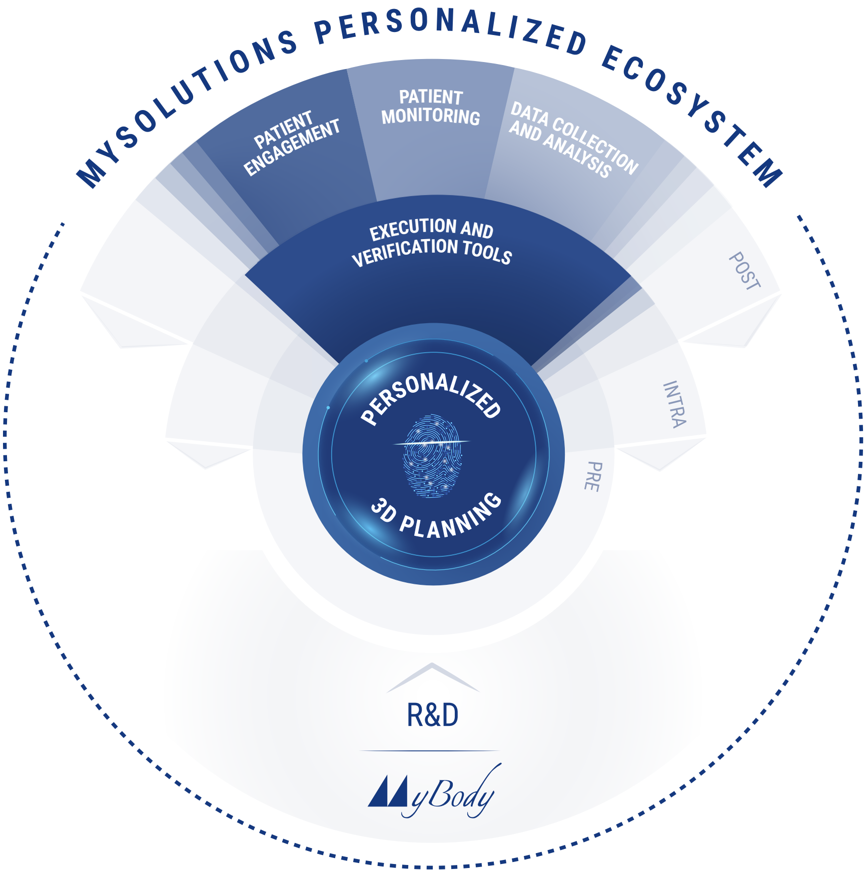
FINANCIAL REPORT

INDEX

MYSOLUTIONS PERSONALIZED ECOSYSTEM



PERSONALIZED 3D PLANNING

PRECISE EXECUTION

PATIENT ENGAGEMENT

EFFICIENT CASE MANAGEMENT

Streamlining the reproducibility of surgical procedures, supporting the surgeon practice, and facilitating the adoption of innovative technologies, while improving patient well-being and reducing surgical costs. Healthcare sustainability is at the heart of our vision and is always supported by our exceptional dedication to innovation and medical education.

1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Thousand Euro)	Notes	31.12.2023	31.12.2022
Revenues	6.24.1	510'778	437'122
Cost of Sales		(162'931)	(131'866)
GROSS PROFIT		**347'847**	**305'256**
Research and Development expenses	6.24.2	(20'318)	(16'223)
Sales and Marketing expenses		(186'671)	(159'594)
General and Administrative expenses	6.24.2	(67'332)	(65'447)
Other income	6.24.3	2'150	1'570
Other expenses	6.24.3	(1'233)	(4'098)
OPERATING PROFIT (EBIT)		**74'443**	**61'464**
Financial income	6.24.4	7'916	2'831
Financial costs	6.24.4	(23'633)	(9'503)
PROFIT BEFORE TAXES		**58'726**	**54'792**
Income taxes	6.11	(11'364)	(8'543)
PROFIT FOR THE YEAR		**47'362**	**46'249**

ATTRIBUTABLE TO			
Shareholders of the parent company	6.27	47'362	46'249
BASIC EARNINGS PER SHARE	6.27	**2.37**	**2.32**
DILUTED EARNINGS PER SHARE	6.27	**2.37**	**2.31**

The Notes are an integral part of the Consolidated Financial Statements

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Thousand Euro)	Notes	31.12.2023	31.12.2022
PROFIT FOR THE YEAR		**47'362**	**46'249**
OTHER COMPREHENSIVE INCOME			
Remeasurements of defined benefit obligations	6.19	(2'148)	4'915
Tax effect on remeasurements of defined benefit obligations		372	(852)
TOTAL ITEMS NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**(1'776)**	**4'063**
Currency translation differences		22'382	10'112
TOTAL ITEMS TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**22'382**	**10'112**
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**20'606**	**14'175**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**67'968**	**60'424**
ATTRIBUTABLE TO			
Shareholders of the parent company		67'968	60'424

The Notes are an integral part of the Consolidated Financial Statements

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

ASSETS

(Thousand Euro)	Notes	31.12.2023	31.12.2022
Property, plant and equipment	6.7	222'942	188'235
Right-of-use assets	6.8	44'397	30'264
Intangible assets	6.9	51'417	50'188
Non-current financial assets	6.10	712	481
Deferred tax assets	6.11	27'936	31'659
TOTAL NON-CURRENT ASSETS		**347'404**	**300'827**
Inventories	6.12	213'924	160'301
Trade receivables	6.13	94'651	77'957
Current financial assets	6.10	7'051	802
Other current assets and prepaid expenses	6.14	12'049	12'340
Cash and cash equivalents	6.15	20'792	32'261
TOTAL CURRENT ASSETS		**348'467**	**283'661**
TOTAL ASSETS		**695'871**	**584'488**

LIABILITIES AND EQUITY

(Thousand Euro)	Notes	31.12.2023	31.12.2022
Share capital	6.16	1'775	1'775
Capital contribution reserve	6.16	10'491	16'018
Retained earnings and other reserves	6.16	282'316	239'877
Treasury shares	6.16	(8'070)	(4'159)
Foreign currency translation reserve	6.16	43'526	21'144
TOTAL EQUITY		**330'038**	**274'655**
Non-current financial liabilities	6.17	116'087	137'592
Non-current lease liabilities	6.17	32'139	21'371
Non-current provisions	6.18	3'942	3'678
Employee benefit obligation	6.19	12'580	8'862
Deferred tax liabilities	6.11	48'699	44'619
Other non-current liabilities	6.21	2'965	4'649
TOTAL NON-CURRENT LIABILITIES		**216'412**	**220'771**
Trade payables	6.22	38'851	28'480
Current financial liabilities	6.17	46'924	7'091
Current lease liabilities	6.17	8'613	6'362
Current provisions	6.18	120	120
Accrued expenses and deferred income	6.23	40'161	31'494
Other current liabilities	6.21	14'752	15'515
TOTAL CURRENT LIABILITIES		**149'421**	**89'062**
TOTAL LIABILITIES		**365'833**	**309'833**
TOTAL LIABILITIES AND EQUITY		**695'871**	**584'488**

The Notes are an integral part of the Consolidated Financial Statements

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	Attributable to shareholders of Medacta Group SA					
(Thousand Euro)	Share capital	Capital Contribution Reserve	Retained earnings and other reserves	Treasury shares	Foreign currency translation reserve	Total equity
BALANCE JANUARY 1, 2023	**1'775**	**16'018**	**239'877**	**(4'159)**	**21'144**	**274'655**
Profit for the year	-	-	47'362	-	-	47'362
Remeasurements of defined benefit obligations	-	-	(2'148)	-	-	(2'148)
Tax effect on remeasurements of defined benefit obligations	-	-	372	-	-	372
Currency translation differences	-	-	-	-	22'382	22'382
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**45'586**	**-**	**22'382**	**67'968**
Dividends paid	-	(5'527)	(5'527)	-	-	(11'054)
Purchase of treasury shares	-	-	-	(3'911)	-	(3'911)
Share-based payment transactions	-	-	2'380	-	-	2'380
BALANCE DECEMBER 31, 2023	**1'775**	**10'491**	**282'316**	**(8'070)**	**43'526**	**330'038**

	Attributable to shareholders of Medacta Group SA					
(Thousand Euro)	Share capital	Capital Contribution Reserve	Retained earnings and other reserves	Treasury shares	Foreign currency translation reserve	Total equity
BALANCE JANUARY 1, 2022	**1'775**	**21'227**	**193'605**	**(1'242)**	**11'032**	**226'397**
Profit for the year	-	-	46'249	-	-	46'249
Remeasurements of defined benefit obligations	-	-	4'915	-	-	4'915
Tax effect on remeasurements of defined benefit obligations	-	-	(852)	-	-	(852)
Currency translation differences	-	-	-	-	10'112	10'112
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**50'312**	**-**	**10'112**	**60'424**
Dividends paid	-	(5'209)	(5'209)	-	-	(10'418)
Purchase of treasury shares	-	-	-	(2'917)	-	(2'917)
Share-based payment transactions	-	-	1'169	-	-	1'169
BALANCE DECEMBER 31, 2022	**1'775**	**16'018**	**239'877**	**(4'159)**	**21'144**	**274'655**

The Notes are an integral part of the Consolidated Financial Statements

5. CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Thousand Euro)	Notes	31.12.2023	31.12.2022
PROFIT FOR THE YEAR		**47'362**	**46'249**
Adjustments for:			
Income taxes	6.11	11'364	8'543
Depreciation, amortisation and impairment of tangible, intangible and right-of-use assets	6.24.2	58'442	51'510
(Gain) / loss on disposal of tangible and intangible assets		(140)	(22)
Foreign exchange result		5'228	3'183
Interest expenses		5'658	2'664
Change in Provisions and employee benefit obligation	6.12; 6.13 ; 6.18 ; 6.19	5'556	10'080
Share-based payments expense	6.20	2'312	1'148
Income taxes paid		(8'778)	(8'343)
Interest paid		(5'782)	(2'304)
(Increase) / decrease in trade receivables		(19'176)	(17'738)
(Increase) / decrease in other assets and prepaid expenses		(1'068)	505
(Increase) / decrease in inventories		(44'090)	(20'781)
Increase / (decrease) in trade payables		8'472	1'432
Increase / (decrease) in other liabilities and accruals		9'767	(2'616)
CASH FLOW FROM OPERATING ACTIVITIES		**75'127**	**73'510**
Purchase of tangible assets	6.7	(71'239)	(63'158)
Purchase of intangible assets *		(10'981)	(8'103)
Proceeds from disposal of tangible assets		7'079	6'383
Cash consideration for acquisitions, net of cash acquired	6.9	-	(220)
Investments in financial assets	6.10	(5'465)	(8)
CASH FLOW FROM INVESTING ACTIVITIES		**(80'606)**	**(65'106)**
Proceeds from borrowings	6.17	30'476	59'161
Repayment of borrowings	6.17	(16'816)	(35'242)
Repayment of lease liabilities	6.17	(8'825)	(7'146)
Dividends paid	6.16	(11'054)	(10'418)
Purchase of treasury shares	6.16	(3'911)	(2'917)
CASH FLOW FROM FINANCING ACTIVITIES		**(10'130)**	**3'438**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(15'609)**	**11'842**
Cash and cash equivalents at the beginning of the year	6.15	32'261	20'404
Net effect of currency translation on cash and cash equivalent		4'140	15
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6.15	**20'792**	**32'261**

* "Purchase of intangible assets" excludes unpaid acquisitions of development costs and customer list.

The Notes are an integral part of the Consolidated Financial Statements

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

GENERAL INFORMATION

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

The Company shares are publicly traded and listed on the SIX Swiss Exchange in Zurich.

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

STATEMENT OF COMPLIANCE

The Consolidated Financial Statements as of December 31, 2023 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 and after January 1, 2024, as disclosed in Note 6.3 "New accounting and International Financial Reporting Standards".

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

In the Consolidated Profit or Loss, the Group presents operational expenses by function. The Group presents current and non-current assets and current and non-current liabilities as separate classifications in its Consolidated Statement of Financial Position. This presentation of the Consolidated Statement of Profit or Loss and of the Consolidated Statement of Financial Position is believed to provide the most relevant information.

The Consolidated Statement of Cash Flows from operating activities was prepared and presented utilising the indirect method and cash flows from investing and financing activities were prepared and presented utilising the direct method. The Consolidated Statement of Cash Flows includes actual inflows and outflows of cash and cash equivalents only; accordingly, it excludes all transactions that do not directly affect cash receipts and payments. The reason for excluding non-cash transactions in the Statement of Cash Flows and placing them within disclosures keeps the statement's primary focus on cash flows from operating, investing, and financing activities in the original state so that users of financial statements can fully understand the importance of what this financial statement does. An example of non-cash transactions, as mentioned in IAS 7, is the acquisition of assets by assuming directly related liabilities or by means of a lease.

BASIS OF MEASUREMENT

These Consolidated Financial Statements have been prepared using the historical cost convention, with the exception of certain financial assets and liabilities for which measurement at fair value is required (see Note 6.5 "Fair value measurement and classification").

These Consolidated Financial Statements have been prepared on a going concern basis. The Directors believe that there are no financial or other indicators presenting material uncertainties that may cast significant doubt upon the Group's ability to meet its obligations in the foreseeable future and in particular in the next 12 months (see also considerations reported in Note 6.1 "Significant events and transactions", paragraph "Macroeconomic environment").

PRESENTATION CURRENCY

Items included in the financial statement of each entity of the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”).

The Group’s presentation currency is Euro, while the functional currency of the Parent Company is Swiss Franc. All values are rounded to the nearest thousand except where otherwise indicated.

CHANGE IN PRESENTATION OF TREASURY SHARES

During the year, the Group decided to disclose the item “Treasury Shares” separately from “Retained earnings and Other reserves” in the Consolidated Statement of Financial Position in order to provide more detail concerning the composition of the Group’s Equity.

The amount reclassified is equal to Euro 8’070 thousand as of December 31, 2023 and Euro 4’159 thousand as of December 31, 2022.

USE OF ESTIMATES AND JUDGEMENTS

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

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

- Leases – Due to the application of IFRS 16, judgement is required to determine the lease term. Management considers all circumstances and facts that create an economic incentive to exercise an extension or termination option. The assessment is reviewed if a significant event or a significant change in circumstances impact the initial evaluation.
- Development costs – Applying IAS 38, the Group recognises an internally-generated intangible asset arising from development only if all the conditions specified in the standard have been demonstrated (refer to Note 6.2 “Consolidation principles, composition of the Group and significant accounting policies”, paragraph “Significant accounting policies”). Management uses its judgement, based on facts and circumstances of each development project, to assess whether the conditions of IAS 38 par. 57 have been met.

Estimates are based on historical experience and other factors. The resulting accounting estimates could differ from the related actual results. Estimates are periodically reviewed, and the effects of each change are reflected in the Consolidated Financial Statements in the year in which the change occurs. The key sources of estimation uncertainty are the following:

- Impairment test for intangible assets – The Group owns intangible assets mainly represented by internal 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 should be tested for impairment. In-process development capitalised costs are tested for impairment at least annually. For the impairment tests, estimates are made on the expected future cash flows from the use of the asset or cash-generating unit. The actual cash flows could vary significantly from these estimates. A sensitivity analysis was performed to review the impact of reasonably possible changes in key assumptions (see Note 6.9 “Intangible assets”, paragraph “Impairment test for intangible assets”).
- Deferred tax assets – The consolidated balance sheet includes deferred tax assets related to deductible differences and, in certain cases, tax losses carried forward, provided that their utilisation has been determined to be probable. The ultimate realisation 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 and government related uncertainties, as well as Medacta’s own future decisions.
- Valuation of inventories – The orthopedic market, in which the Group operates, typically requires a high level of inventories, some of which are located at customer premises and are available for immediate use, including large and small sizes that are used less frequently than standard sizes and may generate excess inventory towards the end of the product life cycle. Inventories are periodically assessed and written down if their net realisable value is less than their carrying amount, including adjustments to reflect the situation described above. Write-downs for obsolescence or slow moving are calculated based on management’s assumptions and judgements derived from

experience and historical results. As of December 31, 2023, management has not changed the key assumptions underlying the calculation methodology. The provision for slow moving, discontinued and obsolete inventory is not considered to have a range of potential outcomes that is significantly different to the write-downs to net realisable value recognised in “Cost of Sales” as of December 31, 2023 (see Note 6.12 “Inventories”). The provision has a high degree of estimation uncertainty, depending on the range of products and sizes, on new customers acquisitions and on the achievement of target sales and procurement needs.

- Pension plans – The Group participates in pension plans in various countries. The present value of pension liabilities is determined using actuarial techniques and certain assumptions. These assumptions include the discount rate, the expected return on plan assets, the rates of future compensation increase, and rates related to mortality and resignations. Any change in the above-mentioned assumptions could result in significant effects on the employee benefit liabilities. The sensitivity analysis related to the changes in the assumptions is reported in Note 6.19 “Employee benefit obligation”.
- Legal and other contingencies – The Group is involved in various ongoing proceedings, legal actions and claims subject to a significant degree of estimation. Provision is recognised for lost contingencies when it is considered probable that an adverse outcome will occur, and the amount of the loss can be reasonably estimated. Management, in making its estimates, takes into account the advice of internal and external legal counsel. The recognised provisions are reviewed regularly, and balances are updated where necessary to reflect developments in the disputes. See Note 6.25 “Litigations” for further details.

6.1 SIGNIFICANT EVENTS AND TRANSACTIONS

MACROECONOMIC ENVIRONMENT

The year 2023 was marked by significant macroeconomic challenges and geopolitical tensions, exerting considerable strain on healthcare systems worldwide and prompting substantial policy adjustments. These evolving circumstances are likely to influence inflation, disrupt global supply chains, create labour shortages, counteract post-pandemic stabilisation efforts, and increase other macroeconomic pressures, which are expected to persist.

From a geopolitical perspective, the military conflict between Russia and Ukraine has led to the imposition of sanctions, causing notable fluctuations and disturbances in global markets. Nevertheless, our exposure to these disruptions is minimal. In 2023, our operations did not generate any sales in Russia, and our activities in Ukraine resulted in revenues of only Euro 1.4 million, compared to Euro 1.1 million in the previous year. Starting from the second quarter of 2022, we ceased initiating new business engagements, either directly or through distributors, in both Russia and Ukraine. Our assets in these countries are negligible, apart from Euro 0.4 million in receivables from Ukrainian clients, which were fully written off in 2023. We are also diligently observing the military conflict between Israel and Palestine. In 2023, sales through our distributor in Israel amounted to Euro 2.4 million. Our consolidated assets in the region are insignificant, apart from Euro 0.2 million in trade receivables from our Israeli client.

The conflicts continue to result in volatile commodity markets, supply chain disruptions, increased risk of cyber incidents and other disruptions to information systems, reduced availability and increased costs for transportation, energy, packaging, raw materials, and other input costs. As a result of these consequences our Enterprise Risk Management process is focusing on both supply chain, inflationary risks and cyberattacks, to identify specific actions needed to proactively minimise the potential for impact on our performance. Our 2023 profitability was partially influenced by the inflationary factors, which we expect to stabilise in 2024. Also, if the war expands beyond Ukraine or further intensifies, it could have an adverse impact on our operations in Europe. To significantly strengthen our internal measures for the protection of our data, systems, and products against cyberattacks, we have executed a dedicated cybersecurity project with third-party expertise. The program has involved the appointment of a Cybersecurity Manager, increased penetration testing, and the creation of a Security Operation Center for 24h monitoring of cyber events on our IT infrastructure. Regular updates on the program were presented to the Audit and Risk Committee. Also, in 2022 and 2023 routine training and awareness sessions dedicated to cyber security have been executed across our Group employees.

Higher interest rates and capital costs, increased costs of labour and volatile foreign currency exchange rates are creating additional economic challenges. Management assessed the list of internal and external indicators provided by IAS 36, and even considering the current macroeconomic environment in the year-end economic performance, as of December 31, 2023, there are no observable indicators that Medacta asset values may be impaired. External sources of information such as adverse effects on market interest rates, market capitalisation and market development have shown only a temporary impact. Internal assessments indicate that mid and long-term fundamentals respective to our expected economic performance have not changed.

NEW EU REGULATION ON MEDICAL DEVICES (MDR)

The EU MDR went into effect in May of 2017, effectively replacing decades-old legislation and creating new quality and transparency requirements for medical device companies in the European Union. The Official Journal of the European Union published the MDR and IVDR. The new rules replaced the Medical Device Directive (93/42/EEC), the Active Implantable Medical Device Directive (90/385/EEC) and the In-Vitro Diagnostic Medical Device Directive (98/79/EC). Although the MDR was introduced in 2017 there was a transitional period for companies to fully comply. From a financial and reporting perspective the EU MDR can have material impact through increased time to market for new devices on the EU market and a potential increase in the need for pre-CE clinical trials.

Under the MDR, all medical devices CE certified to Directive 93/42/EEC must be resubmitted for CE certification to the MDR. All the registration costs incurred by Medacta for the transition are expensed in the Research and Development line item. As of December 31, 2023, the costs incurred relating these activities amounted to Euro 753 thousand (Euro 627 thousand in 2022).

6.2 CONSOLIDATION PRINCIPLES, COMPOSITION OF THE GROUP AND SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION PRINCIPLES

SUBSIDIARIES

Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed, or has the rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Changes in the ownership interest of a subsidiary that do not result in a loss of control will be accounted for as an equity transaction. Hence, neither goodwill nor any gain or loss will result.

In business combinations achieved in stages, the Group remeasures its previously held equity investment in the acquiree at its acquisition date fair value and recognises the resulting gain or loss in the Consolidated Statement of Profit or Loss as “Other income” or “Other expenses”.

BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method.

The consideration transferred for the acquisition of a subsidiary is measured as the fair value of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at either fair value or the non-controlling interest’s proportionate share of the acquiree’s net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity investment in the acquiree over the fair value of the Group’s share of the identifiable assets acquired and liabilities and contingent liabilities assumed is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the Group makes a new assessment of the identifiable assets and liabilities and contingent liabilities assumed and any residual difference is recognised directly in the Consolidated Statement of Profit or Loss.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

The Consolidated Financial Statements include the consolidated financial information of the Medacta Group entities. All intercompany balances and transactions within the Consolidated Financials are eliminated. 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 arising from the Profit or Loss and from the Financial Position Statements of all the Group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation one are translated into the presentation currency as follows:

- all items related to each Statement of Financial Position are translated at the closing exchange rates;
- all items related to 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);
- exchange differences arising are recognised in Other Comprehensive Income and accumulated in a foreign exchange translation reserve.

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 exchange rate.

The exchange rates used in translating the results of foreign operations are reported in 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 2023	% of shares held December 2022	Registered office	Registered Capital	Consolidation Method
Medacta Group SA	N/A	N/A	Castel San Pietro (CH)	2'000'000 CHF	Parent company
Knnex Health Inc.	100%	100%	Wilmington - Delaware (US)	100 USD	Full Consolidation
Medacta Holding SA	100%	100%	Castel San Pietro (CH)	1'026'010 CHF	Full Consolidation
Medacta International SA	100%	100%	Castel San Pietro (CH)	1'000'000 CHF	Full Consolidation
Medacta Americas Operations Inc.	100%	100%	Wilmington - Delaware (US)	1 USD	Full Consolidation
Medacta Australia PTY Ltd	100%	100%	Lane Cove (AU)	4 AUD	Full Consolidation
Medacta Austria GmbH	100%	100%	Eugendorf (AT)	35'000 EUR	Full Consolidation
Medacta Belgium S.r.l.	100%	100%	Nivelles (BE)	18'550 EUR	Full Consolidation
Medacta Canada Inc.	100%	100%	Kitchener (CA)	100 CAD	Full Consolidation
Medacta España S.L.	100%	100%	Paterna (ES)	3'000 EUR	Full Consolidation
Medacta Europe Operations S.r.l.	100%	100%	Milan (IT)	100'000 EUR	Full Consolidation
Medacta France SAS	100%	100%	Nanterre (FR)	37'000 EUR	Full Consolidation
Medacta Germany GmbH	100%	100%	Göppingen (DE)	25'000 EUR	Full Consolidation
Medacta Italia S.r.l.	100%	100%	Milan (IT)	2'600'000 EUR	Full Consolidation
Medacta Japan Co. Ltd	100%	100%	Tokyo (JP)	25'000'000 JPY	Full Consolidation
Medacta UK Ltd	100%	100%	Hinckley (UK)	29'994 GBP	Full Consolidation
Medacta USA Inc.	100%	100%	Wilmington - Delaware (US)	1 USD	Full Consolidation

The percentages of shares held, reported in the table above, represent both the shares of the capital and the votes held. The ultimate parent company is Medacta Group SA. The Group has neither associated companies nor joint arrangements. The registered offices for each entity represent the subsidiary's main place of administration.

SIGNIFICANT ACCOUNTING POLICIES

INVENTORIES

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

Inventories of finished goods and work in progress are valued at the lower of production cost and net realisable value. Production cost comprises the acquisition price of raw materials and consumables, directly attributable costs and a proportion of indirectly attributable costs incurred in bringing the inventories to their present location and condition.

The net realisable 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 progress and finished goods which are considered obsolete or slow moving are determined by taking into account their expected future utilisation and their net realisable 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 incurred to make the sale would be greater than the net realisable value.

In addition, when the Group performs its assessment of the net realisable 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 realisable 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 realisable value.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at historical cost, which includes expenditures that are directly attributable to the acquisition of the items. The Group adopted the Cost Model under IFRS. Under this model, after initial recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses. 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:

• Buildings	40 years
• Plants	10 years
• Machinery	15 years
• Instruments	6 years
• Other fixtures and fitting, tool and equipment	5-8 years

Land is not depreciated as it is deemed to have an indefinite life. Leasehold improvements are depreciated over the lease term including optional extension of the lease period but not exceeding its economic life. Assets under construction are not depreciated until they are available for use.

Depreciation is recorded in the Consolidated Statement of Profit or Loss by function in “Cost of Sales”, “Research and Development expenses”, “Sales and Marketing expenses” and “General and Administrative expenses”. Instruments depreciation is recorded in “Cost of Sales”.

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. Repair and maintenance costs are charged to the Consolidated Statement of Profit or Loss during the financial period in which they are incurred.

The residual value and the useful economic life of property, plant and equipment are reviewed annually and adjusted where necessary.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. Further information can be found in “Impairment of assets” section.

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.

LEASES

For any new contract, the Group assesses whether a contract is or contains a lease. A lease is defined as a “contract, or a part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration”.

Leases are recognised by the Group as a Right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which the lessee is.

The only two recognition and measurement exemptions identified by the Group are short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The lease liability is presented as a separate line in the Consolidated Statement of Financial Position.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the Consolidated Statement of Financial Position.

The Group applies IAS 36 to determine whether a Right-of-use asset is impaired. Further information can be found in “Impairment of assets” of the current section.

INTANGIBLE ASSETS

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 development cost, including all costs directly attributable to make the assets available for use, net of accumulated amortisation and any impairment. Amortisation of intangible assets (excluding goodwill) commences when the asset is available for use and is calculated on a straight-line basis over the asset's estimated useful life.

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is tested for impairment at least annually to identify any impairment losses. This test is carried out with reference to the cash-generating unit (CGU) or group of CGUs to which goodwill is allocated and monitored. Reductions in the value of goodwill are recognised if the recoverable amount of goodwill is less than its carrying amount. Recoverable amount is defined as the higher of the fair value of the CGU or group of CGUs, less costs to sell and the related value in use. An impairment loss recognised against goodwill cannot be reversed in a subsequent period. If an impairment loss identified by the impairment test is higher than the value of goodwill allocated to that CGU or group of CGUs, the residual difference is allocated to the other assets included in the CGU or group of CGUs in proportion to their carrying amount.

Research and Development

Research is defined as "original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding".

According to IAS 38 no intangible asset arising from research (or from the research phase of an internal project) shall be recognised. In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits. Therefore, expenditure on research shall be recognised as an expense when it is incurred.

Development is defined as "the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use".

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditures which fulfil these criteria are limited to the development of new prosthesis and/or surgical instruments as well as costs related to the development of existing products in the pipeline which require significant improvements. Expenditures which do not fulfil these criteria, and costs incurred after that the development phase is completed (typically when the product obtains certification) are expensed as incurred (i.e., post-market surveillance, maintenance and other minor improvements activities). 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.

After initial recognition, if the development of the project is abandoned, fails, or the requirements for recognition under IAS 38 and Group's accounting policies cease to be met, the project is disposed, and the related loss is recognised in the Consolidated Statement of Profit or Loss, in the line "Research and Development expenses".

The estimated useful lifetime of development projects is 5 years applying the straight-line method.

Amortisation of Development is recorded in the Consolidated Statement of Profit or Loss in the line "Research and Development expenses".

Trademarks, customer lists, patents and other intangible assets

Assets acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licenses have a definite 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 lists acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a definite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised over the expected life of the customer lists, and it is recorded in the Consolidated Statement of Profit or Loss in line "Sales and Marketing expenses".

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

Below is reported a scheme which summarises the useful lives of each category of Intangible assets:

• trademarks	5 years
• distributor network and contractual customer lists	15 years
• other intangibles	5 years

IMPAIRMENT OF ASSETS

IAS 36 Impairment of Assets seeks to ensure that an entity's assets are not carried at more than their recoverable amount (i.e., the higher of fair value less costs of disposal and value in use). As detailed below, with the exception of goodwill and certain intangible assets for which an annual impairment test is required, entities are required to conduct impairment tests where there is an indication of impairment of an asset, and the test may be conducted for a 'cash-generating unit' where an asset does not generate cash inflows that are largely independent of those from other assets.

Impairment of Goodwill and Intangible assets with indefinite life

Goodwill and intangible assets with indefinite life are tested annually for impairment or whenever there are impairment indicators. Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill and intangible assets with indefinite life are related. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Impairment of Property, Plant and Equipment, Right-of-Use and Intangible assets with a definite useful life

For the purposes of assessing impairment, property, plant and equipment, right-of-use assets and intangible assets with a definite useful life are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-Generating Unit or "CGU"). These 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.

Impairment of Intangible assets for development costs

Intangible assets for development costs are tested whenever there is an indicator of impairment. Medacta Group on a quarterly basis performs an assessment on the existence of impairment indicators. If an impairment loss is identified, it is recognised in the Consolidated Statement of Profit or Loss. The Group performs its annual impairment test of in-process development projects as of September 30. Medacta usually applies the value in use method for its impairment assessment. The estimates used are highly sensitive and depend on assumptions specific to the nature of the Group's activities with regard to: amount and timing of expected cash flows, long-term sales forecasts, sales erosion from competitors, outcome of research and development activities, amount and timing of projected costs to develop in-process research and development in commercially viable products, tax rates, discount rates.

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.

FINANCIAL INSTRUMENTS

Financial instruments are any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity; they are recognised and measured in accordance with IAS 32 and IFRS 9.

Financial assets (classification)

Financial assets are initially measured at fair value. IFRS 9 identified two measurement categories: amortised cost and fair value. Movements in fair value are presented in either profit or loss (FVTPL) or other comprehensive income (FVTOCI), subject to certain criteria being met. The classification of financial assets under IFRS 9 based on the business model within which a financial asset is managed, and its contractual cash flow characteristics are reported as follows:

- 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 Other Comprehensive Income (FVTOCI): financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- fair value through Profit or Loss (FVTPL): any financial assets that are not held in one of the two business models mentioned are measured at fair value through profit or loss.

The Group, according with the principle, is subject only to amortised cost and fair value through profit or loss (FVTPL) classifications.

Trade and other receivables

Trade and other receivables are stated at amortised cost, less expected credit losses.

The Group writes off the 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, 2023 and 2022.

Impairments of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets measured at amortised cost. 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 and current financial assets;
- other assets and prepaid expenses;
- 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. In addition, the Group considers a trade receivable "credit impaired", and consequently subject to a specific loss allowance, when there is evidence that the recoverability of the asset is deteriorating, i.e., when specific events has occurred, such as: the customer is experiencing significant financial difficulties; or it is becoming probable that the customer will enter bankruptcy or other financial reorganisation.

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 the 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 2023 and 2022, selling USD and buying CHF. None of these contracts were designated in hedge relationships. These instruments have a duration between 1 and 12 months.

Financial derivatives with a positive fair value are recorded in other current financial assets and those with a negative fair value in current financial liabilities. Fair value changes of financial derivatives are booked as financial income/(costs) into the Consolidated Statement of Profit or Loss (refer to Note 6.24 "Information on the Consolidated Statement of Profit or Loss").

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. Cash and cash equivalents is considered to have low credit risk since it is deposited in bank institutions with over BB+ rating. The carrying amount of these assets is approximately equal to their fair value.

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 fair value. Subsequent measurement is made using the amortised cost using the effective interest rate method.

Borrowings and other financial liabilities

Borrowings from banks or financial institutions and other financial liabilities are initially recorded at fair value. Subsequent measurement is made using the amortised cost using the effective interest rate method.

Borrowings and other financial liabilities 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 and other liabilities are removed from the Statement of Financial Position when they are extinguished, i.e., when the obligation specified in the contract is discharged, cancelled or expires.

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

Income taxes include all taxes based on the taxable profits of the Group. Current and deferred taxes are recognised as a benefit or expenses and are included in the Consolidated Statement of Profit or Loss for the year, except tax arising from:

- a transaction or event which is recognised, in Other Comprehensive Income (OCI) or directly in equity, in which case, taxes are also recognised in OCI or directly in equity, respectively;
- a business combination, in which case the tax effect is included in the accounting for the 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 to the reporting entity.

Income tax expenses comprise current and deferred income taxes.

Current income taxes

Current income taxes are based on the taxable profit of the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Profit or Loss, because it excludes items that are never taxable or deductible. The Group's 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.

Management periodically takes position 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 income taxes

Deferred income taxes are accounted for using the liability method, based 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 when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow the benefit of part or all the deferred tax assets to be utilised. 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 utilised. 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.

EMPLOYEE BENEFIT OBLIGATION

Post-employment plans

Most employees of the Group are covered by post-employment plans. Most of the plans are defined contribution plans, where 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 post-employment 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.

Some entities of the Group (as disclosed in Note 6.19 "Employee benefit obligation") sponsor defined benefit pension plans for qualifying employees. Accounting and reporting of these plans are based on actuarial valuations. Defined benefit obligations and service costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the Profit or Loss to spread the regular cost over the service lives of employees participating in these plans. The pension obligation is measured as the present value of the estimated future outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Service costs from defined benefit plans are charged to the appropriate Profit or Loss heading within the operating results.

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

Remeasurements of defined benefit obligations, resulting from changes in actuarial assumptions and differences between assumptions and actual experiences, are recognised in the period in which they occur in "Other Comprehensive Income" (OCI).

Other non-current benefits

Other non-current benefits mainly comprise length of service compensation benefits in certain Group companies. Contributions made by employees or by 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.

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.

SHARE-BASED COMPENSATION

In 2021 the Board of Directors approved the implementation of the LTIP proposed by the Remuneration Committee, under the Performance Share Plan ("The Plan"). The purpose of the plan is to provide the eligible Medacta employees with an opportunity to become shareholders of the company, and hence align their interests to those of Medacta's other shareholders, to participate in the future long-term success and prosperity of the Group, and to enhance and reward loyalty of the employees. Ultimately, the number of PSUs which vest shall be determined by the Board or a body designated by the Board in a final, conclusive and binding manner. The Final Vesting Multiple equals either Group Vesting Multiple or Country Vesting Multiple, whereas the latter applies if all of the following three conditions are met:

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

If any one of the above conditions is not met, the Final Vesting Multiple equals the Group Vesting Multiple. The Group Vesting Multiple consists of two components that are weighted equally: (i) a component with a market condition that is based on the total shareholders' return (TSR) measured over three years relative to the SPI Extra Index and (ii) a component with a performance condition that is based on the Company's Absolute EBIT Vesting Multiple performance.

Participants to the Plan receive part of their remuneration in the form of share-based payment transactions, whereby these individuals render services as consideration for equity instruments (equity-settled transactions). The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves. The fair value of performance stock units (PSUs) granted under TSR performance component is estimated using the Monte Carlo simulation methodology. The Monte Carlo simulation input assumptions are determined based on available internal and external data sources. The expected volatility of the share price returns is based on the historic volatility of daily share price returns of the Company, derived from Revolut and measured over a historical period matching the performance period of the awards. Further details are provided in Note 6.20 "Share-based payment transactions". No expense is recognised for awards that do not ultimately vest. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date of grant, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding performance share units (PSUs) is reflected as additional share dilution in the computation of earnings per share (Note 6.27 "Earnings per share").

TREASURY SHARES

Equity instruments which are re-acquired by Medacta Group SA (treasury shares) are deducted from equity and disclosed separately. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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. The expense relating to any provision is presented in the income statement, net of any reimbursement and where discounting is used, the increase in the provision is recognised as a finance expense.

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. Revenue is recognised primarily when control of the promised goods is transferred to the customer, which typically occurs at the point in time upon delivery, shipment or utilisation. There is no significant revenue associated with the provision of services.

The Group sells products mainly through the following channels:

- healthcare institutions (hospitals, clinics). Inventory is generally consigned to sales agents or customers before surgery is planned, so that the products are available when needed. Revenue is recognised at the point in time when notification is received that the product has been implanted or used, i.e., when surgery occurs;
- external distributors. Medacta sells products to distributors mainly in countries where it does not have its own presence. Revenue is generally recognised when control of products is transferred to the customer, which typically occurs upon shipment of the product.

Sales commissions to employees or agents are contract costs and are recorded in the Consolidated Statement of Profit or Loss at the point in time when related revenues are recognised. The Group does not incur other significant costs to obtain contracts. There are no significant contract assets, liabilities or future performance obligations.

The transaction price may comprise both fixed and variable components. Products are in most transactions sold at pre-defined fixed prices. However, transaction price may also include in some instances variable considerations contingent to future events in the form of discounts, rebates or paybacks. Revenue is recognised, as soon as the performance obligation is satisfied, at the transaction price identified. Medacta applies the "most likely amount" method or the "expected value method" in order to estimate the variable consideration, whichever is more predictive based on the terms of the contracts. The amount of variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

6.3 NEW ACCOUNTING AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE EFFECTIVE FOR REPORTING PERIODS BEGINNING ON JANUARY 1, 2023

AMENDMENTS TO IAS 1 PRESENTATION OF FINANCIAL STATEMENTS AND IFRS PRACTICE STATEMENT 2 MAKING MATERIALITY JUDGEMENTS— DISCLOSURE OF ACCOUNTING POLICIES

The group has adopted the amendments to IAS 1 for the first time in the current year. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. The adoption did not have any material impact on the disclosures or on the amounts reported in these financial statements.

AMENDMENTS TO IAS 12 INCOME TAXES—DEFERRED TAX RELATED TO ASSETS AND LIABILITIES ARISING FROM A SINGLE TRANSACTION

The Group has adopted the amendments to IAS 12 for the first time in the current year. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The presentation of the deferred tax assets and liabilities arising from the recognition of right-of-use assets and lease liabilities has been amended accordingly, reporting the opening balance and movements of the gross amounts in the disclosure. The amendment did not have any other impact on the Consolidated Financial Statements of the Group. The effects of the change in presentation are disclosed in Note 6.11 “Deferred tax assets and deferred tax liabilities / Income Taxes”.

AMENDMENTS TO IAS 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS—DEFINITION OF ACCOUNTING ESTIMATES

The Group has adopted the amendments to IAS 8 for the first time in the current year. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The definition of a change in accounting estimates was deleted.

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

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE EFFECTIVE FOR REPORTING PERIODS BEGINNING ON AND AFTER JANUARY 1, 2024 AND NOT YET ADOPTED BY THE GROUP

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

- IFRS 10 and IAS 28 (amendments) “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”. Effective date of the amendments has yet to be set by the IASB;
- amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after January 1, 2024);
- amendments to IAS 1 Presentation of Financial Statements—Non-current Liabilities with Covenants (effective for annual periods beginning on or after January 1, 2024);
- amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures—Supplier Finance Arrangements (effective for annual periods beginning on or after January, 1, 2024);
- amendment to IFRS 16 Leases—Lease Liability in a Sale and Leaseback (effective for annual periods beginning on or after January 1, 2024).

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

6.4 FINANCIAL RISKS MANAGEMENT

The Board of Directors is responsible for the Group’s internal control system, which provides the ultimate oversight for Medacta’s strategy, operation and finances.

The internal control system of Medacta is structured to ensure the correct disclosure and adequate coverage of control over all Group activities, with particular attention on areas considered potentially at risk. Each Board Member is entitled to request information concerning all affairs of the Company and the Group reasonably necessary to fulfil his fiduciary duties.

The risk management strategy of the Group aims to stabilise the results of the Group by minimising the potential effects due to volatility in financial markets.

The Group uses derivative financial instruments to mitigate exchange rate risks.

According to the Organizational Regulations[1], the CFO, in cooperation with the CEO, ensures good financial governance, overseeing all financial planning, budgeting (short- and midterm), reporting and risk management activities. Furthermore, the CFO leads the implementation of systems and procedures to seek to ensure compliance with regulatory requirements for financial information, reporting, disclosure requirements, and internal control.

Liquidity risk is managed centrally for the whole Group including necessities of foreign subsidiaries.

The assets of the Group are exposed to different types of financial risk:

- market risk (which includes exchange rate risk 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.

The Group is exposed to foreign exchange risk mainly related to financial instruments (including trade and other receivables, trade and other liabilities, financial and lease liabilities) held by the Swiss companies of the Group in currencies different from their functional currency (Swiss Franc).

Furthermore, the Group uses Euro as presentation currency and holds net assets in different functional currencies, hence is exposed to foreign currency translation risk. This risk is not hedged.

The Group only enters into foreign exchange forward 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, 2023, forward currency contracts with a nominal value of USD 36’000 thousand (2022: USD 36’000 thousand) and positive fair value of Euro 1’679 thousand (2022: positive fair value of Euro 802 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. Changes in the fair value of financial derivative instruments are recognised as financial income/(costs) into the Consolidated Statement of Profit or Loss (refer to Note 6.24.4 “Information on the Consolidated Statement of Profit or Loss - Financial income/(costs)”).

The sensitivity analysis considers major foreign currency risk exposures in relation to the foreign exchange exposure of the Swiss companies of the Group, and it is based on the deviation from the closing exchange rates of the Swiss Franc (increase/decrease of 10% of the closing exchange rate as of December 31, 2023 and as of December 31, 2022).

The following tables demonstrate the sensitivity to a reasonable possible currency rate change of the Group’s Profit before taxes and of the Group’s Equity, with all other variables held constant.

EXCHANGE RATES SENSITIVITY

As at December 31, 2023

(Thousand Euro)

Currency *	Closing exchange rate	Increase / (Decrease)	Profit Before Taxes	Equity
USD/CHF	0.8415	10%	9'819	-
EUR/CHF	0.9287	10%	960	-
JPY/CHF	0.0060	10%	(58)	-
AUD/CHF	0.5731	10%	(26)	-
USD/CHF	0.8415	(10%)	(9'819)	-
EUR/CHF	0.9287	(10%)	(960)	-
JPY/CHF	0.0060	(10%)	58	-
AUD/CHF	0.5731	(10%)	26	-

* The amounts in the table above are calculated in CHF, which is the functional currency of Medacta International SA. The figures summarised in the table are reported in thousand Euro, which is the presentation currency of the Group.

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

As at December 31, 2022

(Thousand Euro) Currency *	Closing exchange rate	Increase / (Decrease)	Profit Before Taxes	Equity
USD/CHF	0.9244	10%	9'202	-
EUR/CHF	0.9893	10%	1'816	-
JPY/CHF	0.0070	10%	645	-
AUD/CHF	0.6298	10%	156	-
USD/CHF	0.9244	(10%)	(9'202)	-
EUR/CHF	0.9893	(10%)	(1'816)	-
JPY/CHF	0.0070	(10%)	(645)	-
AUD/CHF	0.6298	(10%)	(156)	-

* The amounts in the table above are calculated in CHF, which is the functional currency of Medacta International SA. The figures summarised in the table are reported in thousand Euro, which is the presentation currency of the Group.

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.

Changes in interest rate levels affect the cost and return of the various forms of funding and use, thus affecting the overall net financial result. No hedging activities (such as interest rate swaps) were conducted during the 2023 and 2022 closing periods.

With reference to interest rate risk, a sensitivity analysis was carried out to determine the effect on the consolidated income statement that would result from a hypothetical positive and negative change of 50 bps in interest rates compared with those actually recognised in each period. The analysis was carried out mainly about the Group's current interest-bearing assets and current and non-current debt with floating interest rates. With regard to the current interest-bearing assets a possible change in the interest rates of 50 bps would not have a material impact on profit or loss, while for the current and non-current debt with floating, the precise impact was calculated.

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 SENSITIVITY - IMPACT ON PROFIT OR LOSS

(Thousand Euro)	50 basis points increase
As of December 2022	(702)
As of December 2023	(781)

CREDIT RISK

Credit risk exists in relation to trade and other receivables, cash and deposits in banks.

The Group constantly monitors the exposure to credit risk on its customers. Due to diversity of customers, there is no single credit limit for all customers, nevertheless the Group assesses its customers taking into account their financial situation, past experience, and other factors.

Trade receivables' balance at the end of the year is equal to Euro 94'651 thousand (Euro 77'957 thousand in 2022), out of which Euro 4'653 thousand are due from a single customer (Euro 5'466 thousand in 2022). The Group does not have other significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The concentration of credit risk related to largest trade customer did not exceed 10% of gross monetary assets at any time during the year. The concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at any time during the year. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. Core banking relations are maintained with at least "BB+" 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	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, 2023 (Thousand Euro)	Note	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables (not credit impaired)	6.13	N/A	*	Lifetime ECL (simplified approach)	93'641	(1'649)	91'992
Trade receivables (credit impaired)	6.13	N/A	**	Lifetime ECL (credit impaired)	5'276	(2'617)	2'659
TOTAL TRADE RECEIVABLES					**98'917**	**(4'266)**	**94'651**

December 31, 2022 (Thousand Euro)	Note	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables (not credit impaired)	6.13	N/A	*	Lifetime ECL (simplified approach)	78'000	(872)	77'128
Trade receivables (credit impaired)	6.13	N/A	**	Lifetime ECL (credit impaired)	2'406	(1'577)	829
TOTAL TRADE RECEIVABLES					**80'406**	**(2'449)**	**77'957**

* For trade receivables (not credit impaired), 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.

** The Group considers a trade receivable "credit impaired", and consequently subject to a specific loss allowance, when there is evidence that the recoverability of the asset is deteriorating, i.e. when specific events has occurred, such as: the customer is experiencing significant financial difficulties; or it is becoming probable that the customer will enter bankruptcy or other financial reorganisation.

LIQUIDITY RISK

The management of the liquidity risk originating from the day-by-day operations of the Group involves the maintenance of an adequate level of cash and cash equivalents as well as financial resources through an adequate amount of credit lines.

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

The following tables include a summary, by maturity date, as of December 31, 2023 and 2022. The reported balances are contractual and undiscounted figures including repayments and interests.

As at December 31, 2023 (Thousand Euro)	Up to 1 year	1 year to 5 years	More than 5 years	Total
Trade payables	38'851			**38'851**
Current financial liabilities	50'519	-	-	**50'519**
Current lease liabilities	9'744	-	-	**9'744**
Accrued expenses	12'640	-	-	**12'640**
Non-current financial liabilities	-	129'008	-	**129'008**
Non-current lease liabilities	-	25'882	10'051	**35'933**
Net derivative financial (assets)/liabilities	(1'679)	-	-	**(1'679)**
Gross outflows	*33'547*	-	-	***33'547***
Gross inflows	*(35'226)*	-	-	***(35'226)***

As at December 31, 2022 (Thousand Euro)	Up to 1 year	1 year to 5 years	More than 5 years	Total
Trade payables	28'480	-	-	**28'480**
Current financial liabilities	9'886	-	-	**9'886**
Current lease liabilities	7'046	-	-	**7'046**
Accrued expenses	11'911	-	-	**11'911**
Non-current financial liabilities	-	121'416	29'242	**150'658**
Non-current lease liabilities	-	17'508	5'487	**22'995**
Net derivative financial (assets)/liabilities	(802)	-	-	**(802)**
Gross outflows	*33'718*	-	-	***33'718***
Gross inflows	*(34'520)*	-	-	***(34'520)***

6.5 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). The definition above reported emphasises that the fair value is a market-based measurement, not an entity-specific measurement. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible, including assumptions about possible risk. As a consequence, an entity's intention to hold/settle an asset or otherwise fulfil a liability is not relevant to the fair value measurement process.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques 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 Statement of Financial Position. The fair value hierarchy level is shown for those financial assets and liabilities that are carried at fair value in the balance sheet.

For financial instruments held by the Group and measured at amortised costs, the fair value usually approximates the carrying amount, in which case the column "Fair Value" in the table below is left empty.

The following tables summarise the financial instruments carried at fair value, by valuation method as of December 31, 2023 and 2022.

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, 2023 (Thousand Euro)	Carrying amount (based on measurement basis)					
	Asset and Liabilities at amortised cost	Assets / Liabilities as FVTPL				
		Level 1	Level 2	Level 3	Total carrying amount	Fair Value
Non-current financial assets	712	-	-	-	**712**	-
Trade receivables	94'651	-	-	-	**94'651**	-
Current financial assets	5'372	-	1'679	-	**7'051**	-
Cash and cash equivalents	20'792	-	-	-	**20'792**	-
Non-current financial liabilities	116'087	-	-	-	**116'087**	-
Non-current lease liabilities	32'139	-	-	-	**32'139**	-
Other non-current liabilities	2'965	-	-	-	**2'965**	-
Trade payables	38'851	-	-	-	**38'851**	-
Current financial liabilities	46'924	-		-	**46'924**	-
Current lease liabilities	8'613	-	-	-	**8'613**	-
Other current liabilities	14'752	-	-	-	**14'752**	-

As at December 31, 2022 (Thousand Euro)	Carrying amount (based on measurement basis)					
	Asset and Liabilities at amortised cost	Assets / Liabilities as FVTPL				
		Level 1	Level 2	Level 3	Total carrying amount	Fair Value
Non-current financial assets	481	-	-	-	**481**	-
Trade receivables	77'957	-	-	-	**77'957**	-
Current financial assets	-	-	802	-	**802**	-
Cash and cash equivalents	32'261	-	-	-	**32'261**	-
Non-current financial liabilities	137'592	-	-	-	**137'592**	-
Non-current lease liabilities	21'371	-	-	-	**21'371**	-
Other non-current liabilities	4'649	-	-	-	**4'649**	-
Trade payables	28'480	-	-	-	**28'480**	-
Current financial liabilities	7'091	-	-	-	**7'091**	-
Current lease liabilities	6'362	-	-	-	**6'362**	-
Other current liabilities	15'515	-	-	-	**15'515**	-

The level 2 balance relates to forward currency contracts (foreign exchange contracts, selling USD and buying CHF; the financial instruments have a duration between 1 and 12 months) described in Note 6.4 "Financial risks management", "Market risk - exchange rate risk" sections.

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 organisational and management structure used within the Group as well as the internal management reporting reviewed regularly by the Chief Operating Decision Maker (CODM), who has been identified as the Chief Executive Officer Francesco Siccardi.

Therefore, Medacta constitutes with only one segment which is represented by the whole Group itself. In 2023 and 2022 no single customer represents 10% or more of the total Group revenues. Resource allocation and performance assessment are performed at Group level and not at single-component level.

The operating segments subject to disclosure are consistent with the organisation model adopted by the Group during the Financial Year as of December 31, 2023.

INFORMATION BY GEOGRAPHIC AREA

The Group operates in EMEA (which includes Europe, Middle East and Africa), North America (which includes the United States of America and Canada), Asia-Pacific (which includes Asia and Oceania) and LATAM (which includes all countries located in Latin America). In 2023 the Group reorganised the key geographic areas introducing EMEA and LATAM regions, reclassifying Rest of the World (RoW) region. EMEA includes revenue from the former Europe region and select countries originally included in RoW region. LATAM includes revenue from countries located in Latin America previously included in RoW region. 2022 figures have been restated accordingly. 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 would not provide any material value to the reader.

	31.12.2023		31.12.2022	
SALES AND PROPERTY, PLANT AND EQUIPMENT (Thousand Euro)	Net sales	Property, plant and equipment	Net sales	Property, plant and equipment
EMEA*	242'422	185'196	196'666	154'529
North America	154'008	35'129	136'770	31'057
Asia Pacific	104'183	2'617	94'364	2'649
LATAM*	10'165	-	9'322	-
TOTAL CONSOLIDATED	**510'778**	**222'942**	**437'122**	**188'235**

* In 2023 the Group reorganised the key geographic areas introducing EMEA and LATAM regions, reclassifying Rest of the World (RoW) region. EMEA includes revenue from the former Europe region and select countries originally included in RoW region. LATAM includes revenue from countries located in Latin America previously included in RoW region. 2022 figures have been restated accordingly.

6.7 PROPERTY, PLANT AND EQUIPMENT

2023 (Thousand Euro)	Land	Buildings	Plants & Machinery	Instruments	Other fixtures and fitting, tool and equipment	Assets under construc-tion	Total
HISTORICAL COST							
BALANCE JANUARY 1, 2023	**12'932**	**48'229**	**39'065**	**265'046**	**29'254**	**687**	**395'213**
Additions	1'583	605	1'968	56'052	5'943	5'088	71'239
Disposals	-	-	(660)	(9'803)	(286)	-	(10'749)
Transfers *	-	-	1'863	-	610	(610)	1'863
Exchange differences	917	3'244	2'659	9'128	1'276	208	17'432
BALANCE DECEMBER 31, 2023	**15'432**	**52'078**	**44'895**	**320'423**	**36'797**	**5'373**	**474'998**
ACCUMULATED DEPRECIATION							
BALANCE JANUARY 1, 2023	**-**	**(6'842)**	**(22'776)**	**(155'586)**	**(21'774)**	**-**	**(206'978)**
Depreciation of the year and impairment loss	-	(1'283)	(2'518)	(33'054)	(3'067)	-	(39'922)
Disposals	-	-	660	2'904	257	-	3'821
Transfers *	-	-	(840)	-	-	-	(840)
Exchange differences	-	(522)	(1'588)	(4'983)	(1'044)	-	(8'137)
BALANCE DECEMBER 31, 2023	**-**	**(8'647)**	**(27'062)**	**(190'719)**	**(25'628)**	**-**	**(252'056)**
NET BOOK VALUE							
BALANCE JANUARY 1, 2023	**12'932**	**41'387**	**16'289**	**109'460**	**7'480**	**687**	**188'235**
BALANCE DECEMBER 31, 2023	**15'432**	**43'431**	**17'833**	**129'704**	**11'169**	**5'373**	**222'942**

* The total balance of "Transfers" refers to the reclassification from right-of-use assets to property plant and equipment due to the purchase of the leased assets.

2022 (Thousand Euro)	Land	Buildings	Plants & Machinery	Instruments	Other fixtures and fitting, tool and equipment	Assets under construc-tion	Total
HISTORICAL COST							
BALANCE JANUARY 1, 2022	**7'733**	**44'115**	**31'308**	**213'383**	**25'568**	**43**	**322'150**
Additions	4'753	1'958	1'855	51'138	2'811	643	63'158
Disposals	-	-	(176)	(9'533)	(170)	-	(9'879)
Transfers *	-	-	4'470	-	-	-	4'470
Exchange differences	446	2'156	1'608	10'058	1'045	1	15'314
BALANCE DECEMBER 31, 2022	**12'932**	**48'229**	**39'065**	**265'046**	**29'254**	**687**	**395'213**
ACCUMULATED DEPRECIATION							
BALANCE JANUARY 1, 2022	**-**	**(5'284)**	**(17'552)**	**(125'184)**	**(18'752)**	**-**	**(166'772)**
Depreciation of the year and impairment loss	-	(1'273)	(2'098)	(28'498)	(2'403)	-	(34'272)
Disposals	-	-	138	3'285	170	-	3'593
Transfers *	-	-	(2'348)	-	-	-	(2'348)
Exchange differences	-	(285)	(916)	(5'189)	(789)	-	(7'179)
BALANCE DECEMBER 31, 2022	**-**	**(6'842)**	**(22'776)**	**(155'586)**	**(21'774)**	**-**	**(206'978)**
NET BOOK VALUE							
BALANCE JANUARY 1, 2022	**7'733**	**38'831**	**13'756**	**88'199**	**6'816**	**43**	**155'378**
BALANCE DECEMBER 31, 2022	**12'932**	**41'387**	**16'289**	**109'460**	**7'480**	**687**	**188'235**

* The total balance of "Transfers" refers to the reclassification from right-of-use assets to property plant and equipment due to the purchase of the leased assets.

Additions for the year ended 2023, amounting to Euro 71'239 thousand (Euro 63'158 thousand in 2022), are primarily related to investments made on instruments, equal to Euro 56'052 thousand (Euro 51'138 thousand in 2022).

As of December 31, 2023, tangible fixed assets for a total amount of Euro 21'027 thousand have been pledged as collateral for borrowing facilities (2022: Euro 20'267 thousand).

During the years 2023 and 2022 no impairment losses have been recognised on property, plant and equipment.

6.8 LEASES

RIGHT-OF-USE ASSETS

The tables below show the movement of right-of-use assets for the years ended December 31, 2023 and 2022:

2023 (Thousand Euro)	Land and Building	Motor vehicles	ITC Equipment	Plant and Machinery	Other tool and equipment	Total
HISTORICAL COST						
BALANCE JANUARY 1, 2023	**16'772**	**6'436**	**148**	**21'818**	**654**	**45'828**
Additions	7'926	2'618	39	10'077	-	**20'660**
Disposals	(1'136)	(1'440)	(9)	-	-	**(2'585)**
Transfers *	-	-	-	(1'863)	-	**(1'863)**
Exchange differences	(359)	8	(4)	1'800	43	**1'488**
BALANCE DECEMBER 31, 2023	**23'203**	**7'622**	**174**	**31'832**	**697**	**63'528**
ACCUMULATED DEPRECIATION						
BALANCE JANUARY 1, 2023	**(7'203)**	**(3'164)**	**(84)**	**(5'029)**	**(84)**	**(15'564)**
Depreciation	(2'777)	(1'970)	(28)	(1'856)	(80)	**(6'711)**
Disposals	1'116	1'435	8	-	-	**2'559**
Transfers *	-	-	-	840	-	**840**
Exchange differences	134	(8)	3	(375)	(9)	**(255)**
BALANCE DECEMBER 31, 2023	**(8'730)**	**(3'707)**	**(101)**	**(6'420)**	**(173)**	**(19'131)**
NET BOOK VALUE						
BALANCE JANUARY 1, 2023	**9'569**	**3'272**	**64**	**16'789**	**570**	**30'264**
BALANCE DECEMBER 31, 2023	**14'473**	**3'915**	**73**	**25'412**	**524**	**44'397**

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

2022 (Thousand Euro)	Land and Building	Motor vehicles	ITC Equipment	Plant and Machinery	Other tool and equipment	Total
HISTORICAL COST						
BALANCE JANUARY 1, 2022	13'543	5'314	141	18'279	454	37'731
Additions	3'018	2'398	38	7'087	175	**12'716**
Disposals	(44)	(1'277)	(31)	-	-	**(1'352)**
Transfers *	-	-	-	(4'470)	-	**(4'470)**
Exchange differences	255	1	-	922	25	**1'203**
BALANCE DECEMBER 31, 2022	16'772	6'436	148	21'818	654	45'828
ACCUMULATED DEPRECIATION						
BALANCE JANUARY 1, 2022	(4'924)	(2'728)	(82)	(5'611)	(15)	(13'360)
Depreciation	(2'304)	(1'715)	(33)	(1'508)	(67)	**(5'627)**
Disposals	44	1'277	31	-	-	**1'352**
Transfers *	-	-	-	2'348	-	**2'348**
Exchange differences	(19)	2	-	(258)	(2)	**(277)**
BALANCE DECEMBER 31, 2022	(7'203)	(3'164)	(84)	(5'029)	(84)	(15'564)
NET BOOK VALUE						
BALANCE JANUARY 1, 2022	8'619	2'586	59	12'668	439	24'371
BALANCE DECEMBER 31, 2022	9'569	3'272	64	16'789	570	30'264

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

The Group leases several assets. The average lease term is 8 years for buildings, 3 years for motor vehicles, 6 years ITC equipment, 7 years for plants and machineries and 6 years for other fixtures and fittings, tool and equipment.

The Group has options to purchase certain manufacturing equipment for a nominal amount at the end of the lease term. The Group's obligations are secured by the lessors' title to the leased assets for such leases.

For the disclosure of the related lease liabilities see Note 6.17 "Financial and lease liabilities", paragraph "Lease liabilities".

AMOUNTS RECOGNISED IN PROFIT OR LOSS

Medacta Group recognised the following amounts in the Consolidated Statement of Profit or Loss as of December 31, 2023 and 2022:

(Thousand Euro)	31.12.2023	31.12.2022
Depreciation charge of right-of-use assets	(6'711)	(5'627)
Interest expense (included in financial costs)	(1'204)	(496)
Expense relating to short-term leases	(275)	(129)
Expense relating to leases of low-value assets that are not short-term leases	(42)	(41)

The total cash outflow for leases including short-term leases and low-value-assets in 2023 amount to Euro 10'346 thousand (Euro 7'813 thousand in 2022).

6.9 INTANGIBLE ASSETS

2023 (Thousand Euro)	Development Costs	Customer Lists	Goodwill	Other intangible assets	Total
HISTORICAL COST					
BALANCE JANUARY 1, 2023	**65'378**	**16'127**	**59**	**26'318**	**107'882**
Additions	8'335	-	-	2'143	10'478
Disposals	(11)	-	-	-	(11)
Exchange differences	4'648	(53)	-	1'481	6'076
BALANCE DECEMBER 31, 2023	**78'350**	**16'074**	**59**	**29'942**	**124'425**
ACCUMULATED AMORTISATION					
BALANCE JANUARY 1, 2023	**(29'602)**	**(6'264)**	**-**	**(21'828)**	**(57'694)**
Amortisation of the year	(7'807)	(1'074)	-	(2'137)	(11'018)
Impairment loss	(791)	-	-	-	(791)
Disposals	-	-	-	-	-
Exchange differences	(2'291)	20	-	(1'234)	(3'505)
BALANCE DECEMBER 31, 2023	**(40'491)**	**(7'318)**	**-**	**(25'199)**	**(73'008)**
NET BOOK VALUE					
BALANCE JANUARY 1, 2023	**35'776**	**9'863**	**59**	**4'490**	**50'188**
BALANCE DECEMBER 31, 2023	**37'859**	**8'756**	**59**	**4'743**	**51'417**

2022 (Thousand Euro)	Development Costs	Customer Lists	Goodwill	Other intangible assets	Total
HISTORICAL COST					
BALANCE JANUARY 1, 2022	**55'992**	**15'975**	**59**	**24'169**	**96'195**
Additions	6'659	-	-	1'203	7'862
Disposals	(74)	-	-	-	(74)
Exchange differences	2'801	152	-	946	3'899
BALANCE DECEMBER 31, 2022	**65'378**	**16'127**	**59**	**26'318**	**107'882**
ACCUMULATED AMORTISATION					
BALANCE JANUARY 1, 2022	**(20'124)**	**(5'160)**	**-**	**(18'936)**	**(44'220)**
Amortisation of the year	(7'866)	(1'077)	-	(2'151)	(11'094)
Impairment loss	(517)	-	-	-	(517)
Disposals	-	-	-	-	-
Exchange differences	(1'095)	(27)	-	(741)	(1'863)
BALANCE DECEMBER 31, 2022	**(29'602)**	**(6'264)**	**-**	**(21'828)**	**(57'694)**
NET BOOK VALUE					
BALANCE JANUARY 1, 2022	**35'868**	**10'815**	**59**	**5'233**	**51'975**
BALANCE DECEMBER 31, 2022	**35'776**	**9'863**	**59**	**4'490**	**50'188**

Development mainly consists of cost incurred for the development of new products or modification of existing products in the pipeline. The Group capitalises internal payroll cost, if these costs are attributable to a specific development project that is expected to generate probable future economic benefits. Research costs are directly recognised as costs in the Profit or Loss.

Other intangible assets mainly consist of costs recognised to deposit and renew trademarks, software, patents and licenses to distribute products.

"Customer lists" includes: the asset purchase acquisition of Levante Medica 2008 S.L., amounting to Euro 220 thousand, occurred in 2021 and paid out in 2022; the acquisition of ASD "Advanced Surgical Devices" occurred in 2018 and of Medacare GmbH and Vivamed GmbH, both occurred in 2017.

IMPAIRMENT TEST FOR INTANGIBLE ASSETS

As described in Note 6.2 "Consolidation principles, composition of the Group and significant accounting policies", paragraph "Significant accounting policies", on a quarterly basis management performs an assessment of the existence of impairment indicators for intangible assets (development projects). Any impairment loss or any loss relating the disposal of in progress development projects are recognised in Profit or Loss. During the year, Medacta recognised a total loss for impairment amounting to Euro 791 thousand in 2023 (Euro 517 thousand in 2022), out of which Euro 674 thousand (no impairment losses in 2022) arising from the annual impairment test disclosed below, and Euro 117 thousand based on the quarterly analyses performed throughout 2023 (Euro 517 thousand in 2022).

Losses for the derecognition of projects amount to Euro 11 thousand as of December 31, 2023 (Euro 74 thousand in 2022).

For the purpose of the annual impairment test, performed as of September 30, 2023, In-Process Research and Development projects (IPR&D) for a total amount of Euro 11'004 thousand were allocated to cash-generating-units (CGU) corresponding to Product Families. 37 Product Families were tested for impairment through the estimation of the value in use of the IPR&D projects allocated to each CGU, none of which is significant in comparison to the total carrying amount of IPR&D. The annual impairment test carried out during the year lead to an impairment loss of the carrying amount of the development projects, amounting to Euro 674 thousand. In 2022, no impairment losses arose from the annual impairment test.

The discount rate applied in the valuation model, amounting to 8.7%, considers the Group's weighted average cost of capital, adjusted to approximate the weighted average cost of capital of a comparable market participant.

The value in use was reviewed for the eventual impact of reasonably possible changes in key assumptions:

- an increase of 2 percentage points in the discount rate would lead to an additional impairment loss amounting to Euro 654 thousand;
- a decrease of 25.0% in forecasted revenues would lead to an additional impairment loss amounting to Euro 2'095 thousand.

Note 6.2 "Consolidation principles, composition of the Group and significant accounting policies" provides additional disclosure on how the Group performs the impairment testing.

6.10 FINANCIAL ASSETS

Financial assets include the following items:

(Thousand Euro)	31.12.2023	31.12.2022
Advances for Property, Plant and Equipment	3'122	-
Confirmation deposit for Property, Plant and Equipment	2'250	-
Forward Currency Contracts	1'679	802
Rent deposit	712	481
TOTAL FINANCIAL ASSETS	**7'763**	**1'283**
Current	7'051	802
Non-Current	712	481

"Advances for Property, Plant and Equipment" are mainly related to certain agreements with suppliers of machineries, paid out before the recognition of the underlying asset. "Confirmation deposit for Property, Plant and Equipment" is related to the payment of a preliminary deposit for future logistic expansion to establish a new distribution center in Italy. "Forward Currency Contracts" as of December 31, 2023 are related to the positive fair value of derivative financial instruments, amounting to Euro 1'679 thousand (Euro 802 thousand in 2022).

6.11 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES / INCOME TAXES

INCOME TAXES

(Thousand Euro)	31.12.2023	31.12.2022
Current income taxes	7'383	7'699
Deferred income taxes	3'981	844
TOTAL INCOME TAXES	**11'364**	**8'543**

Current income taxes consist of taxes paid or due on the results of the individual companies for the Financial Year in accordance with local regulation as well as charges and credits from previous year. The following elements explain the difference between the Group's average tax rate and the effective income tax rate:

RECONCILIATION OF TAX EXPENSE

(Thousand Euro)	31.12.2023	31.12.2022
Profit before taxes	58'726	54'792
AVERAGE TAX RATE	**21.0%**	**19.1%**
TAX AT AVERAGE TAX RATE	**12'334**	**10'461**
Patent Box deduction	(367)	(1'746)
AVERAGE TAX RATE NET OF DEDUCTIONS	**20.4%**	**15.9%**
+ / - EFFECTS OF		
Expenses not subject to tax, net	722	558
Revenues not subjected to tax, net	(32)	(7)
Effects from previous years	(258)	(23)
Change in tax rates on deferred tax balances	(1'121)	(849)
Other	86	149
TOTAL INCOME TAXES	**11'364**	**8'543**
EFFECTIVE INCOME TAX RATE (%)	**19.4%**	**15.6%**

The Group's average tax rate is calculated as the weighted average tax rate applicable to the profits in the countries where Medacta Group operates. Management believes that the "average tax rate" reported in the disclosure above provides the most meaningful information to the users of the financial statements. Deferred taxes relate to temporary differences generated by the companies of the Group.

Medacta International SA benefits, since 2020, from a special tax deduction from taxable profits for qualifying profits arising from patent rights ("Patent Box deduction"), which has a positive impact in 2023 amounting to Euro 367 thousand (Euro 1'746 thousand in 2022), corresponding to a positive impact on the effective tax rate for 0.6% (3.2% in 2022).

The Group's effective tax rate was negatively affected by a change in the Group's profit mix, mainly because of a one-off transaction occurred in 2023 related to the creation of a logistic company in the United States; this transaction resulted in a lower taxable income in Medacta International SA and, as a result, in lower tax deductions.

Starting from January 1, 2025, Medacta International SA will benefit from a reduction of the cantonal tax rate. This change in tax rate resulted in a lower net deferred tax liability due to the revaluation of temporary differences expected to reverse after 2024, with a positive impact on temporary differences amounting to Euro 1.1 million in 2023 (around Euro 0.8 million in 2022).

The Group has not recognised deferred tax liabilities in respect of taxable unremitted earnings that are considered indefinitely invested in foreign subsidiaries. As of December 31, 2023, those unremitted earnings retained by consolidated entities amount to Euro 11'637 thousand (2022: Euro 9'302 thousand).

DEFERRED INCOME TAXES

The Group recognises in the Consolidated Financial Statements as of December 31, 2023 the gross amounts of Deferred tax assets and Deferred tax liabilities, respectively amounting to Euro 40'938 thousand and to Euro 61'701 thousand.

Deferred tax assets are mainly related to our US subsidiary. The Group considers the amount of deferred taxes recoverable. The recoverability is based on the estimated future profits that are expected to be generated by the subsidiary, also considering that the current federal tax legislation does not provide any temporal limit to the future utilisation.

As of December 31, 2023, 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)	**31.12.2023**	**31.12.2022**
Net deferred tax assets	27'936	31'659
Net deferred tax liabilities	(48'699)	(44'619)
TOTAL NET DEFERRED TAXES	**(20'763)**	**(12'960)**

The amount netted between deferred tax assets and deferred tax liabilities is equal to Euro 13'002 thousand. For a better comprehension of deferred tax assets and liabilities, the schemes below show the respectively gross amounts. As reported in Note 6.3 "New accounting and international financial reporting standards" the Group has adopted the amendment to IAS 12 ("deferred tax related to assets and liabilities arising from a single transaction") as of January 1, 2023. The presentation of the deferred tax assets and liabilities arising from the recognition of right-of-use assets and lease liabilities has been amended accordingly. The movement in deferred income tax assets and liabilities is as follows:

DEFERRED TAX ASSETS

2023 (Thousand Euro)	**PP&E, RoU Assets and Lease Liabilities**	**Inventories, receivables, provisions and other liabilities**	**Tax losses carried forward**	**Total**
GROSS BALANCE AS OF JANUARY 1, 2023	**2'189**	**36'318**	**1'481**	**39'988**
Amendment to IAS 12 - Change in presentation	3'468	-	-	3'468
GROSS BALANCE AS OF JANUARY 1, 2023	**5'657**	**36'318**	**1'481**	**43'456**
Deferred taxes recognised in the income statement	1'858	(2'505)	(889)	(1'536)
Deferred taxes recognised in OCI	-	372	-	372
Exchange differences	27	(1'361)	(20)	(1'354)
GROSS BALANCE AS OF DECEMBER 31, 2023	**7'542**	**32'824**	**572**	**40'938**
Offsetting of deferred tax assets and liabilities				(13'002)
NET BALANCE AS OF DECEMBER 31, 2023				**27'936**

DEFERRED TAX ASSETS

2022 (Thousand Euro)	**PP&E, RoU Assets and Lease Liabilities**	**Inventories, receivables, provisions and other liabilities**	**Tax losses carried forward**	**Total**
GROSS BALANCE JANUARY 1, 2022	**1'978**	**33'409**	**2'683**	**38'070**
Deferred taxes recognised in the income statement	196	2'018	(1'374)	840
Deferred taxes recognised in OCI	-	(852)	-	(852)
Exchange differences	15	1'743	172	1'930
GROSS BALANCE DECEMBER 31, 2022	**2'189**	**36'318**	**1'481**	**39'988**
Offsetting of deferred tax assets and liabilities				(8'329)
NET BALANCE DECEMBER 31, 2022				**31'659**

As per December 31, 2023 and 2022, there were no unrecognised tax losses carried forward.

DEFERRED TAX LIABILITIES 2023 (Thousand Euro)	PP&E, RoU Assets and Lease Liabilities	Intangible assets	Inventories, receivables, provisions and other liabilities	Total
GROSS BALANCE JANUARY 1, 2023	**26'601**	**4'611**	**21'736**	**52'948**
Amendment to IAS 12 - Change in presentation	3'468	-	-	3'468
GROSS BALANCE AS OF JANUARY 1, 2023	**30'069**	**4'611**	**21'736**	**56'416**
Deferred taxes recognised in the income statement	5'711	(399)	(2'867)	2'445
Deferred taxes recognised in OCI	-	-	-	-
Exchange differences	917	226	1'697	2'840
GROSS BALANCE AS OF DECEMBER 31, 2023	**36'697**	**4'438**	**20'566**	**61'701**
Offsetting of deferred tax assets and liabilities				(13'002)
NET BALANCE AS OF DECEMBER 31, 2023				**48'699**

DEFERRED TAX LIABILITIES 2022 (Thousand Euro)	PP&E, RoU Assets and Lease Liabilities	Intangible assets	Inventories, receivables, provisions and other liabilities	Total
GROSS BALANCE JANUARY 1, 2022	**24'052**	**5'195**	**19'631**	**48'878**
Deferred taxes recognised in the income statement	1'206	(679)	1'157	1'684
Deferred taxes recognised in OCI	-	-	-	-
Exchange differences	1'343	95	948	2'386
GROSS BALANCE DECEMBER 31, 2022	**26'601**	**4'611**	**21'736**	**52'948**
Offsetting of deferred tax assets and liabilities				(8'329)
NET BALANCE DECEMBER 31, 2022				**44'619**

6.12 INVENTORIES

Inventories are composed of the following items:

INVENTORIES (Thousand Euro)	31.12.2023	31.12.2022
Raw materials and consumables	36'669	26'705
Work in progress and semifinished goods	24'040	18'050
Finished goods	153'215	115'546
TOTAL INVENTORIES	**213'924**	**160'301**

The change in inventories is mainly due to increased purchasing and production to support demand and future growth of the Group.

The cost of inventories recognised in "Cost of Sales" as of December 31, 2023 includes Euro 2'981 thousand (Euro 3'392 thousand in 2022) in respect of write-downs of inventory to net realisable value for slow moving, discontinued and obsolete stock. In 2023 the inventory reserve has been utilised by Euro 1'247 thousand (Euro 690 thousand in 2022).

6.13 TRADE RECEIVABLES

(Thousand Euro)	31.12.2023	31.12.2022
Trade receivable, gross	98'917	80'406
Loss allowance on trade receivables	(4'266)	(2'449)
TOTAL TRADE RECEIVABLES	**94'651**	**77'957**

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 following tables show the expected credit loss allowance calculated on trade receivables “credit impaired” and the aging against the expected credit loss allowance calculated on trade receivables “not credit impaired”, according to the application of the Group’s accounting policies:

December 31, 2023 (Thousand Euro)	**Not Credit Impaired**	**Credit Impaired**	**Total**
Trade receivables, gross	93'641	5'276	**98'917**
Expected Credit Loss allowance	(1'649)	(2'617)	**(4'266)**

TRADE RECEIVABLES AGING (NOT CREDIT IMPAIRED)

December 31, 2023 (Thousand Euro)	**Total**	**Not past due**	**0-30 days**	**31-60 days**	**61-90 days**	**91-180 days**	**181-360 days**	**Over 360 days**
Trade receivables (not credit impaired), gross	**93'641**	62'134	12'570	6'806	4'232	5'256	1'903	740
Expected Credit Loss rate (%) *		0.2%	0.8%	1.9%	2.5%	8.9%	24.6%	31.6%
Expected Credit Loss allowance	**(1'649)**	(147)	(97)	(128)	(106)	(469)	(468)	(234)

* Expected Credit Loss rates are estimated based on historical credit loss experience, adjusted to reflect current conditions, estimates of future economic conditions and macroeconomic factors in each of the countries where the Group operates.

December 31, 2022 (Thousand Euro)	**Not Credit Impaired**	**Credit Impaired**	**Total**
Trade receivables (credit impaired), gross	78'000	2'406	**80'406**
Expected Credit Loss allowance	(872)	(1'577)	**(2'449)**

TRADE RECEIVABLES AGING (NOT CREDIT IMPAIRED)

December 31, 2022 (Thousand Euro)	**Total**	**Not past due**	**0-30 days**	**31-60 days**	**61-90 days**	**91-180 days**	**181-360 days**	**Over 360 days**
Trade receivables (not credit impaired), gross	**78'000**	57'380	11'066	3'320	2'160	2'364	953	757
Expected Credit Loss rate (%) *		0.2%	0.6%	1.4%	2.0%	7.7%	23.1%	29.4%
Expected Credit Loss allowance	**(872)**	(90)	(69)	(45)	(43)	(183)	(220)	(222)

* Expected Credit Loss rates are estimated based on historical credit loss experience, adjusted to reflect current conditions, estimates of future economic conditions and macroeconomic factors in each of the countries where the Group operates.

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

(Thousand Euro)	2023	2022
BALANCE AS AT JANUARY 1	**(2'449)**	**(2'552)**
Change in loss allowance and write-offs	(1'998)	(59)
Utilisation of loss allowance	205	226
Exchange differences	(24)	(64)
TOTAL LOSS ALLOWANCE ON TRADE RECEIVABLES AS AT DECEMBER 31	**(4'266)**	**(2'449)**

"Change in loss allowance and write-offs" in 2023 amount to Euro 1'998 thousand (compared to Euro 59 thousand in 2022). The change is related to loss allowances recognised both on "credit impaired" trade receivables, due to some specific evaluations made on customers, and on the increase of expected credit losses resulting from the application of the "lifetime ECL simplified approach", as a result of a general increase of Trade Receivables and of over 90 days overdue receivables.

6.14 OTHER CURRENT ASSETS AND PREPAID EXPENSES

(Thousand Euro)	31.12.2023	31.12.2022
Other tax receivables	6'501	6'445
Advance to suppliers	1'413	1'949
Prepaid expenses	3'790	3'183
Other receivables	345	763
TOTAL OTHER CURRENT ASSETS AND PREPAID EXPENSES	**12'049**	**12'340**

Other tax receivables are mainly represented by VAT credits. Prepaid expenses mainly consist of operating expenses (e.g. maintenance, insurance, licences) incurred during the year but attributable to the subsequent year.

6.15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following items:

(Thousand Euro)	31.12.2023	31.12.2022
Cash on hand	31	133
Cheques	449	-
Current bank accounts	20'312	32'128
TOTAL CASH AND CASH EQUIVALENTS	**20'792**	**32'261**

Bank accounts and term deposits are mainly denominated in CHF, EUR and USD. For details of the movements in cash and cash equivalents refer to the Consolidated Statement of Cash Flows.

6.16 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 shares give the same voting and dividend rights. Also, all the issued shares by Medacta Group SA are authorised and fully paid by the ultimate shareholders.

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.

DIVIDEND

On May 4, 2023, Medacta Group SA paid a dividend of CHF 0.54 (on May 25, 2022: CHF 0.535) per share to its shareholders excluding ordinary shares owned by the Group and held as treasury shares at the AGM date. The total amount of the gross dividend paid was CHF 10.8 million (2022: CHF 10.7 million), half of it distributed as dividend out of available earnings and half of it distributed out of accumulated reserves from capital contribution.

The Board of Directors proposes to the Annual General Meeting of Medacta Group SA on May 7, 2024, a distribution of CHF 11.0 million (CHF 0.55 per share), half of it as dividend out of retained earnings and half of it out of the total of reserves from capital contribution. All the remaining retained earnings as well as accumulated reserves from capital contributions will be carried forward.

TREASURY SHARES

In 2021 Medacta Group SA, following the approval of a Long-Term Incentive Plan for our Group Executive Management and selected key managers and employees, started to repurchase its own outstanding shares to fund the share-based compensation award cycles. Treasury shares are valued at weighted average cost and have been deducted from equity. As of December 31, 2023 the number of treasury shares amounted to 72’500 (39’857 as of December 31, 2022), corresponding to CHF 8’070’713 equivalent to Euro 8’070 thousand (CHF 4’272’340 equivalent to Euro 4’159 thousand as of December 31, 2022).

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.

6.17 FINANCIAL AND LEASE LIABILITIES

FINANCIAL LIABILITIES

The following table summarises the composition of Financial liabilities:

FINANCIAL LIABILITIES

(Thousand Euro)	31.12.2023	31.12.2022
Bank loans and credit facilities, current	46'421	6'619
Other current financial liabilities	503	472
TOTAL FINANCIAL LIABILITIES, CURRENT	**46'924**	**7'091**
Bank loans, non-current	114'806	135'896
Other non-current financial liabilities	1'281	1'696
TOTAL FINANCIAL LIABILITIES, NON-CURRENT	**116'087**	**137'592**
TOTAL FINANCIAL LIABILITIES	**163'011**	**144'683**
Total secured bank loans	21'027	20'267
Total non-secured bank loans	140'200	122'248

As of December 31, 2023, financial liabilities include bank loans and credit facilities for a total amount of Euro 161’227 thousand (Euro 142’515 thousand as of December 31, 2022). The net change is primarily related to proceeds from borrowings (amounting to Euro 30’476 thousand) to finance investments, operating activities and the payment of dividends. The repayments in 2023 amount to Euro 16’816 thousand. As of December 31, 2023, current bank loans and credit facilities amounted to Euro 46’421 thousand (Euro 6’619 thousand as of December 31, 2022), non-current bank loans amounted to Euro 114’806 thousand (Euro 135’896 thousand as of December 31, 2022). The increase in current financial liabilities is mainly due to the end of the amendment term signed in 2022 that extended payment terms of some bank loans and credit facilities until 2024.

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 internal bank refinancing rate + Spread of between 0.75% and 1.00%.

Certain of the credit agreements include financial covenants requiring Medacta International SA to maintain a debt to EBITDA ratio of no more than 3.0x (as defined in the relevant agreement), a pari passu clause, and various negative covenants restrictions, among other things (and typically subject to certain exceptions): the incurrence of further indebtedness, the granting of security for indebtedness, and the consummation of certain acquisitions, disposals or re-organisations.

As of December 31, 2023 and 2022, the Group had unused current credit lines of Euro 115’668 thousand and Euro 109’316 thousand, respectively.

As of December 31, 2023, “Other financial liabilities” refers to the contractual liabilities for the acquisition of exclusive rights to use and develop technologies for a total amount of Euro 1’784 thousand (Euro 2’168 thousand in 2022), of which Euro 1’281 thousand within “Other non-current financial liabilities” (Euro 1’696 thousand in 2022) and Euro 503 thousand within “Other current financial liabilities” (Euro 472 thousand in 2022).

The following table provides the breakdown of financial liabilities by currency:

(Thousand Euro)	31.12.2023	31.12.2022
Australian Dollar (AUD)	-	1'910
Euro (EUR)	-	2'500
Japanese Yen (JPY)	10'148	3'206
Swiss Franc (CHF)	141'808	89'507
US Dollar (USD)	11'055	47'560
TOTAL FINANCIAL LIABILITIES	**163'011**	**144'683**

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

(Thousand Euro)	Non-current financial debts	Current financial debts	Total
BALANCE JANUARY 1, 2023	**137'592**	**7'091**	**144'683**
Increase in financial debts *	3'089	27'387	30'476
Repayment of financial debts **	(13'188)	(4'384)	(17'572)
Reclass from non-current to current	(14'644)	14'644	-
Currency translation differences	3'238	2'186	5'424
BALANCE DECEMBER 31, 2023	**116'087**	**46'924**	**163'011**

* "Increase in financial debts" includes proceeds from borrowings amounting to Euro 30'476 thousand.

** "Repayment of financial debts" includes repayment of borrowings for Euro 16'816 thousand, Euro 503 thousand related to the repayment of contractual liabilities for the acquisition of development intangible assets classified in the Consolidated Statement of Cash Flow within "Purchase of intangible assets" within cash flow from investing activities.

(Thousand Euro)	Non-current financial debts	Current financial debts	Total
BALANCE JANUARY 1, 2022	**49'552**	**64'486**	**114'038**
Increase in financial debts *	55'715	3'770	59'485
Repayment of financial debts **	(2'070)	(33'641)	(35'711)
Reclass from non-current to current	29'908	(29'908)	-
Currency translation differences	4'487	2'384	6'871
BALANCE DECEMBER 31, 2022	**137'592**	**7'091**	**144'683**

* "Increase in financial debts" includes proceeds from borrowings amounting to Euro 59'161 thousand and Euro 324 thousand related to the unpaid accrued interests.

** "Repayment of financial debts" includes repayment of borrowings for Euro 35'242 thousand, Euro 249 thousand related to the repayment of contractual liabilities for the acquisition of development intangible assets classified in the Consolidated Statement of Cash Flow within "Purchase of intangible assets" within cash flow from investing activities and Euro 220 thousand related to the payment of the Levante Medica asset purchase acquisition, presented in the Consolidated Statement of Cash Flow within "Cash consideration for acquisition, net of cash acquired".

LEASE LIABILITIES

Total lease liabilities amount to Euro 40'752 thousand as of December 31, 2023 (Euro 27'733 thousand in 2022), thereof Euro 8'613 thousand current (Euro 6'362 thousand in 2022) and Euro 32'139 thousand non-current (Euro 21'371 thousand in 2022). Maturity analysis of undiscounted lease liabilities less unearned interests is reported in the table below:

as at December 31, 2023 (Thousand Euro)	**Up to 1 year**	**1 year to 5 years**	**More than 5 years**	**Less: unearned interests**	**Total**
Lease liabilities	9'744	25'882	10'051	(4'925)	**40'752**

as at December 31, 2022 (Thousand Euro)	**Up to 1 year**	**1 year to 5 years**	**More than 5 years**	**Less: unearned interests**	**Total**
Lease liabilities	7'046	17'508	5'487	(2'308)	**27'733**

The table below shows the movement of lease liabilities for the years ended December 31, 2023 and December 31, 2022:

(Thousand Euro)	**2023**	**2022**
LEASE LIABILITIES AT JANUARY 1	**27'733**	**21'184**
Additions	20'660	12'716
Modifications, terminations, expirations	(73)	(23)
Repayment of lease liabilities	(8'825)	(7'146)
Exchange differences	1'257	1'002
LEASE LIABILITIES AT DECEMBER 31	**40'752**	**27'733**

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.

6.18 PROVISIONS

Provisions are mainly related to pending legal claims and accruals for indemnity to agents. The movements are as follows:

(Thousand Euro)	**2023**	**2022**
BALANCE AT JANUARY 1	**3'798**	**1'534**
Increases	333	5'724
Decreases	(70)	(3'493)
Exchange differences	1	33
BALANCE AT DECEMBER 31	**4'062**	**3'798**
Thereof current	120	120
Thereof non-current	3'942	3'678

In 2023 there are no significant changes in provisions. In 2022, "Increases" included the accruals for: the Italian payback scheme litigation, amounting to Euro 3'085 thousand; the patent matter with Conformis, amounting to Euro 2'208 thousand; the patent matter with RSB, amounting to Euro 332 thousand. "Decreases" were related to the payments according to the settlement agreements with the counterparts: Euro 2'914 thousand for the patent matter with Conformis; Euro 332 thousand for the patent matter with RSB; Euro 247 thousand for the settlement of product related liabilities.

6.19 EMPLOYEE BENEFIT OBLIGATION

DEFINED CONTRIBUTION PLANS

Medacta's employee plans include defined contribution pension plans in most of the countries where the Group operates. The employer's contributions, amounting to Euro 5'358 thousand in the year ended December 31, 2023 (2022: Euro 4'540 thousand), are recognised directly in the income statement.

DEFINED BENEFIT PLANS

In addition to the legally required social security schemes, the Group has several defined benefit plans and other post-employment benefit plans. The defined benefit obligations (DBOs) of the major pension plans and some of the most relevant other post-employment benefit plans are remeasured annually by independent actuaries.

The following table summarises the total employee benefit obligation by type as of December 31, 2023 and 2022:

AMOUNT RECOGNISED IN THE BALANCE SHEET

(Thousand Euro)	**31.12.2023**	**31.12.2022**
Defined benefit plan Switzerland	7'328	5'462
Retention plan Japan	1'714	732
Retention plan Switzerland	1'472	1'319
Retention plans Australia	817	600
Other plans	1'248	749
EMPLOYEE BENEFIT OBLIGATION	**12'580**	**8'862**

The discount rate utilised for the actuarial evaluation of the Switzerland defined benefit plan decreased from 2.3% as of December 31, 2022 to 1.5% as of December 31, 2023. As a consequence, the Group recognised a remeasurement of defined benefit obligations amounting to a loss of Euro 2'148 thousand in the Other Comprehensive Income mainly related to the change in the discount rate used to calculate the defined benefit obligations.

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 board of trustees is responsible for the risk management. The cash funding of these plans is designed to ensure that present and future contributions should be sufficient to meet future liabilities. The pension plans are financed by contributions of both, employees and employer. Contributions are defined by the plan regulations and cannot be decreased without amending the plan regulations. In mandatory pension funds the employer has to pay at least as much as the employees. The Swiss pension plan contains a cash balance benefit which is, in essence, contribution-based with certain minimum guarantees. Due to these minimum guarantees, the Swiss plan is treated as a defined benefit plan for the purposes of these IFRS financial statements. The plan is invested in a diversified range of assets in accordance with the investment strategy and the common criteria of an asset and liability management. A potential under-funding may be remedied by various measures such as increasing employer and employee contributions or reducing prospective benefits. Medacta pension plan is a cash balance plan where contributions are expressed as a percentage of the pensionable salary. The pension plan guarantees the amount accrued on the members' savings accounts, as well as a minimum interest on those savings accounts.

As of December 31, 2023, 949 employees (2022: 831 employees) and 7 beneficiaries (2022: 7 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 15.9 years (2022: 15.1 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)	31.12.2023	31.12.2022
Present value of defined benefit obligations	(43'785)	(35'463)
Fair value of plan assets	36'457	30'001
EMPLOYEE BENEFIT OBLIGATION	**(7'328)**	**(5'462)**

REMEASUREMENT RECOGNISED IN EQUITY

(Thousand Euro)	2023	2022
BALANCE AT JANUARY 1	**(4'481)**	**487**
Remeasurement of defined benefit obligations	2'576	(8'057)
Return on plan assets excl. interest income	(428)	3'142
Exchange differences	(194)	(53)
BALANCE AT DECEMBER 31	**(2'527)**	**(4'481)**

COMPONENTS OF REMEASUREMENT OF DEFINED BENEFIT PLANS RECOGNISED IN OCI

(Thousand Euro)	31.12.2023	31.12.2022
Changes in financial assumptions	2'846	(8'905)
Changes in demographical assumptions	(37)	-
Experience adjustments	(233)	847
Return on plan assets excluding interest income	(428)	3'143
REMEASUREMENT OF DEFINED BENEFIT PLANS	**2'148**	**(4'915)**

In 2023, "Changes in financial assumptions" is mainly related to the change in the discount rate, which decreased from 2.3% in 2022 to 1.5% in 2023. In addition, the Group sets mortality assumptions after considering the most recent statistics practicable and uses generational mortality tables to estimate probable future mortality improvements, (BVG 2020 generation tables). According to these tables, the Group infers that the trend of increasing longevity will continue. "Experience adjustments", both in 2023 and in 2022, is mainly due to the combined effect of increase in workforce and higher insured salary and retirement assets.

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

(Thousand Euro)	31.12.2023	31.12.2022
Current service cost	2'116	2'789
Past service cost	(866)	-
Participants' contributions	(2'101)	(1'748)
Administration cost	18	20
Net interest cost	128	19
TOTAL EMPLOYEE BENEFIT EXPENSES / (INCOME)	**(705)**	**1'080**

In 2023, the Group recognised an income amounting to Euro 866 thousand related to the past service costs, due to the introduction of the new conversion rate at the normal retirement age of 65 years (men/women) for retirements in 2025 or later, uniformly and entirely applied then to the total retirement savings capital for insured persons with year of birth of 1965 or younger. Because the average mandatory part of the retirement savings capital in the membership is substantial, this plan amendment results in a past service credit as of December 31, 2023.

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

- Cost of Sales - income amounting to Euro 346 thousand (expenses amounting to Euro 441 thousand in 2022);
- Research and Development - income amounting to Euro 100 thousand (expenses amounting to Euro 126 thousand in 2022);
- Sales and Marketing expenses - income amounting to Euro 165 thousand (expenses amounting to Euro 216 thousand in 2022);
- General and Administrative expenses - income amounting to Euro 222 thousand (expenses amounting to Euro 278 thousand in 2022);
- Financial costs amounting to Euro 128 thousand (Euro 19 thousand in 2022).

MOVEMENT IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS

(Thousand Euro)	2023	2022
BALANCE AT JANUARY 1	**35'463**	**37'827**
Interest cost	867	82
Current service cost	2'116	2'789
Contribution by plan participants	1'916	1'615
Benefits deposited/(paid), net	(884)	(573)
Past service cost	(866)	-
Administration cost	18	20
Actuarial (gain) / loss on defined benefit obligation	2'576	(8'057)
Exchange differences	2'579	1'760
PRESENT VALUE OF OBLIGATIONS AT DECEMBER 31	**43'785**	**35'463**

PLAN ASSETS

Plan assets are composed of the retirement assets, the mathematical reserve for annuities and the account balances of the AXA-Winterthur. The plan assets are composed exclusively of quoted instruments:

PLAN ASSETS

(Thousand Euro)	31.12.2023	31.12.2022
Cash and cash equivalents	1'123	1'221
Equity instruments	17'588	14'512
Debt instruments (e.g. bonds)	15'644	12'731
Others	2'102	1'537
TOTAL	**36'457**	**30'001**

MOVEMENT IN THE FAIR VALUE OF THE PLAN ASSETS

(Thousand Euro)	2023	2022
BALANCE AT JANUARY 1	**30'001**	**28'901**
Interest income on plan asset	739	62
Employer's contributions paid	2'101	1'748
Participants' contributions	1'916	1'615
Benefits deposited/(paid), net	(884)	(573)
Return on plan assets excluding interest income	428	(3'142)
Exchange differences	2'156	1'390
FAIR VALUE OF PLAN ASSETS AT DECEMBER 31	**36'457**	**30'001**

The principal actuarial assumptions are as follows:

	31.12.2023	31.12.2022
Discount rate	1.5%	2.3%
Future salary increase	1.0%	1.0%
Interest rate on retirement saving capital *	1.5%	2.3%
Mortality	BVG2020GT	BVG2020GT

* 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. Changes in the aforementioned actuarial assumptions can result in significant volatility in the accounting for the Group's pension plans in the consolidated financial statements. For the analysis, changes in the assumptions were considered separately and no interdependencies were taken into account. There was no change in the approach compared with last year.

SENSITIVITY ANALYSIS – DEFINED BENEFIT OBLIGATION

(Thousand Euro)	31.12.2023	31.12.2022
DISCOUNT RATE		
Discount rate + 0.25%	42'131	34'202
Discount rate - 0.25%	45'562	36'818
SALARY GROWTH		
Salary growth + 0.25%	44'161	35'757
Salary growth - 0.25%	43'421	35'177
INTEREST RATE GROWTH		
Interest rate growth + 0.25%	44'516	36'063
Interest rate growth - 0.25%	43'077	34'882
LIFE EXPECTANCY		
Life expectancy + 1 year	44'337	35'847
Life expectancy - 1 year	43'229	35'074

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out at December 31, 2023 by Libera AG. To determine the present value of the defined benefit obligation and the related current service cost and, where applicable, past service cost, the Projected Unit Credit Method has been used.

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

- a discount rate;
- the salary development and leaving probability up to the beginning of the benefit payment;
- inflation adjustments for the years after the first payment for recurring benefits.

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

The Group expects to make a contribution of Euro 2.4 million to the defined benefit plans during the next Financial Year 2024.

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 increased 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

The Group has programs in Switzerland, Australia, Japan, Austria, France and in the United States. These programs amounted to Euro 5'251 thousand as of December 31, 2023 (2022: Euro 3'400 thousand). Major retention plans are in Switzerland, Australia and Japan.

In Switzerland, the retention plan consists of an additional bonus for some eligible employees; in Australia, the other non-current employee benefit plans consist in a retention plan for some eligible employees, and in a long-service leave program for workers who have completed ten years of continuous service with the employer; in Japan, the retention plan provides that upon retirement each member will receive a lump sum determined by the years that the worker was employed.

6.20 SHARE-BASED PAYMENT TRANSACTIONS

In 2021 the Board of Directors implemented a Performance Share Plan ("The Plan"). On March 16, 2023, the Board of Directors approved the implementation of the LTIP proposed by the Human Resources & Remuneration Committee, under the Performance Share Plan ("the Plan"), that was open to eligible participants starting in April, 2023. The Board is responsible for administering and executing the Plan and has full power to construe and interpret the Plan, establish and amend rules and regulations for its administration, and perform all other actions relating to the Plan.

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

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

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

- the Absolute TSR Vesting Multiple is calculated as the (positive or negative) difference between Medacta's TSR and the SPI Extra Total Return TSR10, measured in percentage points (p.p.). Medacta's TSR is measured considering the compound annual growth rate of the Reference Price Ending compared to the Reference Price Beginning over the three (3)-year TSR Performance Period and the accumulative, nominal dividends distributed in the same period. To be consistent with the index, it is assumed that dividends are reinvested. The Relative TSR Vesting Multiple cannot be lower than 0.00 or higher than 2.00;
- the Absolute EBIT Vesting Multiple is calculated based on the EBIT of the Group measured as the sum of the absolute EBIT over the three (3)-year Absolute EBIT Performance Period and calculated by the Board or a body designated by it, according to the Absolute EBIT Vesting Multiple table. The Absolute EBIT Multiple cannot be lower than 0.00 or higher than 2.00. The Country Vesting Multiple (if relevant) is calculated based upon a 100% weighting of the respective country's revenues and will be either 0.00 or 0.30. For each country, details with regards to performance measure, performance targets, performance period and performance calculation are set out in the Allotment Certificate.

Overall, the combined vesting multiple is expected to never exceed 200%.

The expense recognised for share-based payments in 2023 is equal to Euro 2'312 thousand (Euro 1'148 thousand in 2022).

RECONCILIATION OF OUTSTANDING PERFORMANCE SHARE UNITS	2023	2022
TOTAL AT JANUARY 1	**41'554**	**20'226**
Granted	27'948	22'175
Exercised	-	-
Forfeited	(1'014)	(847)
TOTAL AT DECEMBER 31	**68'488**	**41'554**
Exercisable at December 31	-	-

In 2023, 27'948 PSUs were granted under the LTIP (2022: 22'175). The total fair value has been determined using a Monte Carlo simulation algorithm and amounts to CHF 107.83 (2022: CHF 116.27).

Underlying assumptions for the fair value of the PSUs are presented below:

INPUTS TO THE MODEL	Award Cycle 2023	Award Cycle 2022	Award Cycle 2021
Dividend yield (in %)	-	-	-
Expected volatility (in %)	39.70%	41.14%	42.32%
Risk-free interest rate (in %)	-	-	-
Expected life of PSUs (in years)	3	3	3
Share price (in CHF) at grant date in April	100.52	114.72	104.74
Fair value (in CHF)	107.83	116.27	101.47

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the instruments is indicative of future trends, which may not necessarily be the actual outcome.

6.21 OTHER LIABILITIES

The following table shows a breakdown of other liabilities as of 31 December 2023 and 2022:

(Thousand Euro)	31.12.2023	31.12.2022
Liabilities to tax authorities	97	189
Legal matters	2'652	4'388
Other	216	72
TOTAL OTHER NON-CURRENT LIABILITIES	**2'965**	**4'649**
Liabilities to tax authorities	7'438	9'422
Liabilities to social security	4'023	2'933
Other debts towards employees	1'071	1'198
Legal matters	1'812	1'869
Other	408	93
TOTAL OTHER CURRENT LIABILITIES	**14'752**	**15'515**

Other non-current liabilities amount to Euro 2’965 thousand as of December 31, 2023 (Euro 4’649 thousand in 2022). The decrease is mainly related to the repayment, amounting to Euro 1’850 thousand, of the instalments due in the year arising from the settlement agreement signed with MicroPort in 2021.

Other current liabilities are in line with last year because of the decrease of liabilities to tax authorities, partially offset by the increase of liabilities to social security.

6.22 TRADE PAYABLES

Trade payables, amounting to Euro 38’851 thousand (2022: Euro 28’480 thousand), mainly consist of commercial payables due within 12 months. The increase is consistent with the reported growth of revenues and is mainly related to the Group’s normal production activities.

6.23 ACCRUED EXPENSES AND DEFERRED INCOME

(Thousand Euro)	31.12.2023	31.12.2022
Consulting fees	3'964	4'915
Royalties and commissions due	8'676	6'996
Accrued vacation expenses	3'975	3'688
Accrued bonuses	18'103	12'396
Assurances	309	215
Other accrued expenses/deferred income	5'134	3'284
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**40'161**	**31'494**

6.24 INFORMATION ON THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

6.24.1 ANALYSIS OF REVENUE

The following table presents revenue of the Group's product lines for the years ended December 31, 2023 and 2022 respectively:

(Thousand Euro)	**31.12.2023**	**31.12.2022**
Hip	229'779	203'588
Knee	198'322	164'477
Shoulder	34'123	26'284
Spine	46'375	41'536
Sportsmed	2'174	1'237
Other	5	
TOTAL	**510'778**	**437'122**

6.24.2 ANALYSIS OF EXPENSES

PERSONNEL EXPENSES

Personnel expenses as of December 31, 2023 and 2022 are as follows:

(Thousand Euro)	**31.12.2023**	**31.12.2022**
Wages and salaries	132'511	112'417
LTIP Employee benefit expense	2'312	1'148
Social security costs	16'293	13'472
Pension costs and other personnel expense	10'915	9'948
TOTAL PERSONNEL EXPENSES	**162'031**	**136'985**

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

PERSONNEL EXPENSES BY FUNCTION

(Thousand Euro)	**31.12.2023**	**31.12.2022**
Cost of Sales	23'997	20'542
Research and Development expenses	5'478	4'727
Sales and Marketing expenses	91'275	75'825
General and Administrative expenses	41'281	35'891
TOTAL PERSONNEL EXPENSES BY FUNCTION	**162'031**	**136'985**
AVERAGE NR OF EMPLOYEES DURING THE YEAR	**1'634**	**1'439**

DEPRECIATION, AMORTISATION AND IMPAIRMENT

Depreciation, Amortisation and Impairment, a December 31, 2023 and 2022 are as follows:

(Thousand Euro)	**31.12.2023**	**31.12.2022**
Cost of Sales	39'566	34'048
Research and Development expenses	8'598	8'386
Sales and Marketing expenses	4'298	3'905
General and Administrative expenses	5'980	5'171
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT BY FUNCTION	**58'442**	**51'510**

Impairment included in line Research and Development is equal to Euro 791 thousand in 2023 (Euro 517 thousand in 2022). See Note 6.9 “Goodwill and intangible assets”, paragraph “Impairment test for intangible assets”.

GENERAL AND ADMINISTRATIVE EXPENSES

General and Administrative expenses as of December 31, 2023 and 2022 are composed of the following expense categories:

(Thousand Euro)	31.12.2023	31.12.2022
Personnel expenses	41'281	35'891
Depreciation and amortisation	5'980	5'171
Consulting expenses	6'467	9'578
Business and administrative expenses (i.e. insurance, maintenance, BoD and audit fees)	10'653	9'288
Provisions	-	2'610
Travel and accommodation	870	614
Various taxes	1'007	1'062
Miscellaneous expenses	1'074	1'233
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE	**67'332**	**65'447**

In 2023 “Consulting expenses” include: approximately Euro 1’206 thousand (Euro 2’051 thousand in 2022) of legal expenses and Euro 5’261 thousand (Euro 7’527 thousand in 2022) related to clinical studies, IT, Tax and other consulting expenses.

In 2022, “Provisions” was mainly related to the costs recognised in the year for the settlement of legal claims with Conformis and RSB, respectively equal to Euro 2’207 thousand and Euro 332 thousand.

RESEARCH AND DEVELOPMENT EXPENSES

Research and Development costs that are not eligible for capitalisation have been expensed in the period incurred and they are recognised in Research and Development expenses along with amortisation and impairment, for a total amount in 2023 of Euro 20’318 thousand (Euro 16’223 thousand in 2022).

Development costs eligible for capitalisation amounts to Euro 8’335 thousand in 2023 and Euro 6’659 thousand in 2022.

6.24.3 OTHER INCOME / (EXPENSES)

Other income amount to Euro 2’150 thousand as of December 31, 2023 (Euro 1’570 thousand in 2022) and are mainly related to miscellaneous expenses rebilled to third parties.

Other expenses amount to Euro 1’233 thousand as of December 31, 2023 (Euro 4’098 thousand in 2022) and include Euro 515 thousand (Euro 498 thousand in 2022), related to contributions made to non-profit organisations. In 2022, other expenses included a provision in relation to the Italian payback on medical devices (see Note 6.25 “Litigations”), amounting to Euro 3’085 thousand.

6.24.4 FINANCIAL INCOME/(COSTS)

FINANCIAL INCOME

(Thousand Euro)	31.12.2023	31.12.2022
Gain on revaluation of financial instruments at fair value through profit or loss	1'472	-
Interest income loans and receivables	103	348
Foreign exchange gains	6'341	2'483
TOTAL FINANCIAL INCOME	**7'916**	**2'831**

Financial income as of December 31, 2023 includes realised and unrealised foreign exchange gains for Euro 6'341 thousand (Euro 2'483 thousand in 2022) and a gain on revaluation of financial instruments at fair value through profit or loss for Euro 1'472 thousand.

FINANCIAL (COSTS)

(Thousand Euro)	**31.12.2023**	**31.12.2022**
Interest on loans and borrowings	(5'626)	(3'167)
Losses on revaluation of financial instruments at fair value through profit or loss	-	(381)
Foreign exchange losses	(16'803)	(5'459)
Interest expense on lease contracts	(1'204)	(496)
TOTAL FINANCIAL (COSTS)	**(23'633)**	**(9'503)**
TOTAL FINANCIAL INCOME/(COSTS), NET	**(15'717)**	**(6'672)**

Interest on loans and borrowings increased by Euro 2'459 thousand from Euro 3'167 thousand in 2022 to Euro 5'626 thousand in 2023, primarily as a result of the increase in interest rates.

In 2023 no losses were recognised about the revaluation of financial instruments at fair value through profit or loss due to the positive trend of the financial assets (Euro 381 thousand in 2022).

During the course of the year the Group suffered the negative effects of unfavourable exchange rates trend, resulting in foreign exchange losses for Euro 16'803 thousand in 2023 compared to Euro 5'459 thousand in 2022.

In 2023, interest expenses on lease contracts increased to Euro 1'204 thousand (from Euro 496 thousand in 2022) mainly due to the additions recognised in Right-of-use assets, relating in particular new buildings and new machineries. For further details, please refer to Note 6.8 "Leases".

6.25 LITIGATIONS

PATENT MATTERS

MIGHTY OAK MEDICAL VS MEDACTA USA AND MEDACTA INTERNATIONAL

A patent infringement case was filed on December 22, 2022 against Medacta USA and Medacta International in the District of Delaware. The plaintiff is Mighty Oak Medical, and it is alleging infringement of five patents by several of the MySpine products. They are also alleging that the infringement has been wilful. Medacta has responded to the complaint by moving to dismiss one patent from the case and asserting non-infringement and invalidity for the other asserted patents. The case is in the very early stages, and fact discovery is just beginning. They parties have exchanged initial discovery responses and initial contentions, but no depositions have been taken by either side. Fact discovery is set to close on September 27, 2024, and trial has been tentatively set for July 28, 2025. Medacta believes the accused products do not infringe the patents-in-suit and that these patents are invalid.

The case is still pending and at this stage of the proceedings, we are unable to conclude that the likelihood of an unfavourable outcome. Accordingly, in connection with this matter we have not made any provisions.

DISTRIBUTION INTELLIGENCE SYSTEMS, LLC V. MEDACTA USA, INC.

On May 15, 2023, Distribution Intelligence Systems filed a patent infringement complaint in the District of Delaware (USA) alleging that one patent is infringed by Medacta's MectaLock Peek Suture Anchor.

Distribution Intelligence Systems is seeking monetary damages, and an injunction, and it has alleged that the infringement has been wilful. The parties have discussed an early resolution of the lawsuit, with the plaintiff making different settlement demands, and Medacta USA making a counteroffer. A settlement agreement for 20'000 USD has been signed in January 2024 and the case should be dismissed soon.

ITALIAN PAYBACK SCHEME LITIGATION

In 2011, during a period of severe crisis in the Italian economy the payback scheme was introduced, a mechanism to obtain from suppliers a contribution to offset variances occurring when Italian government expenditures exceed their ceiling for the purchase of medical devices. Such a measure was similar to the payback scheme introduced in 2008 in relation to overruns of the pharmaceutical expenditure ceiling, which for many years has been the subject of legal disputes that have often led to its significant containment.

At the end of September 2022, three measures had been issued in Italy:

- article 18 of Law Decree 115/2022, known as the "Aiuti bis" decree, converted into Law 142/2022, gave the starting signal for the payback procedure and set out its timeframe;
- a decree of the Ministry of Health in agreement with the Ministry of Economics and Finance, dated July 6, 2022 and published in the Official Gazette of September 15, 2022. This certifies the spending overrun for medical devices at a national and regional level for the years 2015-2018, by approximately Euro 2 billion;
- a decree of the Ministry of Health in agreement with the Ministry of Economics and Finance, dated October 6, 2022 and published in the Official Gazette of October 26, 2022. This decree provides for the guidelines for the issuance of the regional measures for the 2015-2018 medical device payback rules.

There are strong doubts as to the legitimacy of the payback system for medical devices overall, especially in terms of the retroactivity of the measures, numerous critical issues in the application of the rules and in relation to possible calculation errors. Medacta legal representation, along with all the Italian Medical devices associations, decided to appeal the Decree of the Ministry of Health dated October 6, 2022 and the consequent deeds of the Regions. In September 2023, the Regional Administrative Court of Lazio (TAR Lazio) upheld all Medacta requests of suspension of the effects of Regional measures.

Following the first hearing on the merits on October 24, 2023, the Lazio Regional Administrative Court published an initial order in which it ordered the referral the referral of the issue of constitutional legitimacy of the payback legislation to the Constitutional Court. This decision affects all appeals pending in the Regional Administrative Courts, whose determination on the merits will depend on the decision of the Constitutional Court.

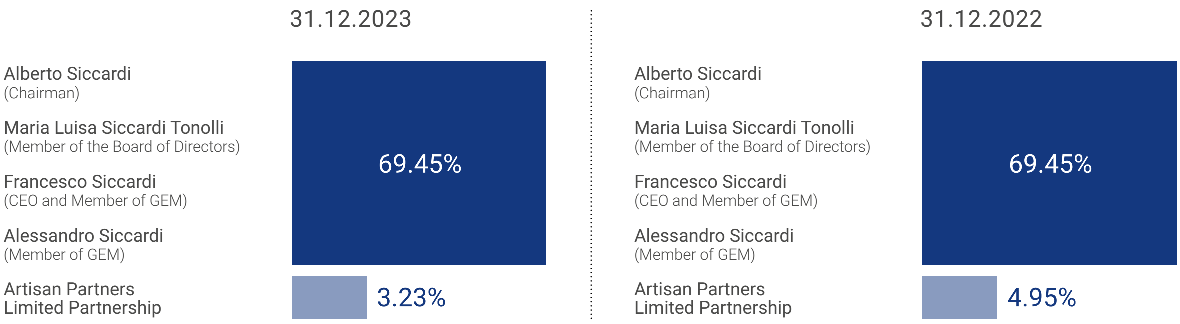
In Medacta's case, the challenged measures have been suspended on remand and Medacta therefore does not expect any new developments (and further payback claims) until the Court rules (potentially in 2024).

In connection with the above litigation, the Group recognised a provision of approximately Euro 3.1 million accrued in 2022.

6.26 RELATED PARTY TRANSACTIONS

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

The following shareholders hold a participation of more than 3% of the issued share capital of the Group's ultimate parent Medacta Group SA:



Transactions with related parties are carried out at arm's length. Details of transactions between the Group and its related parties are disclosed below.

OPERATING TRANSACTIONS

In 2023 Medacta International made contributions to Medacta for Life Foundation for Euro 515 thousand (Euro 498 thousand in 2022), a non-profit organisation owned by the Siccardi Family.

In January 2023 Medacta purchased building indexes in Castel San Pietro on a land destinated to the manufacturing plant expansion from Verve SA, a company owned by the Siccardi Family, for a total amount equal to Euro 1’583 thousand.

Mr. Philippe Weber is a member of the Board of Directors of Medacta Group SA. Niederer Kraft Frey Ltd, a law firm at which Mr. Philippe Weber is a partner, provided legal services to the Group. The fees for his professional services provided during the year 2023 are recognised in the General and Administrative expense line item for an amount equal to Euro 28 thousand (in 2022 Euro 24 thousand).

During 2023, Victor Balli, member of the Board of Directors, purchased 1’000 share units and Riccardo Braglia, member of the Board of Directors, sold 10’860 share units.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The following table shows the compensation of Key Management Personnel recognised in Profit or Loss in line with the Group’s accounting policies.

(Thousand Euro)	31.12.2023	31.12.2022
Fees, salaries and other short-term benefits	3'122	2'933
Post-employment pension and medical benefits	344	308
Share-based payments	334	172
TOTAL COMPENSATION OF KEY MANAGEMENT PERSONNEL	**3'800**	**3'413**

Key Management Personnel comprises of the Board of Directors and the Group Executive Management (GEM). The compensation of the GEM consists of a fixed portion and variable portion, which depends on the course of business and individual performance.

6.27 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 during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

	31.12.2023	31.12.2022
Net profit attributable to shareholders (in Euro thousand)	47'362	46'249
Weighted average number of ordinary shares outstanding	19'951'944	19'977'035
BASIC EARNINGS PER SHARE (in Euro)	**2.37**	**2.32**

Diluted earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders of Medacta Group SA by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential of outstanding equity instruments into ordinary shares. The number of shares, as above calculated, is compared with the number of shares that would have been issued assuming the exercise of the Performance Share Units.

	31.12.2023	31.12.2022
Net profit used to determine diluted earnings per share (in Euro thousand)	47'362	46'249
Weighted average number of ordinary shares outstanding	19'951'944	19'977'035
Adjustments for performance stock units issued	39'787	18'927
Weighted average number of ordinary shares for diluted earnings per share	19'991'731	19'995'962
DILUTED EARNINGS PER SHARE (in Euro)	**2.37**	**2.31**

6.28 ATYPICAL AND/OR UNUSUAL OPERATIONS

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

6.29 CONTINGENCIES AND COMMITMENTS

The Group, as of December 31, 2023, contracted purchase commitments, mainly relating the acquisition of instruments, for a total amount of Euro 25.3 million (Euro 28.4 million in 2022).

As of December 31, 2023, tangible fixed assets for a total amount of Euro 21'027 thousand (2022: Euro 20'267 thousand) have been pledged as collateral for borrowing facilities.

The Group as of December 31, 2023 and 2022 had unused current credit lines of Euro 115'668 thousand and Euro 109'316 thousand, respectively.

6.30 SUBSEQUENT EVENTS

There have been no events occurring after the reported period which would have a material effect on the Medacta Group Financials as of December 31, 2023.

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

EXCHANGE RATES

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

	Average		Closing	
	2023	**2022**	**31.12.2023**	**31.12.2022**
CHF	1.0297	0.9955	1.0768	1.0108
GBP	1.1499	1.1736	1.1533	1.1303
AUD	0.6145	0.6597	0.6171	0.6366
USD	0.9250	0.9505	0.9061	0.9344
JPY	0.0066	0.0073	0.0064	0.0071
CAD	0.6853	0.7304	0.6839	0.6895

7. AUDIT REPORT – CONSOLIDATED FINANCIAL STATEMENTS

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Report of the Statutory Auditor

To the General Meeting of
MEDACTA GROUP SA, CASTEL SAN PIETRO

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Medacta Group SA (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policies information.

In our opinion, the consolidated financial statements (pages 118 to 170) give a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards and comply with Swiss law.

Basis for Opinion
We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISA) and Swiss Standards on Auditing (SA-CH). 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, together with the requirements of the Swiss audit profession, as well as those of the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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Our Audit Approach

Summary	
Key audit matters	We identified the following key audit matters: - Capitalisation and measurement of development projects - Existence of inventory - Existence of instruments (Property, Plant and Equipment)
Materiality	Based on our professional judgement, we determined materiality for the Group as a whole to be at EUR 4 million.
Scoping	We defined six components operating in five countries to be in scope for group reporting purposes. The ratios of coverage for group total assets, group revenue, and group profit before tax are disclosed below.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Capitalisation and measurement of development projects

Key audit matter	**How the scope of our audit responded to the key audit matter**
As described in Note 6.9 to the consolidated financial statements, the intangible assets balance amounts to EUR 51 million (2022: EUR 50 million), including development projects capitalised at 31 December 2023 amounting to EUR 38 million (2022: EUR 36 million). As described in Note 6.2 to the consolidated financial statements, the Group distinguishes between research costs, which are recognized in the statement of profit or loss as incurred, and development costs, which are capitalised provided that the technical and commercial feasibility of the asset has been established, the related costs can be measured reliably, and it can reasonably be expected that the costs will be recovered in the future. The costs relating to projects for which the development phase has been completed as of 31	We gained an understanding of the key controls relevant to the development projects process and the impairment process. We performed test of details, using statistical sampling method, on the projects capitalised during the year. We obtained technical information relating to the selected projects to verify whether the costs qualified as development costs. We analyzed the evidence obtained to evaluate the usefulness of the assets for the Group and we inquired about the Group's intention, as well as verified its ability to complete these projects. We furthermore inquired about the Group's assessment of the future economic benefits, and its intention to use or sell the assets.

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Capitalisation and measurement of development projects

Key audit matter	How the scope of our audit responded to the key audit matter
December 2023, are amortised over the useful life of the related products. Projects which are still in early phases of development as of the financial statement date are not amortised as they are considered as being intangible assets with indefinite useful life ("In Progress Development Projects"). Development projects are allocated to "Product Families" based on their purpose. Capitalisation of development projects requires the Group to apply judgement to evaluate whether the development expenditure incurred qualifies for recognition as an asset in accordance with IAS 38. Whenever there are indications of impairment, and at least once a year for "In Progress Development Projects", the Group tests these assets for impairment. For the impairment test of "In Progress Development Projects", the Group applies judgements and defines assumptions in areas such as revenue growth, estimates in connection with the "costs to complete" and WACC. For these projects, the impairment test is done at the level of "Product Families". Due to the significant amount of costs capitalised and the judgements applied by the Group, we consider the capitalisation and measurement of development projects to be a key audit matter.	In addition, we tested on a sample basis whether the costs for development projects were eligible for capitalization and whether the amounts were capitalised accurately. Furthermore, we verified the supporting evidence such as third-party invoices and salary costs of the development teams. We have involved internal valuation specialists to assist us in challenging the valuation model (i.e. validity of the methodology and its application, completeness, and mathematical accuracy) and the WACC applied. In addition, we have challenged the Group's judgements and assumptions used in its impairment model and we have tested their historical accuracy. We assessed the adequacy and completeness of the disclosures included in the accompanying consolidated financial statements (Notes 6.9). Based on the procedures performed, we obtained sufficient audit evidence to address the risks around capitalisation and measurement of development projects.

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Existence of inventory

Key audit matter	How the scope of our audit responded to the key audit matter
As described in Note 6.12 to the consolidated financial statements the balance of inventory amounts to EUR 214 million as of 31 December 2023 (2022: EUR 160 million). Inventory is mainly composed of prosthesis and implants. The inventory is held in warehouses and in consignment at the premises of Medacta's customers to ensure continuity of supply. Given the significant balance of inventory in relation to the Group's total assets, and the number of locations in which inventory is located, we consider the existence of inventory to be a key audit matter in our audit.	We assessed the appropriateness of the Group's process for inventory, including inventory counts procedures which are performed for inventory located at Medacta's premises and in consignment. As part of this work, we gained an understanding of the key controls relating to the existence of inventory. We also tested the operating effectiveness of the key controls. We have performed physical inventory counts for items selected through statistical sampling methods. Our work was performed in Switzerland, France, Australia, and in the USA. The counts also covered inventory in consignment. For locations where our participation in the inventory counts procedures performed by the Group was possible, we attended these and compared the results of our own work with the results of the counts performed by the Group. We assessed the adequacy and completeness of the disclosures included in the accompanying notes to the consolidated financial statements. Based on the procedures performed, we obtained sufficient audit evidence to address the risk of the existence of inventory.

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Existence of instruments

Key audit matter	How the scope of our audit responded to the key audit matter
As described in Note 6.7 to the consolidated financial statements, the balance of property, plant and equipment amounts to EUR 223 million as at 31 December 2023 (2022: EUR 188 million), including instruments for a net balance of EUR 130 million (2022: EUR 109 million). The instruments are held in warehouses and at Medacta's customers premises to ensure continuity of supply. Given the significant balance of instruments in relation to the Group's total assets, and the number of locations in which instruments are consigned, we consider the existence of instruments to be a key audit matter in our audit.	We assessed the appropriateness of the Group's process for instruments, including instruments counts procedures, which are done for instruments located at Medacta's premises and in consignment. As part of this work, we gained an understanding of the key controls relating to the existence of instruments. We also tested the operating effectiveness of the key controls. We have performed physical instruments counts for items selected through statistical sampling methods. Our work was performed in Switzerland, France, Australia, and in the USA. This work covered also instruments in consignment. For locations where our participation in the instruments counts procedures performed by the Group was possible, we attended these and compared the results of our own work with the results of the counts performed by the Group. When the performance of instruments counts was not possible because the instruments were held in a sterilised environment, we obtained confirmations from the hospitals and the clinics on the existence of the instruments in consignment. We assessed the adequacy and completeness of the disclosures included in the accompanying consolidated financial statements. Based on the procedures performed, we obtained sufficient audit evidence to address the risk of the existence of instruments.

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Our application of materiality

We define materiality as the magnitude of misstatement in the consolidated financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be at EUR 4 million (2022: EUR 3.5 million) which is 6.8% of profit before taxes (6.5% of profit before taxes in prior year) and 1.2% of equity (1.3% of equity in prior year).

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of EUR 0.2 million (2022: EUR 0.175 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the consolidated financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work at six components. Three of these were subject to a full audit, whilst the remaining three were subject to an audit of specified account balances where the extent of our testing was based on our assessment of the risk of material misstatements and of the materiality of the group's operations at those locations. These six components represent the principal business units and account for 93% (2022: 94%) of the group's total assets, 72% (2022: 76%) of the group's revenue and 67% (2022: 77%) of the group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risk of material misstatements identified above. The audit work at the six components was executed at levels of materiality applicable to each individual component and were lower than group materiality, ranging from EUR 0.4 million to EUR 2.760 million (2022: EUR 0.360 million to EUR 2.430 million).

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

Other Information

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

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

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' Responsibilities for the Consolidated Financial Statements
The Board of Directors is responsible for the preparation of the consolidated financial statements, which give a true and fair view in accordance with IFRS Accounting Standards 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, ISA and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on EXPERTsuisse's website at: https://www.expertsuisse.ch/en/audit-report. This description forms an integral part of our report.

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Report on Other Legal and Regulatory Requirements

In accordance with Art. 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of the consolidated financial statements according to the instructions of the Board of Directors.

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

Deloitte SA

Fabien Lussu	Michele Castiglioni
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Lugano, 12 March 2024
FLU/MCA/jba

MEDACTA GROUP SA
STATUTORY FINANCIAL STATEMENTS

8. STATUTORY FINANCIAL STATEMENTS MEDACTA GROUP SA

BALANCE SHEET

ASSETS

(Swiss Francs)	Notes	31.12.2023	31.12.2022
Cash and cash equivalents		324'050	114'439
Short-Term receivables towards group companies	8.3.1	1'548'925	1'220'627
Accrued income and prepaid expenses	8.3.2	6'539'208	15'036'592
TOTAL CURRENT ASSETS		**8'412'183**	**16'371'658**
Investment in subsidiaries	8.3.3	135'510'583	135'510'491
Long-Term loans towards group companies	8.3.4	52'083'778	51'500'000
TOTAL NON-CURRENT ASSETS		**187'594'361**	**187'010'491**
TOTAL ASSETS		**196'006'544**	**203'382'149**

LIABILITIES AND EQUITY

(Swiss Francs)	Notes	31.12.2023	31.12.2022
Account payables		32'589	260'694
Deferred income and accrued expenses		2'787'339	1'739'351
Other current liabilities		274'540	439'566
TOTAL CURRENT LIABILITIES		**3'094'468**	**2'439'611**
TOTAL NON-CURRENT LIABILITIES		**-**	**-**
Share capital	8.3.5	2'000'000	2'000'000
General capital reserve		131'000'000	131'000'000
Capital contribution reserve	8.3.6	12'781'598	18'170'836
General legal reserve from earnings		1'000'000	1'000'000
Treasury Shares reserve	8.3.7	(8'070'713)	(4'272'340)
Retained earnings brought forward	8.3.8	47'654'804	38'312'165
Profit for the year		6'546'387	14'731'878
TOTAL SHAREHOLDER'S EQUITY		**192'912'076**	**200'942'538**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**196'006'544**	**203'382'149**

INCOME STATEMENT

(Swiss Francs)	Notes	31.12.2023	31.12.2022
Dividend income	8.3.9	6'500'000	15'000'000
Interest Income	8.3.10	1'216'226	500'048
Other Revenues	8.3.11	4'372'117	3'417'323
TOTAL REVENUE		**12'088'343**	**18'917'371**
Personnel costs		(4'276'476)	(3'175'964)
Legal and administrative expenses	8.3.12	(825'001)	(651'224)
Other expenses		(224'541)	(147'024)
TOTAL OPERATING COSTS		**(5'326'018)**	**(3'974'212)**
OPERATING PROFIT		**6'762'325**	**14'943'159**
Other financial costs		(124'103)	(22'281)
TOTAL FINANCIAL INCOME / (COSTS)		**(124'103)**	**(22'281)**
PROFIT BEFORE TAXES		**6'638'222**	**14'920'878**
Taxes	8.3.13	(91'835)	(189'000)
PROFIT FOR THE YEAR		**6'546'387**	**14'731'878**

8.1 GENERAL INFORMATION

Medacta Group SA (the "Company"), with its legal office in Castel San Pietro, is a public company listed at the SIX Swiss Stock Exchange.

The Company is presenting consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), in compliance with articles 963 and following of the Swiss Code of Obligations (CO), subject to ordinary audit as per Swiss Law. Therefore, Medacta Group SA has applied the exemption included in article 961d, paragraph 1 SCO, and has not prepared additional disclosures.

As the parent company of the Medacta Group, the purpose of Medacta Group SA is to acquire, dispose of and manage investments in the field of orthopedics. The Company is mainly concerned with the strategic, financial and real estate management of the Group.

During 2023 and 2022 the number of full-time positions on annual average is less than 10.

8.2 ACCOUNTING PRINCIPLES

These Financial Statements have been prepared in compliance with the Swiss Code of Obligations (CO).

TRANSLATION OF FOREIGN CURRENCIES

The receivables and payables in foreign currencies are translated into Swiss Francs at the closing exchange rates.

All the transactions in foreign currencies occurred during the year are translated into Swiss Francs at the exchange rate prevailing in the day of the transaction.

RELATED PARTIES

Related parties primarily comprise subsidiaries, Members of the Board of Directors and significant shareholders. All transactions with those related parties are carried out in accordance with the arm's length principle.

INVESTMENT IN SUBSIDIARIES

The investment in subsidiaries is evaluated at acquisition costs, adjusted for impairment losses if any.

LONG-TERM LOANS

Loans towards group companies are evaluated at granted costs and adjusted for recovery risk if any.

TAXES

Taxes are accrued based on the annual profit and the taxable capital at the balance sheet date.

INCOME AND COSTS

The income and costs are recognised in accordance with the economic competence principle.

The dividends of the fiscal period have been recognised according to the principle of simultaneous registration of dividends.

Furthermore, the principles of realisation, of prudence, of imparity and of continuity are applied.

USE OF ESTIMATES AND JUDGEMENTS BY THE MANAGEMENT

The preparation of the annual financial statements in accordance with the Swiss Code of Obligations (CO) requires the use of accounting estimates and assumptions by the management, based on historical experience and other factors (such as anticipation of results and future events, where appropriate and based on all circumstances and in compliance with the accounting principles of reference). The key sources of estimation uncertainty are the following:

- Investment in subsidiaries;
- Deferred income and accrued expenses;
- Taxes.

8.3 INFORMATION, SPLIT AND EXPLANATIONS WITH REGARD TO ITEMS OF THE BALANCE SHEET AND THE INCOME STATEMENT

8.3.1 SHORT-TERM RECEIVABLES TOWARDS GROUP COMPANIES

Short-term receivables towards Group Companies amounted to CHF 1’548’925. The receivables are addressed to Medacta International SA for CHF 1’519’437 and Knnex Health Inc. for an amount equal to CHF 29’488.

8.3.2 ACCRUED INCOME AND PREPAID EXPENSES

Accrued income and prepaid expenses includes dividend from Medacta Holding SA for CHF 6’500’000 related to the result of the year 2023 (simultaneous registration of dividend) and insurance prepaid expenses.

8.3.3 INVESTMENT IN SUBSIDIARIES

The investment in subsidiaries is mainly referred to:

- Direct investment in subsidiaries:

Company	% of shares held December 2023	% of shares held December 2022	Registered office	Share Capital	31.12.2023
Medacta Holding S.A.	100%	100%	Castel San Pietro (CH)	1'026'010 CHF	135'510'490 CHF
Knnex Health Inc.	100%	100%	Wilmington - Delaware (US)	100 USD	93 CHF

- Indirect investment in subsidiaries:

Company	% of shares held December 2023	% of shares held December 2022	Registered office	Registered Capital
Medacta International SA	100%	100%	Castel San Pietro (CH)	1'000'000 CHF
Medacta Americas Operations Inc.	100%	100%	Wilmington - Delaware (US)	1 USD
Medacta Australia PTY Ltd	100%	100%	Lane Cove (AU)	4 AUD
Medacta Austria GmbH	100%	100%	Eugendorf (AT)	35'000 EUR
Medacta Belgium S.r.l.	100%	100%	Nivelles (BE)	18'550 EUR
Medacta Canada Inc.	100%	100%	Kitchener (CA)	100 CAD
Medacta España S.L.	100%	100%	Paterna (ES)	3'000 EUR
Medacta Europe Operations S.r.l.	100%	100%	Milan (IT)	100'000 EUR
Medacta France SAS	100%	100%	Nanterre (FR)	37'000 EUR
Medacta Germany GmbH	100%	100%	Göppingen (DE)	25'000 EUR
Medacta Italia S.r.l.	100%	100%	Milan (IT)	2'600'000 EUR
Medacta Japan Co. Ltd	100%	100%	Tokyo (JP)	25'000'000 JPY
Medacta UK Ltd	100%	100%	Hinckley (UK)	29'994 GBP
Medacta USA Inc.	100%	100%	Wilmington - Delaware (US)	1 USD

The participation held in the capital of the direct and indirect investment in subsidiaries corresponds to the relevant voting rights.

8.3.4 LONG-TERM LOANS TOWARDS GROUP COMPANIES

Long-term towards Group companies is referred to the interest-bearing loan towards Medacta International SA amounting to CHF 50’750’000 (2022 amounted to CHF 51’500’000) and Knnex Health Inc. equal to CHF 1’333’778.

8.3.5 SHARE CAPITAL

The share capital amounts to CHF 2'000'000 and is divided into 20'000'000 registered shares with a nominal value of CHF 0.10 each.

8.3.6 CAPITAL CONTRIBUTION RESERVE

During the year the Company distributed an amount of CHF 5'389'239. Following the 2023 repayment, the capital contribution reserve amounts to CHF 12'781'598. Capital contribution reserve was made up through cash contributions of CHF 6'450'000 and CHF 17'070'000 paid in 2019 by the majority shareholders to the Company for a total amount of CHF 23'520'000. Tax rulings have been received by Swiss federal tax authorities in order to recognise these cash contributions as qualifying capital contribution reserves (Kapitaleinlagereserve KER) in the sense of Swiss federal anticipatory (withholding) tax law. The final formal approval has been obtained by federal tax authorities in the year 2020.

8.3.7 TREASURY SHARES RESERVE

Own shares purchased as of December 31, 2023 amounted to 72'500 corresponding to CHF 8'070'713. In 2023 the Company purchased 32'643 own shares for the average price of around CHF 116.36 for CHF 3'798'373 (39'857 own shares in 2022 for the average price of around CHF 107.19 equal to CHF 4'272'340). The Shares are dedicated to satisfying the PSUs granted by the employees participating to the Long-Term Incentive Plan (LTIP) approved in March 2021. LTIP has a vesting period for a duration of 3 years. More detail at Note 6.16 "Medacta Group stockholders' equity" paragraph "Treasury shares".

8.3.8 RETAINED EARNINGS – DIVIDEND PAID OUT

On April 27, 2023 shareholders approved the distribution of CHF 10'778'478 equal to CHF 0.54 per share, half of it (corresponding to CHF 5'389'239) distributed as dividend out of available earnings and half of it distributed out of accumulated reserves from capital contribution reserve. Dividend was settled on May 4, 2023.

8.3.9 DIVIDEND INCOME

Dividend income accrued as of December 31, 2023 for CHF 6'500'000 refers to the 2023 dividend from the subsidiary Medacta Holding SA (simultaneous registration of dividend). Dividend accrued as of December 31, 2023 has not been cashed in as of the balance sheet date. The 2022 dividend income for CHF 15'000'000 was settled by Medacta Holding SA in April 2023.

8.3.10 INTEREST INCOME

Interest income amounted to CHF 1'216'226 in 2023 (CHF 500'048 in 2022). The increase is mainly due to the change in interest rate related to the financial loan towards Medacta International SA.

8.3.11 OTHER REVENUES

Other revenues amounting to CHF 4'372'117 as of December 31, 2023 (CHF 3'417'323 in 2022), is mainly related to the re-billing to Group's subsidiaries for an amount of CHF 4'366'900 (CHF 3'411'820 in 2022).

8.3.12 LEGAL AND ADMINISTRATIVE EXPENSES

Legal and administrative expenses is referred to the 2023 audit fees of the statutory and consolidated financial statements amounting to CHF 397'532 (CHF 307'650 in 2022) and to fiscal, legal and administrative fees amounting to CHF 427'469 (CHF 343'574 in 2022).

8.3.13 TAXES

The Company is subject to direct taxes on profit and capital. Taxes as of December 31, 2023 amount to CHF 91'835 (CHF 189'000 in 2022) out of which CHF 13'845 (CHF 131'000 in 2022) relates to capital tax and CHF 77'990 (CHF 58'000 in 2022) to profit.

8.4 OTHER INFORMATION NOT RESULTING FROM THE BALANCE SHEET OR THE INCOME STATEMENT

8.4.1 NET RELEASE OF REPLACEMENT RESERVES AND OTHER HIDDEN RESERVES
During the fiscal period no release or use of replacement reserves or other hidden reserves has taken place.

8.4.2 OWN SHARES
In 2023 Medacta Group SA purchased own shares as mentioned in the Note 8.3.7 “Treasury share reserve”. Neither other Group Company nor the subsidiaries owned, held or purchased own shares of the Company during the fiscal period.

8.4.3 EQUITY INSTRUMENTS OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT
The number of shares held by Board of Directors and Group Executive Management as of December 31, 2023 are mentioned in section 6 “Ownership of shares and options” of Remuneration Report.

8.4.4 RESIDUAL AMOUNT OF LIABILITIES RESULTING FROM LEASE COMMITMENTS
The Company has no lease agreement in force.

8.4.5 LIABILITIES TOWARDS PENSION INSTITUTIONS
Liabilities towards pension institutions as of December 31, 2023 amounts to CHF 14’279 (2022 CHF 126’987).

8.4.6 COLLATERALS, GUARANTEE LIABILITIES AND CONSTITUTION OF PLEDGES IN FAVOUR OF THIRD PARTIES
In order to guarantee the commitments undertaken by the affiliated Medacta International SA, as of December 31, 2023 the Company issued letters of patronage in favour of banking institutions for an amount of CHF 127’093’471 (2022: CHF 107’500’000).

8.4.7 ASSETS USED TO SECURE OWN LIABILITIES
The Company has not constituted pledges or collaterals on own assets to secure own liabilities.

8.4.8 CONTINGENT LIABILITIES
There are no contingent liabilities as at the balance sheet date.

8.4.9 SUBSCRIPTION OR OPTION RIGHTS
As of December 31, 2023, the Company neither owns nor has released subscription or option rights on its proper shares or on the shares of other group companies.

8.4.10 IMPORTANT SUBSEQUENT BALANCE SHEET DATE EVENTS
There have been no events occurring after the reported period which would have a material effect on the Medacta Group Financials as of December 31, 2023.

8.5 PROPOSAL OF THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING

The Board of Directors proposes to the Annual General Meeting of Medacta Group SA on May 7, 2024 a distribution of CHF 10’960’125 (CHF 0.55 per share), half of it as dividend out of retained earnings and half of it out of the total of reserves from capital contribution. All the remaining retained earnings as well as accumulated reserves from capital contribution will be carried forward.

In deciding on the appropriation of dividends and the distribution of reserves from capital contribution, the Shareholders’ General Meeting shall consider that the Company will not pay such distribution on treasury shares held by the Company.

8.6 PROPOSED APPROPRIATION OF THE AVAILABLE RETAINED EARNINGS

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

(Swiss Francs)	31.12.2023	31.12.2022
Retained earnings brought forward	47'654'804	38'312'165
Profit for the year	6'546'387	14'731'878
RETAINED EARNINGS AVAILABLE FOR DISTRIBUTION	**54'201'191**	**53'044'043**
DISTRIBUTION OF PROFIT		
Dividend paid out of the available earnings *	(5'480'063)	(5'389'239)
CARRY FORWARD RETAINED EARNINGS	**48'721'128**	**47'654'804**

* Depends on the number of dividend-entitled shares, max. 19'927'500 shares, as of December 31, 2023. The own shares held by Medacta Group SA are not entitled to the distribution of dividends.

8.7 PROPOSED APPROPRIATION OF RESERVES FROM CAPITAL CONTRIBUTION

The Board of Directors proposes the following appropriation of reserves from capital contribution.

(Swiss Francs)	2024	2023
RESERVE FROM CAPITAL CONTRIBUTION		
BALANCE JANUARY 1	**12'781'598**	**18'170'836**
Distribution of reserves from capital contribution *	(5'480'063)	(5'389'238)
CARRY FORWARD RESERVES FROM CAPITAL CONTRIBUTION	**7'301'535**	**12'781'598**

* The own shares held by Medacta Group SA are not entitled to the distribution out of reserves from capital contribution.

9. AUDIT REPORT – MEDACTA GROUP SA FINANCIAL STATEMENTS

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Report of the Statutory Auditor

To the General Meeting of
MEDACTA GROUP SA, CASTEL SAN PIETRO

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Medacta Group SA (the Company), which comprise the balance sheet as at 31 December 2023, the statement of income for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 180 to 185) comply with Swiss law and the Company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Valuation of investments in subsidiaries and long-term Loans towards group companies

Key audit matter	How the scope of our audit responded to the key audit matter
As described in Notes 8.3.3 and 8.3.4 to the stand-alone financial statements, investments and long-term loans amount to CHF 188 million (2022: CHF 187 million), or represent 96% (2022: 92%) of total assets as at 31 December 2023. The Company assesses the valuation of its investments and long-term loans and determines potential impairment indicators on an individual basis, in accordance with the provisions of Swiss Law. Due to the significance of the carrying amount of the investments and long-term loans, and due to the judgement involved in the determination of potential impairments, this matter was considered as a key audit matter in our audit.	We have assessed the appropriateness of the Company's accounting policy for the valuation of investments and long-term loans. We gained an understanding of the key controls in connection with the valuation of investments and long-term loans. We challenged the assessment of impairment indicators made by the Company's management. We compared the carrying amount of the investments with the equity balances of the relevant entities. We challenged the recoverability of the long-term loans towards group companies. We have assessed the adequacy and completeness of the related disclosures. Based on the procedures performed, we obtained sufficient audit evidence to address the risk around valuation of investments and long-term loans.

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Board of Directors' Responsibilities for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the Company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

A further description of our responsibilities for the audit of the financial statements is located on EXPERTsuisse's website at: https://www.expertsuisse.ch/en/audit-report. This description forms an integral part of our report.

Report on Other Legal and Regulatory Requirements

In accordance with Art. 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of the financial statements according to the instructions of the Board of Directors.

Furthermore, we confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Deloitte SA

Fabien Lussu	Michele Castiglioni
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Lugano, 12 March 2024
FLU/MCA/jba

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