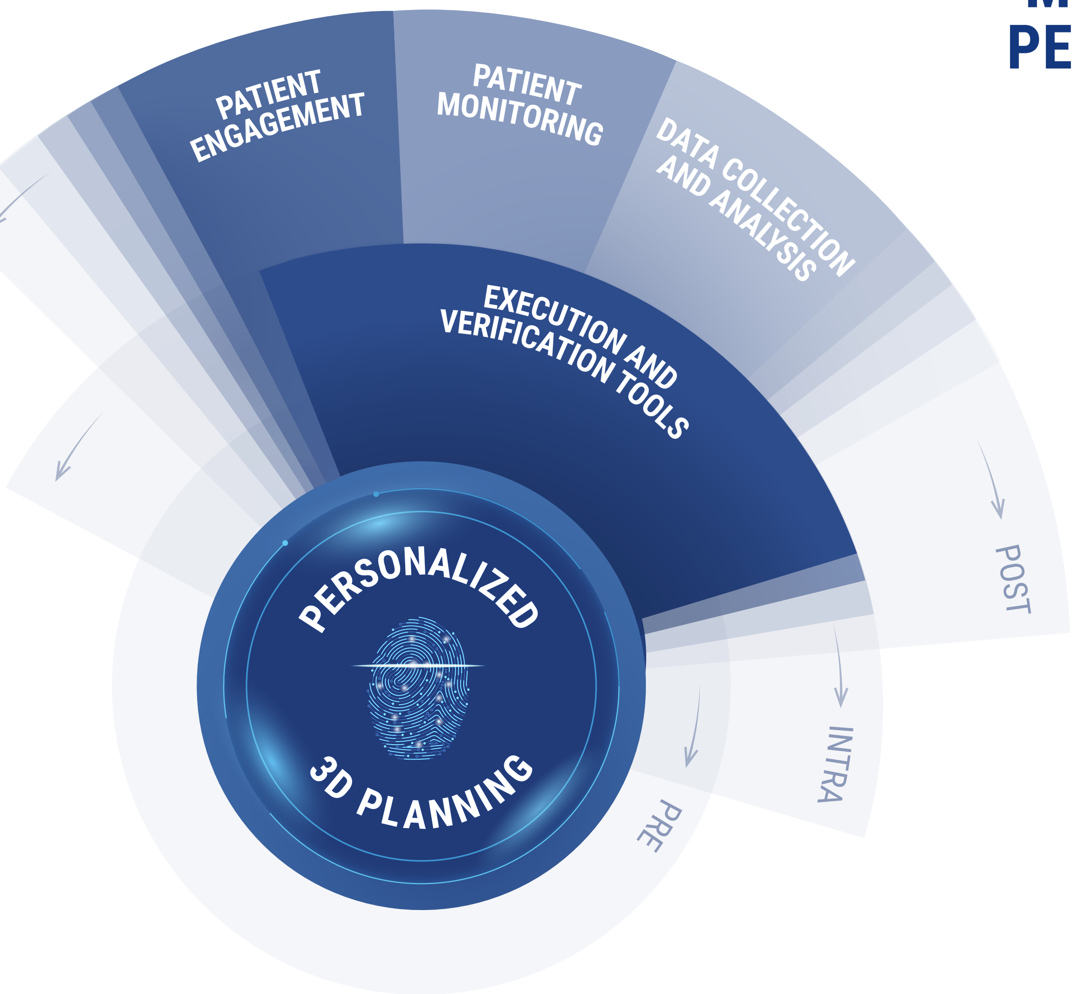
Medacta International

FINANCIAL REPORT

INDEX



MYSOLUTIONS PERSONALIZED ECOSYSTEM

PERSONALIZED 3D PLANNING

PRECISE EXECUTION

PATIENT ENGAGEMENT

EFFICIENT CASE MANAGEMENT

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

1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Thousand Euro)	Notes	31.12.2022	31.12.2021
Revenues	6.24.1	437'122	363'126
Cost of Sales		(131'866)	(101'879)
GROSS PROFIT		**305'256**	**261'247**
Research and Development expenses	6.24.2	(16'223)	(11'306)
Sales and Marketing expenses		(159'594)	(132'555)
General and Administrative expenses	6.24.2	(65'447)	(58'844)
Other income	6.24.3	1'570	1'536
Other expenses	6.24.3	(4'098)	(1'301)
OPERATING PROFIT (EBIT)		**61'464**	**58'777**
Financial income	6.24.4	2'831	2'318
Financial costs	6.24.4	(9'503)	(5'644)
PROFIT BEFORE TAXES		**54'792**	**55'451**
Income taxes	6.11	(8'543)	(3'930)
PROFIT FOR THE YEAR		**46'249**	**51'521**

ATTRIBUTABLE TO			
Equity holders of the parent	6.27	46'249	51'521
Non-controlling interests		-	-
BASIC EARNINGS PER SHARE	6.27	**2.32**	**2.58**
DILUTED EARNINGS PER SHARE	6.27	**2.31**	**2.58**

The Notes are an integral part of the Consolidated Financial Statements

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Thousand Euro)	Notes	31.12.2022	31.12.2021
PROFIT FOR THE YEAR		**46'249**	**51'521**
OTHER COMPREHENSIVE INCOME			
Remeasurements of defined benefit obligations	6.20	4'915	2'663
Tax effect on remeasurements of defined benefit obligations		(852)	(462)
TOTAL ITEMS NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**4'063**	**2'201**
Currency translation differences		10'112	8'726
TOTAL ITEMS TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**10'112**	**8'726**
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**14'175**	**10'927**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**60'424**	**62'448**
ATTRIBUTABLE TO			
Equity holders of the parent		60'424	62'448
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, 2022 AND 2021

ASSETS

(Thousand Euro)	Notes	31.12.2022	31.12.2021
Property, plant and equipment	6.7	188'235	155'378
Right-of-use assets	6.8	30'264	24'371
Goodwill and intangible assets	6.9	50'188	51'975
Other non-current financial assets	6.10	481	479
Deferred tax assets	6.11	31'659	29'029
TOTAL NON-CURRENT ASSETS		**300'827**	**261'232**
Inventories	6.12	160'301	136'091
Trade receivables	6.13	77'957	59'436
Other current financial assets	6.10	802	-
Other receivables and prepaid expenses	6.14	12'340	12'103
Cash and cash equivalents	6.15	32'261	20'404
TOTAL CURRENT ASSETS		**283'661**	**228'034**
TOTAL ASSETS		**584'488**	**489'266**

LIABILITIES AND EQUITY

(Thousand Euro)	Notes	31.12.2022	31.12.2021
Share capital	6.16	1'775	1'775
Capital contribution reserve	6.16	16'018	21'227
Retained earnings and other reserves	6.16	235'718	192'363
Foreign currency translation reserve	6.16	21'144	11'032
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**274'655**	**226'397**
Non-controlling interests		-	-
EQUITY		**274'655**	**226'397**
Non-current financial liabilities	6.17	137'592	49'552
Other non-current liabilities	6.18	4'649	8'123
Non-current provisions	6.19	3'678	1'185
Retirement benefit obligation	6.20	8'862	12'145
Deferred tax liabilities	6.11	44'619	39'837
Non-current lease liabilities	6.17	21'371	15'470
TOTAL NON-CURRENT LIABILITIES		**220'771**	**126'312**
Trade payables	6.22	28'480	25'951
Other current liabilities	6.18	15'515	11'002
Current financial liabilities	6.17	7'091	64'486
Current provisions	6.19	120	349
Accrued expenses and deferred income	6.23	31'494	29'055
Current lease liabilities	6.17	6'362	5'714
TOTAL CURRENT LIABILITIES		**89'062**	**136'557**
TOTAL LIABILITIES		**309'833**	**262'869**
TOTAL LIABILITIES AND EQUITY		**584'488**	**489'266**

The Notes are an integral part of the Consolidated Financial Statements

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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

	Attributable to equity holders of Medacta Group SA						
(Thousand Euro)	Share capital	Capital Contribution Reserve	Retained earnings and other reserves	Treasury shares	Foreign currency translation reserve	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**

The Notes are an integral part of the Consolidated Financial Statements

5. CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Thousand Euro)	Notes	31.12.2022	31.12.2021
PROFIT FOR THE YEAR		**46'249**	**51'521**
Adjustments for:			
Income taxes	6.11	8'543	3'930
Depreciation, amortisation and impairment of tangible, intangible and right-of-use assets	6.24.2	51'510	40'436
(Gain) / loss on disposal of tangible and intangible assets		(22)	901
Foreign exchange result		3'183	(357)
Interest expenses		2'664	1'698
Change in Provisions and Retirement benefit obligations	6.12; 6.13 ; 6.19 ; 6.20	10'080	9'072
Share-based payments expense	6.21	1'148	468
Income taxes paid		(8'343)	(25'430)
Interest paid		(2'304)	(1'698)
(Increase) / decrease in trade receivables		(17'738)	(13'941)
(Increase) / decrease in other receivables and prepaid expenses		505	(3'509)
(Increase) / decrease in inventories		(20'781)	(16'792)
Increase / (decrease) in trade payables		1'432	8'523
Increase / (decrease) in other liabilities and accruals		(2'616)	(761)
CASH FLOW FROM OPERATING ACTIVITIES		**73'510**	**54'061**
Purchase of tangible assets	6.7	(63'158)	(46'491)
Purchase of intangible assets *		(8'103)	(8'127)
Proceeds from disposal of tangible assets		6'383	2'566
Cash consideration for acquisitions, net of cash acquired	6.9	(220)	-
Changes in financial assets		(8)	10
CASH FLOW FROM INVESTING ACTIVITIES		**(65'106)**	**(52'042)**
Proceeds from borrowings	6.17	59'161	846
Repayment of borrowings	6.17	(35'242)	(24'801)
Repayment of lease liabilities	6.17	(7'146)	(6'015)
Dividends paid	6.16	(10'418)	
Purchase of treasury shares	6.16	(2'917)	(1'242)
CASH FLOW FROM FINANCING ACTIVITIES		**3'438**	**(31'212)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**11'842**	**(29'193)**
Cash and cash equivalents at the beginning of the year	6.15	20'404	48'068
Net effect of currency transaction on cash and cash equivalent		15	1'529
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6.15	**32'261**	**20'404**

* "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, 2022 AND 2021

GENERAL INFORMATION

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

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

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

STATEMENT OF COMPLIANCE

The Consolidated Financial Statements as of December 31, 2022 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 and after January 1, 2023 as disclosed in Note 6.3 "New accounting and International Financial Reporting Standards".

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

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

The Consolidated Statement of Cash Flows from operating activities was prepared and presented 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. An 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 "Macroeconomic environment").

PRESENTATION CURRENCY

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

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

USE OF ESTIMATES AND JUDGEMENTS

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

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

- Leases – Due to the application of IFRS 16, judgement is required to determine the lease term. Management considers all circumstances and facts that create an economic incentive to exercise an extension or termination option. The assessment is reviewed if a significant event or a significant change in circumstances 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. 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, 2022, management has 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

MACROECONOMIC ENVIRONMENT

We are monitoring the war in Ukraine and its impact on worldwide geopolitical and macroeconomic uncertainties. The war between Russia and Ukraine has resulted in the implementation of sanctions by the EU, Switzerland, United States and other governments against Russia and has caused significant volatility and disruptions to the global markets. Our direct exposure to both Russia and Ukraine is very limited. Both in 2022 and 2021, we did not have any sales in Russia, while in Ukraine we accounted for only Euro 1.1 million in 2022 (Euro 0.6 million in full-year 2021). From Q2 2022, we are not entering any new business either onshore or through distributors in both Russia and Ukraine. We do not have any of our consolidated assets that are currently in either Russia or Ukraine territory, except for Euro 0.4 million receivables towards Ukrainian clients that were entirely written off in 2022.

The conflict has resulted and could continue to result in volatile commodity markets, supply chain disruptions, increased risk of cyber incidents or other disruptions to information systems, reduced availability and increased costs for transportation, energy, packaging, raw materials, and other input costs. Further, if the war expands beyond Ukraine or further intensifies, it could have an adverse impact on our operations in Europe. As a result of these consequences from the Russia-Ukraine conflict, we increased our level of attention on inflationary pressures on transportation and commodity costs. Our Enterprise Risk Management meetings focused on both supply chain and inflationary risks, to identify specific actions needed to mitigate the impact on our performances. Our 2022 profitability was impacted from the inflationary costs, which we expect to reduce in 2023.

Also, to further strengthen our internal measures, to maintain the confidentiality and integrity of our systems, data, and products against cyberattacks, we executed a dedicated cybersecurity project designed in 2021. The program included the appointment of a Cybersecurity Manager, penetration testing and the creation of a Security Operation Center for H24 monitoring of cyber events on our IT infrastructure. Regular updates on the program were presented to the Audit and Risk Committee. Also, in 2022 periodic training and awareness sessions in the cyber environment have been planned for all our Group employees.

Our global operations continue to expose us to risks associated with the Covid-19 pandemic and could materially adversely affect our operations, supply chain, manufacturing, product distribution, customers and other business activities. Numerous measures have been implemented around the world to try to reduce the spread of the virus and these measures have impacted and will continue to impact us and our customers. In 2022 our performances have been still affected by the Covid-19 global pandemic, nevertheless, the Group was able to deliver strong top-line growth, and solid cash flow results. The vast majority of our net sales are derived from products used in elective surgical procedures. In 2022 we witnessed a general recovery of elective procedures as the impact of the Covid-19 pandemic eased in most geographies, delivering 15.0% revenue growth at constant currency (20.4% reported). Significant customer acquisition, salesforce expansion and successful product introduction drove the growth that was limited by pandemic restrictions and hospital staffing shortages in Australia and US which resulted in further deferrals of elective surgical procedures.

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. We did not obtain any government grants in 2022 (Euro 99 thousand in full-year 2021).

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 conditions. The assessment did not lead to any material change to the allowance on trade receivables.

The global economy is experiencing increased inflationary pressures primarily due to global supply chain disruptions, labor shortages and the current macroeconomic environment which we anticipate will continue. Higher interest rates and capital costs, higher shipping costs, increased costs of labor and volatile foreign currency exchange rates are creating additional economic challenges. Our operations have been adversely impacted by the inflationary pressures primarily related to transportation costs as well as the impact of purchasing packaging, raw materials, and other input costs for our manufacturing process.

Management assessed the list of internal and external indicators provided by IAS 36 and, even considering the impact of the current macroeconomic environment in the full-year economic performance, does not believe that as of December 31, 2022 there are observable indicators that Medacta assets' value may be impaired. External sources of information such as adverse effects on market interest rates, market capitalization and market development showed only temporary impact that are mostly already reflecting results pre Covid-19. The internal sources of information assessed indicate 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 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. As of December 31, 2022, the costs incurred relating these activities amounted to Euro 627 thousand.

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

Acquisitions of businesses are accounted for using the acquisition method.

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

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

TRANSACTIONS ELIMINATED ON CONSOLIDATION

The Consolidated Financial Statements include the consolidated financial information of the Medacta Group entities. All intercompany balances and transactions within the Consolidated Financials are eliminated. 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 2022	% of shares held December 2021	Registered office	Registered Capital	Consolidation Method
Medacta Group SA	N/A	N/A	Castel San Pietro (CH)	2'000'000 CHF	Parent company
Knnex Health Inc. *	100%	-	Wilmington - Delaware (US)	1 USD	Full Consolidation
Medacta Holding SA	100%	100%	Castel San Pietro (CH)	1'026'010 CHF	Full Consolidation
Medacta International SA	100%	100%	Castel San Pietro (CH)	1'000'000 CHF	Full Consolidation
Medacta Americas Operations Inc.**	100%	-	Wilmington - Delaware (US)	1 USD	Full Consolidation
Medacta Australia PTY Ltd	100%	100%	Lane Cove (AU)	4 AUD	Full Consolidation
Medacta Austria GmbH	100%	100%	Eugendorf (AT)	35'000 EUR	Full Consolidation
Medacta Belgium S.r.l.	100%	100%	Nivelles (BE)	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 Europe Operations S.r.l. ***	100%	-	Milan (IT)	100'000 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

* This is a new legal entity formed as of November 2022 in Wilmington - Delaware.

** This is a new legal entity formed as of February 2022 in Wilmington - Delaware.

*** This is a new legal entity formed as of November 2022 in Milan - Italy.

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 BB+ 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 and net realizable value. Production cost comprises the acquisition price of raw materials and consumables, directly attributable costs and a proportion of indirectly attributable costs incurred in bringing the inventories to their present location and condition.

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

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

Research and Development

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, 2022 and 2021.

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 the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the allowance for these financial instruments an amount equal to 12 months expected credit loss.

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

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

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

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

Derecognition of financial assets

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

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

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

Derivative financial instruments

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

The Group entered into several forward contracts during the years 2022 and 2021, 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 fair value. Subsequent measurement is made using the amortised cost using the effective interest rate method.

Borrowings and other financial liabilities

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

Borrowings and other financial liabilities are classified among current liabilities, unless the Group has an unconditional right to defer their payment for at least 12 months after the reporting date.

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

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

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

- a transaction or event which is recognised, in 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

In 2021 the Board of Directors approved the implementation of the LTIP proposed by the Remuneration Committee, under the Performance Share Plan ("The Plan"). The purpose of the plan is to provide the eligible Medacta employees with an opportunity to become shareholders of the company, and hence align their interests to those of Medacta's other shareholders, to participate in the future long-term success and prosperity of the Group, and to enhance and reward loyalty of the employees, 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 recognised for awards that do not ultimately vest. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date of grant, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding performance share units (PSUs) is reflected as additional share dilution in the computation of earnings per share (Note 6.27 "Earnings per share").

TREASURY SHARES

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

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. The expense relating to any provision is presented in the income statement, net of any reimbursement and where discounting is used, the increase in the provision is recognised as a finance expense.

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue is recognised primarily when control of the promised goods is transferred to the customer, which typically occurs at the point in time upon delivery, shipment or 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, transaction price may also include in some instances variable considerations contingent to future events in the form discounts, rebates or paybacks. Revenue is recognised, as soon as the performance obligation is satisfied, at the transaction price identified. Medacta applies the “most likely amount” method or the “expected value method” in order to estimate the variable consideration, whichever is more predictive based on the terms of the contracts. The amount of variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

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.

6.3 NEW ACCOUNTING AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE EFFECTIVE FOR REPORTING PERIODS BEGINNING ON JANUARY 1, 2022

AMENDMENTS TO IFRS 3 REFERENCE TO THE CONCEPTUAL FRAMEWORK

The Group has adopted the amendments to IFRS 3 Business Combinations for the first time in the current year. The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events.

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

AMENDMENTS TO IAS 16 PROPERTY, PLANT AND EQUIPMENT - PROCEEDS BEFORE INTENDED USE

The Group has adopted the amendments to IAS 16 Property, Plant and Equipment for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of "testing whether an asset is functioning properly". IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

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

AMENDMENTS TO IAS 37 ONEROUS CONTRACTS - COST OF FULFILLING A CONTRACT

The Group has adopted the amendments to IAS 37 for the first time in the current year. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

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

ANNUAL IMPROVEMENTS TO IFRS ACCOUNTING STANDARDS 2018-2020 CYCLE

The Group has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle for the first time in the current year. The Annual Improvements include amendments to three standards applicable for the Group.

IFRS 1 FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's Consolidated Financial Statements, based on the parent's date of transition to IFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

IFRS 9 FINANCIAL INSTRUMENTS

The amendment clarifies that in applying the "10 per cent" test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

IFRS 16 LEASES

The amendment removes the illustration of the reimbursement of leasehold improvements.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE EFFECTIVE FOR REPORTING PERIODS BEGINNING ON AND AFTER JANUARY 1, 2023 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 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 12, “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” (effective for annual periods beginning on or after January 1, 2023);

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 receivables 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, 2022, forward currency contracts with a nominal value of USD 36'000 thousand (2021: USD 34'000 thousand) and positive fair value of Euro 802 thousand (2021: negative fair value of Euro 39 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, 2022 and as of December 31, 2021).

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

EXCHANGE RATES SENSITIVITY

As at December 31, 2022

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

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

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.

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 2022 and 2021 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 rates.

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

INTEREST RATE SENSITIVITY - IMPACT ON PROFIT OR LOSS

(Thousand Euro)	**50 basis points increase**
As of December 2021	(633)
As of December 2022	(702)

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 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 77'957 thousand (Euro 59'436 thousand in 2021), out of which Euro 5'466 thousand are due from a single customer (Euro 5'118 thousand in 2021). Apart from this, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The concentration of credit risk related to largest trade customer did not exceed 10% of gross monetary assets at any time during the year. The concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at any time during the year. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. Core banking relations are maintained with at least "BB+" rated (S&P) financial Institutions.

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

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

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

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

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

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

* 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, 2022 and 2021.

The reported balances are contractual and undiscounted figures including repayments and interests.

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

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 *	65'736	-	-	**65'736**
Non-current financial liabilities	-	46'332	7'292	**53'624**
Current lease liabilities	5'868	-	-	**5'868**
Non-current lease liabilities	-	12'417	3'940	**16'357**
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.

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 Statement of Financial Position. The fair value hierarchy level is shown for those financial assets and liabilities that are carried at fair value in the balance sheet.

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

The following tables summarize the financial instruments carried at fair value, by valuation method as of December 31, 2022 and 2021.

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

As at December 31, 2021 (Thousand Euro)	Asset and Liabilities at amortised cost	Assets / Liabilities as FVTPL Level 1	Level 2	Level 3	Total carrying amount	Fair Value
	Carrying amount (based on measurement basis)					
Other non-current financial assets	479	-	-	-	**479**	-
Trade receivables	59'436	-	-	-	**59'436**	-
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**	-

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

6.6 SEGMENT INFORMATION

The Group has only one operating segment.

The criteria applied to identify the operating segments are consistent with the way the Group is managed. In particular, the segment reporting reflects the internal 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 2022 and 2021 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, 2022.

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, Japan, Indonesia, 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)	31.12.2022 Net sales	31.12.2022 Property, plant and equipment	31.12.2021 Net sales	31.12.2021 Property, plant and equipment
Europe*	187'355	154'529	156'405	127'088
North America**	136'770	31'057	109'225	25'970
Asia Pacific***	94'364	2'649	84'911	2'320
RoW	18'633	-	12'585	-
TOTAL CONSOLIDATED	**437'122**	**188'235**	**363'126**	**155'378**

* Property, plant and equipment located in Switzerland represented 78.4% and 79.8% of the Group's total property, plant and equipment as at December 31, 2022 and 2021, respectively. Net sales recorded in Switzerland were Euro 44'804 thousand and Euro 38'172 thousand as at December 31, 2022 and 2021, respectively.
** Property, plant and equipment located in the United States represented 16.2% and 16.7% of the Group's total property, plant and equipment as at December 31, 2022 and 2021, respectively. Net sales recorded in the United States were Euro 136'086 thousand and Euro 108'452 thousand as at December 31, 2022 and 2021, respectively.
*** Property, plant and equipment located in Australia represented 0.7% and 0.7% of the Group's total property, plant and equipment as at December 31, 2022 and 2021, respectively. Net sales recorded in Australia were Euro 54'005 thousand and Euro 50'636 thousand as at December 31, 2022 and 2021, respectively.

6.7 PROPERTY, PLANT AND EQUIPMENT

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

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

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 reclassification from right-of-use assets to property plant and equipment due to the purchase of the leased assets.

Additions for the year ended 2022 equal to Euro 63'158 thousand (Euro 46'491 thousand in 2021) are primarily related to investments made on instruments equal to Euro 51'138 thousand (Euro 37'445 thousand in 2021).

As of December 31, 2022, tangible fixed assets for a total amount of Euro 20'267 thousand have been pledged as collateral for borrowing facilities (2021: Euro 16'494 thousand).

During the years 2022 and 2021 no impairment losses have been recognised on property, plant and equipment.

6.8 LEASES

RIGHT-OF-USE ASSETS

The tables below show the movement of right-of-use assets for the years ended December 31, 2022 and 2021:

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

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

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.

The Group leases several assets. The average lease term is 7 years for buildings, 3 years for motor vehicles, 5 years ITC equipment, 7 years for plants and machineries and 6 years for other fixtures and fittings, tool and equipment.

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

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

AMOUNTS RECOGNISED IN PROFIT OR LOSS

Medacta Group recognised the following amounts in the Consolidated Statement of Profit or Loss as of December 31, 2022 and 2021:

(Thousand Euro)	31.12.2022	31.12.2021
Depreciation charge of right-of-use assets	(5'627)	(4'543)
Interest expense (included in financial costs)	(496)	(324)
Expense relating to short-term leases	(129)	(123)
Expense relating to leases of low-value assets that are not short-term leases	(41)	(50)

The total cash outflow for leases including short-term leases and low-value-assets in 2022 amount to Euro 7'813 thousand (Euro 6'512 thousand in 2021).

6.9 GOODWILL AND INTANGIBLE ASSETS

INTANGIBLE FIXED ASSETS

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

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)**
Amortisation 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**

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 licenses to distribute products.

The increase of Customer list in 2021 was 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 while the related pay-out occurred in 2022.

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 517 thousand in 2022 (Euro 397 thousand in 2021), and losses for the derecognition of projects amounting as of December 31, 2022 to Euro 74 thousand (Euro 419 thousand in 2021).

For the purpose of the annual impairment test, performed on data as of September 30, 2022, In-Process Research and Development projects (IPR&D) for a total amount of Euro 9'818 thousand were allocated to cash-generating-units (CGU) corresponding to Product Families. 35 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 2022 and 2021.

The discount rate applied in the valuation model, amounting to 8.3%, considers the Group's weighted average cost of capital, adjusted to approximate the weighted average cost of capital of a comparable market participant.

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

- an increase of 2 percentage points in the discount rate would lead to an impairment loss amounting to Euro 157 thousand.
- a decrease of 25.0% in forecasted revenues would lead to an impairment loss amounting to Euro 983 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 include the following items:

(Thousand Euro)	31.12.2022	31.12.2021
Forward Currency Contracts	802	-
Rent deposit	481	479
TOTAL OTHER FINANCIAL ASSETS	**1'283**	**479**
Current	802	-
Non-Current	481	479

Forward Currency Contracts as of December 31, 2022 is related to the positive fair value of derivative financial instruments, amounting to Euro 802 thousand. As of December 31, 2021, the fair value of derivative financial instruments was negative (Euro 39 thousand), and therefore was 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)	31.12.2022	31.12.2021
Current income taxes	7'699	8'504
Deferred income taxes	844	(4'574)
TOTAL INCOME TAXES	**8'543**	**3'930**

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)	31.12.2022	31.12.2021
Profit before taxes	54'792	55'451
AVERAGE TAX RATE	**19.1%**	**16.8%**
TAX AT AVERAGE TAX RATE	**10'461**	**9'310**
Patent Box deduction	(1'746)	(3'517)
AVERAGE TAX RATE NET OF DEDUCTIONS	**15.9%**	**10.4%**
+ / - EFFECTS OF		
Expenses not subject to tax, net	558	394
Revenues not subjected to tax, net	(7)	(14)
Effects from previous years	(23)	(798)
Change in tax rates on deferred tax balances	(849)	(1'532)
Other	149	87
TOTAL INCOME TAXES	**8'543**	**3'930**
EFFECTIVE INCOME TAX RATE (%)	**15.6%**	**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 Group's average tax rate increased to 19.1% in 2022 from 16.8% in 2021, negatively affected by a change in the profit mix. This effect is the consequence of the increasing profitability of Medacta USA compared to prior period, also due to the impact of the provision accrued in 2021 on the MicroPort litigation, which resulted in a lower average tax rate due to the recognition of a deferred tax asset on tax losses generated by the entity.

Medacta International SA benefits, since 2020, from a special tax deduction from taxable profits for qualifying profits arising from patent rights ("Patent Box deduction"), which has a positive impact in 2022 amounting around Euro 1.7 million (Euro 3.5 million in 2021), corresponding to a positive impact on the effective tax rate for 3.2% (6.3% in 2021).

The Swiss tax reform enacted a lower tax rate that will apply starting from January 1, 2025. This change in tax rate resulted in a lower net deferred tax liability due to the revaluation of temporary differences expected to reverse after 2024, with a positive impact on temporary differences amounting to Euro 0.8 million in 2022 (around Euro 1.4 million in 2021).

Finally, in 2021 Medacta International SA recognised a positive impact amounting to approximately Euro 0.9 million due to the settlement of previous years' taxes accrued in excess.

The Group has not recognised deferred tax liabilities in respect of taxable unremitted earnings that are considered indefinitely invested in foreign subsidiaries. As of December 31, 2022, those unremitted earnings retained by consolidated entities amount to Euro 9'302 thousand (2021: Euro 2'717 thousand).

DEFERRED INCOME TAXES

The Group recognises in the Consolidated Financial Statements as of December 31, 2022 the gross amounts of Deferred tax assets and Deferred tax liabilities, respectively amounting to Euro 31'659 thousand and to Euro 44'619 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, 2022, 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)	31.12.2022	31.12.2021
Net deferred tax assets	31'659	29'029
Net deferred tax liabilities	(44'619)	(39'837)
TOTAL NET DEFERRED TAXES	**(12'960)**	**(10'808)**

The amount netted between deferred tax assets and deferred tax liabilities is equal to Euro 8'329 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, 2022** (Thousand Euro)	Property, plant and equipment	Inventories, receivables, provisions and other liabilities	Tax losses carried forward	Total
BALANCE JANUARY 1, 2022	**1'978**	**33'409**	**2'683**	**38'070**
Deferred taxes recognised in the income statement	196	2'018	(1'374)	840
Deferred taxes recognize in OCI	-	(852)	-	(852)
Exchange differences	15	1'743	172	1'930
BALANCE DECEMBER 31, 2022	**2'189**	**36'318**	**1'481**	**39'988**

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**

As per December 31, 2022 and 2021, there were no unrecognised tax losses carried forward.

DEFERRED TAX LIABILITIES as at December 31, 2022 (Thousand Euro)	Property, plant and equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Total
BALANCE JANUARY 1, 2022	**24'052**	**5'195**	**19'631**	**48'878**
Deferred taxes recognised in the income statement	1'206	(679)	1'157	1'684
Deferred taxes recognize in OCI	-	-	-	-
Exchange differences	1'343	95	948	2'386
BALANCE DECEMBER 31, 2022	**26'601**	**4'611**	**21'736**	**52'948**

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**

6.12 INVENTORIES

Inventories are composed of the following items:

INVENTORIES (Thousand Euro)	31.12.2022	31.12.2021
Raw materials	26'705	19'128
Work in progress and semifinished goods	18'050	14'484
Finished goods	115'546	102'479
TOTAL INVENTORIES	**160'301**	**136'091**

The cost of inventories recognised in "Cost of Sales" as of December 31, 2022 includes Euro 3'392 thousand (Euro 2'592 thousand in 2021) in respect of write-downs of inventory to net realisable value for slow moving, phase out and obsolete stock. In 2022 the inventory reserve has been utilized by Euro 690 thousand (Euro 1'183 thousand in 2021).

6.13 TRADE RECEIVABLES

(Thousand Euro)	31.12.2022	31.12.2021
Trade receivable, gross	80'406	61'988
Loss allowance on trade receivables	(2'449)	(2'552)
TOTAL TRADE RECEIVABLES	**77'957**	**59'436**

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

TRADE RECEIVABLES AGING (NOT CREDIT IMPAIRED)

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

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

December 31, 2021 (Thousand Euro)	Not Credit Impaired	Credit Impaired	Total
Trade receivables (credit impaired), 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 macroeconomic factors in each of the countries where the Group operates.

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

(Thousand Euro)	2022	2021
BALANCE AS AT JANUARY 1	**(2'552)**	**(988)**
Change in loss allowance and write-offs	(59)	(1'618)
Amounts recovered (utilization of loss allowance)	226	62
Exchange differences	(64)	(8)
TOTAL LOSS ALLOWANCE ON TRADE RECEIVABLES AS AT DECEMBER 31	**(2'449)**	**(2'552)**

6.14 OTHER RECEIVABLES AND PREPAID EXPENSES

(Thousand Euro)	**31.12.2022**	**31.12.2021**
Other tax receivables	6'445	7'343
Advance to suppliers	1'949	1'469
Prepaid expenses	3'183	2'779
Other receivables	763	512
TOTAL OTHER RECEIVABLES AND PREPAID EXPENSES	**12'340**	**12'103**

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)	**31.12.2022**	**31.12.2021**
Cash on hand	133	32
Current bank accounts	32'128	20'372
TOTAL CASH AND CASH EQUIVALENTS	**32'261**	**20'404**

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

6.16 MEDACTA GROUP STOCKHOLDERS' EQUITY

SHARE CAPITAL

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

All issued ordinary shares give the same voting and dividend rights. Also, all the issued shares by Medacta Group SA are 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

On May 19, 2022 shareholders approved the distribution of CHF 10.7 million or CHF 0.535 per share (Euro 10'418 thousand), half of it distributed as dividend out of available earnings and half of it distributed out of accumulated reserves from capital contribution.

The Board of Directors proposes to the Annual General Meeting of Medacta Group SA on April 27, 2023, a distribution of CHF 10.8 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, started to repurchase its own outstanding shares to fund the share-based compensation award cycles. Treasury shares are valued at weighted average cost and have been deducted from equity. As of December 31, 2022 the number of treasury shares amounted to 39'857 (10'007 as of December 31, 2021), corresponding to CHF 4'272'340 equivalent to Euro 4'159 thousand (CHF 1'342'660 equivalent to Euro 1'242 thousand as of December 31, 2021).

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

Following table summarizes the composition of Financial liabilities:

FINANCIAL LIABILITIES

(Thousand Euro)	31.12.2022	31.12.2021
Bank loans and credit facilities, current *	6'619	63'776
Forward Currency Contracts	-	39
Other current financial liabilities	472	671
TOTAL FINANCIAL LIABILITIES, CURRENT	**7'091**	**64'486**
Bank loans, non-current	135'896	47'702
Other non-current financial liabilities	1'696	1'850
TOTAL FINANCIAL LIABILITIES, NON-CURRENT	**137'592**	**49'552**
TOTAL FINANCIAL LIABILITIES	**144'683**	**114'038**
Total secured bank loans	20'267	16'494
Total non-secured bank loans	122'248	94'984

* In 2021, "Bank loans and credit facilities, current" included Euro 38'572 thousand related to credit lines with no maturity date.

As of December 31, 2022, financial liabilities include bank loans and credit facilities for a total amount of Euro 142'515 thousand (Euro 111'478 thousand as of December 31, 2021). The net change is primarily related to proceeds from borrowings (amounting to Euro 59'161 thousand) to finance investments, operating activities and the payment of dividends. The repayments in 2022 amount to Euro 35'242 thousand. In May 2022, the Group amended some of the credit agreements, changing the payment terms of some of the existing bank loans and credit facilities, prolonging the payments originally due in 2022 until 2024 to a new amortisation schedule that extends the terms until 2028. This is reflected in the classification within current or non-current financial liabilities in the Consolidated Statement of Financial Position as of December 31, 2022: Euro 6'619 thousand current and Euro 135'896 thousand non-current. As of December 31, 2021, current bank loans and credit facilities amounted to Euro 63'776 thousand, non-current bank loans amounted to Euro 47'702 thousand.

Bank loans reflect credit and loan facilities with third party financial institutions and are recognised at amortised cost using the effective interest method. The interest rates on these facilities are floating and based on internal bank refinancing rate + Spread of between 0.75% and 1.00%.

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

As of December 31, 2022 and 2021, the Group had unused current credit lines of Euro 109'316 thousand and Euro 103'886 thousand, respectively.

At December 31, 2022, "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 2'168 thousand (Euro 2'300 thousand in 2021), of which Euro 1'696 thousand within "Other non-current financial liabilities" (Euro 1'850 thousand in 2021) and Euro 472 thousand within "Other current financial liabilities" (Euro 450 thousand in 2021). In addition, "Other current financial liabilities" at December 31, 2021 included Euro 220 thousand related to the acquisition of a customer list, entirely paid during 2022 (see Note 6.9 "Goodwill and intangible assets").

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

(Thousand Euro)	31.12.2022	31.12.2021
Australian Dollar (AUD)	1'910	1'916
Euro (EUR)	2'500	6'220
Japanese Yen (JPY)	3'206	3'439
Swiss Franc (CHF)	89'507	33'588
US Dollar (USD)	47'560	68'875
TOTAL FINANCIAL LIABILITIES	**144'683**	**114'038**

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

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

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

(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.

LEASE LIABILITIES

Total lease liabilities amount to Euro 27'733 thousand as of December 31, 2022 (Euro 21'184 thousand in 2021), thereof Euro 6'362 thousand current (Euro 5'714 thousand in 2021) and Euro 21'371 thousand non-current (Euro 15'470 thousand in 2021). Maturity analysis of undiscounted lease liabilities less unearned interests is reported in the table below:

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

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	5'868	12'417	3'940	(1'041)	**21'184**

The Group does not face a significant liquidity risk with regard to its lease liabilities. As of December 31, 2022 the Group is committed to leases not yet commenced for approximately Euro 4.8 million.

The table below shows the movement of lease liabilities for the years ended December 31, 2022 and December 31, 2021:

(Thousand Euro)	**2022**	**2021**
BALANCE AT JANUARY 1	**(21'184)**	**(19'043)**
Additions	(12'716)	(7'421)
Modification, termination, expiration	23	(3)
Repayment of lease liabilities	7'146	6'015
Exchange differences	(1'002)	(732)
BALANCE AT DECEMBER 31	**(27'733)**	**(21'184)**

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)	**31.12.2022**	**31.12.2021**
Liabilities to tax authorities	189	2'202
Legal matters	4'388	5'891
Other	72	30
TOTAL OTHER NON-CURRENT LIABILITIES	**4'649**	**8'123**
Liabilities to tax authorities	9'422	6'843
Liabilities to social security	2'933	1'684
Other debts towards employees	1'198	146
Legal matters	1'869	1'759
Other	93	570
TOTAL OTHER CURRENT LIABILITIES	**15'515**	**11'002**

"Legal matters" include the liability relating to the settlement agreement signed in 2021 with MicroPort Inc. According to the agreement, in 2021 Medacta USA paid to MicroPort Inc. the sum of USD 7 million and committed to pay the sum of USD 5 million over a term of seven years and to contribute to marketing activities to be paid over a period of four years. As of December 31, 2022 the total liability is equal to Euro 6'257 thousand (Euro 7'650 thousand as of December 31, 2021), out of which Euro 4'388 thousand classified as non-current and Euro 1'869 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)	2022	2021
BALANCE AT JANUARY 1	**1'534**	**9'636**
Increases	5'724	5'006
Decreases	(3'493)	(13'717)
Exchange differences	33	609
BALANCE AT DECEMBER 31	**3'798**	**1'534**
Thereof current	120	349
Thereof non-current	3'678	1'185

In 2022, "Increases" include the accruals for: the Italian payback scheme litigation, amounting to Euro 3'085 thousand; the patent matter with Conformis, amounting to Euro 2'208 thousand; the patent matter with RSB, amounting to Euro 332 thousand. "Decreases" are related to the payments according to the settlement agreements with the counterparts: Euro 2'914 thousand for the patent matter with Conformis; Euro 332 thousand for the patent matter with RSB; Euro 247 thousand for the settlement of product related liabilities. For further information related to the above-mentioned litigations, refer to Note 6.25 "Litigations".

In 2021, "Increases" was primarily related to the accrual, amounting to Euro 4'821 thousand, to align the provision already recognised in 2020 to the settlement agreement with MicroPort. "Decreases" included 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 and Euro 1'901 thousand in 2022.

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 4'142 thousand in the year ended December 31, 2022 (2021: Euro 3'682 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, 2022 and 2021:

AMOUNT RECOGNISED IN THE BALANCE SHEET

(Thousand Euro)	31.12.2022	31.12.2021
Defined benefit plan Switzerland	5'462	8'926
Defined benefit plan Italy	442	388
Other non-current employee benefits		
Retention plan Switzerland	1'319	1'378
French collective conventions	199	303
Retention plan Australia	600	518
Retention plan Austria	108	69
Retention plan Japan	732	563
RETIREMENT BENEFIT OBLIGATIONS	**8'862**	**12'145**

The macroeconomic environment had a significant impact on asset prices as well as yields. The discount rate utilized for the actuarial evaluation of the Switzerland defined benefit plan increased from 0.2% as of December 31, 2021 to 2.3% as of December 31, 2022. As a consequence, the Group recognised a remeasurement of defined benefit obligations amounting to a gain of Euro 4'915 thousand in the Consolidated Statement of Comprehensive Income in 2022, primarily related to the remeasurement of defined benefit pension plans in Switzerland due to the changes in the discount rates used to calculate the actuarial defined benefit obligations, partially offset by actuarial losses from valuation impact on plan assets (refer also to the following paragraph "Components of remeasurement of defined benefit plans recognised in OCI").

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, 2022, 831 employees (2021: 713 employees) and 7 beneficiaries (2021: 3 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 15.1 years (2021: 19.1 years).

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

The result of the Swiss benefit plan is summarised below:

AMOUNT RECOGNISED IN THE BALANCE SHEET

(Thousand Euro)	**31.12.2022**	**31.12.2021**
Present value of defined benefit obligations	(35'463)	(37'827)
Fair value of plan assets	30'001	28'901
RETIREMENT BENEFIT OBLIGATIONS	**(5'462)**	**(8'926)**

REMEASUREMENT RECOGNISED IN EQUITY

(Thousand Euro)	**2022**	**2021**
BALANCE AT JANUARY 1	**487**	**3'130**
Remeasurement of defined benefit obligations	(8'057)	(1'472)
Return on plan assets excl. interest income	3'142	(1'191)
Exchange differences	(53)	20
BALANCE AT DECEMBER 31	**(4'481)**	**487**

COMPONENTS OF REMEASUREMENT OF DEFINED BENEFIT PLANS RECOGNISED IN OCI

(Thousand Euro)	**31.12.2022**	**31.12.2021**
Changes in financial assumptions	(8'905)	-
Changes in demographical assumptions	-	(2'337)
Experience adjustments	847	865
Return on plan assets excluding interest income	3'143	(1'191)
REMEASUREMENT OF DEFINED BENEFIT PLANS	**(4'915)**	**(2'663)**

In 2022, "Changes in financial assumptions" is related to the change in the discount rate, which increased from 0.2% in 2021 to 2.3% in 2022.

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

"Experience adjustments", both in 2022 and in 2021, 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)	31.12.2022	31.12.2021
Current service cost	2'789	2'547
Participants' contributions	(1'748)	(1'465)
Administration cost	20	17
Net interest cost	19	21
TOTAL EMPLOYEE BENEFIT EXPENSES	**1'080**	**1'120**

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

- Cost of Sales Euro 440 thousand (2021: Euro 422 thousand);
- Research and Development Euro 126 thousand (2021: Euro 146 thousand);
- Sales and Marketing expenses Euro 216 thousand (2021: Euro 235 thousand);
- General and Administrative expenses Euro 278 thousand (2021: Euro 297 thousand).

MOVEMENT IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS

(Thousand Euro)	2022	2021
BALANCE AT JANUARY 1	**37'827**	**34'002**
Interest cost	82	72
Current service cost	2'789	2'547
Contribution by plan participants	1'615	1'368
Benefits deposited/(paid), net	(573)	(236)
Administration cost	20	17
Actuarial loss on obligation	(8'057)	(1'472)
Exchange differences	1'760	1'529
PRESENT VALUE OF OBLIGATIONS AT DECEMBER 31	**35'463**	**37'827**

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)	31.12.2022	31.12.2021
Cash and cash equivalents	1'221	1'055
Equity instruments	14'512	10'060
Debt instruments (e.g. bonds)	12'731	10'277
Real estate	-	6'688
Others	1'537	821
TOTAL	**30'001**	**28'901**

MOVEMENT IN THE FAIR VALUE OF THE PLAN ASSETS

(Thousand Euro)	2022	2021
BALANCE AT JANUARY 1	**28'901**	**23'895**
Interest income on plan asset	62	51
Employer's contributions paid	1'748	1'465
Participants' contributions	1'615	1'368
Benefits deposited/(paid), net	(573)	(236)
Return on plan assets excluding interest income	(3'142)	1'191
Exchange differences	1'390	1'167
FAIR VALUE OF PLAN ASSETS AT DECEMBER 31	**30'001**	**28'901**

The principal actuarial assumptions are as follows:

	31.12.2022	31.12.2021
Discount rate	2.3%	0.2%
Future salary increase	1.0%	1.0%
Interest rate on retirement saving capital *	2.3%	0.5%
Demography	BVG2020GT	BVG2020GT

* Medacta is applying risk sharing.

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

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

SENSITIVITY ANALYSIS – DEFINED BENEFIT OBLIGATION

(Thousand Euro)	31.12.2022	31.12.2021
DISCOUNT RATE		
Discount rate + 0.25%	34'202	36'102
Discount rate - 0.25%	36'818	39'706
SALARY GROWTH		
Salary growth + 0.25%	35'757	38'232
Salary growth - 0.25%	35'177	37'435
INTEREST RATE GROWTH		
Interest rate growth + 0.25%	36'063	38'521
Interest rate growth - 0.25%	34'882	37'155
LIFE EXPECTANCY		
Life expectancy + 1 year	35'847	38'471
Life expectancy - 1 year	35'074	37'186

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out at December 31, 2022 by Allvisa Services 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 1.9 million to the defined benefit plans during the next Financial Year 2023.

INTEREST RATE RISK

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

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

LONGEVITY RISK

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

An increased life expectancy of the plan participants will increase the plan's liability.

SALARY RISK

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

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

OTHER NON-CURRENT EMPLOYEE BENEFITS

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 2'958 thousand at December 31, 2022 (2021: Euro 2'832 thousand).

6.21 SHARE-BASED PAYMENT TRANSACTIONS

In 2021 the Board of Directors implemented the Performance Share Plan ("The Plan") proposed by the Remuneration Committee. On March 9, 2022, the Board of Directors approved the 2022 share-based payment cycle proposed by the Human Resources & Remuneration Committee, that was open to eligible participants starting in April, 2022. 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 recognised for share-based payments in 2022 is equal to Euro 1'148 thousand.

RECONCILIATION OF OUTSTANDING PERFORMANCE SHARE UNITS	2022	2021
TOTAL AT JANUARY 1	**20'226**	**-**
Granted	22'175	20'810
Exercised	-	-
Forfeited	(847)	(584)
TOTAL AT DECEMBER 31	**41'554**	**20'226**
Exercisable at December 31	-	-

In 2022, 22'175 PSUs were granted under the LTI (2021: 20'810). The total fair value has been determined using a Monte Carlo simulation algorithm and amounts to CHF 116.27 (2021: CHF 101.47).

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

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

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

6.22 TRADE PAYABLES

Accounts payable of Euro 28'480 thousand (2021: Euro 25'951 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)	31.12.2022	31.12.2021
Consulting fees	4'915	3'995
Royalties and commissions due	6'996	6'115
Accrued vacation expenses	3'688	3'703
Accrued bonuses	12'396	12'317
Assurances	215	75
Other accrued expenses/deferred income	3'284	2'850
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**31'494**	**29'055**

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, 2022 and 2021 respectively:

(Thousand Euro)	31.12.2022	31.12.2021
Hip	203'588	179'285
Knee	164'477	131'062
Shoulder	26'284	18'424
Spine	41'536	33'792
Sportsmed	1'237	563
TOTAL	**437'122**	**363'126**

In 2022, revenues include a negative impact, amounting to Euro 872 thousand, established in connection with the activation of the Italian government payback provision. Such reserves were estimated based on the publicly available information and considering Medacta's current year sales to Italian government hospitals. The Italian payback law is a mechanism to obtain from suppliers a contribution to offset variances occurring when Italian government expenditures exceed their ceiling for the purchase of medical devices.

6.24.2 ANALYSIS OF EXPENSES

PERSONNEL EXPENSES

Personnel expenses as of December 31, 2022 and 2021 are as follows:

(Thousand Euro)	31.12.2022	31.12.2021
Wages and salaries	112'417	93'568
LTIP Employee benefit expense	1'148	468
Social security costs	13'472	11'311
Pension costs and other personnel expense	9'948	9'020
TOTAL PERSONNEL EXPENSES	**136'985**	**114'367**

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

PERSONNEL EXPENSES BY FUNCTION

(Thousand Euro)	31.12.2022	31.12.2021
Cost of Sales	20'542	15'908
Research and Development expenses	4'727	3'958
Sales and Marketing expenses	75'825	63'799
General and Administrative expenses	35'891	30'702
TOTAL PERSONNEL EXPENSES BY FUNCTION	**136'985**	**114'367**
AVERAGE NR OF EMPLOYEES DURING THE YEAR	**1'439**	**1'262**

DEPRECIATION, AMORTISATION AND IMPAIRMENT

Depreciation, Amortisation and Impairment, at December 31, 2022 and 2021 are as follows:

(Thousand Euro)	31.12.2022	31.12.2021
Cost of Sales	34'048	27'567
Research and Development expenses	8'386	5'162
Sales and Marketing expenses	3'905	3'536
General and Administrative expenses	5'171	4'171
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT BY FUNCTION	**51'510**	**40'436**

Impairment included in line Research and Development is equal to Euro 517 thousand in 2022 (Euro 397 thousand in 2021). 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, 2022 and 2021 are composed of the following expense categories:

(Thousand Euro)	31.12.2022	31.12.2021
Personnel expenses	35'891	30'702
Depreciation and amortisation	5'171	4'171
Consulting expenses	9'578	9'930
Business and administrative expenses (i.e. insurance, maintenance, BoD and audit fees)	9'288	6'959
Provisions	2'610	4'941
Travel and accommodation	614	308
Various taxes	1'062	1'106
Miscellaneous expenses	1'233	727
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE	**65'447**	**58'844**

In 2022 “Consulting expenses” include: approximately Euro 2’051 thousand (Euro 3’428 thousand in 2021) of legal expenses, out of which Euro 1’224 thousand related to patent matters (Euro 2’966 thousand in 2021 related to MicroPort and patent matters); Euro 7’527 thousand (Euro 6’502 thousand in 2021) related to clinical studies, IT, Audit, Tax and other consulting expenses.

In 2022 “Provisions” include the settlement of the legal claims with Conformis and RSB, respectively equal to Euro 2’207 thousand and Euro 332 thousand, in 2021 it included the accrual for the MicroPort matter after the settlement agreement, amounting to Euro 4’601 thousand.

RESEARCH AND DEVELOPMENT EXPENSES

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 2022 of Euro 16’223 thousand (Euro 11’306 thousand in 2021).

Development costs eligible for capitalization amounts to Euro 6’659 thousand in 2022 and Euro 8’091 thousand in 2021.

6.24.3 OTHER INCOME / (EXPENSES)

Other income amount to Euro 1’570 thousand as of December 31, 2022 (Euro 1’536 thousand in 2021) and are mainly related to miscellaneous expenses rebilled to third parties.

Other expenses amount to Euro 4’098 thousand as of December 31, 2022 (Euro 1’301 thousand in 2021) and include:

- Euro 3’085 thousand related to the provision for the Italian payback on medical devices (see Note 6.25 “Litigations”, paragraph “Italian Payback scheme litigation”);
- Euro 498 thousand (Euro 324 thousand in 2021), related to contributions made to non-profit organizations.

6.24.4 FINANCIAL INCOME/(COSTS)

FINANCIAL INCOME

(Thousand Euro)	31.12.2022	31.12.2021
Interest income loans and receivables	348	332
Foreign exchange gains	2'483	1'986
TOTAL FINANCIAL INCOME	**2'831**	**2'318**

Financial income amounts to Euro 2’831 thousand as of December 31, 2022 (Euro 2’318 thousand in 2021). Financial income as of December 31, 2022 includes realized and unrealized foreign exchange profit for Euro 2’483 thousand (Euro 1’986 thousand in 2021).

FINANCIAL (COSTS)

(Thousand Euro)	**31.12.2022**	**31.12.2021**
Interest on loans and borrowings	(3'167)	(3'118)
Losses on revaluation of financial instruments at fair value through profit or loss	(381)	(1'248)
Foreign exchange losses	(5'459)	(954)
Interest expense on lease contracts	(496)	(324)
TOTAL FINANCIAL (COSTS)	**(9'503)**	**(5'644)**
TOTAL FINANCIAL INCOME/(COSTS), NET	**(6'672)**	**(3'326)**

Financial costs amount to Euro 9’503 thousand as of December 31, 2022 (Euro 5’644 thousand in 2021). Financial costs include interest on borrowings for Euro 2’168 thousand (Euro 1’374 thousand in 2021), bank commissions and other interest expenses for Euro 999 thousand (Euro 1’744 thousand in 2021), losses on revaluation of financial instruments at fair value for Euro 381 thousand (Euro 1’248 thousand in 2021), realized and unrealized foreign exchange losses for Euro 5’459 thousand (Euro 954 thousand in 2021).

6.25 LITIGATIONS

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, RSB dropped its infringement allegations involving one patent, and RSB added an infringement allegation against Medacta’s Mecta-C Stand Alone – Flush implant. The district court entered its Markman opinion about the scope of the asserted patent, and the parties completed fact discovery in February 2022.

After the completion of the fact discovery in February, 2022, Medacta and RSB have finally agreed to settle the case for USD 350 thousand. The settlement agreement has been signed on June 8, 2022. Therefore, on June 22, 2022 the Court granted the Parties joint stipulation of dismissal: this order formally ended the lawsuit.

CONFORMIS, INC. VS MEDACTA USA, INC. AND CONFORMIS, INC. VS MEDACTA INTERNATIONAL SA AND MEDACTA GERMANY GMBH

On August 29, 2019, Conformis filed a patent infringement complaint against Medacta USA, Inc. in the District of Delaware (USA) alleging that Medacta’s MyKnee, MyHip, and MyShoulder products infringe four patents directed to spinal implants. Conformis was seeking monetary damages. Medacta’s response to the complaint was filed on December 2, 2019, and as a result, the MyHip product was dismissed from the case. Medacta believes the accused products do not infringe the patents- in-suit and that these patents are invalid. The parties initially completed fact discovery and exchanged expert reports. However, the Court permitted Conformis to file an amended complaint adding Medacta International as a defendant. Therefore, the parties engaged in limited supplemental fact and expert discovery periods. After the completion of fact and expert discovery, the Court permitted Conformis to file an amended complaint adding Medacta International as a defendant. Trial was set to begin October 30, 2022.

With complaint dated October 18, 2021, Conformis, Inc. also filed a patent infringement complaint against Medacta Germany GmbH 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. Conformis, Inc. was 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. In response to Conformis Inc.'s complaint, that has been served on Medacta International as well in May 2022, Medacta GmbH and Medacta International have both summarized their argumentations in front of the Court in Dusseldorf in July 2022. Besides, as counter-attack, Medacta filed the nullity action against Conformis to the Federal Patent Court in Munich. Meanwhile, the Court ordered Conformis Inc. to pay Euro 73 thousand as security for the legal expenses concerning Medacta GmbH and have filed the same in favour of Medacta International S.A.

The discussions held between the Parties have led to a settlement and license agreement that resolves all patent disputes between the companies: the agreement has been signed on November 8, 2022, enshrining the end of both lawsuits, for a total amount of USD 3.1 million due to Conformis, Inc.

The Group, according to IAS 37, recognised a provision equal to USD 3.1 million (Euro 2.9 million) fully paid in 2022 (Euro 0.7 million were already accrued in 2020).

MIGHTY OAK MEDICAL VS MEDACTA USA AND MEDACTA INTERNATIONAL

A patent infringement case was filed on December 22, 2022 against Medacta USA and Medacta International in the District of Delaware. The plaintiff is Mighty Oak Medical, and it is alleging infringement of five patents by several of the MySpine products. They are also alleging that the infringement has been willful.

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

ITALIAN PAYBACK SCHEME LITIGATION

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

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

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

There are strong doubts as to the legitimacy of the payback system for medical devices overall, especially in terms of the retroactivity of the measures, numerous critical issues in the application of the rules and in relation to possible calculation errors. Medacta legal representation, along with all the Italian Medical devices associations, decided to appeal the Decree of the Ministry of Health dated October 6, 2022 and the consequent deeds of the Regions which asked for the payment by January 30, 2023 (deadline postponed by the Government to April 30, 2023).

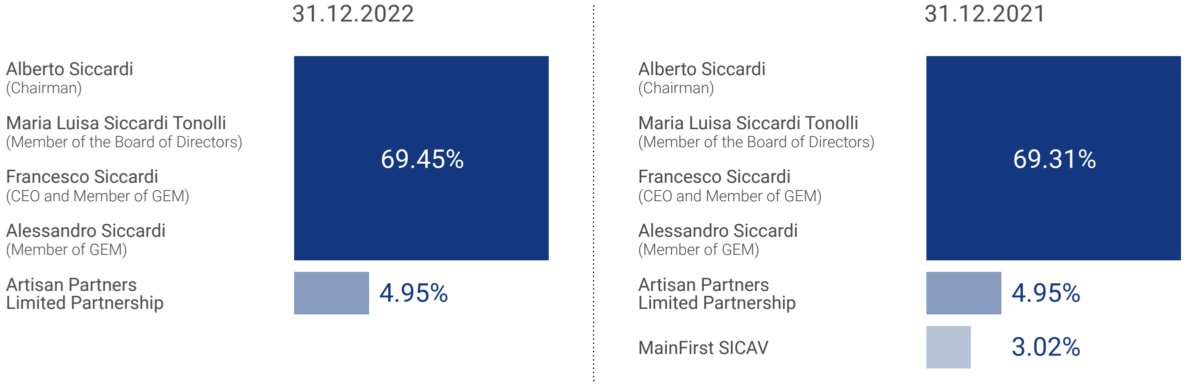
In connection with the above litigation, the Group recognised a provision of approximately Euro 3.1 million accrued in 2022.

6.26 RELATED PARTY TRANSACTIONS

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

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

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



OPERATING TRANSACTIONS

In 2022 Medacta International made contributions to Medacta for Life Foundation for Euro 498 thousand (Euro 324 thousand in 2021), a non-profit organization owned by the Siccardi Family.

Mr. Philippe Weber is a member of the Board of Directors of Medacta Group SA. Niederer Kraft Frey Ltd, a law firm at which Mr. Philippe Weber is a partner, provided legal services to the Group. The fees for his professional services provided during the year 2022 are recognised in the General and Administrative expense line item for an amount equal to Euro 24 thousand (in 2021 Euro 40 thousand).

Dr. Alberto Siccardi, Chairman of the Board of Directors of Medacta Group SA, and Mr. Francesco Siccardi, CEO of Medacta Group SA, during the year 2022 purchased respectively 9'000 and 19'400 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)	**31.12.2022**	**31.12.2021**
Fees, salaries and other short-term benefits	2'933	2'748
Post-employment pension and medical benefits	308	279
Share-based payments	172	71
TOTAL COMPENSATION OF KEY MANAGEMENT PERSONNEL	**3'413**	**3'098**

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

6.27 EARNINGS PER SHARE

Basic earnings per share is calculated as the profit for the year attributable to equity holders of the parent divided by the weighted average number of outstanding shares of the Company during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

	31.12.2022	31.12.2021
Net profit attributable to shareholders (in Euro thousand)	46'249	51'521
Weighted average number of ordinary shares outstanding	19'977'035	19'996'308
BASIC EARNINGS PER SHARE (in Euro)	**2.32**	**2.58**

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

(Thousand Euro)	31.12.2022	31.12.2021
Net profit used to determine diluted earnings per share (in Euro thousand)	46'249	51'521
Weighted average number of ordinary shares outstanding	19'977'035	19'996'308
Adjustments for performance stock units issued	18'927	7'966
Weighted average number of ordinary shares for diluted earnings per share	19'995'962	20'004'274
DILUTED EARNINGS PER SHARE (in Euro)	**2.31**	**2.58**

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, 2022, contracted purchase commitments, mainly relating the acquisition of instruments, for a total amount of Euro 28.4 million (Euro 16.8 million in 2021).

As of December 31, 2022, tangible fixed assets for a total amount of Euro 20’267 thousand (2021: Euro 16’494 thousand) have been pledged as collateral for borrowing facilities.

The Group as of December 31, 2022 and 2021 had unused current credit lines of Euro 109’316 thousand and Euro 103’886 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, 2022.

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

EXCHANGE RATES

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

	Average		Closing	
	2022	**2021**	**31.12.2022**	**31.12.2021**
CHF	0.9955	0.9253	1.0108	0.9643
GBP	1.1736	1.1638	1.1303	1.1901
AUD	0.6597	0.6350	0.6366	0.6387
USD	0.9505	0.8460	0.9344	0.8797
JPY	0.0073	0.0077	0.0071	0.0076
CAD	0.7304	0.6749	0.6895	0.6960

7. AUDIT REPORT – CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

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Report of the Statutory Auditor

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

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Medacta Group SA (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 110 to 162) give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of 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 (ISA) and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the provisions of Swiss law, together with the requirements of the Swiss audit profession, as well as those of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Our Audit Approach

Summary	
Key audit matters	We identified the following key audit matters: - Capitalisation and measurement of development projects - Existence of inventory - Existence of instruments (Property, Plant and Equipment)
Materiality	Based on our professional judgement, we determined materiality for the Group as a whole to be EUR 3.5 million.
Scoping	We defined 6 components operations in 5 countries to be in scope for group reporting purposes. The ratios of coverage for 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Capitalisation and measurement of development projects

Key audit matter	How the scope of our audit responded to the key audit matter
As described in Note 6.9 to the consolidated financial statements, the intangible assets balance amounts to EUR 50 million (2021: EUR 52 million), including development projects capitalised at 31 December 2022 amounting to EUR 36 million (2021: EUR 36 million). As described in Note 6.2 to the consolidated financial statements, the Group distinguishes between research costs, which are recognized in the statement of profit or loss as incurred, and development costs, which are capitalised provided that the technical and commercial feasibility of the asset has been established, the related costs can be measured reliably, and it can reasonably be expected that the costs will be recovered in the future.	We gained an understanding of the key controls relevant to the development projects process and the impairment process. We performed test of details, using statistical sampling method, on the projects capitalised during the year. We obtained technical information relating to the selected projects to verify whether the costs qualified as development costs. We analyzed the evidence obtained to evaluate the usefulness of the assets for the Group and we inquired about the Group's intention, as well as verified its ability to complete these projects. We furthermore inquired about the Group's assessment of the future economic benefits, and its intention to use or sell the assets.

The costs relating to projects for which the development phase has been completed as of 31 December 2022, are amortised over the useful life of the related products. Projects which are still in early phases of development as of the financial statement date are not amortised as they are considered as being intangible assets with indefinite useful life ("In Progress Development Projects"). Development projects are allocated to Product Families based on their purpose. Capitalisation of development projects requires the Group to apply judgement to evaluate whether the development expenditure incurred qualifies for recognition as an asset in accordance with IAS 38. Whenever there are indications of impairment, and at least once a year for "In Progress Development Projects", the Group tests these assets for impairment. For the impairment test of "In Progress Development Projects", the Group applies judgements and defines assumptions in areas such as revenue growth, estimates in connection with the "costs to complete" and WACC. For these projects, the impairment test is done at the level of Product Families. Due to the significant amount of costs capitalised and the judgements applied by the Group, we consider the capitalisation and measurement of development projects to be a key audit matter.	In addition, we tested on a sample basis whether the costs for development projects were eligible for capitalization and whether the amounts were capitalised accurately. Furthermore, we verified the supporting evidence such as third-party invoices and salary costs of the development teams. We have involved internal valuation specialists to assist us in challenging the valuation model (i.e. validity of the methodology and its application, completeness, and mathematical accuracy) and the WACC applied. In addition, we have challenged the Group's judgements and assumptions used in its impairment model and we have tested their historical accuracy. We assessed the adequacy and completeness of the disclosures included in the accompanying consolidated financial statements (Notes 6.9). Based on the procedures performed, we obtained sufficient audit evidence to address the risks around capitalisation and measurement of development projects.

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 160 million as of 31 December 2022 (2021: EUR 136 million). Inventory is mainly composed of prosthesis and implants. The inventory is held in warehouses and in consignment at the premises of Medacta's customers to ensure continuity of supply. Given the significant balance of inventory in relation to the Group's total assets, and the number of locations in which inventory is located, we consider the existence of inventory to be a key audit matter in our audit.	We assessed the appropriateness of the Group's process for inventory, including inventory counts procedures which are performed for inventory located at Medacta's premises and in consignment. As part of this work, we gained an understanding of the key controls relating to the existence of inventory. We also tested the operating effectiveness of the key controls. We have performed physical inventory counts for items selected through statistical sampling methods. Our work was performed in Switzerland, Italy, Belgium, and in the USA. The counts also covered inventory in consignment. For locations where our participation in the inventory counts procedures performed by the Group was possible, we attended these and compared the results of our own work with the results of the counts performed by the Group. We assessed the adequacy and completeness of the disclosures included in the accompanying notes to the consolidated financial statements (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 188 million as at 31 December 2022 (2021: EUR 155 million), including instruments for a net balance of EUR 109 million (2021: EUR 88 million). The instruments are held in warehouses and at Medacta's customers premises to ensure continuity of supply. Given the significant balance of instruments in relation to the Group's total assets, and the number of locations in which instruments are consigned, we consider the existence of instruments to be a key audit matter in our audit.	We assessed the appropriateness of the Group's process for instruments, including instruments counts procedures, which are done for instruments located at Medacta's premises and in consignment. As part of this work, we gained an understanding of the key controls relating to the existence of instruments. We also tested the operating effectiveness of the key controls. We have performed physical instruments counts for items selected through statistical sampling methods. Our work was performed in Switzerland, Italy, Belgium, and in the USA. This work covered also instruments in consignment. For locations where our participation in the instruments counts procedures performed by the Group was possible, we attended these and compared the results of our own work with the results of the counts performed by the Group. When the performance of instruments counts was not possible because the instruments were held in a sterilised environment, we obtained confirmations from the hospitals and the clinics on the existence of the instruments in consignment. We assessed the adequacy and completeness of the disclosures included in the accompanying consolidated financial statements (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 consolidated financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be EUR 3.5 million (2021: EUR 3.6 million) which is 6.5% of profit before taxes (6.5% of profit before taxes in prior year) and 1.3% of equity (1.6% 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 0.175 million (2021: EUR 0.180 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the consolidated financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work at 6 components. 3 of these were subject to a full audit, whilst the remaining 3 were subject to an audit of specified account balances where the extent of our testing was based on our assessment of the risk of material misstatements and of the materiality of the group's operations at those locations. These 6 components represent the principal business units and account for 94% (2021: 95%) of the group's total assets, 76% (2021: 76%) of the group's revenue and 77% (2021: 92%) of the group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risk of material misstatements identified above. The audit work at the 6 components was executed at levels of materiality applicable to each individual component and were lower than group materiality, ranging from EUR 0.340 to EUR 2.240 million (2021: EUR 0.360 to EUR 2.430 million).

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

Other Information

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

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

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

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

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

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

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

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

Deloitte.

Report on Other Legal and Regulatory Requirements

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

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

Deloitte SA

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

Lugano, 16 March 2023
FLU/MCA/jba

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

BALANCE SHEET

ASSETS

(Swiss Francs)	Notes	31.12.2022	31.12.2021
Cash and cash equivalents		114'439	705'642
Short-Term receivables towards group companies	8.3.1	1'220'627	3'023'871
Accrued income and prepaid expenses	8.3.2	15'036'592	16'035'728
TOTAL CURRENT ASSETS		**16'371'658**	**19'765'241**
Investment in subsidiaries	8.3.3	135'510'491	135'510'490
Long-Term loans towards group companies	8.3.4	51'500'000	46'750'000
TOTAL NON-CURRENT ASSETS		**187'010'491**	**182'260'490**
TOTAL ASSETS		**203'382'149**	**202'025'731**

LIABILITIES AND EQUITY

(Swiss Francs)	Notes	31.12.2022	31.12.2021
Account payables		260'694	346'210
Deferred income and accrued expenses		1'739'351	1'697'559
Other current liabilities		439'566	143'293
TOTAL CURRENT LIABILITIES		**2'439'611**	**2'187'062**
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	18'170'836	23'520'000
General legal reserve from earnings		1'000'000	1'000'000
Treasury Shares reserve	8.3.7	(4'272'340)	(1'342'660)
Retained earnings brought forward	8.3.8	38'312'165	27'915'426
Profit for the year		14'731'878	15'745'903
TOTAL SHAREHOLDER'S EQUITY		**200'942'538**	**199'838'669**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**203'382'149**	**202'025'731**

INCOME STATEMENT

(Swiss Francs)	Notes	31.12.2022	31.12.2021
Dividend income	8.3.9	15'000'000	16'000'000
Interest Income		500'048	467'500
Other Revenues	8.3.10	3'417'323	3'552'071
TOTAL REVENUE		**18'917'371**	**20'019'571**
Personnel costs		(3'175'964)	(3'378'158)
Legal and administrative expenses	8.3.11	(651'224)	(689'145)
Other expenses		(147'024)	(46'296)
TOTAL OPERATING COSTS		**(3'974'212)**	**(4'113'599)**
OPERATING PROFIT		**14'943'159**	**15'905'972**
Other financial costs		(22'281)	(5'039)
TOTAL FINANCIAL INCOME / (COSTS)		**(22'281)**	**(5'039)**
PROFIT BEFORE TAXES		**14'920'878**	**15'900'933**
Taxes	8.3.12	(189'000)	(155'030)
PROFIT FOR THE YEAR		**14'731'878**	**15'745'903**

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 2022 Medacta Group SA Profit or Loss recognizes the full year of transactions, from January 1, 2022 to December 31, 2022. The company went public on April 4, 2019 and is listed at the SIX Swiss Stock Exchange.

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

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

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

During 2022 and 2021 the number of full-time positions on annual average is less than 10.

8.2 ACCOUNTING PRINCIPLES

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

TRANSLATION OF FOREIGN CURRENCIES

The receivables and payables in foreign currencies are translated into Swiss Francs at the 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 based on 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 1'220'627

8.3.2 ACCRUED INCOME AND PREPAID EXPENSES

This position includes dividend from Medacta Holding SA for CHF 15'000'000 related to the result of the year 2022 (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 2022	% of shares held December 2021	Registered office	Country	Share Capital	31.12.2022
Medacta Holding S.A.	100%	100%	Castel San Pietro	Switzerland	1'026'010 CHF	135'510'490 CHF
Knnex Health Inc. *	100%	-	Wilmington	Delaware (USA)	1 USD	1 CHF

* This is a new legal entity formed as of November 2022 in Wilmington - Delaware.

- Indirect investment in subsidiaries:

Company	% of shares held December 2022	% of shares held December 2021	Registered office	Country	Registered Capital
Medacta International SA	100%	100%	Castel San Pietro	Switzerland	1'000'000 CHF
Medacta Americas Operations Inc.*	100%	-	Wilmington - Delaware	USA	1 USD
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 Europe Operations S.r.l. **	100%	-	Milan	Italy	100'000 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

* This is a new legal entity formed as of February 2022 in Wilmington - Delaware.
** This is a new legal entity formed as of November 2022 in Milan - Italy.

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. The long-term loan during 2022 increased to CHF 51’500’000 (2021 amounted to CHF 46’750’000).

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

In 2022 the company distributed an amount of CHF 5’349’164. Following the 2022 repayment, the capital contribution reserve amounts to CHF 18’170’836. 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

Own shares purchased as of December 31, 2022 amounts to 39’857 corresponding to CHF 4’272’340. In 2022 the Company purchased 29’850 own shares for an average price of around CHF 98.14 for an amount of CHF 2’929’680, (10’007 in 2021 for an average price of around CHF 134.17 equal to CHF 1’342’660). The Shares are dedicated to satisfying the PSUs granted by the employees participating to the Long-Term Incentive Plan (LTIP) approved in March 2021. LTIP has a vesting period for a duration of 3 years. More detail at Note 6.16 “Medacta Group stockholders’ equity” paragraph “Treasury shares”.

8.3.8 RETAINED EARNINGS – DIVIDEND PAID OUT

On May 19, 2022 shareholders approved the distribution of CHF 10’698’328 equal to CHF 0.535 per share, half of it CHF 5’349’164 distributed as dividend out of available earnings and half of it distributed out of accumulated reserves from capital contribution reserve. Dividend was settled on May 25, 2022.

8.3.9 DIVIDEND INCOME

Dividend income accrued as of December 31, 2022 for CHF 15’000’000 refers to the 2022 dividend from the subsidiary Medacta Holding SA (simultaneous registration of dividend). Dividend accrued as of December 31, 2022 has not been cashed in as of the balance sheet date. The 2021 dividend income for CHF 16’000’000 was settled by Medacta Holding SA in May 2022.

8.3.10 OTHER REVENUES

Other revenues equal to CHF 3’417’323 as of December 31, 2022 (CHF 3’552’071 in 2021), relates to the re-billing to Group’s subsidiaries for an amount of CHF 3’411’820 (CHF 3’547’363 in 2021), which include payroll, general and administrative expenses to ensure that the costs will be incurred to the relevant parties following the accuracy assertion.

8.3.11 LEGAL AND ADMINISTRATIVE EXPENSES

2022 audit fees of the standalone and Consolidated Financial Statements amount to CHF 307’650 (CHF 307’650 in 2021). Fiscal, legal and administrative fees are equal to CHF 343’574 (CHF 381’495 in 2021).

8.3.12 TAXES

The Company is subject to direct taxes on profit and capital. Taxes as of December 31, 2022 amount to CHF 189’000 (CHF 155’030 in 2021) out of which CHF 131’000 (CHF 130’957 in 2021) relates to capital tax and CHF 58’000 (CHF 24’073 in 2021) 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 2022 Medacta Group SA purchased own shares as mentioned in the Note 8.3.7 “Treasury share reserve”. Neither other Group Company nor the subsidiaries owned, held or purchased own shares of the Company during the fiscal period.

8.4.3 EQUITY INSTRUMENTS OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

The number of shares held by Board of Directors and Group Executive Management as of December 31, 2022 are mentioned in section 6 “Ownership of shares and options” of Remuneration Report.

8.4.4 RESIDUAL AMOUNT OF LIABILITIES RESULTING FROM LEASE COMMITMENTS

The Company has no leasing contracts in force.

8.4.5 LIABILITIES TOWARDS PENSION INSTITUTIONS

Liabilities towards pension institutions as of December 31, 2022 amounts to CHF 126’987 (2021 CHF 62’457).

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

In order to guarantee the commitments undertaken by the affiliated Medacta International SA, as of December 31, 2022 the Company has letters of patronage in favour of banking institutions for an amount of CHF 107’500’000 (2021: CHF 107’500’000).

8.4.7 ASSETS USED TO SECURE OWN LIABILITIES

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

8.4.8 CONTINGENT LIABILITIES

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

8.4.9 SUBSCRIPTION OR OPTION RIGHTS

As of December 31, 2022, the Company neither owns nor has released subscription or option rights on its proper shares or on the shares of other group companies.

8.4.10 IMPORTANT SUBSEQUENT BALANCE SHEET DATE EVENTS

There have been no events occurring after the reported period which would have a material effect on the Medacta Group Financials as of December 31, 2022.

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 April 27, 2023 a distribution of CHF 10'778'478 (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)	31.12.2022	31.12.2021
Retained earnings brought forward	38'312'165	27'915'426
Profit for the year	14'731'878	15'745'903
RETAINED EARNINGS AVAILABLE FOR DISTRIBUTION	**53'044'043**	**43'661'329**
DISTRIBUTION OF PROFIT		
Dividend paid out of the available earnings *	(5'389'239)	(5'349'164)
Allocation to general reserves	-	-
Allocation to other reserves	-	-
CARRY FORWARD RETAINED EARNINGS	**47'654'804**	**38'312'165**

* Depends on the number of dividend-entitled shares, max. 19'960'143 shares, as of December 31, 2022. The own shares held by Medacta Group SA are not entitled to the distribution of dividends.

8.7 PROPOSED APPROPRIATION OF RESERVES FROM CAPITAL CONTRIBUTION

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

(Swiss Francs)	2023	2022
RESERVE FROM CAPITAL CONTRIBUTION		
BALANCE JANUARY 1	**18'170'836**	**23'520'000**
Distribution of reserves from capital contribution *	(5'389'239)	(5'349'164)
CARRY FORWARD RESERVES FROM CAPITAL CONTRIBUTION	**12'781'597**	**18'170'836**

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

9. AUDIT REPORT – MEDACTA GROUP SA FINANCIAL STATEMENTS

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Report of the Statutory Auditor

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

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Medacta Group SA (the Company), which comprise the balance sheet as at 31 December 2022, the statement of income for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 171 to 176) comply with Swiss law and the Company's articles of incorporation.

Basis for Opinion
We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Key audit matter	How the scope of our audit responded to the key audit matter
As described in Notes 8.3.3 and 8.3.4 to the stand-alone financial statements, investments and long-term loans amount to CHF 187 million (2021: CHF 182 million), or represent 92% (2021: 90%) of total assets as at 31 December 2022. The Company assesses the valuation of its investments and long-term loans and determines potential impairment indicators on an individual basis, in accordance with the provisions of Swiss Law. Due to the significance of the carrying amount of the investments and long-term loans, and due to the judgement involved in the determination of potential impairments, this matter was considered as a key audit matter in our audit.	We have assessed the appropriateness of the Company's accounting policy for the valuation of investments and long-term loans. We gained an understanding of the key controls in connection with the valuation of investments and long-term loans. We challenged the assessment of impairment indicators made by the Company's management. We compared the carrying amount of the investments with the equity balances of the relevant entities. We challenged the recoverability of the long-term loans towards group companies. We assessed the adequacy and completeness of the related disclosures in the Notes 8.3.3 and 8.3.4 to the stand-alone financial statements. Based on the procedures performed, we obtained sufficient audit evidence to address the risk around valuation of investments and long-term loans.

Other Information

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

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

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

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

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

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

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

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

Deloitte.

Medacta Group SA
Statutory Auditor's Report
for the year ended
31 December 2022

Report on Other Legal and Regulatory Requirements

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

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

Deloitte SA

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

Lugano, 16 March 2023

FLU/MCA/jba

ADDITIONAL INFORMATION FOR INVESTORS

FINANCIAL CALENDAR

APRIL 27 2023	JULY 28 2023	SEPTEMBER 22 2023
ANNUAL GENERAL MEETING	PUBLICATION OF 2023 HALF-YEAR UNAUDITED TOP-LINE FIGURES	PUBLICATION OF 2023 HALF-YEAR RESULTS

FORWARD-LOOKING INFORMATION DISCLAIMER

This Annual Report has been prepared by Medacta and includes forward-looking information and statements concerning the outlook for our business. These statements are based on current expectations, estimates and projections about the factors that may affect our future performance. These expectations, estimates and projections are generally identifiable by statements containing words such as “expects”, “believes”, “estimates”, “targets”, “plans”, “outlook” or similar expressions. There are numerous risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking information and statements made in this Annual Report. Important factors that could cause such differences include: changes in the global economic conditions and the economic conditions of the regions and markets in which the Group operates; changes in healthcare regulations (in particular with regard to medical devices); the development of our customer base; the competitive environment in which the Group operates; manufacturing or logistics disruptions; the impact of fluctuations in foreign exchange rates; and such other factors as may be discussed from time to time. Although we believe that our expectations reflected in any such forward-looking statement are based upon reasonable assumptions, we can give no assurance that those expectations will be achieved.

RELATED TRADEMARKS

Medacta Group Related Trademarks are registered at least in Switzerland.
The products and services listed below may not be all inclusive, and other Medacta products and services not listed below may be covered by one or more trademarks. The below products and services may be covered by additional trademarks not listed below. Note that Swiss trademarks may have foreign counterparts.
3D Metal®, 3D Metal® B-Cage, AMIS®, AMIS® Bikini®, AMIS®-K Long, Augments 3D Metal®, GMK® Efficiency, GMK® Hinge, GMK® Primary, GMK® Revision, GMK® System, GMK® Sphere, GMK® UNI, E-Cross®, M-ARS ACL®, M.U.S.T.®, M.U.S.T.® LT, M.U.S.T.® MC, M.U.S.T.® Mini, MasterLoc®, Mecta-C® System, Mecta-C®, Stand Alone, Mecta®Fix, Mecta®Grip, MectaLIF® Anterior, MectaLIF® System, Mecta®Lock, Mecta®Lock PEEK, Mecta®Lock C, Mecta®Lock TI, Mecta®QTH, Mecta®Screw, Mecta®Tap TI, MiniMAX®, Mpact®, Mpact® 3D Metal®, Mpact® 3D Metal® Multi-Hole, Mpact® Multi-Hole, Mpact® System, MOTO® Lateral, MOTO® Medial, MOTO® PFJ, MOTO® System, MyHip®, MyHip® Planner, MyHip® Verifier, MyKA™, MyKnee®, MyKnee® R, MyPAO®, MyShoulder®, MySolutions™ Personalized Ecosystem, MySpine®, MySpine® Anchor, MySpine® Cervical, MySpine® MC, MySpine® S2AI, M-Vizion®, NextAR™, NextAR™ Knee, NextAR™ Shoulder, NextAR™ Spine, PowerKnot®, Quadra®-P, Quadra®-R, SensiTiN™, SMS®, Versafitcup®.

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Discover more

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