



CONSOLIDATED FINANCIAL STATEMENTS AND STATUTORY AUDITOR'S REPORT

For the years ended December 31, 2018 and 2017

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1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Thousand Euro)	Notes	31.12.2018	31.12.2017
Revenue	6.23	272'610	244'683
Cost of sales		(68'630)	(62'080)
GROSS PROFIT		203'980	182'603
Research and Development expenses	6.23	(3'933)	(3'476)
Sales and Marketing expenses		(104'957)	(97'437)
General and Administrative expenses	6.23	(34'454)	(31'698)
Other income		1'579	700
Other expenses		(705)	(1'032)
OPERATING PROFIT (EBIT)		61'510	49'660
Financial income	6.23	1'096	295
Financial costs	6.23	(4'566)	(2'605)
PROFIT BEFORE TAXES		58'040	47'350
Income taxes	6.10	(12'287)	(13'854)
PROFIT FOR THE YEAR		45'753	33'496
ATTRIBUTABLE TO:			
Equity holders of the parent	6.27	45'753	33'496
Non-controlling interests		-	-
Basic earnings per share (A)	6.27	2.29	0.84

In the years ended December 31, 2018 and 2017, there is no effect of dilution, and diluted earnings per share equals basic earnings per share.

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Thousand Euro)	Notes	31.12.2018	31.12.2017
PROFIT FOR THE YEAR		45'753	33'496
OTHER COMPREHENSIVE INCOME			
Actuarial gain / (loss) from defined benefit plans		1'953	(908)
Tax effect on actuarial (loss) / gain from defined benefit plans		(381)	180
TOTAL ITEMS NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		1'572	(728)
Currency translation differences		6'471	(15'060)
Tax effect on currency translation items		41	(103)
TOTAL ITEMS TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		6'512	(15'163)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		8'084	(15'891)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		53'837	17'605
ATTRIBUTABLE TO:			
Equity holders of the parent		53'837	17'605
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, 2018 AND 2017

ASSETS (Thousand Euro)	Notes	31.12.2018	31.12.2017
Property, Plant and Equipment	6.7	132'908	101'525
Goodwill and intangible assets	6.8	39'995	31'907
Other non-current financial assets	6.9	765	12'184
Deferred tax assets	6.10	17'306	14'907
TOTAL NON-CURRENT ASSETS		190'974	160'523
Inventories	6.11	89'228	72'507
Trade receivables	6.12	44'093	36'893
Other current financial assets	6.9	240	-
Other receivables and prepaid expenses	6.13	7'351	4'770
Cash and cash equivalents	6.14	33'710	25'117
TOTAL CURRENT ASSETS		174'622	139'287
TOTAL ASSETS		365'596	299'810

LIABILITIES AND EQUITY (Thousand Euro)	Notes	31.12.2018	31.12.2017
Share capital	6.15	1'775	992
Retained earnings and other reserves	6.15	93'033	112'928
Foreign currency translation reserve	6.15	(5'738)	(12'250)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		89'070	101'670
Non-controlling interests		-	-
EQUITY		89'070	101'670
Non-current financial liabilities	6.16	113'015	55'868
Other non-current liabilities	6.18	10'499	13'038
Non-current provisions	6.17	417	336
Retirement benefit obligations	6.19	7'252	8'019
Deferred tax liabilities	6.10	31'283	28'763
TOTAL NON-CURRENT LIABILITIES		162'466	106'024
Trade payables	6.20	20'051	17'286
Other current liabilities	6.21	22'638	16'729
Current financial liabilities	6.16	51'476	41'899
Accrued expenses and deferred income	6.22	19'895	16'202
TOTAL CURRENT LIABILITIES		114'060	92'116
TOTAL LIABILITIES		276'526	198'140
TOTAL LIABILITIES AND EQUITY		365'596	299'810

The Notes are an integral part of the Consolidated Financial Statements

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Attributable to equity holders of Medacta Holding SA and from November 30, 2018 to Medacta Group SA						
(Thousand Euro)	Share capital	Capital contribution reserve	Retained earnings and other reserves	Foreign currency translation reserve	Non-controlling Interests	Total Equity
BALANCE JANUARY 1, 2017	992	-	142'967	2'913	-	146'872
Profit for the year	-	-	33'496	-	-	33'496
Actuarial loss from defined benefit plans, net	-	-	(908)	-	-	(908)
Tax effect on actuarial loss	-	-	180	-	-	180
Currency translation differences	-	-	-	(15'060)	-	(15'060)
Tax effect on currency translation	-	-	-	(103)	-	(103)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	32'768	(15'163)	-	17'605
Dividend paid	-	-	(62'807)	-	-	(62'807)
BALANCE DECEMBER 31, 2017	992	-	112'928	(12'250)	-	101'670
BALANCE JANUARY 1, 2018	992	-	112'928	(12'250)	-	101'670
Profit for the year	-	-	45'753	-	-	45'753
Actuarial gain from defined benefit plans, net	-	-	1'953	-	-	1'953
Tax effect on actuarial gain	-	-	(381)	-	-	(381)
Currency translation differences	-	-	-	6'471	-	6'471
Tax effect on currency translation	-	-	-	41	-	41
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	47'325	6'512	-	53'837
Dividend paid (*)	-	-	(65'247)	-	-	(65'247)
Adjustment due to change in Parent Co. (**)	(992)	-	(1'973)	-	-	(2'965)
Medacta Group SA Share capital (**)	1'775	-	-	-	-	1'775
BALANCE DECEMBER 31, 2018	1'775	-	93'033	(5'738)	-	89'070

(*) Dividend distributed by Medacta Holding SA before the change of the parent company. Please refer to Note 6 "Notes to the Consolidated Financial Statements for the years ended December 31, 2018 and 2017", "General information" paragraph for more information.

(**) The change in Parent Company transaction is described in Note 6 "Notes to the Consolidated Financial Statements for the years ended December 31, 2018 and 2017", "General information" paragraph

5. CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Thousand Euro)	Notes	31.12.2018	31.12.2017
PROFIT FOR THE YEAR		45'753	33'496
Adjustments for:			
income tax expenses	6.10	12'287	13'854
Depreciation, amortisation and impairment of tangible and intangible assets		24'837	22'387
(Gain)/Loss on sale of tangible assets		(662)	10
Foreign exchange result		292	1'564
Income taxes paid		(4'005)	(4'253)
Increase in trade receivables		(6'482)	(2'856)
(Increase) / decrease in other receivables and prepaid expenses		(2'435)	(2'598)
Increase in inventories		(9'000)	(14'816)
Increase in trade payables		2'119	1'289
Increase in other payables, accruals and provisions		3'704	3'509
CASH FLOWS FROM OPERATING ACTIVITIES		66'408	51'586
Purchase of tangible assets		(45'153)	(30'326)
Purchase of intangible assets		(9'980)	(9'786)
Proceeds from sale of tangible assets		2'419	4'452
Cash consideration for acquisitions, net of cash acquired	6.5	(7'901)	(3'950)
Changes in financial assets		11'391	(5'326)
CASH FLOWS FROM INVESTING ACTIVITIES		(49'224)	(44'936)
Proceeds from borrowings		86'306	64'857
Repayment of borrowings		(28'928)	(535)
Repayment of finance lease		(2'339)	(2'542)
Dividends paid by Parent Company	6.15	(65'247)	(62'807)
Adjustment due to change in Parent Company		691	-
CASH FLOWS FROM FINANCING ACTIVITIES		(9'517)	(1'027)
NET INCREASE IN CASH AND CASH EQUIVALENTS		7'667	5'623
Cash and cash equivalents at the beginning of the financial year	6.14	25'117	20'705
Net effect of currency transaction on cash and cash equivalent		926	(1'211)
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	6.14	33'710	25'117

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

GENERAL INFORMATION

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

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

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

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

Under IFRS 3, a combination involving entities or businesses under common control is a combination in which all of the combining entities are ultimately controlled by the same parties both before and after the business combination, and that control is not transitory. The ultimate shareholders of TwoA Holding SA, ALLES Holding SA, Machi Holding SA and Dr. Alberto Siccardi entered into a shareholder agreement to control Medacta Holding SA before the constitution of Medacta Group SA. Hence, Medacta Group SA was constituted in a transaction considered under common control, since the combining entities are ultimately controlled by the same parties both before and after the combination. Medacta Group SA applies the transaction retrospectively to January 1, 2017 showing the comparative figures of Medacta Holding SA, since there is no change in the substance of the reporting entity. Due to the nature of the transaction the only change in financial year 2018 will be in relation to the Group share capital, which will consist of the share capital of Medacta Group SA instead of Medacta Holding SA.

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

These Consolidated Financial Statements were authorised to be issued by the Board of Directors of Medacta Group SA at its meeting on February 11, 2019 and were audited by the Company's independent registered public accounting firm.

Ultimate controlling parties with significant influence over the Group are:

Shareholders' interests (%)	31.12.2018	31.12.2017
ALBERTO SICCARDI	10%	10%
MARIA LUISA SICCARDI TONOLLI (until November 30, 2018 through Machi Holding SA)	30%	30%
FRANCESCO SICCARDI (until November 30, 2018 through ALLES Holding SA)	30%	30%
ALESSANDRO SICCARDI (until November 30, 2018 through TwoA Holding SA)	30%	30%
TOTAL	100%	100%

STATEMENT OF COMPLIANCE

The Consolidated Financial Statements as of December 31, 2018 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 utilised 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, 2019 as disclosed in Note 6.2 "New accounting and international financial reporting standards".

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

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

BASIS OF MEASUREMENT

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

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

PRESENTATION CURRENCY

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

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

USE OF ESTIMATES AND JUDGEMENTS

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

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

a. 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;

b. Business Combination – In the course of recognising assets and liabilities from business combinations, management judgment is required for the following areas:

- Acquisition of Intangible assets relating to technology, customer relationships or brand names;
- Contingent consideration arrangements.

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:

a. Intangible Assets, including Goodwill – The Group has intangible assets mainly represented by capitalised development costs, trademarks and customer lists acquired through business combination. Capitalised development costs are reviewed on a regular basis and the Group determines annually, in accordance with the accounting policy, whether any of the assets are impaired. For the impairment tests, estimates are made on the expected future cash flows from the use of the asset or cash-generating unit. The actual cash flows could vary significantly from these estimates.

b. 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.

c. 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.

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

CONSOLIDATION PRINCIPLES

Subsidiaries

Subsidiaries are all entities over which the Medacta Group SA or the Parent 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 recognizes the resulting gain or loss in the Consolidated Statement of Profit or Loss as *"Other net income/(expenses)"*.

Business combinations

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

The consideration transferred for the acquisition of a subsidiary is measured as the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes 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); and
- all resulting exchange differences are recorded in other Comprehensive Income in equity.

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

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

COMPOSITION OF THE GROUP

Entities included in the scope of consolidation are listed below:

Company	% of shares held December 2018	% of shares held December 2017	Registered office	Country	Consolidation Method
Medacta Group S.A.	N/A	-	Castel San Pietro	Switzerland	Parent company
Medacta Holding S.A.	100%	N/A	Castel San Pietro	Switzerland	Full Consolidation (Former Parent company until November 30, 2018)
Medacta International S.A.	100%	100%	Castel San Pietro	Switzerland	Full Consolidation
Medacta Italia S.r.l.	100%	100%	Milan	Italy	Full Consolidation
Medacta France SAS	100%	100%	Villeneuve la Garenne	France	Full Consolidation
Medacta Belgium Sprl	100%	100%	Nivelles	Belgium	Full Consolidation
Medacta UK Ltd	100%	100%	Leicestershire	UK	Full Consolidation
Medacta Germany GmbH	100%	100%	Göppingen	Germany	Full Consolidation
Medacta Australia PTY Ltd	100%	100%	Lane Cove	Australia	Full Consolidation
Medacta USA, Inc.	100%	100%	Chicago	USA	Full Consolidation
Medacta Japan Co. Ltd	100%	100%	Tokyo	Japan	Full Consolidation
Medacta Canada Inc.	100%	100%	Kitchener	Canada	Full Consolidation
Swiss Medical Manufacturing Ooo	100%	100%	Minsk	Belarus	Full Consolidation
Medacta España S.L.	100%	100%	Burjassot	Spain	Full Consolidation
Medacta Austria GmbH	100%	100%	Eugendorf	Austria	Full Consolidation

Refer to Note 6 “Notes to the Consolidated Financial Statements for the years ended December 31, 2018 and 2017”, paragraph “General information” for a description of the change in Parent Company transaction.

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.

SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalent

Cash and cash equivalent, comprise cash on hand and demand deposits, are measured at amortised cost. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Investments qualify as cash equivalents only when they have a maturity of three months or less from the date of the acquisition. Cash and cash equivalent is considered to have low credit risk since is deposited in bank institutions with over BBB+ rating and therefore not subject to impairment assessment.

Inventories

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

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

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

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

Property, plant and equipment

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

Useful lives

• Buildings	40 years
• Plant	10 years
• Machinery	15 years
• Furniture	from 5 to 8 years
• Surgical tools and equipment	6 years

Depreciation is not accounted for land or assets under construction.

Equipment purchased under a financial leasing agreement is capitalised and amortised according to the determined useful life of the asset category; the related financial debt is recorded as interest-bearing liability.

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.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying item of property, plant and equipment are capitalised as part of the cost of that asset.

The net carrying amount of the qualifying 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.

Finance and operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Profit or Loss on a straight-line basis over the lease term.

Leases where lessees bear substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each finance lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included, split by current and non-current liabilities, in the Consolidated Statement of Financial Position. The interest element of the finance cost is charged to the Consolidated Statement of Profit or Loss over the lease period.

Fixed assets acquired under finance leases are depreciated over the asset's useful life. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

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. Borrowing costs directly attributable to the acquisition or development of qualifying assets are capitalised and amortised over the useful life of the asset to which they refer. 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.

a. 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.

b. Research and Development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development costs are capitalised only if the identifiable asset is commercially and technically feasible, can be completed, its costs can be measured reliably and it will generate probable future economic benefits. Expenditures which fulfil these criteria are limited to the development of new prosthesis and/or surgical instruments as well as costs related to the development of existing products in the pipeline which require significant improvements. All other development costs are expensed as incurred. In addition to the internal costs (direct personnel and other operating costs, depreciation on Research and Development equipment and allocated occupancy costs), total costs also include externally contracted development work. Such capitalised intangibles are recognised at cost less accumulated amortisation and impairment losses. The estimated useful lifetime of development projects is 5 years applying the straight-line method.

c. 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.

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

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

Impairment of Property Plant and Equipment 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 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 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.

Financial instruments

Financial assets (classification)

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 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, 2018 and 2017.

Other non-current financial assets

Other non-current financial assets consist of investments in third parties and non-current loans to related parties as well as rent deposits. Non-current loans to related parties are classified as financial assets and valued at amortised costs, considering that transactions costs, commissions, primes are not material at the initial recognition of the financial asset and that the interest rate has been defined to be variable.

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; and
- 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 2018 and 2017, selling USD and buying CHF. None of these contracts were designated in hedge relationships. These Instruments have a duration between 1 and 12 months.

Financial derivatives with a positive fair value are recorded in other current financial assets and those with a negative fair value in other current financial liabilities. Fair value changes of financial derivatives are booked as financial income / (expenses) 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 recognized 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 recognized, 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 recognized to the extent that it is probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax assets to be utilized. The recoverability of deferred tax assets is dependent on the Group's ability to generate sufficient future taxable income in the period in which it is assumed that the deductible temporary differences reverse and tax losses carried forward can be utilized. In making this assessment the Group considers future taxable income arising on the most recent budgets and plans, prepared by using the same criteria described for testing the impairment of assets and goodwill. Moreover, the Group estimates the impact of the reversal of taxable temporary differences on earnings and it also considers the period over which these assets could be recovered.

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

Retirement benefit obligations

Pension obligations

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

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

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

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

Short-term employee benefits

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

Other non-current benefits

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

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

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

Provisions

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

Revenue recognition

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

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership of the goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- 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 Consolidated Financial Statements. The Group offers mainly to its customers the following type of contracts:

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

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.

6.2. NEW ACCOUNTING AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

New and amended accounting standards and interpretations, if not early adopted, must be adopted in the Financial Statements issued after the first application.

New standards, amendments and interpretations that are effective for reporting periods beginning on January 1, 2018

In 2017 the Group early adopted IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) and IFRS 9 Financial Instruments (as revised in July 2014), refer to Note 6.1 “Consolidation principles, composition of the group and significant accounting policies”, “Significant accounting policies” paragraph. In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after January 1, 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements, in particular:

- *IFRIC 22 Foreign Currency Transactions and Advance Consideration*

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue). The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

New standards, amendments and interpretations that are effective for reporting periods beginning after January 1, 2019 and not yet adopted by the group.

The following standards and amendments to existing standards, which are relevant to the Group, have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2018 or later periods, and the Group has not adopted them early:

- *IFRS 16 Leases (effective January 1, 2019)*

IFRS 16 was published in January 2016 and will be effective for the Group from January 1, 2019. It replaces IAS 17 leases. IFRS 16 will primarily change lease accounting for lessees; lease agreements will give rise to the recognition of an asset representing the right to use the leased item and a lease liability for future lease payments. Lease costs will be recognised in the form of depreciation of the right to use the leased item and a lease liability for future lease payment. Lessee accounting under IFRS 16 will be similar to existing IAS 17 accounting for finance leases but will be substantively different for operating ones.

The Group will implement the new standard effective January 1, 2019 and will apply the cumulative catch-up method option for the transition, meaning that comparative 2018 results will not be restated when the new standard is applied. A preliminary assessment indicates that the Group will recognise a right-of-use asset of Euro 8 million and a corresponding lease liability of Euro 8 million in respect of all these leases. The impact on profit or loss is to decrease Other expenses by Euro 2.4 million, to increase depreciation by Euro 2.3 million and to increase interest expense by Euro 0.2 million.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to reduce the cash generated by operating activities by Euro 2.4 million and to increase net cash used in financing activities by the same amount.

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

IAS 12 Income Taxes - The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits. The adoption of this amendment did not have any material impact as of December 31, 2018.

IFRS 3 Business Combinations - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation. The adoption of this amendment did not have any material impact as of December 31, 2018.

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

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income. The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)). The amendments are applied prospectively. They apply only to plan

amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after January 1, 2019, but they can be applied earlier if an entity elects to do so. The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

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

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

- *IFRIC 23 Uncertainty over Income Tax Treatments*

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

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after January 1, 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively. The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

6.3. FINANCIAL RISKS MANAGEMENT

The Board of the Directors is responsible for overseeing the Group's internal control system, which addresses risks to which the Group is exposed. 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.

Risk management is centralised within a delegate of the Board of Directors and the Chief Financial Officer ("CFO"). These two parties identify, evaluate and implement financial risk hedging activities as well as the Group's liquidity management activity.

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, 2018, forward currency contracts with a nominal value of USD 30'000 thousand (2017: USD 26'700 thousand) and negative fair value of Euro 562 thousand (2017: negative fair value of Euro 148 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 / (expenses) 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.

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 2018 and 2017 closing periods.

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

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

Interest rate sensitivities

As at December 31, 2018 (Thousand Euro)	50 basis points increase/(decrease)
Impact on Profit or Loss	(781)

As at December 31, 2017 (Thousand Euro)	50 basis points increase/(decrease)
Impact on Profit or Loss	(302)

As at January 1, 2017 (Thousand Euro)	50 basis points increase/(decrease)
Impact on Profit or Loss	(60)

CREDIT RISK

Credit risk exists in relation to trade receivables, cash and deposits in banks and related parties' loans.

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

Due to the fragmented customer base (no single customer balance is greater than 2% of total trade accounts receivable), the Group is not exposed to any significant concentration risk. The same applies to loans to third and related 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, 2018 (Thousand Euro)	Note	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Loans to related parties	6.9	N/A	Performing	12m ECL	-	-	-
Trade receivables	6.12	N/A	(a)	Lifetime ECL (simplified approach)	44'698	(605)	44'093

December 31, 2017 (Thousand Euro)	Note	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Loans to related parties	6.9	N/A	Performing	12m ECL	11'733	(b)	11'733
Trade receivables	6.12	N/A	(a)	Lifetime ECL (simplified approach)	37'169	(276)	36'893

a) 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.

b) As of December 31, 2017, the Group has not recognised a loss allowance on the related parties loan since the loan was considered to have low credit risk similar to a five years Investment Grade loan because the related party had a strong financial situation, capacity to meet its contractual obligations and none of the payments were overdue. Using the probability of default and loss given default for this loan as per annual study published by rating agencies, the calculated loss allowance will be immaterial. Furthermore, the loan has been fully repaid in July 9, 2018.

LIQUIDITY RISK

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

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

The following tables include a summary, by maturity date, as at December 31, 2018 and 2017.

The reported balances are contractual and undiscounted figures.

As at December 31, 2018 (Thousand Euro)	Up to 1 year	1 year to 5 years	more than 5 years	Total
Trade payables	20'051	-	-	20'051
Other current liabilities	467	-	-	467
Financial Accrued expenses	7'311	-	-	7'311
Current financial liabilities	51'476	-	-	51'476
Non-current financial liabilities	-	88'795	24'220	113'015
Interest on financial debt	2'077	7'281	4'009	13'367

As at December 31, 2017 (Thousand Euro)	Up to 1 year	1 year to 5 years	more than 5 years	Total
Trade payables	17'286	-	-	17'286
Other current liabilities	8'382	-	-	8'382
Financial Accrued expenses	5'561	-	-	5'561
Current financial liabilities	41'899	-	-	41'899
Non-current financial liabilities	-	52'376	3'492	55'868
Interest on financial debt	1'208	4'832	43	6'083

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 at December 31, 2018. The fair value hierarchy level is shown for those financial assets and liabilities that are carried at fair value in the balance sheet.

Fair value hierarchy

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

The following table summarizes the financial instruments carried at fair value, by valuation method as at December 31, 2018. 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.

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

The level 2 balance relates forward currency contracts described in Note 6.3 *"Financial risks management", "Exchange rate risk"* section.

The level 3 balance in the current financial liabilities relates to the fair value measurement of a contingent liability provided in the acquisition contract of Balgrist Card, AG described in Note 6.5 *"Business Combinations"*. The contingent consideration was recognised as part of the consideration transferred in exchange for the acquiree, measured at its acquisition-date fair value. Using the market approach technique, Management valued that the fair value of the contingent consideration is equal to CHF 200 thousand, corresponding to Euro 174 thousand.

As at December 31, 2017 (Thousand Euro)	Carrying amount (based on measurement basis)				
	Asset and Liabilities at amortised cost	Liabilities as FVTPL			
		Level 1	Level 2	Level 3	Total
Cash and cash equivalents	25'117	-	-	-	25'117
Trade receivables	36'893	-	-	-	36'893
Other non-current financial assets	12'184	-	-	-	12'184
Trade payables	17'286	-	-	-	17'286
Other current liabilities (**)	7'627	-	-	-	7'627
Other non-current liabilities	13'038	-	-	-	13'038
Current financial liabilities	41'751	-	148	-	41'899
Non-current financial liabilities	55'868	-	-	-	55'868

(*) Other current assets for approximately Euro 240 thousand, represents the escrow account related to Vivamed GmbH acquisition. This amount was collected on January 9, 2019. Refer to Note 6.9 *"Other financial assets"*.

(**) Other current liabilities relates to the residual payments due to the acquisition of Vivamed GmbH and Medacare GmbH. Please refer to Note 6.21 *"Other current liabilities"*.

6.5. BUSINESS COMBINATIONS

TRANSACTIONS IN 2018

Balgrist Card AG

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

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

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

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

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

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

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

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

- CHF 429 thousand (equivalent to Euro 377 thousand as of October 1, 2018) at effective date as instructed by Balgrist Beteiligungs AG;
- CHF 150 thousand (equivalent to Euro 133 thousand as of December 2018) shall be paid when automation works;
- CHF 50 thousand (equivalent to Euro 44 thousand as of December 2018) shall be paid if the patent is granted by the European PTO;
- CHF 100 thousand (equivalent to Euro 89 thousand as of December 2018) shall be paid if the company comes to an agreement with one of the major insurance companies in Switzerland relating to reimbursement of MyOsteotomy.

The contingent consideration was recognised as part of the consideration transferred in exchange for the acquiree, measured at its acquisition-date fair value. Based on Management valuation the fair value of the contingent consideration is equal to CHF 200 thousand (equivalent to Euro 174 thousand). Management evaluated that based on the information available at the reporting date is improbable that the Swiss insurance companies recognize the MyOsteotomy as part of the reimbursement products.

The fair values of the assets acquired are as follows:

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

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

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

ASD "Advanced Surgical Devices" Group of Assets acquisition

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

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

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

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

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

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

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

- USD 500 thousand (equivalent to Euro 426 thousand as of July 2018) paid in July 2018
- USD 1'036 thousand (equivalent to Euro 906 thousand as of December 2018) paid in February 2019

The fair values of the assets acquired are as follows:

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

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

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

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

TRANSACTIONS IN 2017

Medacare GmbH

As at January 1, 2017, the Medacta Group completed the acquisition of 100% of Medacare GmbH ("Medacare"). Via its subsidiary Medacta Germany GmbH, the Group acquired 100% of the share capital of Medacare. Medacare was Medacta's Sales Agent in Germany and had around 23 employees. In 2016 Medacare's revenues were Euro 4.5 million which generated a net profit of Euro 0.9 million.

On June 26, 2017 Medacare was formally merged with Medacta Germany GmbH, with the merger being accounted for retrospectively from both an accounting and tax perspective as of January 1, 2017.

The acquisition of Medacare represented a business combination transaction recognised in accordance with IFRS 3 - Business combinations. To this end, at the date of acquisition of control, the individual identifiable assets and liabilities were recorded at their fair value. The completion of the transaction entailed acquisition costs to third parties of approximately Euro 164 thousand.

(Thousand Euro)	
Acquisition value 100% (A)	2'609
Total net identifiable assets (B)	2'595
GOODWILL (C=A-B)	14
Cash paid (D)	2'609
Acquiree net cash (E)	545
CASH FLOW ABSORBED BY THE ACQUISITION (F=E-D)	(2'064)

The fair values are as follows:

(Thousand Euro)	Fair Value
Cash and cash equivalents	545
Trade receivables	15
Other receivables	258
Prepaid expenses	16
TOTAL CURRENT ASSETS	834
Tangible assets	107
Customer list	3'205
Intangible assets	9
TOTAL NON-CURRENT ASSETS	3'321
TOTAL IDENTIFIABLE ASSETS (G)	4'155
Trade payables	210
Other payables	255
Tax accruals	106
TOTAL CURRENT LIABILITIES	571
Deferred tax liabilities	635
Provisions	354
TOTAL NON-CURRENT LIABILITIES	989
TOTAL IDENTIFIABLE LIABILITIES (H)	1'560
TOTAL NET IDENTIFIABLE ASSETS (B=G-H)	2'595

Recognised acquisition-related intangible assets for Medacare largely contain customer relationships (Euro 3.2 million). For acquisition-related intangibles the useful economic life assigned is 15 years. On these intangibles deferred taxes have been recognised.

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

Vivamed GmbH (Medacta Austria GmbH)

As of January 1, 2017, the Medacta Group completed the acquisition of 100% of the issued share capital of Vivamed GmbH ("Vivamed"), a prosthesis distribution company based in Austria.

The Group paid Euro 10,282 thousand to acquire Vivamed, with initial consideration of Euro 500 thousand paid in 2016 and deferred consideration paid in accordance with the timeline as shown below.

The Medacta Group consolidated Vivamed from January 1, 2017 once control was obtained.

Vivamed distributes Medacta's implants in Austria and employs around 14 employees. In calendar year 2016 sales were Euro 12.4 million, with a net profit of Euro 2 million.

The Group changed Vivamed GmbH name into Medacta Austria GmbH.

In accordance with IFRS 3 - Business Combinations, the fair values of identifiable assets and liabilities have been determined in order to define the goodwill at the acquisition date.

The completion of the transaction entailed acquisition costs to third parties of approximately Euro 171 thousand.

(Thousand Euro)	
Acquisition value 100% (A)	10'372
Total net identifiable assets (B)	10'327
GOODWILL (C=A-B)	45
Cash paid (D)	10'372
Acquiree net cash (E)	189
CASH FLOW ABSORBED BY THE ACQUISITION (F=E-D)	(10'183)

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

- Euro 500 thousand paid in 2016
- Euro 3'022 thousand paid in 2017
- Euro 3'500 thousand paid at the beginning of 2018
- Euro 3'260 thousand paid at the end of 2018

The fair values are as follows:

(Thousand Euro)	Fair Value
Cash and cash equivalents	189
Trade receivables	471
Other receivables	48
Inventory	2'710
Prepaid expenses	1
TOTAL CURRENT ASSETS	3'419
Tangible assets	895
Customer list	10'195
Intangible assets	16
TOTAL NON-CURRENT ASSETS	11'106
TOTAL IDENTIFIABLE ASSETS (G)	14'525
Trade payables	1'054
Other payables	1'018
Tax accruals	36
TOTAL CURRENT LIABILITIES	2'108
Deferred tax liabilities	2'018
Provisions	72
TOTAL NON-CURRENT LIABILITIES	2'090
TOTAL IDENTIFIABLE LIABILITIES (H)	4'198
TOTAL NET IDENTIFIABLE ASSETS (B=G-H)	10'327

Recognised acquisition-related intangible assets for Vivamed GmbH largely contain customer relationships (Euro 10.1 million). For acquisition-related intangibles the useful economic life assigned is 15 years. On these intangibles deferred taxes have been recognised.

Acquisition-related transaction costs have been expensed and are included in the line “General and Administrative expenses”. There are no variable purchase price components resulting from the Vivamed GmbH acquisition.

6.6. SEGMENT INFORMATION

The Group has only one operating segment.

The criteria applied to identify the operating segments are consistent with the way the Group is managed. In particular, the segment reporting reflects the internal organizational and management structure used within the Group as well as the internal management reporting reviewed regularly by the Chief Operating Decision Maker (CODM), who has been identified as the Chief Executive Officer and President, Dr. Alberto Siccardi until October 31, 2018 and Ing. Francesco Siccardi from November 1 on.

On September 27, 2018, the board meeting appointed Ing. Francesco Siccardi as Chief Executive Officer of Medacta Group. The CEO is responsible for the operational management of the Group, in line with the instructions issued by the Board of Directors.

Therefore, Medacta constitutes with only one segment which is represented by the whole group itself. Resource allocation and performance assessment are performed at Group level and not at single-component level.

The operating segments subject to disclosure are consistent with the organization model adopted by the Group during the financial year as at December 31, 2018.

INFORMATION BY GEOGRAPHIC AREA

The Group operates in Europe, North America (which includes the United States of America and Canada), Asia-Pacific (which includes Australia, New Zealand, China, Hong Kong, Singapore and Japan) and Other (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.

	31.12.2018		31.12.2017	
SALES AND PROPERTY, PLANT AND EQUIPMENT (Thousand Euro)	Net sales	Property, plant and equipment	Net sales	Property, plant and equipment
Europe (a)	124'903	112'953	116'867	88'658
North America (b)	80'148	18'720	68'206	11'822
Asia Pacific (c)	58'274	1'235	50'682	1'045
Other	9'285	-	8'928	-
TOTAL CONSOLIDATED	272'610	132'908	244'683	101'525

- (a) Property, plant and equipment located in Switzerland represented 79.5% and 81.5% of the Group's total property, plant and equipment as at December 31, 2018 and 2017, respectively. Net sales recorded in Switzerland were Euro 32'133 thousand and Euro 31'974 thousand as at December 31, 2018 and 2017, respectively.
- (b) Property, plant and equipment located in the United States represented 14.1% and 11.6% of the Group's total property, plant and equipment as at December 31, 2018 and 2017, respectively. Net sales recorded in the United States were Euro 79'179 thousand and Euro 67'289 thousand as at December 31, 2018 and 2017, respectively.
- (c) Property, plant and equipment located in the Australia represented 0.5% and 0.6% of the Group's total property, plant and equipment as at December 31, 2018 and 2017, respectively. Net sales recorded in the Australia were Euro 36'914 thousand and Euro 35'605 thousand as at December 31, 2018 and 2017, respectively.

6.7. PROPERTY, PLANT AND EQUIPMENT

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

PROPERTY, PLANT AND EQUIPMENT December 31, 2017 (Thousand Euro)	Land	Buildings	Plant and Machinery	Other fixtures and fittings, tool and equipment	Assets under construction and advance payments	Total
HISTORICAL COST						
Balance January 1, 2017	8'873	19'114	27'482	106'367	-	161'836
Acquisitions	-	19	-	-	-	19
Additions	-	1'271	2'739	38'455	2'632	45'097
Disposals	-	(85)	(411)	(17'826)	-	(18'322)
Transfers	-	-	-	-	-	-
Exchange differences	(743)	(1'602)	(2'276)	(8'429)	-	(13'050)
Balance December 31, 2017	8'130	18'717	27'534	118'567	2'632	175'580
ACCUMULATED DEPRECIATION						
Balance January 1, 2017	-	(600)	(11'119)	(49'249)	-	(60'968)
Acquisitions	-	(1)	-	-	-	(1)
Depreciation of the year	-	(621)	(1'937)	(16'273)	-	(18'831)
Disposals	-	-	339	(789)	-	(450)
Transfers	-	-	-	-	-	-
Exchange differences	-	80	1'015	5'100	-	6'195
Balance December 31, 2017	-	(1'142)	(11'702)	(61'211)	-	(74'055)
NET BOOK VALUE						
BALANCE JANUARY 1, 2017	8'873	18'514	16'363	57'118	-	100'868
BALANCE DECEMBER 31, 2017	8'130	17'575	15'832	57'356	2'632	101'525

Land and building have been valued at fair value as at January 1, 2016 by an external expert. This fair value represents the deemed cost of the property in line with the IFRS 1. Considering the type of buildings to be valued the external expert defined the market value of each building starting from the expected non-current rentals and capitalised the obtained value with a calculated WACC of 4.5%.

Starting from January 1, 2016 each building is amortised on a straight-line basis on the expected residual lifetime.

Other fixture and fitting, tools and equipment mainly consist in surgical tools. The net book value of machinery and equipment under finance lease as at December 31, 2018 and 2017 were respectively Euro 10'701 thousand and Euro 9'572 thousand.

As at December 31, 2018, tangible fixed assets for a total amount of Euro 18'392 thousand (2017: Euro 10'152 thousand) have been pledged as collateral for borrowing facilities.

During the years 2018 and 2017 no impairment losses have been recognised on property, plant and equipment.

6.8. GOODWILL AND INTANGIBLE ASSETS

INTANGIBLE FIXED ASSETS December 31, 2018 (Thousand Euro)	Development	Customer Lists	Goodwill	Other intangible assets	Total
HISTORICAL COST					
Balance January 1, 2018	19'655	14'160	59	13'976	47'850
Acquisitions	-	1'636	-	307	1'943
Additions	7'942	-	-	2'046	9'988
Disposals	(11)	-	-	-	(11)
Transfers	-	-	-	-	-
Exchange differences	925	(49)	-	506	1'382
Balance December 31, 2018	28'511	15'747	59	16'835	61'152
ACCUMULATED AMORTISATION					
Balance January 1, 2018	(5'548)	(944)	-	(9'451)	(15'943)
Acquisitions	-	-	-	-	-
Amortisation of the year	(1'547)	(1'050)	-	(1'730)	(4'327)
Impairment loss	(265)	-	-	-	(265)
Disposals	1	-	-	-	1
Transfers	-	-	-	-	-
Exchange differences	(307)	(3)	-	(313)	(623)
Balance December 31, 2018	(7'666)	(1'997)	-	(11'494)	(21'157)
NET BOOK VALUE					
BALANCE JANUARY 1, 2018	14'107	13'216	59	4'525	31'907
BALANCE DECEMBER 31, 2018	20'845	13'750	59	5'341	39'995

INTANGIBLE FIXED ASSETS December 31, 2017 (Thousand Euro)	Development	Customer Lists	Goodwill	Other intangible assets	Total
HISTORICAL COST					
Balance January 1, 2017	13'775	-	-	13'207	26'982
Acquisitions	-	13'400	59	-	13'459
Additions	7'384	760	-	1'852	9'996
Disposals	-	-	-	(134)	(134)
Transfers	-	-	-	-	-
Exchange differences	(1'504)	-	-	(949)	(2'453)
Balance December 31, 2017	19'655	14'160	59	13'976	47'850
ACCUMULATED AMORTISATION					
Balance January 1, 2017	(4'915)	-	-	(8'581)	(13'496)
Acquisitions	-	-	-	-	-
Amortisation of the year	(678)	(944)	-	(1'515)	(3'137)
Impairment loss	(419)	-	-	-	(419)
Disposals	-	-	-	2	2
Transfers	-	-	-	-	-
Exchange differences	464	-	-	643	1'107
Balance December 31, 2017	(5'548)	(944)	-	(9'451)	(15'943)
NET BOOK VALUE					
BALANCE JANUARY 1, 2017	8'860	-	-	4'626	13'486
BALANCE DECEMBER 31, 2017	14'107	13'216	59	4'525	31'907

Development mainly consist of cost incurred for the development of new products or modification of existing products in the pipeline. The Group capitalizes internal payroll cost starting from 2016, if these costs are attributable to a specific development project that is expected to generate probable future economic benefits. Research costs are directly recognised as costs in the profit or loss.

Other intangible assets mainly consist of costs occurred by the deposit and renewal of trademarks and licences to distribute products in our pipeline in different markets.

Customer lists relate to business combinations occurred in 2018 and 2017. In particular it relates to the acquisition of Medacare GmbH and Vivamed GmbH in 2017. The increase of 2018 relates with the acquisition of ASD "Advanced Surgical Devices" (refer to Note 6.5 "Business Combinations").

In 2018, in the other intangible assets category, we have classified the software acquired in the Balgrist Card AG business combination. For further details, refer to Note 6.5 "Business Combinations".

6.9. OTHER FINANCIAL ASSETS

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

OTHER FINANCIAL ASSETS (Thousand Euro)	31.12.2018	31.12.2017
Loan to related parties	-	11'733
Other loans	-	87
Escrow account	240	-
Rent deposit	765	364
TOTAL OTHER FINANCIAL ASSETS	1'005	12'184
Current	240	-
Non-Current	765	12'184
Expected credit loss	-	-

The loan granted to a related party is valued at amortised cost and is denominated in USD. For the years 2018 and 2017, the interest rates vary generally between 2.25% and 3%. Reimbursement in full or in part are possible in any moment with a term of notice of 30 days. Related parties' loan was fully repaid on July 9, 2018 (refer to Note 6.26 "Related party transactions").

The escrow account for approximately Euro 240 thousand, represents the account related to Vivamed GmbH acquisition where the agent deposited the residual balance left after the transaction was completed. This amount was collected by Medacta International SA on January 15, 2019.

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

INCOME TAXES (Thousand Euro)	31.12.2018	31.12.2017
Income taxes	13'446	17'422
Deferred taxes	(1'159)	(3'568)
TOTAL INCOME TAXES	12'287	13'854

Current income tax consists of taxes paid or due on the results of the individual companies for the financial year in accordance with local regulation as well as charges and credits from previous year.

Reconciliation of tax expense	31.12.2018	31.12.2017
Profit before taxes	58'040	47'350
EXPECTED TAX RATE	19.51%	19.80%
TAX AT EXPECTED AVERAGE RATE	11'323	9'375
+ / - EFFECTS OF		
Expenses not subject to tax, net	595	-
Revenues not subjected to tax, net	(247)	-
EFFECTS FROM PREVIOUS PERIODS	-	239
Changes of unrecognised loss carryforwards / deferred tax assets	1'065	-
Local actual tax rate different to Group's expected average tax rate	(41)	(306)
Change in tax rates on deferred tax balances	(279)	4'868
Other	(144)	(322)
TOTAL INCOME TAXES	12'287	13'854
Effective income tax rate (in %)	21.1%	29.3%

The Group's expected tax rate represents the tax rate of the Swiss operating Company Medacta International SA, production entity of the Group. Deferred taxes also mainly relate to temporary differences generated by the Swiss Company. Therefore, the applicable Group tax rate for 2018 is 21.1% and for 2017 was 29.3%.

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

DEFERRED INCOME TAXES

The Group recognizes in the Consolidated financial statements as of December 31, 2018 the gross amounts of Deferred tax assets and Deferred tax liabilities, respectively amounting to Euro 22'126 and to Euro 36'103.

As of December 31, 2018, 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)	31.12.2018
Net deferred tax assets	17'306
Net deferred tax liabilities	(31'283)
TOTAL NET DEFERRED TAXES	(13'977)

The amount netted between deferred tax asset and deferred tax liabilities is equal to Euro 4'820. 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, 2018 (Thousand Euro)	Property, plant and equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax losses carried forward	Total
BALANCE JANUARY 1, 2018	-	-	13'633	1'274	14'907
Changes through business combinations	-	-	-	-	-
Deferred taxes recognised in the income statement	-	-	7'049	129	7'178
Deferred taxes recognize in OCI (1)	-	-	(41)	-	(41)
Exchange differences	-	-	33	49	82
BALANCE DECEMBER 31, 2018	-	-	20'674	1'452	22'126

(1) Other comprehensive income

As per December 31, 2018, there were no unrecognised tax losses carried forward.

DEFERRED TAX ASSETS as at December 31, 2017 (Thousand Euro)	Property, plant and equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax losses carried forward	Total
BALANCE JANUARY 1, 2017	-	523	15'525	1'734	17'782
Changes through business combinations	-	-	-	-	-
Deferred taxes recognised in the income statement	-	187	(1'922)	(460)	(2'195)
Deferred taxes recognize in OCI (1)	-	-	224	-	224
Exchange differences	-	(710)	(194)	-	(904)
BALANCE DECEMBER 31, 2017	-	-	13'633	1'274	14'907

(1) Other comprehensive income

As per December 31, 2017, there were no unrecognised tax losses carried forward.

DEFERRED TAX LIABILITIES as at December 31, 2018 (Thousand Euro)	Property, plant and equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax losses carried forward	Total
BALANCE JANUARY 1, 2018	3'887	3'097	21'779	-	28'763
Changes through business combinations	-	453	-	-	453
Deferred taxes recognised in the income statement	42	988	4'989	-	6'019
Deferred taxes recognize in OCI (1)	-	-	-	-	-
Exchange differences	-	84	784	-	868
BALANCE DECEMBER 31, 2018	3'929	4'622	27'552	-	36'103

(1) Other comprehensive income

DEFERRED TAX LIABILITIES as at December 31, 2017 (Thousand Euro)	Property, plant and equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax losses carried forward	Total
BALANCE JANUARY 1, 2017	3'844	2'177	27'924	-	33'945
Changes through business combinations	-	-	-	-	-
Deferred taxes recognised in the income statement	43	803	(6'609)	-	(5'763)
Deferred taxes recognize in OCI (1)	-	-	-	-	-
Exchange differences	-	117	464	-	581
BALANCE DECEMBER 31, 2017	3'887	3'097	21'779	-	28'763

(1) Other comprehensive income

6.11. INVENTORIES

Inventories are comprised of the following items:

INVENTORIES (Thousand Euro)	31.12.2018	31.12.2017
Raw materials	13'030	9'783
Work in progress and semi-finished goods	10'914	13'370
Finished goods	73'721	57'799
Payments on account	47	47
Inventory reserve	(8'484)	(8'492)
TOTAL INVENTORIES	89'228	72'507

Inventory reserve includes value adjustments for slow moving, phase out and obsolete stock.

The movements in the inventory reserve are as follows:

INVENTORIES RESERVE (Thousand Euro)	31.12.2018	31.12.2017
BALANCE AS AT JANUARY 1	8'492	8'156
Provision	215	193
Business combination	-	257
Utilization	(257)	-
Translation difference	34	(114)
TOTAL RESERVE	8'484	8'492

6.12. TRADE RECEIVABLES

TRADE RECEIVABLES (Thousand Euro)	31.12.2018	31.12.2017
Trade receivables	44'698	37'169
Loss allowance on trade receivables	(605)	(276)
TOTAL RECEIVABLES	44'093	36'893

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, 2018 (Thousand Euro)	Not past due	Total past due	0-30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 360 days
Total trade receivables, gross	28'181	16'517	9'850	3'422	1'146	986	495	618
Expected credit loss	(47)	(558)	(26)	(39)	(28)	(48)	(75)	(342)

The following table summarizes the movements in the provision for doubtful receivables:

PROVISION FOR DOUBTFUL RECEIVABLES (Thousand Euro)	31.12.2018	31.12.2017
BALANCE AS AT JANUARY 1	(276)	(271)
Change in loss allowance due to new trade	(326)	(266)
Trade receivables derecognised due to settlement	1	261
Accounts written off during the year as uncollectible	-	-
Exchange differences	(4)	-
TOTAL PROVISION	(605)	(276)

6.13. OTHER RECEIVABLES AND PREPAID EXPENSES

OTHER RECEIVABLES AND PREPAID EXPENSES (Thousand Euro)	31.12.2018	31.12.2017
Other receivables	4'156	2'889
Prepaid expenses	3'195	1'881
TOTAL OTHER RECEIVABLES AND PREPAID EXPENSES	7'351	4'770

Other current 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:

CASH AND CASH EQUIVALENTS (Thousand Euro)	31.12.2018	31.12.2017
Cash on hand	132	34
Current bank accounts	33'578	25'083
TOTAL CASH AND CASH EQUIVALENTS	33'710	25'117

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 Cash Flows statement.

During 2018 the Group did not entered 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.

As already described in Note 6 “Notes to the Consolidated Financial Statements for the years ended December 31, 2018 and 2017”, paragraph “General information”, on November 30, 2018, following a pre-initial public offering restructuring, the Group changed the parent company from Medacta Holding SA to Medacta Group SA.

DIVIDEND

On July 5, 2018, the ordinary shareholders meeting of Medacta Holding SA has approved to distribute a dividend for CHF 75'500 thousand equivalent to Euro 65'247 thousand on July 5, 2018 (Dividend per share amounts to CHF 1.89 in 2018).

In 2017, the dividend distributed was for CHF 70'000 thousand equivalent to Euro 62'807 thousand, on July 19, 2017 (Dividend per share amounts to CHF 1.75 in 2017).

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

FINANCIAL LIABILITIES (Thousand Euro)	31.12.2018	31.12.2017
Bank loan	154'121	89'740
Leasing liabilities	8'756	7'879
Other current financial liabilities	1'614	148
TOTAL FINANCIAL LIABILITIES	164'491	97'767
Thereof current	51'476	41'899
Thereof non-current	113'015	55'868

FINANCIAL LIABILITIES (Thousand Euro)	31.12.2018	Till 1 year	1-5 years	Over 5 years
Bank loans, current	47'242	47'242	-	-
Leasing liabilities, current	2'620	2'620	-	-
Other current financial liabilities	1'614	1'614	-	-
TOTAL FINANCIAL LIABILITIES, CURRENT	51'476	51'476	-	-
Bank loans, non-current	106'879	-	83'215	23'664
Leasing liabilities, non-current	6'136	-	5'580	556
TOTAL FINANCIAL LIABILITIES, NON-CURRENT	113'015	-	88'795	24'220
TOTAL FINANCIAL LIABILITIES	164'491	51'476	88'795	24'220
Total secured bank loans	18'392			
Total non-secured bank loans	135'729			

FINANCIAL LIABILITIES (Thousand Euro)	31.12.2017	Till 1 year	1-5 years	Over 5 years
Bank loans, current	39'416	39'416	-	-
Leasing liabilities, current	2'335	2'335	-	-
Other current financial liabilities	148	148	-	-
TOTAL FINANCIAL LIABILITIES, CURRENT	41'899	41'899	-	-
Bank loans, non-current	50'324	-	47'023	3'301
Leasing liabilities, non-current	5'544	-	5'353	191
TOTAL FINANCIAL LIABILITIES, NON-CURRENT	55'868	-	52'376	3'492
TOTAL FINANCIAL LIABILITIES	97'767	41'899	52'376	3'492
Total secured bank loans	9'406			
Total non-secured bank loans	80'334			

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 1.25%.

As at December 31, 2018 and 2017, the Group had unused current credit lines of Euro 67'274 thousand and Euro 45'025 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, 2018	55'868	41'899	97'767
Increase in financial debts	65'366	26'404	91'770
Repayment of financial debts	(11'589)	(19'678)	(31'267)
Change in current financial debts	-	1'052	1'052
Changes in fair values and other changes	-	-	-
Reclass from non-current to Current	-	-	-
Currency translation effects	3'370	1'799	5'169
BALANCE DECEMBER 31, 2018	113'015	51'476	164'491

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Thousand Euro)	Non-current financial debts	Current Financial debts	Total
BALANCE JANUARY 1, 2017	19'639	22'241	41'880
Increase in financial debts	43'222	21'636	64'858
Repayment of financial debts	-	(3'076)	(3'076)
Change in current financial debts	-	-	-
Changes in fair values and other changes	-	(67)	(67)
Reclass from non-current to Current	(2'451)	2'451	-
Currency translation effects	(4'542)	(1'286)	(5'828)
BALANCE DECEMBER 31, 2017	55'868	41'899	97'767

6.17. NON-CURRENT PROVISIONS

NON-CURRENT PROVISIONS as at December 31, 2018 (Thousand Euro)	Non-current provision	Patent infringement provision	Other provisions	Total
BALANCE JANUARY 1, 2018	261	-	75	336
Reversals	-	-	-	-
Increases	49	-	33	82
Disposals	(1)	-	-	(1)
Present value adjustments	-	-	-	-
Exchange differences	-	-	-	-
BALANCE DECEMBER 31, 2018	309	-	108	417
Thereof non-current	309	-	108	417

NON-CURRENT PROVISIONS as at December 31, 2017 (Thousand Euro)	Non-current provision	Patent infringement provision	Other provisions	Total
BALANCE JANUARY 1, 2017	210	135	75	420
Reversals	-	(135)	-	(135)
Increases	51	-	-	51
Disposals	-	-	-	-
Present value adjustments	-	-	-	-
Exchange differences	-	-	-	-
BALANCE DECEMBER 31, 2017	261	-	75	336
Thereof non-current	261	-	75	336

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.

OTHER NON-CURRENT LIABILITIES (Thousand Euro)	31.12.2018	31.12.2017
Liabilities to tax authorities	10'162	13'038
Other	337	-
TOTAL OTHER NON-CURRENT LIABILITIES	10'499	13'038

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, including Japan, USA and Australia. The employer's contributions amounting to Euro 3'832 thousand in the year ended December 31, 2018 (2017: Euro 2'934 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, 2018 and 2017.

AMOUNT RECOGNISED IN THE BALANCE SHEET (Thousand Euro)	31.12.2018	31.12.2017
Defined benefit plan Switzerland	5'108	6'224
Defined benefit plan Italy	369	436
OTHER NON-CURRENT EMPLOYEE BENEFITS		
Retention plan Switzerland	1'402	1'187
French collective conventions	201	172
Retention plan Australia	62	-
Retention plan Japan	110	-
RETIREMENT BENEFIT OBLIGATIONS	7'252	8'019

PENSION PLANS IN SWITZERLAND

The current pension arrangement for employees in Switzerland is made through a plan governed by the Swiss Federal Occupational Old Age, Survivors and Disability Pension Act (BVG). The plan of Medacta's Swiss companies is administered by a separate legal foundation, which is funded by regular employer and employee contributions defined in the pension fund rules. The Swiss pension plan contains a cash balance benefit which is, in essence, contribution-based with certain minimum guarantees. Due to these minimum guarantees, the Swiss plan is treated as a defined benefit plan for the purposes of these IFRS financial statements. The plan is invested in a diversified range of assets in accordance with the investment strategy and the common criteria of an asset and liability management. A potential under-funding may be remedied by various measures such as increasing employer and employee contributions or reducing prospective benefits. Medacta pension plan is a cash balance plan where contributions are expressed as a percentage of the pensionable salary. The pension plan guarantees the amount accrued on the members' savings accounts, as well as a minimum interest on those savings accounts.

As at December 31, 2018, 494 employees (2017: 454 employees) and 3 beneficiaries (2017: 3 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 18.8 years (2017: 19.5 years).

The plan contains a cash balance benefit formula. Under Swiss law, the collective foundation guarantees the vested benefit amount as confirmed annually to members. Interest may be added to member balances at the discretion of the collective foundation. At retirement date, members have the right to take their retirement benefit as a lump sum, an annuity or part as a lump sum with the balance converted to a fixed annuity at the rates defined in the rules of the collective foundation.

The result of the Swiss benefit plan is summarised below:

AMOUNT RECOGNISED IN THE BALANCE SHEET (Thousand Euro)	31.12.2018	31.12.2017
Present value of defined benefit obligation	(22'063)	(19'662)
Fair value of plan assets	16'955	13'438
TOTAL LIABILITIES, NET	(5'108)	(6'224)
Amounts in the balance sheet:	-	-
RETIREMENT BENEFIT OBLIGATIONS	(5'108)	(6'224)

REMEASUREMENT RECOGNISED IN EQUITY (Thousand Euro)	31.12.2018	31.12.2017
Balance January 1	1'845	1'070
Actuarial (gain) / loss on defined benefit obligation	(1'004)	267
Return on plan assets excl. interest income	(950)	598
Exchange differences	28	(90)
Balance December 31	(81)	1'845

AMOUNTS RECOGNISED IN THE INCOME STATEMENT (Thousand Euro)	31.12.2018	31.12.2017
Current service cost	1'394	1'329
Past service cost	369	-
Participants' contributions	(1'190)	(1'015)
Administration cost	10	8
Net interest cost	45	38
TOTAL EMPLOYEE BENEFIT EXPENSES	628	360

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

- Cost of sales Euro 176 thousand (2017: Euro 101 thousand);
- Research and Development Euro 75 thousand (2017: Euro 43 thousand);
- Sales and Marketing expenses Euro 170 thousand (2017: Euro 97 thousand);
- General and Administrative expenses Euro 207 thousand (2017: Euro 119 thousand);

MOVEMENT IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS (Thousand Euro)	31.12.2018	31.12.2017
Balance January 1	19'661	17'831
Interest cost	147	131
Current service cost	1'394	1'329
Contribution by plan participants	1'190	1'014
Benefits paid, net	(496)	728
Past service cost	369	-
Administration cost	10	8
Actuarial loss on obligation	(1'004)	280
Exchange differences	792	(1'660)
PRESENT VALUE OF OBLIGATIONS AT END OF PERIOD	22'063	19'661

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)	31.12.2018	31.12.2017
Cash and cash equivalents	814	645
Equity instruments	441	349
Debt instruments (e.g. bonds)	12'191	9'662
Real estate	2'628	2'083
Others	881	699
TOTAL	16'955	13'438

MOVEMENT IN THE FAIR VALUE OF THE PLAN ASSETS (Thousand Euro)	31.12.2018	31.12.2017
Balance January 1	13'438	12'357
Interest income on plan asset	102	93
Employer's contributions paid	1'190	1'014
Participants' contributions	1'190	1'014
Benefits paid, net	(496)	728
Return on plan assets excluding interest income	950	(628)
Exchange differences	581	(1'140)
FAIR VALUE OF PLAN ASSETS AT END OF PERIOD	16'955	13'438

The principal actuarial assumptions are as follows:

	31.12.2018	31.12.2017
Discount rate	1.0%	0.7%
Future salary increase	1.0%	1.0%
Interest rate on retirement saving capital (*)	1.0%	0.7%
Demography	BVG2015 GT	BVG2015 GT

(*) 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)	31.12.2018	31.12.2017
DISCOUNT RATE		
Discount rate + 0.25%	23'135	20'658
Discount rate - 0.25%	21'081	18'752
SALARY GROWTH		
Salary growth + 0.25%	21'668	19'304
Salary growth - 0.25%	22'471	20'033
INTEREST RATE GROWTH		
Interest rate growth + 0.25%	21'831	19'471
Interest rate growth - 0.25%	22'291	19'852
LIFE EXPECTANCY		
Life expectancy + 1 year	22'372	19'941
Life expectancy - 1 year	21'753	19'383

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out at December 31, 2018 by AXA Pension Solutions AG.

To determine the present value of the defined benefit obligation and the related current service cost and, where applicable, past service cost, the Projected Unit Credit Method has been used.

This method is based on the amount of working years at the date of the actuarial valuation and considers the future by including:

- a discount rate;
- the salary development and leaving probability up to the beginning of the benefit payment;

- inflation adjustments for the years after the first payment for recurring benefits.

The plan in Switzerland typically expose the Group to actuarial risks such as: interest rate risk, longevity risk and salary risk.

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 1'775 thousand at December 31, 2018 (2017: Euro 1'359 thousand).

6.20. TRADE PAYABLES

Accounts payable of Euro 20'051 thousand (2017: Euro 17'286 thousand) mainly consist of commercial payables due within 12 months. The increase is primarily due to timing of payments made by the Group and a strengthening of the main currencies in which the Group operates against the Euro.

6.21. OTHER CURRENT LIABILITIES

OTHER CURRENT LIABILITIES (Thousand Euro)	31.12.2018	31.12.2017
Current accruals	22'171	8'347
Other current liabilities	467	8'382
TOTAL OTHER CURRENT LIABILITIES	22'638	16'729

Current accruals are composed as follows:

CURRENT ACCRUALS (Thousand Euro)	31.12.2018	31.12.2017
Liabilities to social security	1'353	1'563
Liabilities to tax authorities	20'818	6'784
TOTAL CURRENT ACCRUALS	22'171	8'347

Other current liabilities are composed as follows:

OTHER CURRENT LIABILITIES (Thousand Euro)	31.12.2018	31.12.2017
Residual payment due for the acquisition of Vivamed GmbH (Note 6.5)	-	6'680
Residual payment due for acquisition Medacare GmbH	-	947
Contract Liabilities	202	222
Other debts versus employees	39	-
Other	226	533
TOTAL OTHER CURRENT LIABILITIES	467	8'382

6.22. ACCRUED EXPENSES AND DEFERRED INCOME

ACCRUED EXPENSES AND DEFERRED INCOME (Thousand Euro)	31.12.2018	31.12.2017
Consulting fees	3'204	1'859
Royalties and commissions due	4'107	3'702
Accrued vacation expenses	3'009	3'164
Accrued bonuses	6'945	5'446
Other	2'475	1'775
TOTAL ACCRUED EXPENSES	19'740	15'946
Insurances	155	256
TOTAL DEFERRED INCOME	155	256
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	19'895	16'202

6.23. INFORMATION ON THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

ANALYSIS OF REVENUE

Revenue by product line are as follows:

(Thousand Euro)	31.12.2018	31.12.2017
Hip	153'039	147'020
Knee	96'060	82'021
Spine	19'691	14'666
Shoulders	3'809	960
Sports Med (*)	11	16
TOTAL	272'610	244'683

(*) in 2017 Financial Statements "Sports Med" was labelled as "Arthro".

In prior years Financial Statements, management reported together in the same line "Joint" products sales instead of "Hip", "Knee" and "Shoulders". In 2018, Joint product line would have had an amount of sales equal to Euro 252'908 thousand. In 2017 and 2016, Joint sales were equal to 230'001 thousand and 209'487 respectively.

In 2016, according to the new classification, figures would have been the followings:

(Thousand Euro)	31.12.2016
Hip	137'966
Knee	71'514
Spine	9'548
Shoulders	7
Sports Med (*)	16
TOTAL	219'051

(*) in 2016 Financial Statements "Sports Med" was labelled as "Arthro".

ANALYSIS OF EXPENSES

Personnel expenses

Personnel expenses as at December 31, 2018 and 2017 are as follows:

PERSONNEL COSTS (Thousand Euro)	31.12.2018	31.12.2017
Wages and salaries	65'727	60'025
Social security costs	7'992	7'512
Other costs	6'375	6'481
TOTAL PERSONNEL COSTS	80'094	74'018

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

PERSONNEL COSTS BY FUNCTION (Thousand Euro)	31.12.2018	31.12.2017
Cost of goods sold	10'163	9'202
Research and Development	1'664	1'189
Sales and Marketing expenses	46'712	43'962
General and Administrative expenses	21'555	19'665
TOTAL PERSONNEL COSTS BY FUNCTION	80'094	74'018
AVERAGE NR OF EMPLOYEES DURING THE YEAR	933	881

Depreciation, Amortisation and impairment

Depreciation, Amortisation, at December 31, 2018 and 2017 are as follows:

DEPRECIATION, AMORTISATION AND IMPAIRMENT BY FUNCTION (Thousand Euro)	31.12.2018	31.12.2017
Cost of goods sold	19'579	18'952
Research and Development	1'813	1'097
Sales and Marketing expenses	1'798	1'305
General and Administrative expenses	1'647	1'033
TOTAL DEPRECIATION AND AMORTISATION BY FUNCTION	24'837	22'387

General and Administrative expenses

General and Administrative expenses as at December 31, 2018 and 2017 are composed of the following expense categories:

GENERAL AND ADMINISTRATIVE EXPENSES (Thousand Euro)	31.12.2018	31.12.2017
Personnel expenses	21'555	19'665
Depreciation and amortisation	1'647	1'033
Consulting expenses	3'006	2'756
Business expenses (i.e. insurance, rents and maintenance)	5'802	5'952
Other costs and taxes	1'581	1'556
Travel and accommodation	472	477
Other	391	259
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE	34'454	31'698

Research and Development

Medacta development activities mainly consist in designing and testing new products.

Development costs that are not eligible for capitalization are expensed in the period incurred and they are recognised in Research and Development expenses. Development cost eligible for capitalization amounts to Euro 7'942 thousand in 2018 and Euro 7'384 thousand in 2017.

FINANCIAL INCOME/(EXPENSES)

FINANCIAL (EXPENSES) (Thousand Euro)	31.12.2018	31.12.2017
Interest on loans and borrowings	(2'101)	(1'687)
Gain/(loss) on revaluation of financial instruments at fair value through profit or loss	(562)	(148)
Foreign exchange losses	(1'903)	(770)
TOTAL FINANCIAL (EXPENSES)	(4'566)	(2'605)

FINANCIAL INCOME (Thousand Euro)	31.12.2018	31.12.2017
Other financial income	-	21
Interest income on loans and receivables	217	274
Foreign exchange gain	879	-
TOTAL FINANCIAL INCOME	1'096	295
TOTAL FINANCIAL INCOME/(EXPENSES), NET	(3'470)	(2'310)

6.24. OPERATING LEASE AGREEMENTS

As at December 31, 2018, future rent commitments amounted to Euro 8'152 thousand (2017: Euro 4'784 thousand).

The majority of the operating lease commitments relate to non-cancellable operating lease agreements for office buildings in Switzerland, France and Italy.

Total operating lease expenses for the years ended December 31, 2018 are as follows:

OPERATING LEASE EXPENSES (Thousand Euro)	Financial year 2018
TOTAL OPERATING LEASE EXPENSES	2'990

Future minimum operating lease commitments are as follows:

COMMITMENTS (Thousand Euro)	31.12.2018
2018	-
2019	2'280
2020	1'869
2021	1'300
2022	636
After 2022	2'067
TOTAL COMMITMENTS	8'152

6.25. LITIGATIONS

MicroPort Matter

On or about 30 July 2018, MicroPort Orthopedics, Inc. ("MicroPort") commenced an arbitration with the American Arbitration Association in Memphis, Tennessee, United States (the "Arbitration") against Advanced Surgical Devices and its principal, William Zurowski (together, "ASD"). Medacta USA, Inc. ("Medacta USA"), a wholly-owned subsidiary of the Company, is defending ASD and Mr. Zurowski pursuant to an indemnification agreement entered into in connection with an asset purchase agreement by which Medacta USA acquired assets from ASD.

Like the Issuer, MicroPort is a manufacturer of medical devices. Prior to Medacta USA's acquisition of assets of ASD, ASD sold and distributed MicroPort's medical devices and ASD and MicroPort entered into an asset purchase agreement (the "ASD/MicroPort APA") by which, among other things, ASD agreed to sell and MicroPort agreed to purchase assets of ASD.

MicroPort's demand for arbitration alleges that ASD breached the ASD/MicroPort APA, as well as a distribution agreement between ASD and MicroPort (the "ASD/MicroPort Distribution Agreement") by, among other things, terminating those agreements, according to MicroPort, without the right to do so. In its demand for arbitration against ASD, MicroPort quantified the amount of its claim at USD 499,999.00 (subject to its right to adjust the amount).

In a separate proceeding commenced on or about 27 July 2018 in the Chancery Court of Shelby County, Tennessee, United States for the 13th judicial district (the "Court Proceeding"), MicroPort filed a complaint against Medacta USA alleging that Medacta USA tortiously interfered with the ASD/MicroPort APA and the ASD/MicroPort Distribution Agreement by, among other things, inducing ASD to breach those agreements. In its Complaint in the Court Proceeding, MicroPort, among other things, alleged that its lost profits due to the tortious interference of Medacta USA (its "Alleged Base Damages") are "at least \$39,056,000" and requested punitive damages "in an amount ten times base damages".

ASD, in the Arbitration, and Medacta USA, in the Court Proceeding, have denied many of MicroPort's factual allegations and any legal liability under MicroPort's claims, and intend to defend their positions vigorously. While both the Arbitration and the Court Proceeding are in very early stages, with preliminary discovery having only begun in the last couple of months, the Company believes that ASD and Medacta USA have substantial defences to MicroPort's claims. Among others, the Company believes that MicroPort's Alleged Base Damages are based on numerous inaccurate and unsubstantiated assumptions and that MicroPort's punitive damages quantification is highly unreasonable. Nevertheless, the outcome of any arbitration or litigation is difficult to predict. If an arbitrator or court was to decide fully or even partially in favour of MicroPort, such a decision could have an impact on our reputation, business, financial condition and results of operations. In connection with this matter, we have not made any provisions.

Patent Matter

On 13 December 2018, RSB Spine, LLC ("RSB") filed a patent infringement complaint against Medacta USA in the District of Delaware (USA) alleging Medacta's MectaLIF Anterior Stand Alone – Flush implant (the "Flush product") infringes two RSB patents directed to spinal implants. RSB is seeking unspecified monetary damages in connection therewith as well as a permanent injunction.

Medacta USA respects the valid intellectual property rights of others and has investigated the allegations raised in RSB's complaint. Following this investigation, Medacta USA provided a written response to RSB on 25 January 2019 disputing RSB's position and providing further information regarding the Flush product to distinguish it from RSB's patents-in-suit. Medacta USA's response to the complaint is due to the District of Delaware on 8 March 2019. Medacta USA believes its Flush product does not infringe either patent as alleged by RSB and that RSB has failed to establish a prima facie allegation of patent infringement. Additionally, Medacta USA believes that any attempt to read the identified claims in a manner that covers the Flush product would render the RSB patents invalid. As of the date of this Offering Memorandum no case schedule has been entered by the District of Delaware and, other than Medacta USA's deadline to answer the complaint, there are no other upcoming deadlines. In any case, Medacta USA intends to continue vigorously defending its position that its Flush product does not infringe on the RSB patents as alleged. In connection with this matter, we have not made any provisions.

6.26. RELATED PARTY TRANSACTIONS

Transactions with related parties are carried out at arm's length.

Details of transactions between the Group and its related parties are disclosed below:

LOANS TO RELATED PARTIES

In 2016, the Group granted a loan, in USD, to Bel-FA SA, a company incorporated in Luxemburg with a branch in Castel San Pietro, Switzerland and owned by the Group ultimate shareholders.

The loan has been totally reimbursed on July 2, 2018.

LOANS TO RELATED PARTIES (Thousand Euro)	31.12.2018	31.12.2017
Loan to Bel-FA SA	-	11'733
TOTAL LOANS TO RELATED PARTIES	-	11'733
INTEREST RECEIVED	182	274

For the years 2018 and 2017, the interest rate varies between 2.5% and 3.0%.

OTHER RELATED PARTY TRANSACTION

The Group rents to the Medacta For Life Foundation a building in Castel San Pietro for its activities.

Medacta For Life Foundation was founded in 2011 and the My Baby nursery school was opened. The school was initially created to welcome Medacta employees' children but later opened its doors to local families with the aim of providing support to parents and promoting the return of women to work after having a baby.

In 2015 the school's educational services expanded with the opening of the My Child pre-school. In 2017 it became My School – a bilingual school with a wide range of curricular and extracurricular educational activities. In 2018 the school's educational services further expanded with the opening of the first class of My Kid primary school. The school can accommodate in total up to 120 children aged 0–8 years, offering a high-quality service to both Medacta employees families and local families.

The amounts received from Medacta For Life Foundation for rents are as follows:

OTHER RELATED PARTY TRANSACTION (Thousand Euro)	31.12.2018	31.12.2017
Medacta For Life Foundation - Rent	84	43
TOTAL OTHER RELATED PARTY TRANSACTION	84	43

COMPENSATION OF KEY MANAGEMENT PERSONNEL

COMPENSATION OF KEY MANAGEMENT PERSONNEL (Thousand Euro)	31.12.2018	31.12.2017
Fees, salaries and other short-term benefits	3'120	3'304
Post-employment pension and medical benefits	-	-
TOTAL COMPENSATION OF KEY MANAGEMENT PERSONNEL	3'120	3'304

6.27. EARNINGS PER SHARE

Basic earnings per share is calculated as the profit for the year attributable to equity holders of the parent divided by the weighted average number of outstanding shares of the Company.

EARNINGS PER SHARE (Thousand Euro)	31.12.2018	31.12.2017
Profit for the year attributable to equity holders of the parent	45'753	33'496
Weighted average number of shares	20'000	40'016
TOTAL EARNINGS PER SHARE	2.29	0.84

6.28. ATYPICAL AND/OR UNUSUAL OPERATIONS

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

6.29. CONTINGENT LIABILITIES

As of December 31, 2018, tangible fixed assets for a total amount of Euro 18'392 thousand (2017: Euro 10'152 thousand) have been pledged as collateral for borrowing facilities.

The Group as of December 31, 2018 and 2017 had unused current credit lines of Euro 67'274 thousand and Euro 45'025 thousand, respectively.

6.30. SUBSEQUENT EVENTS

In connection with the acquisition of ASD "Advanced Surgical Devices" Group of Assets for USD 1.5 million, in July 2018, on the closing date, the Group paid USD 500 thousand related to the acquisition of ASD. The remaining USD 1 million were paid

on February 5, 2019 including interest for approximately 2% from the closing date till the actual payment date, for a total of USD 1'036 thousand (equivalent to Euro 906 thousand as of December 2018).

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

EXCHANGE RATES

Currency	Average		Closing	
	2018	2017	31.12.2018	31.12.2017
CHF	0.8685	0.8970	0.8874	0.8546
GBP	1.1283	1.1430	1.1141	1.1266
AUD	0.6314	0.6765	0.6158	0.6514
USD	0.8482	0.8809	0.8748	0.8328
JPY	0.0077	0.0078	0.0080	0.0074
CAD	0.6523	0.6788	0.6405	0.6647
BYR 1'000	0.0414	0.0455	0.0404	0.0422

Statutory Auditor's Report

To the General Meeting of
MEDACTA GROUP SA, Castel S. 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 profit or loss as at 31 December 2018 and the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, its consolidated financial performance, and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 AG



Fabien Lussu
Licensed Audit Expert
Auditor in Charge



Michele Castiglioni
Licensed Audit Expert

Lugano, 13 February 2019
FL/MC/di

Enclosures

- Consolidated financial statements (statement of profit or loss, statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows and notes)