Medacta International

ANNUAL REPORT **2020**

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From minimally invasive surgery to

Personalized Medicine and beyond

Medacta International

MANAGEMENT REPORT

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2020 HIGHLIGHTS*

- Medacta's year-end revenue at Euro 302.5 million, down only 2.1% on a constant currency basis, despite COVID-19 pandemic;
- Second semester reached 7.6% growth on a constant currency basis. New customer acquisitions and an uptake in demand are reflected in the rebound, limited in part by the second COVID-19 wave starting in October;
- Adjusted EBITDA of Euro 88.1 million, corresponding to 29.1% margin;
- Profit for the year equal to Euro 37.1 million, 12.3% on revenues;
- Adjusted Free Cash Flow of Euro 31.9 million, up 43% vs prior year;
- Tactical changes in marketing and medical education programs, implementing several online initiatives, allowed us to reach over 2'900 surgeons;
- Over 30 new products registered. Innovation continued, culminating with the FDA clearance of our proprietary NextAR Augmented Reality platform technology in July;
- Over 80 new jobs added, including significant salesforce expansion across all geographies;
- In light of ongoing global uncertainty caused by Covid-19 pandemic, Company proposes no dividend distribution to reinvest in future growth plan;
- Outlook FY 2021: We are targeting 2021 revenue in the range of Euro 333 million to Euro 348 million at constant currency and adjusted EBITDA margin to be largely in line with the previous year, subject to any unforeseen events, specifically from Covid-19 pandemic.

REVENUES

EUR 302.5M

-2.1% before FX effects from prior year[1]
-2.6% reported growth

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

ADJUSTED EBITDA MARGIN [2]

29.1%

28.6% Reported EBITDA Margin
EUR 88.1M Adjusted EBITDA[3]

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

[3] Is calculated as EBITDA, adjusted for non-recurring items: provisions on litigations, extraordinary legal expenses and gains realized through the release of prior years provisions.

ADJUSTED EBIT MARGIN [4]

16.9%

16.3% Reported EBIT Margin
EUR 51.1M Adjusted EBIT[5]

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

[5] Is calculated as EBIT, adjusted for non-recurring items: provisions on litigations, extraordinary legal expenses and gains realized through the release of prior years provisions.

PROFIT FOR THE YEAR

EUR 37.1M

12.3% on Revenues
EUR 1.85 EPS[6]

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

ADJUSTED FREE CASH FLOW [7]

EUR 31.9M

[7] Adjusted Free Cash Flow is calculated as IFRS cash flow from operating activities plus IFRS cash flow from investing activities and adjusted for certain non-recurring items.

YEAR-END EMPLOYEES TOTAL

1'183

82 new jobs added in 2020

* **Alternative Performance Measures:** This section and other sections of this Annual Report, contain certain financial measures of historical performance that are not defined or specified by IFRS, such as "constant currency", "EBITDA", "Adjusted EBITDA" or "CORE EBITDA", "Adjusted and Normalized EBITDA", "Free Cash Flow", "Adjusted Free Cash Flow", "Adjusted and Normalized Free Cash Flow", "Net Debt" and "Leverage". Reconciliation of these measures as well as "CORE" financial measures is provided in the "Alternative Performance Measures" (APM) section of this Annual Report on page 19. These Alternative Performance Measures (APM) should be regarded as complementary information to, and not as a substitute for the IFRS performance measures. For definitions of APM, together with reconciliations to the most directly reconcilable IFRS line items, please refer section headed "Alternative Performance Measures" of this Annual report.

KEY FINANCIAL FIGURES

(Million Euro)	31.12.2020	31.12.2019
Revenues	302.5	310.6
Gross Profit	214.3	223.7
Profit for the year	37.1	11.9
Alternative Performance Measures:		
EBITDA	86.5	53.3
Adjusted EBITDA*	88.1	91.5
Adjusted EBITDA margin*	29.1%	29.5%
Free Cash Flow	25.4	0.6
Adjusted Free Cash Flow**	31.9	22.3

(Million Euro)		
Total Assets	441.9	412.6
Total Equity	164.7	123.2
Equity Ratio	37.3%	29.9%
Number of employees	1'183	1'101

* Adjusted for provisions on litigations (Euro 0.7 million), extraordinary legal expenses (Euro 3.1 million) and gains realized through the release of prior years provisions (Euro 2.1 million). The reconciliation is provided in the "Alternative Performance Measures" section of the Management Report beginning on page 19.

** Adjusted for extraordinary legal expenses (Euro 3.1 million) and non-recurring investments (Euro 3.4 million). Please see the "Alternative Performance Measures" section of the Management Report for the reconciliation of the "Adjusted Free Cash Flow" beginning on page 19.

SHARE INFORMATION

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

NUMBER OF SHARES

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

2020 DATA PER SHARE

(Swiss Francs)	**31.12.2020**
2020 High (in CHF)	92.40
2020 Low (in CHF)	39.80
Closing price (in CHF)	87.60
Market capitalization (in CHF million)	1'752

RELATIVE SHARE PRICE DEVELOPMENT

Index base 100 calculation
Source: Refinitiv

LETTER TO SHAREHOLDERS

Dr. Alberto Siccardi

Ing. Francesco Siccardi

Dear shareholders,

During an unprecedented year strongly conditioned by the COVID-19 pandemic, we were able to secure our business and employees, to continue serving our customers, advance innovations and prepare for our future growth, while gaining market shares and preserving our margins.

OUR ACHIEVEMENTS

Despite the challenging market conditions, we continued executing our strategy based on innovation, medical education and healthcare sustainability. We continued to develop new products and solutions with the aim of improving patient wellbeing and facilitating the work of medical professionals, healthcare administration and logistics staff. In 2020 over 30 new products across our business lines were cleared (CE or FDA). Among them we would like to mention NextAR, our Augmented Reality-Based Surgical Platform with its first application for Total Knee Replacement. This surgical platform perfectly fits with our strategy to allow significant benefits for healthcare systems thanks to its limited upfront capital investment and reduced cost per case compared with other technologies. NextAR aims to improve surgical accuracy and efficiency via advanced 3D personalized planning tools, unique soft tissue assessment and accurate surgical execution. First surgeries were successfully performed in Australia and in the US, and the number of reference centers supporting future worldwide expansion is increasing. In the Knee business line, of particular note is the launch of our new SensiTiN coating with low metal ion release designed to reduce the exposure of patients to metallic ions. In the Hip product line we completed the renewal of our primary implant offering and expanded our revision product range. We launched two solutions for 3D pre-operative planning and intra-operative verification in primary total hip replacement, MyHip Planner and MyHip Verifier, which can deliver a personalized approach to optimize the surgical experience. In the Spine and Shoulder businesses new implants were launched to complete our portfolio, while in the Sportsmed business we have been working on the expansion of our product portfolio and initial market introduction in selected countries.

Our Marketing and Medical Education Programs continued through the year, including the implementation of tactical changes and new online initiatives designed to maintain existing customers and reach new ones. In 2020 over 2'900 surgeons attended our online and digital education programs and our Medacta TV achieved more than 22'000 visits. The "M.O.R.E. Surgeon to Surgeon" meetings together with classic Learning Centers were redesigned at national and local levels. We continued to invest strategically, resulting in significant salesforce expansion across all geographies and development of additional surgical instruments to serve new customers.

REVENUE TREND BY REGION AND BUSINESS LINE *

In 2020, once again, Medacta outperformed the market with revenue down 2.1% on a constant currency and 2.6% on a reported currency, over the prior year at EUR 302.5 million. Currency development had a negative impact with a headwind of 0.5%, mainly due to the strengthening of the Euro against the US dollar and the Australian dollar, only partially compensated by the Euro weakening against the Swiss Franc.

During the year, the revenue trend was strongly impacted by measures adopted by governments in response to the COVID-19 pandemic. In particular, the deferral of elective procedures had an impact on our sales in the first half of the year. In the following months, backlog recovery and continued acquisition of market share allowed us 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.

Revenues recorded in 2020 had significant differences among product lines and geographies due to different levels of COVID-19 related restrictions and diverse momentum in pre-COVID sales growth. In the core business Medacta reported sales of EUR 153.1 million and EUR 106.2 million in the Hip and Knee lines, respectively. The product lines' growth declined compared to 2019 (Hip -6.1% and Knee

-4.1% at constant currency) because of restrictions and postponement of elective procedures in the first half, partially compensated by an effective backlog recovery between Q2 and Q3. The last few months of the year did see a pandemic resurgence mainly in Europe and North America and a subsequent slowing down of the business. The Extremities product line was able to achieve 46.6% growth rate at constant currency and reported revenue of EUR 14.3 million. The business line grew in all geographies despite the COVID-19 impact, thanks to the strong sales momentum carried over from last year and the expansion of our product portfolio, with an increase in our market share, especially in Europe. The Spine business line reported revenue for EUR 28.9 million, an increase of 14.6% at constant currency driven by newly launched products, salesforce expansion and a gain in market share, particularly in the US. In terms of geographic trend, Europe registered a negative growth of 6.0% at constant currency and reported sales of EUR 129.3 million with a significant recovery in the second half of the year. The North America market reported revenue of EUR 92.7 million, substantially unchanged at constant currency compared with the previous year (-1.0%). APAC delivered a positive performance of 9.2% at constant currency and reported EUR 72.0 million, given to a limited pandemic impact in Japan and Australia we were able to execute our strategy of growth, expanding our salesforce and gaining new customers. RoW recorded negative growth of 29.2% at constant currency and reported EUR 8.5 million due to stocking distributors reducing purchases in response to the COVID-19 pandemic.

GROSS PROFIT PERFORMANCE *

The adjusted Gross Profit was EUR 214.3 million compared to EUR 226.9 million in the previous year. The Gross Profit margin was equal to 70.8% compared to 73.0% in 2019. The change was primarily due to incremental depreciation of new instruments to sustain future growth in a year with declining sales, expected price reductions in certain countries and negative currency impact.

STRONG ADJUSTED EBITDA OF 29.1% *

The adjusted EBITDA amounted to EUR 88.1 million (EUR 91.5 million in 2019), corresponding to a margin of 29.1% compared to 29.5% in 2019. Management's cost containment initiatives, along with the savings in sales and marketing due to COVID-19 restrictions, allowed the Group to maintain the profitability largely in line with the prior period. Fixed costs savings derived primarily from reduced travel and participation in congresses, as well as voluntary pay cuts decided by Management contributed to preserving the Group's profitability.

SOLID BALANCE SHEET

Medacta's balance sheet remains robust, with total assets increasing to EUR 441.9 million and an equity ratio of 37.3% at the end of the reporting period (29.9% in 2019). The Adjusted Free Cash Flow generated in 2020 amounted to EUR 31.9 million after significant investments in new instruments and research and development to sustain the future growth of Medacta. During 2020, in a prudent effort to strengthen our balance sheet and continue to invest in our Group's future growth, and in light of uncertainty due to the pandemic, our Board of Directors decided not to propose to the Annual General Meeting any distribution of the dividend for the 2020 financial year.

STOCK PRICE GROWTH

The Medacta stock price experienced impressive growth in 2020, equal to 21% compared with 4% of the SPI Swiss Performance Index.

OUTLOOK

We will continue to monitor the evolution of the COVID-19 pandemic and impact on our reference market, while remaining committed to our future growth. Despite uncertainty remaining in some geographies, we believe Medacta is well positioned to deliver growth as a result of our global geographic presence and product mix, continued innovation with several new product introduction, hiring plans for expansion in all geographies with a focus on the US market. We are targeting 2021 revenue in the range of Euro 333 million to Euro 348 million at constant currency and adjusted EBITDA margin to be largely in line with the previous year, subject to any unforeseen events, specifically from Covid-19 pandemic.

THANKS

We would like to thank all of our employees that in these unprecedented times have shown and are continuing to show a high level of commitment and dedication to manage the crises generated by the pandemic and to execute our business strategy.

Sincerely,

Dr. Alberto Siccardi
Chairman of the Board of Directors

Ing. Francesco Siccardi
Chief Executive Officer

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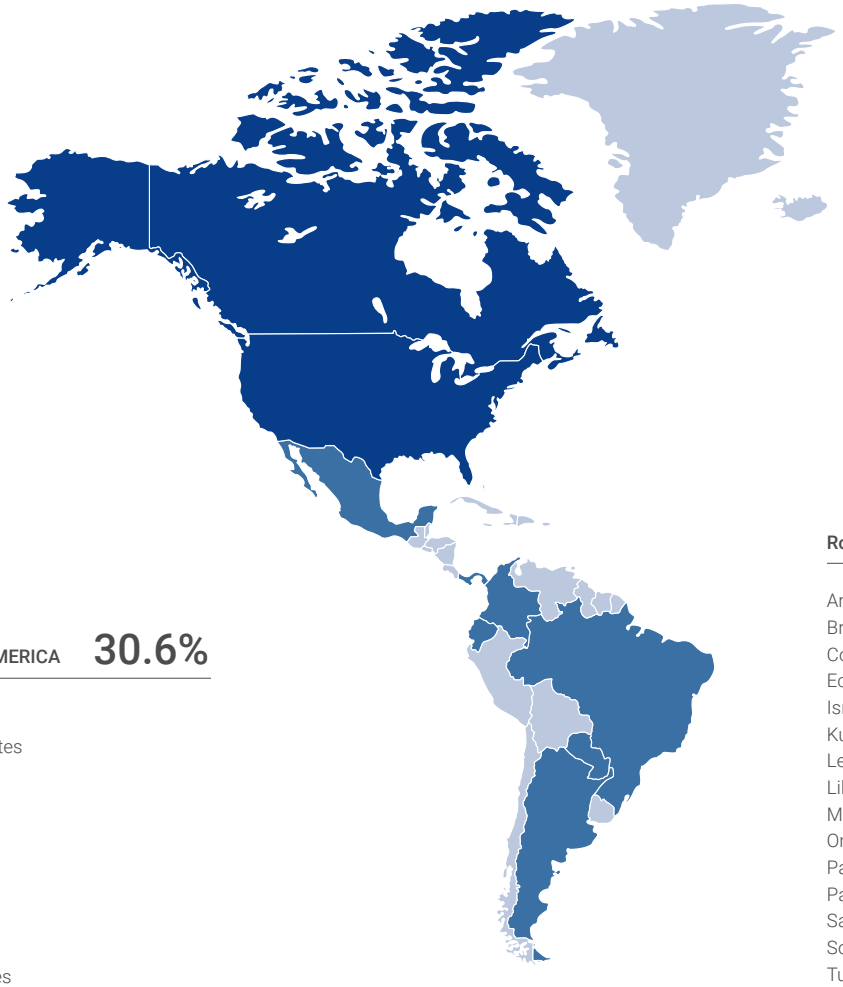
1. MANAGEMENT COMMENTARY*

CORPORATE INTRODUCTION

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

Today, our primary focus is on our high-volume Hip and Knee business lines (which generated 50.6% and 35.1%, respectively, of our reported revenue in 2020), complemented by our offerings in Shoulder, Spine and Sports Medicine ("Sportsmed") business lines. Our products and surgical techniques are supported by an extensive program of surgeon education and engagement initiatives, enabling our offerings to be used to the best advantage of both the patient and surgeon. All our products and surgical procedures are designed to improve patient well-being, facilitate the work of our surgeons and increase the sustainability of the healthcare system by improving efficiency while reducing healthcare costs. Our success to date is evidenced by our financial profile, with a constant currency revenue CAGR of 9.1% between 2016 and 2020 leading to revenue of EUR 302.5 million, an Adjusted EBIT margin of 16.9% and an Adjusted EBITDA margin of 29.1% for the year ending December 31, 2020, despite the impact of the COVID-19 pandemic.



NORTH AMERICA **30.6%**

Canada
United States

RoW **2.9%**

Argentina
Brazil
Colombia
Ecuador
Israel
Kuwait
Lebanon
Libya
Mexico
Oman
Panama
Paraguay
Saudi Arabia
South Africa
Tunisia
UAE

Branches
Distributors

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Our products and surgical techniques are characterized by innovation. We are a pioneer in developing new offerings on the basis of our minimally invasive surgical techniques, in particular our Anterior Minimally Invasive Surgery ("AMIS") technique for hip replacements, which involves an anterior approach to the hip and has been carried out in over 430'000 cases worldwide since 2004.

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

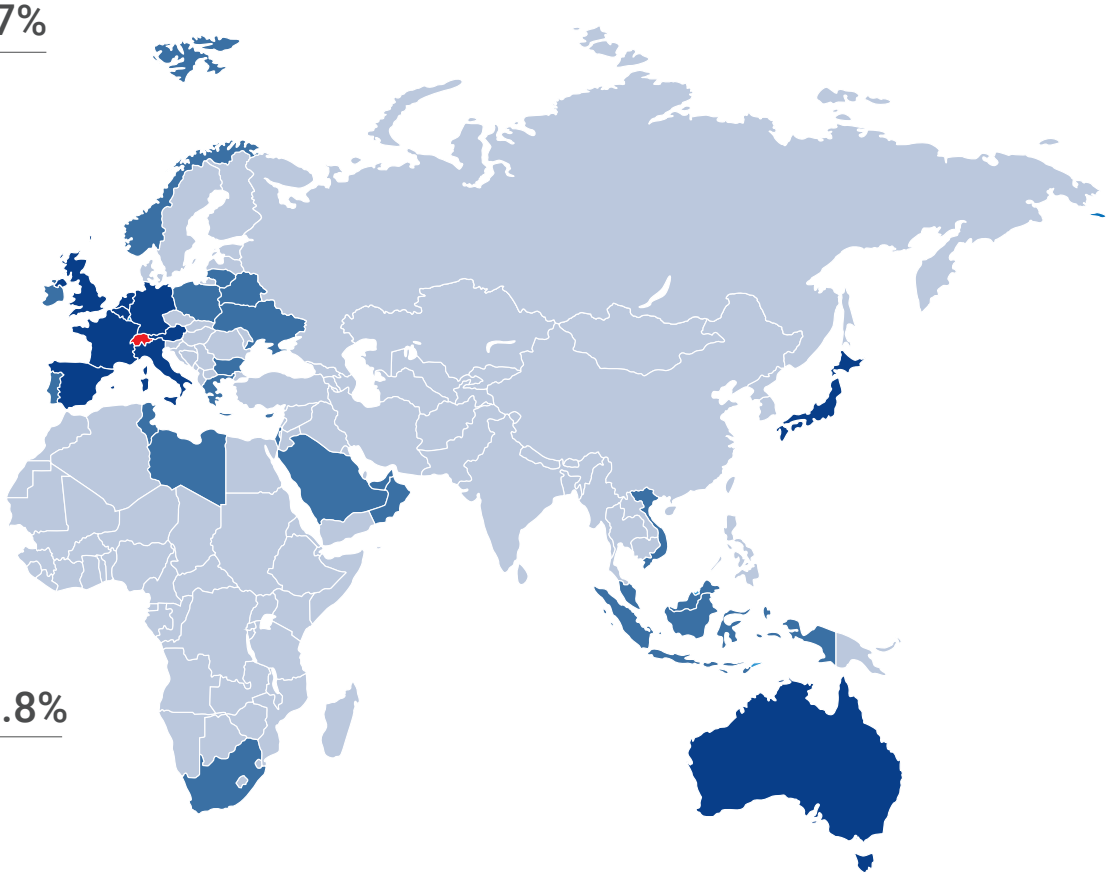
Our headquarters and well-invested and high-quality manufacturing facilities are in Castel San Pietro, Switzerland and Rancate, Switzerland, where we have approximately 620 employees in the aggregate as of December 31, 2020. Our sales organization is spread over 12 branches and we serve through Stocking Distributors 32 additional countries, with an international sales reach that extends to the attractive markets of Europe, North America and Asia Pacific, where we generated 42.7%, 30.6% and 23.8% of our revenue, respectively, for the year ending December 31, 2020. Our experienced salesforce are instrumental in achieving international acceptance and adoption of our products and techniques.

EUROPE **42.7%**

Austria
Belgium
Bulgaria
Cyprus
France
Germany
Greece
Ireland
Italy
Lithuania
Macedonia
Netherlands
Norway
Poland
Portugal
Slovenia
Spain
Switzerland
Ukraine
United Kingdom

ASIA PACIFIC **23.8%**

Australia
Indonesia
Japan
Malaysia
New Zealand
Taiwan
Vietnam



BUSINESS PERFORMANCE

EXECUTIVE OVERVIEW

Our 2020 performance was impacted by the COVID-19 pandemic, nevertheless, the Group was able to gain market share and protect its profitability. 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 had, in the first semester, a significant negative impact on Medacta's operations and financial results. As COVID-19 rapidly started to spread throughout the world in early 2020, our net sales decreased dramatically as countries took precautions to prevent the spread of the virus. This resulted in net sales decline 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 new customers allowed Medacta to largely compensate the first half sales decrease, although this recovery 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, Management has taken prudent discretionary initiatives in cost containment, deriving primarily from a hiring freeze in the first semester, voluntary pay cuts and postponement of the implementation of the LTIP. In addition, the savings generated by the COVID-19 restrictions in travels, congresses and events along with government subsidies, 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). Also, the 2020 Swiss tax reform had a significant benefit to our Group average tax rate that decreased to 12.5% (20.6% in 2019).

Overall, Medacta weathered the storm and carried on significant investments in innovation (with over 30 products registered in 2020), surgical instruments, and new educational programs to sustain our momentum and long-term value creation strategy.

SALES VOLUME, PRICING AND GEOGRAPHICAL MIX

Our revenue decreased by EUR 8.1 million, or 2.6%, from EUR 310.6 million in 2019 to EUR 302.5 million in 2020 on a reported currency basis (2.1% on a constant currency basis) as a result of the global response to the COVID-19 pandemic. We recognized significant differences among geographies due to different levels of restrictions applied during the year and product lines due to diverse momentum in pre-COVID sales growth. Pricing pressure from governmental healthcare systems and local hospitals had a negative effect on our global selling price, only partially offset by geographic and product mix sales. The combination of these effects on Revenues is approximately 1.1%. In addition, our revenue growth was partially affected by an exchange rate headwind equal to 0.5%. Specifically, during 2020 the EUR strengthened against USD and AUD (i.e. among our largest currency exposures) negatively impacting revenue translated into EUR from our operations in those countries and only partially compensated by the EUR weakening against CHF.

We analyze sales by four geographies, Europe, North America, Asia Pacific and RoW and by the following product categories: Hip; Knee; Spine and Extremities. The development of our revenue by business line is summarized in the table below:

(Million Euro)	31.12.2020	% of total	31.12.2019	% of total	Reported Growth	Constant Currency Growth
Hip	153.1	50.6%	163.9	52.8%	-6.6%	-6.1%
Knee	106.2	35.1%	111.7	35.9%	-4.9%	-4.1%
Spine	28.9	9.6%	25.3	8.1%	14.4%	14.6%
Extremities*	14.3	4.7%	9.7	3.1%	46.5%	46.6%
TOTAL REVENUES	**302.5**		**310.6**		**-2.6%**	**-2.1%**

* Extremities include Shoulder and Sports Med revenues

Revenue from our hip products decreased by EUR 10.8 million, or 6.6%, from EUR 163.9 million in 2019 to EUR 153.1 million in 2020 on a reported currency basis (6.1% on a constant currency basis). Revenue from our knee offerings decreased by EUR 5.5 million, or 4.9%, from EUR 111.7 million in 2019 to EUR 106.2 million in 2020 on a reported currency basis (4.1% on a constant currency basis). The revenue decline of our core product offerings was mainly driven by the already mentioned COVID-19 related restrictions and the postponement of elective procedures particularly in the first half of the year. This

significant reduction of volumes was only partially compensated by an effective backlog recovery, sustained by both increased demand and new customers acquired. The last few months of the year did experience a pandemic resurgence mainly in Europe and North America which slowed down the speed of backlog recovery.

Revenue from our Spine offerings increased by EUR 3.6 million, or 14.4%, from EUR 25.3 million in 2019 to EUR 28.9 million in 2020 on a reported currency basis (14.6% on a constant currency basis). Group full year Spine performance results are primarily driven by newly launched products, salesforce expansion and a carry forward sales momentum pre COVID-19.

Our Extremities business line, made by Shoulder and Sportsmed, reported an increase in revenue by EUR 4.6 million, or 46.5%, from EUR 9.7 million in 2019 to EUR 14.3 million in 2020 on a reported currency basis (46.6% on a constant currency basis). Despite COVID-19 impact, extremities product offerings grew in all geographies, thanks to the strong momentum carried over by new business and expansion of product range, with an increase of our market share, especially in Europe.

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

(Million Euro)	31.12.2020	% of total	31.12.2019	% of total	Reported Growth	Constant Currency Growth
Europe	129.3	42.7%	136.1	43.8%	-5.0%	-6.0%
North America	92.7	30.6%	95.5	30.7%	-2.9%	-1.0%
Asia Pacific	72.0	23.8%	66.9	21.5%	7.6%	9.2%
RoW	8.5	2.9%	12.1	3.9%	-29.6%	-29.2%
TOTAL REVENUES	**302.5**		**310.6**		**-2.6%**	**-2.1%**

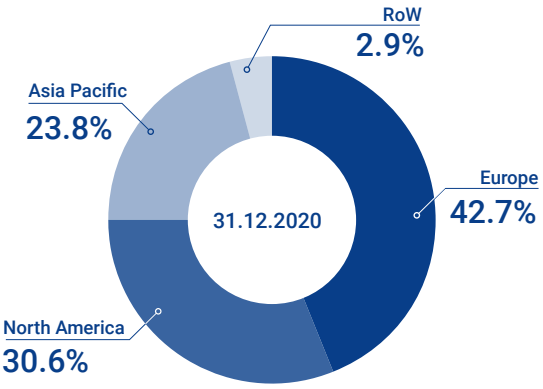
Revenue in Europe decreased by EUR 6.8 million, or 5.0%, from EUR 136.1 million in 2019 to EUR 129.3 million in 2020 on a reported currency basis (negative 6.0% on a constant currency basis). Our revenue decline was primarily driven by France, Italy and Belgium while the 'DACH' (Germany, Austria and Switzerland) area recorded the smallest impact with Germany growing over the prior year. In Europe the second semester backlog recovery was limited by the COVID-19 second wave starting at the end of October. However, second semester sales rose by 6.3% in constant currency over prior period, and partially compensated the negative 17.3% growth recognized in the first semester 2020. As a percentage of our total revenue, revenue generated in Europe was lower than the prior year at 42.7% in 2020 (compared to 43.8% in 2019).

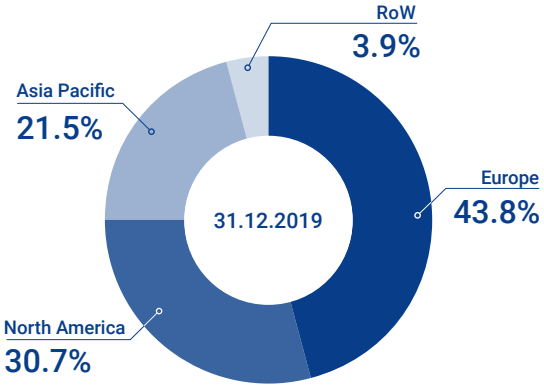
Revenue in North America decreased by EUR 2.8 million, or 2.9%, from EUR 95.5 million in 2019 to EUR 92.7 million in 2020 on a reported currency basis (negative 1.0% on a constant currency basis). The revenue generated in U.S., decreased by only EUR 2.5 million, or 2.6%, from EUR 94.7 million in 2019 to EUR 92.2 million in 2020 on a reported currency basis (negative 0.7% on a constant currency basis). North America's performance was substantially in line with the previous year. In line with our strategy, we reported an increased level of activities in Ambulatory Surgery Centers (ASCs). However, our reported revenue in North America was affected by a negative headwind from the exchange rate. Specifically, during the course of 2020, the EUR strengthened against the USD by an average of 2% (compared to the average 2019 exchange rate), negatively impacting revenue translated into EUR. As a percentage of our total revenue, North America remained largely stable at 30.6% (compared to 30.7% in 2019).

Revenue in Asia Pacific increased by EUR 5.1 million, or 7.6%, from EUR 66.9 million in 2019 to EUR 72.0 million in 2020 on a reported currency basis (positive 9.2% on a constant currency basis). The increase was largely driven by the result of the Japanese market, where revenue increased by EUR 3.5 million, or 14.3% (14.2% on a constant currency basis), thanks to both limited COVID-19 pandemic impact and the acquisition of new customers through the expansion of our salesforce. The Australian market contributed to this performance with an increase of EUR 0.7 million, or 1.8% (4.8% on a constant currency basis). In the course of 2020, the EUR strengthened against the AUD by an average of 2.8% (compared to the average 2019 exchange rate), negatively impacting revenue translated into EUR from our Australian operations. As a percentage of our total revenue, Asia Pacific increased to 23.8% in 2020 (compared to 21.5% in 2019).

Revenue in RoW area decreased by EUR 3.6 million, or 29.6%, from EUR 12.1 million in 2019 to EUR 8.5 million in 2020 on a reported currency basis (negative 29.2% on a constant currency basis). The significant reduction in volumes is primarily due to stocking distributors reducing purchases in response to the COVID-19 pandemic. As a percentage of our total revenue, revenue from RoW reduced to 2.9% in 2020 (compared to 3.9% in 2019).

The graphics below provide an overview of our revenue by geography for the year December 31, 2020 and 2019.

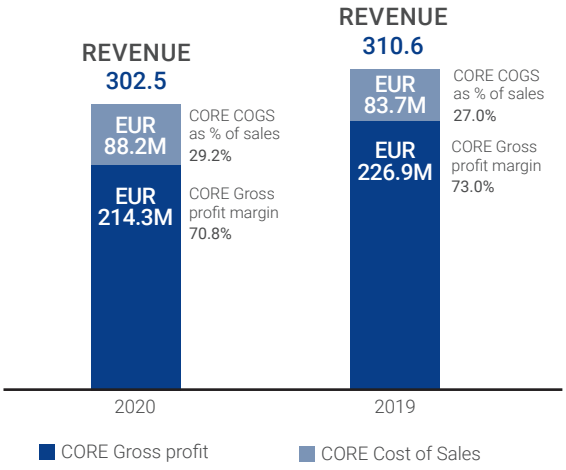




CORE COST OF SALES AND GROSS PROFIT

Overall, our CORE gross profit as a percentage of revenue decreased from 73.0% in 2019 to 70.8% in 2020. The COVID-19 pandemic had a 1.4% effect on our gross profit mainly due to a negative impact from depreciation and amortization that increased at a higher pace than revenue, an increase in obsolete inventory charges and an increase in direct manpower. Also, the gross profit was affected by a negative currency development for 0.5% and by the aforementioned declining price trends.

Our CORE cost of sales increased by EUR 4.5 million, or 5.4%, from EUR (83.7) million in 2019, normalized for the impact of the one-time Fidelity Bonus, to EUR (88.2) million in 2020.



CORE EBIT PERFORMANCE*

(Thousand Euro)	31.12.2020	31.12.2019	Delta	Delta %
CORE Research and Development expenses	(6'829)	(6'495)	(334)	5.1%
CORE Sales and Marketing expenses	(110'069)	(120'901)	10'832	-9.0%
CORE General and Administrative expenses	(45'212)	(41'761)	(3'451)	8.3%
CORE Other income	1'181	1'196	(15)	-1.2%
CORE Other expenses	(2'252)	(1'124)	(1'128)	100.3%
CORE OPERATING EXPENSES (OPEX)	**(163'181)**	**(169'085)**	**5'904**	**-3.5%**
CORE OPERATING PROFIT (EBIT)	**51'075**	**57'811**	**(6'736)**	**-11.7%**

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

CORE Research and development expenses

Expensed research and development costs are mainly related to base research, depreciation and amortization expenses (including impairments), business expenses and other non-capitalized expenses. During 2020, we continued investing in research and development, and in particular in certain long-term research initiatives, to support our strategy of broadening our product portfolio. Our CORE research and development costs that were expensed increased by EUR 0.3 million, or 5.1%, from EUR (6.5) million in 2019 to EUR (6.8) million in 2020.

In 2020, depreciation and impairment increased by EUR 0.3 million, following primarily the completion of certain key projects, that were fully developed between the end of 2019 and the beginning of 2020.

CORE Sales and marketing expenses

Our CORE sales and marketing expenses decreased by EUR 10.8 million, or 9.0%, from EUR (120.9) million in 2019 to EUR (110.1) million in 2020. CORE Sales and marketing expenses as a percentage of total revenue decreased to 36.4% in 2020 from 38.9% in 2019.

This difference is attributable to the material decrease in congresses, travel, education and marketing expenses by 3.7% weight on sales, given restrictions to face the COVID-19 pandemic. The salesforce expansion in all geographic areas, and in particular in North America and Japan increased 2020 wages and salary by 1.9%.

CORE General and administrative expenses

Our CORE general and administrative expenses increased by EUR 3.5 million, or 8.3%, from EUR (41.8) million in 2019 to EUR (45.2) million in 2020. CORE general and administrative expenses as a percentage of total revenue increased to 14.9% in 2020 from 13.4% in 2019. This increase is related to approximately 1% of the incremental cost for clinical studies and advising fees for auditing activities, tax, legal, IT and investor relations. In addition, we had an increase in other costs of 0.5% due to the combined impact of COVID-19 consumable investments made to supply offices and manufacturing plants with masks, gloves, sanitizers and other equipment and increase in depreciation of Right of Use assets.

CORE Other income and expenses

Our CORE other income equal to EUR 1.2 million, is in line with prior period. Our other expenses increased by EUR 1.1 million, from EUR (1.1) million in 2019 to EUR (2.3) million in 2020 largely as a result of write-offs and loss on sale of tangible assets.

FINANCIAL INCOME AND COSTS

Our financial income increased by EUR 2.9 million, or 140.7%, from EUR 2.1 million in 2019 to EUR 5.0 million in 2020, mainly due to gains on exchange rates realized on the translation of our foreign currency loans and on exchange gains on derivatives.

Our financial costs increased by EUR 6.4 million, or 80.0%, from EUR (8.0) million in 2019 to EUR (14.5) million in 2020 as a result of increased foreign exchange losses for EUR 7.0 million primarily related to the weakening of the USD. From the exchange losses recognized in 2020, approximately EUR 4.4 million out of the EUR 7.0 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.

INCOME TAXES

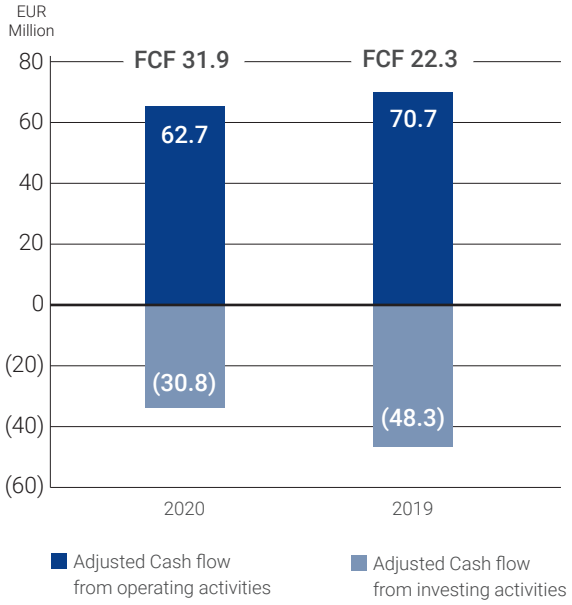
The reduction in the Group effective tax rate, from 13.0% in 2019 to 7.1% in 2020, led to total reported taxes of EUR 2.8 million, increased by EUR 1.1 million from EUR 1.8 million in the previous year. The difference in the effective tax rate is primarily attributable to the Swiss tax reform enacted at the beginning of 2020. The reform reduced the 2020 Medacta International nominal tax rate to 17.3% (18.6% in 2019) and provided the possibility to obtain a tax deduction for qualifying profits arising from patent rights that further lowered our nominal tax rate to 12.5%.

ADJUSTED FREE CASH FLOW

The Adjusted Free Cash Flow increased from EUR 22.3 million in 2019 to EUR 31.9 million in 2020 as a result of the combined effects of reduction in CORE Operating Profit and decrease of investments in surgical instruments mainly due to postponement of revenue growth.

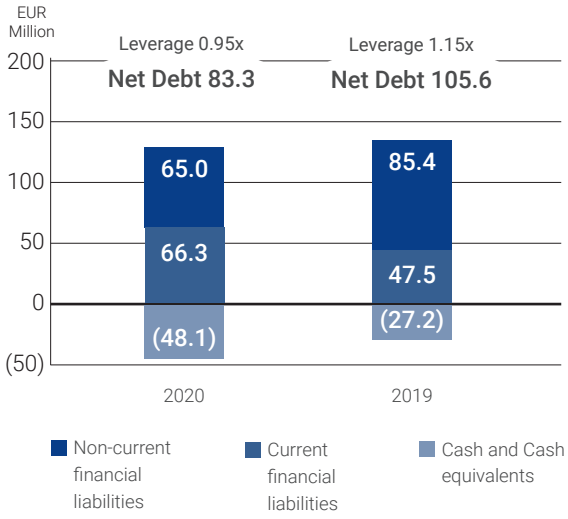
Adjusted for abnormals, 2020 cash flow from operating activities was equal to around EUR 62.7 million, compared to EUR 70.7 million as of December 31, 2019. The adjusted cash flow from operating activities of EUR 62.7 million is composed of the reported cash flow from operating activities equal to EUR 59.6 million, adjusted by non-recurring legal costs for EUR 3.1 million. The decrease from prior year is primarily driven by the reduction in CORE operating profit.

Reported cash flow from investing activities as of December 31, 2020 amounted to EUR 34.2 million mainly reflects net investments in instruments, for EUR 18.4 million and in the development of new implants and surgical instruments, for EUR 8.1 million to sustain the growth of the Group. In 2020 cash flow from investing activities has been adjusted for the investments made to create new offices in our Rancate site for approximately EUR 3.4 million, decreasing the cash flow from investing activities to EUR 30.8 million. The previous year adjusted cash flow from investing activities equal to EUR 48.3 million was adjusted by the cash consideration received for the sale of non-strategic assets for approximately EUR 6.3 million.



CAPITAL STRUCTURE

Group Net Debt in 2020 was equal to EUR 83.3 million, compared to EUR 105.6 million as of December 31, 2019. This reduction is also reflected in our leverage ratio that decreased from 1.15 in 2019 to 0.95 in 2020. The improvement in our capital structure is primarily due to the additional EUR 24.8 million reported Free Cash Flow generated during the year.



1.1 ALTERNATIVE PERFORMANCE MEASURES

The financial information provided in the selected sections of the 2020 Annual Report, including "Highlights Year 2020", "Letter to Shareholders", "Management Commentary" and elsewhere in this document, include certain Alternative Performance Measures (APMs) which are not accounting measures defined by IFRS. The Group believes that investor understanding of Medacta's performance is enhanced by disclosing core measures of performance (i.e. CORE or Adjusted), since they exclude items which can vary significantly from year to year. Therefore, the CORE results exclude effects related, for example, to extraordinary legal expenses, release of prior-year provisions, one-time tax duty and other one-time items that may vary significantly over periods.

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

CORE RESULTS

The following tables provide the reconciliation of the CORE results with the Consolidated Financial Statements as of December 31, 2020 and 2019. In addition to the CORE ratios we did not identified any normalization for the December 31, 2020 results. Management assessed that due to the pervasive nature of COVID-19, it would not be appropriate to include new APMs as it might not provide reliable or useful information to the market.

2020 CORE RESULTS RECONCILIATION

(Thousand Euro)	IFRS	Provision on Litigation[1]	Legal costs[2]	Release of tax Provision[3]	CORE[4]
Revenues	302'492	-	-	-	302'492
Cost of Sales	(88'236)	-	-	-	(88'236)
GROSS PROFIT	**214'256**				**214'256**
Research and Development expenses	(6'829)	-	-	-	(6'829)
Sales and Marketing expenses	(110'069)	-	-	-	(110'069)
General and Administrative expenses	(47'472)	(840)	3'100	-	(45'212)
Other income	1'809	-	-	(628)	1'181
Other expenses	(2'252)	-	-	-	(2'252)
OPERATING PROFIT (EBIT)	**49'443**	**(840)**	**3'100**	**(628)**	**51'075**
OPERATING PROFIT (EBIT)	**49'443**	**(840)**	**3'100**	**(628)**	**51'075**
Depreciation and Amortisation	37'016				37'016
EBITDA	**86'459**	**(840)**	**3'100**	**(628)**	**88'091**
EBITDA MARGIN	**28.6%**				**29.1%**

[1] Combined effect due to the income recognized for the partial release of the provision on litigation accrued for Microport in 2019 and the accrual made on the patents litigation. Refer to note 6.24 "Litigations".

[2] Legal costs incurred in 2020 on litigations, refer to Note 6.24 "Litigations".

[3] Income related to the release of the Provision for the Canton tax accrued on parking, refer to Note 6.23 "Information on the Consolidated Statement of Profit or Loss", paragraph Other income/(expenses).

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

2019 CORE RESULTS RECONCILIATION

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

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

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

[2] Stamp duty cost, refer to 2019 Annual Report, note 6.24 "Information on the Consolidated Statement of Profit or Loss", paragraph "Other income / (expenses)" of the Notes to the Consolidated Financial Statements.

[3] Fidelity Bonus to Medacta's employees, refer to 2019 Annual Report, Note 6.24 "Information on the Consolidated Statement of Profit or Loss".

[4] Provisions on litigation, refer to 2019 Annual Report, Note 6.25 "Litigations", paragraph "Microport Matter".

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

[6] Gain from the sale of a non-strategic portion of the building in Castel San Pietro. Refer to 2019 Annual Report, Note 6.24 "Information on the Consolidated Statement of Profit or Loss".

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

ADJUSTED FREE CASH FLOW RECONCILIATION

(Thousand Euro)	31.12.2020	31.12.2019
CASH FLOW FROM OPERATING ACTIVITIES (IFRS BASIS IN ACCORDANCE WITH IAS 7)	**59'592**	**42'635**
Adjustments for:		
IPO Costs	-	2'775
Stamp Duty	-	5'884
Fidelity Bonus	-	15'279
Legal costs	3'100	4'080
ADJUSTED CASH FLOW FROM OPERATING ACTIVITIES	**62'692**	**70'653**

CASH FLOW FROM INVESTING ACTIVITIES (IFRS BASIS IN ACCORDANCE WITH IAS 7)	**(34'193)**	**(42'041)**
Normalized for:		
Rancate investments[1]	3'410	-
Sale of non-strategic asset	-	(6'302)
ADJUSTED CASH FLOW FROM INVESTING ACTIVITIES	**(30'783)**	**(48'343)**
ADJUSTED FREE CASH FLOW	**31'909**	**22'310**

[1] In 2020, Medacta invested Euro 3'410 thousand in creating new offices in our Rancate site. The investment is expected to be completed in the course of 2021.

KPI DEFINITIONS

CORE

In accordance with the directives of the Swiss Stock Exchange, the Group adopted the reporting of Alternative Performance Measures (APM), which facilitates the assessment of the underlying business performance but may differ from IFRS reported figures. The 'CORE' (i.e. adjusted) figures used in this document exclude extraordinary legal expenses, legal provisions, release of prior-year provisions, one-time tax duty and other one-time items that may vary significantly over periods. A reconciliation table of the reported and CORE ratios with additional descriptions is provided on paragraph 1.1 "Alternative Performance Measures" of this report.

EBITDA

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

ADJUSTED EBITDA (I.E., CORE EBITDA)

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

CONSTANT CURRENCY

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

OPEX

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

EQUITY RATIO

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

NET TRADE WORKING CAPITAL

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

FREE CASH FLOW

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

NET DEBT

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

LEVERAGE

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

2. MEDACTA GROUP IN BRIEF

Medacta was established in 1999 by Alberto Siccardi, our founder, chairman and former CEO, whose own journey as a patient convinced him of the importance of pioneering a new approach to joint replacement. In 2000, we established our headquarters, manufacturing facility and research and development site at Castel San Pietro, Switzerland. During the early years, we primarily sold total knee and total hip replacement implants in selected European markets. The first hip replacement procedure using our innovative AMIS technique was carried out in 2004, and it has since been performed in over 430'000 cases. In 2004 we created the M.O.R.E. Institute with the purpose of educating and engaging with our customer surgeons, initially with a focus on how to optimally employ the AMIS technique. Following the initial success of our Hip business line, the first knee replacement using our GMK Primary System was performed in 2006. Subsequently, we expanded our efforts to the development of personalized patient solutions, and the first knee surgery using our patient-specific MySolutions technology took place in 2009. Few years later, we launched our GMK Sphere, a total knee implant designed to deliver maximum functional stability, which has since been implanted in approximately 100'000 cases.

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

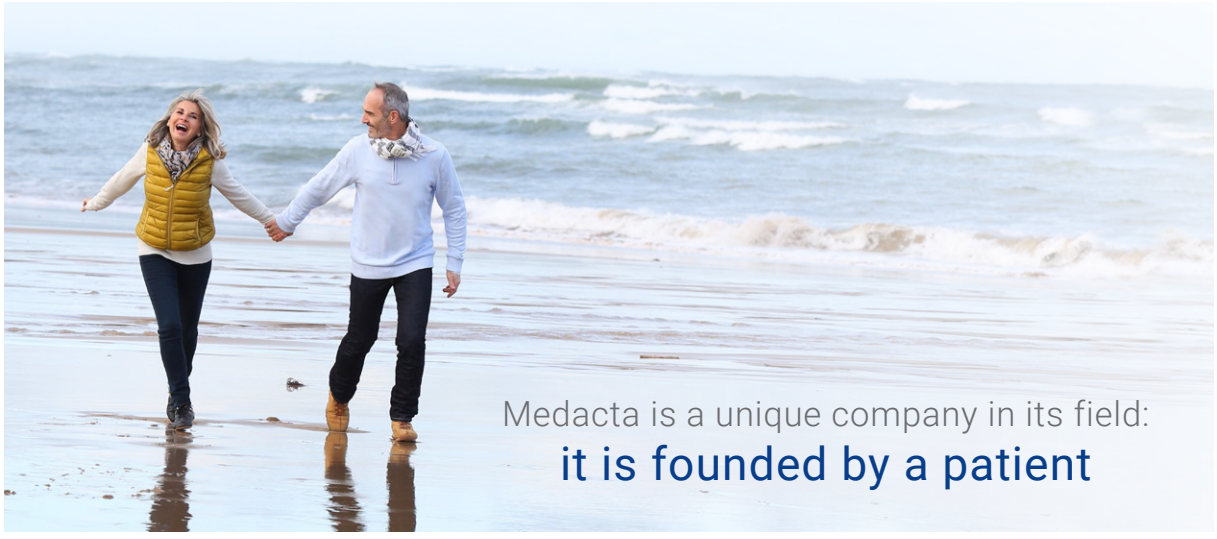
In April 2019, the year of our 20th anniversary, we became a publicly listed company, officially entering the SIX Swiss Exchange. The 9th M.O.R.E. International Symposium that we held in Lugano, Switzerland, was the perfect occasion to celebrate these milestones.

2.1 VISION

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

2.2 MISSION

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



COVID-19: A TIMELY AND EFFECTIVE RESPONSE

In 2020 Medacta was able to navigate the COVID-19 crisis, providing the best possible service for healthcare professionals and patients, continuing innovating, protecting jobs, launching new key products and redesigning our marketing and medical education programs.

The health and safety of our employees, customers and patients have always been our number one priority and throughout 2020 we worked very hard to assess and mitigate any risks, taking all the actions needed to limit the impact of the pandemic. We have adopted remote working in the Headquarters and in most branches, and we have respected all Government guidance and more, including social distancing, use of hand sanitizer, daily temperature measurement and masks, amongst others. As a MedTech company compliant with Government requirements, and thanks to the swift countermeasures taken by Management, our facilities in Ticino, Switzerland, have always remained operational.

"During a year strongly conditioned by the COVID-19 pandemic in all geographies, Medacta managed to restart growing in 2H20 recovering almost completely the 1H20 negative growth," said Francesco Siccardi, CEO of Medacta. *"I am very satisfied with how we were able to protect our business and employees while continuing to serve our customers, advance innovations and prepare for our future growth, hoping to quickly overcome the pandemic."*

3. ASSETS TO COMPETE

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

3.1 INNOVATION

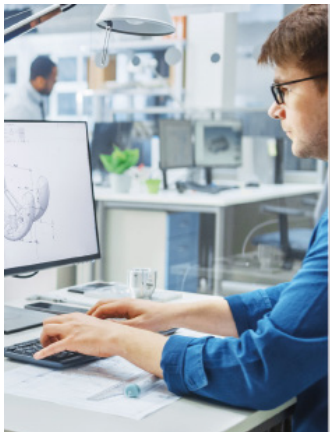
Innovation is of paramount importance at Medacta and is expressed in the originality of our surgical techniques, products and technologies. Innovation is the foundation of all our projects and the basis of our growth strategy. Our innovation began with minimally invasive techniques and has evolved into personalized solutions for every patient. We firmly believe in a responsible innovation, which is guaranteed by our M.O.R.E. Excellence Clinical Program, enabling us to responsibly introduce innovative products into the market.

PILLARS

For us, innovation is based on three pillars: a strong and continued collaboration with surgeons, continuous investments in long-term and short-term research and development (R&D) and the adoption of cutting-edge technologies.

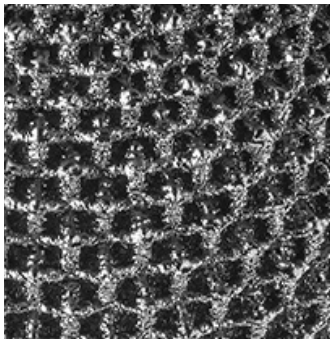
STRONG AND CONTINUED COLLABORATION WITH SURGEONS

Listening to surgeons, identifying patient requirements, and designing new solutions enables us to proactively respond to unmet clinical needs. We collaborate on a regular basis with internationally recognized surgeons, leading universities and hospital research institutions on innovative surgical techniques and the evolution of our products and methodologies. A successful example of this collaboration is our GMK Sphere, a total knee implant designed to deliver maximum functional stability with the goal of increasing TKA patient satisfaction during activities of daily living and decreasing post-operative knee pain. The development of this innovative device has been possible thanks to the knee anatomy and kinematics studies by Prof. Freeman and Prof. Pinskerova.



RESEARCH AND DEVELOPMENT

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



CUTTING-EDGE TECHNOLOGIES

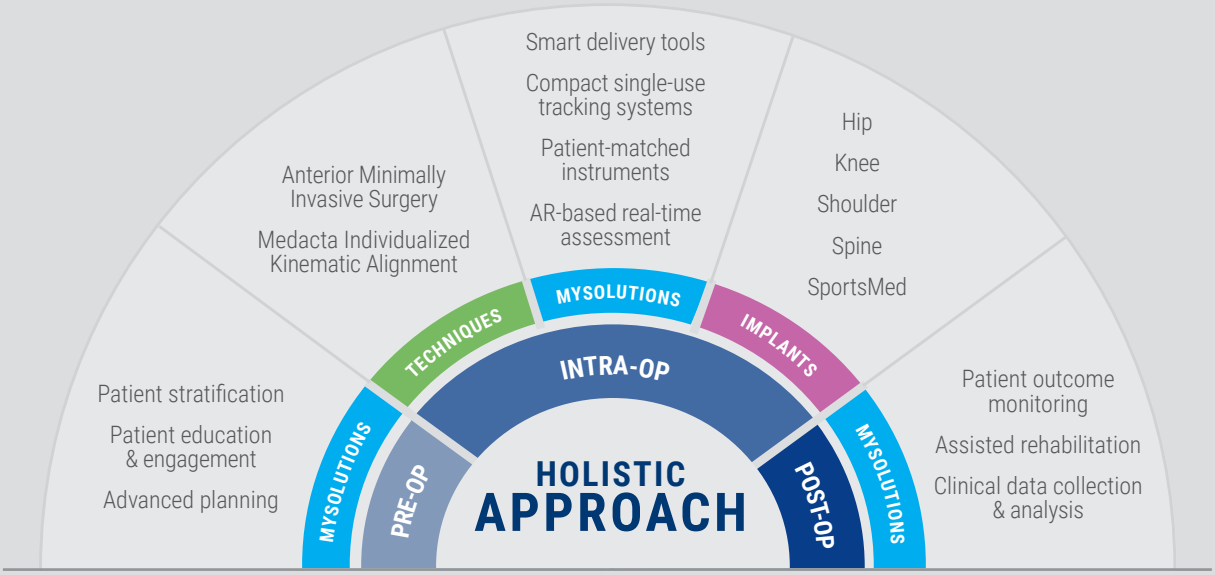
The development of our product pipeline is further supported by our research into and development of big data, cutting-edge manufacturing, smart robotics, navigation and surface technology, which together are characterizing our new generation of product offerings. We have developed a three-dimensional advanced structure, 3D Metal, for use in our knee, hip and shoulder implants. Our 3D Metal portfolio is based on 3D printing technology of the proven Titanium 6Al4V alloy, which enables direct structural connection with the bone. The architecture of the outer surfaces consists of interconnecting pores and resembles cancellous bone. We are also further developing our manufacturing capabilities through the use of 3D printing, which facilitates implant fixation and increases production speed and efficiency at lower costs.

HOLISTIC APPROACH TO PERSONALIZED MEDICINE

Our approach to personalized medicine is a holistic approach, which aims at bringing value at every step throughout the entire patient journey: pre-operative, intra-operative and post-operative.

Our personalized medicine offering is represented by our MySolutions ecosystem. Together with our comprehensive implant portfolio and surgical techniques, MySolutions empowers our holistic approach to personalized medicine.

For the pre-operative phase, we offer several tools for patient stratification, education and engagement, as well as advanced planning and analysis. In the intra-operative phase, we can provide great added value with innovative techniques, clinically proven implants and cutting-edge technologies, such as compact single-use tracking systems, patient-matched guides and AR-based real-time assessment. Finally, in the post-operative phase we collect clinical feedback, and effectively monitor the post- operative course.



PATIENT OPTIMIZED PATHWAY(POP)

POP is a holistic solution aimed at delivering an improved and effective quality of care to our patients through optimized surgical techniques, advanced implants and instruments, and a tailored educational pathway.

PATIENT OPTIMIZED PATHWAY®

It also includes a digital healthcare solution to support healthcare professionals in the delivery of patient education, information, preparation, rehabilitation, follow-up and monitoring – before and after surgery. This solution is a great tool to communicate with the patient in a simple and personalized way. Through this application, patients are followed in their post-operative course and can communicate with healthcare professionals providing information about their health status in a coded and scientifically measurable way. They also have the opportunity to watch educational videos, which can answer their questions and respond to their concerns regarding their course progression. All these aspects contribute to improving the patient's overall health status and their personal impression of the therapeutic experience as a whole.

MINIMALLY INVASIVE TECHNIQUES

Since our founding, we have recognized that minimally invasive surgery offers a range of benefits for patients, surgeons and healthcare systems, including short hospitalization, reduced post-operative pain, immediate post-operative muscle tone preservation, reduced risk of dislocation and short rehabilitation time. Hence, we have developed new offerings on the basis of minimally invasive techniques. For example, we have introduced the AMIS technique for hip replacements, which – together with our range of targeted AMIS education initiatives, dedicated implants and instruments, and complementary services and tools – offers a holistic approach to hip procedures and improved patient outcomes. With over 430'000 procedures performed worldwide since its introduction in 2004, AMIS represents an easily reproducible technique that delivers significant benefits to patient well-being, while optimizing costs and efficiency for the surgeon. We also offer MIS MySpine MC, which is a patient-specific 3D printed solution for surgeries that use the midline cortical approach. It allows for posterior lumbar fusion to be carried out in a minimally invasive, muscle-sparing way, resulting in shorter operating times and a substantial reduction of both radiation exposure and cost.

AMIS® Experience

ANTERIOR MINIMALLY INVASIVE SURGERY IN HIP REPLACEMENT

More than an

Anterior Approach

PERSONALIZED SOLUTIONS

Our sophisticated MySolutions ecosystem represents our personalized medicine offering and enables us to offer surgeons patient-matched surgical guides, advanced planning and verification tools, augmented reality-based personalized execution, patient pathway optimization and clinical data collection and analysis. Originally introduced as MyKnee to address an unmet need for better implant positioning in the total knee replacement market, MySolutions can now also be used in hip (MyHip, MyHip Planner, MyHip Verifier), shoulder (MyShoulder) and spine (MySpine) procedures. It also includes our augmented reality surgical platform NextAR, our POP – Patient Optimized Pathway and MyClinical Data for clinical data collection and analysis. Our MySolutions technology has resulted in significant advantages for the patient and has been widely adopted by our surgeon customers. For example, MyKnee procedures accounted for approximately 49% of total knee replacement procedures carried out using Medacta products in 2020.

mySolutions®

PATIENT-MATCHED TECHNOLOGY	ADVANCED PLANNING AND VERIFICATION TOOLS	AR-BASED PERSONALIZED EXECUTION	PATIENT PATHWAY OPTIMIZATION	CLINICAL DATA COLLECTION & ANALYSIS
myHip®	myHip® PLANNER	NEXTAR®	PATIENT OPTIMIZED PATHWAY®	myClinicalData
myKnee®	myHip® VERIFIER			
myShoulder®				
mySpine®				
myOsteotomy				

AUGMENTED REALITY

Augmented reality (AR) is the core of our innovative NextAR Surgical Platform. AR is the use of displays, cameras, and sensors to overlay digital information onto the real world. In the surgical sector, augmented reality can project three-dimensional representations of the patient's anatomy and surgical plan into the surgeon's field of view and guide them to reach the target for each surgical step, which is likely to improve accuracy and patient outcomes. Our NextAR TKA is the first FDA-cleared augmented reality surgical platform for knee surgery. We are further investing in AR product development, with the aim of extending it to hip, shoulder and spine procedures.

LOOK **BEYOND** THE **ORDINARY**

M.O.R.E. EXCELLENCE CLINICAL PROGRAM

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

Following the full market release of our products, we continuously monitor and assess the performance of our implants by way of our post-market surveillance program, which channels all data to a dedicated group of internal experts. These experts, in consultation with other internal or external experts and resources (as needed), assess the data and issue a specific report with a comprehensive analysis to ensure the system performance is fully understood and the risks carefully evaluated. Moreover we sponsor, support and participate in clinical post-market studies conducted by leading international experts to continuously improve our foundation of knowledge.

3.2 EDUCATION

We believe that education is an indispensable tool for transforming innovation into concrete benefits for patients, surgeons and healthcare systems. For our surgeons, we have introduced a range of training and technical support initiatives through our M.O.R.E. Institute. Since its founding in 2004, the M.O.R.E. Institute has become a global education platform tailored to the needs of the individual surgeon, with courses addressing each of our business lines. We provide our surgeons with personalized, structured and accessible education on our technologies and procedures, which increases surgeon loyalty and ensures that our offerings are used to the best advantage of the patient and the surgeon. We also provide our surgeons with ongoing support and proctoring as they master the use of our technologies and procedures, and create an interactive and supportive community in which they can learn and share experiences with other surgeons. Our educational initiatives result in high levels of ongoing customer engagement: for example, in 2020, in spite of the COVID-19 pandemic, approximately 950 surgeons attended educational events and participated in more than 650 surgeon-to-surgeon visits.

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

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

In 2020 we significantly expanded our online educational activities. In April 2020, we launched the M.O.R.E. in Touch program, a series of webcasts and web-based events discussing current topics in orthopedics. This program, which was facilitated by the M.O.R.E. Institute, had the aim of supporting the medical community during the global pandemic. All these webinars are available on Medacta TV, which is Medacta's streaming platform providing access to many hours of medical education, completely redesigned in 2020. Despite COVID-19 restrictions, education continued through redesigned online marketing and medical education programs, with over 2'900 surgeons attending our marketing initiatives and education programs in 2020.

From the positive experience of the M.O.R.E. in Touch program, we have launched further online activities, such as online Experts Meetings, online Talk to the Expert, eLearning Class and eLearning Center.

3.3 HEALTHCARE SUSTAINABILITY

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

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

M.O.R.E. IN TOUCH: HOW MEDACTA STRENGTHENED EDUCATION DURING THE GLOBAL PANDEMIC

Medical education has been a fundamental pillar of Medacta's long-term value-creation strategy since its foundation, and despite the challenging situation due to COVID-19, Medacta's commitment to education has not changed.

The M.O.R.E. in Touch program featured sessions originating from many different countries worldwide, and provided surgeons with the opportunity to tune-in and engage with esteemed faculty concerning a variety of timely topics. Throughout 2020, impactful instruction, as well as interactive Q&A sessions took place on Medacta TV according to a weekly specific program.

"In this time of physical distancing, our goal is to bring the medical community even closer. The aim of the M.O.R.E. in Touch program is to connect expert physicians from all over the world, making top-level medical education available everywhere and at any time. We are thrilled to be able to introduce this program, allowing surgeons to share their experience and expertise with a few clicks," said Francesco Siccardi, CEO of Medacta.

"During challenging times, like the one we are facing right now, it is essential to be able to react quickly. With the new Medacta TV platform we want to give our contribution to the scientific community and assist expert surgeons in continuing their work, while discussing and developing ideas in order to move the orthopedic industry forward," concluded Francesco Siccardi.

DISCOVER MORE

more.medacta.tv

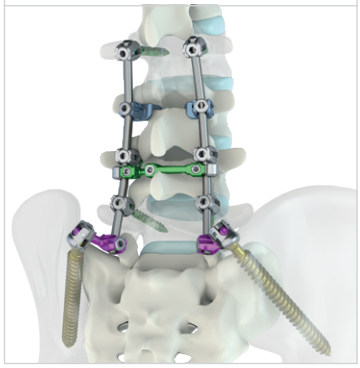
4. PRODUCTS AND BUSINESS LINES

4.1 OVERVIEW

We have grown considerably since our foundation, largely driven by our attractive product mix. The cornerstone of our business has been our activities in the Hip and Knee business lines, where we have an established presence. More recently, we have leveraged the know-how we gained from the Hip and Knee business lines to develop new products and techniques in our Spine, Shoulder and Sportsmed business lines, in order to offer surgeons and patients the benefit of Medacta design, innovation and training across a wider range of orthopedic indications.

JOINT

SPINE



SPORTSMED

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

4.2 JOINT PRODUCTS AND TECHNOLOGIES

Our joint business unit is composed of three business lines: Hip, Knee and Shoulder, with the first two contributing 50.6% and 35.1%, respectively, to our revenues for the year ending December 31, 2020.

HIP

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

In 2004, we developed the innovative AMIS technique for hip implants in collaboration with an international group of expert surgeons. With over 430'000 procedures performed worldwide since its introduction, the AMIS technique is a surgical technique involving an anterior approach to the hip. The anterior approach addresses issues that arise with other forms of hip replacement, including soft tissue damage, pain and long recovery times, dislocations and patient dissatisfaction.

By following both an intermuscular and an internervous path, the AMIS technique potentially reduces the risk of damage to periarticular structures and can improve overall patient outcomes. Our AMIS technique is complemented by a unique package of supporting products, including dedicated implants and instruments, the AMIS Mobile Leg Positioner (a patented surgical table extension which allows a simple and reproducible procedure), as well as a specifically-trained sales force. To optimize and standardize the implementation of the AMIS technique, we have developed a highly structured surgeon training protocol, the AMIS Education Program, which we believe has contributed to making the AMIS technique a preferential and easily reproducible primary total hip replacement surgical method for surgeons worldwide. Our education opportunities are designed to master the AMIS approach from the simplest primary hip arthroplasties to the most complex cases, such as no capsular release, bikini incision and revision THA.

Our hip offering is based on a comprehensive product portfolio, which includes – among others – our P-Family and our M-Vizion Femoral Revision System. These products are complemented by a wide range of instruments and technologies, which can enhance the patient experience throughout the entire patient journey.

THE MEDACTA P-STEMS: A COMPREHENSIVE SYSTEM OF TAPERED RECTANGULAR STEMS

Medacta's P-Family Hip System is a comprehensive system of tapered rectangular stems, which includes Quadra-P, AMIStem-P and SMS. They are the evolution of successful and proven femoral stem concepts and based on the remarkable clinical heritage of the Quadra-H and AMIStem-H.

DISCOVER MORE

hip.medacta.com

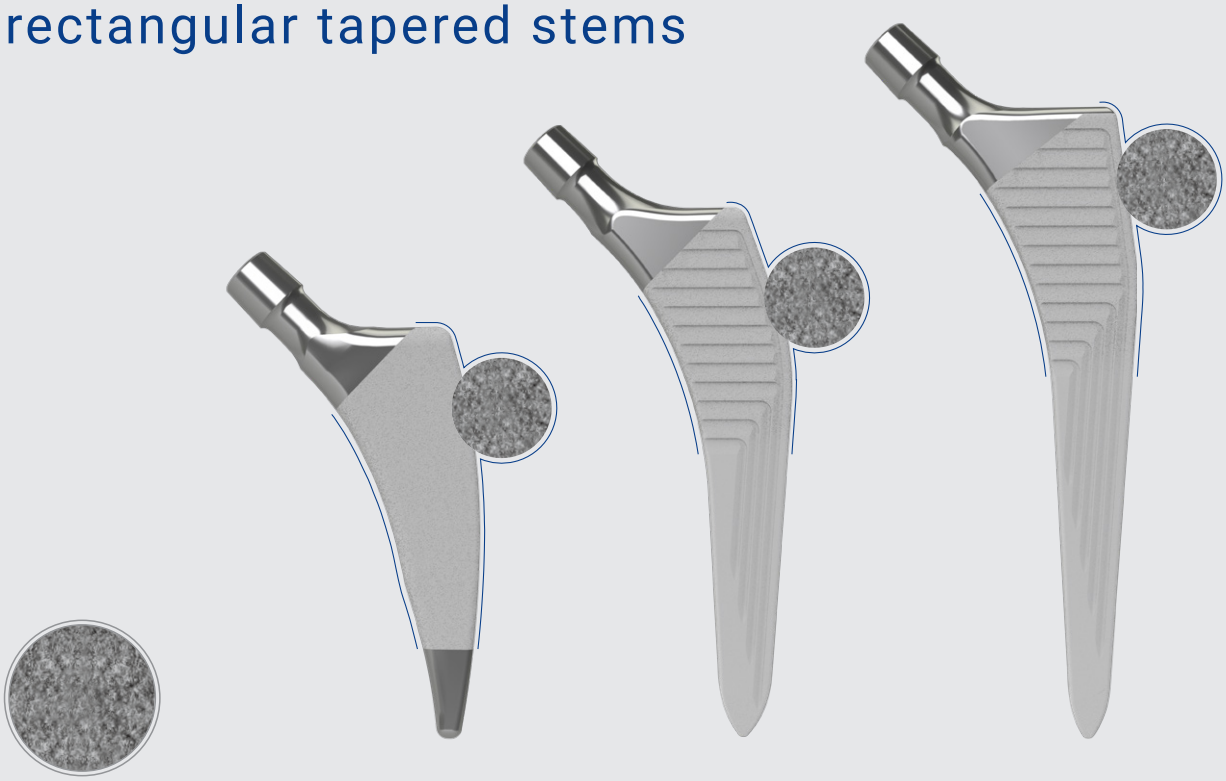
P-FAMILY

HIP SYSTEM

While preserving the features important to the success of existing systems, the P-Family of stems were developed incorporating innovative key features aiming to bring solid clinical performance to the current landscape of total hip arthroplasty (THA):

- A state-of-the-art coating (MectaGrip) on the proximal portion, designed to enhance initial stability, due to its high coefficient of friction, and long-term fixation, thanks to its open and interconnected pores which create a favorable environment for bony fixation.
- Progressive neck lengths, offering to the surgeon a better tool to restore the native hip joint biomechanics in a broader patient population.
- Different lengths and canal filling dimensions, as well as comprehensive size range, giving surgeons the ability to match an implant to the patient's current bone morphology.

A comprehensive system of rectangular tapered stems



MECTAGRIP COATING

SMS® AMIStem-P QUADRA®-P

HIP PORTFOLIO

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

Complementing the P-Family (which includes Quadra-P, AMIStem-P and SMS), our cementless stem portfolio includes MasterLoc and MiniMAX. With a tapered wedge femoral stem design, the MasterLoc Hip System is available in three versions (standard, lateralized and lateralized plus), which allow for an easier and more effective management of the patient's anatomy, completely independent from the leg length. This distinctive feature helps achieve good restoration of the hip joint biomechanics in nearly all patient populations. MiniMAX is an anatomical cementless stem engineered to provide the best fit and fill following the natural shape of the femoral canal.

On the acetabular side, our solutions include – among others – Versafitcup and Mpact System. Versafitcup is a complete system of elliptical cementless acetabular cups that share the same instrumentation, offering stability, as well as load and stress distribution. The Mpact System consists of hemispherical cementless acetabular cups that provide different solutions according to the patient needs and can be used in primary and revision hip replacements. Mpact Two-Hole and Mpact Multi-Hole are also available with 3D Metal, an advanced structure, manufactured utilizing 3D printing technology, designed to mimic the bone structure and improve the long-term stability of our implants.

We also offer a comprehensive cemented portfolio with femoral and acetabular solutions that allow surgeons to address the unique needs of patients with a synergistic AMIS friendly design.

In 2020 we expanded our offering in hip revision arthroplasty, with the registration of our extension range for M-Vizion Femoral Modular Revision System, which is intended to be used in revision cases and in demanding primary procedures. To further complete and strengthen our hip revision portfolio, we are currently developing other hip revision devices, some of which will be launched in 2021, with the goal to develop a revision portfolio which is able to cover all the indications at both femoral and acetabular level.

To improve patient outcomes and ease of use of our implants, we have also developed the MyHip patient-specific instruments as part of our MySolutions ecosystem for personalized medicine. The MyHip 3D printed patient-specific guides allow for more accurate positioning and sizing of the hip implant. They are produced in-house by our engineers using laser sintering technology, following surgeon approval of a 3D pre-operative plan.

Besides MyHip patient-specific guides, our MySolutions offering in hip replacement includes MyHip Planner and MyHip Verifier. MyHip Planner is a surgeon-operated CT-based software that can evaluate the effects of different implant choices and positioning options on the patient's hip joint biomechanics, show them to the surgeon and hence enrich the basis for a decision on surgical strategies. MyHip Verifier is an easy-to-use, non-invasive surgical platform that uses intra-operative C-arm images to assist the surgeon in verifying patient-specific implant positioning by providing a real-time numerical evaluation of the actual influence of implant positioning on the patient's anatomy.

MyHip® PLANNER

3D preoperative planning
software for THR

MyHip® VERIFIER

Intraoperative verification
software for THR

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

In collaboration with expert surgeons, we have developed a range of instruments that are specifically designed for our implants and techniques in order to reduce errors and the learning curve.

KNEE

We have developed a range of knee replacement techniques, implants and instruments. We believe that our offerings in the Knee business line provide surgeons with an innovative, effective approach to total, partial, and revision knee replacements. The Knee business line is also a perfect example of our commitment to providing personalized solutions. In 2009, MyKnee was introduced as the first element of our MySolutions platform. MyKnee technology allows the surgeon to realize their pre-operative 3D planning based on CT or MRI images of the patient's knee. This is then translated into 3D printed patient-specific guides to be used during the surgery. The MyKnee procedure has been used in approximately 94'000 procedures since 2009. Currently, approximately 49% of all total knee replacements using Medacta products use the MyKnee technology.

We have also developed a comprehensive solution to achieve personalized implant positioning for total knee replacement, the Medacta Individualized Kinematic Alignment (MIKA) platform, which includes an implant particularly suitable for restoring individual alignment (our GMK Sphere), supported by dedicated technologies and a dedicated M.O.R.E. Education Program.

KNEE PORTFOLIO

Combined with our innovative surgical techniques and instruments, our comprehensive knee portfolio enables us to offer surgeons a range of knee implants that cover a broad spectrum of knee replacement procedures, spanning total, partial, and revision knee implant systems.

For total knee arthroplasty we offer GMK Sphere and GMK Primary. GMK Sphere is an innovative implant designed to deliver maximum functional stability with the goal of increasing patient satisfaction during activities of daily living and decreasing post-operative knee pain. Since its introduction, GMK Sphere has been implanted in approximately 100'000 cases. GMK Primary is a proven and state-of-the-art solution for surgeons looking for a more traditional design.

Our GMK Efficiency system is a complete set of single-use instruments for use with GMK Sphere and GMK Primary implants. This system has been used in approximately 28% of GMK Sphere and GMK Primary cases in 2020. The GMK Efficiency system requires no additional pre-operative sterilization, optimizing logistics for the surgeon and the hospital, and eliminating any delays as a result of unavailable or non-sterile equipment. It also has the potential to reduce infection risk, because of its single-use nature and the fact that it is delivered terminally sterile. For continual environmental responsibility, we completely offset the total amount of CO_2 connected to GMK Efficiency. Through active support for environmental sustainability projects initiated by Swiss Climate, the Medacta GMK Efficiency instrumentation was awarded the "CO_2 neutral" certificate.

The GMK Efficiency system is also available as part of our Efficiency KneePack, which contains all the components needed to implant the GMK Sphere and GMK Primary using a patient-specific single-use instrument set and is delivered sterile in a single, lightweight box. This solution has been particularly suitable in light of the COVID-19 pandemic, when elective orthopedic surgeries were suspended in many parts of the world, resulting in long waiting lists. With operating room (OR) efficiency proving to be paramount in the return to a more normal practice, procedures that combine patient-specific instrumentation with single-use instrumentation have proved to save time in the OR and simplify the OR scheduling.

PERSONALIZATION IS THE NEW STANDARD IN TKA

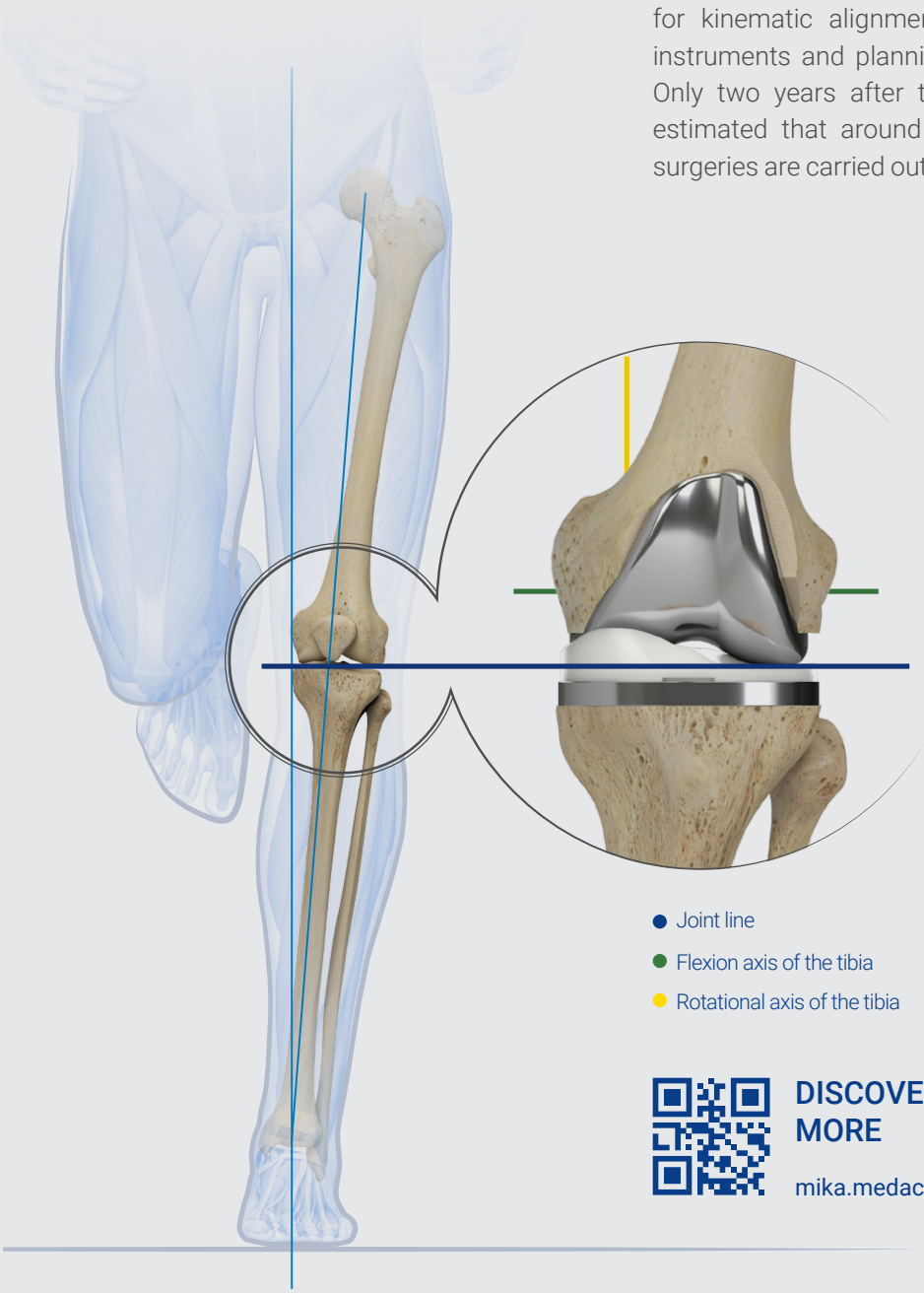
Kinematic Alignment TKA aims to personalize joint line reconstruction through anatomic resurfacing, with little to no ligament release.

MIKA®
MEDACTA INDIVIDUALIZED KINEMATIC ALIGNMENT

The Medacta Individualized Kinematic Alignment (MIKA) platform provides surgeons with a comprehensive solution to safely and reproducibly perform Kinematic Alignment TKA, with the goal of restoring knee function and improving patient satisfaction by tailoring the position of the implant to each individual patient.

It operates by custom-positioning the knee implant to the native joint line of the knee as it was in its pre-arthritic state, while preserving the surrounding tissues and ligaments.

Medacta's unique solution includes the GMK Sphere, a total knee implant particularly suitable for kinematic alignment, as well as dedicated instruments and planning protocols for MyKnee. Only two years after the launch of MIKA, it is estimated that around 35% of all GMK Sphere surgeries are carried out with kinematic alignment.



GMK® SPHERE
MEDIALLY STABILIZED KNEE

DISCOVER MORE

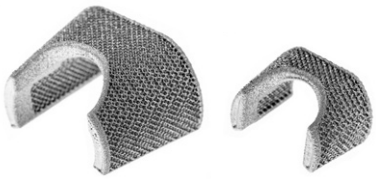
mika.medacta.com

In 2020, our commitment to developing highly innovative solutions led us to receive FDA-clearance for our NextAR TKA, the first FDA-cleared augmented reality surgical platform for total knee replacement. NextAR TKA is the first application of a new platform technology, which will be extended to hip, shoulder and spine procedures. It is designed with the goal to improve efficiency and precision in total knee replacement and deliver advanced personalized planning. With low upfront capital investment required by clinics and hospitals, as well as economic benefits to the healthcare system through OR efficiency, this platform will be an optimal solution particularly for U.S. ambulatory surgery centers (ASCs).

For partial knee replacement (i.e. a surgery that replaces only one part of a damaged knee), we offer GMK UNI and MOTO Partial Knee System. Both of these options allow surgeons to treat osteoarthritis localized on the medial or lateral compartment of the knee. To complete our partial knee portfolio, MOTO PFJ will be launched in 2021, allowing for the treatment of osteoarthritis localized in the patello-femoral compartment of the knee.

Finally, our knee revision offering consists of GMK Revision and GMK Hinge, which have been designed to preserve the joint functionality without dramatically altering its anatomy and kinematics, even in cases of severe ligament instability or massive bone defects. In 2020 we further expanded our knee revision portfolio with 3D Metal Femoral Cones.

3D Metal® FEMORAL CONES



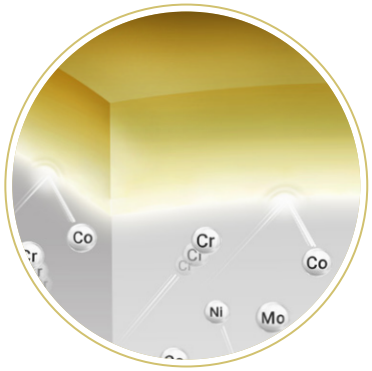
3D Metal® TIBIAL CONES

3D Metal is an advanced structure, manufactured utilizing 3D printing technology, designed to mimic the bone structure and improve the long-term stability of our implants. Developed upon the clinical success of 3D Metal Tibial Cones, the Femoral Cones can be used for structural support in areas of bone deficiencies that may compromise revision implant fixation.

In 2020 our revision portfolio was further enriched with our SensiTiN coating for low metal ion release, which had already been introduced for the primary implants. With the SensiTiN-coated knee implants, the Medacta knee system is now even more complete, allowing for treatment of a larger number of patients, from primary to complex revision cases.

SensiTiN™

Enhanced coating to reduce metal ion release



Surgeons' preferred choice to treat patients with metal allergy or hypersensitivity

GMK® SPHERE

GMK® PRIMARY

GMK® REVISION

GMK® HINGE

SHOULDER

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

SHOULDER PORTFOLIO

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

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

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

The Medacta Shoulder System is complemented by our patient-specific MyShoulder technology, which is FDA-cleared, CE-marked and approved by MHLW for use in Japan. MyShoulder allows the surgeon to realize their pre-operative 3D plan based on CT images of the patient's shoulder. This is then translated into 3D-printed guides to be used during the surgery. The MyShoulder platform is composed of two patient-matched guides and a 3D WebPlanner. The WebPlanner allows the surgeon to carry out precise pre-operative planning. The two guides, a humeral cutting guide and a glenoid pin guide, assist the surgeon, optimizing the precision and reducing the surgery time.

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

MEDACTA SHOULDER SYSTEM: MORE OPTIONS IN SHOULDER ARTHROPLASTY

In 2020 we added two new options to our shoulder portfolio: the Long Humeral Diaphysis and the Stemless Humeral Metaphysis, both of them currently in limited market release according to Medacta's M.O.R.E. Excellence Clinical Program.

The Stemless Humeral Metaphysis, which is CE-marked, is intended for use in anatomic configuration. Featuring Medacta's 3D Metal technology, it enables a minimally invasive approach at the humeral level, preserving the humeral canal.

The Long Humeral Diaphysis, FDA-cleared and CE-marked, can help surgeons facing complex cases of shoulder replacement, particularly when there is a need for primary fixation in the distal part of the humerus.

Long
Humeral Diaphysis

Stemless
Humeral Metaphysis

MEDACTA SHOULDER SYSTEM

DISCOVER MORE

shoulder.medacta.com

4.3 SPINE PRODUCTS AND TECHNOLOGIES

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

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

We offer MIS MySpine MC, which is a patient-specific 3D printed solution for surgeries that use the midline cortical approach. It allows posterior lumbar fusion to be carried out in a minimally invasive, muscle-sparing way, resulting in shorter operating times and a substantial reduction of both radiation exposure and cost compared to conventional open lumbar fusion surgery. The goal of MIS MySpine MC is to maximize the fusion rate and the predictability of clinical outcomes, thus positively impacting patient well-being.

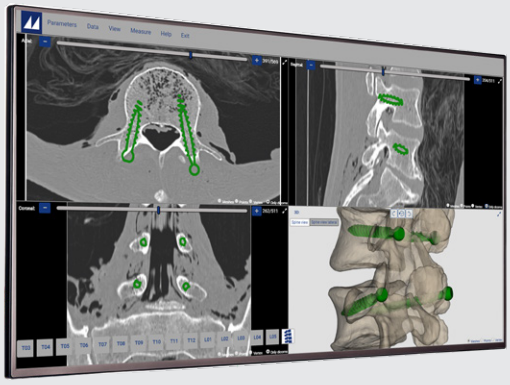
Among the innovations we introduced in 2020 within the MySpine family, there is MySpine S2AI, our patient-specific solution for S2-Alar-Iliac fixation. It is intended for long constructs and designed to overcome the limits of a potentially insufficient lower spine fixation. The S2-Alar-Iliac technique involves the treatment trajectory crossing five cortical bones resulting in strong bone fixation, while the medial entry points reduce the need of muscle dissection leading to smaller incision, reduced screw loosening, reduced pain and less dissection compared to alternative lumbosacral instrumentations (S2-Alar and Iliac screws). In 2020 we also launched MySpine Cervical, our patient-matched technology for accurate cervical screw placement that allows for extended constructs relying on strong bone fixation, and significantly reduced X-ray exposure.

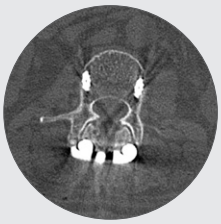
MYSPINE: A COMPLETE PLATFORM FOR PERSONALIZED MEDICINE

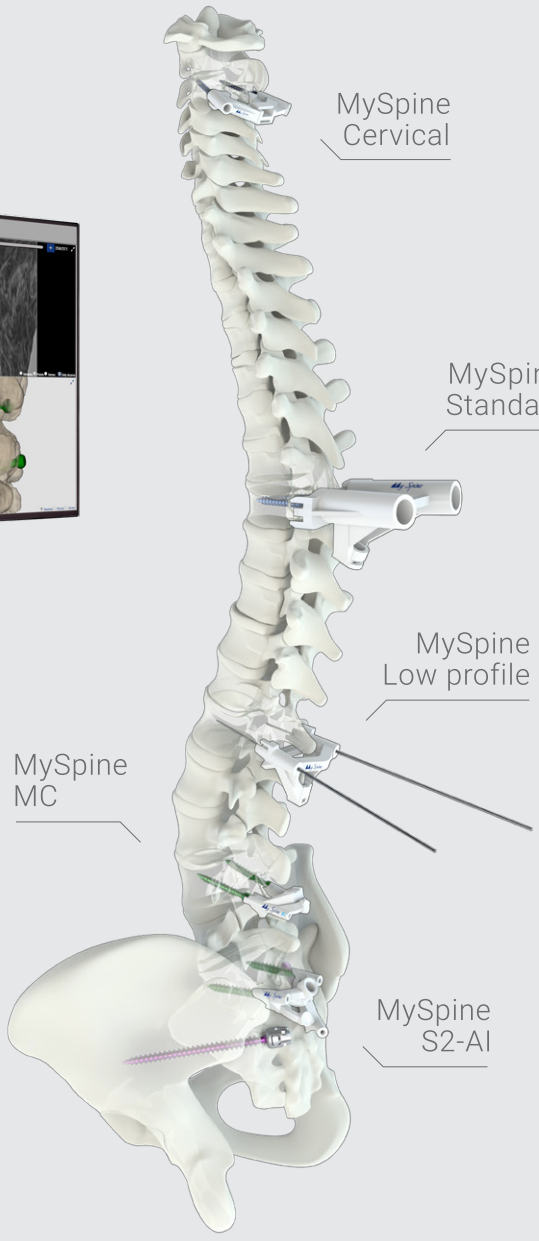
MySpine is a patient-specific screw placement guide, allowing surgeons to determine their pre-operative 3D planning, based on CT images of the patient's spine.

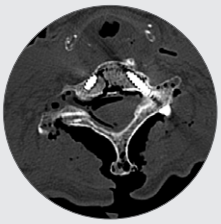
With the addition of MySpine S2AI and MySpine Cervical, the MySpine platform is now a complete and comprehensive system of 3D printed patient-matched guidance and pre-operative planning that allows for posterior spine fixation from cervico-thoracic to lumbosacral and pelvic fixation.

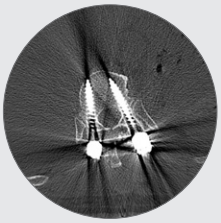
MySpine®
PATIENT MATCHED TECHNOLOGY
IN SPINE SURGERY

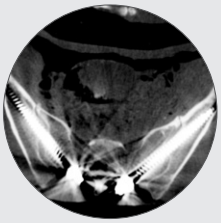












DISCOVER MORE

spine.medacta.com

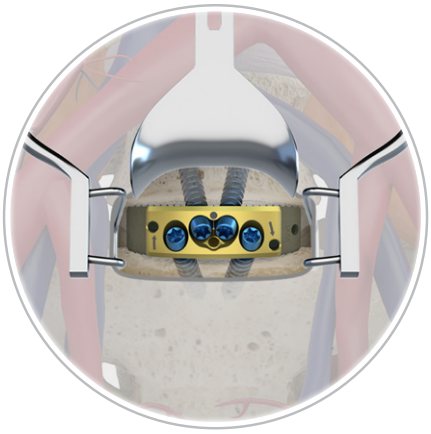
SPINE PORTFOLIO

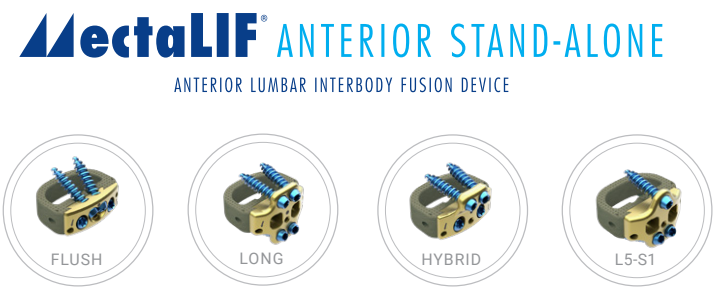
We have developed a portfolio of spine products that includes implants and accompanying instruments. Our spine systems are designed to address degenerative spine conditions and other spinal deformities, such as scoliosis. Our spine products include the pedicle screw system and intervertebral cages and are available in a variety of heights, angles and footprints that allow the patient's anatomy to be taken into account, resulting in variable anatomic shaping.

Since inception we have been providing spine implants which are pre-sterilized and ready for implantation. We strongly believe that pre-sterile implants can increase the efficiency of healthcare systems, reduce the risk of contamination, save time and reduce costs. These aspects are extremely important especially during post COVID-19 recovery.

In 2020, we received FDA clearance for the Mecta-C Stand Alone platform for anterior cervical discectomy and fusion procedures (ACDF). Mecta-C Stand Alone is indicated for use from C2 to T1 in skeletally mature patients suffering from degenerative disc disease. The platform incorporates the benefits of a modular cage-plate system with versatile screws, thus requiring no additional fixation. Mecta-C Stand Alone is offered in TiPEEK, Medacta's plasma-sprayed titanium coating that provides an added value to improve stability and increase the migration resistance. It is an indication-specific interbody fusion device, which enriches the suite of 360° cervical solutions to provide a treatment to numerous cervical spine disorders.

Like Mecta-C Stand Alone, also our MectaLIF Anterior Interbody Fusion Device is offered in TiPEEK. This device provides a modular design that incorporates the benefits of an anterior plate and a radiolucent cage that does not hamper the diagnostic assessment. In order to accommodate specific anatomical requirements and specific pathologies to treat, the surgeon has the ability to assemble any of the available plates intra-operatively with complete freedom of choice.



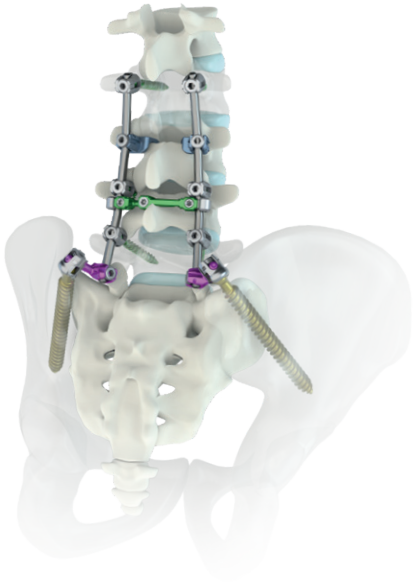


To simplify the procedure and provide robust instruments in open surgery when treating degenerative spine pathologies, in 2020 we released the M.U.S.T. 2.0 instrumentation. The M.U.S.T. 2.0 system is the next generation of M.U.S.T. instruments that incorporates an upgraded geometrical design to support every single step of the surgery. The M.U.S.T. 2.0 instrumentation is used to implant the Medacta M.U.S.T. (Medacta Universal Screw Technology) pedicle screw system, a universal polyaxial screw, rod and connector system applicable to degenerative, deformity and trauma cases.

M.U.S.T.®

MEDACTA UNIVERSAL SCREW TECHNOLOGY

Ultimate Versatility
in One System

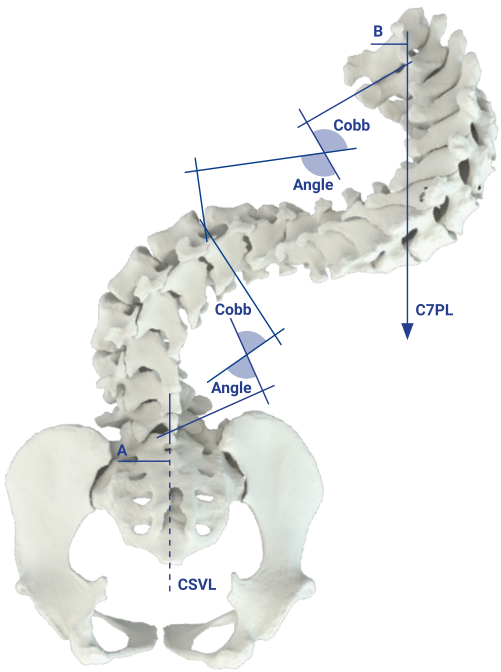


In order to provide complete solutions in spine surgical treatments, we also offer M.U.S.T. Deformity, a platform specifically designed to assist the surgeon in all the steps of a deformity surgery with different techniques. While challenging screw positioning is facilitated by the MySpine patient-specific technology, free hand spine anatomical alignment can be provided by our suite of specialized persuaders. The M.U.S.T. EnBloc further enriches the deformity platform, by providing the surgeon with a dedicated system for an effective recovery of the overall spine harmony.

M.U.S.T.® DEFORMITY

COMPLEX SPINE SURGERY PLATFORM

A unique platform
to restore spino pelvic harmony



4.4 SPORTSMED PRODUCTS AND TECHNOLOGIES

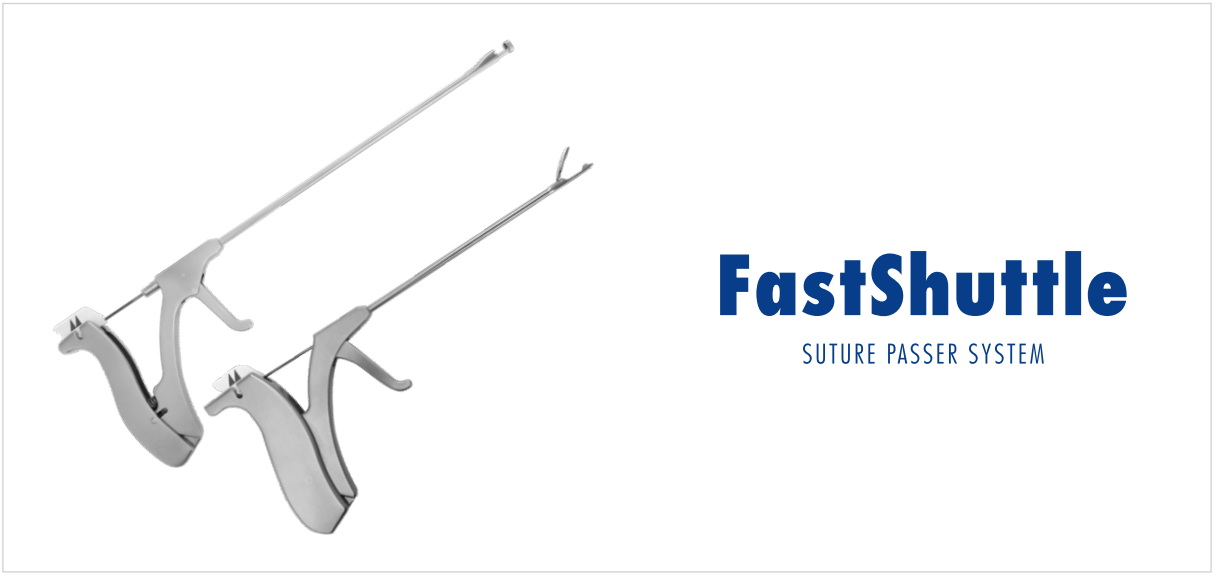
In our newly-developed Sportsmed business line, started in 2016, our engineers are working to create specific and innovative products for the treatment of ligament, tendon and muscular injuries of the knee, hip and shoulder, supported by an international team of sports medicine surgeons. The aim of our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

SPORTSMED PORTFOLIO

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

In addition to our M-ARS offering, in 2019 we launched MectaScrew PEEK Interference Screws for cruciate ligament re-fixation and MectaLock PEEK for shoulder and hip labral repair.

In 2020 we continued our expansion in the Sportsmed market with the introduction of many different products, such as our anchor portfolio in Titanium and PEEK, three additional implant options for cruciate ligament fixation and the FastShuttle suture shuttling device for rotator cuff repair.



We also introduced into the market our first rotator cuff anchors (MectaLock TI and MectaTap) and MectaQTH instruments to facilitate quadriceps tendon graft harvesting. The replacement of a torn graft with a quadriceps tendon has enjoyed increasing popularity recently. We obtained registrations for a resorbable Interference Screw for ligament reconstruction, an All-Suture Anchor indicated for hip and shoulder labral repair, as well as rotator cuff and biceps tendon repair, a suture passing device for hip capsular closure and our new PowerSuture product family with more than 40 new suture, tape and suture loop offerings.

In 2021, many new products are expected to get product registration or be ready for limited market release, e.g. FairFix Adjustable Button, biocomposite and osteoconductive options for anchors and interference screws, a suture shuttling device in hip and shoulder labral repair, a wider range of sterile single-use instrument solutions, and a smaller size All-Suture Anchor option additional to our MectaLock All-Suture Anchor.

MEDACTA ANNOUNCES CE MARKING FOR MULTIPLE PRODUCTS FOR ITS SPORTS MEDICINE DIVISION

At the beginning of 2020, we received CE marking for multiple sports medicine products:

- MectaLock PEEK instability anchors for hip and shoulder labral repair,
- MectaLock Ti and MectaTap for rotator cuff repair,
- MectaScrew PEEK interference screw for ligament repair,
- Medacta Shoulder and Hip Cannula System,
- MectaQTH quadriceps tendon harvesting instrumentation,
- Medacta Hip Access KIT for hip arthroscopies.

The launch of these new products, together with many first-time surgeries all over the world, clearly show our commitment to continue developing our sports medicine portfolio, which consists of minimally invasive procedures aimed at allowing patients to return quickly to daily activities.

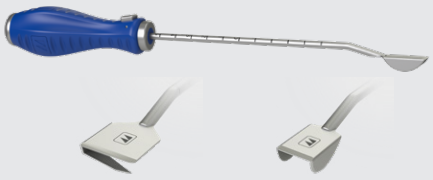
DISCOVER MORE

sportsmed.medacta.com

MectaQTH®

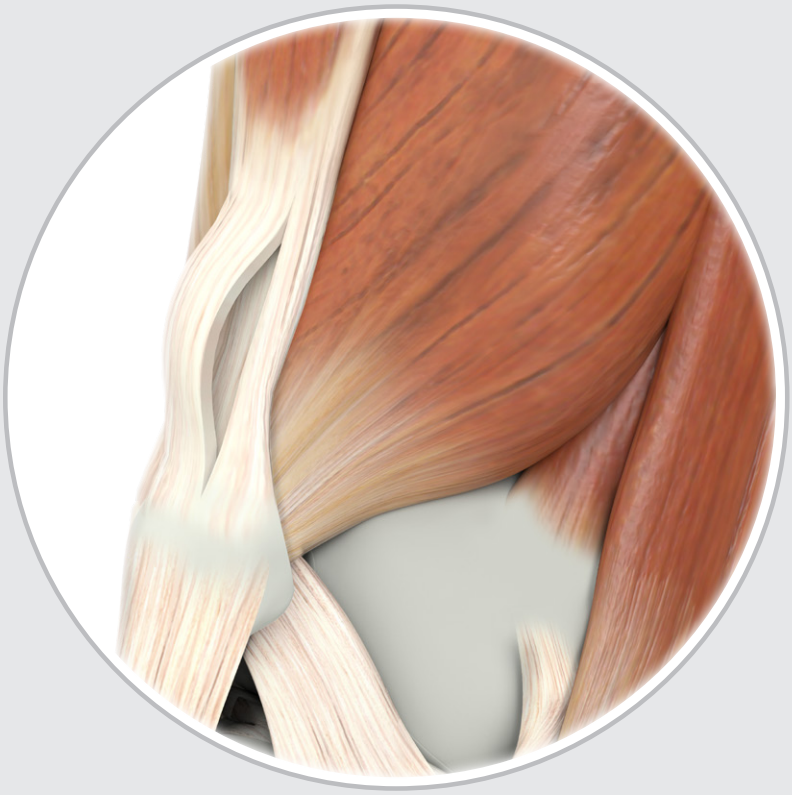
QUAD TENDON HARVESTING

Fast, Strong, Secure
MIS Harvesting



HORIZONTAL **VERTICAL**

PATENT PENDING



M.O.R.E.
INSTITUTE

The surgeon is never alone
when discovering new technologies

Medacta International

CORPORATE GOVERNANCE REPORT

INDEX

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.

NEXTAR.MEDACTA.COM

AUGMENTED REALITY

ENHANCED VISUALIZATION TO OPTIMIZE SURGERY

NextAR uses the latest Augmented Reality technology to provide valuable information to the surgeon, measured in real-time by the system and displayed on NextAR Smart Glasses. This is superimposed on the operative field of view and allows the surgeon to stay focused on what matters most, the patient.

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

Medacta's corporate governance principles and rules are set out in the Articles of Association, the Organizational Regulations[1], the Corporate Compliance System including the MedTech Europe Industry Code of Conduct[2], the Charters of the Board Committees and internal policies on quality, IT, privacy as well as employee regulations. Further, we take into account the recommendations of the Swiss Code of Best Practice for Corporate Governance. The Group's corporate governance disclosures described in this report are in compliance with the Directive on Information relating to Corporate Governance[3] published by the SIX Exchange Regulation.

1. GROUP STRUCTURE AND SHAREHOLDERS

1.1 GROUP STRUCTURE

ORGANIZATIONAL GROUP STRUCTURE

Medacta Group SA ("Company"), Strada Regina 34, 6874 Castel San Pietro, Switzerland, the ultimate parent company of the Group, is as a stock corporation under the laws of Switzerland and is listed on the SIX Swiss Exchange (valor number: 46'852'522, ISIN: CH0468525222, SIX ticker symbol: MOVE, LEI: 506700P2PFU3A3DROC14). The market capitalization of the Company as per December 31, 2020 was CHF 1.75 billion.

Our headquarters and production facilities are located in Castel San Pietro, Switzerland and Rancate, Switzerland, where we have approximately 620 employees in the aggregate. The Group Executive Management is based at our headquarters in Castel San Pietro, Switzerland and they are responsible for executing the decisions of the Board of Directors and implementing the strategy of the Group.

Medacta constitutes with only one segment which reflects the internal organizational and management structure used within the Group. The Chief Operating Decision Maker (CODM) for the segment is our Chief Executive Officer, Ing. Francesco Siccardi. Our CEO is supported by the other members of our Group Executive Management, specifically the CFO and the Supply Chain Director.

The Extended Group Management, which comprises our Head of Research and Development, Global Marketing Director, Technical Director, Head of Commercial and Europe, Vice President Spine and Vice President Extremities and Sportsmed are also based at our headquarters and under the supervision of the CEO, save for the Technical Director who reports directly to the Supply Chain Director. The Head of Commercial and Europe is responsible for the regional Directors who oversee and manage our 12 international branches. Our international branches are responsible for overseeing our salesforce, which consists of direct sales representatives and marketing employees, independent agents, and distributors in 32 countries. For an overview of our worldwide locations, see Section 6.1 "Consolidation Principles, Composition of the Group and Significant Accounting Policies" of the Financial Report.

GROUP COMPANIES

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

On December 31, 2020, Medacta Group SA directly or indirectly held 100% of the capital and voting rights in all unlisted consolidated Group companies disclosed in the Financial Report section of this Annual Report under Note 6.1 "Consolidation Principles, Composition of the Group and Significant Accounting Policies" to the Financial Report.

[1] Medacta's Articles of Association and the Organizational Regulations (including the charters of the Board Committees) are available on Medacta's website at: https://www.medacta.com/EN/corporate-governance?goto=organizational-regulations

[2] MedTech Europe Industry Code of Conduct is available at: https://www.medtecheurope.org/wp-content/uploads/2017/06/medtech-europe-code-of-ethical-business-practice-qa-dg.pdf

[3] Directive on Information relating to Corporate Governance of SIX Exchange Regulation is available at: https://www.ser-ag.com/dam/downloads/regulation/listing/directives/DCG-en.pdf

SIGNIFICANT SHAREHOLDERS

To the best of our knowledge, the table below shows shareholders and shareholder groups owning or representing more than 3% of the voting rights of Medacta as of December 31, 2020. The number of shares shown below and the holding percentages are based on the last disclosure of shareholding communicated by the shareholder to the Company and the Disclosure Office of SIX Swiss Exchange. The number of shares held by the relevant shareholder may have changed since the date of such shareholder's notification.

For the individual reports that were published during the year ending December 31, 2020 as well as any reportable changes since the date thereof can also be found on the website of the Disclosure Office of the SIX Swiss Exchange, which also includes the individual reports of the significant shareholders: SIX Exchange Regulation.

Beneficial owner / persons that can exercise the voting rights at their own discretion [1]	Domicile/ Registered Office	Country	Direct Shareholders [2]	Number of shares	Percentage of shares and voting rights
• Alberto Siccardi [3]	Sonvico - Lugano	Switzerland	-	13'892'125	69.46%
• Maria Luisa Siccardi Tonolli [3]	Villa Luganese	Switzerland	-		
• Francesco Siccardi [3]	Morcote	Switzerland	-		
• Alessandro Siccardi [3]	Lugano	Switzerland	-		
• Artisan Partners Limited Partnership [4]	Milwaukee, WI	USA	-	1'047'877	5.24%
• MainFirst SICAV [5]	Senningerberg	Luxembourg	-	603'875	3.02%
• Artisan Partners Funds, Inc [6]	*Milwaukee, WI*	*USA*	*Artisan Partner Funds, Inc*	*604'461*	*3.02%*
• Mawer Investment Management Ltd [7]	*Calgary Alberta*	*Canada*	-	*600'115*	*3.00%*

[1] Regarding collective investment schemes, the beneficial owner corresponds to the licensee.
[2] Regarding collective investment schemes, the direct shareholder corresponds to the collective investment scheme.
[3] The Family shareholders comprise a group acting in concert within the meaning of art. 120 et seq. FMIA and its implementing ordinances. See SIX shareholder notification after December 31, 2020, dated January 6, 2021, processed by SIX on January 8, 2021 in relation to the shareholders agreement. See also "Shareholders' Agreement" (below). As a single person, Alberto Siccardi owns 10.2% of shares and voting rights, Francesco Siccardi owns 19.8% of shares and voting rights while Maria Luisa Siccardi Tonolli and Alessandro Siccardi own 19.7% of shares and voting rights each.
[4] The ultimate beneficial owner who has the discretionary power to exercise the voting rights is Artisan Partners Limited Partnership as derived from the latest shareholder notification dated March 26, 2020, processed by SIX on March 31, 2020.
[5] The ultimate beneficial owner who has the discretionary power to exercise the voting rights is MainFirst SICAV as derived from the latest shareholder notification dated April 30, 2019, processed by SIX on May 7, 2019.
[6] The ultimate beneficial owner who has the discretionary power to exercise directly or indirectly the voting rights is Artisan Partners Funds, Inc since head office of the licensee responsible for foreign collective investment schemes as derived from the latest shareholder notification dated June 8, 2020, processed by SIX on April June 10, 2020. As 2021 subsequent event, on February 11, 2021 Artisan Partners Funds, Inc. notified that they sold their position and now own a percentage of voting rights below 3%.
[7] The ultimate beneficial owner who has the discretionary power to exercise the voting rights is Mawer Investment Management Ltd as derived from the latest shareholder notification dated October 2, 2020, processed by SIX on October 6, 2020. As 2021 subsequent event, on February 3, 2021 Mawer Investment Management Ltd notified that they sold their position and now own a percentage of voting rights below 3%.

SHAREHOLDERS' AGREEMENT

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

1.2 CROSS-SHAREHOLDINGS

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

2. CAPITAL STRUCTURE

2.1 CAPITAL

The share capital of the Company as of December 31, 2020, as registered with the Commercial Register of the Canton Ticino, amounted to CHF 2'000'000 and is divided into 20'000'000 registered shares with a nominal value of CHF 0.10 each. The share capital is fully paid-up.

2.2 AUTHORIZED AND CONDITIONAL CAPITAL

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

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

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

2.3 CHANGES IN CAPITAL

There have been no changes in the share capital in the past two years. On 31 December 2019 and 2020, the share capital was composed of 20'000'000 registered shares with a nominal value of CHF 0.10 each. In 2018 Medacta Group SA acquired, by way of contribution in kind, 4'016 registered shares of Medacta Holding SA at their nominal value of CHF 25.64 each, at a total nominal value of CHF 102'970.24, accepted by the Company for CHF 102'970.24 (contribution in kind agreement of December 12, 2018) together with CHF 97'029.76 in cash, both made by Alberto Siccardi and fully accounted to the share capital, against issuance of 2'000'000 registered shares at a nominal value of CHF 0.10 each, for a total nominal value of CHF 200'000.

2.4 SHARES AND PARTICIPATION CERTIFICATES

Medacta Group SA has no other categories of shares other than one category of registered shares entitled to one vote each. The share capital of the Company as of December 31, 2020 amounted to CHF 2'000'000 and is divided into 20'000'000 registered shares with a nominal value of CHF 0.10 each. The share capital is fully paid-up. The shares rank *pari passu* in all respects with each other, including, in respect of entitlements to dividends (if any), to a share in the liquidation proceeds in the case of a liquidation of the Company and to pre-emptive rights.

The Company issues its shares only as uncertificated securities, within the meaning of article 973c of the Swiss Code of Obligations and enters them into the main register of SIS and, consequently, constitutes them as intermediated securities within the meaning of the Swiss Federal Intermediated Securities Act (FISA). In accordance with article 973c CO, the Company maintains a register of uncertificated securities.

2.5 DIVIDEND-RIGHT CERTIFICATES

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

2.6 LIMITATIONS ON TRANSFERABILITY AND NOMINEE REGISTRATIONS

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

According to article 5 para. 3 of the Articles of Association, persons not expressly declaring themselves to be holding the shares for their own account in their application for entry in the Share Register or upon request by the Company ("Nominees") are entered in the Share Register with voting rights without further inquiry up to a maximum of 3.0% of the share capital outstanding at that time. Above this limit, registered shares held by Nominees shall be entered in the Share Register with voting rights only if in its application for registration, or thereafter upon request by the Company, the Nominee discloses the names, addresses and shareholdings of the persons for whose account the Nominee is holding 0.5% or more of the share capital outstanding at that time and provided that the disclosure requirements stipulated by the Federal Act on Financial Market Infrastructure (FMIA) of 19 June 2015 are complied with. The Board of Directors has the right to conclude agreements with Nominees concerning their disclosure requirements.

According to article 5 para. 4 and para. 5 of the Articles of Association, and subject to article 652b para. 3 of the Swiss Code of Obligations, the described limit for registration also applies to the acquisition of registered shares, which are subscribed for or acquired by way of exercising any subscription, acquisition, option or convertible rights arising from shares or any other securities issued by the Company or third parties. For purposes of the aforementioned registration restrictions, legal entities or partnerships or other associations or joint ownership arrangements which are linked through capital ownership or voting rights, through common management or in a like manner, as well as individuals, legal entities or partnerships (especially syndicates) which act in concert with the intent to circumvent the entry restriction, are considered as one shareholder or Nominee.

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

The Company may in special cases approve exceptions to the above restrictions. In 2020, no such exemptions were granted.

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

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

2.7 CONVERTIBLE BONDS AND OPTIONS

As of December 31, 2020, neither Medacta Group SA, nor any of its subsidiaries, had issued or outstanding any convertible bonds or options convertible into shares of the Company.

3. BOARD OF DIRECTORS

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

Accordingly, Board candidates are carefully selected to ensure that they are qualified and committed members, characterized by diversity of backgrounds as well as experience and expertise relevant for the specific role they play on the Board of Directors. In addition, because the current Chairman formerly served as Chief Executive Officer of Medacta International SA until 2018, the Board of Directors also has a Lead Independent Director.

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

3.1 MEMBERS OF THE BOARD OF DIRECTORS

As of December 31, 2020, the Board of Directors consisted of five Members (including the Chairman and the Lead Independent Director), all of whom are non-executive Directors. Marco Gadola joined as Member of the Board with effect from January 1, 2020, but decided not to stand for re-election at the last Annual General Meeting 2020. The Extraordinary General Meeting held on December 18, 2020 appointed Riccardo Braglia as non-executive member of the Board of Directors and member of the RemCo with immediate effect.

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

Name	Year of birth	Position	Committee Membership	Year of Appointment
Alberto Siccardi [1]	1944	Chairman	None	2018
Maria Luisa Siccardi Tonolli [2]	1975	Member	ARC	2018
Victor Balli [3]	1957	Member; Lead Independent Director	ARC (Chairman)	2019
Philippe Weber [4]	1965	Independent Director	RemCo (Chairman)	2019
Riccardo Braglia [5]	1960	Independent Director	RemCo	2020
Marco Gadola [6]	1963	Independent Director	ARC, RemCo	2019

RemCo = Remuneration Committee
ARC = Audit and Risk Committee
[1] Founder and Chairman of the Board of Directors of Medacta International since 1999. Alberto Siccardi in 2020 was also member of the RemCo until December 18, 2020.
[2] Member of the Board of Directors of Medacta International from 2003 until 2014.
[3] In 2020 Victor Balli was also member of the RemCo until December 18, 2020.
[4] In 2020 Philippe Weber was also member of the ARC until December 18, 2020.
[5] On December 18, 2020, the Extraordinary General Meeting appointed Riccardo Braglia as member of the Board of Directors and member of the RemCo.
[6] Appointed member of the Board of Directors and member of the Remco and ARC with effect as of January 1, 2020, Mr. Marco Gadola decided not to stand for re-election to the Board of Directors of Medacta Group SA at the 2020 Annual General Meeting. For further information on Marco Gadola, please refer to Medacta's 2019 annual report (available at https://media.medacta.com/media/2019-annual-report.pdf, page 49).

ALBERTO SICCARDI,

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

Other main activities in 2020: Mr. Siccardi further serves as Chairman of Surgical Practice Resource Group SA, Lugano since 2015 and as Chairman of the Medacta for Life Foundation, Castel San Pietro since 2011. He is Chairman of Verve SA, Castel San Pietro and a Board Member of Machi Holding SA, ALLES Holding SA and 2A Holding SA, Castel San Pietro since 2019.

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

Qualifications: Mr. Siccardi has a degree in Pharmacy from the University of Turin (1969) and a Master's Degree in Business Administration (MBA) from SDA Bocconi School of Management in Milan (1979, with distinction).

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

MARIA LUISA SICCARDI TONOLLI,

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

Other main activities in 2020: Ms. Siccardi Tonolli has served as the Head of the Siccardi Family Office since 2002. Ms. Siccardi Tonolli also serves as a Member of the Board of Directors of Surgical Practice Resource Group SA, Lugano since 2015, as President of Machi Holding SA, Castel San Pietro since 2019, as Vice-President and Member of the Board of Directors of Medacta for Life Foundation, Castel San Pietro since 2011 and as Member of the Board of Directors of Verve SA, Castel San Pietro since 2001.

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

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

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

VICTOR BALLI,

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

Other main activities in 2020: Member of the Board of Directors and Member of the compensation committee and the audit committee of Givaudan SA, Vernier since 2016; Member of the Board of Directors and the Chairman of the audit committee of KWS Saat SE & Co. KGaA, Germany since 2017; since 2018 Member of the Board of Directors of the Swiss Federal Audit Oversight Authority in Bern (Revisionsaufsichtsbehörde, FAOA), Member of the Board of Directors and Chairman of the audit committee of Louis Dreyfus Company Holdings B.V., Netherlands; since 2019, Member of the Board of Directors of Hemro AG, Bachenbülach; Member of the Board of Directors and of the audit committee of SIKA AG, Baar since 2019.

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

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

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

PHILIPPE WEBER,

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

Other main activities in 2020: Chairman of the board of directors and managing partner of Niederer Kraft Frey AG, Zurich since 2015 (until March 2021, thereafter board member); Company Secretary of CLS Group Holdings AG, Lucerne since 2002; Non-Executive Director of EDAG Engineering Group AG, Arbon since 2015; Member of Board of Directors of Newron Suisse SA, Zurich since 2007, NorthStar Holding AG, Roggwil (Thurgau) (since 2018); member of the Board of Directors of Banca del Ceresio SA, Lugano since 2017. Mr. Weber was elected to the Board of Directors of Leonteq AG at the shareholders meeting held on 31 March 2020.

Career Highlights: Mr. Weber joined Niederer Kraft Frey AG (NKF) in 1994 and became a partner in 2002. From March 2015 to March 2021, he also served as the managing partner of NKF. From 1990 to 1992, he was a research assistant at the University of Zurich before joining the foreign affairs committees of the two chambers of the Swiss parliament as a legal clerk in 1992/1993.

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

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

MEMBER OF THE BOARD WITH EFFECT FROM DECEMBER 18, 2020

RICCARDO BRAGLIA,

Swiss, Non-executive, Member of the Board with effect from December 18, 2020, Independent Director

Other main activities in 2020: Helsinn Group's Vice Chairman and CEO holds various roles in other companies in the healthcare sector in Switzerland and abroad. He is Co-founder and Board Member of Lyfebulb, USA, which promotes networking initiatives to support patients with chronic diseases and Board Member of Thorne Holding Corporation, USA. He is also Member of the Advisory Board of both the New York City-based venture capital firm Windham Ventures and Health Elements, USA. Moreover, Mr. Braglia is Member of the Board of the Conquer Cancer Foundation, USA, and Member of the CEO Roundtable on Cancer, USA, as well as of the Swiss-American Chamber of Commerce. He is also Member of the Advisory Board of the SDA Bocconi School of Management, Italy.

Career Highlights: With a wealth of over 35 years of international experience in the pharmaceutical industry, Riccardo Braglia heads the family-run, privately-owned pharmaceutical company, the Helsinn Group, founded in 1976, with a worldwide presence and focus on cancer therapeutics, supportive care and rare disease therapies, and which is strongly committed to improving the everyday lives of people with cancer guided by family values of respect, integrity and quality. Riccardo Braglia is Helsinn Group's Vice Chairman and CEO, Managing Director and Member of Helsinn Holding's Board of Directors, Switzerland and Executive Committee for Helsinn Group's strategic management.

Qualifications: Mr. Braglia holds a degree in Business Economics with specialization in Business Industrial Management from Bocconi University, Milan, Italy (1984).

Key attributes for the Board: Riccardo Braglia has a strong track record in the healthcare industry, general management, marketing, distribution and leadership gained from his successful career. In addition to his business endeavors, Riccardo Braglia is engaged in philanthropic initiatives, supporting cultural, social, artistic activities as well as international research against cancer. He is the Co-founder and Chairman of Fondazione Nuovo Fiore in Africa, Switzerland, a foundation which focuses on providing educational and training aid and promoting, encouraging and supporting basic education for children, reducing illiteracy and social injustice in Africa, and he is also Member of the Board of the Fondazione Gabriele and Anna Braglia, Switzerland, of modern art.

ALLOCATION OF TASKS WITHIN THE BOARD OF DIRECTORS

Medacta aims to have a well-balanced Board of Directors with individuals who bring a variety of perspectives, backgrounds and skills. Accordingly, Board candidates have been carefully selected to ensure a collective set of important skills/traits. In addition, the Board of Directors carries out an annual self-assessment that will be completed at the Board of Director's meeting that shall approve the annual financial statements in March 2021, such assessment will strive to identify strengths and areas of improvement.

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

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

[1] The Extraordinary General Meeting held on December 18, 2020 appointed Riccardo Braglia as member of the Board of Directors and member of the RemCo with immediate effect.

3.2 OTHER ACTIVITIES AND VESTED INTERESTS

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

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

Member of the Board	Enterprise	No profit organization/ No commercial entities	Location	Function
Alberto Siccardi	Surgical Practice Resource Group SA		CH	Chairman
		Medacta For Life Foundation	CH	Chairman
	Verve SA		CH	Chairman
	Machi Holding SA		CH	Board Member
	ALLES Holding SA		CH	Board Member
	2A Holding SA		CH	Board Member
Maria Luisa Siccardi Tonolli	Surgical Practice Resource Group SA		CH	Board Member
	Verve SA		CH	Board Member
		Medacta For Life Foundation	CH	Vice-President and Board Member
	Machi Holding SA		CH	President

Member of the Board*	Enterprise	No profit organization/ No commercial entities	Location	Function
Victor Balli	Givaudan SA		CH	Board Member
	KWS Saat SE		DE	Board Member
		Swiss Federal Audit Oversight Authority in Bern	CH	Board Member
	Louis Dreyfus Company Holdings B.V.		NL	Board Member
	Hemro AG		CH	Board Member
	SIKA AG		CH	Board Member
Philippe Weber	Niederer Kraft Frey AG		CH	Chairman**
	CLS Group Holdings AG		CH	Company Secretary
	EDAG Engineering Group AG		CH	Board Member
	EDAG Engineering Schweiz Sub-Holding AG		CH	Board Member
	Newron Suisse SA		CH	Board Member
	NorthStar Holding AG		CH	Board Member
	Leonteq AG		CH	Vice-Chairman and Board Member
	Leonteq Securities AG		CH	Vice-Chairman and Board Member
	Banca del Ceresio SA		CH	Board Member
Riccardo Braglia	Helsinn Holding & Affiliates		CH	Vice-Chairman and Board Member
	Thorne Holding Corporation		USA	Board Member
	WS Fashion Group		CH	Board Member
	Lyfebulb Headquarters		USA	Board Member
	GSTS - Gui Sheng Tang Sinomedica Holding SA		CH	Board Member
	Lauro & Giavatto SA		CH	Board Member
		Swiss American Chamber of Commerce	CH	Board Member
	3G Future SAM		MC	Board Member
	3b Future Health Fund II S.C.A.-Raif SICAV		LU	Board Member
		Conquer Cancer The ASCO Foundation	USA	Board Member
		Fondazione Gabriele e Anna Braglia	CH	Board Member
		Fondazione Nuovo Fiore in Africa	CH	Board Member
		Fondazione per la ricerca sul cancro nel Ticino	CH	Board Member

* Mr. Marco Gadola decided not to stand for re-election to the Board of Directors of Medacta Group SA at the 2020 Annual General Meeting. In 2020 Mr. Gadola covered also the following mandates: Chairman of DKSH, Vice-Chairman of Calida Group, Board Member of the Straumann Group and additional board mandates in non-public companies and co-owner CJG Consulting.

** Until March 2021, thereafter Board Member

3.3 PERMITTED ADDITIONAL ACTIVITIES PURSUANT TO OAEC

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

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

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

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

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

3.4 ELECTIONS AND TERMS OF OFFICE

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

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

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

The Extraordinary General Meeting held on December 18, 2020 elected Riccardo Braglia as an additional independent member of the Board of Directors. At the annual shareholders' meeting 2021, all Members of the Board of Directors will stand for re-election and no new Board Members will be proposed.

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

3.5 INTERNAL ORGANIZATIONAL STRUCTURE

ALLOCATION OF TASKS WITHIN THE BOARD OF DIRECTORS

The internal organizational structure of the Board of Directors is set forth in the Organizational Regulations of Medacta Group SA, that determines the executive bodies of the Company and the Group, defines their responsibilities and competences regarding the management of the Company and of the Group, and regulates the functioning and cooperation of the various bodies in the Group management. The current Chairman of the Board is Alberto Siccardi and the current Lead Independent Direct is Victor Balli (see more detailed description below).

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

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

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

At least annually, the Board reviews its own performance, as well as the performance of each of the Committees and the Group Executive Management. Such assessment seeks to determine whether the Board, the Committees and the Group Executive Management function effectively and efficiently. This annual review will be finalized during the approval of the Consolidated Financial Statements 2020 in March 2021.

TASKS OF THE LEAD INDEPENDENT DIRECTOR

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

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

WORKING METHODS OF THE BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

BOARD OF DIRECTORS MEETINGS 2020

In 2020, the Board of Directors met nine times, through audio or video conference, for an average duration of two hours. The CEO along with the other members of the Group Executive Management attended each of the nine Board meetings in 2020.

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

Date	Attendees	Other Attendees
17/03/2020	Board of Directors (All)	Group Executive Management
	Daniel Müller (Deputy Secretary)	Luigi Tonolli (Senior Strategic Financial Advisor)
26/03/2020	Board of Directors (All)	Group Executive Management
	Donato Cortesi (Secretary)	Luigi Tonolli (Senior Strategic Financial Advisor)
	Daniel Müller (Deputy Secretary)	
03/04/2020	Board of Directors (All)	Group Executive Management
	Donato Cortesi (Secretary)	Deloitte AG
	Daniel Müller (Deputy Secretary)	
18/05/2020	Board of Directors (All)	Group Executive Management
	Daniel Muller (Deputy Secretary)	Luigi Tonolli (Senior Strategic Financial Advisor)
15/07/2020	Board of Directors (All)	Group Executive Management
	Donato Cortesi (Secretary)	Luigi Tonolli (Senior Strategic Financial Advisor)
	Daniel Müller (Deputy Secretary)	
21/07/2020	Board of Directors (All)	Group Executive Management
	Donato Cortesi (Secretary)	Luigi Tonolli (Senior Strategic Financial Advisor)
	Daniel Müller (Deputy Secretary)	
04/09/2020	Board of Directors (All)	Group Executive Management
	Daniel Müller (Deputy Secretary)	Luigi Tonolli (Senior Strategic Financial Advisor)
		Gianna La Rana (IR)
03/11/2020	Board of Directors (All)	Group Executive Management.
	Daniel Müller (Deputy Secretary)	Luigi Tonolli (Senior Strategic Financial Advisor)
		Gianna La Rana (IR)
18/12/2020	Board of Directors (All)	Group Executive Management.
	Daniel Müller (Deputy Secretary)	Luigi Tonolli (Senior Strategic Financial Advisor)
		Gianna La Rana (IR)

The key topics of the Board of Directors in 2020 included, among other things:

- Board of Directors composition 2020-2021;
- review and release of 2019 annual results;
- COVID-19 scenarios and Budget 2020 update;
- Annual Report, Consolidated Financial Statements 2019;
- performance review 2019 and outlook 2020;
- approval of the Statutory financial statements 2019;
- proposal for the appropriation of available retained earnings as of December 2019;
- dividend distribution for the financial year 2019;
- proposal for discharge to the Board of Directors and discharge to the Group Executive Management;
- Annual General Meeting (AGM) voting procedures;
- proposal for election of the Members of the Board of Directors and the Chairman of the Board;
- proposal for election of the Members of the Remuneration Committee;
- proposal for election of the Independent Proxy Holder;
- proposal for election of the Auditors;
- review and approval of the Remuneration Report 2019 and proposal to AGM for consultative vote;
- proposal for remunerations to the Members of the Board of Directors;
- proposal for the maximum aggregate amounts of remunerations to the Members of the Group Executive Management;
- review of the Long-Term Incentive Plan and decision on effectiveness;
- review of the performance and evaluation of the effective and efficient functioning of the Board of Directors, the Remuneration Committee and the Audit Committee;
- review of the quarterly results;
- review of the year-to-date results (sales) and revised 2020 forecast;
- review of bank loans, liquidity and credit lines;
- approval of Individual targets and weighting of variable short-term bonus for the Group Executive Management;
- review of information requested by investors;
- litigation updates;
- performance review of the H1 2020 financial results;
- approval of press release and investors presentation for the H1 2020 financial results;
- compliance and internal control system (approval of internal control framework matrix);
- review of changes in significant shareholders; and
- proposal to convene an extraordinary general meeting for December 18, 2020 to propose the election of a new Board Member.

COMMITTEES AND WORKING METHODS OF THE COMMITTEES

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

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

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

AUDIT AND RISK COMMITTEE

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

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

The Members of the Audit and Risk Committee are Victor Balli (Chairman), Maria Luisa Siccardi Tonolli and Philippe Weber (until December 18, 2020).

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

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

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

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

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

- reviewing the Company's tax planning and tax compliance processes, including the design and implementation of transfer pricing guidelines;
- reviewing the status of material legal proceedings that the Company is party to, including measures taken by management to protect the interests of the Company;
- reviewing the Company's insurance programs;
- reviewing the Company's enterprise risk management system, management's assessment of the Company's major risks, as well as evaluating the respective measures taken by the Group;
- reviewing of the Group's short-term incentive and long-term incentive targets, calculations and adjustments; and
- generally assessing the yearly business expenses of the Members of the Group Executive Management.

The Audit and Risk Committee met four times in video conference meetings for an average duration of two hours in 2020. The key topics included, among other things:

- review and approval of the consolidated and statutory financial statements for the year 2019 and related Annual Report;
- review of the Report of the external auditor (Deloitte AG) including comprehensive auditor's report for the year 2019;
- assessment of the independence and performance of the external auditors;
- year-to-date performance 2020, including budget outlook and impact from the COVID-19 pandemic;
- disclosure of year-end 2019 results and related press release;
- update on material legal proceedings;
- year-to-date results (sales) and forecast 2020;
- updates on bank loans/liquidity;
- various subjects to be addressed by the Auditors, such as management letter, non-audit fees, etc.;
- feedback from analysts and investors;
- Information on change in US capital structure;
- Information on transfer pricing project;
- update on investor relation recruitment;
- update of organisation of finance team; and
- review of the Risk control matrix and internal control framework and future procedures for the year 2021.

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

Date	Attendees	Other Attendees
02.04.2020	Audit and Risk Committee (All) Daniel Müller (Deputy Secretary)	Alberto Siccardi (Chairman of the Board) Francesco Siccardi (CEO) Corrado Farsetta (CFO) Philippe Weber (Board Member) Luigi Tonolli (Senior Strategic Financial Advisor) Deloitte SA
18.05.2020	Audit and Risk Committee (All) Daniel Müller (Deputy Secretary)	Alberto Siccardi (Chairman of the Board) Francesco Siccardi (CEO) Corrado Farsetta (CFO) Luigi Tonolli (Senior Strategic Financial Advisor)
03.09.2020	Audit and Risk Committee (All) Daniel Müller (Deputy Secretary)	Alberto Siccardi (Chairman of the Board) Francesco Siccardi (CEO) Corrado Farsetta (CFO) Deloitte SA
17.12.2020	Audit and Risk Committee (All) Daniel Müller (Deputy Secretary)	Alberto Siccardi (Chairman of the Board) Group Executive Management (All) Deloitte SA

REMUNERATION COMMITTEE

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

The Remuneration Committee consists of at least two Members of the Board of Directors who are elected individually by the shareholders' meeting. The Chairman of the Remuneration Committee is independent and is appointed by the Board of Directors. The term of office of the Members of the Remuneration Committee is one year. In this context, a year means the time period between one annual shareholders' meeting and the next one or, if a Member is elected at an extraordinary shareholders' meeting, between such extraordinary shareholders' meeting and the next annual shareholders' meeting. Re-election is possible. If the Remuneration Committee is not complete the Board of Directors shall appoint a substitute from among the other members of the Board of Directors for the period until the conclusion of the next annual shareholders' meeting.

The Remuneration Committee is composed by the independent directors Philippe Weber (Chairman) and since December 18, 2020 Riccardo Braglia, who succeeded Alberto Siccardi and Victor Balli as members of the Committee who each resigned as of December 18, 2020.

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

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

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

In particular, the Remuneration Committee has the following duties:

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

The Remuneration Committee met four times in video conference meetings for an average duration of one hour and half in 2020.

The key topics included, among other things:

- review and approval of the Remuneration Report 2019;
- proposal to the Board of Directors for remunerations to the members of the Board of Directors;
- proposal to the Board of Directors for the maximum aggregate amounts of remunerations (fixed and variable) to the member of the Group Executive Management;
- review of the Long-Term Incentive Plan;
- structure and review of the Remuneration Report;
- review of the benchmarking of peer group and external benchmark for Group Executive Management remuneration;
- review of remuneration principles, strategy and systems;
- setting of individual targets and weighting of variable short-term bonus for the members of the Group Executive Management; and
- revision of the 2020 short term incentive schemes for the Group Executive Management.

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

Date	Attendees	Other Attendees
02/04/2020	Remuneration Committee (All)	Francesco Siccardi (CEO)
	Daniel Müller (Deputy Secretary)	Alessandro Siccardi (Supply Chain Director)
		Luigi Tonolli (Senior Strategic Financial Advisor)
		Massimo Mangiarotti (HR Director)
18/05/2020	Remuneration Committee (All)	Francesco Siccardi (CEO)
	Daniel Müller (Deputy Secretary)	Alessandro Siccardi (Supply Chain Director)
		Luigi Tonolli (Senior Strategic Financial Advisor)
		Massimo Mangiarotti (HR Director)
03/09/2020	Remuneration Committee (All)	Francesco Siccardi (CEO)
	Daniel Müller (Deputy Secretary)	Luigi Tonolli (Senior Strategic Financial Advisor)
		Massimo Mangiarotti (HR Director)
17/12/2020	Remuneration Committee (All)	Francesco Siccardi (CEO)
	Donato Cortesi (Secretary)	Riccardo Braglia (designated Board Member from December 18, 2020)
	Daniel Müller (Deputy Secretary)	Luigi Tonolli (Assistant Treasury Supervisor)
		Massimo Mangiarotti (HR Director)

3.6 AREAS OF RESPONSIBILITY

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

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

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

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

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

- overall management and issuing of related directives;
- determine the organization, in particular, to adopt, regularly revisit and amend these Organizational Regulations;
- organization of the accounting, financial control and financial planning systems as required for the overall management;
- appoint and dismiss the Members of the Group Executive Management and to grant all forms of signing authorities;
- overall supervision of the persons entrusted with management, in particular with regard to compliance with law, the Articles of Association, these Organizational Regulations and further directives;
- review and approve the annual report and the proposed dividend;
- preparation for the general meetings and implementation of related shareholder resolutions;
- notification of the court in the event that the Company is over-indebted;
- preparing the Compensation Report (article 13 et. seqq. OaEC);
- pass resolutions regarding the increase of share capital to the extent that this is within the authority of the Board (article 651 para. 4 CO) as well as the adoption of the capital increase and the amendments to the Articles of Association entailed therewith; and
- pass resolutions regarding agreements in respect of mergers, de-mergers, transformations or transfers of assets and liabilities in accordance with the Swiss Merger Act.

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

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

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

The Board of Directors has different information instruments in place to oversee, monitor and control the implementation of the Group's strategy as well as the execution of the responsibilities delegated to the Group Executive Management. The Group Executive Management reports regularly to the Board of Directors and its Committees. The CEO regularly informs the Board of Directors on the status of current business matters and financial results, presents relevant strategic initiatives as well as major business transactions. During the course of 2020, the Group Executive Management attended each meeting of the Board of Directors and provided comprehensive business updates, in particular in light of the ongoing developments of the COVID-19 pandemic.

According to Section 6.6 of the Organizational Regulations, the CFO, in cooperation with the CEO, ensures good financial governance, overseeing all financial planning, budgeting (short- and mid-term), reporting and risk management activities. Furthermore, the CFO leads the implementation of systems and procedures to seek to ensure compliance with regulatory requirements for financial information, reporting, disclosure requirements, and internal control. On a quarterly basis, the Board of Directors receives a financial report with the profit and loss statement, the balance sheet, and the cash flow statement,

as well as a summary of the business performance, updates on various initiatives and outlook. Telephone conferences are held, as required, between Board Members and the Group Executive Management. Furthermore, each Member of the Board of Directors may request information on all matters concerning the Group at any time.

The Board of Directors is also responsible for the Group's internal control system, which provides the ultimate oversight for Medacta's strategy, operations and finances. The internal control system of Medacta is structured to ensure the correct disclosure and adequate coverage of control over all Group activities, with particular attention on areas considered potentially at risk, such as risk management process throughout the entire lifecycle of Medacta medical devices and financial reporting risks associated to external requirements. Each Board Member is entitled to request information concerning all affairs of the Company and the Group reasonably necessary to fulfil their fiduciary duties. In 2020, the Board and its committees have been updated regularly by members of the Group Executive Management and Extended Executive Management on all key risks facing the Group, such as quality or manufacturing issues, the progress of major R&D projects and other risk areas as they are identified in the Enterprise Risk Management framework that was approved by the Board of Directors in December 2020.

In addition, Medacta has developed, implemented and maintains quality management systems that meet all relevant medical device industry standards and are certified according to ISO 13485 (the global standard for medical device quality systems) ensuring high quality products, processes and related customer support. As of December 31, 2020, our quality function comprised 12 quality assurance professionals, who are responsible for ensuring our corporate activities are conducted under compliant, effective, and well-documented processes, and 31 quality control professionals, who are responsible for ensuring all components and associated processes fully conform with the specified requirements.

3.8 COMPLIANCE AND QUALITY ASSURANCE

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

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

4. GROUP EXECUTIVE MANAGEMENT

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

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

4.1 MEMBERS OF THE GROUP EXECUTIVE MANAGEMENT

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

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

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

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

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

FRANCESCO SICCARDI,

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

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

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

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

CORRADO FARSETTA,

Italian, CFO, Member of the Group Executive Management.

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

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

ALESSANDRO SICCARDI,

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

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

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

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

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

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

4.2 OTHER ACTIVITIES AND VESTED INTERESTS

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

4.3 PERMITTED ADDITIONAL ACTIVITIES PURSUANT TO OAEC

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

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

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

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

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

4.4 MANAGEMENT CONTRACTS

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

5. COMPENSATION, SHAREHOLDINGS AND LOANS

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

6. SHAREHOLDERS' PARTICIPATION RIGHTS

6.1 VOTING RIGHTS, RESTRICTIONS AND REPRESENTATION

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

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

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

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

The Company may in special cases approve exceptions to the above restrictions. In 2020, no such exemptions were granted. After due consultation with the persons concerned, the Company is further authorized to delete entries in the Share Register as shareholder with voting rights with retroactive effect if they were effected on the basis of false information or if the respective person does not provide the information pursuant to article 5 para. 3 of the Articles of Association. The concerned person has to be immediately informed about the deletion.

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

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

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

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

6.2 QUORUMS

Pursuant to article 11 of the Articles of Association, shareholders' resolutions generally require the approval of a simple majority of the votes cast at the shareholders' meeting (with abstentions, empty or invalid votes not being taken into account for the calculation of the required majority), to the extent neither the law nor the Articles of Association provide otherwise.

According to article 13 of the Articles of Association, a resolution passed by at least two thirds of the represented share votes and the absolute majority of the represented shares par value is required for (i) matters listed in 704 of the Swiss Code of Obligations and in article 18 and article 64 of the Federal Act on Merger, Demerger, Transformation and Transfer of Assets (Merger Act), (ii) the easement or abolition of the restriction of the transferability of the registered shares and (iii) any changes to article 13 (i.e., qualified majority for important resolutions).

6.3 CONVOCATION OF THE GENERAL MEETING OF SHAREHOLDERS

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

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

6.4 INCLUSION OF ITEMS ON THE AGENDA

The Board of Directors states the items on the agenda.

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

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

6.5 ENTRIES IN THE SHARE REGISTER

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

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

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

7. CHANGE OF CONTROL AND DEFENSE MEASURES

7.1 MANDATORY BID RULES

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

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

7.2 CHANGES OF CONTROL

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

8. AUDITORS

The annual shareholders' meeting elects the Group's external auditors on annual basis. Deloitte SA, domiciled in via Ferruccio Pelli 1, 6901 Lugano Switzerland, has served as the Group's auditor since its foundation on November 28, 2018 and was previously the auditor of Medacta International SA since January 21, 2009. On May 19, 2020, Deloitte SA was reappointed as Group and statutory auditor of the Company at the annual shareholders' meeting. The auditor in charge is changed every seven years in accordance with Swiss law. The current auditor in charge is Fabien Lussu, Swiss Certified Public Accountant, who has been carrying out this function since 2018.

The Board of Directors monitors compliance and proposes the election of the external auditor to the annual shareholders' meeting. In accordance to the Organizational Regulations, the Audit and Risk Committee oversees the integrity of the Company's and Group's financial statements, the effectiveness of the internal control over financial reporting of the Company and the Group, the compliance by the Company and the Group with legal and regulatory requirements, annually (or more often as required) reviews the independent auditor's qualification and independence, the performance of the Company's and Group's external auditors, and the effectiveness of the Company's and Group's risk management, compliance and quality assurance systems and processes. On April 2, 2020, the Audit and Risk Committee reviewed and confirmed the independent auditor's qualifications on the basis of the constructive collaboration and good communication and disclosure with the Audit and Risk Committee and the Group's finance department. Deloitte SA presents to the Audit and Risk Committee, on an annual basis, a detailed report on the results of the audit of the consolidated financial statements, the findings on significant accounting and reporting matters, and findings on the internal control system; this presentation was held at the Board Meeting held on April 2, 2020. The results and findings of this report are also discussed in detail with the CFO. During 2020, Audit and Risk Committee held three of its meetings with representatives of the external auditor. For more information regarding the Audit and Risk Committee and their meetings which included the auditors, please refer to sub-heading 3.5 "Internal Organizational Structure Committees and Working Methods of the Committees—Audit and Risk Committee". Audit fees are ultimately approved by the Audit and Risk Committee.

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

Worldwide fees (Euro thousand)	31.12.2020	31.12.2019
Audit fees	**502**	**375**
Annual audit fees	502	375
Audit related fees		**199**
IPO - Comfort letters	-	199
Non-audit related fees	**182**	**68**
Tax*	144	-
Advisory services**	-	30
Other Services	38	38
Total	**684**	**641**

* The Tax fees are related to transfer pricing services.
** The Advisory services are primarily related to the IPO.

9. INFORMATION POLICY

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

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

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

25 MAY 2021:	Annual General Meeting
20 JULY 2021:	Publication of 2021 Half-Year Unaudited Top-line Figures
10 SEPTEMBER 2021:	Publication of 2021 Half-Year results

10. INDEPENDENT PROXY

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

Fulvio Pelli, Lugano, was re-elected as the Independent Proxy of the Company on May 19, 2020.

Medacta International

REMUNERATION 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.

NEXTAR.MEDACTA.COM

ADVANCED PLANNING

INTELLIGENCE DRIVEN PERSONALIZATION

Prior to surgery, the surgeon uses a 3D virtual model of the patient knee to choose the best implant and position to restore his unique anatomy. The plan is created leveraging Medacta's experience with the award-winning MySolutions platform and new advanced tools.

LETTER BY THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholders,

We are pleased to introduce Medacta's Remuneration Report for the Financial Year ended December 31, 2020. This document follows a similar structure to the prior year's report and describes Medacta's remuneration governance, remuneration philosophy and principles, the responsibilities and procedures involved in determining the compensation of Members of the Board of Directors and Group Executive Management, the forms of compensation and how Medacta's performance results impacted the variable incentive payments of the Group Executive Management. In addition, I am pleased to announce that following the Extraordinary General Meeting (EGM) held on December 18, 2020, we welcomed our new Board member Riccardo Braglia to the Remuneration Committee.

In 2020, Medacta's operations were strongly impacted by the COVID-19 pandemic. We responded quickly to the rapid spread of the pandemic by implementing personnel safety measures and activating business continuity plans. The effect of the pandemic on Medacta's performance required the introduction of prudent discretionary initiatives in cost containment in order to soften the financial impact on our business. This prompt effort allowed Medacta to maintain a healthy financial condition, retain all of our employees worldwide and add 82 new jobs in critical areas to maximize the company's ability to rebound rapidly.

As COVID-19 rapidly started to spread throughout the world, the Remuneration committee worked very close with the Group Executive Management in providing support through challenging decisions on people and compensation. To support the aforementioned discretionary initiatives in cost containment, early in April 2020, this committee along with the Group Executive Management, decided to postpone the implementation of the already designed long-term incentive plan to a later date and voluntarily reduce Board of Directors and Group Executive Management compensation. Our Founder and Chairman of the Board, Dr. Alberto Siccardi and our Chief Executive Officer Ing. Francesco Siccardi decided to reduce their 2020 total compensation by 50%. The other members of the Board and Group Executive Management decided to reduce their total compensation by 20%.

The COVID-19 developments during the first months of the second semester along with the initiatives introduced by Group Executive Management, enabled Medacta to largely compensate the sales decrease in the first half, although these were limited by further restrictions from the COVID-19 pandemic resurgence starting in the end of October. Overall, despite the second wave in October, Medacta managed to close the second semester with an impressive 7.6% growth rate as compared to the previous year period (full year performance was negative 2.1% in constant currency) ultimately performing better than the market, gaining new customers and investing in innovation, people and technology to sustain our momentum.

This performance is primarily due to our dedicated people who deserve recognition and rewards. As a consequence, we decided to propose for approval at the Board of Directors meeting held on March 30, 2021 a long-term incentive plan for our Group Executive Management, selected key managers and employees of Medacta. The purpose of the plan will be to provide the eligible Medacta employees with an opportunity to become shareholders of the company, and hence align their interests to those of Medacta's other shareholders, to participate in the future long-term success and prosperity of the Group, and to enhance and reward loyalty of the employees, especially in this extraordinary period.

Our most valuable assets to our continuing success are made by People and the #beMedacta culture, as also described in the **Sustainability Report 2019**[1]. To support and nurture this culture, it is essential that our compensation system reflects and rewards similar values. That is why the Remuneration Committee and Board of Directors will actively manage the medium- to long-term evolution of remuneration at Medacta. For the coming year, we expect to continue our focus on the structure of our short and long variable incentive plans, particularly with respect to maintaining and further strengthening the strong link between pay and performance.

In accordance with the **Articles of Association**[2], at the annual shareholders' meeting in May 2021, we will ask for approval of the maximum aggregate remuneration amount to be awarded to the Board of Directors for the period until the next annual shareholders' meeting in 2022. In addition, the shareholders' meeting will be asked to approve (i) the maximum overall fixed compensation of the Group Executive Management in 2022, (ii) the maximum overall variable short-term compensation for the Group Executive Management for the work performed in 2020, and (iii) the maximum overall variable long-term compensation of the Group Executive Management that may be allocated in 2022 (if the long-term incentive plan is ultimately adopted). Finally, the annual shareholders' meeting will approve the amount of remuneration to Board members for consulting services in a function other than as Board members until the next annual shareholders' meeting as well as cast a consultative vote on this Remuneration Report.

We encourage and pursue open and regular dialogue with our shareholders and their representatives as we continue to evolve our compensation systems and practices.

On behalf of Medacta and the Remuneration Committee, I would like to thank our shareholders for their continued feedback and ongoing support.

Philippe Weber
Chairman of the Remuneration Committee

[1] Medacta's Sustainability Report 2019 is available on Medacta's website at https://www.medacta.com/EN/sustainability.

[2] Medacta's Articles of Association are available on Medacta's website at https://www.medacta.com/EN/corporate-governance?goto=organizational-regulations.

1. INTRODUCTION

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

2. REMUNERATION GOVERNANCE

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

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

* AGM has a consultive vote

Shareholders of Swiss listed companies have significant influence on the remuneration of governing bodies and the principles governing remuneration must be defined in a company's articles of association.

The compensation principles outlined below are derived and summarized from Medacta's **Articles of Association**:

- **Approval of remuneration by the AGM (article 12):** the annual shareholders' meeting votes separately and bindingly on the proposals by the Board of Directors regarding the aggregate amounts of (a) the compensation of the Board of Directors for the term of office until the next shareholders' meeting and (b) (i) the maximum overall fixed compensation of the Group Executive Management in the subsequent business year, (ii) the maximum overall variable short-term compensation for the Group Executive Management for the work performed in the previous business year, and (iii) the maximum overall variable long-term compensation of the Group Executive Management that may be allocated in the subsequent business year.
- **Principles of remuneration of the Board of Directors (article 25):** the compensation may consist of a fixed base fee (including a lump sum compensation for expenses) paid in cash and/or awarded in shares (depending on the function in the Board of Directors, the number of committee activities and the functions in the committees). In exceptional cases, the Members of the Board of Directors may be awarded performance-related compensation.
- **Principles of remuneration of the Group Executive Management (article 26):** the compensation of the Members of the Group Executive Management may consist of a fixed compensation paid in cash (which consists of a base salary and can also contain other compensation elements and benefits); a variable short-term compensation paid in cash and/or shares; and variable long-term compensation paid in shares or equity-linked rights.
- **Short-term variable compensation and long-term compensation plans (article 26):** the short-term variable compensation is paid in cash and/or shares and depends on the level of achievement of specific pre-defined targets for a one year performance period; the long-term compensation approved by the Board of Directors is intended to incentivize Members of the Group Executive Management, selected key managers and employees to support the long-term performance of the Company and creation of shareholder value.
- **Loans and credits (article 28):** Medacta shall not grant loans, credits, pension benefits other than from occupational pension funds or securities to the Members of the Board of Directors or the Group Executive Management[3].
- **Agreements related to compensation and maximum contract terms of Group Executive Management (article 24):** the employment agreements of the Members of the Group Executive Management shall in principle be concluded for an indefinite period. If the Board of Directors considers a fixed term appropriate, such fixed term shall not exceed one year. With respect to employment agreements entered into for an indefinite period, the maximum notice period shall not exceed 12 months. Non-competition agreements for the time following termination of an employment contract and the associated compensation are permitted to the extent that this is justified from a business perspective. The compensation for such a non-competition obligation may not exceed in total the average of the (fixed) compensation paid to the respective member of the Group Executive Management during the last three years.
- **Additional compensation for new Members of the Group Executive Management (article 29):** if newly appointed or promoted Members of the Group Executive Management take office after the annual shareholders' meeting has approved the aggregate maximum amount of compensation of the Members of the Group Executive Management for the next business year, such newly appointed or promoted Members may receive an aggregate compensation in each case of up to 30% of the last aggregate amount of compensation for the Group Executive Management approved by the annual shareholders' meeting.
- **Additional services by Members of the Board of Directors (article 25):** the members of the Board of Directors providing consulting services to the Company or other group companies in a function other than as Members of the Board of Directors may be compensated in cash according to standard market rates subject to approval by the annual shareholders' meeting.

In addition, Medacta's **Organizational Regulations**[4] including the Charter of the Remuneration Committee (in combination with the Articles of Association) describe and define the roles and responsibilities of the Remuneration Committee and the Board of Directors.

2.1 ROLE AND ACTIVITIES OF THE REMUNERATION COMMITTEE

Medacta's Remuneration Committee is comprised of a minimum of two Members of the Board of Directors who are elected annually and individually by the AGM for a one-year period until the next AGM. The Chairman of the Remuneration Committee is appointed by the Board of Directors and is independent. The 2020 Annual General Meeting ("AGM"), confirmed Philippe Weber and Alberto Siccardi as respectively Chairman and Member of the Remuneration Committee, in addition Victor Balli was elected as a new Member of the Remuneration Committee. The Extraordinary General Meeting held on December 18, 2020 ("EGM 2020"), appointed Mr. Braglia as Member of the Remuneration Committee, succeeding Dr. Alberto Siccardi and

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

[4] Medacta's Organizational Regulations (including the charters of the Board Committees) are available on Medacta's website at https://www.medacta.com/EN/corporate-governance?goto=organizational-regulations.

Mr. Victor Balli as Members of the Committee who resigned following the EGM 2020. As a result of the decisions taken by the EGM 2020, the Remuneration Committee is composed of the independent directors Philippe Weber, as Chairman, and Riccardo Braglia. The Chairman of the Board from time to time attends the Remuneration Committee meetings as a non-voting guest; however, he is not present during meetings or parts thereof during which his own performance or remuneration is discussed.

In general, the purpose of the Remuneration Committee is to advise and assist the Board of Directors with regards to compensation-related matters of Medacta with a focus on setting guidelines on remuneration for both Members of the Board of Directors and the Group Executive Management. As a core responsibility, the Remuneration Committee makes proposals annually (or more often as required) to the Board of Directors related to the compensation package of the Members of the Group Executive Management and Board of Directors. For a more detailed overview of the Members, working methods and main duties and responsibilities of the Remuneration Committee, as well as details regarding their meetings held in 2020, please refer to the sub-heading entitled "Remuneration Committee" in the Corporate Governance Report (section 3.5 "Internal Organizational Structure"), included in this Annual Report.

The Remuneration Committee meets at such frequency as it deems necessary to fulfill its duties, normally ahead of ordinary Board meetings and at least four times per year. The Remuneration Committee met four times in 2020 for an average duration of one hour and a half. All members were present at each meeting and all the meetings were organized through webcast.

The Chairman of the Remuneration Committee reports to the Board of Directors at the Board meetings following each Remuneration Committee meeting, ensuring that the Board of Directors is kept informed in a timely and appropriate manner of all material matters within the Remuneration Committee's area of responsibility. Additional meetings may be held and may be convened at the request of either the Board of Directors or any Remuneration Committee Member. The Remuneration Committee may invite to meetings and shall communicate periodically with the CEO, the CFO and the Head of HR, as well as such other persons as the Remuneration Committee deems appropriate, also including external advisors. During Financial Years 2019 and 2020, the Remuneration Committee and selected Medacta's managers appointed by the Remuneration committee (Group HR Director and Senior Strategic Financial Advisor) worked with HCM International Ltd. as external independent advisor on remuneration matters and on assisting the development of the Long-Term Incentive Plan scheme. HCM International Ltd. does not have any additional mandates at Medacta. Furthermore, the Remuneration Committee regularly holds private sessions with Members of the Group Executive Management, except on those meetings or the part of meetings in which their own performance or remuneration is discussed.

In accordance with the article 19 of the **Articles of Association** and the **Remuneration Committee Charter,** the Remuneration Committee discussed the following topics during 2020:

Topic	April	May	September	December
Review and Approval of the 2019 Remuneration Report	✔			
Proposals to the full Board of Directors regarding the approval of the individual compensation of the Chairman of the Board of Directors, the other members of the Board of Directors	✔			
Proposals to the full Board of Directors regarding the individual compensation (fixed and variable compensation) of the members of the Group Executive Management	✔			
Long Term Incentive Plan (LTIP): - LTIP scheme review; - Execution timing.	✔	✔	✔	✔
Remuneration Report: - structure of the Remuneration Report - Remuneration Report review	✔			✔
Review of benchmarking peer group and external benchmark for Group Executive Management remuneration				✔
Review of remuneration principles, strategy and systems		✔	✔	✔
Individual targets and weighting of 2020 variable short-term incentive for the members of the Group Executive Management *		✔	✔	

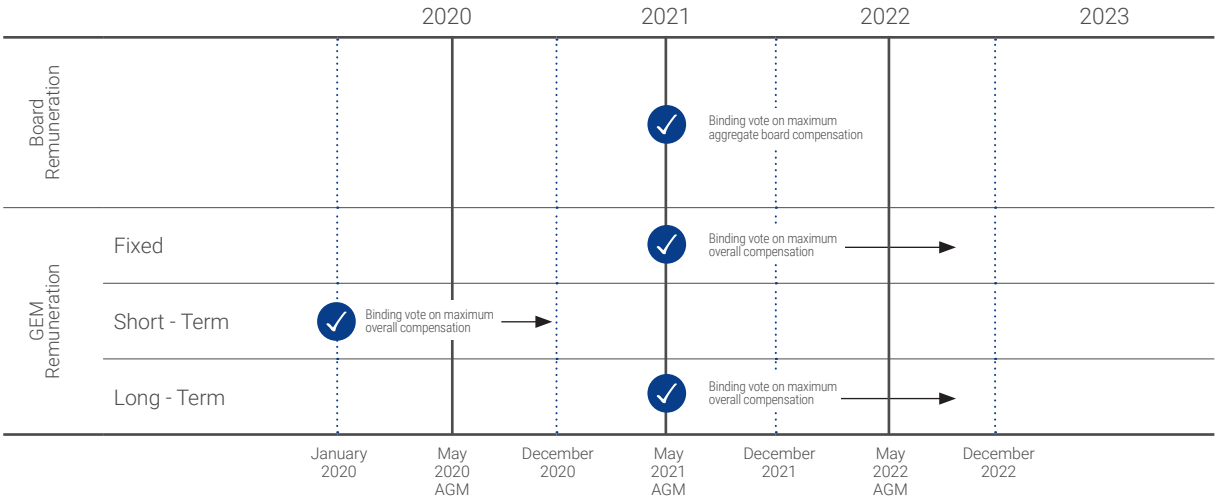
* To be proposed at the AGM 2021 meeting for approval.

2.2 ROLE AND ACTIVITIES OF THE SHAREHOLDERS REGARDING THE AGM

The Board of Directors will submit five separate remuneration-related resolutions for shareholder approval at the AGM 2021 (as illustrated in Exhibit below):

- The maximum aggregate amount of remuneration of the Board of Directors for the term of office until the next annual shareholders' meeting (i.e. until the next annual shareholders' meeting in 2022);
- The maximum overall fixed remuneration of the Group Executive Management to be paid for the Financial Year ending December 31, 2022;
- The maximum overall variable short-term remuneration for the Group Executive Management that may be paid or allocated for the business year ended December 31, 2020;
- The maximum overall variable long-term remuneration of the Group Executive Management that may be allocated in for the business year ending December 31, 2022;
- The amount of remuneration to Members of the Board of Directors for consulting services to the Company or other group companies in a function other than as Members of the Board of Directors, until the next annual shareholders' meeting (i.e. until the next annual shareholders' meeting in 2022).

In addition, the Board of Directors will submit this Remuneration Report to a separate consultative vote for the shareholders at the AGM 2021.



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

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

At the Annual General Meeting ("AGM") 2020, the Board of Directors submitted five separate remuneration-related proposals, which were all approved by the shareholders:

- The maximum aggregate amount of remuneration for the Members of the Board of Directors for the term from the AGM 2020 until the AGM 2021: CHF 0.75 million;
- The maximum overall fixed remuneration of the Group Executive Management to be paid for the Financial Year ending December 31, 2021: CHF 1.2 million;
- The maximum overall short-term remuneration of the Group Executive Management to be paid for the Financial Year ending December 31, 2019: CHF 1.1 million;
- The maximum overall variable long-term remuneration of the Group Executive Management to be allocated in the Financial Year ending December 31, 2021: CHF 1 million;
- The maximum aggregate amount for services covered by article 25(3) of the **Articles of Association** (Consulting Services) for the period until the AGM 2021: CHF 0.75 million.

In addition, shareholders approved the FY 2019 Remuneration Report in a consultative vote.

3. REMUNERATION PHILOSOPHY AND PRINCIPLES

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

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

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

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

As a base for this work the Remuneration Committee, each year, assesses the compensation packages of similar companies. To carry out the compensation benchmark the following two groups of companies were analyzed in 2020:

- Listed companies in the worldwide MedTech Industry as well as worldwide players in Healthcare with a similar size (in terms of employees and / or revenue)[5]; and
- Companies in the Swiss MedTech industry or Healthcare industry with around 250 to 2'000 employees, with an international scope[6].

The assessment revealed that the Group Executive Management (i.e. without considering the voluntary 2020 cuts to their compensations) are in line with both the worldwide and Swiss MedTech and Healthcare industry, considering our market and size.

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

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

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

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

[5] Johnson & Johnson, Zimmer Biomet, Stryker, Globus Medical, based on information disclosed on the publicly available annual reports for 2019
[6] Straumann, Sonova, Medartis, Tecan, Ypsomed, based on information disclosed on the publicly available annual reports for 2019

4. REMUNERATION FRAMEWORK FOR BOARD OF DIRECTORS

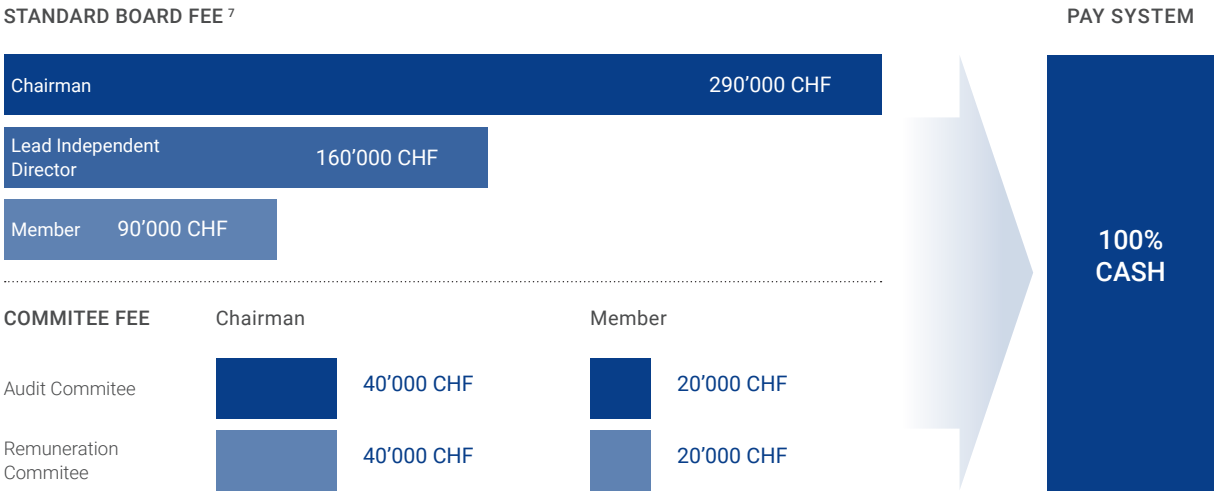
4.1 REMUNERATION APPROACH

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

In order to highlight the independent role of the Members of the Board of Directors in performing their supervisory duties, the entire remuneration of the Board in Financial Year 2020 is fixed and does not include any performance-related component.

The remuneration for the Members of the Board of Directors relates to their term of office, which starts with their election at the AGM and ends at the subsequent AGM. The remuneration consists of a fixed annual base fee and fixed fees for membership in Board Committees, reflecting the time commitment as well as the obligations and responsibilities of the roles, paid monthly in twelve equal instalments. The individual sum of the annual base fee and, where applicable, fixed fees for membership in Board Committees are paid in cash. For the term until the AGM 2021, consistent with the shareholder approval, Board members were paid a fixed annual base fee of CHF 90 thousand, with the Chairman receiving CHF 290 thousand. For membership in a Board Committee, Members were paid a fixed fee of CHF 20 thousand, with the respective chairpersons receiving CHF 40 thousand. In addition, in recognition of the extra time commitment associated with the role, the Lead Independent Director received an additional allowance of CHF 70 thousand (for a total amount CHF 160 thousand).

The fees paid for the Financial Year 2020 (as indicated on the table in section 4.2 "Remuneration Awarded 2020") reflect a reduction of the Board of Directors total compensation. In response to the ongoing developments of Coronavirus pandemic, early in April, Board of directors along with the Group Executive Management, decided to voluntarily reduce their compensation. Our Founder and Chairman of the BoD, Dr. Alberto Siccardi and our Chief Executive Officer Ing. Francesco Siccardi decided to reduce their 2020 total compensation by 50%. The other members of the BoD and GEM decided to reduce their total compensation by 20%.



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

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

[7] This does not reflect the special COVID-19 pay cuts.

4.2 REMUNERATION AWARDED 2020 (AUDITED)

For the term from the AGM 2020 until the AGM 2021, Medacta's shareholders approved a maximum aggregate amount of remuneration for the Board of Directors of CHF 750 thousand. Total remuneration awarded to the Board of Directors during Financial Year 2020 amounted to CHF 653 thousand and represents remuneration for services rendered from January 1, 2020 until December 31, 2020. As mentioned above, to soften the economic impact of the COVID-19 pandemic, the Board Members decided to reduce their 2020 compensation. Our Founder and Chairman of the Board, Dr. Alberto Siccardi decided voluntarily, to reduce his 2020 total compensation by 50%, while all the other Members reduced their total compensation by 20%. Thus, the amounts actually paid in 2020 remain within the limits of the amount approved by the shareholders for the same period. As compared to FY 2019, there has been an overall decrease of 22% (when comparing on a pro rata basis for the period between April 2019 and 31 December 2019 and FY 2020). The decrease reflects the composition of the Board, but was most significantly the result of the voluntary salary reductions taken in connection with the onset of the COVID-19 pandemic.

The Board of Directors was expanded at the EGM occurred last December 18, 2020 to include one additional member, Mr. Riccardo Braglia, with same level of compensation as provided by the other Members of the Board of Directors. The following tables show remuneration paid to the Members of the Board of Directors from January 1 until December 31, 2020 and April 2019 to December 2019:

2020 BoD Compensation

CHF	Role within the Board	Fixed Board fee	Committee fees	Compensation cuts[1]	Expenses[2]	Social security contribution	Sub-total	Shares	Total
Alberto Siccardi	Chairman	290'000	20'000	(155'000)	16'000	10'850	181'850	-	181'850
Maria Luisa Siccardi Tonolli	Member	90'000	20'000	(22'000)	8'100	7'877	103'977	-	103'977
Victor Balli	Member	160'000	51'833	(42'367)	504	15'042	185'012	-	185'012
Philippe A. Weber[3]	Member	90'000	51'833	(28'367)	-	10'145	123'611	-	123'611
Marco Gadola[4]	Member	34'750	15'444	-	-	4'493	54'687	-	54'687
Riccardo Braglia[5]	Member	3'500	720	(844)	-	302	3'678	-	3'678
TOTAL ALL MEMBERS		**668'250**	**159'830**	**(248'578)**	**24'604**	**48'710**	**652'817**	**-**	**652'817**

[1] As communicated with ad-hoc release dated April 17, 2020, to soften the economic impact of the COVID-19 pandemic, the Board Members decided to reduce their 2020 compensation. Our Founder and Chairman of the Board, Dr. Alberto Siccardi decided voluntarily, to reduce his 2020 total compensation by 50%, while all the other Members reduced their total compensation by 20%.
[2] Out-of-pocket expenses incurred by the Board of Directors are duly reimbursed by the Company with the exception of Dr. Alberto Siccardi and Ms. Maria Luisa Siccardi Tonolli, who are reimbursed with an annual lump-sum of CHF 16 thousand and CHF 8 thousand, respectively.
[3] Philippe Weber is a Partner at Niederer Kraft Frey AG (NKF), which acted as legal adviser to Medacta in 2020. Refer to Note 4.2 "Remuneration Awarded 2020 (Audited)" for a comprehensive disclosure of the fees received by NKF.
[4] Marco Gadola became a Board Member effective January 1, 2020 and was compensated till the annual general meeting held on May 19, 2020 since he did not stand for re-election to the board of directors of Medacta Group SA.
[5] Riccardo Braglia became a Board Member effective December 18, 2020.

2019 BoD Compensation (from April 2019 to December 31, 2019)

CHF	Role within the Board	Fixed Board fee	Committee fees	Expenses[1]	Social security contribution	Sub-total	Shares	Total
Alberto Siccardi[2]	Chairman	217'500	15'000	12'000	17'250	261'750	-	261'750
Maria Luisa Siccardi Tonolli[2]	Member	67'500	15'000	6'075	7'210	95'785	-	95'785
Victor Balli	Member	120'000	30'000	504	12'965	163'469	-	163'469
Philippe A. Weber[3]	Member	67'500	30'000	-	8'580	106'080	-	106'080
TOTAL ALL MEMBERS[4]		**472'500**	**90'000**	**18'579**	**46'005**	**627'084**	**-**	**627'084**

[1] Out-of-pocket expenses incurred by the Board of Directors are duly reimbursed by the Company with the exception of Dr. Alberto Siccardi and Ms. Maria Luisa Siccardi Tonolli, who are reimbursed with an annual lump-sum of CHF 16 thousand and CHF 8 thousand, respectively (the amounts reported in the table above are pro-quota on nine months).
[2] In 2019 Dr. Siccardi rendered services in the HR management. but he decided voluntarily to offer the aforementioned services free of charge. In 2019, Ms. Maria Luisa Siccardi Tonolli received no consultancy fees as no services were rendered during the reporting period. Since the IPO, Ms. Siccardi Tonolli has exclusively served as a member of the Board of Directors.
[3] Philippe Weber is a Partner at Niederer Kraft Frey AG (NKF), which acted as legal adviser to Medacta in 2019. Refer to Note 4.2 "Remuneration Awarded 2019 (Audited)" for a comprehensive disclosure of the fees received by NKF
[4] Marco Gadola became a Board Member effective January 1, 2020. He did not receive any remuneration in FY 2019.

The reconciliation of approved and dispensed compensation for the 2019–2020 EGM and 2020-2021 AGM period is shown in the table below:

REMUNERATION APPROVED AND PAID/GRANTED FOR THE MEMBERS OF THE BOARD

	Total remuneration granted	Maximum aggregate amount available	Status
2019 EGM to 2020 AGM	CHF 0.9 million*	CHF 1 million	Approved 2019 EGM
2020 AGM to 2021 AGM	CHF 0.7 million**	CHF 0.75 million	Approved 2020 AGM

* Calculated for the 4 members of the Board elected in the 2019 EGM
** Calculated for the 4 members of the Board elected in the 2020 AGM. The amount represents an estimate for the term of office from 2020 AGM to 2021 AGM. The final amount will be disclosed in the 2021 Remuneration Report

In addition, with reference to article 25 para. 3 of the **Articles of Association**, for the period from the EGM 2019 until AGM 2020, Niederer Kraft Frey AG, where Philippe Weber is a Partner and that, amongst others, acted as legal adviser to Medacta in the IPO, received fees in the amount of CHF 1'087 thousand[8] (within the limits of CHF 1'200 thousand, approved by the EGM 2019). For the period from the AGM 2020 until December 31, 2020, Niederer Kraft Frey AG, acted as legal adviser to Medacta and received fees in the amount of CHF 86 thousand (so far within the limits of CHF 750 thousand, approved by the AGM 2020). See Section 8 for Related Party Compensation.

4.3 LOANS AND CREDITS

In accordance with article 28 of **Articles of Association**, no loans or credits were granted to current or former Members of the Board of Directors or to persons closely associated with current or former Members of the Board of Directors. No such loans or credits were outstanding at December 31, 2020.

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

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

[8] From the professional fees paid to Niederer Kraft Frey, an amount equal to CHF 565 thousand were reimbursed by the selling shareholders.

5. REMUNERATION FRAMEWORK FOR GROUP EXECUTIVE MANAGEMENT

5.1 REMUNERATION APPROACH

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

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

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

FIXED COMPENSATION

ANNUAL BASE SALARY

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

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

The annual base salaries of the Members of the Group Executive Management are reviewed on a yearly basis considering the above-mentioned factors and adjustments are made according to alterations in the factors under assessment as well as to market developments[9].

BENEFITS AND PENSION

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

Other benefits may include a car and phone allowance and other fringe benefits that, if any, are disclosed in the remuneration table included in sub-heading 5.2 "Remuneration Awarded 2020 (Audited)" of this Report. Out-of-pocket expenses incurred by Members of the Group Executive Management in connection with their employment services for Medacta are duly reimbursed by the Company in accordance with the applicable regulations and are not considered to be remuneration subject to approval and, hence, are not further considered in the remuneration tables.

SHORT-TERM VARIABLE REMUNERATION

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

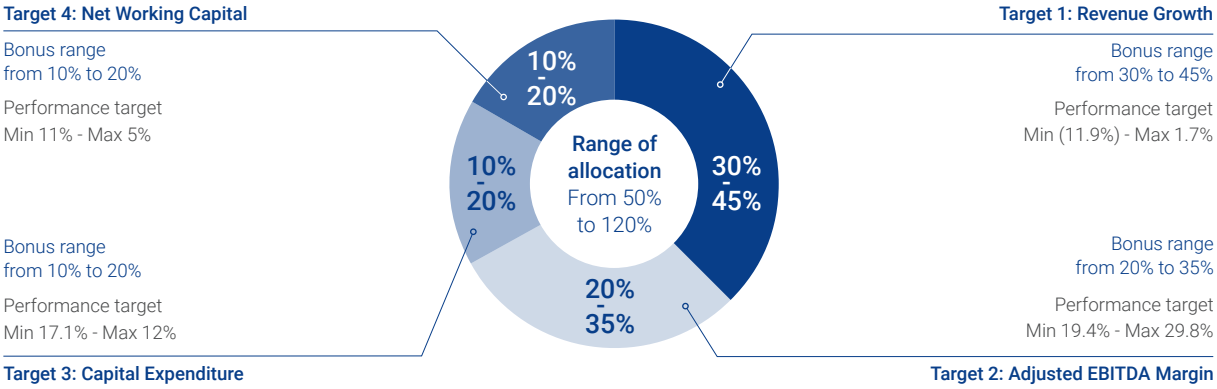
The short-term variable compensation of the Group Executive Management is determined based on the reaching of four financial targets: Revenue Growth, Adjusted EBITDA Margin, Capital Expenditure and Net Working Capital. The financial targets are weighted differently for each member of the Group Executive Management, taking into account position and

[9] Refer to paragraph to section 3 of this Report "Remuneration Philosophy and Principle" for the benchmarking analysis performed in 2020.

level of responsibility. Revenue Growth target is between (11.9)% and 1.7% and weights respectively 45% and 30% to 40% of the bonus for the CEO and for the other Members of the Group Executive Management, respectively; Adjusted EBITDA Margin target is between 19.4% and 29.8% and weights respectively 35% and 20% to 30% of the bonus for the CEO and for the other Members of the Group Executive Management, respectively; Capital Expenditure target is between 17.1% and 12% and weights 10% and 15% to 20% of the bonus for the CEO and for the other Members of the Group Executive Management, respectively; and Net Working Capital target is between 11% and 5% and weights respectively 10% and 15% to 20% of the bonus for the CEO and for the other Members of the Group Executive Management, respectively. In addition, approximately 10% of the short-term variable compensation of the CFO is determined at the discretion of the Board of Directors, upon recommendation of the CEO and the Remuneration Committee, based on the quality of the performance of the CFO duties (as described in greater detail below).

Upon proposal by the Remuneration Committee, the Board of Directors is responsible for the selection and weighting of performance targets during the first quarter of the one-year performance period as well as determining what the maximum short-term compensation can comprise. For FY 2020, the short-term variable remuneration, for the Group Executive Management represents 150% of the base salary reduced by the aforementioned pay cut. The CEO's short-term variable remuneration represents a maximum of 276% of the base salary and for other Members of the Group Executive Management on average 44% of the based salary, both reduced by the relative compensation cuts. This puts a material portion of the Group Executive Management's remuneration at risk in alignment with shareholders' interests.

The variable short-term compensation for the Members of the Group Executive Management for the financial year 2020 was determined by the Board of Directors upon recommendation from the Remuneration Committee on the basis of the below described base and maximum amounts, criteria, weightings and other principles. In order to calibrate the target achievement curve for one plan cycle, a target achievement level is identified in accordance with the overall business plan and the budget for the respective year. Minimum and maximum performance achievement levels are defined considering, amongst other metrics, the previous year's performance level. In 2020, Remuneration Committee given the uncertainties brought by the COVID-19 pandemic, decided to change the GEM 2020 financial targets from the ones approved in 2019 and align them to the revised 2020 budget to maintain a strong link between pay and performance.



The reaching of the above financial targets is determined by the Board of Directors based on the audited consolidated financial statements of Medacta Group SA for the financial year on December 31, 2020.

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

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

The qualitative performance represents 10% of the CFO's short-term compensation and is primarily based on the performance of:

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

For Financial Year 2020, all of the four approved minimum performance thresholds were exceeded, and the targets were achieved at different levels within their respective target achievement curve. This resulted in an overall short-term compensation proposed payout to the AGM 2021 for the CEO of CHF 323 thousand (CHF 1'013 thousand gross STI minus 2020 compensation cut for CHF 691 thousand) and an overall proposed payout of CHF 80 thousand (CHF 192 thousand gross STI minus 2020 compensation cut for CHF 112 thousand) for the other Members of the Group Executive Management, upon approval by the AGM 2021. This represents 41% for the CEO and 15% for the other members of the Group Executive Management total compensation.

Since STIP reflects the previous year's performance (i.e. FY 2020), payments will be made in a lump sum cash payment following AGM approval. There are no forfeiture or clawback provisions in relation thereto.

OUTLOOK: LONG-TERM VARIABLE REMUNERATION

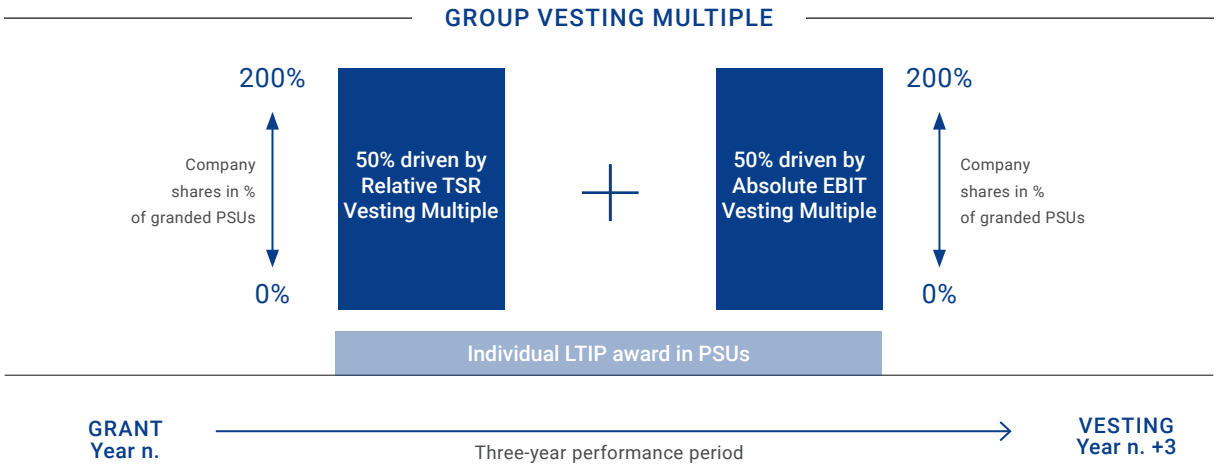
In order to reflect Medacta's positioning as a listed company, reshaping the role and responsibilities of the Members of the Group Executive Management, in accordance with article 26 of the **Articles of Association**, share and business performance based long-term incentive plan (LTIP) was developed during the course of Financial Year 2019 and 2020. In the first quarter 2020, in light of the COVID-19 developments and accompanying uncertainties, the Remuneration Committee decided that the timeline for the LTIP's implementation had to be postponed to a later date. On March 29, 2021 the Remuneration committee approved the implementation of the LTIP, under the Performance Share Plan ("The Plan"), that will be open to eligible participants starting in April, 2021. The Board is responsible for administering and executing the Plan and has full power to construe and interpret the Plan, establish, and amend rules and regulations for its administration, and perform all other actions relating to the Plan. To the extent permitted by law, the Board may delegate its powers under the Plan, in whole or in part, to the Remuneration Committee or other corporate bodies. The Board may also appoint a Plan Administrator to undertake administrative tasks.

Under the LTIP Members of the Group Executive Management, other selected key managers and employees are eligible to participate in the LTIP. A prerequisite for participating in the Plan is an active and ongoing employment (i.e. which is not under notice of termination). The LTIP is designed to provide Members of the Group Executive Management, other selected key managers and employees an opportunity to become shareholders of the Company, to participate in the future long-term success and prosperity of the Group, and to enhance and reward loyalty of the employees. Furthermore, the LTIP is intended to attract, motivate, and retain participants of the plan, and thus, to enhance the value of the Group for the benefit of shareholders.

Once implemented, the LTIP will be an incentive plan measured over a rolling three-year performance period with the purpose of fostering long-term value creation for the Group. Eligible plan participants will be granted a certain number of Performance Share Units (PSUs), which represent a contingent entitlement to receive Medacta shares in the future. The number of granted PSUs will depend on the individual LTIP grant level, individually determined by the Board of Directors each year based on the individual's performance, the position, complexity of the function, and level of responsibility. For members of the Group Executive Management, the number of PSUs will be subject to the amounts approved at the applicable AGM. The number of PSUs that vest for a specific participant is calculated at the Vesting Date by multiplying the number of granted PSUs by the Final Vesting Multiple, rounded up to the next whole Share. Ultimately, the number of PSUs which vest shall be determined by the Board or a body designated by the Board in a final, conclusive and binding manner. The Final Vesting Multiple equals either Group Vesting Multiple (see description below) or Country Vesting Multiple (see description below), whereas the latter applies if all of the following three conditions are met:

- Group Vesting Multiple is below 0.30, and,
- the respective Participant is eligible for country performance consideration, and,
- the country performance threshold has been met for the entire duration of the plan.

If any one of the above conditions is not met, the Final Vesting Multiple equals the Group Vesting Multiple.



The Group Vesting Multiple is based upon a 50% weighting of the Relative TSR Vesting Multiple and a 50% weighting of the Absolute EBIT Vesting Multiple, rounded off to two decimal places, whereby:

- the Absolute TSR Vesting Multiple is calculated as the (positive or negative) difference between Medacta's TSR and the SPI Extra Total Return TSR[10], measured in percentage points (p.p.). Medacta's TSR is measured considering the compound annual growth rate of the Reference Price Ending compared to the Reference Price Beginning over the three (3)-year TSR Performance Period and the accumulative, nominal dividends distributed in the same period. To be consistent with the index, it is assumed that dividends are reinvested. The Relative TSR Vesting Multiple cannot be lower than 0.00 or higher than 2.00, and
- the Absolute EBIT Vesting Multiple is calculated based on the EBIT of the Group measured as the sum of the absolute EBIT over the three (3)-year Absolute EBIT Performance Period and calculated by the Board or a body designated by it, according to the Absolute EBIT Vesting Multiple table. The Absolute EBIT Multiple cannot be lower than 0.00 or higher than 2.00.

The Country Vesting Multiple (if relevant) is calculated based upon a 100% weighting of the respective country's revenues and will be either 0.00 or 0.30. For each country, details with regards to performance measure, performance targets, performance period and performance calculation are set out in the Allotment Certificate.

Overall, the combined vesting multiple is expected to never exceed 200%. If the performance of both Group and Country (if relevant) Vesting Multiple lies below the respective minimum performance threshold, the resulting combined vesting multiple will be 0% and consequently no PSUs vest. In certain circumstances, for example the termination of employment (e.g. as a result of retirement) or a corporate event (e.g. change of control due to a merger), an accelerated vesting of the PSUs can also occur. In such cases, the Board of Directors has the right to amend the terms of the LTIP. Other circumstances under which no PSUs vest include various forfeiture and clawback clauses in case of certain instances of termination of employment during the performance period of the LTIP and certain other actions as determined by the Board in accordance with the LTIP regulations.

For the Group Executive Management the PSUs allocation, will be disclosed in the 2021 annual report.

[10] This is the Swiss All Share Index and is excluding the 20 biggest market capitalization companies in the SPI and all companies with a free float of less than 20% or shares of investment companies (194 companies).

5.2 REMUNERATION AWARDED 2020 (AUDITED)

COMPENSATION MIX

The Remuneration Committee ensures that the Group Executive Management remuneration focuses on pay-for-performance and anchors the strategy of the Group by delivering a substantial portion of remuneration in the form of variable and performance-related incentives. Overall, total variable remuneration of the CEO for the financial year 2020 amounted to 88% of his total remuneration, while other Members of the Group Executive Management's total variable remuneration for the financial year 2020 ranged from 10% to 20% of the total remuneration, in each case subject to approval of the AGM 2021.

The total aggregate amount approved by the annual shareholders' meeting 2020 for the fixed compensation of the Group Executive Management for the Financial Year 2020 amounts to CHF 1'200 thousand. The sum of the total fixed compensation paid to the Group Executive Management (including the CEO) for the relevant period from January 1, 2020 to December 31, 2020 amounts to CHF 802 thousand. It is thus within the limits of the amount approved by the annual shareholders' meeting for the same period.

Variable compensation for the Members of the Group Executive Management includes the annual short-term incentive (STI). The total aggregate amount for 2020 proposed by the Board of Directors to the AGM 2021 for the entire Group Executive Management (including CEO) will be CHF 403 thousand (CHF 1'205 thousand gross STI minus 2020 compensation cut for CHF 803 thousand). The limit of the STI for 2020 for the Group Executive Management will be decided at the 2021 annual shareholders' meeting.

During Financial Year 2020, the Group Executive Management consisted of three Members, all of them being Members of the Group Executive Management during the entire period. During FY2020, the Group Executive Management did not receive any form of equity compensation as no such plans were in place. In addition, during the course of the FY2020 the Group Executive Management, to soften the economic impact of the Coronavirus pandemic, decided along with the Board Members to voluntarily reduce their 2020 compensation. Our CEO, Francesco Siccardi decided voluntarily, to reduce his 2020 total compensation by 50%, while all the other Members reduced their total compensation by 20%. This in an overall decrease of 24% compared to previous year.

The following tables show the total aggregate remuneration, including the proposed short-term compensation, for the Members of the Group Executive Management and the highest amount for an individual member (i.e. the CEO), for the period from January 1, to December 31, 2019 and 2020.

2020 GEM Compensation

CHF	Fixed Compensation	Proposed variable short-term compensation[1]	Variable long-term compensation	Compensation cuts[2]	Expenses[3]	Pension & social security contribution	Total
Francesco Siccardi (CEO)	367'100	1'013'098	-	(690'099)	22'200	69'566	781'865
Other members of the Group Executive Management	434'785	197'282 [4]	-	(112'411)	-	58'533	578'189
Total all members of the Group Executive Management	**801'885**	**1'210'380**	**-**	**(802'510)**	**22'200**	**128'099**	**1'360'054**

[1] Proposal by the Board of Directors to the AGM 2021.
[2] As communicated with Ad-hoc release dated April 17, 2020, to soften the economic impact of the Coronavirus pandemic, the Group Executive Management decided to reduce their 2020 compensation. Our CEO, Ing. Francesco Siccardi decided voluntarily, to reduce his 2020 total compensation by 50%, while all the other Members reduced their total compensation by 20%. These 2020 remuneration cuts will be offset in the settlement of the 2020 short-term compensation, subject to approval of the AGM 2021.
[3] Out-of-pocket expenses, including car lease, incurred by Mr. Francesco Siccardi are duly reimbursed with an annual lump-sum of CHF 22 thousand.
[4] As part of the proposed variable short-term compensation, we recognized CHF 70 thousand related to the CFO compensation for holding in 2020 an additional role as IR, pending the planned appointment of a new head of IR occurred in September 2020.

2019 GEM Compensation

CHF	Fixed Compensation[1]	Approved at AGM 2020[2]	Variable long-term compensation	Special Bonus[3]	Expenses[4]	Pension & social security contribution	Total
Francesco Siccardi (CEO)	268'125	550'000	-	-	16'650	80'248	915'023
Other members of the Group Executive Management	326'089	135'000 [5]	-	321'978	-	74'574	857'641
Total all members of the Group Executive Management	**594'214**	**685'000**	**-**	**321'978**	**16'650**	**154'822**	**1'772'664**

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

5.3 LOANS AND CREDITS

In accordance with article 28 of the **Articles of Association**, no loans or credits were granted to current or former Members of the Group Executive Management or to persons closely associated with current or former Members of the Group Executive Management. No such loans or credits were outstanding at December 31, 2020.

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

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

6. OWNERSHIP OF SHARES AND OPTIONS

As of December 31, 2020, there were not outstanding options to acquire shares in the Company. The following tables show the number of shares held by Board of Directors and Group Executive Management as of December 31, 2020:

SHARES HELD BY MEMBERS OF THE BOARD (AUDITED)

Board Members	Role	Shares held as at December 31, 2020		Shares held as at December 31, 2019
Alberto Siccardi	Chairman	2'037'645		2'022'710
Maria Luisa Siccardi Tonolli	Member	3'946'273		3'946'273
Victor Balli	Lead Independent Director	1'500	***	1'500
Philippe Weber	Independent Director	-		-
Riccardo Braglia*	Independent Director	43'500	***	n/a
Marco Gadola**	Independent Director	n/a		-

* Member of the Board of Directors as of December 18, 2020.
** Did not stand for re-election at 2020 AGM held on May 19, 2020.
*** Shareholdings represent less than 0.3% of the Company's share capital and voting rights.

SHARES HELD BY MEMBERS OF THE GEM (AUDITED)

GEM Members	Role	Shares held as at December 31, 2020	Shares held as at December 31, 2019
Francesco Siccardi	Chief Executive Officer	3'961'934	3'946'272
Corrado Farsetta	Chief Financial Officer	-	-
Alessandro Siccardi	Supply Chain Director	3'946'273	3'946'273

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

For the reporting period, no compensation other than described herein was paid or granted to Members of the Board of Directors and the Group Executive Management. Other than as described herein in relation to Marco Gadola for his service on our Board during the first part of 2020, no compensation was paid or granted to former Members of the Board of Directors or Group Executive Management in 2020.

8. RELATED PARTY COMPENSATION

Members of the Board of Directors and of the Group Executive Management who have received consultancy fees for services rendered are reported in the 2020 Financial Statements of Medacta Group SA (sub-heading 6.26 "Related Party Transactions"), enclosed in this Annual Report. For the Remuneration paid to the Board of Directors, refer to sub-heading 4.2 "Remuneration Awarded 2020 (AUDITED)" of this Remuneration Report.

9. REPORT OF THE STATUTORY AUDITOR ON THE REMUNERATION REPORT

Deloitte.

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Report of the Statutory Auditor

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

We have audited the remuneration report of Medacta Group SA for the year ended 31 December 2020. Our audit is limited to the information provided in the sections 4.2, 5.2, 6, and 7 labeled "audited" on pages 88, 89, 94, 95 and 96 in accordance with the articles 14 to 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance).

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

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

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

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

Opinion
In our opinion, the remuneration report for the year ended 31 December 2020 of Medacta Group SA complies with Swiss law and articles 14 – 16 of the Ordinance.

Deloitte SA

Fabien Lussu
Licensed audit expert
Auditor in Charge

Michele Castiglioni
Licensed audit expert

Lugano, 30 March 2021
FL/MC/di

Medacta International

FINANCIAL REPORT

INDEX

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.

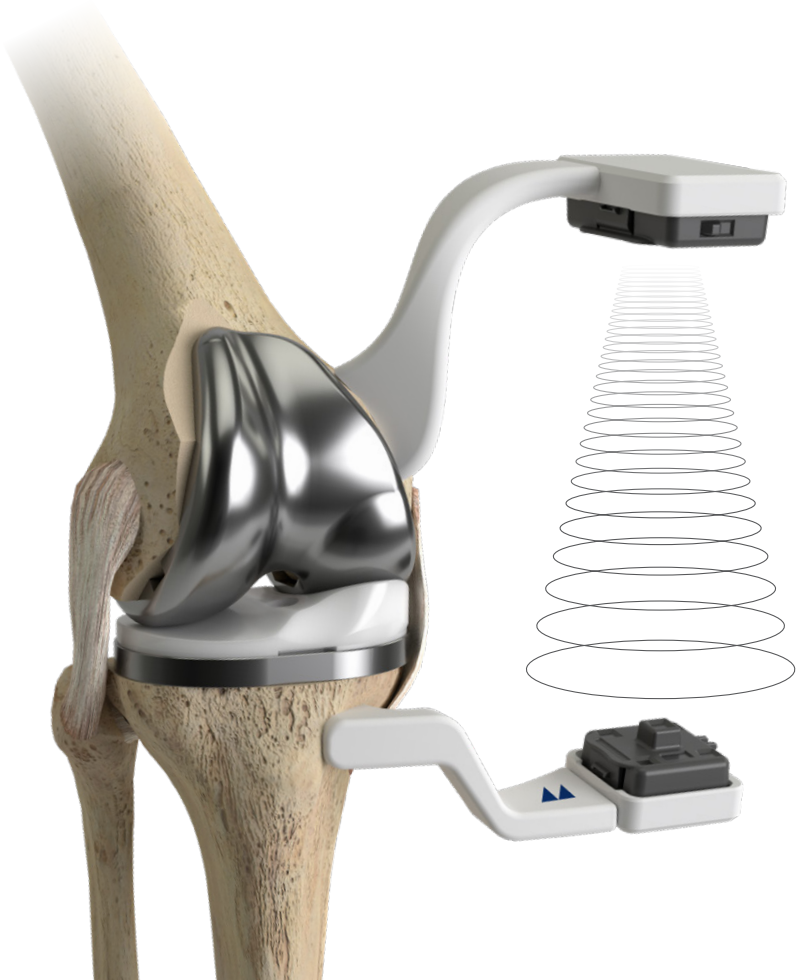
NextAR is the latest addition to Medacta's MySolutions platform, providing personalized solutions that will support the surgeon to take care of patients as individuals. Together with our comprehensive implant portfolio and surgical techniques, MySolutions empowers Medacta's holistic approach to personalized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

NEXTAR.MEDACTA.COM

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.

The Notes are an integral part of the Consolidated Financial Statements

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".

The Notes are an integral part of the Consolidated Financial Statements

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 *	6.11; 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 Siccardi 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 prothesis based on reported use. In the case of large hospitals and clinics, Medacta supplies prosthesis along with instruments in consignment stock, to meet demand for surgery. Medacta recognises revenue at a point in time when the hospitals are 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 IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The 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)**
Gross outflows	*25'617*	-	-	***25'617***
Gross inflows	*(26'914)*	-	-	***(26'914)***

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

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

The level 2 balance relates 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 construction	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 construction	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 aquired"

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

MICROPORT MATTER

ARBITRATION

In a pending arbitration (the "Arbitration"), commenced with the American Arbitration Association on or about July 30, 2018 in Memphis Tennessee, the 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 tortuously interfered with the asset purchase agreement between MicroPort and a distributor of orthopedic medical devices, Advanced Surgical Devices ("ASD"), by, among other things, inducing ASD to breach that agreement. In connection with a parallel arbitration proceeding 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 tortuously 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.

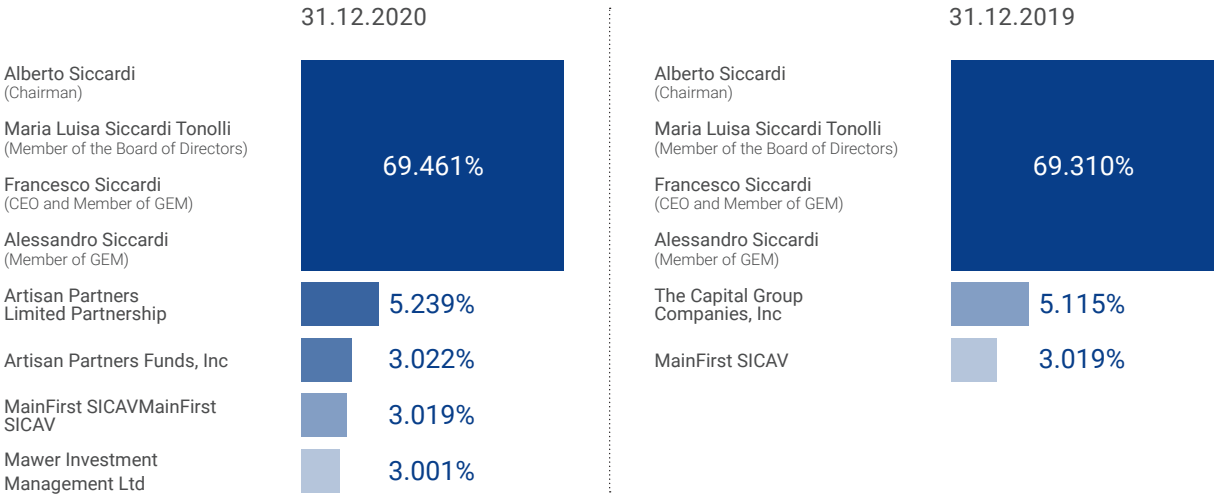
We believe that the allegations are unfounded and, if necessary, will vigorously defend our position and the positions of our employees and representatives. Medacta entered into the physician consultancy agreements with the consultant for legitimate purposes and has maintained readily accessible written 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.

	Average		Closing	
	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	How the scope of our audit responded to the 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.	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	How the scope of our audit responded to the 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.	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	How the scope of our audit responded to the 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.	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 INCOME STATEMENT

8.4.1 NET RELEASE OF REPLACEMENT RESERVES AND OTHER HIDDEN RESERVES

During the fiscal period no release or use of replacement reserves or other hidden reserves has taken place.

8.4.2 OWN SHARES

As of December 31, 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 EANINGS	**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	How the scope of our audit responded to the key audit matter
As described in notes 8.3.3 and 8.3.4 to the standalone financial statements, investments in and loans to subsidiaries amount to CHF 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.	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

Medacta International

ADDITIONAL INFORMATION FOR INVESTORS

FINANCIAL CALENDAR

25 MAY
2021

ANNUAL
GENERAL MEETING

20 JULY
2021

PUBLICATION OF 2021
HALF-YEAR UNAUDITED
TOP-LINE FIGURES

10 SEPTEMBER
2021

PUBLICATION
OF 2021 HALF-YEAR
RESULTS

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

FORWARD-LOOKING INFORMATION DISCLAIMER

This annual report has been prepared by Medacta and includes forward-looking information and statements concerning the outlook for our business. These statements are based on current expectations, estimates and projections about the factors that may affect our future performance. These expectations, estimates and projections are generally identifiable by statements containing words such as 'expects,' 'believes,' 'estimates,' 'targets,' 'plans,' 'outlook' or similar expressions.

There are numerous risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from the forward- looking information and statements made in this annual report. Currently, it is very difficult to provide a meaningful prediction on how the Swiss governmental action in response to the ongoing outbreak of a novel coronavirus disease (COVID-19) will affect the Medacta's operations and how long such measures will remain in place. The COVID-19 outbreak has caused, and may continue to cause, economic instability and a significant decrease of total economic output in the affected areas and globally. The impact of the COVID-19 outbreak on the general economic environment in the markets in which Medacta operates remain uncertain and could be significant. In addition, other important factors that could cause such differences include: changes in the global economic conditions and the economic conditions of the regions and markets in which the Group operates; changes in healthcare regulations (in particular with regard to medical devices); the development of our customer base; the competitive environment in which the Group operates; manufacturing or logistics disruptions; the impact of fluctuations in foreign exchange rates; and such other factors as may be discussed from time to time. Although we believe that our expectations reflected in any such forward-looking statement are based upon reasonable assumptions, we can give no assurance that those expectations will be achieved.

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