Medacta International

FINANCIAL REPORT

INDEX

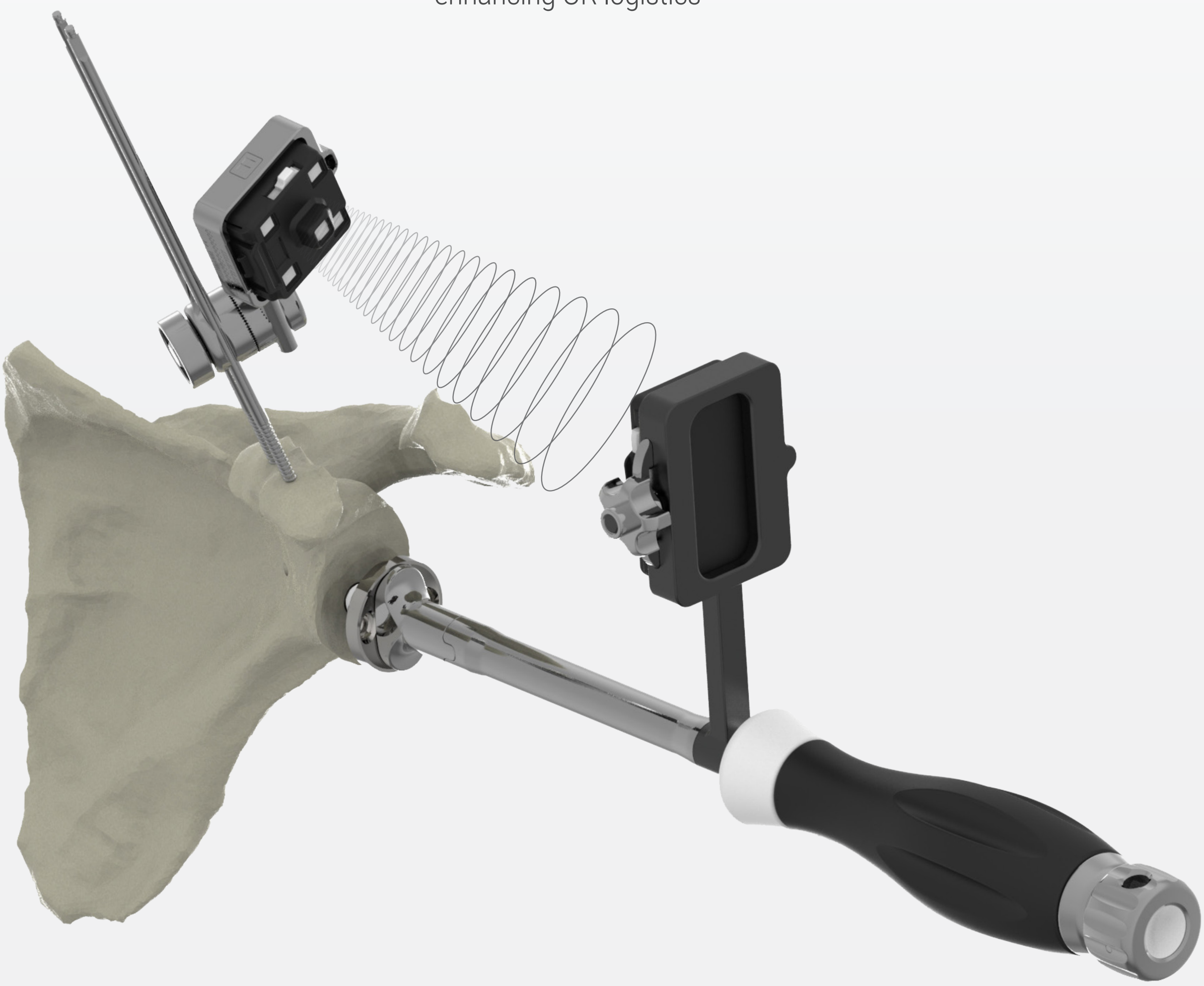
NEXTAR™

AUGMENTED REALITY SURGICAL PLATFORM

An innovative solution that features advanced planning tools, revolutionary tracking system, and augmented reality to potentially improve surgery accuracy and efficiency, with low upfront capital investment and cost per case compared to other technologies.

SMART DELIVERY TOOLS

NextAR TS proprietary single-use, compact and integrated detection systems, adding intelligence to surgery while enhancing OR logistics



1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(Thousand Euro)	Notes	31.12.2021	31.12.2020
Revenues	6.24.1	363'126	302'492
Cost of Sales		(101'879)	(88'236)
GROSS PROFIT		**261'247**	**214'256**
Research and Development expenses	6.24.2	(11'306)	(6'829)
Sales and Marketing expenses		(132'555)	(110'069)
General and Administrative expenses	6.24.2	(58'844)	(47'472)
Other income	6.24.3	1'536	1'809
Other expenses	6.24.3	(1'301)	(2'252)
OPERATING PROFIT(EBIT)		**58'777**	**49'443**
Financial income	6.24.4	2'318	4'957
Financial costs	6.24.4	(5'644)	(14'468)
PROFIT BEFORE TAXES		**55'451**	**39'932**
Income taxes	6.11	(3'930)	(2'841)
PROFIT FOR THE YEAR		**51'521**	**37'091**

ATTRIBUTABLE TO			
Equity holders of the parent	6.27	51'521	37'091
Non-controlling interests		-	-
BASIC EARNINGS PER SHARE	6.27	**2.58**	**1.85**
DILUTED EARNINGS PER SHARE *	6.27	**2.58**	**1.85**

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

The Notes are an integral part of the Consolidated Financial Statements

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(Thousand Euro)	Notes	31.12.2021	31.12.2020
PROFIT FOR THE YEAR		**51'521**	**37'091**
OTHER COMPREHENSIVE INCOME			
Remeasurements of defined benefit obligations	6.20	2'663	(686)
Tax effect on remeasurements of defined benefit obligations		(462)	119
TOTAL ITEMS NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**2'201**	**(567)**
Currency translation differences		8'726	4'959
TOTAL ITEMS TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**8'726**	**4'959**
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX		**10'927**	**4'392**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**62'448**	**41'483**
ATTRIBUTABLE TO			
Equity holders of the parent		62'448	41'483
Non-controlling interests		-	-

The Notes are an integral part of the Consolidated Financial Statements

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

ASSETS

(Thousand Euro)	Notes	31.12.2021	31.12.2020
Property, plant and equipment	6.7	155'378	131'642
Right-of-use assets	6.8	24'371	21'722
Goodwill and intangible assets	6.9	51'975	48'797
Other non-current financial assets	6.10	479	488
Deferred tax assets	6.11	29'029	21'588
TOTAL NON-CURRENT ASSETS		**261'232**	**224'237**
Inventories	6.12	136'091	114'187
Trade receivables	6.13	59'436	45'782
Other current financial assets	6.10	-	1'297
Other receivables and prepaid expenses	6.14	12'103	8'364
Cash and cash equivalents	6.15	20'404	48'068
TOTAL CURRENT ASSETS		**228'034**	**217'698**
TOTAL ASSETS		**489'266**	**441'935**

LIABILITIES AND EQUITY

(Thousand Euro)	Notes	31.12.2021	31.12.2020
Share capital	6.16	1'775	1'775
Capital contribution reserve	6.16	21'227	21'227
Retained earnings and other reserves	6.16	192'363	139'409
Foreign currency translation reserve	6.16	11'032	2'306
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**226'397**	**164'717**
Non-controlling interests		-	-
EQUITY		**226'397**	**164'717**
Non-current financial liabilities	6.17	49'552	65'044
Other non-current liabilities	6.18	8'123	3'197
Non-current provisions	6.19	1'185	1'237
Retirement benefit obligation	6.20	12'145	13'023
Deferred tax liabilities	6.11	39'837	36'269
Non-current lease liabilities	6.17	15'470	13'642
TOTAL NON-CURRENT LIABILITIES		**126'312**	**132'412**
Trade payables	6.22	25'951	16'477
Other current liabilities	6.18	11'002	24'329
Current financial liabilities	6.17	64'486	66'339
Current provisions	6.19	349	8'399
Accrued expenses and deferred income	6.23	29'055	23'861
Current lease liabilities	6.17	5'714	5'401
TOTAL CURRENT LIABILITIES		**136'557**	**144'806**
TOTAL LIABILITIES		**262'869**	**277'218**
TOTAL LIABILITIES AND EQUITY		**489'266**	**441'935**

The Notes are an integral part of the Consolidated Financial Statements

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Attributable to equity holders of Medacta Group SA

(Thousand Euro)	Share capital	Capital Contribution Reserve	Retained earnings and other reserves	Treasury shares	Translation adjustment	Non-controlling interests	Total equity
BALANCE JANUARY 1, 2021	**1'775**	**21'227**	**139'409**	**-**	**2'306**	**-**	**164'717**
Profit for the year	-	-	51'521	-	-	-	51'521
Remeasurements of defined benefit obligations	-	-	2'663	-	-	-	2'663
Tax effect on remeasurements of defined benefit obligations	-	-	(462)	-	-	-	(462)
Currency translation differences	-	-	-	-	8'726	-	8'726
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**53'722**	**-**	**8'726**	**-**	**62'448**
Purchase of treasury shares	-	-	-	(1'242)	-	-	(1'242)
Share-based payment transactions	-	-	474	-	-	-	474
BALANCE DECEMBER 31, 2021	**1'775**	**21'227**	**193'605**	**(1'242)**	**11'032**	**-**	**226'397**

Attributable to equity holders of Medacta Group SA

(Thousand Euro)	Share capital	Capital Contribution Reserve	Retained earnings and other reserves	Treasury shares	Translation adjustment	Non-controlling interests	Total equity
BALANCE JANUARY 1, 2020	**1'775**	**21'227**	**102'885**	**-**	**(2'653)**	**-**	**123'234**
Profit for the year	-	-	37'091	-	-	-	37'091
Remeasurements of defined benefit obligations	-	-	(686)	-	-	-	(686)
Tax effect on remeasurements of defined benefit obligations	-	-	119	-	-	-	119
Currency translation differences	-	-	-	-	4'959	-	4'959
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**36'524**	**-**	**4'959**	**-**	**41'483**
Purchase of treasury shares	-	-	-	-	-	-	-
Share-based payment transactions	-	-	-	-	-	-	-
BALANCE DECEMBER 31, 2020	**1'775**	**21'227**	**139'409**	**-**	**2'306**	**-**	**164'717**

The Notes are an integral part of the Consolidated Financial Statements

5. CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(Thousand Euro)	Notes	31.12.2021	31.12.2020
PROFIT FOR THE YEAR		**51'521**	**37'091**
Adjustments for:			
Income taxes	6.11	3'930	2'841
Depreciation, amortisation and impairment of tangible, intangible and right-of-use assets	6.24.2	40'436	37'016
(Gain) / loss on disposal of tangible and intangible assets		901	1'140
Foreign exchange result		(357)	5'003
Interest expenses		1'698	1'880
Change in Provisions and Retirement benefit obligations	6.12; 6.13 ; 6.19 ; 6.20	9'072	1'545
Share-based payments expense	6.21	468	
Income taxes paid		(25'430)	(8'501)
Interest paid		(1'698)	(1'880)
(Increase) / decrease in trade receivables		(13'941)	718
(Increase) / decrease in other receivables and prepaid expenses		(3'509)	2'117
(Increase) / decrease in inventories		(16'792)	(13'487)
Increase / (decrease) in trade payables		8'523	(1'387)
Increase / (decrease) in other liabilities and accruals		(761)	(4'504)
CASH FLOW FROM OPERATING ACTIVITIES		**54'061**	**59'592**
Purchase of tangible assets	6.7	(46'491)	(27'285)
Purchase of intangible assets *		(8'127)	(10'093)
Proceeds from disposal of tangible assets		2'566	3'217
Changes in financial assets		10	(32)
CASH FLOW FROM INVESTING ACTIVITIES		**(52'042)**	**(34'193)**
Proceeds from borrowings	6.17	846	4'344
Repayment of borrowings	6.17	(24'801)	(4'389)
Repayment of lease liabilities	6.17	(6'015)	(5'981)
Purchase of treasury shares	6.16	(1'242)	
CASH FLOW FROM FINANCING ACTIVITIES		**(31'212)**	**(6'026)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(29'193)**	**19'373**
Cash and cash equivalents at the beginning of the year	6.15	48'068	27'241
Net effect of currency transaction on cash and cash equivalent		1'529	1'454
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6.15	**20'404**	**48'068**

* "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, 2021 AND 2020

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

STATEMENT OF COMPLIANCE

The Consolidated Financial Statements as of December 31, 2021 have been prepared in accordance with the International Financial Reporting Standards (hereinafter also "IFRS") as issued by the International Accounting Standards Board ("IASB").

The principles and standards utilized in preparing these Consolidated Financial Statements have been consistently applied through all periods presented, with the exception of the new standards and interpretations that are effective for reporting periods beginning on January 1, 2021 as disclosed in Note 6.3 "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 were prepared and presented utilizing the indirect method and cash flows from investing and financing activities were prepared and presented utilizing 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. Example of non-cash transactions, as mentioned in IAS7, 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 "Impact of COVID-19").

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.

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 judgment from management are described below:

- Leases – Due to the application of IFRS 16, judgement is required to determine the lease term. Management considers all circumstances and facts that create an economic incentive to exercise an extension or termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment;
- 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 IAS 38 par. 57 conditions 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 has intangible assets mainly represented by internal capitalized development costs, trademarks and customer lists acquired through business combination. Capitalized development costs are reviewed on a regular basis and the Group determines annually, in accordance with the accounting policy, whether any of the assets should be tested for impairment. In-process development capitalized costs are tested for impairment at least annually. For the impairment tests, estimates are made on the expected future cash flows from the use of the asset or cash-generating unit. The actual cash flows could vary significantly from these estimates. As stated in Note 6.1 "Significant events and transactions" paragraph "Impact of COVID-19", in 2021 our performances have been still affected by the COVID-19 global pandemic. It is possible that further underperformance may occur in 2022, depending on evolution of the pandemic and on the response of local governments and healthcare authorities worldwide. A sensitivity analysis was performed to review the impact of reasonably possible changes in key assumptions (see Note 6.9 "Goodwill and intangible assets" paragraph "Impairment test for intangible assets").
- Deferred tax assets – The consolidated balance sheet includes deferred tax assets related to deductible differences and, in certain cases, tax losses carried forward, provided that their utilization has been determined to be probable. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods. Estimates of future taxable income are subject to change due to both markets and government related uncertainties, as well as Medacta's own future decisions.
- Valuation of inventories – Inventories are periodically evaluated and written down in the case that their net realizable value is lower than their carrying amount. Write-downs for obsolescence or slow moving are calculated on the basis of management assumptions and judgements which are derived from experience and historical results. As of December 31, 2021, management have not changed the key assumptions underlying the methodology of calculation.
- 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 6.20 "Retirement benefit obligations".

- Legal and other contingencies – the Group is involved in various ongoing proceedings, legal actions and claims subject to a significant degree of estimation. Provision is recognised for lost contingencies when it is considered probable that an adverse outcome will occur and the amount of the loss can be reasonably estimated. Management, in making its estimates, takes into account the advice of internal and external legal counsel. The recognised provisions are reviewed regularly and balances are updated where necessary to reflect developments in the disputes. See Note 6.25 "Litigations" for further details.

6.1 SIGNIFICANT EVENTS AND TRANSACTIONS

IMPACT OF COVID-19

In 2021 our performances have been still affected by the COVID-19 global pandemic, nevertheless, the Group was able to deliver strong top-line growth, margin expansion, and solid cash flow results. The unprecedented measures adopted by governments and health care authorities in response to the pandemic caused the deferral of elective procedures and social contact restrictions which have had a negative impact on Medacta's operations and financial results. The vast majority of our net sales are derived from products used in elective surgical procedures. In the first semester 2021 we witnessed a general recover of elective procedures as the impact of the COVID-19 pandemic eased in most geographies, delivering 35.4% revenue growth at constant currency (31.7% reported). This strong performance was limited by further pandemic restrictions occurred during the second semester due to the highly transmissible Delta and Omicron variants which along with staffing shortages at hospitals, resulted in further deferrals of elective surgical procedures. Although our 2021 performance was limited by the pandemic resurgence, we were able to close our second semester growing our top-line by 10.1% at constant currency, when compared to the same prior year period which benefited from pent-up demand. Despite these factors, we increased our net sales by 21.4% at constant currency (20.0% reported), when compared to the same prior year period.

The rapidly evolving situation and guidance from international and domestic authorities, including federal, state and local public health authorities, regarding the COVID-19 pandemic, could lead to a material adverse impact on our revenue growth, operating profit and cash flow. However, despite the unpredictability about the future impact of COVID-19 on the results of the Group, the Directors believe that there are no financial or other indicators presenting material uncertainties that may cast significant doubt upon the Group's ability to meet its obligations in the foreseeable future and in particular in the next 12 months.

Following the COVID-19 pandemic, some governments of the countries where the Group operates decided to provide assistance in the form of subsidies or government grants to cover part of the cost of personnel incurred during the period in which the Group lost part of its profitability (refer to Note 6.24.2 "Information on the Consolidated Statement of Profit or Loss - Analysis of expenses" paragraph "Personnel expenses").

The Group has also assessed the impact of COVID-19 on the expected credit loss (ECL), considering any adjustments needed to the provision matrix to reflect current and future economic condition. The assessment did not lead to any material change to the allowance on trade receivables (refer to Note 6.13 "Trade receivables").

Intangible assets with indefinite useful lives were tested for impairment at September 30, 2021. Impairment review has been undertaken by comparing the expected recoverable value of the asset to the carrying value. The recoverable amounts are based on cash flow projections using the Group's base case scenario, which was reviewed and approved by the Board. Additionally, severe downside sensitivity analyses have been undertaken on the base case scenario. No impairments were identified as a result of the impairment reviews and sensitivity analyses undertaken. Nevertheless, for all the non-current assets held by the Group at December 31, 2021, Management assessed any indicators of impairment as a result of COVID-19. In assessing the list of internal and external indicators provided by IAS 36 and, even considering the impact of COVID-19 in the year-end economic performance, Management does not believe that as of December 31, 2021 there are observable indicators that Medacta assets' value may be impaired. External sources of information such as adverse effect on market interest rates, market capitalization and market development showed only temporary impact that we expect to be deferred in the years to come. The internal sources of information assessed, indicates that mid and long-term fundamentals on the expected economic performance have not changed.

NEW EU REGULATION ON MEDICAL DEVICES (MDR)

The Regulation on Medical Devices (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 replace Med 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 is technically "in effect", since 2017 there was a transitional period until May 2021 for companies to fully comply with the directives. From a financial and reporting perspective the new EU MDR will bring several impacts including a significant increase in pre-CE clinical studies, as competitor predicate device clinical data can no longer be used. Under our accounting policy, clinical studies are expensed and classified in General & Administrative expenses. The current level of clinical studies has a double scope, either to address clinical results of existing products in pipeline or to address specific requests provided by regulators post-registration (i.e. CE, FDA, TGA etc.). Since competitor predicate device clinical data can no longer be used to obtain CE registration under the new EU MDR, it will be required for Medacta to introduce a new category of clinical studies. All clinical studies that will be required to submit a CE registration will be classified as Research and Development expenses. If the pre CE-registration clinical studies are referred to an IPR&D project that meets the requirements provided by IAS 38 para 57, these costs will be capitalized within the project.

Under the new Regulation on Medical Devices, article 120 "Transitional provisions", provides that there will be a transition period where all the CE registrations obtained under the Medical Device Directive (93/43/EEC) should be resubmitted through the new Medical Device Regulation. All the registration costs incurred by Medacta for the transition will be expensed in the Research and Development line item.

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 the Group is exposed, or has the rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

BUSINESS COMBINATIONS

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

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

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

TRANSACTIONS ELIMINATED ON CONSOLIDATION

The Consolidated Financial Statements include the consolidated financial information of the Medacta Group entities. All intercompany balances and transactions within the Consolidated Financials are eliminated. Unrealised gains and losses arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. The Group accounts for the elimination of the unrealised profits resulting from intercompany transactions. These transactions relate to the sales from the Group entities which have not been realised externally.

TRANSLATION OF THE FINANCIAL STATEMENTS OF FOREIGN COMPANIES

The Group records transactions denominated in foreign currency in accordance with IAS 21—The Effect of Changes in Foreign Exchange Rates.

The results and Financial Position of all the Group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each Statement of Financial Position are translated at the closing rate;
- Income and expenses for each Statement of Profit or Loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- All resulting exchange differences are recorded in Other Comprehensive Income in equity.

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

The exchange rates used in translating the results of foreign operations are reported 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 2021	% of shares held December 2020	Registered office	Registered Capital	Consolidation Method
Medacta Group SA	N/A	N/A	Castel San Pietro (CH)	2'000'000 CHF	Parent company
Medacta Holding SA	100%	100%	Castel San Pietro (CH)	1'026'010 CHF	Full Consolidation
Medacta International SA	100%	100%	Castel San Pietro (CH)	1'000'000 CHF	Full Consolidation
Medacta Australia PTY Ltd	100%	100%	Lane Cove (AU)	4 AUD	Full Consolidation
Medacta Austria GmbH	100%	100%	Eugendorf (AT)	35'000 EUR	Full Consolidation
Medacta Belgium S.r.l.*	100%	100%	Nivelles (BE)	2'018'550 EUR	Full Consolidation
Medacta Canada Inc.	100%	100%	Kitchener (CA)	100 CAD	Full Consolidation
Medacta España S.L.	100%	100%	Burjassot (ES)	3'000 EUR	Full Consolidation
Medacta France SAS	100%	100%	Villeneuve la Garenne (FR)	37'000 EUR	Full Consolidation
Medacta Germany GmbH	100%	100%	Göppingen (DE)	25'000 EUR	Full Consolidation
Medacta Italia S.r.l.	100%	100%	Milan (IT)	2'600'000 EUR	Full Consolidation
Medacta Japan Co. Ltd	100%	100%	Tokyo (JP)	25'000'000 JPY	Full Consolidation
Medacta UK Ltd	100%	100%	Hinckley (UK)	29'994 GBP	Full Consolidation
Medacta USA Inc.	100%	100%	Franklin - Tennessee (US)	50'050'000 USD	Full Consolidation

* As of November 18, 2021 Medacta International SA acquired Medacta Belgium S.r.l. shares from Medacta Holding SA. As of December 21, 2021 Medacta Belgium S.r.l. registered a capital increase of Euro 2'000'000 (from Euro 18'550 to Euro 2'018'550).

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

SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENT

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

INVENTORIES

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation is not accounted for land or assets under construction.

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

Depreciation ceases when property, plant and equipment is classified as held for sale, in compliance with IFRS 5—Non-Current Assets Held for Sale and Discontinued Operations.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Repair and maintenance costs are charged to the Consolidated Statement of Profit or Loss during the financial period in which they are incurred.

The net carrying amount of the items of property, plant and equipment is assessed, in the case of impairment indicators, at each reporting date. The Group would record a write-down of the net carrying amount if it is higher than the recoverable amount.

Assets' useful lives are assessed at each reporting date.

Upon disposal or when no future economic benefits are expected from the use of an item of property, plant and equipment, its carrying amount is derecognised. The gain or loss arising from derecognition is included in the Consolidated Statement of Profit or Loss.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

LEASES

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which the lessee is, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

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

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

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

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

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

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);

- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37.

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

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

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Property, plant and equipment" policy.

INTANGIBLE ASSETS (INCLUDING GOODWILL)

Intangible assets are non-monetary assets which are separately identifiable, have no physical nature, are under the company's control and are able to generate future economic benefits. Such assets are recognised at acquisition cost and/or 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 represents the difference between the cost incurred for acquiring a controlling interest (in a business) and the fair value of the assets acquired and liabilities assumed at the acquisition date. Goodwill is not amortised but is tested for impairment at least annually to identify any impairment losses. This test is carried out with reference to the cash-generating unit ("CGU") or group of CGUs to which goodwill is allocated and monitored. Reductions in the value of goodwill are recognised if the recoverable amount of goodwill is less than its carrying amount. Recoverable amount is defined as the higher of the fair value of the CGU or group of CGUs, less costs to sell and the related value in use. An impairment loss recognised against goodwill cannot be reversed in a subsequent period. If an impairment loss identified by the impairment test is higher than the value of goodwill allocated to that CGU or group of CGUs, the residual difference is allocated to the other assets included in the CGU or group of CGUs in proportion to their carrying amount.

Research and Development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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

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

Expenditures which fulfil these criteria are limited to the development of new prosthesis and/or surgical instruments as well as costs related to the development of existing products in the pipeline which require significant improvements. 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 capitalized 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, concessions, patents and other intangible assets

Assets, including distribution networks and franchise agreements acquired in a business combination, are recognised at fair value at the acquisition date. Trademarks and licenses have a 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 relationships 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 relationship and it is recorded in the Consolidated Statement of Profit or Loss in line "Sales and Marketing expenses".

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

Trademarks are amortised on a straight-line basis over periods of 5 years. Distributor network and contractual customer relationships (customer lists) are amortised on a straight-line basis over periods of 15 years. Other intangible assets are amortised on a straight-line basis over periods of 5 years.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

Goodwill and intangible assets with indefinite life are not subject to amortisation but are tested at least annually for impairment. All other assets within the scope of IAS 36 are tested for impairment whenever there are indicators that those assets may be impaired. If such indicators exist, the assets' net carrying amount is compared to their estimated recoverable amount. An impairment loss is recognised if the carrying amount is higher than the recoverable amount.

For the purposes of assessing impairment, property, plant and equipment, right-of-use assets and intangible assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-Generating Unit or CGU). Intangible assets with a definite useful life are reviewed at each reporting date to assess whether there is an indication that an impairment loss recognised in prior periods may no longer exist or has decreased. If such an indication exists, the loss is reversed and the carrying amount of the asset is increased to its recoverable amount, which may not exceed the carrying amount that would have been determined if no impairment loss had been recorded.

The reversal of an impairment loss is recorded in the Consolidated Statement of Profit or Loss. The impairment loss incurred on goodwill cannot be reversed.

Property, plant and equipment, right-of-use assets and definite-life intangible assets are analysed at each reporting date for any evidence of impairment. If such evidence is identified, the recoverable amount of these assets is estimated, and any impairment loss related to carrying amount is recognised in Profit or Loss. The recoverable amount is the higher of the fair value of an asset, less selling costs and its value in use, where the latter is the present value of the estimated future cash flows of the asset. The recoverable amount of an asset which does not generate largely independent cash flows is determined in relation to the cash-generating unit to which the asset belongs. In calculating an asset's value in use, the expected future cash flows are discounted using a discount rate reflecting current market assessments of the time value of money, in relation to the period of the investment and the specific risks associated with the asset. An impairment loss is recognised in the Profit or Loss when the asset's carrying amount exceeds its recoverable amount. If the reasons for impairment cease to exist, the asset's carrying amount is restored with the resulting increase recognised through Profit or Loss; however, the carrying amount may not exceed the net carrying amount that this asset would have had if no impairment had been recognised and the asset had been depreciated/amortised instead.

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

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

FINANCIAL INSTRUMENTS

Financial assets (classification)

Financial assets are initially measured at fair value. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVTOCI and FVTPL. The classification of financial assets under IFRS 9 is based on the business model within which a financial asset is managed and its contractual cash flow characteristics. The Group is subject to two principal classifications:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in Profit or Loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method;
- Fair value through Profit or Loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through Profit or Loss.

Trade 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, 2021 and 2020.

Impairments of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets measured at amortised cost or at FVTOCI. The expected credit loss model requires the Group to account for expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

With respect to IFRS 9, the Group recognises a loss allowance for expected credit losses on:

- Other non-current financial assets;
- Other receivables 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 reorganization.

For all other assets, the Group recognises lifetime expected credit losses when there is a significant increase in credit risk since initial recognition. If, on other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the allowance for these financial instruments an amount equal to 12 months expected credit loss.

In assessing whether the financial credit risk of the instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical and forward-looking information. In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in Profit or Loss.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

The Group entered into several forward contracts during the years 2021 and 2020, 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").

Trade payables and other current liabilities

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less from the reporting date. If not, they are presented as non-current liabilities.

Trade payables are initially recognised at the fair value. Subsequent measurement is made using the amortised cost using the effective interest rate method.

Borrowings 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 period, except tax arising from:

- A transaction or event which is recognised, in the same or a different period, either in Other Comprehensive Income/(Loss) or directly in equity;
- A business combination.

Income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

Income tax expenses comprise current and deferred income tax.

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be received from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Tax expenses are recognised in the Consolidated Statement of Profit or Loss, except to the extent that they relate to items recognised in Other Comprehensive Income ("OCI") or directly in equity.

In this case, taxes are also recognised in OCI or directly in equity, respectively.

Management periodically takes positions in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate, based on the amounts expected to be paid to the tax authorities. Interest and penalties associated with these positions are included in "Income taxes" within the Consolidated Statement of Profit or Loss.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred taxes are determined using tax rates (and laws) that have been enacted or substantially enacted as of the reporting date and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable Profit or Loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax assets to be utilized. The recoverability of deferred tax assets is dependent on the Group's ability to generate sufficient future taxable income in the period in which it is assumed that the deductible temporary differences reverse and tax losses carried forward can be utilized. In making this assessment the Group considers future taxable income arising on the most recent budgets and plans, prepared by using the same criteria described for testing the impairment of assets and goodwill. Moreover, the Group estimates the impact of the reversal of taxable temporary differences on earnings and it also considers the period over which these assets could be recovered.

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

RETIREMENT BENEFIT OBLIGATIONS

Pension obligations

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

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

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

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

Short-term employee benefits

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

Other non-current benefits

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

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

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

SHARE-BASED COMPENSATION

On March 30, 2021 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, especially in this extraordinary period. 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, and; the respective Participant is eligible for country performance consideration, and; the country performance threshold has been met for the entire duration of the plan. If any one of the above conditions is not met, the Final Vesting Multiple equals the Group Vesting Multiple. The Group Vesting Multiple 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 6.21 "Share-based payment transactions". No expense is recognized for awards that do not ultimately vest. An additional expense is recognized 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 recognized for the award is recognized 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 recognized 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 recognized 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 utilization. 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 in countries where Medacta has no presence of its own. 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 some contracts provide trade discounts or rebates. Revenue is recognised, as soon as the performance obligation is satisfied, at the transaction price identified. Revenue is adjusted by the estimated discounts to be applied to individual customers based on achievement of set targets; Medacta applies the "most likely amount" method in order to estimate the variable considerations.

GOVERNMENT GRANTS

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

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

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

Following the COVID-19 pandemic, some governments of the countries where the Group operates decided to provide assistance to the Group's entities in the form of subsidies or government grants, mainly related to short-term working subsidies. The total amount of government grants was recognised in the Consolidated Profit or Loss, applying the accounting policy of the Group, as a deduction of the underlying costs for which the subsidies were granted (see Note 6.24.2 "Information on the Consolidated Statement of Profit or Loss - Analysis of expenses" paragraph "Personnel expenses").

6.3 NEW ACCOUNTING AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE EFFECTIVE FOR REPORTING PERIODS BEGINNING ON JANUARY 1, 2021

IMPACT OF THE INITIAL APPLICATION OF INTEREST RATE BENCHMARK REFORM: AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7 PHASE 1 AND PHASE 2

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

In the current year, the Group adopted the Phase 2 amendments Interest Rate Benchmark Reform -Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as "risk free rates" or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

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

IMPACT OF THE INITIAL APPLICATION OF COVID-19-RELATED RENT CONCESSIONS BEYOND JUNE 30, 2021 - AMENDMENT TO IFRS 16

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. In March 2021, the IASB issued COVID-19-Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16) that extends the practical expedient to apply to reduction in lease payments originally due on or before June 30, 2022. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2022 and increased lease payments that extend beyond June 30, 2022);
- There is no substantive change to other terms and conditions of the lease.

The Group has applied the amendment to IFRS 16. 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, 2022 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, "Classification of liabilities as current or non-current (effective for annual reporting periods beginning on or after January 1, 2023);
- Amendments to IAS 12, "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 1 and IFRS Practice Statement 2 on disclosure of accounting policies (effective for annual periods beginning on or after January 1, 2023);

- Amendments to IAS 8 on accounting estimates (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 37, “Changes in Onerous Contracts — Cost of Fulfilling a Contract” (effective for annual periods beginning or on after January 1, 2022);
- Amendments to IAS 16, “Property, Plant and Equipment — Proceeds before Intended Use” (effective for annual periods beginning or on after January 1, 2022);
- Amendments to IFRS 3, “Reference to the Conceptual Framework (effective for annual periods beginning or on after January 1, 2022).

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 stabilize the results of the Group by minimizing the potential effects due to volatility in financial markets.

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

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

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

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

- Market risk (which includes exchange rate risks and cash flow uncertainty);
- Credit risk;
- Liquidity risk.

MARKET RISK

EXCHANGE RATE RISK

The Group operates internationally and is, therefore, exposed to exchange rate risk related to the various currencies with which the Group operates. Trade receivable are the most significant amount in foreign currency and Medacta used foreign currency denominated debt to manage this exposure.

Additionally, a foreign currency transaction risk exists in relation to future commercial transactions which are denominated in a currency other than the functional currency.

The Group only enters into foreign exchange 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, 2021, forward currency contracts with a nominal value of USD 34'000 thousand (2020: USD 30'000 thousand) and negative fair value of Euro 39 thousand (2020: positive fair value of Euro 1'297 thousand) were open. Financial derivatives with a positive fair value are recorded in other current financial assets and those with a negative fair value in other current financial liabilities. Fair value changes of financial derivatives are booked as financial income/(costs) into the Consolidated Statement of Profit or Loss (refer to Note 6.24.4 "Information on the Consolidated Statement of Profit or Loss - Financial income/(costs)").

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 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 Medacta International SA, whose functional currency is Swiss Franc.

The sensitivity analysis considers major foreign currency risk exposures, 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, 2021 and as of December 31, 2020).

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

EXCHANGE RATES SENSITIVITY

As at December 31, 2021

(Thousand Euro) **Currency ***	**Closing exchange rate**	**Increase / (Decrease)**	**Profit Before Taxes**	**Equity**
USD/CHF	0.9122	10%	5'135	-
EUR/CHF	1.0370	10%	1'379	-
JPY/CHF	0.0079	10%	508	-
AUD/CHF	0.6623	10%	(148)	-
USD/CHF	0.9122	(10%)	(5'135)	-
EUR/CHF	1.0370	(10%)	(1'379)	-
JPY/CHF	0.0079	(10%)	(508)	-
AUD/CHF	0.6623	(10%)	148	-

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

As at December 31, 2020

(Thousand Euro) **Currency ***	**Closing exchange rate**	**Increase / (Decrease)**	**Profit Before Taxes**	**Equity**
USD/CHF	0.8849	10%	5'333	-
EUR/CHF	1.0807	10%	2'856	-
JPY/CHF	0.0085	10%	551	-
AUD/CHF	0.6806	10%	(106)	-
USD/CHF	0.8849	(10%)	(5'333)	-
EUR/CHF	1.0807	(10%)	(2'856)	-
JPY/CHF	0.0085	(10%)	(551)	-
AUD/CHF	0.6806	(10%)	106	-

* The amounts in the table above are calculated in CHF, which is the functional currency of Medacta International SA. The figures summarized 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.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's current interest-bearing assets and current and non-current debts with floating interest rates. No hedging activities (such as interest rate swaps) were conducted during the 2021 and 2020 closing periods.

The Group has only limited exposure to interest rate changes. The most substantial interest risk exposure on liabilities relates to the bank loans with variable rate.

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

INTEREST RATE SENSIVITY - IMPACT ON PROFIT OR LOSS

(Thousand Euro)	**50 basis points increase**
As at December 2020	(662)
As at December 2021	(633)

CREDIT RISK

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

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

Trade receivables balance at the end of the year is equal to Euro 59'436 thousand (Euro 45'782 thousand in 2020), out of which Euro 5'118 thousand are due from a single customer (Euro 4'562 thousand in 2020). Apart from this, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Concentration of credit risk related to largest trade customer did not exceed 15% of gross monetary assets at any time during the year. Concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at any time during the year. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. Core banking relations are maintained with at least "BBB+" rated (S&P) financial Institutions.

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

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

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

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

December 31, 2021 (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)	59'693	(695)	58'998
Trade receivables (credit impaired)	6.13	N/A	**	Lifetime ECL (credit impaired)	2'295	(1'857)	438

December 31, 2020 (Thousand Euro)	Note	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables (not credit impaired)	6.13	N/A	*	Lifetime ECL (simplified approach)	46'306	(524)	45'782
Trade receivables (credit impaired)	6.13	N/A	**	Lifetime ECL (credit impaired)	464	(464)	-

* 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 reorganization.

LIQUIDITY RISK

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

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

The following tables include a summary, by maturity date, as of December 31, 2021 and 2020.

The reported balances are contractual and undiscounted figures.

As at December 31, 2021 (Thousand Euro)	Up to 1 year	1 year to 5 years	More than 5 years	Total
Trade payables	25'951	-	-	**25'951**
Financial accrued expenses	10'111	-	-	**10'111**
Current financial liabilities *	64'479	-	-	**64'479**
Non-current financial liabilities	-	42'518	7'112	**49'630**
Current lease liabilities	5'731	-	-	**5'731**
Non-current lease liabilities	-	12'187	3'932	**16'119**
Interest on financial debt	1'395	4'043	188	**5'626**
Net derivative financial (assets)/liabilities	39	-	-	**39**
Gross outflows	*29'692*	-	-	***29'692***
Gross inflows	*(29'653)*	-	-	***(29'653)***

* In 2021, "Current financial liabilities" include Euro 38'572 thousand related to credit lines with no maturity date.

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

* In 2020, "Current financial liabilities" include Euro 36'553 thousand related to credit lines with no maturity date.

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). That definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, use the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

The following tables show the carrying amounts and fair values of financial assets and liabilities by category of financial instrument in the Consolidated Financial Position. The fair value hierarchy level is shown for those financial assets and liabilities that are carried at fair value in the balance sheet.

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 summarize the financial instruments carried at fair value, by valuation method as of December 31, 2021 and 2020.

The different levels have been defined as follows:

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

	Carrying amount (based on measurement basis)					
		Assets / Liabilities as FVTPL				
As at December 31, 2021 (Thousand Euro)	**Asset and Liabilities at amortised cost**	**Level 1**	**Level 2**	**Level 3**	**Total carrying amount**	**Fair Value**
Other non-current financial assets	479	-	-	-	**479**	-
Trade receivables	59'436	-	-	-	**59'436**	-
Other current financial assets	-	-	-	-	**-**	-
Cash and cash equivalents	20'404	-	-	-	**20'404**	-
Non-current financial liabilities	49'552	-	-	-	**49'552**	-
Other non-current liabilities	8'123	-	-	-	**8'123**	-
Non-current lease liabilities	15'470	-	-	-	**15'470**	-
Trade payables	25'951	-	-	-	**25'951**	-
Other current liabilities	11'002	-	-	-	**11'002**	-
Current financial liabilities	64'447	-	39	-	**64'486**	-
Current lease liabilities	5'714	-	-	-	**5'714**	-

As at December 31, 2020 (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
Other non-current financial assets	488	-	-	-	**488**	-
Trade receivables	45'782	-	-	-	**45'782**	-
Other current financial assets	-	-	1'297	-	**1'297**	-
Cash and cash equivalents	48'068	-	-	-	**48'068**	-
Non-current financial liabilities	65'044	-	-	-	**65'044**	-
Other non-current liabilities	3'197	-	-	-	**3'197**	-
Non-current lease liabilities	13'642	-	-	-	**13'642**	-
Trade payables	16'477	-	-	-	**16'477**	-
Other current liabilities	24'190	-	-	139	**24'329**	-
Current financial liabilities	66'339	-	-	-	**66'339**	-
Current lease liabilities	5'401	-	-	-	**5'401**	-

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.

The level 3 balance as of December 31, 2020 was related to the fair value measurement of a contingent consideration provided in the acquisition contract of Balgrist Card, AG occurred in 2018. The contingent consideration was recognised as part of the consideration transferred in exchange for the acquiree, measured at its acquisition-date fair value. Management valued that the fair value of the contingent consideration was equal to CHF 150 thousand, corresponding to Euro 139 thousand as of December 31, 2020, evaluated through a discounted cash flow model and an assessment of the probability that the contingent events would have occurred. During 2021, one of the conditions provided by the acquisition contract occurred. The Group signed an amendment to the original contract to pay CHF 70 thousand for the condition fulfilled and completed by the counterpart, while the remaining amount of CHF 80 thousand, originally related to the fulfilment of an additional condition, shall not be due.

6.6 SEGMENT INFORMATION

The Group has only one operating segment.

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

Therefore, Medacta constitutes with only one segment which is represented by the whole Group itself. In 2021 and 2020 no single customer represents 10% or more of the total Group revenues. Resource allocation and performance assessment are performed at Group level and not at single-component level.

The operating segments subject to disclosure are consistent with the organization model adopted by the Group during the financial year as of December 31, 2021.

INFORMATION BY GEOGRAPHIC AREA

The Group operates in Europe, North America (which includes the United States of America and Canada), Asia-Pacific (which includes Australia, Indonesia, Japan, Malaysia, New Zealand, Taiwan, Vietnam) and Rest of the World (RoW) area (which includes all other geographic locations, including the Middle East and Latin America). Sales are attributed to geographic areas based on the customer's location, whereas property, plant and equipment based on the geographic area where legal entities are located. The Group did not report other non-current assets by geographic area since the cost to develop the information would be excessive and will not provide any material value to the reader.

SALES AND PROPERTY, PLANT AND EQUIPMENT (Thousand Euro)	31.12.2021 Net sales	31.12.2021 Property, plant and equipment	31.12.2020 Net sales	31.12.2020 Property, plant and equipment
Europe*	156'405	120'081	129'273	110'002
North America**	109'225	32'977	92'721	19'743
Asia Pacific***	84'911	2'320	71'992	1'897
RoW	12'585	-	8'506	-
TOTAL CONSOLIDATED	**363'126**	**155'378**	**302'492**	**131'642**

* Property, plant and equipment located in Switzerland represented 79.8% and 77.4% of the Group's total property, plant and equipment as at December 31, 2021 and 2020, respectively. Net sales recorded in Switzerland were Euro 38'172 thousand and Euro 36'112 thousand as at December 31, 2021 and 2020, respectively.
** Property, plant and equipment located in the United States represented 16.7% and 15.0% of the Group's total property, plant and equipment as at December 31, 2021 and 2020, respectively. Net sales recorded in the United States were Euro 108'452 thousand and Euro 92'226 thousand as at December 31, 2021 and 2020, respectively.
*** Property, plant and equipment located in Australia represented 0.7% and 0.8% of the Group's total property, plant and equipment as at December 31, 2021 and 2020, respectively. Net sales recorded in Australia were Euro 50'636 thousand and Euro 41'236 thousand as at December 31, 2021 and 2020, respectively.

6.7 PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT **December 31, 2021** (Thousand Euro)	Land	Buildings	Plants & Machinery	Instruments	Other fixtures and fitting, tool and equipment	Assets under constru-ction	Total
HISTORICAL COST							
BALANCE JANUARY 1, 2021	**7'420**	**36'298**	**25'410**	**172'133**	**21'298**	**3'287**	**265'846**
Additions	-	314	2'943	37'445	3'397	2'392	46'491
Disposals	-	-	-	(4'663)	(112)	(12)	(4'787)
Transfers *	-	5'720	1'684	-	39	(5'720)	1'723
Exchange differences	313	1'783	1'271	8'468	946	96	12'877
BALANCE DECEMBER 31, 2021	**7'733**	**44'115**	**31'308**	**213'383**	**25'568**	**43**	**322'150**
ACCUMULATED DEPRECIATION							
BALANCE JANUARY 1, 2021	**-**	**(3'898)**	**(14'449)**	**(99'617)**	**(16'240)**	**-**	**(134'204)**
Depreciation of the year and impairment loss	-	(1'169)	(1'711)	(22'803)	(1'917)	-	(27'600)
Disposals	-	-	-	1'604	135	-	1'739
Transfers *	-	-	(675)	-	(32)	-	(707)
Exchange differences	-	(217)	(717)	(4'368)	(698)	-	(6'000)
BALANCE DECEMBER 31, 2021	**-**	**(5'284)**	**(17'552)**	**(125'184)**	**(18'752)**	**-**	**(166'772)**
NET BOOK VALUE							
BALANCE JANUARY 1, 2021	**7'420**	**32'400**	**10'961**	**72'516**	**5'058**	**3'287**	**131'642**
BALANCE DECEMBER 31, 2021	**7'733**	**38'831**	**13'756**	**88'199**	**6'816**	**43**	**155'378**

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

PROPERTY, PLANT
AND EQUIPMENT

December 31, 2020 (Thousand Euro)	**Land**	**Buildings**	**Plants & Machinery**	**Instruments**	**Other fixtures and fitting, tool and equipment**	**Assets under constru-ction**	**Total**
HISTORICAL COST							
BALANCE JANUARY 1, 2020	**7'377**	**35'852**	**23'455**	**163'808**	**17'916**	**32**	**248'440**
Additions	-	242	584	21'642	1'407	3'410	27'285
Disposals	-	-	(100)	(9'352)	(242)	-	(9'694)
Transfers *	-	-	1'373	(290)	2'358	(10)	3'431
Exchange differences	43	204	98	(3'675)	(141)	(146)	(3'616)
BALANCE DECEMBER 31, 2020	**7'420**	**36'298**	**25'410**	**172'133**	**21'298**	**3'287**	**265'846**
ACCUMULATED DEPRECIATION							
BALANCE JANUARY 1, 2020	**-**	**(2'974)**	**(12'371)**	**(85'552)**	**(12'193)**	**-**	**(113'090)**
Depreciation of the year and impairment loss	-	(916)	(1'595)	(21'227)	(2'069)	-	(25'807)
Disposals	-	-	121	5'147	147	-	5'415
Transfers *	-	-	(568)	160	(2'216)	-	(2'624)
Exchange differences	-	(8)	(36)	1'855	91	-	1'902
BALANCE DECEMBER 31, 2020	**-**	**(3'898)**	**(14'449)**	**(99'617)**	**(16'240)**	**-**	**(134'204)**
NET BOOK VALUE							
BALANCE JANUARY 1, 2020	**7'377**	**32'878**	**11'084**	**78'256**	**5'723**	**32**	**135'350**
BALANCE DECEMBER 31, 2020	**7'420**	**32'400**	**10'961**	**72'516**	**5'058**	**3'287**	**131'642**

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

Additions for the period ended 2021 equal to Euro 46'491 thousand (Euro 27'285 thousand in 2020) are primarily related to investments made on instruments equal to Euro 37'445 thousand (Euro 21'642 thousand in 2020).

As of December 31, 2021, tangible fixed assets for a total amount of Euro 16'494 thousand have been pledged as collateral for borrowing facilities (2020: Euro 16'312 thousand).

During the years 2021 and 2020 no impairment losses have been recognised on property, plant and equipment.

6.8 LEASES

RIGHT-OF-USE ASSETS

The table below shows the movement of right-of-use assets for the period ended December 31, 2021:

December 31, 2021 (Thousand Euro)	Land and Building	Motor vehicles	ITC Equipment	Plant and Machinery	Other tool and equipment	Total
HISTORICAL COST						
BALANCE JANUARY 1, 2021	**10'485**	**4'456**	**159**	**16'991**	**39**	**32'130**
Additions	3'049	1'675	29	2'234	434	**7'421**
Disposals	(276)	(843)	(50)	-	-	**(1'169)**
Transfers *	-	-	-	(1'684)	(39)	**(1'723)**
Exchange differences	285	26	3	738	20	**1'072**
BALANCE DECEMBER 31, 2021	**13'543**	**5'314**	**141**	**18'279**	**454**	**37'731**
ACCUMULATED DEPRECIATION						
BALANCE JANUARY 1, 2021	**(3'393)**	**(2'051)**	**(89)**	**(4'843)**	**(32)**	**(10'408)**
Depreciation	(1'759)	(1'507)	(44)	(1'216)	(14)	**(4'540)**
Disposals	276	843	50	-	-	**1'169**
Transfers *	-	-	-	675	32	**707**
Exchange differences	(48)	(13)	1	(227)	(1)	**(288)**
BALANCE DECEMBER 31, 2021	**(4'924)**	**(2'728)**	**(82)**	**(5'611)**	**(15)**	**(13'360)**
NET BOOK VALUE						
BALANCE JANUARY 1, 2021	**7'092**	**2'405**	**70**	**12'148**	**7**	**21'722**
BALANCE DECEMBER 31, 2021	**8'619**	**2'586**	**59**	**12'668**	**439**	**24'371**

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

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

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

The Group leases several assets. The average lease term is 8 years for buildings, 4 years for motor vehicles, 4 years ITC equipment, 7 years for plants and machineries and 5 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, 2021 and 2020:

(Thousand Euro)	31.12.2021	31.12.2020
Depreciation charge of right-of-use assets	(4'543)	(4'690)
Interest expense (included in financial costs)	(324)	(345)
Expense relating to short-term leases	(123)	(83)
Expense relating to leases of low-value assets that are not short-term leases	(50)	(39)

The total cash outflow for leases including short-term leases and low-value-assets in 2021 amount to Euro 6'512 thousand (Euro 6'448 thousand in 2020).

6.9 GOODWILL AND INTANGIBLE ASSETS

INTANGIBLE FIXED ASSETS

December 31, 2021 (Thousand Euro)	Development Costs	Customer Lists	Goodwill	Other intangible assets	Total
HISTORICAL COST					
BALANCE JANUARY 1, 2021	**46'059**	**15'641**	**59**	**21'541**	**83'300**
Additions	8'091	220	-	1'818	10'129
Disposals	(419)	-	-	-	(419)
Exchange differences	2'261	114	-	810	3'185
BALANCE DECEMBER 31, 2021	**55'992**	**15'975**	**59**	**24'169**	**96'195**
ACCUMULATED AMORTISATION					
BALANCE JANUARY 1, 2021	**(14'165)**	**(4'098)**	**-**	**(16'240)**	**(34'503)**
Amortization of the year	(4'765)	(1'052)	-	(2'082)	(7'899)
Impairment loss	(397)	-	-	-	(397)
Disposals	-	-	-	-	-
Exchange differences	(797)	(10)	-	(614)	(1'421)
BALANCE DECEMBER 31, 2021	**(20'124)**	**(5'160)**	**-**	**(18'936)**	**(44'220)**
NET BOOK VALUE					
BALANCE JANUARY 1, 2021	**31'894**	**11'543**	**59**	**5'301**	**48'797**
BALANCE DECEMBER 31, 2021	**35'868**	**10'815**	**59**	**5'233**	**51'975**

INTANGIBLE FIXED ASSETS

December 31, 2020 (Thousand Euro)	Development Costs	Customer Lists	Goodwill	Other intangible assets	Total
HISTORICAL COST					
BALANCE JANUARY 1, 2020	**38'405**	**15'776**	**59**	**19'553**	**73'793**
Additions	7'800	-	-	2'002	9'802
Disposals	(96)	-	-	(51)	(147)
Exchange differences	(50)	(135)	-	37	(148)
BALANCE DECEMBER 31, 2020	**46'059**	**15'641**	**59**	**21'541**	**83'300**
ACCUMULATED AMORTISATION					
BALANCE JANUARY 1, 2020	**(11'134)**	**(3'052)**	**-**	**(14'023)**	**(28'209)**
Amortization of the year	(3'204)	(1'053)	-	(2'253)	(6'510)
Impairment loss	(12)	-	-	-	(12)
Disposals	-	-	-	51	51
Exchange differences	185	7	-	(14)	178
BALANCE DECEMBER 31, 2020	**(14'165)**	**(4'098)**	**-**	**(16'240)**	**(34'503)**
NET BOOK VALUE					
BALANCE JANUARY 1, 2020	**27'271**	**12'724**	**59**	**5'530**	**45'584**
BALANCE DECEMBER 31, 2020	**31'894**	**11'543**	**59**	**5'301**	**48'797**

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

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

The increase of Customer list in 2021 is related to the acquisition of Levante Medica 2008 S.L. for Euro 220 thousand through an Asset Purchase agreement finalized by Medacta España S.L. in November 2021. Management assessed that this agreement meets the definition of a business as provided by the IFRS 3, since Medacta acquired 12 employees, customer lists and specific contracts capable of creating outputs in the distribution business. The consideration for this deal was fully allocated to the customer list acquired and the related pay-out will occur only in 2022. The related liability is classified as of December 31, 2021, within "Current financial liabilities" (see Note 6.17 "Financial and lease liabilities").

The residual balance of Customer lists relates to business combinations occurred in 2018 and 2017. In particular they are related to the acquisition of ASD "Advanced Surgical Devices" in 2018 and Medacare GmbH and Vivamed GmbH in 2017.

IMPAIRMENT TEST FOR INTANGIBLE ASSETS

As described in Note 6.2 "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. Based on the quarterly analysis performed during the year, Medacta recognised a loss for impairment amounting to Euro 397 thousand in 2021 (Euro 12 thousand in 2020), and losses for the derecognition of projects amounting as of December 31, 2021 to Euro 419 thousand (Euro 96 in 2020).

For the purpose of the annual impairment test, performed on data as of September 30, 2021, In-Process Research and Development projects (IPR&D) for a total amount of Euro 8'494 thousand, were allocated to cash-generating-units (CGU) corresponding to Product Families. 38 Product Families were tested for impairment through the estimation of the value in use of the IPR&D projects allocated to each CGU, none of which is significant in comparison to the total carrying amount of IPR&D. The annual impairment test did not lead to any impairment loss of the carrying amount of the development projects in 2021 and 2020.

The discount rate applied in the valuation model, amounting to 6.8%, considers the Group's weighted average cost of capital, adjusted to approximate the weighted average cost of capital of a comparable market participant.

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

- An increase of 2.0% in the discount rate would lead to an impairment loss amounting Euro 307 thousand.
- A decrease of 25.0% in forecasted revenues would lead to an impairment loss amounting Euro 1'308 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 OTHER FINANCIAL ASSETS

Other financial assets are comprised of the following items:

(Thousand Euro)	**31.12.2021**	**31.12.2020**
Forward Currency Contracts	-	1'297
Rent deposit	479	488
TOTAL OTHER FINANCIAL ASSETS	**479**	**1'785**
Current	-	1'297
Non-Current	479	488

Forward Currency Contracts at December 31, 2020 was related to the positive fair value of derivative financial instruments, amounting Euro 1'297 thousand. As of December 31, 2021, the fair value of derivative financial instruments is negative (Euro 39 thousand) and it is classified within Current Financial Liabilities (see Note 6.17 "Financial and lease liabilities").

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

INCOME TAXES

(Thousand Euro)	31.12.2021	31.12.2020
Current income taxes	8'504	7'183
Deferred income taxes	(4'574)	(4'342)
TOTAL INCOME TAXES	**3'930**	**2'841**

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)	31.12.2021	31.12.2020
Profit before taxes	55'451	39'932
AVERAGE TAX RATE	**16.8%**	**18.2%**
TAX AT AVERAGE TAX RATE	**9'310**	**7'277**
Patent Box deduction	(3'517)	(2'267)
AVERAGE TAX RATE NET OF DEDUCTIONS	**10.4%**	**12.5%**
+ / - EFFECTS OF		
Expenses not subject to tax, net	394	461
Revenues not subjected to tax, net	(14)	(70)
Effects from previous years	(798)	46
Change in tax rates on deferred tax balances	(1'532)	(2'623)
Other	87	17
TOTAL INCOME TAXES	**3'930**	**2'841**
EFFECTIVE INCOME TAX RATE (%)	**7.1%**	**7.1%**

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. The applicable Group tax rate for 2021 is 16.8% and for 2020 was 18.2%. In 2021 the average tax rate was positively impacted by the deduction of the provision accrued in Medacta USA on the MicroPort litigation (see Note 6.25 "Litigations", paragraph "MicroPort matter"), which resulted in the recognition of a deferred tax asset on losses generated by the entity. Starting from 2020, the Swiss tax reform provided the possibility to obtain a special tax deduction from taxable profits for qualifying profits arising from patent rights ("Patent Box deduction"). Medacta decided to use this possibility and the Patent Box deduction had a positive impact in 2021 of around Euro 3.5 million (around Euro 2.3 million in 2020), lowering the effective tax rate by about 6.3 percentage points (5.7 percentage points in 2020).

In addition, in 2021 Medacta International SA recognised the following effects: a positive impact amounting to approximately Euro 0.9 million due to the settlement of previous years' taxes accrued in excess; a positive impact amounting around Euro 1.4 million related to the Swiss tax reform which will enact a lower tax rate, from 17.3% to approximately 15.0% starting from January 1, 2025. The change in tax rate resulted in a lower net deferred tax liability due to the revaluation of temporary differences expected to reverse after January 1, 2025. In the comparative period, income taxes were impacted by the reduction of the ordinary corporate income tax rates applied by most cantons in Switzerland, according to the Tax Reform enacted at the beginning of 2020. The tax rate applicable for Medacta International SA decreased from 18.6% to 17.3%. This deduction had a positive impact on deferred tax liabilities (and assets), previously recognised at the higher tax rate, amounting around Euro 2.6 million.

The Group has not recognised deferred tax liabilities in respect of unremitted earnings that are considered indefinitely invested in foreign subsidiaries. As of December 31, 2021, those unremitted earnings retained by consolidated entities amount to Euro 2'717 thousand (2020: Euro 569 thousand).

DEFERRED INCOME TAXES

The Group recognises in the Consolidated Financial Statements as of December 31, 2021 the gross amounts of Deferred tax assets and Deferred tax liabilities, respectively amounting to Euro 38'070 thousand and to Euro 48'878 thousand.

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

As of December 31, 2021, 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)	31.12.2021	31.12.2020
Net deferred tax assets	29'029	21'588
Net deferred tax liabilities	(39'837)	(36'269)
TOTAL NET DEFERRED TAXES	**(10'808)**	**(14'681)**

The amount netted between deferred tax asset and deferred tax liabilities is equal to Euro 9'041 thousand. For a better comprehension of deferred tax assets and liabilities, the schemes below show the respectively gross amounts.

The movement in deferred income tax assets and liabilities is as follows:

DEFERRED TAX ASSETS **as at December 31, 2021** (Thousand Euro)	Property, plant and equipment	Inventories, receivables, provisions and other liabilities	Tax losses carried forward	Total
BALANCE JANUARY 1, 2021	**1'719**	**26'451**	**1'571**	**29'741**
Deferred taxes recognised in the income statement	175	5'737	958	6'870
Deferred taxes recognize in OCI	-	462	-	462
Exchange differences	84	759	154	997
BALANCE DECEMBER 31, 2021	**1'978**	**33'409**	**2'683**	**38'070**

DEFERRED TAX ASSETS **as at December 31, 2020** (Thousand Euro)	Property, plant and equipment	Inventories, receivables, provisions and other liabilities	Tax losses carried forward	Total
BALANCE JANUARY 1, 2020	**1'719**	**25'644**	**1'482**	**28'845**
Deferred taxes recognised in the income statement	-	2'696	196	2'892
Deferred taxes recognize in OCI	-	119	-	119
Exchange differences	-	(2'008)	(107)	(2'115)
BALANCE DECEMBER 31, 2020	**1'719**	**26'451**	**1'571**	**29'741**

As per December 31, 2021 and 2020, there were no unrecognised tax losses carried forward.

DEFERRED TAX LIABILITIES as at December 31, 2021 (Thousand Euro)	Property, plant and equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Total
BALANCE JANUARY 1, 2021	**21'188**	**5'432**	**17'802**	**44'422**
Deferred taxes recognised in the income statement	1'675	(430)	1'051	2'296
Deferred taxes recognize in OCI	-	-	-	-
Exchange differences	1'189	193	778	2'160
BALANCE DECEMBER 31, 2021	**24'052**	**5'195**	**19'631**	**48'878**

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

6.12 INVENTORIES

Inventories are composed of the following items:

INVENTORIES (Thousand Euro)	31.12.2021	31.12.2020
Raw materials	19'128	15'214
Work in progress and semifinished goods	14'484	11'164
Finished goods	102'479	87'809
TOTAL INVENTORIES	**136'091**	**114'187**

The cost of inventories recognised in "Cost of Sales" as of December 31, 2021 includes Euro 2'592 thousand (Euro 1'808 thousand in 2020) in respect of write-downs of inventory to net realisable value for slow moving, phase out and obsolete stock, and has been reduced by Euro 1'183 thousand (Euro 829 thousand in 2020) in respect of the reversal of such write-downs.

6.13 TRADE RECEIVABLES

(Thousand Euro)	31.12.2021	31.12.2020
Trade receivable, gross	61'988	46'770
Loss allowance on trade receivables	(2'552)	(988)
TOTAL TRADE RECEIVABLES	**59'436**	**45'782**

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, 2021 (Thousand Euro)	**Not Credit Impaired**	**Credit Impaired**	**Total**
Trade receivables, gross	59'693	2'295	**61'988**
Expected Credit Loss allowance	(695)	(1'857)	**(2'552)**

TRADE RECEIVABLES AGING (NOT CREDIT IMPAIRED)

December 31, 2021 (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	**59'693**	45'566	7'697	2'388	1'684	1'288	502	568
Expected Credit Loss rate (%) *		0.2%	1.1%	2.3%	1.9%	13.6%	11.6%	35.1%
Expected Credit Loss allowance	**(695)**	(93)	(82)	(55)	(33)	(175)	(58)	(199)

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

December 31, 2020 (Thousand Euro)	**Not Credit Impaired**	**Credit Impaired**	**Total**
Trade receivables (credit impaired), gross	46'306	464	**46'770**
Expected Credit Loss allowance	(524)	(464)	**(988)**

TRADE RECEIVABLES AGING (NOT CREDIT IMPAIRED)

December 31, 2020 (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	**46'306**	35'124	7'095	1'331	633	942	639	542
Expected Credit Loss rate (%) *		0.1%	0.2%	0.8%	1.9%	3.1%	9.2%	66.8%
Expected Credit Loss allowance	**(524)**	(38)	(14)	(10)	(12)	(29)	(59)	(362)

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

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

(Thousand Euro)	**2021**	**2020**
BALANCE AS AT JANUARY 1	**(988)**	**(664)**
Change in loss allowance and write-offs	(1'618)	(350)
Amounts recovered (utilization of loss allowance)	62	-
Exchange differences	(8)	26
TOTAL LOSS ALLOWANCE ON TRADE RECEIVABLES AS AT DECEMBER 31	**(2'552)**	**(988)**

6.14 OTHER RECEIVABLES AND PREPAID EXPENSES

(Thousand Euro)	31.12.2021	31.12.2020
Other tax receivables	7'343	4'953
Advance to suppliers	1'469	767
Prepaid expenses	2'779	2'319
Other receivables	512	325
TOTAL OTHER RECEIVABLES AND PREPAID EXPENSES	**12'103**	**8'364**

Other tax receivables are mainly represented by VAT credits. Prepaid expenses are mainly composed by operating expenditures incurred during the relevant financial year but relating to a subsequent business year.

6.15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following items:

(Thousand Euro)	31.12.2021	31.12.2020
Cash on hand	32	25
Current bank accounts	20'372	48'043
TOTAL CASH AND CASH EQUIVALENTS	**20'404**	**48'068**

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

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

Medacta Group SA did not approve any dividend distribution for the year ended December 31, 2020.

The Board of Directors proposes to the Annual General Meeting of Medacta Group SA on May 19, 2022 a distribution of CHF 10.7 million (CHF 0.54 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, selected key managers and employees, decided to repurchase its own outstanding shares to fund the 2021 share-based compensation award cycle. Treasury shares are valued at weighted average cost and have been deducted from equity. As of December 31, 2021 the number of treasury shares amounted to 10'007, corresponding to CHF 1'342'660 (Euro 1'242 thousand).

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

At December 31, 2021, “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 2’300 thousand (Euro 425 thousand in 2020), of which Euro 1’850 thousand within “Other non-current financial liabilities” and Euro 450 thousand within “Other current financial liabilities”. The increase in 2021 is related to contracts signed during the year. The cost of the contracts has been capitalized as intangible assets in “Development” line item. In addition, “Other current financial liabilities” include Euro 220 thousand related to the acquisition of a customer list occurred in 2021, which will be paid in 2022 (see Note 6.9 “Goodwill and intangible assets”).

Following tables summarize the composition of Financial liabilities:

FINANCIAL LIABILITIES

(Thousand Euro)	31.12.2021	31.12.2020
Bank loans and credit facilities, current *	63'776	65'914
Forward Currency Contracts	39	-
Other current financial liabilities	671	425
TOTAL FINANCIAL LIABILITIES, CURRENT	**64'486**	**66'339**
Bank loans, non-current	47'702	65'044
Other non-current financial liabilities	1'850	-
TOTAL FINANCIAL LIABILITIES, NON-CURRENT	**49'552**	**65'044**
TOTAL FINANCIAL LIABILITIES	**114'038**	**131'383**
Total secured bank loans	16'494	16'312
Total non-secured bank loans	94'984	114'646

* In 2021, “Bank loans and credit facilities, current” include Euro 38'572 thousand (Euro 36'553 thousand in 2020) related to credit lines with no maturity date.

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 0.80% and 1.05%.

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

As of December 31, 2021 and 2020, the Group had unused current credit lines of Euro 103’886 thousand and Euro 98’610 thousand, respectively.

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

(Thousand Euro)	31.12.2021	31.12.2020
Australian Dollar (AUD)	1'916	1'889
Euro (EUR)	6'220	10'000
Japanese Yen (JPY)	3'439	3'539
Swiss Franc (CHF)	33'588	91'964
US Dollar (USD)	68'875	23'991
TOTAL FINANCIAL LIABILITIES	**114'038**	**131'383**

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

(Thousand Euro)	Non-current financial debts	Current financial debts	Total
BALANCE JANUARY 1, 2021	**65'044**	**66'339**	**131'383**
Increase in financial debts *	2'191	1'136	3'327
Repayment of financial debts **	(675)	(24'605)	(25'280)
Change in fair values and other changes	-	39	39
Reclass from non-current to current	(19'018)	19'018	-
Currency translation differences	2'010	2'559	4'569
BALANCE DECEMBER 31, 2021	**49'552**	**64'486**	**114'038**

* "Increase in financial debts" includes proceeds from borrowings amounting to Euro 846 thousand, Euro 2'261 thousand related to the acquisition of development intangible assets recognised as a non-cash increase in financial debts and Euro 220 thousand related to the acquisition of customer list (see Note 6.9 "Goodwill and intangible assets").
** "Repayment of financial debts" includes repayment of borrowings for Euro 24'801 thousand and Euro 479 thousand related to the repayment of contractual liabilities for the acquisition of development intangible assets classified in the Consolidated Statement of Cash Flow in "Purchase of intangible assets" within cash flow from investing activities.

(Thousand Euro)	Non-current financial debts	Current financial debts	Total
BALANCE JANUARY 1, 2020	**85'379**	**47'505**	**132'884**
Increase in financial debts *	-	4'464	4'464
Repayment of financial debts **	-	(4'820)	(4'820)
Change in fair values and other changes	-	-	-
Reclass from non-current to current	(20'949)	20'949	-
Currency translation differences	614	(1'759)	(1'145)
BALANCE DECEMBER 31, 2020	**65'044**	**66'339**	**131'383**

* "Increase in financial debts" includes proceeds from borrowings amounting to Euro 4'344 thousand and Euro 120 thousand related to the acquisition of development intangible assets recognised as a non-cash increase in financial debts.
** "Repayment of financial debts" includes repayment of borrowings for Euro 4'389 thousand and Euro 431 thousand related to the repayment of contractual liabilities for the acquisition of development intangible assets classified in the Consolidated Statement of Cash Flow in "Purchase of intangible assets" within cash flow from investing activities.

LEASE LIABILITIES

Total lease liabilities amount to Euro 21'184 thousand as of December 31, 2021 (Euro 19'043 thousand in 2020), thereof Euro 5'714 thousand current (Euro 5'401 thousand in 2020) and Euro 15'470 thousand non-current (Euro 13'642 thousand in 2020). Maturity analysis of undiscounted lease liabilities less unearned interests is reported in the table below:

as at December 31, 2021 (Thousand Euro)	Up to 1 year	1 year to 5 years	More than 5 years	Less: unearned interests	Total
Lease liabilities	5'731	12'188	3'932	(667)	**21'184**

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

The Group does not face a significant liquidity risk with regard to its lease liabilities.

The table below shows the movement of lease liabilities for the periods ended December 31, 2021 and December 31, 2020:

(Thousand Euro)	
BALANCE ON JANUARY 1, 2021	**(19'043)**
Additions	(7'421)
Modification, termination, expiration	(3)
Repayment of lease liabilities	6'015
Exchange differences	(732)
BALANCE ON DECEMBER 31, 2021	**(21'184)**

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

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 OTHER LIABILITIES

(Thousand Euro)	31.12.2021	31.12.2020
Liabilities to tax authorities	2'232	3'193
Legal matters	5'891	-
Other	-	4
TOTAL OTHER NON-CURRENT LIABILITIES	**8'123**	**3'197**
Liabilities to tax authorities	6'843	23'196
Liabilities to social security	1'684	833
Other debts towards employees	146	300
Legal matters	1'759	-
Other	570	-
TOTAL OTHER CURRENT LIABILITIES	**11'002**	**24'329**

"Legal matters" include the liability relating to the agreement signed with MicroPort to settle the litigation (see Note 6.25 "Litigations" paragraph "MicroPort matter"). As of December 31, 2021 the total liability is equal to Euro 7'650 thousand, out of which Euro 5'891 thousand classified as non-current and Euro 1'759 thousand classified as current.

6.19 PROVISIONS

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

(Thousand Euro)	2021	2020
BALANCE JANUARY 1	**9'636**	**11'183**
Increases	5'006	785
Decreases	(13'717)	(1'562)
Exchange differences	609	(770)
BALANCE DECEMBER 31	**1'534**	**9'636**
Thereof current	1'185	8'399
Thereof non-current	349	1'237

In 2021, "Increases" line item is primarily related to the accrual, amounting Euro 4'821 thousand, to align the provision already recognised in 2020 to the settlement agreement with MicroPort. In 2020 the increase was mainly related to the accrual made on patent litigations for Euro 663 thousand (see Note 6.25 "Litigations" paragraph "Conformis, Inc. v. Medacta USA, Inc.").

In 2021, "Decreases" line item includes the reclassification from "Provisions" to "Other liabilities" related to the MicroPort matter after the settlement agreement for Euro 13'572 thousand, out of which Euro 5'922 thousand were paid in 2021. In 2020 the decrease was mainly related to the release of Euro 1.5 million of the MicroPort matter provision recognised in 2019, due to the final award issued by the Arbitrator on April 27, 2020.

For further information related to MicroPort matter refer to Note 6.25 "Litigations" paragraph "MicroPort matter".

6.20 RETIREMENT BENEFIT OBLIGATIONS

DEFINED CONTRIBUTION PLANS

Medacta's retirement plans include defined contribution pension plans in most of the countries where the Group operates. The employer's contributions, amounting to Euro 3'682 thousand in the year ended December 31, 2021 (2020: Euro 3'295 thousand), are recognised directly in the income statement.

DEFINED BENEFIT PLANS

Medacta Group's retirement plans include defined benefit pension plans for all qualifying employees in Switzerland and Italy. These plans are determined by local regulations using independent actuarial valuations according to IAS 19. Medacta Group's major defined benefit plan is located in Switzerland.

The following table summarizes the total retirement benefit obligation at December 31, 2021 and 2020:

AMOUNT RECOGNISED IN THE BALANCE SHEET

(Thousand Euro)	31.12.2021	31.12.2020
Defined benefit plan Switzerland	8'926	10'107
Defined benefit plan Italy	388	387
Other non-current employee benefits		
Retention plan Switzerland	1'378	1'415
French collective conventions	303	255
Retention plan Australia	518	401
Retention plan Austria	69	68
Retention plan Japan	563	390
RETIREMENT BENEFIT OBLIGATIONS	**12'145**	**13'023**

PENSION PLANS IN SWITZERLAND

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

As of December 31, 2021, 713 employees (2020: 620 employees) and 3 beneficiaries (2020: 2 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 19.1 years (2020: 20.7 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)	31.12.2021	31.12.2020
Present value of defined benefit obligations	(37'827)	(34'002)
Fair value of plan assets	28'901	23'895
RETIREMENT BENEFIT OBLIGATIONS	**(8'926)**	**(10'107)**

REMEASUREMENT RECOGNISED IN EQUITY

(Thousand Euro)	2021	2020
BALANCE JANUARY 1	**3'130**	**2'436**
Remeasurement of defined benefit obligations	(1'472)	1'017
Return on plan assets excl. interest income	(1'191)	(331)
Exchange differences	20	8
BALANCE DECEMBER 31	**487**	**3'130**

COMPONENTS OF REMEASUREMENT OF DEFINED BENEFIT PLANS RECOGNISED IN OCI

(Thousand Euro)	31.12.2021	31.12.2020
Changes in demogr. assumptions	(2'337)	-
Experience adjustments	865	1'017
Return on plan assets excl. interest income	(1'191)	(331)
REMEASUREMENT OF DEFINED BENEFIT PLANS	**(2'663)**	**686**

In 2021, “Changes in demographical assumptions” is due to the use of the most recent tables for demography actuarial assumptions (BVG 2020 GT).

“Experience adjustments”, both in 2021 and in 2020, 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)	31.12.2021	31.12.2020
Current service cost	2'547	2'281
Participants' contributions	(1'465)	(1'380)
Administration cost	17	15
Net interest cost	21	18
TOTAL EMPLOYEE BENEFIT EXPENSES	**1'120**	**934**

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

- Cost of Sales Euro 422 thousand (2020: Euro 319 thousand);
- Research and Development Euro 146 thousand (2020: Euro 118 thousand);
- Sales and Marketing expenses Euro 235 thousand (2020: Euro 209 thousand);
- General and Administrative expenses Euro 297 thousand (2020: Euro 270 thousand).

MOVEMENT IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS

(Thousand Euro)	2021	2020
BALANCE JANUARY 1	**34'002**	**28'956**
Interest cost	72	63
Current service cost	2'547	2'281
Contribution by plan participants	1'368	1'296
Benefits deposited/(paid), net	(236)	256
Administration cost	17	15
Actuarial loss on obligation	(1'472)	1'017
Exchange differences	1'529	118
PRESENT VALUE OF OBLIGATIONS AT DECEMBER 31	**37'827**	**34'002**

PLAN ASSETS

Plan assets are composed of the retirement assets, the mathematical reserve for annuities and the account balances of the AXA-Winterthur:

PLAN ASSETS

(Thousand Euro)	31.12.2021	31.12.2020
Cash and cash equivalents	1'055	648
Equity instruments	10'060	7'240
Debt instruments (e.g. bonds)	10'277	9'914
Real estate	6'688	5'340
Others	821	753
TOTAL	**28'901**	**23'895**

MOVEMENT IN THE FAIR VALUE OF THE PLAN ASSETS

(Thousand Euro)	2021	2020
BALANCE JANUARY 1	**23'895**	**20'502**
Interest income on plan asset	51	45
Employer's contributions paid	1'465	1'380
Participants' contributions	1'368	1'296
Benefits deposited/(paid), net	(236)	256
Return on plan assets excluding interest income	1'191	332
Exchange differences	1'167	84
FAIR VALUE OF PLAN ASSETS AT DECEMBER 31	**28'901**	**23'895**

The principal actuarial assumptions are as follows:

	31.12.2021	31.12.2020
Discount rate	0.2%	0.2%
Future salary increase	1.0%	1.0%
Interest rate on retirement saving capital *	0.5%	0.5%
Demography	BVG2020GT	BVG2015GT

* Medacta is applying risk sharing.

The following sensitivity analysis shows how the present value of the benefit obligation for the Swiss retirement benefit plan would change if one of the principal actuarial assumptions were changed.

For the analysis, changes in the assumptions were considered separately and no interdependencies were taken into account.

SENSITIVITY ANALYSIS – DEFINED BENEFIT OBLIGATION

(Thousand Euro)	31.12.2021	31.12.2020
DISCOUNT RATE		
Discount rate + 0.25%	36'102	32'319
Discount rate - 0.25%	39'706	35'842
SALARY GROWTH		
Salary growth + 0.25%	38'232	34'391
Salary growth - 0.25%	37'435	33'621
INTEREST RATE GROWTH		
Interest rate growth + 0.25%	38'521	34'655
Interest rate growth - 0.25%	37'155	33'370
LIFE EXPECTANCY		
Life expectancy + 1 year	38'471	34'586
Life expectancy - 1 year	37'186	33'420

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out at December 31, 2021 by AXA Pension Solutions AG.

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

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

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

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

The Group expects to make a contribution of Euro 1.6 million to the defined benefit plans during the next financial year 2022.

INTEREST RATE RISK

The rate used to discount post-employment benefit obligations has been determined by reference to market yields at the balance sheet date on high quality corporate bonds.

A decrease in the bond interest rate will increase the plan liability.

LONGEVITY RISK

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants, both during and after their employment.

An increase in the life expectancy of the plan participants will increase the plan’s liability.

SALARY RISK

Salary increase is Company specific. The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants.

As such, an increase in the salary of the plan participants will increase the plan’s liability.

OTHER NON-CURRENT EMPLOYEE BENEFITS

Medacta has programs in Switzerland, France, Australia, Austria and Japan which are dependent on length of years of service.

These programs are classified as other non-current payments due to employees and amounted to Euro 2’832 thousand at December 31, 2021 (2020: Euro 2’529 thousand).

6.21 SHARE-BASED PAYMENT TRANSACTIONS

On March 30, 2021 Board of Directors approved the implementation of the LTIP proposed by the Remuneration Committee, under the Performance Share Plan (“The Plan”), that was open to eligible participants starting in April, 2021. The Board is responsible for administering and executing the Plan and has full power to construe and interpret the Plan, establish, and amend rules and regulations for its administration, and perform all other actions relating to the Plan.

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

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, and
- The Absolute EBIT Vesting Multiple is calculated based on the EBIT of the Group measured as the sum of the absolute EBIT over the three (3)-year Absolute EBIT Performance Period and calculated by the Board or a body designated by it, according to the Absolute EBIT Vesting Multiple table. The Absolute EBIT Multiple cannot be lower than 0.00 or higher than 2.00. The Country Vesting Multiple (if relevant) is calculated based upon a 100% weighting of the respective country’s revenues and will be either 0.00 or 0.30. For each country, details with regards to performance measure, performance targets, performance period and performance calculation are set out in the Allotment Certificate.

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

The expense recognized for share-based payments in 2021 is equal to Euro 468 thousand.

RECONCILIATION OF OUTSTANDING PERFORMANCE SHARE UNITS

TOTAL AT JANUARY 1, 2021	**-**
Granted	20'810
Exercised	-
Forfeited	(584)
TOTAL AT DECEMBER 31, 2021	**20'226**
Exercisable at December 31, 2021	-

In 2021, 20'810 PSUs were granted under the LTI (2020: 0). The total fair value has been determined using a Monte Carlo simulation algorithm and amounts to CHF 101.47 (2020: CHF -).

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

INPUTS TO THE MODEL	2021
Dividend yield (in %)	-
Expected volatility (in %)	42.32%
Risk-free interest rate (in %)	-
Expected life of PSUs (in years)	3
Share price (in CHF) at grant date in April	104.74
Fair value (in CHF)	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.

6.22 TRADE PAYABLES

Accounts payable of Euro 25'951 thousand (2020: Euro 16'477 thousand) mainly consist of commercial payables due within 12 months. The increase is primarily due to the increase of volumes and to the timing of payments by the Group.

6.23 ACCRUED EXPENSES AND DEFERRED INCOME

(Thousand Euro)	31.12.2021	31.12.2020
Consulting fees	3'995	3'964
Royalties and commissions due	6'115	4'628
Accrued vacation expenses	3'703	3'473
Accrued bonuses	12'317	9'439
Other	2'850	2'287
Assurances	75	70
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**29'055**	**23'861**

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, 2021 and 2020 respectively:

(Thousand Euro)	31.12.2021	31.12.2020
Hip	179'285	153'063
Knee	131'062	106'238
Shoulder	18'424	13'919
Spine	33'792	28'910
Sportsmed	563	362
TOTAL	**363'126**	**302'492**

6.24.2 ANALYSIS OF EXPENSES

PERSONNEL EXPENSES

Personnel expenses as of December 31, 2021 and 2020 are as follows:

(Thousand Euro)	31.12.2021	31.12.2020
Wages and salaries	93'568	83'125
LTIP Employee benefit expense	468	
Social security costs	11'311	10'459
Other costs	9'020	5'381
TOTAL PERSONNEL EXPENSES	**114'367**	**98'965**

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

PERSONNEL EXPENSES BY FUNCTION

(Thousand Euro)	31.12.2021	31.12.2020
Cost of Sales	15'908	13'466
Research and Development expenses	3'958	2'616
Sales and Marketing expenses	63'799	56'031
General and Administrative expenses	30'702	26'852
TOTAL PERSONNEL EXPENSES BY FUNCTION	**114'367**	**98'965**
AVERAGE NR OF EMPLOYEES DURING THE YEAR	**1'262**	**1'142**

Following the COVID-19 pandemic, and particularly during the first stage of the pandemic in 2020, some governments of the countries where the Group operates decided to provide assistance to the Group's entities in the form of subsidies or government grants, mainly related to short-term working subsidies. According to IAS 20, the Group recognised those government grants in the Consolidated Profit or Loss as of December 31, 2021 (and in the comparative figures as of December 31, 2020), if and when there was reasonable assurance that each entity would comply with the conditions attaching to the grant and that it would be received. In 2021 the total amount of government grants recognised in the Consolidated Profit or Loss was Euro 99 thousand, while as of December 31, 2020, in the first stage of the pandemic, amounted to Euro 2'879 thousand. Grants were recognised in both periods, applying the accounting policy of the Group, as a deduction of the underlying costs of personnel for which the subsidies were granted. The classification of income by function was distributed as follows as of December 31, 2021: Sales and Marketing expenses for Euro 81 thousand, General and Administrative expenses for Euro 18 thousand (2020: Cost of Sales Euro 325 thousand, Research and Development expenses Euro 178 thousand, Sales and Marketing expenses Euro 1'652 thousand, General and Administrative expenses Euro 724 thousand).

DEPRECIATION, AMORTISATION AND IMPAIRMENT

Depreciation, Amortisation and Impairment, at December 31, 2021 and 2020 are as follows:

(Thousand Euro)	31.12.2021	31.12.2020
Cost of Sales	27'567	26'465
Research and Development expenses	5'162	3'254
Sales and Marketing expenses	3'536	3'307
General and Administrative expenses	4'171	3'990
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT BY FUNCTION	**40'436**	**37'016**

Impairment included in line Research and Development is equal to Euro 397 thousand. 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, 2021 and 2020 are composed of the following expense categories:

(Thousand Euro)	31.12.2021	31.12.2020
Personnel expenses	30'702	26'852
Depreciation and amortisation	4'171	3'990
Consulting expenses	9'930	8'557
Business and administrative expenses (i.e. insurance, maintenance, BoD and audit fees)	6'959	6'367
Other costs and taxes	6'687	1'002
Travel and accommodation	308	611
Other	87	93
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE	**58'844**	**47'472**

In 2020, "Personnel expenses" included grants received by Governments (mainly Swiss, France, Australia, UK) for Euro 724 thousand to provide assistance to the Group's entities to fund short-term working.

In 2021 "Consulting expenses" include: approximately Euro 3'428 thousand (Euro 3'475 thousand in 2020) of legal expenses, out of which Euro 2'966 thousand (Euro 3'100 thousand in 2020) related to MicroPort and patent matters, and Euro 6'502 thousand (Euro 5'082 thousand in 2020) related to clinical studies, IT, Audit, Tax and other consulting expenses.

In 2021 "Other costs and taxes" include the provision accrued for MicroPort matter for Euro 4'601 thousand after the settlement agreement (see Note 6.25 "Litigations") and Euro 340 thousand related to product liabilities provisions. In 2020 "Other costs and taxes" included the net impact, for Euro 840 thousand, related to the provision for patent litigation accrued in 2020 and the partial release of the provision accrued for MicroPort matter in 2019.

RESEARCH AND DEVELOPMENT EXPENSES

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

Research and Development costs that are not eligible for capitalization have been expensed in the period incurred and they are recognised in Research and Development expenses along with amortisation and impairment, for a total amount in 2021 of Euro 11'306 thousand (Euro 6'829 thousand in 2020).

Development costs eligible for capitalization amounts to Euro 8'091 thousand in 2021 and Euro 7'800 thousand in 2020.

6.24.3 OTHER INCOME / (EXPENSES)

Other income amount to Euro 1'536 thousand as of December 31, 2021 (Euro 1'809 thousand in 2020) and are mainly related to miscellaneous expenses rebilled to third parties. In 2020, Other income included Euro 628 thousand related to the release of the parking provision recognised by Medacta International due to the 2020 decision made by the State Council of postponing the application of this law from 2022 onwards.

Other expenses amount to Euro 1'301 thousand as of December 31, 2021 (Euro 2'252 thousand in 2020). Other expenses include:

- Euro 516 thousand (Euro 1'119 thousand in 2020), related to losses from disposal of tangible assets;
- Euro 324 thousand (Euro 327 thousand in 2020), related to contributions made to non-profit organizations.

6.24.4 FINANCIAL INCOME/(COSTS)

FINANCIAL INCOME

(Thousand Euro)	31.12.2021	31.12.2020
Gain/(loss) on revaluation of financial instruments at fair value through profit or loss	-	1'047
Interest income loans and receivables	332	144
Foreign exchange gains	1'986	3'766
TOTAL FINANCIAL INCOME	**2'318**	**4'957**

Financial income amount to Euro 2'318 thousand as of December 31, 2021 (Euro 4'957 thousand in 2020). Financial income as of December 31, 2021 include realized and unrealized foreign exchange profit for Euro 1'986 thousand (Euro 3'766 thousand in 2020). In 2020 included also gains on revaluation of financial instruments at fair value for Euro 1'047 thousand.

FINANCIAL (COSTS)

(Thousand Euro)	31.12.2021	31.12.2020
Interest on loans and borrowings	(3'118)	(2'699)
Gain/(loss) on revaluation of financial instruments at fair value through profit or loss	(1'248)	-
Foreign exchange losses	(954)	(11'424)
Interest expense on lease contracts	(324)	(345)
TOTAL FINANCIAL (COSTS)	**(5'644)**	**(14'468)**
TOTAL FINANCIAL INCOME/(COSTS), NET	**(3'326)**	**(9'511)**

Financial costs amount to Euro 5'644 thousand as of December 31, 2021 (Euro 14'468 thousand in 2020). Financial costs as of December 31, 2021 includes mainly interest on borrowings for Euro 1'374 thousand (Euro 1'535 thousand in 2020), bank commissions and other interest expenses for Euro 1'744 thousand (Euro 1'164 thousand in 2020), losses on revaluation of financial instruments at fair value for Euro 1'248 thousand (financial income in 2020), realized and unrealized foreign exchange losses for Euro 954 thousand (Euro 11'424 thousand in 2020). In the previous period, foreign exchange losses were mainly related to transactions with Medacta USA Inc, out of which approximately Euro 4.4 million due to non-monetary transactions, mainly related to the increase in registered capital by USD 50 million through the forgiveness of trade and financial receivables held by the controlling Company, Medacta International SA, and the compensation of prior year receivables and payables.

6.25 LITIGATIONS

MICROPORT MATTER

ARBITRATION

In an arbitration (the "Arbitration"), commenced with the American Arbitration Association on or about July 30, 2018 in Memphis Tennessee, the Company was defending Advanced Surgical Devices ("ASD") and Mr. Zurowski pursuant to an indemnification agreement incident to an asset purchase agreement by which the Company acquired assets from ASD and as to which it has reserved its rights. Like Medacta, the claimant in the Arbitration, MicroPort Orthopedics, Inc. ("MicroPort"), is a manufacturer of medical devices. The respondent, ASD, led by its principal, Mr. Zurowski, is a company that sells and distributes medical devices. MicroPort's demand for arbitration alleged that ASD and Mr. Zurowski breached a separate asset purchase agreement, as well as a distribution agreement, between ASD and MicroPort by, among other things, terminating those agreements, according to MicroPort, without right. On April 27, 2020, the Arbitrator issued a "Final Award", which found ASD and Mr. Zurowski liable for breach of contract and awarded damages of approximately USD 8.7 million, plus interest, attorneys' fees, and costs of approximately USD 1.4 million. The Final Award is only against ASD and Mr. Zurowski.

COURT PROCEEDINGS

In a proceeding (the "Court Proceeding") commenced on or about July 27, 2018 in the Chancery Court of Shelby County, Tennessee for the 13th judicial district (the "Court Proceedings"), MicroPort Orthopedics, Inc. ("MicroPort") filed a complaint that alleged that Medacta USA tortuously interfered with the asset purchase agreement between MicroPort and a distributor of orthopaedic medical devices, Advanced Surgical Devices ("ASD"), by, among other things, inducing ASD to breach that agreement. On May 8, 2020, MicroPort voluntarily dismissed this lawsuit "without prejudice," meaning MicroPort retained the right to re-file its claims for at least 1 year from the date of dismissal.

On June 12, 2020, MicroPort filed a new lawsuit in the United States District Court for the Middle District of Tennessee (the "Federal Lawsuit"). The Federal Lawsuit alleged the same, previously voluntarily dismissed, claims that Medacta USA tortuously interfered with the asset purchase agreement between MicroPort and ASD. MicroPort also alleged anew that Medacta USA had infringed on certain patents owned by MicroPort. The patent infringement allegations appeared to concern specific patents owned by MicroPort that relate to MicroPort's "PATH" and "SUPERPATH" minimally invasive hip replacement surgical techniques. On February 16, 2021, MicroPort filed an amended complaint that added Medacta International as a defendant, and added allegation of infringement by a surgical approach that was still under development by Medacta.

Both cases, the "Arbitration" and the "Court Proceeding" were settled and resolved via an agreement that was effective as of July 12, 2021. According to the agreement, in 2021 Medacta USA paid to MicroPort Inc. the sum of USD 7 million and will pay the sum of USD 5 million over a term of seven years. In addition, the settlement agreement contemplates the contribution by Medacta of marketing activities for a total of a low single digit millions to be paid over a period of four years.

In connection with these litigations the Group recognized a liability that fulfilled the settlement agreement. As of December 31, 2021, the residual liability is equal to USD 8.7 million (Euro 7.7 million) and is classified in "Other liabilities". According to the due dates of the payment provided by the settlement agreement, the portion classified in "Other current liabilities" is equal to Euro 1'759 thousand and the portion classified in "Other non-current liabilities" is equal to Euro 5'891 thousand.

The profit or loss accrual recognized in 2021 is equal to USD 5.4 million (Euro 4.6 million).

PATENT MATTERS

RSB SPINE, LLC V. MEDACTA USA, INC.

On December 13, 2018, RSB filed a patent infringement complaint alleging Medacta's MectaLIF Anterior Stand Alone – Flush implant infringes two patents directed to spinal implants. RSB is seeking monetary damages and a permanent injunction. Medacta has responded to the complaint by asserting defenses that the patent claims are not infringed and are invalid. The case was stayed because Medacta, with co-petitioners, filed petitions for Inter Partes Review before the Patent Trial and Appeals Board challenging the validity of the patents. In its final written decision, the PTAB did not find any of the claims to be unpatentable. The co-petitioners have appealed this ruling. The stay has been lifted in the district court litigation. The district court entered its Markman opinion about the scope of the asserted patent, and the parties completed fact discovery in February 2022. The parties are currently engaging in expert discovery.

The case is still pending and in connection with this matter, we have not made any provisions.

CONFORMIS, INC. V. MEDACTA USA, INC.

On August 29, 2019, Conformis filed a patent infringement complaint in the District of Delaware (USA) alleging that Medacta's MyKnee, MyHip, and MyShoulder products infringe four patents directed to spinal implants. Conformis is seeking monetary damages. Medacta's response to the complaint was filed on December 2, 2019, and as a result, the MyHip product has been dismissed from the case. Medacta believes the accused products do not infringe the patents-in-suit and that these patents are invalid. Conformis filed an amended complaint seeking to add Medacta International as a defendant. A motion to dismiss Medacta International is pending and will be decided by the Court at some point in the future. The parties have completed fact discovery and have exchanged expert reports. The parties recently agreed to revisit settlement discussions, but the case was not resolved. The parties have previously engaged in two rounds of mediation with the Magistrate Judge. The Court recently entered a new case schedule with the trial date being set for October 30, 2022.

In connection with the above patent matter, the Group in agreement with what prescribed by IAS 37 recognised a provision of approximately Euro 0.7 million accrued in 2020.

CONFORMIS, INC. V. MEDACTA INTERNATIONAL SA AND MEDACTA GERMANY GMBH

With complaint dated October 18, 2021, Conformis, Inc. filed a patent infringement complaint with the District of Düsseldorf (Germany) alleging that Medacta's MyKnee, MyHip, and MyShoulder products infringe the national German part of Conformis, Inc.'s European Patent No. 2 710 967. The complaint has been served on Medacta Germany GmbH, but so far has not been served on Medacta International SA. Thus, the law suit is, at the moment, pending only between Conformis, Inc. and Medacta Germany GmbH. It has to be expected that the complaint will also be served on Medacta International SA in the future. With the complaint, Conformis, Inc. is seeking claims to cease-and-desist from manufacturing, advertising and selling the MyKnee, MyHip, and MyShoulder products in Germany, claims to information regarding the production and sale of the products, claims to recall the products from the market and destruction of the products as well as a declaratory judgement for damages. Medacta Germany GmbH's response to the complaint was filed on January 31, 2022. Conformis, Inc. must comment on the reply to the complaint until April 28, 2022. Medacta Germany GmbH then has the possibility to submit observations until July 29, 2022. An oral hearing in the matter will take place on September 1, 2022. In the reply to the complaint, Medacta Germany GmbH requested that Conformis, Inc. shall provide security for the costs of the proceedings. The District Court of Düsseldorf has set a deadline for Conformis, Inc. to reply to the request. We have, so far, not received Conformis, Inc.'s reaction. The court will have to render a decision on the request to provide a security. In case the court orders Conformis, Inc. to provide security for the costs of the proceedings and Conformis, Inc. does not comply with such order, it will be possible to request that the court dismisses Conformis, Inc.'s action.

The case is still pending and in connection with this matter, we have not made any provisions.

ALLEGED CRIMINAL OFFENSES UNDER GERMAN LAW

On March 28, 2019, German law enforcement officers served a search warrant to gather evidence concerning alleged criminal offenses under German law by various parties, including one of our expert independent physician consultants in Germany, the former CEO of a local clinic where our products are and were sold, the co-CEO of Medacta Germany GmbH in Göppingen, Germany ("Medacta Germany"), our CEO and representatives of various other public and private orthopaedic device supply companies in Germany. Specifically, the search warrants relate to allegations that the physician consultant unlawfully influenced or attempted to influence procurement decisions at the clinic in order to increase the purchase of orthopaedic products, including Medacta products, in exchange for payments received or promised, including from Medacta.

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

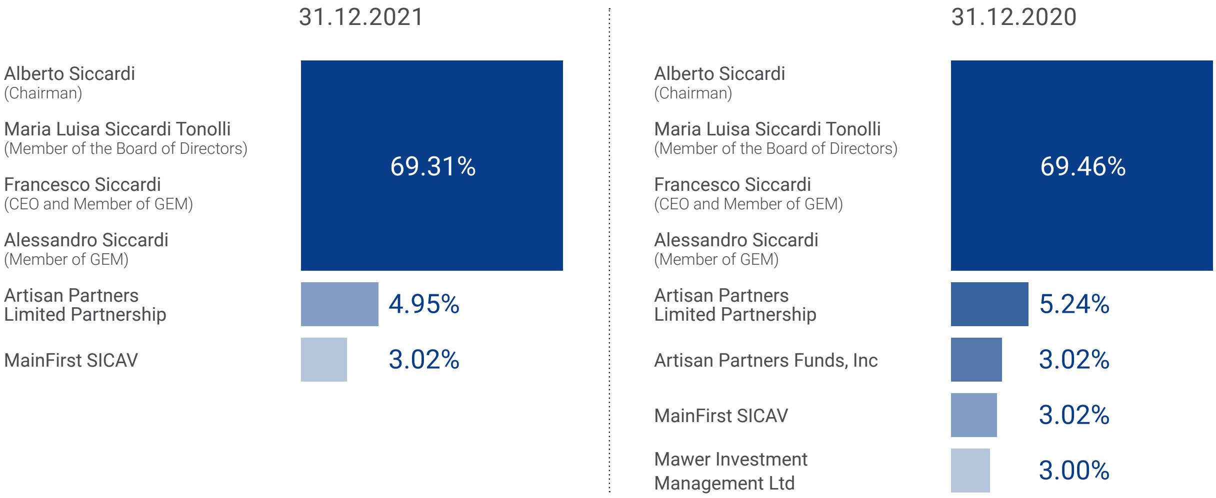
In August 2021, we have submitted to the public prosecutor's office in Neuruppin a new statement, with the purpose to correct the police suspicions regarding the e-mails and documents and to request to discontinue the proceedings pursuant to § 170 ara. 2.

Together with others, the German public prosecutor's office has decided to discontinue the proceedings (Discontinuation under section § 170 para. 2 StPO) against Medacta, Messrs. Francesco Siccardi and Jörg Häfner.

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 2021 Medacta International made contributions to Medacta for Life Foundation for Euro 324 thousand (Euro 327 thousand in 2020), a non-profit organization owned by the Siccardi Family.

Mr. Philippe Weber became Member of the Board of Directors of Medacta Group SA on March 21, 2019.

Niederer Kraft Frey Ltd, a law firm at which Mr. Philippe Weber is a partner, provided legal services to the Group. The fees for his professional services provided during the year 2021 are recognised in the General and Administrative expense line item for an amount equal to Euro 40 thousand (in 2020 Euro 78 thousand).

Dr. Alberto Siccardi, Chairman of the Board of Directors of Medacta Group SA, on October 18, 2021 and October 19, 2021 sold respectively 10'348 and 4'587 share units. Mr. Francesco Siccardi, CEO of Medacta Group SA, on October 18, 2021 and October 19, 2021 sold respectively 10'852 and 4'810 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)	31.12.2021	31.12.2020
Fees, salaries and other short-term benefits	2'748	2'698
Compensation cuts *	-	(982)
Post-employment pension and medical benefits	279	165
Share-based payments	71	
TOTAL COMPENSATION OF KEY MANAGEMENT PERSONNEL	**3'098**	**1'881**

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

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

6.27 EARNINGS PER SHARE

Basic earnings per share is calculated as the profit for the period 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.

	31.12.2021	31.12.2020
Net profit attributable to shareholders (in Euro thousand)	51'521	37'091
Weighted average number of ordinary shares outstanding	19'996'308	20'000'000
BASIC EARNINGS PER SHARE (in Euro)	**2.58**	**1.85**

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 calculated as above is compared with the number of shares that would have been issued assuming the exercise of the Performance Share Units.

(Thousand Euro)	31.12.2021	31.12.2020
Net profit used to determine diluted earnings per share (in Euro thousand)	51'521	37'091
Weighted average number of ordinary shares outstanding	19'996'308	20'000'000
Adjustments for performance stock units issued	7'966	-
Weighted average number of ordinary shares for diluted earnings per share	20'004'274	20'000'000
DILUTED EARNINGS PER SHARE (in Euro)	**2.58**	**1.85**

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, 2021, contracted purchase commitments, mainly relating the acquisition of instruments, for a total amount of Euro 16.8 million (Euro 8.3 million in 2020).

As of December 31, 2021, tangible fixed assets for a total amount of Euro 16’494 thousand (2020: Euro 16’312 thousand) have been pledged as collateral for borrowing facilities.

The Group as of December 31, 2021 and 2020 had unused current credit lines of Euro 103’886 thousand and Euro 98’610 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, 2021.

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 Group’s entity are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Group’s presentation currency is the Euro, and all values are rounded to the nearest thousand except where otherwise indicated.

	Average		Closing	
	2021	2020	31.12.2021	31.12.2020
CHF	0.9253	0.9344	0.9643	0.9253
GBP	1.1638	1.1246	1.1901	1.1189
AUD	0.6350	0.6043	0.6387	0.6298
USD	0.8460	0.8759	0.8797	0.8188
JPY	0.0077	0.0082	0.0076	0.0079
CAD	0.6749	0.6538	0.6960	0.6433

7. AUDIT REPORT – CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

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Statutory Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Medacta Group SA and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 108 to 161) give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

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

Our Audit Approach

Summary	
Key audit matters	Based on our audit scoping, we identified the following key audit matters: - Capitalisation and measurement of development projects - Existence of inventory - Existence of instruments
Materiality	Based on our professional judgement, we determined materiality for the Group as a whole to be EUR 3.6 million.
Scoping	We defined 6 components operations in 5 countries to be in scope for group reporting purposes. Coverage ratio on group revenue, group total assets, and group profit before tax are disclosed below.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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 52 million (2020: EUR 49 million), including development projects capitalised at 31 December 2021 amounting to EUR 36 million (2020: EUR 32 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 the reporting date, are amortised over the useful life of the related products. Projects which are still in early phases of development as of the reporting date, are not amortised as they are considered as being intangible assets with indefinite useful life ("In Progress Development Projects"). Development projects are allocated to Product Families based on their purpose.	We gained an understanding of the key controls relevant to the development projects process, and the impairment process. We performed tests 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. In addition, we checked whether a sample of costs was eligible for capitalization and whether the amounts were capitalised accurately, verifying the supporting evidence such as invoices from suppliers and internal hours.

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 IFRS. Whenever there are indications of impairment, and at least once a year for "In Progress Development Projects", the Group tests these assets for impairment. For the impairment test of "In Progress Development Projects", the Group applies judgements and defines assumptions in areas such as revenue growth, estimates in connection with the "costs to complete", and WACC. For these projects, the impairment test is done at the level of the 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 our audit.	We have involved internal valuation specialists to assist us in challenging the valuation model (i.e. validity of the methodology and its application, completeness, and mathematical accuracy) and challenging the WACC applied. In addition, we have challenged the Group's judgements and assumptions used in its impairment model and have tested the historical accuracy of the judgements and assumptions used for the 2021 consolidated financial statements. 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 risk of capitalisation and measurement of development projects.

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 136 million as of 31 December 2021 (2020: EUR 114 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 high level of the inventory balance in relation to the Group's total assets, and the number of locations in which inventory is located, we consider the existence of inventory to be a key audit matter in our audit.	We assessed the appropriateness of the Group's process for inventory, including inventory counts procedures, which are performed for inventory located at Medacta's premises and in consignment. As part of this work, we also gained an understanding of the of the key controls relating to the existence of inventory. We have performed physical inventory counts for items selected through statistical sampling methods. Our work was performed in Switzerland, France, Germany and USA. This work covered also inventory in consignment. For locations where our participation in the inventory counts procedures performed by the Group was possible, we attended these and compared the results of our own work with the results of the counts performed by the Group. We assessed the adequacy and completeness of the disclosures included in the accompanying consolidated financial statements (Notes 6.12). Based on the procedures performed, we obtained sufficient audit evidence to address the risk of the existence of inventory.

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 155 million as at 31 December 2021 (2020: EUR 132 million), including instruments for a net balance of EUR 88 million (2020: EUR 73 million). The instruments are held in warehouses and at Medacta's customers premises to ensure continuity of supply. Given the high level of the instruments balance in relation to the Group's total assets, and the number of locations in which instruments are consigned, we consider the existence of instruments to be a key audit matter in our audit.	We assessed the appropriateness of the Group's process for instruments, including instruments counts procedures, which are done for instruments located at Medacta's premises and in consignment. As part of this work, we also gained an understanding of the key controls relating to the existence of instruments. We have performed physical instruments counts for items selected through statistical sampling methods. Our work was performed in Switzerland, France, Germany, and 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 (Notes 6.7). Based on the procedures performed, we obtained sufficient audit evidence to address the risk of the existence of instruments.

Our application of materiality

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

Based on our professional judgement we determined materiality for the Group to be EUR 3.6 million (EUR 2.4 million in prior year), which is 6.5% of profit before taxes (6% of profit before taxes in prior year), and 1.6% of equity (1.5% 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 0.180 million (EUR 0.120 million in prior year), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements. Our audit work at the components was executed at levels of materiality applicable to each individual entity, which were lower than Group materiality and ranged from EUR 0.360 million to EUR 2.430 million (from EUR 0.240 million to EUR 1.584 million in prior year).

An overview of the scope of our audit

The scope of our Group audit was defined by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on 6 components. 3 of these were subject to a full audit, whilst the remaining 3 were subject to an audit of specified account balances for which the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations for those components. These 6 components represent the principal business units and account for 95% of the Group's total assets (94% in prior year), 76% of the Group's revenue (81% in prior year) and 92% of the Group's profit before tax (92% in prior year). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

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

Other Information in the Annual Report

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

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

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

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

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

Deloitte.

Medacta Group SA
Statutory Auditor's Report
for the year ended
31 December 2021

Report on Other Legal and Regulatory Requirements

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

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

Deloitte SA

Fabien Lussu
Licensed Audit Expert
Auditor in Charge

Michele Castiglioni
Licensed Audit Expert

Lugano, 10 March 2022
FLU/MCA/jba

8. STATUTORY FINANCIAL STATEMENTS MEDACTA GROUP SA, CASTEL SAN PIETRO

BALANCE SHEET

ASSETS

(Swiss Francs)	Notes	31.12.2021	31.12.2020
Cash and cash equivalents		705'642	215'001
Short-Term receivables towards group companies	8.3.1	3'023'871	3'598'609
Accrued income and prepaid expenses	8.3.2	16'035'728	530'832
TOTAL CURRENT ASSETS		**19'765'241**	**4'344'442**
Investment in subsidiaries	8.3.3	135'510'490	135'510'490
Long-Term loans towards group companies	8.3.4	46'750'000	46'750'000
TOTAL NON-CURRENT ASSETS		**182'260'490**	**182'260'490**
TOTAL ASSETS		**202'025'731**	**186'604'932**

LIABILITIES AND EQUITY

(Swiss Francs)	Notes	31.12.2021	31.12.2020
Account payables		346'210	383'400
Deferred income and accrued expenses		1'697'559	604'429
Other current liabilities		143'293	181'677
TOTAL CURRENT LIABILITIES		**2'187'062**	**1'169'506**
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	23'520'000	23'520'000
General legal reserve from earnings		1'000'000	1'000'000
Treasury Shares reserve	8.3.7	(1'342'660)	
Retained earnings brought forward		27'915'426	27'602'790
Profit of the year		15'745'903	312'636
TOTAL SHAREHOLDER'S EQUITY		**199'838'669**	**185'435'426**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**202'025'731**	**186'604'932**

INCOME STATEMENT

(Swiss Francs)	Notes	31.12.2021	31.12.2020
Dividend income	8.3.8	16'000'000	500'000
Interest Income		467'500	434'713
Other Revenues	8.3.9	3'552'071	2'396'505
TOTAL REVENUE		**20'019'571**	**3'331'218**
Personnel costs		(3'378'158)	(2'006'387)
Legal and administrative expenses	8.3.10	(689'145)	(851'187)
Other expenses		(46'296)	(42'142)
TOTAL OPERATING COSTS		**(4'113'599)**	**(2'899'716)**
OPERATING PROFIT		**15'905'972**	**431'502**
Other financial costs		(5'039)	(4'366)
TOTAL FINANCIAL INCOME / (COSTS)		**(5'039)**	**(4'366)**
PROFIT BEFORE TAXES		**15'900'933**	**427'136**
Taxes	8.3.11	(155'030)	(114'500)
PROFIT OF THE PERIOD		**15'745'903**	**312'636**

NOTES

8.1 GENERAL INFORMATION

Medacta Group SA (the "Company") has been registered in the Commercial Register of the Canton Ticino, Switzerland since November 30, 2018, with legal office in Castel San Pietro and with a share capital of CHF 2'000'000. The 2021 Medacta Group SA Profit or Loss recognizes the full year of transactions, from January 1, 2021 to December 31, 2021. The company went public on April 4, 2019 and is listed at the SIX Swiss Stock Exchange.

The activity of the Company is to indirectly or directly acquire, hold and manage investments in domestic and foreign companies, in particular controlling investments in industrial and trading companies active in the field of orthopaedics, the management and sustainable development of these investment companies within a group of companies as well as the provision of financial and organizational means for the management of a group of companies. The Company may acquire, mortgage, utilize and sell real estate properties and intellectual property rights in Switzerland and abroad as well as incorporate and finance subsidiaries and branches. The Company may engage in all kinds of commercial and financial transactions that are beneficial for the realisation of its purpose, in particular provide and receive loans, issue bonds, provide suretyships and guarantees, provide collateral as well as make investments in all marketable investment classes.

Medacta Group SA, controlling company of Medacta Group, prepares Consolidated Financial Statements for the Group in accordance with the International Financial Reporting Standards (IFRS), in compliance with articles 963 and following of the Swiss Code of Obligations (CO), subject to ordinary audit as per Swiss Law.

Furthermore, as the Company issues a Consolidated Financial Statement under IFRS, the Company is and will be exempt from additional disclosure requirements for larger companies in accordance with Art. 961d para 1 CO.

8.2 ACCOUNTING PRINCIPLES

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

TRANSLATION OF FOREIGN CURRENCIES

The receivables and payables in foreign currencies are translated into Swiss Francs at the exchange rate prevailing at the balance sheet date.

During the year, the transactions in foreign currencies are translated into Swiss Francs at the exchange rate prevailing in the day of the transaction.

Unrealized foreign exchange gains are deferred in the Balance Sheet whereas unrealized foreign exchange losses are recognized in the Income Statement. Realized foreign exchange gains and losses are recorded in the Income Statement.

RELATED PARTIES

Related parties include direct and indirect subsidiaries, associated and controlled companies and the Members of the Board of Directors as well as the Shareholders of the Company. All transactions with those related parties are carried out at market conditions (at arm's length principle).

INVESTMENT IN SUBSIDIARIES

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

TAXES

Taxes are accrued for on the basis of the annual profit and the taxable capital at the balance sheet date.

INCOME AND COSTS

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

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

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

USE OF ESTIMATES AND JUDGEMENTS BY THE MANAGEMENT

The annual Financial Statements prepared in conformity with the Swiss Code of Obligations (CO) require the use of accounting estimates and assumptions by the management, based on historical experience and other factors (such as anticipation of results and future events, where appropriate and based on all circumstances and in compliance with the accounting principles of reference). Being the case of estimates, the relevant effects, when they occur, could differ from such estimates and expectations.

The main Financial Statements positions based on estimates and assumptions by the management are the following:

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

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

8.3.1 SHORT-TERM RECEIVABLES TOWARDS GROUP COMPANIES

The Company has short-term receivables towards Medacta International SA for CHF 3'023'871.

8.3.2 ACCRUED INCOME AND PREPAID EXPENSES

This position includes dividend from Medacta Holding SA for CHF 16'000'000 related to the result of the year 2021 (simultaneous registration of dividend) and insurance prepaid expenses.

8.3.3 INVESTMENT IN SUBSIDIARIES

The investment in subsidiaries consist of:

- Direct investment in subsidiaries:

Company	% of shares held December 2021 and 2020	Registered office	Country	Share Capital	31.12.2021
Medacta Holding S.A.	100%	Castel San Pietro	Switzerland	1'026'010 CHF	135'510'490 CHF

- Indirect investment in subsidiaries:

Company	% of shares held December 2021	% of shares held December 2020	Registered office	Country	Registered Capital
Medacta International SA	100%	100%	Castel San Pietro	Switzerland	1'000'000 CHF
Medacta Australia PTY Ltd	100%	100%	Lane Cove	Australia	4 AUD
Medacta Austria GmbH	100%	100%	Eugendorf	Austria	35'000 EUR
Medacta Belgium S.r.l.*	100%	100%	Nivelles	Belgium	2'018'550 EUR
Medacta Canada Inc.	100%	100%	Kitchener	Canada	100 CAD
Medacta España S.L.	100%	100%	Burjassot	Spain	3'000 EUR
Medacta France SAS	100%	100%	Villeneuve La Garenne	France	37'000 EUR
Medacta Germany GmbH	100%	100%	Göppingen	Germany	25'000 EUR
Medacta Italia S.r.l.	100%	100%	Milan	Italy	2'600'000 EUR
Medacta Japan Co. Ltd	100%	100%	Tokyo	Japan	25'000'000 JPY
Medacta UK Ltd	100%	100%	Hinckley	UK	29'994 GBP
Medacta USA Inc.	100%	100%	Franklin - Tennessee	USA	50'050'000 USD

* As of November 18, 2021 Medacta International SA acquired Medacta Belgium S.r.l. shares from Medacta Holding SA. As of December 21, 2021 Medacta Belgium S.r.l. registered a capital increase of Euro 2'000'000 (from Euro 18'550 to Euro 2'018'550).

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

8.3.4 LONG-TERM LOANS TOWARDS GROUP COMPANIES

This position refers to the interest-bearing loan towards Medacta International SA. No changes during 2021.

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

No changes into the financial year 2021. The capital contribution reserve was made up through cash contributions of CHF 6’450’000 and CHF 17’070’000 paid in 2019 by the majority shareholders to the company for a total amount of CHF 23’520’000. Tax rulings have been received by Swiss federal tax authorities in order that these cash contributions can be recognized as qualifying capital contribution reserves (Kapitaleinlagereserve KER) in the sense of Swiss federal anticipatory (withholding) tax law. The final formal approval has been obtained by federal tax authorities in the year 2020.

8.3.7 TREASURY SHARES RESERVE

In 2021 the Company purchased 10’007 own shares for an average price of CHF 134.17. 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” in the Financial Report of the Annual Report 2021.

8.3.8 DIVIDEND INCOME

Dividend income accrued as of December 31, 2021 for CHF 16’000’000 refers to the 2021 dividend from the subsidiary Medacta Holding SA (simultaneous registration of dividend). Dividend accrued as of December 31, 2021 has not been cashed in as of the balance sheet date. The 2020 dividend income for CHF 500’000 was settled by Medacta Holding SA in May 2021.

8.3.9 OTHER REVENUES

Other revenues equal to CHF 3’552’071 as of December 31, 2021 (CHF 2’396’505 in 2020), relates to the re-billing to Group’s subsidiaries for an amount of CHF 3’547’363 (CHF 2’392’841 in 2020), which include payroll, general and administrative expenses to ensure that the costs will be incurred to the relevant parties following the accuracy assertion.

8.3.10 LEGAL AND ADMINISTRATIVE EXPENSES

2021 audit fees of the standalone and Consolidated Financial Statements amount to CHF 307’650 (CHF 390’583 in 2020). Fiscal, legal and administrative fees are equal to CHF 381’495 (CHF 460’604 in 2020).

8.3.11 TAXES

The Company is subject to direct taxes on profit and capital. Taxes as of December 31, 2021, amounts to CHF 155’030 (CHF 114’500 in 2020) out of which CHF 130’957 relates to capital tax and CHF 24’073 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 2021 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 RESIDUAL AMOUNT OF LIABILITIES RESULTING FROM LEASE COMMITMENTS

The Company has no leasing contracts in force.

8.4.4 LIABILITIES TOWARDS PENSION INSTITUTIONS

The Company has no liabilities towards pension institutions of as of December 31, 2021 and 2020.

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

In order to guarantee the commitments undertaken by the affiliated Medacta International SA, as of December 31, 2021 the Company has letters of patronage in favour of banking institutions for an amount of CHF 107’500’000 (2020: CHF 113’500’000).

8.4.6 ASSETS USED TO SECURE OWN LIABILITIES

The company has not constituted pledges or collaterals on own assets to secure own liabilities.

8.4.7 CONTINGENT LIABILITIES

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

8.4.8 SUBSCRIPTION OR OPTION RIGHTS

As of December 31, 2021, the Company neither owns nor has released subscription or option rights on its proper shares or on the shares of other group companies.

8.4.9 IMPORTANT SUBSEQUENT BALANCE SHEET DATE EVENTS

There have been no events occurring after the reported period which would have a material effect on the Medacta Group Financials as of December 31, 2021.

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 19, 2022 a distribution of CHF 10’700’000 (CHF 0.54 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 take into account 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)	31.12.2021
Retained earnings to bring forward	27'915'426
Profit of the year	15'745'903
Change in reserves for treasury shares	(1'342'660)
AVAILABLE RETAINED EARNINGS	**42'318'669**
DISTRIBUTION OF PROFIT	
Dividend paid out of the available earnings *	(5'350'000)
Allocation to general reserves	-
Allocation to other reserves	-
AVAILABLE RETAINED EARNINGS	**36'968'669**

* Depends on the number of dividend-entitled shares, max. 19'989'993 shares, as of December 31, 2021. The own shares held by Medacta Group SA are not entitled to the distribution of dividends.

8.7 PROPOSED APPROPRIATION OF RESERVES FORM CAPITAL CONTRIBUTION

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

(Swiss Francs)	31.12.2021
RESERVE FROM CAPITAL CONTRIBUTION	
BALANCE JANUARY 1, 2021	**23'520'000**
Distribution of reserves from capital contribution in 2020	-
BALANCE DECEMBER 31, 2021	**23'520'000**
Proposed distribution of reserves from capital contribution in 2021 *	(5'350'000)
BALANCE TO BE CARRIED FORWARD	**18'170'000**

* 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

Deloitte.

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Statutory Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Medacta Group SA, which comprise the balance sheet as at 31 December 2021, and the income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 169 to 174) as at 31 December 2021 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

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

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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

Valuation of Investments and Loans

Key audit matter	How the scope of our audit responded to the key audit matter
As described in Notes 8.3.3 and 8.3.4 to the standalone financial statements, investments in and loans to subsidiaries amount to CHF 182 million (2020: CHF 182 million), or 90% of total assets as at 31 December 2021. The Company assesses the valuation of its investments and loans and determines potential impairments indicators on an individual basis, in accordance with the Swiss Code of Obligations. Due to the significance of the carrying amount of the investments and loans, and due to the judgement involved in the determination of potential impairments, this matter was considered a key audit matter in our audit.	We have assessed the appropriateness of the Company's accounting policy for the valuation of investments and loans. We gained an understanding of the key controls in connection with the valuation of investments and loans. We challenged the assessment of impairment indicators made by the Company. We compared the carrying amount of the investments with the equity balances of the relevant entities. We challenged the recoverability of the loans given by the Company to subsidiaries. We assessed the adequacy and completeness of the related disclosures in Notes 8.3.3 and 8.3.4 to the standalone financial statements. Based on the procedures performed, we obtained sufficient audit evidence to address the risk of the valuation of investments and loans.

Responsibility of the Board of Directors for the Financial Statements

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

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

Deloitte.

Medacta Group SA
Statutory Auditor’s Report
for the year ended
31 December 2021

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

Report on Other Legal and Regulatory Requirements

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company’s articles of incorporation. We recommend that the financial statements submitted to you be approved.

Deloitte SA

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

Lugano, 10 March 2022
FLU/MCA/jba

AUGMENTED REALITY SURGICAL PLATFORM

An innovative solution that features advanced planning tools, revolutionary tracking system, and augmented reality to potentially improve surgery accuracy and efficiency, with low upfront capital investment and cost per case compared to other technologies.

HEALTHCARE SUSTAINABILITY

Sustainability is a fundamental pillar of Medacta's strategy, in environmental, economic and social terms. NextAR embodies this philosophy while providing an advanced system with unique value.