20th ANNIVERSARY | Medacta International

TWENTY YEARS OF INNOVATION SUPPORTED BY EDUCATION

HALF-YEAR REPORT

2019

MEDACTA AT A GLANCE

Medacta is an international orthopedics company specializing in the design and production of innovative orthopedic products and the development of accompanying surgical techniques. Established in 1999 in Switzerland, Medacta's products and surgical techniques are characterized by innovation. Medacta is a pioneer in developing new offerings on the basis of minimally invasive surgical techniques, in particular its Anterior Minimally Invasive Surgery ("AMIS") technique for hip replacements. Medacta has leveraged its orthopedic expertise and comprehensive understanding of the human body to develop the sophisticated "MySolutions" technology, which offers surgeons highly personalized pre-operative planning and implant placement methodologies by creating advanced personalized kinematic models and 3D planning tools for use in hip, knee, shoulder and spine procedures. Medacta is headquartered in Castel San Pietro, Switzerland, and employs 1'041 people.

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HIGHLIGHTS FIRST HALF 2019

- Successful IPO at SIX Swiss Exchange valuing Medacta at Euro 1.9 billion;
- Strong organic growth in Joint core business including Shoulder, outperforming H1-2018 results;
- Growth significantly above the market with substantial progression in the US;
- Excellent feedback from the 9th M.O.R.E. Symposium congress in Lugano with roughly 1500 attendees;
- Outlook FY 2019 confirmed – mid teens revenue growth (13–17%) and adjusted EBIDTA margin of 32% (+/– 100bps).

Euro million

Key financial figures	30.06.2019	30.06.2018
Sales	151.6	133.3
Gross Profit	111.6	99.7
Opex	94.3	69.2
EBITDA	33.5	42.8
Adjusted and normalized EBITDA*	47.0	43.2
Adjusted and normalized EBITDA margin*	31.0%	32.4%
Free Cash Flow	(11.4)	(6.7)
Adjusted and normalized Free Cash Flow**	2.0	8.0

	30.06.2019	31.12.2018
Total Assets	392.9	365.6
Total Equity	105.4	89.1
Equity Ratio	26.8%	24.4%
Number of employees	1'041	973

* Adjusted for IPO costs and extraordinary legal expenses (Euro 4.3 million), one-time tax duty (Euro 5.7 million), M.O.R.E. Symposium Lugano (Euro 4.9 million incremental vs prior year) and positive effect from IFRS 16 adoption (Euro 1.4 million).

** Please see Alternative Performance Measures paragraph on page 9.

SHARE INFORMATION

Number of shares	30.06.2019
Share capital (in CHF)	2’000’000
Number of registered shares outstanding	20’000’000
Nominal value per registered share (in CHF)	0.10
Number of treasury shares	0

Data per share	30.06.2019
High (in CHF)	105.88
Low (in CHF)	78.50
Closing price (in CHF)	88.80
Market capitalization (in CHF million)	1’772

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

Valor symbol:	MOVE	Bloomberg:	MOVE:SIX
Valor no.:	46 852 522	Reuters:	MOVE.S
ISIN:	CH048525222		

Medacta expands further achieving strong revenue growth and profitability

Dr. Alberto Siccardi

Francesco Siccardi

Dear shareholders,

On April 4, 2019, Medacta shares were traded for the first time on the SIX Swiss Exchange. In the successful listing, around one third of all outstanding shares were placed with private and institutional investors in Switzerland and abroad. We would like to take this opportunity to welcome all our new shareholders to the Medacta Family.

Strong organic growth in all the key markets

Medacta is growing significantly faster than the global orthopedics market. This trend continued in the first half of 2019 as Medacta sales increased by 13.8% compared to the same period last year, from Euro 133.3 million to Euro 151.6 million. The solid growth was driven by increased sales in all regions and business lines. Currency effects had a positive impact on reported results, mainly due to the development of the US Dollar and the Swiss Franc against the Euro, with total sales growth of 11.0% at constant currency.

In a market showing an average growth rate of about 3–4%, Medacta has outgrown the market in all regions, recording a strong organic growth.

The growth in the US, equal to 17.7% at constant currency and reported revenue for Euro 45.2 million, was particularly high and higher than prior period performance thanks to the effective expansion of the sales force in a country with a low market penetration, supported by a strong execution. In the course of the first semester, the new US headquarters in Franklin/Tennessee was inaugurated, planning investments for around Euro 2.5 million.

In Europe, the largest region in terms of revenues, sales increased by 8.2% at constant currency to Euro 70.6 million, in line with last year's growth.

In the APAC region the sales increase was 7.6% at constant currency, with reported sales of Euro 30.3 million, as a result of a strong growth in Japan and a temporary weaker development in Australia.

In the other minor markets, the increase of 18.2% at constant currency was notable due to the revenues generated by successful distributors.

Core business prospering and successful entry in the shoulder market

Overall, Medacta's approach is predominantly seen as a substitute for standard procedures because it offers better operating room efficiency, better accuracy and ultimately better patient well-being.

The pioneering technology is AMIS (Anterior Minimally Invasive Surgery), a hip replacement technique that follows both an intermuscular and internervous path to greatly decrease damage to periarticular structures while preserving tissue, and which is supported by the industry's most detailed surgeon training protocol. In May 2019, the AMIS procedure was successfully applied worldwide for the 350'000th time. As a result of this strategy, the largest Medacta's Joints product line, Hip, continues growing significantly faster than the market, achieving sales growth of 6.4% at constant currency and reported sales of Euro 82.9 million.

In the Knee product line, there was strong growth of 13.5% at constant currency, with reported sales of Euro 53.7 million. These were mainly driven by successful geographic expansion, supported by a best-in-class product portfolio and educational programs on GMK Sphere, Kinematic Alignment and single-use instruments. The core Hip and Knee business grew by 9% at constant currency in the reporting period, in line with the previous year's growth.

The Shoulder business has been successfully launched on a global scale and is steadily growing in line with management expectations, reaching a growth rate of around 170% at constant currency and reported revenue of Euro 4.2 million. The whole Joint business grew by 11% at constant currency, slightly better than last year's performance.

Sales in the Spine business line increased by 11.1% at constant currency to Euro 10.9 million but did not yet fully meet the company's expectations. We continue to invest in R&D to support our strategy, and we are glad to inform you that in 2019 the Minimally Invasive MySpine Midline Cortical (MC) platform has been recognized as this year's "Best Healthcare Navigation/Robotics Solution" by MedTech Breakthrough. Medacta is confident that the reorganization of its Spine sales department that has been initiated, along with investments to develop its product portfolio, will pay off, especially in the US. This business line is expected to grow significantly faster in the second half of the year, providing a noticeable effect on operating profit.

High profitability

For the first time in Medacta's history, Gross Profit exceeded the Euro 100 million threshold. It increased by 11.9% from Euro 99.7 million in the previous year to Euro 111.6 million in the reporting period due to the revenue growth achieved. The Gross Profit margin showed a reduction of 1.2 percentage points to 73.6% in comparison to the previous year, due to expected price reductions that occurred in the second semester of 2018 in certain European countries, and to the limited growth in the Spine business line, which only partially offset the negative price trend in the core business.

Normalized EBITDA of 31.0%

Medacta continued to invest in the growth of the company, and this is reflected in an increase in business-related costs. Operating expenses increased by Euro 25.1 million, from Euro 69.2 million in the previous year to Euro 94.3 million in the first semester of 2019. These included one-time expenses associated with the IPO and extraordinary legal costs of around Euro 10 million. Excluding IPO costs and pre-IFRS 16, operating expenditures increased by Euro 15 million, of which approximately Euro 6 million were related to the 9th M.O.R.E. Symposium in Lugano. The Symposium was a successful event where more than 1’500 attendees took part in tailor-made orthopedic training sessions on Medacta’s innovative surgical techniques and implants.

Adjusted for IPO and non-recurrent costs, EBITDA amounted to Euro 43.5 million (H1 2018: Euro 43.2 million), corresponding to a margin of 28.7% (H1 2018: 32.4%). In addition to the adjustments we normalized the June 30, 2019 EBITDA to ensure comparability with prior period. The normalization adjustments are related to the abnormal concentration of costs for the Symposium event in Lugano, for an amount of approximately Euro 4.9 million out of the total Euro 6 million, and the adoption of the IFRS 16 effective January 1, 2019, which resulted in a positive impact of Euro 1.4 million.

Adjusted and normalized EBITDA, comparable to the previous year, was Euro 47.0 million, equal to 31.0% as a percentage of revenue (H1 2018: Euro 43.2 million or 32.4%). The reported operating income at EBITDA level amounted to Euro 33.5 million, corresponding to a margin of 22.1%.

Tax rate reduction

Net profit amounted to Euro 11.3 million, compared to Euro 24.2 million in the previous year. The reduction in net profit is mainly due to the above-mentioned abnormals of around Euro 14.9 million, and to net financial costs of Euro 3.9 million, out of which Euro 3.3 million are related to unrealized exchange rate losses. The tax rate for the first semester is significantly lower than the previous year, passing from 20% to about 16%. This reduction is due to the revision of the communal tax rate where the Group has its registered office, Castel San Pietro (CH) and resulted in approximately 1% reduction in the nominal tax rate at consolidated level. Further to this reduction we had a one-off additional positive effect given by the update of Medacta’s deferred tax assets and liabilities.

Operating Cash Flow

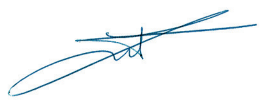
Cash flow from operating activities amounted to Euro 14.8 million, after investments in operating working capital of Euro 13.1 million, mainly due to additional goods in stock to sustain the revenue growth. Adjusted for abnormals, Cash Flow from operating activities was equal to around Euro 28.3 million.

Outlook 2019

Surgeons are at the heart of the Medacta system. Since the technology used – “how to implant the implant” – is of great importance for realizing the added value of Medacta solutions, Medacta offers comprehensive education and training programs for surgeons. It is therefore particularly gratifying that the positive feedback after the 9th M.O.R.E. Symposium in Lugano is already generating new customers, which will contribute to further increase sales growth in the second semester across all our existing business lines and key markets.

For the full-year 2019, Medacta confirms its guidance with sales growth at constant currency in the mid-teens range (13–17%) and an adjusted EBITDA margin of 32% (+/– 100 basis points).

Sincerely,



Dr. Alberto Siccardi
Chairman of the Board

Francesco Siccardi
Chief Executive Officer

Alternative Performance Measures

The financial information provided in the highlights of the first half 2019, includes certain Alternative Performance Measures (APMs) which are not accounting measures defined by IFRS. The Group believes that investor understanding of Medacta's performance is enhanced by disclosing core measures of performance, since they exclude items which can vary significantly from year to year. Therefore, the core results exclude effects related, for example, to M&A transactions, restructuring, extraordinary legal expenses, one-time tax duty, exceptional pension-plan settlements and other one-time items that may vary significantly over periods.

These APMs should not be considered as alternatives to the Group's Interim Condensed Consolidated Financial results based on IFRS. These APMs may not be comparable to similarly titled measures disclosed by other companies.

CORE RESULTS

2019 CORE RESULTS RECONCILIATION

30.06.2019 (Thousand Euro)	**IFRS**	**IPO costs[1]**	**Legal costs[2]**	**Stamp duty[3]**	**CORE**
Revenues	151’638	–	–	–	151’638
Cost of Sales	(40’059)	–	–	–	(40’059)
GROSS PROFIT	**111’579**	**–**	**–**	**–**	**111’579**
Research and Development expenses	(3’502)	–	–	–	(3’502)
Sales and Marketing expenses	(61’566)	–	361	–	(61’205)
General and Administrative expenses	(24’009)	2’823	1’076	–	(20’110)
Other income	1’172	–	–	–	1’172
Other expenses	(6’365)	–	–	5’715	(650)
OPERATING PROFIT(EBIT)	**17’309**	**2’823**	**1’437**	**5’715**	**27’284**
Financial income	1’227	–	–	–	1’227
Financial costs	(5’132)	–	–	–	(5’132)
PROFIT BEFORE TAXES	**13’404**	**2’823**	**1’437**	**5’715**	**23’379**
OPERATING PROFIT(EBIT)	**17’309**	**2’823**	**1’437**	**5’715**	**27’284**
Depreciation and Amortization	(16’180)	–	–	–	(16’180)
EBITDA	**33’489**	**2’823**	**1’437**	**5’715**	**43’464**
EBITDA Margin	**22.1%**				**28.7%**

1 IPO Costs in H1 2019, please see note 6.2 initial public offering of the Interim Condensed Consolidated Financial Statements;

2 Legal costs in H1 2019 refer to the expenses incurred by the Group on litigations;

3 Stamp duty, please see note 6.9 related party transactions, paragraph stamp duty and capital contribution of the Interim Condensed Consolidated Financial Statements;

2018 CORE RESULTS RECONCILIATION

30.06.2018 (Thousand Euro)	IFRS	IPO costs[4]	Legal costs	Stamp duty	CORE
Revenues	133’271	–	–	–	133’271
Cost of Sales	(33’588)	–	–	–	(33’588)
GROSS PROFIT	**99’683**	**–**	**–**	**–**	**99’683**
Research and Development expenses	(2’231)	–	–	–	(2’231)
Sales and Marketing expenses	(51’235)	–	–	–	(51’235)
General and Administrative expenses	(16’619)	326	–	–	(16’293)
Other income	1’114	–	–	–	1’114
Other expenses	(230)	–	–	–	(230)
OPERATING PROFIT(EBIT)	**30’482**	**326**	**–**	**–**	**30’808**
Financial income	1’991	–	–	–	1’991
Financial costs	(2’209)	–	–	–	(2’209)
PROFIT BEFORE TAXES	**30’264**	**326**	**–**	**–**	**30’590**
OPERATING PROFIT(EBIT)	**30’482**	**326**	**–**	**–**	**30’808**
Depreciation and Amortization	(12’350)	–	–	–	(12’350)
EBITDA	**42’832**	**326**	**–**	**–**	**43’158**
EBITDA Margin	**32.1%**				**32.4%**

4 IPO costs in H1 2018, are primarily related to the adoption of IFRS principles;

2019 NORMALIZED RESULTS RECONCILIATION

In addition to the core ratios, we presented June 30, 2019 Normalized Alternative Performance Measures to ensure comparability with prior period given the introduction of the new IFRS accounting standards and/or half-year phasing.

30.06.2019 (Thousand Euro)	CORE	9th MORE Symposium[5] in Lugano	IFRS 16 impact[6]	Normalized
Revenues	151'638	–	–	151'638
Cost of Sales	(40'059)	–	–	(40'059)
GROSS PROFIT	**111'579**	**–**	**–**	**111'579**
Research and Development expenses	(3'502)	–	–	(3'502)
Sales and Marketing expenses	(61'205)	4'940	(14)	(56'279)
General and Administrative expenses	(20'110)	–	(9)	(20'119)
Other income	1'172	–	–	1'172
Other expenses	(650)	–	–	(650)
OPERATING PROFIT(EBIT)	**27'284**	**4'940**	**(23)**	**32'201**
Financial income	1'227	–	–	1'227
Financial costs	(5'132)	–	94	(5'038)
PROFIT BEFORE TAXES	**23'379**	**4'940**	**71**	**28'390**
OPERATING PROFIT(EBIT)	**27'284**	**4'940**	**(23)**	**32'201**
Depreciation and Amortization	(16'180)	–	1'426	(14'754)
EBITDA	**43'464**	**4'940**	**(1'449)**	**46'955**
EBITDA Margin	**28.7%**			**31.0%**

[5] The 9th M.O.R.E Symposium normalization, relates to the abnormal concentration of costs recognized in H1 2019 which are incremental compared to prior period;

[6] IFRS 16 normalization, relates to the adoption of a new standard, not reflected in the comparative period. Please see note 6.7 right-of-use assets of the Interim Condensed Consolidated Financial Statements.

FREE CASH FLOW

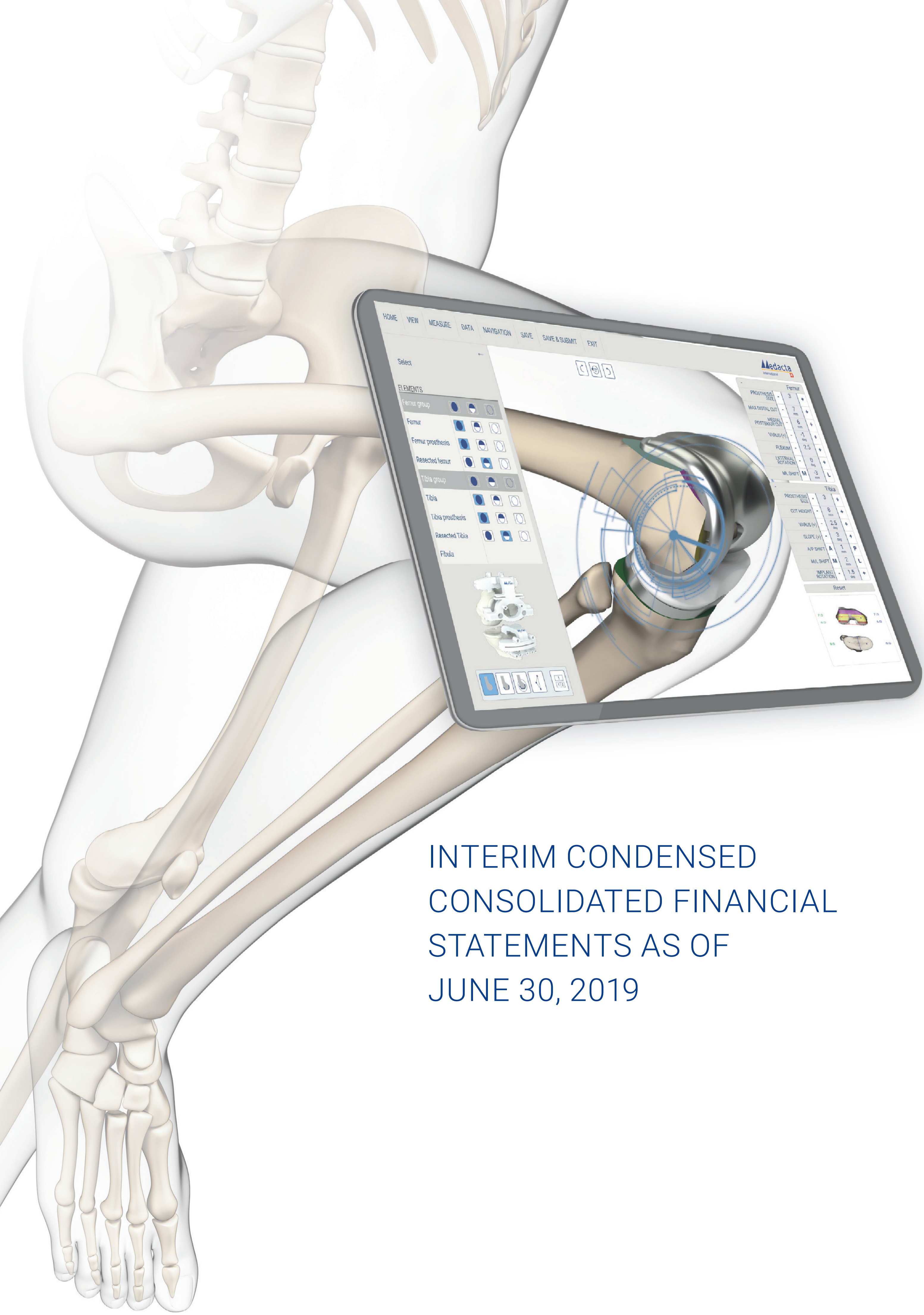
Free cash flow is used to assess the Group's ability to generate the cash needed to conduct and maintain our operations. It also provides an indication of the Group's ability to generate cash to fund dividend payments, repay debt and to undertake merger and acquisition activities.

Free cash flow (post investing activities) is calculated as IFRS cash flow from operating activities plus IFRS cash flow from investing activities. The adjusted free cash flow is calculated as free cash flow adjusted for certain non-recurring items that management believes are not indicative of operational performance.

(Thousand Euro)	30.06.2019	30.06.2018
Cash flows from operating activities (IFRS basis in accordance with IAS 7)	**14'814**	**31'208**
Adjustments for:		
IPO Costs	2'823	326
Legal Costs	1'437	–
Stamp Duty	5'715	–
Adjusted Cash Flow from operating activities	**24'789**	**31'534**
Normalized for:		
Estimated incremental 9th M.O.R.E. Symposium in Lugano	4'940	–
IFRS 16 Impact	(1'449)	–
Adjusted and normalized Cash Flow from operating activities	**28'280**	**31'534**
Cash flows from investing activities (IFRS basis in accordance with IAS 7)	**(26'232)**	**(37'927)**
Normalized for:		
Rancate Investments	–	14'423
Adjusted and normalized Cash Flow from investing activities	**(26'232)**	**(23'504)**
Adjusted and normalized Free Cash Flow	**2'048**	**8'030**

CONSTANT CURRENCY

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



INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2019

1. INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(Thousand Euro)	Unaudited 30.06.2019	Unaudited 30.06.2018
Revenue	151'638	133'271
Cost of sales	(40'059)	(33'588)
GROSS PROFIT	**111'579**	**99'683**
Research and Development expenses	(3'502)	(2'231)
Sales and Marketing expenses	(61'566)	(51'235)
General and Administrative expenses	(24'009)	(16'619)
Other income	1'172	1'114
Other expenses	(6'365)	(230)
OPERATING PROFIT (EBIT)	**17'309**	**30'482**
Financial income	1'227	1'991
Financial costs	(5'132)	(2'209)
PROFIT BEFORE TAXES	**13'404**	**30'264**
Income taxes	(2'108)	(6'055)
PROFIT FOR THE PERIOD	**11'296**	**24'209**
ATTRIBUTABLE TO:		
Equity holders of the parent	11'296	24'209
Non-controlling interests	–	–
Basic earnings per share*	0.56	0.60

* In the periods ended June 30, 2019 and 2018 there is no effect of dilution, and diluted earnings per share equals basic earnings per share.

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

2. INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Thousand Euro)	Unaudited 30.06.2019	Unaudited 30.06.2018
PROFIT FOR THE PERIOD	**11’296**	**24’209**
OTHER COMPREHENSIVE INCOME		
Actuarial gain / (loss) from defined benefit plans	(973)	293
Tax effect on actuarial (loss) / gain from defined benefit plans	180	(58)
TOTAL ITEMS NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS	**(793)**	**235**
Currency translation differences	(533)	4’599
Tax effect on currency translation items	668	(584)
TOTAL ITEMS TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS	**135**	**4’015**
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX	**(658)**	**4’250**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**10’638**	**28’459**
ATTRIBUTABLE TO:		
Equity holders of the parent	10’638	28’459
Non-controlling interests	–	–

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

3. INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Thousand Euro)	Unaudited **30.06.2019**	Audited **31.12.2018**
ASSETS		
Property, Plant and Equipment	133'779	132'908
Right-of-use assets	20'629	–
Goodwill and intangible assets	42'865	39'995
Other non-current financial assets	560	765
Deferred tax assets	14'448	17'306
TOTAL NON-CURRENT ASSETS	**212'281**	**190'974**
Inventories	97'232	89'228
Trade receivables	51'107	44'093
Other current financial assets	–	240
Other receivables and prepaid expenses	12'699	7'351
Cash and cash equivalents	19'567	33'710
TOTAL CURRENT ASSETS	**180'605**	**174'622**
TOTAL ASSETS	**392'886**	**365'596**
LIABILITIES AND EQUITY		
Share capital	1'775	1'775
Capital contribution reserve	5'723	–
Retained earnings and other reserves	103'536	93'033
Foreign currency translation reserve	(5'603)	(5'738)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**105'431**	**89'070**
Non-controlling interests	–	–
EQUITY	**105'431**	**89'070**
Non-current financial liabilities	99'461	113'015
Other non-current liabilities	7'327	10'499
Non-current provisions	446	417
Retirement benefit obligations	8'788	7'252
Deferred tax liabilities	30'648	31'283
Non-current lease liabilities	13'681	–
TOTAL NON-CURRENT LIABILITIES	**160'351**	**162'466**
Trade payables	23'544	20'051
Other current liabilities	26'162	22'638
Current financial liabilities	49'295	51'476
Accrued expenses and deferred income	23'025	19'895
Current lease liabilities	5'078	–
TOTAL CURRENT LIABILITIES	**127'104**	**114'060**
TOTAL LIABILITIES	**287'455**	**276'526**
TOTAL LIABILITIES AND EQUITY	**392'886**	**365'596**

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

4. INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of Medacta Group SA

(Thousand Euro)	Share Capital	Capital contri-bution reserve	Retained earnings and other reserves	Foreign currency translation reserve	Non-con-trolling Interests	Total Equity
BALANCE JANUARY 1, 2019	**1'775 ***	**–**	**93'033**	**(5'738)**	**–**	**89'070**
Profit for the period	–	–	11'296	–	–	11'296
Actuarial gain / (loss) from defined benefit plans, net	–	–	(973)	–	–	(973)
Tax effect on actuarial gain / (loss)	–	–	180	–	–	180
Currency translation differences	–	–	–	(533)	–	(533)
Tax effect on currency translation	–	–	–	668	–	668
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**–**	**–**	**10'503**	**135**	**–**	**10'638**
Dividend paid	–	–	–	–	–	–
Capital contribution	–	5'723 **	–	–	–	5'723
BALANCE JUNE 30, 2019	**1'775**	**5'723**	**103'536**	**(5'603)**	**–**	**105'431**

* The share capital difference between June 30, 2018 and January 1, 2019 refers to the change in parent company from Medacta Holding SA to Medacta Group SA dated 30 November 2018 and to the capital increase in kind of Medacta Group SA dated 12 December 2018.

** Refer to Note 6.9 "Related Party Transactions" paragraph "Stamp Duty and Capital Contribution"

Attributable to equity holders of Medacta Holding SA

(Thousand Euro)	Share Capital	Capital contri-bution reserve	Retained earnings and other reserves	Foreign currency translation reserve	Non-con-trolling Interests	Total Equity
BALANCE JANUARY 1, 2018	**992**	**–**	**112'928**	**(12'250)**	**–**	**101'670**
Profit for the period	–	–	24'209	–	–	24'209
Actuarial gain / (loss) from defined benefit plans, net	–	–	293	–	–	293
Tax effect on actuarial gain / (loss)	–	–	(58)	–	–	(58)
Currency translation differences	–	–	–	4'599	–	4'599
Tax effect on currency translation	–	–	–	(584)	–	(584)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**–**	**–**	**24'444**	**4'015**	**–**	**28'459**
Dividend paid	–	–	(65'247)	–	–	(65'247)
BALANCE JUNE 30, 2018	**992**	**–**	**72'125**	**(8'235)**	**–**	**64'882**

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

5. INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(Thousand Euro)	Unaudited 30.06.2019	Unaudited 30.06.2018
PROFIT FOR THE PERIOD	**11'296**	**24'209**
Adjustments for:		
Income tax expenses	2'108	6'055
Depreciation, amortisation and impairment of tangible, intangible and right-of-use assets	16'180	12'350
(Gain)/Loss on sale of tangible assets	46	(38)
Interest expenses	1'110	814
Foreign exchange result	3'072	(1'801)
Income taxes paid	(2'738)	(1'862)
Interest paid on borrowings	(931)	(721)
Increase in trade receivables	(6'769)	(6'676)
(Increase) / decrease in other receivables and prepaid expenses	(5'255)	(2'286)
Increase in inventories	(9'510)	(2'963)
Increase in trade payables	3'157	2'408
Increase in other payables, accruals and provisions	3'048	1'719
CASH FLOWS FROM OPERATING ACTIVITIES	**14'814**	**31'208**
Purchase of tangible assets	(22'558)	(30'921)
Purchase of intangible assets	(5'411)	(5'006)
Proceeds from sale of tangible assets	2'163	1'783
Cash consideration for acquisitions, net of cash acquired	(874)	(3'540)
Changes in financial assets	448	(243)
CASH FLOWS FROM INVESTING ACTIVITIES	**(26'232)**	**(37'927)**
Proceeds from borrowings	–	12'350
Repayment of borrowings	(7'933)	(6'483)
Repayment of lease liabilities	(2'623)	(1'176)
Interest paid on lease liabilities	(179)	(94)
Capital contribution	5'723	–
CASH FLOWS FROM FINANCING ACTIVITIES	**(5'012)**	**4'597**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(16'430)**	**(2'122)**
Cash and cash equivalents at the beginning of the period	33'710	25'117
Net effect of currency transaction on cash and cash equivalent	2'287	(910)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**19'567**	**22'085**

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

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

6.1 GENERAL INFORMATION

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

On November 30, 2018, following a pre-initial public offering restructuring, the Group changed the parent company from Medacta Holding SA to Medacta Group SA. Medacta Group SA was constituted from the merge of the three vehicles (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.

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

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

Under IFRS 3, a combination involving entities or businesses under common control is a combination in which all of the combining entities are ultimately controlled by the same parties both before and after the business combination, and that control is not transitory. The ultimate shareholders of 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 applied the transaction retrospectively to January 1, 2017. Due to the nature of the transaction the only change in financial year 2018 was in relation to the Group share capital, which consisted of the share capital of Medacta Group SA instead of Medacta Holding SA.

The figures as of June 30, 2019 refer to the consolidation of Medacta Group SA, while the comparative figures as of June 30, 2018 (consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows) refer to the consolidation of Medacta Holding SA.

The Company Shares are publicly traded and listed on the Six Swiss Exchange in Zurich.

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

6.2 INITIAL PUBLIC OFFERING

On April 4, 2019 the Company completed an Initial Public Offering ("IPO") whereby its shares began trading on the SIX Swiss Exchange. In connection with the IPO, the Company's shareholders sold an aggregate of 5'700'000 shares of common stock.

On May 3, 2019 the Joint Global Coordinators have partially exercised the over-allotment of 438'472 option granted in connection with the IPO. A total of 6'138'472 existing shares have been sold in the IPO increasing the free float to 30.7%, with the Siccardi Family holding 69.3% of Medacta's share capital. The total placement volume amounts to CHF 589 million.

In conjunction with the IPO, the Company incurred CHF 3'182 thousand (Euro 2'823 thousand) of costs for professional services. These fees have been expensed as incurred and recognized by the Group in the General and Administrative expense line item (refer to note 6.9 for further information).

6.3 BASIS OF PREPARATION

These unaudited financial statements are the Interim Condensed Consolidated Financial Statements of Medacta Group SA and its subsidiaries for the six months period that ended June 30, 2019. These financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the Consolidated Financial Statements for the year that ended December 31, 2018. The Interim Condensed Consolidated Financial Statements were approved by the Board of Directors on September 2, 2019.

The principles and standards utilised in preparing these Interim Condensed 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 below "Changes in accounting policies".

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

As of the reporting date, in accordance with IAS 36 "Impairment of Assets", tangible fixed assets, intangible assets, right-of-use assets and goodwill are tested for impairment if there is an indicator of impairment, and those with an indefinite useful life are tested at least once a year on November 30.

CHANGES IN ACCOUNTING POLICIES

The following standards and amendments to existing standards, which are relevant to the Group, have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2019, and the Group has not adopted them early:

IFRS 16 Leases (effective January 1, 2019)
The new standard replaces IAS 17 and introduces a single, on-balance sheet accounting model for lessees and sets out the principles for the recognition, measurement, presentation and disclosure of leases. Under IAS 17 accounting principles the Group classified as operating leases all the contracts in which a significant portion of the risks and rewards of ownership are retained by the lessor. Lease contracts where lessees bear substantially all the risks and rewards of ownership were classified as finance leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the Consolidated Statement of Profit or Loss on a straight-line basis over the lease term. Finance leases were capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration and whether the customer obtains all the economic benefits from the use of the asset. The Group applies the definition of a lease to all lease contracts entered into or modified on or after 1 January 2019.

The Group applied the cumulative catch-up method option for the transition, which requires the recognition of the cumulative effect of initially applying IFRS 16, as of January 1, 2019 to the retained earnings and not restate prior years. The Group used different practical expedients permitted by IFRS 16 C8(b) ii, it has elected to mesure the right-of-use asset an amount equal to lease liability, adjusted by the amount of any prepaid or accrued lease payments related to that lease recognized in the statement of financial position immediately before the date of initial application. Since the Group recognized the right-of-use assets at the amount equal to the lease liabilities (as per IFRS 16C8(b)ii), there was no impact to the retained earnings.

The Group elected not to recognize right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease. Also, the Group made use of the practical expedient available on transition to IFRS 16 not to reassess weather a contract is or contain a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or modified before January 1, 2019.

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities for leases previously classified as operating leases, which were off-balance sheet under IAS 17.

Applying IFRS 16 the Group:
- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial positions, initially measured at the present value of future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

The Group determines the lease term considering both, the non-cancellable term of the lease and any periods covered by an option to extend if its reasonably certain to be exercised and an option to terminate if its reasonably certain not to be exercised. The Group applies judgment in evaluating whether it is reasonable certain to exercise contract options. Options (extension/termination) on lease contracts are considered on a case by case basis following the assessment performed by local subsidiary's management.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at the rate implicit in the lease. If the rate cannot be readily determined, the Group uses its incremental borrowing rate. The incremental borrowing rates used for IFRS 16 purposes have been defined based on the underlying countries and asset classes related risks.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets.

When applying IFRS 16, the Group made the following changes in presentation:
- in the Consolidated Statement of Financial Position, additional line items to reflect the right-of-use assets, the non-current and the current lease liabilities;
- in the Consolidated Statement of Cash Flows, the line item "Repayment of Lease liabilities" includes both repayments of operating and finance lease liabilities. Also, we included a line item to reflect the interest paid on lease liabilities.

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 June 30, 2019.

IFRS 3 Business Combinations – The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation. The adoption of this amendment did not have any impact as of June 30, 2019.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement
The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income. The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity

will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)). The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after January 1, 2019, but they can be applied earlier if an entity elects to do so. The adoption of this amendment did not have any material impact as of June 30, 2019.

IFRIC 23 Uncertainty over income Tax Treatments
Clarifies the accounting for uncertainties in income taxes. The clarification confirms the current practices of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Address the concerns about how IFRS 9 Financial Instruments classifies particular pre-payable financial assets. These amendments have no impact as the Group does not enter in such particular instruments.

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

Items included in the financial statement of each Group's entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Group's presentation currency is the Euro, and all values are rounded to the nearest thousand except where otherwise indicated.

	Average		Closing	
	H1 2019	H1 2018	30.06.2019	31.12.2018
CHF	0.8873	0.8575	0.9015	0.8874
GBP	1.1455	1.1360	1.1132	1.1141
AUD	0.6261	0.6366	0.6156	0.6158
USD	0.8846	0.8285	0.8780	0.8748
JPY	0.0080	0.0077	0.0081	0.0080
CAD	0.6649	0.6469	0.6704	0.6405
BYR 1'000	0.0420	0.0416	0.0430	0.0404

COMPOSITION OF THE GROUP

During the first six months of the financial year 2019 no changes have occurred in the Group structure. Entities included in the scope of consolidation are listed below:

	% of shares held				
Company	June 2019	June 2018	Registered office	Country	Consolidation Method
Medacta Group S.A.*	N/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 6.6 "Medacta Group Stockholders' Equity", paragraph "Share Capital" for further information

The percentages of shares held, reported in the above table, represent both the shares of the capital and the votes held. The ultimate parent company is Medacta Group SA. The Group has neither associated companies nor joint arrangements.

SEASONALITY OF OPERATIONS

The Group operates in an industry where significant seasonal or cyclical variations in the total sales are not experienced during the financial year.

6.4 FAIR VALUE MEASUREMENT AND CLASSIFICATION

The following table summarizes the financial instruments carried at fair value, by valuation method as at June 30, 2019 and 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.

Carrying amount (based on measurement basis)

As at June 30, 2019 (Thousand Euro)	**Asset and Liabilities at amortised cost**	**Liabilities as FVTPL**			
		Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	19'567	–	–	–	**19'567**
Trade receivables	51'107	–	–	–	**51'107**
Other non-current financial assets	560	–	–	–	**560**
Trade payables	23'544	–	–	–	**23'544**
Other current assets	–	–	–	–	**–**
Other non-current liabilities	7'327	–	–	–	**7'327**
Current financial liabilities	49'051	–	67	177	**49'295**
Current lease liabilities	5'078	–	–	–	**5'078**
Non-current financial liabilities	99'461	–	–	–	**99'461**
Non-current lease liabilities	13'681	–	–	–	**13'681**

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 (foreign exchange contracts, selling USD and buying CHF. The financial instruments have a duration between 1 and 12 months).

The level 3 balance in the current financial liabilities relates to the fair value measurement of the contingent liability provided in the acquisition contract of Balgrist Card AG. The contingent consideration was recognised as part of the consideration transferred in the exchange for the acquiree, measured at its acquisition-date fair value. Management valued that the fair value of the contingent consideration is equal to CHF 200 thousand, corresponding to Euro 177 thousand as of June 30, 2019 (Euro 174 thousand as of December 31, 2018)

6.5 SEGMENT INFORMATION

The Group has only one operating segment.

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

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 June 30, 2019.

INFORMATION BY GEOGRAPHIC AREA

The Group operates in Europe, North America (which includes the United States of America and Canada), Asia-Pacific (which includes Australia, New Zealand, China, Hong Kong, Singapore and Japan) and 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. The Group did not report other non-current assets by geographic area since the cost to develop the information would be excessive and will not provide any material value to the reader.

	Unaudited 30.06.2019		Unaudited 30.06.2018	
(Thousand Euro)	Net sales	Property, plant and equipment	Net sales	Property, plant and equipment
Europe	70'587	116'655	64'638	113'373
North America	45'202	15'708	35'986	9'166
Asia Pacific	30'328	1'416	28'070	1'136
Other	5'521	–	4'577	–
TOTAL CONSOLIDATED	**151'638**	**133'779**	**133'271**	**123'675**

ANALYSIS OF REVENUE

The following table presents revenue of the Group's product lines for the six months ended 30 June 2019 and 2018, respectively:

(Thousand Euro)	Unaudited 30.06.2019	Unaudited 30.06.2018
Hip	82'919	76'463
Knee	53'664	45'842
Spine	10'874	9'481
Shoulder	4'150	1'481
Sports Med	31	4
TOTAL	**151'638**	**133'271**

6.6 MEDACTA GROUP STOCKHOLDERS' EQUITY

SHARE CAPITAL

On November 30 2018, following a pre-initial public offering restructuring, the Group changed the parent company from Medacta Holding SA to Medacta Group SA. The subscribed capital of Medacta Holding SA amounts to CHF 1'026 thousand equivalent to Euro 992 thousand.

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

The subscribed capital of Medacta Group SA amounts to CHF 2'000 thousand equivalent to Euro 1'775 thousand and is divided into 20'000 thousand nominal shares fully paid-up with a nominal value of CHF 0.10 each.

All issued ordinary share give the same voting and dividend rights. Also, all the issued shares by Medacta Group SA are authorized and fully paid by the ultimate shareholders.

DIVIDEND

On June 8, 2018, the ordinary shareholders meeting of Medacta Holding SA approved to distribute a dividend for CHF 75'500 thousand equivalent to Euro 65'247 thousand. The approved dividend has been paid on July 5, 2018.

Medacta Group SA did not approve any dividend distribution in the course of the first six months of 2019.

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.

Due to the change of parent company from Medacta Holding SA to Medacta Group SA as of November 30, 2018, the number of outstanding shares changed from 40'016 to 20'000 thousand.

(Thousand Euro)	**Unaudited 30.06.2019**	**Unaudited 30.06.2018**
Profit for the year attributable to equity holders of the parent	11'296	24'209
Weighted average number of shares (in thousand)	20'000	40'016
TOTAL EARNINGS PER SHARE	**0.56**	**0.60**

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.

6.7 RIGHT-OF-USE ASSETS

As previously disclosed, the Group first adopted IFRS 16 as of January 1, 2019.

All transition impacts on the balance sheet are shown in the table below:

(Thousand Euro)	**31.12.2018**	**Application of IFRS 16**	**01.01.2019**
Property, Plant and Equipment	132'908	(10'701)	122'207
Right-of-use assets	–	20'799	20'799
Non-current financial liabilities	(113'015)	6'136	(106'879)
Non-current lease liabilities	–	(14'045)	(14'045)
Current financial liabilities	(51'476)	2'620	(48'856)
Current lease liabilities	–	(4'910)	(4'910)
Other non-current and current liabilities	(112'035)	101	(111'934)

The IFRS 16 adoption let to Euro 10'701 thousand finance lease transfers from Property, Plant and Equipment to Right-of-use assets. Also, all the finance lease liabilities have been reclassified from current and non-current financial liabilities to lease liabilities for an amount respectively equal to Euro 2'620 thousand and Euro 6'136 thousand. The residual impact on Right-of-use assets and lease liabilities relate the valuation of operating lease contracts under the new IFRS 16 accounting rule.

The table below provides the reconciliation between the two standards:

(Thousand Euro)	
Operating lease commitments (undiscounted) as reported at December 31, 2018, applying IAS 17	**8’152**
Exemption of commitments for short-term leases and low value assets	(55)
Adjustment for extension options reasonably certain to be exercised	2’917
Discount impact using country and asset specific incremental borrowing rates	(815)
Addition of lease liability as of January 1, 2019	**10’199**
Former Finance lease liabilities as reported at 31 December 2018 applying IAS 17	8’756
Lease liability recognised on January 1, 2019	**18’955**

As of January 1, 2019, the Group recognized Euro 10’701 thousand of right-of-use assets related to finance leases, and Euro 10’199 thousand of right-of-use assets from the valuation of operating leases, of which Euro 8’025 thousand related to land and buildings, Euro 2’103 thousand to motor vehicles and Euro 71 thousand to IT equipment.

The main impact of the new standard on the statement of cash flows is that cash flows in respect of leases previously reported as operating leases (Euro 1’426 thousand) are reported as part of cash flows from financing activities from 1 January 2019. Previously these were included within cash flows from operating activities.

During the interim period, the Group further recognized additions of right-of-use assets in the amount of Euro 2’399 of which Euro 151 thousand for machinery and equipment, 1’418 thousand for land and buildings, Euro 799 thousand for motor vehicles and Euro 31 thousand for IT equipment.

The incremental borrowing rates used for IFRS 16 purposes have been defined based on the risk-free rates of the underlying countries, a company specific adjustment and an asset class weighted average incremental borrowing rate for the financial year 2019.

The weighted average incremental borrowing rates are 1.8% for the asset class land and building, 1.3% for motor vehicles and 2.0% for IT Equipment.

The table below shows the right-of-use assets and lease liabilities movement for the period ended June, 30 2019:

(Thousand Euro)	Right-of-use assets 2019	Lease liabilities 2019
Finance lease as reported at 31 December 2018 applying IAS 17	10'701	(8'756)
Right-of-use assets and lease liabilities recognised at 1 January 2019 applying IFRS 16	10'199	(10'199)
Incentive received	(101)	
Balance on January 1, 2019	**20'799**	**(18'955)**
Additions	2'399	(2'255)
Disposals (net) | Modification, termination, expiration	(1)	(2)
Transfers to PPE	(457)	–
Depreciation of right-of-use assets | Repayment of lease liabilities including interest	(2'311)	2'623
Exchange differences	200	(170)
Net book value on June 30, 2019	**20'629**	**(18'759)**

6.8 LITIGATIONS

MICROPORT MATTER

In a pending arbitration (the "Arbitration''), commenced with the American Arbitration Association on or about July 30, 2018 in Memphis Tennessee, the Group is defending Advanced Surgical Devices ("ASD") and Mr. Zurowski pursuant to an indemnification agreement incident to an asset purchase agreement by which the Company acquired assets from ASD. Like Medacta, the claimant in the Arbitration, MicroPort Orthopedics, Inc. ("MicroPort"), is a manufacturer of medical devices. The respondent, ASD, led by its principal, Mr. Zurowski, is a company that sells and distributes medical devices. Micro Port's demand for arbitration alleges that ASD and Mr. Zurowski breached a separate asset purchase agreement, as well as a distribution agreement, between ASD and MicroPort by, among other things, terminating those agreements, according to MicroPort, without right.

In a separate proceeding (the "Court Proceeding") commenced on or about July 27, 2018 in the Chancery Court of Shelby County, Tennessee for the 13th judicial district, MicroPort filed a complaint that alleges that the Group tortuously interfered with the asset purchase agreement between MicroPort and ASD by, among other things, inducing ASD to breach that agreement. ASD and Zurowski in the Arbitration that Medacta is defending for them, and the Group for its own account in the Court Proceeding, deny many of the factual allegations made by MicroPort and deny any legal liability for the claims of MicroPort in the two proceedings.

Both the Arbitration and the Court Proceeding are in their discovery stages, with deposition scheduled to occur over the next couple of months. In connection with this matter, we have not made any provisions.

PATENT MATTER

On December 13, 2018, RSB Spine, LLC ("RSB") filed a patent infringement complaint against Medacta USA in the District of Delaware (USA) alleging Medacta's MectaUF Anterior Stand Alone – Flush implant (the "Flush product") infringes two RSB patents directed to spinal implants. RSB is seeking monetary damages and a permanent injunction. Medacta believes its Flush product does not infringe either patent as alleged by RSB. Additionally, Medacta believes that RSB's patents are invalid. The case is still pending and in the early phase of fact discovery In connection with this matter, we have not made any provisions.

ALLEGED CRIMINAL OFFENSES UNDER GERMAN LAW

On 28 March 2019, German law enforcement officers served a search warrant to gather evidence concerning alleged criminal offenses under German law by various parties, including one of our expert independent physician consultants in Germany, the former CEO of a local clinic where our products are and were sold, the co-CEO of Medacta Germany GmbH in Göppingen, Germany ("Medacta Germany"), our CEO and, we believe based on the contents of the search warrant, representatives of various other public and private orthopedic device supply companies in Germany. As part of this preliminary investigation (Ermittlungsverfahren), the offices of Medacta Germany and the home of the co-CEO of Medacta Germany were searched by law enforcement officers. The named expert independent physician consultant provided a range of education services on our behalf, including training other surgeons, proctoring surgeries and demonstrating the efficacy of our AMIS technique for hip transplants, for which he was compensated at an hourly rate of approximately Euro 160 to Euro 200 per hour, on average.

The allegations against the named individuals concern anti-corruption offenses under German law that are purported to have occurred between 9 January 2013 and 22 December 2017, during which time: (i) the named clinic purchased Medacta products; and (ii) the named physician consultant received total compensation of approximately Euro 90'000 in aggregate over the five year period from one of our affiliates and/or independent sales agents under physician consultancy agreements and the reimbursement or cover of certain travel expenses linked to his consultancy services. Specifically, the search warrants relate to allegations that the physician consultant unlawfully influenced or attempted to influence procurement decisions at the clinic in order to increase the purchase of orthopedic products, including Medacta products, in exchange for payments received or promised, including from Medacta.

We believe that the allegations are unfounded and, if necessary, will vigorously defend our position and the positions of our employees and representatives. Medacta entered into the physician consultancy agreements with the consultant for legitimate purposes and has maintained readily accessible written documentation relating to the training and educational activities he performed in return for the compensation and reimbursement of certain travel expenses he received. However, the outcome of an investigation of this nature, and any resulting liability, is inherently difficult to predict, in particular at such an initial stage. On August 2, 2019 was submitted to the public prosecutor's office in Neuruppin a request to discontinue the proceedings pursuant to § 170 para. 2 StPO. In connection with this matter, we have not made any provisions.

6.9 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 by category.

OPERATING TRANSACTIONS

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:

(Thousand Euro)	30.06.2019	30.06.2018
Medacta For Life Foundation – Rent	66	38
TOTAL OPERATING TRANSACTIONS	**66**	**38**

IPO COSTS

As mentioned under note 6.2, the costs related to the IPO are recorded as expenses in the six months ending 30 June 2019.

During the IPO process the Selling shareholders also incurred some costs and these costs were paid by Medacta on behalf of the Selling shareholders. The Selling shareholders will pay this amount back to Medacta and therefore the Group recognized a credit towards the Selling Shareholders in the amount of CHF 2'635 thousand (Euro 2'338 thousand) as at 30 June 2019. This amount has been recorded under "Other receivables and prepaid expenses".

STAMP DUTY AND CAPITAL CONTRIBUTION

Subsequent to the IPO, Medacta Group SA incurred a one-time tax duty of Euro 5.7 million (approx. 0.25% to 0.4% of the total market capitalization) related to the tax reorganization of the Group prior to the listing.

This amount has been fully reimbursed to the company by the selling shareholders in the form of capital contribution (see consolidated statement of changes in equity).

OTHER RELATED PARTY TRANSACTIONS

Mr. Philippe Weber became member of the Board of Directors of Medacta Group SA on 26 March 2019. Niederer Kraft Frey Ltd, a law firm at which Mr. Philippe Weber is a partner, provided legal services to the Group, during the IPO-process, based on a consultant mandate ended after the listing. The fees for his professional services provided during the first six months 2019 are accrued in “Accrued expenses and deferred income” and recognized in the General and Administrative expense line item for an amount equal to Euro 769 thousand.

6.10 ATYPICAL AND/OR UNUSUAL OPERATIONS

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

6.11 CONTINGENT LIABILITIES

As of June 30, 2019, tangible fixed assets for a total amount of Euro 18’448 thousand (2018: Euro 18’392 thousand) have been pledged as collateral for borrowing facilities.

The Group as of June 30, 2019 and as of December 31, 2018 had unused current credit lines of Euro 72’525 thousand and Euro 67’274 thousand, respectively.

6.12 SUBSEQUENT EVENTS

There have been no events occurring after the reporting period which would have a material effect on the Medacta Group financials as at 30 June 2019.

DELOITTE REPORT ON THE REVIEW

Deloitte.

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

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

Introduction
We have reviewed the accompanying interim consolidated statement of profit or loss of Medacta Group SA as of 30 June 2019 and the related interim consolidated statement of comprehensive income, interim consolidated statement of financial position, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes to the interim condensed financial Information (from page 14 to page 34).

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

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information for the six-month ended 30 June 2019 are not prepared, in all material respects in accordance with IAS 34 –"Interim Financial Reporting".

Deloitte SA

Fabien Lussu
Licensed Audit Expert
Auditor in charge

Michele Castiglioni
Licensed Audit Expert

Lugano, 2 September 2019

FINANCIAL CALENDAR

6 April 2020	Full-year results 2019
19 May 2020	Annual General Meeting

CONTACT

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