420 | 28'474 |

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out at December 31, 2020 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 exposes the Group to actuarial risks such as: interest rate risk, longevity risk and salary risk.

The Group expects to make a contribution of Euro 1.4 million to the defined benefit plans during the next financial year 2021.

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 2'529 thousand at December 31, 2020 (2019: Euro 2'082 thousand).

6.20 TRADE PAYABLES

Accounts payable of Euro 16'477 thousand (2019: Euro 17'845 thousand) mainly consist of commercial payables due within 12 months. The decrease is primarily due to timing of payments made by the Group.

6.21 OTHER CURRENT LIABILITIES

OTHER CURRENT LIABILITIES

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|---------------|---------------|
| Current accruals | 24'029 | 25'813 |
| Other current liabilities | 300 | 288 |
| TOTAL OTHER CURRENT LIABILITIES | 24'329 | 26'101 |

Current accruals are composed as follows:

CURRENT ACCRUALS

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--------------------------------|---------------|---------------|
| Liabilities to social security | 833 | 3'013 |
| Liabilities to tax authorities | 23'196 | 22'800 |
| TOTAL CURRENT ACCRUALS | 24'029 | 25'813 |

Other current liabilities are composed as follows:

OTHER CURRENT LIABILITIES

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|------------|------------|
| Other debts versus employees | 300 | 245 |
| Other | - | 43 |
| TOTAL OTHER CURRENT LIABILITIES | 300 | 288 |

6.22 ACCRUED EXPENSES AND DEFERRED INCOME

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|---|---------------|---------------|
| Consulting fees | 3'964 | 3'566 |
| Royalties and commissions due | 4'628 | 5'125 |
| Accrued vacation expenses | 3'473 | 3'394 |
| Accrued bonuses | 9'439 | 8'550 |
| Other | 2'287 | 2'774 |
| Assurances | 70 | 219 |
| TOTAL ACCRUED EXPENSES AND DEFERRED INCOME | 23'861 | 23'628 |

6.23 INFORMATION ON THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

6.23.1 ANALYSIS OF REVENUE

The following table presents revenue of the Group's product lines for the years ended December 31, 2020 and 2019 respectively:

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|-----------------|----------------|----------------|
| Hip | 153'063 | 163'954 |
| Knee | 106'238 | 111'657 |
| Shoulder | 13'919 | 9'690 |
| Spine | 28'910 | 25'265 |
| Sports Med | 362 | 57 |
| TOTAL | 302'492 | 310'623 |

6.23.2 ANALYSIS OF EXPENSES

PERSONNEL EXPENSES

Personnel expenses as of December 31, 2020 and 2019 are as follows:

PERSONNEL COSTS

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|------------------------------|---------------|----------------|
| Wages and salaries | 83'125 | 88'837 |
| Social security costs | 10'459 | 10'824 |
| Other costs | 5'381 | 8'596 |
| TOTAL PERSONNEL COSTS | 98'965 | 108'257 |

The recognition of the personnel expenses by function is as follows:

PERSONNEL COSTS BY FUNCTION

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|---------------|----------------|
| Cost of Sales | 13'466 | 15'818 |
| Research and Development expenses | 2'616 | 3'144 |
| Sales and Marketing expenses | 56'031 | 57'821 |
| General and Administrative expenses | 26'852 | 31'474 |
| TOTAL PERSONNEL COSTS BY FUNCTION | 98'965 | 108'257 |
| AVERAGE NR OF EMPLOYEES DURING THE YEAR | 1'142 | 1'037 |

In 2020, 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 Consolidated Profit or Loss as of December 31, 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 Consolidated Profit or Loss is Euro 2'879 thousand, and it is allocated, applying the accounting policy of the Group, as a deduction of the underlying personnel expenses, for which the subsidies are granted. The reduction of costs by function is distributed as follows: Cost of Sales for Euro 325 thousand, Research and Development expenses for Euro 178 thousand, Sales and Marketing expenses for Euro 1'652 thousand, General and Administrative expenses for Euro 724 thousand.

In 2019, "Total personnel costs" included 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, 2020 and 2019 are as follows:

DEPRECIATION, AMORTISATION AND IMPAIRMENT BY FUNCTION

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|---------------|---------------|
| Cost of Sales | 26'465 | 23'905 |
| Research and Development expenses | 3'254 | 2'991 |
| Sales and Marketing expenses | 3'307 | 3'559 |
| General and Administrative expenses | 3'990 | 3'278 |
| TOTAL DEPRECIATION AND AMORTISATION BY FUNCTION | 37'016 | 33'733 |

GENERAL AND ADMINISTRATIVE EXPENSES

General and Administrative expenses as of December 31, 2020 and 2019 are composed of the following expense categories:

GENERAL AND ADMINISTRATIVE EXPENSES

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|---------------|---------------|
| Personnel expenses | 26'852 | 31'474 |
| Depreciation and amortisation | 3'990 | 3'278 |
| Consulting expenses | 8'557 | 9'826 |
| Business expenses (i.e insurance, rents and maintenance) | 6'367 | 6'038 |
| Other costs and taxes | 1'002 | 12'498 |
| Travel and accomodation | 611 | 715 |
| Other | 93 | 111 |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE | 47'472 | 63'940 |

In 2020, "Personnel expenses" include grants received by Governments (mainly Swiss, France, Australia, UK) for Euro 724 thousand to provide assistance to the Group's entities to fund short-term working. In 2019, "Personnel expenses" included the cost for the Fidelity Bonus for Euro 4'209 thousand paid in November 2019.

In 2020 "Consulting expenses" include: approximately Euro 3'475 thousand of legal expenses, mainly related to MicroPort and patent matters (Euro 3'100 thousand), Euro 5'082 thousand costs related to clinical studies, IT, Audit, Tax and other consulting expenses. In 2019, "Consulting expenses" included: 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.

In 2020 "Other costs and taxes" include the net impact, for Euro 840 thousand, related to the provision for patent litigation accrued in 2020 and the partial release of the provision accrued for MicroPort matter in 2019, as better described in Note 6.24 "Litigations". In 2019, "Other costs and taxes" included the accrual of the provision for litigation with MicroPort 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 2020 of Euro 6'829 thousand (Euro 7'641 thousand in 2019).

Development costs eligible for capitalization amounts to Euro 7'800 thousand in 2020 and Euro 8'655 thousand in 2019.

6.23.3 OTHER INCOME / (EXPENSES)

Other income amount to Euro 1'809 thousand as of December 31, 2020 (Euro 1'592 thousand in 2019). Other income as of December 31, 2020 includes:

- Euro 628 thousand related to the release of the parking provision recognised by Medacta International due to the 2020 decision made by the State Council of postponing the application of this law from 2022 onwards;
- Euro 381 thousand related to miscellaneous expenses rebilled to third parties.

Other expenses amount to Euro 2'252 thousand as of December 31, 2020 (Euro 7'008 thousand in 2019 mainly related to the costs incurred for a one-time tax duty). Other expenses as of December 31, 2020 includes:

- Euro 1'119 thousand, relates to losses from disposal of tangible assets;
- Euro 327 thousand, relates to contributions made to non-profit organizations.

6.23.4 FINANCIAL INCOME/(COSTS)

FINANCIAL INCOME

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|--------------|--------------|
| Gain/(loss) on revaluation of financial instruments at fair value through profit or loss | 1'047 | - |
| Interest income loans and receivables | 144 | 46 |
| Foreign exchange profit | 3'766 | 2'013 |
| TOTAL FINANCIAL INCOME | 4'957 | 2'059 |

Financial income amount to Euro 4'957 thousand as of December 31, 2020 (Euro 2'059 thousand in 2019). Financial income as of December 31, 2020 includes mainly gain on revaluation of financial instruments at fair value for Euro 1'047 thousand and realized and unrealized foreign exchange profit for Euro 3'766 thousand.

FINANCIAL (COSTS)

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|-----------------|----------------|
| Interest on loans and borrowings | (2'699) | (3'019) |
| Gain/(loss) on revaluation of financial instruments at fair value through profit or loss | - | (226) |
| Foreign exchange losses | (11'424) | (4'455) |
| Interest expense on lease contracts | (345) | (340) |
| TOTAL FINANCIAL (COSTS) | (14'468) | (8'040) |
| TOTAL FINANCIAL INCOME/(COSTS), NET | (9'511) | (5'981) |

Financial costs amount to Euro 14'468 thousand as of December 31, 2020 (Euro 8'040 thousand in 2019). Financial costs as of December 31, 2020 includes mainly interest on borrowings for Euro 1'535 thousand (Euro 1'922 thousand in 2019), bank commissions and other interest expenses for Euro 1'164 thousand (Euro 1'097 thousand in 2019) and realized and unrealized foreign exchange losses for Euro 11'424 thousand. Foreign exchange losses increase for Euro 7.0 million out of which approximately Euro 4.4 million are due to non-monetary transactions, mainly related to the increase in registered capital of Medacta USA Inc by USD 50 million through the forgiveness of trade and financial receivables held by the controlling Company, Medacta International SA, and the compensation of prior year receivables and payables.

6.24 LITIGATIONS

MICROPORIT MATTER

ARBITRATION

In a pending arbitration (the "Arbitration"), commenced with the American Arbitration Association on or about July 30, 2018 in Memphis Tennessee, the Company 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 and as to which it has reserved its rights. 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 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 with this matter, in agreement with IAS 37, the provision recognised as of December 31, 2020 amounts approximately to USD 10.3 million (Euro 8.4 million) including interests. In 2020, given the updated award, the Group reduced the provision accrued in 2019 for approximately Euro 1.5 million (see Note 6.17 "Provisions"). We expect that United States

District Court for the Western District of Tennessee will determine whether or not the Final Award can become an enforceable judgment in the second half of 2021.

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 tortiously 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 that MicroPort commenced against ASD and its principal, William Zurowski, much discovery has occurred in connection with the Court Proceeding. 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 tortiously interfered with the asset purchase agreement between MicroPort and ASD. MicroPort also makes new allegations 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. On February 16, 2021, MicroPort filed an amended complaint that adds Medacta International as a defendant, and adds allegation of infringement by a surgical approach that is still under development by Medacta.

In response to MicroPort's original complaint Medacta USA filed two pleadings, which it then re-filed in substantially the same form in response to MicroPort's amended complaint. First, Medacta filed a motion to dismiss or sever the state law tortious interference claims based upon the federal court's lack of supplemental subject-matter jurisdiction. This motion is currently pending before the court. Second, Medacta USA filed a partial answer, which answered only the allegations concerning MicroPort's claims of patent infringement. In the partial answer, Medacta USA denied all material factual allegations of MicroPort and denies that Medacta USA, directly or indirectly, is liable for patent infringement. The amended complaint has not been served upon Medacta International. If service is effectuated on Medacta International, it will determine how to respond. The court set a scheduling order and the MicroPort and Medacta USA have both initiated discovery. Medacta USA has served discovery requests on MicroPort, and Medacta USA has answered the discovery requests served on it by MicroPort.

At this stage of the Federal Lawsuit, we are unable to conclude that the likelihood of an unfavourable outcome against Medacta USA is either "probable" or "remote", and accordingly express no opinion as to the outcome of the Federal Lawsuit.

PATENT MATTERS

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. 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 instituted the Inter Partes Reviews. The PTAB's final written decision is expected by May 22, 2021. The district court litigation has been stayed and will remain stayed until, at least, the PTAB enters its final written decision.

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. Medacta believes the accused products do not infringe the patents-in-suit and that these patents are invalid. Conformis filed an amended complaint seeking to add Medacta International as a defendant. A motion to dismiss Medacta International is pending and will be decided by the Court at some point in the future. The parties are currently engaged fact discovery, and the next step in the process will be for the parties to take the depositions of both sides' employees before the close of fact discovery, which is currently set to close in May 2021. Expert discovery will follow fact discovery, and expert discovery is set to close in September 2021. The parties have continued to explore settlement, and they had a first round of formal mediation with the Magistrate Judge on March 4, 2021. The parties did not reach a settlement, but there will be follow-up discussions amongst the parties, and possibly with the Magistrate Judge as well.

In connection with the above patent matters, the Group in agreement with what prescribed by IAS 37 recognised a provision of approximately Euro 0.7 million (see Note 6.17 "Provisions" for more information).

ALLEGED CRIMINAL OFFENSES UNDER GERMAN LAW

On 28 March 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 representatives of various other public and private orthopedic device supply companies in Germany. 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.

On August 2, 2019 was submitted to the public prosecutor's office in Neuruppin a request to discontinue the proceedings pursuant to § 170 ara. 2 StPO. After the public prosecutor's office had granted supplementary access to the files at the end of 2019, but no additional statement was submitted due to the few new findings, access to the files was granted again in December 2020. This includes an initial evaluation by the police of the e-mails and documents that were seized during the searches of the German chief physician and Medacta.

As a result, the plan is to draft a statement for Medacta Germany and to submit it to the public prosecutor's office, which will correct the police suspicions regarding the e-mails and documents. As there are still several open questions regarding the content of the documents, the timeframe for this statement is the first semester of 2021. There is no fixed deadline by the public prosecutor's office. However, since the police and the public prosecutor's office are still in the process of dealing with the individual cases concerning other medical device manufacturers, a quick conclusion of the proceedings in 2021 is not expected. In theory, it is likely that the proceedings against the CEO will be discontinued, either because there is no suspicion of a crime or according to section 153a of German Code of Criminal Procedure.

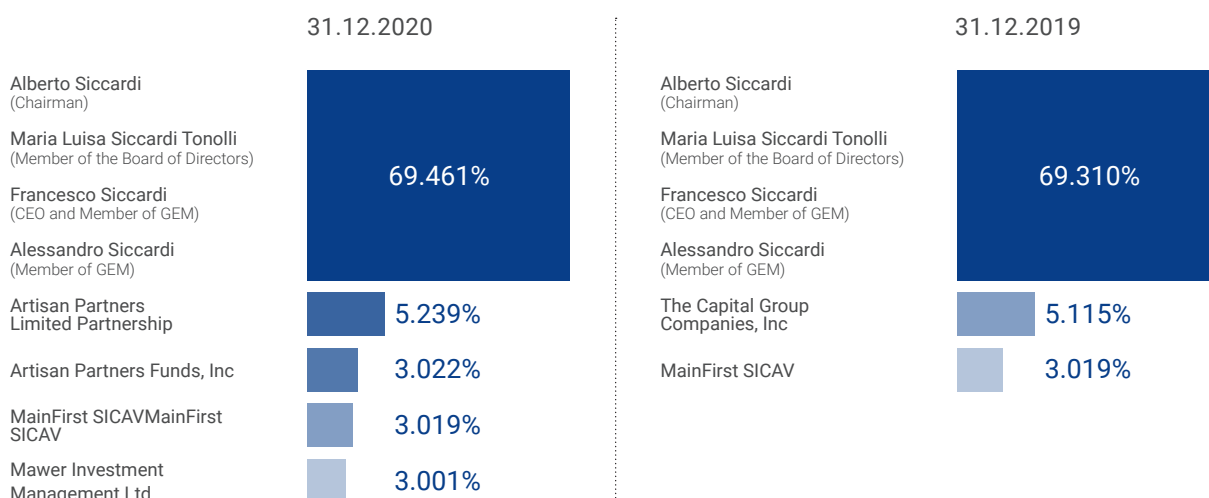
We believe that the allegations are unfounded and, if necessary, will vigorously defend our position and the positions of our employees and representatives. Medacta entered into the physician consultancy agreements with the consultant for legitimate purposes and has maintained readily accessible written documentation relating to the training and educational activities he performed in return for the compensation and reimbursement of certain travel expenses he received.

At this time, we cannot offer an opinion on the likelihood of a favourable or unfavourable outcome for this case.

6.25 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

In 2020 Medacta International made contributions to Medacta for Life Foundation for Euro 327 thousand, a non-profit organization owned by the Siccardi Family.

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 a partner, provided legal services to the Group, also in 2019 during the IPO-process. The fees for his professional services provided during the year 2020 are recognised in the General and Administrative expense line item for an amount equal to Euro 78 thousand (in 2019 Euro 979 thousand, out of which Euro 507 thousand have been reimbursed by the Selling shareholders).

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.

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) | 31.12.2020 | 31.12.2019 |
|---|--------------|--------------|
| Fees, salaries and other short-term benefits | 2'698 | 1'690 |
| Compensation cuts * | (982) | |
| Post-employment pension and medical benefits | 165 | 181 |
| Special Fidelity Bonus | - | 289 |
| TOTAL COMPENSATION OF KEY MANAGEMENT PERSONNEL | 1'881 | 2'160 |

* As communicated with Ad-hoc release dated April 17, 2020, to soften the economic impact of the Coronavirus pandemic, the Board Members and the Group Executive Management decided to reduce their 2020 compensation. Our CEO, Ing. Francesco Siccardi and our Founder and Chairman of the Board, Dr. Alberto Siccardi decided voluntary, to reduce their 2020 total compensation by 50%, while all the other Members reduced their total compensation by 20%.

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.

6.26 EARNINGS PER SHARE

Basic earnings per share is calculated as the profit for the year attributable to equity holders of the parent.

| (Thousand Euro) | 31.12.2020 | 31.12.2019 |
|--|-------------|-------------|
| Profit for the year attributable to equity holders of the parent | 37'091 | 11'859 |
| Weighted average number of shares | 20'000 | 20'000 |
| TOTAL EARNINGS PER SHARE | 1.85 | 0.59 |

6.27 ATYPICAL AND/OR UNUSUAL OPERATIONS

The Group did not carry out any atypical and/or unusual operations.

6.28 CONTINGENCIES AND COMMITMENTS

The Group, as of December 31, 2020, contracted purchase commitments, mainly relating the acquisition of instruments, for a total amount of Euro 8.3 million.

As of December 31, 2020, tangible fixed assets for a total amount of Euro 16'312 thousand (2019: Euro 16'546 thousand) have been pledged as collateral for borrowing facilities.

The Group as of December 31, 2020 and 2019 had unused current credit lines of Euro 98'610 thousand and Euro 73'635 thousand, respectively.

6.29 SUBSEQUENT EVENTS

There have been no events occurring after the reported period which would have a material effect on the Medacta Group Financials as of December 31, 2020.

6.30 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.

| | <u>Average</u> | | <u>Closing</u> | |
|-----|----------------|--------|----------------|------------|
| | 2020 | 2019 | 31.12.2020 | 31.12.2019 |
| CHF | 0.9344 | 0.9003 | 0.9253 | 0.9200 |
| GBP | 1.1246 | 1.1420 | 1.1189 | 1.1801 |
| AUD | 0.6043 | 0.6217 | 0.6298 | 0.6262 |
| USD | 0.8759 | 0.8934 | 0.8188 | 0.8909 |
| JPY | 0.0082 | 0.0082 | 0.0079 | 0.0082 |
| CAD | 0.6538 | 0.6745 | 0.6433 | 0.6870 |

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 2020 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 the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 102 to 153) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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 International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) 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:

- Capitalisation and measurement of 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 2.4 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.

Capitalisation and measurement of development projects

Key audit matter

As described in note 6.8 to the consolidated financial statements, the intangible assets balance amounts to EUR 49 million, including development projects capitalized at 31 December 2020 amounting to EUR 32 million.

As described in note 6.1 to the consolidated financial statements, 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 ("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 for "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 projects to be a key audit matter in our audit.

How the scope of our audit responded to the key audit matter

We evaluated the design and implementation of controls relevant to the development process, and the impairment process.

We performed tests of details, using statistical sampling method, on 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, as well as verified its ability 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 was 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 challenging the valuation model (i.e. validity of the methodology and its application, completeness, and mathematical accuracy) and challenging the WACC applied.

In addition, we have challenged the Group's judgements and assumptions used in its impairment model, and have tested the historical accuracy of the judgements and assumptions used for the 2019 consolidated financial statements.

We assessed the adequacy and completeness of the disclosures included in the accompanying consolidated financial statements (note 6.8).

Existence of inventory

Key audit matter

As described in note 6.11 to the consolidated financial statements, the balance of inventory amounts to EUR 114 million as of 31 December 2020.

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.

How the scope of our audit responded to the key audit matter

We assessed the appropriateness of the Group's process for inventory, including inventory counts procedures, which are done for inventory located at Medacta's premises and in consignment.

As part of this work, we also evaluated the design and implementation of key controls in connection with the existence of inventory.

We have performed physical inventory counts for items selected through statistical sampling methods. Our work was performed in Switzerland, France, Australia, USA, and Japan. This work covered also inventory in consignment.

For locations where our participation in the inventory counts procedures performed by the Group was possible, we attended these and compared the results of our own work with the results of the counts performed by the Group.

When the performance of inventory counts was not possible as a result of the COVID-19 pandemic, we requested confirmations from hospitals and clinics to obtain sufficient appropriate audit evidence on the existence of the inventory in consignment.

We assessed the adequacy and completeness of the disclosures included in the accompanying consolidated financial statements (note 6.11).

Existence of instruments

Key audit matter

As described in note 6.6 to the consolidated financial statements, the balance of property, plant and equipment amounts to EUR 132 million as at 31 December 2020, including instruments for a net balance of EUR 73 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.

How the scope of our audit responded to the key audit matter

We assessed the appropriateness of the Group's process for instruments, including instruments counts procedures, which are done for instruments located at Medacta's premises and in consignment.

As part of this work, we also 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, France, Australia, USA, and Japan. This work covered also instruments in consignment.

For locations where our participation in the instruments counts procedures performed by the Group was possible, we attended these and compared the results of our own work with the results of the counts performed by the Group.

When the performance of instruments counts was not possible as a result of the COVID-19 pandemic, we requested confirmations from hospitals and clinics to obtain sufficient appropriate audit evidence on the existence of the instruments in consignment.

We assessed the adequacy and completeness of the disclosures included in the accompanying consolidated financial statements (note 6.6).

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 2.4 million (EUR 3.08 million in prior year), which is 6% of profit before taxes (6% of adjusted profit before taxes in prior year), and 1.5% of equity (3% of equity in prior year).

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of EUR 0.120 million (EUR 0.154 million in prior year), 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

The scope of our Group audit was defined 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 7 locations. 4 of these were subject to a full audit, whilst the remaining 3 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 7 locations represent the principal business units and account for 94% of the Group's total assets (98% in prior year), 81% of the Group's revenue (98% in prior year) and 92% of the Group's profit before tax (61% in prior year). 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 7 locations was executed at levels of materiality applicable to each individual entity, which were lower than Group materiality and ranged from EUR 0.240 million to EUR 1.584 million (from EUR 0.308 million to EUR 1.950 million in prior year).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

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

We recommend that the consolidated financial statements submitted to you be approved.

Deloitte SA



Fabien Lussu
Licensed Audit Expert
Auditor in Charge



Michele Castiglioni
Licensed Audit Expert

Lugano, 30 March 2021
FL/MC/di

8. STATUTORY FINANCIAL STATEMENTS

MEDACTA GROUP SA, CASTEL SAN PIETRO

BALANCE SHEET

ASSETS

| (Swiss Francs) | Notes | 31.12.2020 | 31.12.2019 |
|--|-------|--------------------|--------------------|
| Cash and cash equivalents | | 215'001 | 1'536'204 |
| Short-Term receivables towards group companies | 8.3.1 | 3'598'609 | 3'208'793 |
| Accrued income and prepaid expenses | 8.3.2 | 530'832 | 10'020'353 |
| TOTAL CURRENT ASSETS | | 4'344'442 | 14'765'350 |
| Investment in subsidiaries | 8.3.3 | 135'510'490 | 135'510'490 |
| Long-Term loans towards group companies | 8.3.4 | 46'750'000 | 36'750'000 |
| TOTAL NON-CURRENT ASSETS | | 182'260'490 | 172'260'490 |
| TOTAL ASSETS | | 186'604'932 | 187'025'840 |

LIABILITIES AND EQUITY

| (Swiss Francs) | Notes | 31.12.2020 | 31.12.2019 |
|---|-------|--------------------|--------------------|
| Account payables | | 383'400 | 369'198 |
| Deferred income and accrued expenses | | 604'429 | 889'060 |
| Provisions | | 181'677 | 91'045 |
| Short-term liabilities towards Group companies | 8.3.5 | - | 553'747 |
| TOTAL CURRENT LIABILITIES | | 1'169'506 | 1'903'050 |
| Long-term interests-bearing liabilities towards Group companies | 8.3.6 | - | - |
| TOTAL NON-CURRENT LIABILITIES | | - | - |
| Share capital | 8.3.7 | 2'000'000 | 2'000'000 |
| General capital reserve | | 131'000'000 | 131'000'000 |
| General legal capital contribution reserve | 8.3.8 | 23'520'000 | 23'520'000 |
| General legal reserve from earnings | | 1'000'000 | 1'000'000 |
| Retained earnings brought forward | | 27'602'790 | 25'120'332 |
| Profit of the year | | 312'636 | 2'482'458 |
| TOTAL SHAREHOLDER'S EQUITY | | 185'435'426 | 185'122'790 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 186'604'932 | 187'025'840 |

INCOME STATEMENT

| (Swiss Francs) | Notes | 31.12.2020 | 31.12.2019 |
|---|--------|--------------------|---------------------|
| Dividend income | 8.3.9 | 500'000 | 10'000'000 |
| Interest Income | | 434'713 | 108'309 |
| Other Revenues | 8.3.10 | 2'396'505 | 4'027'111 |
| TOTAL REVENUE | | 3'331'218 | 14'135'420 |
| Personnel costs | | (2'006'387) | (2'052'724) |
| Legal and administrative expenses | 8.3.11 | (851'187) | (2'918'194) |
| Stamp duty costs | 8.3.12 | - | (6'535'980) |
| Other expenses | | (42'142) | (85'581) |
| TOTAL OPERATING COSTS | | (2'899'716) | (11'592'479) |
| OPERATING PROFIT | | 431'502 | 2'542'941 |
| Interest and expenses towards group companies | | - | (13'419) |
| Other financial costs | | (4'366) | (4'064) |
| TOTAL FINANCIAL INCOME / (COSTS) | | (4'366) | (17'483) |
| PROFIT BEFORE TAXES | | 427'136 | 2'525'458 |
| Taxes | 8.3.13 | (114'500) | (43'000) |
| PROFIT OF THE PERIOD | | 312'636 | 2'482'458 |

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 2020 Medacta Group SA Profit or Loss recognizes the full year of transactions, from January 1, 2020 to December 31, 2020. The company went public on April 4, 2019 and is listed at the SIX Swiss Stock Exchange.

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 receive 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 is 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 International SA for CHF 3'598'609.

8.3.2 ACCRUED INCOME AND PREPAID EXPENSES

This position includes dividend from Medacta Holding SA for CHF 500'000 related to the result of the year 2020 (simultaneous registration of dividend) and insurance prepaid expenses.

8.3.3 INVESTMENT IN SUBSIDIARIES

The investment in subsidiaries consist of:

- Direct investment in subsidiaries:

| Company | % of shares held December 2020 and 2019 | Registered office | Country | Share Capital | 31/12/2020 |
|----------------------|---|-------------------|-------------|---------------|-----------------|
| Medacta Holding S.A. | 100% | Castel San Pietro | Switzerland | 1'026'010 CHF | 135'510'490 CHF |

- Indirect investment in subsidiaries:

| Company | % of shares held December 2020 | % of shares held December 2019 | Registered office | Country | Registered Capital |
|----------------------------|-----------------------------------|-----------------------------------|-----------------------|-------------|--------------------|
| Medacta International SA | 100% | 100% | 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 S.r.l. * | 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 | 50'050'000 USD |

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

** As of October 30, 2020 Medacta USA Inc registered capital increased by USD 50'000'000 (Registered capital as of December 31, 2019 was USD 50'000). The increase was realized through the forgiveness of trade and financial receivables by the controlling Company, Medacta International S.A.

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 the interest-bearing loan towards Medacta International SA. During the year 2020 an amount of CHF 10'000'000 has been granted.

8.3.5 SHORT-TERM LIABILITIES TOWARDS GROUP COMPANIES

The position was settled during the year 2020. In the year ending December 31, 2019 this position was referred to short-term liabilities towards Medacta International SA.

8.3.6 LONG-TERM LIABILITIES TOWARDS GROUP COMPANIES

The Company has no long-term interest-bearing liabilities towards Group companies as at 31.12.2020.

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

No changes into the financial year 2020. 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 has been obtained by federal tax authorities after the approval of the 2019 financial statements by the Annual General Meeting of the company.

8.3.9 DIVIDEND INCOME

Dividend income accrued as of December 31, 2020 for CHF 500'000 refers to the 2020 dividend from the subsidiary Medacta Holding SA (simultaneous registration of dividend). Dividend accrued as of December 31, 2020 has not been cashed in, as of the balance sheet date. The 2019 dividend income for CHF 10'000'000 was converted into a long-term loan towards Medacta International SA.

8.3.10 OTHER REVENUES

Other revenues equal to CHF 2'396'505 as of December 31, 2020 (CHF 4'027'111 in 2019), relates to the re-billing to Group's subsidiaries for an amount of CHF 2'392'841 (CHF 2'707'576), which include payroll, general and administrative expenses to ensure that the costs will be incurred to the relevant parties following the accuracy assertion.

8.3.11 LEGAL AND ADMINISTRATIVE EXPENSES

2020 audit fees of the standalone and consolidated financial statements amount to CHF 390'583 (CHF 242'688 in 2019). Fiscal, legal and administrative fees are equal to CHF 460'604 (CHF 225'554 in 2019).

8.3.12 STAMP DUTY COSTS

No stamp duty costs for the financial year 2020. The 2019 amount of CHF 6'535'980 is 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 114'500 for the financial year ending on December 31, 2020 (CHF 43'000 in 2019) entirely refer to the capital tax.

8.4 OTHER INFORMATION NOT RESULTING FROM THE BALANCE SHEET OR THE IN-COME 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, 2020, 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 0 as of December 31, 2020 (CHF 59 in 2019).

8.4.5 COLLATERALS, GUARANTEE LIABILITIES AND CONSTITUTION OF PLEDGES IN FAVOUR OF THIRD PARTIES

In order to guarantee the commitments undertaken by the affiliated Medacta International SA, as of December 31, 2020 the Company has letters of patronage in favour of banking institutions for an amount of CHF 113'500'000 (2019: CHF 0).

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, 2020, 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

There have been no events occurring after the reported period which would have a material effect on the Medacta Group Financials as of December 31, 2020.

9. PROPOSAL OF THE BOARD OF DIRECTORS WITH REGARD TO THE APPROPRIATION OF THE AVAILABLE RETAINED EARNINGS

As of December 31, 2020, the available retained earnings are as follows:

| | |
|------------------------------------|-------------------|
| (Swiss Francs) | 31.12.2020 |
| Retained earnings brought forward | 27'602'790 |
| Profit of the year | 312'636 |
| AVAILABLE RETAINED EARNINGS | 27'915'426 |

The Board of Directors proposes the following appropriation of the available retained earnings:

| | |
|--|-------------------|
| (Swiss Francs) | |
| Retained earnings to bring forward | 27'915'426 |
| TOTAL AVAILABLE RETAINED EARNINGS | 27'915'426 |

10. AUDIT REPORT – MEDACTA GROUP SA 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 Financial Statements

Opinion

We have audited the financial statements of Medacta Group SA, which comprise the balance sheet as at 31 December 2020, and the income statement and the notes to the financial statements for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 160 to 165) as at 31 December 2020 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

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 182 million, or 98% of total assets as at 31 December 2020.

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 amount 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.

How the scope of our audit responded to the key audit matter

We have assessed the appropriateness of the Company's accounting policy for the valuation of investments and loans.

We have assessed the design and implementation of the controls in place in connection with 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 with the equity balances of the relevant entities.

We assessed the adequacy and completeness of the related disclosures 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, 30 March 2021
FL/MC/di